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APRIL 2023

Portfolio Overview
(as of 31 March 2023)

AB Low Volatility Equity Portfolio

Fund Inception:
11 December 2012

Net Assets:
$4,993 million

Benchmark:
MSCI World Index

AB Low Volatility Equity Portfolio

Ten Year Anniversary Interview

KENT HARGIS
Kent Hargis is Co-Chief Investment Officer of Strategic Core Equities and Portfolio Manager, AB Low Volatility Equity Portfolio. He was a key architect of the Low Volatility Equity platform and has been managing the Global, International and US portfolios since their inception in September 2011. Hargis joined the firm in October 2003 and prior to that, he was chief portfolio strategist for global emerging markets at Goldman Sachs. From 1995 through 1998, he was assistant professor of international finance in the graduate program at the University of South Carolina, where he published extensively on various international investment topics. Hargis holds a PhD in economics from the University of Illinois, where his research focused on international finance, econometrics and emerging financial markets.

The **AB Low Volatility Equity Portfolio** recently celebrated its 10th anniversary. In this Q&A, Portfolio Manager **Kent Hargis** explains the fund's investment philosophy, and how a consistent focus on Quality, Stability and Price has helped the portfolio navigate various market environments, including the recent challenges coming from pandemic, inflation and geopolitical tensions.

10 YEAR ANNIVERSARY

Q What led to the creation of the Low Volatility Equity Portfolio ten years ago?

A. We are delighted to be marking the 10-year anniversary of the AB Low Volatility Equity Portfolio and the current uncertain environment is a fitting reminder of why we launched the strategy. It was borne out of the Global Financial Crisis, which was a defining moment for us and many of our clients. The experience taught us an important lesson: beating the benchmark is simply not enough. The pattern of returns is just as essential to our clients' long-term investment success.

The overall objective of the AB Low Volatility Equity Portfolio is to increase the value of investments over time through capital growth, but also importantly, to mitigate risk during down markets. Capturing most of the upside in rising markets and cushioning in downturns enables investors to stay invested and help recover faster in a rebound.

What is the philosophy and process behind the fund?

A. It is an active, high conviction, core equity portfolio, with 70 - 90 stocks, employing quantitative and fundamental research to select stocks and remaining fully invested at all times.

Our investment process is based on the philosophy that downside mitigation drives long-term outperformance. Deep research into cash flow sustainability drives conviction and alpha. We focus on absolute risk and return, not the benchmark.

Our proprietary quantitative and fundamental research identifies stocks that are attractive based on three key attributes: quality, stability, and price. Our focus on these characteristics creates a desirable performance pattern: quality tends to help provide outperformance, stability provides downside mitigation, and by incorporating a perspective on valuation, we can avoid pockets of the market that may be expensive and vulnerable to corrections and drawdowns.

What is the most suitable investor profile for this portfolio?

A. The investor profile for this type of portfolio is based on the client need for long term capital growth with less risk than the overall equity market.

Equities remain a vital source of long-term returns even in economically challenging periods with heightened market volatility, such as at present. We therefore believe that this portfolio can play a valuable role in most investors' overall core allocation.

One thing is certain: it is extremely difficult to time market inflection points, and investors who try to do so often end up hurting themselves. Following the recent declines, current valuations point to improved long-term return potential going forward.

We believe that a disciplined approach to buying high-quality, stable companies at the right price provides investors with multiple ways to mitigate risk while still participating in market gains.

Fundamental research is at the core of this strategy, but do you also factor in sector or regional views?

A. Sector and regional views are a by-product of our bottom-up stock selection process.

We believe an effective defensive strategy should be grounded in company fundamentals and focus on companies that exhibit characteristics of quality (consistent cash flows and measures of profitability like return on invested capital), stability (low volatility of returns relative to the market) and attractive pricing that make them less susceptible to wide market swings.

Essentially, we believe investors should broaden their sources of volatility mitigation.

Companies that we call quality compounders have successful business models and sustainable earnings, backed by good capital stewardship and positive Environmental, Social and Governance (ESG) behaviour.

Intangible assets such as brands, culture, research and development, and patents are also valuable features, particularly in times of stress.

These attributes support compounding earnings gains through market cycles.

How do you assess the current market environment, and how do you position the portfolio for it??

A. Markets are still adjusting to the loss of the key stabilizing forces that dominated the pre-COVID era. This doesn't necessarily spell a repeat of 2022, but in our view, investors would be well-served paying heed to potential catalysts for continued market volatility—ongoing inflation, rising interest rates and a maturing information technology sector that isn't guaranteed to keep growing at a breakneck pace.

We believe that the three pillars of quality, stability, and price are key to mitigating the risks that you see in the marketplace today. Firstly, we believe you should **counter inflation with quality**. These companies tend to offer strong pricing power and consistent profitability.

Secondly, **offset slowing growth and earnings risk with stability**. Stable companies are able to cushion on the downside because they typically have lower beta—sensitivity to the broader market—than traditional growth firms. As with quality companies, fundamental research can unearth companies with hallmarks of stability across a broad array of sectors and industries.

And finally, we believe you need **price discipline** because you need to mitigate that interest rate risk by investing in companies that are less susceptible to rising interest rates.

Fund Risks

Some of the principal risks of investing in the Portfolio include:

Equity Securities Risk: The value of equity investments may fluctuate in response to the activities and results of individual companies or because of market and economic conditions. These investments may decline over short- or long-term periods.

Emerging/frontier Markets Risk: Where the Portfolio invests in emerging markets, these assets are generally smaller and more sensitive to economic and political factors and may be less easily traded, which could cause a loss to the Portfolio.

Derivatives Risk: The portfolio may invest in financial derivative instruments for investment purposes in addition to hedging and/or efficient portfolio management purposes and hence this may lead to a higher volatility to the net asset value of the Portfolio.

Small/mid-cap Equities Risk: Investment in securities of companies with relatively small market capitalizations may be subject to more abrupt or erratic market movements because the securities are typically traded in lower volume and are subject to greater business risk.

Currency Risk: The Portfolio holds assets that are denominated in currencies other than its Base Currency, any changes in currency exchange rates could reduce investment gains or income, or increase investment losses, in some cases significantly. Hedging may reduce but not eliminate currency risk.

Other risks include: convertible securities risk, hedging risk, leverage risk and securities lending risk.

These and other risks are described in the Portfolio's Prospectus.