



ALLIANCEBERNSTEIN®

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RESPONSIBLE RETURNS

BETTER STOCKS FOR A BETTER WORLD

Dan Roarty, Chief Investment Officer—Sustainable Thematic Equities

IN THIS PAPER: Many equity investors want to help create social benefits while generating strong returns. Achieving these twin goals requires a coherent investment approach. In this paper, we outline a process designed to effectively integrate environmental, social and governance (ESG) factors in a sustainable equity strategy. Using stock examples, we demonstrate how to identify investing themes drawn from the United Nations (UN) Sustainable Development Goals (SDGs) that offer sources of long-term return potential. Our research also shows that a sustainable investing approach doesn't restrict a portfolio to a narrow subset of the market and can be applied to a much broader universe of global equities than widely perceived.



Daniel C. Roarty
Chief Investment Officer –
Sustainable Thematic Equities

Daniel C. Roarty was appointed Chief Investment Officer of AB's Sustainable Thematic Equities team, which manages a suite of geographically diverse strategies dedicated to the achievement of the UN SDGs, in 2013. Since assuming this role, he has become a thought leader in socially responsible investing, utilizing the SDGs as a road map for identifying thematic investment opportunities. Roarty is an active part of the sustainable investing community, acting as a subject-matter expert around the globe, including speaking at the 2018 Sustainable Investing Conference at the UN. He joined AllianceBernstein in 2011 as global technology sector head on the Global/International Research Growth team and was named team lead in early 2012. Roarty previously spent nine years at Nuveen Investments, where he co-managed both a large-cap and a multi-cap growth strategy. His research experience includes coverage of technology, industrials and financials stocks at Morgan Stanley and Goldman Sachs. Roarty holds a BS in finance from Fairfield University and an MBA from the Wharton School at the University of Pennsylvania. He is based in Philadelphia and is a CFA charterholder.

In the dusty outskirts of Lucknow in rural Uttar Pradesh, northern India, modern healthcare that could change lives and increase life-spans is taking root. Where India's public healthcare system has failed to deliver, Apollo Hospitals has helped fill the gap in one of the poorest corners of the planet. For responsible investors, the company is a great example of an opportunity to help create social benefits while also generating profits.

Apollo operates the largest chain of private hospitals and pharmacies in India. With one of the country's most trusted healthcare brands, the company is benefiting from rising demand for hospital beds. Its innovative business model includes a telemedicine command center to connect rural clinics with doctors in larger cities. Our research—including a “grassroots” meeting with consumers—gave us confidence that Apollo was poised for sustainable revenue and earnings growth.

A BLUEPRINT FOR RESPONSIBLE EQUITY INVESTMENT

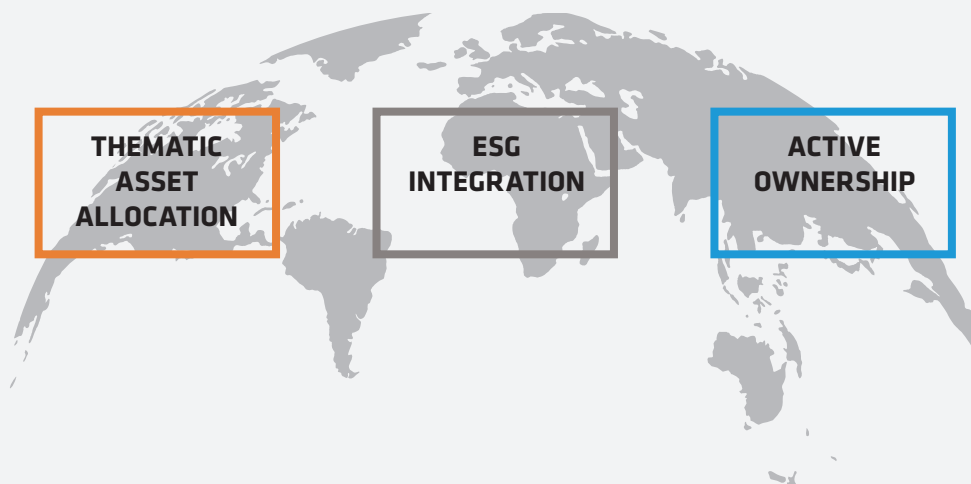
Finding companies like Apollo is no easy task. It requires a thorough process that can sift through thousands of global firms to identify those that are really making a difference on ESG issues. Equally important, it requires disciplined financial analysis to make

sure that an ESG-focused target company is a good long-term investment.

In this paper, we explain why equities matter in a responsible investing (RI) agenda and how investors can effectively integrate ESG factors into an equity portfolio. Investing in stocks is important for responsible outcomes because publicly traded companies are massive. They employ the most people around the world, consume the most natural resources, generate the most pollution and have a large impact on political systems because of their lobbying efforts and financial muscle. As a result, what they do has a profound effect on countries, societies and sustainability in general. Shareholders who deploy a coherent approach to both making investments and wielding influence can make a big difference.

To make the case for equities in an RI plan, investors can start with the Principles for Responsible Investment (PRI), an independent network supported by the UN and endorsed by more than 1,800 signatories across the global financial industry. In a report published in October 2017, the PRI outlined three pillars of RI practices: thematic asset allocation, ESG integration and active ownership (*Display 1*). We offer a blueprint for using these three pillars to translate ESG words into action via equity investing.

DISPLAY 1: THREE PILLARS OF RESPONSIBLE INVESTING FOR SUPERIOR FINANCIAL AND SOCIAL OUTCOMES



THREE PILLARS OF RESPONSIBLE INVESTING

RI and ESG are big buzzwords in the investing industry today. As people around the world pay closer attention to how their money is deployed in investment portfolios, the asset management industry has responded with an endless array of responsible portfolios. But it can be hard for investors to really know how an investment strategy’s process and positioning delivers on ESG ambitions, or if it does at all.

The UN has made big efforts to advance the development of RI. After the PRI was launched in 2006, the UN introduced the SDGs in 2015. The SDGs represent an aspirational view of what the world could look like by 2030 and include consideration of the role that the private sector must play to achieve them.

The 17 goals and 169 specific targets address areas of critical importance to humanity, including eliminating poverty and hunger, improving access to education and healthcare, and addressing the negative impact of climate change (*Display 2*). Crafted and agreed to by 193 nations, the SDGs attempt to build on the earlier Millennium Development Goals by broadening the focus beyond developing markets and explicitly considering a role for the private sector. These important changes make the SDGs a more useful tool for equity investors.

DISPLAY 2: UN SUSTAINABLE DEVELOPMENT GOALS
A Powerful Framework for Sustainable Theme Selection

Source: United Nations Conference on Trade and Development, World Investment Report 2014

Fulfilling these goals will require about US\$90 trillion of investment over 15 years, according to the UN. That’s a very tall order. Philanthropy and government spending will play an important role, but won’t be enough to get the job done. The private sector—and equity investors—must be the biggest part of the solution, in our view.

In its 2017 article on the SDGs, the PRI aimed to guide investors toward action that can lead to tangible results by outlining its three mechanisms for “positive outcomes,” or tangible real-world change. Now the onus is on investors to demonstrate how they incorporate these mechanisms in their day-to-day portfolio management. We’ve developed a disciplined process over several years based on sustainable themes, ESG integration and active ownership, to find stocks that can make a difference and deliver long-term returns. Our engagement efforts are a crucial component of promoting positive change and achieving target returns.

PILLAR ONE: SUSTAINABLE THEMATIC ASSET ALLOCATION IDENTIFIES INVESTIBLE OPPORTUNITIES

Many equity investors build portfolios by starting with a benchmark. Then they overweight shares of companies with stronger return potential, while underweighting stocks with weaker prospects. But the problem with this approach is that the largest weights in benchmarks are companies that have done well in the past, not necessarily those that may outperform in the future. Benchmarks are inherently backward-looking and don’t tell us what the future will look like.

This is why we believe themes are a better way to create a sustainable portfolio. Choosing themes that focus on where the world is going can help investors create a portfolio designed to grow for the future. We’ve identified three primary themes—Climate, Health and Empowerment—that will be important to society for many decades to come (*Display 3*). However, these themes are very broad and require investors to clearly define more specific opportunities. Within each category, we’ve identified 12 sub-themes to further clarify the investment opportunities. Sub-themes within climate include, for example, cleaner energy generation, resource efficiency and sustainable transportation. Our selected themes and sub-themes rank among some of the most important issues that the world is facing and, as a result, represent a massive long-term social and investment opportunity.

DISPLAY 3: FOCUSING ON SPECIFIC THEMES SHARPENS AN INVESTMENT STRATEGY

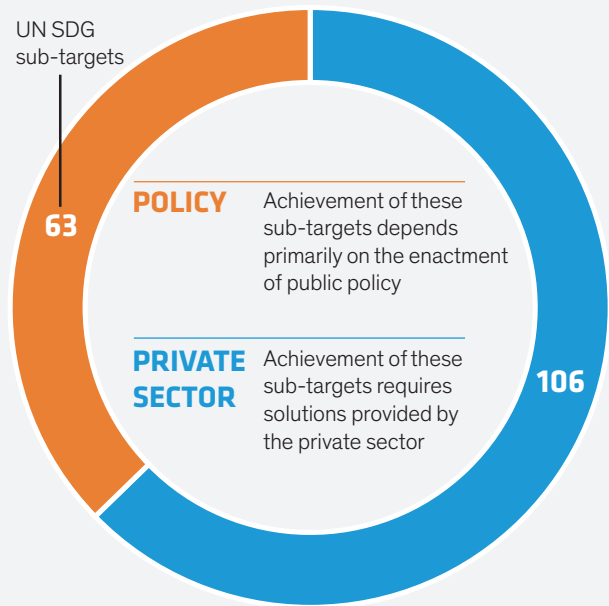
- CLIMATE**
 - +Cleaner Energy
 - +Resource Efficiency
 - +Sanitation and Recycling
 - +Sustainable Transportation
- HEALTH**
 - +Access to Quality Care
 - +Food Security and Clean Water
 - +Medical Innovation
 - +Well-Being
- EMPOWERMENT**
 - +Education and Employment Services
 - +Financial Security and Inclusion
 - +Information and Communication Technologies
 - +Sustainable Infrastructure

As of December 31, 2020
Source: AllianceBernstein (AB)

The SDGs are a compelling tool for investors looking toward the future because they offer a road map for identifying thematic opportunities that may be underappreciated by traditional investors. With agreement from 193 nations around the world, the SDGs represent a broad political consensus that creates a powerful tailwind for aligned themes and companies, in our view.

But the SDGs are an ambitious program—with a massive scope. It would be impractical for an investor to try to focus equally on all 17 goals because the investing opportunities for the private sector aren’t spread equally across the SDGs. Instead, we believe the best way to use the SDGs is to identify those that offer the best investible opportunities and to target those specific areas. This thematic approach also allows an investor to develop expertise that can support effective allocation of capital.

DISPLAY 4: ACHIEVING UN SDG TARGETS REQUIRES PRIVATE SECTOR SOLUTIONS



Source: United Nations and AB

To map out a framework that connects the SDGs with the private sector, it's important to dig deeper than the 17 SDGs themselves. While the SDGs offer simplicity, we think they aren't detailed enough to serve as an investment foundation. Instead, we evaluated the 169 SDG sub-targets that exist underneath the 17 SDGs. These sub-targets are much more detailed and, in our view, are key to unlocking the investment potential of the SDGs.

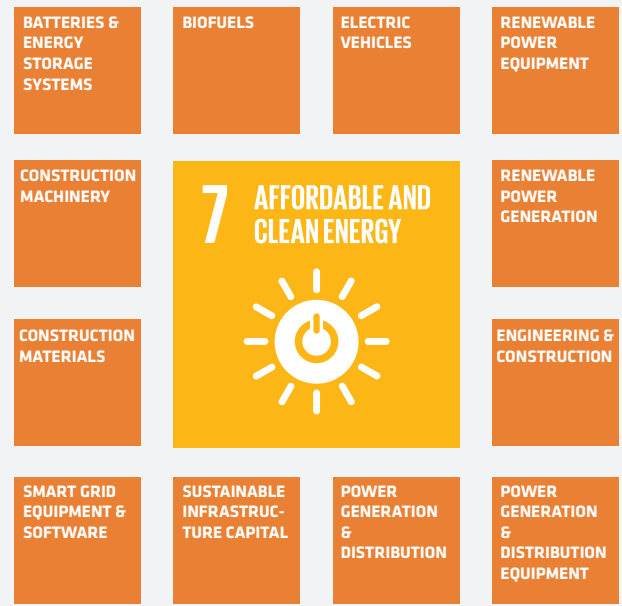
After carefully evaluating each individual sub-target, the next step is to classify each into one of two categories: policy or private sector. Our research found that 106 of the targets presented opportunities for the private sector, with the remainder more purely in the domain of policymakers (*Display 4*).

For those in the private sector group, we then identified approximately 140 products and services that contribute to the achievement of these sub-targets. This requires thoughtful and rigorous analysis, yet it is critical to developing an investment strategy.

SDG target 7.2, for example, calls for increasing the use of renewable energy globally. We outlined 12 diverse groups of products, including batteries, construction materials and power-generation equipment, that all contribute toward reaching this goal (*Display 5*).

DISPLAY 5: IDENTIFYING PRODUCTS ALIGNED WITH SDGS SHAPES AN INVESTMENT STRATEGY

UN SDG Target 7.2: Renewable Energy



Source: AB

This step also facilitates another important plank of a sustainable investing plan: exclusions. It allows investors to identify products that aren't aligned with the SDGs in industries such as tobacco, weapons, pornography or gambling. Generally, such products will be automatically excluded from a sustainable portfolio.

From Products to Companies

After identifying products that are aligned with the SDGs, investors can look for publicly listed companies that generate revenue from these products. This is the key link between the SDGs and equity investing. By doing so, investors can sharpen their focus to those companies that support the SDGs and are key catalysts for positive real-world change.

Identifying a universe of UN SDG-aligned companies also allows investors to better understand the financial implications of investing sustainably and dispel some common myths. The characteristics of these companies can be compared against other companies and benchmarks. Our research highlights, for instance, that sustainable companies are found in every economic sector and geographic region—counter to the myth that sustainable strategies are overly restrictive (see "Measuring Sustainability in Equity Portfolios," page 4).

MEASURING SUSTAINABILITY IN EQUITY PORTFOLIOS

Many investors think sustainable investing limits a portfolio to a very narrow subset of the broader equity market. Our research shows the opposite: many companies across a wide range of industries and countries are in fact aligned with the SDGs (*Displays, below*).

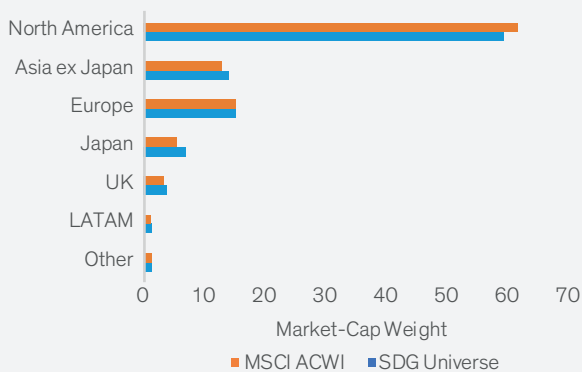
We identified companies with at least US\$1 billion in market capitalization that generate some portion of their revenues from the sale of SDG-aligned products and services. Identifying and researching these companies allows us to better understand the implications of sustainable investing, and report portfolio and

benchmark performance and alignment with the SDGs, while dispelling some common misperceptions about sustainable investing.

Among companies that we surveyed around the world, 2,438 are aligned with the SDGs, and 1,084 of them are included in the MSCI ACWI Index. These companies represent 59% of the benchmark's market capitalization. In the US, we found 774 companies that are aligned with the SDGs, including 242 in the S&P 500, representing 66% of the benchmark's weight.

REGIONAL EXPOSURES

SDG Universe and MSCI ACWI (Cap-Weighted, Percent)



Current analyses do not guarantee future results.

Numbers may not sum to 100 due to rounding.

*Sector weightings will vary over time.

As of December 31, 2020

Source: Bloomberg, MSCI and AB

SECTOR EXPOSURES*

SDG Universe and MSCI ACWI (Cap-Weighted, Percent)

Sectors	SDG-Aligned Universe	MSCI ACWI Index
Information Technology	23.2	22.1
Healthcare	19.1	12.0
Financials	12.4	13.2
Communication Services	11.7	9.4
Consumer Discretionary	10.6	13.3
Industrials	10.4	9.5
Consumer Staples	4.8	7.0
Utilities	2.7	2.9
Materials	2.4	4.9
Energy	1.9	3.1
Real Estate	1.0	2.5
Total	100	100

With such a large number of SDG-aligned companies to choose from, we believe investors can build truly sustainable portfolios without sacrificing financial returns.

Sustainable investing is not about passively excluding a few industries from a portfolio. It's an active approach that selects securities from a large universe of companies with attractive fundamental characteristics and powerful secular drivers. What's more, comprehensive sustainable investing involves consideration of additional ESG variables, which can help reduce risk. On the surface, then, we think there is no reason to expect that this group of companies must underperform nonsustainable strategies over time.

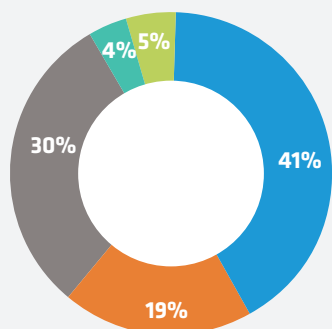
WATCH OUT FOR THE TILT

Still, sustainable investing portfolios tend to tilt toward some factors and sectors (*Displays, below*). Our research shows that sustainable strategies may have more exposure to quality growth factors, such as profitability and earnings quality. At the same time, they're likely to be underexposed to value (cheapness), balance-sheet leverage and cyclical. In terms of sectors, sustainable strategies tilt toward technology and healthcare and away from financials and basic materials.

When evaluating a sustainable equity portfolio, check whether the manager is actively drawing on a broad universe of SDG-aligned companies and not just the usual ESG suspects. And make sure that portfolio construction takes into account the potential factor and sector tilts, and how they might influence the pattern of returns.

SOURCES OF TRACKING ERROR

SDG Universe vs. MSCI ACWI*



■ Style Risk ■ Specific ■ Industry ■ Currency ■ Country

Current analyses do not guarantee future results.

*Numbers may not sum to 100 due to rounding.

As of December 31, 2020

Source: Barra, MSCI and AB

FACTOR EXPOSURES

SDG Universe vs. MSCI ACWI



PILLAR TWO: ESG INTEGRATION AS A DISCIPLINED APPROACH TO SUSTAINABLE RETURNS

Considering ESG factors at every step of an investment process is the key to building more effective sustainable portfolios. However, there are differing opinions among portfolio managers on the best way to do this.

When it comes to ESG assessments, data and ratings alone don't tell the full story. In our approach to sustainable thematic equities, we conduct independent fieldwork to develop a complete picture of corporate behavior. Investors engage with corporate management teams, visit individual facilities, speak with the employees and fully understand the ecosystem in which a firm operates.

Such grassroots research can help investors deepen their understanding of sustainability issues and better identify both risks and opportunities—especially in emerging markets, where underlying trends may be harder to uncover from afar (see "Grassroots Research: Investing Insights from Real People," page 9). This means engaging directly with households and businesses on key environmental, social or economic issues, and visiting consumers. Extensive in-home interviews with people across the socioeconomic spectrum and questionnaires tailored to the local market can generate important investment insights.

The intelligence gathered on these missions is a vital input into an investment process. Through grassroots research, investors learn more about the nuances of how sustainable investment themes might play out and how companies are having a direct impact on society. The visits also help clarify the challenges and risks to the investment case for a company, which allows us to develop an informed long-term outlook on a company's return potential.

Apollo Hospitals: Developing an Investment Thesis

Apollo Hospitals is an excellent example of how on-the-ground research insights can be combined with ESG analysis in fundamental research processes. The investment thesis begins with India's chronic shortage of hospital beds, which is well below other emerging-market countries and levels recommended by the World Health Organization (*Display 6, left*). By steadily increasing the number of hospital beds available, Apollo is helping to address a serious deficiency in the country's healthcare system (*Display 6, right*). It clearly aligns with SDG number 3, aiming to achieve good health and well-being, as well as several sub-targets outlined in *Display 5, page 3*.

But is Apollo a good investment? To find out, we visited Apollo's operations and discovered several advantages to the company's business model. For example, we found that the company had plans to invest in diagnostic labs, pharmacies and smaller clinics in smaller cities, to further improve access to care in India, and to generate referrals for Apollo's large hospitals. At the same time, our meetings with consumers affirmed the underappreciated drivers of demand for modern healthcare. These included better access to infrastructure and growing awareness of health issues through smartphone adoption.

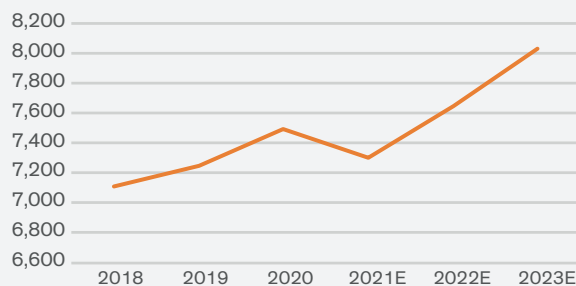
Combined with more traditional financial analysis, these insights underpinned our confidence in Apollo's long-term forecasts. When evaluating a portfolio candidate, we calculate a bottom-up internal rate of return (IRR) for the company, similar to the approach used by private equity funds (*Display 7, page 7*). The IRR approximates the return potential for owners of the business, based on the current share price, cash flow over the next five years and a terminal value for the business, discounted back to today.

DISPLAY 6: APOLLO IS HELPING ALLEVIATE STRESS IN INDIA'S HEALTHCARE SYSTEM

Hospital Beds per 10,000 People*



Apollo Hospital Beds†



Current analyses do not guarantee future results.

*Based on the latest available data from the World Health Organization. Data retrieved on February 20, 2019. Years vary by country.

†As of March 31, 2020

Source: Apollo Hospitals, CLSA, World Health Organization and AB

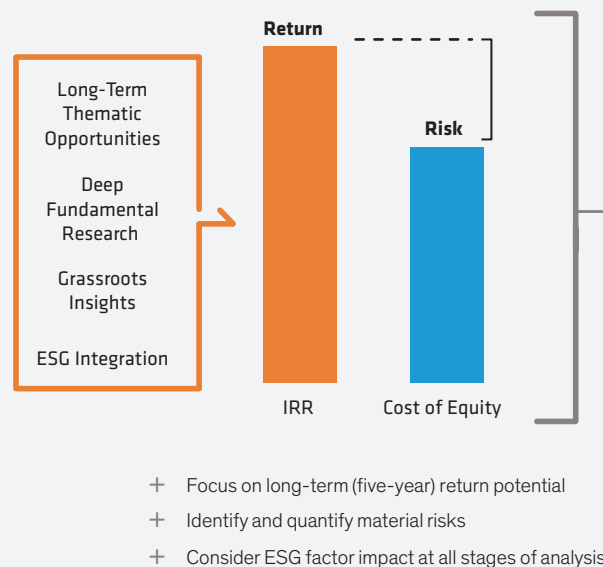
Our return forecasts are then compared with a cost-of-equity (COE), or risk, forecast. The spread between the return and the risk determines the degree of relative attractiveness of the stock. To calculate the COE, we evaluate various risks and develop proprietary ESG risk scores. Higher risk scores result in a higher COE, reducing the return/risk spread and making the investment less attractive. Lower risk scores have the opposite effect. In Apollo's case, for example, we found that recruitment and retention was a top risk, and the company's need to maintain a staff of well-trained doctors was a high priority—and a key social risk.

Through engagement with company management, we gained deeper insight into Apollo's remuneration policy for doctors, including an extension of guaranteed salaries for the first year of a new hospital's operation. Management explained that this helps attract medical talent in the first year or two of a new hospital as patient volumes increase, after which doctors can rely on the traditional "fee for service" salary model for competitive compensation.

Without engaging with Apollo management, our COE analysis would be much less granular—and the inputs less informed. Employee retention is still a high-impact risk for Apollo, but a strong brand and efforts to retain and attract employees are offsetting factors that reduce this social-risk score in our analysis and give us confidence that we are being adequately compensated for the true risks of owning Apollo Hospital shares.

DISPLAY 7: BRINGING A PRIVATE EQUITY-LIKE MENTALITY TO SECURITY SELECTION

Disciplined Approach Drives Competitive Financial Returns



For informational purposes only. There can be no assurance that any investment objectives will be met.

Source: AB

PANDEMIC ADDS URGENCY TO SUSTAINABLE INVESTING AGENDA

The global response to the pandemic has reinforced the importance of sustainable investing. Investors should look for companies with strong ESG credentials for the dramatic changes unfolding around the world.

As the social and economic impact of the pandemic escalates, we're witnessing the first major test of the era of stakeholder capitalism.

In August 2019, 181 American CEOs cosigned a Business Roundtable declaration, pledging to support the environmental and social health of the communities in which they operate and to embrace sustainable business practices.

Many companies made good on their promises when the pandemic struck. Home Depot, for example, extended extra paid leave to employees over 65, who are most at risk of getting sick from a coronavirus infection. PayPal established an emergency relief fund for employees who needed cash. Microsoft provided its collaboration software to nonprofit organizations for six months for free.

Investors are embracing these types of corporate actions, even if they don't benefit short-term earnings. That's because companies that follow an ESG compass strengthen their competitive positioning by lowering regulatory risk, deepening customer loyalty and bolstering employee engagement.

WAKE-UP CALL FOR SUSTAINABILITY

Challenges created by the pandemic are a wake-up call for global sustainability. Just like governments cannot conquer the virus without the private sector, the world's largest environmental and social challenges cannot be solved by public policy alone. The private sector's innovative and financial capacity is needed.

IDENTIFYING LONG-TERM GROWTH THEMES

What types of sustainable themes have been accelerated by the COVID-19 crisis? Information and communication technologies were already vital to the SDG agenda as a means of sharing knowledge, connecting communities and providing economic empowerment. Today, companies that provide the hardware and software enabling us to work, shop, learn and receive healthcare digitally are enjoying a boost in demand that may last well after the pandemic is over.

Financial technology and payments companies help enable growth for small- and medium-size enterprises, another key objective of the SDGs. For smaller firms, fintech can help increase profitability and provide better access to capital on favorable terms, which are especially important during the current crisis.

HEALTH IN THE SPOTLIGHT

Promoting health and well-being is a fundamental objective of the SDGs, and global needs are vast, especially in less-developed countries and poorer communities. But COVID-19 has exposed the frailty of global health systems, even in wealthier countries.

Even after vaccines are rolled out around the world and begin to curb the spread of the virus, other solutions will be important. Telemedicine, drug discovery and diagnostic testing lower the cost of healthcare service delivery and extend its reach, which helps strengthen societies.

The pandemic is adding catalysts for companies that provide innovative solutions to our largest environmental and social challenges. With a renewed focus on the SDGs as the world emerges from the coronavirus shock, investors can identify companies that help improve the long-term health of society and equity portfolios.

PILLAR THREE: ACTIVE OWNERSHIP AND ENGAGEMENT

Engaging with management is an essential ingredient in active portfolio management. As the Apollo case shows, our discussions with the company's management were instrumental in developing conviction in its profitability path. More broadly, engagement is essential to help persuade companies to make changes to their practices, which ultimately can enhance shareholder returns and improve social outcomes.

There are many ways for shareholders to engage with companies. News headlines often focus on aggressive public activism, in which shareholders engage in personal, public debates or proxy fights over matters of corporate policy. We prefer a more civil discourse—introducing outside perspectives to the company, based on thoughtful research findings and aimed at fostering improvements that are in the best long-term interests of both the company and its shareholders.

Many issues are subject to engagement, from corporate strategy and capital allocation to ESG practices. According to the PRI, the goal of engagement is to improve, or identify the need to influence, ESG practices and/or disclosure. "It involves a structured process that includes dialogue and continuously improving or monitoring companies," the PRI said in an article in October 2018. This approach is in line with our view that constructive activism requires a productive and respectful dialogue with management to be effective.

Xylem: Engaging with a Water Technology Provider

Our engagement with Xylem illustrates how we work with management to promote ESG issues in a company that fits our thematic focus. Xylem, based in Rye Brook, New York, is a water technology provider that is addressing important sustainable goals.

According to a UN report in 2018, about half the world's population experiences water scarcity during at least one month each year. More than two billion people lack access to clean drinking water. UNICEF reported in 2016 that women and children spend more than 200 million hours every day collecting water. And globally, available fresh water per capita has declined by 26% over the last 25 years, according to the Union of Concerned Scientists.

Clean water and sanitation is the sixth SDG. But companies that tackle water issues are also addressing several other SDGs, including reducing poverty, eliminating hunger, promoting good health and supporting sustainable cities and communities. Cities, communities, utilities and industries are on the prowl for innovative solutions to water challenges. In many cases, technology and data will play a key role in addressing water issues.

Enter Xylem, which provides a broad suite of solutions for water transportation, treatment, recycling and efficiency of use.

In Cape Town, South Africa, which has faced an acute water shortage, Xylem is providing smart meters for more efficient water use by industrial and residential customers. In California, the City of Los Angeles commissioned Xylem to develop a unique water purification and reuse system that will enable the city to treat wastewater from 130,000 residents and 100 businesses to help recharge the stressed drinking-water aquifers. And in Ecuador, Xylem is supplying pumps and water infrastructure, enabling the irrigation of 7,700 hectares of previously unreliable agricultural land as well as fulfilling the drinking-water needs for 85,000 residents.

Clearly, Xylem's core activities support ESG goals. But how does the company itself score on ESG performance in its day-to-day activities? In our discussions with management, we asked about one important aspect: whether ESG performance is tied to the company's executive compensation plans. We learned that Xylem applies ESG metrics to compensation and has targets for reducing greenhouse gas emissions, water use and waste generation, which are incorporated into performance goals for some managers and executives.

However, we felt these targets were subjective, and asked the company to move toward more explicit weight settings, and better disclosure, of ESG metrics in executive compensation. In our view, linking ESG targets more concretely to executive compensation would be an opportunity for Xylem to demonstrate ESG leadership in its industry and beyond. Management responded positively to the feedback and said it would consider the concerns.

Governance issues also require scrutiny from engaged investors, through direct engagement as well as proxy voting. In a respectful dialogue, we pressed Xylem's management to reduce the threshold for the right to call a special meeting from 25% of share ownership to 10%, and we voted in favor of a shareholder proposal on the issue. We voted on this issue in 2018, 2019 and 2020. We explained that since the top four investors collectively own 27% of the company, they would effectively have more power than smaller investors to invoke this right at a 25% threshold. In this case, management did not accept our suggestions; however, we will continue to monitor the issue.

Generating Responsible Returns

Engagement is the best way to make sure that companies are actively devoted to improving their ESG practices. And good ESG practices make for good business. That's why, in our view, a sustainable investing agenda must be comprehensive. Companies that help to advance climate, health and empowerment issues by virtue of the products and services they offer must also show that they are committed to strong ESG practices in their own operational routines. And investors who are dedicated to sustainability must proactively engage with management to reinforce best practices.

Equity investors can make a big difference by adopting a coherent sustainable agenda, in our view. Thematic asset allocation aligns a portfolio's target securities with the most important development issues flagged by the UN. ESG integration in research allows for more comprehensive financial forecasting and risk analysis at the security level. And active engagement helps promote positive change at companies, which can also be a driver of stronger investment returns. What's more, when equity investors support sustainable companies, their share prices rise, which helps reduce their cost of capital and enable continued investment in business activities that are generating positive outcomes.

Sustainable investing is more than a slogan. It requires identifying businesses that deliver goods and services to promote sustainability while also ensuring that the companies themselves live up to ESG standards in everything they do. Creating truly sustainable equity portfolios requires a comprehensive investment process built on knowledge and research skill—not platitudes. By following clear guidelines that systematically target the SDGs in portfolios, we believe that investors can use their equity allocations to promote companies addressing some of the world's biggest ESG challenges while at the same time finding responsible sources of strong, long-term investment returns.

GRASSROOTS RESEARCH

INVESTING INSIGHTS FROM REAL PEOPLE

Sustainability is about real people, especially in emerging markets, where poverty and economic and ecological stress are often most acute. That's why we believe grassroots research can be an integral part of an investment process aimed at finding companies that can change the world for the better.

Grassroots research seeks to understand the nuances of sustainable investment themes by directly engaging with local households and businesses on critical environmental, social and economic issues. On our grassroots research trips, we conduct extensive in-home interviews with people across the socioeconomic spectrum, using proprietary questionnaires tailored to each market. These trips generate invaluable insights into the big issues and can help identify investment opportunities.

ON THE ROAD: FROM MEXICO TO SOUTH AFRICA

Over the last several years, we've visited nearly 20 countries, including China, Indonesia, Mexico and South Africa. In 2017, our trip to India led to research insights in sectors as diverse as financials, technology and healthcare, while supporting SDGs such as women's empowerment, inclusive finance and reduction of health risks.

In 2018, we traveled to Cape Town, South Africa, to learn more about how the city and its residents were coping with an acute water shortage that led to severe constraints on water consumption. This research was directly linked to several SDGs, including clean

water and sanitation (number 6), sustainable cities and communities (number 11) and responsible consumption and production (number 12).

We witnessed the dire water shortage at the largest dam in Cape Town's supply system and found out how the city and its residents of all income levels were working together to drastically conserve and stockpile potable water. "It's everyone's responsibility to resolve this crisis," said Akhona, a 36-year-old service consultant at a call center. She told us about her own efforts to conserve water by taking short showers and cleaning the floor with reused water, as well as her frustration with the government for failing to develop a strategic plan that could have averted the water crisis.

SEEING THE CHALLENGES UP CLOSE

Ultimately, interactions with people like Akhona provided important research insights that fed into fundamental analysis of equity investment targets in companies addressing sustainable goals.

For investors seeking to make a difference in the world, it simply isn't enough to conduct research from a distance by poring over spreadsheets and financial reports. In our view, seeing the challenges to sustainability firsthand provides a substantial advantage in the search for companies that are truly contributing to efficient and effective solutions to some of the world's most pressing problems.

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A WORD ABOUT RISK The value of your investment may go down as well as up, and investors may not get back the full amount they invested.

Investors should consider the investment objectives, risks, charges and expenses of the Fund/Portfolio carefully before investing. For copies of our prospectus or summary prospectus, which contain this and other information, contact your financial representative. Please read the prospectus and/or summary prospectus carefully before investing.

Market Risk: The market values of the portfolio's holdings rise and fall from day to day, so investments may lose value. Focused Portfolio Risk: Portfolios that hold a smaller number of securities may be more volatile than more diversified portfolios, since gains or losses from each security will have a greater impact on the portfolio's overall value. Foreign (Non-US) Risk: Non-US securities may be more volatile because of political, regulatory, market and economic uncertainties associated with such securities. Fluctuations in currency exchange rates may negatively affect the value of the investment or reduce returns. These risks are magnified in emerging or developing markets. Derivatives Risk: Investing in derivative instruments such as options, futures, forwards or swaps can be riskier than traditional investments, and may be more volatile, especially in a down market. Capitalization Size Risk (Small/Mid): Small- and mid-cap stocks are often more volatile than large-cap stocks—smaller companies generally face higher risks due to their limited product lines, markets and financial resources. ESG Risk: Applying ESG and sustainability criteria to the investment process may exclude securities of certain issuers for nonfinancial reasons and, therefore, the Fund may forgo some market opportunities available to funds that do not use ESG or sustainability criteria. Note to All Readers: The information contained herein reflects the views of AllianceBernstein L.P. or its affiliates and sources it believes are reliable as of the date of this publication. AllianceBernstein L.P. makes no representations or warranties concerning the accuracy of any data. There is no guarantee that any projection, forecast or opinion in this material will be realized. Past performance does not guarantee future results. The views expressed herein may change at any time after the date of this publication. This document is for informational purposes only and does not constitute investment advice. AllianceBernstein L.P. does not provide tax, legal or accounting advice. It does not take an investor's personal investment objectives or financial situation into account; investors should discuss their individual circumstances with appropriate professionals before making any decisions. This information should not be construed as sales or marketing material or an offer or solicitation for the purchase or sale of any financial instrument, product or service sponsored by AllianceBernstein or its affiliates. References to specific securities are presented to illustrate the application of our investment philosophy only and are not to be considered recommendations by AB. The specific securities identified and described in this presentation do not represent all the securities purchased, sold or recommended for the portfolio, and it should not be assumed that investments in the securities identified were or will be profitable. For more information about the Sustainable Global Thematic Portfolio please refer to the prospectus. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI. References to specific securities are presented to illustrate the application of our investment philosophy only and are not to be considered recommendations by AllianceBernstein L.P. The [A/B] logo is a registered service mark of AB and AllianceBernstein® is a registered service mark used by permission of the owner, AllianceBernstein L.P. © 2021 AllianceBernstein L.P.

