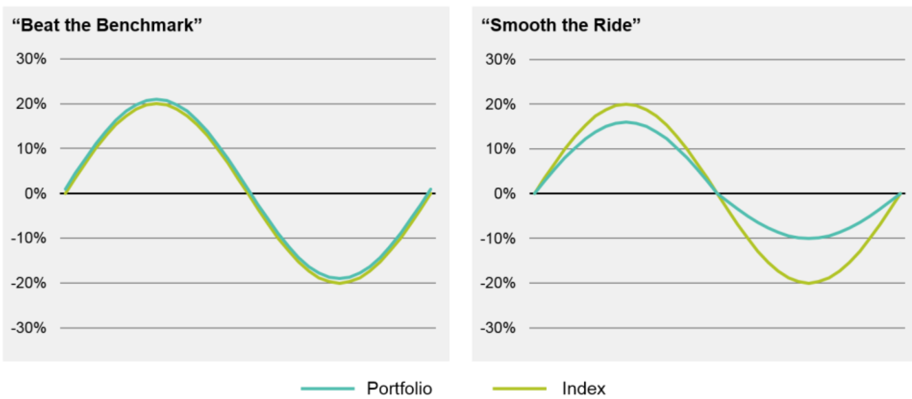
Quarterly Commentary 2Q19

AB AUSTRALIAN EQUITIES

AB MANAGED VOLATILITY EQUITIES FUND—MVE CLASS

AB Managed Volatility Equities Fund—MVE Class

Focus on Reducing Downside



For illustrative purposes only

Source: AB

MARKET OVERVIEW

Global equities advanced in the second quarter, despite sharp declines in May. Easing monetary policy by the world's central banks and optimism over trade talks between the US and China rallied markets in June, helping equities rise 4.00% in the quarter, as measured by the MSCI World Index in US-dollar terms. Year to date the index is up approximately 16.98%. US and European stocks led markets; Japanese and emerging markets also rose. Financials and cyclicals did well, while resources stocks underperformed. Value stocks trailed growth stocks by a wide margin.

Escalating US trade tensions with China and Mexico jolted markets in May as the US imposed additional tariffs on goods from China and warned that all goods could be subject to tariffs if the two countries could not reach a compromise. China then retaliated with tariffs of its own. The imposition of restrictions on exports of US technology to Chinese telecom equipment maker Huawei Technologies in May further increased tensions. Investor sentiment improved in June, as the US suspended scheduled tariffs on Mexican goods and agreed to resume trade talks with China during the Group of 20 summit at the end of the month.

Easing monetary policy also buoyed markets. Expectations that the US Federal Reserve could begin to cut interest rates sent stocks higher, while weakening economic data from the European Union fuelled hopes for future interest-rate cuts from the European Central Bank.

The S&P/ASX 300 Index rose sharply during the second quarter, appreciating by 8.05% in local-currency terms (and 19.84% year to date). Returns were positive across all sectors with the exception of energy, which underperformed on the back of falling oil prices. Communication-services stocks outperformed as some major companies reported better-than-expected earnings. Strong performance from big names in healthcare such as Healius and ResMed showed significant growth throughout the quarter.

The conservative Liberal Party secured a surprise win after campaigning on a platform of economic stability in May, driving the outperformance in the financials sector. Nonetheless, GDP growth forecasts continued to decelerate throughout the period. High household debt, weakened wage growth and falling house prices consistently weighed on consumer sentiment throughout the quarter. This led the Reserve Bank of Australia to cut rates to a record low to help consumers and reduce unemployment.

PORTFOLIO PERFORMANCE

In the second quarter, the portfolio rose in absolute terms and outperformed its benchmark, the S&P/ASX 300. Security selection drove the outperformance, as contributions within the materials sector outweighed losses within healthcare. Sector selection was overall negative, as gains from an underweight to energy were negated by an underweight to financials, which detracted.

An overweight to gold producer Northern Star Resources was the leading contributor due to company margins being supported by a strong performance from AUD gold.

Our lack of exposure to South32 contributed as the mining and metals company underperformed the market. The softening of key commodities—alumina, aluminum and thermal coal—combined with eased operational results for 1Q:19 in South African coal and alumina.

Medical equipment manufacturer ResMed contributed on the back of its 1Q:19 report, which showed a continuation of strong growth across its devices, consumables and software businesses.

Our underweight to Commonwealth Bank of Australia (CBA) and lack of exposure to Australia and New Zealand Banking Group detracted as banks rallied after a period of underperformance due to the reelection of the more bank-friendly Coalition government.

Qantas Airways underperformed due to concerns about the weak consumer and the effect on discretionary travel. We believe Qantas can manage capacity to mitigate this issue.

POSITIONING AND OUTLOOK

During the quarter, our largest share purchase was of private health insurance company Medibank following the reelection of the sitting government, which should result in a more favourable pricing environment for health insurers.

We purchased shares of transmission company Spark Infrastructure due to is strong cash flows and reduced regulatory risk.

We added to our holdings in Insurance Australia Group (IAG), as we continue to see IAG as a premium play, uncorrelated to the rest of the economy, with a strong balance sheet that will enable capital management.

We sold DuluxGroup following the Foreign Investment Review Board's approval on the deal between Nippon Paint and the painting and coating manufacturing company.

We sold Apple on concerns that the trade wars would affect sales.

Lastly, we added to shares of Westpac and trimmed our position in CBA as we reweighted among our Australian bank holdings. Furthermore, the royal commission into financial services made a number of referrals to regulators for further consideration, which noted CBA as being at greater risk when compared with its peers.

Looking at the Australian market overall, we see business sentiment remaining solid, helped by the end of the mining bust, signs of a turn in non-mining capex and exposure to public sector infrastructure spending. Employment continues to be strong but is showing signs of weakening. Even so, households are under pressure. Wage growth is at a record low. Consumption remains weak, and house prices continue to decline. Tighter credit conditions are likely to continue as a result of the banking royal commission and other regulatory actions.

In this environment, the portfolio aims to deliver returns in line with its benchmark, protecting on the downside with less volatility. The portfolio has a lower beta than the market and attractive free cash flow. Our fundamental insight aims to reduce our exposure to stocks with cyclical pressure, balance-sheet stress or negative events.

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