AB MANAGED VOLATILITY EQUITIES FUND (MANAGED FUND)—MVE CLASS

ENGAGEMENT REPORT AS OF 31 DECEMBER 2022

During the period from 1 October 2022 to 31 December 2022, AB portfolio managers and analysts engaged with the senior management and/or boards of directors of companies held by the AB Managed Volatility Equities Fund (Managed Fund) – MVE Class on a range of subjects, including climate risk, environmental risk and corporate governance.

Our approach to capturing environmental, social and governance (ESG) considerations in the portfolio means that we incorporate ESG into our investment process to identify investment risks and opportunities. These factors are a component of our research process that help to inform whether we invest in, continue to hold or sell any particular security as they can affect a company's valuation and financial performance.

This report references a selection of our engagements with companies during the period that helped guide whether we invest in, continue to hold or sell.

BRAMBLES (E)

Result: Positive

We met with management on the back of FY22 Sustainability Report release. Brambles' business model makes emissions, biodiversity and reuse data clear. Management thinks about return from ESG spend as being partially tangible and intangible. Tangibles include things like operational efficiencies gained in the pursuit of emissions reduction and risk mitigation by securing forestry supply. Intangibles are the strengthening of customer relationships and improved talent acquisition and retention.

COLES (E,S)

Result: Positive

We engaged with management over the quarter for two reasons 1) To assess how Coles values ESG issues, 2) How Coles thinks about the business opportunities presented by changing ESG views of consumers. Further to this, we were able to get a better understanding of the level of ESG focus within the company and progress on these issues. Coles have increased their focus on ESG issues materially by putting in place teams focused on a range of key areas in waste, energy, risk & compliance, private label, corporate affairs, commercial (buying teams) and external engagement and they recently created a general manager role for "Supplier Engagement on Sustainability". Coles has made a concerted attempt to increase the amount of marketing associated with their improved position on a range of ESG issues, and we believe they have done a substantial amount of work behind the scenes to support this, in particular on sustainable packaging and local sourcing. Coles have committed to releasing a target for scope 3 emissions reduction once their plan has been validated.

COMMONWEALTH BANK (E)

Result: Neutral

We discussed with the Chair prior to AGM about CBA's funding model and reducing its exposure to but still fund future fossil fuels projects. We believe that the funding of gas projects will continue to be required in Australia to support the clean energy transition and maintain the reliability of the energy network during the transition. However, we believe the natural provider of credit to these projects is the bond market and not CBA because the profits to fossil fuel projects is immaterial to CBA and it brings with it several risks including future litigation or retrospective regulation, potential brand damage to the retail franchise and the potential for the stock to de-rate on PE as CBA is a highly carbon intensive business including its lending portfolio. Conversely, these projects could be funded by bonds which would make the cost of debt transparent to all stakeholders and the bonds would have less

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litigation/regulatory risk. At the conclusion of meeting, the Chair mentioned CBA will consider these points and we believe, they could potentially change their future actions in this area.

CONTACT ENERGY (E)

Result: Positive

The New Zealand power system is at the forefront of energy transition globally and generators are confronting how best to manage market structure, volatility, collaboration with government, the integration of new technologies and investment in new generating assets as the system moves to 98% renewable generation by 2030. Most notably, the power system must find a solution for generation which is low emissions and resilient to the risk of low-rainfall years (60% of current generation is in hydro) and maintains incentives for private investment to facilitate the transition. Contact has a strong focus on retiring their gas generation assets and expanding geothermal generation in their portfolio which is very low emissions and a firm source of power. Contact is a blue-chip player in geothermal in New Zealand and management has shown a strong commitment to decarbonizing the New Zealand power sector quickly. They have proposed that fossil fuel generators are consolidated into a state-owned entity call Thermal Co, allowing them to be run at a loss and then retired as new renewable generation comes online ensuring that emissions are removed from the system as quickly as possible. They also noted opposition to a capacity payment to keep gas and coal generators economically viable while their capacity factors drop as renewables gain more and more share of generation, stating that a capacity payment would keep fossil fuel generation in the system longer than required. Notably, with parallel investment in new geothermal assets, Contact has positioned the business well to create shareholder value along side pushing emissions out of the system, as geothermal provides the lowest cost firm alternative to gas as a dry-year risk mitigant.

EVOLUTION MINING (E)

Result: Neutral

Evolution Mining is a gold miner with several operations in Australia and it has recently acquired a mine in Canada. We met with management to better understand how their plans to transform the ageing mine into a pumped hydro battery and to determine how strained labour relations are progressing. The Canadian mine has had a troubled operational history under their management with some of the issues stemming from worker activities. Evolution is actively working to change skill sets and is monitoring employee's activities such as tracking waste and ore material movements, both actions seem to be improving operational outcomes. Evolution has also set net zero targets with multiple additional short-and medium-term targets on emissions, water use and labour relations. AB has previously discussed with Evolution the importance of taking a net zero approach to capital spend on long dated projects and it is pleasing to see this being acted on. Evolution's pursuit of a pumped hydro battery solution for an old mine offers the opportunity for value creation whilst avoiding remediation costs.

MEDIBANK (G)

Result: Neutral

Medibank is Australia's largest private health insurer and we met with the Chair pre-AGM to discuss the cyberbreach of Medibank's systems. Medibank was recently been the victim of a sophisticated cybercrime where criminals breached Medibank's internal systems and stole large amounts of customer data, including claims data. Upon detecting unusual activity on their network, Medibank rolled out their cyber playbook. Medibank's systems were sophisticated enough to prevent the cybercriminals from achieving their primary goal, which was to bring their systems down completely through installation of denial-of-service techniques. However, they were unable to prevent sensitive customer data from being accessed. Medibank has since been contacted by the criminals with a ransom demand. Medibank continues to work with relevant groups, including the specialised cybersecurity agencies, relevant government agencies, the Australian Cyber Security Centre (ACSC), the Australian Federal Police (AFP) and Australian Prudential Regulatory Authority (APRA), to determine the scope of the breach and next steps. From a customer remediation perspective, Medibank has rolled out several support initiatives including deferral of the November 2022 premium increase, free identity monitoring services, hardship support and a mental health outreach service. Medibank aims to limit the reputational damage from this event through the provision of support initiatives and by continuing to be open and transparent with their customers.

NATIONAL AUSTRALIA BANK (S)

Result: Neutral

We discussed with management wages at the FY22 results. Inflation is causing negative wage growth. As one of the country's largest employers and with a 3-year wage agreement being renegotiated, NAB has a highly scrutinised role in setting the benchmark for what is a "fair" outcome for the broader labour market. We felt the company was being overly optimistic about any outcome where employees had negative real wages. We discussed structures for one off bonuses to compliment underlying rises which will hopefully keep real wages in line with inflation without adding momentum to a wage / price spiral.

NORTHERN STAR RESOURCES (E,S,G)

Result: Neutral

Northern Star is a gold miner that has evolved from a small player into a major Australian Gold producer. The transformation was based on buying old "unloved/short life" mines and extending their life through cost reduction and increased exploration spending. Over the last 12-18 months a number of key executives have left as Northern Star has evolved following a transformational acquisition and then

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merger. We met with the Chairman and other board members prior to AGM to discuss labour retention, capital returns and environmental targets. Northern Star's management have several policies in place to deal with both the current hot labour environment in mining and the risk of key personnel leaving following the ex Managing Director and Chair who have both established new mining ventures. The key retention policies for the company are to foster a culture that people want to be part of, a profit share mechanism for all staff, matching investments in shares if staff stay for greater than 3 years and one-off retention fund of approximately $15m that is targeted at 30 key employees across the organisation. We also discussed the board's view on the current speed of environmental targets, and the risks of not moving faster. It is clear that the progress made by Northern Star in setting emissions reductions targets are not being driven top down by the board. It does not appear that the current board will be pushing to take an industry leading position in terms of emissions reduction. Lastly, we discussed capital allocation and value assessment and the rigorous process for assessing capital deployment, that is focused on net present value and internal rate of returns, not cashflow. The board believes that the current dividend policy (a percentage of net cash earnings) is the floor for dividends.

SOUTH32 (E,G)

Result: Positive

We hold the management team in high regard, and we believe they have done a very good job since South32 was demerged from BHP several years ago. South32's senior management have zero percent of their long-term incentives (LTI) vest over the last 3 years, and we wanted to engage with the board to test how they were thinking about staff retention. South32 have had emissions targets for Scope 1 & 2 emissions for some time (-50% by 2035, net zero by 2050) and they have recently added a net zero scope 3 target by 2050 as well. The board's remuneration committee is aware of the potential issues arising from a lack of LTI vesting, they have been discussing the issue for over 12 months, including engaging with the CEO to gauge key man risk. The board stated they have not lost any 'key personnel' due to pay (they have lost some who have moved for promotions with the board's blessing). The board is aware of the risk and has openly discussed the issues and risks both internally and with management. To date, the board remains confident the management team remain engaged and focused, and there is no need to make changes to compensation. We highlighted that changes made to the LTI structure result in 20% of LTI from FY21 (assessed in FY25) being assessed against strategic (climate) initiatives, providing the board with a little more room to exercise discretion than the current structure where 100% of LTI is assessed against relative total shareholder return (TSR). The board pointed out the positive progress made against the priorities in FY22. South32 have incorporated their approach to climate change into the company's strategy (i.e. climate change is not a project or dealt with in isolation, but rather is completely integrated into their strategy such as impacting portfolio decisions). South32's board has become more confident in their ability to meet the new Scope 3 target, highlighting that downstream customers are making material progress on reducing their emissions.

SPARK NEW ZEALAND (E)

Result: Positive

Spark is the market leading telecommunications company in New Zealand, and we discussed with management opportunities in clean technology. Spark has created opportunities in clean technology such as smart metering where half of Spark's IT business is related to sustainability in water and energy. Spark was the first New Zealand technology company to set science-based carbon reduction targets and are genuine in their commitment to carbon reduction by establishing processes to achieve these targets.

SPARK NEW ZEALAND (G)

Result: Negative

Board members with a tenure of greater than 10 years has grown to 50% and will be considered non-independent. We are conscious of this and have raised it with management. Bringing new board members on with deep industry experience before experienced directors retire ensures there is an appropriate level of experience on the board.

TELSTRA (G)

Result: Positive

As Australia's largest telecommunications company, Telstra is an attractive target for cyberattacks. As the threat of cyberattacks has worsened over the last 12 months, we discussed with management Telstra's approach to cybersecurity, with a focus on processes both pre and post a potential attack. Telstra has the 2nd largest cybersecurity team in Australia with 300 personnel (CBA is number 1). Telstra also runs Australia's largest network and can see cyberattacks as they play out. Telstra works closely with Australian Cyber Security Centre (ACSC) to develop the national threat picture and has two-way dialogue with the government. Telstra's software development pipeline are modelled to ensure the appropriate security requirements are in place. Telstra has a mature incident response framework and monitors the network 24/7 for suspicious activity. On any one day there are many low-level incidents that Telstra are very accustomed to dealing with on an ongoing basis. Telstra are well positioned to deal with growing cybersecurity threats compared to other companies as they are subject to the critical infrastructure legislation which has driven investment in their cybersecurity capabilities. Telstra may be able to take advantage of their experience in this area with other Australian corporates.

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WOODSIDE PETROLEUM (E)

Result: Neutral

Woodside recently acquired the east coast gas assets from BHP, and we discussed with management the need to think beyond being purely a gas company. We believe Woodside can create value for shareholders and support the clean energy transition in Australia by actively participating in how gas can be integrated with renewables to provide reliable energy supply as the generation network transitions to net zero. For example, rather than just observing the NSW renewable energy hubs Woodside could be a participant in the development of the strategy and the important role that gas will play as coal is phased out. Woodside potentially has more synergies in this area than compared to other green investments they are making e.g., hydrogen. Management responded well to our suggestions.

MODERN SLAVERY

We continued our modern slavery engagement programme.

- **Spark New Zealand (S)**

  The company is exposed to modern slavery risks and has identified one instance of modern slavery in their supply chain. Spark has recently joined the Joint Audit Cooperation (JAC) which gives Spark more bargaining power when talking to suppliers. Spark joined the cooperative so they can better address and fix issues relating to their suppliers.

  Result: Neutral