

**AB AUSTRALIAN EQUITIES****AB MANAGED VOLATILITY EQUITIES FUND  
(MANAGED FUND)—MVE CLASS****Market Overview**

Global equities rose during the second quarter despite a continuation of the higher-for-longer narrative from the US Federal Reserve and key central banks. Although disinflation gained some traction, renewed signs of labour-market strength, generally strong economic data and a broadening stock market rally indicated that the rate hike cycle would likely continue, albeit at a less aggressive pace. Fallout from the banking crisis, the threat of a US government default and China's slower-than-expected economic recovery caused periods of volatility. Emerging markets (EM) underperformed developed markets amid waning confidence in the Chinese government's capacity to shore up its faltering economy and geopolitical tensions related to the escalation of US restrictions on Chinese technology companies, including the possibility of restrictions on artificial intelligence chip exports to China. During the second quarter, global equity markets, as measured by the MSCI World Index, rose 7.0% and EM equities, as measured by the MSCI EM Index, gained 0.9%. Year to date, global and EM equities have gained 15.4% and 4.9%, respectively (all returns in US-dollar terms).

The S&P/ASX 300 Index rose 1.0% during the second quarter, and 4.4% year to date, in local currency terms. Early in the quarter, Australian stocks rose as China's reopening impulse continued to underpin a recovery in the tourism and education sectors. But emerging concerns around faltering

economic growth in China sent stocks lower as momentum from its reopening narrative stalled. In early June, stubbornly high inflation prompted the Reserve Bank of Australia to unexpectedly raise rates 0.25% for a 12th time over the past 13 months, bringing the cash rate to 4.1%. Concern that other key central banks would also continue to raise rates dragged on sentiment. As the quarter closed, however, Australian stocks rose on news that inflation had slowed to a 13-month low in May, suggesting the RBA might hold rates steady at its July meeting, and that rates could peak at a lower-than-expected level. But optimism that the RBA's tightening cycle might be nearing an end was curbed after economic data pointed to a still-tight labor market and continued wage growth—as well as an unexpected rebound in the housing market and retail spending.

Overall sector performance within the S&P/ASX 300 was mostly positive. The technology sector was a strong outperformer, followed by the utilities sector. In contrast, healthcare and materials underperformed.

**MVE Class Performance**

The MVE Class was up for the quarter and outperformed its benchmark, before fees. The healthcare and technology sectors contributed the most to performance, while financials and utilities detracted.

Oracle contributed as technology stocks more broadly outperformed. The company reported better-than-expected earnings for

its 2023 fiscal fourth quarter on the strength of its cloud computing offerings.

Health insurer nib was among the leading contributors to relative outperformance, as trends in health insurance customer claims continued to be benign, while rising immigration supported the student and immigrant worker health insurance segments.

An underweight to biotechnology company CSL contributed as the company provided first-time earnings guidance for FY:24 that disappointed the market. Drivers of the downgrade to earnings guidance relative to market expectations included persistent cost headwinds in its core plasma business, as well as emerging revenue headwinds in its recently acquired renal pharmaceutical business as a key product nears loss of exclusivity. We continue to be cautious on CSL as it shifts into new therapeutic areas.

Consumer packaging company Amcor was the leading detractor from performance for the period. During its quarterly update, Amcor reported softer-than-expected volumes due to some customer destocking and some weakness in end demand (e.g., products sold in convenience channels). We expect destocking to pass and believe that Amcor remains well positioned to benefit from stable and increasing demand for its packaging solutions in growing areas such as healthcare, hot filled drinks and sustainable packaging.

Biopharmaceutical company AbbVie underperformed following its 1Q:23 revenue release that disappointed. We remain positive on the cash flows and outlook as the short-term sales have been affected by restocking and rebates, whereas the underlying trend in volumes is strong.

A lack of exposure to ANZ detracted as the bank had a bounce back in June from its May underperformance. We continue to see pressure on its earnings as margins contract, lending growth slows, costs rise and bad debts in business lending move rapidly higher. We remain materially underweight the banking sector.

#### **Positioning and Outlook**

Throughout the quarter, we continued to add shares of Australian health insurer Medibank. We gained confidence in its outlook following a period of uncertainty

after it became the victim of a sophisticated cybercrime in which sensitive customer data was accessed and posted on the dark web. Medibank's handling of the cyberattack minimised brand damage, and its February result revealed that policyholder numbers had stabilised and returned to pre-attack growth trends. Although some uncertainty remains around the outcome of class action lawsuits relating to the breach, we believe that Medibank's strong capital position mitigates downside risk in the event of an unfavourable outcome. We like Medibank for its strong balance sheet and stable earnings profile.

We sold our position in Commonwealth Bank of Australia to deepen our underweight to the banking sector. Earnings are declining more quickly than the market anticipated, and the rate of decline seems to be accelerating.

We sold our shares of BHP Group following its recent outperformance.

More broadly, risks we have long been concerned about such as inflation, rising rates, asset bubbles, and major economic and geopolitical tension are all currently unfolding, with Australian markets seemingly unconcerned. It is not clear that this optimism will be rewarded. We maintain our focus on diversifying risks, and are particularly focused on the ability of companies to offset inflationary pressures with pricing power. We aim to use fundamental insight to reduce our exposure to stocks with cyclical pressure, balance-sheet stress or negative events.

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