BERNSTEIN

JULY 2018

PURPOSE IN A PORTFOLIO

BERNSTEIN'S APPROACH TO RESPONSIBLE INVESTING

Responsible investing is a rapidly evolving field. Its foundation lies in both assessing the financial impact of a company's environmental, social, and governance behaviors and actively engaging with portfolio companies to affect change.

Some investors want more, and seek to align their portfolio with their values. Not long ago, investors assumed that putting principles to work in their stock and bond portfolios meant settling for lower returns. Today we know they can simultaneously pursue both purpose and profits using a wide range of approaches.

WHAT IS VALUES-BASED INVESTING?

Values-based investing aims to balance return and risk with a desire for positive societal outcomes—whether that means protecting the planet, promoting fair labor, or encouraging inclusion in the boardroom. It recognizes that how companies behave when it comes to the environment, social issues, and governance (commonly known as "ESG") can impact both their stock market values as well as society more broadly.

There are numerous ways to invest through a responsible lens. But we believe ESG integration and engagement are fundamental (*Display 1*):

- **ESG Integration:** Before we invest in any company, we consider ESG factors as sources of both potential risk and return alongside traditional financial metrics. Proactively embedding ESG considerations into our decision-making aligns naturally with our research-driven investment approach—it is simply smart investing. Plus, it seems intuitive. Firms that are improving their ESG credentials tend to be rewarded over time. And, companies that take a highly ethical approach are more likely to avoid scandals and problems that can detract from performance. In the end, evaluating a company remains a balancing act—one where sometimes ESG factors have the upper hand and other times non-ESG factors outweigh these considerations.

- **Engagement:** As active owners, we use our voting rights and influence with corporate executives and boards of directors to encourage more responsible behavior. Raising environmental, social, and governance issues directly with company management makes sense because companies with poor ESG behaviors tend to be more volatile over time. And active management lends us the ultimate tool: selling a stock whose ESG indicators are not meeting expectations—unlike index funds or ETFs that must hold a stock in a relevant index regardless of its ESG profile.

Building on this foundation, there are numerous ways to construct responsible portfolios:

- **Screening** excludes, includes, or weights securities based on an investor's values or global standards. Common exclusions include tobacco, weapons, and fossil fuels.

- **Thematic investing** uses a top-down approach to invest in sustainability-oriented themes in a dedicated portfolio. Thematic strategies may invest in companies engaged in activities that make a positive contribution to the environment and/or society, such as through access to healthcare or by empowering underserved populations through microfinance.

- **Impact investing** in public markets seeks opportunities that directly enable positive environmental or social outcomes, such as funding a medical facility for low-income individuals.

Responsible portfolios can utilize these approaches alone or in conjunction with one another. To that end, we have created several equity portfolios that handle responsible investing from different angles, providing investors with diversification by responsible approach as well as by geography. We have also developed a Municipal Impact portfolio that invests in bonds that finance projects with demonstrable benefits to their communities.

DISPLAY 1: FOUNDATIONS OF RESPONSIBLE INVESTING

ESG INTEGRATION

- Considers environmental, social, and governance factors alongside traditional financial metrics
- Embeds these views into our assessment of every stock and bond we buy

ENGAGEMENT

- Use our influence with company management to encourage more responsible behavior
- Achieved through voting rights and raising ESG issues with executives and boards of directors

CAN I STILL SECURE COMPETITIVE RETURNS?

Whether investing responsibly detracts from returns is a long-standing investment question. We believe both society and investors' portfolios stand to gain from the rise of responsible investing—provided it's carefully implemented using research and active management.

For example, our research has found that improvement in ESG ratings—third-party evaluations of a company's ESG profile—can be an indicator of future outperformance. We analyzed the relative returns for companies with ESG ratings upgrades from MSCI over a 10-year period (*Display 2*). On average, stocks with upgrades outperformed the S&P 500 during the 12 months that followed, while stocks without upgrades lagged. The pattern was particularly pronounced for poorly rated companies—something we call the "Redemption Effect."

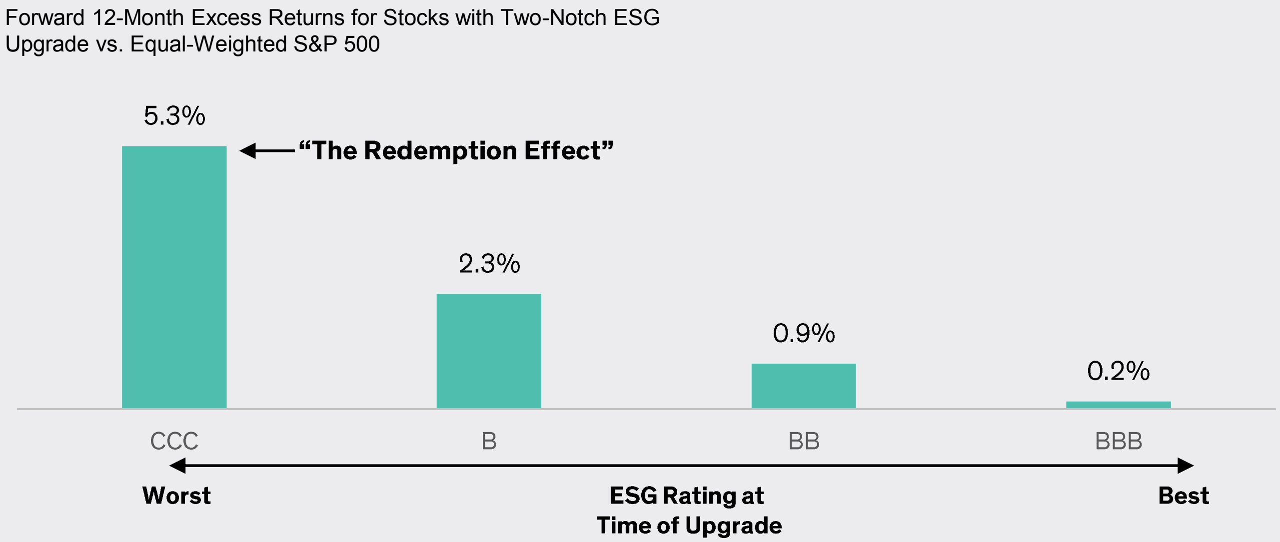
Screening also requires research to properly balance return, risk, and responsibility. Screening out companies whose businesses are at odds with specific values represents one of the oldest and most common approaches to responsible investing. However, it can have unintended consequences.

Our analysis shows that imposing broad exclusions—those that exclude companies with any involvement in the nine most common business activities that responsible investors seek to avoid—can erode returns and increase volatility (*Display 3*).[1] Based on our research, a broad screen eliminated 40% of the stocks in the S&P 500 by market capitalization. In contrast, a targeted, well-researched, and narrower screen would only exclude 10% of the stocks by market capitalization.[2] As the display shows, the narrowly defined screen can significantly dampen the loss of return and the heightened volatility associated with broad exclusions.

CAN RESPONSIBILITY BE MEASURED?

Our responsible strategies are designed for investors concerned with societal or environmental outcomes—not just traditional measures of return. Yet how do we measure responsibility?

DISPLAY 2: RESEARCH CAN BE USED TO FIND ESG IMPROVERS



January 1, 2007 through January 31, 2017.
Past performance is not necessarily indicative of future results.
An investor cannot invest in an index. These figures do not reflect the deduction of management fees and other expenses an investor would incur when investing in a fund or separately managed portfolio.
Source: MSCI, Standard & Poor's, and AB analysis

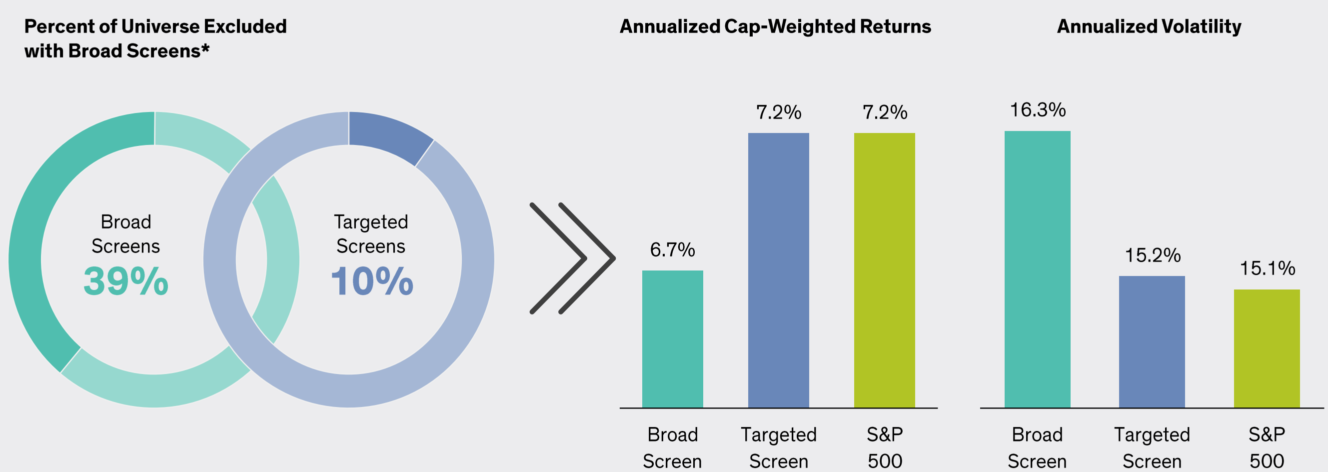
We have adopted metrics to assess progress against the different objectives prioritized by each portfolio. For instance, our municipal strategy tracks the overall social impact of its holdings while our thematic strategy evaluates the portfolio's alignment with the UN Sustainable Development Goals. Indicators for our responsible US equities strategy range from carbon intensity to board tenure and gender diversity, reflecting the diversified nature of the portfolio.

Industry standards for measurement are still evolving. Reporting along the responsibility dimension remains in its infancy, but as investors sharpen their focus on environmental, social, and governance issues, voluntary disclosures by companies are on the rise. This will lead to better and more precise measurements of responsibility characteristics over time.

DOING WELL BY DOING GOOD

Our global perspective, deep industry knowledge, and research culture position us to meet the varying needs of clients with ESG issues in mind. While investing responsibly, maximizing performance remains equally important. As we see it, the two objectives complement each other: integrating ESG lends additional perspective while engaging company management teams on ESG issues is critical to gauging problems and fielding possible solutions.

DISPLAY 3: RESEARCH CAN HELP TARGET SCREENING



*Based on market capitalization.
All data shown from January 1, 2007 through January 31, 2017.
Past performance is not necessarily indicative of future results.
An investor cannot invest in an index. These figures do not reflect the deduction of management fees and other expenses an investor would incur when investing in a fund or separately managed portfolio.
Source: Standard & Poor's, AB analysis

1 Broad screen exclusions include tobacco, alcohol, defense, gambling, guns, Sudan, pornography, fossil fuels, and nuclear power.
2 Targeted screen applied the same set of restrictions as broad screen, but with minimum thresholds for materiality. "Material" was defined as >5% of sales for each exclusion, except for greenhouse gas emissions. In the case of emissions, we eliminated from consideration those companies whose carbon intensity was greater than the median for all companies that were flagged as having any exposure to this business activity. Carbon intensity is defined as the CO_2 emissions in millions of tons relative to a company's total revenue in USD millions.

PUTTING PRINCIPLES TO WORK

One way investing through a responsible lens can help active managers is by identifying unrecognized growth potential.

Consider Apollo Hospitals, one of the largest private hospital chains in India and a sterling healthcare brand. The company squarely fits our thematic goal of improving global healthcare, as it is ideally suited to tackle India's large, growing, and aging population—a significant source of unmet medical needs. India's healthcare infrastructure ranks woefully below the World Health Organization recommendations, measured in terms of hospital beds per person.

Our time spent in India on multiple "grassroots" research trips revealed novel ways Apollo is helping improve access to healthcare in rural India. Through meetings with local hospital managers, we gained an appreciation of Apollo's hub-and-spoke approach, whereby large hospitals are supported through referrals from local clinics—enhancing case mix and profitability while at the same time enabling Apollo to reach more patients.

We also learned about their telemedicine command center, which links doctors in larger cities to rural clinics to provide advice on treatment and procedures as well as Apollo's own emergency telephone line for those in need to call for an ambulance. Apollo's model promotes a high return on existing assets, and a fast revenue ramp for expansion. We believe the company has a long runway to help meet India's need for more modern medical facilities, giving us confidence in our attractive outer-year earnings growth forecasts.

Apollo represents just one example of how the UN Sustainable Development Goals provides a framework for tackling the most pressing ESG issues, while at the same time creating attractive opportunities for certain companies. It also demonstrates how investors can pursue attractive financial returns while helping make the world a better place.

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.

Estimated Fees

Actual fees will be calculated in accordance with the Bernstein fee schedule applicable to your account. Bernstein, in its sole discretion, may change the categorization of a particular Bernstein service when the investment characteristics of such service make it appropriate to do so. Any such change may cause your fees to increase or decrease. The estimated fees in this presentation include the management, reporting, distribution, and shareholder servicing fees for each mutual fund Bernstein collects as well as other mutual fund expenses such as Transfer Agent fees and other operating expenses that Bernstein collects and passes through to other parties. This estimate is based on the operating expenses of the included mutual funds as of 3/31/2017. The details of all fees are disclosed in the prospectus or offering document of each product, as applicable, which will be provided to you either prior to the inception of your account, along with a copy of the applicable fee schedule, or with the initial trade confirmation of your purchase in a product.

OFFICES IN 48 CITIES IN 22 COUNTRIES

BERNSTEIN OFFICES

ATLANTA
404.279.4900

BOSTON
617.788.3700

CHICAGO
312.696.7800

CLEVELAND
216.263.8090

DALLAS
214.860.5200

DENVER
303.292.7400

HOUSTON
832.366.2000

LOS ANGELES
310.286.6000

MIAMI
305.530.6200

MINNEAPOLIS
612.758.5000

NEW YORK
212.486.5800

PHILADELPHIA
215.430.5600

SAN DIEGO
858.812.2200

SAN FRANCISCO
415.217.8000

SEATTLE
206.342.1300

TAMPA
813.314.3300

TEL AVIV
972 73 2844514

WASHINGTON, DC
202.261.6700

WEST PALM BEACH
561.820.2100

AB OFFICES WORLDWIDE

EMEA
AMSTERDAM
COPENHAGEN
FRANKFURT
GENEVA
LONDON
LUXEMBOURG
MILAN
MUNICH
PARIS
STOCKHOLM
ZURICH

ASIA-PACIFIC
FUKUOKA
HONG KONG
KAOHSIUNG
MELBOURNE
SEOUL
SHANGHAI
SINGAPORE
SYDNEY
TAICHUNG
TAIPEI
TOKYO

OTHER US
AUSTIN
SAN ANTONIO

OTHER AMERICAS
BUENOS AIRES
MEXICO CITY
SANTIAGO
SÃO PAULO
TORONTO

BERNSTEIN