2021 ESG Engagement Campaign

Executive Compensation, Climate Risk, Modern Slavery

APRIL 2022

In AllianceBernstein's second annual ESG engagement campaign, we engaged with issuers on topics including:

ESG metrics in executive compensation plans

Adopting climate-risk goals and appropriate disclosures

Addressing modern slavery risks in their own operations and supply chains

A Word from Our Chief Responsibility Officer

At AB, active engagement with issuers is fundamental to our research and investment processes. Our investment analysts, in partnership with the Responsibility team, engage with issuers on ESG topics throughout the year in their normal course of business, but we believe that centralized campaigns can help drive meaningful outcomes and better results for our clients.

In 2020, we conducted our inaugural ESG engagement campaign, with dozens of our equity analysts engaging with hundreds of companies on two key issues: incorporating ESG metrics into executive compensation plans; and adopting climate-risk goals and disclosures. We were impressed with the thoughtful approach of some leaders, and we told laggards that we would follow up the next year to check for progress.

In 2021, we followed up with issuers on these topics and included our fixed-income analysts in the conversations, using our position as shareholders and bondholders to drive positive change. We also added a new topic to our campaign: modern slavery. Modern slavery is one of the critical issues of our time, affecting more than 40 million people worldwide. Through this campaign, our investment analysts assessed the modern slavery risks facing issuers and how well positioned they are to address them.

As you'll see in this report, these annual campaigns have already driven great year-over-year progress. Next year, we'll focus specifically on engagements for action, asking issuers to set goals and milestones for their most material issues. I look forward to advancing our efforts in the years ahead.

Michelle Dunstan
Chief Responsibility Officer
Portfolio Manager—Global ESG Improvers Strategy

AB's Approach to Responsibility and Engagement

At AB, our responsibility approach is three-pronged: First, we strive to act responsibly as a corporation, holding ourselves to the same standards we set for the issuers we invest in. Second, ESG integration and engagement are fundamental to our active investment and research processes—we believe that fully integrating ESG leads to better risk-adjusted returns. And third, we're leveraging our expertise as a responsible investor to develop a suite of Portfolios with Purpose—our ESG-focused strategies.

Engagement is a key pillar of responsibility at AB. When our investment analysts engage with issuers, they speak directly with company management, board directors or other key officers, discussing material ESG issues facing a company. Whether it's carbon emissions, biodiversity, labor management, board composition or another topic, ESG issues are often the only ones on the agenda. Dialogues include what companies have done about ESG issues and what they might do going forward.

We engage for insight when our investment analysts seek to learn more from issuers about an ESG topic. But we also engage with issuers to encourage positive progress on ESG topics—engagement for action—which is the purpose of our annual ESG engagement campaigns.

Effective responsible investing must start with an unwavering commitment to being a responsible firm

ESG integration and engagement are fundamental to our active investment and research processes

Leveraging our perspective as a responsible firm and investor, we've designed Portfolios with Purpose to deliver specific ESG-related outcomes

We Pursue Responsibility at All Levels—from How We Work and Act to the Solutions We Deliver to Clients

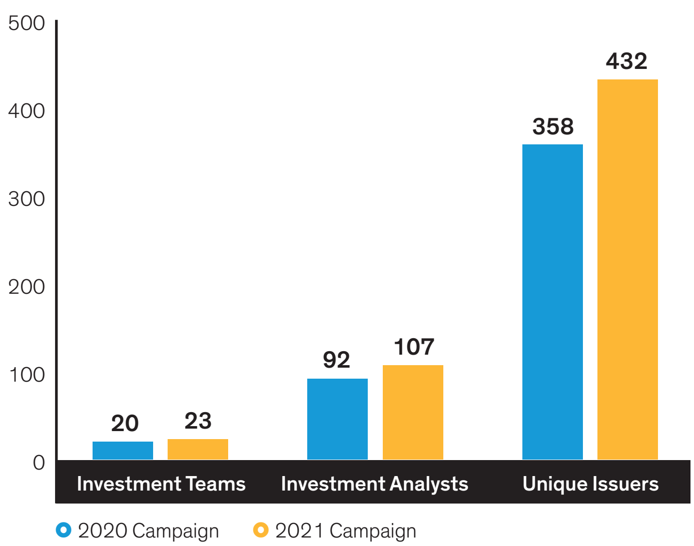
AB's 2021 ESG Engagement Campaign

Overview

During AB's 2021 ESG Engagement Campaign, 107 of our investment analysts across 23 teams engaged with 432 unique issuers on three critical ESG issues (*Displays 1 and 2*):

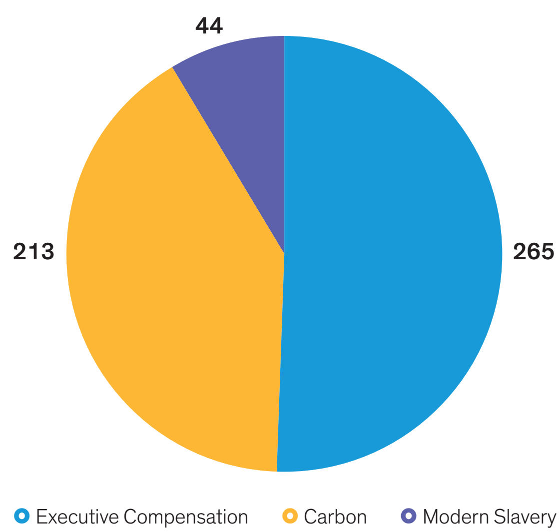
1. Including ESG Metrics in Executive Compensation Plans
2. Adopting Climate-Risk Goals and Disclosures
3. Identifying and Addressing Modern Slavery Risks

DISPLAY 1: YEAR-OVER-YEAR ESG ENGAGEMENT CAMPAIGN GROWTH



As of March 2022 | **Source**: AB

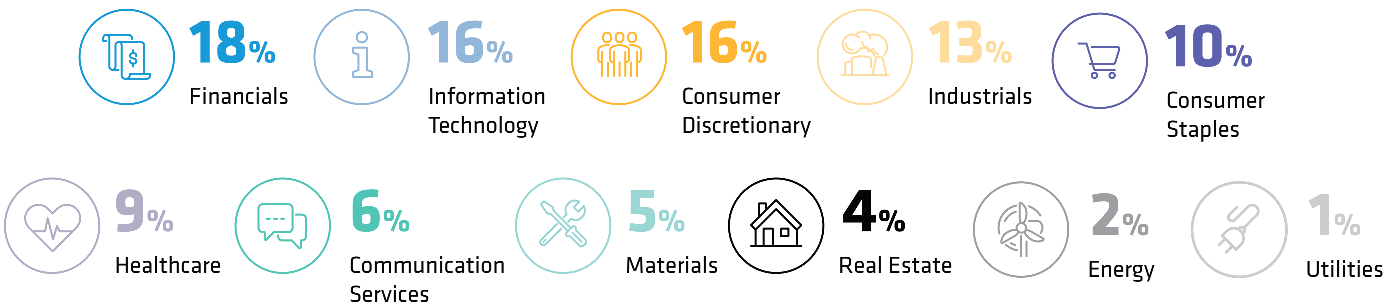
DISPLAY 2: 2021 ENGAGEMENTS BY ESG ISSUE



As of March 2022 | **Source**: AB

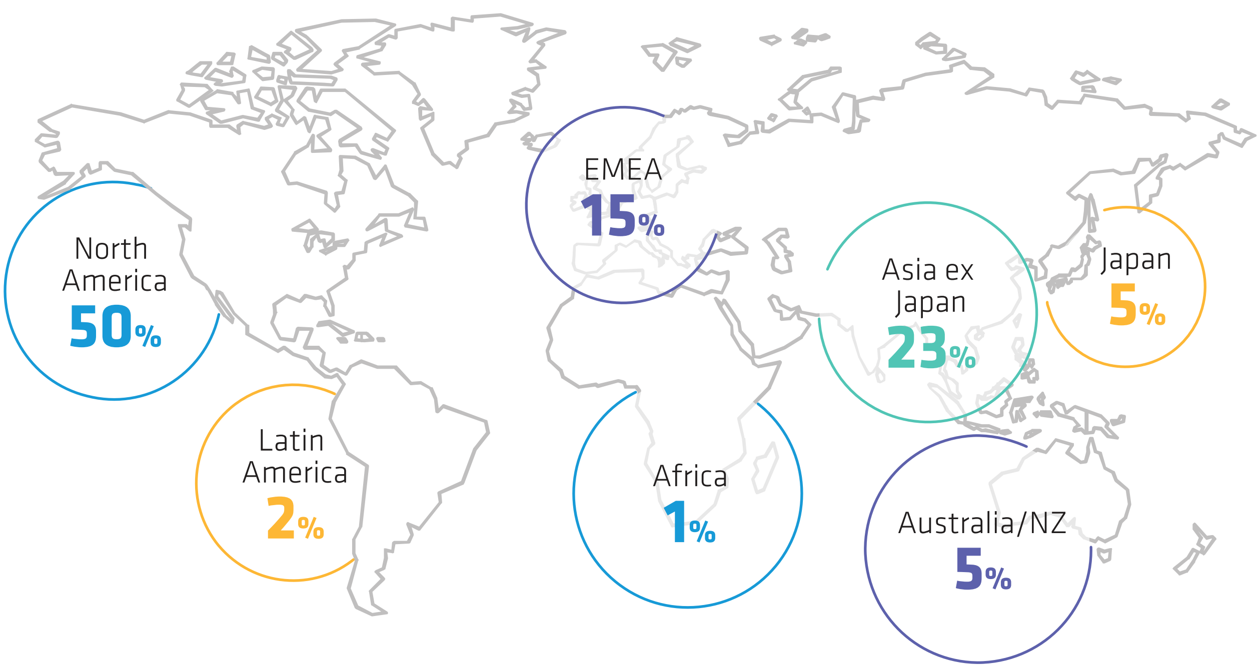
We engaged with issuers across sectors (*Display 3*) and geographies (*Display 4*). We also engaged with a diverse set of company representatives, including CEOs, CFOs, board chairs, general counsels, ESG managers and more.

DISPLAY 3: 2021 ENGAGEMENTS BY SECTOR



As of March 2022 | **Source**: AB

DISPLAY 4: 2021 ENGAGEMENTS BY REGION



Numbers may not sum to 100% due to rounding.

As of March 2022 | **Source**: AB

Partnering Across Equities and Fixed Income

When our equity experts partner with our fixed-income analysts, it leads to better outcomes.

When appropriate, our equity analysts engaged in partnership with our fixed-income analysts to drive more meaningful outcomes. As shareholders, we have direct ownership of a company; we want to see it grow and create value. As bondholders, we lend money to companies in exchange for interest payments and principal repayments, and we engage with government officials, index providers and nongovernmental organizations, which determine policies that can affect how companies operate. As shareholders and bondholders, we explore risks that could affect cash-flow generation and enterprise value.

On environmental and social issues, equity and fixed-income analysts are generally aligned. These issues often affect companies holistically, posing meaningful upside and downside risks. Fixed-income investors might want to see companies boost operating or capital expenditures if it mitigates physical and transition risks and reduces the odds of negative tail-risk events. The financing of those expenditures is a key consideration because it could compromise the balance sheet temporarily, but stakeholders remain largely aligned in terms of how they'd like to see companies approach environmental and social issues.

On governance issues, there may be potential conflicts: shareholders could push a company to take on risky projects that, if unsuccessful, could raise default risk. Shareholders may ask a company to pay large debt-funded dividends, which could weaken its balance sheet and liquidity. Nevertheless, equity and fixed-income investors are aligned on key governance principles, including calling for the fair treatment of all stakeholders, demanding accurate and transparent reporting and disclosure, and a desire to minimize conflicts of interest between management and the company.

In our 2021 campaign, we leveraged our position as shareholders and bondholders in some companies in order to conduct robust engagements that result in outcomes that benefit all stakeholders. For example, on climate, the development of a company's climate strategy and scenario analysis enables investors to accurately map climate risks and opportunities to a company's cash flows as well as its longer-term credit default risk.

ESG Metrics in Executive Compensation Plans

The Issue

We believe that top-level accountability for material ESG matters is integral to creating a sustainable business, and integrating ESG metrics into compensation plans is one way to hold management accountable. Key performance indicators (KPIs) used in executive compensation programs are a critical mechanism for helping stakeholders understand a company's strategic focus and direction, and we encourage companies to approach pay plans with that principle in mind.

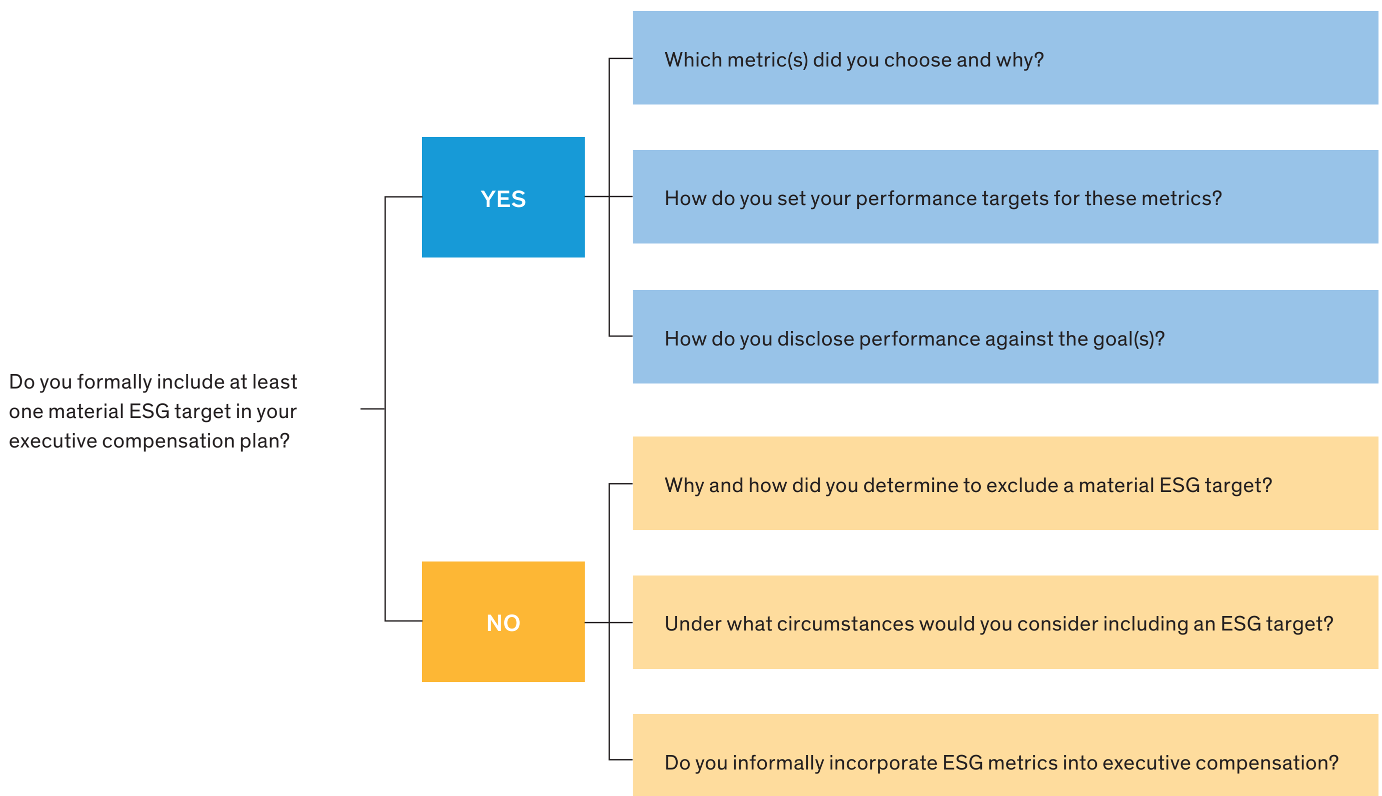
The Ask

When engaging with issuers, we first ask whether ESG metrics are incorporated into executive compensation plans. If this is the case, we ask follow-up questions to determine whether the metrics are appropriate and well implemented. If they are not, we further engage on best practices and encourage the companies to improve their targets.

If an issuer doesn't include ESG metrics, we ask whether this was an active decision or an oversight. Perhaps the issuer is considering it but has not yet acted—for example, an issuer may still be in the early stages of measuring ESG factors, and does not yet feel comfortable relying on those metrics in its executive compensation plans. An issuer may still be determining which metrics best suit its business model. If an issuer is receptive, we share best practices on including ESG metrics in executive compensation plans.

Ultimately, we want issuers to include material, measurable ESG metrics in their executive compensation plans, explain how those metrics are incorporated and how progress is measured, and disclose performance against those metrics.

DISPLAY 5: EXECUTIVE COMPENSATION ENGAGEMENT QUESTIONS



As of March 2022 | **Source**: AB

Best Practices for ESG Metrics in Executive Compensation Plans

When determining which ESG metrics to include in executive compensation plans, we recommend that issuers:

Conduct an impact assessment to determine the most material ESG issues for the business.

This may include considering which issues the issuer considers material in terms of costs and opportunities, as well as the impact that the issuer has had on its various stakeholders.

Focus on quantitative over qualitative metrics.

We prefer to see a greater portion of pay determined by quantitative metrics enabling stakeholders to easily track progress. Quantitative metrics tend to be clearer, although qualitative metrics with accompanying and specific actions are also acceptable.

Emphasize stand-alone metrics over scorecards.

Including too many KPIs dilutes the weight assigned to each metric, making guidance for executives and stakeholders less clear. A KPI with an insignificant weight may not sufficiently incentivize executives to achieve the associated target.

Consider the time horizon of ESG goals.

Many ESG-related targets tend to require multiyear efforts. It may make more sense to integrate these goals as part of a long-term incentive plan versus an annual bonus program.

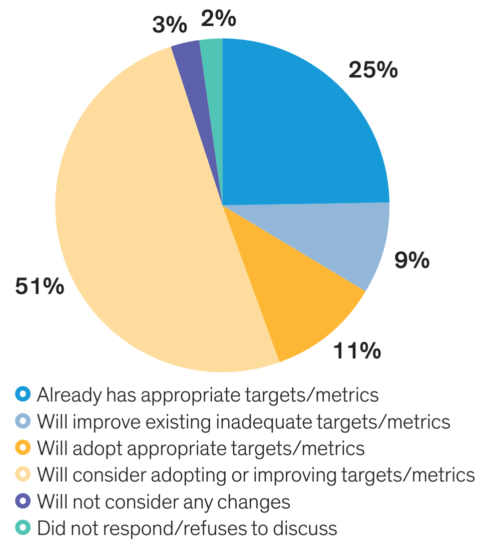
The Results

Of the 265 issuers we engaged with on executive compensation, 34% said that they included ESG factors in their executive compensation plans (*Display 6*). In some cases, we thought that those metrics needed improvement—for example, by making them quantitative or more impactful. However, most issuers' metrics were appropriate, in our view.

The vast majority of issuers we engaged with on executive compensation did not have ESG metrics in their plans currently but agreed to adopt them. Most issuers were receptive to these conversations, and we believe that most engagements were effective. In fact, we saw both issuer receptivity and engagement effectiveness improve year over year (*Displays 7 and 8*).

A handful of issuers did not respond to our outreach, refused to discuss the topic or said that they would not consider making any changes. In line with our policy *(see page 9)*, we may consider escalating these engagements if the issuers continue refusing to act in what we feel are stakeholders' best interests.

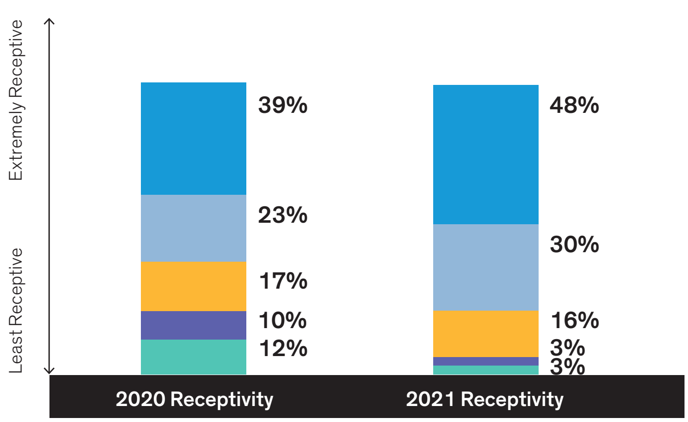
DISPLAY 6: EXECUTIVE COMPENSATION ENGAGEMENT OUTCOMES ACROSS ISSUERS



Numbers may not sum to 100% due to rounding.

As of March 2022 | **Source**: AB

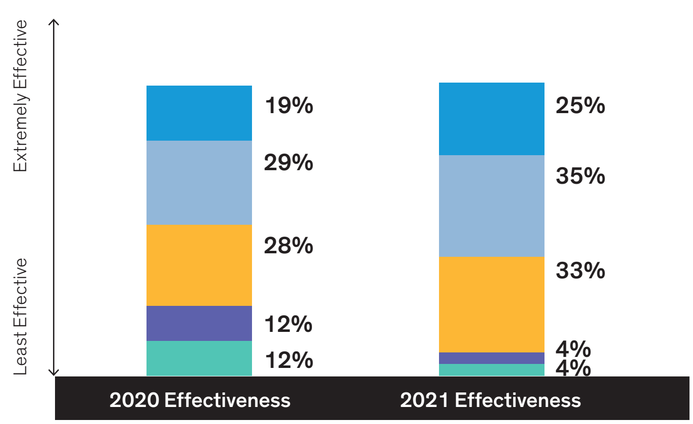
DISPLAY 7: YEAR-OVER-YEAR EXECUTIVE COMPENSATION ENGAGEMENT ISSUER RECEPTIVITY



Numbers may not sum to 100% due to rounding.

As of March 2022 | **Source**: AB

DISPLAY 8: YEAR-OVER-YEAR EXECUTIVE COMPENSATION ENGAGEMENT EFFECTIVENESS



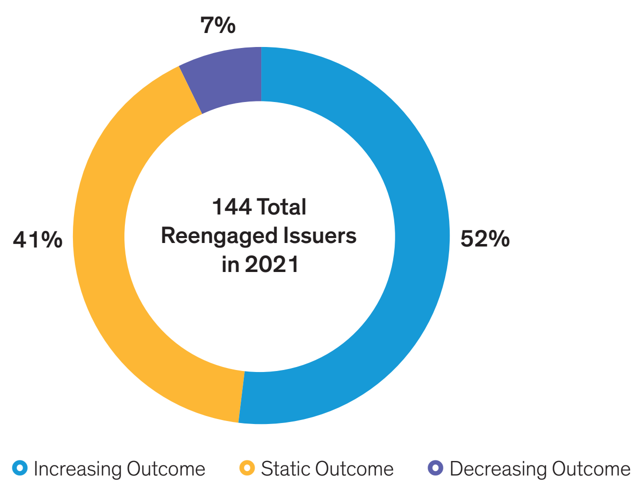
Numbers may not sum to 100% due to rounding.

As of March 2022 | **Source**: AB

Year-over-Year Results

We had flagged 223 issuers from our 2020 campaign for reengagement but, due to changing portfolio positioning or analyst engagement priorities, followed up with 144 issuers on the topic of ESG metrics in executive compensation. Of the issuers we reengaged with, 52% improved year over year, as defined by the spectrum of outcomes *(Display 9)*. For example, some issuers went from saying that they would consider adopting ESG metrics in executive compensation plans during our engagements in 2020 and now have fully implemented them (*Display 10*).

DISPLAY 9: EXECUTIVE COMPENSATION REENGAGEMENT RESULTS



As of March 2022 | **Source**: AB

DISPLAY 10: EXECUTIVE COMPENSATION REENGAGEMENT IMPROVEMENT HIGHLIGHTS

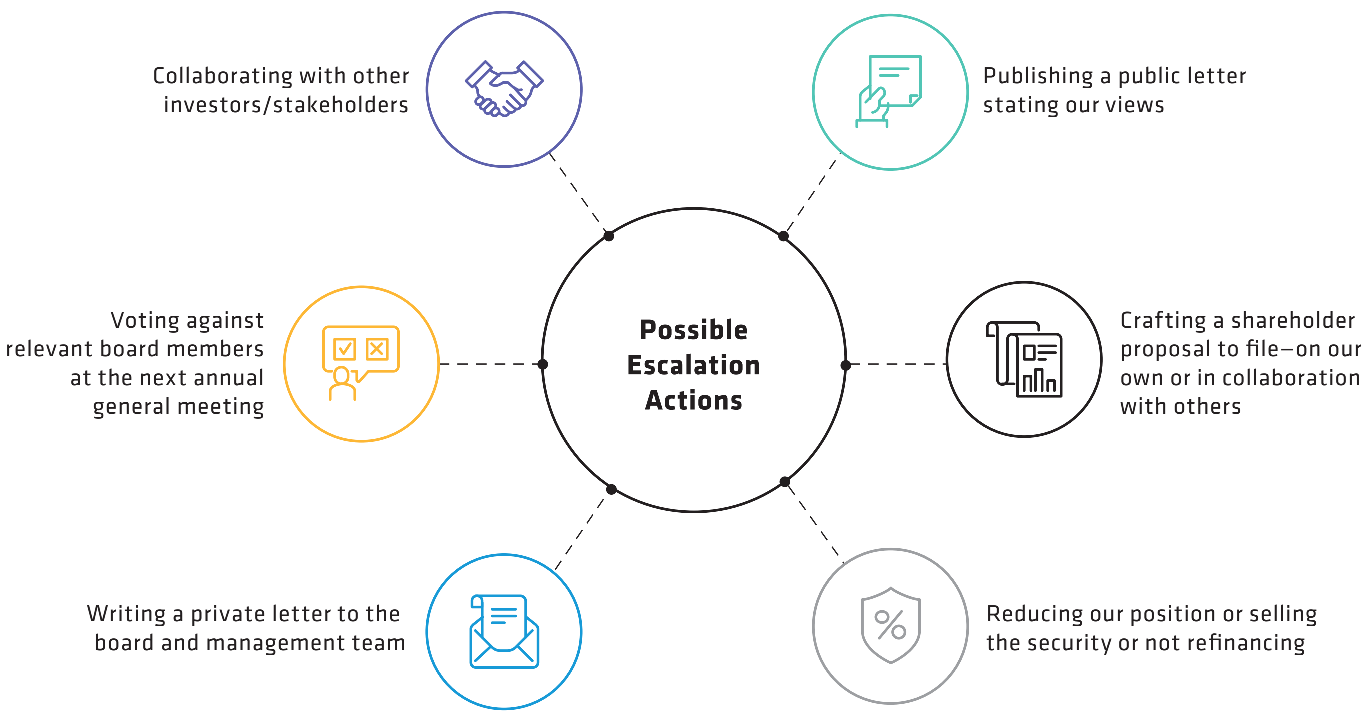
Issuer	Improvement Notes
Ashtead	After April 2021 consultation, ESG metric now included in executive compensation plan.
Edwards Lifesciences	Sustainability and people management goals elevated as a part of the annual cash plan's discretionary assessment.
Randolph Bancorp	Incorporated diversity, equity and inclusion goals into management's personal goals and compensation qualitatively.
Treasury Wine Estates	More fully integrated sustainability targets into long-term growth strategy: 50% of CEO's bonus compensation tied to sustainability and health and safety metrics.
WUXI Biologics	ESG is one of the KPIs for the CEO's compensation, which was also requested by some of the issuer's pharma customers.

As of March 2022 | **Source**: AB

Holding Issuers Accountable

An essential part of engaging for action is holding issuers accountable when they do not meet our expectations. If a multiyear engagement is not fruitful, AB's Responsibility team will collaborate with our investment analysts to determine the most appropriate escalation method, including:

DISPLAY 11: AB'S ESCALATION POLICY



Executive Compensation Case Studies

ISSUER: Blue Ridge Bankshares
INDUSTRY: Banks
REGION: North America

Blue Ridge Bankshares provides commercial and consumer banking and financial services in the Mid-Atlantic region of the US. During our engagement with the company, we learned that the board was looking into including ESG metrics in executive compensation. A few months later, the company amended its annual cash incentive program that provides bonus awards based on performance. The objective was to include a new performance target for progress on certain ESG initiatives: the company's newly announced carbon-neutrality plan, the implementation of a management diversity program and the enhancement of ESG disclosures.

We're impressed by Blue Ridge's commitment; the company is among the first micro-/small-cap banks to make a formal announcement about incorporating ESG metrics into executive compensation and committing to carbon neutrality.

ISSUER: The Manitowoc Company
INDUSTRY: Machinery
REGION: North America

Earlier in the year, we had engaged with The Manitowoc Company's CEO, CFO and new head of ESG after they had solicited our insights for improving their ESG practices. In our view, the most material ESG issues to Manitowoc's business were carbon emissions, safety, cybersecurity and board diversity. We also spoke about how the company could improve ESG metrics included in its executive compensation plans, encouraging it to tie compensation to carbon-reduction targets.

We later followed up with management as part of AB's engagement campaign. In the short time between engagements, the board had proposed integrating carbon, diversity and safety into the CEO's compensation plan. The company also addressed some of our other feedback, setting a clear target to reduce carbon intensity by 15% from 2019 to 2025, appointing a head of cybersecurity and establishing related protocols, and adding diverse board members, which now represent 40% of its board.

On another positive note, major third-party ESG ratings agencies upgraded Manitowoc after it announced these advances.

> "AllianceBernstein has provided us with key input to effectively address investor priorities in ESG, particularly related to carbon emissions, health and safety, diversity and inclusion, and governance."
>
> —James Cook, head of ESG,
> The Manitowoc Company

ISSUER: Nidec
INDUSTRY: Electrical Equipment
REGION: Japan

Motor manufacturer and distributor Nidec has a performance-linked and share-based incentive scheme that doesn't include any ESG targets. When we engaged with management in 2020, leaders explained that although the incentive plan doesn't include ESG targets, it does include incentives for executives to focus on upholding corporate value in the medium-to-long term, which aligns with the company's overall ESG strategy. Even so, we encouraged the company to formally adopt ESG targets in its executive compensation plan.

Following up with Nidec in 2021, we discussed how some of its peers were beginning to give incentives to executives if their firms are added to key global and regional ESG indices. Nidec has identified 15 key ESG themes for its business, with two or three KPIs mapped to each theme. Divisional heads regularly monitor progress on these metrics, which is reviewed by the CEO every quarter. This is a positive development for the company's overall ESG strategy, but ESG metrics are still absent from executive compensation. Having developed robust ESG targets, Nidec should now strive to factor some of them into its incentive pay to further align interests. In our feedback to management about its latest CSR Integrated Report 2021 (published in January 2022), we again raised the issue with management and will continue engaging with it on any progress.

Successful   Partially Successful

Climate-Risk Goals and Disclosures

The Issue

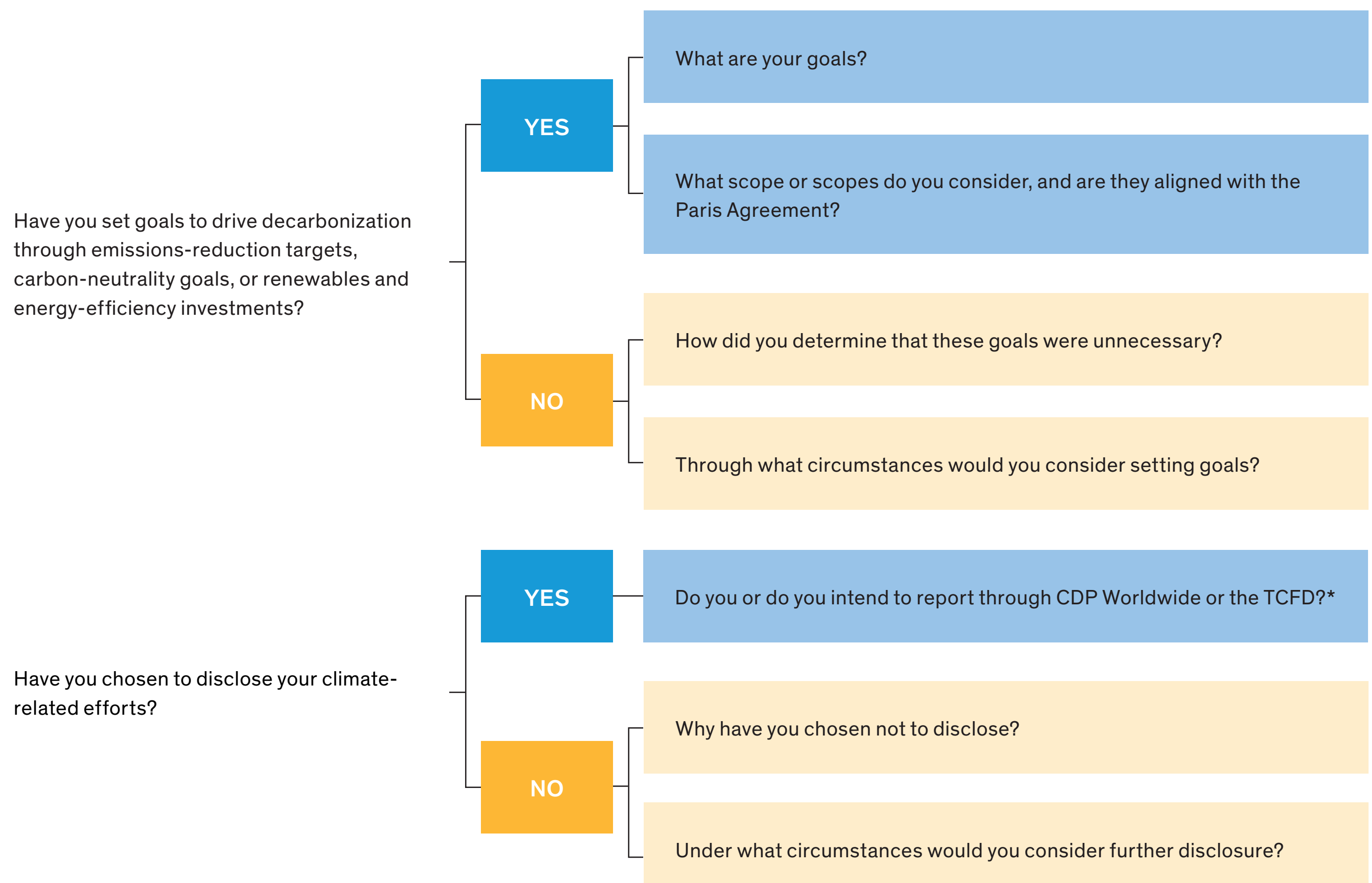
As investors, we believe that climate risk is an investment risk: issuers must consider material physical and transition climate-change risks and opportunities. Every issuer must play a role in reducing greenhouse gas (GHG) emissions in order to hold global temperature increases below 1.5 degrees Celsius by 2100—in line with the Paris Agreement. By setting clear, quantitative climate-risk goals, issuers can reduce global emissions and mitigate their own financial risks.

The Ask

When we engage with issuers on climate-risk goals and disclosures, we ask them if they have a climate-risk strategy and whether it drives decarbonization through specific goals. If an issuer has a strategy and associated goals, we ask which emissions scopes it considers and whether the metrics are science-based or aligned with the Paris Agreement. We also encourage issuers to disclose their climate-related targets through industry-standard frameworks.

If an issuer does not have a climate strategy or has poor disclosure practices, we encourage management to improve. We want to see issuers actively assess their climate-risk exposures and behaviors, commit to emissions-reduction goals or renewable investment targets, and disclose their climate-related activities.

DISPLAY 12: CLIMATE QUESTIONS FOR ISSUERS



***** TCFD: Task Force on Climate-Related Financial Disclosures

As of March 2022 | **Source**: AB

What Are Good Climate-Related Metrics?

Metrics

- Quantitative, comparable, material
- Internal GHG pricing (how pricing is derived and used in strategy, planning, capital allocation, operational decisions)
- Carbon emissions and weighted average carbon intensity
- Audited

Goals

- Scope 1/2/3 GHG emissions-reduction goals (e.g., absolute or intensity-based, as defined by the Greenhouse Gas Protocol)
- Renewable energy goals (e.g., percent capital expenditure allocated to renewables, investments in climate solutions/low-carbon technology)
- Science-based targets in line with the Paris Agreement

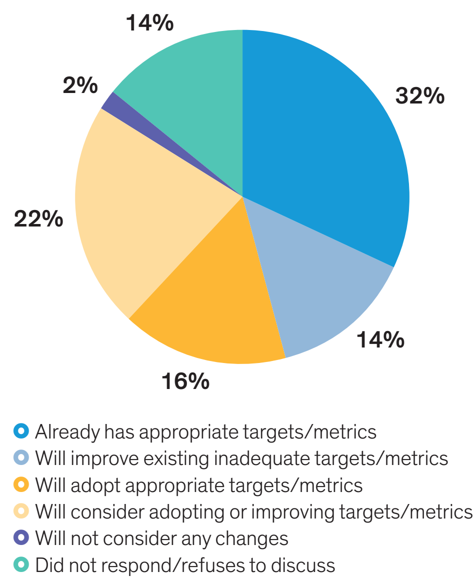
Disclosures

- Climate-related lobbying disclosures
- Scenario analyses
- Net-zero/Paris-aligned strategy
- TCFD/CDP/Climate Disclosure Standards Board/Global Reporting Initiative/International Integrated Reporting Council/Sustainability Standards Accounting Board

The Results

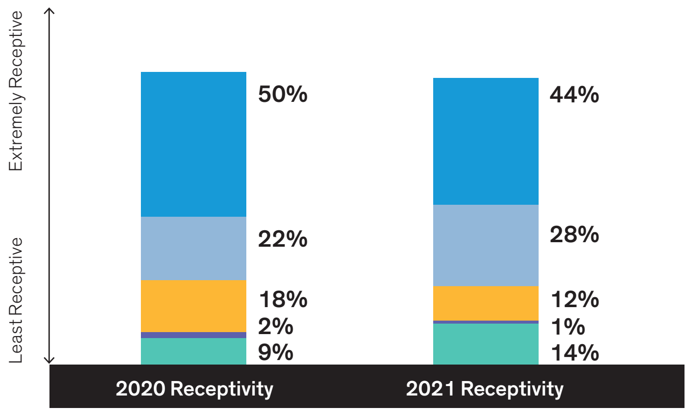
We engaged with 213 issuers on climate-risk goals and disclosures. Almost half—46%—had some climate targets or disclosures (*Display 13*).

DISPLAY 13: CLIMATE ENGAGEMENT OUTCOMES ACROSS ISSUERS



As of March 2022 | **Source**: AB

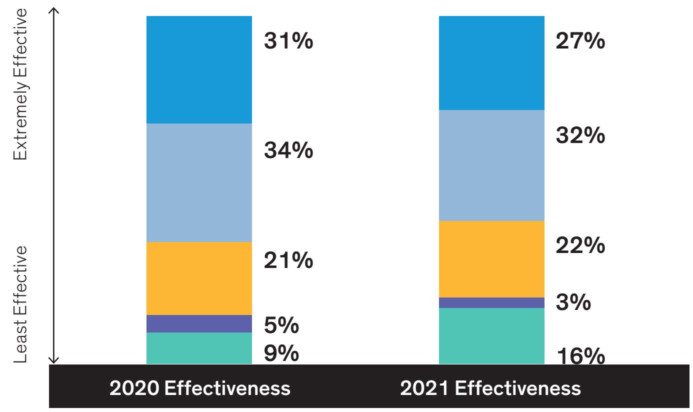
DISPLAY 14: YEAR-OVER-YEAR CLIMATE ENGAGEMENT ISSUER RECEPTIVITY



Numbers may not sum to 100% due to rounding.

As of March 2022 | **Source**: AB

DISPLAY 15: YEAR-OVER-YEAR CLIMATE ENGAGEMENT EFFECTIVENESS



Numbers may not sum to 100% due to rounding.

As of March 2022 | **Source**: AB

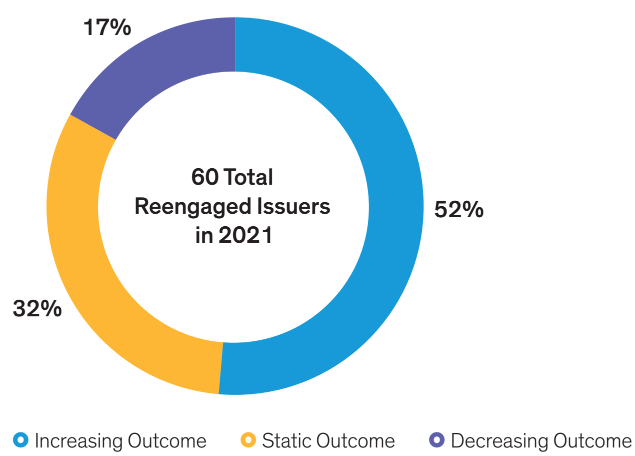
Almost all the issuers that did not have climate goals or disclosures were receptive to adopting them. Even so, year over year, we saw issuer receptivity and engagement effectiveness decline slightly (*Displays 14 and 15*). In 2021, we engaged with a greater percentage of emerging- and frontier-market issuers than we had in 2020, as we aimed to tackle some of the greatest carbon emitters and issuers earlier, in terms of thinking about their approach to climate change. These engagements drove the slight declines in average receptivity and effectiveness.

As with our engagement on executive compensation, a few issuers would not engage with us on climate or refused to discuss the topic with us. In cases where we've engaged with an issuer for a second year without seeing meaningful progress, we may escalate the engagement, according to our policy (*see page 9*).

Year-over-Year Results

We were pleased with the progress that we saw from many issuers. Specifically, we reengaged with 60 issuers on climate; 52% had made progress year over year, based on the spectrum of engagement outcomes (*Display 16*).

DISPLAY 16: CLIMATE REENGAGEMENT RESULTS



Numbers may not sum to 100% due to rounding.

As of March 2022 | **Source**: AB

Climate Case Studies

ISSUER: Chart Industries
INDUSTRY: Machinery
REGION: North America

Chart Industries is an independent global manufacturer of highly engineered equipment for the clean energy and industrial gas markets. Across its portfolio, Chart is trying to minimize the adverse impact of its products, operations and supply chain. We have been engaging with the company for a few years on its climate strategy. While the firm had taken measures to improve its energy efficiency and reduce energy consumption at its facilities when we engaged in 2020, it had not yet set firmwide energy efficiency or carbon emissions goals—something that we promised to follow up on.

During our engagement as part of this campaign, we learned that Chart had recently established a target to reduce its Scope 1 and Scope 2 carbon intensity by 30% between 2020 and 2030. It plans to do this by installing energy-efficiency upgrades, replacing diesel-powered equipment with electric alternatives, using recyclable and reusable packaging for shipping its products, and expanding its recycling programs. It has tied part of its carbon intensity reduction target to executive compensation. The company has also committed to becoming carbon neutral by 2050, through a combination of carbon reduction, carbon offsets and carbon-footprint optimization. We expect that the optimization will also improve margins.

Chart Industries has continued expanding its presence in clean energy applications, including liquefied natural gas (LNG), hydrogen, biogas and carbon capture. The firm's actions are starting to be recognized in the industry: it was recently nominated for the S&P Global Energy Award of Excellence in the LNG and Corporate Social Responsibility—Diversified Program categories.

We're encouraged by Chart's progress and believe that further advancements are on the horizon. For example, the company is working on establishing Scope 3 targets, collaborating with its supplier base to gather the appropriate information and hoping to publish interim targets.

ISSUER: Credicorp
INDUSTRY: Banks
REGION: Latin America

When we engaged in 2020 with Credicorp, the leading financial-services firm in Peru, on climate-risk goals and disclosures, it had no formal climate-risk strategy. The company was just embarking on a broader ESG materiality assessment and had laid out strategic initiatives to address climate issues. For example, its banking arm, BCP, has an environmental credit policy: it asks companies in the mining, electricity, fishing, and oil and gas sectors with credit lines above US$10 million to complete an environmental questionnaire every year, classifying their level of risk. BCP also conducted a pilot project with the Natural Capital Finance Alliance to better understand its clients' natural capital dependencies. Although Credicorp reduced its Scope 1 and Scope 2 carbon footprint by almost 50% between 2016 and 2019, it had not yet set formal climate goals.

In 2021, we were pleased to see Credicorp commit to carbon neutrality by 2032, but it provided little detail on how it intends to achieve that goal. During our engagement with management, the head of sustainability explained that the 2032 commitment was a first step in the ongoing process of addressing environmental and climate risks. The next steps are to measure Scope 1 and Scope 2 emissions across all operations, including subsidiaries, that have not yet been measured. This baseline would be used to set concrete emissions-reduction targets. Eventually, the company hopes to measure and disclose Scope 3 emissions.

We believe that Credicorp is genuinely committed to addressing carbon emissions and climate change vulnerability. While we're happy to see the company's progress with its 2032 carbon-neutral commitment, we'd like to see management set specific emissions-reduction targets and lay out a road map for fully incorporating climate-risk assessments into its credit-granting process.

ISSUER: Grocery Outlet
INDUSTRY: Food Retailers
REGION: North America

Discount supermarket Grocery Outlet sells products through a network of independently owned and operated stores. When we spoke with the company in 2020 about climate-risk goals and disclosures, it did not have a formal climate strategy or any related disclosures.

However, management had identified some areas of focus, including preventing refrigerant leaks and using natural refrigerants, as well as improving the energy efficiency of its stores through lighting upgrades. Management explained that it planned to help its operators in this transition.

After a positive engagement in 2020, we were disappointed in our most recent engagement during the 2021 campaign. Grocery Outlet pushed back on our request for a meeting, explaining that it had no updates to share. While we acknowledge that developing a robust climate strategy, goals and disclosures is a multiyear process, we'd like to see more year-over-year progress.

Successful   Partially Successful   Room for Improvement

Modern Slavery Risks

The Issue

Modern slavery, including forced labor, debt bondage, forced marriage, slavery and slavery-like practices, human trafficking, and child labor is a pervasive social issue. The International Labour Organization and the Walk Free Foundation, in partnership with the International Organization for Migration, estimated in 2017 that 40.3 million people were victims of modern slavery and that forced labor generates US$150 billion in profits annually. To end modern slavery by the United Nations Sustainable Development Goals' target of 2030, more than 10,000 people would have to be freed each day.

Active investors are in a unique position to address the systemic problem of modern slavery. With deep industry knowledge, AB and other active managers are able to zero in on industries, regions and companies at high risk of modern slavery. In many cases, investors also have the ear of company management, using the power of capital as shareholders or bondholders to encourage companies to adopt best practices.

Through active engagement and by communicating our expectations of companies, investors can push issuers to make advances on modern slavery, helping victims and generating long-term, sustainable performance. Modern slavery is a complex issue that requires systematic and in-depth research, broad industry collaboration and collective action across the investment community.

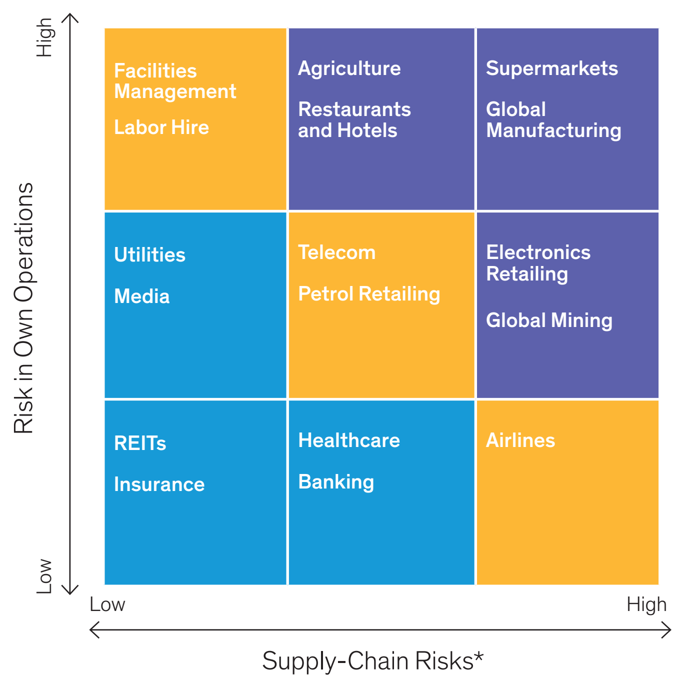
The Ask

As investors, we believe that we have an important role to play in combating modern slavery, by engaging with issuers on these risks in their own operations and supply chains. We've developed proprietary frameworks to assess modern slavery risks facing issuers and encourage best practices.

We use a two-dimensional matrix to assess high-risk-to-people issuers—in terms of their own operations and their supply chains. An issuer might have a low risk of modern slavery exposure in its own operations but high risk in its supply chain—airlines, for example. In *Display 17*, we've plotted industries to illustrate how the framework is used; in practice, individual issuers are plotted.

After assessing issuers, we engage with them on best practices to reduce modern slavery risk. We've identified five criteria that, in our view, capture best practices (*Display 18, next page*).

DISPLAY 17: FRAMEWORK TO ASSESS HIGH-RISK-TO-PEOPLE ISSUERS



REITs: real estate investment trusts.

* Supply-chain risks can include customers and extend to second- and third-tier suppliers.

As of March 2022 | **Source**: ACSI, company interviews, company reports, industry research and AB

DISPLAY 18: MODERN SLAVERY BEST PRACTICES FRAMEWORK

Governance Framework	What steps are the board and senior management taking—through policies and procedures, culture and values—to align the business with the goal of reducing modern slavery risk?
Risk Identification	The criminal and covert nature of modern slavery practices makes this a difficult and delicate task—but a critical one. How well does the firm understand the challenge, and how robust are the techniques and processes it uses to identify the risk?
Action Plan to Reduce Risks	Is the plan a realistic solution to reduce risks to people within the company's operations and supply chains? Does the company appropriately and effectively train and empower employees and suppliers to identify and reduce risks?
Action Plan Effectiveness	To what extent have the company's actions reduced risk, and how are the board and senior executives measuring progress? What procedures are in place to ensure that follow-up actions are implemented and monitored?
Future Improvement	For many companies, the road to reducing modern slavery risk will be long and stretch through unfamiliar territory. The best firms will be able to evaluate their progress each step of the way and make changes with an eye toward continuously improving their performance against each of the four previous criteria.

Engaging on Modern Slavery: Lessons Learned

Modern slavery is often a difficult topic to engage on. The issue is not always well known, and it can be challenging to navigate sensitivities. We find that issuers are most receptive to the conversation when we combine multiple perspectives: addressing modern slavery is the right thing to do, leads to stronger supply-chain management and can materially reduce financial risks. We strive to take a collaborative approach with issuers, setting expectations but also sharing best practices and constructive feedback.

The Results

We engaged with 44 issuers on modern slavery risk. Modern slavery can be a very sensitive topic for issuers to discuss, as issuers do not want to be associated with modern slavery risks in any way and are very concerned about the reputational risks related to modern slavery. Nevertheless, we found that the majority of issuers—82%—were receptive or very receptive to the conversation. We used the information gleaned during our research and confirmed during our engagements to plot issuers on our two-dimensional risk matrix and best-practices scorecard. While issuers' sector and region exposure may give us a starting point for plotting issuers on the matrix and scorecard, our assessment is ultimately based on the individual issuer and the fundamental insights that we glean. For more information on how we approach modern slavery risk in our research and engagement, please see our white paper *Modern Slavery Risk: The Investor's View*.

Based on our risk matrix, the highest-risk issuers would be assigned a score of six, receiving three points for operational risk and three points for supply-chain risk. Lowest-risk issuers would be assigned a score of two: one point each for operations and supply chain.

We performed a similar exercise for the best-practices scorecard, converting our assessment into numerical ratings. In any of the five criteria, an issuer could receive between one and three points, where one represents "beginners" that are early in their development of a governance framework and identifying modern slavery risk areas; where two represents "on-the-way" issuers that have a governance framework and are identifying high-risk areas and implementing programs to manage modern slavery risks but are not yet finding modern slavery or remediating victims; and where three represents "advanced leaders" in terms of their governance framework, identification of risks and effectiveness of their plans to minimize modern slavery risks. Often, these issuers have already identified modern slavery indicators and have remediation programs in place. Issuers earlier in their efforts toward reducing modern slavery risks would receive a score of five, while the most advanced issuers could receive a score of 15.

In general, we targeted issuers in higher-risk sectors, such as consumer products and materials. We targeted fewer issuers in generally lower-risk sectors such as financials or telecommunications (*Display 19*).

Interestingly, issuers with the lowest risk often lag on adopting best practices—for example, telecommunications or healthcare. Meanwhile, issuers with the highest risk are typically further along—consumer discretionary or consumer staples, for instance. This is consistent with other engagements that we've conducted on modern slavery; issuers facing the highest risks are typically advancing further, while issuers with lower risk are earlier in their journey but often willing to learn more about the issue. In general, we find that consumer-facing companies have better modern slavery disclosures. And issuers that report under regional modern slavery acts tend to be further along in their understanding of the risks.

DISPLAY 19: MODERN SLAVERY ENGAGEMENT RESULTS

Sector	Risk Matrix (average score)	Total Scorecard (average score)	Total Issuers Included
Consumer Discretionary	5.2	12.3	16
Consumer Staples	5.2	11.5	12
Materials	4.8	12	9
Industrials	4	8.5	2
Financials	2	8	1
Energy	5	8	1
Healthcare	3	7	1
Technology	4	10	1
Telecommunications	5	5	1

As of March 2022 | **Source**: AB

Modern Slavery Case Studies

ISSUER: Healius
INDUSTRY: Healthcare
REGION: Australia/New Zealand

Healius is a leading provider of clinical laboratory and diagnostic imaging services in Australia. During our engagement, we learned that the company has taken a number of steps to progress its modern slavery strategy, including the establishment of a cross-functional sustainability committee, training internal staff on the issue and engaging with suppliers. The company developed a supply-chain risk-assessment tool to identify areas of risk and a supplier questionnaire to mitigate supply-chain risks identified by the tool. So far, this questionnaire has been issued to 12 suppliers, with a 100% response rate. The company has also requested modern slavery compliance statements from its top 40 suppliers, constituting 70% of its total spend.

When Healius was alerted to a potential modern slavery breach at one of its major suppliers during the year, management quickly took action. We learned that Healius engaged with the supplier and was satisfied that the breach had been dealt with appropriately.

Based on our best-practices framework, we believe that Healius still has room to improve in addressing modern slavery risks. It should continue to work on establishing processes to efficiently and effectively identify modern slavery breaches across its supply chain, conduct supplier audits and establish a formal framework for addressing grievances. Eventually, we'd like to see modern slavery–related KPIs incorporated into the company's executive compensation plan.

ISSUER: Nestlé
INDUSTRY: Food Products
REGION: EMEA

We discussed modern slavery risk across the company's cocoa supply chain and learned more about child-labor matters. We also discussed the US ban on palm oil imports from Malaysian producer Sime Darby Plantation, one of Nestlé's major palm oil suppliers; the ban was over forced labor allegations.

Nestlé continues to work with US Customs and Border Protection (USCBP) to better understand the justification for the Withhold Release Order (WRO) and to agree on the next steps in reversing the ban on the Sime Darby Plantation. USCBP has indicated that it is prepared to review the WRO following the completion of an independent third-party labor assessment of Sime Darby's Malaysian plantation. Toward this end, Sime Darby has commissioned a third-party assessment and appointed ethical-trade consultancy, Impactt to conduct the audit. This will be a key step in understanding what issues are found at the plantation.

It is estimated that in Côte d'Ivoire and Ghana (accounting for 65% of global cocoa production), about 1.56 million children in agricultural households are engaged in the cultivation of cocoa. Nestlé aspires to be a leader in building a sustainable cocoa industry, an effort that requires cooperation with peers, suppliers and governments at home and in host countries. To further address the issue of child-labor risks in cocoa production and to increase support for farming families and their surrounding communities, Nestlé launched the income accelerator program in early 2022. The program incentivizes cocoa farmers and their families by providing direct monetary rewards based on activities such as school enrollment and the adoption of more sustainable agricultural practices. Investors now look at upstream and downstream supply chains, putting pressure on the industry—pressure that should speed progress and improve consumer awareness. Child labor is a complex issue related to education access, poverty and lack of labor unions. It's worth noting that 10 years ago, Nestlé was first among its peers to establish a child-labor monitoring system, after spending several years talking with and learning from thousands of community members and collecting data. Because the company now understands the issue better, it believes that progress will be faster.

In addition, Nestlé has expressed support for the European Union (EU) framework on mandatory human rights and environmental due diligence. Nestlé has performed human rights due diligence for the past 10 years, so collective action around the EU framework and creating awareness among players without similar programs will help level the playing field.

The issues regarding modern slavery are complex. Although Nestlé is going in the right direction, we believe that it can and should do more to create greater awareness of the issue. We'll continue to engage with the company about this.

ISSUER: Nike
INDUSTRY: Textiles & Apparel
REGION: North America

Apparel and footwear manufacturing is a high-risk industry for human rights and labor practices, attracting extensive media coverage and responses from consumers and policymakers. Common risk areas include a potentially vulnerable workforce (low-skilled, migrant, female-dominated), raw material sourcing (child labor, poor working conditions, lack of traceability) and the business model itself (volatile production, excessive overtime, unauthorized subcontracting).

Using AB's modern slavery risk framework, Nike and other apparel manufacturers were identified as high potential risks in the areas of vulnerable workforce, raw material sourcing and business model. However, because manufacturing is largely outsourced, we rate Nike's supply-chain exposure as high risk but internal operations as medium risk. Our research indicated that Nike and other leading brands are often leaders in managing these complex issues, and we wanted to engage directly with supply-chain leaders to understand the specific challenges encountered and the actions taken or planned.

After analyzing all relevant disclosures (corporate impact reports, statements on forced labor, a detailed code of supplier standards) and various third-party resources, we engaged twice with Nike's vice president of responsible supply chain and director of partnerships and engagement. Our discussions focused on supplier management, examples of human rights issues and actions/remediation steps taken. Nike has consolidated its supply base by 20% over the last five years, to roughly 500 well-known, trusted Tier 1 and Tier 2 suppliers. The company conducts extensive direct and third-party audits, so severe labor-practice issues are rare (over 80% relate to wages and overtime).

In our engagement, management noted finding some constraints on freedom of association, highlighting one example that required intervention: a supplier in the Middle East that reportedly required migrant workers to take pregnancy tests. Nike is expanding internal engagement deeper into Tier 2 suppliers and increasing coordination with industry-wide organizations to develop shared tools and data for supplier assessments, with an ambitious 2025 target of 100% supplier standards compliance.

Our research continues to indicate that Nike is a leader in managing human rights and labor risk in internal operations and supply chain. We'll continue to engage with management to improve disclosures (e.g., remediation actions, supplier wages), among other issues.

Looking Ahead: The 2022 Campaign

In 2022, we'll continue engaging with issuers on climate-risk goals and disclosures, ESG metrics in executive compensation, and modern slavery in our normal course of business. Where issuers have promised progress for several straight years but not made any, we'll escalate our actions beyond engagement, according to our policy (*see page 9*). Where issuers have made some progress, we'll continue engaging to encourage more. But the materiality of topics will vary by issuer; a single approach isn't always best in effecting broad, positive change.

In 2022, we plan to expand our campaign's focus to the most material issues facing issuers, engaging with them on concrete steps. Analysts will use AB's proprietary materiality map to determine target issues for issuers and outline specific achievement milestones as part of these "action-focused engagements." For most material issues, the milestones will be to measure, set targets, disclose and make meaningful progress. For an issuer struggling with diversity and inclusion (D&I), we might set milestones to first measure the diversity of its workforce, use that baseline and peer analysis to establish appropriate but ambitious D&I goals, disclose those goals and progress made to investors, and, finally, demonstrate material improvements.

We believe that this tailored approach will lead to more robust engagements with issuers and drive the positive change that we hope to make as responsible investors.

Appendix

2021 ESG Engagement Campaign Issuer List

10X Genomics
1895 Bancorp of Wisconsin
3M
Abbott Laboratories
Abcam
ABN AMRO
adidas
Adient
Admiral Group
Adobe
ADP
Advanced Micro Devices
AerCap
Aflac
AIA Group
AIER Eye Hospital Group
Akamai Technologies
Alibaba Group
Allegion
Allianz
Allstate
Alphabet Inc.
Amazon.com
American Campus Communities
Amphenol
ANGI Homeservices
Anglo American
Anhui Yingjia Distillery
Anhui Zhongding Sealing Parts
Anthem
APA Group
Apple
Aptiv
Ares Management
Armstrong World Industries
Aroundtown
Asahi Group
Ashtead
Atacadão
Attijariwafa Bank
Austevoll Seafood
AutoZone
Avaya
Axon Enterprise
B&M European Value Retail
Bank Central Asia
Bank Mandiri
Bank of Ningbo
Bank of the Philippine Islands
BayFirst Financial
BB Seguridade Participações
Berkshire Hathaway
Berkshire Hills Bancorp
Bio-Rad Laboratories
Blue Ridge Bankshares
BlueScope Steel
Boston Scientific
Brambles
BRF Brasil Foods
Brink's Company, The
Broadcom
Budweiser Brewing Company APAC
Burlington Stores
CA Immobilien Anlagen
Capital One
CarMax
Carnival
CDW
Cellnex Telecom
Charles Schwab
Chart Industries
Charter Communications
Chefs' Warehouse, The
China South Publishing & Media
Chinese Universe Publishing and Media
Cisco Systems
Citigroup
CME
Cognizant
Coles Group
Comcast
Community Heritage Financial
Compass Group
Constellation Brands
Contact Energy
Cooper Companies, The
Costco Wholesale
China Resources Sanjiu Medical & Pharmaceutical
Credicorp
CSR
Ctrip.com
Daikin Industries
Danaher
Danone
Daqin Railway
Deutsche Telekom
Diebold
Dino Polska
Disney

Dolby Laboratories

Domino's Pizza

Dril-Quip

Edwards Lifesciences

Element Solutions

Eli Lilly

Elite Material

Entain

Entegris

EOG Resources

Equinix

Ericsson

Erste Group Bank

Essential Properties Realty Trust

EssilorLuxottica

Euronext

F5 Networks

FANUC

Fast Retailing

Faurecia

First Quantum Minerals

First Reliance Bancshares

FIS

Five Below

Floor & Décor

FMC

Ford Motor

FPT

Freshpet

FS Bancorp

Fubon Financial

Gap

G-bits Network Technology

GDS Holdings

Gemdale

General Mills

General Motors

Genmab

Gerresheimer

Glencore

Goldman Sachs

Gongniu

Grainger

Great Wall Motor

Grocery Outlet

Grupo Financiero Banorte

Guardant Health

Gulfport Energy

Haier Smart Home

Hain Celestial

Haitong Securities

Hana Financial

Hangzhou Tigermed Consulting

Harford Bank

HDFC

HDFC Bank

Healius

Health Catalyst

Herc Holdings

Hindalco Industries

HollyFrontier

Home Depot

Honeywell International

Houlihan Lokey

HUAYU Automotive Systems

HubSpot

Hyundai Motor

Iberdrola

ICICI Bank

IG Group

Infosys

Innospec

Installed Building Products

Insurance Australia Group

Intel

Intuitive Surgical

IPG Photonics

IQVIA

Jacobs Engineering

JD.com

Jiangsu Changjiang Electronics Technology

Jiangsu Expressway

Jiangsu Phoenix Publishing & Media Group

Jiugui Liquor

Jointown Phamaceutical

Joint Stock Commercial Bank for Foreign Trade of Vietnam

JPMorgan Chase

Jyske Bank

KB Financial

Kering

Keyence

Keysight Technologies

KGHM Polska Miedź

Kia Motors

Kimco Realty

King Yuan Electronics

KION Group

Kirin Holdings

Kite Realty Group Trust

Knight-Swift Transportation

Koninklijke Philips

Kontoor Brands

Kunlun Energy

Kunlun Tech

Label Vie

LG Household & Health Care

Li Ning

Littelfuse

Lojas Renner

LONGi Green Energy Technology

Lonza

lululemon athletica

Lumens

Lumentum Holdings

LVMH Moët Hennessy Louis Vuitton

Lyft

MACOM

Magna International
MainStreet Bancshares
Manitowoc Company, The
Marfrig
Mastercard
Matador Resources
MediaTek
Medibank
Medtronic
MercadoLibre
Meta Platforms
Metropolitan Bank
Mid Penn Bancorp
Middleby
Minerva
Minth
Mobile World Investment
Molson Coors Brewing
Monolithic Power Systems
Moody's
Morgan Stanley
Motorola
Muangthai Capital
Murata Manufacturing
Muthoot Finance
Nabors Industries
National Storage Affiliates
National Vision
NCR
NCSOFT
Nestlé
NetEase
Netflix
Network International
New Oriental Education & Technology Group
nib
Nichirei
Nidec
Nien Made Enterprise

Nike
Nintendo
Nippon Shinyaku
NN Group
Nomad Foods
Nordson
NortonLifeLock
Norwegian Cruise Line
NTT
Olin
Omega Healthcare Investors
Orion Engineered Carbons
Otis Worldwide
OTP Bank
Ottawa Bancorp
Papa John's International
Parker Hannifin
PayPal
Pernod Ricard
PetroChina
Planet Fitness
Poly Developments and Holdings
POSCO
Procter & Gamble
Pulte Homes
Puma
PVH
QBE Insurance
QUALCOMM
Raízen
Ralph Lauren
Randolph Bancorp
Ranpak
Raytheon Technologies
Realtek Semiconductor
Reckitt Benckiser
Recruit Holdings
Repligen
Restaurant Brands International

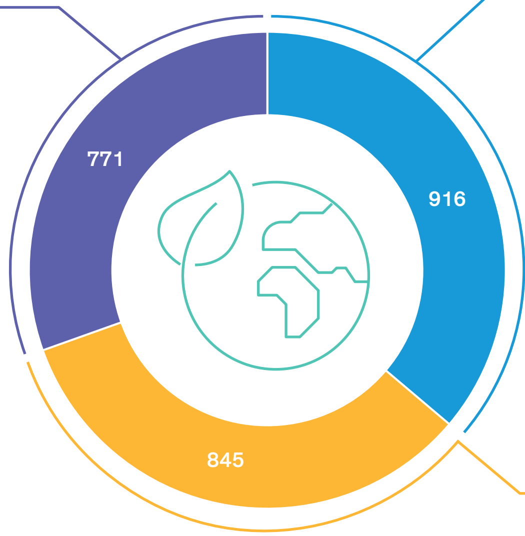
REV Group
Robert Half International
Robinsons Land Corporation
Rockwell Automation
Roper Technologies
Royal Dutch Shell
SAAB AB
Safari.com
Saia
Sally Beauty Holdings
SalMar
Sampo
Samsung Electronics
Samsung SDI
Santen Pharmaceutical
SAP
SBA Communications
Sberbank
Schlumberger
Sealed Air
Service Corporation International
Seven & i Holdings
Shanghai Pharmaceuticals
Shede Spirits
Shenzhen Overseas Chinese Town
Shenzhou International
Shift4 Payments
Shinhan Financial Group
Shopify
Signature Bank
Silicon Laboratories
Simplo Technology
Simpson Manufacturing
SINBON Electronics
Sinotrans
SiteOne Landscape Supply
Sonic Healthcare
Sotera Health
Spark New Zealand

Spirit Airlines
Splunk
St. James's Place
Starbucks
State Bank of India
Stericycle
STERIS
Stifel Financial
Stockland
Sun Hung Kai Properties
Suncorp Group
SVB Financial
Taiwan Cement
Taiwan Semiconductor Manufacturing
TAL Education
Tapestry
Target
TBEA
TCS
TeamViewer
Techtronic Industries
Teleperformance
Telstra
Tencent
Teradyne
Tesla
Texas Capital Bancshares
Texas Instruments
TFI International
Thermo Fisher Scientific
Tianqi Lithium
Tianshui Huatian Technology
Titan International
TJX Companies
T-Mobile US
Tokyo Gas
Tongwei
TopBuild
Topsports International
Tosoh
Toyota Motor
Treasury Wine Estates
Trex
Tsingtao Brewery
Twilio
Twist Bioscience
Twitter
Tyler Technologies
UB Bancorp
Ulta Beauty
Unicharm
Union Pacific
United Continental
UnitedHealth Group
United Microelectronics
Universal Display
Universal Robina
U.S. Century Bank
UT Group
Valero Energy
Verisk Analytics
Verizon
Vertex Pharmaceuticals
Vietnam Dairy Products (Vinamilk)
Virginia National Bankshares
Visa
Vivint Smart Home
VNET
Volvo
Vornado Realty Trust
Walmart
Wells Fargo
Wesfarmers
Western Digital
Westpac Banking
WH Group
William Penn Bancorporation
Williams-Sonoma
Woolworths Group
Wuliangye Yibin
WuXi AppTec
WuXi Biologics
Xiamen C&D
Yili
Yunnan Baiyao
Zayo
Zendesk
Zeon
Zhefu
Zijin Mining
Zimmer Biomet
Zoetis
Zurich Insurance

2021 Firmwide Engagements

In 2021, AB analysts met with more than 13,900 issuers, with many meetings focused exclusively on ESG issues—even beyond our dedicated, thematic ESG engagement campaign. During the year, analysts documented 4,302 separate ESG discussion topics across 1,566 engagements with 1,091 unique issuers. More than 900 meetings included discussion of one or more environmental topics, with carbon emissions the most discussed, by far. Social topics were discussed in almost 850 meetings, with diversity and inclusion most frequently included in the conversation. Of the more than 750 meetings in which one or more governance issues were discussed, pay was the most popular topic.

Engagements by ESG Pillar*



Governance

Pay	373
Other	150
Board-Level Gender Diversity	123
Board Independence	121
Organizational Culture	91
Entrenched Board	52
Business Ethics	32
Crisis Management	32
Corruption and Instability	25
Combined CEO Chair	25
COVID-19 Fundamental	23
Board	22
International Norms	12
Accounting	11
Sanctions	9
One Share, One Vote	8
Proxy Access	7
Anti-Competitive Practices	7
Right to Call Special Meetings	6
Financial System Instability	6
COVID-19 Governance	2

Environmental

Carbon Emissions	648
Opportunities in Clean Tech	132
Opportunities in Renewable Energy	126
Supply Chain–Environmental	107
Water Management	97
Climate-Change Vulnerability	92
Product Carbon Footprint	92
Packaging Waste	70
Opportunities in Green Buildings	66
Toxic Emissions and Hazardous Waste	63
Biodiversity and Land Use	47
Resource Management	43
Other	24
Electronic Waste	10
International Norms	6
COVID-19	1

Social

Diversity and Inclusion	341
Human Capital Development	223
Labor Management	197
Employee Health and Safety	155
Supply Chain–Social	117
Modern Slavery	93
Privacy and Data Security	90
Product Safety and Quality	85
Other	53
Opportunities in Financial Inclusion	35
Opportunities in Healthcare	32
Responsible Investment	27
Financial Product Safety	21
Opportunities in Nutrition and Healthier Products	21
Insuring Health and Demographic Risk	20
Stakeholder Engagement	19
Opportunities in Education	13
COVID-19	9
Opportunities in Communications	7
International Norms	5

***** Numbers will not sum to total, as engagements frequently discuss multiple ESG topics across or within pillars.

As of January 2022 | **Source**: AB

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