



ALLIANCEBERNSTEIN®

# ADVANCING RESPONSIBLE INVESTING

OCTOBER 2019



## A WORD FROM OUR CEO



As a fiduciary, responsible investor and research firm, we believe that being a responsible company and investing responsibly go hand in hand. The views of governments, communities, consumers and other stakeholders continue to evolve on responsible behavior, and firms are rethinking their purpose beyond simply maximizing shareholder value. Investors are placing more scrutiny on companies—including investment managers—to determine how committed they are to corporate responsibility.

We examine the behavior of the companies we research, so why shouldn't investors turn the same lens on us before entrusting us with their money? The question on investors' minds seems to be: You may say you invest responsibly, but are you truly acting responsibly?

At AB, we're working every day to become a better firm. That means giving back to communities through our firmwide philanthropic initiative, AB Gives Back, and specifically through our Day of Service events—our employees donated 5,300 service hours in 2018. It also means reducing our environmental footprint—our goal is to have 65% of AB employees working in green buildings by 2025.

And promoting diversity and inclusion provides AB with different perspectives and ways of thinking, which can lead to better outcomes for our clients.

We're working hard and searching for ways to be better corporate citizens. Striving to be more responsible gives us a richer perspective for evaluating firms. As longtime fundamental investors with a strong research heritage, we've integrated environmental, social and governance (ESG) considerations into our processes, so we can make fully informed risk/return assessments and draw insightful investment conclusions. We manage most of our clients' assets with ESG considerations integrated in the process.

We've also invested in technology and innovation to help teams formalize their ESG evaluations and share insights from company engagement. Our sell-side research teams also integrate ESG factors into their stock/company analyses.

Many investors want solutions that go even further than integration, gravitating toward strategies that enable them to invest with purpose in addition to meeting financial objectives. Responsible investing isn't "one size fits all," so we've developed a platform of portfolios with purpose. Our goal is to produce social or environmental benefits based on clients' specific responsibility goals.

At the industry level, we're committed to being a leader in responsible investing. We recently announced a collaboration with Columbia University's Earth Institute, home of the world-renowned Lamont-Doherty Earth Observatory.

Our investment professionals and top Lamont researchers will develop a first-of-its-kind climate change/impact investment course. "Climate Science and Portfolio Risk" will fill a need for asset managers who want to dig deeper into the complex issues around climate change and its impact on economic and financial outcomes.

Our vision is to be the most trusted investment firm in the world, so we must continue to understand and respond to the evolving needs of our clients, colleagues and communities. Being a responsible firm and a responsible investor are ongoing commitments, not specific destinations. And they're woven into the fabric of who we are as a firm.



**Being a responsible corporation and a responsible investor go hand in hand."**

SETH P. BERNSTEIN  
President and CEO

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# COMMITMENT TAKES ACTION

Commitment isn't passive. At all levels of the firm, we pursue responsibility—from how we work and act to the solutions we deliver to clients.

From our perspective, it's impossible to separate the notions of corporate responsibility and responsible investing. We must have an unwavering commitment to being a responsible firm in order to be truly effective responsible investors.

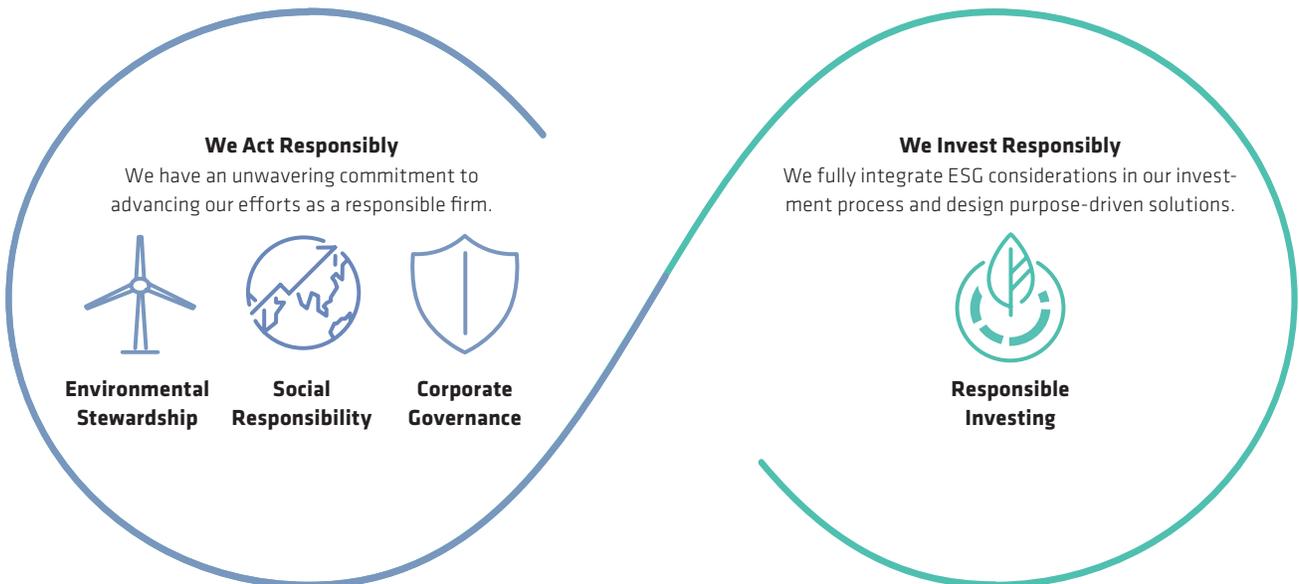
Our promise is to be a good corporate citizen for all stakeholders. That means dedicating ourselves to reducing our environmental footprint through initiatives such as greener buildings and reductions in greenhouse gas (GHG) emissions.

It also means making social advances, including increasing diversity and supporting our diverse communities. And it means being better corporate stewards by strengthening corporate governance and protecting our clients' information.

The pursuit of corporate responsibility makes us better at responsible investing. The foundation of our responsible investing effort is to integrate ESG into our investment and research process and actively engage on ESG-related issues. Most of our assets are managed with a focus on ESG considerations.

We also leverage our perspective as a responsible firm and as ESG-integrated investors to design differentiated portfolios with purpose. Our solutions—screening, goal-based, sustainable and impact—address our clients' evolving needs to invest their capital with purpose while pursuing strong investment returns.

## RESPONSIBILITY—IN ACTIONS AND INVESTMENTS



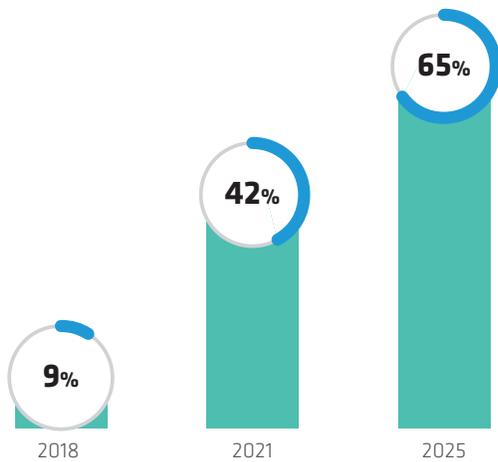
# REDUCING OUR ENVIRONMENTAL FOOTPRINT

A key component of our effort to be a better corporate citizen is working to reduce our impact on the global environment. That means rethinking our business operations to use less of the Earth's precious resources.

## MOVING TO GREENER BUILDINGS

One way we're doing this is by moving our employees into more environmentally friendly buildings, including transitioning to our new global headquarters in Nashville, Tennessee, US, and moving into other green offices. Our goal: to increase the percent of employees in sustainable environments, as defined by LEED standards or other applicable local accreditations, to 42% by 2021 and 65% by 2025.

### GOAL FOR PERCENTAGE OF EMPLOYEES IN SUSTAINABLE ENVIRONMENTS



## CREATING MORE ENERGY-EFFICIENT WORKSPACES

We reduced the energy consumption of our major global office buildings by nearly 30% between 2013 and 2018. We expect our transition into greener office buildings to help us make further advances on this front.



Reduction in global office energy consumption from 2013 to 2018\*

## WORKING TO LEAVE PRINTERS BEHIND

Another example of reducing our environmental footprint is the Bring Your Own Device (BYOD) program. Started in 2017, it's designed to enable AB staff to securely access corporate email, calendars and contact information on their personal phones, tablets and other supported devices. The goal is to reduce paper usage by providing a stipend to employees who buy an iPad.

At the end of 2018, 2,513 iPads had been purchased under the BYOD program, representing 69% of our workforce. The program has substantially reduced the volume of documents printed. We're continuing to expand the number of devices supported under BYOD as we move toward an increasingly paperless world.

## GOING GREEN IN NASHVILLE

We're investing nearly \$70 million in Nashville, Tennessee, US, as we move our new corporate headquarters to the heart of the city's downtown area.

Among the environmental benefits from our new state-of-the-art office facility will be a smaller real estate footprint. The new AB headquarters is expected to have a workplace density of 150 square feet per person. That's a judicious use of space that both minimizes our physical footprint and enhances employees' interactions.



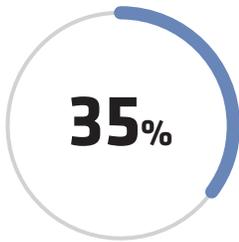
\* From major AB office locations: 1345 Avenue of the Americas, New York, NY; White Plains, NY; 50 Berkeley Street, London, England  
Source: AB

# DRIVING SOCIAL ADVANCES

## SOCIAL IMPACT WITHIN AND BEYOND AB

We're cultivating a dynamic, diverse and inclusive workplace—one in which employees feel challenged, valued and excited about building a career with us.

That starts by fostering diverse thinking, which we believe drives better outcomes. For example, 35% of our new hires in 2018 were ethnically diverse, and 31% of our senior vice president hires were female. Of our senior employees, 21% are women.



Ethnically Diverse New Hires\*



Senior Female Employees

## ENGAGING AND SUPPORTING EMPLOYEES

Also supporting our diversity and inclusion efforts are Employee Resource Groups (ERGs). ERGs are voluntary, cross-divisional, employee-led groups created to accelerate the advancement of employees from traditionally underrepresented groups, allies who support those groups and people who share a common purpose, interest or background.

The importance of staff wellness is top of mind at our firm, too. Our comprehensive Well Ahead program focuses on employees' well-being, with targeted benefits, ongoing education, active goal setting and collaborative activities.

To support families with new children, primary caregivers, who can be a birth mother or the spouse/partner of a birth mother, get up to 16 weeks of paid parental leave from the date of their child's birth. Primary caregivers adopting a child or using a surrogate are eligible for up to 16 weeks of paid parental leave upon taking custody of their child.

These are just a few examples of our efforts to make AB a better and more fulfilling place to work—and a company that better reflects the society we live in.

## STRIVING FOR EQUALITY

For the fourth straight year, AB has achieved a perfect score of 100 on the Corporate Equality Index, the national benchmarking tool on corporate policies and practices for LGBTQ employees, administered by the Human Rights Campaign Foundation.

With this recognition, AB joins the ranks of hundreds of other multinational companies that are not only promoting LGBTQ-friendly workplace policies, but also helping advance the cause of LGBTQ equality around the globe.



## SERVING OUR COMMUNITIES

We're also striving to give back to our communities by participating in community groups, promoting charitable giving through employee matching, and encouraging volunteering with paid time off. In 2019, we launched AB Gives Back, a platform for all volunteerism efforts, matching gifts and grant-giving.

**\$19M+**  
Total charitable impact in 2017–2018 combined

**5,300** Total volunteer service hours in 2018

**87** Day of Service events globally in 2018

\* Ethnically diverse includes African American/Black, Hispanic/Latino and Asian. Ethnic diversity information is for the US only. All gender information is global. All diversity data as of December 31, 2018. Total charitable impact includes employee donations, the AB matching program and other firm contributions to a total of 1,800 organizations.

# FOCUSING ON GOOD GOVERNANCE

## DIVERSE, INDEPENDENT CORPORATE LEADERSHIP

As fiduciaries, we take our obligations seriously, and we expect our people to treat all our clients fairly and equitably. Clients' interests come first. Our business model rests on a strong risk-aware culture, prudent risk-taking and a robust governance framework that continues to evolve in the context of our limited partnership.

AB's executive officers, board of directors and board committees oversee the firm's strategic direction. The board's characteristics reflect our belief in strong governance guided by diversity of thought:

- + Majority-independent 10-person Board of Directors
- + Independent Chairman of the Board
- + Separation of duties between Chairman and CEO
- + Unique skills, perspectives and backgrounds
- + Four standing board committees, including Compensation and Workplace Practices



**Executive**



**Audit and Risk**



**Compensation and Workplace Practices**



**Corporate Governance**

## ROBUST COMPLIANCE FRAMEWORK

Our framework is designed to ensure that our business operations stay compliant, and that we empower all employees to raise and resolve potential issues.

<b>Code of Business Conduct and Ethics</b>	<b>Compliance Manual</b>
<b>Compliance Program</b>	<b>Risk Appetite Framework</b>

## SECURITY AND BUSINESS CONTINUITY

At AB, we take information security—in particular the protection of our clients' and employees' information—very seriously. Our Information Security Standards and Guidelines and our Corporate Information Security Policy outline our efforts, which include the following:

- + Our Chief Security Officer and team monitor and control the processes related to our cybersecurity infrastructure.

- + All websites and cybersecurity infrastructure are also third-party tested with state-of-the-art software to safeguard sensitive information.
- + A comprehensive business continuity strategy and disaster recovery plan allow us to maintain critical functions while minimizing client impact.

## COMPLIANCE TRAINING REGIMEN

Specialized employee training is designed to protect our clients—and to protect the firm from litigation and reputational risk—by outlining the potential conflicts of interest that individuals and financial firms may face.

Our firmwide mandatory global ethics training module focuses on building an ethical culture. New employees are offered periodic in-person compliance and ethics training, and are required to complete a web-based program comprising video segments, case studies and a presentation by the Chief Compliance Officer.

In conjunction with the firm's Anti-Corruption Policy, all employees are required to complete a global anti-corruption training module. New employees complete a special training program that serves as an introduction to the various international anti-corruption laws.

## WHISTLEBLOWER POLICIES: EMPOWERING AN ETHICAL MIND-SET

Employees have several options for securely reporting and escalating ethical, compliance or other concerns, including through:

- + Formal reporting channels (a supervisor or manager) or the AB Compliance Department, General Counsel's Office or Head of Audit
- + The AB Ombuds Office—a confidential channel to obtain assistance on ethics-related issues or questionable practices
- + EthicsPoint, a third-party service, which gives employees, customers, suppliers and other stakeholders a secure online way to report potential ethics and compliance issues quickly, easily and anonymously (if desired)

**Learn More About Corporate Responsibility at AB**

# AT A GLANCE: RESPONSIBLE INVESTING AT AB



**\$447**

billion in assets managed using ESG integration



**8,696**

meetings with company managements in 2018



**106**

employees directly supporting responsible investing initiatives\*



**4,000+**

firms assessed on ESG criteria as part of fundamental research



**126**

fundamental research analysts



**94%**

of our votes supported shareholder rights in 2018 proxy season

These select facts and figures highlight our responsible investing efforts at AB. The following pages offer a deeper look.

Received **A or A+ PRI ratings** in 2019 for six of the nine strategies in which we invest, with seven above-median ratings.

Awarded **Label ISR** in February 2019 for Sustainable Global Thematic and Sustainable US Thematic Portfolios

Shortlisted for **Stewardship Disclosure Award** by International Corporate Governance Network

Shortlisted for **Transparent Aligned Asset Manager Award** by *Responsible Investor*

\* Includes employees fully dedicated to responsible investing, members of committees and those involved in responsible investing workstreams as of June 30, 2019. Assets managed using ESG integration are as of June 30, 2019; they include active fixed-income and equity strategies. Proxy vote results are for the 2018 proxy season—votes supporting shareholder rights include proposals addressing shareholder access, voting standards, board classification and anti-takeover devices. Fundamental analyst numbers are as of June 30, 2019.

# THE MATERIALITY MATRIX: INTEGRATING ESG AND FINANCIAL ISSUES

## A FLEXIBLE RESEARCH AND ENGAGEMENT FRAMEWORK

When we begin to look at a company through an ESG lens, the first question we ask is: How do we evaluate the materiality of an ESG issue?

There are two sets of important criteria to answer that question—ESG materiality and financial materiality. The intersection of these two perspectives on materiality is critical to managing risk, return and responsibility in line with portfolio goals.

Through this flexible framework, we can comprehensively address issues that are central to responsible investing, and we can weight them transparently relative to traditional financial metrics.

Materiality will differ by sector and industry. For example, what happens in a supply chain could present ESG and financial issues for companies in the retail and technology sectors. For financial firms, material issues are completely different.

Time frames matter, too. An issue that may be material in three to five years may not be material in three to five months. And investors with different time horizons may have differing views on the materiality of the same issues.

## MATERIALITY AND SECURITY SELECTION

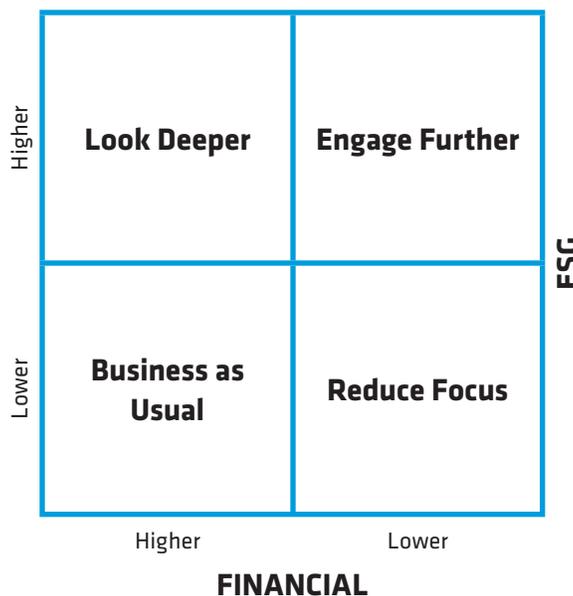
Our materiality test can be applied to a range of challenges that arise when seeking to integrate ESG into a research-driven investment process. When selecting securities for portfolios, this framework can help us gain valuable perspective on how the balance of shareholder and stakeholder interests is likely to affect a long-term financial forecast and other stakeholder concerns.

Understanding the materiality matrix is important for both ESG-integrated and purpose-driven portfolios. And it can help us ensure that portfolios are constructed in line with client objectives and goals on financial and ESG issues—as well as ultimately helping deliver better investment returns.

When a company's activities have a positive or negative societal impact, investors have a fiduciary obligation to study its financial ramifications.

Any issue that can affect a firm's finances warrants a closer look.

### HOW MATERIAL IS THE ISSUE?



Activities that affect the environment, society or governance need attention—especially if they're harmful, and even if the financial consequences don't seem significant.

Issues that are less material from an ESG perspective and unlikely to have a financial impact on a company don't warrant in-depth research.

# THE MATERIALITY MATRIX: INTEGRATING ESG AND FINANCIAL ISSUES (continued)

## LOOKING DEEPER AT XYLEM: POSITIVE ESG AND FINANCIAL IMPACT

In 2018, Cape Town, South Africa, faced an extreme water crisis that sent a warning to the world about the growing threat of diminishing water resources (*Display, top*). No country is immune. Water issues plague developed and developing countries alike, from the US to China. Solving the world's water problems is vital in an era of increasing populations, rising standards of living, urbanization and climate change.

For innovative companies, it's also a big business opportunity. Investors who find these firms can enjoy financial rewards while supporting companies making a positive impact on the environment. Companies like these fit in the upper left quadrant of our materiality matrix—their operations can make a significant ESG impact and are financially material to investors.

That's why we decided to take a deeper look at Xylem, which provides water equipment and services to 150 countries (*Display, bottom*), including water transportation, treatment, testing, efficiency of use, reuse and desalination. The company, based in Rye Brook, New York, sells products that increase access to clean drinking water, reduce pollution, combat water-borne diseases and help strengthen water infrastructures.

The environmental impact? Xylem's products are expected to reduce the amount of water lost to pipeline deficiencies by over 3.5 billion cubic meters—equivalent to the domestic water use of more than 55 million people—annually by 2025.

Its products will also treat about 13 billion cubic meters of water for reuse, equivalent to the domestic water use of over 197 million people, annually by 2025. These are just some of the ways that Xylem's commercial products are helping to address water issues, including those in some of the world's poorest countries.

The demand drivers for these products are diverse. For example, China is boosting spending on industrial wastewater treatment, while US municipalities are beginning to spend more, after years of underinvestment since the global financial crisis. This means revenues for water efficiency products are being fueled by secular growth trends that are unlikely to be thrown off course by cyclical swings in macroeconomic growth.

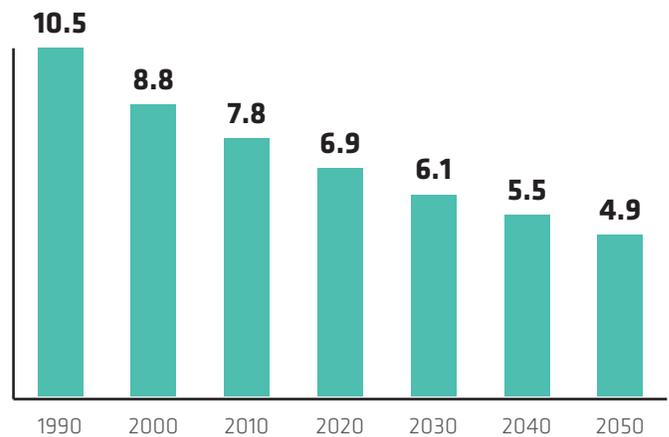
As a global business, Xylem generates about 20% of its revenue from emerging markets. Our research suggests that the company's

high-end technology products pipeline should enable it to generate above-peer growth and margins. For equity investors, the company is a great example of how a disciplined stock-picking research process can help identify sustainable products and services that support sustainable long-term return potential.

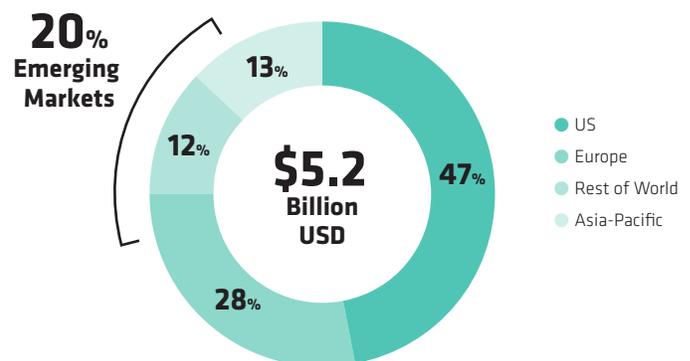
Xylem is a good example of how our investment teams integrate ESG analysis into their fundamental research when searching for attractive portfolio holdings.

## GLOBAL RENEWABLE WATER RESOURCES

Thousands of cubic meters, per person per year



## XYLEM REVENUE BY REGION



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. Upper display as of December 31, 2014. Lower display as of December 31, 2018. Source: United Nations, company reports and AB

# MEASURING ESG IMPACT

## MEASURING SOCIAL VALUE CREATION

Investors need a clear way to evaluate whether a company is really making progress by doing good for both society and investors.

But measuring how much social value a company generates—whether through environmental and social advances or better governance—is hard. Data are often lacking and many criteria are difficult to measure. What’s more, it’s hard to separate cause and effect when assessing social change. With a clearer understanding of how firms contribute to creating social value, responsible investors can make better assessments.

Companies impact society in two main ways: through the products they sell and through their operational conduct. Firms can sell products that help or hurt society. Their behavior can be positive (fair gender pay) or negative (corruption and bribery). Investors can assess all firms—and portfolios—using these two impact dimensions.

The *Display* at right shows a framework for evaluating how companies create social value. Companies in the upper right sell products with more positive social impact and have generally stronger business practices than their peers in the lower left. As corporate strategy evolves, movement to the right (improved behavior) or toward the top (improved product mix) also signals social value creation.

This simple schematic analysis has an important implication: every company can create social value for stakeholders. Investors focused on social and environmental issues tend to avoid companies that do business related to alcohol, weapons or gambling. Companies like these can’t do much to improve the social impact of their products or services, but they can improve their behavior.

## IDENTIFYING APPROPRIATE METRICS

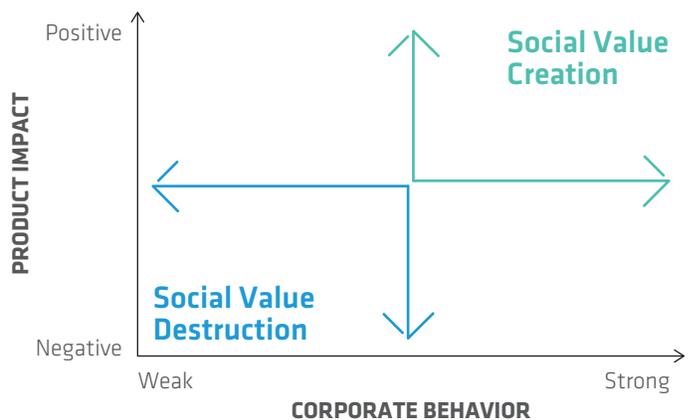
When we understand how a company intends to create social value through improved corporate behavior and/or product mix, we can begin to think about appropriate metrics to track.

For example, the United Nations Sustainable Development Goals (UNSDGs) can be used to measure the environmental and social impact of a company’s products. By mapping a company’s product offerings to the UNSDGs, we can measure the percentage of its revenues derived from products aligned or misaligned with UNSDG outcomes. Companies can then be plotted based on their net revenue exposure to the UNSDGs.

Corporate behavior can also be measured in several ways. Our security selection processes use proprietary ESG measurements. Yet

we can also apply third-party ESG ratings to create a simple proxy to track a company’s ESG behavior versus its peers and its behavioral changes over time. For investors seeking to align their portfolio investments with highly sustainable firms, this is one input we can consider to see if our portfolios meet their requirements.

## A FRAMEWORK FOR EVALUATING SOCIAL VALUE CREATION



## BUILDING THE RIGHT METRICS

There are many ways to build equity and fixed-income portfolios that balance risk, return and responsibility. Different types of portfolios are designed to deliver alpha in different ways, depending on their objectives.

For example, portfolios invested in certain sustainable products may benefit from strong long-term growth potential that’s underappreciated by the market. Portfolios investing in companies with improving business behavior may benefit from reduced costs, higher profitability and lower regulatory risk. As a result, metrics need to be constructed appropriately to consider a specific portfolio’s objective.

## A PRACTICAL START

This framework is a first step toward building portfolios that align with their objectives, and tracking their progress over time. We intend to focus on creating better, more transparent solutions in this area for our clients. Better metrics can also help guide us toward more productive engagement efforts with management teams to help keep firms on track in their quest for social value creation.

# UN SUSTAINABLE DEVELOPMENT GOALS: A ROAD MAP FOR INVESTORS

## IDENTIFYING SUSTAINABLE OPPORTUNITIES

There are many ways to create sustainable stock and bond portfolios. We believe that the United Nations Sustainable Development Goals (UNSDGs) are a good guide for investing in companies that are making a positive impact on society.

With 17 goals and 169 specific targets, the UNSDGs are an ambitious program. They address areas of critical importance to humanity, including the elimination of poverty and hunger, improving access to education and healthcare, and addressing the negative impact of climate change. Created and signed by 193 nations, the UNSDGs attempt to build on the UN's earlier Millennium Development Goals by broadening the focus beyond developing markets and explicitly considering a private sector role.

These important changes make the UNSDGs a more useful tool for equity and fixed-income investors. Investing opportunities for the private sector aren't spread equally across all 17 UNSDGs. That's why we aim to identify UNSDGs that offer the best investible opportunities and to target those specific areas.

## UNLOCKING INVESTMENT POTENTIAL

But the UNSDGs aren't detailed enough to serve as an investment foundation. Instead, we evaluated the 169 UNSDG subtargets that exist underneath the 17 UNSDGs—the subtargets are the keys to unlocking the investment potential of the UNSDGs. Our research found that 106 of the subtargets presented opportunities for the private sector, with the rest more in the domain of policymakers.

For those in the private sector group, we then identified the specific products and services that contribute to the achievement of these subtargets. We found about 80 products and services that had 1,095 relationships to subtargets. In health, for example, we identified 24 product relationships for seeds, fertilizers and agricultural chemicals, as well as 21 product relationships to healthcare-service provision.

UNSDG subtarget 7.2 calls for increasing the use of renewable energy globally. We outlined 12 diverse groups of products, including batteries, construction materials and power-generation equipment, which all contribute toward reaching this goal (*Display, top*).

## FROM PRODUCTS TO COMPANIES

Finding products aligned with the UNSDGs is the first step to discovering companies that support a sustainable investing agenda. Among companies we surveyed around the world, 1,408 are aligned with the UNSDGs, and 976 of those are included in the MSCI ACWI. Together, these firms represent 51% of the benchmark's market capitalization.

These companies exist in all regions and sectors (*Display, bottom*), which means there's ample opportunity to design well-diversified global or regional portfolios using a sustainable investing lens. For example, we found 418 US companies that are aligned with the UNSDGs, including 197 in the S&P 500 Index, representing 56% of the benchmark's capitalization weight.

By searching for products and companies that are aligned with the UNSDGs, we believe that investors can build diversified sustainable portfolios with stocks and bonds that can help them create social benefits while generating strong returns.

## PRODUCTS ALIGNED WITH UNSDG TARGET 7.2: RENEWABLE ENERGY



UNSDG SECTOR EXPOSURES* UNIVERSE AND MSCI ACWI (CAP-WEIGHTED) (PERCENT)		
Sector	UNSDG-Aligned Universe	MSCI ACWI
Technology	18.8	14.8
Healthcare	18.1	11.8
Communication Services	15.4	8.9
Financials	12.8	17.3
Consumer Discretionary	10.9	10.8
Industrials	9.9	10.4
Consumer Staples	6.0	8.2
Utilities	3.8	3.3
Materials	3.1	4.9
Real Estate	0.8	3.3
Energy	0.4	6.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\* Sector exposures are as of January 31, 2019. Sector weightings will vary over time. Source: Bloomberg, MSCI, United Nations and AB

# ENHANCING ESG INTEGRATION AND COLLABORATION THROUGH DIGITIZATION

Integrating ESG factors into ground-level fundamental research is critical—but so is sharing research insights across investment teams. To that end, we've developed several tools and platforms to drive better integration and collaboration within and across investment platforms.

With PRISM, our fixed-income credit rating and scoring system, analysts can share views on individual issuers. And they can do it in a consistent, comparable and quantifiable way across industries, ratings categories and geographies. Analysts evaluate each company on many dimensions—and assign specific scores for ESG. Our emerging-market portfolios also incorporate ESG considerations into their sovereign analysis.

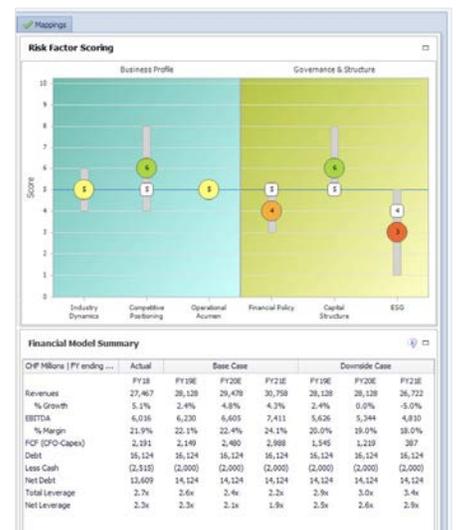
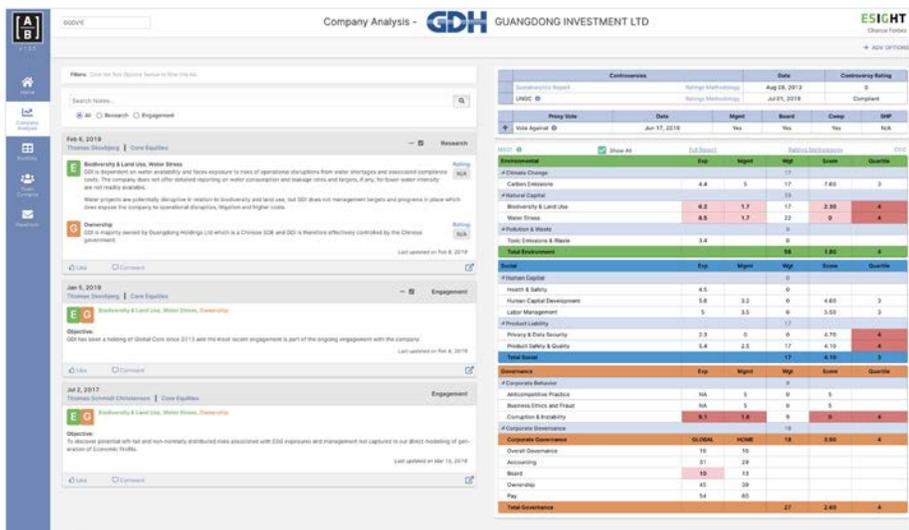
ESG scores in PRISM can be accessed in real time by any portfolio manager or analyst. Equity analysts tap into them through ESIGHT, a proprietary research and collaboration platform that integrates ESG company assessments, company engagements and third-party research from MSCI and Sustainalytics. Essentially, it's a one-stop shop where investment teams can access and contribute information about corporate ESG practices.

Investors in stocks and bonds often approach security analysis from different perspectives. For instance, bond investors are often more concerned with creditworthiness. Equity investors—and, to some degree, high-yield bond investors—may be more interested in current and future cash flows, growth and investment.

Our analysts exchange perspectives across asset classes to gain a more complete picture of corporate operations. When we have company meetings in our offices, there is often the opportunity for both equity and credit teams to attend. When they do, they can interact and ask management teams questions from different perspectives to gain better insights.

We feel that close teamwork between our equity and fixed-income research and portfolio teams enables us to gain a more complete view of issuers and to benefit from different viewpoints.

The goal with these research platforms is simple: to give our analysts and investment teams better and faster access to information that should lead to better-informed research and investment conclusions.



## ESIGHT

### FORMALIZING ANALYSIS, FACILITATING COLLABORATION

This proprietary digital platform provides a common framework for evaluating ESG issues, enabling our analysts to leverage the full breadth of research insights from equities and fixed income. It also keeps a running catalog of company engagements.

## PRISM

### PROPRIETARY ESG SCORING

Our fixed-income PRISM research platform includes proprietary ESG scores that directly impact analysts' forward ratings for each issuer we research.

# INTEGRATED ESG RESEARCH IN ACTION: CASE STUDIES

## NORILSK NICKEL: CLEANING UP A DIRTY PROCESS

Norilsk Nickel, a Russian mining and smelting company, had a poor environmental record, even though it produces a material that helps reduce greenhouse gas emissions. Our research drove our engagement with the company over a decade, which contributed to significant ESG improvements.

As the world's largest nickel producer, Norilsk offers equity investors a compelling opportunity. Nickel is playing a growing role in the battery technology that gives electric vehicles (EVs) longer ranges. As the EV market grows, Norilsk should enjoy rising demand for its pure nickel products.

However, Norilsk was also the world's largest emitter of sulfur dioxide due to its Siberian mine being on very sulfurous soil. To produce nickel ore, dirt is burned in a smelter or furnace, which spews contaminants into the air. And Norilsk's furnace opened in 1942.

Because of its high emissions, Norilsk had a poor (CCC) ESG rating a few years ago. But the MSCI rating didn't take into account its potential for improvement. In our interactions with management, we frequently encouraged them to make investments that would help reduce their emissions. With our support of their capital expenditure plans, over the last five years, Norilsk built a new concentrator to sift out waste dirt, expanded a newer furnace and shut down its aged smelter. As a result, its emissions fell by 35%, and the company has plans to introduce sulfur capture, which is expected to cut emissions by 75% by 2023.

We also engaged with MSCI, and by late 2017 it had raised Norilsk's ESG rating to B. By supporting Norilsk's transformation, we had a big impact on cleaning up a dirty production process, and also generated strong returns for our investors.

## NETFLIX: ESG REVIEW ADDS TO INVESTMENT RISKS

Netflix's growing global dominance of internet streaming media services makes it an intriguing candidate for growth equity portfolios. But after an in-depth review, our US Large Cap Growth team concluded that poor governance and a problematic corporate culture undermined these strengths.

From a governance perspective, Netflix affords few rights to shareholders. Management and the board refuse to engage with shareholders, who can't call a meeting, vote out a director or change company rules. The board hasn't acted on dozens of majority-passed shareholder proposals. We also believe that the board is entrenched and overextended; many members hold seats on too many company boards. Executives set their own pay structure and amounts rather

than the board's compensation committee, and several executives are paid at CEO levels, which are often higher than the industry CEO peer median. Pay is also heavily tilted to base salary cash, and equity compensation is granted with no performance or vesting conditions.

Company culture was another red flag. Management reportedly uses fear to drive employee performance, and supervisors feel constant pressure to fire staff. The firm allocates relatively little equity in employee total compensation, which exposes Netflix to talent-retention and overall culture risk, in our view. Data privacy and security practices weren't adequate. Our fundamental research focused on Netflix's business fundamentals and long-term earnings growth drivers, given its history of innovation, disruption and high customer satisfaction. But a thorough integration of ESG analysis into our research made clear that the risks of investing outweighed the potential rewards, given current valuations and business practices.

## SPIE: SUSTAINABLE BUSINESS MODEL, ATTRACTIVE HIGH-YIELD OPPORTUNITY

SPIE, a multi-technical services company, helps its customers in the energy and communications sectors design, build, operate and maintain energy-efficient and environmentally friendly facilities.

When we compared SPIE to its peers in the services sector of the European high-yield market, its exposure to sustainable/green contracts and a diversified revenue stream made it clear that its business model was stronger than its peers.

Environmental efficiency and improvements are core to SPIE's business. The firm's projects include building a geothermal power plant in Belgium, installing a plastic reprocessing plant in the Netherlands, and planning/installing energy-efficient combined heat and power plants.

A closer assessment of the firm's corporate responsibility policies revealed a strong foundation. SPIE's corporate fleet uses hybrid and electric vehicles, or vehicles fueled by natural gas and biogas. Procurement policies focus on sustainability—all suppliers are scored on corporate social responsibility (CSR) objectives, 100% of purchasing is audited for CSR performance, and 100% of buyers receive business ethics training. Our engagements with the company revealed a sense of employee participation, which translates to lower workforce churn. The company fosters a culture of transparency and disclosure.

The combination of a sustainable business model and credibility in corporate responsibility has enabled SPIE to deliver above-industry margins and free cash flow, with a strong and deleveraging balance sheet, making it an attractive candidate for our high-yield portfolios.

**The views expressed herein do not constitute research, investment advice or trade recommendations and do not necessarily represent the views of all AB portfolio-management teams and are subject to revision over time.**

# STEWARDSHIP: ENGAGING WITH COMPANY MANAGEMENT TEAMS

Engagement has always been a vital part of the investment process for active managers. Each year, our analysts collectively engage with the leaders of thousands of public and private companies, as well as noncorporate entities, which include municipalities, supranationals and sovereign issuers. In 2018 alone, we logged nearly 8,700 meetings with company management teams.

From an ESG perspective, our objectives are to understand the impact of ESG factors on investments and—increasingly—to advocate for changes in corporate behavior and practices. Our equity and fixed-income analysts and Responsible Investment team engage to understand the issues from their own perspectives, and they often join forces. Using our proprietary research and collaboration tools, they can share real-time insights.

We also engage with issuers selectively through our proxy voting activities, which we cover in greater detail on the following page, and as a core component of our research and investment processes.

Because ESG is integrated into our fundamental research, our research efforts benefit from the industry expertise of nearly 130 equity and fixed-income fundamental analysts. Many of our analysts have prior experience in their respective fields, so they bring an informed perspective to discussions. This depth of industry experience also makes a difference in our gaining access to company management teams.

Constructive engagement with management teams and, where appropriate, directors, creates a forum to discuss many industry-related topics, including ESG issues.

An analyst who fully understands the industry ecosystem, partnering with ESG experts from our Responsible Investment team, is better able to have an open two-way dialogue with management that helps both parties.

It's not about being friends with management, but about bringing in thoughtful, fact-based outside perspectives. Over the years, we've suggested that firms rein in overly generous compensation packages, create environmentally and socially responsible supply chains, and divest businesses that dilute their focus.

Most of our engagements to date have focused on issues of corporate governance. We're working to adopt a more formalized, intensified approach to our engagement strategy; we expect it to be fully operational in 2020.

We're also actively engaging at the industry level. For example, we're a member of Climate Action 100+, a collaborative investor initiative to ensure that the world's largest corporate greenhouse gas emitters take action on climate change.

## FOCUS ON ENGAGEMENT

### Our Analysts' Engagements Have Included the Following Companies:

- + A Chinese clothing manufacturer, to understand how it manages environmental risks around its fabric production business and how it approaches labor management for its garment manufacturing
- + A US electric utility about the growth of its renewable (wind, solar and battery storage) energy generation activity
- + A software-as-a-service solution provider for clinical trials regarding its diversity and inclusion—the company had no women on its board of directors
- + A European integrated oil company regarding its ability to provide marine fuels with greatly reduced sulfur content to address regulations on emissions from shipping
- + A global steel producer on its plans to comply with the reporting recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)
- + A multinational pharmaceutical company—in a joint engagement by our fixed-income and equity teams—to review its approach to reducing exposure to the widespread opioid crisis
- + A multinational power company about the renewable energy capacity KPIs\* it uses as a coupon step-up trigger within a recent bond issue
- + A US-based guide dog school and municipal bond issuer to dimension its impact on increasing mobility, social interaction and self-sufficiency for the blind and visually impaired

\* Key performance indicators

# STEWARDSHIP: PROXY VOTING

## ACTIVE OWNERSHIP PERSPECTIVE

Companies' ESG practices and behaviors can impact their financial value and stakeholders, so ESG considerations are central to our proxy voting. We've historically supported proposals that encourage strong corporate governance structures, bolster shareholder rights and foster transparency. By actively engaging, we provide a voice for our clients' concerns on ESG issues. We've built a robust proxy voting framework that's distinguished by teamwork and based on four pillars:

**1) A Robust, Collaborative Process**—Proxy voting at AB is a joint effort between our research analysts, with their deep expertise in the industries and companies they cover, and our Responsible Investing team, with its extensive ESG knowledge. An independent group within the Responsible Investing team analyzes each proposal on the agenda for shareholder meetings to ensure that they align with AB's policy. Through the years, we've found that this partnership gives us the broadest perspective, enforces consistency across our ESG efforts and ensures that our vote has a positive impact.

**2) A Comprehensive Proxy and Governance Policy**—Our extensive proprietary proxy and governance policy guides our votes on ESG matters, and is reviewed regularly and modified if necessary to ensure that it continues to reflect our stance on the issues. For example, we support shareholder proposals unless we believe that they're overly prescriptive or that management has already adequately addressed the concerns.

**3) Strong Governance**—In addition to a comprehensive firmwide proxy and governance policy, our Proxy and Governance Committee provides leadership and oversight of our proxy efforts. The

committee includes senior investment professionals as well as legal and operations personnel. It collaborates with the investment team and meets at least three times a year to review the voting process, formulate AB's positions on new proposals and update policies to capture our latest thinking.

**4) Commitment to Transparency**—Since we advocate for transparency and openness from company management teams, we hold ourselves to the same standards. We've disclosed our proxy votes online on a quarterly basis since 2013, and were one of the earlier investment managers to do so. We also post our proxy and governance policy and stewardship statements online on our corporate website. As members of the Council of Institutional Investors and the International Corporate Governance Network, we actively advocate for effective corporate governance.

## HIGHLIGHTS OF PROXY VOTING OUTCOMES

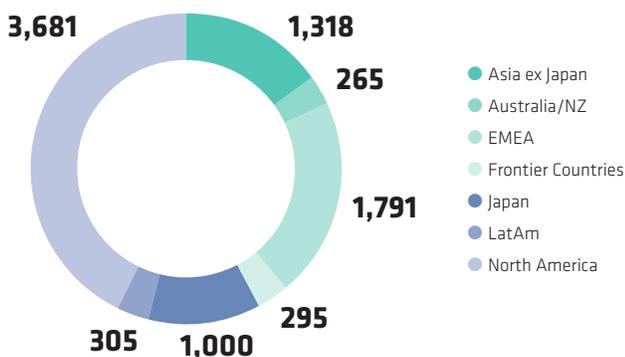
As examples of how a robust process translates into results, we held company management teams accountable by voting against at least one management-proposed item in just over half of our nearly 8,700 meetings in 2018. In the same proxy voting season, 76% of our votes supported sustainability reporting and targets. In 2018, Ceres, a nonprofit sustainability organization, ranked AB in the top four companies globally in voting for climate-related proposals.

## ADVOCATING FOR SUSTAINABILITY

In the 2018 voting season, more than three-quarters of our votes were in favor of sustainability reporting and targets.\*

## PROXY VOTING: A GLOBAL COMMITMENT

Proxy Meetings by Region, 2018 (Total: 8,655)



[View AB Proxy and Governance Policy](#)

[View AB Global Stewardship Statement](#)

\* AB's voting record for the 2018 proxy season; votes classified under the "sustainability reporting and targets" category. These include establishing reduction targets as well as reporting on various sustainability issues such as climate change, water pollution and sustainable packaging.

Source: Ceres and AB

# AB BERNSTEIN RESEARCH: ESG IN SELL-SIDE ANALYSIS

Bernstein Research is making big strides as we serve our institutional clients who are putting an increased focus on ESG investing.

In our view, integrating ESG into our fundamental research helps us deliver better insights for our clients. Our senior analysts identify and analyze material ESG considerations in their respective sectors, drawing upon their relevant industry background and deep sector knowledge.

Our research approach is designed to anticipate and explore important societal shifts and sustainability themes. But it's just as important to be able to connect this analysis to the implications for individual businesses and investment recommendations.

To promote the development of more ESG-relevant Bernstein research, we've advanced a number of initiatives, including internal knowledge-sharing sessions and a sell-side ESG working group. In addition to driving more ESG research, these efforts also support more relevant corporate access, marketing events and focused client communication.

Our independent approach to research helps us support our investor clients as they engage with corporate management teams. We explore and foster dialogue on issues such as unusual accounting practices or management incentives. We're also prepared to challenge management decisions and strategy, as we did in our recent *Letter to the CEO* Bernstein Research black book.

We host comprehensive seminars for institutional investors across the globe on key ESG topics, including electric vehicles, health and nutrition, and climate change. In addition to Bernstein Research professionals, select corporate and expert speakers also share their perspectives and insights. Entire days are dedicated to taking deep dives into these themes across relevant value chains, regions and sectors—and to identifying the most compelling investment opportunities.

Bernstein Research also regularly hosts sector-specific events and conference calls. Recent topics addressed the importance of sustainability within the chemicals sector and the consumer packaged goods space. We also host ESG or socially responsible investing road shows and reverse inquiries.



**Getting to 'net zero' will disrupt many industries, creating opportunities and threats. We expect share prices in companies that proactively address threats from decarbonization, and which grasp the opportunities it presents, to outperform those that do not."**

*Bernstein Climate Change and Decarbonization Greenbook—2019*

Note: Bernstein Research and AllianceBernstein operate with ethical safeguards that preclude the sharing of material information or proxy voting information between business units.

# EMPOWERING CLIENTS TO INVEST WITH PURPOSE

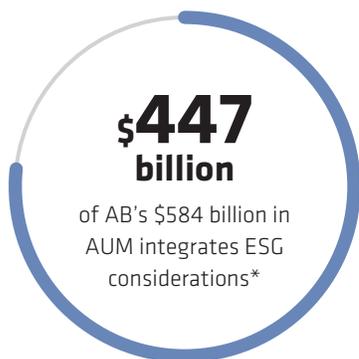
Responsible investing requires a full-time commitment to understand how the dynamics of ESG issues are impacting—and will impact—firms and industries.

Our commitment starts at the top. With the support of our company's senior leaders, we've made responsible investing a priority, and we've invested in the infrastructure and tools our teams need to enhance and collaborate in this effort. We have 22 members across our Responsible Investing Steering Committee and Proxy & Governance Committee. A total of 106 employees at AB support responsible investing, some in full-time roles and others as members of committees and workstreams. They strive to improve our responsible investing efforts in collaboration with our investment teams and other professionals.

We've fully integrated ESG considerations into our investment process—a huge piece of the puzzle in developing a fully informed risk/return assessment and investment conclusion. Overall,

\$447 billion of our assets under management integrate ESG considerations. Our fundamental analysts—nearly 130 across equity and fixed-income strategies—and our Responsible Investment team engage proactively with management teams to encourage improvements in their business practices, from better disclosure to help stakeholders assess climate risk to capital allocation issues.

ESG integration and engagement are a foundation, but many investors want solutions that will enable them to invest for financial objectives—and do so with purpose. Because responsible investing isn't "one size fits all," we've developed a diverse range of portfolios with purpose. These portfolios range from screening strategies, which shape the available issuer universe with explicit exclusions, to impact strategies, which are designed to seek a measurable social or environmental impact. Today, our firm manages a total of \$29 billion in portfolios with purpose for clients, giving them diverse options for allocating their capital.



**In 2018, AB launched an innovative carbon-neutral equity portfolio that invests in Australian and global stocks. It aims to make a positive impact on climate change and deliver attractive investment returns.**

**Stocks are valued after applying a carbon cost. The portfolio is designed with 90% less emissions than the index; remaining emissions are offset by retiring high-quality carbon credits.**

## AB'S PORTFOLIOS WITH PURPOSE



**Screening solutions** shape the available issuer universe with explicit exclusions.



**Goal-based solutions** have a responsibility goal as well as a traditional risk/return goal.



**Sustainable solutions** seek issuers that meet present needs without compromising future well-being.



**Impact solutions** seek to have a measurable social or environmental impact.

\* Assets under management as of June 30, 2019. Assets under management using ESG integration include active fixed-income and equity strategies.

# SHARING ESG INSIGHTS AND PERSPECTIVES

As an industry, we should all be working toward creating a more diverse and inclusive environment, which can improve outcomes for everyone.

Interest in responsible investing is intensifying, exemplified both in the number of products being offered and the number of ideas on the best ways to invest for purpose. Investors of all types—from individuals to large institutions—are hungry for more differentiated insights and perspectives in this burgeoning field.

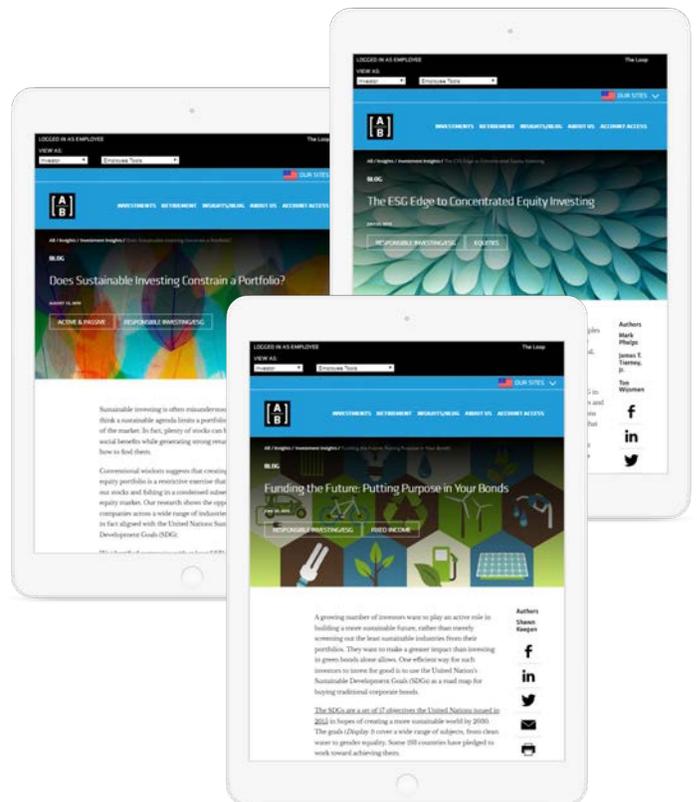
We're constantly researching and analyzing ESG-related topics at the portfolio, industry and security level, and we've made a commitment to sharing these perspectives with our clients across the globe. We regularly publish insights and perspectives through blogs, videos and white papers. Recent topics have included suggestions on how to drill into the UNSDGs to identify investible themes, and addressing misconceptions that a sustainable agenda limits a portfolio to a narrow piece of the market. We've also asked our clients to share in a roundtable publication their perspectives and experiences related to responsible investing.

Our March 2019 edition of *ABI/Q*, an institutional e-newsletter, focused on the theme of diversity in asset management. In our view, diversity in thinking and ideas leads to better decisions and ultimately better outcomes. In one article, institutional investors and consultants offered thoughts on why diversity matters, how they assess progress, and the challenges they face.

In July 2019, we hosted a workshop for more than 100 participants, including 50 institutional investors. The focus was on moving beyond words and toward action to improve gender balance as well as diversity and inclusion in the financial industry.

In September 2019, we announced a collaboration with Columbia University's Earth Institute, focused on enhancing the integration of climate risks and opportunities into the investment process through training, research and collaboration. As the first step, we'll develop and implement the "Climate Science and Portfolio Risk" curriculum. This first-of-its-kind program will help AB investment professionals better discern, analyze and incorporate climate-change considerations in investment decisions.

Responsible investing will continue to grow rapidly and evolve in the years to come, and no single firm has all the answers to questions such as how to integrate ESG, measure impact or ultimately gauge success. As an industry, we should all be working toward creating a more diverse and inclusive environment, which can improve outcomes for everyone. That's why it's critical that all of us—both within the asset-management industry and beyond—continue to share our insights and thoughts as we work toward creating better outcomes for investors and the world we live in.



## A FINAL WORD



**Responsible investing and corporate responsibility are much more than strategic initiatives for AB—they're part of who we are. From corporate leadership to each employee, we've dedicated ourselves to advancing on all fronts."**

RAMON DE OLIVEIRA  
Chairman of the Board—AB



Note: AB became a PRI signatory in 2011.

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