



ALLIANCEBERNSTEIN®

2020 Impact Report

# **Sustainable Global Thematic**



## Our Approach

We live in challenging times as the world seeks solutions to unprecedented environmental, social and governance (ESG) problems. Yet, these challenges are creating exciting opportunities for equity investors who want to help advance social benefits while generating strong returns.

At AllianceBernstein (AB), our Sustainable Thematic Equity portfolios are dedicated to pursuing these twin goals. We've developed a clear investment process that is rooted in the United Nations (UN) Sustainable Development Goals (SDGs) and integrates ESG factors in all investment decisions. Our objective is to sift through thousands of global

firms to identify those that are really making a positive difference in society. Equally important, we use disciplined financial analysis to make sure that a sustainability-focused target company is also a sound long-term investment.

The SDGs provide a good road map for our sustainable investing journey. The 17 goals represent an aspirational view of what the world could look like by 2030 by addressing areas of critical importance to humanity, including eliminating poverty and hunger, improving access to education and healthcare, and addressing the negative effects of climate change.



## Investment Universe

**Overview:** AB's Sustainable Thematic Equity strategies are based on the UN SDGs. When constructing our investment universe, we look for companies that positively contribute to the achievement of the SDGs, including only companies that fall into the "aligned" category. The following three groups of companies are determined by their revenue exposure.

**1. Aligned** companies generate revenues from the manufacture and sale of products that support the achievement of one or more SDGs.

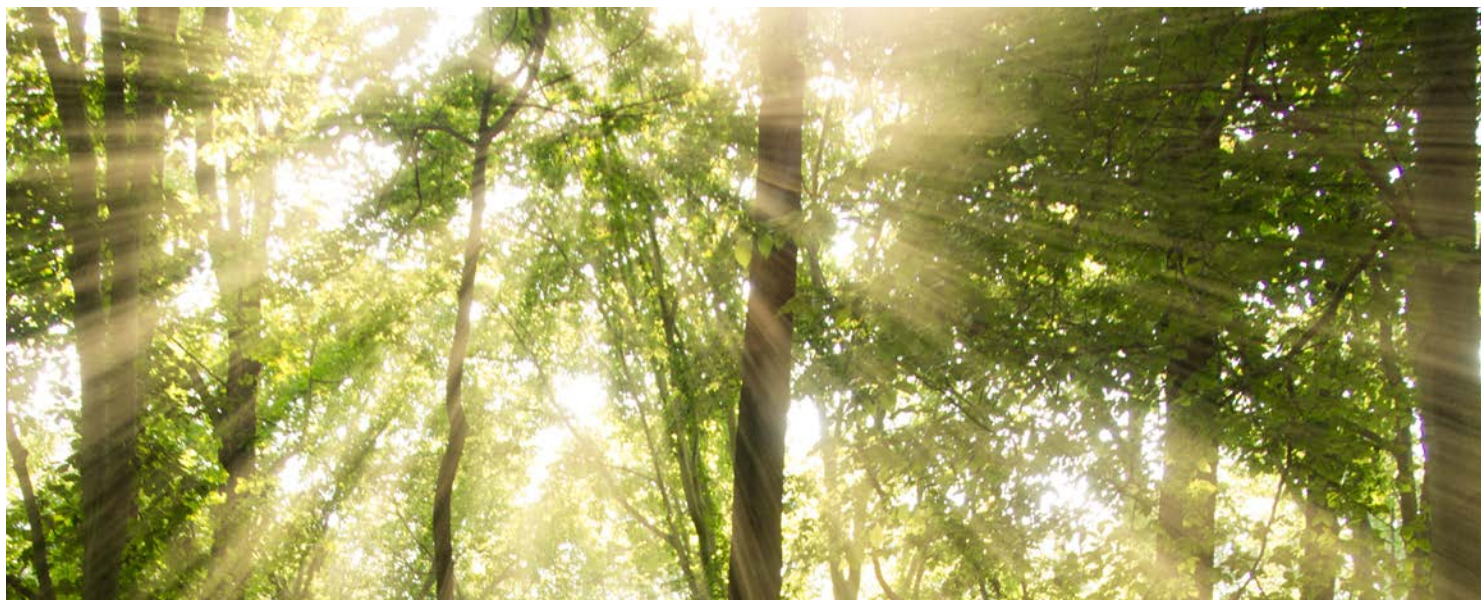
**2. Misaligned** companies generate revenues from the manufacture and sale of products that we believe deeply inhibit the achievement of the SDGs.

**3. Neutral** companies generate revenues from the manufacture and sale of products that neither contribute to nor deeply inhibit the achievement of the SDGs.

**Exclusions:** We believe that the following products are fundamentally misaligned with the achievement of the SDGs: alcohol, coal, gambling, pornography, prisons, tobacco and weapons. We exclude companies engaged in the direct manufacture of these products and aim to have zero portfolio revenue exposure from such products. For example, our portfolio does not and would not own a company with revenue generated from tobacco manufacturing at any weight.

**Indirect Exposures:** Some companies do not directly manufacture misaligned products but are part of the supply chain or distribution chain for direct manufacturers. In such cases, we consider how essential the component is to production of the misaligned product. If the component is essential to and/or represents a material amount of the company's revenue, the company may be excluded.

**Human Rights and Labor:** We also monitor all portfolio holdings for UN Global Compact violations. If a company is suspected of, or is discovered to have committed, a material human rights violation, we must investigate and document a response in AB's proprietary ESG research database, ESIGHT, within 30 days. If we are unsatisfied with our findings or the company's response, we may exclude the company from our universe.



# Climate

Efforts to stem climate change are gaining momentum around the world. We invest in companies that improve overall resource efficiency and provide environmentally positive solutions in fields such as energy production, manufacturing, construction, transportation, agriculture and sanitation.



## Cleaner Energy

Dramatic cost reductions and broad public support are enabling a global shift toward renewable energy sources. As renewable energy becomes more economical, we're investing in companies that provide low- and no-carbon products or services for electricity generation, transmission, storage systems and smart grids.



## Sanitation and Recycling

Better sanitation systems and recycling help underpin healthy, sustainable living spaces. We invest in companies that are involved in the collection and environmentally sound disposal or recycling of waste, waste-management technologies, and wastewater treatment.



## Resource Efficiency

Sustainable development requires the decoupling of economic growth from resource use and environmental damage. We invest in companies that help increase the resource and energy efficiency of industrial and commercial processes, municipal operations, commercial and residential buildings, and electronic products, or that demonstrate exceptional leadership in sustainably managing their own operations.



## Sustainable Transportation

Sustainable transportation is accessible, safe, efficient and clean. We invest in companies that are involved in the provision of sustainable mobility options for public, private and commercial use, including the manufacture of electric and autonomous vehicles, and products and services designed to reduce congestion, improve fuel efficiency and reduce emissions for road and air transit.







## Climate Spotlight



**TOMRA:** As the climate crisis becomes more severe and the world faces growing overconsumption, sustainable packaging and recycling is becoming increasingly important. TOMRA promotes more efficient use of resources by providing solid-waste recycling and sorting technology and equipment.

As the world leader in collection solutions, TOMRA makes reverse vending systems for used beverage containers, which incentivizes consumers to return used aluminum cans and glass and plastic bottles for recycling. The company has approximately 75% of the global market share. It's also a leader in developing solid-waste sorting solutions using sensor-based technology, which increases the efficiency of single-stream recycling by replacing human sorters with automated robotic waste-sorting machines. Currently, the company captures more than 40 billion used beverage containers annually, recycles over 715,000 tons of metal annually and inspects millions of individual product pieces per hour, helping to divert 5%–10% of this material from going to waste. TOMRA has set a goal to increase global recycling collection to 40% by 2030.

Our research suggests that TOMRA should benefit from strong secular growth in recycling-collection machines and waste-sorting equipment. Drivers of this growth include recycling regulations, consumer demand and an increasing focus by consumer-goods companies on end-of-life solutions to packaging waste. Improving automation and sensor technology, and increasing food and consumer products demand should also help support TOMRA's long-term growth.

## Management Engagement: A Green Competitive Advantage

**Trex** is a manufacturer of composite decking and railings for consumers and businesses. The company's products, made from 95% recycled plastic and wood scrap, create a long-lasting composite decking product that can be substituted for traditional wooden decking.

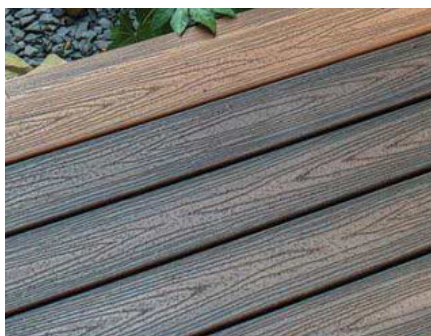
In 2020, we met with Trex's CEO and CFO to learn more about how the company's recycled material usage compares to competitors.

In our discussions, we discovered that Trex's competitive advantage is rooted

in the type of plastics it recycles. By exclusively using low-density recycled polyethylene—plastic bags and water bottles—Trex gains a greater source of supply and a more attractive cost structure than competitors who use high-density polyethylene, such as plastic pipes and containers, for their recycling operations.

Even amid growing demand for green products, Trex recognizes that consumers aren't willing to sacrifice quality for environmentally friendly products. So the company maintains an acute focus on product design,

transforming an appropriate mix of recycled materials into premium products, relative to traditional wood. We believe that Trex's product engineering and technical know-how in polymer science, as well as its cost-efficient supply chain, set it apart from other composite-decking brands. Engaging with management reinforced our investment thesis that Trex should thrive as more consumers adopt greener options for their homes.



# Health

Improving health is an important theme for developed and emerging markets alike. We invest in companies that develop innovative health treatments and therapies, broaden access to high-quality and affordable care, ensure a steady supply of nutritious food and clean water, and promote overall physical and emotional well-being.



## Medical Innovation

Medical science is reaching new frontiers. We invest in companies that are engaged in novel research and development, including the use of the rapidly declining costs of DNA sequencing, to develop innovative treatments and therapies that address significant global medical needs in new and often exploratory ways.



## Food Security and Clean Water

Food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food. We invest in companies that increase overall agricultural yields and ensure a sufficient supply of food—as well as clean water—for a growing global population.



## Access to Quality Care

At least half the world’s population is still without access to essential health services. In rich and poor countries alike, a health emergency can push people into bankruptcy or poverty. We invest in companies that provide products and services that improve the quality of, expand access to or lower the cost of healthcare service.



## Well-Being

Ensuring healthy lives and promoting well-being at all ages is important to building prosperous societies. We invest in companies that improve physical and emotional health through healthier ingredients, exercise, and basic sanitary and cleaning products, as well as some products that safeguard human life, such as fire-detection and -suppression systems and industrial process safety technologies.





## Health Spotlight



**Apollo Hospitals:** The coronavirus crisis in 2020 highlighted the need for universal health coverage, including financial-risk protection, access to quality essential healthcare services, and access to safe, effective, quality and affordable essential medicines and vaccines for all.

Apollo Hospitals operates the largest network of private healthcare services in India and promotes access to healthcare in lower-tier cities and rural areas through its innovative telehealth platform. The company leverages local market leadership with a hub-and-spoke business model that drives patient catch from smaller clinics and doctors' offices through the higher-end hospitals, improving capacity utilization and profit margins.

While nearly 94% of India's population is younger than 65 years of age, the population is aging and seeing a rapid rise in the prevalence of chronic diseases. Given this mix of demographics and India's large class of middle-income consumers, spending on healthcare services is poised for attractive growth over the decades to come. Although the country lacks sufficient healthcare services infrastructure, with hospital beds per person that are well below the World Health Organization's recommended levels, Apollo Hospitals is well positioned to meet this need throughout India.

## Promoting Healthy Lives: The Age of COVID-19

COVID-19 is affecting individuals and businesses around the world. While many people are focused strictly on the vaccine, the solution to stopping the virus will require innovation in many industries.

During 2020, we engaged with West Pharmaceutical Services, a supplier of drug packaging and delivery services, to find out how its business is being affected by the pandemic. West Pharmaceutical's products support treatments, vaccines, and diagnostics that address the current COVID-19 crisis. The company, based in Exton, Pennsylvania, is in discussions with many leading developers of treatments and vaccines, and is accelerating capital expenditure to ensure capacity for packaging components. For example, the company believes that its FluoroTec rubber drug packaging is a good solution for vaccines, given its compatibility with a wide range of molecules and its strong efficacy and safety track record.

Pricing for new treatments is another concern for medical innovators. West Pharmaceutical says it isn't looking to

"price gouge" amid the surging demand and will price its components in line with historical norms.

Healthcare needs created by the pandemic may allow West Pharmaceutical to expand its service offerings and generate greater interest in the company's portfolio of drug-delivery products, including its SmartDose products that allow patients to self-administer treatments.

We believe that West Pharmaceutical has an important role to play in bringing new drugs to market in a safe and efficient way, which is critical during this time.





# Empowerment

Too many sectors of society are marginalized by economic and social forces. We invest in companies that provide the physical, financial, and technological infrastructure and services that allow more people to gain control of their lives by enabling sustainable economic development, employment growth, poverty eradication, knowledge sharing and social inclusion.



## Information and Communication Technologies

Information and communication technologies (ICTs) are important enablers of economic development and social welfare. We invest in companies that provide critical ICT systems or components that enable sustainable economic development, employment growth, poverty eradication, knowledge sharing and social inclusion.



## Sustainable Infrastructure

Civil infrastructure is the backbone of an empowered society. We invest in companies that develop, maintain and operate physical infrastructure that integrates ESG aspects into a project's planning, building and operating phases while ensuring resilience in the face of climate change.



## Financial Security and Inclusion

Connecting people and businesses, including small and medium-size enterprises, to the financial system is a fundamental need of a healthy economy and society. We invest in companies that provide transparent, efficient and affordable access to financial services, and contribute to a vibrant and secure global financial system, including through transaction processing, insurance and secure savings.



## Education and Employment Services

Quality education and employment services are key enablers of sustainable development. We invest in companies that provide education services, products and supplies, including those for professional development and worker training. In addition, employment placement services are important, as they enable job creation.







## Empowerment Spotlight



**Adyen:** Strengthening the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all has never been more important.

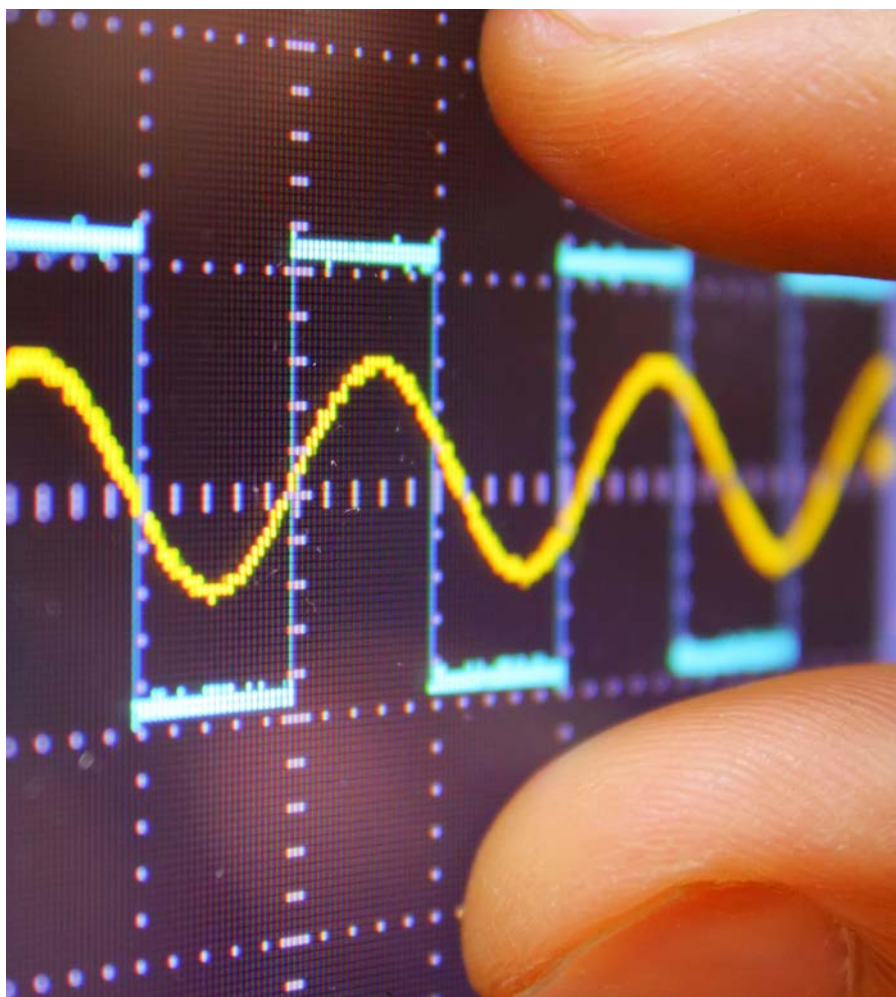
Adyen's technology allows merchants globally to transact with consumers on a single platform, helping to reduce transaction costs and fraud, while improving security, transparency and regulatory compliance.

Adopting digital payment technology has become a growing necessity for merchants as life during the pandemic has accelerated a transition to a combination of online and offline commerce. Adyen is strongly positioned in this service with a unique single-technology platform providing unified data and payment options. Increasing adoption of digitalization, e-commerce and mobile payments, coupled with the shift to noncash transactions, presents substantial long-term growth potential for the payment industry.

## Engaging for Change: Gender Diversity

**Bruker**, a manufacturer of scientific instruments, has struggled to demonstrate its commitment to diversity, particularly in regard to the composition of its board. Over the past four years, we've engaged with Bruker's management about the board four times, including in March 2020. In September, the company announced that Gilles Martin (CEO of Eurofins) would be leaving the board. We asked Bruker whether it was considering diversity with respect to the new board member, and management replied that diversity is important to the company. At the time, there were only two women on the 10-member board, and Bruker was looking specifically for expertise in diagnostics/genomics. Later that month, Bruker appointed a new (female) board member with superior experience, as Bruker aims to leverage its technologies to address diagnostic workflows and new markets.

We view engagement as one of the key avenues for investors to create meaningful positive change in the world. We plan to continue engaging with Bruker and our other companies on topics related to diversity and inclusion.



## Grassroots Research

### Background

Even amid efforts to develop better metrics, identifying forward-looking sustainable themes requires an additional dimension of insight. Evaluating trends that will shape societies, economies and companies warrants a closer look at people and communities that are affected by—and driving—environmental and social change.

To develop such insight, our investment processes incorporate what we call “grassroots research.” This involves on-the-ground field trips to various communities around the world. Through this research, our team aims to deepen its understanding of a key sustainability trend. Generally, we conduct in-home interviews with people in diverse markets around the world. Close personal contact in these markets helps us make research connections that weren’t evident. However, because of the pandemic, we haven’t been able to travel or meet with communities and consumers as usual.

### Adapting in the Face of COVID-19

Until we can restore our grassroots research program, we’ve launched special research efforts to help augment our thematic investing advantage.

Sustainable packaging was our central research topic in 2020. Rather than travel to a community, we took the opportunity to explore the topic with a diverse set of exposed companies. While there is no one-size-fits-all solution to this global problem, investing in sustainable packaging is table stakes for companies in today’s environment.

Both consumers and investors benefit from companies that have invested in sustainable packaging. Several companies told us that investing in sustainable packaging is essential for them to protect and enhance the value of their brands, provide improvements for customers and support financial results. Companies that haven’t invested risk being shunned by consumers and investors, and could face negative financial implications. Sustainable packaging may not grow a business, but we believe it is going to increase in importance, if only to preserve market share as awareness of the issue spreads around the world. Investors and consumers are increasingly demanding measurement, reporting and improvement on the sustainability of operations and

supply-chain management. And companies that we talked with understand that innovation is essential to fostering change; for example, a few companies described a potential return to the “milkman” model, in which consumers buy products such as shampoo or ice cream in reusable containers that are refilled through a subscription model.

### Applying an Investment Lens

We see sustainable packaging through two lenses—enablers and adopters. Enablers are companies that are tasked with innovating. In our view, these companies are clear winners in the drive for sustainable packaging, as they are on the forefront of disruptive solutions. We tend to have confidence in many areas of innovation, including the enabler market. For adopters, investors should aim to understand different adoption strategies. Our discussions with a wide range of companies suggest that larger companies may have a competitive edge by virtue of in-house teams that can manage the enabling and adoption processes simultaneously. Companies like these often have engineers and scientists on staff who can focus on developing innovative materials for packaging plant- or bio-based recycled wood scrap, etc.), rather than simply reducing the size of packaging.

The last facet of sustainable packaging to consider is the end of the product’s life cycle. Once sustainable packaging is discarded, what happens to it? We learned that infrastructure development and regulation are critical to advancements in this area. Companies making recycling products and services are necessary to ensure the future of sustainable packaging.

### Looking Forward

In the coming years, every consumer company in the world will need to change how they do their packaging. They have to make packaging more recyclable and figure out how to convince consumers to recycle. We believe companies that provide more sustainable packaging up front will enjoy more powerful tailwinds for their businesses. Companies that do recycling collection and sorting will need increased capacity. From a sustainable thematic perspective, how companies tackle the packaging challenge will continue to be a key area of focus as we analyze constituents in our investment universe.





## A Practical Framework for Assessing Social Value Creation

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

But measuring how much social value a company generates—whether it's through environmental and social advances or through better governance—is very hard. Data are 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.

### Two Main Ways to Impact Society

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

Companies in the upper right of the display below sell products with more positive social impact and have generally stronger business practices than 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. The upper right quadrant shows how AB Sustainable Global Thematic looks when measured in this framework.

This simple schematic analysis contains an important implication: every company can create social value for stakeholders. Investors who are focused on social and environmental issues tend to avoid companies that sell coal, weapons and snack foods. While companies like these can't do much to improve the social impact of their products, they can improve their own behavior.

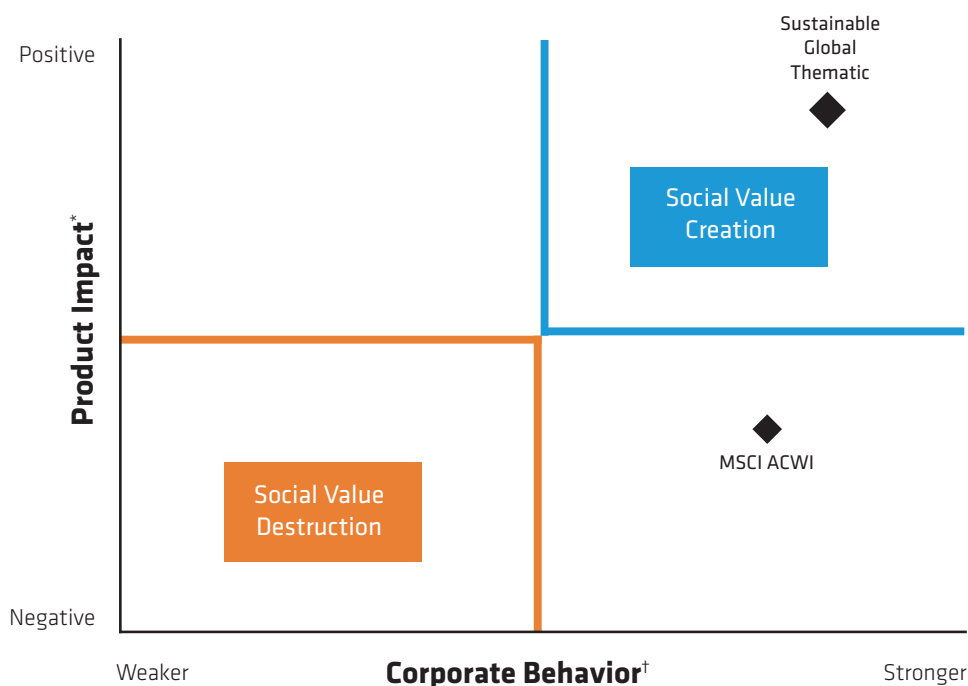
### Identifying Appropriate Metrics

When we understand how a company intends to create social value (whether the firm is moving to the right, upward or both), we can begin to think about appropriate metrics to track.

For example, the SDGs can be used to measure the environmental and social impact of a company's products. By mapping a company's product offerings to the SDGs, we can measure the percentage of its revenues derived from products aligned or misaligned with SDG outcomes. Companies can then be plotted, based on their net revenue exposure to the SDGs.

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 tracking a company's ESG behavior versus peers and behavior 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 portfolios meet their requirements.

### Measuring Enterprise Impact



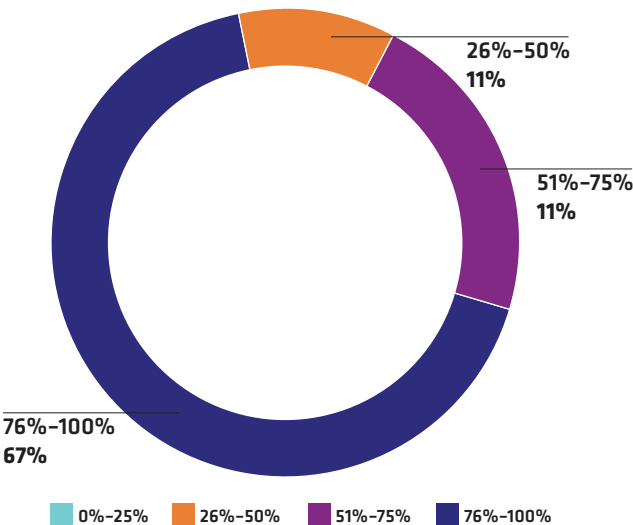
\* Product impact reflects our assessment of net revenue exposure (revenue from aligned products minus misaligned products) to the SDGs.

† Corporate behavior score leverages MSCI ratings to assess corporate behavior relative to peers as well as changes in behavior over time  
For illustrative purposes only. As of 31 December 2020. Source: MSCI, S&P and AB

## Product Impact

Revenue assessments are key to identifying companies that make and sell sustainable products and services. Our process requires that each company generates a minimum of 25% of its revenues from SDG-aligned products and services while generating no revenue from areas we have deemed as misaligned—alcohol, coal, gambling, pornography, prisons, tobacco, weapons.

### Sustainable Revenue Exposure



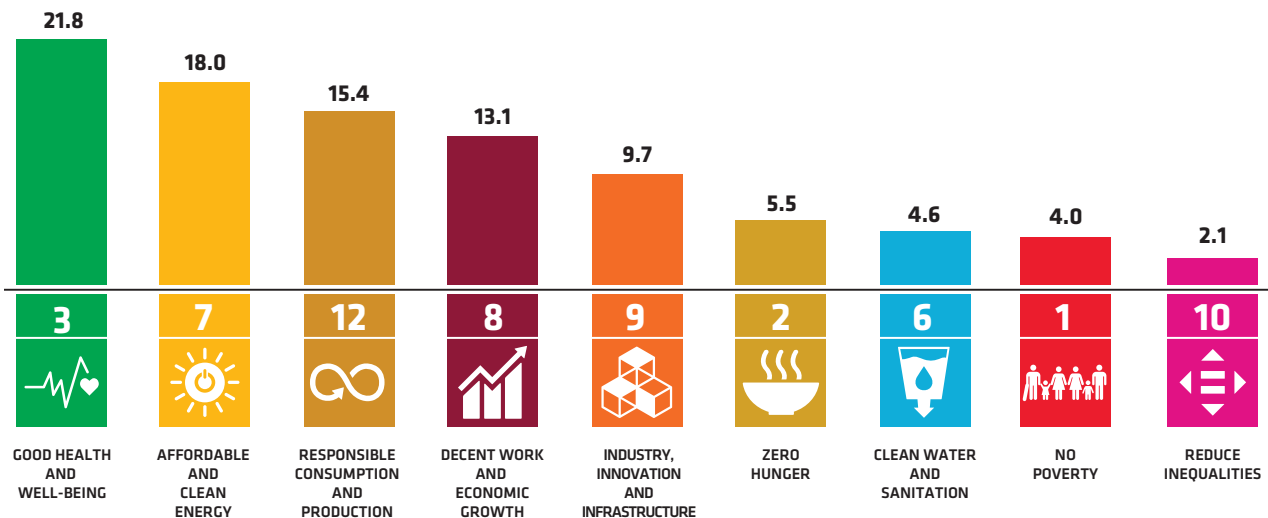
For illustrative purposes only. Source: AB

## Allocation to the SDGs

The SDGs are an ambitious program—with a massive scope. It would be impractical for an investor to try to focus equally on all 17 goals because investing opportunities for the private sector aren't spread equally across the SDGs. Instead, we believe the best way to use the SDGs is to identify those that offer the best investible opportunities, and target those specific areas. This thematic approach also allows an investor to develop expertise that can support effective allocation of capital.

Over 75% of our portfolio is focused on five SDGs—3, 7, 12, 8 and 9—that span all three investment themes. Because some relevant products apply equally to multiple SDGs, precise portfolio mapping is difficult. We map our holdings in such a case to one primary SDG. The primary SDG determination is based on a company's sources of revenue.

Allocation to SDGs in Portfolio  
Portfolio Weight (Percent)



Weighting will vary over time. For illustrative purposes only. As of 31 December 2020. Source: UN and AB



## Quantifying Change

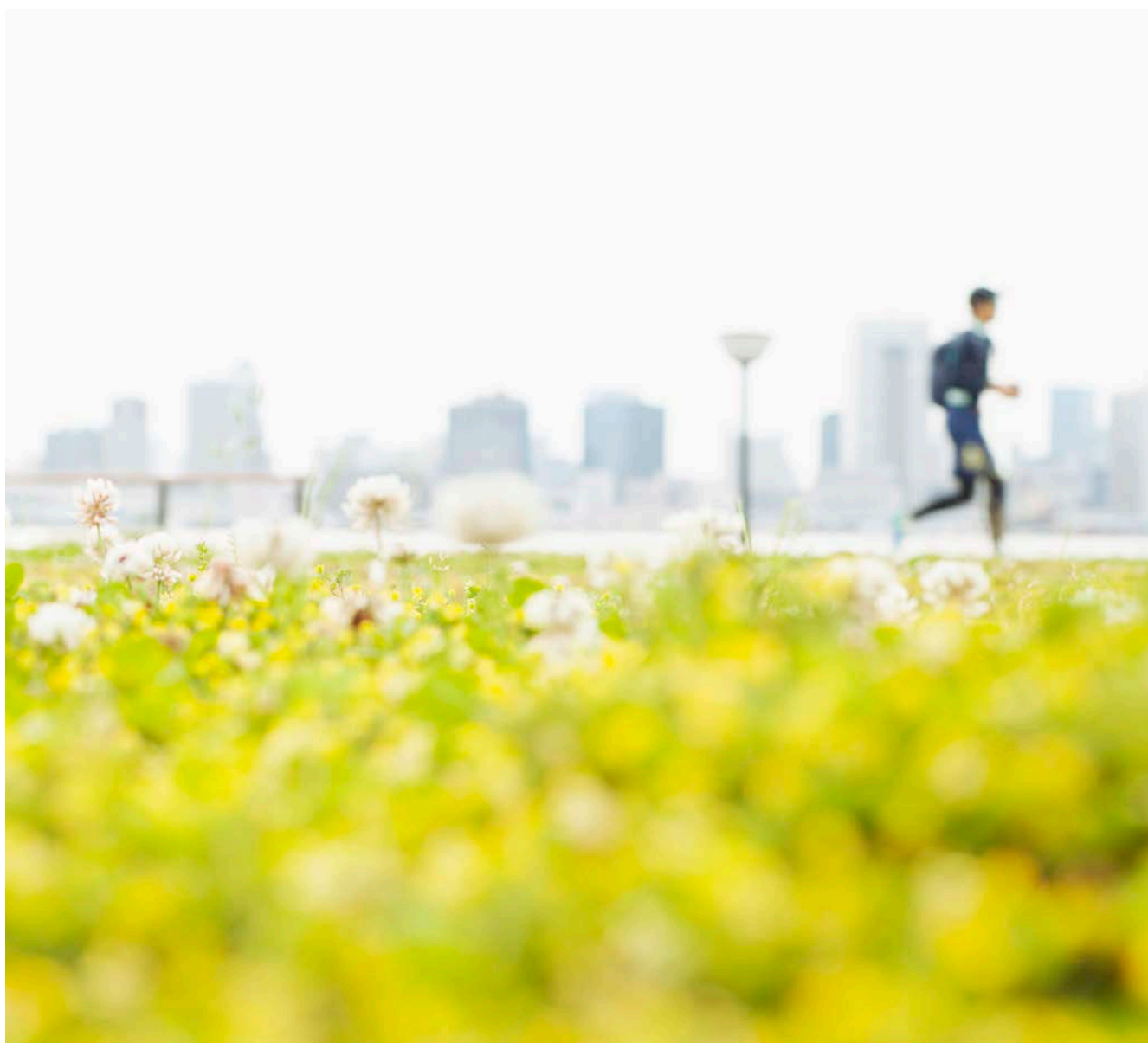
Measuring the outcomes of sustainable investments continues to be a key challenge for equity investors. In September 2020, Daniel Roarty, Chief Investment Officer—Sustainable Thematic Equities, was featured as an expert advisor in the report *Hybrid Metrics: Connecting Shared Value to Shareholder Value*, which explores the challenges and opportunities for linking social/environmental impact to financial performance. The report was published by FSG, a social impact consultancy. Lead author Mark Kramer developed the Corporate Shared Value concept at Harvard University along with Michael Porter, a renowned professor from the Harvard Business School. A synopsis of the *Hybrid Metrics* report was published in *Institutional Investor* as a follow-up to the widely read 2019 article by Kramer, George Serafeim and Porter titled “Where ESG Fails.”

Financial outcomes and environmental/social outcomes are often thought of as separate objectives for investors, which makes it difficult to identify companies that are profitably doing good in society. Data providers have attempted to create standards for ESG reporting; however, many commonly used metrics are not material to a company’s

financial performance. Since investors struggle to directly connect ESG data with economic performance, they tend to use ratings from third-party providers in their security selection processes, simply to eliminate poorly rated companies.

In the last few years, increasing research has demonstrated the strong correlation between ESG performance and financial performance, including stock performance. Linking social/environmental performance to standard measures of financial performance is best suited for active managers, in our view, because quantitative algorithms (and associated strategies) cannot easily accommodate qualitative data. Key ESG metrics must be integrated into security analysis, not as a “green screen” that merely eliminates poor performers, but as an exercise to help predict future profits and valuations. This integration of financial and ESG analysis requires broader expertise in social and environmental issues at the analyst level.

We continue to explore the use of hybrid metrics and impact measurement more broadly.



# Corporate Behavior: Engagement for Change

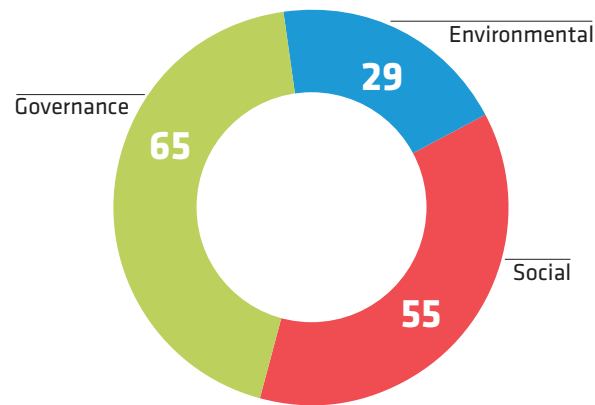
Engagement has always been a vital part of the investment process for active managers. From an ESG perspective, our objectives are to understand the impact of ESG factors on investments and—increasingly—to advocate changes in corporate behavior and practices. Our team engages with management teams to understand the issues from their perspectives, and often joins forces with them. Using our proprietary research and collaboration tools, our team can share real-time insights.

It's not about being friends with management, but bringing thoughtful, fact-based outside perspectives. Over the years,

we've made suggestions that companies rein in overly generous compensation packages, create environmentally and socially responsible supply chains, and divest businesses that dilute their focus.

We report on our engagement activity on an annual basis and highlight specific notable examples. In 2020, we had 88 company engagements with 40 individual companies on 149 issues: 29 environmental, 55 social and 65 governance.

**AB Sustainable Global Thematic Portfolio: Engagement Summary 2020**  
Number of Engagements per Category



Source: AB. For illustrative purposes only.

We view a quality management engagement as a one-on-one or small-group interaction between members of our investment team and members of management of a current portfolio company or potential portfolio company in addition to suppliers and customers.

The goal of an engagement is to better understand the operational and cultural nuances of the company in question in order to draw informed research conclusions. Our role is to listen and learn, as well as to make suggestions and recommendations about ways we would like to see the company improve.

In these conversations, we promote the exchange of information and ideas, produce and diffuse new ESG knowledge among companies and investors, and facilitate diverse internal and external interaction between companies and investors.





## Select ESG Metrics

There are many ways to measure the success of a sustainable portfolio, and although we have a specific framework for assessing enterprise impact, we note that there are a host of metrics that represent the position of our strategy. We strive to consistently report on ESG factors in order to help our clients see where their money is allocated. Importantly, from a financial perspective, the ESG factors we've identified can represent material risks for companies if those risks not addressed.

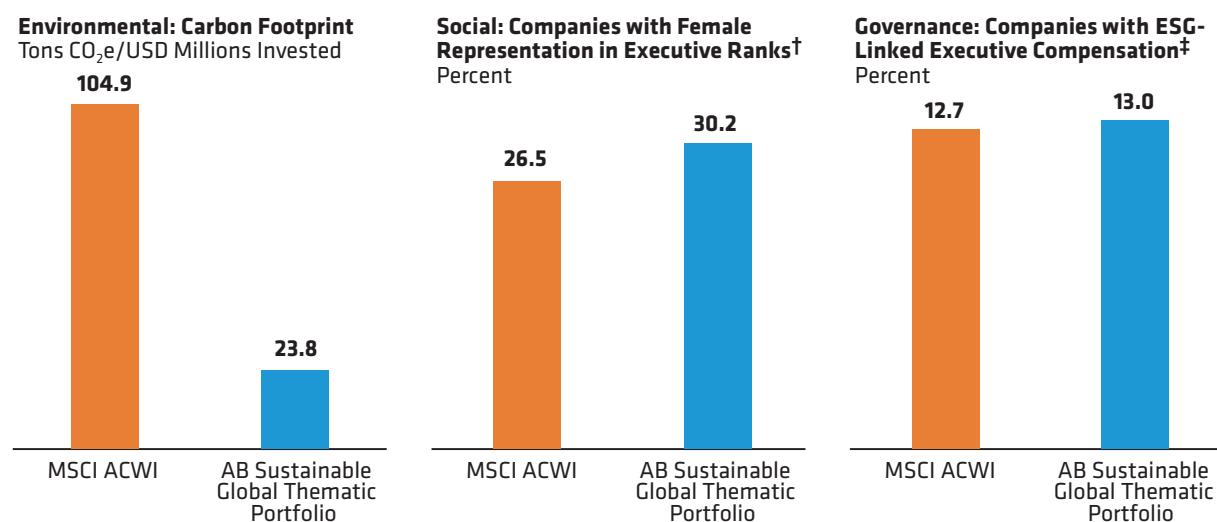
**Environmental:** We strive to have a portfolio carbon footprint that is materially lower than that of the benchmark. The most recent report from the UN's Intergovernmental Panel on Climate Change again brought to light the dangers and rapid advance of climate change. The report also tightened the target of a 1.5°C warming. We find it is critical to help our clients understand how the companies they're invested in contribute to solving this significant global issue.

**Social:** The number of companies with three or more women

on their boards has grown from 19% in 2015 to 29% in 2018.\* Research has found that an increased number of women in executive ranks can lead to better financial performance for companies over the long term. We aim to have a higher exposure to companies with women in executive ranks than the benchmark.

**Governance:** There is evidence that companies have historically eroded shareholder wealth as a result of significant environment-, social- and/or governance-related issues. Companies that have implemented strong ESG policies may show better performance in financial metrics such as earnings per share, return on equity and cash flow. We strive to provide our clients with more exposure to companies that link executive compensation to ESG metrics; this is a frequent topic in our engagement conversations.

\*Source: EY Center for Board Matters 2018



**Current analysis does not guarantee future results and is for illustrative purposes only.** CO<sub>2</sub>e: carbon dioxide equivalent emissions are defined as tons per million US dollars invested. †Female representation in executive ranks: percentage of women on the board of directors, as reported by the company. This is updated annually by the companies. In Europe, where the company has a supervisory board and a management board, this is the percentage of women on the supervisory board. ‡Companies with ESG-linked executive compensation: companies report whether their executive compensation is linked to ESG goals. This is updated annually by the companies.

As of 31 December 2020

Source: Bloomberg, MSCI Barra, S&P, Sustainalytics and AB



## Top 10 Holdings

### FLEX

Flex provides outsourced manufacturing and supply-chain solutions for customers in a range of industries, from consumer electronics to healthcare equipment to automotive and industrial.

#### Sustainable Opportunities:

With Flex's global footprint, its efforts around materials recovery can help dramatically reduce the environmental impact of its customers' products.

#### Fundamental Risks:

A surge in COVID-19 cases runs the risk of a near-term contraction in economic activity and a pullback in spending by consumers and enterprises, which would negatively impact demand for Flex's products.

#### Primary SDG:



By 2030, achieve the sustainable management and efficient use of natural resources

#### Key Engagement Topics:

Resource Management, Human Capital Development, Employee Health and Safety

### INFINEON TECHNOLOGIES

As the leader in power-management semiconductors, Infineon Technologies helps enable more efficient energy use in everything from washing machines to power turbines.

#### Sustainable Opportunities:

Infineon's products save energy during their life, driven by the company's focused research on energy efficiency and climate protection.

#### Fundamental Risks:

COVID-19's lasting effects on the global economy may cause discretionary purchases to suffer, leading to the underutilization of its factories.

#### Primary SDG:



By 2030, double the global rate of improvement in energy efficiency

#### Key Engagement Topics:

Resource Management, Labor Management, Organizational Culture

### KONINKLIJKE PHILIPS

Philips is a leader in diagnostic imaging technology, driving improvements in image quality and use of artificial intelligence software for image analysis as well as other areas of medical technology such as respiratory care, patient monitoring and image-guided surgery.

#### Sustainable Opportunities:

With a range of connected devices and software products, Philips enables more efficient delivery of healthcare through telehealth and remote medicine. The company has pledged to help improve access to care in underserved communities for 400 million people a year by 2030.

#### Fundamental Risks:

A slowdown in or reprioritization of hospital spending to areas where Philips doesn't offer products/solutions is a key risk, which could be driven by reimbursement pressure as governments struggle to pay for healthcare for older demographics.

#### Primary SDG:



By 2030, reduce by one-third premature mortality from noncommunicable diseases through prevention and treatment, and promote mental health and well-being

#### Key Engagement Topics:

Pay, Product Carbon Footprint, Demographic Risk and Ensuring Health



## VESTAS WIND SYSTEMS

Vestas Wind Systems designs, manufactures, installs and services wind turbines and wind farms, which help reduce carbon emissions and increase renewable energy penetration in the global energy mix.

### Sustainable Opportunities:

Wind power adoption should experience strong secular growth, driven by cost competitiveness, rising urgency to address climate change, green infrastructure stimulus programs and corporations adopting more sustainable behavior.

### Fundamental Risks:

Vestas's key risks are competition, trade barriers or tariffs, and fading policy support from countries like the US, China and India.

### Primary SDG:



By 2030, increase substantially the share of renewable energy in the global energy mix

### Key Engagement Topics:

Opportunities in Renewable Energy, Competition

## XYLEM

Xylem is a leading water technology company that provides equipment and services for transportation, treatment, testing, efficiency of use, reuse and desalination. Products increase access to clean drinking water, reduce pollution, combat waterborne diseases, improve use efficiency and improve infrastructure resiliency to natural disasters.

### Sustainable Opportunities:

Growth in water infrastructure spending is expected to persist as countries around the world face aging infrastructure and climate-change impacts on clean-water access and water scarcity.

### Fundamental Risks:

Infrastructure spending is dependent upon governmental spending, which is vulnerable to economic slowdowns and debt-level constraints, and competes for funding with other essential services (schools, infrastructure, police and fire departments).

### Primary SDG:



By 2030, achieve universal and equitable access to safe and affordable drinking water for all

### Key Engagement Topics:

ESG-Linked Executive Compensation, Human Capital Development, Product Development

## MSCI

MSCI provides data services for the risk analysis and safe functioning of markets for regulators and investors.

### Sustainable Opportunities:

MSCI is expected to be a key beneficiary of globalization in markets. We believe globalization will be more enduring than market expectations.

### Fundamental Risks:

MSCI relies upon highly skilled developers. Cybersecurity is a mission-critical component of the business, and it must have industry-leading security to remain competitive.

### Primary SDG:



Improve the regulation and monitoring of global financial markets and institutions, and strengthen the implementation of such regulations

### Key Engagement Topics:

ESG-Linked Executive Compensation, Pay

# Top 10 Holdings

## APTIV

Aptiv makes systems that support active safety features in cars, as well as products that enable electric vehicles (EVs) and EV charging stations.

**Sustainable Opportunities:**

Growth in demand for Aptiv’s products is being driven by secular trends around vehicle electrification, active safety, autonomous driving and in-vehicle computing systems. Demand for these features is being driven by a combination of improved affordability, regulations and consumer preferences.

**Fundamental Risks:**

Despite strong demand for electric and autonomous vehicles, product safety, competition and implications from trade wars may pose a risk to future growth.

**Primary SDG:**



By 2030, double the global rate of improvement in energy efficiency

**Key Engagement Topics:**

Product Safety and Quality, Product Development, Competition, ESG-Linked Executive Compensation

## NIKE

Nike is the preferred athletic apparel brand across genders, ages and income levels. The company continues to improve its brand through innovation, digital enhancements and superior execution in the direct-to-consumer channel.

**Sustainable Opportunities:**

Nike’s focus on innovation intersects with its commitment to sustainability. The company produces new footwear and apparel products, with the intention of minimizing water consumption, reducing waste and maximizing recycled material usage.

**Fundamental Risks:**

Despite very strong performance in its direct-to-consumer efforts (especially in the digital channel), Nike continues to face an industry-wide challenge of weakened foot traffic at wholesale partner stores.

**Primary SDG:**



By 2030, achieve the sustainable management and efficient use of natural resources

**Key Engagement Topics:**

Labor Management, Human Capital Development



## BIO-RAD LABORATORIES

Bio-Rad Laboratories is a key supplier of instruments and reagents to life-science research and clinical-testing labs. Through innovative new-product development, Bio-Rad is enabling greater adoption of personalized medicine and linking treatment decisions to diagnostic tests.

### Sustainable Opportunities:

Bio-Rad sells products that are key inputs in scientific experiments that drive new discoveries in medicine and human health broadly. As these discoveries enter clinical practice, Bio-Rad also offers regulation-approved equipment and consumables that are suitable for patient-testing labs.

### Fundamental Risks:

Bio-Rad's revenues are sensitive to changes in funding for life-science research among its academic lab customers. The company's clinical lab customers face ongoing reimbursement risk related to the price of diagnostic tests, which impacts purchase decisions for the equipment and consumables that Bio-Rad sells.

### Primary SDG:



By 2030, reduce by one-third premature mortality from noncommunicable diseases through prevention and treatment, and promote mental health and well-being

### Key Engagement Topics:

Human Capital Development, Business Ethics

## SVB FINANCIAL

SVB Financial operates the only bank in the world that provides financial services to the global innovation market. As such, it provides capital to higher-risk private equity/venture capital firms and start-ups, particularly in the technology and healthcare/life-science sectors. It has multiple programs aimed at increasing financial inclusion by providing microloans and financial literacy to small business owners, as well as programs to fund start-ups founded by women and underrepresented minorities.

### Sustainable Opportunities:

SVB is well positioned to benefit from the secular tailwinds in the global technology and healthcare sectors catalyzed by COVID-19. These sectors represent the key focus of SVB's loan book.

### Fundamental Risks:

Responsible investment is a key risk for SVB, as the company promotes financial inclusivity by lending to high-risk groups, including start-ups.

### Primary SDG:



By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology, and financial services, including microfinance

### Key Engagement Topics:

ESG-Linked Executive Compensation, Pay

## Conclusion

The SDGs provide a good road map for identifying investments that can contribute to positive environmental and social outcomes—and generate profits as well. The SDGs represent an aspirational view of what the world could look like by 2030. Introduced in September 2015, the 17 goals and 169 specific targets address areas of critical importance to humanity, including eliminating poverty and hunger, improving access to education and healthcare, and addressing the negative impact of climate change. Crafted and agreed to by 193 nations, the SDGs attempt to build on the UN's earlier Millennium Development Goals. Their objective is to broaden the focus beyond developing markets and to explicitly consider a role for the private sector.

Building a sustainable equity portfolio requires a thorough process that can sift through thousands of global firms to identify those that are really making a difference on ESG issues. Equally important, it requires disciplined financial analysis to make sure that an ESG-focused target company is a good long-term investment.

Many equity investors want to help create social benefits while generating strong returns. Deploying a clear investment process that draws on the SDGs and integrates ESG factors in research can help investors achieve these twin goals.



**Dan Roarty, CFA**  
SVP/CIO—Sustainable Thematic Equities

With over 27 years of industry experience—nine at AB—Dan Roarty was appointed Chief Investment Officer of AB's Sustainable Thematic Equities team, which manages a suite of geographically diverse strategies dedicated to the achievement of the UN SDGs, in 2013. Since assuming this role, he has become a thought leader in socially responsible investing, utilizing the SDGs as a road map for identifying thematic investment opportunities. Roarty is an active part of the sustainable investing community, acting as a subject-matter expert around the globe, including speaking at the 2018 Sustainable Investing Conference at the UN. He joined the firm in 2011 as global technology sector head on the Global/International Research Growth team and was named team lead in early 2012. Roarty previously spent nine years at Nuveen Investments, where he co-managed both a large-cap and a multi-cap growth strategy. His research experience includes coverage of technology, industrials and financials stocks at Morgan Stanley and Goldman Sachs. Roarty holds a BS in finance from Fairfield University and an MBA from the Wharton School at the University of Pennsylvania. He is a CFA charterholder. Location: Philadelphia.





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**The value of your investment may go down as well as up, and investors may not get back the full amount they invested.**

**Market Risk:** The market values of the portfolio's holdings rise and fall from day to day, so investments may lose value. **Focused Portfolio Risk:** Portfolios that hold a smaller number of securities may be more volatile than more diversified portfolios, since gains or losses from each security will have a greater impact on the portfolio's overall value. **Foreign (Non-US) Risk:** Non-US securities may be more volatile because of political, regulatory, market and economic uncertainties associated with such securities. Fluctuations in currency exchange rates may negatively affect the value of the investment or reduce returns. These risks are magnified in emerging or developing markets. **Derivatives Risk:** Investing in derivative instruments such as options, futures, forwards or swaps can be riskier than traditional investments, and may be more volatile, especially in a down market. **Capitalization Size Risk (Small/Mid):** Small- and mid-cap stocks are often more volatile than large-cap stocks—smaller companies generally face higher risks due to their limited product lines, markets and financial resources. **ESG Risk:** Applying ESG and sustainability criteria to the investment process may exclude securities of certain issuers for nonfinancial reasons and, therefore, the Fund may forgo some market opportunities available to funds that do not use ESG or sustainability criteria.

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