



8 February 2018

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# AB European Equities: Bringing a Private Equity Mindset to the Public Equity Markets

Nicholas Davidson Senior Portfolio Manager—Equities

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# Shifts in Style Leadership Present a Challenge to Investors

**Style Index Performance (Percent)**

2015	2016	2017
<b>MSCI World Minimum Volatility</b> 7.4	<b>MSCI World Value</b> 14.2	<b>MSCI World Growth</b> 24.0
<b>MSCI World Growth</b> 6.1	<b>MSCI World Minimum Volatility</b> 7.7	<b>MSCI World Minimum Volatility</b> 15.1
<b>MSCI World Value</b> (1.9)	<b>MSCI World Growth</b> 4.0	<b>MSCI World Value</b> 13.3

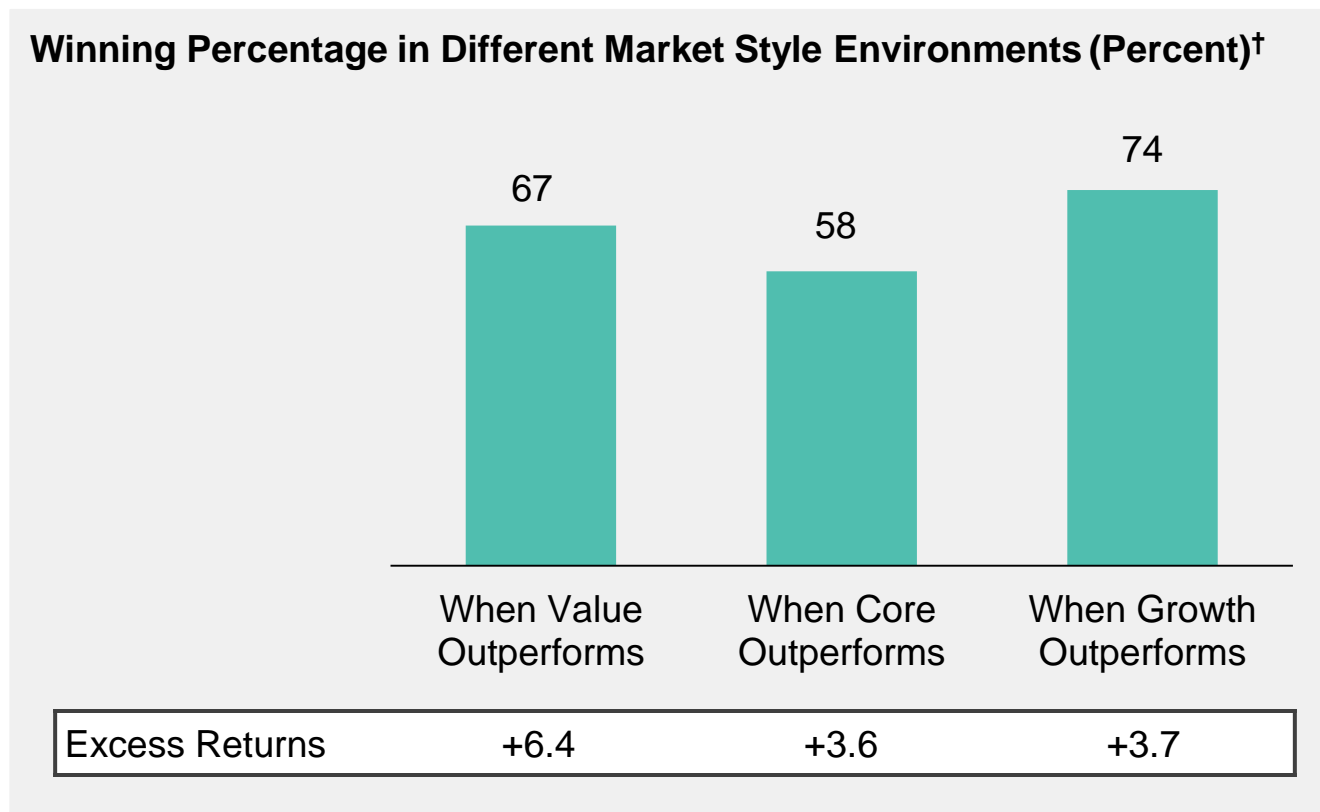
As of December 31, 2017  
Source: FactSet, MSCI, S&P and AB



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# AB European Equity Portfolio: Consistent Long-Term Performance

## Five-Year Performance Characteristics vs. the MSCI Europe Index



As of 31 December 2017

### **Past performance does not guarantee future results.**

\*Performance data based on net-of-fees monthly returns, in euros for the European Equity Portfolio—I share class environment; MSCI Europe for core environment; and MSCI Europe Growth for growth environment.

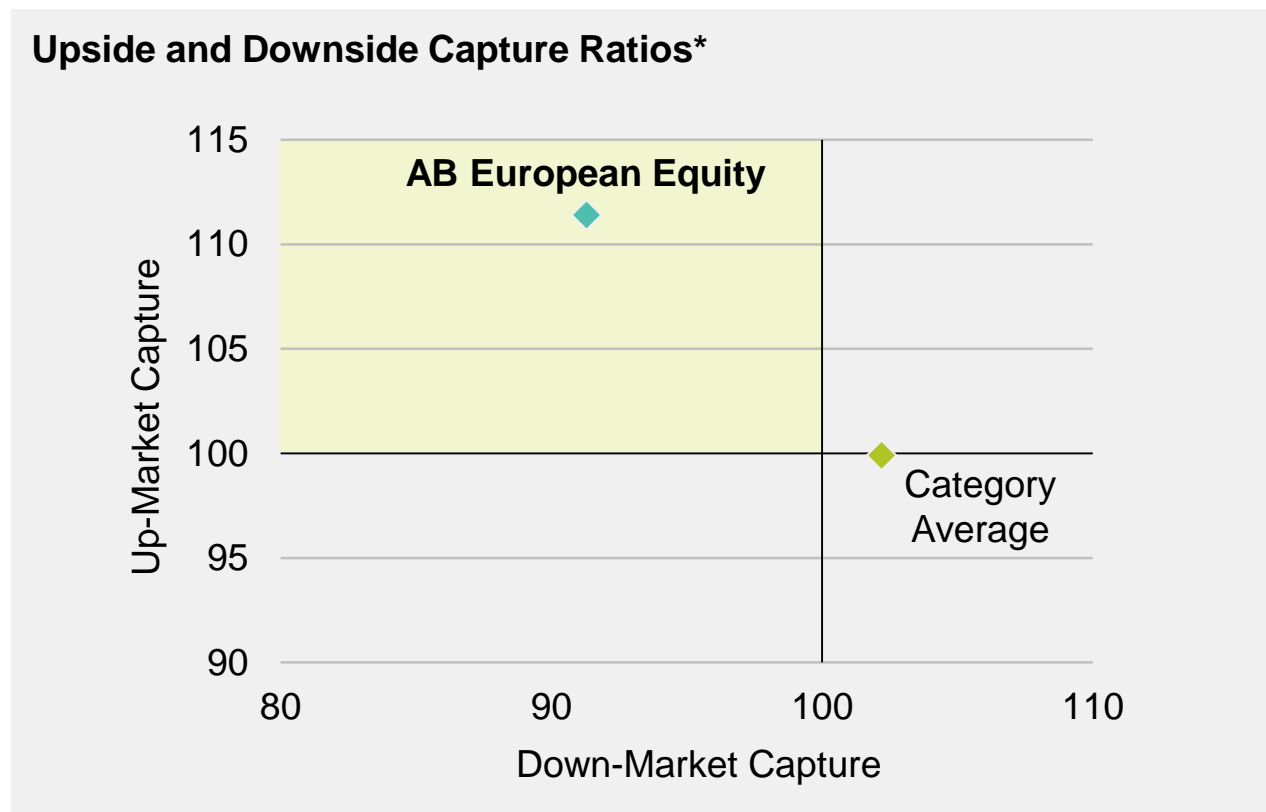
Source: Morningstar Direct and AB



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# AB European Equity Portfolio: Consistent Long-Term Performance

## Five-Year Performance Characteristics vs. the MSCI Europe Index



As of 31 December 2017

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\*Performance data based on net-of-fees monthly returns, in euros for the European Equity Portfolio—I share class  
Source: Morningstar Direct and AB



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# AB European Equity Portfolio Platform Overview

## High-Conviction, Long-Established Portfolios

	European Equity	Eurozone Equity
<b>Number of Holdings</b>	40–60	40–60
<b>Investment Universe</b>	Pan-Europe incl. UK	Eurozone
<b>Benchmark Sensitivity</b>	Unconstrained	Unconstrained
<b>Active Share</b>	80+%	80+%
<b>Fund Inception</b>	May 2001	September 2010
<b>Service Inception</b>	June 1997	June 2002

As of 31 December 2017

**Past performance does not guarantee future results.**

Source: MSCI, Morningstar Direct and AB



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# Our Investment Approach

## We Exploit Multiple Themes...

- + Company Undergoing Positive Change
- + Underappreciated Sustainable Competitive Advantage
- + Strong or Improving Industry Dynamics



## ...to Deliver in Different Ways

- + Market revaluation of cash flows/earnings
- + Cash-flow/earnings growth
- + Balance-sheet restructuring/return to shareholders

**There can be no assurance that any investment objectives will be met. See A Word About Risk.**

Source: AB



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# Company Examples: AB Eurozone Equity Portfolio

High Conviction in Our Differentiated Research Insights

## Company Undergoing Positive Change



## Underappreciated Sustainable Competitive Advantage



## Strong or Improving Industry Dynamics



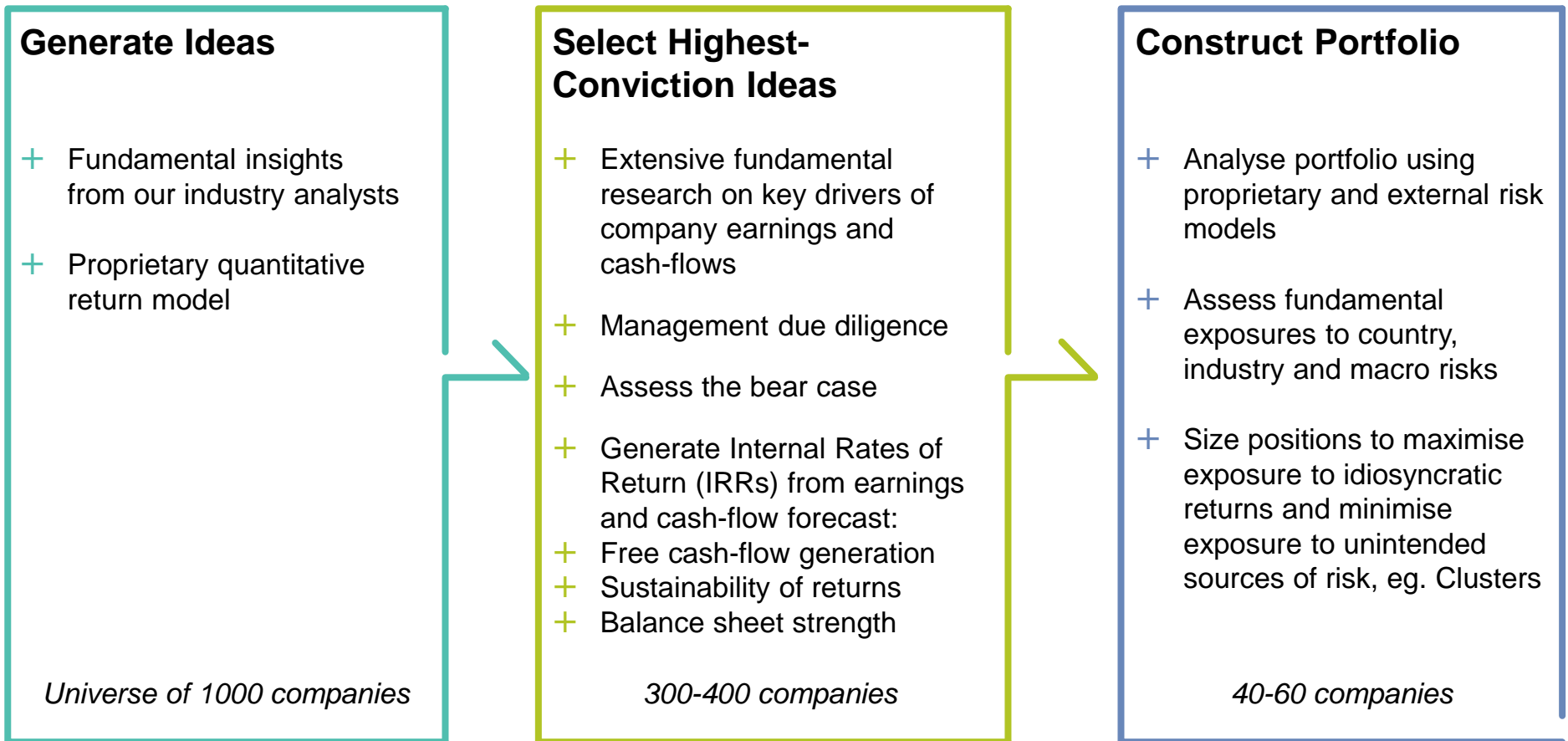
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**Holdings are subject to change.** The companies identified above represent a portion of the holdings of a sample Eurozone Equity Portfolio. Logos, brands and other trademarks in this presentation are the property of their respective trademark holders. They are used to illustrate a portion of the holdings of a sample portfolio at a point in time. See A Word About Risk. Source: AB



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# We Follow a Disciplined Investment Process



**For illustrative purposes only. There can be no assurance that any investment objectives will be achieved.**

Numbers represent approximate number of stocks at that stage of the process.  
Source: AB



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# Valeo Is a Global Leader in Auto Components and Continues to Grow Its Content per Vehicle

Valeo Is Focused on Components and Technologies That Are Growing Their Share of the Global Fleet

## LED Headlamp Systems



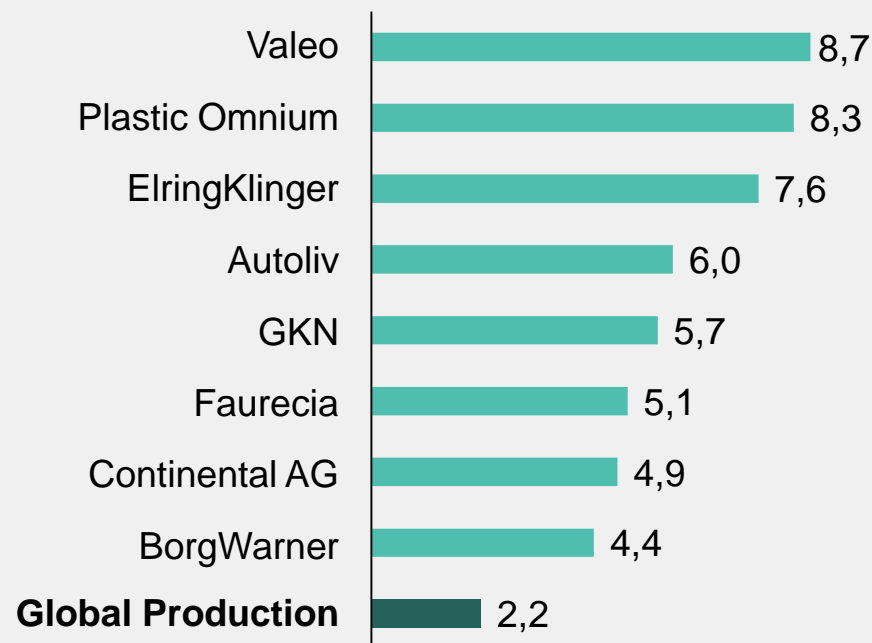
## Driving Assistance Sensors and Cameras



## Air Conditioning Units (CO<sub>2</sub> Reduction)



Recent Organic Growth Rates Demonstrate That Valeo Is Able to Grow Faster than the Car Market  
2013–2015 Reported Organic Growth by Supplier (Percent)



As of 31 August 2016

**Historical information and forecasts provided for illustrative purposes only**

Source: Company reports and AB



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# We Use IRR as a Measure of Return Potential

Example: Valeo (Euro Millions)

	2012	2013	2014	2015	2016	2017	
<b>EBITDA</b>	1,282	1,342	1,473	1,632	1,770	1,893	
<b>FCF*</b>		238	322	387	498	526	
<b>Net Debt†</b>	798	806	751	654	461	284	
<b>Dividends</b>		115	137	158	174	189	
<b>EV/EBITDA</b>	2.9×					2.9×	Assume exit multiple same as entry
<b>Enterprise Value</b>	3,625					5,446	
<b>Market Cap‡</b>	2,827					5,162	
<b>Investment Cash Flow</b>	-2,827	115	137	158	174	5,351	= 17.0% IRR potential

Company  
delevers

Assume exit  
multiple same  
as entry

= 17.0% IRR potential

## Historical information and forecasts provided for illustrative purposes only

AB forecasts for full-year 2012 and beyond

\*FCF (free cash flow) = EBITDA – change in NWC (net working capital) – interest – taxes – capital expenditure (capex) – other cash charges (before dividends to minorities)

†Includes minority interest

‡As of 31 December 2012

Source: Company reports and AB

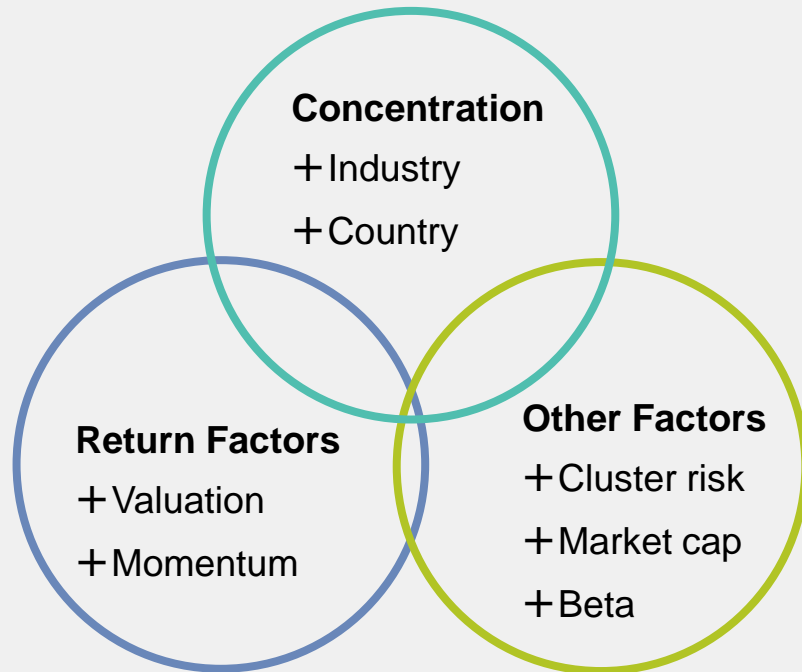


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# Disciplined Portfolio Construction

Informed by Fundamental and Quantitative Perspectives

## Understand Changing Portfolio Risk Exposures



## Size Positions Based on:

- + Return conviction
- + Downside risks
- + Contribution to portfolio's factor and macro risk exposures
- + Liquidity

**Ensure that company-specific risks are the primary source of tracking error**

**For illustrative purposes only**

Source: AB



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# AB European Equity Portfolio

Total Returns, Class I Shares (EUR)



**Overall Morningstar Rating™—Class I Shares**  
 Rated against 303 investments in the EAA Fund Europe Large-Cap Value Equity category, based on risk-adjusted returns

## Periods Ended 31 December 2017

	One Year	Three Years	Five Years	10 Years	Since Inception
<b>AB European Equity Portfolio</b>	<b>14.6%</b>	<b>11.4%</b>	<b>13.1%</b>	<b>2.8%</b>	<b>4.6%</b>
MSCI Europe	10.2	7.0	9.4	3.4	4.1
Relative Performance	+4.3%	+4.4%	+3.7%	-0.5%	+0.6%
Morningstar EAA Fund Europe Large-Cap Value Equity Percentile Rank*	4th	3rd	3rd	32nd	6th
Percentile Ranking vs. Core Peers†	10th	3rd	3rd	54th	18th

As of 31 December 2017

### Past performance does not guarantee future results.

Inception dates: European Equity Portfolio—I share class: 29 August 2001.

Relative performances are vs. MSCI Europe Index. All data are net of fees.

Rated against 295 funds in the EAA Fund Europe Large-Cap Value Equity category over 3 years through 30 September 2017, based on risk-adjusted returns; The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-year Morningstar Rating metrics.

\*Morningstar percentile rankings based on the Morningstar EAA Fund Europe Large-Cap Value Equity category

†Morningstar percentile rankings based on the Morningstar EAA Fund Europe Large-Cap Blend Equity category

Source: MSCI, Morningstar Direct and AB



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# AB Eurozone Equity Portfolio

Total Returns, Class I Shares (EUR)



**Overall Morningstar Rating™—Class I Shares**  
 Rated against 987 investments in the EAA Fund Eurozone Large-Cap Equity category, based on risk-adjusted returns

## Periods Ended 31 December 2017

	One Year	Three Years	Five Years	Since Inception
<b>AB Eurozone Equity Portfolio</b>	<b>17.9%</b>	<b>13.9%</b>	<b>14.2%</b>	<b>9.3%</b>
MSCI EMU	12.5	8.8	10.7	7.8
Relative Performance	+5.4%	+5.1%	+3.6%	+1.4%
Morningstar EAA Fund Eurozone Large-Cap Equity Percentile Rank*	6th	2nd	2nd	15th

**Past performance does not guarantee future results.** Numbers may not sum due to rounding.

The value of investments and the income from them will vary. Your capital is at risk. Performance data are provided in the share-class currency, and include the change in net asset value and the reinvestment of any distributions paid on Portfolio shares for the period shown. Performance data are net of management fees, but do not reflect sales charges or the effect of taxes. Returns for other share classes will vary due to different charges and expenses. The actual return achieved by investors in other base currencies may increase or decrease as a result of currency fluctuations.

Inception date: Eurozone Equity Portfolio—I share class: 15 September 2010

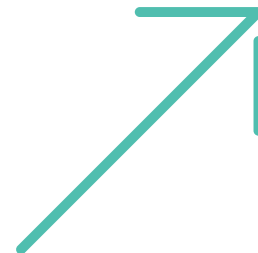
Periods of more than one year are annualized.

\*Rated against 977 funds in the EAA Fund Eurozone Large-Cap Equity category over three years through 30 September 2017, based on risk-adjusted returns; the Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-year Morningstar Rating metrics.

Source: Morningstar Direct, MSCI and AB



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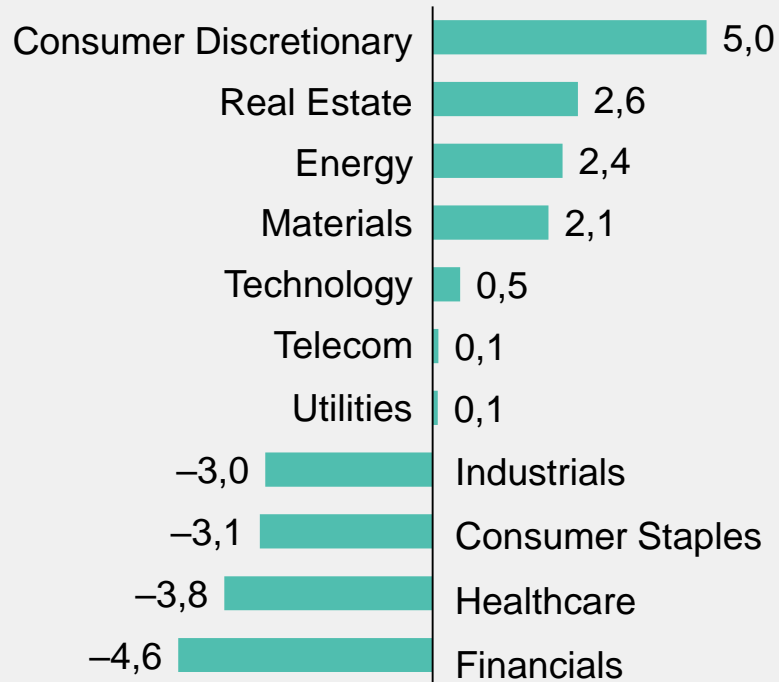
# APPENDIX



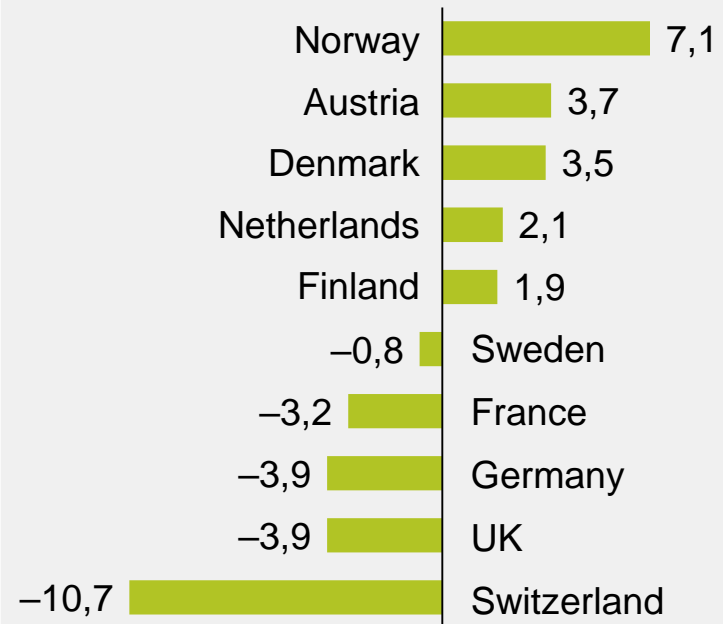
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# AB European Equity Portfolio

## Sector Overweights and Underweights (Percent)



## Top Five Country Overweights and Underweights (Percent)



As of 31 December 2017

**Holdings are subject to change.** Numbers may not sum due to rounding.

Source: MSCI and AB



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# AB European Equity Portfolio

10 Largest Holdings	Portfolio Weight (Percent)
Royal Dutch Shell	5.6
Sanofi	3.2
BAT	3.1
Airbus	2.8
Johnson Matthey	2.5
Siltronic	2.5
CA Immo	2.5
Orkla	2.4
Philips Lighting	2.3
Enel	2.2

As of 31 December 2017

**Holdings are subject to change.** Numbers may not sum due to rounding.

Source: MSCI and AB

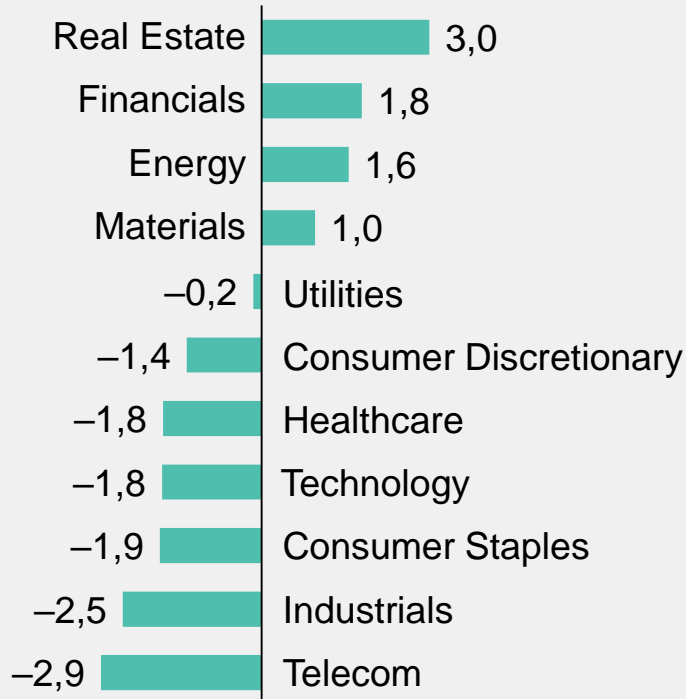


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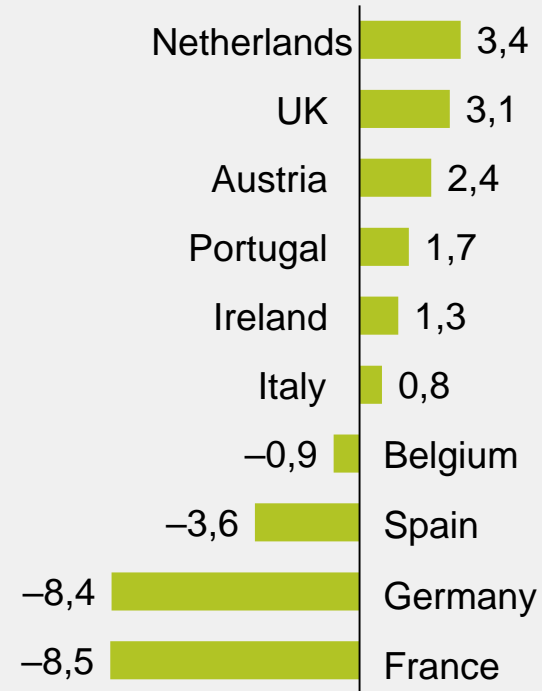


# AB Eurozone Equity Portfolio

## Sector Overweights and Underweights (Percent)



## Top Five Country Overweights and Underweights (Percent)



As of 31 December 2017

**Holdings are subject to change.** Numbers may not sum due to rounding.

Source: MSCI and AB



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# AB Eurozone Equity Portfolio

10 Largest Holdings	Portfolio Weight (Percent)
Sanofi	4.0
Airbus	3.7
ING	3.4
Repsol	2.9
Enel	2.8
Henkel	2.7
Siltronic	2.7
Pernod Ricard	2.7
Allianz	2.5
KBC	2.5

As of 31 December 2017

**Holdings are subject to change.** Numbers may not sum due to rounding.

Source: MSCI and AB



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# Investment Team

## AB European Equities



**Tawhid Ali**

Chief Investment Officer—  
European Value Equities  
*14 years with firm*



**Andrew Birse**

Portfolio Manager—  
European Value Equities  
*7 years with firm*



**Jane Bleeg**

Healthcare  
*1 year with firm*



**Cem Inal\***

Technology  
*14 years with firm*



**Jeremy Taylor**

Commodities/  
Energy/Utilities  
*12 years with firm*



**Mark Underwood\***

Consumer  
*14 years with firm*



**Chad Gex**

Industrials/Technology/  
Telecom  
*7 years with firm*



**Philippos  
Philippides**

Financials  
*14 years with firm*



**Anu Venkataraman\***

Financials  
*24 years with firm*



**Peter Chocian**

Quantitative Research  
*11 years with firm*

### Advisory Members

- |                                                                        |                                                        |
|------------------------------------------------------------------------|--------------------------------------------------------|
| + <b>Avi Lavi</b><br>CIO—Global and International Value                | + <b>Nicholas Davidson</b><br>Senior Portfolio Manager |
| + <b>Takeo Aso</b><br>Portfolio Manager—Global and International Value | + <b>Darren Williams</b><br>Senior Economist           |

### AB Global Equity: Value Research

- + 41 Fundamental Analysts
- + 10 Quantitative Analysts

As of 31 December 2017

**Investment team subject to change.**

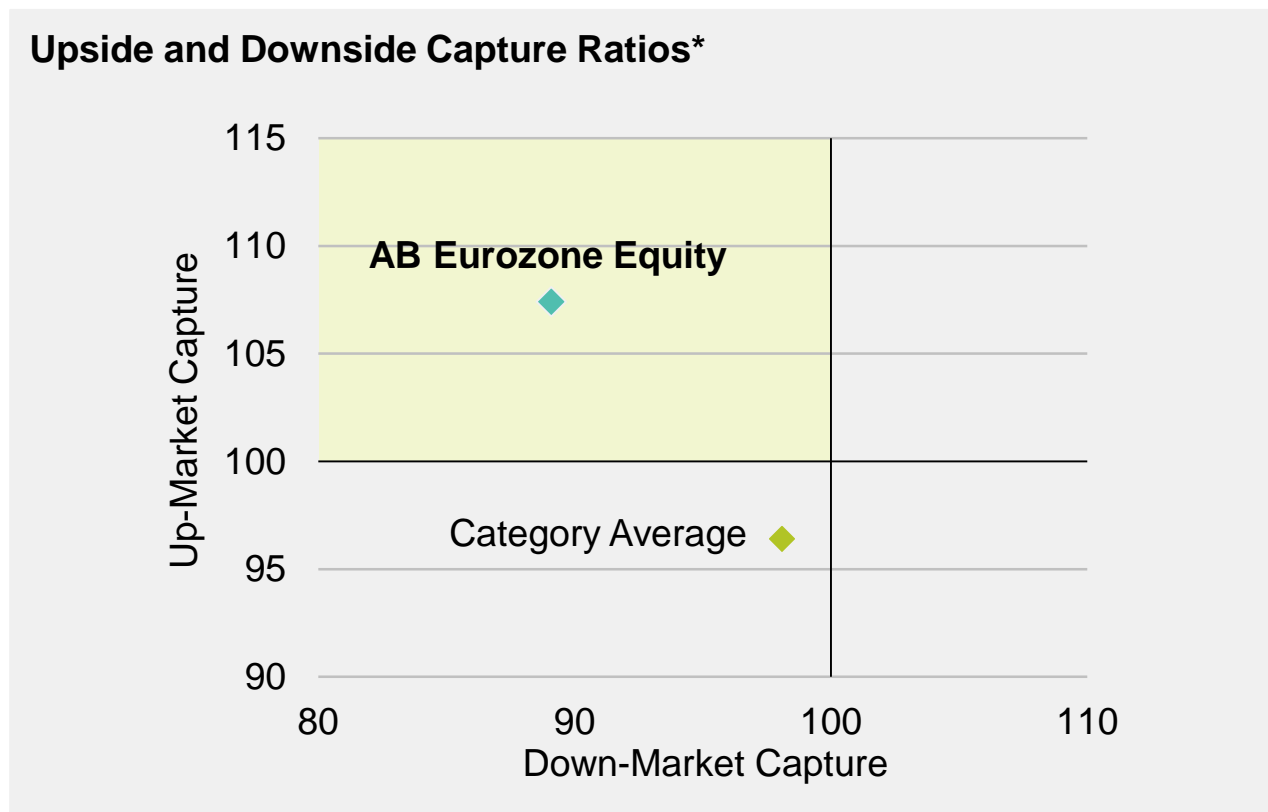
\*Based in New York



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# AB Eurozone Equity Portfolio: Consistent Long-Term Performance

## Five-Year Performance Characteristics vs. the MSCI EMU Index



As of 31 December 2017

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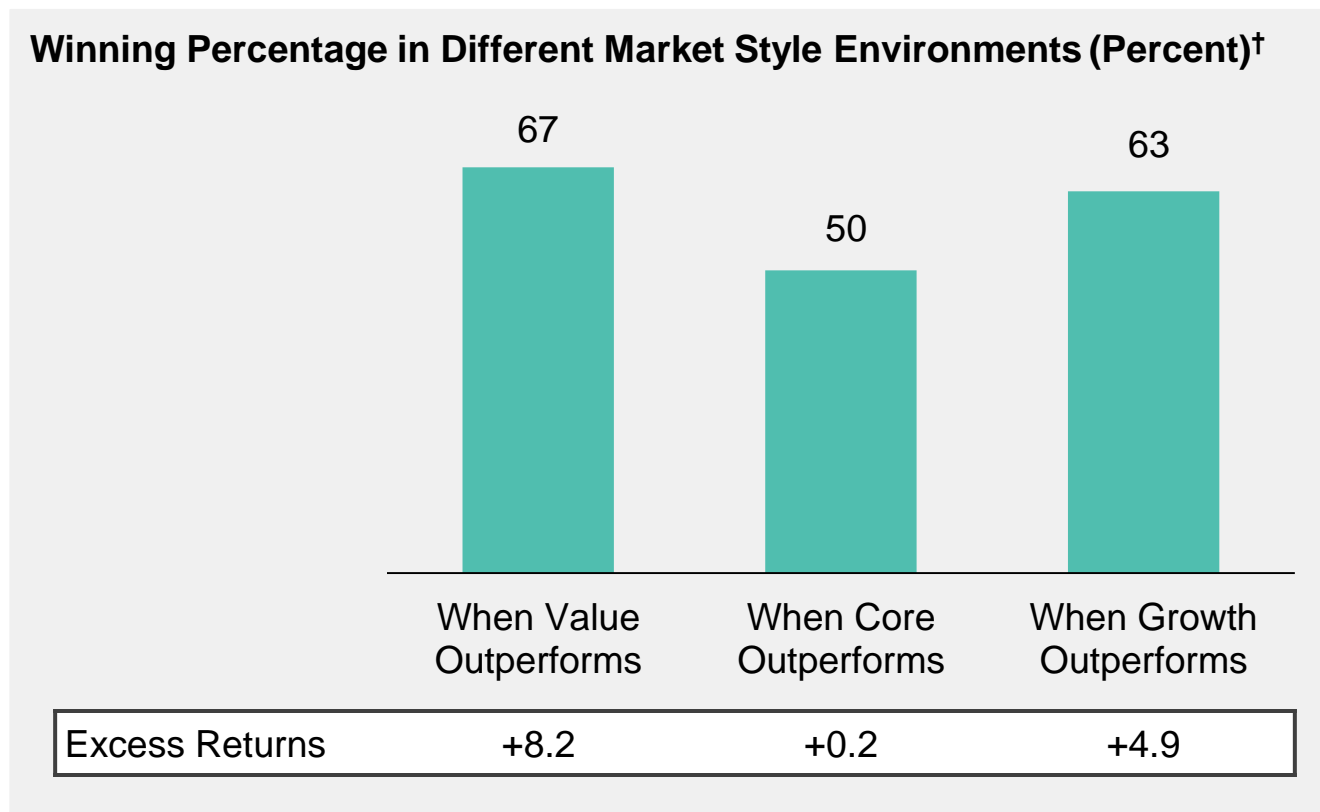
\*Performance data based on net-of-fees monthly returns, in euros for the Eurozone Equity Portfolio—I share class  
Source: Morningstar Direct and AB



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# AB Eurozone Equity Portfolio: Consistent Long-Term Performance

## Five-Year Performance Characteristics vs. the MSCI EMU Index



As of 31 December 2017

### **Past performance does not guarantee future results.**

†Based on gross-of-fees monthly returns for the Eurozone Equity Portfolio versus MSCI EMU. Market style environments based on the following factor indices: MSCI EMU Value for value environment; MSCI EMU for core environment; and MSCI EMU Growth for growth environment.

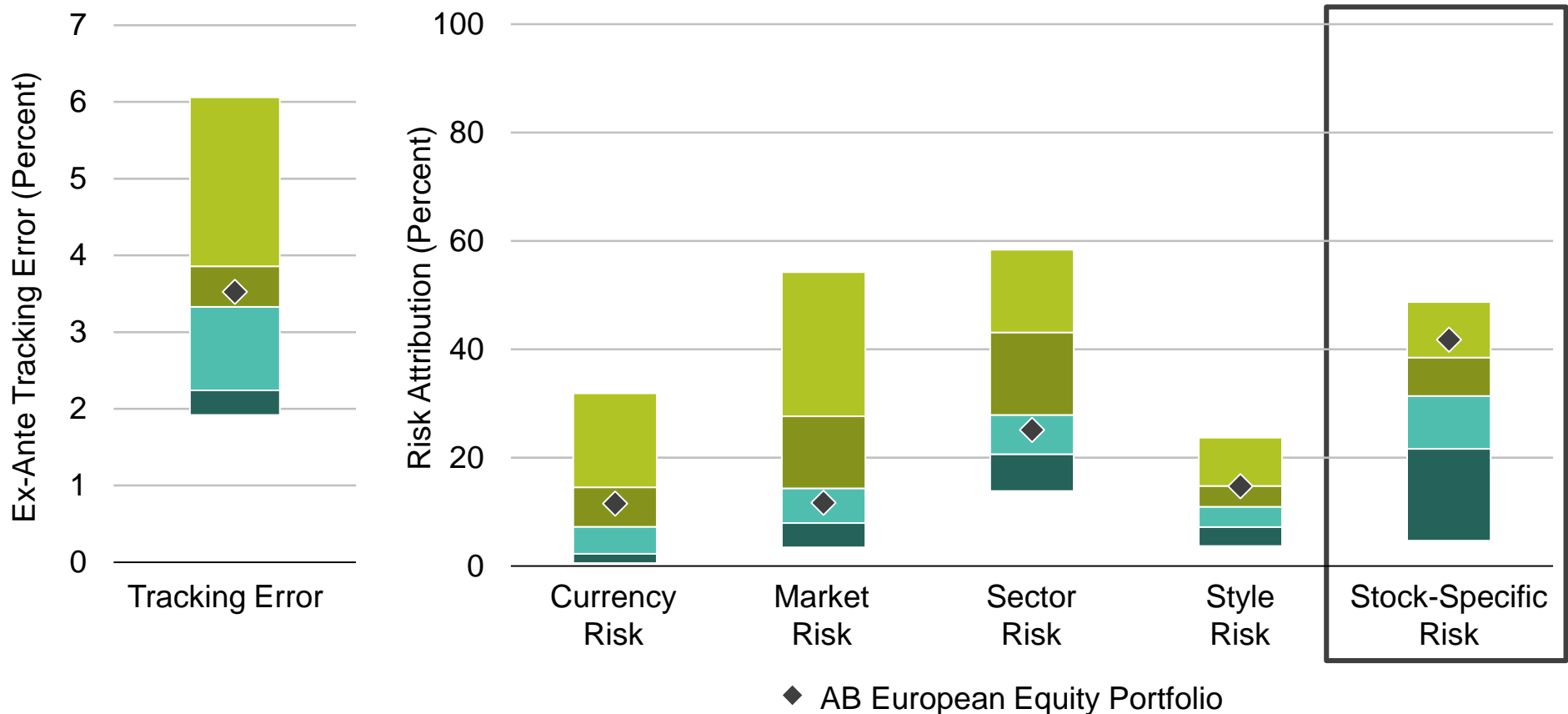
Source: Morningstar Direct and AB



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# Stock-Specific Risk Has Been the Main Source of Tracking Error

Style Research: Risk Attribution vs. Peers



As of 30 November 2017

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Style Research chart shows the breakdown of five-year ex-ante tracking error (annualized) attributed to currency, market, sector, style and equity risk versus peers in the Morningstar EAA Fund Europe Large-Cap Value Equity category, relative to MSCI Europe, divided into quartiles. A higher stock-specific risk attribution means the strategy generates more stock-specific risk than peers.

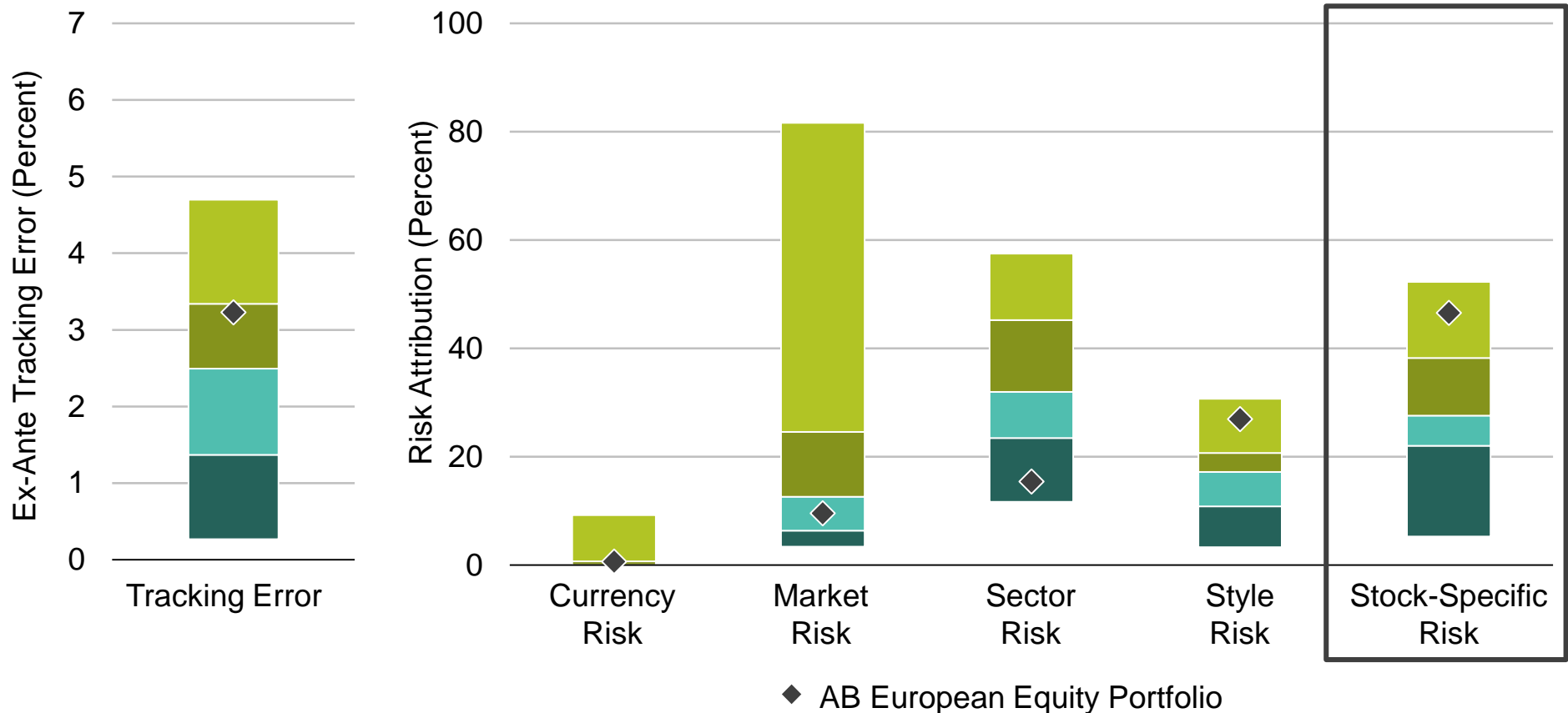
Source: Style Research and AB



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As of 30 November 2017

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Style Research chart shows the breakdown of five-year ex-ante tracking error (annualized) attributed to currency, market, sector, style and equity risk versus peers in the Morningstar EAA Fund Eurozone Large-Cap Equity category, relative to MSCI EMU, divided into quartiles. A higher stock-specific risk attribution means the strategy generates more stock-specific risk than peers.

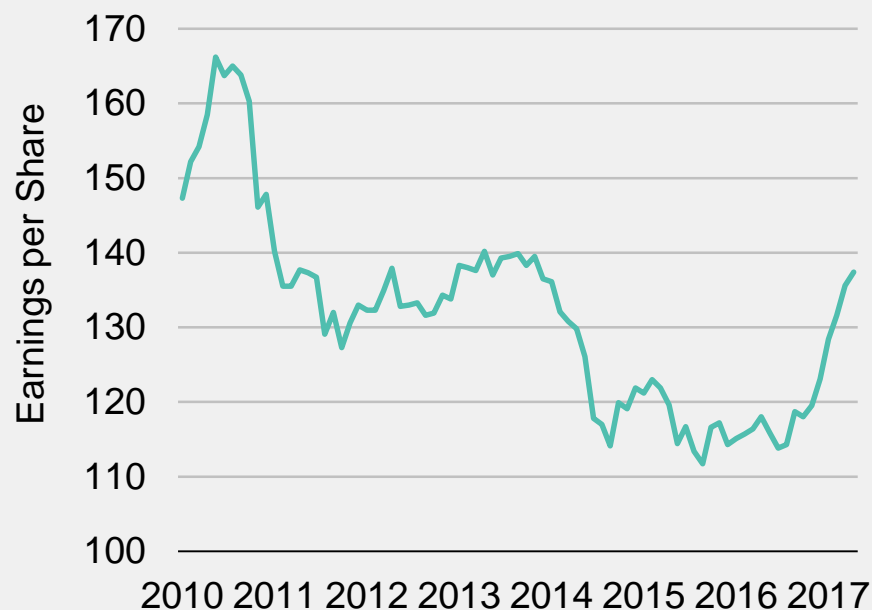
Source: Style Research and AB



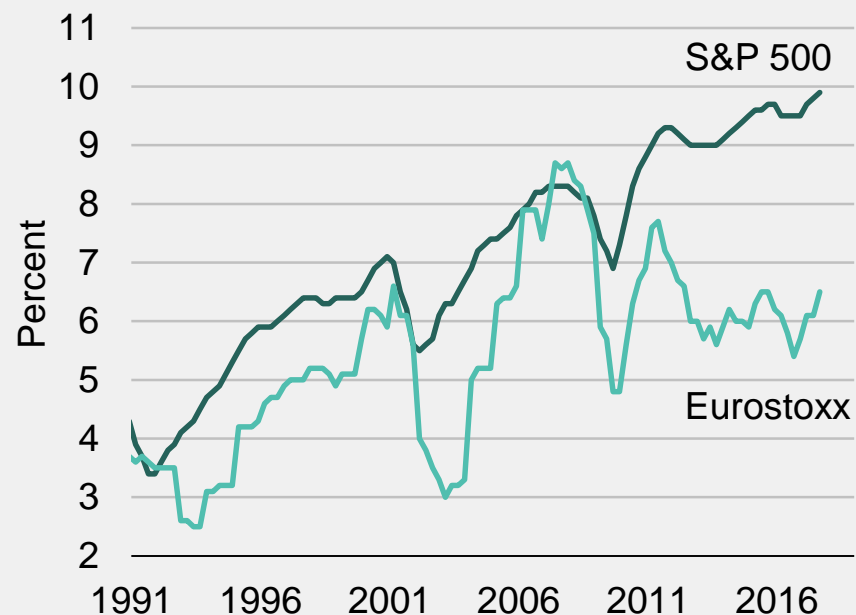
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# European Earnings Outlook Is Strong and Valuations Are Reasonable

## Earnings Outlook: MSCI Europe ex UK Earnings Forecasts (EUR)



## S&P 500 vs. Eurostoxx Net Profit Margins



As of December 31, 2017

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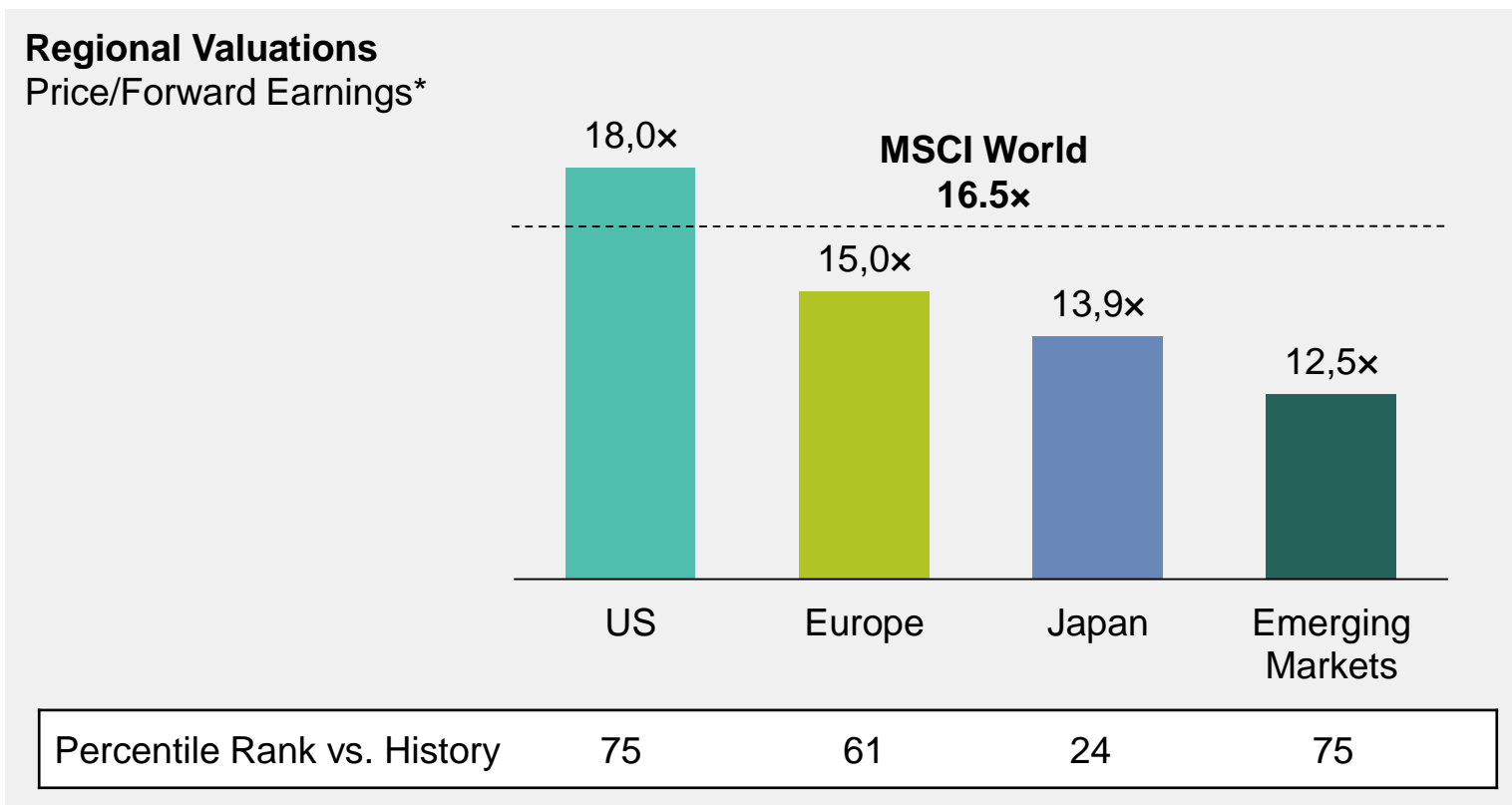
Source: Bloomberg, FactSet, MSCI and AB



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# European Earnings Outlook Is Strong and Valuations Are Reasonable



As of December 31, 2017

## Past Performance does not guarantee future results.

\*Based on MSCI US, MSCI Europe, MSCI Japan and MSCI Emerging Markets. Price/forward earnings ratios are based on earnings estimates for the next 12 months. Percentile ranks are based on monthly valuations from March 1, 1996, through March 31, 2017.

Source: Bloomberg, FactSet, MSCI and AB



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# DISCLOSURES



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# A Word About Risk

## AB European Equity and AB Eurozone Equity Portfolios

**Investment in the Funds entail certain risks.** Investment returns and principal value of the AB European Equity Portfolio and the AB Eurozone Equity Portfolio will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Funds are meant as vehicles for diversification and do not represent a complete investment program. Some of the principal risks of investing in the Funds, include country risk, emerging markets risk, currency risk, illiquid assets risk, focused portfolio risk, portfolio turnover risk, management risk, smaller capitalization companies risk, derivatives risk, borrowing risk, taxation risk and equity securities risk. These and other risks are described in the Funds' prospectuses. Prospective investors should read the prospectuses carefully and discuss risks and the Funds' fees and charges with their financial adviser to determine if the investment is appropriate for them.

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