AB MULTI-STRATEGY ALPHA PORTFOLIO

MARKET OVERVIEW

Despite a midmonth pullback, global stocks finished May well in positive territory. The MSCI World Index gained 2.12% for the month and remains up 10.23% year to date. The S&P 500 Index gained 1.41% for the month and remains up 8.66% year to date (all returns in USD terms).

Global stocks continued their upward march in the first half of the month as investors welcomed receding political risk in Europe, a major infrastructure announcement from China and strengthening oil prices. Markets also continued to pin high hopes on the "Trump trade" while overlooking tensions with North Korea and chaos from a global cyberattack. By midmonth, however, global stocks suffered a sharp reversal. Worries that US president Donald Trump's reform agenda might be bogged down—and that Trump's tenure could be clouded by the threat of impeachment—combined with underwhelming US economic data to spark a sell-off. By month-end, global markets recovered as bargain hunters looked past ongoing White House turmoil and a fresh scandal in Brazil to buy beaten-up shares on the dip.

With two exceptions, sector-level results were generally positive. The utilities sector led, owing to a combination of relatively attractive valuations and the Trump administration's apparent willingness to relax emissions standards. The technology sector also outperformed. At the other end of the spectrum, the energy sector lagged as investors questioned whether OPEC's agreement to extend output caps would be sufficient to stabilize oil prices long term. The financials sector also underperformed.

Fixed-income markets continued to outperform in May, as investors welcomed receding political risk in Europe. Helped by a weaker US dollar and a positive global growth story, emerging-market debt extended its run of strong performance. This was despite oil-price softness caused by a persistent glut of crude supply and OPEC's late-month announcement to sustain existing production cuts for another nine months. Global high-yield sectors benefited from an environment of low volatility and light issuance. Aside from Japan, yields in the developed-market treasury space generally fell, particularly in Australia and Canada.

PORTFOLIO PERFORMANCE

Class I shares of the Portfolio decreased in absolute terms and underperformed its benchmark, the HFRX Global Hedge Fund Index, in May. The Portfolio outperformed it benchmark for the year to date period. The benchmark rose 0.24% for the month and 2.34% for the year to date.

At a category level, performance was mixed. The Equity Long/Short category detracted from performance for the month; all sub-investment managers in this category had negative returns. Exposures within the materials, financials and energy sectors detracted alongside equity index shorts. Exposures within the healthcare and information technology sectors contributed to performance in May.

The Global Macro category also detracted. Detracting themes included European disintegration (the instability of the European Union); the Great Wall, (centered on slowing growth in China): and FX Carry Risk Premia, (exploits differences in short term interest rates in various countries by selling low yielding currencies to buy higher yielding currencies).

The top performing category for May was the Portfolio's Relative Value/Credit category. US corporate bond positions in the healthcare, consumer-discretionary, telecommunications and materials sectors contributed.

The Special Situations/Opportunistic category also contributed. The category's sub-investment manager continues to focus on merger-arbitrage investment opportunities.

POSITIONING AND OUTLOOK

There were no changes to the Portfolio's sub-investment managers during the month. Allocations at the end of May were 54.8% to Long/Short Equity, 19.3% to Special Situations/Opportunistic, 19.0% to Credit/Relative Value and 5.0% to Global Macro.

Several questions remain regarding political policies inside the US as well as the path of the Fed given some recent conflicting economic statistics. A similar story resonates outside of the US. We expect political and policy uncertainty to persist and believe it is important to be prepared for potential market volatility. We believe the potential diversification benefits of a multi-strategy, multi-manager portfolio that actively hedges market risks can be valuable throughout market cycles but especially during volatile periods.