Overall Morningstar Rating™
Advisor Class Shares
★★★★
Rated against 415 funds in the Small Value Category, based on risk-adjusted returns.

AB DISCOVERY VALUE FUND

Advisor Class: ABYSX

Market Overview

The Russell 2500 Value Index rose 1.63% in February, bringing year-to-date returns to (3.53)%. Russia's invasion of Ukraine roiled global equity markets against an already challenging background of persistent high inflation and tightening monetary policy.

The month began on a positive note, as fourth-quarter earnings reports in the US showed continuing strong growth across most sectors. US economic data remained somewhat positive. Unemployment claims continued to fall. Economic growth accelerated in the fourth quarter of 2021, helped by a rebound in the services sector as the coronavirus delta and omicron surges eased. And, although consumer sentiment declined, US consumer spending rose more than expected in January. Fourth-quarter earnings reports were largely favorable, with approximately 75% of S&P companies reporting positive earnings-per-share and revenue surprises, although the majority of companies that issued 1Q:22 guidance cautioned about the ongoing negative effects of supply-chain disruptions and inflation.

Economic data and earnings releases were increasingly overshadowed later in the month as tensions in Ukraine culminated with a Russian invasion on February 24, followed by the imposition of wide-ranging economic and financial sanctions on Russia by Western governments. Russian asset prices fell precipitously amid a general flight to safe haven assets, including the US dollar and US Government bonds. Developed-market equities recovered some ground late in the month, perhaps partly driven by speculation that the war in Ukraine might prompt the US Federal Reserve to slow the normalization of monetary policy. But fears that Russian oil and gas exports to Europe could be curtailed—driving a further increase in energy prices and potentially slowing economic growth, especially in Europe—continued to weigh on equity prices.

Both growth- and value-oriented stocks declined in absolute terms, but value stocks significantly outperformed on a relative basis for the month and year to date as the Russia/Ukraine crisis threatened to dampen economic growth and accelerate inflation. Growth stocks recovered some losses at the end of the month amid speculation that the crisis might cause the Fed to slow its proposed rate hikes. Performance across sectors of the Russell 2500 Value was mostly positive, led by strong gains in energy and materials, while technology and consumer discretionary declined.

Fund Performance

The Discovery Value Fund declined in absolute terms and underperformed its benchmark, the Russell 2500 Value, in February and for the year to date. During the month, security selection in industrials detracted, while selection in financials contributed. An underweight to energy detracted, while an underweight to real estate contributed.

Goodyear detracted during February following a cautious outlook on the company's ability to pass on input cost increases and weaker-than-expected guidance on FY:22 cash-flow generation. Subsequent statements from management did highlight a conservative stance on pricing power in the industry with input cost inflation an unknown factor for the coming year.

Vertiv detracted after reporting weak 4Q:21 results and providing weak guidance for FY:22. The underlying issues stemmed from supply-chain dislocations, which were made worse by the installation of a new ERP system. This system caused a lack of efficient communication between operating units and senior management that ultimately affected planning and execution.

SkyWest detracted as management disclosed a need to reduce flight plans due to a lack of pilot availability. As the demand for flights increased, the airline industry more broadly raised pilot wages and more aggressively recruited SkyWest pilots as the company will need to work to train new pilots throughout 2022.

Dine Brands Global contributed in February as the company increased investor confidence in its plans to deploy capital. Management increased its quarterly dividend and announced a new $250 million share repurchase program. This also reduced the likelihood of a significant acquisition in the near term.

Past performance does not guarantee future results. Morningstar ratings are specific metrics of performance and do not represent absolute performance of any fund. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance, placing more emphasis on downward variations and rewarding consistent performance. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating metrics. The Fund was rated 4, 4 and 4 stars against 415, 392 and 299 funds in the category for the three-, five- and ten- year periods, respectively. The Fund's other share classes may have different performance characteristics.

Carpenter Technology contributed as investors appreciated the potential for reversal of operational issues and end-market demand headwinds to subside. Additionally, along with 2Q:22 results, management reported 35% year-over-year growth in backlog.

Reliance Steel & Aluminum contributed after reporting 4Q:21 revenue that beat expectations, driven by strong volumes and pricing. Looking forward, management also guided 1Q:22 earnings per share to beat consensus estimates, signaling continued strength.

Outlook

In 2021, value stocks enjoyed better performance relative to growth than at any other point over the past five years. Thus far in 2022, that pattern has continued with both small- and large-cap value stocks seeing strong relative performance versus growth peers. Volatility in the equity markets has risen sharply with Russia's invasion of Ukraine. Oil and other commodity prices have increased dramatically and risk aversion has spiked as investors try to gauge the effects of the war on inflation and global economic growth.

We believe that the main driver of this stronger performance was and is still earnings growth. Investors came into the pandemic and the recession believing that value company earnings and cash flows would be decimated. In fact, the opposite occurred. Value company profits proved more resilient and grew dramatically faster than expectations over the past year and a half.

While value's performance in 2021 was much stronger than recent history, the valuation discount of value stocks relative to growth remains among the largest since the tech bubble. We continue to believe that the key to value closing this gap, in 2022 and beyond, will lie in sustained strong earnings and cash-flow growth. In many ways, the backdrop is far more favorable than it was in the spring of 2020. Economic activity recovered sharply, and we now possess a wide array of tools, including vaccines and treatments, to combat the pandemic.

However, investors remain anxious, and their unease centers on four issues that will affect the pace of earnings growth over the next few years. The first is the pandemic. Although it is hopefully less of a threat to the global economy, it has far from disappeared. The coronavirus omicron variant surfaced in November and caused significant disruption. Other variants will likely develop as well. The second issue is supply-chain disruptions that surfaced in 2H:21. Ranging from semiconductors to natural gas, the world economy was beset with shortages that snarled production lines and kept goods off shelves. The third issue is inflation, which, after a long hiatus, has begun to reemerge. Some of this will likely be temporary in nature as supply-chain bottlenecks unwind and shortage-driven price spikes decline. Other components such as labor wage rates have the potential to be more long lasting. The pandemic caused a dramatic reshaping of the labor pool in the US and companies will have to offer higher wages in this new environment. The fourth issue revolves around what the "new" normal will look like. Consumer and company behaviors have changed over the past two years and some changes will be permanent. For example, it appears likely that we will work and shop more from our homes than before. Globalization, a trend that drove companies to push more of their production offshore, seems to be moderating. The events of the past month have intensified these concerns. Higher oil prices stoked investor fears regarding inflation, and sanctions on Russia seem likely to increase supply-chain disruption for certain goods.

There will also be further challenges in the years ahead. Investors, employees and customers are increasingly holding companies accountable for behaviors relating to environmental, social and governance (ESG) issues. Concerns range from the pragmatic—companies with poor ESG behaviors will likely have to incur future costs to correct them—to the more intangible, such as talent development and customer perception. Regardless of one's starting perspective, over the coming years, companies will likely have to focus on improving their scores across a number of ESG metrics.

Value companies that wish to grow earnings and close the valuation gap with their growth peers will have to navigate each of these challenges. We remain convinced that the most interesting opportunities exist in companies that combine attractive free-cash-flow-based valuation, compelling company or niche industry catalysts, strong quality, and a proactive approach to ESG issues. In our view, these companies are most favorably positioned to navigate the challenges that 2022 will bring. They have the management quality needed to navigate supply-chain challenges and the business model strength to pass through higher labor costs. They also have the flexibility to shift their business models where needed to best mesh with the new normal.

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Advisor Class: ABYSX

FEB 2.28.22

PORTFOLIO INFORMATION

Class	Ticker	Inception Date
A	ABASX	3/29/01
C	ABCSX	3/29/01
Advisor	ABYSX	3/29/01
I	ABSIX	3/1/05
Z	ABSZX	10/15/13

Portfolio Characteristics	Portfolio	Benchmark[1]
Total Number of Holdings	91	1870
P/E Ratio (Stock Price/Earnings; last 12 mo)	19.04x	21.91x
Forward P/E Ratio (2022)	13.60x	15.18x
P/B Ratio (Stock Price/Book Value)	2.18x	2.03x
P/S Ratio (Stock Price/Sales)	1.31x	1.45x
P/CF Ratio (Stock Price/Cash Flow)	10.00x	9.96x
ROE (Return on Equity; next 12 mo)	16.63%	13.73%
Weighted Market Cap ($ Billions)	6.7	7.7

Portfolio Statistics	
Beta (3 yr)[2]	1.03
Sharpe Ratio (3 yr)[3]	0.47
Standard Deviation (3 yr)[4]	24.65
Alpha (3 yr)[5]	0.39

Top Ten Equity Holdings[6]		
Company	**Sector**	
Regal Rexnord Corp.	Industrials	1.74%
AECOM	Industrials	1.68
Herc Holdings, Inc.	Industrials	1.61
Camden Property Trust	Real Estate	1.59
Robert Half Intl	Industrials	1.57
First Citizens BancShares	Financials	1.55
Carter's	Consumer Discretionary	1.54
ON Semiconductor Corp.	Information Technology	1.47
IDACORP	Utilities	1.46
Comerica, Inc.	Financials	1.45

Sector Breakdown[6]	Portfolio	Benchmark[1]
Industrials	23.95%	16.97%
Financials	19.39	21.10
Consumer Discretionary	16.73	9.34
Information Technology	8.25	8.57
Real Estate	7.61	12.07
Materials	7.09	7.46
Healthcare	6.52	7.83
Energy	3.55	6.54
Consumer Staples	2.64	3.33
Utilities	2.27	3.88
Communication Services	1.22	2.91
Cash & Cash Equivalents	0.78	–

Top Five Contributors	Top Five Detractors
Dine Brands Global	Goodyear Tire & Rubber
Carpenter Technology	Vertiv Holdings
Reliance Steel & Aluminium	Skywest, Inc.
Ralph Lauren Corp.	Moelis & Co.
Sprirt Aerosystems	Papa John's Intl

1 Russell 2500 Value Index.
2 Beta measures a fund's volatility relative to its benchmark.
3 Sharpe Ratio is a measure of the fund's return relative to the investment risk it has taken. A higher Sharpe Ratio means the fund's returns have been better given the level of risk the fund has taken.
4 Standard Deviation is a measure of the dispersion of a portfolio's return from its mean.
5 Alpha is the risk-adjusted measurement of 'excess return' over the benchmark.
6 Holdings are expressed as a percentage of total investments and may vary over time. They are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities mentioned.

MONTHLY AVERAGE ANNUAL TOTAL RETURNS AS OF 2/28/22: ADVISOR CLASS PERFORMANCE

	1 Mo	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception
Discovery Value Fund†	-0.08%	-4.04%	14.08%	12.26%	8.73%	11.36%	10.71%
Russell 2500 Value Index	1.63	-3.53	10.74	11.69	8.57	11.09	9.75
Russell 2500 Index	1.13	-7.29	0.40	12.88	11.21	12.15	10.01
Morningstar Small Value Category	1.72	-2.45	11.83	11.79	8.23	10.13	9.17

QUARTERLY AVERAGE ANNUAL TOTAL RETURNS AS OF 12/31/21: ADVISOR CLASS PERFORMANCE

	QTD	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception
Discovery Value Fund†	7.65%	35.79%	35.79%	18.98%	10.10%	12.96%	11.02%
Russell 2500 Value Index	6.36	27.78	27.78	18.31	9.88	12.43	10.02
Russell 2500 Index	3.82	18.18	18.18	21.91	13.75	14.15	10.49
Morningstar Small Value Category	5.86	31.57	31.57	18.37	8.87	11.43	9.38

Expense Ratios as of 2/26/21	
Gross	0.90%
Net‡	–

The performance shown above represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance information shown. You may obtain performance information current to the most recent month-end by visiting www.abfunds.com. The investment return and principal value of an investment in the Portfolio will fluctuate, so that your shares, when redeemed, may be worth more or less than their original cost. Advisor Class shares have no front-end or contingent deferred sales charges, however when purchased through a financial advisor additional fees may apply. Returns for other share classes will vary due to different charges and expenses. Performance assumes reinvestment of distributions and does not account for taxes. If applicable, high double-digit returns are highly unusual and cannot be sustained; such returns are primarily achieved during favorable market conditions.

† The Fund's Advisor Class share inception date is 3/29/01 and is the date used to calculate since inception annualized performance.

‡ If applicable, this reflects the Adviser's contractual waiver of a portion of its advisory fee and/or reimbursement of a portion of the Fund's operating expenses. Absent reimbursements or waivers, performance would have been lower.

Russell 2500 Value Index represents the performance of small- to mid-cap value companies within the US. Russell 2500 Index represents the performance of 2,500 small- to mid-cap companies within the US.

Investors cannot invest directly in indices or averages, and their performance does not reflect fees and expenses or represent the performance of any AB fund.

Sources: FactSet, Morningstar Inc. and AB.

A WORD ABOUT RISK

Market Risk: The market values of the portfolio's holdings rise and fall from day to day, so investments may lose value. **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. **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.