

AllianceBernstein

Global Thematic Research Portfolio

Market Overview

Global equities fell sharply in January, with the MSCI ACWI index down 4.4% in US dollar terms. The month started on a strong note on optimism around a synchronized global economic recovery in 2010. However, fears that China would tighten monetary policy in order to slow growth and contain inflation weighed heavily on global stock markets. Concerns around high debt levels in Greece and other smaller European sovereigns also spooked investors into locking in 2009 equity profits. Trading volumes increased throughout the month, and commodities led global declines with the CRB Commodity Price Index falling more than 6%.

The US dollar strengthened against most major currencies except Japanese yen during the month. US investors were hurt by exposure to international equities, as the benchmark MSCI ACWI fell 3.8% in local currency terms versus the 4.4% decline in the US dollar.

Health care and consumer staples outpaced all other sectors, with declines of less than 2%; materials, technology, telecom and energy all fell more than 5%.

Portfolio Commentary

Energy, financials and industrials contributed most to performance during the month while security selection detracted from performance. Health care stocks mitigated the underperformance, with stock selection key in that sector as well.

The Portfolio's largest detractor in the month was A123 Systems, which gave back some of its significant outperformance in November and December. WorleyParsons also underperformed on a disappointing profit outlook for energy related engineering and construction projects. Illumina was the largest outperformer, as the company pre-announced solid fourth-quarter results and a large order from China.

Portfolio Positioning

During January, we initiated positions in Netflix and Panasonic after positive meetings at the Consumer Electronics Show in Las Vegas. We also initiated a position in Mitsubishi Corporation after a correction in

the share price driven by fears that tightening monetary policy in China will derail the strong economy in that country. We believe the policy is appropriate and will help to limit inflationary pressures in China. We funded these and other purchases by exiting Tullow and Gilead Sciences and taking profits from Illumina, which was our largest contributor to fourth-quarter returns. We continue to hold a large position in Illumina for its long-term competitive positioning within the genomics theme.

We also increased positions in some economically sensitive stocks as the global equity sell-off intensified, including WorleyParsons and Qualcomm on disappointing short-term results.

Outlook

Stocks and other risky assets got off to a jittery start to 2010, despite strong evidence that the global economic recovery is on more solid footing. However, Global Purchasing Managers' Indices continue to point to a robust manufacturing rebound, and employment losses in the US and much of the developing world have stabilized. We continue to believe the economic recovery in 2010 will likely be stronger than the current consensus appreciates, led by massive inventory restocking, emerging-market consumption, industrial investment and global deflation.

We also believe that the current focus on Greek debt levels will prove to be just a hiccup in this improving economic scenario; Greek funding needs remain small as a percentage of European GDP, and some important measures of systemic risk appear stable.

We also note positive thematic developments in the month, including a tripling in US federal loan guarantees for the nuclear industry. At the same time, we acknowledge the dramatic moves that many of our stocks have already had and continuously take profits in some of those whose risk/reward we judge to have diminished somewhat.

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