ALLIANCEBERNSTEIN INTERNATIONAL HEALTH CARE PORTFOLIO

MARKET OVERVIEW

After rising unabated through the second quarter, global equities lost their gains in the final days of June as the Greek crisis escalated. Global equities stumbled at the end of the second quarter on concerns over European stability as Greece edged closer to leaving the euro after its government pushed for a referendum on bailouts. The MSCI World Index fell 0.7% in local-currency terms, but has risen 4.1% in the year to date.

Investors differentiated between regional risks. European markets fell, while stocks in Japan ended the quarter higher, fueled by stimulus and hopes of reform. Globally, financials underperformed.

In Europe, quantitative easing has triggered nascent signs of economic recovery that may help prevent contagion from Greece. The composite PMI* rose from 53.6 in May to 54.1 in June—a four-year high. Household and company borrowing has rebounded, indicating that monetary policy is starting to feed through the real economy and that deflation risks are receding. Beyond Greece, sovereign bond yields have only risen modestly—even for weaker countries like Italy and Spain—suggesting that investors believe the European Central Bank can contain the damage.

In the US, first-quarter gross domestic product growth contracted. But we believe the weakness was seasonal and hasn't dented the recovery's momentum. Unemployment is low at 5.5%, housing starts are rebounding and manufacturing indicators are pointing up. In May, consumer spending posted its biggest monthly gain in six years.

Japanese growth has stabilized and inflation has ebbed as the Bank of Japan continues its aggressive stimulus policies. Companies are growing more aware of the need to improve profitability and reward shareholders—a trend that we believe can support further earnings growth and equity returns. Emerging markets remain a weak spot. Chinese equities pulled back sharply in June after a big rally earlier in the year. While GDP growth in China continues to slow, we believe that structural reforms underway will enable its economy to avert a hard landing.

The healthcare sector was the top performer during the second quarter. Healthcare providers and biotechnology stocks led returns, while healthcare technology stocks lagged. The MSCI World Health Care Index rose 1.52% for the quarter.

PORTFOLIO PERFORMANCE

For the quarter, class A (USD) shares of the Portfolio outperformed the benchmark, the MSCI World Health Care Index. Stock selection in the biotechnology and provider sectors contributed, while stock selection in pharmaceuticals offset some of the gains.

Contributors included biopharmaceutical company Gilead Sciences. The company's hepatitis C drug continues to generate significant cash flow which we think provides optionality for the company to deploy for share buybacks and drug acquisition through merger & acquisition.

Community Health Systems contributed because the Supreme Court of the United States sided with the government and will continue to provide subsidies on federally run healthcare insurance exchanges; a positive for all hospitals.

Anthem contributed to performance after announcing their desire to acquire Cigna Corporation, which would be a highly accretive acquisition and a positive for Anthem.

Detractors included GlaxoSmithKline which provided long term guidance after the closing of its asset sales / purchases with Novartis. The company chose to not move forward with its previously discussed share buyback or the initial public offering of their ViiV Healthcare joint venture. That combined with lower-than-expected margin guidance has led to a pullback in the stock.

Theravance also detracted from performance. The company gets royalties on sales from Asthma and COPD products sold by GlaxoSmithKline. Prescription trends on those products have not been as robust as some had expected and the stock has pulled back on lower expectations for sales of those products resulting in lower royalties to Theravance.

Puma detracted during the quarter as the company updated some breast cancer drug trial data at an industry conference in May that did not meet investor expectations; we continue to believe in the drug's approval and market potential.

OUTLOOK

Health care is a defensive sector that has historically underperformed in rising markets. Our strategy is to maintain a focus on companies that we believe will deliver value in the long term, irrespective of market conditions. We do this by identifying companies that are attracting healthcare dollars, generally through the introduction of new treatments and therapies or offering customers cost reduction opportunities.

The Portfolio is currently overweight the US and underweight Europe and Japan. Managed care stocks is the largest industry overweight. Pharmaceuticals remain an underweight but less than the average over the past year.

We believe the Portfolio is well balanced between growth and value stocks with an underlying fundamental emphasis on market share winners. Although the sector overall should continue to benefit in the face of an uncertain macro environment, we believe the Portfolio is positioned in high quality companies that should perform well irrespective of the macro environment.

**Purchasing Managers Index: An indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.*

The performance discussed in this commentary is net of fees and expenses, but does not account for the potential sales charges that may apply to certain share classes of the fund.

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