ALLIANCEBERNSTEIN THEMATIC RESEARCH PORTFOLIO

MARKET OVERVIEW

Global equity markets retreated in June as heightened uncertainty led investors to trade on short-term risk assessments of macro events.

Market attention was focused squarely on the crisis in Greece during the month, as the economically beleaguered country failed to reach an agreement with its international creditors on the terms of a bailout to avoid default on its loans. Investors feared that a default would lead Greece to leave the eurozone, triggering a contagion that would have serious consequences for the broader economy of the common currency region.

Across the Atlantic, a series of positive US economic figures, along with comments from policymakers at the US Federal Reserve that they were in no hurry to raise interest rates, helped mitigate concern about the crisis in Greece.

In emerging markets, June was notable for the reversal of fortune for China's once high-flying equity markets, which had benefited from enthusiastic Chinese investors engaging in margin trading. During the month, however, Chinese stock markets underwent a severe correction on fears about a market bubble. China's central bank attempted to support the market by cutting interest rates, but the impact was nominal.

Sector performance was uniformly negative in June. The utilities sector underperformed, as the yield on the benchmark 10-year US Treasury note rose materially in June on expectations that the Fed will raise interest rates in the near term. This led conservative, yield-chasing investors to sell off high-dividend-paying bond proxies such as utilities stocks in favor of risk-free US Treasury bonds. Telecom was a relative outperformer as rising global economic uncertainty boosted Japanese industry shares.

Against this backdrop, the MSCI All Country World Index (ACWI) retreated 2.3% in June, trimming the year-to-date gain to 2.6%. Growth outpaced value in the month, as the MSCI ACWI Growth fell 1.8% and the MSCI ACWI Value retreated 2.8%. (All returns are in US-dollar terms.)

PORTFOLIO PERFORMANCE

Class A shares of the Portfolio declined in absolute terms, but outperformed the benchmark, the MSCI ACWI, in June, and for the year to date. Security selection was responsible for most of the premium, though sector allocation also contributed. Currency positioning was negative. Stock selection in technology and healthcare boosted relative performance. Overweight exposure to the technology sector and stock selection in materials trimmed some of the gains.

The Portfolios top contributors were diverse, underscoring the strength of our stock selection in June. Within the NextGen Automation theme, Mobileye, an Israel-based provider of driver-assistance technology systems, contributed as it saw its stock price climb on news that the National Transportation Safety Board had recommended that automakers make collision avoidance systems standard in newly manufactured vehicles, citing the technology's potential to significantly reduce the frequency and severity of rear-end crashes.

Within the ConsumerCare theme, shares of HealthEquity contributed after the US-based health savings account administrator reported better-than-expected first-fiscal-quarter earnings, thanks to strong growth in revenue and membership.

Within the Fortifying Franchise theme, shares of Nike contributed after the American sports apparel retailer reported better-than-expected fourth-fiscal-quarter revenue, thanks in part to strong sales growth in Greater China.

Weakness in the global technology sector in June manifested itself in the Portfolio's top detractors. Within the NextGen Automation theme, shares of ams detracted after a press article speculated that the Austrian chipmaker would be displaced by a competitor in providing a NFC antenna booster solution in upcoming Apple devices. We have no knowledge of whether the speculation is true. However, with the shares down more than 20%, we view the stock as more than discounting this scenario. Our investment thesis is that ams is a key player in the sensor market and in a strong position to enable a more intelligent and connected world over the coming years.

Meanwhile, shares of chipmakers NXP Semiconductors and Avago Technologies both detracted as part of a larger decline in semiconductor companies after chipmaker Micron Technology issued a disappointing fourth-fiscal-quarter-sales forecast. There were also continued concerns about weak demand in emerging markets such as China.

Within the NextGen Automation theme, our conviction in NXP Semiconductors is predicated on the Dutch company's leading position in several fast-growing segments of the semiconductor industry. For example, our analysis suggests that NXP's identification business is poised to benefit from the brightening growth outlook for mobile payments and chip-based cards, especially as adoption of EMV technology accelerates in the US and China. Also, NXP's recent acquisition of US-based Freescale Semiconductor, a key supplier to the automotive industry, offers a large potential for synergies as the combined company seeks to exploit the need for more processors and electronics in advanced vehicles.

Within the Web 3.0 theme, our positive stance for Avago Technologies is premised on the American company's leading market position in RF signal filter technology, particularly FBAR filters, which should leave it well positioned to benefit from the rising penetration of LTE handsets. Moreover, we believe Avago's recent acquisition of LSI has provided it with a strategic foothold and attractive cost synergies in the fast-growing enterprise storage business, leaving the combined company well positioned to capitalize on increasing data center and mobile platform traffic.

OUTLOOK

Heading into the second half of the year, our outlooks for world equity markets are generally favorable but we are closely watching the unfolding situations in Greece and China. In China, we anticipate that the volatility in its domestic stock market is likely to have a negative wealth effect on the Chinese consumer and may impact the demand for big-ticket items, for instance.

However, from a global perspective, improving global economic growth, sustainable profit margins and the absence of the traditional excesses that mark the end of an equity market cycle are all factors that are supportive of stocks.

The market has shown a willingness to pay for positive earnings surprises, which we believe will favor active managers who are able to identify the companies most likely to see positive estimate revisions. Against this backdrop, we continue to investigate some of the most powerful themes at work in the world around us. We employ rigorous analysis in search of undervalued companies that have strong businesses with sustainable competitive advantages and that we think will benefit from secular tailwinds. Our analysis suggests that these types of companies are more likely to experience positive estimate revisions and outperform the broader market over the long term