

AllianceBernstein

## Global Growth Trends Portfolio

### Market Overview

The world's equity markets bore the brunt of a sharp rise in risk aversion during May, reflecting apprehension about sovereign debt risks in Europe, regulatory uncertainties and moderating growth expectations in China. The MSCI World Index fell 9.58% in US dollar terms.

Gloomy markets were somewhat at odds with a gradually improving economic picture, however. In the US, April nonfarm payrolls registered their biggest gain since March 2006, and the ISM manufacturing index rose to its highest level since July 2005.

Consistent with the pervasive anxiety all sectors finished in negative territory, with the transportation, consumer cyclicals and technology sectors doing relatively better. Industrial commodities, finance and medical stocks suffered most.

The US dollar was stronger relative to most currencies, as investors sought its safe haven characteristics. The yen gained relative to the US dollar.

### Portfolio Commentary

Stock selection contributed to returns, particularly in the technology and health care sectors. In the technology sector, stock selection in the hardware/storage and semiconductor segments was strong this month. NetApp pleased the market by reporting very strong financial results and providing an upbeat outlook on business trends. In health care, we benefited from positions in McKesson, Fresenius Medical and Express Scripts. Shares of McKesson increased after the company reported fiscal fourth-quarter earnings and issued fiscal 2011 guidance above expectations. While earnings in the quarter were slightly below estimates, investors were relieved by management's forecast for the coming year, which called for earnings to grow by 3%-7%. The company also announced a new US\$1 billion share repurchase program.

Detractors were concentrated in the consumer discretionary, energy and financials sectors. In financials, Visa, Blackstone and Franklin Resources detracted. The financial sector underperformed in May on sovereign concerns and increased regulation issues.

### Portfolio Positioning and Outlook

*Consumer.* Consumer staples stocks outperformed the broad market in May while consumer discretionary stocks underperformed. Our portfolio strategy remains consistent. We are basically neutral weight to the consumer sector and continue to be overweight discretionary and underweight staples. Earnings have been generally solid across the board in the first quarter, and we believe the overall health of the consumer is clearly picking up.

*Health Care.* Within the health care sector, medical service stocks outperformed; biotechnology and medical product stocks underperformed; and pharmaceutical stocks were essentially in line. Corporate earnings and clinical data dominated the month's headlines.

Trading in the sleeve was fairly active during the month, as we made some adjustments to the composition of the portfolio. In the pharmacy-benefit manager (PBM) space, we exited Medco and increased our holding of rival Express Scripts. We expect Express Scripts to benefit not only from the industry-wide wave of generic drug launches, but also from synergies attributable to the company's acquisition of WellPoint's PBM. We continue to maintain a sizable overweight in the PBM space.

*Technology.* Global technology and telecommunications stocks outperformed during the broad market selloff in May. As macroeconomic concerns grew surrounding resolution to Europe's sovereign debt crisis, China's efforts to slow its economic growth rate, conflict between North and South Korea, and so on, the "sell-in-May" adage held form as the market moved to de-risk. Technology participated to the downside, driven more by the macroeconomic environment than by sector-specific fundamentals.

We have not changed our positive outlook on technology nor our overweight positioning in the portfolio. We continue to identify compelling drivers for revenue growth in the technology sector, focused on enterprise IT spending trends, driven by product refresh cycles in PC and server hardware, the strategic drive for increased productivity and mobility, and compelling new architectures that drive storage, software and network infrastructure investment. While the macroeconomic and

credit risks that are worrying the market are real, they are not sector-specific to technology. We believe the underlying sector fundamentals, ample cash balances and solid profitability will continue to support resilient sector performance.

*Financial.* Sovereign issues continued to impact credit markets during May. Spreads started to widen from 2009 lows as markets became concerned over European bank funding issues and Greek, Portuguese, Italian and Spanish debt maturities. The European Central Bank announced a €750 billion stabilization package to help country deficit funding needs. However, sentiment continues to remain fragile. In the US, regulation also resurfaced as a concern, with talk of a bank tax and additional regulatory focus on US interchange fees (i.e., how much card companies would charge merchants for debit transactions).

The sleeve continues to be positioned in strong secular growth companies that we consider to be long-term winners in their respective industries, as we see continued bifurcation between strong and weak players. We continue to avoid institutions with weaker capital bases that may be vulnerable to increased regulatory requirements. We are also mindful to avoid companies where liquidity and funding issues may prove to be a concern as policymakers begin to exit stimulation programs. The sleeve continues to be overweight emerging markets, particularly where we see stronger secular levels of growth, and underweight Europe due to weaker growth and potential funding issues.

*Energy and Natural Resources.* Our positioning remains resilient as we continue to favor equities exposed to commodities with sound supply/demand fundamentals such as coking coal, copper and iron ore. Sustainability of price moves remains key as the US and Europe show early sustained signs of emerging from their respective recessionary environments. We believe we are positioned to ensure that we have the very best names in each space, selectively adding to names we have very high confidence in. We are modestly overweight energy (underweight integrated producers in particular and overweight E&P and oil service names). In the materials subsector, we remain overweight metals and mining based holdings and underweight chemicals-related names.

*Infrastructure.* Global markets struggled during the month of May, driven by growing market concerns regarding European sovereign debt, China's tightening measures as well as the oil spill in the Gulf of Mexico.

We remain overweight the cyclically sensitive part of infrastructure, as economic improvement takes hold globally—with a modest overweight in industrial cyclical

and auto-related names. Utilities continue to remain a large underweight, although we have reduced that underweight recently. As we move deeper into recovery and as economic concerns grow particularly in Europe and China, the sleeve has shifted back to a modest emphasis on later-cycle companies with strong secular stories. In aggregate, our biggest active weight sectors are in machinery, electrical equipment, industrial conglomerates and automotive. Our underweight sectors outside of utilities are mainly concentrated in commercial services and building products and construction materials.

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