

AllianceBernstein

Global Conservative Portfolio

Market Overview

A positive tone in the first half of April was tempered in the last half as Goldman Sachs was charged with fraud and sovereign debt risk concerns surfaced once again. For the month of April, US Treasury yields declined across the maturity spectrum with longer term yields declining most. Meanwhile, global equity markets were mixed, starting on a positive note amid encouraging macroeconomic data.

The situation in Greece deteriorated dramatically following upward revisions to last year's fiscal numbers. With access to markets effectively closed, Greece was finally forced to make a formal application for EU/IMF assistance. The crisis spread at month end when Standard & Poor's downgraded Spain and Portugal.

Portfolio Commentary

The short duration portfolio's spread exposure was the primary positive driver of relative outperformance. Exposure to investment-grade corporates, non-agency mortgages, asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) all contributed positively. During the month we generally maintained our spread product exposure given attractive valuations. The duration exposure was neutral to the benchmark.

Holdings of European Treasuries were the main contributors. Core European government bond markets benefited from a flight to quality as yields fell across the curve on the back of renewed sovereign risk concern. Also contributing were our US Treasury holdings which followed suit later in the month. The global yield curve flattened during the month, as such our overweight in the seven- to 10-year space in particular returned positive performance. Our underweight to Japan was a mild detractor.

Corporate credits started to feel the pressure of a volatile month as southern European banks, utilities and telecoms moved out to wider levels. For the most part we avoided these securities within our investment grade selection, helping performance. An overweight to commercial mortgage-backed securities (CMBS) was also a modest positive.

Within currency selection we remain overweight the Australian dollar which again yielded a positive return. The Australian dollar performed well following a third consecutive rate hike from the RBA.

The fixed-income portfolio does not hold any government securities in Greece, Spain, Portugal, Italy or Ireland.

For the month, security selection detracted, particularly in the materials sector. Rio Tinto and Xstrata suffered from a difficult commodity price environment with a fall in global demand, which is triggering a sharp decline in the prices of most of their principal products. Also detracting was Finnish handset and telecom equipment manufacturer Nokia which was hit by a delay in its new operating system for high-end phones, as well as by a downbeat earnings outlook statement from management. Agribusiness and food company Bunge fell in April as first-quarter earnings missed expectations and the company reduced full-year result expectations. Investors are also concerned about future profitability as the company transitions its business mix away from fertilizers and focuses on sugar processing. However, our research suggests the market underestimates the future profitability of Bunge's sugar business.

Contributing to returns were positions in home improvement company Lowes, and media firms CBS and News Corp. A pick up in local TV and radio advertising lifted CBS and News Corp.

Outlook

We expect the global economy to grow 3.8% in 2010, with emerging market economies leading the way. Despite our upbeat forecasts for economic growth, continued uncertainty surrounding the outlook for fiscal and monetary policy is likely to keep many investors anxious. This anxiety helps generate opportunities for active managers. We continue to see potential opportunities for fixed-income managers to take advantage of the possibility of attractive returns in the credit sector.

We have adopted an underweight exposure to mortgage passed thru securities, instead preferring US CMBS.

The fixed income portfolio is invested neutral in terms of interest-rate exposure. We have our biggest overweight exposure in USD and we also remain substantially overweight Europe. We remain underweight Japan and are neutral UK. We continue to be largely overweight investment-grade corporate credits.

We believe apprehension about the future is producing abundant opportunities for investors willing to take a long-term view. Corporate profitability is still extremely low. But history and our experience tell us that it won't stay this way for long. We are already seeing signs of the cycle's self-correcting forces taking hold. As the process unfolds, the value team continues to take advantage of attractive valuations across a wide range of sectors while investing in companies with strong balance sheets and clearer earnings visibility. Our research has also identified stocks that currently offer a favorable combination of attractive valuations and resilient cash flows.

With regard to the growth portfolio, we believe that the opportunity for growth and for our research-driven approach to stock selection appears exceptional. We will continue to apply our growth investment discipline to identifying dynamic gap opportunities as the market recalibrates after the upheaval of the past two years.

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