

AllianceBernstein

Global Thematic Research Portfolio

Market Overview

Global equity markets were mixed in April, starting on a positive note amid encouraging macroeconomic data. Markets were also supported by merger and acquisition activity and better-than-expected corporate earnings.

In the second half of April, markets fell amid a series of events including Iceland's volcanic eruption that disrupted European air travel, the US securities regulator's probe into Goldman Sachs, contagion fears associated with troubled Euro-zone sovereign debt and concerns about China's monetary policy tightening.

Positive earnings reports from US-based companies such as General Electric, Bank of America, IBM, Citigroup, Coca-Cola, Boeing and Schlumberger and news of CenturyTel's offer for Qwest Communications, Charles River Labs offer for WuXi, and Hewlett-Packard's offer for Palm helped North American indices outperform European indices.

Consumer discretionary, energy, industrials and technology companies outperformed the index, in contrast to defensive healthcare, telecom, consumer staples and utilities, which trailed. The materials sector fared poorly amid fears that China's policy tightening would dampen demand for raw materials. Financials lagged slightly as investors were cautious of risk from the Greek sovereign debt crisis.

The performance of the US dollar was mixed in April. The US dollar strengthened relative to the euro and yen. However, it depreciated against several commodity currencies during the month, including the Australian dollar, New Zealand dollar and Canadian dollar. The US dollar also weakened versus pound.

There was little to choose between growth and value stocks during the month, as the MSCI World Growth Index gained 0.21%, in US dollar terms, while the MSCI World Value Index pulled back 0.18%. For the year to date period, growth stocks narrowly outpaced value stocks.

Portfolio Commentary

Security selection within the consumer discretionary, materials and information technology sectors added to relative returns. Sector selection also contributed to performance, particularly our underweight in consumer

staples and overweight positions in consumer discretionary and industrials. Negative factors included our overweight in materials and security selection within industrials.

Among the Portfolio's information technology holdings, electronics company Toshiba gained as its full-year earnings were slightly ahead of consensus. The company attributed the results to improved profitability in digital products, electronics devices and home appliances. Within the energy sector, energy exploration and production company Denbury Resources advanced due to positive initial production rates in the US Bakken shale region and after selling assets in the Permian basin for better-than-expected prices.

Other significant contributors were broadly spread across different sectors. Continued subscriber growth buoyed shares of online movie rental service Netflix. The company also benefited as some of its competitors exited the sector. Gold producer Agnico-Eagle Mines rose after reporting unchanged guidance on production and costs—the company had two disappointing quarters previously. A new mine also came on line, ahead of estimates.

Within the health care sector, online medical software company AthenaHealth fell after reporting higher sales and marketing expenses to increase brand awareness with doctors. US Food and Drug Administration scrutiny of genomic tests hurt medical diagnostic test company Genomic Health. Additionally, there remains uncertainty around genetic information patents. Lastly, Canadian uranium mining company Cameco retreated amid weak uranium prices and as utility companies are well-stocked in the near term.

Outlook

Uncertainty has returned to the markets on the back of the Greek debt crisis. Although we remain vigilant for signs that underlying conditions have begun to worsen once again, most evidence suggests that the global economic recovery is on a solid footing. Global Purchasing Managers' Indices point to a robust manufacturing rebound, as well as employment losses in the US and much of the developing world have stabilized. Against this background, we continue to believe the economic recovery in 2010 will likely be stronger than current consensus appreciates, led by

massive inventory restocking, emerging market consumption, industrial investment and global deflation.

In our view, one of the main risks going forward is that inflation will exceed expectations, and have barbelled the Portfolio to include both some of our higher price-to-earnings (PE), higher growth thematic stocks, with lower PE inflation hedges in the energy and commodity space.

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