

AllianceBernstein—
Global Conservative Portfolio

Market Overview

Moves by policymakers to support bank liquidity in the euro area gave global markets a much needed confidence boost in December. The European Central Bank (ECB) in December stepped up to deliver a 25 basis point rate cut and provide additional support for euro-area banks. The month also ended with several upbeat economic prints in the US including labor market improvements, gains in manufacturing, and better than expected consumer confidence. The US investment grade fixed income broad market ended the year in solid positive territory.

Global equity markets were flat in December as the holiday season offered a brief respite from the market turmoil that has roiled the financial markets during the second half of 2011. Worries about the euro-area crisis were muted to some degree when the ECB injected significant amounts of liquidity in the form of cheap, long-term credit into the undercapitalized European banking system. Investors were also heartened by encouraging data emanating out of the US in the areas of job growth, consumer sentiment and home sales for November, suggesting that the recovery of the world's largest economy may be gaining momentum. The MSCI World Index fell nominally 0.1% for the month, leaving the year-to-date decline

unchanged at 5.5% (in US-dollar terms).

Portfolio Performance

The Portfolio declined and underperformed its blended benchmark, the 30% MSCI World Index/35% Barclays Capital Global Aggregate Bond Index/35% Barclays Capital 1-3 Year Government Credit Index, for the month and for the year to date. The blend index rose 0.3% for the month, and is up 1.1 % for the year to date. The equity and fixed income sleeves detracted from performance during the month, while the short duration contributed.

The short duration portfolio benefited from exposure to spread products, specifically agency mortgages, commercial mortgage-backed securities and investment grade corporates all contributed positively to relative performance. Overall yield curve positioning was also positive for the month.

The fixed income portfolio's underperformance relative to the benchmark was driven by two main factors: an underweight to US duration and an underweight to peripheral Europe. An underweight to Japan helped offset some of the underperformance. While exposure to corporate bonds was a positive, the securities held in the portfolio are, on average, shorter maturity and higher quality than the

benchmark. This resulted in some underperformance with respect to security selection.

In the equity portfolio, stock selection in the technology and consumer discretionary detracted. Performance was also hurt by an overweight in the technology sector. The equity portfolio benefitted from stock selection among utilities and consumer staples stocks. Currency selection was flat.

Outlook

The global economic outlook remains uncertain heading into 2012. Nevertheless, we expect the world economy to grow at a moderate pace in 2012, with a marked divergence among regions. While we believe the US economy is likely to pick up pace, and an ongoing expansion is expected in emerging-market demand, the outlook for Europe is far less sanguine. At present, we expect only a relatively mild recession in the euro area next year, but the risks to this forecast are skewed to the downside. While a severe recession in the euro area is just a tail risk at this stage, there would be a significant negative spillover effect on the rest of the global economy, not least because of financial sector linkages.

Within the developing world, monetary tightening cycles designed to arrest inflationary pressures have

slowed the economic momentum of several emerging-market heavyweights. Our research suggests, however, that growth in developing countries may prove to be more resilient than expected, despite the natural deceleration that occurs at this point in the business cycle. Inflation should eventually cool with slower economic growth, thus setting the stage for more accommodative monetary policies, as seen recently in China and Brazil. This, in turn, would lead to progress in corporate earnings and an advance in equity prices.

We expect the volatile economic environment in which macro events drive short and sharp movements in equity prices to continue. However, the current market turmoil is creating exceptional opportunities that may be rewarded when the markets stop trading purely—and indiscriminately—on macroeconomic concerns and return to rewarding strong growth stocks with superior long-term fundamentals.

We continue to identify companies with high growth rates, healthy return on equity and valuations that, in our view, do not adequately capture their upside potential. Investors shifting their equity exposure as their short-term economic outlooks change are creating huge pricing anomalies. High-growth stocks are trading at their lowest valuation premiums since 1998. Similarly, cheaply valued companies with robust cash flows and strong balance sheets are trading at sizable discounts to the market. We have been leaning into

the price opportunities to increase the active share in the Portfolio.

As a result of the complementary attributes of the underlying growth and value sleeves, we believe the equity portfolio offers above-market growth potential at a below-market price, while portfolio fundamentals remain strong.

The fixed income portfolio's Interest rate exposure remains well below that of the benchmark. With yields at, or close to, historical lows in most major markets, we feel the duration strategy should better protect the Portfolio against capital losses in a rising rate environment. Where we do have duration exposure, it is in countries such as the UK where we expect continued sub-par growth in 2012 and where further quantitative easing could place downward pressure on Gilt yields.

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