

AllianceBernstein
International Health Care Portfolio

Market Overview

Global equity markets continued to be volatile in December, and consequently cyclical sectors sustained the recent trend of relative underperformance. Negative developments in Chinese, euro area and British economic data, and increasing probability of euro area sovereign downgrades contributed to a more pessimistic macroeconomic view for the end of this year and into the start of 2012.

Risk aversion remained high, and healthcare outperformed the MSCI World Index during December. Within healthcare, drugs and biotechnology outperformed, while medical services providers and equipment suppliers underperformed.

The MSCI World Health Care Index was up 3.3% for the month, and rose 9.5% in 2011.

Portfolio Performance

The Portfolio underperformed its benchmark, the MSCI World Health Care Index in December and in 2011.

The biggest contributors were Bristol-Myers Squibb, Shire, Novo Nordisk, Allergan and Incyte.

Bristol-Myers Squibb outperformed as risk aversion resulted in a shift to large-cap pharmaceuticals. Furthermore, enthusiasm began to build for its oncology pipeline.

Shire and Novo both benefited from a quality defensive run in Europe. Shire benefits from continued strength of key attention deficit hyperactivity disorder (ADHD) and rare disease franchises. Novo Nordisk shares continued their recovery from concerns on increased competition for insulin analogues and the Lilly/Amylin breakup co-promotion for upcoming competitor drug Bydureon.

Allergan improved on continued positive commentary around Botox in migraine and uptake of aesthetics franchise. Incyte performed on follow-through from late November approval of Jakafi and positive data for Jakafi at the American Society of Hematology meeting.

The top detractors were McKesson, Pharmstandard, Watson, Pharmasset, and Shanghai Pharmaceuticals.

McKesson underperformed in the 4Q on concerns about the renewal of its contract with the US Veteran Affairs. While this is a \$4B contract, it is low margin and does not help their purchasing power. Pharmstandard followed the general weakness of the Russian market. It was also affected by uncertainty on the timing and pricing of significant government tenders, as well as a weak flu season.

Watson Pharma shares were held back on disappointment that it was

not the sole distributor of Lipitor and concerns around the Prochieve Food and Drug Administration (FDA) panel meeting in January. Pharmasset underperformed on concerns around the closing of the bid from Gilead (which have since been resolved).

Shanghai Pharma underperformed on a combination of emerging market risk aversion, Chinese government restrictions on antibiotic use, and pressure on drug prices.

Outlook

Healthcare is a defensive sector that has historically underperformed in rising markets. Our strategy is to maintain a focus on companies that we believe will deliver value in the long term, irrespective of market conditions. We do this by focusing on companies that are concentrated in the following areas:

- Secular growth – which include emerging markets and underpenetrated needs, including: dialysis, hearing aids, or growing diseases, e.g. ADHD and diabetes.
- Reducing healthcare cost – we don't believe that the developed world can continue paying an ever increasing proportion of gross domestic product to healthcare, as recent austerity measures are flagging. We invest in companies that are assisting governments, companies and individuals in reducing their cost of healthcare.

- Innovation – products that address unmet medical needs or significantly improve efficacy, tolerability or compliance.

We believe the Portfolio is well balanced between the three strategies. Although the sector overall should continue to benefit in the face of an uncertain macro environment, the Portfolio is positioned in high quality companies that should perform well irrespective of the macro environment.

AllianceBernstein (Luxembourg) S.à.r.l. is the management company of the Portfolio and has appointed AllianceBernstein (Singapore) Ltd. (Company Registration No. 199703364C) as its agent for service of process and as its Singapore representative.

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