

## AllianceBernstein— Global Conservative Portfolio

### Market Overview

Both fixed-income and equity markets moved up during July. In the fixed-income markets, commercial mortgage-backed securities (CMBS) and investment-grade corporates outpaced the rest. The Barclays Global Aggregate hedged into US dollars rose 0.82% during the month.

For the month of July, the US Treasury curve steepened and yields declined across the maturity spectrum with the exception of the longest dated Treasuries. The US broad high grade market posted a positive absolute return of +1.07% for the month of July with all high grade sectors in positive territory in both absolute terms and excess terms. July represents the fourth consecutive month of continued positive absolute returns for fixed-income markets. Credit spreads tightened during the month with investment-grade corporates tightening 18 bps to 175 bps over neutral duration Treasuries and CMBS tightening 22 bps to 346 bps over Treasuries.

Global equities were choppy but overall moved up sharply during July, with the MSCI World Index advancing 8.11%. The month started down due to weak manufacturing growth in the US, China and Europe, then turned around following positive earnings announcements. In the middle of the

month, however, markets pulled back due to lower-than-expected GDP data from China and weaker-than-expected US consumer confidence. Nevertheless, stocks reversed course once again, bolstered by in-line results from the European bank stress tests, BP capping its oil well in the Gulf of Mexico, as well as solid corporate earnings reports.

In a reversal from previous months, the US dollar weakened against all major currencies in July, losing ground against the Australian dollar, euro, sterling, Canadian dollar and yen.

### Portfolio Performance

The Portfolio outperformed its 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, but underperformed for the year to date. The short duration, fixed-income and equity portfolios outperformed their benchmarks during July.

In the short duration portfolio, overall spread exposure was the primary positive contributor to relative performance. Positions in investment-grade corporates, commercial mortgage-backed securities (CMBS), asset backed securities and agency and non-agency mortgages all contributed

positively. The short duration portfolio's yield curve structure was marginally positive. The short duration portfolio's duration exposure was modestly longer than the benchmark.

One of the main drivers of fixed-income performance in July came from our country and yield curve positioning, where we remain overweight US Treasuries. The credit market was stronger this month but the safety of government bonds also looked attractive and so our overweight in the 5- to 10-year space in particular continued to be a positive. We remained underweight Japanese treasuries, which was also beneficial to the fixed-income portfolio's performance.

The other main driver in July was currency selection, where our overweight to the Australian dollar contributed to positive performance following a stronger appetite for risk and a weaker US dollar.

The fixed-income portfolio also benefited from the stronger credit market, which was supported by positive sentiment and a majority of positive second-quarter corporate results. Our overweight to investment-grade credit posted strong returns with European corporate names performing particularly well. The overweight position to CMBS was also a modest positive.

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

In the equity portfolio, strong performance in the value sleeve more than offset underperformance in the growth sleeve. The equity portfolio is almost equally balanced between value and growth stocks. Security selection was positive for the month, while sector selection was neutral.

Several materials stocks held by both sides of the Portfolio were among the largest contributors during the month. Diversified miner Rio Tinto, along with copper, gold and molybdenum mining company Freeport-McMoRan, rebounded amid a strong outlook for metals demand.

Consumer discretionary holdings added to returns in the value portion of the Portfolio. Ford Motor announced its fifth straight quarterly profit as the firm continued to gain US market share. Higher-than-expected second-quarter earnings boosted Royal Caribbean, as the cruise line operator remains on target in each of its main markets. Improved cost control has also enabled it to raise earnings guidance for the year. Meanwhile, energy exploration and production company Tullow Oil advanced after announcing a significant discovery in Ghana and providing positive guidance about projects in Uganda. Tullow Oil was held by the growth sleeve.

On the negative side, pharmaceuticals firm Sanofi-Aventis moved lower after the US Food and Drug Administration approved a generic version of Lovenox, its blood clot treatment drug and second-largest product in 2009. An underweight position in BP was also a negative factor, as the integrated energy company climbed after successfully stopping the oil spill from its Macondo well in the Gulf of Mexico. The value side had positions in both Sanofi-Aventis and BP.

Healthcare stocks detracted in the growth side of the portfolio. Shares of diversified medical company Covidien declined after it reported disappointing quarterly results, including revenues that fell short of market expectations. Lastly, weak earnings revisions hurt agricultural products company Bunge.

#### Outlook

We expect the global economy to grow 3.8% in 2010, with emerging-market economies leading the way. Although there is a lot of uncertainty in the US, we still believe that the strong gains in liquidity flows and profits to result in 3.5% real GDP growth in the second half of 2010.

The fixed-income portfolio has adopted an underweight exposure to mortgage pass-through securities, instead preferring US commercial mortgage-backed securities.

The fixed-income portfolio is positioned at a modest overweight duration stance. In terms of country

allocation, we have our biggest overweight exposure in USD and to a lesser extent UK. We remain significantly underweight Japan, with a more modest underweight to European duration. We continue to be meaningfully overweight investment-grade corporate credits.

While we believe that there is substantial evidence that the global economic recovery is continuing, the market remains skeptical and has been vulnerable to negative news flow. After having begun to refocus on the fundamental risks and opportunities facing individual firms for the better part of 2009, fundamentals have mattered less in 2010. Instead, returns have once again been driven by fear.

In the short run, this has led to underperformance. However, the market's uncertainty continues to create attractive investment opportunities for both our growth and value investment teams. We are seeking to exploit those opportunities while ensuring that the portfolios have sufficient ballast to weather rocky markets and near-term fundamental pressures.

We continue to see opportunity for both the value and growth styles. The value opportunity has moderated, but we believe remain above its long-term average. The growth opportunity, in our opinion, is well above average, because investors are skeptical about the pace of the recovery and what that means for future earnings growth.

As a result of the complementary attributes of the underlying growth and value sleeves, the equity portfolio offers above-market growth potential at a below-market price. Portfolio fundamentals continued to be strong, as evidenced by the lower leverage and stronger cash flow on average for the blend portfolio versus the broad market.

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