

AllianceBernstein— Global Growth Trends Portfolio

Market Overview

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.

All sectors rebounded during the month, with industrial commodities, financials and telecoms faring best. The defensive medical and consumer staples sectors lagged its sector peers.

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 underperformed its benchmark for the month and for the year to date. Stock selection contributed to returns for the month,

while sector selection detracted.

Consumer Growth Both consumer staples and consumer discretionary stocks advanced in July, although both underperformed the broader market. Top performers included Starwood Hotels and Comcast in discretionary sector, and PepsiCo and Wal-Mart in the staples sector. Detractors included auto companies Daimler and Hyundai in the discretionary sector and Bunge and Unilever in the staples sector.

Energy/Natural Resources Energy and materials stocks rallied in July, as valuation support emerged and confidence grew that the world was not heading for a double-dip recession. Energy and materials holdings made up a number of our top holdings. Energy exploration and production company Tullow Oil advanced after announcing a significant discovery in Ghana and providing positive guidance about projects in Uganda. Copper, gold and molybdenum mining company Freeport-McMoRan rebounded amid a strong outlook for metals demand.

Finance The rebound in the financials sector in the month was driven by higher clarity over regulation in both the US and Europe. In the US the passage of the Dodd-Frank Bill was regarded as less restricted as feared, although there are numerous regulatory reviews to be conducted in due

course. In Europe the European Central Bank completed the stress test of 91 of its banks, where all but seven passed the capital threshold test. Contributing to returns were positions in Itaú Unibanco Holdings and Franklin Resources, while our position in CME Group detracted.

Healthcare Healthcare stocks rose slightly in July, but underperformed the overall market. Quarterly earnings results and some regulatory decisions accounted for the majority of headlines in the month. Detractors included Teva Pharmaceutical, Covidien and Express Scripts. Covidien fell after reporting mixed results for its fiscal 3Q, with earnings exceeding consensus expectations, but sales coming in light. Shares of Teva Pharmaceutical came under pressure after rival Sandoz and partner Momenta received US approval for their generic version of Sanofi-Aventis's blood thinner Lovenox.

Infrastructure The infrastructure sub-portfolio detracted in July. East Japan Railway detracted as many of the more defensive stocks did not participate in the market rally. Philips Electronics was another detractor as the company's strong results did not substantially exceed heightened investor expectations. Contributors included Trina Solar, as the strengthening euro and strong trends in the solar market helped the

stock to continue its rebound.

Technology The portfolio's technology holdings added to relative performance during the month. While technology earnings results were quite strong in the aggregate, the market remains concerned that typically weak summer seasonality could be obscuring signs of more serious and prolonged economic pressures. The top relative contributors to performance during July were overweights in ARM Holdings, VMware and Juniper Networks. ARM continued to perform well both fundamentally, as smartphone adoption outgrows the cellular handset market, and as a target of acquisition speculation. Not owning

Telefonica, AT&T, Verizon or France Telecom detracted from returns.

Outlook

While economic data continued to improve during the second quarter, the underlying economies remain challenged and companies remain cautious. Against this backdrop, we expect it to be difficult for many companies to sustain an upside earnings surprise or indeed show that their earnings are commensurate with the elevation in their stock prices. In this context earnings disappointments should create richer rewards for companies that manage to sustain an earnings surprise—or at least hold up better than their peers.

Portfolio Positioning

As a result of the positive regulatory changes in both the United States and euro area, we moved to close the underweight in the financials in July. Specifically, we added to our European holdings, which are more positively geared to the more benign regulatory regime, including setting a minimum leverage ratio of 3%, a more benign recalibration of the funding rules and also an extended implementation timeframe between 2017 and 2018. The timeline was much more beneficial to the euro area banks and is a meaningful positive to the sector. We funded this through reductions in the infrastructure, healthcare and technology sectors.

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