

AllianceBernstein—
Global Conservative Portfolio

Market Overview

The financial markets rebounded in October as encouraging economic developments eased investors' anxiety and confidence grew surrounding a comprehensive plan to address the sovereign-debt crisis in Europe. While the news from the European Union summit gave the markets a jolt, volatility remained and markets sold off at the end of the month.

Global equity markets surged in this environment. Within global fixed-income sectors, risk assets rallied: emerging-market debt, high-yield and credit sectors all outperformed Treasuries. Financials led corporate sectors, generating strong positive absolute returns, yet they remained in negative territory year to date. Treasury yields rose across the curve in most developed countries; the curve steepened and spreads narrowed as a result of investors' appetite for risk.

The euro, Swiss franc and British pound gained versus the US dollar during the month. The US dollar weakened against most major currencies except the 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 and declined and

underperformed for the year to date. The blend index rose 3.65% for the month, and is up 2.19% for the year to date.

The short duration portfolio benefited as non-government sectors outperformed Treasuries. Exposure to agency mortgage pass-throughs and investment grade corporates contributed positively for the month. Yield curve positioning did not have a material impact on performance.

The fixed income's portfolio's outperformance was due to a significant duration underweight. An underweight to peripheral Europe was also a positive as spreads to German bunds widened during the month. While exposure to investment-grade credit was a positive, not owning lower-rated credits detracted.

In the equity sleeve, monthly performance was driven by stock selection, particularly among materials, consumer-discretionary and technology stocks. Performance was helped marginally by sector selection, especially underweights in telecommunications, utilities and consumer staples.

Commodity prices improved in October as positive measures announced at the EU summit regarding the sovereign-debt crisis allayed some fears about the global

economy, especially manufacturing. This helped boost the materials sector. In fact, two of the Portfolio's top contributors were materials companies. As the economy showed signs of improvement, investors moved from defensive to cyclical stocks. As a result, the Portfolio's top three detractors were defensive stocks.

Outlook

While uncertainty continues to surround our macroeconomic forecast, we still expect growth to continue both globally and regionally through 2012. Downside risks are prevalent and Europe remains at the center of the financial storm. Our global growth forecast currently stands at 2.8% for 2011 and 2012.

The fixed income portfolio remains defensively positioned, with minimal interest-rate exposure. With yields at or close to all-time lows, the risks of government bonds generating a negative return if overall risk sentiment improves have increased greatly.

We have only modest duration exposure and have taken it primarily in countries that have steep yield curves, such as the UK. We are generally avoiding owning very short-duration government bonds because yields are very low and curves at the very front-end are quite flat.

Currently we have no sovereign exposure to peripheral Europe. We

continue to largely avoid this area until a firm resolution on the European sovereign-debt crisis has been reached.

The markets continue to be driven by fear related to macroeconomic concerns. Investors remain keenly focused on evidence of a resolution to the European sovereign-debt crisis and have been worried about signs of lackluster growth, most recently in China, and what global impact that may have. While corporate fundamentals continue to improve both in the US and abroad, skepticism remains regarding companies' ability to maintain their current levels of profitability. This has continued to result in risk-on/risk-off trading and significant

market volatility.

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

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