

AllianceBernstein  
**International Health Care Portfolio**

**Market Overview**

The MSCI World Index performed strongly during October recovering much of the ground lost in September. A positive results season helped moderate fears on decelerating global gross domestic product growth. Markets remained volatile, on concerns about the debt levels of Eurozone member countries, and political deadlock in Greece.

As risk aversion decreased, health care underperformed the MSCI World Index during October, although it continues to outperform on a year-to-date basis. Within healthcare, biotechnology, medical services and providers outperformed, while drugs, and equipment and supplies underperformed.

The MSCI World Health Care Index was up 5.2% for the month, and is up 8.1% for the year to date.

**Portfolio Performance**

The Portfolio underperformed its benchmark, the MSCI World Health Care Index in October. For the year to date, the Portfolio was flat, and underperformed its benchmark.

Contributing to the performance was the Portfolio's underweight in structurally-challenged large cap pharmaceuticals, which are facing patent expirations but whose low volatility/high yield characteristics

are attractive to investors in such volatile times.

The biggest contributors were McKesson Corp., Express Scripts, Hill-Rom Holdings, Medco Health Solutions and Covidien.

McKesson outperformed on reporting revenue and earnings stronger than analyst expectations.

Express Scripts' recent outperformance has been driven by greater clarity over its Walgreen's relationship and improved confidence that its merger with Medco will be approved.

Hill-Rom Holdings outperformed as earnings suggested health care equipment is holding up better than expected.

The top detractors were Pharmasset Inc., Human Genome Sciences, Volcano Corp., Shire and Mitsubishi Tanabe.

Pharmasset underperformed due to concerns about increasing competition in the Hepatitis C market.

Human Genome Sciences underperformed on disappointing Benlyta sales and delayed profitability.

Volcano earnings indicated a slowdown in PCi procedures and

less IVUS placements than expected.

Mitsubishi Tanabe shares were held back on news of declining sales of its stroke drug Radicut, as this patent recently expired.

**Outlook**

Healthcare is a defensive sector that typically underperforms in rising markets. Our strategy is to maintain a focus on companies that will deliver value irrespective of the 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 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.

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.

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