

## AllianceBernstein— Thematic Research Portfolio\*

### Market Overview

After a six-month slump, global equity markets surged in October as encouraging micro and macro developments eased investor anxiety. European leaders agreed to a series of measures designed to manage and contain the region's sovereign-debt crisis—deemed by many to be the single greatest threat to the global economy. The agreement buoyed investor optimism and ignited a relief rally. Strong third-quarter company earnings in some geographies, better US economic news and speculation that policymakers in China may relax monetary policy also contributed to the market upturn. The improved economic climate, though tempered by continued uncertainty about the euro crisis, drove the MSCI All Country World Index (ACWI) upward 10.71% for the month, trimming the year-to-date loss to 4.29% (in US-dollar terms).

All sectors performed well in October. Energy gained the most ground on the back of higher oil prices resulting from the uptick in investor confidence. The materials and industrials sectors also advanced as investors hoped that the improved economic climate would lead to a rebound in manufacturing demand. Utilities, healthcare and consumer staples lagged, as investors took profits after a period of relative outperformance.

### Portfolio Performance

The Portfolio outperformed its benchmark, the MSCI All Country World Index, in October, and declined and underperformed for the year to date. For the month, the combination of security selection and sector positioning was responsible for the premium. Stock selection in technology and energy drove performance, while stock selection in healthcare and consumer discretionary detracted.

The improved macroeconomic environment benefited several of the Portfolio's more cyclically sensitive holdings. In fact, all three of the top contributors were among the largest detractors during the third-quarter market downturn. Higher oil prices and improved confidence in global economic conditions were responsible for the outperformance of Nabors Industries as well as Denbury Resources, whose shares were also aided by the announcement of a significant stock repurchasing program.

Juniper Networks' stock advanced after the US-based telecommunications equipment vendor posted solid third-quarter results and revealed a bounce back in orders.

Detractors were diversified among sectors. Shares of Illumina faltered as the DNA sequencing company announced disappointing third-

quarter results, as funding of government research labs—a sizable portion of Illumina's customer base—may come under increased pressure in the next federal budget. Our research suggests that genetic sequencing will capture more of the spending in healthcare research and Illumina's technological and marketplace leadership will drive returns.

US-based Netflix underperformed as third-quarter results aroused mounting investor concerns about subscriber churn and the high cost of the online video provider's international expansion. We have exited our position in Netflix based on early evidence that multiple strategic transitions may disappoint in the shorter term.

In healthcare, AthenaHealth declined.

### Outlook

The global economy is facing a handful of key challenges and risks, and the US equity market has been volatile; October was no exception. The S&P 500 Index delivered a strong rally after a dire September had brought valuations to tempting levels.

We are watching our market indicators for signs of systemic stress and continually reviewing our assumptions about key risks. Our research suggests that the current

headwinds will ultimately subside, paving the way for the economic recovery to resume. It is important to note that maintaining our procyclical position rewarded our investors in 2009 and 2010, when blows to confidence created contrarian opportunities. Our analysis of the current economy and markets suggests that we are now in a similar situation.

Since we last wrote about the global challenges, some have intensified and some have eased. All eyes are now on the European debt situation; scrutiny is centered on the euro area's ability to adequately fund a bailout fund and the challenges many countries will face imposing fiscal discipline. We do not expect a quick solution, but we also do not anticipate contagion.

Confidence in growth has undoubtedly been dented, and now there is speculation about another US recession on the horizon. We disagree, and the indicators we watch tell us that the market is not anticipating a deflationary spiral. Confidence is the key and we think increased buybacks, mergers and acquisitions activity and announcements from the US Federal Reserve, European Central Bank and other monetary authorities may provide a catalyst for a change in sentiment. Continued strong earnings growth may also help return confidence to the equity markets.

Rather than steering the portfolio toward defensive stocks, we have maintained our exposure to the more cyclical expression of our themes. We remain confident in our six overarching themes: Genomic Health, Web 2.0, (re)Emerging Middle Class, Energy Transformation, Financial Reformation and Heightened Cyclicity.

**\* Prior to 30 April 2011, the Portfolio was named AllianceBernstein—Global Thematic Research Portfolio.**

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