

AllianceBernstein

Global Growth Trends Portfolio

Market Overview

Global equities continued to advance in December, with the MSCI World index up 1.8% in US dollar terms. Stronger-than-expected US home sales and employment data buoyed investor sentiment early in the month, as did Bank of America's announcement that it will repay its entire US\$45 billion TARP loan following its US\$18.8 billion securities offering. Market performance was mixed in the middle of the month after Greece's debt rating was downgraded. Equities regained momentum toward month end on low volumes due to the holiday season, driven by better-than-expected UK growth data, US home sales and initial jobless claims, as well as Chinese growth forecasts and Japanese industrial production.

In December, the US dollar strengthened against most major currencies except for the Canadian dollar.

The opportunity for growth and for our research-driven approach to stock selection appears exceptional. We will continue to apply our growth investment discipline to identifying dynamic gap opportunities as the market recalibrates after the upheaval of the past two years.

Portfolio Commentary

An underweight to the finance sector and an overweight to the technology sector contributed to performance, while an underweight in the utilities sector detracted. The Portfolio also outperformed in the fourth quarter and performed in line with its benchmark for the full year.

Top contributors to monthly returns included Japanese trading firm Mitsubishi Corp., which rallied because of an improving price outlook for coking coal, a major earnings driver for the company. Health care holdings Alcon and Baxter also outperformed. Swiss eye-care products manufacturer Alcon rose amid speculation that Novartis would add to its minority stake in the company by exercising its option to purchase an additional 52% stake from Nestlé.

Moderating oil prices dragged down Occidental Petroleum, while gold and molybdenum mining firm Freeport-McMoRan declined following a retreat in gold prices and a partial closure at its Tenke mine due to a strike. Siemens also detracted after the company

offered a weak, initial outlook for 2010, which we view as overly conservative.

Portfolio Positioning and Outlook

Consumer. The consumer portfolio continued to perform well in December. Consumer behavior continues to see improvement with holiday sales appearing inline to slightly better than expectations. We continue to be neutral weight in the portfolio with an overweight in discretionary names relative to staples names. We have been adding to higher quality, more stable names as we believe we are heading towards a market that will begin rewarding fundamentally driven companies with solid earnings and cash flow stories.

Health Care. Health care stocks rose slightly in December, slightly outperforming the overall market. Within the health care sector, medical service and medical product stocks outperformed, while biotechnology and pharmaceutical stocks underperformed. Clinical data and acquisition/divestiture news supplied the majority of headlines during a mostly quiet month.

Trading was modest during the month. We increased the Portfolio's overweight in health care ahead of the pending resolution of US health care reform legislation, through allocations from the consumer and infrastructure sleeves. We used the funds to add to several positions, including Merck, Fresenius Medical, Roche and Shire. We reduced our holding of Celgene, after major data on the company's key drug Revlimid failed to dispel ongoing concerns around the company's growth potential. We used the sale proceeds to increase positions in Vertex and Gilead.

Technology. Global technology stocks led the market higher in December, reversing the November trend due to the typical holiday rally. Telecommunication services stocks lagged again, ending the year at the bottom of sector performers, beating only the utilities sector. As we predicted, as the macroeconomic data showed signs of a global recovery, technology stocks were among the leadership groups

Technology remains the largest active sector allocation within the combined Portfolio. While the sector outperformed dramatically in 2009, we see opportunity for further outperformance as the global economic recovery gains traction. Technology companies exited

the year with still-lean inventories, firm pricing and supply constraints, all of which we believe will be further underscored by consumer demand for Chinese New Year. On the enterprise side, recovery trends have emerged in servers, software and PC demand. Within the sector sleeve, we have been repositioning to focus more on secular revenue growth rather than simply cyclical turnarounds—identifying those companies that can benefit from relative pricing power, compelling product cycles, technology architecture transitions and market share gains.

Financial. Markets traded sideways into the New Year as many participants closed down risk positions following the strong market rally from March. Credit spreads eased although sentiment was also fragile due to concerns over certain high deficit economies in Europe such as Greece and the required austerity packages that need to be initiated in order to rein in the deficits. The sleeve continues to be positioned in strong secular growth companies that we consider to be long-term winners in their respective industries as we see continued bifurcation between strong and weak players. We have positioned the sleeve to take advantage of stronger equity markets in the near term but also continue to overweight the capital market exposure as quantitative easing and looser monetary conditions assist asset markets rebound. We continue to avoid institutions with weaker capital bases that may be vulnerable to increased regulatory requirements. The sleeve continues to be overweight emerging markets particularly in non-Japan Asia where we see stronger secular levels of growth.

Energy and Natural Resources. December saw a more muted return for the energy and materials sectors than in

November. Cautiousness has returned to the market as year-end profit taking has increased as both energy and materials stocks have been strong relative performers since January 2009.

The key driver of commodity prices over the past quarter appears to have been US dollar weakness. Commodities broadly are inversely correlated to the US dollar, and this trend has held as it has weakened relative to a basket of its key trading partners' currencies. Our positioning remains resilient as we continue to favor equities exposed to commodities with sound supply/demand fundamentals such as copper and iron ore. Sustainability of price moves remains key as the US and Europe show early sustained signs of emerging from their respective recessionary environments.

Infrastructure. Infrastructure stocks outperformed the broad market during December. The sleeve remains underweight in the context of overall Portfolio. More than the entirety of the underweight still resides in the utility space; while we are modestly overweight the aggregate consumer discretionary and industrial sectors. We are continuing to focus on finding individual names that have best-positioned themselves for secular growth. The sleeve is a mix of early-cycle (transports, short cycle machinery and autos) and later-cycle exposures, but with a current emphasis on the earlier cycle names, which should see improving fundamentals sooner. In aggregate, our biggest active weight sectors are in machinery, electrical equipment, automotive and trading companies. Our underweight sectors outside of utilities are mainly concentrated in road and rail and construction and engineering sectors.

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