

AllianceBernstein

Global Equity Blend Portfolio

Market Overview

Equity markets continued to retreat in June due to weak macroeconomic data and the European debt crisis. The MSCI World Index was down 3.43% in US dollar terms.

The month started on a negative note amid disappointing Chinese and European manufacturing growth and US payroll numbers, and news reports of increased tensions in the Middle East. However, markets rallied in the middle of the month. M&A activity, share repurchases announcements, strong economic data across several regions, and Congressional leaders' compromises on certain aspects of financial reform legislation buoyed the markets. The Chinese government's decision to introduce a more flexible currency policy also helped.

Markets turned negative again for most of the remainder of the month based on concerns of a slowing global economy and the debt crisis in Europe. Unexpectedly weak US home sales data, GDP, and consumer confidence data, a downward revision of a Chinese index of leading economic indicators, and several disappointing corporate earnings reports contributed to market underperformance.

Most sectors declined during the month, with cyclical sectors faring the worst. Energy, technology/electronics and consumer cyclicals were hardest hit. Defensive sectors, including telecommunications, consumer staples, and medical held up best.

The US dollar continued to strengthen relative to the Euro and also gained against the Canadian dollar. The Australian dollar, sterling, yen and Swiss franc strengthened relative to the US dollar.

Portfolio Performance

The Portfolio underperformed its benchmark, the MSCI World Index, during the month, and on a year-to-date basis.

For the month, detractors included Freeport-McMoran, Wells Fargo, Xstrata and Royal Caribbean. Concerns about slowing growth, particularly in China, dealt a serious setback to commodities prices, including our positions in Freeport-McMoran and Xstrata. Wells

Fargo suffered a high-profile analyst downgrade in May. US cruise operator Royal Caribbean lost ground as its competitor Carnival gave a downbeat outlook statement, and the US consumer outlook worsened

Contributing to returns were positions in Vodafone, BMW and AstraZeneca also contributed to returns. Vodafone climbed after Verizon, in which the UK mobile telecom operator owns a 45% stake, indicated it may start paying a dividend from 2012. German automaker BMW reported a rise in sales in May, driven by strong demand for its 7-series and new 5-series models. Additionally, shares were boosted by a broker report that reiterated a positive stance on German carmakers. Pharmaceutical company AstraZeneca surged after a US court upheld a patent on its best-selling cholesterol drug Crestor, removing a major threat to its revenues.

Outlook

With the aftershocks of recession and tighter credit still taking a toll, investors remain skeptical about the durability of the earnings recovery—and, thus, more wary of making wagers on the cycle's eventual winners and losers than they would be under more stable conditions.

The value team continues to take advantage of attractive valuations across a wide range of sectors while at the same time using our research to identify stocks which also offer lower volatility characteristics to help provide downside protection given current high levels of market risk aversion.

We remain confident that value stocks are on the cusp of a prolonged rebound, in which our investing style will prevail and research driven stock selection should deliver strong long-term returns for patient investors.

The profound fearfulness that overtook the market in May created headwinds for active managers and for the growth portfolio. As risk aversion veered back toward extreme levels, investors fled equities in general and stocks tended to move in correlation. As a result, higher-growth companies were punished along with weaker ones, and the dispersion among valuations narrowed. The tumult has created anomalies that bode well for active management, for growth and for the growth portfolio. Rewards for stock-picking, which is

normally our strength, were muted by the tight range in valuations. And high correlations put our fundamentals-based portfolio at a disadvantage. However, abnormally high correlations inevitably subside, and we have a record of outperformance when they do.

In a market that remains uncertain and risk averse, we believe the opportunity for growth is now very attractive. To the extent that jittery investors made distinctions among stocks in the second quarter, they favored the superior quality, reliability and earnings growth that typically distinguish growth stocks, leading the style to outperform.

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