

AllianceBernstein

## Global Thematic Research Portfolio

### Market Overview

Global 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%.

Markets rallied in the early part of the month, with the MSCI World rising over 10 consecutive days. M&A activity, share repurchase announcements, strong economic data across several regions and Congressional leaders' compromises on certain aspects of financial reform legislation buoyed the markets.

From mid-June onward, however, equities turned negative, 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 energy, consumer discretionary and information technology faring worse. The defensive utilities, healthcare and telecom sectors 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, in May and on a year-to-date basis.

Security selection was positive, helped by strong returns from our financials holdings. Sector selection detracted due to our underweight positions in the defensive consumer staples, telecom and utilities sectors.

Healthcare and energy holdings dragged down performance in June. Genetic diagnostics company Genomic Health pulled back after the company filed to sell 10 million shares. Markets were also concerned about FDA regulation of the molecular and genetic diagnostics industries, and the possibility of the US Food and Drug Administration requiring approval for genetic tests. Meanwhile Canadian dollar strength hurt

shares of Canada-based uranium mining company Cameco.

Other significant detractors were diversified and included NGK Insulators and Freeport-McMoRan. NGK is a Japanese diesel particulate filter and smart grid-oriented storage battery manufacturer. Its shares fell because momentum in the Chinese auto market slowed. As for mining group Freeport-McMoRan, the stock price retreated due to weaker metals prices.

In financials, strong housing fundamentals lifted shares of Hong Kong and Chinese property company Kerry Properties and Sun Hung Kai. Additionally, Chinese property looks to have stabilized in June. Meanwhile, India's HDFC Bank rose as the broader Indian market outperformed. HDFC also gained amid strong loan demand, especially in the retail segment, which includes autos and mortgages.

In overall terms, our materials holdings also outperformed. Gold miner Barrick Gold advanced along with gold prices as investors sought stability due to heightened sovereign debt fears.

### Outlook

Uncertainty has returned to the markets on the back of the Greek debt crisis. Although we remain vigilant for signs that underlying conditions have begun to worsen once again, most evidence suggests that the global economic recovery is on a solid footing. Global Purchasing Managers' Indices point to a robust manufacturing rebound, as well as employment losses in the US and much of the developing world have stabilized. Against this background, we continue to believe the economic recovery in 2010 will likely be stronger than current consensus appreciates, led by massive inventory restocking, emerging market consumption, industrial investment and global deflation.

In our view, one of the main risks going forward is that inflation will exceed expectations, and have barbelled the Portfolio to include some of our higher price-to-earnings (PE) and higher growth thematic stocks, with lower PE inflation hedges in the energy and commodity space.

## Portfolio Positioning

A new position during the month was diversified financial Banco Santander, as we look to close our large European Union underweight. In addition, recent merger and acquisitions signal management confidence.

We bought shares of hotel and leisure company Starwood Hotels after management laid out a compelling growth strategy in China.

During the month, we initiated a position in forest products company Weyerhaeuser following recent weakness in the US housing market, caused by the end of first-time homebuyer tax credits.

We eliminated a position in energy drilling and production equipment company National Oilwell to swap into energy services company Saipem. Both have good deepwater oil exposure.

Lastly, we exited our position in investment bank Goldman Sachs because of political, regulatory and legal uncertainties linked to the company's involvement in the sub-prime mortgage market.

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