AllianceBernstein

Global Growth Trends 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.

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. Both stock and sector selection were negative for the month.

Detractors were diverse and included Wells Fargo, Lowe's and Carnival. Cruise operator Carnival declined as the firm gave a downbeat outlook statement, and the US consumer outlook worsened.

Contributors included Belle International, Alcon and Fresenius Medical.

Portfolio Positioning and Outlook

Consumer. Our portfolio strategy remains consistent. We are basically neutral weight to the consumer sector and continue to be overweight to discretionary and underweight staples. We continue to believe that the overall health of the consumer is clearly picking up.

Health Care. Health care stocks rose slightly in June, outperforming the overall market. Within the healthcare sector, pharmaceutical stocks outperformed, while biotechnology, medical product and medical service stocks all underperformed. Clinical trial results and merger and acquisition activity garnered most of the month's major headlines.

We initiated a position in biotechnology firm Celgene after a series of positive data presentations for its blockbuster cancer drug Revlimid gave us increased confidence in the company's ability to exceed analyst expectations. Also, in an effort to add more diversity to the sleeve, we initiated a position in Japanese drug maker Mitsubishi Tanabe. The company has Japanese rights to Vertex's hepatitis C compound telaprevir, as well as partial rights to Novartis' new multiple sclerosis compound .To raise funds for these new holdings, we trimmed several names in the fund, most notably Vertex, Roche and Merck. Also during the month we transferred 50 b.p. from the health care sleeve to the energy sleeve.

Technology. Technology again detracted while telecommunication services outperformed. While the response to the nascent demand recovery in Europe from most technology companies in June was "no change", investors continue to worry that the sovereign debt crisis there will hurt technology demand at some point. By industry, the more defensive segments—telecommunication services, information technology (IT) services and Internet—all outperformed during the month, while electronic components and equipment, communication equipment, semiconductor components and capital equipment, and software all underperformed in the aggregate.

We have not changed our positive outlook on technology nor our overweight positioning in the Portfolio. We have added somewhat to telecommunication services, as signs of better pricing control through tiered data plans as well as stock resiliency have emerged. While the macroeconomic and credit risks that are worrying the market are real, they are not sector-specific to technology. What is sector-specific is the strategic drive for increased productivity and mobility, and the consumer desire to be connected; we continue to forecast a healthy enterprise replacement and upgrade environment coupled with consumer penetration driven from the emerging markets in particular. We believe the underlying sector fundamentals, ample cash balances and solid profitability will support resilient sector performance once we emerge from the seasonal summer months.

Financial. Sentiment in financials continues to be fragile. In Europe there is still concern over the liquidity and funding of certain banks which are heavily reliant on central bank funding, the likely impact of regulatory implications, as well as concerns over certain sovereign credit in the peripheral European economies.

The sleeve continues to be positioned in strong secular growth companies that we consider to be long-term winners in their respective industries. We continue to avoid institutions with weaker capital bases that may be vulnerable to increased regulatory requirements. We are also mindful to avoid companies where liquidity and funding issues may prove to be a concern, as policy makers begin to exit stimulation programs. The portfolio continues to be overweight emerging markets, particularly where we see stronger secular levels of growth and underweight Europe due to weaker growth and potential funding issues. We are overweight the US where we see the recovery in financials as more advanced, and the conclusion of the US regulatory debate should provide greater clarity.

Energy and Natural Resources. Energy and material stocks underperformed during June, reflecting weaker commodity prices for energy and subdued enthusiasm for cyclical-related equities broadly. The key driver of the past quarter's volatility has remained very much macro related as uncertainty over sovereign issues in Europe came to a head and the US dollar strengthened relative to its basket of key trade currencies as fears of a double-dip recession gained momentum. However, as we exited June we have seen stronger underlying demand related data in the US, which gives us comfort that the economic recovery we have been expecting from developed Western countries is gaining traction. As we progress down this path this scenario is supportive for energy use and materials demand.

Our positioning from a portfolio perspective remains resilient as we continue to favor equities exposed to commodities with sound supply/demand fundamentals such as coking coal, 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. Global markets struggled during the month of June, driven by growing market concerns regarding the overall sustainability of the global economic recovery. Infrastructure stocks declined, but outpaced the broader market.

We remain overweight the cyclically sensitive part of infrastructure, as economic improvement takes hold globally—with a modest overweight in industrial cyclical and auto-related names. Utilities continue to remain a large underweight, although we have reduced that underweight recently. As we move deeper into recovery and as economic concerns grow particularly in Europe and China, the sleeve has shifted back to a modest emphasis on later-cycle companies with strong secular stories. In aggregate, our biggest active weight sectors are in machinery, electrical equipment, industrial conglomerates and automotive. Our underweight sectors outside of utilities are mainly concentrated in commercial services and building products and construction materials.

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