

AllianceBernstein

Global Balanced Portfolio

Market Overview

Global equities regained momentum in November, with the MSCI World Index advancing 4.1% in US dollars as positive economic data reinforced optimism about the pace and strength of recovery. The monthly gain brought the MSCI World's year-to-date advance to 27.7%. Global bonds also ended the month higher. The debt crisis at Dubai World toward the end of the month proved temporary for the equity markets after assurances by the UAE central bank revived sentiments.

All sectors advanced in November. Health care stocks led the rally, buoyed by corporate earnings and clinical data. Meanwhile, financials were dragged down as the Dubai crisis reminded investors that the global economic recovery is still fragile.

Euro-area GDP rose by 0.4% in the third quarter, slightly weaker than expected. However, this brought an end to five consecutive declining quarters during which the economy contracted by a record 5.1%. Among the larger euro-area economies, the biggest rise was recorded by Germany (+0.7%), followed by Italy (+0.6%) and France (+0.3%). During November, consumer prices rose for the first time in seven months and sentiment in the region also increased, as the European Commission said its index of executive and consumer sentiment climbed to the highest level in more than a year.

Portfolio Commentary

Pharmaceutical company Merck was a top contributor to returns, following the close of its acquisition of rival Schering-Plough and its confirmation of financial targets for the combined company. Relative performance was also helped by our position in Sprint, which paid off US\$1 billion in debt and benefited from optimism about the company's ability to improve subscriber losses. Home improvement company Lowe's also contributed.

Among individual detractors, Credit Suisse pulled back on profit taking. Automaker BMW reported disappointing third-quarter results as losses continued to mount in its automotive business, although volumes were aided by aggressive price cutting. A broad pullback in the Japanese market hurt automaker

Nissan. Japanese stocks moved lower due to ongoing yen appreciation, a spurt of equity raises and concerns about the financial difficulties of Japan Airlines and potential credit losses.

Both European and US corporate credit spreads were much quieter throughout November following the high magnitude of spread tightening witnessed in the previous few months. We still had positive performance from our overweight positioning in investment-grade corporate credits; however, our overweight to non-investment grade credits was a mild detractor. Risk appetite was somewhat hampered, especially toward the end of the month, following the debt problems in Dubai. Our overweight to commercial mortgage-backed securities was one of the main detractors for performance as investors were cautious in their stock selection.

We continue to remain overweight the Australian dollar, which posted the strongest returns for the Portfolio within the currency selection sector. Australia continues to weather the global economic downturn well and raised its interest rates yet again at the end of November, making it the third hike in a row. Our overweight in the Hungarian forint and Brazilian real were only modest contributors.

We remain overweight the US in our country- and yield-curve positioning, which was the main contributor to the outperformance in this area. We continue to be overweight Europe and Canada, which was also beneficial to returns.

Outlook

We think the medium-term outlook for company earnings is improving. We continue to take advantage of attractive valuations across a wide range of sectors while continuing to invest in companies with strong balance sheets and clearer earnings visibility. With the economy and banking system on firmer footing, we continue to increase the value portfolio's exposure to economically sensitive companies that look undervalued relative to their earnings power under more normal business conditions. Our research has also identified stocks that currently offer a rare combination of attractive valuations and resilient cash flows.

In the growth portfolio, we shifted assets from the technology sleeve to the health care sleeve during November, sourcing half from telecommunications holdings and half from technology. The move reflected a rebalancing of assets after substantial outperformance by technology this year and significant underperformance in health care. Our expectation is that health care stocks will see a positive sentiment shift as the US Congress passes health care reform legislation in the coming months.

After the moves, technology remains the largest active sector bet within the growth portfolio, reflecting our expectation that technology will remain a leadership sector in a global economic recovery.

We expect emerging-market economies to continue to lead the recovery in 2010. Overall, we expect global economic growth of 3.4%, just short of its long-term average. We see US economic growth of 3.5%—higher than the consensus expects, but lower than most recoveries from prior deep recessions.

Nevertheless, significant risks and challenges persist for the global economy and financial markets. Many investors worry about how governments around the world will wind down their massive fiscal and monetary stimulus programs as their economies recover. Will they have the discipline to tighten monetary policy and reign in ballooning fiscal deficits? If not, inflation could surge. In our view, these risks bear close monitoring, but do not pose an economic threat this year or next.

The upside of continued anxiety about the economic outlook is that attractive opportunities remain for active managers to add value. We see opportunities for fixed-income managers to take advantage of the sizable return potential in the credit sector.

We have adopted an underweight exposure to mortgage pass-through securities, instead preferring US commercial mortgage-backed securities.

The portfolio is invested with a neutral in terms of interest-rate exposure. We have our biggest overweight exposure in Europe. We remain underweight the UK and Japan and overweight US. We continue to be largely overweight investment-grade corporate credits.

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