

Introducing “Thematic Investing”: Big Changes May Lead to Big Opportunities

- Thematic investing offers unique insights and allows investors to diversify their portfolios, potentially enhancing returns while reducing risk
- Thematic investors seek innovative ideas that can transform the investing landscape
- This new approach can help identify companies poised to exploit the bold new ideas of tomorrow

Searching the Horizon for Promising Themes

We’re living in a period of extraordinary change. High-speed Internet access has spread like wildfire across the globe, altering the way we spend our time – at work and at play. Many believe rising temperatures are threatening our very future on this planet – and inspiring people around the world to “think green.” Revolutionary discoveries in genetics will soon allow us to diagnose and treat many of the diseases that afflict us, prolonging our lives.

Disruptive ideas, innovations and economic forces like these are constantly reshaping our world. We believe these broad “themes” will become the next great investment opportunities. Thematic investing uses these ideas as a guide to seek opportunities with unusual promise, positioned to capitalize on exciting long-term trends.

But simply identifying these transformational themes and their impact is only part of the story: we must also identify companies that will reap the benefits.

To target the industries most likely to benefit from each theme, it is important to understand all the underlying market dynamics. For example, after studying the economics of producing solar energy, we concluded that investors should focus less on renewable energy stocks such as wind and solar, and more on nuclear power, plug-in hybrids and clean coal technologies.

Thematic research often leads us to unique insights. They span sector and country borders with no regard for industry-defined style. Thematic companies may behave like growth stocks during one phase and value stocks in another. Because thematic investing is not highly correlated with style or index-sensitive holdings, they can help diversify an overall investment strategy, enhance return potential and reduce overall risk.

Here are five key themes that we currently believe will transform industries and create enormous opportunities.

A Changing Climate Will Inspire Massive New Investment Around the World

The threat of catastrophic changes in the world’s climate is leading people around the world to “think green.” Support continues to grow for strong regulatory efforts to reduce greenhouse gas emissions like CO₂. This concerted effort by governments, corporations and global movement should lead to strict new policies and may alter the way businesses operate. Much of the world has already adopted regulations with this goal in mind, and we expect them to become stricter and more widespread.

Innovative Companies Have Prospered as the World Goes Online

High-speed networks have made enormous strides in the first decade of the 21st century. Just 15 years ago, few people had Internet access in their homes; these days, many of us carry it with us on our cell phones. The developed world’s thirst for high-speed Internet access is now spreading to the emerging markets. Some of the companies that helped build the infrastructure for this revolution are facing slower growth, but other companies are poised to take advantage of the new ability to connect to the information superhighway almost anytime – and anywhere.

A Promising New Age of Genomic Medicine Is About to Begin

Technological advances often lead to scientific discoveries that change how we treat illnesses, creating breakthrough investment opportunities. Improvements in microscopes during the 1850s helped us understand how bacteria contribute to disease, leading to vaccines and improvements in hygiene.

Science is now crossing a new medical milestone with the mapping of the human genome – the basic genetic information contained in our DNA. As methods for decoding this map become faster and the tools utilized become cheaper, companies will be able to develop tests and medicines tailored to our specific needs. Doctors hope to eventually be able to predict the diseases that will affect us and prescribe medical treatments for some of our most challenging illnesses – from heart disease to cancer.

A Powerful Middle Class Is Growing Around the World

The rapid growth of emerging economies – particularly in China and elsewhere in Asia – has given birth to a new and rapidly growing middle class.

Stimulus Efforts Have Led Us to a Reshaped Environment of Cyclical Opportunities

We believe the massive stimulus efforts in progress will help

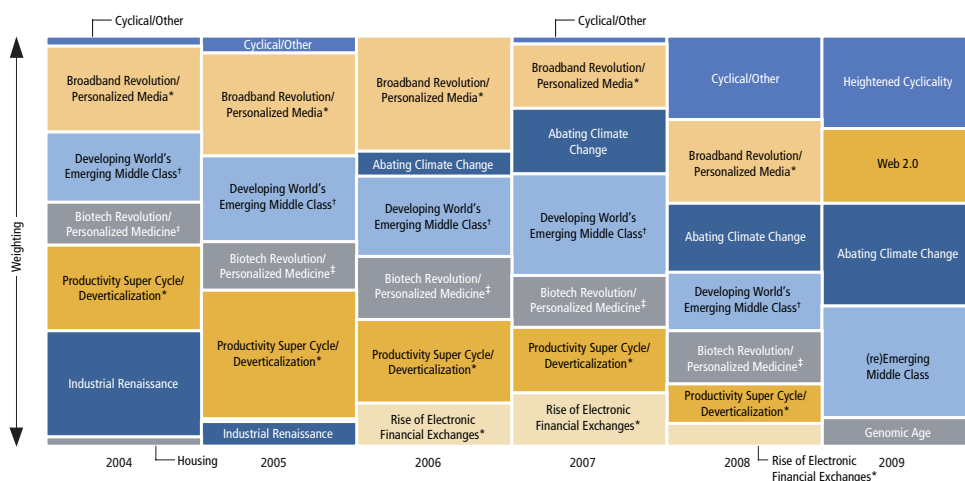
revive the global economy. But we also believe they may lead to a more volatile business cycle.

This intensely cyclical environment is likely to lead to many new investment opportunities. Companies with strong balance sheets should be able to capture market share from weaker rivals, becoming more efficient. At the same time, active managers may have the opportunity to capitalize on companies arising from the various economic scenarios that may occur.

Big investment themes are never static: they continue to evolve as the world changes. (See Display 1) Sometimes themes that begin as separate ideas converge. Other times, themes need to be redefined to capture the new directions they're taking.

The goal of thematic investing is to try to identify the most dynamic economic and technological trends and then find companies poised to benefit from them.

Display 1: Investment Themes Evolve Over Time



Investment themes and weights are subject to change.

As of 30 June 2009

* Now part of Web 2.0

† Now part of (re)Emerging Middle Class

‡ Now part of Genomic Age

Source: AllianceBernstein

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