

AllianceBernstein— Dynamic Diversified Portfolio

Market Overview

Global equity markets advanced in August as hopes for further stimulus measures in key regions of the world and a strengthening US economy boosted risk sentiment.

Investors were hit with discouraging data during the month that suggested that the global economic outlook had dimmed. In Europe, GDP numbers indicated that second-quarter growth in the eurozone had come to a standstill, as the economies of Germany, France and Italy all failed to expand. The specter of deflation also continued to cast a shadow on the currency bloc's economy as inflation fell in August to its lowest level since 2009. The disappointing numbers renewed fears that the region's tepid recovery had lost momentum less than a year after emerging from its second recession since the 2008 financial crisis. Compounding the region's troubles were the risks posed by the escalating tensions between the West and Russia over the crisis in Ukraine. With expectations growing that the European Central Bank was preparing to embark on a more aggressive stimulus campaign to jump-start growth, global stock markets pushed higher.

The economic news was not much better in Asia. In Japan, second-quarter data indicated that the economy had suffered its largest contraction since the country's

earthquake in March 2011, as an increase in sales tax weighed heavily on household spending. In China, preliminary data for July indicated that manufacturing activity, which constitutes about 45% of the country's economy, had grown at its slowest pace in three months. Moreover, China's central bank reported that new lending had unexpectedly plunged to its lowest level since the global financial crisis, despite the government's recent mini-stimulus measures.

While mixed economic data in much of the world tempered risk sentiment, positive developments in the US provided a boost for global stock markets. Low inflation, encouraging manufacturing data and durable goods orders, coupled with solid corporate earnings, fed investor optimism that the world's largest economy was strengthening.

The 3-month USD Libor rose 0.02% in July, bringing its year-to-date gain to 0.16%, while the 40% Barclays Global Aggregate Bond Index/ 60% MSCI World Index operational benchmark rose 1.5% for the month and is up 5.9% for the year to date.

Portfolio Performance

For the month of July, class A shares of the Portfolio outperformed its primary benchmark, the 3-month USD Libor, and underperformed its operational benchmark, the 40% Barclays Global Aggregate Bond Index/ 60% MSCI World Index. For

the year to date, the Portfolio outperformed the Libor and underperformed the operational benchmark.

We are maintaining an overweight in return-seeking assets focused on developed market stocks and are underweight bonds.

Despite rising geopolitical concerns, global stocks have made up most of their losses from late July and early August, and US stocks are at all-time highs. Measures of risk continue to be near historical lows.

The fundamentals behind the equity overweight are good: corporate balance sheets are strong, valuations are reasonable, growth expectations in the US continue to improve and the expected return from bonds is diminished, due to low yields.

The possibility that rates will rise means that bonds may be less effective as a hedge against equity downside risk. We have incorporated other defenses—holding out-of-the-money equity-put options (where low stock-market volatility means they are low in cost) and hedging a selected basket of currencies against the US dollar.

Outlook

The portfolio management team has positioned the Portfolio to be overweight return-seeking assets; supported by our view that the low-

growth, low-risk environment should continue. Further, historically low interest rates make equities attractive relative to bonds. Given mounting geopolitical concerns and attractive option pricing, we have chosen to initiate a small equity put position to hedge the potential downside.

The performance discussed in this commentary is net of fees and expenses, but does not account for the potential sales charges that may apply to certain share classes of the fund.

There is no guarantee that any forecasts or opinions in these materials will be realized. This information should not be construed as an offer to sell, or solicitation of an offer to buy, or a recommendation for the securities of the Fund.

AllianceBernstein (Luxembourg) S.à.r.l. is the management company of the Portfolio and has appointed AllianceBernstein (Singapore) Ltd. (Company Registration No. 199703364C) as its agent for service of process and as its Singapore representative.

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