AllianceBernstein—
Global Growth Trends 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 (ECB) 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. For instance, second-quarter earnings for S&P 500–listed companies were estimated to have risen by 10.2%, compared with 4.9% a year earlier and 3.4% in the first quarter, according to S&P Capital IQ.

Against this backdrop, the MSCI World Index advanced 2.2% in August, for a year-to-date gain of 6.8%. Value trailed growth in the month, as the MSCI World Growth Index gained 2.7% versus a 1.7% rise in the MSCI World Value Index. Year to date, the growth and value indices have gained 6.5% and 7.1%, respectively. (All returns are in US-dollar terms.)

Sector performance was mostly positive in August. Healthcare was the best-performing sector, as shares of US biotechnology companies benefited from positive news about clinical trials and regulatory approvals. Consumer staples also advanced, boosted by the strong performance of European alcoholic beverage companies. Telecom declined, as bearish sentiment about merger and acquisition activity weighed on Japanese and European company shares. And materials was a relative laggard, as traders sold off shares of Australian mining companies on fears that the Chinese economic slowdown will crimp the country's voracious demand for raw materials.

Portfolio Performance

Class A shares of the Portfolio advanced in absolute terms and outperformed its benchmark, the MSCI World Index, in August. Security selection was responsible for most of the premium, though sector allocation also contributed. Currency exposure was negative. Stock selection in consumer discretionary and industrials boosted relative performance. Stock selection in healthcare and technology offset some of the gains.

The portfolio's top contributors were a mixed lot. In the consumer discretionary sector, shares of Tata

Motors outperformed after the Indian automaker reported that sales in July for company's luxury brand Jaguar Land Rover rose 12.2% from the previous year. In the industrials sector, shares of French aerospace group Safran traded higher on news that CFM International, a joint-venture between Safran and General Electric, was awarded a US$2 billion engine contract by BOC Aviation. In the technology sector, shares of chipmaker InvenSense traded higher on positive sentiment about the company's long-term earnings growth potential. Investors were optimistic that the company is well positioned to benefit from the growth in wearable devices, such as Apple's upcoming smartwatch, and the growing application of motion-tracking technologies in smartphones.

A handful of the portfolio's emerging market holdings were among the top detractors. In emerging Asia, shares of Melco Crown Entertainment traded lower as part of a larger decline in Macau-focused casino operators. Investors were concerned about slowing gambling revenue in the former Portuguese colony. Data released during the month indicated that revenue in Macau declined for the second consecutive month in July after suffering its first monthly drop-off in five years in June. We believe that concerns about Macau are exaggerated. We believe that concerns about Macau are exaggerated. Visitation to the island remains strong and while mass gaming may remain slower through much of 2014, the anticipation of new properties and resulting growth should gain investor attention as we approach 2015. New properties will alleviate room constraints and provide a catalyst for visitation inflows and gaming revenue to reaccelerate.

Shares of Tencent faltered after the Chinese Internet giant warned that growth in mobile-game revenue would likely plateau in the current quarter. Our positive stance is premised on the company's significant upside potential, anchored by its skill at creating popular platforms and products and by its innovative approach to monetizing its mobile network, the largest in the world with over 300 million users.

Separately, in emerging Europe, shares of Russian Internet giant Yandex traded lower as escalating tensions in Ukraine led investors to take an increasingly cautious view of Russian stocks. Our investment thesis is that Yandex is an industry heavyweight, holding more than a 60% share of Russian search engine traffic. Yandex continues to work on mobile applications as well as a more efficient monetization business model, which we believe will allow the company to retain and expand upon its market share by offering new and innovative products that will make inroads into new markets both domestically and internationally.

Outlook

With two-thirds of the current quarter now completed, our near- to medium-term outlook for world equity markets remains cautiously optimistic.

The global economic recovery continues to follow a familiar pattern: for every two steps forward, it seems to take one step back. The eurozone economy, which accounts for 17% of the world's gross domestic product, continues to be a source of market anxiety. However, we believe that the ECB's willingness to implement more robust stimulus measures in order to support the eurozone business cycle bodes well for European stocks.

We continue to see potential opportunity in European equities. For example, second-quarter 2014 earnings for the constituent companies in the STOXX Europe 600 Index were estimated to have risen by 9.7%, according to Thomson Reuters Datastream. Also, the valuations of European stock are currently attractive. Based on price-to-forward-earnings ratio (P/FE), eurozone equities (as measured by the Euro STOXX 50 index) were trading at roughly 9.9 times projected 12-month earnings as of the end of August, while European equities (as measured by the STOXX 600 Index) were trading at a multiple of 10.9. Both European indexes were still trading well below their 10-year average P/FE ratios: 11.2 for the Euro STOXX 50 and 12.4 for the STOXX 600. Moreover, European stocks also remained cheaper than emerging markets equities, with the MSCI Emerging Markets Index trading at 9.9 times expected earnings.

Given the current environment, we believe that it will be more difficult for companies to sustain higher-than-average growth over the long term. However, our research indicates that companies with strong competitive advantages and a high return on invested capital are more likely to do so. Because of this, we employ rigorous analysis across geographic borders in search of attractive sustainable-growth companies to populate the portfolio. We believe that there is a significant opportunity for our proprietary research to add value.

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.

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