AllianceBernstein—

International Health Care 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.

Against this backdrop, the MSCI World Index rose 2.2% in August, bringing its year-to-date gain to 4.5%. The MSCI World Health Care Index gained 4.1% for the month and is up 14.1% for the year to date. (All returns are in US-dollar terms.) Within the sector, biotechnology stocks rose on clinical data, while pharmaceuticals, life sciences and health care equipment stocks lagged.

Portfolio Performance

Class A shares of the Portfolio outperformed its benchmark, the MSCI World Health Care Index, in August and for the year to date. Stock selection in the health care provider sector contributed to returns, while detracting in the health care equipment sector.

Gilead Sciences gained on continued optimism for its hepatitis C drug, Sovaldi, in anticipation of approval for the all-oral hepatitis C regimen in mid-October. The biopharmaceutical company also gained on optimism for its follow-on product for Viread, currently referred to as TAF, which is expected to have pivotal data in HIV by year end.

Medivation contributed after the biotechnology company posted earnings of 60 cents per share in the second quarter of 2014, turning around the year-ago loss of 7 cents per share and beating consensus estimates. The firm's prostate cancer drug Xtandi delivered US net sales that were up 15.4% sequentially, driven by strong demand in the post-chemotherapy segment during the quarter.

Shares of Tenet Healthcare contributed, rising to a 52-week high on solid second-quarter earnings and raised expectations for 2014. The healthcare service company delivered positive surprise in the three of last four quarters.

Allergan detracted during month as concerns relating to the proposed Valeant Pharmaceuticals acquisition continued. The company is suing its suitors for an injunction against them while they push to expedite a special shareholder meeting, which is currently scheduled for December 18th. Regardless of the outcome of the takeover attempt, we see shareholder value being unlocked and are maintaining our position.

While Pfizer and Roche rose during the month, the pharmaceutical group in general underperformed the better performing biotechnology and health care provider sectors.

Outlook

Health care is a defensive sector that has historically underperformed in rising markets. Our strategy is to maintain a focus on companies that we believe will deliver value in the long term, irrespective of market conditions. We do this by identifying companies that are attracting healthcare dollars, generally through the introduction on new treatment and therapies or offering customers cost reduction opportunities.

The Portfolio is currently modestly overweight the US and underweight Europe and Japan. Biotechnology and managed care stocks are the largest industry overweights. Pharmaceuticals remain an underweight but less than the average over the past year. The Portfolio has largely eliminated its healthcare-related consumer exposures.

We believe the Portfolio is well balanced between growth and value stocks with an underlying fundamental emphasis on market share winners. Although the sector overall should continue to benefit in the face of an uncertain macro environment, we believe the Portfolio is positioned in high quality companies that should perform well irrespective of the macro environment.

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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