

AllianceBernstein— Thematic Research 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, and 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 All Country World Index (ACWI) advanced 2.2% in August, adding to a year-to-date gain of 7.2%. Growth outpaced value in the month as the MSCI ACWI Growth gained 2.7% versus a 1.8% rise in the MSCI ACWI Value. Year to date, the growth and value indices have

gained 6.8% and 7.6%, 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 outperformed the benchmark, the MSCI ACWI, in August, while underperforming on a year-to-date basis. Security selection was responsible for most of the premium, though sector allocation also contributed. Currency exposure was neutral. Stock selection in technology and consumer discretionary boosted relative performance. Stock selection in industrials and healthcare offset some of the gains.

The strength of our stock selection in the technology sector was evident in the Portfolio's top contributors.

Within the Web 3.0 theme, US-based professional networking site LinkedIn saw its stock price climb after reporting better-than-expected second-quarter earnings, thanks to solid revenue growth from the Talent Solutions, Marketing Solutions and Premium Solutions segments. The company also issued a positive full-year guidance revision.

Avago Technologies, a Singapore-based provider of analog semiconductor devices, contributed after the company reported third-fiscal-quarter earnings that exceeded consensus estimates thanks to progress integrating its newly acquired LSI businesses and increased demand from Chinese smartphone manufacturers. It was the fifth consecutive quarter of solid revenue and earnings growth.

US-based chipmaker InvenSense contributed as shares traded higher on positive sentiment about the company's long-term earnings growth potential; investors anticipated strong product launches from Apple, for which InvenSense is a new supplier of gyroscopes. Additionally, the company is emerging as a key enabler of wearable technology, offering low-power always-on, always-listening functionality.

A handful of the Portfolio's consumer-discretionary holdings were among the top detractors. Within the Emerging Consumer theme, 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 Macau, and data released during the month indicated that it had 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. 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.

FAST RETAILING detracted after the Japanese retailer reported that year-over-year same-store sales at its UNIQLO Japan outlets fell 4.8% in August. The company attributed the drop-off to typhoons, heavy rain and generally unstable weather affecting customer visits. Our investment thesis is that the company's long-term earnings potential is biased toward the upside based on its ambitious expansion plans, particularly in China and other parts of Asia.

German automaker Volkswagen detracted from performance as the company reported disappointing first-half earnings in late July that were due to slowing sales growth in several of the company's prominent brands, including Audi and Porsche. Our investment thesis is that

Volkswagen is a strong play on emerging-market demand, given its powerful brands and distribution network. We view its margin targets as conservative, and expect its benefits to materialize in the quarters ahead.

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 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 stocks remain 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 Europe 600) were trading at a multiple of 10.9. Both European indices 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 Europe 600. Moreover, European stocks also remained cheaper than emerging-market equities, with the MSCI Emerging Markets Index trading at 9.9 times expected earnings.

We continue to investigate some of the most disruptive themes at work in the world around us. We employ rigorous analysis across geographic borders in search of undervalued companies that have solid businesses and sustainable competitive advantages and that we think will benefit from secular tailwinds. Our analysis suggests that these types of companies have attractive upside potential and are poised to generate solid growth rates and healthy returns over the long term.

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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