

Russell Research / Ranks and Commentary

ALLIANCEBERNSTEIN L.P.

PRODUCT: BERNSTEIN INTERNATIONAL VALUE EQUITY

ASSET CLASS	GEOGRAPHIC EMPHASIS	STYLE	SUBSTYLE
Equity	Global ex US	Value	-
ACTIVITY DATE	LOCATION	ACTIVITY TYPE	PURPOSE
13Apr2011	Seattle, WA, United States of America	Research - Russell Office	Product Review

OVERALL EVALUATION



We recommend that mutual clients actively evaluate replacement managers.

Target Excess Return: 50 bp
Target Tracking Error: 500 bp
Time Period: 2-3 years
Russell Assigned BenchMark: R DEVXUSLCV

Expected Performance Pattern

AllianceBernstein is a deep value manager and tends to perform best when low price-to-book or low price-to-earnings stocks are in favor. Additionally, AllianceBernstein's Edge model incorporates momentum factors which can help them in trending environments. The strategy tends to favor larger capitalization stocks and emerging market stocks (where permitted) and will do better in environments where these factors are rewarded.

Manager Update

On April 13, 2011 James Carpenter and Ellen Chae met with Kevin Simms and other investment professionals at AllianceBernstein L.P. to discuss the International and Global Value strategies. We continue to believe that Kevin Simms is a high quality investment professional but remain skeptical of an organizational recovery at AllianceBernstein in the wake of continued client outflows and turnover issues. We are affirming our "review" rank across the International and Global Value strategies.

AllianceBernstein reported first quarter 2011 net cash outflows of over \$14B with a large portion of these outflows coming from institutional investors. Although net cash outflows have slowed relative to the more than \$29B that investors withdrew in the fourth quarter of 2010, there doesn't seem to be a case for investor confidence in the company to improve. Despite these issues, Kevin maintains that distractions are minimal for key investment professionals and they remain committed to AllianceBernstein and their clients.



Confidential Proprietary Information of Russell Investments not to be distributed to third party without express written consent of Russell Investments. This material is subject to the "Important Legal Information" disclosure contained on the final page of this report. That disclosure must be considered as part of this report.



ALLIANCEBERNSTEIN L.P.

Kevin noted that Sharon Fay's work on organizing the teams and structure on the growth side of the business is largely complete. This has allowed her to engage herself more fully in the Investment Policy Group meetings and a larger number of the research reviews. This could be a positive development, but we are concerned that on-going issues on the growth side of business will persist, requiring her focus. As part of an on-site meeting planned later this year, we will meet with several analysts to assess the level of investor engagement within the division.

Kevin made a strong case that given valuation spreads and AllianceBernstein's historical performance when spreads compress, he believes the Value strategies are posed for a strong rebound. However, at this point, performance across the value strategies continues to struggle on a near term and long term basis. Performance over 3 and 5 years for all Value strategies remains near the bottom of the respective Russell International and Global Value Universes. AllianceBernstein does concede that until performance improves, asset flows will remain a challenge. If this is the case we believe the continued organizational pressures could result in an increase in investment professional turnover.

If you have any questions please contact James Carpenter at 206-505-3454 or jcarpenter@russell.com.

Investment Staff ① ② ③ ④ ⑤

We view the breadth and depth of staff at AllianceBernstein positively. Those now leading the Global and Non-US Value products - Sharon Fay (CIO – Equities), Kevin Simms and Henry D'Auria (Co-CIOs – International Equities) - are long-term Bernstein people who have demonstrated successful records at the firm. The depth and experience of this team, as well as that of the various supporting research teams, are impressive. However, we have concerns that Sharon's new role as CIO of Equities, overseeing both the Growth and Value areas of the business, will prevent her from being as directly involved in the management of the global and international Value strategies going forward.

We now consider Kevin Simms to be the key leader for these strategies going forward. Kevin is knowledgeable on the process employed, well-connected with individual members of the team, and held in high regard for his investment insights. Therefore, we have decided not to downgrade this disaggregated rank.

Organizational Environment ① ② ③ ④ ⑤

Organizational stability among the Value team members at AllianceBernstein has historically been high. There have been only modest changes among the senior investment team members in recent years, which include two retirements, the departure of John Mahedy on the US side, and changes to the composition of the Investment Policy Group. We do not feel that these changes have had a material impact on the investment process. We are mindful that changes to Sharon's role within the organization, as well as the initiation of an elite partnership structure, may increase instability and we are watching this closely.

AllianceBernstein enjoyed a strong period of significant growth in AUM in the earlier part of this decade. In parallel with asset growth, the organization expanded its product range and personnel base. With the recent market events, AllianceBernstein has lost significant AUM and has had to reduce the number of investment professionals and administrative staff. The firm has suffered significant outflows in AUM. This combined with poor longer term performance, has put further pressure on the organization. We also recognize that the appointment of Peter Kraus in place of Lew Sanders as CEO has altered the culture and direction of the organization. After much analysis, our belief is



ALLIANCEBERNSTEIN L.P.

that these issues, along with increased bureaucracy and complexity, have impaired the culture to the point that warrants a downgrade. We are mindful that these changes are still being digested and believe it will take at least a year for the firm to regain its footing in the marketplace.

Security Selection ① ② ③ ④ ⑤

Security selection exhibits a number of strengths that give AllianceBernstein a competitive advantage relative to peers. The quantitative model scores stocks within countries, sectors, and industries. Additional factors including cash earnings are also used to determine the attractiveness of stocks. Later in the process, substantial analytical resources are devoted to assessing normalized fundamentals, helping to avoid stocks that are cheap for a reason. Finally, price momentum, earnings estimate revisions, and confidence levels in forecasts are considered to increase the likelihood of mean reversion.

As AUM has decreased we recognize that the firm has been afforded greater investment flexibility, which we view favorably. If cash flows return to the firm at a meaningful level, our former concerns of a narrower opportunity set will surface once again.

On the negative side, we believe layers of bureaucracy and a matrix-style reporting system have become more pronounced as AllianceBernstein has transitioned its global research platform to a more regional structure. This transition is largely the result of having a large research team that presents management and communication challenges across a number of geographically disperse offices. We are concerned that stock selection may be dulled as a result of having the regionalized research split. Furthermore, analysts with multiple reporting lines dampens individual accountability.

Country Selection ① ② ③ ④ ⑤

Country selection is a residual of stock selection and risk control processes. AllianceBernstein's country model is integrated within the firm's Global Edge model, which also reflects global and local industry factors as well as stock-specific factors. The country component models valuation and momentum signals. For the Value and Diversified Value strategies, within the optimizer, specific country deviation parameters are used to control risk. Strategic products omit these controls. We regard this approach to selecting countries as robust and effective.

The products include opportunistic investments in Emerging Markets. Russell has a positive view of the Emerging Markets Value product.

Research ① ② ③ ④ ⑤

Research for the firm's Global and Global ex- Value products is provided by a large multi-location team of now regional sector analysts. We have a favorable impression of the analysts we have met and believe many of them to be among the strongest in the industry. We recognize that over the last several years AllianceBernstein has had to add meaningfully to the team and then subsequently reduce the number of analysts due to market falls and the related impact on AUM. This has resulted in a more mixed level of experience and quality.

AllianceBernstein's switch back to a regional analyst framework is a negative development for International portfolios as the move was to facilitate the analysts working more closely with the regional portfolio managers. We favored the analysts having a global view of their sectors as it aided in the trade-off of companies across regions. This will now fall largely on the Cross Border Committee which is less ideal. As this is a new development we will be following-up on this in subsequent meetings.



ALLIANCEBERNSTEIN L.P.

Research is idea-driven rather than maintenance-driven and is both highly detailed and of high quality. Ideas are presented by analysts to portfolio managers at Research Reviews. We believe these Research Reviews provide a forum for rigorous debate and a mechanism to ensure the best ideas get into portfolios.

The impact of short research on the general research at AllianceBernstein will be a dilution of focus, though this will not be as much as expected given the regional products will not be launched in the near term. We recognize that the provision of short research may be additive in terms of analyst experience and the development of an information advantage.

Kevin Simms (Co-CIO – International Equities) along with the other regional CIOs and Directors of Research provide effective leadership, quality control, and prioritization of research.

Asset Allocation ① ② ③ ④ ⑤

Portfolios are kept fully invested, so this component is not ranked.

Sell Decision ① ② ③ ④ ⑤

The sell discipline is typically straightforward: stocks are sold when they move into the third quintile of AllianceBernstein's quantitative model. However, on occasions, the professionals seem inclined to hold very inexpensive stocks that are deteriorating fundamentally.

AllianceBernstein's practice of holding moderately inexpensive stocks with positive price momentum and/or estimate revisions positively distinguishes the firm from peers.

At times, we believe AllianceBernstein's very large asset base has contributed to the professionals' reluctance to sell or trim a stock unless the expected return has fallen considerably. Though asset levels are still far off from peak, this is still a watch point.

Portfolio Construction ① ② ③ ④ ⑤

Throughout the design of the process, AllianceBernstein has carefully considered the level of bets it is willing to assume given overall return and risk targets for the product and its confidence in its skills in various areas. As a result, positions are deliberate rather than unconscious by-products of other process components. Increasingly constrictive asset levels may marginally impair this process in particular through growth in the number of positions.

The firm's risk model is now more tightly integrated to the return model. Global and local industry factors are now included in the risk model. Other risk model improvements include a more frequent and time-weighted estimation process as well as the inclusion of a Beta factor. The changes are positive, providing a better and more comprehensive understanding of bets.

The most attractive names in regional portfolios are used as the best ideas for the more concentrated International Strategic and Global Strategic products. This provides an effective method for comparing expected excess returns as well as risk contributions for these portfolios.

Currency Management ① ② ③ ④ ⑤

AllianceBernstein's currency model benefits from the inclusion of variables widely shown to have predictive power in foreign exchange pricing. While the formulations of these tools are not revolutionary, their general forecast capability should provide the firm an edge. Moreover, we are pleased to see that the firm performs ongoing work on its currency



ALLIANCEBERNSTEIN L.P.

measures to refine them over time. As a result, AllianceBernstein is far ahead of most Global/Global ex- equity peers in its consciousness of currency issues. Continuing enhancements to its currency return and risk models further underscore the product's strengths in this area.

Implementation ① ② ③ ④ ⑤

The firm has invested substantial resources into the process such that the professionals have easy and timely access to necessary information. However, many people are involved in research and decision-making, so accountability is not clear and is seemingly inefficient. The expansion of the organizational infrastructure, though hard to quantify, brings inherent problems for communication, management, and decision-making. This is further compounded with the move to regional analyst responsibilities.

AUM at AllianceBernstein has also affected the firm's ability to effectively implement investment decisions, though these pressures are far reduced from what they were at peak asset levels. We still believe the ability of the firm to access small and mid-sized companies is reduced as a result. In addition, to accommodate the large asset base, AllianceBernstein will increase the number of holdings in the products. The increased number of holdings has the potential of diluting the alpha potential of the products.

The firm takes appropriate care in the development of regional products and products of differing risk levels to ensure that sufficient investment and client service staff is available to fully man these variations. However, at the broad organizational level, new product development in alternative strategies could represent a shift in organizational focus away from these products going forward.



ALLIANCEBERNSTEIN L.P.**Important Legal Information**

This material is confidential and proprietary, not to be shared, reproduced, transferred or distributed in any form to any party without prior written permission from Russell Investments. This material is confidential and is intended only for the recipient. This is delivered on an "as is" basis without warranty. It is not an offer, solicitation, or recommendation to purchase any security or the services of any organization unless otherwise noted. The opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. The material is based on information that Russell considers to be reliable, but neither Russell nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. Russell Investments, including its subsidiaries and affiliates, may have past, current or future commercial relationships with investment management firms it researches and evaluates and as a result you should be aware that Russell may have a conflict of interest that could affect the objectivity of this report. For example, managers may use Russell analytical or index products. They may also serve as managers in Russell's funds or participate in commission recapture, transition management or other services offered by a Russell broker/dealer. These other relationships are not a factor in Russell's ranking process, and we believe we have adequate controls to protect the integrity of the research process. Through these other relationships, Russell solicits additional data about investment management firms, which data is not shared with Russell's manager research analysts in order to maintain the independence of Russell's manager research activities. Russell's manager research analysts are generally unaware of any business relationships that may exist between a particular investment manager and Russell or a Russell affiliate except as may be known from public sources or as may be discovered in the course of Russell's manager research and due diligence activities. In order to isolate the manager research activities from possible conflicts of interest, information acquired in other areas or affiliates is not shared with the research department. As a result, the information in this report is not a complete representation of all data known to Russell about an investment management firm that, if known to the manager research analysts, could affect their opinions or the objectivity of this report. Russell's manager research process and associated investment product ranks primarily seek to identify strategies with potential to deliver superior investment performance. Russell believes its approach, which includes in-person meetings as well as qualitative and quantitative analysis, is a valuable part of a broader due diligence process. However, it is not the focus nor intention of the manager research process to assess or guarantee a manager's operating systems or financial controls. Separately, Russell may conduct compliance and operational due diligence reviews ('Manager CORE') on select managers. Where Manager CORE has been conducted on a manager, this information will be considered by Russell's manager research in arriving at investment product ranks. However, an investment product rank does not necessarily mean a compliance and operational review has been conducted. Russell recommends that clients assess their managers carefully in light of each manager's assignment and their own operating environment before entering into investment management agreements.



Confidential Proprietary Information of Russell Investments not to be distributed to third party without express written consent of Russell Investments. This material is subject to the "Important Legal Information" disclosure contained on the final page of this report. That disclosure must be considered as part of this report.

