

AllianceBernstein L.P.

PRODUCTS REVIEWED

PRODUCT	ASSET CLASS	GEOGRAPHIC EMPHASIS	STYLE	SUBSTYLE
Canadian Core Plus Fixed Income	Fixed Income	Canada	Active Bonds	Duration Constrained

MANAGER UPDATE

On February 27, 2009, Bilal Naqvi, Greg Nott and Mark Weinberg met with the fixed income team of AllianceBernstein (AB) to discuss the firm's Canadian Core Plus fixed income product. Subsequently on April 9, 2009, we held a conference call with the manager for an update and review of the first quarter 2009 performance. As a result of these meetings, we are reaffirming the rank of the Canadian Core Plus product at 'Hire (4)'.

At the organization level, AB installed a new CEO in December 2008 to replace Lewis Sanders, who retired after a long tenure at the firm. The new CEO, Peter Kraus, came from Merrill Lynch and was previously with Goldman Sachs for 22 years. Russell associates met with Kraus in January 2009 and have an initial positive view of him. A detailed Flash Report was distributed to clients following this meeting on January 27, 2009.

Similar to most of the asset management firms globally, 2008 was a challenging year for AB. The firm experienced significant erosion of its AUM by 42% during 2008 as a result of both asset price declines and redemptions. Revenues and earnings declined significantly in both 2008 and in the first quarter of 2009. Negative impact on the firm's top and bottom lines due to challenging market conditions has depressed AB's stock (NYSE: AB) to a ten year low. During 1Q09, the firm cut back staff across the organization with additional cutbacks to be carried out in 2Q09. According to the firm management, approximately 17% of the staff will be cut from the peak in 3Q08. In terms of the fixed income team, 11 investment professionals were let go. Positively, no one was cut back from the Canadian products investment team.

AB also faced significant performance headwinds during 2008 across a number of its fixed income products. The Canadian Core Plus portfolio underperformed the DEX Universe benchmark in both 2008 and in 1Q09 by 884 bps and 97 bps, respectively. Going in and during this current economic crisis, AB has generally maintained a macro view which has been less pessimistic than the consensus. Accordingly, the Canadian Core Plus portfolio has had more spread risk relative to peers during this crisis e.g. being overweight the Corporates sector and allocations to the High Yield and EMD sectors. Exposure to these higher beta assets has been punishing to performance in this highly risk averse environment.

In terms of current macro outlook, AB continues to maintain a generally more positive or less pessimistic outlook versus the consensus. The firm believes that the worst is behind us but does expect growth to be negative in 2009. Economic recovery will begin gradually in summer 2009 with the firm already seeing signs of stabilization. In terms of the Canadian Core Plus portfolio positioning and investment opportunities, the team is maintaining OW to Corporates. Interest rate sensitivity of the portfolio is minimal in terms of duration positioning. Best value added opportunities are in the investment grade Corporates and the CMBS sectors, which is a view the firm has maintained over the last 12 months. The Canadian Core Plus portfolio currently

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has a 6% exposure the US CMBS sector. We believe that the Canadian Core Plus portfolio is well positioned to outperform its benchmark as the credit market conditions improve and risky asset prices revert.

In this most recent on-site meeting we also met with some of the front line decision makers in the investment team and whom we have not met before besides the key team leaders. We met with Doug Peebles, (CIO), Scott DiMaggio (Canadian PM), Mike DePalma (Director-Quant Analysis), Tobey Diller (Credit Analyst), Jim Barrineau (Economist- Canadian Team), Joe Dona (Director- Credit Research) and Kew Yuoh (Director – Residential Mortgage Research). Overall, we continue to believe that the Canadian Core Plus product is positively supported by a dedicated portfolio manager who is backed by the resources of a large team of qualified investment professionals.

In terms of the Canadian Core Plus product's structure and the underlying investment process, there have been no changes. The firm continues to make improvements in its broader investment process as it relates to the use of quant tools. Since our last on-site, there have been a number of enhancements to existing, as well as development of new quant tools that have been integrated into the investment process. Given the stage of the credit cycle we are in, there has been a greater emphasis on risk management related quant tools.

In summary, we remain positive that the firm's Canadian Core Plus portfolio is well positioned to do well as the broader capital market conditions improve. We do remain cautious as it relates to the firm's organizational stability. There is a risk that future staff cuts are deeper than what has been planned. We will be monitoring their financial strength over the coming quarters. At this time, we are maintaining the rank of 'Hire (4)' on the Canadian Core Plus product. If you should have any questions regarding this product or manager, contact Bilal Naqvi at (416) 646-3035, or via e-mail at bnaqvi@russell.com.

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PRODUCT: CANADIAN CORE PLUS FIXED INCOME

ASSET CLASS
Fixed Income

GEOGRAPHIC EMPHASIS
Canada

STYLE
Active Bonds

SUBSTYLE
Duration Constrained

OVERALL EVALUATION



We recommend that clients consider this manager for new placements and additional cash flow where appropriate.

Updated By: Bilal Naqvi
Target Excess Return: 100 to 100 bp
Target Tracking Error: 150 to 150 bp
Time Period: 4 Years
Russell-Assigned Benchmark: DEX Bond Universe Index

DISCUSSION

AllianceBernstein L.P.'s (AB) Canadian Core Plus Fixed Income product uses a broad opportunity set including foreign investment grade corporate bonds, high yield bonds, emerging market debt, and country and currency exposures. The firm's large and experienced research team across quantitative, credit, and economic disciplines is a major factor in our positive opinion of the Canadian product.

INVESTMENT STAFF ① ② ③ ④ ⑤

Scott DiMaggio is the dedicated lead portfolio manager for Canadian clients, a role he has served since 2002. While we have seen more experienced portfolio managers at competing firms, we are comfortable that he is ensuring that the portfolio has the firm's best ideas.

AB's deep team of 34 experienced credit analysts provides a notable advantage over peers.

ORGANIZATIONAL ENVIRONMENT ① ② ③ ④ ⑤

AB manages over \$8.9 billion in Canadian bond assets, with almost \$4.2 billion of this in the Canadian Core Plus product as of March 31, 2009. While the individuals directly associated with AB's Canadian Fixed Income product have been stable, the firm recently cut 17 % of its staff including 11 from the broader fixed income team. We remain cautious on the firm's organizational instability caused by a significant loss of aggregate AUM. For now, these changes have no rank implications for the Canadian Core Plus product given the depth of the AB's research team.

Employee ownership is made available to professionals in the form of stock options and deferred compensation. In addition, credit analyst retention is encouraged by a compensation program that can put them at an equal footing to portfolio managers, and by promoting the role as a career path.



ALLIANCEBERNSTEIN L.P.**DECISION MAKING STRUCTURE** ① ② ③ ④ ⑤

This product has a robust mix of formal decision-making and informal, ad-hoc discussions. The group of individuals responsible for overseeing Canadian portfolios include Doug Peebles (Fixed Income Co-CIO), James Barrineau (Economist), Michael DePalma (Quantitative Analyst), Gershon Distenfeld (High Yield Portfolio Manager), Yves Paquette (Canadian insurance product specialist), Jeff Singer (Canadian Equity Portfolio Manager), Joseph Dona (Director – Credit Research) and Scott DiMaggio (Canadian Fixed Income Portfolio Manager). In addition to the meeting held by this team roughly every six weeks, DiMaggio has discretion to make changes to the portfolio on a daily basis, based on his interaction with other team members. This allows for a good combination of structure and latitude for nimble portfolio construction.

Individual issuer selection is the responsibility of the sector heads. Respective portfolio management teams select high yield and emerging market credits.

While quantitative models are increasingly being used to support decision making for sector allocation and security selection, positively, the firm is using sufficient judgment and care in the development and utilization of these tools.

SECURITY SELECTION ① ② ③ ④ ⑤

AllianceBernstein has developed strong research and analytical tools to support investment grade, high yield, and emerging market issue selection. Individual sector portfolio managers are responsible for selecting individual bonds for portfolios after considering relative value and the opinion of the analyst assigned to a specific credit. A quantitative model designed to assist in security selection is used to focus analyst attention on areas with high expected excess returns.

Credit analyst compensation is based significantly on the market performance of their fundamental recommendations. This helps to ensure that analysts will consider all facets of their companies when forming an opinion.

SECTOR SELECTION ① ② ③ ④ ⑤

Sector selection is a result of a comparison of the firm's sector-specific quantitative models and accompanying fundamental outlooks, in order to determine attractiveness from an expected return and qualitative perspective. AB will include foreign bond exposures of up to 50% of the total portfolio. This allows the firm to fully use its sector breadth in global sovereign bonds, emerging market debt, currency, and global credit. The scope of AB's resources provides the firm with good insights into relative value across sectors.

DURATION/YIELD CURVE MANAGEMENT ① ② ③ ④ ⑤

The firm de-emphasizes duration as a contributor to alpha in order to allow the team to concentrate on areas where the probability of adding value is higher. AB will occasionally make small duration and yield curve exposures when it has a strong view on the direction of rates. In general, we are less favourable on this aspect of the firm's process as we do not see an obvious competitive advantage.



ALLIANCEBERNSTEIN L.P.**QUANTITATIVE SOPHISTICATION** ① ② ③ ④ ⑤

Michael DePalma leads a 10 member quantitative team located around the world. The firm's quantitative tools are appropriate for the investment process and are positively used in conjunction with the experience of analysts and portfolio managers.

The analytical tools are reviewed for efficacy on an ongoing basis, and recalibrated as necessary. We believe that the firm's quantitative efforts are impressive compared to Canadian peers.

PORTFOLIO CONSTRUCTION ① ② ③ ④ ⑤

The firm's analytics and attention to detail significantly reduces the potential for unintended bets in the aggregate portfolio. AB's ex ante tracking error measure is calculated using Lehman Point and summarizes all of the firm's exposures into a single risk measure. This measure takes into account the portfolio's exposures versus the index, the volatility of these exposures, and the correlations between them.

AB constantly monitors its exposures and adjusts them according to perceived market opportunities. The level of resources available to research and review the relevant sectors along with the constant monitoring by DiMaggio ensures that best ideas are reflected at all times.

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