AllianceBernstein

Equities Overview

Strong Year for Equities as Fears Gradually Recede

Equities performed well in 2012 as macroeconomic concerns receded and volatility eased, yet investors remained tilted toward safety. We believe these market trends marked the start of a gradual shift away from the risk-on, risk-off trading pattern of recent years. As investors begin rewarding companies for their fundamental strengths, we think stock-picking should thrive in 2013.

Global equities rallied in 2012 as investors gained confidence that challenges to economic growth and market stability would be contained. After a strong start in the first quarter, stocks fell sharply in May, but recovered for the rest of the year as policymaker actions gained credence. The MSCI World Index rose 2.9% in the fourth quarter in local-currency terms to end the year up 15.7%.

During the year, Japanese and Australian stocks were particularly strong **(Display 1)**. Financial stocks led the market in both the full year **(Display 2)** and fourth quarter.

Investor Anxiety Begins to Ease

Equity-market volatility fell by 22% in 2012. Rolling six-month intra-market correlations of global stocks declined sharply **(Display 3)**, meaning that by year-end, stocks were trading more independently and investors were refocusing on fundamentals. Yet, there was still a general tilt toward safety. Government bond yields were at historical lows. Fund flows were skewed toward fixed income and equities seen as less risky, such as high-dividend yielding stocks.

Resolving Global Economic Threats

In Europe, the threat of a worst-case outcome for the euro was reduced. The European Central Bank's Outright Monetary Transactions program, and more support for Greece, alleviated fears of a euro breakup. Still, euro-area economic growth is poised to stagnate through 2013. In the US, house prices started to recover and auto sales rebounded strongly. But high unemployment and political deadlock over the fiscal cliff quelled optimism about accelerated US economic growth.

China's slowdown appears to have bottomed. Housing starts, corporate bond issuance and a steady yuan should support 7%–8% growth. Emerging-market growth is widely expected to rebound in 2013. In Japan, equities jumped late in the year as the yen weakened amid expectations of a monetary policy shift following the Liberal Democratic Party's victory in December elections. Despite sluggish growth, the weak yen is seen as good for Japanese exporters and the market.

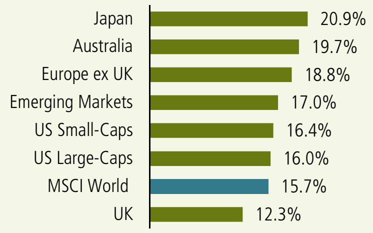
Active Management Poised to Thrive

While major risks remain, central bank and government policy actions have significantly reduced the likelihood of the most feared worst-case outcomes. As a result, investors may now be more willing to pay for companies with superior long-term fundamentals, rather than just less perceived risk. As this shift continues, we think stock-picking should thrive and actively managed portfolios will do well in equity markets in 2013.

Display 1

Equities Rallied Across the Globe

Regional Returns: 2012 (Local Currencies)*



As of December 31, 2012

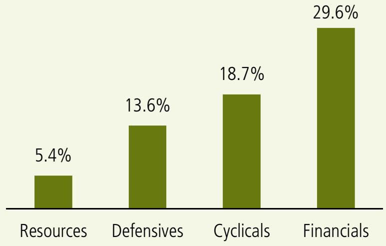
*Japan is represented by TOPIX, Australia by S&P/ASX 300, Europe ex UK by MSCI Europe ex UK, emerging markets by MSCI Emerging Markets, US small-caps by Russell 2000, US large-caps by S&P 500 and UK by FTSE All-Share.

Source: Bloomberg, FTSE, MSCI, Russell Investments, S&P, Tokyo Stock Exchange and AllianceBernstein

Display 2

Powerful Rebound for Financial Stocks

MSCI World Supersector Returns: 2012 (USD)*



As of December 31, 2012

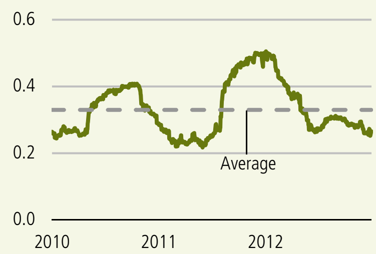
*Resources consists of energy, industrial commodities and gold; defensives consists of consumer staples, medical, telecom and utilities; and cyclicals consists of capital equipment, construction & housing, consumer cyclicals, technology and transportation.

Source: MSCI and AllianceBernstein

Display 3

Investors Refocused on Fundamentals

Global Stock Correlations*



Through December 31, 2012

*Rolling daily returns over six months. Correlation is a statistical measure of how two values move in relation to one another.

Source: Bloomberg, Credit Suisse, MSCI and S&P

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ALLIANCEBERNSTEIN

Portfolio Commentary

International Value Services

Solid Fourth-Quarter Performance Caps Challenging Year

In the fourth quarter, investors began rewarding undervalued stocks that had strong fundamentals, and our portfolios outperformed. While full-year returns trailed the benchmarks, we believe recent improvements in market conditions may herald a rebound for value investing. Our portfolios are positioned in deep-value territory to capture the full benefits of a recovery.

As equity markets rallied and volatility eased late in 2012, our portfolios outperformed their benchmarks during the fourth quarter. While full-year returns trailed the benchmarks, signs of improvement in recent months have bolstered our conviction in the positioning of our portfolios.

We believe that market conditions are gradually becoming more conducive to a powerful recovery of value stocks in 2013. Indeed, from August through December 2012, the cheapest quintile of global stocks, based on price/book value, outperformed the most expensive quintile by 10.5% **(Display 1)**. This was a big shift from trends earlier in 2012 and the previous five years.

Banks and Cyclicals Lead

As fears related to the euro crisis began to recede, markets rewarded the fundamental progress of many financial and cyclically exposed holdings. Stock selection in financials and capital equipment holdings was the biggest contributor to relative returns in the fourth quarter and full year.

Société Générale was one of the portfolio's best-performing holdings. In addition to benefiting from the easing of euro-area tensions, the bank reported earnings in November that comfortably beat consensus expectations and further strengthened its capital position. Despite strong gains this year, Société Générale still trades at a valuation well below tangible book value, providing significant further upside potential for the portfolio, in our view.

In capital equipment, automakers benefited from a sharp rebound in US auto sales. Renault was a top performer for the full year. In the fourth quarter, Mazda and Nissan were strong contributors to relative returns, on a weakening yen and as fears receded about a potential hit to sales in China related to a territorial dispute with Japan.

German electric utility E.ON fell sharply following a November profit warning. This led us to revise down our forecasts, and we have exited our position in the stock. Energy stocks were also weak. Gazprom and BP were big detractors from relative returns in the fourth quarter and in 2012.

Research Is Still Working

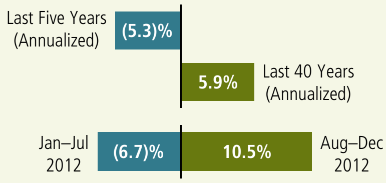
For 2012, Sharp was the worst-performing stock in the portfolios, as our investment thesis did not play out as expected. We sold the stock during the third quarter. BP, Gazprom and Yamada

These statements reflect the performance of the majority of accounts. Individual account performance may vary due to a variety of factors, including benchmark, account guidelines, investment vehicle implementation (if any), fees charged and timing of cash flows.

Display 1

Deep-Value Stocks Start to Rebound

Global Stocks
Price/Book: Quintile 1 vs. Quintile 5

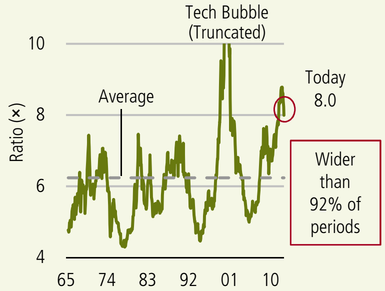


Rolling hedged returns in USD based on the Bernstein global large-cap universe of stocks, sorted monthly by price to book value, measuring the difference in returns between the cheapest quintile of stocks (Q1) and the most expensive quintile of stocks (Q5) from January 1, 1971, to December 31, 2012. Periods of more than one year are annualized.
Source: Center for Research in Security Prices (CRSP), MSCI and AllianceBernstein

Display 2

Value Opportunity Is Enormous

Highest vs. Lowest Price/Book Spreads

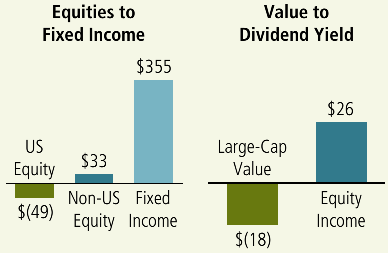


Through December 31, 2012
Difference between the highest and lowest quintiles of stocks in the Bernstein global large-cap value universe based on price to book value
Source: CRSP, MSCI and AllianceBernstein

Display 3

Safer Assets Remain in Favor

Net New US Fund Flows (USD Bil.)
January–November 2012



As of November 30, 2012
Based on Lipper categories. Includes US-domiciled mutual funds and exchange-traded funds; excludes closed-end funds, sector and specialty equity funds
Source: Lipper and AllianceBernstein

Denki also underperformed, yet in these cases, there was progress toward our original investment theses, which markets were not yet rewarding.

For example, Yamada Denki, a Japanese consumer-electronics retailer, suffered from a worse-than-expected slowdown in sales. Yet the company hasn't conceded market share to Internet rivals, and its gross margin has risen, as we expected it to. The shares remain attractively valued at about 4.0× normal earnings.

Meanwhile, our investment theses were confirmed for many holdings that outperformed. Japan Tobacco, Renault, Nexen and Michelin all did well, providing tangible signs that our research-driven investing strategy is working and is likely to be rewarded more widely across the portfolio as risk appetite continues to improve.

Value Recovery Is Just Beginning

Even with the recent improvement in risk appetite, we think there's still a long way to go for value stocks. Spreads between the cheapest and most expensive stocks on the market remain unusually wide **(Display 2, previous page)** across most sectors. When these spreads have narrowed in the past, value stocks have outperformed strongly.

What might be holding back a stronger recovery? On the one hand, volatility and stock correlations have declined, which should help promote a recovery of value stocks. Yet there is still a general preference in the market for safer assets, such as government bonds and high-dividend-yield stocks **(Display 3, previous page)**.

As confidence grows, we think investors will become increasingly comfortable returning to risk assets, which could create a big tailwind for many stocks in our portfolios that have recently underperformed despite strong cash flows and profitability potential.

EADS: Value in Airbus A350

For example, we recently added EADS to our portfolios, as shares of the European aerospace and defense manufacturer were depressed over concerns about the civil aerospace cycle, potential cost overruns on the A350 and the company's governance, highlighted by its failed attempt to merge with BAE Systems. We think EADS's long-term profitability is much more resilient than widely perceived.

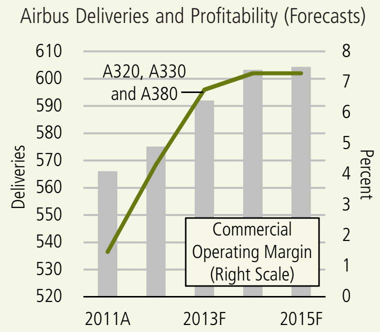
Our research suggests that market fears of a slowdown in demand for commercial airliners are overdone. By looking at a variety of industry metrics, we concluded that demand for passenger aircraft seats should continue to outstrip new supply for several years. This will support pricing and volume growth of the main Airbus aircraft programs, which should buoy profit margins for EADS **(Display 4)**.

In addition, our estimates of potential cost overruns related to delays in the new wide-body A350 jet are lower than consensus estimates: we think EADS has improved its processes and has a more robust manufacturing technology than that used by Boeing on the equivalent 787 airliner program, which has suffered badly from delays.

During the quarter, we rotated our energy holdings, adding Eni and Seadrill to the portfolios while trimming our position in Petrobras. In telecom, we sold Bouygues and Telecom Italia, reducing our position in the sector. Our portfolios don't have provocative sector positions relative to their benchmarks, as the current value opportunity is broadly spread across sectors and industries.

Display 4

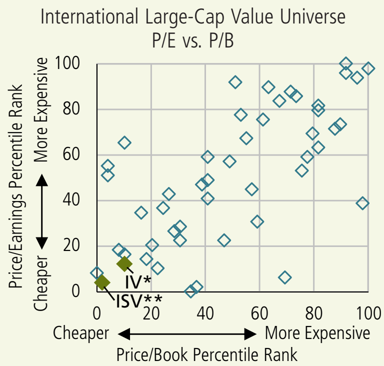
EADS: Aircraft Profit Poised to Take Off



As of December 31, 2012
Source: International Air Transport Association, company reports and AllianceBernstein

Display 5

Positioned to Exploit Opportunity



As of September 30, 2012
*International Value
**International Strategic Value
Based on the eVestment Alliance EAFE large-cap value universe, including 49 managers who reported both price to earnings and price to book value
Source: eVestment Alliance and AllianceBernstein

Deep Value: The Place to Be in 2013

Our International Value portfolios continue to rank among the most attractively valued in the industry, based on price/book and price/earnings valuations **(Display 5)**. This is the result of our relentless focus on deep value—the most attractively valued part of the market—which has not yet enjoyed the full benefit of the recent upturn. Although 2012 as a whole was a disappointing year for portfolio performance, we think that the strong finish offers evidence that persistent headwinds to value investing may be finally starting to abate and that a powerful value recovery is under way.

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