

AllianceBernstein L.P.**PRODUCTS REVIEWED**

PRODUCT	ASSET CLASS	GEOGRAPHIC EMPHASIS	STYLE	SUBSTYLE
Bernstein Global Diversified	Equity	Global	Value	-
Bernstein Global Strategic	Equity	Global	Value	-
Bernstein Global Value Equity	Equity	Global	Value	-
Bernstein Global X Japan Diversified Value	Equity	Global ex Japan	Value	-
Bernstein Global X Japan Equities	Equity	Global ex Japan	Value	-
Bernstein International Diversified Value	Equity	Global ex US	Value	-
Bernstein International Value Equity	Equity	Global ex US	Value	-
Bernstein Intl Strategic- Concentrated	Equity	Global ex US	Value	-

MANAGER UPDATE

On August 3, 2010, James Carpenter, Sarah Lien, and Rob Balkema of Russell Investments met with Peter Kraus, Sharon Fay, Kevin Simms, and other professionals at AllianceBernstein to discuss the Global and International Equity strategies. On the back of continued organizational concerns that we expect to persist for more than one year, we have decided to lower our rank on these products from "Retain" to "Review."

AllianceBernstein's most recent senior-level departure - Lisa Shalett, Head of Growth Equities - has led to Sharon assuming a newly created role as Chief Investment Officer of Equities across Growth and Value equity strategies. We believe Sharon to be an effective investment leader, but acknowledge that her footprint on Value Equities portfolios will be more limited going forward, which we view negatively. Kevin Simms is the natural candidate to assume Sharon's role in terms of coaching analysts, and we hold him in high regard. However, we are concerned that Kevin will be overly stressed as he effectively heads up international research and manages portfolios at a firm of this large size.

In addition to Sharon's role change, we believe distractions related to poor performance, asset outflows, and product development in alternative investments are overly burdensome in the near-to-medium-term to justify a "Retain" rank. While the Growth side of the equities business has been more strained, we think the cumulative effects of these distractions have sufficiently permeated the firm to the extent in which Value equities is no longer immune. The working environment has deteriorated on the back of reduced firm profitability, and we believe there is increased potential for investment staff departures. It is unclear whether the election of partners in March will meaningfully benefit retention efforts given Lisa's recent departure.

Firm-wide assets under management at the end of July stood at \$482 billion, down from a peak of \$800 billion. Within Equities, assets have fallen from \$600 billion to \$265 billion. CEO Peter Kraus attributes two-thirds of this decrease to market weakness and the remainder to client withdrawals. The pace of asset outflows in Value strategies has abated but continues to be net negative in the second quarter, which is disappointing. The firm has taken out costs in terms of a 1300-person headcount reduction and does not believe it will need to take further action on this front unless assets fall below \$300 billion. While far from this number currently, profitability is a watch point, especially coupled with continued weak 2010 performance in both the Value and Growth equities businesses.

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Our last meeting record stressed a change in analyst coverage from being more global to more regional in scope, which affects two-thirds of the analysts. The team has been informally organized in this way over the last few years to accommodate time zone differences across the various offices, though the split has become more formalized. Analysts have a matrix reporting structure into at least two different individuals, which feels unduly complex in our view and creates challenges associated with accountability and communication. We worry that the evolution into more regionally-defined coverage creates slippage in terms of information flow, which may be a negative performance driver.

Ultimately, this downgrade is a peer-relative decision and we believe that Russell's clients would be better served by hiring another manager in the Value equity space that is unburdened by organizational flux and who is currently more focused on investment content. While the professionals at AllianceBernstein remain smart and capable investors, we believe there are enough factors at play to divert their attention away from managing portfolios in a competitive manner. As we monitor these issues going forward, we will revisit our rank upon tangible signs of stability, but we expect these issues to persist for more than a year.

Performance

Global and International portfolios performed within the 4th quartile of their respective Russell Value universe peers year-to-date through June 30, 2010. Primary drivers have been poor stock selection across a number of different sectors and regions. The portfolios' larger cap issues held the portfolio back from stronger performance, as did AllianceBernstein's emphasis on earnings versus book value. Longer-term performance over a three-year investment window is similarly weak across the various strategies. This record is below our expectations.

Given this track record, we recognize that there is timing risk inherent in this downgrade that clients must consider. Russell's decision follows one of the worst return periods in the firm's history, and our analysis indicates that portfolios are currently positioned attractively from a valuation sense. Our decision, however, is not based on past performance but rather on an assessment of the sustainability of future success factors. We believe these success factors are materially weakened by the organizational factors mentioned above.

If you have any questions please contact James Carpenter at 253-439-3454 or jcarpenter@russell.com or Sarah Lien at +44 (0) 20 7024 6541 or slien@russell.com.

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PRODUCT: BERNSTEIN INTERNATIONAL VALUE EQUITY

ASSET CLASS
Equity

GEOGRAPHIC EMPHASIS
Global ex US

STYLE
Value

SUBSTYLE
-

OVERALL EVALUATION



We recommend that mutual clients actively evaluate replacement managers.

Updated By: Sarah Lien
Target Excess Return: 50 bp
Target Tracking Error: 500 bp
Time Period: 2-3 years
Russell-Assigned Benchmark: Russell Developed ex-US Large Cap Value Index

Discussion

The Global/Global ex- Value products represent the standard version of AllianceBernstein’s suite of Value products, the others being Global/Global ex- Strategic Value (high risk) and Global/Global ex- Diversified Value (low risk).

The decision to downgrade from Retain to Review reflects our concerns with firm leadership changes and other organizational distractions related to asset outflows, new product development, and poor investment performance. These concerns are further exacerbated by a global research construct whereby lines of communication have been compromised and a more regional approach has been pursued. We expect that AllianceBernstein’s marginal capability for alpha generation and the stability of alpha drivers will be compromised as a result. Though scores below remain high for staff, security selection, and research elements, we are concerned that organizational challenges trump the process and people merits. These issues are expected to take longer than one year to resolve.

AllianceBernstein will hedge currency exposure where clients permit.

Investment Staff

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.



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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 which 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 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.



ALLIANCEBERNSTEIN L.P.**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.

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.



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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 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.



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