

International Research Growth Portfolio Performance

A Consistent Growth Strategy Hits Headwinds

Global stocks ended the first quarter of 2011 with solid gains despite political unrest in the Middle East, disasters in Japan and resurgent worries about sovereign debt. The International Research Growth All Country portfolio underperformed its benchmark as investors punished emerging markets and the growth style.

Market's Rise Outpaces Risks

Global markets continued last year's rally in the first quarter of 2011 despite political upheaval in the Middle East, natural and nuclear disaster in Japan, and continued uneasiness about sovereign debt. These risks loomed large in March, but stocks largely rebounded and the MSCI ACWI ex USA finished the quarter up 3.4% in US-dollar terms.

Geographic and Style Headwinds

The International Research Growth All Country portfolio underperformed its benchmark. Our growth style and emerging-market holdings hurt relative performance the most.

The portfolio has become increasingly growth oriented (**Display 1**), which worked against us in a quarter when the value style's return was twice that of growth in the MSCI ACWI ex USA. At the same time, emerging markets underperformed as investors worried about inflation, interest-rate hikes and social unrest in the Middle East.

Financials detracted most from relative performance (**Display 2**) because we had exposure to emerging markets, and at the same time avoided some value-oriented financials that surged.

Standard Chartered, which has extensive exposure to emerging markets, was the sector's leading individual detractor.

Consumer stocks also detracted, led by Carnival Cruise Lines, the largest individual detractor (**Display 3**). The cruise and vacation company's stock tumbled after it lowered 2011 earnings guidance in response to rising fuel costs. UK-based retailer Tesco's stock suffered as the company reported weak results in its home market and in the US.

Technology, Japan Contributed

Strong performance by our technology stocks partially offset the detractors. Investors were particularly receptive to themes such as mobile communications. As a result, Taiwanese smartphone manufacturer HTC and British chipmaker ARM bolstered relative returns.

Rising oil prices benefited our energy holdings, helping to make Schlumberger the largest individual contributor.

Our underweight position in Japan, where our research had indicated limited opportunities, also helped relative performance as Japanese stocks reeled from a massive earthquake, tsunami and nuclear power crisis.

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.

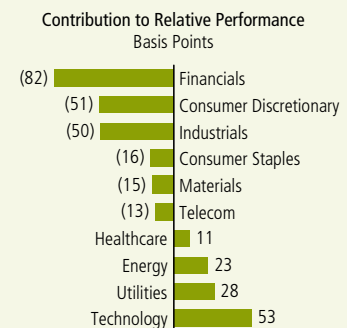
Display 1
Increased Growth Exposure



As of March 31, 2011

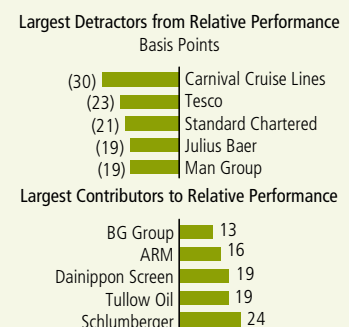
Based on a representative International Research Growth All Country account relative to MSCI ACWI ex USA
Source: MSCI and AllianceBernstein

Display 2
1Q:2011 Performance Attribution



Based on a representative International Research Growth All Country account relative to MSCI ACWI ex USA; shows combined contribution from sector and stock selection
Source: MSCI and AllianceBernstein

Display 3
1Q:2011 Individual Security Attribution



Based on a representative International Research Growth All Country account relative to MSCI ACWI ex USA
Source: MSCI and AllianceBernstein

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International Research Growth Portfolio Positioning

Investing with Discipline and Conviction

We see attractive opportunity for growth stocks and for active stock-picking. We continue to invest with discipline and focus on companies that have superior growth fundamentals. And we are strengthening the connections between research and portfolio construction.

A Committed Approach to Growth

The market did not reward our strategy in the first quarter of 2011, but we remain committed to our growth discipline and investment philosophy.

In-depth research guides our stock selection and focuses on companies with sustainable competitive advantages that bring superior growth over a multiyear period. We look for companies whose share prices don't fully reflect their long-term growth potential.

Superior growth fundamentals create great stocks over time. Active management and conviction also pay off in the long run, with active stock-pickers who invest with conviction reaping the greatest rewards (**Display 1**). Current valuations for growth stocks enhance our prospects (**Display 2**).

We have been pursuing the active growth opportunity in part by increasing our risk budget. One measure of this is the marked increase in our active share, which is the portion of the portfolio that diverges from the benchmark (**Display 3**). We are also investing more in our 10 largest holdings.

An overweight in technology and an underweight in financials are among our most aggressive sector positions, so it is not surprising that these sectors had a large impact on relative performance.

Secular Growth in Technology

In technology, we focus on the untapped potential in mobile communications. Mobile devices continue to gain in attractiveness and functionality as falling prices expand their market penetration. While the consumer appeal of smartphones and tablets is obvious, we think investors haven't fully grasped their potential to permeate the workplace and replace traditional computers.

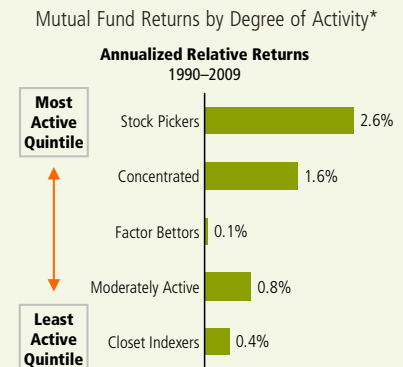
It's likely that everything from wedding videos to sales presentations will come to be stored remotely—in the cloud—rather than on computer hard drives. This means that mobile devices won't need to synch with standard computers, and could largely replace them.

Our investments in this area include South Korea's Samsung Electronics and manufacturers that service Apple, such as Britain's ARM and China's Hon Hai Precision. HTC, another holding, works with Google's Android technology.

HTC: That Obscure Object of Desire

HTC is hardly a household name, but that may be starting to change. Customers are increasingly recognizing the Taiwanese smartphone maker's brand, and satisfaction ratings for its phones have surpassed those of the BlackBerry and now rival those of the iPhone.

Display 1
Active Conviction Pays



As of December 31, 2009

*Active US mutual funds divided into quintile categories based on a combination of active share and tracking error
Source: Antti Petajisto, "Active Share and Mutual Fund Performance" (working paper, NYU Stern School of Business, 2010).

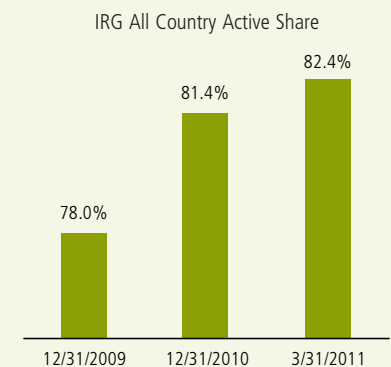
Display 2
Long-Term Growth Is Cheap



Through March 31, 2011

Relative price of top versus bottom third in long-term growth; based on median price-to-book ratio and long-term growth estimates for the MSCI World universe
Source: MSCI, Thomson I/B/E/S, Worldscope and AllianceBernstein

Display 3
Deeper Conviction, Tighter Focus



Based on a representative International Research Growth All Country account relative to MSCI ACWI ex USA
Source: MSCI and AllianceBernstein

HTC is among the most profitable smartphone makers (**Display 4**). We believe the market underestimates its ability to sustain profitability through product innovation, pricing power and low labor costs in Taiwan. HTC also is adding a promising tablet to its lineup.

Disciplined Approach to Financials

Our approach in financials is both active and highly selective. Despite a value-oriented rally in some lower-quality European financials early in the quarter, we are remaining true to our growth discipline. Our focus is on companies with strong return on equity and clear routes to outperformance.

In developed markets, where growth is slower, we favor market leaders such as Credit Suisse, Partners Group and Man Group.

Some of our key financials holdings are either based in faster-growing emerging markets or have extensive operations in them. These include Britain's Standard Chartered, Russia's Sberbank and Brazil's Itaúsa, which is the portfolio's largest holding.

Itaúsa is an investment company whose key holding is Brazilian bank Itaú Unibanco. We expect a strong increase in the bank's profits due to secular growth in the nation's lending market, along with cost reductions and merger synergies. Itaúsa trades at a discount to Itaú, which enhances the upside potential.

Emerging Growth Engines Intact

From the bottom-up perspective of our research, a wide variety of emerging-market companies continue to outpace their developed-world counterparts.

Emerging-market stocks have stumbled in recent months as investors wrestled with the risks of inflation. But recent

data suggest that inflation may already be close to easing in much of the developing world. As food and energy prices moderate, the consensus expectation is that consumer prices in general will follow suit this year or next, particularly in Brazil and India.

At the same time, economic growth in most emerging markets remains vibrant. In just a generation, emerging markets have become the engine of growth in global consumption and capital formation (**Display 5**).

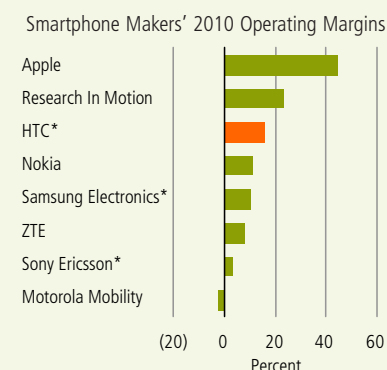
Giving Research More Impact

Our research consistently identifies stocks that perform well, and we are making changes to give our best ideas more impact.

We have significantly reorganized in an effort to improve our portfolio construction and returns. This involves consolidating six sector sleeves into four that better reflect the relationships among industries. The sleeves are: technology; financials; consumer, which includes healthcare; and industrial cyclicals, which includes energy, materials and industrials. Our sector heads are being freed from individual stock coverage duties, and one team will manage both the International and Global Research Growth portfolios. This will simplify lines of communication between analysts and sector heads and increase focus, responsiveness and accountability.

Our bottom-up approach and our broad investment process remain unchanged. We will continue to build portfolios that are saturated with key growth traits (**Display 6**) and exposed to a range of secular and company-specific opportunities. We believe that our holdings and our clients will reap ample rewards for maintaining conviction in the merits of these superior growth fundamentals.

Display 4
HTC: Competing at the Top

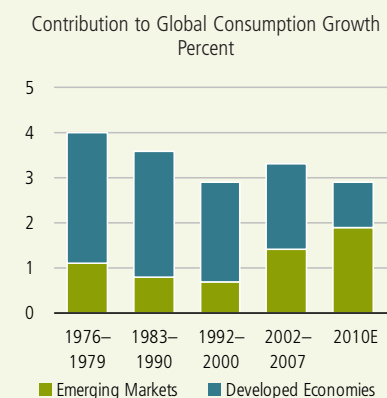


As of December 31, 2010

*Smartphone manufacturer using Google's Android operating system

Source: Sanford C. Bernstein, company reports and AllianceBernstein

Display 5
Emerging Markets Spur Global Growth



As of March 31, 2011

Source: Consensus Economics, Haver Analytics, MSCI, Thomson I/B/E/S, World Bank and AllianceBernstein

Display 6
Superior Growth Fundamentals



As of March 31, 2011

Based on a representative International Research Growth All Country account

*Three- to five-year growth

Source: MSCI and AllianceBernstein

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