

AllianceBernstein International Health Care Portfolio

Market Overview

Health care stocks fell slightly in June, performing roughly in-line with the overall market. Within health care, drugs slightly outperformed, medical product and medical services slightly underperformed, and biotechnology was essentially in line with the benchmark. Newsflow was relatively light during the month.

Shares of Amarin came under pressure after speculation of an imminent sale of the company to a large-cap pharma player failed to materialize. However, we continue to view the cardiovascular drug company as a compelling value given its best-in-class pipeline drug for lowering triglycerides.

Investor excitement grew around Pharmasset, after the biotech company announced it would expand the scope of one of its clinical trials following “encouraging” results. The company, which has several promising next-generation drugs for hepatitis C (HCV) said it would add three new arms to its ongoing trial, including ones to test its lead drug as a monotherapy (not in combination with standard of care), for a shortened treatment duration, and in previously untreatable patients. The hope is that Pharmasset’s drugs could eventually be part of a novel all-oral treatment that would have high efficacy across the broad HCV population.

Pharmacy benefit manager Express Scripts was volatile in the month after drug retailer Walgreens announced suddenly that it would withdraw from Express’s retail

pharmacy network beginning in 2012. While Walgreen’s currently accounts for nearly 10% of Express’s prescriptions, most clients would be able to shift to another pharmacy without major inconvenience if Walgreens actually pulled out of the Express network. However, Walgreens public announcement has been widely viewed as a negotiating tactic, since the company used the same tactic last year with CVS, before ultimately coming to a resolution.

Dendreon had a couple of positive news events during June. First, its second manufacturing facility was approved by the FDA, alleviating any concerns around near-intermediate supply constraints for its drug Provenge for prostate cancer. Second, US Medicare issued its final national coverage decision supporting full drug reimbursement for Provenge, when used according to its label. The decision was actually a bit better than expected, as it removed certain restrictions that had been included in the preliminary ruling.

Portfolio Performance

The MSCI World Health Care Index declined 1.7% in June, while the MSCI World Index decreased 1.6%. For the year to date, the MSCI World Health Care Index is up 13.0%, strongly outperforming the MSCI World, which is up 2.95%. The Portfolio declined and underperformed its benchmark, the MSCI World Health Care Index, for the month and underperformed for the year to date.

Contributing to returns in June were positions in Pharmasset, Fresenius

Medical, and Aveo. Detracting from returns were positions in Amarin, Express Scripts, and Human Genome Sciences.

The Portfolio is overweight medical services and biotechnology, underweight pharmaceuticals, and slightly underweight medical products.

Outlook

Health care’s traditionally defensive image and stable growth potential make it an appealing sector in the face of ongoing economic uncertainty. In addition, major secular trends, particularly an aging global population, should continue to drive increased spending in many areas of health care for the foreseeable future. In this environment, cost-cutting is important, and we continue to emphasize several companies that should benefit from the significant wave of generic drug utilization.

Furthermore, over the past year significant overhangs for the health care sector have included uncertainty surrounding US health care reform, a slowdown in US healthcare utilization trends, and potential pressure from European austerity measures. As a result, the health care space is attractively valued relative to the overall market. We believe that increased clarity regarding the impact of US health care reform, stabilization of US utilization trends, and easing concerns regarding European austerity measures should serve as positive catalysts for the health care sector and help drive relative multiple expansion in the quarters ahead.

Over the long-term, health care industries

and stocks with consistent stable growth and solid fundamentals have historically demonstrated relative strength. We would continue to favor stocks that exhibit such criteria; particularly those that we believe will exceed consensus expectations.

Portfolio Positioning

Trading in the Portfolio was modest during the month of June.

On the buy-side, we initiated a position in Danish drugmaker Novo Nordisk, which is focused on diabetes treatments. We also built up our positions in small-cap biotech companies Achillion and Aveo.

On the sell-side, we exited Edwards and Merck. We also trimmed our position in Shanghai Pharmaceuticals and took some profits in Pharmasset and Incyte.

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