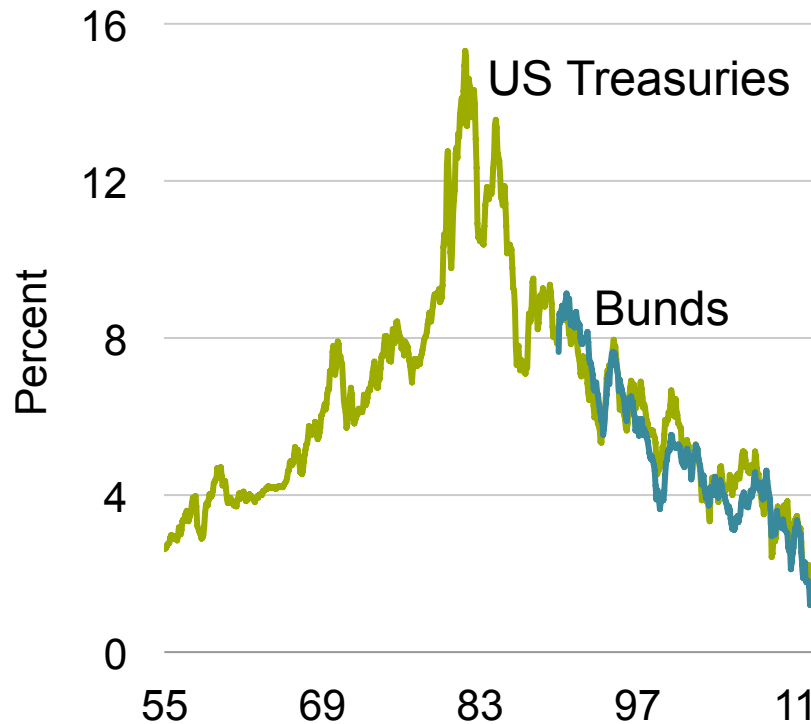


# In Search of Alternatives

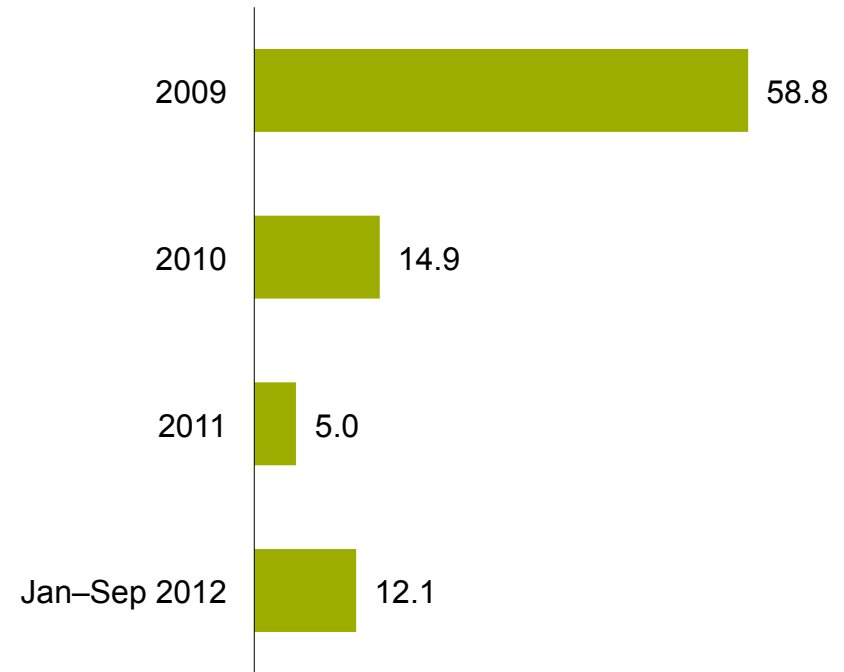
- Rates are low and high-yield returns have been strong
- There are consequences to staying wedded to a benchmark
- A new prescription demands alternative strategies

# Rates Are Currently Low and High-Yield Returns Have Been Solid

## 10-Year Yields



## High-Yield Calendar-Year Returns: Percent



Past performance does not guarantee future results.

As of September 30, 2012

High-yield returns as represented by the Barclays Capital US High Yield—2% Issuer Capped Index

Source: Barclays Capital, Bloomberg and AllianceBernstein

# Historically, Investors Could Make Tactical Shifts

**In an economic recovery:**



**US Treasury yields rise**  
*(and Treasuries underperform)*



**High-yield spreads narrow**  
*(and high yield outperforms)*

**May 05–  
May 06**

**US Treasury return = -1.39%**

**High-yield return = +6.84%**

**In an economic contraction:**



**US Treasury yields decline**  
*(and Treasuries outperform)*



**High-yield spreads widen**  
*(and high yield underperforms)*

**Jun 08–  
Dec 08**

**US Treasury return = +11.26%**

**High-yield return = -25.07%**

**Historical analysis does not guarantee future results.**

High yield as measured by the Barclays Capital US High Yield—2% Issuer Capped Index and US Treasuries as measured by the Barclays Capital US Treasury Index

Source: Barclays Capital and AllianceBernstein

# The Consequences of Staying Wedded to a Benchmark: What's the Risk?

## **Barclays Capital US Aggregate:** December 2000 vs. September 2012

---

### **Yield:**

Declined from 6.43% to 1.61%

### **Credit:**

AAA exposure declined from 78% to 74%

### **Average Price:**

Increased from \$102.42 to \$109.94

### **Duration:**

Extended from 4.6 years to 4.9 years

## **Barclays Capital US High Yield—2% Issuer Capped Index: December 2000 vs. September 2012**

---

### **Yield:**

Declined from 14.45% to 6.51%

### **Credit:**

CCC exposure increased from 9% to 18%

### **Average Price:**

Increased from \$75.67 to \$103.29

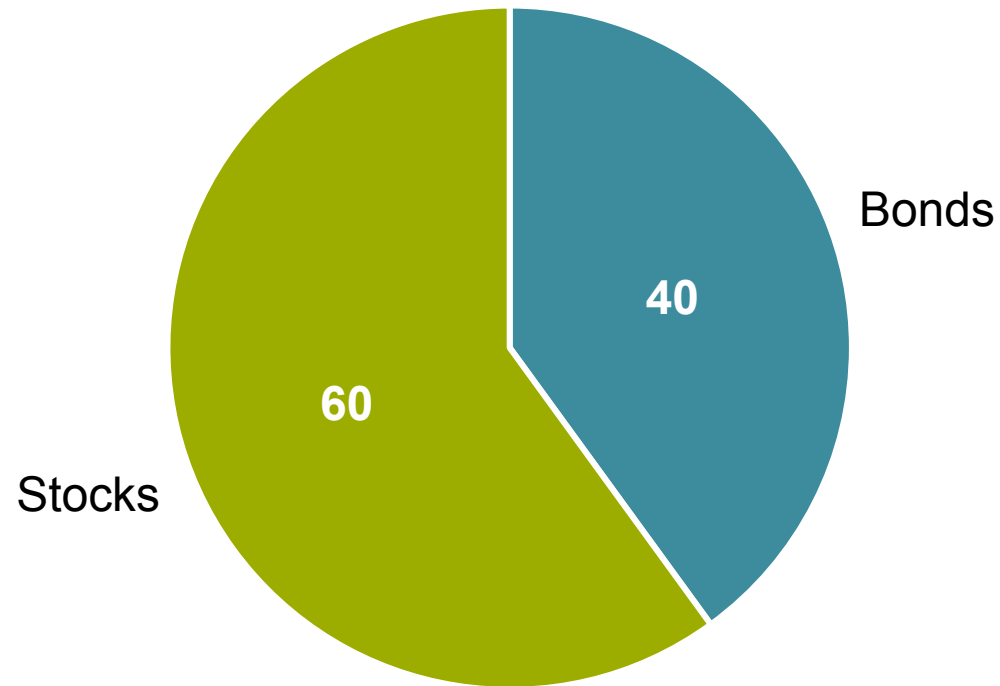
### **Duration:**

Extended from 4.6 years to 4.9 years

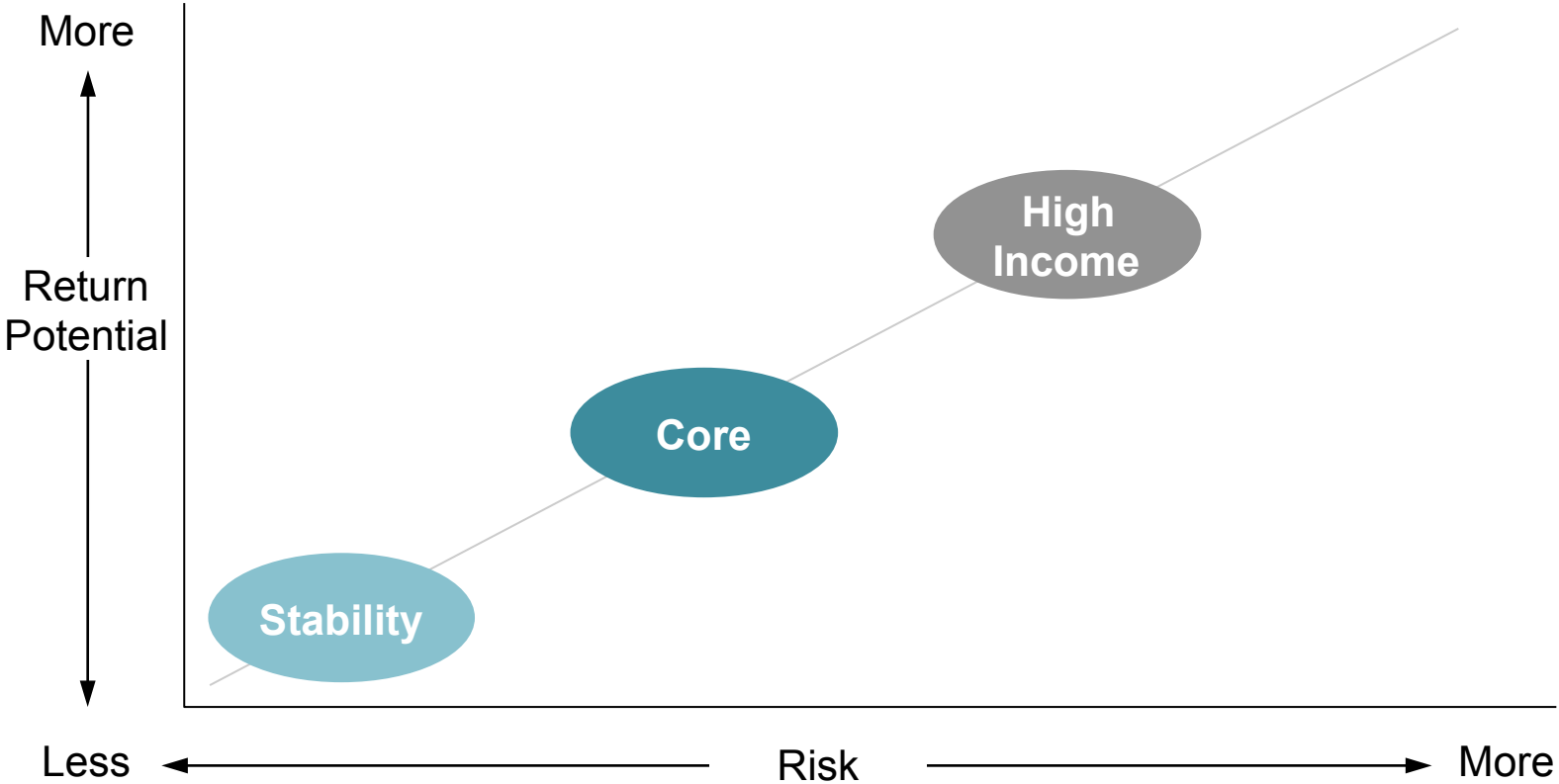
Historical analysis does not guarantee future results.  
Source: Barclays Capital and AllianceBernstein

# The Old Rx

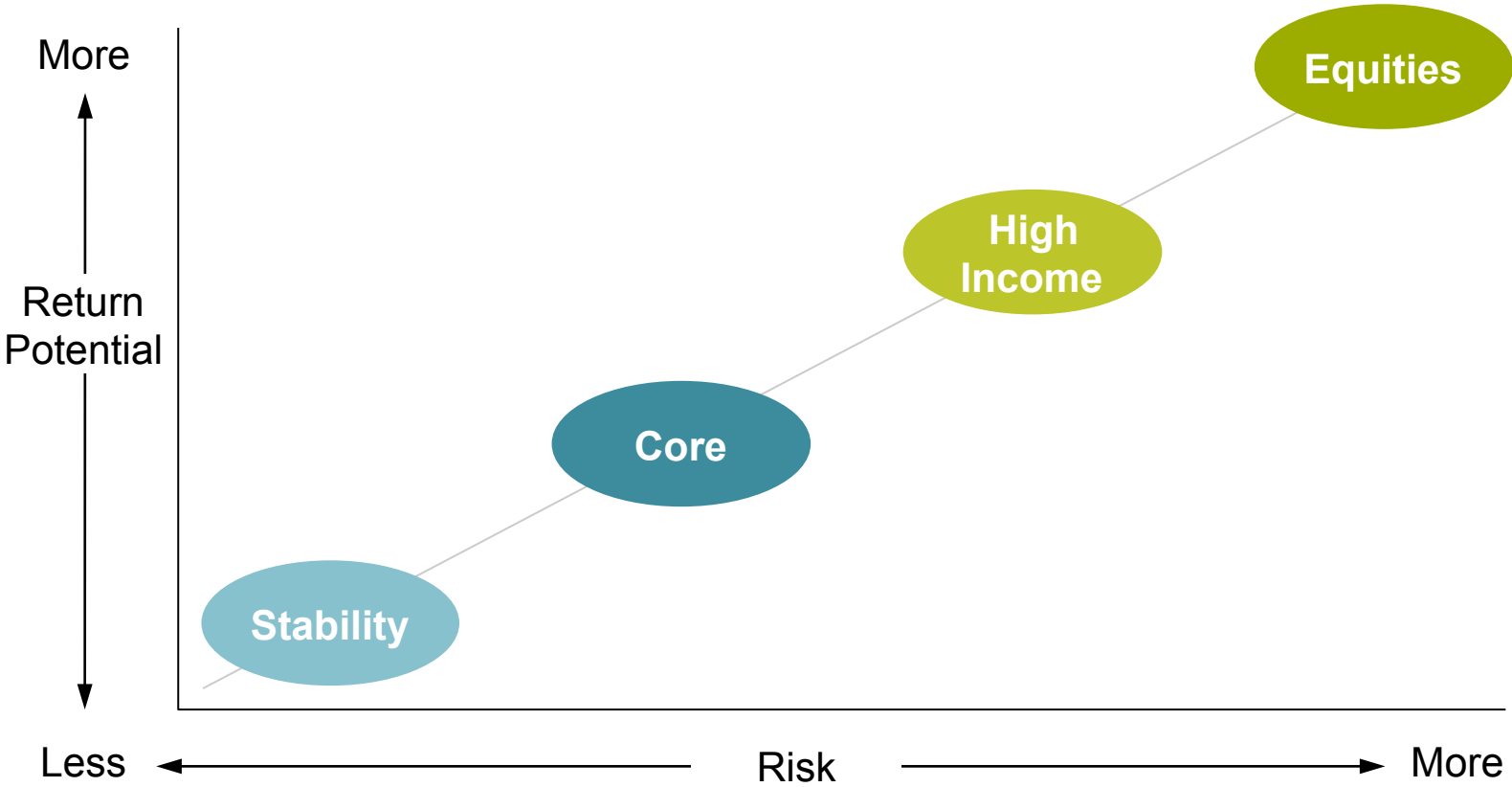
## The Old Rx



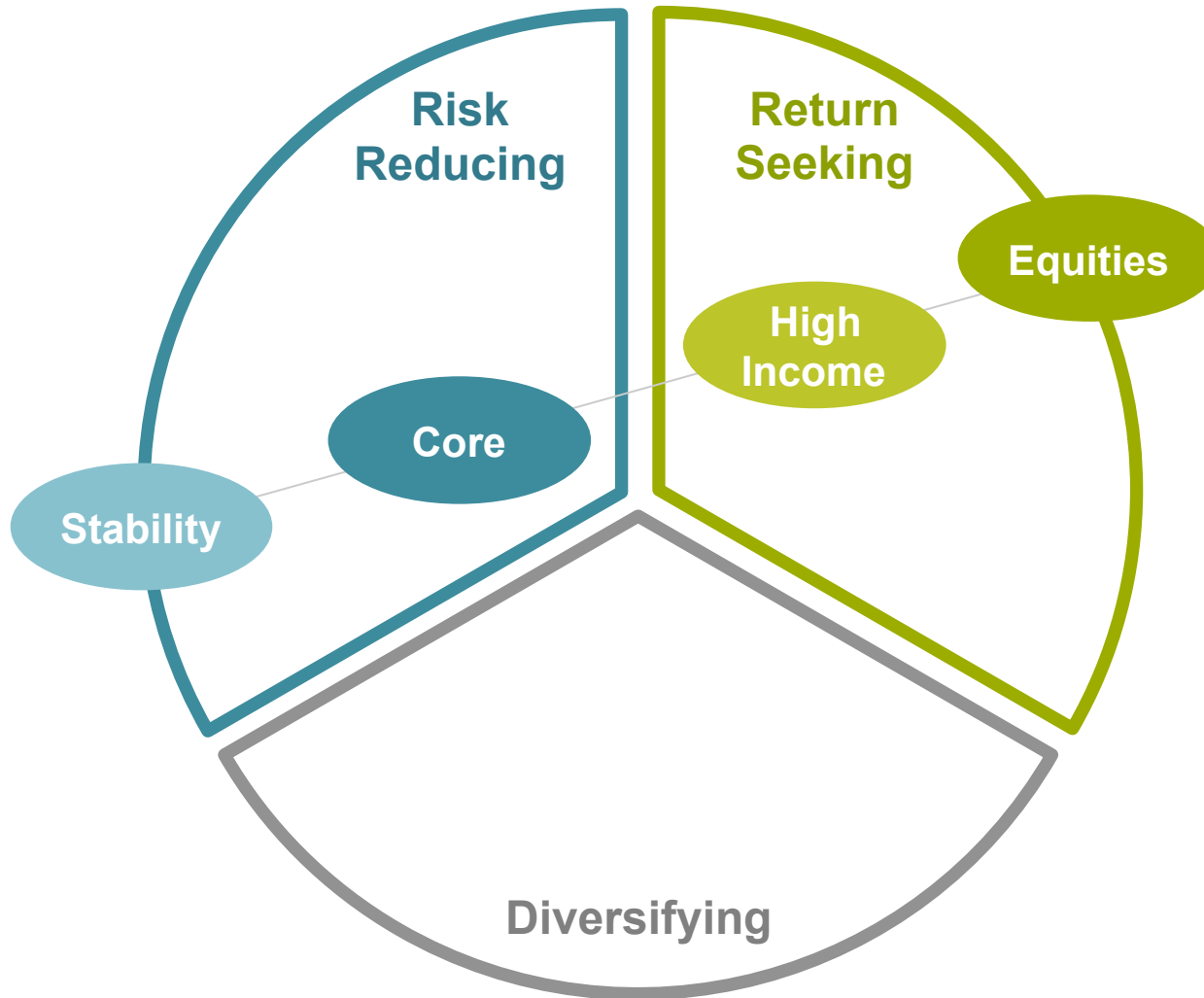
# Looking at Fixed Income Through the Traditional Lens



# But Not All Bonds Behave the Same Way



# A New Prescription Emerges: Alternatives Add Diversification



Diversification does not eliminate the risk of loss.

# Diversification Demands Enhanced Techniques

## New Techniques

- Absolute-return oriented
- Dynamic/tactical
- Shorting
- Tail-risk hedging

## Potential Benefits to Investors

- Abandoning the benchmark may lower correlation
- Better navigating today's elevated market volatility
- Profiting from relative-value long/short opportunities
- Buffering the portfolio in periods of market stress

# Abruptness of Risk-On, Risk-Off Demands More Dynamic Strategies

## Global Risk Aversion Indicator\*



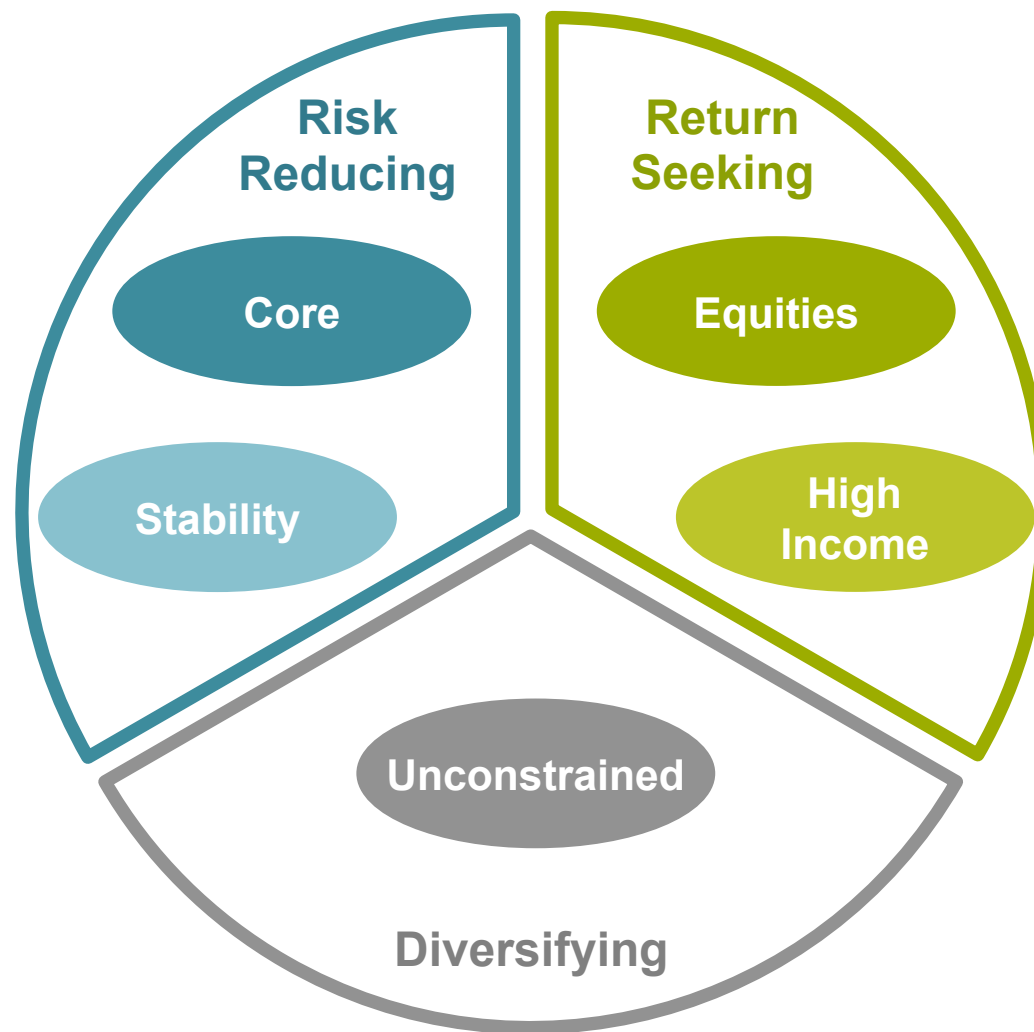
Historical analysis does not guarantee future results.

Through September 30, 2012

\*Incorporates equity index-implied volatilities, bond spreads, currency index-implied volatilities and equity mutual fund flows

Source: AllianceBernstein

# A New Prescription



# AllianceBernstein Unconstrained Bond Strategy

*An alternative, global, multisector, absolute-return-focused fixed-income strategy*

- Benchmark: Bank of America Merrill Lynch 3-Month Treasury Bill Index
- Investment strategy universe: rates, credit, emerging markets, securitizations, currencies and macro/cross-asset class in derivative and cash markets
- Credit quality: max 50% exposure to below-investment-grade securities
- Duration: -3 to +7 Years

Unconstrained Bond Correlations to	Feb 2011–Sep 2012
US Aggregate*	0.34
US Treasuries	0.28
US Corporates	0.40
US High Yield	0.21
S&P 500	0.09

**Past performance does not guarantee future results.**

As of September 30, 2012

\*US aggregate as represented by the Barclays Capital US Aggregate Index, US Treasuries as represented by the Barclays Capital US Treasury Index, US corporates as represented by the Barclays Capital US Corporate Bond Index, US high yield as represented by the Barclays Capital US High Yield—2% Issuer Constrained Index

Correlations are calculated using daily return data, as monthly track record is not long enough to provide a statistically significant 36 months.

Source: Barclays Capital, S&P and AllianceBernstein

# AllianceBernstein Unconstrained Bond Fund (AGSAX)

1. We apply quantitative and fundamental research in an attempt to identify diverse and attractive macro opportunities in liquid markets
2. Leveraging the AllianceBernstein global research platform, we continuously monitor global financial markets in an attempt to capture inefficiencies offering asymmetric return profiles



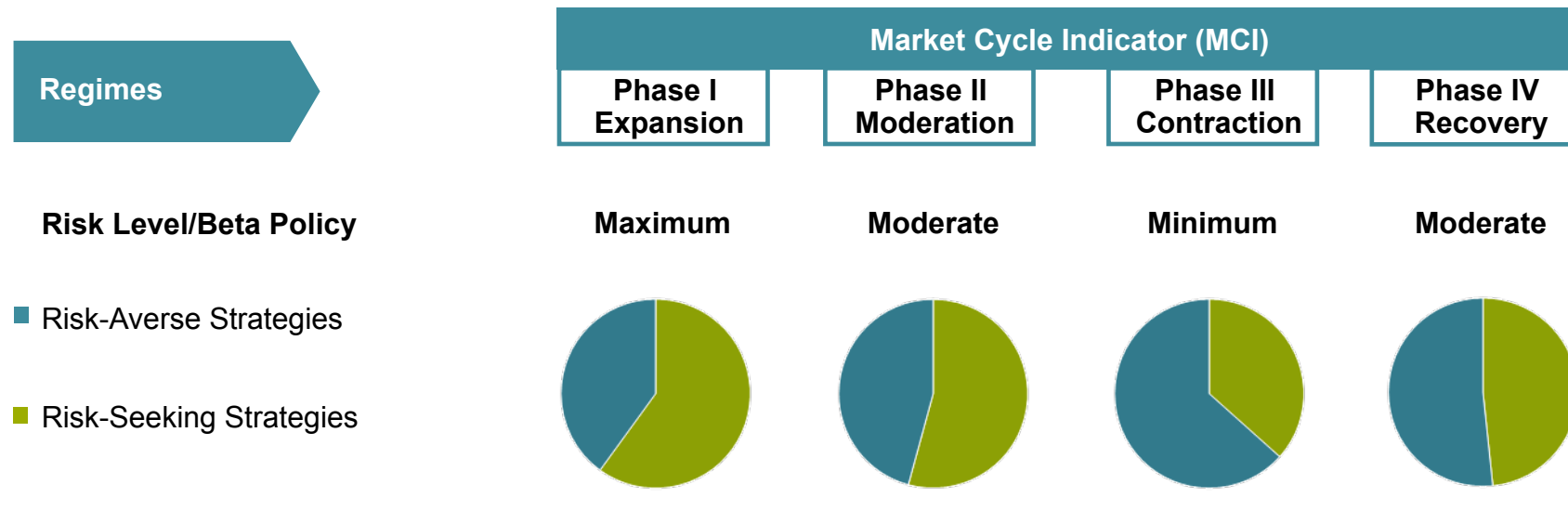
3. We implement dynamic tail-risk hedging in an attempt to buffer the portfolio in periods of market stress

As of September 30, 2012  
Source: AllianceBernstein

# AllianceBernstein Unconstrained Bond Fund Portfolio

## Construction: Macro Strategies

Assessing the current risk/return environment drives our core portfolio beta positioning and risk budget



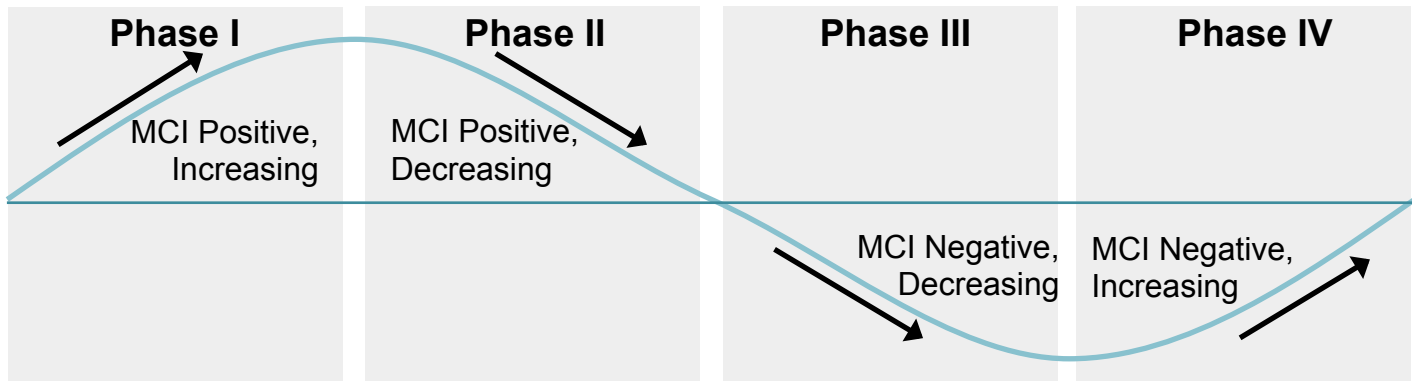
*We tilt our macro exposures based on the results of our proprietary Market Cycle Indicator*

For illustrative purposes only.  
As of September 30, 2012

Risk-averse strategies may include (but are not limited to) global treasuries and global inflation-linked bonds. Risk-seeking strategies may include (but are not limited to) credit (including investment-grade and high-yield bonds), emerging markets, securitizations and currency strategies.

Source: AllianceBernstein

# Market Cycle Indicator



Expansion	Moderation	Contraction	Recovery
High Yield 17.0%	Currency 5.7%	Treasuries 5.4%	Currency 10.6%
Emerging Markets 12.0%	High Yield 5.4%	TIPS 1.2%	Emerging Markets 7.2%
TIPS 9.5%	Treasuries 4.9%	Currency -4.4%	High Yield 5.0%
Currency 8.8%	TIPS 4.2%	Inv.-Grade Corps -5.1%	TIPS 4.8%
Inv.-Grade Corps 6.3%	Emerging Markets 3.9%	Emerging Markets -6.0%	IG Corps 2.3%
Treasuries 3.9%	Inv.-Grade Corps -0.1%	High Yield -13.3%	Treasuries -0.2%

Investment strategies change leadership during different phases of an investment cycle

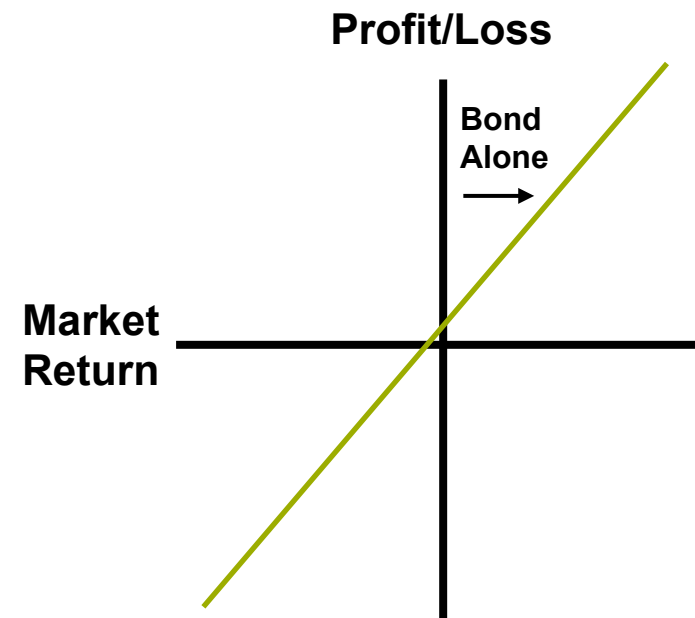
Insights gained from our Market Cycle Indicator enable us to take advantage of these shifts

- Risk Averse  
(Includes: Treasuries and inflation-linked bonds)
- Risk Seeking  
(Includes: credit, emerging markets and currency)

**Past performance does not guarantee future returns.** Data are from March 1997 through June 2012. Investment-grade corporates, high yield and emerging markets returns are excess returns to Treasuries. Treasuries and TIPS are excess returns to US Treasury bills. Currency returns are top three minus bottom three G10 currencies as measured by interest-rate differentials. High yield as represented by the Barclays Capital US High Yield Corporate Index, investment-grade corporates as represented by the Barclays Capital Investment-Grade Corporate Index and emerging markets as represented by the Barclays Capital USD Emerging Market Debt Index. Source: Barclays Capital, Bloomberg and AllianceBernstein

# Alternative Alpha Strategies: Seeking Asymmetric Returns

## Traditional Alpha Payout Profile



The graph is a highly simplified example for illustrative purposes only. There are always investment risks (e.g., counterparty risk) and it should therefore not be assumed that an investment strategy described herein can or will be profitable.

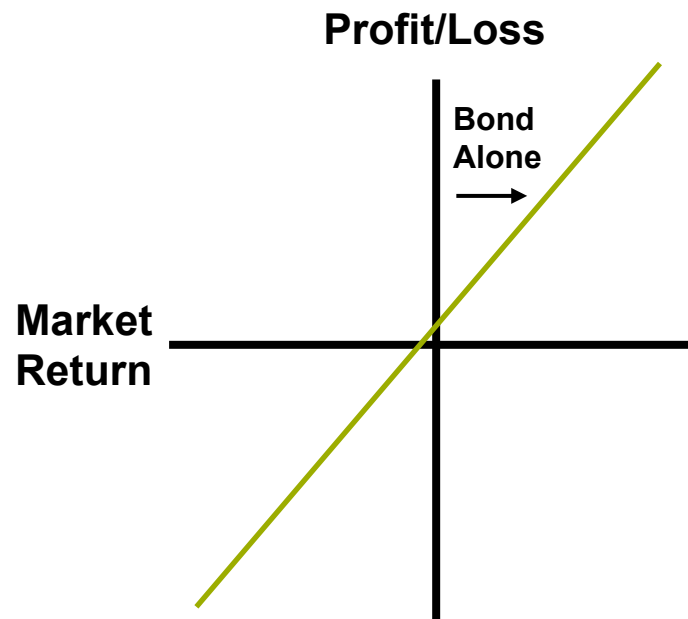
Source: AllianceBernstein

# Alternative Alpha Strategies: Seeking Asymmetric Returns

## Traditional Market Opportunity: Corporate Bond

- Traditional fixed income managers seek to identify corporates that will outperform the benchmark
- However, the payout profile is symmetric – with multiple sources of risk and return (duration, credit spread and default risk)

## Traditional Alpha Payout Profile



The graph is a highly simplified example for illustrative purposes only. There are always investment risks (e.g., counterparty risk) and it should therefore not be assumed that an investment strategy described herein can or will be profitable.

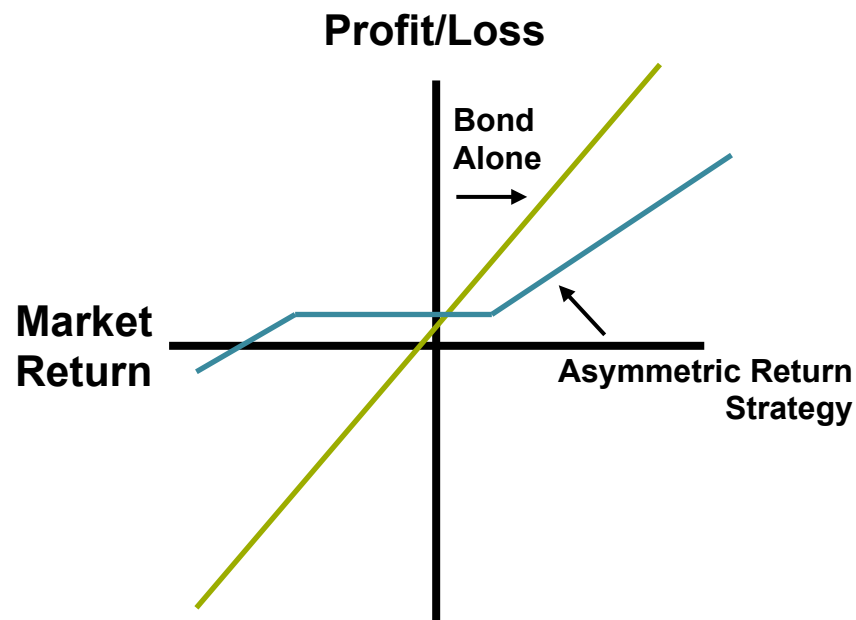
Source: AllianceBernstein

# Alternative Alpha Strategies: Seeking Asymmetric Returns

## Traditional Market Opportunity: Corporate Bond

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- However, the payout profile is symmetric – with multiple sources of risk and return (duration, credit spread and default risk)

## Asymmetric Alpha Payout Profile



The graph is a highly simplified example for illustrative purposes only. There are always investment risks (e.g., counterparty risk) and it should therefore not be assumed that an investment strategy described herein can or will be profitable.

Source: AllianceBernstein

# Alternative Alpha Strategies: Seeking Asymmetric Returns

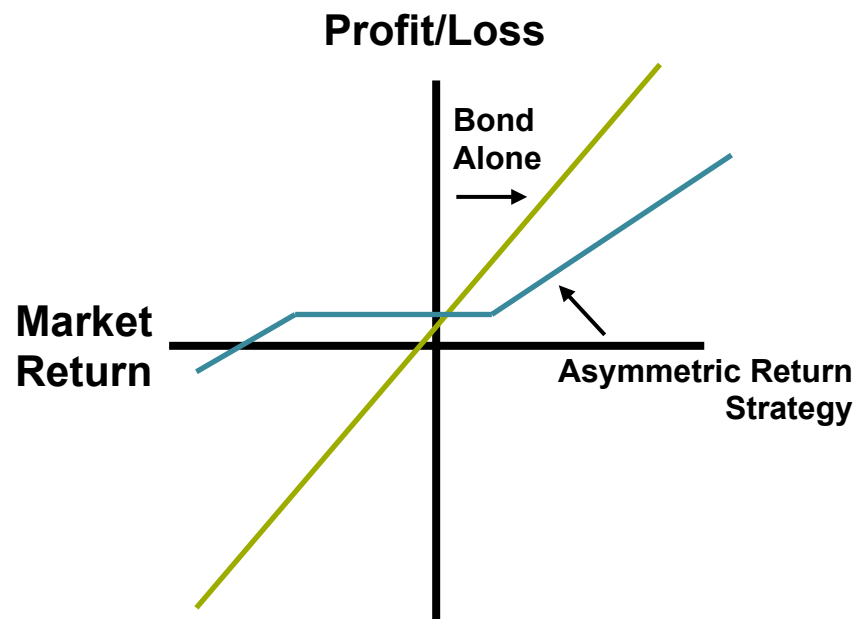
## Traditional Market Opportunity: Corporate Bond

- Traditional fixed income managers seek to identify corporates that will outperform the benchmark
- However, the payout profile is symmetric – with multiple sources of risk and return (duration, credit spread and default risk)

## Asymmetric Market Opportunity: Basis Trade

- An absolute return oriented investor can isolate the credit opportunity in three steps
  - 1) Acquire corporate bond
  - 2) Neutralize interest rate risk by selling futures
  - 3) Limit default risk with credit default swaps
- The combination of these transactions can create a more attractive payout profile

## Asymmetric Alpha Payout Profile



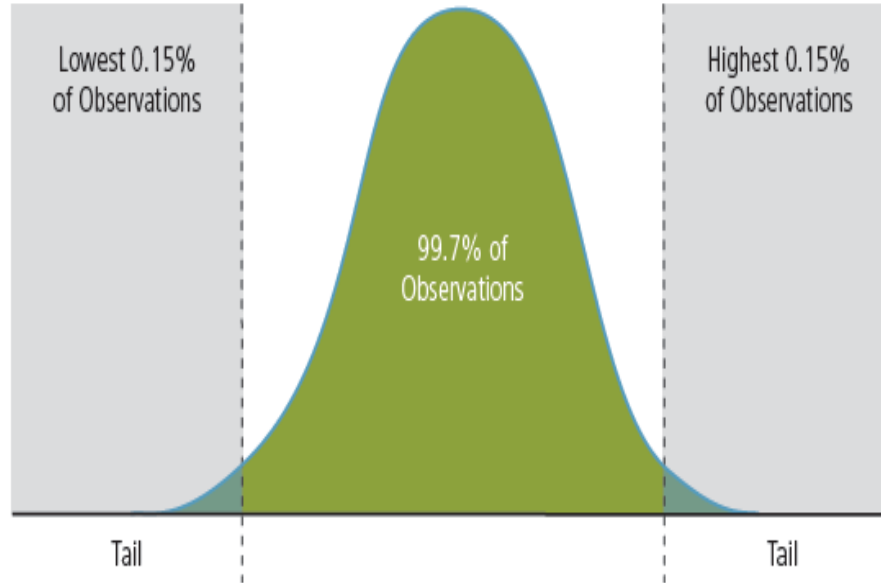
The graph is a highly simplified example for illustrative purposes only. There are always investment risks (e.g., counterparty risk) and it should therefore not be assumed that an investment strategy described herein can or will be profitable.

Source: AllianceBernstein

# What Is Tail-Risk Hedging?

- Technical definition:

*A tail-hedge strategy is designed to potentially buffer a portfolio during a three-standard-deviation market*



- Practical definition:

*A tail-hedge strategy is like an umbrella—you want to own one before it rains*

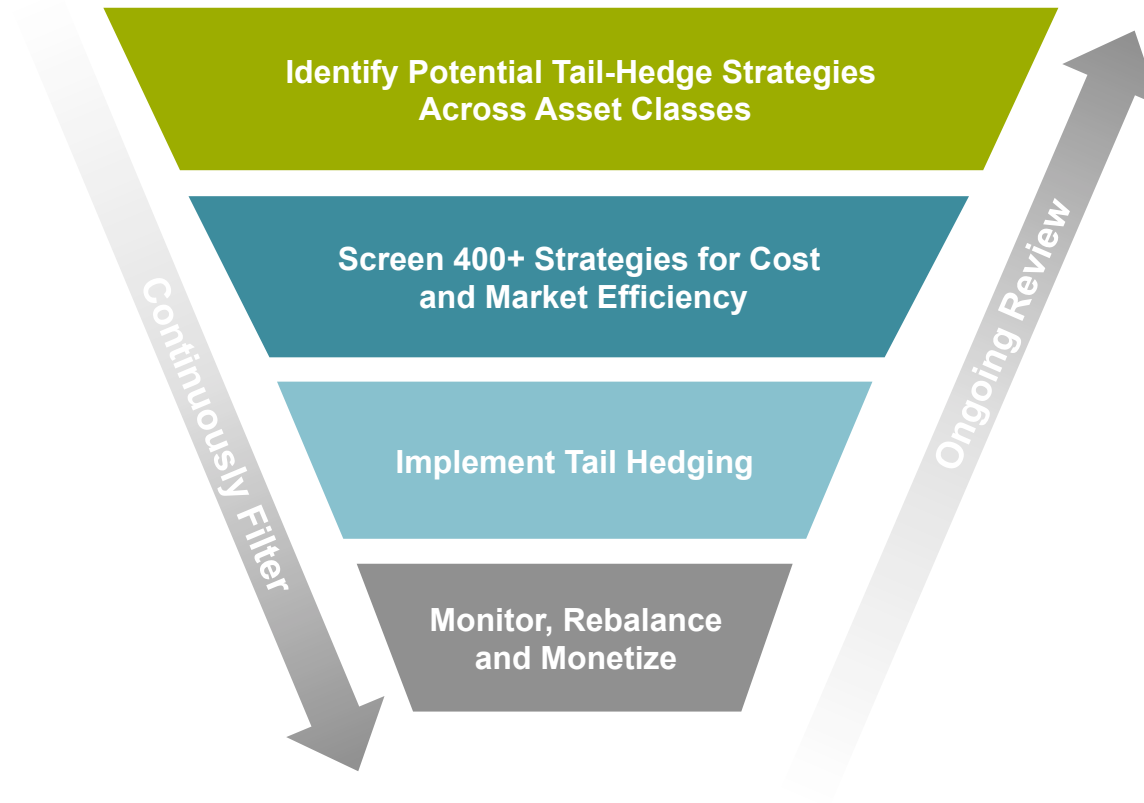


For illustrative purposes only.  
Source: AllianceBernstein

# AllianceBernstein Unconstrained Bond Fund Portfolio

## Construction: Dynamic Tail Hedging

Our tail-hedging strategy is willing to “give up” some upside in an attempt to buffer on the downside



Source: AllianceBernstein

# Our Recommendation

- Introduce AllianceBernstein Unconstrained Bond Fund to capture fixed-income opportunities while enhancing diversification
- Source from core holdings to reduce interest-rate risk
- Source from high-yield holdings to reduce credit risk

# AllianceBernstein Unconstrained Bond Fund (AGSAX): Performance Summary

	Periods Ended September 30, 2012					
	3Q 2012	One Year	Three Years	Five Years	10 Years	Since Inception
<b>Unconstrained Bond Fund<sup>1</sup> Class A without sales charges</b>	2.20%	9.35%	6.83%	3.46%	6.23%	6.34%
<b>Unconstrained Bond Fund Class A with max 4.25% sales charge</b>	-2.19	4.76	5.29	2.56	5.77	6.06
<b>BofA Merrill Lynch 3-Month T-Bill Index</b>	0.03	0.07	0.11	0.72	1.82	NA
<b>Relative Performance</b>	+2.17%	+9.28%	+6.72%	+2.74%	+4.41%	NA

Expense Ratio—Gross 1.44% Net\* 0.90% as of January 31, 2012

The performance information shown represents past performance and does not guarantee future results. The investment return and principal value of an investment in the Funds will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information shown. You may obtain performance information current to the most recent month-end by visiting [www.alliancebernstein.com/investors/us](http://www.alliancebernstein.com/investors/us). Returns for other share classes will vary due to different charges and expenses. Performance assumes reinvestment of distributions and does not account for taxes.

\*Net of waiver fees reflect the Advisor's contractual waiver of a portion of its advisory fee and/or reimbursement of a portion of the Fund's operating expenses. This waiver extends through January 31, 2013, and may be extended by the Advisor for additional one-year terms. Absent reimbursements or waivers, performance would have been lower.

Morningstar averages represent the average returns of funds contained in the respective Morningstar category. Funds within the category generally have similar investment objectives although some may have different investment policies.

<sup>1</sup>Prior to February 3, 2011, the AllianceBernstein Unconstrained Bond Fund was named the AllianceBernstein Diversified Yield Fund.

Inception date: Unconstrained Bond: January 9, 1996

Source: BofA Merrill Lynch, and AllianceBernstein

# Appendix

# A Word About Risk

**Market Risk:** The market values of the portfolio's holdings rise and fall from day to day, so investments may lose value.

**Interest-Rate Risk:** Fixed-income securities may lose value if interest rates rise or fall—long-term securities tend to rise and fall more than short-term securities.

**Credit Risk:** A bond's credit rating reflects the issuer's ability to make timely payments of interest or principal—the lower the rating, the higher the risk of default. If the issuer's financial strength deteriorates, the issuer's rating may be lowered and the bond's value may decline.

**Inflation Risk:** Prices for goods and services tend to rise over time, which may erode the purchasing power of investments.

**Foreign (Non-US) Risk:** Investing in non-US securities may be more volatile because of political, regulatory, market and economic uncertainties associated with such securities. These risks are magnified in securities of emerging or developing markets.

**Currency Risk:** If a non-US security's trading currency weakens versus the US dollar, its value may be negatively affected when translated back into US-dollar terms.

**Diversification Risk:** Portfolios that hold a smaller number of securities may be more volatile than more diversified portfolios, since gains or losses from each security will have a greater impact on the portfolio's overall value.

**Derivatives Risk:** Investing in derivative instruments such as options, futures, forwards or swaps can be riskier than investing in traditional investments, and may be more volatile, especially in a down market.

**Leverage Risk:** Trying to enhance investment returns by borrowing money or using other leverage tools—magnifying both gains and losses, resulting in greater volatility.

**Below-Investment-Grade Securities Risk:** Investments in fixed-income securities with lower ratings (commonly known as “junk bonds”) tend to have a higher probability that an issuer will default or fail to meet its payment obligations.

# Important Fund Disclosure Information

**Investors should consider the investment objectives, risks, charges and expenses of the Fund/Portfolio carefully before investing. For copies of our prospectus or summary prospectus, which contain this and other information, visit us online at [www.alliancebernstein.com](http://www.alliancebernstein.com) or contact your AllianceBernstein Investments representative. Please read the prospectus and/or summary prospectus carefully before investing.**



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