September 2008

For Shareholders of AllianceBernstein Municipal Income Fund—Insured California Portfolio

The Board of Directors of AllianceBernstein Municipal Income Fund—Insured California Portfolio ("Insured California Portfolio") has approved our recommendation to change certain policies relating to insurance and insurer ratings. The Fund's name will change to reflect the revised policies.

The Board has also approved a proposal to combine the relatively small Insured California Portfolio into its larger, less-expensive uninsured counterpart, the AllianceBernstein Municipal Income Fund—California Portfolio ("California Portfolio"), pending shareholder approval.

These policy changes reflect our ongoing effort to meet shareholders' needs effectively by evaluating our family of funds relative to the evolving market landscape. Based on our most recent research, we've concluded that modifying the Insured California Portfolio's policies and combining it with the California Portfolio will improve our ability to pursue attractive investment opportunities for the benefit of shareholders.

What changes are being made to the Fund?

- We're eliminating the requirement that the Fund maintain at least 80% of its assets in insured bonds.
- We're removing restrictions regarding insurer ratings, giving the Fund the flexibility to pursue investment opportunities without the limitations imposed by a bond insurer's credit quality. The Fund previously didn't invest in securities backed by insurers with credit ratings below A, and limited its investments in below-AA insured bonds to 25% of the portfolio.
- We're changing the name of the Insured California Portfolio to the Alliance Bernstein Municipal Income Fund—California Portfolio II, to reflect the elimination of the insurance requirement.
- Pending shareholder approval, the California Portfolio will acquire the California Portfolio II.

Why change the Insured California Portfolio's investment policies?

Credit rating agencies recently downgraded most bond insurers, causing upheaval in the municipal market. Over recent years, these insurers had expanded their core businesses from insuring municipal bonds to insuring risky mortgage securities. As the credit crunch unfolded, the value of these securities plummeted, exposing the insurers to significant losses and undermining their financial strength.

As the bond insurers' ratings declined, the market questioned the value of municipal bond insurance. Bonds insured by these companies saw their credit ratings fall as well, as investors began evaluating most bonds based principally on an issuer's credit quality—without taking into account the bond's insurance component. These ratings downgrades have also made bonds with insurance more volatile.

Many municipalities have responded to this turmoil by simply choosing not to insure the bonds they issue, significantly reducing new issuance of insured bonds. Together with the lowered credit ratings, this development has reduced the pool of municipal bonds that fall within the Fund's existing guidelines, limiting the available investment opportunities.

In light of these events, our research indicates that a portfolio comprised primarily of insured bonds no longer provides an attractive balance of risk and return potential.

What are the benefits of eliminating the insurance requirement?

- By eliminating these investment restrictions, we believe we'll be able to achieve higher returns for a given amount of risk than would be possible from a portfolio composed principally of insured bonds.
- A larger investment universe allows for broader diversification in pursuing the Fund's objective of achieving the highest level of income without undue risk.

Will the investment policy enhancements impact the Fund's yield?

In our view, a larger opportunity set and broader diversification will allow us to achieve a more attractive yield for investors without taking on excessive risk.

Why are you proposing to combine the Insured California Portfolio and California Portfolio?

- Both the Insured California Portfolio and California Portfolio pursue the same investment objective: "achieve the highest level of current income, exempt from federal and California state taxation, that's available without assuming what the Adviser believes to be undue risk."
- Shareholders of the Insured California Portfolio will benefit from the merged Fund's expanded investment universe and significantly lower operating expenses.

Note that we'll change the name of the Insured California Portfolio to AllianceBernstein California Portfolio II and will eliminate certain investment restrictions prior to the proposed acquisition.

What are the key differences in the investment guidelines between the Insured California Portfolio and the California Portfolio?

	Insured California Portfolio	California Portfolio
Insurance requirement	Invests principally in insured municipal securities (Note that due to the credit support that the insurance provides, these securities have historically had higher average credit ratings than uninsured issues.)	No insurance requirement
Geography	California Municipal Bonds	California Municipal Bonds
Exposure to the Alternative Minimum Tax (AMT)	Limited exposure up to 20% of portfolio	No limit on exposure

Why change the guidelines prior to the proposed acquisition?

We're modifying the guidelines independent of the shareholder vote. By making these changes before the proposed acquisition takes effect, we'll be able to navigate the current challenges in the market more effectively by accessing a broader array of investments. We believe this will enhance the Fund's ability to meet its investment objective.

Would the portfolio management team change if the merger is approved?

No. Both Funds share the same portfolio management team: the Municipal Bond Investments Group. There will be no changes to the team as a result of the combination.

AllianceBernstein Municipal Investment Policy Group

Name	Title/ Responsibilities	Years Experience	Years at Firm
R.B. Davidson III	Senior Vice President, Director—Municipal Bonds	25	16
Michael Brooks	Senior Vice President, Portfolio Manager	36	17
Fred S. Cohen	Senior Vice President, Director—Municipal Bond Trading	29	23
Terrance T. Hults	Senior Vice President, Portfolio Manager	17	13
Average		27	17

As of February 1, 2008

Will merging the two funds impact my investment's risk/return profile?

Both funds seek to generate income and price appreciation without assuming what management considers undue risk.

What would be the total expenses for the combined fund?

As a result of our expense caps, the combined fund's expense ratio would be lower than that of the California Portfolio II (formerly named Insured California Portfolio). In the table below, we compare the expense ratios for the Portfolios and the pro forma expense ratio for the combined fund. This comparison takes into account a reduction in the California Portfolio's total expense ratio cap of 0.75%, which will take effect January 1, 2009.

Total Expense Ratio—Class A

	Gross Expense Ratio	Net Expense Ratio
California Portfolio	0.85%	0.75%[1]
Insured California Portfolio[2,3]	1.16	1.16
Combined California (pro forma)[2]	0.85	0.75

1 Net expense ratio as of February 1, 2008 is 0.77%

2 As of June 30, 2008

3 By the time of the acquisition, Insured California Portfolio's name will have changed to California Portfolio II.

Do the funds' benchmarks differ?

No. The Lehman Brothers Municipal Bond Index is the benchmark for both funds.

Do the Lipper and Morningstar categories differ for the funds?

Yes. These organizations classify the Insured California Portfolio in the Lipper Single State Insured Municipal Debt category and the California Portfolio in the Lipper CA Municipal Debt category. We anticipate these organizations to continue to classify the California Portfolio in its current categories.

How will you transition the Fund's portfolio?

The California Portfolio will acquire the assets and liabilities of the California Portfolio II (formerly named Insured California Portfolio). We don't anticipate that the combination will require significant repositioning, so there shouldn't be a significant change in the California Portfolio's credit quality or other portfolio characteristics.

Will I incur any processing fees from this combination?

No. Shareholders won't pay any special processing fees due to this combination.

Is this a taxable event?

No. Shareholders won't recognize any capital gains or losses as a result of the combination.

Will there be any special distributions associated with the acquisition?

Any income and/or capital gain distributions (if necessary) from the California Portfolio II (formerly named Insured California Portfolio) would be made to its shareholders prior to the merger date.

Will I now have to pay AMT because of the changes to the Insured California Portfolio?

Eliminating the Fund's restrictions regarding insurance and insurer ratings shouldn't affect your calculation for the alternative minimum tax (AMT). The Fund will continue to invest principally in securities that are wholly exempt from federal income tax, including the AMT.

If the merger is approved by shareholders, the combined fund may generate income that is subject to the AMT. As of February 1, 2008 the bonds subject to AMT was 12% of the California Portfolio. However, we believe the combined fund's larger opportunity set and lower expense ratio offers shareholders a well-diversified, less expensive portfolio which ultimately provides the potential for stronger after-tax returns. As such we believe the merger remains an attractive proposition for shareholders.

If you aren't currently subject to the AMT, the income from your municipal bond investments probably won't be enough to push you into AMT territory—other factors usually play a much bigger part in determining your AMT liability. But as always, you should work with your tax and financial advisors to determine the potential impact of AMT.

What should I do with my share certificates?

Your outstanding share certificates for the Insured California Portfolio will be null and void after the acquisition. You don't need to return the certificates, but we'll accept them if you mail them to:

AllianceBernstein Investor Services, Inc.
P.O. Box 786003
San Antonio, TX 78278-6003

Will CUSIP numbers and stock symbols change?

The California Portfolio will retain its current CUSIPs and ticker symbols:

AllianceBernstein Municipal Income Fund—California Portfolio

Class	CUSIP	Ticker Symbol
A	18642306	ALCAX
B	18642801	ALCBX
C	18642850	ACACX
Advisor	18642785	ALCVX

Shareholder Vote Information

The proposed acquisition will require a shareholder vote. This is due to the Insured California Portfolio's fundamental policy that requires it to invest principally in securities that are wholly exempt from federal income tax, including the AMT.

Timing

Investment policy/fund name changes

When will the changes take effect?

- We're removing the investment restrictions regarding insurer ratings effective immediately, allowing the portfolio management team to adjust the portfolio over time.
- We'll change the Fund's name to AllianceBernstein Municipal Income Fund—California Portfolio II and will eliminate the insurance requirement on or about December 1, 2008.

How will shareholders be notified?

We'll notify investors with a prospectus supplement, which we'll distribute on or about September 26, 2008.

Acquisition by California Portfolio

When will the shareholder vote take place?

We've scheduled a shareholder meeting for December 12, 2008. If we don't obtain a majority of the shareholder votes by December 12, 2008, we'll likely adjourn the meeting for further solicitation and will reschedule the vote for a later date.

How will shareholders be notified of the upcoming vote?

We'll notify existing shareholders as of record date October 31, 2008, via the proxy statement on or about November 13, 2008. Only those shareholders owning shares in the Fund as of the record date will be eligible to vote.

If approved, when would the acquisition take place?

To proceed with the acquisition, we must receive a majority of the shareholders votes approving the proposal by the date of the shareholder meeting on December 12, 2008. Once this is complete, the acquisition would take place as soon as practicable—most likely in early 2009.

AllianceBernstein L.P. does not provide tax advice. In considering this message, you should discuss your individual circumstances with your tax advisor before making any decisions.

A Word About Risk

Price fluctuations in the Portfolio's securities may be caused by changes in the general level of interest rates or changes in bond credit quality ratings. Changes in interest rates have a greater effect on bonds with longer maturities than on those with shorter maturities. Please note, as interest rates rise, existing bond prices fall and can cause the value of your investment in the Portfolio to decline. Municipal income securities may realize gains; therefore, shareholders will incur a tax liability from time to time. Income may be subject to state and local taxes and/or the alternative minimum tax. A municipal security could be downgraded or its issuer could default in payment of principal or interest. If applicable, for bonds that are issued at higher interest rates, the issuer may exercise its right to recall some or all of the outstanding bonds to investors prior to their maturity. Individual state municipal portfolios are non-diversified and subject to geographic risk including greater risk of adverse economic conditions and regulatory changes based on their narrow investment objectives. While the Portfolio invests principally in bonds and other fixed-income securities, in order to achieve its investment objectives, the Portfolio may at times use certain types of investment derivatives, such as options, futures, forwards and swaps. These instruments involve risks different from, and in certain cases, greater than, the risks presented by more traditional investments. These risks are fully discussed in the Portfolio's prospectus.

The Portfolio may purchase municipal securities that are insured under policies issued by certain insurance companies. Insured municipal securities typically receive a higher credit rating which means that the issuer of the securities pays a lower interest rate. In purchasing such insured securities, the Adviser gives consideration to both the insurer and the credit quality of the underlying issuer. The insurance reduces the credit risk for a particular municipal security by supplementing the creditworthiness of the underlying bond and provides additional security for payment of the principal and interest of a municipal security. Certain of the insurance companies that provide insurance for municipal securities provide insurance for other types of securities, including some involving subprime mortgages. The value of subprime mortgage securities has declined recently and some may default increasing a bond insurer's risk of having to make payments to holders of subprime mortgage securities. Because of this risk, the ratings of some insurance companies have been, or may be, downgraded and it is possible that an insurance company may become insolvent. If an insurance company's rating is downgraded or the company becomes insolvent, the prices of municipal securities insured by the insurance company may decline.

An investor should consider the investment objectives, risks and charges and expenses of a fund carefully before investing. For a free copy of a fund's prospectus, which contains this and other information, visit our website at www.alliancebernstein.com or call AllianceBernstein Investments at 800.227.4618. Investors should read the prospectus carefully before investing.

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