

CollegeBoundfund[®]



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Recent capital market unrest has brought new pain and new anxieties, but the seeds of recovery have been planted.

More than a year and a half has passed since the beginning of the credit crisis, and the financial markets are still under siege. Every time it looks like there is a light at the end of the tunnel, a new controversy arises.

Amidst this turmoil, investors are left to cope with one shocking headline after another. Several high-profile financial institutions were taken over by the government, filed for bankruptcy or were forced to sell themselves to find the capital they needed to stay in business. Transmitted through a global financial web, the crisis began to take hold around the world.

With bad mortgage investments weighing on the financial community, lenders stopped lending to each other. Small businesses are struggling to borrow money to invest in new projects

and grow; even large corporations face challenges borrowing short-term funds to meet expenses. If these expenses include payrolls, layoffs may follow.

Consumers aren't immune to these challenges, either. Car loans, student loans and home loans have dried up—and even borrowers who can meet stricter borrowing standards end up paying higher rates. These converging forces have hit the stock and bond markets with equal force, leaving only the safest Treasury bonds above water.

We'll discuss these issues in more detail in the next few pages, but the bottom line for investors is to stay resilient. Difficult times create opportunities that can pave the way for better days ahead. While this process is painful, it's vital to keep your portfolio on track and your college savings goals in sight.

Investment Products Offered

• Are Not FDIC Insured • May Lose Value • Are Not Bank Guaranteed



Frank T. Caprio
General Treasurer



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Executive Director

How to Keep Up with Rising College Costs

Keeping your money in cash likely won't help you meet the rising cost of education.

2008 was a very rough year for investment portfolios of all kinds; our college savings funds were no exception. Our diversified mix of stocks and bonds usually gives investors smoother returns because bonds tend to do well when stocks do poorly—and vice versa. But diversification doesn't always work well in unusually intense financial crises, and, in this case, most stocks and bonds declined in unison. The biggest exception to this was government bonds, which performed well.

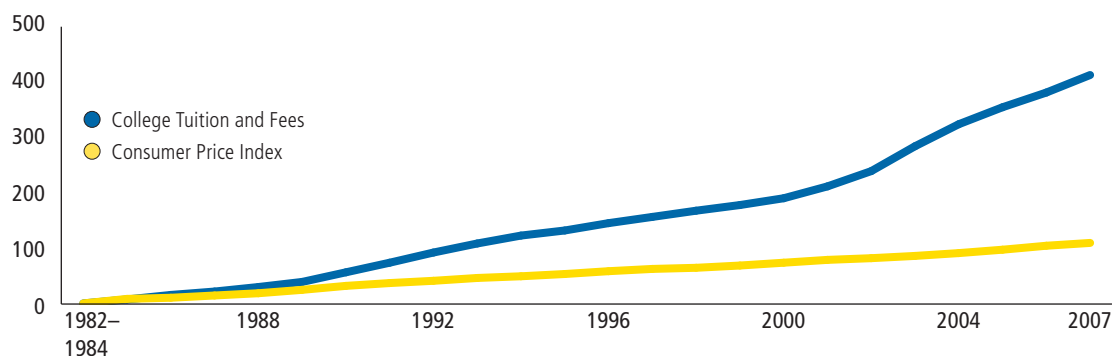
While government bonds are one of the safest assets, stocks provide important growth potential to help keep up with the price of a college education, which is rising about 6% a year—and will likely keep rising until the day your child graduates.¹

Our age-based approach to college savings balances the needs of growth and stability by adjusting the mix of stocks and bonds as your child grows up. As your child approaches college, the allocation moves to 35% equity and 65% bonds in order to prepare for distribution to pay for college costs.

The financial turmoil we're going through has been unnerving to anyone with an investment portfolio. But pulling assets out of stocks now will only lock in your losses and leave you on the sidelines when the market eventually recovers. It's important to remember that college may be a number of years in the future, and higher education could last four years or longer. It will be hard to keep up with rising college costs if you keep your money in cash.

You Need the Growth Potential of Equities to Keep Up with Rising College Costs

Percent Growth Rate in Current Dollar Price Since 1982–1984*



Diversification does not eliminate the risk of loss in a down market.

*College Cost Sources: 1987–88 and after: *Annual Survey of Colleges*, the College Board, weighted by full-time undergraduate enrollment; 1986–87 and prior: Integrated Postsecondary Education Data System (IPEDS), U.S. Department of Education, National Center for Education Statistics, weighted by full-time equivalent enrollment. CPI Source: Bureau of Labor Statistics, Consumer Price Index—All Urban Consumers



CollegeBoundfund offers you a choice of 15 investment options. All-in-one portfolios like the Age-Based Education Strategies Portfolios change allocations as your child approaches college. Our Principal-Protection Income Portfolio and our nine portfolios comprised of individual mutual funds can be combined to form a personalized investment strategy. These customized portfolios need to be monitored periodically to make sure they continue to meet your investment needs.

¹ Source: Trends in College Pricing 2008

Don't Guess... Invest

When the stock market starts seesawing up and down, it's tempting to think you should cash out and move back into stocks when things settle down. But that strategy is likely a recipe for underperformance if history is any guide.

People who try to guess when to move back into the market almost never get the timing right because recoveries tend to occur in quick surges that few people see coming.

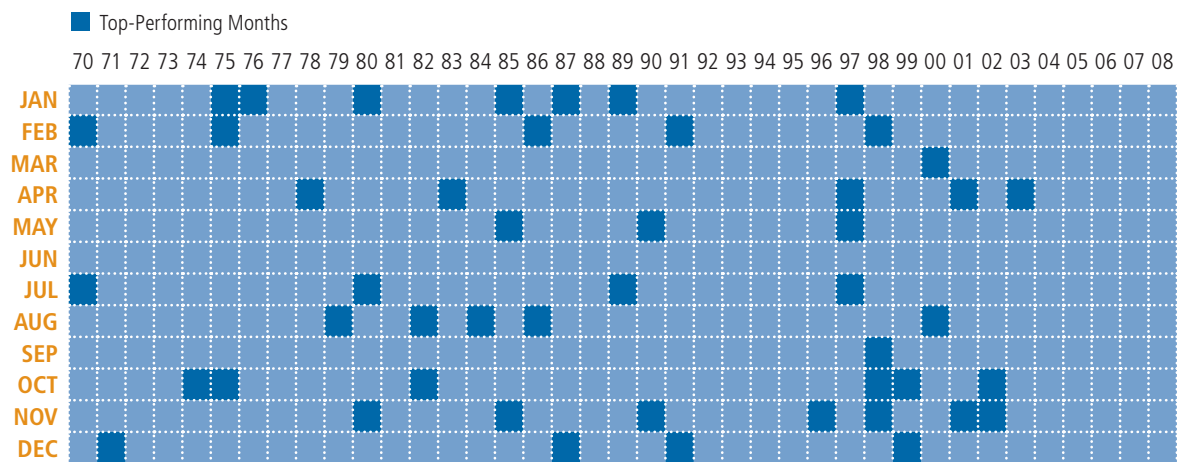
From 1970 through 2008, most stock returns occurred during just 48 of the 468 months. If you invested \$10,000 in the stock market in 1970 and missed the best 48 months of returns, the average annualized return would have been 0% and the \$10,000 would

have grown to only \$10,020 by 2008. If you stayed fully invested in stocks the entire time, the average annualized return would have been 9.5% and the \$10,000 would have grown to \$340,000.

Trying to zip in and out of markets to avoid losses and return in time to ride the wave simply doesn't work. It's better to stay invested as you pursue your long-term financial goals.

Think You Can Pick the Months When the Market Will Rally? Think Again.

There Doesn't Seem to Be Any Pattern to the 48 Top-Performing Months Dating Back to 1970



S&P 500 Index: 1970–2007

Past performance does not guarantee future results.

Through December 31, 2007

Individuals cannot invest directly in an index. Indices do not reflect fees and expenses associated with the active management of a mutual fund portfolio. The S&P 500 Index is an unmanaged index of 500 U.S. companies and is a common measure of the performance of the overall U.S. stock market.

Source: Lipper Inc., Standard & Poor's and AllianceBernstein

What History Has Taught Us

Today's headlines may seem shocking and provocative, but they're certainly not unique in the capital markets or even in recent history.

Well-known financial institutions have failed before. The 1990 credit crunch led to the spectacular failure of Drexel Burnham Lambert, then the fifth-largest U.S. investment bank, and more than 2,000 commercial banks and thrifts in the U.S. The same year, real estate and equity prices in Japan collapsed, leading to massive consolidation in its banking industry.

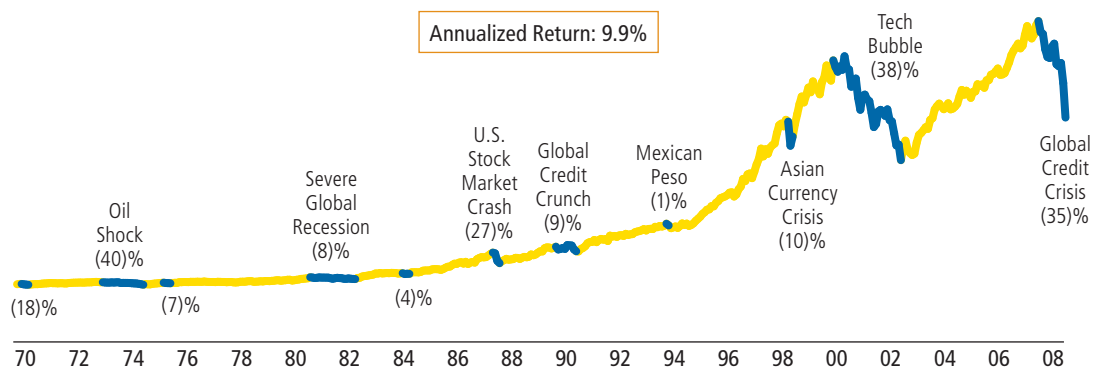
Later in the decade, the Asian currency crisis led to dozens of bank failures and the Russian debt default forced the closure of many of Russia's largest banks.

In each case, the financial institutions that eventually emerged were stronger and more profitable.

We don't have a crystal ball, and investment losses from this most recent crisis may not be over, but government regulatory authorities have learned a lot from history and are actively pursuing aggressive solutions. Losses are being recognized more quickly, and banks are raising additional capital from public and private sources. All this points the way to promising opportunities in the future.

Despite Occasional Setbacks, Markets Have Recovered

Growth of S&P 500



Past performance does not guarantee future results.

Through October 31, 2008

Individuals cannot invest directly in an index. Indices do not reflect fees and expenses associated with the active management of a mutual fund portfolio. The S&P 500 Index is an unmanaged index of 500 U.S. companies and is a common measure of the performance of the overall U.S. stock market.

Source: FactSet, Standard & Poor's and AllianceBernstein

Where Do We Go From Here?

Staying focused on long-term investment goals is a challenge when the air is thick with anxiety. Investors everywhere are turning their backs on risk. With the global economy slowing considerably, things are likely to get worse before they get better.

But they will get better.

The financial sector has already recognized substantial losses: our research strongly suggests that there are more losses to come, but recent government actions should help add stability to the capital markets. And, in the meantime, the distaste for risk has left markets filled with opportunities.

No one can predict the future, but we believe that staying the course with a carefully designed asset allocation is the best path.

Of course, you should review your account regularly to make sure your investments make sense for you based on your circumstances. If you need additional guidance, you may want to discuss your needs with a financial advisor.



Boost Your Contributions with a Matching Grant*

The Rhode Island Higher Education Assistance Authority (RIHEAA) and the Office of the General Treasurer offer a Matching Grant Program designed to help Rhode Island families increase the power of their savings in *CollegeBoundfund*. Families with an adjusted gross income of \$80,000 or less may be eligible for a match of up to \$2 for every \$1 they contribute. The funds apply to the first \$500 you contribute, and you could receive up to \$1,000 per year, depending on the availability of funds and your income.

If you made a contribution in 2008, you can apply for a matching contribution by submitting an application between January 2 and April 30, 2009. If you make a contribution in 2009, you can apply next year at the same time. For more information, go to www.rimatchinggrant.org. Call the Rhode Island Higher Education Assistance Authority (RIHEAA) at 1.866.348.3836 to see if you qualify and to request an application kit.

* Matching grants are subject to availability of funds. If you qualify for this Program, a separate *CollegeBoundfund* Matching Grant Program Account will be opened by the Rhode Island Higher Education Assistance Authority (RIHEAA) naming your child as Beneficiary. RIHEAA is the Participant of the Account and the Account funds are maintained by RIHEAA for the Beneficiary. For more information about these Accounts, their qualification requirements and their investment selection, please see the *CollegeBoundfund* Matching Grant Program Description or go to www.rimatchinggrant.org.

It's Never Too Early to Start Planning for College

Planning for college means more than simply making sure you can afford the tuition. Parents can help their children make smart choices by helping them research careers, college choices and scholarship opportunities. Below are some websites that can help you get started.

www.waytogori.org

An innovative web portal designed to provide a range of free internet based services to help students, parents and educators explore education and career options. The website offers programs that provide valuable information to students of every age: helping elementary age students learn about themselves and the people who work in their community; giving middle school students the tools they need to prepare for high school and explore career areas; and empowering high school students to develop personalized learning plans and conduct extensive college and job research.

www.careervoyages.gov

Information on financial strategies, career options and college planning to help you and your child make solid career decisions. It focuses on the industries that have high growth occupations with the most potential demand for skilled employees. The range of options for your child might surprise you.

www.collegeboard.com

The College Board's website offers a wealth of information about planning for college, navigating the College Board tests, choosing the right college and the college application process. The College Board is a non-profit membership association whose mission is to connect students to college success and opportunity. Among its best-known programs are the SAT,[®] the PSAT/NMSQT,[®] and the Advanced Placement Program[®] (AP).

These sites are not affiliated with AllianceBernstein, and the content of these sites is not produced by our firm.



For more information about CollegeBoundfund, contact your financial advisor, visit



www.collegeboundfund.com/ri or call a CollegeBoundfund representative toll-free at 888.324.5057.

You should consider the investment objectives, risks, charges and expenses of *CollegeBoundfund* carefully before investing. For a free copy of the Program Description, which contains this and other information, visit our website at www.collegeboundfund.com, or call your financial representative or AllianceBernstein Investments at 888.324.5057. Please read the Program Description carefully before you invest.

If you are not a Rhode Island resident or if you have taxable income in another state, please note that depending on the laws of your or your beneficiary's home state, favorable state tax treatment or other benefits offered by such home state for investing in 529 college savings plans may be available only for investments in the home state's 529 plan. Any state-based benefit offered with respect to this plan should be one of many appropriately weighted factors to be considered before making an investment decision. Please consult your financial, tax or other advisor to learn more about how state-based benefits (including any limitations) would apply to your specific circumstances. You may also wish to contact your home state or another state's 529 plan to learn more about its features, benefits and limitations before investing. Statements in this material concerning taxation are not offered as individual tax advice.

The investments in *CollegeBoundfund* are not guaranteed by the State of Rhode Island, the Rhode Island Higher Education Assistance Authority (which established and implemented *CollegeBoundfund* and makes rules and regulations governing the program), the Rhode Island State Investment Commission (which oversees the investments of the assets of *CollegeBoundfund*), the Federal Deposit Insurance Corporation (FDIC) or any instrumentality thereof. *CollegeBoundfund* is managed by AllianceBernstein L.P. and distributed by AllianceBernstein Investments, Inc., member of FINRA.

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