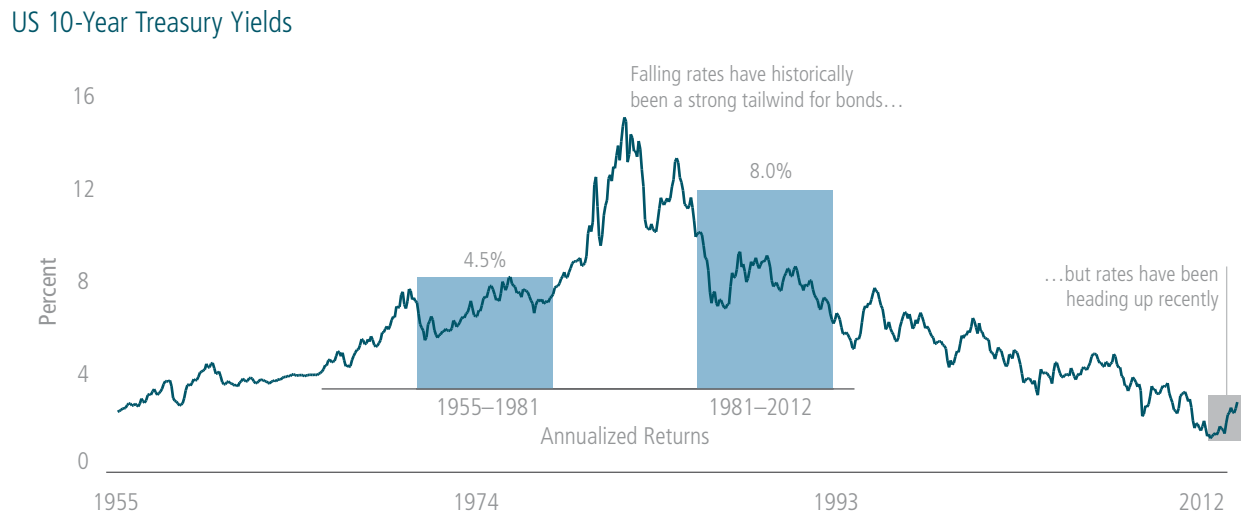
AllianceBernstein

Decoding US Interest Rates

Strategies for fixed-income investors in a rising interest-rate environment



Historical analysis does not guarantee future results.
Through December 31, 2013. An investor cannot invest directly in an index and its performance does not reflect the performance of any AllianceBernstein portfolio. The unmanaged index does not reflect fees and expenses associated with the active management of a portfolio.
Source: Barclays, Bloomberg and AllianceBernstein

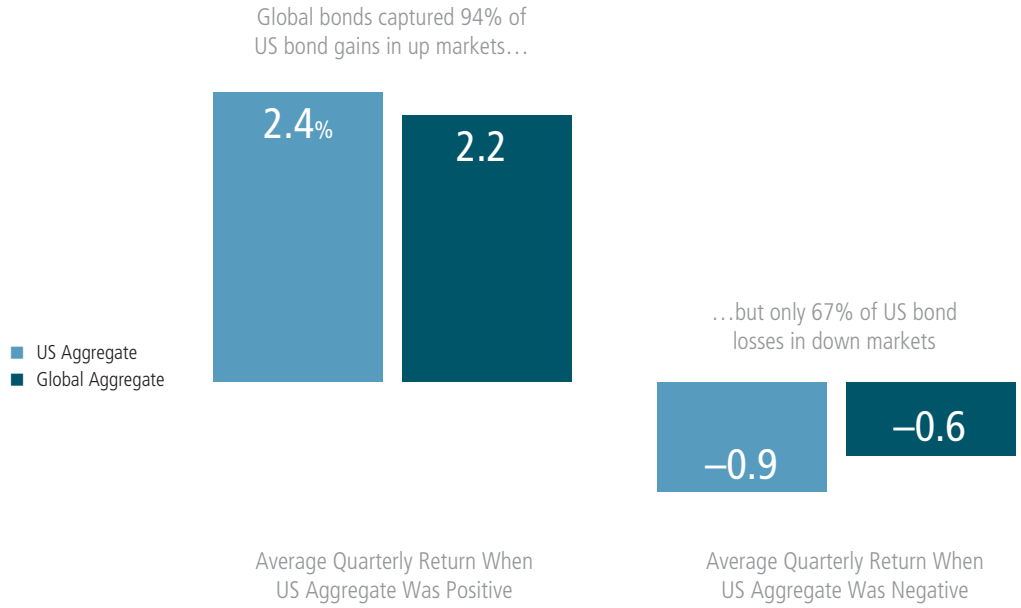
- With rates expected to rise, many investors are looking for ways to adapt their bond exposure.
- The starting point is the role you need bonds to play: return seeking, risk reducing or diversification source?
- Our recommendations to potentially reduce sensitivity to US rates are:
  - Go global
  - Increase credit exposure
  - Consider municipal bonds
  - Shorten TIPS duration*
  - Go beyond benchmarks
- Explore AllianceBernstein mutual funds that employ these strategies.

*Treasury Inflation Protected Securities (TIPS) are securities that are indexed to inflation in order to potentially protect investors from the negative effects of inflation. Duration is a measure of the sensitivity of an asset or portfolio's price to interest rate movements.

Go Global

Bond strategies that invest in many countries may help reduce a portfolio's sensitivity to rising US rates.

Returns and Up/Down Capture Ratios
March 1990–December 2013



- Bond markets of different countries travel varied paths. A global strategy may reduce direct exposure to US rates.
- Currency-hedged global bonds have historically captured greater upside when US rates rise and less of the downside when rates fall.
- Currency volatility can be an unintended consequence of unhedged global bond exposure; hedged global bonds have delivered similar returns with less risk in the past.

Explore these funds:

AB Global Bond (ANAGX)

AB High Income (AGDAX)

AB Limited Duration High Income (ALHAX)

AB Unconstrained Bond (AGSAX)

Past performance does not guarantee future results.
As of December 31, 2013
Returns represented by Barclays US Aggregate Bond Index and Barclays Global Aggregate Bond Index Hedged to USD
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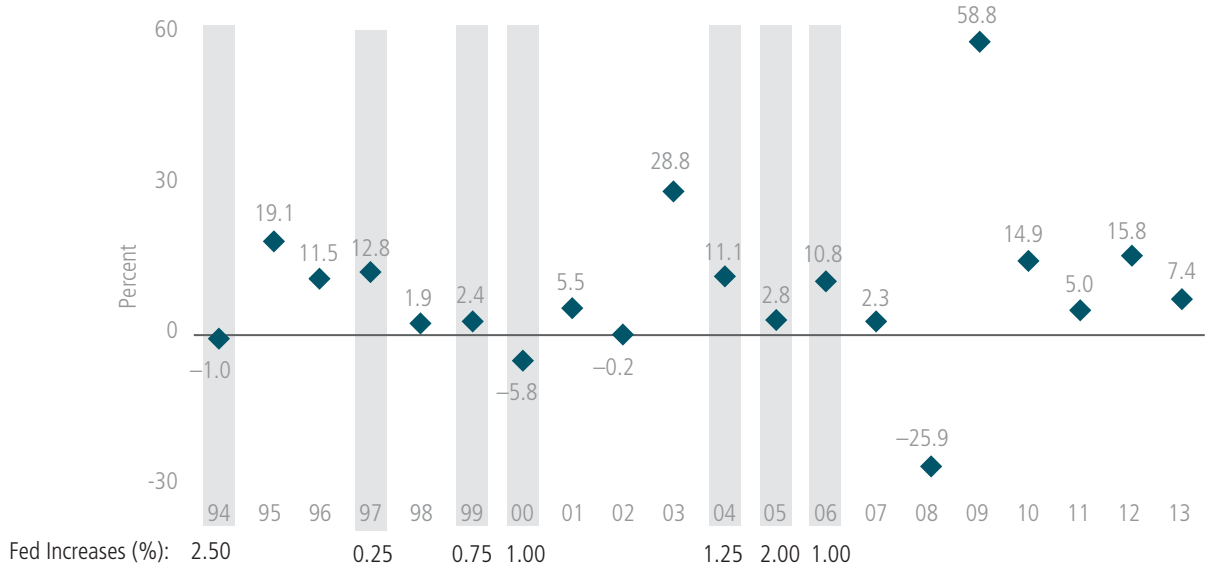
Source: Barclays and AllianceBernstein

Increase Credit Exposure

High-yield credit has been a historically strong performer during periods of rising interest rates.

US High-Yield Performance in Rising-Rate Environments
1994–2013



Past performance does not guarantee future results. Historical information is provided for illustrative purpose only.
As of December 31, 2013
US high yield by Barclays US High Yield 2% Issuer Capped. An investor cannot invest directly in an index and its performance does not reflect the performance of any AllianceBernstein portfolio. The unmanaged index does not reflect fees and expenses associated with the active management of a portfolio.
Source: Barclays, Bloomberg and AllianceBernstein

- Credit sectors—particularly high-yield bonds—have historically fared well in periods of rising rates.
- Credit performance is linked to corporate fundamentals, which tend to improve when rates rise, offsetting some of the price decline.
- Income is also potentially available in many other sectors of the credit market beyond high-yield corporate bonds.

Explore these funds:

AB Global Bond (ANAGX)

AB High Income (AGDAX)

AB Limited Duration High Income (ALHAX)

AB Unconstrained Bond (AGSAX)

AB Muni High Income (ABTHX)

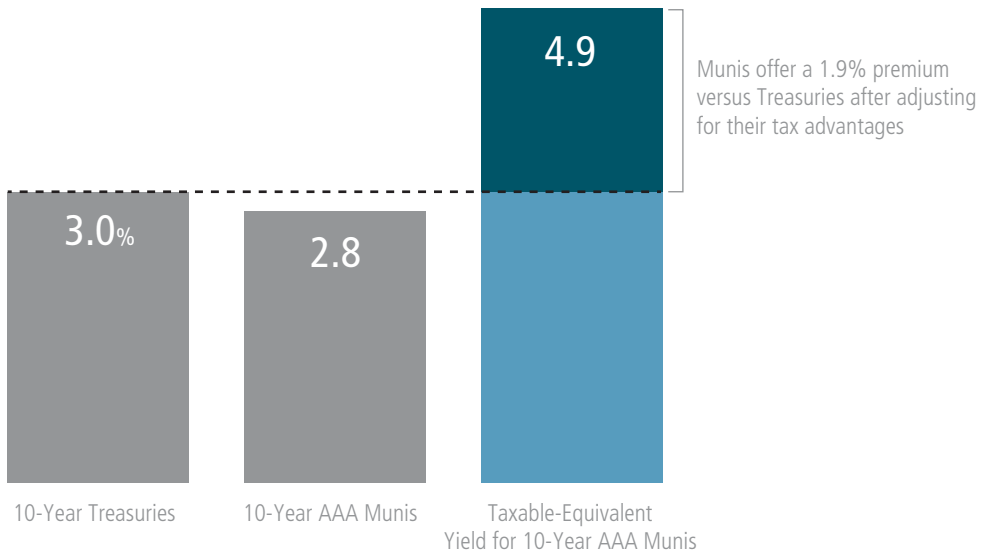
AB Muni National Income (ALTHX)

The "THX" Muni Strategy

Consider Municipal Bonds

Tax-exempt bonds are currently cheap, and lower-rated municipal bonds offer particular value today, in our view.

Nominal and Tax-Equivalent Bond Yields



- Muni income is tax-exempt, and during periods of rising rates, muni yields have risen less than comparable Treasury yields.
- Defaults—a common investor concern—have historically been rare, and account for a tiny percentage of the overall municipal market.
- We think intermediate muni bonds are in the risk/return sweet spot. Also, prudent exposure to lower-rated municipals may enhance yields.

Explore these funds:

AB Muni High Income (ABTHX)

AB Muni National Income (ALTHX)

AB Muni Intermediate (AIDAX)

AB Muni Bond Inflation (AUNAX)

AB Tax-Aware Fixed Income (ATTAX)

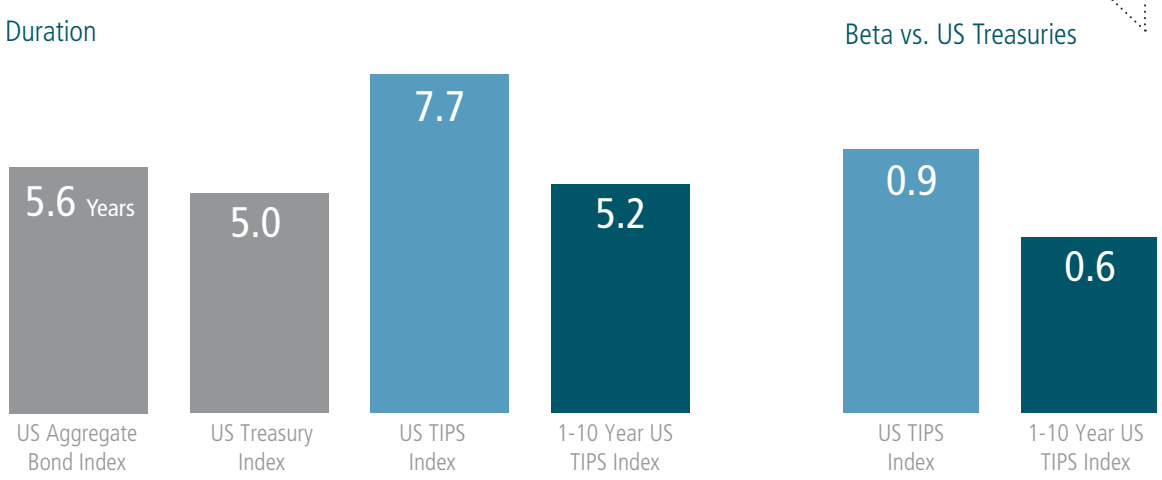
The "THX" Muni Strategy

Current analysis does not guarantee future results.
As of December 31, 2013
Treasury yields are for 10-year Treasuries and 30-year Treasuries; municipal yields are for 10-year AAA-rated municipals and 30-year AAA-rated municipals. Tax rate is assumed to be 43.4%.
Source: Municipal Market Data and AllianceBernstein

Shorten TIPS Duration

Moving to shorter-duration Treasury Inflation-Protected Securities may make portfolios less rate-sensitive.

Intermediate-term TIPS have exhibited much less sensitivity to the US Treasury market, as measured by beta.*



- TIPS have posted strong returns in recent years, but much of it was driven by higher interest-rate sensitivity and falling rates.
- Moving to shorter-duration TIPS leaves inflation protection intact and may substantially reduce interest-rate risk.

Explore these funds:

AB Bond Inflation (ABNAX)

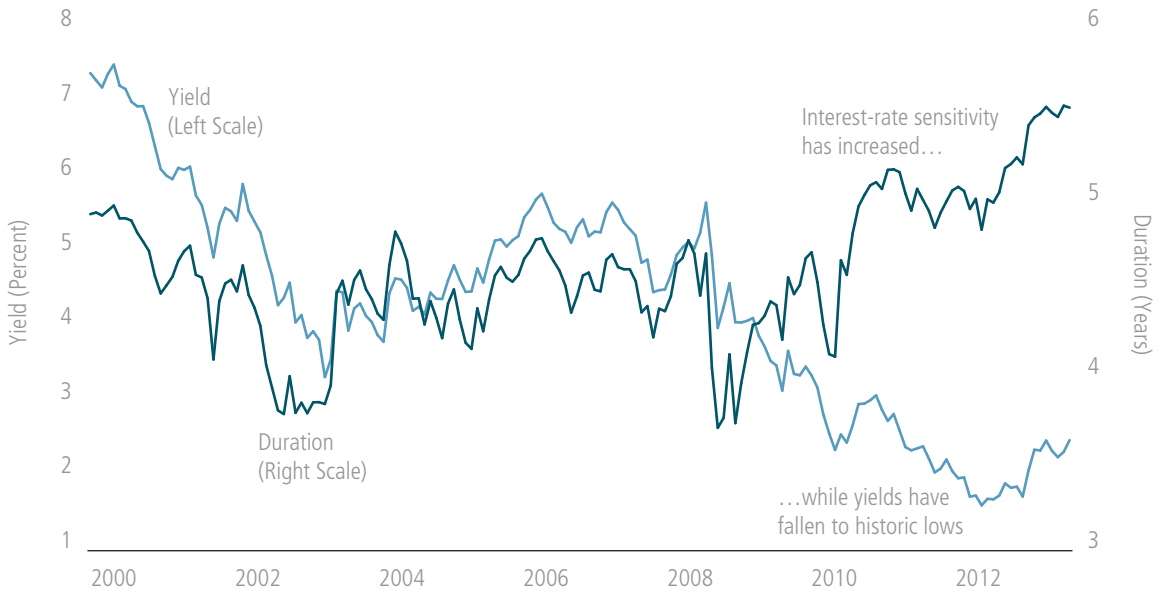
AB Muni Bond Inflation (AUNAX)

Historical analysis does not guarantee future results.
As of December 31, 2013
**Beta is a measure of an investment's volatility in comparison to the market as a whole. A beta below 1 indicates less volatility than the market; a higher beta indicates more volatility.*
Duration for US TIPS Index and US 1-10 Year TIPS Index is represented by the real duration as of December 31, 2013.
US Aggregate Bond Index is represented by the Barclays US Aggregate Bond Index; US Treasury Index is represented boy the Barclays US Treasury Index; US TIPS Index is represented by the Barclays US TIPS Index; The 1-10 Year US TIPS Index is represented by the Barclays 1-10 Year US TIPS Index. An investor cannot invest directly in an index and its performance does not reflect the performance of any AllianceBernstein portfolio. The unmanaged index does not reflect fees and expenses associated with the active management of a portfolio.
Source: Barclays and AllianceBernstein

Go Beyond Benchmarks

Unconstrained strategies may offer low correlation* to traditional bonds and potentially help avoid index-based risks.

US Aggregate Bond Index



- Major bond-market benchmarks have been popular, but they also contain unintended risks.
- Over time, the US Aggregate Bond Index's interest-rate sensitivity has increased, while yields have fallen to historic lows.
- Unconstrained bond strategies may offer diversification and low correlation to the broad bond market.

Explore this fund:

AB Unconstrained Bond (AGSAX)

Historical performance does not guarantee future results.
**Correlation is a statistical measure of how two securities move in relation to each other.*
Through December 31, 2013
An investor cannot invest directly in an index and its performance does not reflect the performance of any AllianceBernstein portfolio. The unmanaged index does not reflect fees and expenses associated with the active management of a portfolio.
Source: Barclays

Rising Rates? It's Time to Position—Not Panic!

AllianceBernstein's mutual funds offer exposure to factors that may reduce vulnerability to rising interest rates.

	Global	Credit	Inflation Protection	Tax-Exempt	Unconstrained
AB Global Bond (ANAGX)	✓	✓			
AB High Income (AGDAX)	✓	✓			
AB Limited Duration High Income (ALHAX)	✓	✓			
AB Unconstrained Bond (AGSAX)	✓	✓			✓
AB Bond Inflation (ABNAX)			✓		
AB Muni High Income (ABTHX)		✓		✓	
AB Muni National Income (ALTHX)		✓		✓	
AB Muni Intermediate (AIDAX)				✓	
AB Muni Bond Inflation (AUNAX)			✓	✓	
AB Tax-Aware Fixed Income (ATTAX)		✓		✓	
The "THX" Muni Strategy		✓		✓	

As of December 31, 2013

Local Economy Risk: This portfolio may contain municipal securities issued by the Commonwealth of Puerto Rico as well as other local governments whose current economic conditions could exacerbate the risks associated with investing in these securities.

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. The values of mortgage-related and asset-backed securities are particularly sensitive to changes in interest rates due to prepayment risk.

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 can magnify both gains and losses, resulting in greater volatility.

Below-Investment-Grade 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.

Liquidity Risk: The difficulty of purchasing or selling a security at an advantageous time or price.

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 or contact your AllianceBernstein Investments representative. Please read the prospectus and/or summary prospectus carefully before investing.

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