The information herein reflects prevailing market conditions and our judgments as of the date of this document, which are subject to change. In preparing this document, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources. Opinions and estimates may be changed without notice and involve a number of assumptions which may not prove valid. There is no guarantee that any forecasts or opinions in this material will be realized. Information should not be construed as investment advice.

Investment Products Offered
• Are Not FDIC Insured • May Lose Value • Are Not Bank Guaranteed
The Big Picture

+ Global economic growth remains modest; more monetary easing and potential for fiscal stimulus
+ Developed-market growth is mixed; emerging world faster than developed, but with challenges
+ After the Beta Trade theme continues to play out, with muted returns and spiking volatility
+ Key recent market drivers include Brexit, oil, China, political risks and global growth concerns
+ Investors should embrace active management and incorporate downside protection
  + Fixed Income: consider credit—selectively; don’t abandon global rates; municipals remain attractive
  + Equities: capture growth through high-conviction, active opportunities; small-cap valuations attractive
  + Alternatives: diversify across strategies; integrate downside protection; alpha opportunities increasing

Current assessment does not guarantee future results.
As of June 30, 2016
Source: AB
## Mixed Returns amid Rising Volatility

### Returns in US Dollars

<table>
<thead>
<tr>
<th>Equities</th>
<th>2Q:2016 Returns (Percent)</th>
<th>Jan–Jun 2016 Returns (Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Large-Cap</td>
<td>2.3</td>
<td>3.5</td>
</tr>
<tr>
<td>US Small-Cap</td>
<td>3.8</td>
<td>2.2</td>
</tr>
<tr>
<td>EAFE*</td>
<td>-1.5</td>
<td>-4.4</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>0.7</td>
<td>6.4</td>
</tr>
<tr>
<td>US High Yield</td>
<td>5.5</td>
<td>9.1</td>
</tr>
<tr>
<td>Emerging-Market Debt</td>
<td>4.7</td>
<td>9.4</td>
</tr>
<tr>
<td>Global Corporate</td>
<td>3.1</td>
<td></td>
</tr>
<tr>
<td>Municipals</td>
<td>2.6</td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>Euro Area</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>Long/Short Equity</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>Nontraditional Bond</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>Multialternative</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>Credit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alternatives†</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Mixed Returns amid Rising Volatility

#### Equities
- **US Large-Cap**: 2.3%
- **US Small-Cap**: 3.8%
- **EAFE* Emerging Markets**: -1.5%
- **US High Yield**: 5.5%
- **Emerging-Market Debt**: 4.7%
- **Global Corporate**: 3.1%
- **Municipals**: 2.6%
- **US**: 2.1%
- **Japan**: 3.2%
- **Euro Area**: 2.1%
- **Long/Short Equity**: 0.4%
- **Nontraditional Bond**: 1.7%
- **Multialternative**: 0.8%

#### Credit
- **US High Yield**: 5.5%
- **Emerging-Market Debt**: 4.7%
- **Global Corporate**: 3.1%
- **Municipals**: 2.6%
- **US**: 2.1%
- **Japan**: 3.2%
- **Euro Area**: 2.1%
- **Long/Short Equity**: 0.4%
- **Nontraditional Bond**: 1.7%
- **Multialternative**: 0.8%

#### Government Bonds
- **US**: 2.1%
- **Japan**: 3.2%
- **Euro Area**: 2.1%
- **Long/Short Equity**: 0.4%
- **Nontraditional Bond**: 1.7%
- **Multialternative**: 0.8%

#### Alternatives†
- **US**: 2.1%
- **Japan**: 3.2%
- **Euro Area**: 2.1%
- **Long/Short Equity**: 0.4%
- **Nontraditional Bond**: 1.7%
- **Multialternative**: 0.8%

---

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

As of June 30, 2016

Global corporates, Japan and euro-area government bonds in hedged USD terms. All other non-US returns in unhedged USD terms. An investor cannot invest directly in an index, and its performance does not reflect the performance of any AB portfolio. The unmanaged index does not reflect the fees and expenses associated with the active management of a portfolio.

*Europe, Australasia and the Far East
†Returns reflect Morningstar US Open-End fund category averages.

Source: Barclays, Morningstar, MSCI, Standard & Poor’s (S&P) and AB
Rising Oil Prices Calmed Markets for Most of Second Quarter…

Oil Prices Impacting Short-Term Equity Market Volatility…
Price of Crude Oil and Level of VIX

...and Multiples
Price of Crude Oil and S&P 500 P/E

Past performance does not a guarantee of future results.
As of June 30, 2016
Source: Bloomberg, Chicago Board Options Exchange, S&P and AB
...but Brexit Vote Sends New Shudders of Uncertainty

Current assessment does not guarantee future results.
As of June 30, 2016
Source: AB

Brexit Impact
+ Financial contagion
+ Political contagion
+ Low for longer

Heightened Political Risk
July 2016    Japan Upper House Election
September 2016 New British PM
???          Article 50
October 2016  Italian Referendum (Senate Reform)
November 2016 US Presidential Election
March 2017    Dutch General Election
May 2017      French Presidential Election
September 2017 German Federal Election

Where Now?

Doesn’t Actually Leave the EU

New Agreement (Associate Member EEA/EFTA?)

Leaves Without Agreement
### Global Growth Projections Impacted by Brexit

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>GDP (%)</th>
<th>Inflation (%)</th>
<th>Expected Policy Rate Path</th>
<th>Jan–Jun FX Change (%)</th>
<th>FX Forecast</th>
<th>The Latest</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2017</td>
<td>2016</td>
<td>2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global</td>
<td>2.5</td>
<td>2.6</td>
<td>2.1</td>
<td>2.6</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Developed</td>
<td>1.7</td>
<td>1.9</td>
<td>0.9</td>
<td>2.0</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Emerging</td>
<td>3.6</td>
<td>3.9</td>
<td>3.7</td>
<td>3.7</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>US</td>
<td>2.2</td>
<td>2.8</td>
<td>1.4</td>
<td>2.7</td>
<td>↑</td>
<td>—</td>
</tr>
<tr>
<td>UK</td>
<td>1.6</td>
<td>0.9</td>
<td>0.8</td>
<td>2.3</td>
<td>↓</td>
<td>−9.7</td>
</tr>
<tr>
<td>Euro Area</td>
<td>1.5</td>
<td>1.2</td>
<td>0.3</td>
<td>1.3</td>
<td>↓</td>
<td>+2.3</td>
</tr>
<tr>
<td>Japan</td>
<td>0.5</td>
<td>1.3</td>
<td>0.3</td>
<td>0.9</td>
<td>↓</td>
<td>+16.8</td>
</tr>
<tr>
<td>China</td>
<td>6.2</td>
<td>5.6</td>
<td>2.2</td>
<td>2.5</td>
<td>↓</td>
<td>−2.3</td>
</tr>
<tr>
<td>Brazil</td>
<td>−3.6</td>
<td>0.4</td>
<td>8.3</td>
<td>6.9</td>
<td>↓</td>
<td>+23.4</td>
</tr>
</tbody>
</table>

**Historical and current analysis and forecasts do not guarantee future results.**
As of July 1, 2016
GDP represents forecast year-over-year change in real terms. Inflation represents forecasted year-over-year change in Consumer Price Index. Expectations for monetary policy are through end of 2016. FX change is currency spot return for last six months vs. US dollar; FX forecast is AB economists’ return projections for next six months vs. US dollar.
Source: Bloomberg and AB
US Economy Remains on Track Despite Lower Global Growth

Historical analysis does not guarantee future results.
Left and middle displays through April 30, 2016; right display through May 31, 2016
*4% increase from February 28, 2015, to April 30, 2015
Source: Bloomberg, Haver Analytics, Markit, national sources and AB
China Faces Headwinds

Continued Weakness in Total Fixed Investment and Housing Investment

Year-over-Year Percent Change

- Total Fixed Investment
- Housing Investment

Government Still Resorts to Old Playbook of Infrastructure Investment

Year-over-Year Percent Change

Foreign Reserves and Trade Balance

In US Dollars

Historical analysis does not guarantee future results.
Left and middle displays through May 31, 2016; right display through May 1, 2016
Source: CEIC Data, General Administration of Customs, People’s Bank of China and AB
The Beta Ship Has Sailed

After the Beta Trade, Returns Have Been Muted…
Growth of a 60/40 Portfolio (USD)

Past performance and forecasts do not guarantee future results.
Left display: October 1, 2010–June 30, 2016; right display: AB five-year forecast as of June 30, 2016
60/40 portfolio represented by 60% MSCI World Index and 40% Barclays US Aggregate Index. An investor cannot invest directly in an index, and its performance does not reflect
the performance of any AB portfolio. The unmanaged index does not reflect the fees and expenses associated with the active management of a portfolio.
Source: Barclays, Morningstar, MSCI and AB

...and More of the Same Is Expected
Expected Returns for a 60/40 Blend

<table>
<thead>
<tr>
<th>Bonds</th>
<th>40%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks</td>
<td>60%</td>
</tr>
<tr>
<td>Expected Return</td>
<td>4%–5%</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>↑</td>
</tr>
<tr>
<td>Inflation and Taxes</td>
<td>??</td>
</tr>
</tbody>
</table>
Increased Dispersion + Lower Correlations = Greater Alpha Opportunity

Low Volatility Results in Low Dispersion
Monthly Dispersion vs. Level of VIX (Percent)

Falling Correlations Increase Opportunities for Alpha
S&P 500 One-Month Realized Correlation†

Historical analysis is not a guarantee of future results.
Left display as of May 31, 2016; right display through June 23, 2016
*Median monthly return of the S&P 500 Index
†S&P one-month realized volatility and correlation
Source: Chicago Board Options Exchange, Cornerstone Macro, eVestment, MSCI, S&P, Style Research and AB
After Beta Trade, Conditions Favor Active Management

### Over Time, Active High-Conviction Equity Strategies Have Outperformed Passive Factors

#### Annualized Relative Performance vs. S&P 500 (Percent)
January 2004–December 2015†

<table>
<thead>
<tr>
<th>Dividend Yield</th>
<th>Value</th>
<th>Quality</th>
<th>Low Beta</th>
<th>Momentum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.9</td>
<td>0.0</td>
<td>-0.3</td>
<td>0.6</td>
<td>1.4</td>
</tr>
<tr>
<td>1.6</td>
<td>2.0</td>
<td>0.7</td>
<td>2.4</td>
<td>3.0</td>
</tr>
</tbody>
</table>

*Active High-Conviction Strategy* vs. *Passive Factor Index Strategy*

### Active Management Likely Poised to Outperform

#### Relative Return (Percent)*

<table>
<thead>
<tr>
<th>Market Up</th>
<th>P/E Compression</th>
<th>P/E Expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Up</td>
<td>+0.8</td>
<td>-2.5</td>
</tr>
<tr>
<td>Market Down</td>
<td>+2.9</td>
<td>+2.5</td>
</tr>
</tbody>
</table>

Past performance and forecasts do not guarantee future results.

An investor cannot invest directly in an index, and its performance does not reflect the performance of any AB portfolio. The unmanaged index does not reflect fees and expenses associated with the active management of a portfolio. Numbers may not sum due to rounding.

*Represents relative performance of Morningstar Open-End US Large-Cap managers vs. S&P 500 starting January 1, 1995, through December 31, 2015, when the one-year (YoY) change in P/E was positive or negative and the market return was positive or negative over that same one-year period.

†As of December 31, 2015. Factor index performance represents the returns of the MSCI indices—dividend yield: MSCI USA High Dividend Yield; value: MSCI USA Value; quality: MSCI USA Quality; low beta: MSCI USA Minimum Volatility; momentum: MSCI USA Momentum. These indices may not be investable and do not take into account transaction costs.

Source: Cornerstone Macro, eVestment, MSCI, S&P, Style Research and AB
Equities Today Present Attractive Return Potential

Large Gaps Between Stock and Bond Yields Are Rare…
Stock Earnings Yields vs. Bond Yields (Percent)

...but Have Typically Signaled Strong Equity Potential
Stock and Bond Returns After Large Yield Gaps (Percent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov 1987–Mar 1988</td>
<td>8.5</td>
<td>9.6</td>
<td>29.2</td>
<td>47.7</td>
</tr>
<tr>
<td>Jul 1993–Jun 1994</td>
<td>6.0</td>
<td>7.0</td>
<td>18.7</td>
<td>58.5</td>
</tr>
<tr>
<td>Jul 2002–May 2007</td>
<td>4.3</td>
<td>6.2</td>
<td>13.7</td>
<td>14.4</td>
</tr>
<tr>
<td>Oct 2008–Feb 2013</td>
<td>2.7</td>
<td>7.6</td>
<td>12.3</td>
<td>47.8</td>
</tr>
<tr>
<td>TODAY (Jun 2016)</td>
<td>1.5</td>
<td>5.2</td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>

+ Earnings historically drive total returns; intermediate bond yields are historically low today
+ When the yield gap between equities and bonds is big, consider tilting toward equity earnings—if underlying fundamentals are strong

Historical analysis and past performance do not guarantee future results.
As of June 30, 2016
Source: Barclays, S&P and AB
Yield and Reflation Trades: Value for Your Money?

Historical analysis does not guarantee future results.
As of June 30, 2016
Source: S&P Dow Jones and Thomson Reuters I/B/E/S
High-Dividend Focus: A Crowded Trade Where Caution Is Warranted

Crowding into High-Yielding Stocks…
US Equity Funds and ETFs: Three-Year Net Flows (USD Billions)*

Highest-Yielding Equity Funds (535 Funds) 345
All Other Equity Funds (2,148 Funds) −222

Highest-Yielding Equity Funds (535 Funds)

Running a Different Offense
+ Reduce: “Highest-Dividend” Plays
+ Increase: “High-Dividend-Growth” Plays

Means Overpaying for Bond-Like Stocks…
Price/Earnings Ratio (x)†

...That Can Turn Safety into Risky
Relative Performance of the S&P High Yield Dividend Aristocrats Index vs. the S&P 500 (Basis Points)‡

One-Year Prior to the Taper Tantrum§
399
One-Year After Taper Tantrum
−470

Historical analysis does not guarantee future results.
As of May 13, 2016. *Fund flows are through April 2016, including all US Equity mutual funds and ETFs sold in the US—2,683 funds included; highest-yielding include the vehicles with the SEC or dividend yield within the Morningstar database). †Highest 20% of dividend payers among 1,500 US-listed stocks in the AllianceBernstein equity universe, excluding 33 companies that do not currently have a P/E ratio because they are not profitable. §2013 Taper Tantrum: May 23, 2013. ¶Start date is May 22, 2012. ||High dividend yield defined as stocks with yields 20% or more greater than the cap-weighted average for the S&P 500. Long-term average shares of S&P 500 from January 1965 through June 2016. Source: FactSet, Morningstar, S&P and AB
Firms That Can Grow Are Poised to Lead—and They’re Cheap

Sustainable Growth Is Uncommon but Rewarding
Top 1,000 Companies with Earnings Growth Rates ≥10%*

Persistent Growth Is Inexpensive Today
Relative Price/Forward Earnings of High-Persistent-Return Growth Stocks vs. Market†

Historical analysis does not guarantee future results.
Left display as of December 31, 2015; right display through June 30, 2016.
*Universe consists of the top 1,000 companies by market cap each year from 1979 to 2015, with annual rebalancing.
†Price to forward earnings of highest quintile of persistent profitability stocks relative to Russell 1000
Source: Center for Research in Security Prices, FactSet, Russell Investments, S&P Compustat, S&P Dow Jones and AB
Small-Caps: An Active Edge That Is Attractively Priced

Small-Cap Active Managers Have Delivered Higher Returns, Less Risk Return and Volatility: 10 Years Ending March 31, 2016

<table>
<thead>
<tr>
<th>Annualized Return (Percent)</th>
<th>Median US Small-Cap Core Manager*</th>
<th>Russell 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Annualized Standard Deviation (Percent)

| 10 | 15 | 20 | 25 |
|-----------------------------|-----------------------------------|---------------|
| 9                           |                                   |               |
| 8                           |                                   |               |
| 7                           |                                   |               |
| 6                           |                                   |               |
| 5                           |                                   |               |

A Few Sectors Loom Large in Small-Cap Indices Percent of Index

<table>
<thead>
<tr>
<th>Historical in R2000V</th>
<th>Historical Average in R2000G</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>25</td>
</tr>
<tr>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>10</td>
<td>5</td>
</tr>
</tbody>
</table>

Utilities & REITs

BioPharma

Human capital is often the most important asset of a company and can drive long-term growth.

Relative Valuations† Russell 2000 vs. Russell 1000

<table>
<thead>
<tr>
<th>Utilities &amp; REITs</th>
<th>Historical Average in R2000V</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.50</td>
<td>1.25</td>
</tr>
<tr>
<td>1.25</td>
<td>1.00</td>
</tr>
<tr>
<td>1.00</td>
<td>0.75</td>
</tr>
<tr>
<td>0.75</td>
<td>0.50</td>
</tr>
</tbody>
</table>

Small-Cap Is Cheap

Large-Cap Is Cheap

Average

Historical analysis does not guarantee future results.
Left display as of March 31, 2016; middle and right displays through June 30, 2016.
*eVestment US Small Cap Core Equity universe
†Valuation composite is one-third price to forward earnings, one-third price to book and one-third price to sales.
An investor cannot invest directly in an index, and its performance does not reflect the performance of any AB portfolio. The unmanaged index does not reflect the fees and expenses associated with the active management of a portfolio.
Source: Bloomberg, eVestment, FactSet, Russell Investments, Thomson Reuters I/B/E/S and AB
Yield to Worst Is Typically a Good Indicator of Future Returns
Yield to Worst and Five-Year-Forward Annualized Return

High Yield Has Had Smaller Drawdowns than Equities...
Average Calendar-Year Maximum Drawdown (1998–2015)

...and It Has Taken Less Time to Recover Its Losses
Average Time (Months) to Recover: Trough to Prior Peak (1998–2015)

Historical analysis does not guarantee future results.
Left display as of June 30, 2016; middle and right displays as of December 31, 2015
High yield is represented by Barclays Global Corporate High Yield (USD Hedged). An investor cannot invest directly in an index, and its performance does not reflect the performance of any AB portfolio. The unmanaged index does not reflect the fees and expenses associated with the active management of a portfolio.
Source: Barclays, Bloomberg, Credit Suisse, Morningstar and AB
...but Investors Must Be Selective

High-Yield Valuations Have a Wide Range Today

Leverage Has Risen but Less So Outside Commodity Sectors

Revenues Outside Commodity Companies Are Still Attractive

Historical analysis does not guarantee future results.
Left display as of June 7, 2016; middle and right displays as of March 31, 2016
Source: Barclays, J.P. Morgan and S&P Capital IQ
Emerging Markets Are Attractive Bond Diversifiers...

**EM FX Valuations Are at Multiyear Lows**  
J.P. Morgan Emerging Market Currency Index

**Local EM Offers Attractive Opportunities**  
Local Yield Curves (Percent)

Historical analysis does not guarantee future results.  
As of June 30, 2016  
An investor cannot invest directly in an index, and its performance does not reflect the performance of any AB portfolio. The unmanaged index does not reflect the fees and expenses associated with the active management of a portfolio.  
Source: Bloomberg, J.P. Morgan and AB
Historical information provided for illustrative purposes only.
Left display: default rates through September 15, 2015 and US Home Price Index through July 31, 2015; middle and right displays through June 30, 2016
*Credit risk transfer security represented by STACR 2014-DN3 M-3.
†BBB 7–10 year ex energy bonds with maturities before 2024; CMBX.BBB tracks 25 BBB bonds, which were originated in 2012.
Interest-Rate Exposure Is as Important as Ever, but Globalizing it Is Key


Current analysis does not guarantee future results.
Left and middle displays as of December 31, 2015; right display as of June 30, 2016
Bar height might differ due to rounding. Global bonds hedged is represented by the Barclays Global Aggregate Hedged to USD; and US bonds by Barclays US Aggregate. An investor cannot invest directly in an index, and its performance does not reflect the performance of any AB portfolio. The unmanaged index does not reflect fees and expenses associated with the active management of a portfolio.
*Extreme down months are months when the S&P 500 return was more than one standard deviation below its sample mean.
†Credit rating is represented by the Barclays methodology.
Source: Barclays, Bloomberg, S&P and AB

Global Outperforms When US Falls Up vs. Down Capture (March 1990–December 2015)

Currency Hedging Can Make Low-Yielding Bonds More Attractive

<table>
<thead>
<tr>
<th>Country</th>
<th>10-Year Bond Yield</th>
<th>10-Year Yield (Hedged)</th>
<th>Credit Rating†</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>1.98%</td>
<td>0.57%</td>
<td>AAA</td>
</tr>
<tr>
<td>US</td>
<td>1.47</td>
<td>1.47</td>
<td>AAA</td>
</tr>
<tr>
<td>Canada</td>
<td>1.06</td>
<td>1.18</td>
<td>AAA</td>
</tr>
<tr>
<td>Germany</td>
<td>–0.13</td>
<td>1.31</td>
<td>AAA</td>
</tr>
<tr>
<td>New Zealand</td>
<td>2.35</td>
<td>0.43</td>
<td>AA+</td>
</tr>
<tr>
<td>UK</td>
<td>0.87</td>
<td>1.11</td>
<td>AA</td>
</tr>
<tr>
<td>France</td>
<td>0.18</td>
<td>1.63</td>
<td>AA</td>
</tr>
<tr>
<td>Japan</td>
<td>–0.22</td>
<td>1.00</td>
<td>A+</td>
</tr>
<tr>
<td>Spain</td>
<td>1.16</td>
<td>2.61</td>
<td>BBB+</td>
</tr>
<tr>
<td>Italy</td>
<td>1.26</td>
<td>2.70</td>
<td>BBB</td>
</tr>
<tr>
<td>Portugal</td>
<td>3.01</td>
<td>4.45</td>
<td>BB+</td>
</tr>
</tbody>
</table>
Municipals: Supportive Technicals and Strengthening Fundamentals

Muni Debt Outstanding Remains Low… Change in Muni Bonds Outstanding*

[Charts showing USD Trillions for Treasuries, Corporates, and Municipals from 2004 to 2016.]

….amid Strong Demand Flows into Muni Bond Funds

[Charts showing USD Billions for Muni Bond Funds from 2010 to 2016.]

Tax Revenues Remain Solid Year-over-Year State and Local Gov’t Tax Receipts and GDP

[Charts showing Percent for Tax Receipts and GDP from 1991 to 2016.]

Past performance does not guarantee future results.
Left display through December 31, 2015; middle display through June 30, 2016; right display through September 30, 2015
*Refinancing and combined
Source: Bloomberg, Bureau of Economic Analysis, Investment Company Institute, National League of Cities, US Federal Reserve and AB
**Municipals: Still Attractive, but Positioning Matters**

- **Shorter Bonds**: Look for opportunistic positions in taxable bonds
- **Intermediate Bonds**: Focus on roll and carry
- **Longer Bonds**: Dip down in credit for an extra yield pickup

### Roll Plus Yield (Percent)

<table>
<thead>
<tr>
<th>Maturity (Years)</th>
<th>Yield</th>
<th>Roll*</th>
</tr>
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<tbody>
<tr>
<td>2</td>
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<td>0.14</td>
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<tr>
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<td>0.69</td>
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<td>7</td>
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</tr>
<tr>
<td>8</td>
<td>1.68</td>
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</tbody>
</table>

### Historical analysis does not guarantee future results.

As of July 1, 2016

Nominal yields. A credit rating is a measure of the quality and safety of a bond or portfolio, based on the issuer’s financial condition. AAA is highest (best) and D is lowest (worst). Ratings are subject to change. Barclays long indices are used for each respective rating category.

*Roll is the natural price gain that a bond experiences as it ages, assuming interest rates are unchanged. Yield advantage shown is for 10-year municipal securities. Short taxable bonds are represented by Barclays 1–3 Year US Aggregate ex Government.

Environment Improving for Hedge Funds

Hedge Fund Managers Have Outperformed in High-Dispersion Environments…
Excess Return of Long/Short Equity Managers vs. Dispersion

…but Many Challenged Funds Have Left the Market
Number of Fund Launches and Liquidations

Current analysis does not guarantee future results.
Left display from December 1, 1990, to May 31, 2016; right display as of March 31, 2016
Long/short equity represented by the HFRI Equity Hedge category. Excess returns are 12-month rolling returns. Dispersion is trailing 12-month average.
Source: Hedge Fund Research, S&P and AB
Current Opportunities for Hedge Fund Strategies

**Long/Short Equity**
Choosing the Winners

+ Seeking companies growing on the topline, shorting faltering stocks
+ The current period of underperformance for Long/Short Equity relative to broader market isn’t unprecedented but is extreme
+ Prior periods of underperformance were followed by years of strong returns, which we think is promising for the years to come

**Relative Value/Credit**
Avoiding the Losers

+ Investing long in bonds with a positive risk bias, shorting bonds at risk for default
+ Liquidity is a risk that cannot be avoided
+ US high-yield has rallied significantly since spreads widened meaningfully in 2015

**Global Macro**
Volatility Is Spiking

+ The environment for Global Macro is more favorable than it has been in recent years
+ Geopolitical risks are mounting, central bank policies are diverging, market volatility is increasing, and heavy sovereign debt is combining with slower global growth
+ The VIX (the “fear index”) shows that volatility has spiked in the past year
+ All of these factors will create opportunities for macro managers to capture returns

**Event Driven**
Merger Arbitrage Spreads Are Widening

+ The strategy had a disappointing year in 2015, as hedge funds piled into M&A despite the slow pace of successful deals
+ However, we have a positive outlook on the space; spreads are wide and many deals are expected to go through

Current analysis does not guarantee future results.
As of June 30, 2016
Source: Chicago Board Options Exchange and AB
Putting It All Together: Strategy for Modest Growth, High Volatility

**Prescription Within Asset Classes**

**Equities: Be Active**
- Be concentrated
- Seek downside protection
- Embrace large-cap and secular growth
- Favor dividend growers over highest yielders
- Include small-caps, which remain attractively priced

**Fixed Income: Be Balanced**
- Rates: Combine Global Core and US Core
- Focus on intermediate part of curve
- Be mindful of negative yields
- Hedge currencies

**Credit: Use Global Multi-Sector**
- High Yield still attractive despite recent strength
- Underweight energy
- Consider securitized assets, EM local bonds and currencies for diversification
- Manage liquidity risk

**Alternatives: Be Selective**
- Diversify across strategies
- Focus on strong up/down capture
- Include Relative Value/Credit and Long/Short Equity
- Capitalize on wide merger/arbitrage spreads
- Take advantage of macroeconomic events and rising volatility

*Current analysis does not guarantee future results.*
As of June 30, 2016
Source: AB
A Word About Risk

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Important Risk Information Related to Investing in Equity and Short Strategies

All investments involve risk. Equity securities may rise and decline in value due to both real and perceived market and economic factors as well as general industry conditions.

A short strategy may not always be able to close out a short position on favorable terms. Short sales involve the risk of loss by subsequently buying a security at a higher price than the price at which it sold the security short. The amount of such loss is theoretically unlimited (since it is limited only by the increase in value of the security sold short). In contrast, the risk of loss from a long position is limited to the investment in the long position, since its value cannot fall below zero. Short selling is a form of leverage. To mitigate leverage risk, a strategy will always hold liquid assets (including its long positions) at least equal to its short position exposure, marked-to-market daily.

Important Risk Information Related to Investing in Emerging Markets and Foreign Currencies

Investing in emerging-market debt poses risks, including those generally associated with fixed-income investments. Fixed-income securities may lose value due to market fluctuations or changes in interest rates. Longer-maturity bonds are more vulnerable to rising interest rates. A bond issuer’s credit rating may be lowered due to deteriorating financial condition; this may result in losses and potentially default, or failure to meet payment obligations. The default probability is higher in bonds with lower, noninvestment-grade ratings (commonly known as “junk bonds”).

There are other potential risks when investing in emerging-market debt. Non-US securities may be more volatile because of the associated political, regulatory, market and economic uncertainties; these risks can be magnified in emerging-market securities. Emerging-market bonds may also be exposed to fluctuating currency values. If a bond’s currency weakens against the US dollar, this can negatively affect its value when translated back into US-dollar terms.

Bond Ratings Definition

A measure of the quality and safety of a bond or portfolio, based on the issuer’s financial condition, and not based on the financial condition of the fund itself. AAA is highest (best) and D is lowest (worst). Ratings are subject to change. Investment-grade securities are those rated BBB and above. If applicable, the Pre-Refunded category includes bonds which are secured by US government securities and therefore are deemed high-quality investment grade by the advisor.
Index Definitions

Following are definitions of the indices referred to in this presentation. It is important to recognize that all indices are unmanaged and do not reflect fees and expenses associated with the active management of a mutual fund portfolio. Investors cannot invest directly in an index, and its performance does not reflect the performance of any AB mutual fund.

- **Barclays Global Aggregate–Corporate Bond Index**: Tracks the performance of investment-grade corporate bonds publicly issued in the global market found in the Global Aggregate. (Represents global corporate on slide 2.)


- **Barclays Global Treasury: Euro Bond Index**: Includes fixed-rate, local-currency sovereign debt that makes up the Euro Area Treasury sector of the Global Aggregate Index. (Represents euro-area government bonds on slide 2.)

- **Barclays Global Treasury: Japan Bond Index**: Includes fixed-rate, local-currency sovereign debt that makes up the Japanese Treasury sector of the Global Aggregate Index. (Represents Japan government bonds on slide 2.)

- **Barclays Investment Grade CMBS Index**: Designed to mirror commercial mortgage-backed securities of investment-grade quality (Baa3/BBB-/BBB- or above) using Moody’s, S&P and Fitch, respectively, with maturity of at least one year.

- **Barclays Municipal Bond Index**: A rules-based, market value–weighted index engineered for the long-term tax-exempt bond market. (Represents municipals on slide 2.)

- **Barclays US Aggregate Bond Index**: A broad-based benchmark that measures the investment-grade, US dollar–denominated, fixed-rate, taxable bond market, including US Treasuries, government-related and corporate securities, mortgage-backed securities (MBS [agency fixed-rate and hybrid ARM pass-throughs]), asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS).

- **Barclays US Corporate High Yield Index**: Represents the corporate component of the Barclays US High Yield Index. (Represents US high yield on slide 2.)

- **Barclays US Treasury Index**: Includes fixed-rate, local-currency sovereign debt that makes up the US Treasury sector of the Global Aggregate Index. (Represents US government bonds on slide 2.)
Index Definitions (continued)

+ **J.P. Morgan Emerging Market Currency Index**: A tradable benchmark for emerging-market currencies vs. USD.

+ **MSCI EAFE Index**: A free float–adjusted, market capitalization–weighted index designed to measure developed-market equity performance, excluding the US and Canada. It consists of 22 developed-market country indices. (Represents EAFE on slide 2.)

+ **MSCI Emerging Markets Index**: A free float–adjusted, market capitalization–weighted index designed to measure equity market performance in the global emerging markets. It consists of 21 emerging-market country indices. (Represents emerging-markets debt on slide 2.)

+ **MSCI World Index**: A market capitalization–weighted index that measures the performance of stock markets in 24 countries.

+ **Russell 1000 Index**: A stock market index that represents the highest-ranking 1,000 stocks in the Russell 3000 Index, which represents about 90% of the total market capitalization of that index.

+ **Russell 2000 Index**: Measures the performance of the small-cap segment of the US equity universe. It is a subset of the Russell 3000 Index representing approximately 8% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. (Represents US small-cap on slide 2.)

+ **S&P 500 Index**: Includes a representative sample of 500 leading companies in leading industries of the US economy. (Represents US large-cap on slide 2.)

+ **STACR 2014-DN3**: A securitization designed to provide credit protection to the Federal Home Loan Mortgage Corporation (Freddie Mac) against the performance of an approximately $32 billion reference pool of mortgages.

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