

Using the Power of Currency To Add Return

As attractive investing opportunities outside the U.S. markets increase, currency takes on greater importance. Rigorously managed, currency can be an ally, enhancing returns.

MOST INVESTMENT PROFESSIONALS THINK

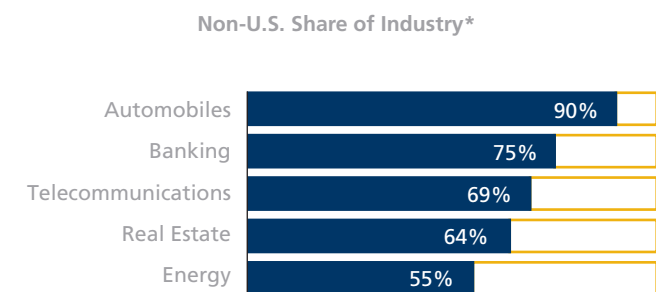
investors should allocate a portion of their portfolios to international stocks so they can fully participate in the best investing opportunities around the globe—and reap some diversification benefits in the process. Treating the world as one investment universe allows investors to pursue opportunities regardless of their location, shifting across geographic regions, industries, and sectors as they arise.

In the past many U.S. investors restricted their investing to the domestic market—after all, the U.S. had the world’s largest economy, along with efficient and liquid securities markets; they saw little need to invest in foreign markets. Today, all that has changed. Increasingly open trade between producers and consumers in different parts of the world, the rapid economic advancement of developing countries, and the trend toward globalization of business have fueled a dramatic rise in investment opportunities overseas. More than half the world’s stock market capitalization is now accounted for by non-U.S. companies; in many industries the largest share of investment opportunities, based on market capitalization, lies outside the U.S. (*Display 1*). As investment managers seek out the dominant players in a particular industry or market sector, they are finding that often these are foreign companies.

Clearly, owning stocks from different geographies offers a far broader set of alternatives and opportunities. For investors seeking to enhance their returns, international investing is imperative. As a consequence, however, they take on the added complexity created by exposure to currency.

Display 1

International investing broadens opportunity



As of December 31, 2005

*MSCI All Country World Index

Source: Compustat, Morgan Stanley Capital International (MSCI), Standard & Poor's, and Bernstein

Why Currency Matters

After the world abandoned the Bretton Woods system of fixed exchange rates in 1971 and moved to a floating system, changes in the relationship between any two currencies became a given for global investors. Most currencies don't have a fixed value—that's why currencies are said to float against each other. Sometimes the U.S. dollar is stronger in relation to other currencies and sometimes it's weaker. When the dollar is strong, it takes fewer dollars to purchase a specific amount of another currency than it would when the dollar is weak. Suppose, for example, that one U.S. dollar is worth one euro. If the dollar increases in value, or strengthens, one euro might be worth only 75 cents—a good thing for a U.S. tourist staying in a French hotel with high-thread-count sheets. But for investors, it's a different story.

An investor wanting to buy a foreign stock must first buy the currency that it trades in. Depending on the year and the country in question, that could be good news or bad. Similarly, when selling a

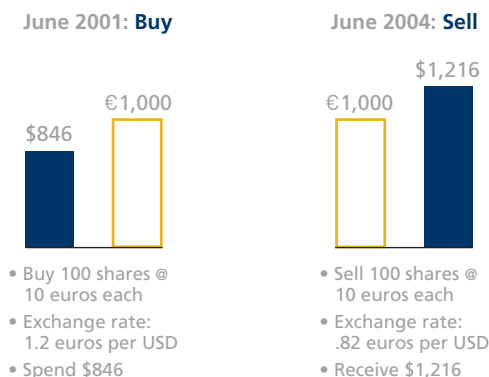
foreign stock, the proceeds, which are denominated in the local currency, must be exchanged for U.S. dollars. If a U.S. investor sells a European stock after the euro has strengthened against the dollar, the value of the investment increases because the sale will net the investor more dollars.

Imagine a U.S. investor who bought 100 shares of hypothetical Company International back in June 2001, when its stock was selling for 10 euros, for a total cost of €1,000 (*Display 2*). At the time, the U.S. dollar was strong, with each \$1 worth €1.2, so the dollar cost of that investment was only \$846. For simplicity's sake, let's assume the stock price of Company International didn't change over the next three years, and come June 2004, our investor sold his 100 shares for €10 per share. By this time, however, the dollar had weakened to €0.82 per dollar, so when he exchanged his €1,000 for U.S. dollars, he received \$1,216—a gain of 44% due solely to currency movement.

Of course, our example is oversimplified—who'd be interested in a stock whose price doesn't increase over time?—but it does illustrate how profoundly changes in the relationship between the U.S. dollar and other currencies can impact returns.

Display 2

Currency movements can have a major impact on international stock returns



Profit: \$370
Return: 44% due to currency
0% due to stock market

Source: FactSet and Bernstein

Currency and Stock Prices: No Pas de Deux

In real life, stock prices and currencies are always on the move, as seen in *Display 3*. The first column shows the returns local investors earned in the German, Japanese, and U.K. stock markets each year from 1986 through 2005. The positive or negative movement of that country's exchange rate versus the U.S. dollar is listed in the second

Display 3

Fluctuations in exchange rates can increase or decrease U.S. dollar returns

	Germany			Japan			U.K.		
	Local Stock Mkt. Returns	Exchange Rate Fluctuation	USD Returns	Local Stock Mkt. Returns	Exchange Rate Fluctuation	USD Returns	Local Stock Mkt. Returns	Exchange Rate Fluctuation	USD Returns
Dec 86	6.7%	26.7%	35.3%	58.7%	25.6%	99.4%	24.3%	2.1%	27.0%
Dec 87	(38.7)	22.9	(24.7)	8.7	31.6	43.0	6.4	26.9	35.1
Dec 88	35.4	(10.9)	20.6	39.5	(3.0)	35.4	9.6	(3.4)	6.0
Dec 89	39.5	4.9	46.3	17.0	(13.0)	1.7	36.6	(10.7)	21.9
Dec 90	(19.7)	12.9	(9.4)	(39.6)	5.8	(36.1)	(7.7)	19.6	10.3
Dec 91	9.7	(1.4)	8.2	0.1	8.8	8.9	19.8	(3.2)	16.0
Dec 92	(4.5)	(6.1)	(10.3)	(21.5)	0.1	(21.5)	18.7	(18.9)	(3.7)
Dec 93	45.5	(6.8)	35.6	12.2	11.8	25.5	27.4	(2.3)	24.4
Dec 94	(6.6)	12.0	4.7	8.6	11.9	21.4	(7.0)	5.8	(1.6)
Dec 95	7.5	8.3	16.4	4.1	(3.3)	0.7	22.2	(0.8)	21.3
Dec 96	22.3	(7.1)	13.6	(4.9)	(11.1)	(15.5)	15.6	10.2	27.4
Dec 97	45.3	(14.3)	24.6	(14.5)	(10.7)	(23.7)	27.5	(3.9)	22.6
Dec 98	19.9	8.0	29.4	(8.9)	15.3	5.1	16.5	1.1	17.8
Dec 99	40.6	(14.6)	20.0	46.6	10.2	61.5	16.1	(3.1)	12.5
Dec 00	(9.9)	(6.3)	(15.6)	(19.8)	(10.4)	(28.2)	(4.5)	(7.3)	(11.5)
Dec 01	(18.2)	(5.2)	(22.4)	(19.0)	(12.9)	(29.4)	(11.8)	(2.6)	(14.0)
Dec 02	(43.3)	17.9	(33.2)	(18.8)	10.4	(10.3)	(23.4)	10.6	(15.2)
Dec 03	36.3	20.2	63.8	22.7	10.7	35.9	18.8	11.2	32.1
Dec 04	7.8	7.8	16.2	10.8	4.6	15.9	11.5	7.3	19.6
Dec 05	26.7	(13.2)	9.9	44.6	(13.2)	25.5	20.1	(10.6)	7.4

Source: MSCI (respective country indexes) and Bernstein

column, and the return a U.S. investor would have received is in the third. In some years—such as 1986 in the German markets and 1990 in the U.K.—the impact of currency was such that a poor stock market return still meant a major gain for U.S. investors. In other years, the situation was reversed. In 1992 in the U.K. market and in 2005 in the Japanese market, currency fluctuations took an enormous bite out of the positive return earned by stocks.

All the insight in the world about a company can fail to translate into gains if its local currency is weak in relation to the dollar. Imagine astutely investing in a company after having done brilliant research on its prospects for future earnings growth, watching the stock outperform—just as anticipated—but losing money because of the independent movement of currency! Currency counts. Currency fluctuations can add significant volatility to a portfolio's returns and contribute to the risks of equity investments. But currency also offers opportunity for gain. In the end, returns from foreign investing are the combined product of two different elements—and each must be managed separately.

We think it's critical to make currency decisions independently of stock-selection decisions. If Renault is the best auto investment in the world, we want to feel free to buy it even if the euro's prospects are poor. If we expect Canon to show superior earnings growth, we want to be able to invest in it even if we don't want exposure to the Japanese yen.

Capitalizing on Currency's Low Correlation

One of our main findings over the years is that combining asset types whose patterns of performance differ leads to more and steadier returns in relation to risk. Because the factors underlying currency returns are different from those driving equity returns, currency and stocks in the same country often move in opposite directions—and certainly with different degrees of magnitude.

Display 4

Equities and currencies move independently

Correlation of Equity* and Currency Returns
1980–Mar 2006

Canada	0.35
Australia	0.26
Japan	0.05
U.K.	(0.14)
Germany	(0.18)

*Returns are hedged to remove the impact of exchange-rate fluctuations.
Source: Datastream, IMF, MSCI, World Bank, and Bernstein

Display 4 shows the correlation between stock returns and currency returns in five countries over the past 25 years. If both moved in the same direction at the same time to the same degree, they'd be perfectly correlated, with a measure of 1.0. If their movements showed no relationship with one another, their correlation would be 0.0. A perfect negative correlation of (1.0) indicates that the two values move in opposite directions to the same degree. Here we see that the movement of currencies in relation to their stock markets is relatively low.

Taking it a step further, *Display 5* shows the correlation of currency returns among these countries over the same 25-year period. While the currency returns of some countries have higher correlations

Display 5

Currencies don't move in tandem

Correlation of Currency Returns Between Countries
1980–Mar 2006

	Canada	Australia	Japan	U.K.	Germany
Canada	1.00				
Australia	0.42	1.00			
Japan	0.12	0.19	1.00		
U.K.	0.19	0.23	0.47	1.00	
Germany*	0.17	0.19	0.57	0.71	1.00

1.00: Perfect Correlation Gray area: Lower Correlation
0.0: No Correlation Blue area: Higher Correlation

*The euro replaced the deutsche mark in January 1999.
Source: Datastream, IMF, MSCI, World Bank, and Bernstein

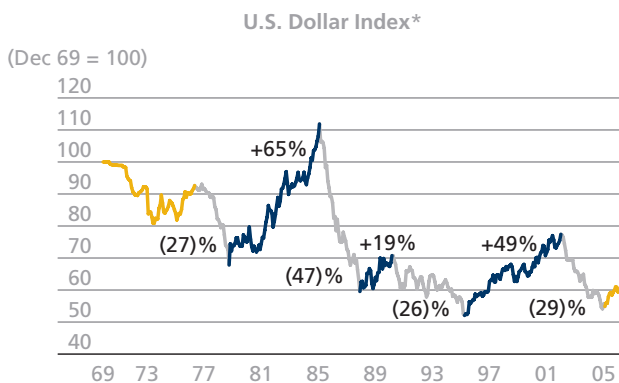
than others, the correspondence between most of them is modest, thereby offering a further layer of diversification.

Currency Movements Can Be Very Protracted

All currencies tend to rise and fall versus other currencies in protracted swings, although temporary reversals within a much longer trend are the norm. These movements—which can last for years—underlie the fundamental dynamics of currency investing. In the past three and a half decades, the U.S. dollar has gone through seven cycles of marked appreciation and depreciation (*Display 6*). During the current cycle, which began in 2002, the value of the dollar has fallen 29% against a broad basket of currencies—and U.S. investors in foreign stocks have profited.

Display 6

Exchange rate movements have been long in duration



*Index is U.S. dollar vs. capitalization-weighted MSCI World ex-U.S. basket of currencies; December 1969 = 100; through March 2006.
Source: Datastream, IMF, MSCI, and Bernstein

Exchange rate movements are driven by an array of macroeconomic factors, with their impact continuously changing as conditions change. Essentially, however, the currency market responds to supply and demand just as other markets do. If the demand for currency at its current rate is greater than its supply, its price will rise. If supply exceeds demand, the price will fall.

Over the very short term, currency movements tend to be volatile and difficult to predict; but over longer periods we believe these movements can be anticipated by analyzing fundamental economic and financial factors. Although these factors can be difficult to measure, identifying and understanding them can point the way to currencies that are likely to generate positive returns.

We have found that the following factors affect currency supply and demand:

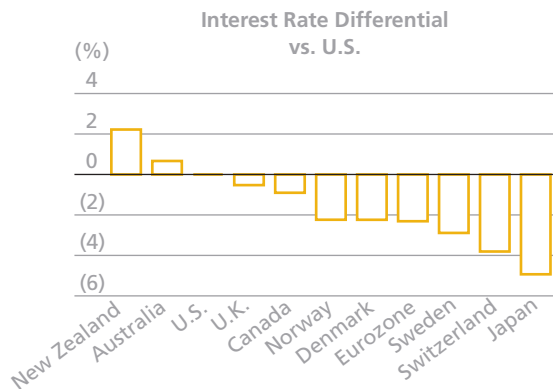
- The direction and level of short-term interest rates within one country in relation to those of other countries
- The pattern of trade between a given country and others
- The price of goods and services across countries
- The recent direction of currency movements

By exploiting these dynamics—all the while mindful of risk—we seek to reap the benefits of greater diversification and added return for our clients. Each plays a role in the rigorous methodology we follow in managing currency in our international portfolios and hedge funds. We will discuss each of these factors in turn, exploring how and why we look at each as we develop expected returns for 10 currencies.

Interest Rates Are the Key Factor

Our research indicates that the most important factor in formulating an expected future return for a currency is the current relationship between the short-term interest rates of the investor's country of residence and whatever country she is investing in. Interest rates worldwide vary from country to country (*Display 7, following page*), moving up and down based on local economic conditions. They can be high in one country and low in another for sustained periods. We have found that these interest rate differentials are particularly useful in forecasting the long-term directional trends for most currencies.

Interest rates vary from country to country



As of May 31, 2006
Source: Bloomberg and Bernstein

If interest rates are higher in one country than elsewhere, investors around the globe will find that country's fixed income securities appealing. (Of course, there are other considerations—like a country's financial stability.) But before they can invest in these securities, they must first buy its currency, which increases demand for it and causes it to rise in relation to other currencies. Thus, higher relative interest rates spur capital flows into a country. This is why higher interest rates are, in general, a predictor of higher expected currency returns.

Because currencies move in protracted swings, one currency can either be appreciating or depreciating versus another. In making currency forecasts, we try to formulate a probability estimate of whether a currency is going to stay in its current state or move in relationship to the dollar. Because higher interest rates tend to boost a country's currency returns, we look to interest rates as indicators of currency direction. We also consider the magnitude of the interest rate differential. The higher a country's interest rate versus that of the U.S., the greater the likelihood of its currency rising.

A country's short-term interest rate is, in effect, a snapshot of its monetary policy, which is controlled by its central bank. Central banks generally adjust their monetary policy according to what they believe is in the best interests of their country, considering its economic activity, employment, trade,

and inflation. Central banks' tightening and loosening cycles tend to be long in duration; as a result, interest rate differentials between countries tend to be long-lasting—and exchange rates follow similar directional trends.

In the Balance: Exports Versus Imports

The second factor we look at is a country's current account balance, the difference between its total imports of goods and services (including income flows and transfer payments) and its total exports. A current-account surplus means that a country is generating demand for its currency by selling more goods and services than it's buying; a current-account deficit means that a country is buying more goods and services than it's selling.

Because trading between countries necessitates the exchange of different currencies, trade affects currency returns. Countries with large current-account imbalances relative to the size of their economies usually can't attract enough capital investment to offset these deficits indefinitely. Eventually, currency depreciation and adjustment set in.

Today, the U.S. has an enormous current-account deficit; the world is deluged with U.S. dollars. To remedy this, the U.S. would have to import less and export more, both of which would be facilitated by a weaker currency. The weaker the dollar, the cheaper U.S. goods and services are in foreign currency terms, and the more expensive foreign goods and services are in U.S. dollar terms. While capital flows into a country can at times offset current-account deficits, our research finds the current account to be an important statistical indicator of future moves in the exchange rate.

Deviations from Purchasing-Power Parity

Third, we assess purchasing-power parity between various currencies by analyzing prices and exchange rates across countries for a broad basket of gross domestic product goods and services. The theory of purchasing-power parity holds that in the long run, exchange rates across countries will adjust to equalize the relative purchasing power of

currencies. If it costs much more to buy the same thing in one country than in another, the two currencies will tend to move toward an exchange rate that equalizes the price. So if it costs \$1 to buy an item in the U.S., the same item should cost the yen equivalent of \$1 in Japan. If the item instead costs the equivalent of \$2, it suggests that the yen is overvalued in relation to the dollar, and that it will ultimately decline.

The Big Mac index, which *The Economist* has compiled since 1986, is a simple way of representing purchasing-power parity. The index is predicated on the idea that \$1 should buy the same basket of goods and services in all countries (*Display 8*), with the “basket” represented by a McDonald’s Big Mac. Purchasing-power parity assumes that the ingredients—the wheat, meat, produce, and milk—should

cost roughly the same from country to country, so any price differential would be attributable to the currency. Thus, the index measures how much the currency would have to change for a Big Mac to cost the same everywhere in the world. For example, an American traveling through Switzerland in May 2006 and hungering for a Big Mac would have parted with \$5.21 for the same sandwich that would have cost \$3.10 back home. For the two prices to be equal, the exchange rate would have to be 2.03 Swiss francs per dollar—not the actual rate of 1.21. This implies that the Swiss franc is 68% overvalued versus the dollar and will decline. Of course, price differences may be distorted by a number of factors, including trade barriers, sales taxes, or variations in the cost of labor, so the Big Mac index is more fun and games than sound economic data, but it conveys the basic idea.

Display 8

The hamburger standard

	Big Mac Price		Implied PPP* of the Dollar	Actual Dollar Exchange Rate May 22, 2006	Under (-) / Over (+) Valuation Against the Dollar, %
	In Local Currency	In Dollars			
United States†	\$3.10	3.10	—	—	—
Australia	A\$3.25	2.44	1.05	1.33	-21
Brazil	Real 6.40	2.78	2.06	2.30	-10
Britain	£1.94	3.65	1.60‡	1.88‡	+18
Canada	C\$3.52	3.14	1.14	1.12	+1
China	Yuan 10.5	1.31	3.39	8.03	-58
Denmark	DKr27.75	4.77	8.95	5.82	+54
Egypt	Pound 9.50	1.65	3.06	5.77	-47
Eurozone§	€2.94	3.77	1.05	1.28	+22
Hong Kong	HK\$12	1.55	3.87	7.75	-50
Hungary	Forint 560	2.71	181	206	-12
Indonesia	Rupiah 14,600	1.57	4,710	9,325	-49
Japan	¥250	2.23	80.60	112	-28
Mexico	Peso 29.00	2.57	9.35	11.30	-17
New Zealand	NZ\$4.45	2.75	1.44	1.62	-11
Russia	Rouble 48.00	1.77	15.50	27.10	-43
Sweden	SKr33.00	4.53	10.60	7.28	+46
Switzerland	SFr6.30	5.21	2.03	1.21	+68
Taiwan	NT\$75.00	2.33	24.20	32.10	-25

As of May 2006

*PPP: local price divided by price in United States

†Average of New York, Chicago, Atlanta, and San Francisco

‡Dollars per pound

§Weighted average of prices in euro area

||Dollars per euro

Source: McDonald’s and *The Economist*

Trends Tend to Persist

The fourth factor we evaluate is a currency's momentum. If a currency has been rising or falling against the dollar, momentum tends to keep it moving in the same direction. Governments use various policy tools to smooth the trajectory of exchange-rate movements, so currency trends don't reverse quickly; change occurs over a protracted period. As a result, exchange-rate trends tend to persist for some time, providing a window that helps facilitate the implementation of profitable currency strategies.

Making Currency Forecasts

Our approach to currency management is similar to our approach to stock selection. We begin by creating a valuation framework based on the underlying fundamentals. Using this framework, we can identify where mispricings are most pronounced and position our exposure accordingly.

Our investment policy group then examines this framework from every possible vantage point. For example, while most private clients' holdings are U.S.-dollar based, our institutional clients are domiciled all over the world; for a yen- or euro-based investor, our currency decisions could be different. We weight each fundamental factor based on a statistical analysis of its potential impact on future currency returns (*Display 9*) and develop an expected return model that identifies those currencies we expect will rise and those that will decline relative to the U.S. dollar. At any given time, our exposure to different currencies varies. For example, at the end of May 2006, the expected return for the Canadian dollar versus the U.S. dollar was 4.14%, but for the Swiss franc it was (1.49)%, so we would maintain exposure to the former and limit our exposure to the latter.

To accomplish this, we would take long and short positions in currencies through currency forwards, which are contracts in the foreign exchange market that lock in the price at which an investor can buy or sell a currency on a future date. In general, we tend to favor currencies in countries with wide,

Display 9

Measuring opportunity by analyzing underlying fundamentals

Currency Expected Returns

	Expected Return	Contribution of Each Factor			
		Interest-Rate Differential	Current Account	Purchasing-Power Parity	Momentum
Canadian Dollar	4.14%	(2.64)%	6.65%	(0.86)%	0.99%
Australian Dollar	2.54	2.33	0.28	(0.26)	0.19
Danish Krone	1.97	(3.39)	5.31	(0.77)	0.82
Euro	1.97	(3.39)	5.31	(0.77)	0.82
Japanese Yen	1.82	(4.76)	7.42	(1.09)	0.26
New Zealand Dollar	1.44	3.35	(1.15)	0.37	(1.13)
British Pound	1.05	(2.22)	3.41	(0.90)	0.76
Swedish Krona	0.01	(3.69)	4.32	(1.58)	0.96
Norwegian Krone	(0.85)	(3.35)	4.32	(2.81)	1.00
Swiss Franc	(1.49)	(4.17)	4.32	(2.37)	0.73

As of May 31, 2006
Source: Bernstein

positive interest rate differentials. Experience has taught us that it's unnecessary to respond to every fluctuation—positioning the portfolio correctly with respect to a currency's medium- and long-term trend is what adds meaningfully to returns. Thus, as with our asset exposures, currency positions tend to be strategic longer-term investments.

Complementing our expected-returns framework is our quantitative model for forecasting currency risk; the model identifies the essential dynamics of one currency in relation to another over time. Among the patterns we see is that foreign currencies tend to move in tandem against the U.S. dollar, and that European currencies tend to move together. By combining the risk model with our currency expected-returns model, we are able to engineer portfolios of currency exposures for an investor in any base currency.

Managing Currency to Maximize Gain

We employ different currency strategies in each of our portfolios, in keeping with the portfolios' stated return and risk objectives and the types of investing permitted in each. In our international portfolios, currency exposures cannot exceed a portfolio's stock positions. They can range from no exposure to a currency, achieved through hedging, to maximum exposure, dictated by a country's stock weight in the portfolio. (Because of the high cost of currency forwards in the emerging markets, the currency exposures in our emerging markets portfolios are always equal to a country's stock weight in the portfolio.) In our hedge funds, however, currency exposures are not constrained by the portfolio's stock positions. They can range from significantly above to significantly below the stock holdings in a particular currency, depending on perceived opportunity.

Our currency management framework has contributed to positive results over time, as seen in the returns of our International Value portfolio, an institutional product with a long performance history (*Display 10*). In this portfolio, the combination of our best international stock choices, enhanced by our currency management overlay, has earned a premium of 2.5% (after fees) since inception, with currency providing one-third of the outperformance.

Display 10

Currency management has added significantly to returns

Bernstein International Value* July 1992–May 2006	
Annual performance (annualized)	12.2%
Benchmark†	9.7
Premium	2.5
Premium contribution from:	
Currency management	0.9
Country and security selection	1.6

*International Value, Developed (GDP-weighted, half-hedged); inception: July 1992

†MSCI EAFE Index (GDP-weighted) half-hedged, net of dividends reinvested

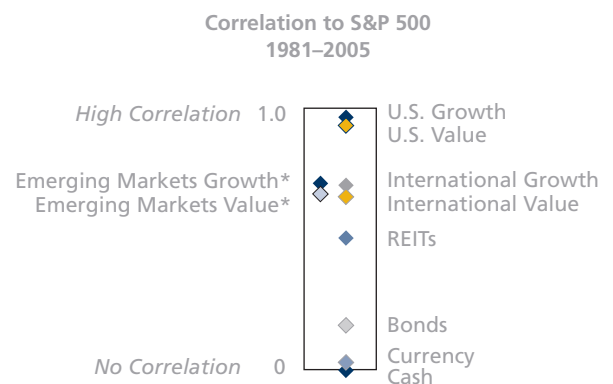
Source: Bernstein

See Performance Disclosure on page 24 for additional information.

Active currency management removes decisions about currency exposure embedded in foreign assets from decisions about which foreign assets to buy. Over the long term, currency returns are unrelated to returns from other types of investments, and this is part of currency's power. Not only are currency returns weakly correlated to those of their local stock markets, but returns from a broad group of major foreign market currencies show a very low correlation to the U.S. market and vary significantly from correlations of other non-equity asset classes such as bonds and real estate (*Display 11*).

Display 11

Currency returns offer a diversification benefit



Correlation between S&P 500 and other asset classes, which are represented by the following—U.S. Growth Stocks: Russell 1000 Growth; U.S. Value Stocks: Russell 1000 Value; International Growth: MSCI EAFE Growth Index; International Value: MSCI EAFE Value Index; REITs: National Association of Real Estate Investment Trusts (NAREIT) Index; Emerging Markets Growth: MSCI Emerging Markets Growth Index; Emerging Markets Value: MSCI Emerging Markets Value Index; Bonds: Lehman Brothers Aggregate Bond Index; Currency: exchange value of the U.S. dollar against a broad group of foreign currencies from major markets; Cash: three-month Treasury bills.

*Correlation data for Emerging Markets Growth and Emerging Markets Value begin in January 1997, when their proxies, the MSCI Emerging Markets Growth and the MSCI Emerging Markets Value indexes, began.

Source: FactSet, Lehman Brothers, MSCI, NAREIT, Russell Investment Group, and Bernstein

The currency market is a distinct arena that affords further return opportunities. In our experience, the highly sophisticated technical research that currency management demands is worth the effort. Done well, currency management can contribute significant gains. In this increasingly global investment environment, rigorous and disciplined currency management is crucial. ■

Performance Disclosure: International Value—Developed Composite (Half-Hedged, GDP-Weighted)

Presentation of the Firm—AllianceBernstein L.P. (“ABLP”) is a registered investment advisor. AllianceBernstein Institutional Investments and AllianceBernstein Investments (collectively, the “Firm”) is the institutional and retail sales, marketing, and client service unit of ABLP. The Firm has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). Prior to the merger of Alliance Capital Management L.P. (“ACMLP”) and Sanford C. Bernstein & Co., Inc. (“Bernstein”), in October 2000, the firms were reporting under their respective names. In February 2006, ACMLP changed its name to ABLP.

Composite Structure—The performance results displayed herein represent the investment performance record for the institutional International Value—Developed Composite (half-hedged, GDP-weighted) (the “Composite”).

The Composite consists of accounts that typically invest in 100 to 125 value stocks based outside the U.S. and seek a long-term premium relative to their benchmark with moderate sensitivity to risk. The Composite includes all fee-paying institutional discretionary accounts. The withholding tax basis of the Composite is consistent with the benchmark, which is Luxembourg. At any point in time, 0% to 15% of the Composite’s assets are invested in countries outside the benchmark, the MSCI EAFE Index (half-hedged, GDP-weighted). The Composite was created in March 2002, with an inception date of June 30, 1992.

A complete list of all composites with descriptions managed by the Firm and/or additional information regarding policies for calculating and reporting returns is available upon request via e-mail to CompositeRequests@AllianceBernstein.com.

Total Return Methodology and Fee Structure—Performance figures in this report have been presented gross and net of investment-management fees. The Composite’s net-of-fee return is the asset-weighted average of the actual after-fee returns of each account in the Composite. Net-of-fee performance figures reflect the compounding effect of such fees. The highest fee payable for an International Value—Developed Composite (half-hedged, GDP-weighted) portfolio is 0.85% of assets, annually. The investment advisory fee schedule is disclosed in Part II of ABLP’s Form ADV.

Rate of Return—No representation is made that the performance shown in this presentation is indicative of future performance. An account could incur losses as well as achieve gains. Performance returns for each account are calculated monthly using trade-date accounting. Performance results are reported on a total-return basis, which includes all income from dividends and interest, and realized and unrealized gains or losses. Prior to 2000, if an account’s net monthly cash flows were equal to or exceeded 10% of its beginning market value, the Modified Dietz Method was used to daily-weight the cash flows. When an account’s net monthly cash flows were less than 10% of its beginning market value, the cash flows were assumed to have occurred on the last day of the month. Beginning 2001, all cash flows are daily-weighted using the Modified Dietz Method. The monthly Composite returns are calculated by weighting each account’s monthly return by its beginning market value as a percent of the total Composite’s beginning market value. These monthly performance figures are geometrically linked to calculate cumulative and/or annualized “time-weighted” rates of return for various time periods. Returns for the accounts in the Composite are calculated in U.S. dollars.

Net-of-Fee Returns—2005 data are preliminary, pending completion of an internal audit. The Composite’s net-of-fee returns for the past 10 years are: 1996: 18.14%; 1997: 9.84%; 1998: 13.81%; 1999: 21.32%; 2000: (2.42)%; 2001: (11.22)%; 2002: (8.07)%; 2003: 40.23%; 2004: 24.83%; 2005: 20.88%.

Dispersion—The dispersion of annual returns is calculated based on the asset-weighted standard deviation. The Composite’s dispersion of returns for the past 10 years are: 1996: 0.62%; 1997: 1.26%; 1998: 1.41%; 1999: 1.81%; 2000: 1.18%; 2001: 1.00%; 2002: 0.85%; 2003: 0.87%; 2004: 0.55%; 2005: 0.81%.

The benchmark, which is not covered by the report of independent accountants, is the MSCI EAFE Index (Europe, Australasia, Far East) with countries weighted according to GDP and currency positions half-hedged. The half-hedged version of EAFE was developed by MSCI specifically for Bernstein for comparison to the management style of the Composite. The index is designed to measure developed market equity performance excluding the United States and Canada.