An Enhanced US Equity Service

Bernstein has taken the next step in the evolution of our equity strategy: the introduction of a multi-style, multi-cap integrated portfolio called Bernstein Strategic Equities. By adding incremental US equity diversification to our value and growth stock selections, the portfolio is designed to deliver a long-term premium to the S&P 500 with greater consistency across a range of market environments.

Adding Sources of Return

We have long believed that owning both large-cap value and growth stocks constitutes a sound foundation for investment success. Each style has done well over time, but they have different patterns of return. And Strategic Equities goes a step further: We will include other large-cap stocks that tend to have lower volatility or are responsive to near-term catalysts. And we will further diversify our investment universe across the capitalization spectrum through the inclusion of small- and mid-cap stocks.*

This more diversified investment strategy allows Strategic Equities to be more sensitive to the prevailing environment, since we can tilt at any one time toward the portfolio components where we see the highest return potential (see display below). And indeed each investment style has had its periods in and out of favor: Leadership has changed hands regularly with market and earnings cycles, a rotation that Strategic Equities is positioned to exploit.

Strategic Equities at a Glance

- Continued exposure to our highest-conviction holdings in value and growth
- The addition of stocks characterized by greater stability and lower volatility
- Participation in a broader investment universe by capitalization range
- Traditional customization to client tax and cash-flow circumstances

Strategic Equities Is Dynamic

A Different Dimension: Time Horizon

Value and growth investing take advantage of two different investment controversies: whether the earnings of an out-of-favor company will recover, and whether fast earnings growth will be sustained, respectively (see display on reverse). Value investors are rewarded on evidence of a turnaround, while growth investors are rewarded when the

*Exposure to small- and mid-capitalization stocks will be achieved through direct ownership and through a pooled investment vehicle.
higher expected growth materializes. Both styles are longer-horizon strategies that tend to perform best when investors are confident and are willing to give credit to future cash flows. In contrast, shorter-horizon strategies tend to work best when investors are uncertain about the future; our investments here will tend to emphasize companies with traits that offer a high potential for near-term payoff, such as healthy and stable current profitability, strong free cash flows, and low debt. While these types of stocks may earn less in very strong markets, they should also lose less in market declines. As a result, they are a good complement to our longer-horizon value and growth strategies.

In sum, Strategic Equities captures opportunities over both longer and shorter horizons, expanding the sources of return and offering a dimension of diversification—time horizon—that goes beyond investment style and capitalization size.

Building on Value and Growth

The factors that have enabled value and growth investing to generate premium returns are powerful. As evidence of our commitment to these investing styles, we expect our highest-conviction stocks in large-cap value and large-cap growth to dominate Strategic Equities over time. The portfolio will build on this investment base by targeting greater reliability in different market environments and capitalizing on far more of Bernstein’s extensive resources.

Note to All Readers: Bernstein does not provide tax, legal, or accounting advice. In considering this material, you should discuss your individual circumstances with professionals in those areas before making any decisions.

The investment framework discussed in this paper is a new strategy, for which actual data are not yet available. Bernstein Global Wealth Management is a unit of AllianceBernstein L.P.

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