

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**ADMINISTRATIVE PROCEEDING**  
**File No.3-11359**

**In the Matter of**

**ALLIANCE CAPITAL  
MANAGEMENT, L.P.,**

**Respondent.**

**PROPOSED PLAN OF DISTRIBUTION**

**A. INTRODUCTION**

**1. Background And Purpose Of The Plan**

1.1 This Plan of Distribution (the "Plan") has been developed by an Independent Distribution Consultant ("IDC") pursuant to the Amended Order of the Securities and Exchange Commission Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order against Alliance Capital Management, L.P. ("Alliance Capital"), dated January 15, 2004 (the "Order"). Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, the Plan provides for the creation of a \$250 million Fair Fund (the "Fair Fund"), consisting of \$150 million in disgorgement and \$100 million in penalty (Order at Section IV, Part K), paid by Alliance Capital in settlement of claims by the Securities and Exchange Commission (the "SEC" or "Commission") relating to market timing in certain Alliance Capital mutual funds (the "Alliance Settlement"). The Fair Fund's assets will be distributed only pursuant to the terms of this Plan.

**1.2 The Alliance Settlement**

According to the Order, between January 1, 2001 and September 30, 2003 (the "Relevant Period") Alliance Capital entered into "negotiated, but undisclosed, arrangements with market timers — arrangements that benefited Alliance Capital to the detriment of investors in mutual funds managed by Alliance Capital. In those arrangements, Alliance Capital provided 'timing capacity' in mutual funds to known timers in return for

or in connection with the timers' investments of 'sticky assets' in Alliance Capital managed hedge funds, mutual funds and other investment vehicles, from which Alliance Capital earned management fees."<sup>1</sup> According to the Order, the arrangements were with 23 market timers and affected ten Alliance Funds.<sup>2</sup>

1.3 On January 16, 2004, Alliance Capital deposited the Alliance Settlement assets with the US Treasury and no longer controls them. The Alliance Settlement assets were transferred on February 11, 2005 to the Department of the Treasury's Bureau of Public Debt (the "BPD") for investment in government obligations pending the issuance by the Commission of an order giving final approval of the Plan (the "Final Approval Date").

1.3.1 As described below:

- (a) the Commission has continuing jurisdiction and control of the Fair Fund Assets (as defined below) and shall retain control of those assets pending distribution pursuant to this Plan, as directed by the IDC and approved by the Commission; and
- (b) the IDC has concluded that the amount of the Alliance Settlement is more than sufficient to compensate the losses incurred by investors as a result of the conduct contained in the findings of the Order.

#### 1.4 The Additional Settlement Assets

1.4.1 On April 28, 2005, the Commission simultaneously instituted and settled administrative and cease-and-desist proceedings against Gerald T. Malone ("Malone"), John D. Carifa ("Carifa") and Michael J. Laughlin ("Laughlin"), all former Alliance Capital officers, for their roles in the "timing capacity" arrangements described in Section 1.2. The Commission found that Malone, Carifa and Laughlin aided and abetted Alliance Capital's unlawful conduct. *In the Matter of Gerald T. Malone*, File No. 3-11914

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<sup>1</sup> Order at Section III. 1.

<sup>2</sup> Although referred to for purposes of this Plan of Distribution as Alliance Capital, the Respondent's name was changed to AllianceBernstein LP in February 2006. The ten mutual funds at issue are referred to in this Plan as the "Alliance Funds."

(Apr. 28, 2005); *In the Matter of John D. Carifa*, File No. 3-11915 (Apr. 28, 2005); *In the Matter of Michael J. Laughlin*, File No. 3-11916 (Apr. 28, 2005). Pursuant to these orders, between April 28, and May 4, 2005, Malone, Carifa and Laughlin paid \$150,001, \$375,001, and \$325,001, respectively, in disgorgement and civil penalties to the US Treasury, which may be distributed pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002 (the “Officer Settlements”). On June 8, 2005, these moneys were transferred to the BPD. All of these assets will be available for distribution in the Fair Fund.

1.4.2 On December 23, 2003, the Commission filed a civil injunction action against Daniel Calugar (“Calugar”) and the broker-dealer he controlled, Security Brokerage, Inc. (“SBI”). *SEC v. Calugar*, Civ. No. 03-1600 RCJ (RJJ) (D. Nev.). The Commission alleged that Calugar and SBI defrauded mutual fund investors, including Alliance Funds investors, through improper late trading and market timing. On January 9, 2006, the Commission settled this action, and as part of the settlement, Calugar paid \$153 million in disgorgement and civil penalties to the registry of the United States District Court for the District of Nevada, which may be distributed pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002. Of this \$153 million, \$70.38 million of the Calugar Settlement Fund, representing harm to Alliance Fund investors from the activities of Calugar and SBI, was transferred into the Fair Fund account on October 23, 2006 for distribution in the Fair Fund (the “Calugar Settlement”).

## 1.5 The Fair Fund Assets

1.5.1 The total assets from the Alliance Settlement, the Officer Settlements and the Calugar Settlement constitute the assets of the Fair Fund (the “Fair Fund Assets”). Other than interest from these investments, it is not anticipated that the Fair Fund will receive additional assets.

1.5.2 The Fair Fund Assets will be distributed only pursuant to the terms of the IDC’s Plan. The Plan is subject to approval by the Commission, and the Commission retains jurisdiction over the implementation of the Plan. Except as may otherwise be provided in this Plan, Alliance Capital will pay all fees and costs directly associated with the administration of the Plan, including the fees of the Fund Administrator.

## 1.6 The Independent Distribution Consultant

- 1.6.1 In October 2004, pursuant to the Order, Alliance Capital retained Professor Marshall E. Blume as Independent Distribution Consultant, to “develop a Distribution Plan for the distribution of . . . the \$250 million [Alliance Settlement] . . . to the mutual funds and their shareholders to compensate fairly and proportionately the funds’ shareholders for losses attributable to market timing trading activity by market timers with whom Alliance Capital entered into timing arrangements between January 1, 2001 and September 30, 2003, according to a methodology developed in consultation with Alliance Capital and the independent directors of the affected Alliance Capital funds and acceptable to the staff of the Commission.” Order at Section IV, Part C. Alliance Capital has agreed to pay all costs associated with the engagement of the IDC.
- 1.6.2 Professor Blume is the Howard Butcher III Professor of Financial Management, Director of the Rodney L. White Center for Financial Research, and past Chairman of the Finance Department at the Wharton School of the University of Pennsylvania. Professor Blume received his MBA and PhD from the University of Chicago. Professor Blume has conducted extensive research into investments, the financial markets, and investor behavior. He is a member of the Board of Managers of the Measey Foundation, a past chairman of the NASD Economic Advisory Board, and a member of the Shadow Financial Regulatory Committee. He served on the U.S. Government Accounting Office advisory committee that investigated the October 1987 stock market crash. He is a past managing editor of the *Journal of Finance* and is currently an editor of the *Journal of Fixed Income*, the *Journal of Portfolio Management* and the *Journal of Pension Fund Management & Investment*.
- 1.6.3 The IDC’s responsibilities under the Order are to (a) assess the amount of losses attributable to the investment activity in accounts serviced by 23 representatives (the “Timers”) of various broker-dealers in the ten Alliance Funds<sup>3</sup> and (b) design the Plan for

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<sup>3</sup> The ten Alliance Funds are: AllianceBernstein Growth Fund; AllianceBernstein Growth and Income Fund; AllianceBernstein High Yield Fund; AllianceBernstein Americas Gov’t Income Trust (AB North American Gov’t Income Trust prio(cont’d) 1, 2002); AllianceBernstein Focused Growth and Income Fund (AB Disciplined Value Fund prior to Dec 15, 2004); AllianceBernstein Mid-Cap Growth Fund (Alliance Fund prior to Feb. 1, 2002); AllianceBernstein Large Cap Growth Fund

distribution of Fair Fund Assets, in order that fund investors would “receive, in order of priority, (i) their aliquot share of losses suffered by the fund due to market timing, and (ii) a proportionate share of advisory fees paid by such fund during the period of such market timing.” Order at III.C.1. The IDC’s assessment of losses attributable to Timer activity is attached as Exhibit A, incorporated in this Plan, and described briefly in Section 2 below.

1.6.4 Not later than 30 days after the Commission’s final approval of the Plan, the Fund Administrator (identified in Section 4.1, below) will, subject to IDC’s supervision, attempt to notify Timers that they are not Potentially Eligible Recipients under Section 3.2 of the Plan (and thus are not eligible to receive a distribution). The notice will also inform the Timers that they can review the Plan at <http://www.abfairfund.com>.

1.6.5 The IDC shall be entitled to interpret the provisions of this Plan relating to the allocation and the distribution of payments and, absent manifest error, the IDC’s interpretation shall be controlling. Prior to interpreting any such provision of this Plan that is material, or exercising any material discretion provided to him under this Plan, the IDC shall inform the Commission staff of such interpretation or exercise of discretion. In particular but without limitation, whenever this Plan calls for the submission of “sufficient” information by any party, the sufficiency of such information shall be determined in the sole discretion of the IDC, in consultation with the Fund Administrator, as defined below at Section 4.1, or any other party retained by or at the IDC’s direction to assist in the development and/or implementation of this Plan. Determining the reasonableness of efforts to obtain and use data also shall be within the IDC’s discretion, including but not limited to the reasonableness of efforts to render data machine-readable.

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(AB Premier Growth Fund prior to Dec 15, 2004); AllianceBernstein Small Cap Growth Portfolio (AB Quasar Fund prior to Nov 1, 2003); AllianceBernstein Small/Mid Cap Value Fund (AB Small Cap Value Fund prior to Feb 1, 2005); AllianceBernstein Global Technology Fund (AB Technology Fund prior to Dec 15, 2004).

## 2. The IDC's Assessment Of Investor Losses

- 2.1 **The Adjusted Profit Methodology.** The IDC's first task under the Order was to assess the amount of losses from the Timers' activities in the ten Alliance Funds. Professor Blume developed the "Adjusted Profit" methodology to measure losses attributable to activity of the Timers and incurred by all other investors in the Alliance Funds (the "Non-Timers" and "Non-Timer" in the singular) during the Relevant Period. Under the methodology, the profits earned by the Timers are potential losses incurred by the Non-Timers. These potential losses are then adjusted to take into account any additional trading costs, foregone investment returns, and administrative and advisory fees imposed on Alliance Funds due to the Timers' trading, resulting in the Adjusted Profits for this distribution.
- 2.2 Since both Timers and Non-Timers were subscribing and redeeming in the Alliance Funds at the same time, Professor Blume determined that it was not possible to attribute specific transactions by the portfolio managers ("PM") to either Timers or Non-Timers. Based upon the principle that a PM reacts in the same way to the subscriptions and redemptions of either category of shareholders, the PM's transactions have been allocated to both Timers and Non-Timers.
- 2.3 Professor Blume's calculations determine, on a daily basis, the losses to each Non-Timer in each of the Alliance Funds attributable to the Timers' activity. The data required to implement the adjusted profit methodology include daily subscriptions and redemptions of both the Timers and Non-Timers, daily holdings of each security for each Fund, daily PM purchases and sales of securities, daily 10 am and closing prices on the primary market for each of the securities held by each of the Funds, estimates of the transaction costs associated with buying and selling securities in these Funds, daily Net Asset Value per share for each of the Funds, and management and administrative costs charged to the Funds.
- 2.4 **The Assessment.** Using the methodology and data described above, Professor Blume determined that the net total losses as measured by the Adjusted Profits (the "Total Adjusted Profits") are \$186.4 million.

## B. ALLOCATING LOSSES AND OTHER FAIR FUND ASSETS

### 3. Allocation Principles

3.1 The Plan is designed, to the extent reasonably possible, to make settlement payments directly to eligible Non-Timers in an expeditious and cost-effective manner. In the view of the IDC, the Plan constitutes a fair and reasonable allocation of the Fair Fund Assets.

3.2 **Potentially Eligible Recipients.** Timers are not eligible for distributions from the Fair Fund. Non-Timers who are potentially eligible to receive a payment include:

3.2.1 Each account of a Non-Timer invested in the Alliance Funds and registered as an individual or as an entity during the Relevant Period on the books and records of the Alliance Funds (“Registered Accounts” or “Registered Account” in the singular) is potentially eligible to receive a settlement payment.

3.2.2 In addition, as provided in Section 5, certain Beneficial Owners which invested in the Alliance Funds during the Relevant Period through a Registered Account belonging to or serviced by a financial intermediary (such as a Broker, Omnibus Custodian or Collective Account Agent) may also be eligible.

3.2.3 Such Registered Accounts and Beneficial Owners together constitute “Potentially Eligible Recipients.”

3.2.4 It is possible that an individual Non-Timer could be a Potentially Eligible Recipient for two or more settlement payments: for instance, a Non-Timer might have an account with Alliance Capital in his own name, an IRA, and a Roth IRA.

3.2.5 Accounts owned by or benefiting Malone, Carifa, Laughlin, Calugar, or SBI shall not be eligible to receive any settlement payments under the Plan.

3.2.6 **Aggregation Principle.** During the Relevant Period, Potentially Eligible Recipients may have held multiple Alliance Funds, including different classes of shares in the same Alliance Fund. Settlement Payments to each Potentially Eligible Recipient shall be calculated as the sum of the compensation for the effect of the Timers’ activities or losses, as determined below, across all Alliance Funds and all classes of shares within each account owned by that Recipient. The Adjusted Profits per Registered Account (“Account Adjusted Profits”) is the sum of the Adjusted

Profits per Alliance Fund for all Alliance Funds owned in that Account where the Adjusted Profits per Alliance Fund are positive. Thus, this sum excludes those funds where the Adjusted Profits are negative.<sup>4</sup> Negative Adjusted Profits in an Alliance Fund indicate that the Registered Account benefited from the activities of the Timers. The effect of this exclusion is that the losses that a Registered Account received in one or more funds are not offset by gains in other funds. Any Potentially Eligible Recipient whose Account Adjusted Profits are zero experience no losses and thus will not receive a settlement payment.

3.2.7 **The De Minimis Amount.** No settlement payment will be made to a Potentially Eligible Recipient with less than \$10 in losses at the Final Allocation stage. The IDC has concluded that it is not cost-effective or otherwise commercially reasonable to attempt to distribute Fair Fund Assets in amounts lesser than the De Minimis Amount.

3.3 **Allocation Overview.** The first step in determining whether a Potentially Eligible Recipient should receive a payment under this Plan is to determine the Adjusted Profits allocable to that Potentially Eligible Recipient. Because the Fair Fund Assets exceed the Adjusted Profits, the second step is to allocate additional moneys from the Fair Fund to Potentially Eligible Recipients, as set forth in Section 3.5.2. After this allocation, those Potentially Eligible Recipients whose settlement payments equal or exceed the De Minimis Amount will become “Eligible Recipients” and payments will be made as described below.

3.4 **Adjusted Profits Allocations.** Allocation of Adjusted Profits from the Fair Fund Assets shall be according to the following general principles: The calculation of each Potentially Eligible Recipient’s share of Adjusted Profits is intended to result in a settlement payment that restores the impaired value of that Recipient’s investments in Alliance Funds during the Relevant Period. Some of this impaired value is susceptible to calculation, while some of this impaired value is not. The method of calculation is intended to estimate fairly the impaired value that each Potentially Eligible Recipient has experienced.

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<sup>4</sup> When Adjusted Profits per Alliance Fund-class are aggregated across classes to the Fund level, the losses in one class are netted against potential gains in another class. This treatment is consistent with the fact that all classes of the same Fund are interests in the same portfolio of assets.



3.5 **Gross-Up Account Allocations.** The Total Adjusted Profits comprise only a portion of the Fair Fund Assets. From the remaining Fair Fund Assets, two accounts with the Fair Fund will be created: (a) “Gross-Up Account” for distribution along with the Total Adjusted Profits to Eligible Recipients as determined by the algorithm in Section 3.5.2 and (b) “Final Settlement Account,” described at Section 3.7. The “Initial Funding” of the Fair Fund’s Gross-Up Account will be: (a) \$50,000,000 from the Alliance Settlement and (b) \$71,230,003 from the Officer Settlements and Calugar Settlement. The “Final Funding” will be the Initial Funding plus (a) interest earned on the Alliance Settlement through the “Calculation Cut-Off Date,” defined as 80 days from the Final Approval Date, (b) any settlement assets as to which a Broker or Omnibus Custodian (as defined, respectively, at Sections 5.2 and 5.5) declines to participate or fails to provide appropriate data, as set forth in Sections 5.2.1.2.c and 5.4.4.3, (c) any settlement payments to accounts determined to be in escheatment prior to the Calculation Cut-Off Date and (d) any settlement payments to accounts with addresses determined to be invalid under Section 4.4 prior to Calculation Cut-Off Date.

3.5.1 Settlement payments from the Gross-Up Account shall be characterized as a return of advisory fees on the assets of the Non-Timers.

3.5.2 Gross-Up Account assets shall be allocated and distributed in the same proportions to each Potentially Eligible Recipient as shall the Account Adjusted Profits so as to exhaust the Fair Fund Assets less the Reserve Amount (as defined in Section 3.7.1). The Gross-Up allocation utilizes an iterative algorithm to maximize the number of Potentially Eligible Recipients Accounts whose settlement payments exceed the De Minimis Amount and minimize the assets in the Final Settlement Fund.<sup>5</sup>

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<sup>5</sup> The algorithm is as follows: Make a reasonable estimate of a gross-up percentage. Increase by this percentage the Account Adjusted Profits of each Non-Timer Account that could possibly receive a settlement payment under the Plan and then eliminate tentative settlement payments that are below the De Minimis Amount. If the sum of these tentative settlement payments is less than the total dollars to be distributed (excluding the Reserve Account), increase the gross-up percentage and repeat the above calculation; if the sum is greater, decrease the gross-up percentage and repeat the above calculation. This process continues until the total dollars to be distributed equals the sum of the tentative payments.

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3.5.3 The application of the algorithm to determine the final settlement payments requires that the IDC have accurate and complete data for *every* Potentially Eligible Recipient in advance of the distribution. Prior to the application of this algorithm, it is not possible to distribute any settlement payments. Accordingly, to provide for the expeditious distribution of settlement payments, this Plan has set firm deadlines for receiving data for Potentially Eligible Recipients from Network Level Accounts and Omnibus Custodial Accounts, as set forth at Sections 5.2 and 5.5 below.

### 3.6 **Finalizing The Allocations**

3.6.1 For purposes of providing approximate levels of settlement payments to Network Level Accounts and Omnibus Custodial Accounts (defined in 5.2.1 and 5.5, respectively), the Plan will calculate a “Provisional Allocation.” The Provisional Allocation is based upon the sum of the Total Adjusted Profits as best estimated at the time of the calculation and the Initial Funding of the Gross-Up Account. For Omnibus Custodial Accounts, the Provisional Allocation shall be based on the amount of Adjusted Profits allocable to the total shares for each Alliance Fund in the Custodial Account; in the IDC’s discretion, the Provisional Allocation also may be based upon a refined calculation based upon the total Alliance Fund shares in all or a subset of the first level of subaccounts within the Custodial Account (referred to as “Tier One Accounts”).

3.6.2 After complete data are received from the Network Accounts and the Custodial Omnibus Accounts, the “Final Allocation” will be undertaken. The Final Allocation is based upon the sum of the Total Adjusted Profits and the Final Funding to the Gross-Up Account. This calculation will determine the actual settlement payments. With respect to Omnibus Custodial Accounts, the Final Allocation will be based upon the actual holdings by Potentially Eligible Recipients with investment in Tier One Accounts.

3.6.3 No notice of the results of the Provisional Allocation will be provided to any Potentially Eligible Recipient except as noted at Section 5.2 and 5.5, and no notice of the result from the Final Allocation will be provided to any Potentially Eligible Recipient whose settlement payment is less than the De Minimis Amount.

3.7 **Final Settlement Account.** A “Final Settlement Account” will be established for queries and disputes, as provided in Section 4.9, and to cover the Custodial Payment Difference, as provided in Section 5.5.3.

This Final Settlement Account will be maintained as a separate account, or as a sub-account, of the Fair Fund at the BPD, pending the close of the Fair Fund distribution, and no administrative charges will be made against it.

3.7.1 The Final Settlement Amount initially will be funded with \$13.6 million – the difference between \$200 million and the Total Adjusted Profits (the “Reserve Amount”).

3.7.2 Interest accrued on the Fair Fund assets after the Calculation Cut-Off Date will be remitted to the Final Settlement Account, after provision for any taxes.

3.7.3 Interest accrued on the Escrow Account, described at Section 9.3, will be remitted to the Final Settlement Account at the Escrow Account’s termination, after provision for any taxes.

3.7.4 Any unclaimed settlement amounts (e.g., uncashed or undeliverable checks) distributed from the Fair Fund shall be remitted to the Final Settlement Account, provided, however, that returned checks shall first go through the process described below at Section 4.5.2. Unclaimed settlement amounts from distributions by Brokers or Omnibus Custodians shall be returned promptly to the Fund Administrator and remitted to the Final Settlement Account.

3.7.5 Any residual amount in the Final Settlement Account after all assets have been distributed will be remitted to the Alliance Funds, based on the proportion of Adjusted Losses incurred in each Alliance Fund, after provisions for any taxes have been made and prior to the termination of the Fair Fund, as described below at Section 9.

3.8 As noted in Section 3.5, no settlement payments will be made to Non-Timer Accounts determined prior to the Calculation Cut-Off Date to be in escheatment and any settlement payment that might otherwise be made will be remitted to the Gross-Up Account. Payments to Non-Timer Accounts determined on or after the Calculation Cut-Off Date to be in escheatment will be remitted to the Final Settlement Account.

## C. DISTRIBUTION OF THE ALLOCATED AMOUNTS

### 4. General Distribution Procedures

- 4.1 Rust Consulting, Inc. (“Rust”), if approved by the Commission, will serve as the independent administrator of the Fair Fund (the “Fund Administrator”) and will be compensated by Alliance Capital. Rust is a third-party service provider which has successfully distributed over \$1.8 billion to 9.6 million payees over the past three years.
- 4.1.1 Under the supervision of the IDC, Rust will be responsible for, among other tasks: overseeing the administration of the Fair Fund, obtaining accurate mailing information for shareholders, preparing accountings, cooperating with the Tax Administrator in providing the information necessary to accomplish the income tax compliance, distributing money from the Fair Fund to Non-Timers in accordance with this Plan, establishing a public website for posting information on the Fair Fund, and setting up and staffing a call center to address shareholder questions or concerns regarding the distribution.
- 4.2 The Fund Administrator will provide customer support and communications programs for Non-Timers. These programs will become active at least by the time the first distribution occurs and will continue until the date defined in 4.3.1 below. These services will include a toll-free number and a website accessible to the public.
- 4.2.1 The Commission retains the right to review and approve any material posted on the website.
- 4.2.2 Subject to Section 4.2.1, and at the direction of the Commission Staff, the Fair Fund website may include information regarding those Brokers, Omnibus Custodians or possible others who decline to participate in this distribution process, or who fail to provide sufficient data by the deadlines set forth in this Plan.
- 4.3 It is anticipated that settlement payments will be made principally with checks. Settlement payment checks shall state that they must be presented no later than 90 days after date of issuance and shall be submitted and honored pursuant to a “positive pay” system.
- 4.3.1 Unless the IDC determines the period should be extended, the checking account(s) on which the settlement payments from the Fair Fund are drawn shall be closed no later than the end of the

calendar quarter immediately following 180 days after the last check is issued.

4.4 To the extent it is practical, prior to the Calculation Cut-Off Date all addresses for settlement payments to be mailed are to be verified with the National Change of Address Database.

4.4.1 In the IDC's discretion, and in consultation with Alliance Capital and the Fund Administrator, additional pre-payment verification may be required in connection with settlement payments of \$1,000 and over per Eligible Recipient.

4.4.2 Such verification may include searches of more specialized databases prior to the mailing of large checks, or to require that settlement payments of over-a-certain amount be paid to an active account electronically, or by check to an address certified in writing by the Eligible Recipient.

4.4.3 If no address for a payment can be validated following the above-referenced process, no check will be processed and the moneys for that payment will be remitted to the Gross-Up Account pursuant to Section 3.5.

4.5 The following procedures shall be used for checks which may be returned or undeliverable:

4.5.1 Undeliverable checks returned for the first time by United States Postal Services ("USPS") with a new forwarding address will be resent to the new address. The Fair Fund database (the "Database") will be updated with the new address.

4.5.2 Information regarding undeliverable checks returned by USPS for the first time without a new forwarding address will be updated in the Database. For checks so returned in an amount equal to or greater than \$25, a search will be performed using private search resources to locate a new address.

4.5.2.1 If a new address is found, it will be added to the Database, and the check will be resent to that address.

4.5.2.2 If a new address is not found, a void file will be sent to the Bank, as defined below at Section 7.2.2. The original check will be destroyed and the moneys remitted to the Final Settlement Account. Any additional efforts to identify the addresses of Eligible Recipients will be conducted as is

considered commercially reasonable in the discretion of IDC.

4.5.2.3 Checks returned for amounts under \$25 will be voided, and the moneys remitted to the Final Settlement Account.

4.5.3 Undeliverable checks returned by USPS with a new forwarding address from a second attempted mailing will be resent to that address. The Database will be updated with the new address.

4.5.4 Information regarding undeliverable checks returned by USPS without a new forwarding address from a second attempted mailing will be updated in the Database. A void file will be sent to the Bank and the undeliverable check destroyed. Additional efforts to identify the addresses of Eligible Recipients will be conducted as is considered commercially reasonable in the discretion of IDC.

4.6 Upon request of the recipient received prior to the final distribution, funds may be paid by wire transfer. When wire transfers cannot be completed, the receiver will be contacted to clarify the wiring instructions. Any request for a wire transfer in an amount less than \$100 may be assessed a fee customary for such transfers.

4.7 The Fair Fund is not being distributed according to a claim-made process, so the procedures for providing notice and for making and approving claims are not applicable

4.8 Information Accompanying Settlement Payments:

4.8.1 All payments under this Plan shall be preceded or accompanied by a communication that includes, as appropriate: (a) a statement characterizing the distribution; (b) a description of the tax information reporting and other related tax matters; (c) a statement that checks will be void after 90 days; and (d) where to obtain additional information in the event of questions regarding the distribution.

4.8.2 Any such information letter or other mailing to recipients characterizing their distributions shall be submitted to the assigned Commission staff for review and approval. Distribution checks, on their face, or the accompanying mailing, will clearly indicate that the money is being distributed from an SEC Fair Fund.

4.9 All inquiries and disputes concerning this Plan will be directed to the IDC by the Fund Administrator. The IDC will receive and address them

according to a procedure to be described on the Fair Fund website no later than the Calculation Cut-Off Date. The general principles of the procedure are as follows:

4.9.1 Inquiries and disputes may address only (a) whether an Account was incorrectly excluded from the distribution or (b) whether a settlement payment under this Plan was based upon an incorrect number of shares held in its Account. Prior to the Cut-Off Date, any settlement payments related to these two dispute categories will be included in the Gross-Up Calculation (Cf Section 3.5); and after the Cut-Off Date, any settlement payments related to these two dispute categories will be made from the Final Settlement Account on a first-come first-served basis. After the Cut-Off Date, the Final Settlement Fund will be the sole source of funds available to resolve such disputes.

4.9.2 The dispute resolution procedure may not be used to contest any other aspect of the Plan or any Eligible Recipient's settlement payment. As to all such other issues, the determination of the IDC is conclusive and shall control, and no process for disputing, contesting or appealing the determinations of the IDC are contemplated by the Plan.

4.9.3 The IDC will resolve the disputes described in 4.9.1 in his sole discretion, and his decisions will be final. A Non-Timer must assert its inquiry or dispute within 45 calendar days of the mailing or transfer date of the relevant settlement payment, and in any event, no later than 45 calendar days after the final settlement payments are mailed or transferred, which date will be announced on the Fair Fund website. A Timer must submit any inquiry or dispute within 45 days after Plan approval.

4.9.4 When there are no inquiries in a two-month period, but in any event, no later than six months after the final disbursements, this procedure will terminate.

4.10 From the time that this Plan receives Final Approval until the termination of the Fair Fund, the Fund Administrator will provide the Commission staff and the IDC with a quarterly accounting of all monies earned or received and all monies spent in connection with the administration of the Plan and will submit a final accounting for approval by the Commission prior to termination of the Fair Fund and discharge of the Fund Administrator. This accounting shall be made during the first ten days of each calendar quarter.

- 4.11 In addition, the Fund Administrator on a monthly basis will provide the IDC with preliminary results regarding amounts earned or received and spent on plan distribution. The format and scope of such reports will be determined by the IDC, in consultation with the Fund Administrator.

**5. Distributions By Account Category**

**5.1 Direct Accounts.**

Settlement payments to Eligible Recipients with Registered Accounts who do not fall within another account category in this Section 5 will be made directly to the Eligible Recipient by a check sent to the address determined in Section 4.4.

**5.2 Network Level Accounts.**

5.2.1 As to an Eligible Recipient who invested in Alliance Funds through a broker or other third-party (the “Broker”) and whose Registered Account data appear only partially on the books and records of the Alliance Funds (the “Network Level Accounts”), the following process shall apply:

5.2.1.1 The Fund Administrator shall send settlement payments directly to those Eligible Recipients for whom sufficient identifying information is available through Alliance Capital, providing the relevant Broker does not elect to make such payments directly, as provided in sub-section 5.2.1.2.b.

5.2.1.2 **Broker Elections.** Where such information is not available through Alliance Capital, distribution of settlement payments to Network Level Accounts shall occur as follows:

- a. A Broker may provide sufficient payment identification information to the Fund Administrator for distribution of the settlement payment by the Fair Fund to its Network Level Accounts; or
- b. A Broker may also make settlement payments to its Network Level Accounts on its own, using the distribution calculations provided by the Fund Administrator (and the Broker shall certify in writing to the IDC, or his designee, that the



distribution has been made within 90 calendar days after the Calculation Cut-Off Date);<sup>6</sup> or

- c. A Broker may decline to participate in the Fair Fund distribution as to one or more Network Level Accounts by notifying the IDC and the Commission staff in writing or by failing to meet the deadlines set below. The settlement amount that otherwise would be distributed to such Network Level Accounts shall be remitted to the Gross-Up Account.

**5.2.1.3 Timing of Broker Elections.** It is the intent of this Plan to distribute funds expeditiously. Accordingly, prior to the publication of the Plan, the Fund Administrator notified all relevant Brokers in writing that Network Level Accounts for which they have served as intermediary may be eligible for a distribution from the Fair Fund.<sup>7</sup> The notice included (a) the options set forth in Section 5.2.1.2; (b) the deadlines set forth in this Section; (c) the total number of Eligible Recipients under the Provisional Allocation; and (d) the total Provisional Allocation for such Recipients. Furthermore, if this Plan is approved by the Commission, the IDC or his designee will notify Brokers of the approval and the following:

- a. A Broker shall have 15 calendar days from the Final Approval Date to inform the IDC or his designee in writing as to how that Broker elects to handle distribution to any Network Level Account; and
- b. If a Broker elects to have the Fund Administrator distribute the settlement payment to

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<sup>6</sup> In the IDC's discretion, a Broker may elect a distribution method that combines 5.2.1.2.a and 5.2.1.2.b.

<sup>7</sup> Additionally, in June 2006, a written notice was sent to Brokers regarding Network Level Accounts which could be eligible for distribution from the Fair Fund. This notice alerted such Brokers of the likelihood that they would be called on to provide account data to the IDC or his designee, in order for their customers to receive settlement payments from the Fair Fund.

be made to its Network Level Accounts, the Broker shall have 45 calendar days from the Final Approval Date to provide the Fund Administrator with sufficient identifying information for the Administrator to make the settlement payments to the Eligible Recipients; and

- c. If, in the IDC's discretion, failure to meet either deadline (including the failure to provide sufficient data by the deadline in 5.2.1.2.c, above) will unduly delay or complicate distribution, the IDC may, at any time after the deadlines have passed and with the approval of the Commission staff, remit the funds that would otherwise go to such Network Level Accounts to the Gross-Up Account.
- d. Notwithstanding any prior notice which may have stated otherwise, the Fund Administrator shall not provide additional notice or distribute settlement moneys to any Broker whose Network Level Accounts would receive a Provisional Allocation of less than \$1,000, except to the extent that (i) such Brokers have previously indicated a desire to participate or (ii) the settlement payments can be made as provided in sub-section 5.2.1.1, above. Funds not distributed for failure to meet this threshold shall be remitted to the Gross-Up Account.

5.2.1.4 The Commission staff may extend any deadline contained in subsection 5.2.1.3 for good cause shown.

### 5.3 **Collective Accounts and Retirement Accounts (Other Than IRAs and 403b Plan Accounts)**

- 5.3.1 **Collective Accounts.** Settlement payments from the Fair Fund shall also be made by check to Eligible Recipients whose Registered Accounts owned shares in the Alliance Fund in trust for a group of beneficiaries, such as trusts and 529 plans or other pooled vehicles ("Collective Accounts"). Collective Accounts, however, shall not include Retirement Plans addressed in 5.3.2, IRA and 403(b) Plan accounts addressed in 5.4, or Omnibus Custodial Accounts, which are addressed in Section 5.5. Checks for Collective Accounts will be payable to Eligible Recipients,

who will usually be sponsors, trustees or similar agents for the Collective Account (“Collective Account Agents”).

5.3.1.1 In deciding how it will allocate the monies received under this Plan, the Collective Account Agent must distribute the monies received in accordance with its fiduciary, contractual, and legal obligations (including, but not limited to, the requirements of the Internal Revenue Code), and consistent, where applicable, with guidance issued by the Department of Labor (the “DOL”).

5.3.1.2 If the Collective Account Agent determines that doing so would meet the requirements of Section 5.3.1.1, it is consistent with this Plan for settlement payments to be allocated (a) pro rata or per capita to current Collective Account participants; or (b) if the Collective Account Agent determines that option (a) is not reasonably practical or cost-effective, depositing the settlement payment in an account chosen by the Collective Account Agent for use in accordance with the Collective Account’s governance rules or practices.

5.3.2 **Retirement Plan Accounts (Other Than IRAs and 403b Plan Accounts).** “Retirement Plan” as used in this Plan means any account of an “employee benefit plan” as defined in section 3(3) of ERISA, which is not an Individual Retirement Account (“IRA”) or a 403(b) Plan, whether or not the plan is subject to Title I of ERISA. Distributions to IRAs and 403(b) Plan accounts will be made in accordance with Section 5.4, below. Upon completing the calculation of the Final Allocation, the Fund Administrator will use its best efforts to identify Registered Accounts for retirement accounts that are neither IRA nor 403(b) plans (“Retirement Plans”) from information provided by transfer agency records, Alliance Capital or other sources. Subject to Section 5.3.2.1, and in accordance with Sections 4.4 to 4.6 the Fund Administrator will then use its best efforts to mail and/or transmit notices and settlement payments to eligible Retirement Plans or their sponsors, service providers or the like using the identification information gathered by the Fund Administrator.

5.3.2.1 With respect to eligible Retirement Plans that are entitled to Final Allocations of \$1,000 or more (“Eligible Retirement Plans”):

- a. The Fund Administrator, upon completion of the Final Allocation, will mail notice to each of the Eligible Retirement Plans of its respective distribution amount. Such notice will be sent via USPS to the Eligible Retirement Plan's last known address of record.
- b. In order to allow as much time as practicable under the Plan for such Eligible Retirement Plan to select a methodology for distribution of settlement payments (as further described below in Section 5.3.2.2) and, as appropriate, notify the plan-level fiduciary of the same, the Fund Administrator shall use best efforts, subject to any other requirements of this Plan, to complete distributions to all other Eligible Recipients prior to distributing to Eligible Retirement Plan.

5.3.2.2 The Eligible Retirement Plan shall distribute any monies received pursuant to the Plan in accordance with its fiduciary, contractual, and legal obligations (including, but not limited to, the requirements of the Internal Revenue Code), and consistent, where applicable, with guidance issued by the DOL including, but not limited to, 13 Department of Labor Field Assistance Bulletin No. 2006-01, April 19, 2006.

- a. Subject to Section 5.3.2.2, an intermediary (as that term is used in the Field Assistance Bulletin, without regard to whether the Plan is subject to ERISA) to one or more Retirement Plans may allocate the proceeds it receives pursuant to the Plan to or among eligible Retirement Plans participating in an omnibus account administered by such intermediary according to the procedures set forth in Sections 5.5-5.5.7 or according to average share or dollar balance of the Retirement Plan's investment in the Alliance Funds during the relevant period, provided, however, that for the purposes of such allocation each Retirement Plan itself (and not the individual plan participant) shall be treated as beneficial owner.

- b. Subject to Section 5.3.2.2, the fiduciary of a Retirement Plan (as that term is used in the Field Assistance Bulletin, without regard to whether the Plan is subject to ERISA) receiving a distribution may distribute it pursuant to one of the following alternatives (which are not necessarily the only methods available for plan fiduciaries to follow in allocating amounts received by or on behalf of Retirement Plans pursuant to this Plan): (1) Plan fiduciaries may allocate the distribution amount to current and former participants in the Retirement Plan in accordance with such participants' account balances using balance information on a daily, monthly, quarterly or yearly basis; (2) Plan fiduciaries may allocate the distribution amount *pro rata* (based on total account balance) among the account of all persons who are currently participants in the Retirement Plan (whether or not they are currently employees); (3) Plan fiduciaries may allocate the distribution amount *per capita* among the accounts of all persons who are currently participants in the Retirement Plan (whether or not they are currently employees); or (4) To the extent that none of the three preceding alternatives is administratively feasible because the costs of effecting the allocation exceed the amount of the distribution, plan fiduciaries may, to the extent permitted by the Retirement Plan, use the distribution amount to pay the reasonable expenses of administering the plan.

5.3.3 In view of, among other things, alternative distribution methodologies available to Eligible Retirement Plans, including those set forth above, Eligible Retirement Plans will not be reimbursed for the costs and expenses associated with the administration of the Distribution Plan.

5.4 **IRAs and 403(b) Plan Accounts.** Settlement checks issued to eligible IRAs and 403(b) Plan accounts shall be made payable to the relevant Registered Account, which is anticipated to be the trustee or custodian of record, or their successor. Such checks shall be sent, where such information is made available, to the Beneficial Owner, and where such information is not available, to the Registered Account at the address determined by Section 4.4. It shall be the responsibility of the Beneficial

Owner to negotiate the settlement payment consistent with applicable tax obligations.

5.5 **Omnibus Custodial Accounts.** Some investors in Alliance Funds hold shares through a Registered Account of a financial intermediary (“Omnibus Custodian”), as custodian for more than one shareholder (“Omnibus Custodial Accounts”).

5.5.1 Additional distribution calculations will have to be made in connection with Omnibus Custodial Accounts. As of the submission date of the Plan, the only loss that can be calculated with respect to any single Omnibus Account is the amount of its Provisional Allocation.

5.5.2 Alliance does not have a direct relationship with the Tier One Accounts within Omnibus Custodial Accounts and does not have its own access to the accountholders’ identities or their individual positions. Custodians do have at least limited data regarding their customers’ identity and their positions in such omnibus accounts. Given the lack of direct contractual relationship between Alliance Capital and Tier One Accounts, and the varied information each Custodian may have as to its own sub-accounts, a fair and efficient method of calculating the amounts to be paid Tier One Accounts in Omnibus Custodial Accounts would be to apply the Adjusted Profit methodology to quarterly (rather than monthly or daily) sub-account data.

5.5.3 Allocation to Tier One Accounts shall be made as follows:

5.5.3.1 Once data are obtained from each Custodian pursuant to 5.5.4 below, it may be that the Final Allocation exceeds the Provisional Allocation. This difference is referred to herein as the “Custodial Payment Difference.” In such circumstances, and subject to 5.5.3.2, below, Tier One Accounts will be paid their proportionate shares of the Final Allocation, to be supplemented, from the Reserve Amount, as available.

5.5.3.2 If the Reserve Amount is insufficient to fully cover the Custodial Payment Difference as to all relevant Omnibus Accounts, the Reserve Amount shall be distributed among Tier One Accounts in proportion to their Adjusted Profits.

5.5.4 **Omnibus Custodian Elections.** Calculation and distribution of settlement payments to Tier One Accounts will occur as follows:

5.5.4.1 The Custodian may provide sufficient sub-account trading data and payment identification information to the IDC or his designee for calculation and distribution of the settlement payment by the Fair Fund to Tier One Accounts;  
or

5.5.4.2 The Custodian may provide sufficient sub-account trading data and payment identification information to the IDC or his designee for calculation of the settlement payment by the Fair Fund to the Tier One Account. The Custodian will then distribute the settlement payments based on the calculation by the IDC or his designee;<sup>8</sup> or

5.5.4.3 A Custodian may decline to participate in the Fair Fund distribution as to one or more Tier One Accounts by notifying the IDC and the Commission in writing or by failing to meet the deadlines set below. The settlement amount that otherwise would be distributed to from the Fund Account shall be remitted to the Gross-Up Account;  
or

5.5.4.4 If the amount of Adjusted Profit Loss, in all of the Omnibus Fund Accounts of the Custodian, is less than \$50,000; a Custodian, in its discretion, may distribute the amount of the Custodial Loss among customers as appropriate under the circumstances, or the Custodian can decline to participate in the distribution. If the Custodian declines to participate, the settlement account otherwise distributed to that Fund Account shall be remitted to the Gross-Up Account.

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<sup>8</sup> In the IDC's discretion, an Omnibus Custodian may elect a distribution method that combines 5.5.4.1 and 5.5.4.2.

5.5.5 **Timing of Elections.** It is the intent of this Plan to distribute funds expeditiously. Accordingly, prior to the publication of this Plan,<sup>9</sup> the IDC, through Rust, notified each relevant Omnibus Custodian in writing (a) that one or more of its Custodial Omnibus Accounts may be eligible to receive a settlement payment from the Fair Fund; (b) the total Provisional Allocation; (c) the options as set forth in 5.5.4, above; and (d) the proposed deadlines set forth here. Furthermore, if this Plan is approved by the Commission, the IDC or his designee will notify the relevant Omnibus Custodians of the approval and the following:

5.5.5.1 A Custodian shall have 15 calendar days from the Final Approval Date to inform the IDC or his designee as to how the Custodian elects to handle the settlement payments to any Tier One Account; and

5.5.5.2 If a Custodian elects to participate under sub-sections 5.5.4.1 or 5.5.4.2, the Custodian shall have 45 calendar days from the Final Approval Date to provide the IDC or his designee with sufficient data for the IDC or his designee to perform settlement payment calculations (reasonable out-of-pocket costs incurred by a Custodian in gathering such demographic information may be reimbursed as an administrative cost of the Fair Fund under Section 1.5.2, subject to prior notice to the Fund Administrator, or other designee of the IDC, of the anticipated method of data generation and estimated cost, as well as timely presentation of detailed invoices, which shall be satisfactory to the IDC); and

5.5.5.3 If, in the IDC's discretion, the failure to meet either deadline (including the failure to provide sufficient data by the deadline in 5.5.4.3 above) will unduly delay or complicate distribution, or the Custodian fails to provide the certification described in Section 5.5.6.1, the IDC may, at any time after the deadlines have passed, and with the approval of the Commission staff, remit the funds that

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<sup>9</sup> Additionally, in 2006, the relevant Omnibus Custodians were notified that one or more Fund Accounts traded in their names appear to be eligible for distribution from the Fair Fund and requested sufficient data for the IDC and his designees to begin the process of performing distribution calculations at the Tier One Account level.



would otherwise go to such Omnibus Custodial Account to the Gross-Up Account.

5.5.6 If a Custodian elects under Section 5.5.4.2 to make settlement payments to Tier One Accounts, it shall:

5.5.6.1 no later than the deadline set in Section 5.5.5.2, certify that it will make commercially reasonable efforts consistent with its legal, fiduciary and contractual duties, as applicable, to disburse the payment received to affected Tier One Accounts, in accordance with the Distribution Plan, and that it will return any undistributed funds to the Fair Fund for disposition in accordance with the Plan; and

5.5.6.2 within 90 calendar days after the Calculation Cut-Off Date, the Custodian shall certify in writing to the IDC, or his designee, that the settlement payments have been made and in compliance with these requirements and with all applicable tax provisions.

5.5.7 The Commission staff may extend any deadline contained in subsection 5.5.5 for good cause shown.

**6. The Final Distribution**

6.1 It is anticipated that the IDC and his designees shall, within 110 days of the Final Approval Date, identify eligible accounts, determine the total of the Gross-Up Account, and do the Final Allocation. By 150 days after the Final Approval Date, it is anticipated that the Fund Administrator will have prepared necessary information for printing of checks and completed other administrative tasks associated with the distribution.

6.2 In order to distribute the funds, the IDC or his designee will submit a validated list of payees and the payment amounts (the "Payee List") to the assigned Commission staff, who will obtain authorization to disburse pursuant to Rule 1101(b)(6). The Payee List will be validated at the IDC's direction by the Fund Administrator. The Commission Secretary shall issue a distribution order pursuant to Rule 1101(b)(6) on receipt of the Payee List.

6.2.1 If the Payee List includes settlement payments requiring reporting to the Internal Revenue Service ("IRS"), the list also shall be submitted to the Tax Administrator, who shall validate the Payee List and provide the IDC and Fund Administrator with information necessary to perform any required withholding and

shall also file any required reports and related deposits with the IRS.

6.2.2 The validation will state that the Payee List was compiled in accordance with the Plan and provides all information necessary to make disbursement to each distributee. To the extent necessary to ensure confidentiality of information of Non-Timers, the Payee List will identify accounts by number only; provided however, that the QSF, as defined below at Section 9.1, and the IDC (or his designee) will maintain, for a period of time not to exceed 40 months (unless otherwise directed by the Commission), a version of each Payee List which includes the names, addresses and tax identification numbers of the Non-Timers receiving settlement payments.

6.2.3 Unless otherwise directed by the Commission, the Commission staff will obtain an Order Directing Disbursement that releases funds to the bank account established by the Fund Administrator based upon the validated list and a representation by the Fund Administrator that commercially reasonable efforts will be made to ensure that the checks or wires will be issued within the next business day. It is anticipated that the Commission may require that transfers of funds from the BPD be made in waves (and, therefore, checks be sent out in batches), to limit the amount of money held at any given time in the Fair Fund's bank account. The Tax Administrator shall provide the Commission with a demand for funds necessary to accomplish any tax deposits regarding settlement payments subject to reporting or withholding.

#### **D. OTHER MATTERS**

#### **7. Fair Fund Asset Protection**

7.1 Under the Plan, (a) the Fund Administrator will have no custody, and restricted control, of the Fair Fund; (b) the Fund will be held by BPD until immediately before transmittal of checks or wires to eligible investors; (c) upon transfer from BPD, funds will be held in an Escrow Account, separate from Bank assets and described below at Section 9.3, until

presentation of a check or wire, at which time funds will be transferred to a controlled distribution account; (d) presented checks or wires will be subject to "positive pay" controls before honored by the Bank; and (e) both the Bank and the Fund Administrator will maintain, throughout this process, insurance and/or a financial institution bond that covers errors and omissions, misfeasance, and fraud.

7.2 In lieu of bond, the following additional steps are proposed to help protect Fair Fund assets from waste, misappropriation and dissipation during the Distribution Process:

7.2.1 The Escrow Bank, which will hold Plan assets during the check-cashing period, maintains a Financial Institutions (FI) Bond including errors and omissions coverage with an aggregate limit of 200 MM Euro. The primary insurer is American International Group, which, as of its most recent renewal, was rated A+ by A.M. Best. The Escrow Bank has 200 MM Euro of E&O insurance. In addition, the Escrow Bank has a bankers blanket bond of 250 MM Euro from Chubb (which is rated A++ by A.M. Best), which the Escrow Bank has advised the IDC includes coverage for wrongful acts (i.e., an act, errors and omissions, misstatement, etc.) or failure to safeguard proprietary information in connection with rendering of professional services. The Fund Administrator has \$10 million in E&O insurance, as well as \$2 million fiduciary insurance. The Escrow Bank annually assesses the adequacy of its policy limits through extensive analysis of historical loss data, exposure to loss and internal company controls.

The Fund Administrator maintains and will continue to maintain until termination of the Plan, an errors and omissions insurance policy. The primary insurer, Illinois Union Insurance Co, is a company which, as of its most recent renewal, was rated A+ by A.M. Best. The policy is in the amount of \$10 million per occurrence. The Fund Administrator also maintains, and will continue to maintain until termination of the Plan, a fiduciary insurance policy. The primary insurer, St. Paul Companies, is a company which, as of its most recent renewal, was rated A+ by A.M. Best. The policy is in the amount of \$2 million per occurrence. The Fund Administrator's print vendor maintains and will continue to maintain until termination of the Plan, an errors and omissions insurance policy. The primary insurer, Illinois Union Insurance Co (ACE USA), is a company which, as of its most recent renewal, was rated A+ by A.M. Best. The policy is in the amount of \$25 million per occurrence. Under the Plan, at no time will there be funds under the custody and control of the Fund

Administrator that exceed the amount covered by insurance. Certificates of insurance for these policies have been provided to the assigned Commission Staff for review and have been deemed “not unacceptable.”

7.2.2 Deutsche Bank Trust Company Americas (“Deutsche Bank” or the “Bank”) will hold Fair Fund assets during the check-cashing period in an account or accounts in the name of the QSF, as defined at Section 9.1, and carrying its Tax Identification Number, with duplicate statements provided to the IDC and the Tax Administrator. Deutsche Bank maintains a Financial Institutions (FI) Bond, including errors and omissions coverage with an aggregate limit of 200,000,000 Euro E&O and a banker’s blanket bond of 250,000,000 Euro. Its insurance carriers include one rated “A+” by A.M. Best and another rated “A++” by A.M. Best. Deutsche Bank annually assesses the adequacy of its policy limits through extensive analysis of historical loss data, exposure to loss and internal company controls. Deutsche Bank limits are reviewed annually.

7.2.3 The Fund Administrator’s check protection and back office processes include:

7.2.3.1 Debit blocks are used on accounts to prevent unauthorized wires out of an account. Wire transfers require the approval of only individuals authorized in advance with the bank;

7.2.3.2 Secure areas are maintained for all check stock with only approved individuals having access to the vault;

7.2.3.3 Background and credit checks are performed on all employees involved in the distribution process;

7.2.3.4 Security features on check stock are used, which include void pantographs to prevent coping, micro-printed signature lines, and watermarks embedded in the stock;

7.2.3.5 Job responsibilities among employees of the Fund Administrator are divided such that the calculation of amounts, preparation of files, submitting files to the bank and the like are all separate duties; and

7.2.3.6 Total mailing pieces are compared to batch totals to confirm that all checks have been prepared for mailing, and

postal receipts are maintained and archived to confirm that all printed checks were mailed.

**8. Payments By Other Respondents**

- 8.1 Pursuant to their own regulatory settlements in respect of market timing and/or late trading, other participants in the mutual fund industry (the "Other Respondents") may owe settlement payments to Non-Timers in Alliance Funds.
- 8.2 To the extent such settlement payments from Other Respondents relate to trading in the ten Alliance Funds during the Relevant Period, and provided that, in the discretion of the IDC, doing so would be cost-effective, not present any complicating tax or other issues, and not delay settlement payments from the Fair Fund, the identification of payees and calculation of settlement payments from Other Respondents may be coordinated with those made by the Fair Fund, up to the point of printing and mailing checks.
- 8.2.1 The amount of settlement payments by an Other Respondent shall be calculated using a methodology adopted by the IDC of that Respondent's Fair Fund.
- 8.2.2 Such settlement payments shall be mailed separately from settlement payments from the Fair Fund Assets, with printing and mailing costs to be borne solely by the Other Respondent(s).
- 8.2.3 In order to coordinate its settlement payments with those of the Alliance Fair Fund, the Fair Fund of an Other Respondent shall establish a direct contractual relationship for that purpose with the Fund Administrator.
- 8.2.4 Costs of such coordinated efforts, including any costs already incurred for these purposes, may be divided among other Fair Funds or Respondents, based on the relative proportion of the total amount distributed.
- 8.3 The Fair Fund shall not undertake coordination of the distribution of any moneys from the Fair Funds of Other Respondents to Alliance Funds except as set out above.

**9. Tax Provisions**

- 9.1 The Fair Fund constitutes a Qualified Settlement Fund ("QSF") under Section 468B(g) of the Internal Revenue Code, 26 U.S.C. §468B(g), and related regulations, 26 C.F.R. §§1.468B-1 through 1.468B-5.

9.2 The Commission has appointed Damasco & Associates as the Tax Administrator (“Tax Administrator”) of the Fund. Order Directing Appointment of Tax Administrator, in the Matter of Certain Disgorgement and Fair Funds in Administrative Proceedings, Exchange Act Rel. No. 51341, March 9, 2005. The IDC, Fund Administrator, and Alliance Capital will cooperate with the Tax Administrator in providing information necessary to accomplish the income tax compliance, ruling and advice work assigned to the Tax Administrator by the Commission. The Tax Administrator shall be compensated by Alliance Capital. The Tax Administrator has obtained a Private Letter Ruling regarding the tax information reporting and withholding obligations of the QSF. A communication summarizing the PLR as to reporting requirements will be made available to Eligible Recipients.

9.3 The assets of the Fair Fund are subject to the continuing jurisdiction and control of the Commission. The Fair Fund is currently deposited at the BPD. Upon approval of the Plan, the Fund Administrator shall establish an account at Deutsche Bank, as further described at Section 7.2.2., in the name of and bearing the Taxpayer Identification Number of the QSF (the “Escrow Account”).

9.3.1 Following approval of the Plan and submission by the IDC of a list of payees and amounts to the Commission staff and all information necessary to make disbursement to each distributee, unless otherwise directed by the Commission, the Commission staff shall cause the balance in the Fair Fund to be deposited in the account established by the Fund Administrator in the name of and bearing the Taxpayer Identification Number of the Qualified Settlement Fund (“QSF account”). The Fund Administrator shall be the signer on the QSF account, subject to the continuing jurisdiction and control of the Commission. The Fund Administrator shall authorize Deutsche Bank to provide account information to the Tax Administrator.

9.3.2 The Fund Administrator shall use the assets and earnings of the Fair Fund to provide payments to Eligible Recipients and to provide the Tax Administrator with assets to pay tax liabilities and tax compliance fees and costs. The QSF account shall be invested in short-term U.S. Treasury securities, all backed by the full faith and credit of the U.S. Government, of a type and term necessary to meet the cash requirements of the payments to Eligible Recipients, tax obligations and fees; provided however, that investments in the U.S. Treasury securities will not be made through repurchase agreements or other derivative products.

9.3.3 Duplicate statements of the Escrow Account shall be provided to the IDC and the Tax Administrator. Any and all taxes payable on account of income earned by the money in the Escrow Account shall be paid from funds in the Escrow Account, and the escrow agent is expressly authorized and directed to work with the IDC, Alliance Capital, and the Tax Administrator to make such payments.

9.3.4 Upon approval of the Plan by the Commission, the IDC, the Fund Administrator, and the Bank shall further establish a controlled disbursement account in the name of and bearing the Taxpayer Identification Number of the Fair Fund (the "Distribution Account"). All funds will remain in the Escrow Account pursuant to the Escrow Agreement until needed to satisfy a presented check or wire instruction. At that time, and subject to the controls set forth below, the amount needed to satisfy any presented check will be transferred to the Distribution Account and immediately paid out. For any payment to be made by wire instruction, and subject to the controls set forth below, funds will be paid from the Escrow Account in accordance with written instructions provided by parties authorized by the Escrow Agreement.

9.3.5 The Fund Administrator shall be the signer on the Distribution Account, supervised by the IDC and subject to the continuing jurisdiction and control of the Commission. The Fund Administrator shall authorize the Bank to provide information on the Escrow Account and the Distribution Account to the Tax Administrator.

9.3.6 Prior to the Final Approval Date, the Bank will have provided the IDC with an attestation that all funds in the Escrow Account and the Distribution Account will be held for this Plan and that the Bank will not place any lien or encumbrance of any kind upon the funds. All costs associated with the Escrow Account and the Distribution Account will be treated as costs to the Fair Fund. Upon the Bank's receipt of funds from the BPD, the Bank shall promptly deposit the funds into the Escrow Account.

## **10. Post-Distribution Issues**

10.1 It is the intent of this Plan that the process of distributing substantially all settlement payments from the Fair Fund (or in the case of Omnibus Custodial Accounts, amounts to be paid, calculated and ready for transfer to Custodian) will begin on or before 170 days after the Final Approval

Date. The Fund Administrator will use its best efforts to complete distribution within six months from the beginning of the distribution.

- 10.2 Upon distribution of the funds, the Fund Administrator shall make arrangement for the final payment of taxes and Tax Administrator fees and shall submit a final accounting to the Commission. The Distribution Fund shall be eligible for termination after all of the following have occurred: (1) the Final Accounting by the Administrator has been submitted and approved by the Commission, (2) all taxes and fees have been paid and (3) all remaining funds or any residual have been transferred to the U.S. Treasury. Staff shall seek an order from the Commission to (1) approve the Final Accounting; (2) approve sending the remaining residual amount to the United States Treasury after the final tax payment has been made; and (3) authorize the Secretary of the Commission, upon receipt of notice from the staff assigned to this matter that all funds have been expended, to discharge the Fund Administrator.

**11. Notice of Proposed Plan, Opportunity for Comment**

- 11.1 Notice of this Plan shall be published in the SEC Docket, on the Commission's website [<http://www.sec.gov>], and on the website <http://www.abfairfund.com>. Any person or entity wishing to comment on the Plan must do so in writing by submitting their comments within thirty days of the date of the notice (i) by sending a letter to the Office of the Secretary, United States Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549-1090; (ii) by using the Commission's Internet comment form ([www.sec.gov/litigation/admin.shtml](http://www.sec.gov/litigation/admin.shtml)); or (iii) by sending an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Comments submitted by e-mail or via the Commission's website should include the Administrative Proceeding File Number (Admin. Proc. File No. 3-11359) in the subject line. Comments received will be available to the public. Those submitting comments should only submit information that they wish to make publicly available.

- 11.2 All notices required to be delivered hereunder to the Commission shall be delivered to this address:

Office of Financial Management  
Securities and Exchange Commission  
Operations Center  
6432 General Green Way, Stop 0-3  
Alexandria, VA 22312

under cover letter identifying Alliance Capital as the Respondent and the file number of the proceedings, with copies to:



Robert Murphy  
Branch Chief, Division of Enforcement  
Northeast Regional Office  
Securities and Exchange Commission  
3 World Financial Center  
New York, NY 10281-1022

Prof. Marshall E. Blume  
Alliance Capital IDC  
c/o Rust Consulting, Inc.  
P.O. Box 1824  
Fairbault, MN 55021-1876

Alliance Capital Fair Fund Administrator  
Rust Consulting, Inc.  
P.O. Box 1824  
Fairbault, MN 55021-1876

AllianceBernstein L.P.  
1345 Avenue of the Americas  
New York, NY 10105  
Attn: Mark R. Anderson, Esq.

**12. Limitations of Liability**

- 12.1 The IDC and the Fund Administrator, and/or each of their designees, agents and assistants, shall be entitled to rely on any Orders issued in this proceeding by the Commission, the Secretary by delegated authority, or an Administrative Law Judge, and may not be held liable to any Potentially Eligible Recipient or Non-Timer for any act or omission in the course of administering the Fair Fund, except upon a finding that such act or omission is caused by such party's gross negligence, bad faith or willful misconduct, reckless disregard of duty, or reckless failure to comply with

the terms of the Plan. This paragraph is an expression of the current state of the law and is not intended, nor should it be deemed to be, a representation to or an indemnification of the IDC or the Fund Administrator or their designees, agents and assistants, nor should this paragraph preclude the Commission or the QSF from seeking redress for any act or omission in the course of administering the Fair Fund or from seeking redress from any insurance or bond provided as set forth in this Plan.

**13. Amendment to Plan**

- 13.1 The IDC will inform the Commission staff of any material changes in the Plan and will obtain approval from the Commission prior to their implementation. If material changes are required, this Plan may be amended upon the motion of the Respondent, the Fund Administrator or upon the Commission's own motion.

Submitted on: February 22, 2008 By: Marshall E. Blume  
Marshall E. Blume,  
IDC for Alliance Capital Management, L.P.

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**REPORT OF MARSHALL E. BLUME ON MARKET TIMING LOSSES**

**I. INTRODUCTION**

1. I am the Howard Butcher III Professor of Financial Management, Director of the Rodney L. White Center for Financial Research, and past Chairman of the Finance Department at the Wharton School of the University of Pennsylvania. I received my MBA and Ph.D. from the University of Chicago.
2. Pursuant to an SEC order, I have been named as the Independent Distribution Consultant in connection with *In the Matter of Alliance Capital Management, L.P.*, No. 3-11359. The relevant portion of that order, provides that: “The Independent Distribution Consultant shall develop a Distribution Plan for the distribution of all of the \$250 million [paid to the U.S. Treasury by Alliance Capital Management] in disgorgement and penalty to the mutual funds and their shareholders to compensate fairly and proportionately the funds’ shareholders for losses attributable to market timing trading activity by market timers with whom Alliance Capital entered into timing arrangements between January 1, 2001 and September 30, 2003, according to a methodology developed in consultation with Alliance Capital and the independent directors of the affected Alliance Capital funds and acceptable to the staff of the Commission. The Distribution Plan shall provide for fund investors to receive, in order of priority, (i) their aliquot share of losses suffered by the fund due to market timing, and (ii) a proportionate share of advisory fees paid by such fund during the period of such market timing.” [Amended Order Instituting Administrative and Cease-and-Desist Proceedings, January 15, 2004, Section IV, Part C. Distribution of Disgorgement and Penalty, Subpart 1] In accordance with Section 308 of the Sarbanes-Oxley Act of 2002, 15 U.S.C. 7246, and in 17 CFR 201.1100, the moneys paid by Alliance Capital are referred to as a “Fair Fund.”
3. My convention throughout will be to refer to the 23 individual traders who engaged in market timing activities pursuant to arrangements with Alliance Capital as “the timers,” to refer to all other shareholders in the ten Alliance Capital funds at issue as “the other shareholders,” and to refer to the portfolio manager of any one of those ten funds as the “PM.”<sup>1</sup>
4. The present report deals only with Subpart (i) of Section IV C 1 of the Amended Order, that is, the determination of investors’ “aliquot share of

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<sup>1</sup> It is my understanding that, based on the parameters set forth in the Amended Order, Alliance Capital has identified accounts and funds in which specific traders had or may have had authorization from Alliance Capital to engage in market timing.

losses suffered by the fund[s] due to market timing.” The Amended Order provided that up to \$200 million of the Alliance Capital Fair Fund was to be used to compensate such losses. Under the methodology discussed below, I have calculated the total losses to be \$186.4 million.<sup>2</sup>

5. This report does not address the calculation or allocation of amounts to be paid under Subpart (ii), “advisory fees paid by such fund[s] during the period of such market timing.”<sup>3</sup>
6. The work of Subpart (i) itself entails two basic steps: first, estimating the losses to the other shareholders attributable to the timers’ activity, and second, allocating payments with respect to those losses to the other shareholders. This report is limited to the first step and describes the methodology I have developed to calculate losses to the other shareholders. In describing and illustrating the calculation of losses, at times I focus on the Technology Fund as an example, because my analysis has shown that losses to the other shareholders are concentrated in the Technology Fund. I shall submit at a later date a plan for the second step, the actual distribution from the Fair Fund.
7. Section II of this report describes my methodology. Section III provides summary statistics on the timers’ activities. Section IV focuses on the Alliance Capital funds’ accounting, cash management, and investment policies. Section V summarizes the components of losses to the other shareholders.

## **II. THE ADJUSTED-PROFIT METHODOLOGY**

8. Using my adjusted-profit methodology, I calculate total losses, netted over all the other shareholders and over all ten funds, with interest, to be \$186.4 million as of January 16, 2004, the date on which Alliance Capital deposited the Fair Fund amount with the U.S. Treasury.
9. Adjusted profit is a measure of the loss in wealth incurred by the other shareholders as a result of the timers’ trades. The adjusted-profit methodology is so named because the timers’ profits constitute a significant portion, though not all, of the losses realized by the other shareholders. In

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<sup>2</sup> This loss is netted over the other shareholders and the ten funds and includes interest through January 16, 2004. Since some of the other shareholders realized gains of approximately \$1 million as a result of the timers’ activities, the total losses to the remainder of the other shareholders exceed the net losses shown in the text. The aliquot share of losses to be distributed to those other shareholders who experienced losses will not be reduced by the gains realized by some of the other shareholders as a result of the timers’ activities.

<sup>3</sup> In addition, this report does not address any issues relating to moneys due other shareholders from the Fair Fund of any other mutual fund industry participant relating to market timing or late trading by that entity’s employees, affiliates, or customers in Alliance Capital funds.

determining these losses, I use an “out-of-pocket” standard based on the difference between what the other shareholders have in their pockets and what they would have had but for the timers’ activity. This methodology is appropriate for the facts in this matter and my charge under the Amended Order.

10. The adjusted-profit methodology determines the “out-of-pocket” losses to the other shareholders in two steps: calculating the losses during the period in which a timer was invested (the investment-period loss), and calculating the losses after the timer’s redemption (the post-investment-period loss). Both categories of losses depend on the extent to which the PM invests the timer’s subscription. The Technical Appendix describes this methodology in detail.

11. Investment-period Loss:

- a. If the PM does not invest a timer’s subscription and the timer’s subscription does not result in additional expenses to the other shareholders, the timer’s profit during the investment period is equal to the losses of the other shareholders.<sup>4</sup> The profit that the timer earns must come out of the pockets of the other shareholders. The timer’s profit during the investment period comes from two sources. First, the timer may subscribe to a fund at a NAV that is below its fair-market value, or may redeem from a fund at a NAV above its fair market value, by placing the order either on or before 4:00 pm or after 4:00 pm (i.e., late trading). Second, the timer may share in the profits on the assets owned by the other shareholders. For instance, if the assets of the other shareholders realize a positive return, the timer shares in those profits and the timer’s share of those profits comes out of the pockets of the other shareholders. The sum of these two sources is the timer’s profit.
- b. Whatever the fair market value when the timer subscribes or redeems, a timer’s profit will correctly measure the “out-of-pocket” loss to the other shareholders when the PM does not invest the timer’s subscription and the timer’s subscription does not result in additional expenses to the other shareholders. Thus, the adjusted-profit methodology does not require a direct estimate of the fair market value at the time of the subscription or redemption. It should be noted that the subscription of a timer may benefit the other shareholders, rather than causing them a loss, if the timer subscribes to a fund at a NAV that is above its fair-market value, if the

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<sup>4</sup> There may be some small overnight earnings on the timers’ subscriptions that would reduce other shareholders’ losses. However, because of the complexities of “t+1” accounting and transaction settlement times, the adjusted-profit methodology as implemented in this report makes the conservative assumption that these earnings are zero.

timer redeems at a NAV that is below its fair-market value, or if the assets of the other shareholders experience a loss.

- c. If the PM does invest some or all of a timer's subscription, however, a portion of the timer's profit is attributable to the return on the timer's invested assets. Here, the timer's profit should be adjusted, or reduced, by the return on his invested assets to obtain the "out-of-pocket" losses to the other shareholders. As described in Paragraphs 31-33 below, this adjustment is undertaken in two steps: an adjustment on the day of the investment (the buy adjustment), and an adjustment for subsequent days that the timer remains in the fund (the subsequent-day adjustment).

## 12. Post-investment-period Loss

- a. A timer's activity could result in post-investment-period losses to the other shareholders even after the timer has left the fund. For expositional purposes, assume that the PM invests some or all of the timer's subscription. When the timer redeems his investment on day  $t$ , the investments made with the timer's subscription become assets of the other shareholders. The earliest that the PM can sell these investments is the following morning. If the value of the investments declines overnight, this represents a loss to the other shareholders that would not have occurred in the absence of the timer. I estimate this loss to the other shareholders based on the return on the fund's invested assets from 4:00 pm on the day of the timer redemption until 10:00 am the next morning (the "redemption adjustment"). In addition, under my methodology, this post-investment-period loss includes transaction costs incurred as a result of sales of securities that the PM undertakes in obtaining cash to pay the timer's redemption (the "transaction cost adjustment").
- b. If the PM has not invested any of the timer's subscription, there would be no redemption adjustment. However, if the timer has made a profit (as described above in Paragraph 11), there may still be a transaction cost adjustment to the extent that the PM has to sell securities to fund the portion of the timer's redemption that is in excess of the timer's uninvested cash.
- c. Whatever the fair market value when a timer redeems, the post-investment-period loss will provide a measure of the "out-of-pocket" loss to the other shareholders. As with the investment-period loss, it is possible that the redemption adjustment could benefit the other shareholders if the value of the fund's invested assets increases.



13. In applying the adjusted-profit methodology, it is necessary to allocate the PM's securities purchases and sales to both the timers and the other shareholders. The allocation algorithm that I have used is based upon the principle that a PM reacts in the same way to the subscriptions and redemptions of both categories of shareholders.
14. The potential magnitude of the investment-period loss is related to that of the post-investment-period loss. If the PM does not invest any of the timer's subscription and the timer causes no other expenses, the investment-period loss is equal to the timer's profit, and the post-investment-period loss includes only the transaction costs that may apply to the excess of the timer's redemption over the original subscription (i.e., the timer's profit). If the PM does invest some or all the timer's subscriptions, the magnitude of the investment-period loss may be less than the timer's profits as these profits may be reduced by the earnings on the invested assets; however, the magnitude of the post-investment-period losses may increase due to the redemption adjustment.
15. In addition to the adjustments described above, I have made an expense adjustment to account for any change in fund expenses incurred by the other shareholders as a result of the timers' activity that can arise because of t+1 accounting.

### **III. CHARACTERISTICS OF FUNDS AND THE TIMERS' ACTIVITIES**

#### **A. Profits of the Timers by Fund**

16. Total unadjusted profits of the timers – that is, the amount referred to in Paragraph 11 – in the ten funds was \$123.8 million (Exhibit 1) from Q1 2001 through Q3 2003.<sup>5,6</sup> The third and fourth quarters of 2002 were the most profitable, \$63.8 million in total. The timers realized the largest profits in the Technology Fund, \$76.9 million, which represents almost two thirds of the total profits realized in all ten funds. The next three funds in terms of profitability were Premier Growth with \$19.4 million, Growth and Income with \$11.9 million, and Mid-Cap Growth with \$9.4 million. The top four funds thus accounted for 95 percent of the timers' total profits.

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<sup>5</sup> Timers' profits are calculated daily and include distributions; the profits for a quarter or a year are the sum of the corresponding daily profits. These profits and my subsequent analyses are based on account numbers that Alliance Capital has identified as those of the timers.

<sup>6</sup> Some of the fund names have changed over the period. Mid-Cap Growth was called the Alliance Fund prior to February 1, 2002, Americas Government Income was called North American Government Income until some point during fiscal year ending November 30, 2002, and Quasar became Small Cap Growth after November, 2003.

17. Exhibit 2 provides summary statistics on the daily return realized by the timers in each fund, weighted by the assets that the timers had in those funds on each day. The asset-weighted mean daily return across all funds was 0.14 percent. However, there was significant variation in daily returns, and the timers often experienced losses.

**B. Subscriptions and Redemptions**

18. In the first half of 2001, the subscriptions of the timers in the Technology Fund were 29 percent of total subscriptions in that fund (Exhibit 3). In subsequent quarters, the timers' subscriptions became an increasingly significant proportion of total subscriptions. The subscriptions of the timers in all ten funds increased from \$1.3 billion in Q1 2001 to a high of \$6.8 billion in Q4 2002. The timers' subscriptions then decreased to \$394.6 million in Q3 2003 (Exhibit 4). The total of the timers' subscriptions from January 1, 2001, through September 30, 2003 was \$36.8 billion. The timers were most active in the Technology Fund with total subscriptions of \$16.4 billion.

**C. Transaction Statistics for the Timers**

19. A large proportion of the timers' round-trip trades<sup>7</sup> were only one day in length – 46 percent of their total round-trip trades and 60 percent of the dollar value of the associated subscriptions (Exhibit 5). Only nine percent of the timers' round trips and six percent of the associated subscriptions were greater than five days. The average size of a timers' trade across all funds was \$7.0 million.

**IV. PARTICULARS OF ALLIANCE CAPITAL FUNDS RELEVANT TO MODELING LOSSES**

**A. Alliance Capital's "t+1" Accounting**

20. Alliance Capital uses t+1 accounting. With t+1 accounting, shareholder and portfolio transactions are not reflected in the NAV until the following day. The NAV at t+1 is based on security prices at 4:00 pm on day t+1 and portfolio holdings on day t. The implication is that the NAV at t+1 is the same whether or not the PM invests, during day t+1, the net subscriptions made on day t.
21. For example, suppose an individual subscribes to a fund on day t at the NAV on day t. The earliest that the PM can invest the subscriber's cash is during day t+1. The NAV on day t+1 reflects neither the return on this investment from the time purchased to the market close nor transaction costs. It is not

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<sup>7</sup> For purposes of this discussion, a "round trip" is defined as a given timer's subscription, followed by his redemption in the same class of the same fund, where the total number of shares redeemed during the round trip is between 99 percent and 101 percent of the total number of shares subscribed to during the "buy" leg of the round trip.

until day t+2 that the NAV reflects trading activity that occurred during day t+1.

22. The adjusted-profit methodology properly recognizes the effect of t+1 accounting on the calculation of losses in the investment-period loss, even though the change in NAV from t to t+1 is the same regardless of any costs incurred by the fund in investing the timer's subscription.

**B. Alliance Capital's Policies on Cash Management**

23. It is my understanding that the PMs of the eight equity funds and the High Yield Fund did not use futures to equitize their cash during the period that the timers were transacting in the funds.<sup>8</sup> The PM of the Americas Government Income Trust did use futures during the year ended September 30, 2003, but did not use futures during the prior two fiscal years.
24. In the Technology Fund, there was a steady decline in the percentage of assets in cash, from an average of 10.5 percent in Q1 2001 to 2.0 percent in Q3 2003 (Exhibit 6). The high level of timer activity from Q1 2002 through Q1 2003 does not appear to have had any impact on the rate of this decline, even though the volatility of the cash ratio did increase.
25. In comparison to the Technology Fund, Premier Growth kept much less of its assets in cash, averaging 1.0 percent with no clear trend (Exhibit 7). The cash ratios of the Mid-Cap Growth and the Growth and Income funds declined over time. However, because their initial cash ratios were much lower than that of the Technology Fund, the rate of decline was much smaller.
26. Since the timers' activities do not appear to have had any systematic effect on cash levels, I make no adjustments related to such possible effects.

**C. Shareholder Flows and PM Trading Activity**

27. Exhibit 8 presents the results of a regression of PM trading activity on prior-day shareholder flows for the Technology Fund. Except for the period from Q3 2002 to Q2 2003, the PM does not appear to have invested large proportions of prior-day subscriptions by timers and the other shareholders. There was no evidence that the PMs of any of the other equity funds invested prior-day subscriptions the next day. The sole exception may be the Growth Fund in which there was some very weak evidence that in certain quarters, the PM did invest a portion of the prior-day subscriptions the next day. Whether subscriptions are invested the next day or not, however, the adjusted-profit

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<sup>8</sup> The Disciplined Value Fund manager purchased S&P500 Index futures on December 28, 2000 and sold them on January 19, 2001. There was no significant activity by the timers in the Disciplined Value Fund until Q3 2002.

methodology accounts for the effect of investing timer subscriptions on the other shareholders.

**D. Possible Overweighting of Liquid Securities**

28. The other shareholders could have suffered losses if the timers' activities caused a PM to trade a greater proportion of more liquid securities than he would have absent the timers. For this to cause losses, the returns to more liquid securities would have to be lower than the returns to the less liquid securities the PM would otherwise have purchased during the period of timer activity. However, it is only when the PM invests the timers' subscriptions quickly that this argument could have some merit. The two funds for which this effect might apply are the Technology Fund and the Growth Fund. In view of the minimal profits of timers in the Growth Fund and the fact that less than three percent of the timers' subscriptions were made in that fund, I have confined my analysis of any possible overweighting of liquid securities to the Technology Fund. During this period of heightened timer activity, the evidence indicates that the PM of the Technology Fund often traded a large number of securities per day, possibly trading baskets of securities, a practice that would help to minimize trading costs. This trading pattern suggests that the PM of the Technology Fund was not constrained by the liquidity characteristics of individual securities. Therefore, I make no adjustment for the possible overweighting of liquid securities by the Technology Fund.

**E. Possible Capital Gains Acceleration**

29. I also considered making a further adjustment for any tax costs associated with the acceleration of the realization of capital gains due to timer-related sales. Based on the size of the capital loss carryforward balances of the funds at the end of each year, and the funds' annual realized and unrealized losses, no adjustment for potential capital gains taxes is required.

**V. IMPLEMENTATION OF THE ADJUSTED-PROFIT METHODOLOGY**

30. I apply the adjusted-profit methodology directly to the eight equity funds, aggregating the timers' trades in each fund, since losses caused by individual timers are not at issue. The aggregation greatly simplifies the analysis with no effect on the accuracy of calculated losses to the other shareholders. Exhibit 9 presents a summary of the results of my analysis, explained below, for all ten funds. Exhibits 10 through 17 contain more detailed quarterly results for each equity fund.

**A. The Investment-period Loss**

31. The investment-period loss includes timer profit plus two adjustments: the buy adjustment and the subsequent-day adjustment. The buy adjustment is

estimated on each day that security purchases by the PM are attributed to the timers. It is the profit or loss (net of commissions) earned on the purchased securities from the time of purchase until 4:00 pm on that same day.

32. If the timers' funds remain invested for more than one day, the subsequent day adjustment is calculated as the product of the amount invested and the return on the non-cash assets of the fund.
33. For the eight equity funds, the total investment-period loss is \$122.2 million, composed of \$118.8 million in timer profit, a buy adjustment of \$15.3 million, and a subsequent day adjustment of -\$11.9 million (Exhibit 9).

#### **B. The Post-investment-period Loss**

34. As noted above, the post-investment-period loss has two components: the redemption adjustment and the transaction cost adjustment. The redemption adjustment is equal to the product of the overnight return on the securities held by the fund – defined as the return from 4:00 pm to 10:00 am – and the amount of the timers' assets invested by the PM that become assets of the other shareholders following the timers' redemptions. The transaction cost adjustment is due to the costs incurred as a result of sales of securities that the PM undertakes in obtaining cash to pay the timer. This adjustment is calculated as the product of the average percentage transaction costs and the amount of security sales by the PM attributed to the timer. Transaction costs are measured for each security transaction as the difference between the execution price, including commissions, and the volume-weighted average price for that day. My analysis uses transaction cost estimates from Abel/Noser Inc. for each of the eight equity funds based on transaction data provided by Alliance Capital.<sup>9,10</sup>

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<sup>9</sup> Abel/Noser Inc. is an independent provider of transaction cost analysis to the investment industry. In calculating transaction costs, I chose to use VWAP data provided by Abel/Noser based on PM transaction data obtained from the funds' custodian, State Street Bank, rather than time stamp or other data, for a variety of reasons.

<sup>10</sup> First, I was informed by Alliance Capital that it has used VWAP calculations provided by Abel/Noser to assist the company in measuring portfolio trading costs during the time period covered by my report.

Second, Alliance Capital did not begin using time stamp data to measure transaction costs until 2004 and even then, it took the company approximately two quarters to consistently produce what it considered to be accurate results.

Finally, although Alliance Capital did capture time stamp and other transaction information during the relevant time period, I had some question about the reliability of the time stamp data for the present purpose, based on prior experience with the larger data set. In that circumstance, the Alliance data set did not align fully with transaction data maintained by the funds' custodian, State Street Bank, which my adjusted profits methodology uses. The State Street Bank PM transaction data does not include time stamp information.

35. For the eight equity funds, the total post-investment-period loss is \$55.0 million, composed of a redemption adjustment of \$40.0 million and transaction costs adjustment of \$15.0 million.

**C. Other Adjustments**

36. Because of t+1 accounting, the expenses incurred by the other shareholders differ from what they would have incurred absent the timers' activity. As shown in Exhibit 9, the total net expense adjustment is less than \$0.1 million.

**D. The Bond Funds**

37. Sufficient pricing data for the holdings of the two bond funds are not available to utilize the adjusted-profit methodology.<sup>11</sup> Thus, I apply adjustments to the bond funds based on those in the equity funds.<sup>12</sup> For the two bond funds, total losses, based on the timers' profit and adjustments thereto, are \$5.6 million.

**E. Total Net Losses to the Other Shareholders**

38. For the ten funds, the total losses, netted over the other shareholders and over all ten funds, before interest, are \$182.9 million.
39. I apply interest to the losses using a risk-free interest rate from the date of the loss through January 16, 2004, the date on which Alliance Capital deposited the settlement amount with the U.S. Treasury. That risk-free rate is based on 3-month CD rates during the period. Total interest is \$3.6 million.
40. The total losses including interest, netted over the other shareholders and over all ten funds, are \$186.4 million as of January 16, 2004.

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<sup>11</sup> The two bond funds, Americas Government Income Trust and High Yield, account for 0.9 percent of timer subscriptions and 4.0 percent of timer profits.

<sup>12</sup> The adjusted profit of the timers in each bond fund is the sum of the unadjusted dilution in the bond fund, measured by profits, and an estimate for the bond fund's adjustment. For each bond fund, this estimate equals the product of the sum of the absolute values of the daily net timer flows in that fund, and a factor based on adjustments in the eight equity funds. That factor is the sum of the adjustments in the eight equity funds divided by the sum of the absolute values of the daily net timer flows in those funds.

## Technical Appendix

### Mathematical Derivation of the Calculation of Losses Resulting from Timer Activity

The adjusted-profit methodology is designed to measure out-of-pocket losses to the other shareholders from the activities of the timers. Out-of-pocket losses are the difference between what the other shareholders have in their pockets and what they would have had but for the timers' activities.

The analysis below assumes that a timer subscribes to a fund on day 0 and redeems his shares on day 1. Days are used in the sense of points in time, and the actual number of days between day 0 and day 1 could be one, or more than one. The portfolio manager (PM) learns of the redemption in the morning of the day after the redemption, day 2. At that point, the PM can determine how to fund the timer's redemption.

To introduce some notation, let  $A$  be the assets of the other shareholders in the fund on day 0. These assets, including cash, earn a return of  $R_1$  from day 0 to day 1, and an overnight return of  $R_2$  from day 1 to the morning of day 2. In my model, I define the overnight return,  $R_2$ , as the return from 4:00 pm on day 1 to 10:00 am on day 2.

The timer subscribes in the amount of  $kA$  on day 0 and redeems on day 1. Of this subscription, the PM invests  $k_1A$  on day 1 and holds  $k_2A$  as cash, such that  $k = k_1 + k_2$ . The timer's invested assets earn a return of  $Z_1$  from day 0 through day 1, and an overnight return of  $Z_2$  from 4:00 pm on day 1 to 10:00 am on day 2. Even though the timer has redeemed at the 4:00 pm NAV on day 1, this overnight return,  $Z_2$ , will enter into the loss calculations because the PM is not aware of, and therefore cannot respond to, the timer's redemption until the morning of day 2.

The returns earned on both the timer's and other shareholders' invested assets from day 0 to day 1 will be referred to as the investment-period returns. The returns on both sets of assets from 4:00 pm on day 1 to 10:00 am on day 2 will be referred to as the post-investment-period returns.

#### The But-for World: No Timer

Absent the timer's presence, the other shareholders' assets,  $A$ , are worth the following:

Day 0:  $A$

Day 1:  $A(1 + R_1)$

Day 2:  $A(1 + R_1)(1 + R_2)$

#### The Actual World: Timer present

The fund's value at the end of day 1, when the timer redeems is:

$$A(1 + R_1) + k_1A(1 + Z_1) + k_2A = A[(1 + R_1) + k_1(1 + Z_1) + k_2]$$

Because the timer's subscription of  $kA$  entitles him to a  $k/(1+k)$  share of the fund, the value of the timer's redemption is:

$$\frac{k}{1+k} A[(1+R_1)+k_1(1+Z_1)+k_2]$$

The total value of the fund on the morning of day 2, after the timer's redemption, includes the overnight return on the timer's invested assets, less the value of the timer's redemption:

$$A[(1+R_1)(1+R_2)+k_1(1+Z_1)(1+Z_2)+k_2] - \frac{k}{1+k} A[(1+R_1)+k_1(1+Z_1)+k_2]$$

The other shareholders' loss is the difference between their assets on day 2 in the but-for world,  $A(1+R_1)(1+R_2)$ , and the fund's value after the timer's redemption (represented by the above equation), or:

$$A(1+R_1)(1+R_2) - \left[ A[(1+R_1)(1+R_2)+k_1(1+Z_1)(1+Z_2)+k_2] - \frac{k}{1+k} A[(1+R_1)+k_1(1+Z_1)+k_2] \right]$$

Noting that the first term and the first part of the second term sum to zero, one can rearrange the above equation as:

$$\frac{k}{1+k} A[(1+R_1)+k_1(1+Z_1)+k_2] - A[k_1(1+Z_1)(1+Z_2)+k_2]$$

Subtracting  $kA$  (the value of the timer's subscription) from the first major term and adding it after the second major term yields:

$$\left[ \frac{k}{1+k} A[(1+R_1)+k_1(1+Z_1)+k_2] - kA \right] - \left[ A[k_1(1+Z_1)(1+Z_2)+k_2] - kA \right]$$

The terms within the first large set of brackets represent the timer's profit: his redemption minus his initial subscription. This profit depends only on the investment period returns of the fund, including the return on that portion of the timer's subscription that the PM invested. The terms within the second large set of brackets represent the profit that the fund earned on the timer's assets between the time of the timer's subscription and the morning of day 2, when his redemption must be funded. Thus, the other shareholders incur a loss whenever the timer's profit exceeds the profit that the fund earns on the timer's assets.

The above equation can be further rearranged so that each component of the adjusted-profit model is separately represented. First, expanding the terms in the second set of brackets yields:

$$\left[ \frac{k}{1+k} A[(1+R_1)+k_1(1+Z_1)+k_2] - kA \right] - \left[ A[k_1(1+Z_1)(Z_2)+k_1(1+Z_1)+k_2] - (k_1+k_2)A \right]$$



and upon rearranging:

$$\left[ \frac{k}{1+k} A[(1+R_1) + k_1(1+Z_1) + k_2] - kA \right] - [k_1AZ_1] - [k_1A(1+Z_1)(Z_2)]$$

### Interpretation

In this form, the other shareholders' loss can be divided into the components of the adjusted-profit model.

The terms in the first two sets of brackets are the other shareholders' investment-period loss. This loss equals the timer's profit during the investment period (the first bracket), offset by any profit earned by the fund on the timer's assets during the same period (the second bracket).<sup>1</sup>

The last term in brackets is the profit on the timer's invested assets after day 1, or the redemption loss. On day 1, the value of the timer's invested assets is  $(k_1A(1+Z_1))$ . This value times  $Z_2$ , the overnight return on those assets, is the profit that accrues to the other shareholders. Note that if  $Z_2$  is negative, the other shareholders' loss increases.  $Z_2$  might be negative if the timer sold in anticipation of a drop in the value of the fund.

Also, note that if the timer's subscription is not invested ( $k_1 = 0$ ), then the timer's activity does not cause any additional loss to other shareholders in the post-investment period, even if the timer redeemed his shares in anticipation of a decline in the fund's value. The rationale is that the loss to the other shareholders' assets would have occurred even if the timer were not present. In this case, the investment period loss captures the full loss to the other shareholders.

To the above adjusted-profit losses must be added any additional costs that the timers have imposed upon other shareholders. Such costs would include, for example: transaction costs, additional management and administrative fees, additional tax liabilities, and reduced investment performance due to any change in the PM's investment strategy to accommodate the timer's liquidity demands. As described in the text, adjustments were only made for additional transaction costs and additional management and administrative fees.

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<sup>1</sup> As explained in the body of the report, the profit earned by the fund on the timer's assets is comprised of two components: a first day buy adjustment, and a subsequent-day adjustment for holding periods of more than one day.

**Exhibit 1**  
**Total Profit of the Timers in the 10 Funds<sup>1</sup>**  
**Q1 2001 – Q3 2003**  
**(Dollars)**

Fund	2001				2002				2003			Total
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1 2001 - Q3 2003
Americas Government Income Trust	912	3,038	-823	-91,054	-34,264	45,332	468,281	549,335	321,781	853,732	0	2,116,170
Disciplined Value Fund	0	-60	-850	0	0	0	-25,907	76,189	-4,826	144,290	62,898	251,735
Growth and Income Fund	60,861	485,356	-146,354	2,046,980	555,093	-706,808	1,190,369	6,582,090	-1,739,609	2,662,525	909,760	11,900,264
Growth Fund	-1,714,778	1,168,504	-780,048	1,420,322	2,854	-14,480	522,647	129,833	17,190	426,619	163,294	1,341,957
High Yield Fund	0	73	383	43,797	18,013	-15,832	43,055	179,887	472,776	1,672,464	480,639	2,895,255
Mid-Cap Growth Fund	-123,821	24,500	-1,135,732	4,275,118	1,137,263	-1,745,379	938,235	3,236,964	662,299	1,681,612	392,705	9,363,765
Premier Growth Fund	-2,095,563	325,382	-4,711,457	3,415,790	-1,337,742	-4,819,784	15,577,923	10,012,846	-1,072,883	3,279,252	667,318	19,441,061
Quasar Fund	-421	28,582	-5,684	5,430	-116	-1,317	18,828	-109,484	-24,885	-148,162	251,269	14,041
Small Cap Value Fund	0	0	0	0	0	-630	55,103	-55,990	-284,830	-121,369	-20,810	-428,548
Technology Fund	-5,141,039	6,475,808	-8,528,761	5,757,533	10,149,243	15,277,091	11,862,911	12,532,621	20,010,441	7,882,908	605,173	76,888,909
All 10 Funds	-9,013,869	8,711,182	-15,309,325	16,873,916	10,490,244	8,018,172	30,671,445	33,134,288	18,357,455	18,333,872	3,512,247	123,779,628

**Note:**

1. Calculated by marking to market the timers' positions in the funds on a daily basis.

**Source:**

Fund shareholder transaction data and daily Net Asset Value (NAV) data for the 10 funds provided by Alliance.

**Exhibit 2**  
**Distribution of Daily Fund Returns Realized by the Timers in the 10 Funds**  
**Q1 2001 – Q3 2003**

Fund	Number of Days With a Timer Balance Exceeding \$10,000 <sup>1</sup>	Asset-Weighted Mean Daily Return (Percent)	Asset-Weighted Median Daily Return (Percent)	Asset-Weighted Standard Deviation of Daily Returns (Percent)	Asset-Weighted Percent of Days with Non-Negative Return	Asset-Weighted Percent of Days with Negative Return
Americas Government Income Trust	599	0.07	0.14	0.43	66.9	33.1
Disciplined Value Fund	242	0.12	0.16	1.51	57.4	42.6
Growth and Income Fund	688	0.12	0.00	1.50	56.9	43.1
Growth Fund	623	0.04	0.09	1.64	52.3	47.7
High Yield Fund	475	0.07	0.00	0.20	79.6	20.4
Mid-Cap Growth Fund	688	0.14	0.20	1.92	54.9	45.1
Premier Growth Fund	688	0.07	-0.06	1.70	48.9	51.1
Quasar Fund	214	0.00	0.00	1.45	50.9	49.1
Small Cap Value Fund	333	-0.16	-0.28	1.49	45.6	54.4
Technology Fund	688	0.23	0.12	2.44	54.2	45.8
All 10 Funds	688	0.14	0.05	1.98	53.8	46.2

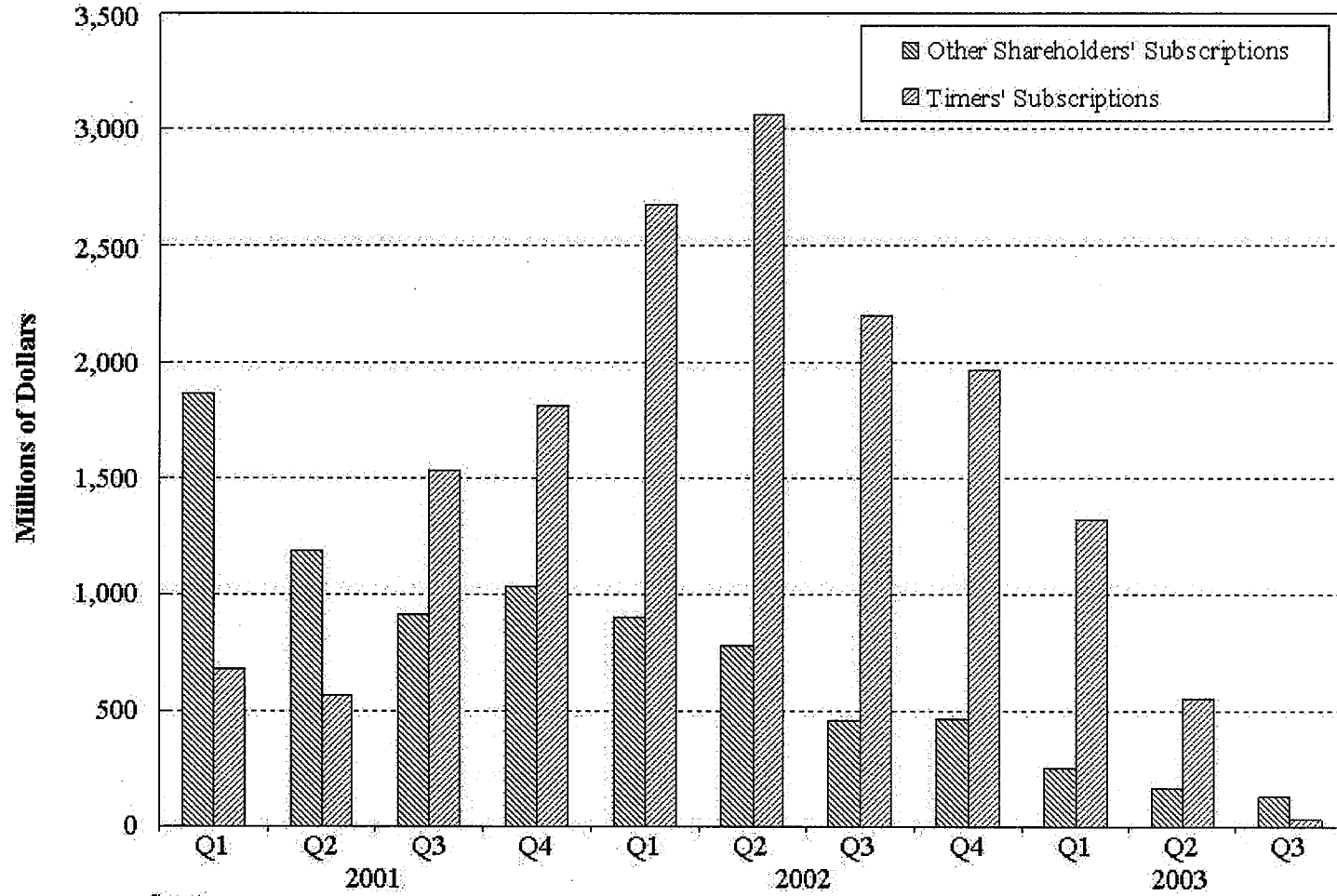
Note:

1. This \$10,000 threshold excludes days with a de minimus dollar balance. The threshold is not applied in calculating the other statistics because they are asset-weighted. There were 688 trading days during the period examined.

Source:

Fund shareholder transaction data and daily Net Asset Value (NAV) data for the 10 funds provided by Alliance.

**Exhibit 3**  
**Subscriptions of the Timers and Other Shareholders in the Technology Fund**  
**Q1 2001 - Q3 2003**



Source:  
Fund shareholder transaction data and daily Net Asset Value (NAV) data provided by Alliance.

**Exhibit 4**  
**Subscriptions of the Timers in the 10 Funds**  
**Q1 2001 – Q3 2003**  
**(Dollars)**

Fund	2001				2002				2003			Total Q1 2001 - Q3 2003
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
<b>Americas Government Income Trust</b>												
Timers' Subscriptions	0	0	0	10,125,770	14,224,517	21,638,480	45,349,400	39,030,876	62,433,272	26,530,538	0	219,372,854
Share of Total Subscriptions	0%	0%	0%	5%	9%	16%	35%	36%	38%	15%	0%	11%
<b>Disciplined Value Fund</b>												
Timers' Subscriptions	0	4,046	0	0	0	0	1,000,000	472,040	1,096,300	1,000,000	2,000,000	5,572,386
Share of Total Subscriptions	0%	0%	0%	0%	0%	0%	3%	2%	6%	2%	2%	1%
<b>Growth and Income Fund</b>												
Timers' Subscriptions	108,661,617	62,835,498	56,989,681	129,358,802	145,704,197	340,317,974	605,439,236	1,499,989,331	84,5328,897	652,149,877	95,934,285	4,534,709,496
Share of Total Subscriptions	5%	4%	4%	9%	10%	26%	57%	79%	62%	60%	19%	30%
<b>Growth Fund</b>												
Timers' Subscriptions	279,561,114	191,304,700	114,735,349	101,010,683	69,189	1,099,653	47,860,178	90,928,646	76,552,729	81,732,152	0	984,874,394
Share of Total Subscriptions	30%	23%	22%	18%	0%	1%	45%	65%	57%	39%	0%	27%
<b>High Yield Fund</b>												
Timers' Subscriptions	0	1,385,998	995,457	987,835	2,029,809	0	3,036,478	4,839,312	47,059,983	28,474,199	20,177,333	108,986,404
Share of Total Subscriptions	0%	3%	2%	1%	2%	0%	7%	6%	37%	22%	17%	12%
<b>Mid-Cap Growth Fund</b>												
Timers' Subscriptions	54,19974	941,988	1,111,798,670	354,122,751	619,120,656	800,376,348	451,625,107	270,251,465	126,655,438	89,890,628	25,993,295	2,856,196,340
Share of Total Subscriptions	16%	3%	61%	83%	82%	85%	71%	83%	92%	73%	39%	78%
<b>Premier Growth Fund</b>												
Timers' Subscriptions	229,144,604	185,177,527	516,674,069	879,109,134	1,103,331,365	1,035,243,104	2,298,866,548	2,809,398,162	1,323,736,269	777,755,979	141,317,755	11,259,714,514
Share of Total Subscriptions	12%	13%	38%	50%	53%	62%	76%	80%	71%	39%	23%	56%
<b>Quasar Fund</b>												
Timers' Subscriptions	0	927,556	715,074	314,399	494	274	2,691,283	88,546,482	116,947,968	33,447,017	40,560,923	284,151,481
Share of Total Subscriptions	0%	2%	2%	1%	0%	0%	16%	87%	83%	62%	64%	44%
<b>Small Cap Value Fund</b>												
Timers' Subscriptions	0	0	0	0	0	0	2,634,091	37,496,262	65,185,630	10,156,147	38,524,912	153,997,043
Share of Total Subscriptions	0%	0%	0%	0%	0%	0%	2%	42%	49%	15%	38%	15%
<b>Technology Fund</b>												
Timers' Subscriptions	680,646,825	566,234,291	1,534,360,201	1,808,386,742	2,677,476,125	3,064,616,797	2,199,144,738	1,969,014,401	1,322,492,943	555,448,361	30,047,152	16,407,838,576
Share of Total Subscriptions	27%	32%	62%	64%	72%	80%	83%	81%	84%	77%	19%	67%
<b>All 10 Funds</b>												
Timers' Subscriptions	1,308,434,134	1,008,801,605	2,336,288,301	3,283,416,115	4,361,956,352	5,263,292,631	5,615,647,069	6,803,946,977	3,987,489,448	2,256,604,898	394,555,756	36,815,433,496
Share of Total Subscriptions	16%	16%	37%	44%	54%	64%	72%	78%	70%	38%	22%	51%

Source:  
Fund shareholder transaction data and daily Net Asset Value (NAV) data for the 10 funds provided by Alliance.

**Exhibit 5**  
**Length of Holding Period for Timers' Round Trips<sup>1</sup>**  
**Q1 2001 – Q3 2003**

Fund	Total Profit (Dollars)	Average Trade Size <sup>2</sup> (Dollars)	Number of Round Trips	Distribution of Round Trip Holding Period Lengths (Percent)							
				Unweighted				Dollar-Weighted			
				1 Day	2 Days	3-5 Days	> 5 Days	1 Day	2 Days	3-5 Days	> 5 Days
Americas Government Income Trust	2,116,170	3,118,072	66	39	8	24	29	33	8	20	39
Disciplined Value Fund	251,735	678,763	6	17	0	17	67	13	0	13	74
Growth and Income Fund	11,900,264	8,903,859	498	43	23	22	12	58	18	18	6
Growth Fund	1,341,957	2,255,990	422	42	26	24	8	42	25	23	10
High Yield Fund	2,895,255	2,366,523	36	3	0	11	86	12	0	12	76
Mid-Cap Growth Fund	9,363,765	8,477,498	298	47	23	23	7	43	29	24	4
Premier Growth Fund	19,441,081	6,388,986	1,744	45	25	21	9	58	16	17	9
Quasar Fund	14,041	2,706,044	105	46	20	29	6	57	14	27	3
Small Cap Value Fund	428,548	3,849,916	40	58	20	23	0	64	20	17	0
Technology Fund	76,883,909	8,491,036	1,899	48	24	21	7	67	14	15	4
<b>All 10 Funds</b>	<b>123,779,628</b>	<b>7,022,390</b>	<b>5,114</b>	<b>46</b>	<b>24</b>	<b>22</b>	<b>9</b>	<b>60</b>	<b>17</b>	<b>17</b>	<b>6</b>

Notes:

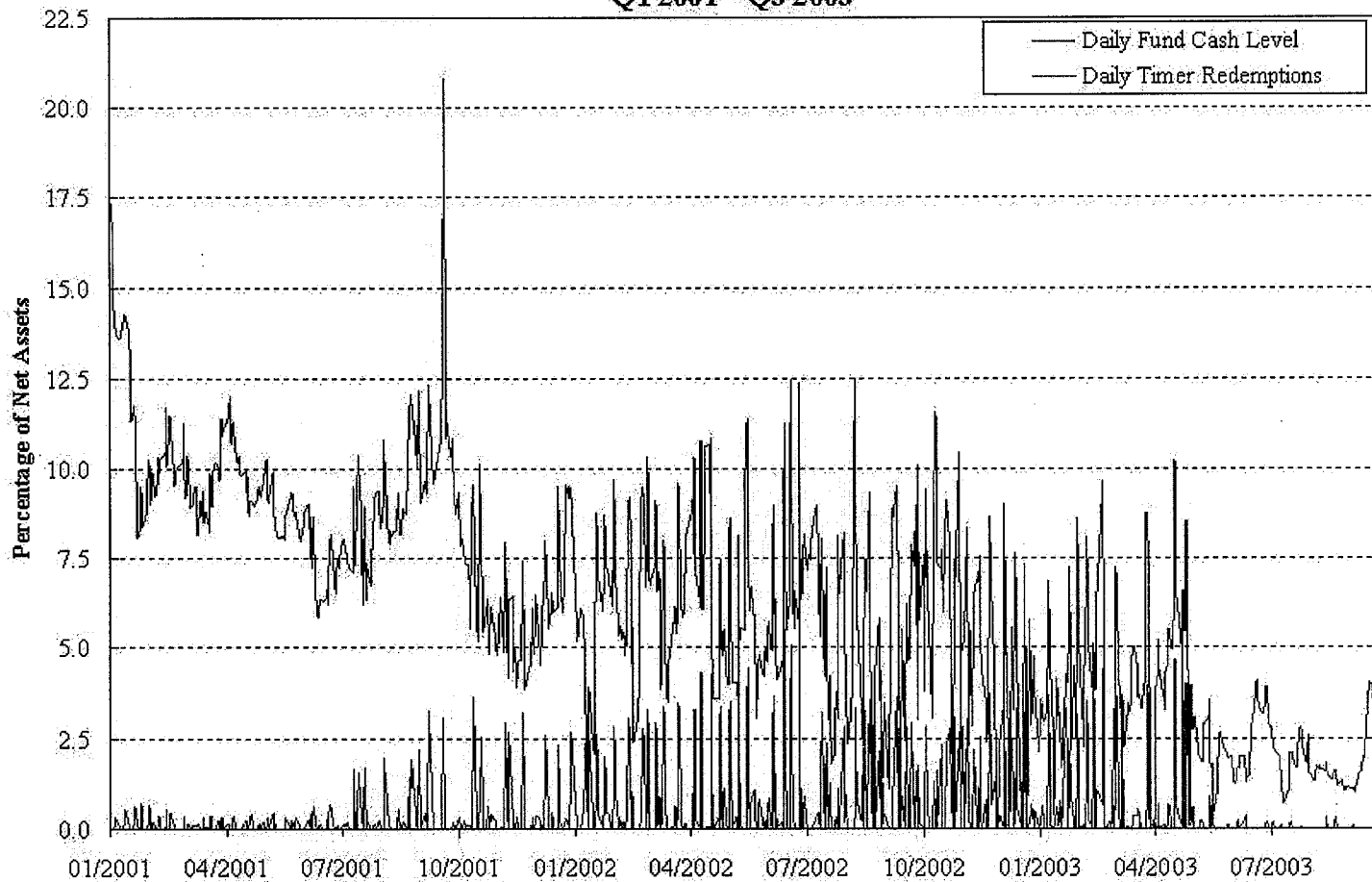
1. Aside from the total profit column, all statistics in this table refer to the subset of timer activity that I consider to be round trips. I define round trips as buys followed by sells by a given timer in the same class of the same fund, where the total number of shares sold during the round trip is between 99% and 101% of the total number of shares purchased during the round trip. Such round trips account for 97.5% of the timers' dollar transaction activity in the 10 funds, and 96.0% of the associated profits listed in the second column. Of these round trips, 94.2% of the total transaction dollars involve only one buy and one sell date. The remaining 5.8% involve more than one buy date and/or more than one sell date.

2. Average trade size is for the buy side of the round trip.

Source:

Fund shareholder transaction data and daily Net Asset Value (NAV) data for the 10 funds provided by Alliance.

**Exhibit 6**  
**Daily Technology Fund Cash Level and Net Timer Redemptions**  
**as a Percentage of Technology Fund Net Assets**  
**Q1 2001 – Q3 2003**



**Sources:**

Fund cash and net assets data provided by State Street Bank.

Fund shareholder transaction data and Net Asset Value (NAV) data provided by Alliance.

**Exhibit 7**  
**Quarterly Averages of Daily Fund Cash Level and Net Timer Redemptions**  
**as a Percentage of Fund Net Assets<sup>1,2</sup>**  
**Q1 2001 – Q3 2003**

Fund	Average Daily:	2001				2002				2003			Average
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1 2001- Q3 2003
Americas Government Income Trust	Fund Cash Level				1.52	1.47	0.41	1.03	3.12	1.93	1.52	1.37	1.13
	Timer Net Redemptions				0.01	0.01	0.01	0.04	0.03	0.04	0.02	-	0.01
Disciplined Value Fund	Fund Cash Level	8.75	8.26	6.19	9.60	10.42	5.83	0.33	1.79	2.16	7.55	5.57	6.02
	Timer Net Redemptions	-	-	0.00	-	-	-	-	0.01	0.01	0.01	0.01	0.00
Growth and Income Fund	Fund Cash Level	6.63	6.29	5.55	4.54	4.90	2.12	1.70	2.26	1.52	2.37	2.39	3.64
	Timer Net Redemptions	0.02	0.01	0.01	0.02	0.02	0.05	0.12	0.32	0.20	0.14	0.02	0.09
Growth Fund	Fund Cash Level	1.61	0.24	0.70	0.32	0.04	0.03	0.10	0.34	0.06	0.22	0.17	0.35
	Timer Net Redemptions	0.07	0.06	0.04	0.03	0.00	0.00	0.03	0.07	0.06	0.06	0.01	0.04
High Yield Fund	Fund Cash Level	0.08	0.06	0.10	0.14	0.02	0.02	0.02	0.03	0.04	0.05	0.16	0.06
	Timer Net Redemptions	-	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.11	0.06	0.11	0.03
Mid-Cap Growth Fund	Fund Cash Level	3.50	3.56	3.93	2.35	1.86	2.50	1.52	1.07	0.23	0.63	0.71	1.98
	Timer Net Redemptions	0.01	0.00	0.19	0.68	1.05	1.43	1.14	0.86	0.40	0.27	0.06	0.56
Premier Growth Fund	Fund Cash Level	1.41	1.25	0.64	1.95	0.47	0.62	1.03	1.42	0.86	1.18	0.36	1.02
	Timer Net Redemptions	0.02	0.02	0.06	0.11	0.13	0.14	0.36	0.56	0.32	0.17	0.04	0.18
Quasar Fund	Fund Cash Level	1.65	3.29	0.61	2.60	1.66	1.14	1.36	2.39	2.94	2.45	2.42	2.05
	Timer Net Redemptions	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.37	0.56	0.11	0.18	0.11
Small Cap Value Fund	Fund Cash Level			11.21	7.20	7.91	7.70	4.29	4.96	5.14	6.12	4.85	6.56
	Timer Net Redemptions			-	-	-	-	0.01	0.12	0.22	0.03	0.09	0.05
Technology Fund	Fund Cash Level	10.53	8.69	9.40	6.37	6.10	6.58	5.58	5.18	3.93	3.15	2.04	6.12
	Timer Net Redemptions	0.11	0.11	0.38	0.45	0.69	0.95	0.83	0.91	0.71	0.28	0.02	0.50

**Notes:**

1. Average daily fund cash level is calculated as the quarterly average of the daily fund cash divided by net assets. Average daily timer net redemptions are calculated as the quarterly average of the timers' daily net redemptions divided by net assets.

2. For average daily redemptions, 0.00 indicates that there were net redemptions in a given quarter, but average daily net redemptions were less than 0.005 percent of the fund's net assets. Quarters with no timer net redemptions are designated by "-".

**Sources:**

Fund cash and net assets data provided by Brown Brothers Harriman & Co., the Bank of New York, and State Street Bank. Fund shareholder transaction data and Net Asset Value (NAV) data provided by Alliance.



**Exhibit 8**  
**Regression of the Portfolio Manager's Transactions on Prior Day's Shareholder Flows<sup>1,2</sup>**  
**Technology Fund**  
**Q1 2001 – Q3 2003**

	2001				2002				2003			2001	2002	2003	2001-2003
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3				
<b>Independent Variables</b>															
Constant	0.001	0.000	0.000	0.000	-0.002	-0.001	-0.001	-0.001	-0.001 *	0.000	-0.001	0.000	-0.001 *	0.000	0.000 *
Shareholder Flows (-1)	0.043	0.075	0.045	0.019	-0.011	-0.006	0.602 *	0.872 *	0.943 *	0.838 *	0.082	0.026	0.350 *	0.909 *	0.398 *
R <sup>2</sup>	0.008	0.025	0.054	0.040	0.004	0.004	0.603	0.854	0.932	0.761	0.008	0.011	0.415	0.847	0.419
Observations	61	63	59	64	60	64	64	64	61	63	64	247	252	188	687

**Notes:**

1. The table presents the estimates of a regression of the Portfolio Manager's transactions on a constant, 1-day lagged Shareholder Flows, and a MA(1) component. For brevity, the MA(1) estimates are not reported in the table. All variables in the regression model are deflated by net assets. Newey-West HAC-robust standard deviations and covariances are used.

2. Coefficients in Red (\*) are significant at 5%.

**Sources:**

Portfolio Manager's transaction data and fund net assets data provided by State Street Bank.

Fund shareholder transaction data and Net Asset Value (NAV) data provided by Alliance.

**Exhibit 9**  
**Total Adjusted Profit of the Timers**  
**All 10 Funds**  
**Q1 2001 – Q3 2003**  
**(Dollars)**

	Investment-Period Loss				Post-Investment-Period Loss				Adjusted Profit with Interest <sup>3</sup>	
	Unadjusted Dilution Measured by Profit <sup>1</sup>	Buy Adjustment	Subsequent Day Adjustment	Total	Redemption Adjustment	Transaction Costs Adjustment	Expense Adjustment <sup>2</sup>	Adjusted Profit		
<b>Equity Funds</b>										
Disciplined Value Fund	251,735	-797	-239,721	-8,783	2,376	2,785	5,161	34	-3,588	-3,974
Growth and Income Fund	11,900,264	1,980,838	-4,912,215	8,968,887	1,607,003	569,723	2,176,726	4,137	11,149,771	11,393,340
Growth Fund	1,341,957	918,430	1,295,099	3,555,487	1,686,820	454,619	2,141,440	1,315	5,698,242	5,916,321
Mid-Cap Growth Fund	9,263,765	2,171,411	-381,675	11,253,501	28,164,15	89,336	29,057,71	9,678	14,168,949	14,482,001
Premier Growth Fund	19,441,081	3,653,105	6,844,863	29,939,048	11,318,941	611,242	11,930,183	14,842	41,884,073	42,758,564
Quasar Fund	14,041	94,010	-104,872	3,179	132,305	7,657	139,962	632	143,773	146,046
Small Cap Value Fund	-428,548	130,389	139,993	-158,166	-88,888	5,198	-83,491	180	-241,476	-243,061
Technology Fund	76,883,908	6,243,388	-14,601,073	68,626,220	22,532,871	13,265,206	35,798,077	48,098	104,472,395	106,339,295
<b>Equity Funds Total</b>	<b>118,768,204</b>	<b>15,290,770</b>	<b>-11,879,600</b>	<b>122,179,374</b>	<b>40,008,043</b>	<b>15,005,788</b>	<b>55,013,830</b>	<b>78,936</b>	<b>177,272,140</b>	<b>180,288,531</b>
<b>Bond Funds<sup>4</sup></b>										
Americas Government Income Trust	2,116,170								2,304,237	2,534,360
High Yield Fund	2,895,255								3,096,007	3,122,295
<b>Bond Funds Total</b>	<b>5,011,425</b>								<b>5,600,264</b>	<b>5,656,654</b>
<b>All 10 Funds</b>	<b>123,779,628</b>	<b>15,290,770</b>	<b>-11,879,600</b>	<b>122,179,374</b>	<b>40,008,043</b>	<b>15,005,788</b>	<b>55,013,830</b>	<b>78,936</b>	<b>182,872,403</b>	<b>186,445,185</b>

**Notes:**

1. Calculated by marking to market the timers' positions in the funds on a daily basis.
2. The expense adjustment accounts for the overall effect of the timers' activity on expenses paid by other shareholders. Because timer activity can both increase and decrease expenses incurred by other shareholders, the net expense adjustment can be either positive or negative.
3. The interest calculation is based on three-month CD rates. For each day, we obtain a daily return for the three-month CD (on the basis of 360 days) and estimate a cumulative factor equal to the cumulative return from that day to January 16, 2004. To obtain the adjusted profit with interest for a given day, we multiply that day's cumulative factor by that day's adjusted profit.
4. The adjusted profit of each bond fund is the sum of the unadjusted dilution in the bond fund, measured by profit, and an estimate of the bond fund's adjustment. For each bond fund, this estimate equals the product of the sum of the absolute values of the daily net timer flows in that fund, and a factor based on adjustments in the eight equity funds. That factor is the sum of the adjustments in the eight equity funds divided by the sum of the absolute values of the daily net timer flows in those funds.

**Sources:**

Fund shareholder transaction data and Net Asset Value (NAV) data provided by Alliance.  
Interest rates for three-month CDs from the Federal Reserve Board statistical release H.15.  
PMI transaction data provided by State Street Bank.  
Security prices from CRSP and TAQ.  
Transaction costs from Abel Noser.

**Exhibit 10**  
**Total Adjusted Profit of the Timers**  
**Disciplined Value Fund**  
**Q1 2001 – Q3 2003**  
**(Dollars)**

	2001				2002				2003		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Investment-Period Loss</b>											
Unadjusted Distribution Measured by Profit <sup>1</sup>		-60	-850				-25,907	76,189	-4,826	144,280	62,898
Buy Adjustment		-2					-784	3,661	538	1,642	-5,871
Subsequent Day Adjustment		46	887				4,028	-83,430	-972	-135,891	-44,388
<b>Total</b>		-16	-37				-22,663	-3,980	-5,240	-10,041	12,639
<b>Post-Investment-Period Loss</b>											
Redemption Adjustment				108				-6,084	-317	9,118	-430
Transaction Costs Adjustment									42		2,743
<b>Total</b>				108				-6,084	-274	9,118	2,293
<b>Expense Adjustment<sup>2</sup></b>											
		0	0				-63	26	0	13	-39
<b>Adjusted Profit/Loss</b>											
		-17	145				-22,726	-9,638	-5,514	19,172	14,990
<b>Interest</b>											
		-1	5				-370	-135	-70	116	67
<b>Adjusted Profit with Interest<sup>3</sup></b>											
		-17	151				-23,096	-9,773	-5,584	19,288	15,057

**Notes:**

1. Calculated by marking to market the timers' positions in the fund on a daily basis.
2. The expense adjustment accounts for the overall effect of the timers' activity on expenses paid by other shareholders. Because timer activity can both increase and decrease expenses incurred by shareholders, the net expense adjustment can be either positive or negative.
3. The interest calculation is based on three-month CD rates. For each day, we obtain a daily return for the three-month CD (on the basis of 360 days) and estimate a cumulative factor equal to the return from that day to January 16, 2004. To obtain the adjusted profit with interest for a given day, we multiply that day's cumulative factor by that day's adjusted profit.

**Sources:**

Fund shareholder transaction data and Net Asset Value (NAV) data provided by Alliance.  
Interest rates for three-month CDs from the Federal Reserve Board statistical release H.15.  
PFM transaction data provided by State Street Bank.  
Security prices from CRSP and TAO.  
Transaction costs from Abel Noser.

**Exhibit 11**  
**Total Adjusted Profit of the Timers**  
**Growth and Income Fund**  
**Q1 2001 – Q3 2003**  
**(Dollars)**

	2001				2002				2003			Total
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1 2001 - Q3 2003
<b>Investment-Period Loss</b>												
Unadjusted Dilution Measured by Profit <sup>1</sup>	60,861	485,356	-146,354	2,046,980	555,093	-706,808	1,190,369	6,582,090	-1,739,609	2,662,525	909,780	11,900,264
Buy Adjustment	171,227	-24,330	1,238	12,888	237,606	913,675	37,767	56,647	52,650	520,080	1,461	1,960,838
Subsequent Day Adjustment	63,039	-84,279	260,727	-1,206,228	-24,637	251,311	342,384	-4,341,129	428,394	-287,675	-314,302	-4,912,215
<b>Total</b>	295,127	376,727	115,612	853,590	768,043	458,178	1,570,720	2,297,608	-1,258,566	2,894,920	596,919	8,968,887
<b>Post-Investment-Period Loss</b>												
Redemption Adjustment	909,69	154,184	113,107	396,779	71,813	-5,780	169,716	844,576	-37,635	-224,347	33,622	1,607,003
Transaction Costs Adjustment	3,633	37,146	11,253	18,911	27,145	79,097	10,649	62,809	44,554	237,099	37,428	569,723
<b>Total</b>	94,602	191,330	124,360	415,690	98,957	73,316	180,365	907,385	6,919	12,752	71,050	2,176,726
<b>Expense Adjustment<sup>2</sup></b>	-376	360	-521	922	-628	-170	-871	3,774	634	418	615	4,157
<b>Adjusted Profit/Loss</b>	389,353	568,417	239,451	1,270,202	866,372	531,324	1,750,214	3,208,766	-1,251,012	2,908,100	668,385	11,149,771
<b>Interest</b>	23,365	29,975	9,852	41,724	23,201	12,762	32,992	57,385	-12,984	21,992	3,303	243,369
<b>Adjusted Profit with Interest<sup>3</sup></b>	412,718	598,392	249,303	1,311,926	889,573	544,086	1,783,206	3,266,152	-1,263,997	2,930,092	671,888	11,393,140

**Notes:**

1. Calculated by marking to market the timers' positions in the fund on a daily basis.
2. The expense adjustment accounts for the overall effect of the timers' activity on expenses paid by other shareholders. Because timer activity can both increase and decrease expenses incurred by other shareholders, the net expense adjustment can be either positive or negative.
3. The interest calculation is based on three-month CD rates. For each day, we obtain a daily return for the three-month CD (on the basis of 360 days) and estimate a cumulative factor equal to the cumulative return from that day to January 16, 2004. To obtain the adjusted profit with interest for a given day, we multiply that day's cumulative factor by that day's adjusted profit.

**Sources:**

Fund shareholder transaction data and Net Asset Value (NAV) data provided by Alliance.  
Interest rates for three-month CDs from the Federal Reserve Board statistical release H15.  
PM transaction data provided by State Street Bank.  
Security prices from CRSP and TAQ.  
Transaction costs from Abel Noser.

**Exhibit 12**  
**Total Adjusted Profit of the Timers**  
**Growth Fund**  
**Q1 2001 – Q3 2003**  
**(Dollars)**

	2001				2002				2003			Total
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1 2001 - Q3 2003
<b>Investment-Period Loss</b>												
Unadjusted Dilution Measured by Profit <sup>1</sup>	1,714,778	1,168,504	-780,048	1,420,322	2,854	-14,490	522,647	129,833	17,190	426,619	163,294	1,341,957
Buy Adjustment	291,948	262,638	101,285	-354,522	39	-4,029	67,807	607,460	-49,216	-4,999		918,430
Subsequent Day Adjustment	2,077,916	-529,872	4,52,626	-633,624	-2,261	2,5298	-180,799	65,765	164,386	-22,838	-161,478	1,295,099
<b>Total</b>	<b>655,086</b>	<b>901,290</b>	<b>-226,137</b>	<b>432,177</b>	<b>631</b>	<b>6,789</b>	<b>449,655</b>	<b>803,038</b>	<b>132,359</b>	<b>398,763</b>	<b>1,816</b>	<b>3,555,487</b>
<b>Post-Investment-Period Loss</b>												
Redemption Adjustment	908,704	169,043	75,181	234,602	-6,852	119	128,901	161,245	33,442	-28,720	11,156	1,686,820
Transaction Costs Adjustment	42,692	45,105	63,495	127,482	0		17,075	62,705	13,827	66,867	15,371	454,619
<b>Total</b>	<b>951,396</b>	<b>214,148</b>	<b>138,675</b>	<b>362,083</b>	<b>-6,852</b>	<b>119</b>	<b>145,976</b>	<b>223,950</b>	<b>47,270</b>	<b>38,146</b>	<b>26,527</b>	<b>2,141,440</b>
<b>Expense Adjustment<sup>2</sup></b>	<b>287</b>	<b>-100</b>	<b>376</b>	<b>-129</b>	<b>516</b>	<b>-5</b>	<b>119</b>	<b>41</b>	<b>-237</b>	<b>7</b>	<b>439</b>	<b>1,315</b>
<b>Adjusted Profit/Loss</b>	<b>1,606,770</b>	<b>1,115,339</b>	<b>-87,085</b>	<b>794,130</b>	<b>-5,704</b>	<b>6,903</b>	<b>395,750</b>	<b>1,027,049</b>	<b>179,392</b>	<b>436,916</b>	<b>28,782</b>	<b>5,688,242</b>
<b>Interest</b>	<b>105,666</b>	<b>-57,361</b>	<b>-3,075</b>	<b>26,954</b>	<b>-168</b>	<b>167</b>	<b>10,644</b>	<b>15,624</b>	<b>1,641</b>	<b>3,096</b>	<b>170</b>	<b>218,079</b>
<b>Adjusted Profit with Interest<sup>3</sup></b>	<b>1,712,435</b>	<b>1,172,700</b>	<b>-90,160</b>	<b>821,085</b>	<b>-5,872</b>	<b>7,070</b>	<b>606,394</b>	<b>1,042,673</b>	<b>181,032</b>	<b>440,012</b>	<b>28,952</b>	<b>5,916,321</b>

**Notes:**

1. Calculated by marking to market the timers' positions in the fund on a daily basis.

2. The expense adjustment accounts for the overall effect of the timers' activity on expenses paid by other shareholders. Because timer activity can both increase and decrease expenses incurred by other shareholders, the net expense adjustment can be either positive or negative.

3. The interest calculation is based on three-month CD rates. For each day, we obtain a daily return for the three-month CD (on the basis of 360 days) and estimate a cumulative factor equal to the cumulative return from that day to January 16, 2004. To obtain the adjusted profit with interest for a given day, we multiply that day's cumulative factor by that day's adjusted profit.

**Sources:**

Fund shareholder transaction data and Net Asset Value (NAV) data provided by Alliance.

Interest rates for three-month CDs from the Federal Reserve Board statistical release H.15.

PM transaction data provided by State Street Bank.

Security prices from CRSP and TAQ.

Transaction costs from AbelNbsr.

**Exhibit 13**  
**Total Adjusted Profit of the Timers**  
**Mid-Cap Growth Fund**  
**Q1 2001 – Q3 2003**  
**(Dollars)**

	2001				2002				2003			Total
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1 2001 - Q3 2003
<b>Investment-Period Loss</b>												
Unadjusted Dilution Measured by Profit <sup>1</sup>	-123,821	24,500	-1,135,753	4,275,118	1,137,263	-1,745,379	998,235	3,236,964	662,299	1,681,612	392,705	9,363,765
Buy Adjustment	-7,666	-5,220	336,976	483,411	385,516	372,153	232,312	87,976	194,301	75,991	15,661	2,171,411
Subsequent Day Adjustment	55,631	-31,436	341,390	72,544	108,169	221,629	640,770	-295,486	-149,057	-1,241,089	-64,740	-281,675
<b>Total</b>	-75,855	-12,156	-457,365	4,831,072	1,690,948	-1,151,597	1,831,317	3,028,454	707,542	516,515	343,627	11,253,201
<b>Post-Investment-Period Loss</b>												
Redemption Adjustment	14,152	1,652	270,281	341,598	444,472	220,861	635,725	357,604	318,069	171,975	40,075	2,816,415
Transaction Costs Adjustment	1,545	56	3,793	20,933	16,705	10,247	17,638	13,647	2,039	2,700	53	89,356
<b>Total</b>	15,697	1,708	274,074	362,531	461,178	231,108	653,362	371,251	320,108	174,675	40,128	2,905,771
<b>Expense Adjustment<sup>2</sup></b>	6	1	-823	1,954	-837	3,184	4,716	979	-85	547	56	9,678
<b>Adjusted Profit/Loss</b>	-60,152	-10,446	-184,164	5,195,557	2,151,269	-917,305	2,489,395	3,401,684	1,027,566	691,736	383,810	14,168,949
<b>Interest</b>	-3,791	-562	-7,242	171,500	57,572	-21,247	47,615	-51,584	10,111	5,298	2,153	313,051
<b>Adjusted Profit with Interest<sup>3</sup></b>	-63,943	-11,008	-191,406	5,367,117	2,208,841	-938,552	2,537,010	3,453,267	1,037,677	697,034	385,964	14,482,001

**Notes:**

1. Calculated by marking to market the timers' positions in the fund on a daily basis.
2. The expense adjustment accounts for the overall effect of the timers' activity on expenses paid by other shareholders. Because timer activity can both increase and decrease expenses incurred by other shareholders, the net expense adjustment can be either positive or negative.
3. The interest calculation is based on three-month CD rates. For each day, we obtain a daily return for the three-month CD (on the basis of 360 days) and estimate a cumulative factor equal to the cumulative return from that day to January 16, 2004. To obtain the adjusted profit with interest for a given day, we multiply that day's cumulative factor by that day's adjusted profit.

**Sources:**

Fund shareholder transaction data and Net Asset Value (NAV) data provided by Alliance.  
Interest rates for three-month CDs from the Federal Reserve Board statistical release H.15.  
PM transaction data provided by State Street Bank.  
Security prices from CRSP and TAQ.  
Transaction costs from Abel Noser.

**Exhibit 14**  
**Total Adjusted Profit of the Timers**  
**Premier Growth Fund**  
**Q1 2001 – Q3 2003**  
**(Dollars)**

	2001				2002				2003			Total Q1 2001 - Q3 2003
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
<b>Investment Period Loss</b>												
Unadjusted Dilution Measured by Profit <sup>1</sup>	-2,095,563	525,382	-4,211,457	3,415,790	-1,337,742	-4,919,784	15,577,923	10,012,846	-1,072,883	3,279,252	667,318	19,441,081
Buy Adjustment	1,594,280	546,646	-101,479	129,189	-349,493	1,611,036	-457,065	156,846	490,591	43,332	-10,779	3,653,105
Subsequent Day Adjustment	1,652,376	118,041	1,283,234	201,896	1,730,515	3,782,921	3,355,334	-1,917,764	-52,000	-3,395,272	85,283	6,844,863
<b>Total</b>	<b>1,151,093</b>	<b>1,190,069</b>	<b>-3,529,703</b>	<b>3,746,875</b>	<b>43,280</b>	<b>574,173</b>	<b>18,476,193</b>	<b>8,251,928</b>	<b>-634,292</b>	<b>-72,688</b>	<b>742,122</b>	<b>29,939,048</b>
<b>Post-Investment Period Loss</b>												
Redemption Adjustment	717,200	-13,733	328,664	2,190,524	-115,254	1,968,980	2,582,551	2,202,120	1,115,778	462,171	-120,031	11,318,941
Transaction Costs Adjustment	-8,683	-106,673	-62,739	-216,208	119,208	155,566	170,980	88,524	218,136	239,171	63,981	611,242
<b>Total</b>	<b>648,517</b>	<b>-120,407</b>	<b>265,905</b>	<b>1,964,016</b>	<b>4,254</b>	<b>2,124,516</b>	<b>2,753,531</b>	<b>2,290,644</b>	<b>1,333,914</b>	<b>721,341</b>	<b>-56,050</b>	<b>11,930,183</b>
<b>Expense Adjustment<sup>2</sup></b>	<b>220</b>	<b>-388</b>	<b>-1,338</b>	<b>2,388</b>	<b>-1,900</b>	<b>1,573</b>	<b>-732</b>	<b>10,703</b>	<b>2,695</b>	<b>632</b>	<b>988</b>	<b>14,842</b>
<b>Adjusted Profit/Loss</b>	<b>1,799,830</b>	<b>1,069,273</b>	<b>-3,265,136</b>	<b>5,713,279</b>	<b>45,634</b>	<b>2,700,263</b>	<b>21,228,993</b>	<b>10,553,275</b>	<b>702,318</b>	<b>649,286</b>	<b>687,060</b>	<b>41,894,073</b>
<b>Interest</b>	<b>117,151</b>	<b>52,619</b>	<b>-120,555</b>	<b>186,404</b>	<b>2,693</b>	<b>62,181</b>	<b>387,067</b>	<b>175,568</b>	<b>3,829</b>	<b>4,140</b>	<b>3,393</b>	<b>874,490</b>
<b>Adjusted Profit with Interest<sup>3</sup></b>	<b>1,916,982</b>	<b>1,121,892</b>	<b>-3,385,692</b>	<b>5,899,683</b>	<b>48,328</b>	<b>2,762,444</b>	<b>21,616,060</b>	<b>10,728,842</b>	<b>706,147</b>	<b>653,426</b>	<b>690,453</b>	<b>42,768,564</b>

**Notes:**

1. Calculated by marking to market the timers' positions in the fund on a daily basis.
2. The expense adjustment accounts for the overall effect of the timers' activity on expenses paid by other shareholders. Because timer activity can both increase and decrease expenses incurred by other shareholders, the net expense adjustment can be either positive or negative.
3. The interest calculation is based on three-month CD rates. For each day, we obtain a daily return for the three-month CD (on the basis of 360 days) and estimate a cumulative factor equal to the cumulative return from that day to January 16, 2004. To obtain the adjusted profit with interest for a given day, we multiply that day's cumulative factor by that day's adjusted profit.

**Sources:**

Fund shareholder transaction data and Net Asset Value (NAV) data provided by Alliance.  
Interest rates for three-month CDs from the Federal Reserve Board statistical release H.15.  
PM transaction data provided by State Street Bank.  
Security prices from CRSP and IAQ.  
Transaction costs from Abel Noser.

**Exhibit 15**  
**Total Adjusted Profit of the Timers**  
**Quasar Fund**  
**Q1 2001 – Q3 2003**  
**(Dollars)**

	2001				2002				2003			Total
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1 2001 - Q3 2003
<b>Investment-Period Loss</b>												
Unadjusted Dilution Measured by Profit <sup>1</sup>	-421	28,582	-5,684	5,430	-116	-13,17	18,828	-109,484	-24,885	-148,162	251,269	14,041
Bry Adjustment		-13	-9,749	-1	3	0	-10,108	-2,440	68,433	46,191	1,694	94,010
Subsequent Day Adjustment		-93	10,413	-1,566	125	1308	5,485	8,241	-16,892	18,141	-130,034	-104,872
<b>Total</b>	<b>-421</b>	<b>28,476</b>	<b>-5,020</b>	<b>3,863</b>	<b>12</b>	<b>-9</b>	<b>14,205</b>	<b>-103,683</b>	<b>26,656</b>	<b>-83,829</b>	<b>122,929</b>	<b>3,179</b>
<b>Post-Investment-Period Loss</b>												
Redemption Adjustment			2,570	0	2		-556	80,182	11,027	21,610	17,450	132,305
Transaction Costs Adjustment	0	27	637	0	0		21	4,165	757	420	1,631	7,657
<b>Total</b>	<b>0</b>	<b>27</b>	<b>3,206</b>	<b>0</b>	<b>2</b>		<b>-515</b>	<b>84,347</b>	<b>11,784</b>	<b>22,029</b>	<b>19,081</b>	<b>139,962</b>
<b>Expense Adjustment<sup>2</sup></b>	<b>0</b>	<b>7</b>	<b>0</b>	<b>-1</b>	<b>0</b>	<b>0</b>	<b>8</b>	<b>247</b>	<b>244</b>	<b>-317</b>	<b>441</b>	<b>652</b>
<b>Adjusted Profit/Loss</b>	<b>-421</b>	<b>28,510</b>	<b>-1,814</b>	<b>3,864</b>	<b>14</b>	<b>-9</b>	<b>13,699</b>	<b>-19,089</b>	<b>38,684</b>	<b>-62,117</b>	<b>142,451</b>	<b>143,773</b>
<b>Interest</b>	<b>-26</b>	<b>1,528</b>	<b>-65</b>	<b>117</b>	<b>0</b>	<b>0</b>	<b>-270</b>	<b>-249</b>	<b>-251</b>	<b>-424</b>	<b>875</b>	<b>2,273</b>
<b>Adjusted Profit with Interest<sup>3</sup></b>	<b>-447</b>	<b>30,038</b>	<b>-1,879</b>	<b>3,981</b>	<b>15</b>	<b>-9</b>	<b>13,969</b>	<b>-18,839</b>	<b>38,433</b>	<b>-62,541</b>	<b>143,326</b>	<b>146,046</b>

**Notes:**

1. Calculated by marking to market the timers' positions in the fund on a daily basis.
2. The expense adjustment accounts for the overall effect of the timers' activity on expenses paid by other shareholders. Because timer activity can both increase and decrease expenses incurred by other shareholders, the net expense adjustment can be either positive or negative.
3. The interest calculation is based on three-month CD rates. For each day, we obtain a daily return for the three-month CD (on the basis of 360 days) and estimate a cumulative factor equal to the cumulative return from that day to January 16, 2004. To obtain the adjusted profit with interest for a given day, we multiply that day's cumulative factor by that day's adjusted profit.

**Sources:**

Fund shareholder transaction data and Net Asset Value (NAV) data provided by Alliance.  
Interest rates for three-month CDs from the Federal Reserve Board statistical release H.15.  
PFI transaction data provided by State Street Bank.  
Security prices from CRSP and TAQ.  
Transaction costs from Abel Nbsr.



**Exhibit 16**  
**Total Adjusted Profit of the Timers**  
**Small Cap Value Fund**  
**Q1 2001 – Q3 2003**  
**(Dollars)**

	2001				2002				2003			Total
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1 2001 - Q3 2003
<b>Investment-Period Loss</b>												
Unadjusted Dilution Measured by Profit <sup>1</sup>					-690	55,103	-55,990		-284,830	-121,369	-20,810	-428,548
Buy Adjustment					386	757	16,128		32,793	10,867	49,459	130,389
Subsequent Day Adjustment					321	241	68,272		66,253	7,630	-2,824	139,993
<b>Total</b>					57	56,101	28,409		-165,685	-102,873	25,825	-198,166
<b>Post-Investment-Period Loss</b>												
Redemption Adjustment							-8,837	-27,905	-13,814	-9,315	-28,817	-88,688
Transaction Costs Adjustment							1,646	1,090	2,462			5,198
<b>Total</b>							-7,191	-26,815	-11,353	-9,315	-28,817	-83,491
<b>Expense Adjustment<sup>2</sup></b>							-1	8	55	68	11	180
<b>Adjusted Profit/Loss</b>					55	49,918	1,649		-176,970	-112,176	-2,952	-241,476
<b>Interest</b>					1	902	66		-1,893	-740	80	-1,385
<b>Adjusted Profit with Interest<sup>3</sup></b>					56	49,819	1,715		-178,863	-112,917	-2,872	-243,061

**Notes:**

1. Calculated by marking to market the timers' positions in the fund on a daily basis.

2. The expense adjustment accounts for the overall effect of the timers' activity on expenses paid by other shareholders. Because timer activity can both increase and decrease expenses incurred by other shareholders, the net expense adjustment can be either positive or negative.

3. The interest calculation is based on three-month CD rates. For each day, we obtain a daily return for the three-month CD (on the basis of 360 days) and estimate a cumulative factor equal to the cumulative return from that day to January 16, 2004. To obtain the adjusted profit with interest for a given day, we multiply that day's cumulative factor by that day's adjusted profit.

**Sources:**

Fund shareholder transaction data and Net Asset Value (NAV) data provided by Alliance.

Interest rates for three-month CDs from the Federal Reserve Board statistical release H.15.

FM transaction data provided by State Street Bank.

Security prices from CRSP and TAQ.

Transaction costs from AbelNber.



**Exhibit 17**  
**Total Adjusted Profit of the Timers**  
**Technology Fund**  
**Q1 2001 – Q3 2003**  
**(Dollars)**

	2001				2002				2003			Total
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1 2001 - Q3 2003
<b>Investment-Period Loss</b>												
Unadjusted Dilution Measured by Profit <sup>1</sup>	5,141,059	6,475,808	-8,528,761	5,757,533	10,149,243	15,277,091	11,962,911	12,532,621	20,010,441	7,882,908	605,173	76,683,909
Buy Adjustment	542,500	232,276	-20,892,666	-1,148,679	892,867	-572,883	3,955,123	4,898,230	-3,971,531	2,994,349	64,777	6,343,383
Subsequent Day Adjustment	870,814	28,499	3,369,766	-3,130,694	-2,497,557	1,677,263	-2,333,228	-3,234,046	-6,509,924	-7,273,616	-4,148,875	-14,601,073
<b>Total</b>	-3,727,746	6,736,583	-7,218,262	14,98,230	8,544,534	17,097,072	18,151,362	14,196,825	9,528,966	3,603,640	255,075	68,626,220
<b>Post-Investment-Period Loss</b>												
Redemption Adjustment	1,433,311	25,636	1,441,317	618,494	-1,669,917	42,001	7,371,731	10,260,420	1,777,172	1,098,733	133,975	22,532,871
Transaction Costs Adjustment	77,113	69,392	70,960	74,097	208,040	312,811	2,752,916	4,356,797	3,777,303	1,537,338	28,448	13,265,206
<b>Total</b>	1,510,424	950,29	1,512,277	692,591	-1,461,877	354,812	10,124,647	14,617,217	5,554,475	2,636,091	162,422	35,798,077
<b>Expense Adjustment<sup>2</sup></b>	1,500	417	2,071	5,140	4,724	12,674	4,286	5,073	8,597	2,869	748	49,069
<b>Adjusted Profit/Loss</b>	-2,215,822	6,832,030	-5,703,914	2,155,931	7,087,400	17,464,537	28,280,195	28,819,115	15,092,058	6,242,600	418,245	104,472,295
<b>Interest</b>	-113,608	347,208	-207,266	70,223	216,115	427,089	302,017	410,322	160,200	52,469	-2,131	1,866,900
<b>Adjusted Profit with Interest<sup>3</sup></b>	-2,329,430	7,179,238	-5,911,180	2,226,154	7,303,514	17,891,647	28,782,212	29,229,437	15,252,257	6,295,069	420,376	106,339,295

**Notes:**

1. Calculated by marking to market the timers' positions in the fund on a daily basis.
2. The expense adjustment accounts for the overall effect of the timers' activity on expenses paid by other shareholders. Because timer activity can both increase and decrease expenses incurred by other shareholders, the net expense adjustment can be either positive or negative.
3. The interest calculation is based on three-month CD rates. For each day, we obtain a daily return for the three-month CD (on the basis of 360 days) and estimate a cumulative factor equal to the cumulative return from that day to January 16, 2004. To obtain the adjusted profit with interest for a given day, we multiply that day's cumulative factor by that day's adjusted profit.

**Sources:**

Fund shareholder transaction data and Net Asset Value (NAV) data provided by Alliance.  
Interest rates for three-month CDs from the Federal Reserve Board statistical release H.15.  
FM transaction data provided by State Street Bank.  
Security prices from CRSP and T.A.Q.  
Transaction costs from Abel Noser.