Global Natural Resources Equity

Top-Down Commodity Analysis Fused With Bottom-Up Fundamental Research

Strategy Overview

Firm AUM:	$188.0B
Strategy AUM:	$0.5B
Inception Date:	1991
Number of Holdings:	Typically 60-80
Benchmark:	Natural Resources Custom Index
Available Vehicles:	▪ Institutional Separate Account ▪ US Mutual Fund ▪ Managed Account

Team Members

Portfolio Managers

Average Experience: 19 years

Neil P. Brown, CFA

Jay Saunders

Additional Analyst:

Alina Khaykin

Highlights

- Combines top-down commodity analysis with bottom-up, fundamental research to uncover growing companies at a reasonable price to future earnings
- We look at potential supply / demand imbalances over an extended 12-18 month horizon and question exposure to commodities where we believe future earnings strength is under-appreciated by the market
- Utilizes Jennison's Integrated Energy Value Chain Research Platform
  - Specialized and dedicated analysts who focus specifically on sectors / industries across the upstream, midstream, and downstream energy value chain to provide comprehensive views and unique perspectives on fundamentals
- Benchmark Agnostic - not constrained by market-cap, geography, sub-sector, or benchmark
- Our long-term views rather than short-term tactical considerations drive our approach to pursue the most attractive opportunities across all sub-sectors

Performance

	2Q20	1 Year	3 Years	5 Years	10 Years	Since Inception
Global Natural Resources Equity Composite (Gross)	38.6%	-20.4%	-6.7%	-6.1%	-3.2%	8.2%
Global Natural Resources Equity Composite (Net)*	38.4	-21.0	-7.3	-6.6	-3.6	7.6
Global Natural Resources Custom Index**	26.1	-22.1	-8.2	-5.5	-1.9	NA

Past performance does not guarantee future results. *Source for Custom Index: Lipper. Source for Composite data: Jennison/Mellon Analytical Solutions. *For periods prior to 4/1/18, net of fee performance is presented net of Jennison's actual advisory fees and transaction costs. For periods beginning 4/1/18, net of fee performance reflects the deduction of a model fee. It is net of transaction costs and is calculated based on the highest tier of the fee schedule in effect for the respective period (0.75%), which may not reflect the actual historical fees applied to accounts in the Composite. **Effective October 2010, the custom index is the Lipper Natural Resources Funds Index 1/1/92 through 12/31/08 and Lipper Global Natural Resources Funds Index thereafter. Inception of Global Natural Resources Composite: 8/31/91. NA: Not Applicable. Inception of Global Natural Resources Composite: 8/31/91. Periods greater than one year are annualized. See disclosures for important information.*

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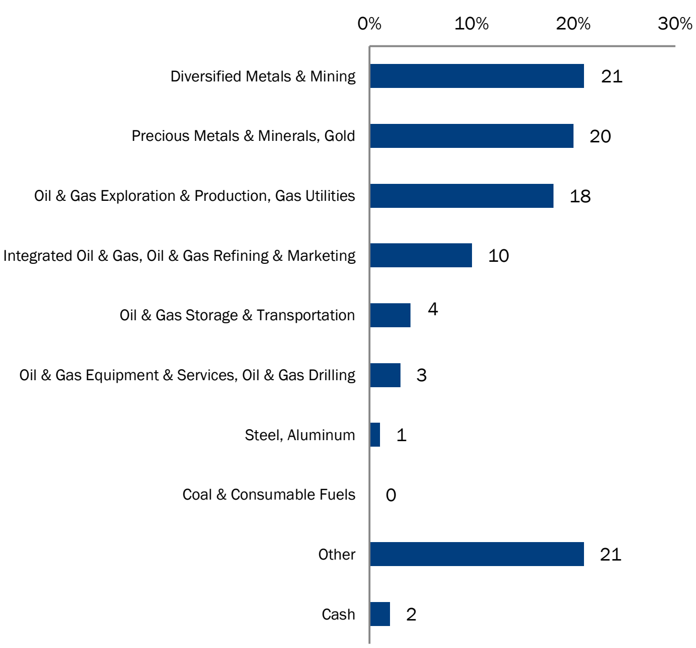
Region and Country Allocation

North America	**83.6%**
United States	56.1
Canada	27.5
Western Europe	**11.8%**
United Kingdom	5.0
France	2.3
Western Europe (con't)	
Germany	2.1
Denmark	1.3
Sweden	1.1
Africa	**0.01%**
South Africa	0.01
Pacific Rim	**4.6%**
Australia	4.6
South America	**0.0%**
Brazil	0.0

Source: FactSet. Regional breakdowns are defined by Jennison using FactSet country classifications. Cash excluded. See disclosures for important information.

Sub-Industry



Source: Jennison. See disclosures for important information.

Largest Holdings

Newmont	4.2%
Barrick Gold	4.2
Lundin Mining	3.9
BHP - ADR	3.3
Agnico Eagle Mines	3.0
Kinross Gold	3.0
Linde	2.8
Southern Copper	2.6
First Quantum	2.4
ConocoPhillips	2.4
	31.8%

Source: Jennison. See disclosures for important information.

Largest Absolute Impact (2Q)

Top Five	Average Weight	Total Return	Contribution to Return
Barrick Gold	4.6%	47%	2.55
Kinross Gold	3.0%	81%	2.16
Agnico Eagle Mines	3.1%	61%	1.88
Newmont	4.3%	37%	1.85
Lundin Mining	3.7%	45%	1.61

Bottom Five	Average Weight	Total Return	Contribution to Return
Cabot Oil & Gas	0.1%	-13%	-0.05
CF Industries Holdings	0.3%	-8%	-0.04
PDC Energy	0.0%	-9%	-0.04
Nutrien	1.0%	-4%	-0.03
BP	1.1%	-2%	-0.01

***Past performance does not guarantee future results**. Source: FactSet. The holdings identified do not represent all of the securities purchased, sold or recommended by Jennison during the time period shown. A complete list of holdings and how each contributed to the portfolio's return is available upon request. See disclosures for important information.*

Overview

Shortly after reaching new highs on February 19th – continuing an unprecedented decade of one the broadest-based asset rallies in modern market history with the signing of the Phase One trade agreement between the US and China – stocks violently reversed course, posting one of the swiftest and sharpest declines on record as financial markets collapsed. Global financial markets continued down their path of declines in March as the devastating COVID-19 outbreak brought economic activity to a standstill, causing the steepest global GDP decline since WWII, and prompting the eighth recession of the past century.

Global central banks and policy makers responded to extreme financial market volatility and the violent collapse in asset prices with unprecedented antiviral economic measures. None was more ambitious than the US Federal Reserve's approach, which emphasized "whatever it takes" as the guiding principle in its effort to limit financial market stress and provide liquidity to debt and equity markets, while also attempting to cushion household and business income losses.

The impacts from COVID-19 on the global economy – specifically oil demand – had already kicked off a decline in crude prices over the last several months, which was then exacerbated by the dismantling of Saudi Arabia and Russia's partnership, after the two failed to agree on production cuts amid weak demand. The unprecedented, simultaneous demand and supply shock caused a cratering in WTI crude oil prices (the worst quarter on record) – falling more than 67% to approximately $20 per barrel – reaching the lowest level since 2002 and decimating the energy sector.

Within the commodities corner, prices for all energy hydrocarbons, including WTI oil, natural gas, and natural gas liquids (NGLs) like ethane and propane all experienced double-digit declines. Industrial metals prices all suffered double-digit losses. Palladium rose nearly 22%, while gold posted a modest 2.6% gain as the pair were among the only metals to experience price rises over the quarter.

The Jennison Global Natural Resources Composite (hereinafter, the "Composite") declined, underperforming the broader market (S&P 500 Index) over the first quarter. Energy was the worst performing sector within the S&P 500 Index, falling over 50% over the period.

Within the Jennison Global Natural Resources representative portfolio (hereinafter the "Portfolio"), oil & gas exploration & production (hereinafter, "E&Ps") holdings were the dominant drivers of both absolute and relative underperformance, as a simultaneous shock to supply & demand sent WTI crude prices plummeting over 67% over the quarter. The Portfolio's allocations to oil & gas equipment & services, as well as integrated oil & gas stocks also hurt. Allocations to gold producers managed to contribute to relative performance, despite prices for the commodity inching up only 2.61% over the period.

Key Contributors

- **Rio Tinto plc** is a leading diversified metals and mining company and is the world's second-largest producer of iron ore, the fifth-largest copper producer, and the second-largest aluminum producer. Jennison favors the stock given its attractive copper resources and believes metals prices could start to recover with the resumption of China's industrial economy, which was effectively shut down in an effort to contain COVID-19. China is the world's largest consumer of copper, and as a result, strongly influences price discovery.
- **Graftech International** manufactures graphite electrodes, a critical consumable used by the electric arc furnace (EAF) steel producers. The Company is the only graphite electrode producer, and unlike peers, has substantial vertical integration into petroleum needle coke – a key feedstock (raw material) required to make graphite electrodes. Jennison favored the stock given its long-term contracts with somewhat visible cash-flows, along with some margin security provided by its needle coke production, in their view. The position was liquidated in February as the investment team continued to high-grade the portfolio in favor of names with better risk/reward characteristics.
- **Hannon Armstrong Sustainable Infrastructure Capital** (HASI) is focused on solutions that reduce carbon emissions and increase resilience to climate change by providing capital, financing, and specialized expertise to companies and projects in the renewable and energy efficiency markets. HASI is structured as an industrial REIT. The stock had sold-off in-line with the overall market, and in Jennison's view, ETF outflows and other market participants with REIT exposure unfairly carried over into industrial REITs. Given the stock's attractive valuation and positive, longer-term business trends and significant deal pipeline, the team initiated a position over the quarter.

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Key Detractors

- Jennison believes **WPX Energy's** management team should continue to differentiate itself and could be a relative outperformer versus its energy peers, as it continues to operationally execute on its goal of slowing its growth and generating mid-single digit free cash-flows. Additionally, the Company announced it had added price hedges over the quarter, covering nearly 70% of their oil volume. The energy sector was decimated over the first quarter of 2020, as simultaneous supply & demand shocks sent WTI crude oil prices tumbling over 67% - their worst quarter on record – causing a rout in the energy sector that impacted all exploration & production (E&P) stocks during the period.
- Di**amondback Energy** is one of the largest pure-play oil & gas exploration & production (E&P) company, which Jennison believes has one of the highest-quality positions in the Permian Basin. Additionally, Jennison believes Diamondback has been one of the more pragmatic and rational E&Ps that has been cutting capex and activity into the oil price downturn. Jennison continues to favor the stock, as it's been an early-adopter of a returns-focused mindset among its E&P peers – introducing a dividend last quarter that management has stated it intends to protect.
- Shares of integrated oil & gas firm **Suncor Energy** were negatively affected during the quarter, as simultaneous supply & demand shocks sent WTI crude oil prices tumbling over 67% - their worst quarter on record – causing a rout across all stocks within the energy sector. Jennison continues to maintain its position as prior to the market downturn, the Company had already embarked on a $2 billion cost reduction/cash-flow increase target. More recently, Suncor has lowered its capex – well ahead of consensus expectations – reduced its production volume guidance, in addition to reducing total operating expenditures across its business by more than $1 billion, all positive steps in Jennison's view.

Outlook

The global economy and the energy sector have suffered two huge shocks recently: the first being COVID-19's impact to demand, which in February kicked off the crude price decline, and the second being the dismantling of OPEC+ and Saudi Arabia's partnership to stabilize oil prices. Simultaneous demand and price shocks haven't hit oil markets since 1998, when the Saudi's increased production going into the Ruble/Asian economic crisis. Any cooperation between OPEC and Russia (OPEC+) that had been in place since 2016 appears to have been set back, but likely not lost forever. The Russians claim open-ness to discussions, and while the Saudi's do not appear similarly constructive, subsequent pain from current prices and any US persuasion could likely bring them back to the table, in our view.

According to our internal research estimates, we believe the oil markets will start healing in late-2020, assuming US COVID-19 infections are decelerating by mid-year, with inventories falling as non-OPEC production drops over 1mb/d in 2021 (versus a 1.3mb/d rise in '20)1, and demand rises strongly off the low '20 base, powered by global government stimulus. However, we feel the stock market will start to discount that recovery, either in late '20 or in early '21.

Despite the market overly discounting the fallout there are some positives among the rubble – namely the rapid adjustment of US E&Ps to much lower oil prices, after the already announced drastic capex cuts, and dropping rigs and fracking crews in time with the oil price. We believe the quick response reflects their newly-announced/increased dividends they're looking to protect, along with investor intolerance for deficit spending and a lack of capital market funding.

We continue to emphasize fiscally-conservative E&P companies that are growing production and reserves by successfully exploiting unconventional sources of oil or gas with healthy balance sheets and as such, in our view, offer more leverage to any oil-price recovery or stability at close to current levels as these will be the first to return capital to shareholders in any meaningful way. In industrial metals, emerging economies, especially China, continue to determine demand, and thus are a dominant force in price formation. With many of the easily-exploited sources of industrial metals having long been tapped, our investments focus on the producers with the largest and most productive reserves and, in many cases, strong free-cash-flow profiles. EVs, and the natural resources like lithium, cobalt and zinc, should be demand-supportive for some of these metals. We believe copper should find support closer to $3/lb, and even more so if electric vehicles (EVs) maintain traction.

As we look ahead, our analysis indicates that $30/barrel oil is not sustainable for anyone. As COVID-19 fears subside, we expect demand to eventually come back, as in all other oil price cycles when supply has overwhelmed demand, but in this case, comes back more strongly due to extreme government stimulus, in our view. While we have seen oil prices head to $20 barrel in the near- term – close to the cash costs of even the best E&Ps – we believe this paves the way for oil prices to climb higher over the next 12 to 24 months, as demand returns and the US supply continues to decline. All of this potentially sets a similar stage to the attractive buying opportunity seen in 2016, in our view.

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Disclosures

All data is as of June 30, 2020 unless otherwise noted. Due to rounding, individual values may not sum to total shown.

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The Lipper Global Natural Resources Funds Index consists of approximately the 30 largest global natural resources funds. Lipper Indexes are comprised solely of mutual funds which are subject to higher fees and expenses than Jennison's Composites. The S&P 500® Index provides a broad indicator of stock price movements. The financial indices referenced herein are provided for informational purposes only; are unmanaged; include net reinvestment dividends; do not reflect fees or expenses; and are not available for direct investment.

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Average Weight *is the dollar value (price times the shares held) of the security or group, divided by the total dollar value of the entire portfolio displayed as a percentage. It is calculated as the simple arithmetic average of daily values.* ***Total Return*** *is the price change of a security or group including dividends accrued over the report period or the "in-portfolio return" which includes only the time period that each security was in the portfolio.* ***Contribution to Return*** *is the contribution of a security or group to the overall portfolio return. It is calculated as the security weight multiplied by the daily security return linked daily across the reporting period.*

[1]Source for data: Bloomberg. Source for Lipper Index returns: Lipper, Inc. Source for S&P data: Standard & Poors or FactSet. Source for MSCI data: MSCI or FactSet. Source for commodities prices: FactSet.

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