Mid Cap Growth Equity

Bottom-up, research-intensive approach to build diversified portfolios of companies with projected strong earnings growth on an intermediate-term basis

Strategy Overview

Firm AUM: $188.0B
Strategy AUM: $2.4B
Inception Date: December 31, 1996
Number of Holdings: Typically 70-80
Benchmark: Russell Midcap® Growth Index
Available Vehicles:
- Institutional Separate Account
- US Mutual Fund
- Managed Account

Team Members

Portfolio Managers
Average Experience: 23 years
Benjamin F. Bryan, CFA
Sheetal M. Prasad, CFA

Dedicated Analysts: 6
Average Experience: 18 years

Highlights

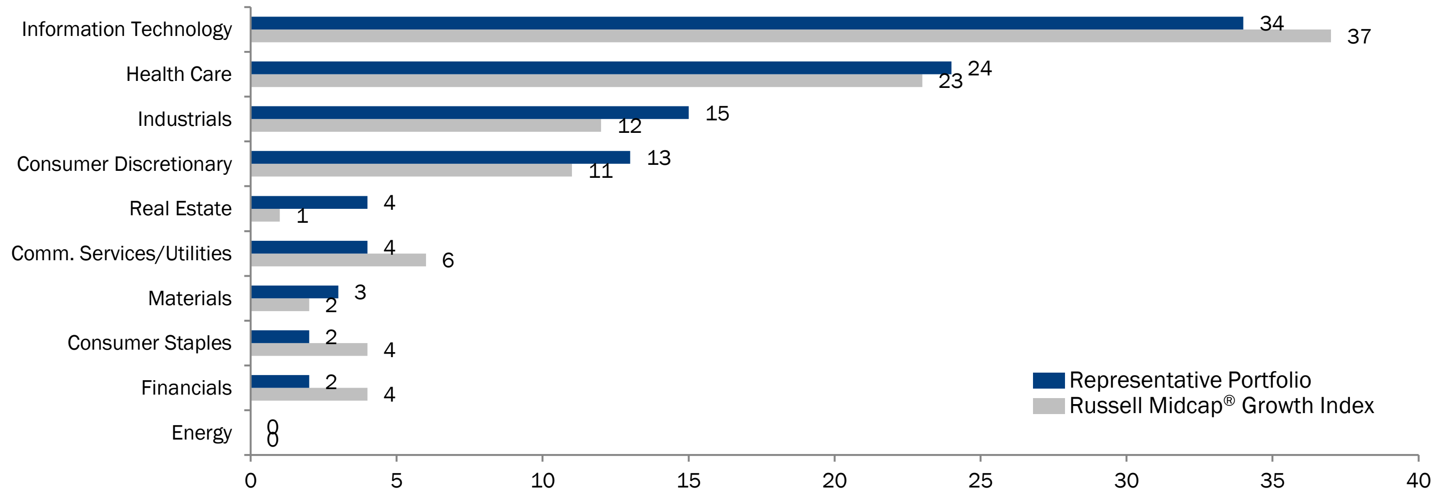
- We have a deep and experienced team dedicated to our small and midcap strategies, focused on understanding business models and investing in companies with long-term appreciation potential.
- We believe we can outperform by owning businesses with above average EPS growth that generally have the following characteristics:
  - Sustainable and/or improving earnings growth over the investment horizon
  - Strong business fundamentals
  - Stable and enduring franchise value
- We look for companies transitioning from early-stage growth to a more mature, seasoned level of performance.
- We seek to own these "high quality" businesses at attractive valuations. In our opinion, the market often under-appreciates the performance of steady growth companies.
- A research-intensive approach is used to build diversified portfolios with stocks in a variety of industries and sectors.
- We conduct a hands-on qualitative assessment of the company's business model that typically includes meetings with company management, suppliers, customers and other industry experts.
- Our underlying philosophy is to buy businesses rather than just stocks.

Performance

	2Q20	1 Year	3 Years	5 Years	10 Years	Since Inception
Mid Cap Growth Equity Composite (Gross)	30.0%	12.3%	13.7%	10.0%	13.7%	11.4%
Mid Cap Growth Equity Composite (Net)	29.9	12.0	13.4	9.7	13.4	11.0
Russell Midcap® Growth Index	30.3	11.9	14.7	11.6	15.1	9.3

Past performance does not guarantee future results. *Source: Jennison/Mellon Analytical Solutions. Inception of Mid Cap Growth Equity Composite: 12/31/96. Periods greater than one year are annualized. See disclosures for important information.*

Sector Allocation



Source: Jennison/Melon Analytical Solutions. Cash excluded. See disclosures for important information.

Equity Characteristics

	Representative Portfolio	Russell Midcap® Growth Index
Weighted Avg. Market Cap	$22.9 bil.	$17.9 bil.
Median Market Cap	$17.9 bil.	$9.4 bil.
Dividend Yield	0.5%	0.6%
Number of Holdings	78	330

Source: Jennison/Melon Analytical Solutions. See disclosures for important information.

Largest Holdings

Splunk	2.7%
CoStar	2.5%
Marvell Technology	2.4%
Burlington Stores	2.1%
Dollar General	2.0%
Advanced Micro Devices	2.0%
Coupa Software	1.9%
SBA Communications	1.9%
FMC Co	1.9%
Molina Healthcare	1.9%
	21.3%

Source: Jennison. See disclosures for important information.

Largest Absolute Impact (2Q)

Top Five	Average Weight	Total Return	Contribution to Return
Etsy	1.1%	176%	1.20%
Splunk	2.3	57	1.14
Coupa Software	1.5	98	1.14
Marvell Technology Group	2.2	55	1.11
Avalara	1.4	78	0.89

Bottom Five	Average Weight	Total Return	Contribution to Return
Chewy	0.1%	-10%	-0.07%
L3Harris Technologies	1.6	-5	-0.05
RenaissanceRe	0.2	-8	-0.04
Guardant Health	0.2	-7	-0.04
Universal Display	0.0	-1	-0.04

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 representatives portfolio's return is available upon request. See disclosures for important information.*

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Overview

Equities markets rebounded strongly from a precipitous decline in the first quarter triggered by the initial spread of COVID-19, but the pandemic's economic damage continued to accumulate. US first-quarter GDP provided a preliminary gauge of the toll, contracting 5.0%, down sharply from growth of 2.1% in the previous quarter.

The Jennison Midcap Growth Equity Composite underperformed the strong 30.3% return of the Russell Midcap Growth Index (index). In the representative portfolio, holdings in information technology contributed meaningfully to performance, led by names in software and semiconductors. Stock selection in financials was also beneficial. It is clear to us that the current environment is catalyzing adoption within previously unpenetrated e-commerce categories, changing merchant/consumer behavior, and altering how companies do business.

Security choices in consumer discretionary was mostly responsible for the relative performance shortfall as our specialty retail holdings lagged.

Key Contributors

- **Etsy** is an e-commerce website focused on handmade or vintage items and craft supplies. Sales trends meaningfully accelerated since March led by mask sales and other home related items. Etsy is very much in line with other e-commerce companies that have benefited since social distancing measures have been in place. Looking forward, we believe that Etsy's new management is making smart investments to leverage their new and existing customers to sustain a 20%+ growth profile over the next several years.
- **Splunk** makes software that allows businesses to mine and analyze burgeoning amounts of digital data ("big data") from a vast array of sources, including applications, servers, mobile devices, and websites. We view the company as well-positioned to benefit from the emergence of operational intelligence, which has the potential to disrupt traditional information technology spending. We expect long-term growth to be driven by the company's evolving use cases and expanding platform. Splunk's fiscal first-quarter (April) annual recurring revenue (ARR), driven by cloud and term revenue, increased more than 50% year over year. Even more impressive, in our view, cloud ARR rose 82% year over year. Most important from our perspective, Splunk's business model has successfully transitioned away from perpetual license sales to cloud bookings, which represented 35% of total bookings in fiscal 2020 and accelerated to 44% of bookings in their first quarter.
- **Coupa Software** is a leader in cloud-based spend-management software that simplifies corporate procurement, invoicing, and expense management. The markets in which Coupa competes are large and well-established, but their cloud-based, digital offering has allowed the company to acquire new customers at an accelerated rate over the past several years. We like its recurring revenue and favorable supplier pricing model. We believe it is in the early stages of growth that we expect will persist for many years. Its defensive core business, expanding market opportunity with Coupa Pay and improving profitability has held up well in the current uncertain macro environment.

Key Detractors

- **L3Harris Technologies** is an American technology company, defense contractor and information technology services provider that produces wireless equipment, tactical radios, avionics and electronic systems, night vision equipment, and both terrestrial and spaceborne antennas for use in the government, defense, and commercial sectors. We believe that L3 Harris is well-positioned to capitalize on where defense spending will be allocated, namely, modernization projects and the merger of L3 and Harris will result in significant cost and revenue synergies over time. The company's shares modestly declined despite reporting first quarter earnings that exceeded consensus expectations.
- **Chewy** is an American online retailer of pet food and other pet-related products. Chewy reported very strong first quarter results, benefiting from COVID-induced acceleration in e-commerce adoption. In our view, Chewy is a beneficiary of several secular themes, including pet humanization, increased pet ownership and e-commerce. In addition, we believe the on-line pet segment is still underpenetrated. During the quarter, we were underweight CHWY shares during a period when the stock outperformed.
- **Renaissance RE** provides reinsurance and insurance products in the United States and internationally. The company operates through Property, and Casualty and Specialty segments. We believe the company is at an inflection point to significantly grow the company and broaden its business reach and prowess beyond its historical specialization in property catastrophe reinsurance into more casualty and specialty lines of reinsurance. During the quarter, we were underweight shares during a period when the stock outperformed.

Outlook

A troubling new surge in viral infection rates in several states has led to second thoughts about moving forward with scheduled, phased-in reopenings in the US. Europe and most of Asia have been more successful in containing the spread, while conditions in much of Africa and South America are acute at best. Encouraging progress in developing a vaccine has been made, but it will likely be some time before one is approved and widely available for treatment. Ramped-up testing and compliance with social-distancing guidelines seem to be prerequisites for broad economic reopening.

Given the high degree of uncertainty, companies are taking a cautious approach to near-term business planning. Many companies are likewise suspending financial guidance for now with the hope of greater clarity later this year.

We have spent the past several months attempting to assess the impact of COVID-19 on holdings by speaking with the management teams of each of the companies held in the portfolio. Our conversations have been helpful in understanding the immediate effects, but precise estimations of the virus's impact over the balance of 2020 and longer-term are not yet possible given the substantially greater than normal uncertainty.

As economic and market uncertainty rise, we continue to identify those companies that have strong fundamentals and might outgrow market averages. We believe this favors our disciplined and bottom-up investment approach that focuses on identifying these above average growers with reasonable valuations. While we've taken some profits in companies which have rebounded significantly, overall our exposure has increased in communication services, consumer discretionary, health care and information technology to reflect where we see the best opportunities in the new environment due to COVID.

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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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