# Rising Dividend

## High-quality companies with attractive dividend growth potential

### Strategy Overview

| | |
|---|---|
| **Firm AUM:** | $188.0B |
| **Strategy AUM:** | $0.03B |
| **Inception Date:** | March 31, 2014 |
| **Number of Holdings:** | Typically 60-80 |
| **Benchmark:** | S&P 500® Index |
| **Available Vehicles:** | Institutional Separate Account<br>US Mutual Fund |

### Team Members

**Portfolio Managers**

*Average Experience: 26 years*

Shaun Hong, CFA

Bobby Edemeka

**Dedicated Analysts: 12**

*Average Experience: 21 years*

### Highlights

- The strategy seeks total return by investing primarily in high-quality large-cap companies who are able to consistently grow their dividend.
- Our goal is to outperform the S&P 500® Index over long-term investment horizons, typically a full market cycle.
- Dividend growers historically have lower volatility than the broad market and potentially attractive risk/reward profiles
- Employs a bottom-up approach seeking companies with:
  - Ability to generate high free cash-flow
  - Management teams willing to return capital to shareholders in the form of stock buybacks or dividends
  - Rising or above average Return on Invested Capital (ROIC) or Return on Equity (ROE)
  - Strong credit profile
  - A low-to-average cash flow payout ratio relative to peers

| Performance | 2Q20 | 1 Year | 3 Years | 5 Years | Since Inception |
|---|---|---|---|---|---|
| **Rising Dividend Composite (Gross)** | 16.2% | 2.2% | 8.6% | 8.3% | 8.8% |
| **Rising Dividend Composite (Net)*** | 16.0 | 1.7 | 8.0 | 7.8 | 8.3 |
| **S&P 500® Index** | 20.5 | 7.5 | 10.7 | 10.7 | 10.6 |

***Past performance does not guarantee future results.*** *Source: Jennison/Mellon Analytical Solutions. *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 (0.55%). Inception of Rising Dividend Composite: 3/31/14. Periods greater than one year are annualized. See disclosures for important information.*



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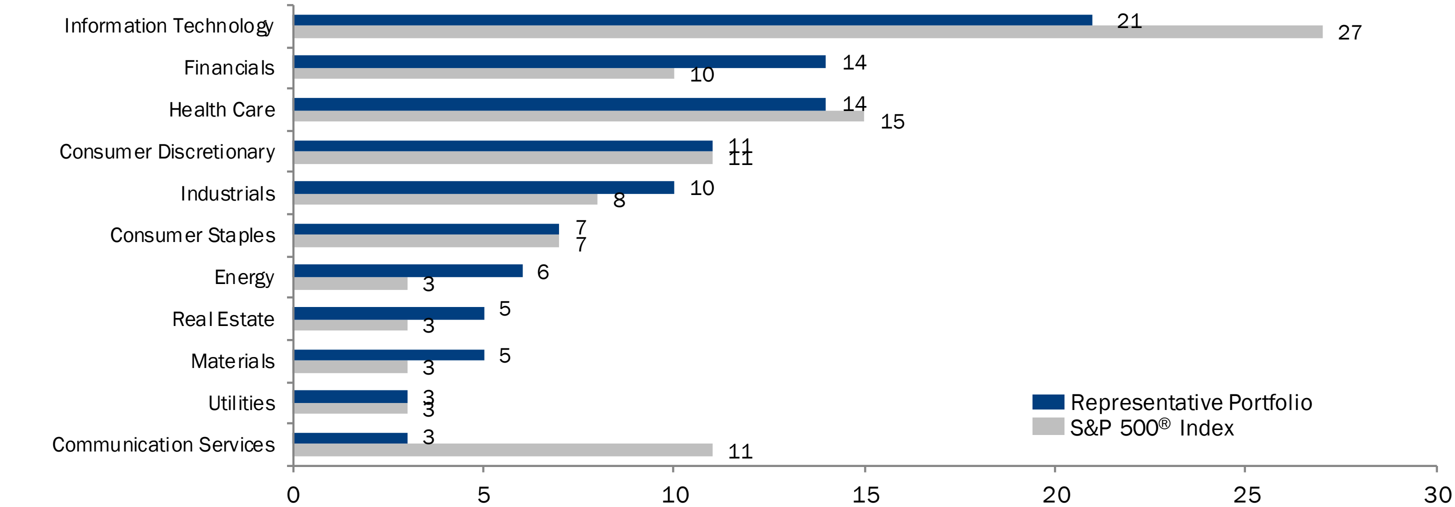
## Sector Allocation




*Source: Jennison/Mellon Analytical Solutions. Cash allocation of 1.6% is not represented in chart above. See disclosures for important information.*

## Equity Characteristics

| | Representative Portfolio | S&P 500® Index |
|---|---|---|
| Weighted Average Market Cap | $186.7 bil. | $365.5 bil. |
| Median Market Cap | $67.6 bil. | $21.4 bil. |
| Dividend Yield | 2.2% | 1.9% |
| Number of Holdings | 60-80 | 505 |

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

## Largest Holdings

| | |
|---|---|
| Apple | 3.9% |
| ASML | 2.4 |
| Intuit | 2.4 |
| Goldman Sachs | 2.3 |
| AstraZeneca - ADR | 2.2 |
| D.R. Horton | 2.2 |
| FMC | 2.2 |
| PNC Financial Services | 2.2 |
| Equinix | 2.1 |
| Microsoft | 2.1 |
| | 24.0% |

*Source: Jennison. See disclosures for important information.*

## Largest Absolute Impact (2Q20)

| Top Five | Average Weight | Total Return | Contribution to Return |
|---|---|---|---|
| Apple | 3.3% | 44% | 1.17% |
| NVIDIA | 2.3 | 44 | 0.93 |
| Williams Companies | 2.3 | 37 | 0.86 |
| ASML - ADR | 2.2 | 41 | 0.77 |
| D.R. Horton | 1.7 | 52 | 0.68 |

| Bottom Five | Average Weight | Total Return | Contribution to Return |
|---|---|---|---|
| Cogent Communications | 1.6% | -5% | -0.12% |
| Concho Resources | 0.9 | -4 | -0.11 |
| KB Home | 0.2 | -12 | -0.09 |
| Service Corp International | 1.0 | 0 | -0.07 |
| Digital Realty Trust | 0.5 | -4 | -0.07 |

***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 staged a remarkable recovery after a precipitous decline to market low's reached on March 23rd triggered by the initial spread of COVID-19. Aiding the rebound was fiscal and monetary stimulus from governments around the world, along with the relaxation of COVID-19-related restrictions. The market's bounce back also illustrated its resilience amid simmering geopolitical tensions between the US/China, and China/Hong Kong. However, the pandemic's economic damage continued to accumulate, illustrated by US first-quarter GDP that sharply contracted, down 5.0% from growth of 2.1% in the previous quarter.

After posting its worst quarterly decline on record in the first quarter, the S&P 500® Index staged one of its biggest comebacks in the second quarter, sharply rebounding 20.54% to cover the 19.6% decline experienced over the first quarter of 2020. All eleven GICS sectors within the S&P 500® Index advanced, as consumer discretionary, information technology and energy all gained more than 30%. Utilities lagged the group, while consumer staples posted solid, high-single digit gains. Financials also lagged relative to their sector peers, but still managed to post low, double-digit gains over the second quarter. Notable Index contributors were Apple, Microsoft, Amazon.com, and Facebook. Notable Index detractors for the period were General Electric, Wells Fargo & Company, Biogen, and Berkshire Hathaway.

The Jennison Rising Dividend Composite ("Composite") posted double-digit gains, but trailed the S&P 500® Index ("Index") over the second quarter of 2020.

## Key Contributors

- With its huge installed base, **Apple** has been benefiting from rapid growth in service business subscriptions (apps, music) - a key source of recurring revenue. The upcoming product cycle, which includes the launch of 5G handsets, should provide robust revenue and profit growth when it ultimately commences. During the period, the Company announced it would begin replacing Intel processors used in Mac personal computers with chips designed in-house, potentially enhancing its gross margins.
- **Williams Companies** continues to benefit from strong natural gas demand, both in the US and from exports to Mexico. We see its demand-focused strategy, along with its long-term contracts and largely fee-based revenues well positioned for growth, as LNG export and power generation, along with chemical and industrial use grows over the next decade. Despite any potential volume impact or exposure risk, the Company's stable and integrated gas pipeline network that stretches from the Northeast to Gulf Coast is difficult to replicate, lowering its business risk relative to other midstream peers, in our view. Williams continues demonstrate its ability to execute operationally, focusing on its remaining projects and debt reduction.
- **Microsoft**'s strong and stable enterprise business, along with its differentiated hybrid cloud strategy has helped garner market share from an increase of technology capital spending over the last few years. Additionally, the COVID-19 pandemic has highlighted the prudence - and in many cases, the government-mandated necessity - of working from home or at other offsite locations and by extension, the advantage of housing mission-critical software applications and services on the cloud. The Company's Teams collaboration platform is also benefiting from increased work-from-home requirements. During the period, Microsoft reported better-than-projected March-quarter revenue and earnings, and management asserted that the current crisis has accelerated the pace of digital transformation in the enterprise.

## Key Detractors

- **Cogent Communications** is a multi-national internet service provider engaging in the provision of internet access and Internet Protocol (IP) communications services. The Company offers internet access and data transport through its fiber optic, IP data-only network, ethernet transport, and colocation services. Cogent was founded in 1999 and is headquartered in Washington, DC. Cogent's shares declined over the second quarter as it reported earnings per share and revenue that fell short of analysts' expectations.
- **Digital Realty Trust** is a real estate investment trust (REIT) that owns, acquires, develops and manages technology-related real estate. The Company focuses on strategically located properties containing applications critical to the day-to-day operations of technology industry tenants and corporate enterprise datacenter users, including the information technology (IT) departments of Fortune 100 and financial services companies. We liquidated our position over the period in favor of more attractive investment candidates from a risk/ reward standpoint.
- **Service Corporation International** is a Houston, Texas-based provider of professional services related to funerals and cremations, and memorialization services, as well as cemetery property interment rights. Its shares were weak early in the quarter, given COVID-19-related shelter-in- place mandates and restrictions on group gatherings. Investor sentiment weakened as some customers under pre-need contracts received refunds and some services could not be performed during lockdown. Shares subsequently rallied as reopening slowly began and as it appeared that many customers deferred "celebration of life" events for later, which could potentially lead to improving Company results.

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## Outlook

Markets in the US and abroad staged one of the sharpest rebounds on record over the second quarter, as investors looked beyond the near-term uncertainties of the COVID pandemic-induced recession, and the hope toward economic reopening and the prospect of a vaccine to help drive a longer-term recovery. In addition, unprecedented central bank and governments' global stimulus has largely helped keep consumers afloat, in order to prevent further economic crippling.

While massive monetary and fiscal measures have been put in place to solve for the recessionary impact from COVID-19, more advancement in medical science/technology and some type of vaccine, will be a key part of the recovery. Improved treatment options have helped slow the resulting death rates and while it's unclear when a vaccine/treatment drug will be available, it's conceivable we could see some type of vaccine by the end of this year or early next year, as lots of intellectual capital continues to be marshalled in to solve the problem. While the exact timing remains uncertain, ultimately, we believe solutions will eventually be found, and we can begin the process of getting back to "normal" again.

Nonetheless, we continue to believe our fundamental bottom-up based investing approach is well-suited for today's environment. We have always been focused on companies with solid free-cash flow growth that can support above-average dividend growth over the next several years. After having stress tested our internal models, we believe that most of our portfolio companies should be able to continue to pay their dividends. However, we have to temper our expectations of dividend growth during this pandemic, as it continues to be prudent for companies to build a larger cash cushion during this time. The biggest variable to future dividend growth will be the pace of economic recovery/reopening, in our view. Despite dividend cut fears being worse than what actually occurred, companies that have adapted their business models should be more successful in getting through this pandemic, in our view.

With the recent bouts of market volatility as we have recently experienced likely to continue in the months ahead, dividend-paying stocks remain attractive in this "lower-for-longer" interest rate environment, which we believe could continue for some time to come. We continue to remain focused on building the Fund from the bottom up, along with sticking to our investment philosophy that seeks solid businesses that can generate high/increasing free cash-flow which can be returned to investors in the form of a growing dividend. In our view, those businesses who can demonstrate attractive dividend growth during the current pandemic we find ourselves in, will be even more appreciated by the market - and even more valuable - in our view.

Overall, we believe by focusing on high-quality, attractively valued companies with an ability to sustain and/or grow their dividends, which over time, should result in both lower turnover and lower beta relative to the broader market, in our view. As such, we remain vigilant but patient for our thesis to play out.

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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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