

SMid Cap Core Equity

Bottom-up fundamental approach focused on investing across the Growth/Value spectrum

Strategy Overview

Firm AUM:	\$188.0B
Strategy AUM:	\$1.6B
Inception Date:	May 31, 2004
Number of Holdings:	Typically 110-135
Benchmark:	Russell 2500™ Index
Available Vehicles:	<ul style="list-style-type: none"> ▪ Institutional Separate Account ▪ US Mutual Fund ▪ Managed Account

Team Members

Portfolio Managers

Average Experience: 24 years

Jason M. Swiatek, CFA

Jonathan M. Shapiro

Dedicated Analysts: 6

Average Experience: 17 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 buy businesses rather than just stocks.
- We spend time evaluating the appropriate values for our investments even before we buy them. Our price targets allow us to maintain a disciplined approach to buying and selling stocks.
- We explore investment opportunities outside conventional boundaries. We are willing and able to investigate controversial or complex stories which may be misunderstood and not followed by Wall Street.
- A research-intensive approach is used to build diversified portfolios with stocks in a variety of industries and sectors that have attractive valuations and should experience solid earnings growth on an intermediate term basis in our view.
- The team focuses on business evaluation to identify companies with the majority of the following criteria. This list is fluid and focuses on what is most relevant to our current thinking.
 - Strong competitive positions
 - Quality management teams
 - Positive industry dynamics
 - Balance sheet flexibility and strength
 - Strong earnings growth prospects

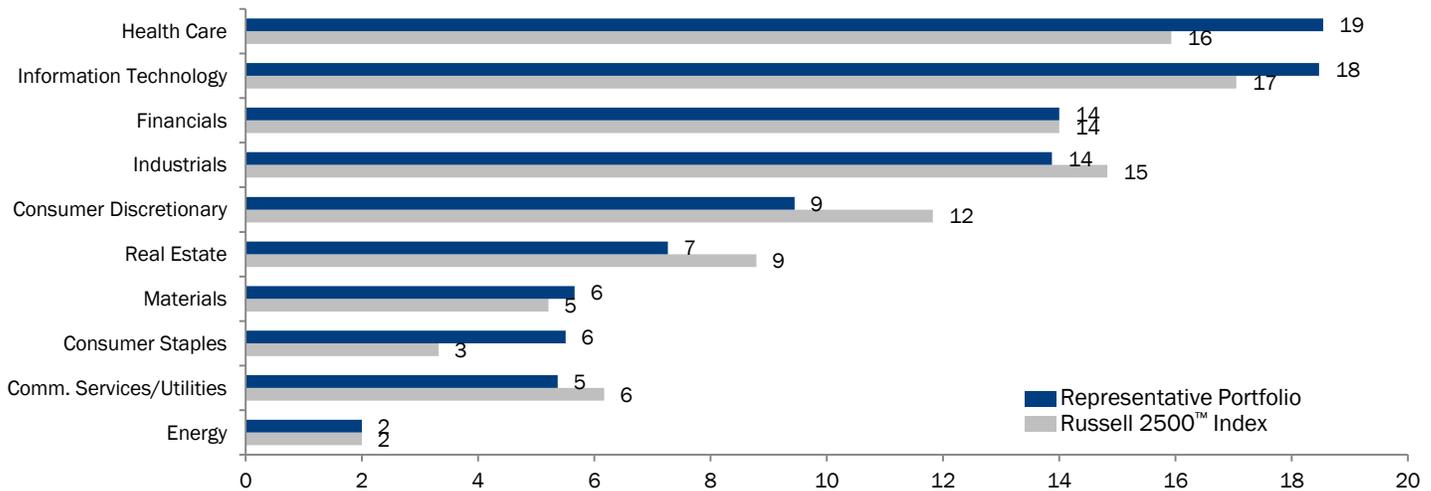
Performance

	2Q20	1 Year	3 Years	5 Years	10 Years	Since Inception
SMid Cap Core Equity Composite (Gross)	34.1%	-7.3%	2.6%	4.5%	11.0%	9.2%
SMid Cap Core Equity Composite (Net)*	33.8	-8.0	1.8	3.7	10.1	8.4
Russell 2500™ Index	26.6	-4.7	4.1	5.4	11.4	8.3

*Past performance does not guarantee future results. Source: Jennison/Mellon Analytical Solutions. *For periods prior to 2010, net of fee performance is presented net of Jennison's actual advisory fees and transaction costs. For periods beginning January 1, 2010, 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 during the period shown (.90% 2010; .80% thereafter), which may not reflect the actual historical fees applied to accounts in the Composite. Inception of SMid Cap Core Equity Composite: 5/31/04. Periods greater than one year are annualized. See disclosures for important information.*

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Sector Allocation



For ease of reference, certain similar GICS sectors have been grouped together. Source: Jennison/Melon Analytical Solutions. Cash excluded. See disclosures for important information.

Equity Characteristics

Representative Portfolio vs Russell 2500™ Index

Characteristic	Representative Portfolio	Russell 2500™ Index
Weighted Avg. Market Cap	\$5.9 bil.	\$4.7 bil.
Median Market Cap	\$4.0 bil.	\$1.0 bil.
Dividend Yield	1.8%	2.1%
Number of Holdings	130	2,500

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

Largest Holdings

HubSpot	2.3%
Horizon Therapeutics	2.1
Saia	2.1
Quanta Services	1.6
Rexnord	1.6
Darling Ingredients	1.6
Gaming and Leisure Properties	1.6
WPX Energy	1.5
Avalara	1.5
PolyOne	1.5
	17.5%

Source: Jennison. See disclosures for important information.

Largest Absolute Impact (2Q)

	Average Weight	Total Return	Contribution to Return		Average Weight	Total Return	Contribution to Return
Top Five				Bottom Five			
Horizon Therapeutics	2.1%	88%	1.47%	Alleghany	0.6%	-11%	-0.09%
HubSpot	2.2	68	1.25	PNM Resources	0.7	2	-0.04
Ets	1.1	176	1.23	ProSight Global	0.2	-9	-0.03
WPX Energy	1.4	109	1.14	Steven Madden	0.2	-13	-0.03
Saia	2.1	51	1.08	Summit Hotel Properties	0.0	-4	-0.02

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 rapid spread of the virus led to lockdowns and stay-at-home orders, bringing economic activity dependent on face-to-face interaction to a virtual standstill. This led to employment losses not seen since the Great Depression – more than 40 million claims for unemployment benefits were filed in less than three months. Unsurprisingly, the travel, leisure, entertainment, and hospitality industries, which require gathering and physical proximity, were among the business sectors hardest hit.

Among Russell's US equity indices, growth continued to outperform value across capitalizations and small caps outperformed mid and large caps. We believe this could continue as smaller caps should benefit more from an improving economy and credit markets. High yield spreads peaked on March 18, 2020, which has historically been a bullish sign for small caps.

The Jennison SMid Cap Core Equity Composite had a strong absolute and relative quarter, outperforming the 26.6% return of the Russell 2500™ Index by a wide margin. In the representative portfolio, stock selection in every sector added value in the quarter, with health care, information technology, industrials, and financials contributing the most to returns. The positive effect from holdings in utilities, real estate, and materials was more modest.

Key Contributors

- **Horizon Therapeutics** has transitioned from a specialized pharmaceutical firm to a successful rare disease company. The primary growth drivers for the next two to three years are Krystexxa (for uncontrollable gout) and Tepezza (for thyroid eye disease). The company's first quarter sales of \$356 million were well above consensus. In our view, Horizon Therapeutics has further upside potential from M&A (both as a buyer and a seller), as it has a very attractive balance sheet and two products that we believe could drive substantial revenue growth in the coming years.
- **HubSpot** develops and markets software products for inbound marketing, sales, and customer service. Despite a meaningful slowdown in March due to COVID-19, the company reported impressive first quarter results, with revenues that were up 33% year-over-year. HubSpot is also experiencing strong growth in its international business and adding customers at a healthy pace since ramping up sales force in late 2019. In our view, HubSpot's diversified customer base and lack of exposure to any specific industries will continue to be beneficial. Furthermore, we believe the shift from its inbound marketing tool to a workflow platform across customer relationship management (CRM), marketing, sales and service for small- and mid-sized businesses will support the company's growth going forward.
- **Etsy** is an e-commerce website focused on handmade or vintage items and craft supplies. Sales trends meaningfully accelerated since March, as many e-commerce companies have benefited since social distancing measures have been in place. We believe that Etsy's new management is making smart investments to improve their growth profile over the next several years. They have many initiatives which can be disruptive in the near-term but collectively should improve customer experience and hence their overall growth.

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Key Detractors

- **Alleghany** owns and supports certain operating subsidiaries and investments, anchored by a core position in property and casualty reinsurance and insurance. Although its primary sources of revenues and earnings are the company's reinsurance and insurance operations and investments, it also generates revenues and earnings from a diverse portfolio of middle market businesses that are owned and managed through its wholly-owned subsidiary Alleghany Capital. First quarter earnings were well below consensus estimates. This was partially attributed to negative supply chain impact from COVID-19 in an already slow quarter. In our view, the company's loss ratios are likely to move steadily higher as the tailwind from positive prior year reserve development diminishes. In addition, expenses are likely to stay flat based on weaker accruals and good expense management.
- **ProSight Global** offers property and casualty insurance, underwriting, claims handling, and other related services. Shares declined as it reported that fiscal fourth quarter earnings per share moved sharply lower and fell short of expectations. This was largely driven by lower net interest income from a loss on fixed income limited partnerships. From an underwriting perspective, management said there was no meaningful impact from COVID-19 on the company's results. That said the company sees the potential for expense pressure going forward due to higher costs from bad debt provisioning given state-mandated deferrals of collections and the impact of COVID-19 on some of its insureds.
- **Steven Madden** designs and markets shoes and fashion accessories for women, men and children. Trends are down significantly in the wholesale and retail channels. We eliminated our position due to its high exposure to a very weak department store channel.

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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