

## SMid Cap Core Equity

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

### Strategy Overview

<b>Firm AUM:</b>	\$203.7
<b>Strategy AUM:</b>	\$1.7B
<b>Inception Date:</b>	May 31, 2004
<b>Number of Holdings:</b>	Typically 110-135
<b>Benchmark:</b>	Russell 2500™ Index
<b>Available Vehicles:</b>	<ul style="list-style-type: none"> <li>▪ Institutional Separate Account</li> <li>▪ US Mutual Fund</li> <li>▪ Managed Account</li> </ul>

### Team Members

#### Portfolio Managers

Average Experience: 24 years

Jason M. Swiatek, CFA

Jonathan M. Shapiro

#### 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 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

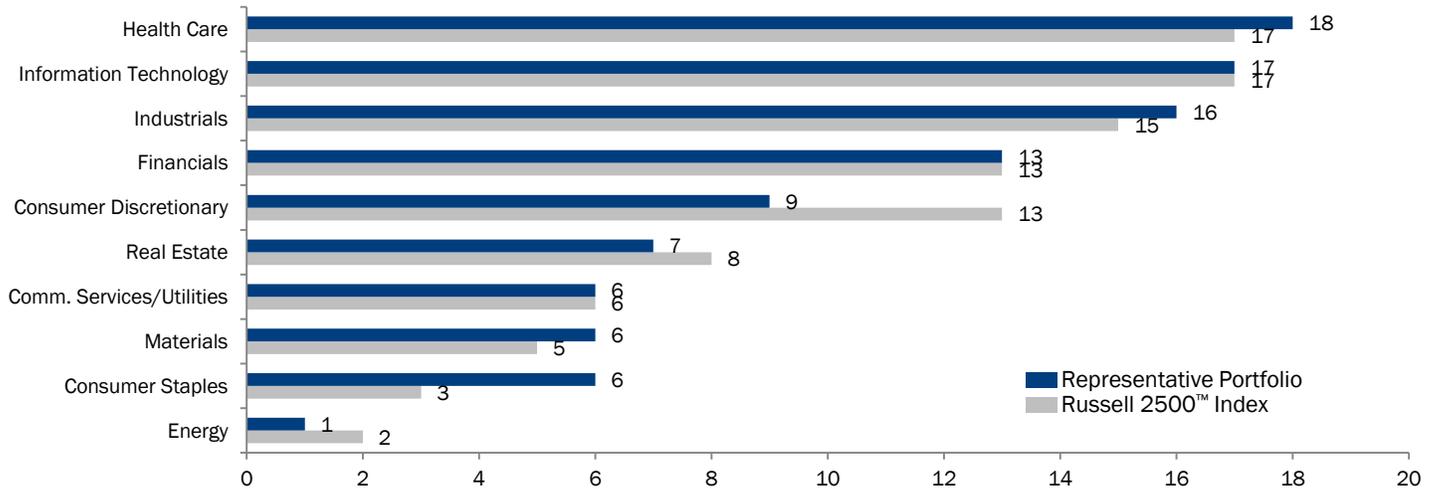
### Performance

	3Q20	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
<b>SMid Cap Core Equity Composite (Gross)</b>	13.7%	-1.4%	8.5%	5.6%	9.6%	11.2%	9.9%
<b>SMid Cap Core Equity Composite (Net)*</b>	13.5%	-2.0%	7.6%	4.7%	8.7%	10.4%	9.1%
<b>Russell 2500™ Index</b>	5.9%	-5.8%	2.2%	4.5%	9.0%	10.8%	8.6%

*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	Russell 2500™ Index
Earnings Per Share Growth 2020E	5%	-11%
Earnings Per Share Growth 2021E	34%	25%
P/E 2020E	27x	49x
P/E 2021E	20x	23x
Weighted Avg. Market Cap	\$6.9 bil.	\$5.4 bil.
Median Market Cap	\$3.9 bil.	\$1.0 bil.
Dividend Yield	1.1%	1.6%
Number of Holdings	134	2,521

Largest Holdings

Horizon Therapeutics	2.0%
Quanta Services	1.9
Performance Food	1.8
Rexnord	1.7
Saia	1.6
Gaming and Leisure Properties	1.6
Penn National Gaming	1.6
Five Below	1.5
Avantor	1.5
Avient	1.5
	16.6%

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

Source: Jennison. See disclosures for important information.

Largest Absolute Impact (3Q)

	Average Weight	Total Return	Contribution to Return		Average Weight	Total Return	Contribution to Return
<b>Top Five</b>				<b>Bottom Five</b>			
Immunomedics	1.0%	140%	1.10%	WPX Energy	1.1%	-23%	-0.34%
Penn National Gaming	1.2	138	1.05	Hill-Rom	0.9	-24	-0.24
Darling Ingredients	1.7	46	0.66	Pinnacle Financial Partners	1.1	-15	-0.19
Pinterest	1.1	87	0.64	Agios Pharmaceuticals	0.4	-35	-0.17
Horizon Therapeutics	1.9	40	0.61	Sprouts Farmers Markets	0.8	-18	-0.15

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

Equity markets continued their vigorous post-March rally in the third quarter as the realities of COVID-19 continued to dictate daily conduct for individuals, businesses, and governments around the world. Behaviors that seemed disorienting and disruptive in the spring became routine throughout the summer and early fall. Work-from-home remained the standard while countries and enterprises experimented tentatively with reopenings. Global infection rates reflected varying policy and social behaviors. Developing a vaccine remained an overwhelming focus, with both human and capital resources deployed to a number of promising approaches.

Equities advanced solidly in July and August, bringing major indices back to levels achieved earlier in the year. New highs were recorded in the sectors and companies that appear best positioned to benefit from the realities created by the pandemic. Many of these companies were already advantaged by secular trends in place that have now been accelerated by work-from-home for the consumer and digital transformation for the enterprise. The speedy adoption of communication mediums such as videoconferencing proved effective at replacing formerly in-person interactions, driving faster revenue recovery for many companies. At the same time, businesses most negatively affected by the pandemic, including leisure and travel, stabilized as the worst of the activity declines moderated, although overall depressed levels persisted.

The Russell 2500™ Index (index) had another solid quarter, gaining 5.9%, but lagged its large and midcap counterparts. We believe the backdrop is set up for small cap relative performance to improve as earnings and sales revisions continuing to tick up, relative valuations continue to get less expensive, and now M&A activity has started to return. A headwind to this thesis is that small caps historically do best when the 10-year rates are rising. Today they are falling and making a series of lower highs and lower lows. This uncertain backdrop historically bodes well for the Jennison SMid Cap Core representative portfolio's strict valuation discipline and emphasis on sound business model's, with recurring revenues that benefit from compounding earnings growth over time.

The SMid Cap Core Equity Composite had a strong absolute and relative quarter, outperforming the index by a wide margin. In the representative portfolio, stock selection in nearly every sector added value, with health care (led by biotechnology), information technology (led by software) and consumer discretionary (led by hotel, restaurant & leisure) contributing the most to returns. Holdings in energy were a headwind for returns during the quarter.

## Key Contributors

- **Immunomedics** is a pharmaceutical company focusing on the development of antibody-drug conjugates for the treatment of cancer. Its key product is U.S. Food and Drug Administration (FDA)-approved metastatic triple-negative breast cancer drug Trodelvy. In September, Gilead Sciences announced it would acquire Immunomedics in a \$21 billion dollar deal, which represents more than a 100% premium to Immunomedics' previous day closing price. The deal is expected to close in the fourth quarter of 2020.
- **Penn National Gaming** is an American operator of casinos and racetracks. It operates 43 facilities in the United States and Canada, many of them under the Hollywood Casino brand. The company also controls a 36% stake in Barstool Sports. Its shares gained significantly during the month, as it reported better-than-expected second quarter results, especially considering its properties were closed for most of the period. Visitations were down given capacity restrictions, but spending per visit was up. While management acknowledged some pent up demand and the fact that many other leisure options remain closed, they are seeing a significant increase in new customers, particularly among a younger demographic.
- **Darling Ingredients** serves the agri-food industry and reduces food waste by collecting and repurposing animal-based co-products and other natural materials that would otherwise be discarded. The company reported strong second quarter results, which included a 24% increase in year-over-year earnings driven by higher protein prices. We continue to like the company's self-funded growth trajectory.

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## Key Detractors

- **WPX Energy** is engaged in hydrocarbon exploration. Its shares declined along with the overall energy sector during the third quarter as the pandemic was a severe headwind for global demand. However, the company's second quarter results exceeded expectations, with free cash flow of \$166 million, earnings of \$400 million and capital expenditures that were lower than expected. In our view, there is more upside in production and downside in capital expenditures for the company. In late September, WPX Energy and Devon Energy announced an all-stock merger of equals, to create one of the nation's largest shale producers.
- **Hill-Rom** is a global medical device provider. The company reported better than expected fiscal third quarter results, with 8% organic revenue growth and results beating consensus estimates. However, its shares declined as management's commentary implied that fourth quarter revenues and earnings per share (EPS) would fall short of analysts' estimates. In addition, the company's COVID-19-related tailwinds are reverting back more quickly than anticipated. Our investment thesis on the company is predicated upon new management driving more sustainable, accelerating growth.
- **Pinnacle Financial Partners** is a bank holding company. Pinnacle is a commercially-focused, well run bank located in attractive markets – Tennessee and the Carolinas – that are growing significantly faster than is the overall U.S. Pinnacle's growth and strong market position has led to extremely strong returns, with a return on assets that are among the best in the group. Its shares declined during the third quarter, as management expressed a defensive stance in order to build capital during turbulent times and come out with more ammunition to take market share. With the Federal Reserve on hold, we believe the company should have less pressure on deposit pricing to fund growth going forward.

## Outlook

The US economy continues to recover from the worst effects of the pandemic, but the pace of the rebound appears to be moderating. Congress has so far failed to agree on additional stimulus to take up the slack from the massive, but now-largely-exhausted, programs approved in March. Further job reductions at large companies, particularly where the effects of Covid-19 have created the most disruption, are an additional headwind. Corporate-profit recovery is set to continue, aided by reduced labor and travel costs that further expand profit-margin opportunities. However, the outlook overall remains uncertain, not least because of next month's US presidential election and the pandemic's ongoing impact.

COVID-19 continues to disrupt activity around the globe. We are optimistic that promising results from a number of clinical trials will result in an effective vaccine in the coming months. But it may be another 12-18 months before a finished product - the likely prerequisite for a broad-based recovery in confidence and activity - is globally available.

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 this year 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 September 30, 2020 unless otherwise noted. Due to rounding, individual values may not sum to total shown.

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The Russell 2500™ Index measures the performance of the small- to mid-cap segment of the U.S. equity universe. The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Growth Index measures the performance of those Russell 2000® companies with higher price-to-book ratios and higher forecasted growth values. 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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