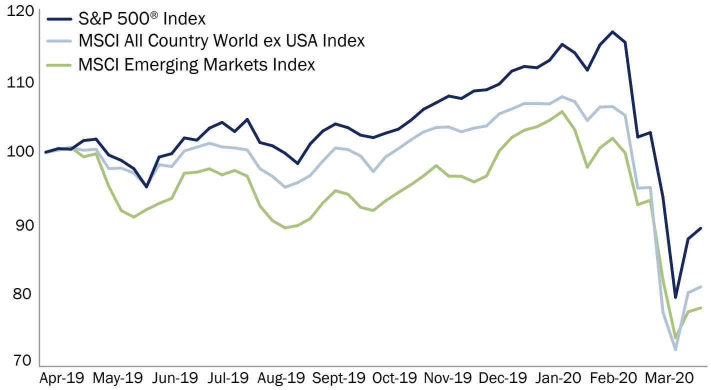
1Q 2020 Market Review and 2Q 2020 Outlook

Market Backdrop

The first quarter of 2020 will go on record as one of the most disconcerting periods in recent history, as the devastating COVID-19 outbreak spread rapidly around the globe, disrupting markets and daily life virtually everywhere. Initial reports of the virus, which first appeared in China in late 2019, downplayed its impact on Chinese economic activity and public health. By the end of the quarter, more than 900,000 cases had been reported in 180 countries (almost 200,000 in the US alone). More than 45,000 people had died.

Gradual realization of the scope and gravity of the situation changed the course of global markets. US equities had advanced strongly at the beginning of the year, extending 2019's robust finish and gathering momentum in mid-January with the signing of the Phase One trade agreement between the US and China. Stocks peaked at new highs on February 19, then posted one of the swiftest and sharpest declines on record — major indexes posted a peak-to-trough drop of more than 30% in only 25 trading days.

Market Index Performance



As of March 31, 2020. Source: FactSet.

Exacerbating the turmoil, major crude oil producers Saudi Arabia and Russia declared a price war. Having failed to agree on reduced production levels to address already weak global demand, the two countries announced their intentions to ramp up production in an attempt to drive higher-cost producers out of business (including prolific shale-oil-producing nations such as the US). The price of West Texas Intermediate crude oil dropped more than 65% in the quarter, to approximately $20 per barrel.

Policy makers responded to the collapse in asset prices with historic actions on both monetary and fiscal fronts. None was more ambitious than the US Federal Reserve's approach, which emphasized "whatever it takes" as the guiding principle in providing liquidity and lending facilities behind virtually every US financial instrument. The move to a zero-bound federal funds rate was the first step in the process.

Congress also moved at breakneck pace to pass the $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, the largest single fiscal stimulus legislation in US history. Among other things, the program provides loans and grants to alleviate mounting pressures on small businesses and the services sector caused by rolling shutdowns and lockdowns across the US. The act also includes payments to individuals, expanded unemployment insurance, fiscal aid to states, and spending for hospitals and health care efforts.

The experiences of China and South Korea late in the period suggest that aggressive steps taken early to test populations broadly for the virus combined with enforced lockdowns can flatten the infection curves and allow human and economic activity to stabilize in a relatively short time. However, the disease-progression trajectories of Italy and the US suggest that the global situation could get considerably worse before it gets better.

Style Performance

- Even against a sharp sell-off and extreme volatility, large cap growth stocks continued to lead the market in the first quarter.
- Large cap outperformed midcap, which outperformed small cap. Growth outperformed value across capitalizations.
- These trends held true for the one, three, and ten-year time periods.

Style Index Performance

1Q20

	Value	Core	Growth
Large	-26.7	-20.2	-14.1
Mid	-31.7	-27.1	-20.0
Small	-35.7	-30.6	-25.8

Trailing 1-Year

	Value	Core	Growth
Large	-17.2	-8.0	0.9
Mid	-24.1	-18.3	-9.4
Small	-29.6	-24.0	-18.6

Trailing 3-Year

	Value	Core	Growth
Large	-2.2	4.6	11.3
Mid	-6.0	-0.8	6.5
Small	-9.5	-4.6	10.6

Trailing 10-Years

	Value	Core	Growth
Large	7.7	10.4	13.0
Mid	7.2	8.8	10.9
Small	4.8	6.9	8.9

As of March 31, 2020. Source: Morningstar.

Sector Performance

- Information technology was the best performing sector for the quarter, 1-, 3-, 5-, and trailing 10-years, maintaining its leadership even with the sell-off and volatility.
- In the quarter, defensive sectors like consumer staples, health care, and utilities also performed well as one would expect in a sharply negative environment.
- Cyclical sectors, notably financials, industrials, and materials also underperformed in the first quarter and lagged for longer time periods as well.
- Energy was the weakest sector for all time periods.

GICS Sector Performance — S&P® 500 Index

	1Q20	One Year	Three Years	Five Years	Ten Years
Communication Services	-17	-3	-0	4	8
Consumer Discretionary	-19	-11	6	7	14
Consumer Staples	-13	-1	3	5	10
Energy	-50	-52	-22	-14	-4
Financials	-32	-17	-2	3	7
Health Care	-13	-1	8	6	13
Industrials	-27	-19	-2	3	9
Information Technology	-12	10	18	17	16
Materials	-26	-17	-3	1	6
Real Estate	-19	-11	3	3	10
Utilities	-14	-1	6	8	11
Total	-20	-7	5	7	11

As of March 31, 2020. Source: FactSet.

Past performance is not a guarantee of future results. Returns may increase or decrease as a result of currency fluctuations. There can be no assurance that performance objectives will be met. See Disclaimer for index definitions, GICS classification, region descriptions, and other important information.

Earnings Results

- While now in the rear-view-mirror and not relevant considering the current environment, reported Q4 2019 earnings results for the broad market S&P 500® Index fell slightly since last quarter with 77% of companies beating or meeting consensus estimates versus 82% for fourth quarter 2019 results.
- The three sectors with the highest hit rates — health care, information technology, and consumer staples has been consistent in recent quarters.
- Energy had the most disappointments with 46% of companies failing to meet expectations. Real estate and materials also had less than 70% of companies meeting or beating.

Sector Name	% of companies beating/meeting	% of companies missing
S&P 500® Index (absolute)	77%	23%
Health Care	88%	12%
Consumer Staples	85%	15%
Information Technology	84%	16%
Consumer Discretionary	82%	18%
Utilities	79%	21%
Financials	77%	23%
Communication Services	76%	24%
Industrials	73%	27%
Real Estate	65%	35%
Materials	61%	39%
Energy	54%	46%

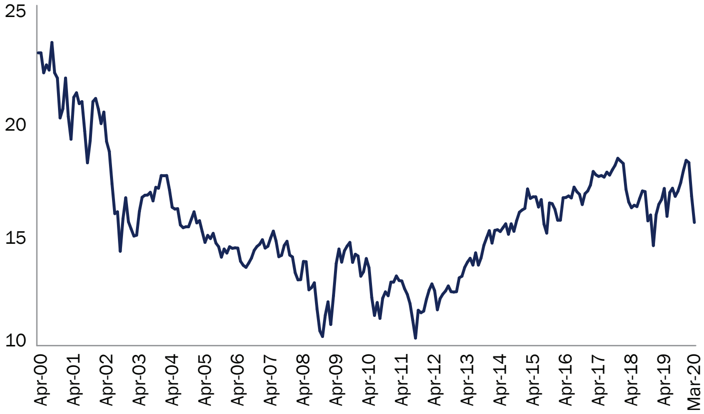
As of March 20, 2020 (most recent available) reflecting the end of the fourth quarter reporting season. Source: Standard & Poor's. A consensus estimate is a figure based on the combined estimates of analysts covering a public company. Percentages refer to companies meeting, beating or missing consensus estimates. Chart was created by Jennison using Standard & Poor's estimates.

Sector Weights as of March 31, 2020

	S&P 500® Index	MSCI ACWI ex USA Index	Russell 1000® Growth Index	Russell 1000® Value Index	S&P 500® Index NTM Earnings Growth	S&P 500® Index Forward P/E
Communication Services	11	7	12	9	13%	13
Consumer Discretionary	10	12	14	5	20%	15
Consumer Staples	8	10	5	11	7%	16
Energy	3	5	0	5	48%	11
Financials	11	19	3	21	9%	8
Health Care	15	10	15	16	10%	12
Industrials	8	11	8	9	23%	11
Information Technology	25	10	40	7	15%	15
Materials	2	7	1	4	18%	12
Real Estate	3	3	2	5	7%	31
Utilities	4	4	–	8	2%	16

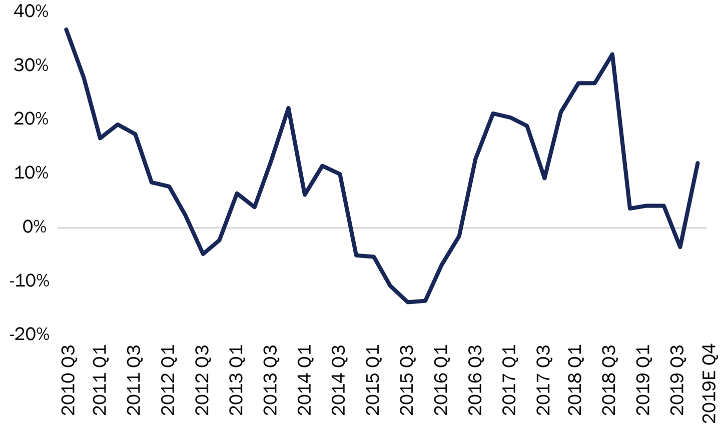
As of March 31, 2020. Source: FactSet and MSCI. MSCI ACWI ex US Index = MSCI All Country World ex USA Index. NTM = Next Twelve Months.

S&P 500® Index — NTM P/E



As of March 31, 2020. NTM = Next Twelve Months. Source: FactSet.

S&P 500® Index — YoY EPS Growth



As of March 31, 2020. YoY = Year over Year. Source: FactSet.

Looking Forward

- At this point, we are just too early in the crisis to make precise estimates of companies' earnings through the rest of 2020. This level of uncertainty is historic as is the extreme market volatility that comes with it.
- Almost all companies (across sectors and industries) have withdrawn forward estimates and guidance for the remainder of 2020. For most companies, there are too many unknowns around economic activity, confidence, unemployment, rates, defaults and credit losses, drastically lower consumption and business spend, destroyed consumer and business confidence, and the financial hit to both businesses and consumer balance sheets.
- Top-down projections for the S&P 500® Index in 2020 are coalescing around — 25 to — 35% earnings growth, dividends projected to decline by 25%, and the suspension of most stock buyback programs. Again, we must recognize that these are early stage guesses at best.
- The time-line around the eventually slowing-down of the spread of the virus, along with the depth and length duration of the impact of "shelter-in-place" globally, is driving this uncertainty and negative market sentiment to record levels. It is clear that we are in a recession — how long it will last and how the rebound will play-out ("V" or "U" shape) is the big unknown.

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Outlook from Jennison's Growth Teams

The COVID-19 pandemic and efforts to contain it are causing a spike in unemployment and a sharp drop in GDP worldwide, with small businesses especially pressured. The result will likely be a global slowdown of historic proportions.

Policy makers have shown a willingness to confront the threats with unprecedented stimulus and liquidity enhancements, and additional policy steps will surely follow in the coming weeks and months. However, social distancing and sheltering in place, adaptations crucial to containing the virus's spread, might hinder the activity fiscal measures are seeking to stimulate.

Although dire, the current situation is fundamentally different from the credit crisis of 2007-2008. Thirteen years ago, structural economic deficiencies and a delay in addressing them made recovery protracted and painful. Today, economic activity is being halted or curtailed to limit the spread of the virus and human suffering. Massive fiscal and monetary stimulus measures are being implemented rapidly. Underlying economic conditions before the outbreak were largely solid, and when the crisis subsides — when a vaccine is developed or the virus runs its seasonal course — fundamentally healthy economic structures would be expected to support resumption of economic activity. However, we do not expect recovery to be uniform, and vulnerable businesses may not survive. There is also uncertainty about a potential reemergence of the virus in the coming fall and winter.

We have spent the past several weeks attempting to assess the impact of COVID-19 on holdings by speaking with the management teams of companies held in our portfolios. Although these discussions have been helpful in understanding company responses to current conditions, it is impossible to know the real near and intermediate term impacts.

Our portfolios include the stocks of businesses that lead their industries and grow at substantially faster rates than the market average. Companies held in our portfolios also generate significant cash flow, allowing them to weather difficult times and sustain the competitive advantages necessary to create true economic value over the long term. We have eliminated a handful of holdings that face headwinds created by the current uncertain environment that challenge our longer-term growth forecasts. Our effort to upgrade quality at the margin is typical of the approach we have taken in past periods when the global outlook has been significantly challenged and uncertain. We expect to make further adjustments as we gain a fuller understanding of the changing landscape and individual company circumstances.

We have been through disruptions and periods of great uncertainty before as investors and as a team, and we are confident that once conditions stabilize and economic activity revives, the companies that entered this crisis with the strongest competitive positions will emerge best positioned to thrive in a post COVID-19 world.

Sector Views

Information Technology

Information technology was the best-performing sector in the S&P 500® Index in the first quarter of 2020, falling 11.9%.

We attribute this favorable relative performance to recent strong technology sector earnings reports and market recognition of the underlying strength of technology company business models. The market should continue to favor companies with faster organic growth in the current COVID-19-induced recessionary environment.

With the market's recent broad-based downturn, we believe tech stocks are now very attractively valued. As of March 31, 2020, the S&P 500® Index's information technology sector's next-12-month P/E of 17.7 was only modestly above the 14.6 P/E multiple of the S&P 500® Index. Reasonable relative valuations continue to be driven by the sector's overall stronger ROEs and free cash flow generation, often as a result of innovative and disruptive product offerings. Specifically, many tech companies have wide competitive moats and other competitive advantages, as well as secular tailwinds, that we believe support durable, high-quality fundamentals, including faster-than-average revenue growth and better-than-average margins.

Strong earnings growth isn't limited to "tech" companies grouped in the index's information technology sector. It extends to other businesses with technologically driven advantages in other sectors, as well, such as social media companies, classified as "communication services," internet retailers and streaming entertainment providers, grouped in "consumer discretionary," and robotic surgery, diagnostic, and biopharmaceutical companies classified as "health care."

Investment Themes & Areas of Focus

- The use of digital technologies to create new (or alter existing) business processes, cultures, and customer experiences has become a strategic imperative as enterprises seek to meet changing business and market needs. This digital transformation has been driven by digital technologies such as social media, mobile devices, artificial intelligence, and cloud computing.
- Software as a service (SaaS), another of these transformative digital technologies, delivers mission-critical cloud applications and services that are disrupting the software industry. Initially adopted by internet — and cloud-native businesses, and still in the nascent stages of utility, SaaS has begun to penetrate the mother lode of large mainstream enterprise markets. As the strategic necessity of implementing software enhancements as they become available becomes increasingly apparent, businesses are being driven to adopt the SaaS model. With penetration rates remaining relatively low, SaaS expansion opportunities over the coming decade look substantial.
- 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. Investors are viewing tech companies with products and services that facilitate seamless offsite work and communication capabilities with renewed appreciation.
- Understanding the business models best positioned to take advantage of long-term secular disruption (in the ways consumers live and the ways business and organizations operate) remains a key focus of our technology investing.
- We look for companies positioned to benefit from increased business spending on technology. This includes investing in industries such as 5G, SaaS (Software as a Service), business intelligence (AI), semiconductors, cloud storage and software, and life sciences tools.
- We think the continued ramping-up of data/information/ entertainment usage across a broad range of devices and applications, along with digital payments, are among the areas that offer long-duration opportunities and huge addressable markets for companies with the right technologies.
- Additionally, we are assessing companies that we believe can continue to grow in the current pandemic-induced global recessionary environment.

Health Care

In first-quarter 2020, the health care sector of the S&P 500® Index fell 12.7%, outperforming the overall index, which declined 19.6%.

88% of the S&P 500® Index's health care constituents beat fourth-quarter consensus EPS estimates, while 12% fell short of forecasts.

As of March 31, 2020, the S&P 500® Index's health care sector's next-12-month P/E was 13.17 while the overall index's P/E multiple was 14.6.

Heightened market volatility reflects increased uncertainty as the magnitude and scope of the COVID-19 pandemic grows. The degree of uncertainty has led investors to de-risk and de-lever their portfolios. In such periods, stocks with higher levels of perceived risk — small and mid-caps, biotechs, and other earlier-stage health care companies — are disproportionately affected. Many of these companies do not produce profits and rely on external funding.

Companies whose products and revenues are tied to capital spending, or are more dependent on discretionary spending or government funding are more exposed to the pandemic's impact; companies with solid fundamentals are more likely to rebound quickly.

Disease-focused biotherapeutic companies will likely be disadvantaged should treatments slow because patients are unable to get to the hospital (the imperative of care in most cases should limit this possibility, but quarantined populations would be affected).

New patient starts will likely be curtailed, but chronic patients already taking drugs should continue to get treatment.

Oncology companies will likely be less affected than other-disease-focused companies, as treatment for metastatic cancer patients is not optional.

Overall, we continue to favor therapeutic companies with what we view as compelling long-term fundamentals and innovative products and pipeline drugs. However, clinical trial enrollment for new studies are likely to be delayed for some of the companies in our portfolios.

Many other companies could be affected by indirect effects of the virus, including a postponement in elective procedures, a slowdown in consumer discretionary spending, and an overall decrease in hospital procedures and drug volumes due to delays in treatment initiations and surgical interventions.

Medical device companies with products used in elective procedures will also likely experience a slowdown in their businesses.

The Health Sciences strategy's long-term focus on finding innovative, disruptive companies across the health care spectrum — biopharma, tools & diagnostics, medical devices, health care services — remains unchanged.

Looking beyond the current troubled environment, we view the sector's multi-year outlook positively based on a range of industry trends, especially the innovation occurring across a broad range of company types, products, and business models. We continue to be encouraged by the pace of Food and Drug Administration drug approvals, as well as the department's generally accommodative stance.

Even though the future of any US drug-pricing proposal is highly uncertain, as anything passing with bipartisan support in the current political and electoral environment seems remote, companies are developing strategies to address the political focus on drug pricing, emphasizing the development of treatments that make significant advances, leading to greater market penetration and ultimately lower prices.

With Democratic primary voters appearing to have coalesced around moderate former Vice President and US Senator Joe Biden, making Medicare for All and elimination of private insurance increasingly unlikely, we are becoming more comfortable with the prospects of the US managed care industry. Fundamentals in the managed care sector are strong, in our view, but scrutiny of the industry will likely persist, as the issue of health care affordability makes calls for structural change popular. However, even if a proposal proceeds beyond campaign discussion, enactment seems improbable as it would surely require that Democrats win the White House and retake control of the Senate with a solid majority, and many Democratic legislators, both in the House and Senate, have voiced opposition to more sweeping single-payer and Medicare for all proposals.

Investment Themes & Areas of Focus

- We expect that productive research and development activity will yield effective disease treatments that improve the quality of patients' lives. These characteristics historically have been the source of longer-term outperformance in the sector.
- We believe many biotherapeutic companies have compelling fundamentals and innovative products and pipeline drugs.
- The number of drug candidates in biopharma pipelines is at all-time highs. Increased research and development investment by large global pharma companies, as well as advancements in drug screening and discovery, are driving the increase in drug candidates.
- Larger multinational pharmaceutical companies, especially those with patent-expiration pressures, will continue to make acquisitions of smaller cap companies with single products or promising pipeline assets.

Financials

In response to the COVID-19 pandemic and the resulting collapse of both the global economy and interest rates, the S&P 500® Index's financial sector had a very difficult first quarter, falling 32% relative to the broader market's return of — 19.6%. In some respects, the sector has suffered losses on a scale equal to what we saw during the 2008-2009 global financial crisis. The speed of the decline has been unprecedented, with the index up approximately 1% YTD in the first eight weeks of the quarter (through the Feb. 19 close), so all the quarterly losses have been sustained in just a month and a half.

At this point, we are just too early in the crisis to make precise estimates on our portfolios companies' earnings through the rest of 2020. In fact, almost all companies (across sectors and industries) have withdrawn forward estimates and guidance for the remainder of 2020. For financials, there are just too many unknowns around the impact of rates, credit losses, drastically lower economic output, destroyed consumer and business confidence, and the financial hit to both businesses and consumer balance sheets. The time-line around the eventual slowing of the spread of the virus, along with the depth and duration of the impact of "shelter-in-place" globally, is driving uncertainty and negative market sentiment to record levels. It is clear that we are in a recession — how long it will last and how the rebound will play out is the big unknown.

Investment Themes & Areas of Focus

- Overall, the banks are significantly better positioned today than they were in 2008-2009 across a broad range of balance sheet, capital, and risk management metrics.
- While the draw-down has been extreme, it appears that significant "bad news" is being reflected in current stock prices. For example, we are seeing several large, industry-leading money center/global investment banks trading at 1.0X tangible book value (TBV) where, since 2009, they have traded between 1.5-2.0X TBV. Given that we have higher confidence today in reported book value metrics, we consider this evidence that the sector may possibly be oversold.
- Secular growth companies with defensive attributes (low leverage rates, asset light models, sustainable, high margin, and high free cash flow businesses) should continue to fare better in this type of environment. Several digital payment and financial technology companies meet these criteria.
- Property & casualty (P&C) insurers should hold in better in this environment, while asset-heavy banks and life insurance companies with more interest rate sensitivity could raise the risk profile of a diversified portfolio.

Midstream Infrastructure*

With the global economy and energy sector both having suffered simultaneous shocks to supply and demand, the midstream infrastructure sector has been hit particularly hard. Amid this unprecedented economic shock, we have witnessed both markets and investors behaving irrationally, likely driven by fear, the uncertain implications from COVID-19 on the global economy. In our view, the unprecedented market volatility has likely been exacerbated by exogenous factors such as the algorithmic trading nature of markets and the forced selling by levered investors.

As a result, the Alerian MLP Index has declined over 57%, while the broader energy sector within the S&P 500® Index has only lost 50% over the first quarter of 2020. Those midstream companies with exposure to either weak basins or weaker customers have been hit hardest, while the larger, higher-quality names with integrated assets and established customers have held up better, relative to the broader sector

Overall, the midstream sector had been reducing capex and growth spending over the last 12+ months that has already led to improved cash-flow metrics across the board. Some midstream companies have taken decisive measures, which we expect to continue. Given where midstream stocks are trading, we would not be surprised to see consolidation, or while not even necessary the larger, more financially sound names could still take action to conserve cash and "right-the-ship" to ensure the opportunity isn't lost, in our view.

The transformational corporate reform that's been occurring in the midstream sector over the last two years was already having long-term positive benefits, with companies having already made significant progress. And while it's difficult to predict short-term outcomes, over the longer-term, we believe the large integrated, reformed companies will survive, and while the demand for energy hydrocarbons will continue, it will not end. These midstream companies have physical steel "in the ground," many with asset networks that have high barriers-to-entry and are difficult to replicate, in our view.

Investment Themes & Areas of Focus

We currently favor the following midstream infrastructure companies:

- "Reformed" companies (i.e., companies exhibiting higher capital discipline, and healthier, more conservative balance sheets that can withstand a downturn, along with solid corporate governance).
- Integrated business models — (the "Haves") the larger, more integrated companies with multiple touch-points along the energy value chain, that have higher barriers-to-entry, along with steady cash-flows.
- Firms with exposure to the natural gas liquid (NGL), liquefied natural gas (LNG), and natural gas demand export themes.
- Renewable energy yieldco's to diversify our overall energy holdings, and provide exposure to the renewables investment theme.

Utilities

As the COVID-19 pandemic and attendant recession fears spurred an indiscriminate market sell-off in March across global markets and asset classes. Sectors such as utilities — historically defensive during downturns — weren't immune, having fallen over 10% in the month of March alone. The sector paired back its losses over the last week in March, to end the first quarter of 2020 down just over 13%. Despite its 1Q20 decline, the utility sector (S&P 500® Utility Index) still managed to outperform the broader market (S&P 500® Index) by over 610 bps.

In our view, the pronounced weakness is at odds with the underlying stability of the sector given the ultra-low bond rate environment and defensive attributes of the sector. Broadly speaking, we've seen the continuation of utility companies operationally executing, delivering on earnings guidance, and de-risking their portfolio's.

Looking at historical data over three — and five-year rolling periods — it's no surprise the utility sector (within the S&P 500® Index) tends to underperform when the broader market (S&P 500® Index) posts strong returns (between 15%-20%) . Conversely, our analysis showed when the broader market returns were more modest (between 0% and 5%) and when the market declined (<0%), the utilities sector tends to outperform and hold up better than the broader market during periods of market declines.

Within the S&P 500® Utilities Index, all segments declined over the period with electric utilities contributing the most to its overall underperformance, followed by multi-utilities — both of which comprise over 90% of the overall Index. To a much lesser extent, the independent power producers and energy traders, along with gas utilities and water utilities were among the segments that detracted the least from total returns given all three segments comprise less than 3% of the overall Index weight.

We believe the Utilities sector represents a compelling value proposition for investors for a few main reasons:

- Despite a low growth environment, improving economics in renewables such as wind and solar power, remain a growth driver for the overall sector — companies now have renewables incorporated into their capex strategy plans (versus five years ago when renewables weren't included) — allowing those utilities to earn a regulated rate of return on their renewable investments.
- Their "defensive" nature — those with regulated activities and quasi-regulated renewable portfolios, combined with their long-duration cash-flows and predictable rate base earnings — remain not only attractive given their ability to provide stable dividends for investors amidst any macro uncertainty, but also should provide earnings growth above the sector's historical 3%-5% EPS growth, in our view;
- With a lower for longer interest rate environment, utilities should continue to benefit from access to lower cost of capital — savings that eventually flows directly to their bottom-line. While the P/E ratios for the overall broader market (S&P 500® Index) including utilities have declined, we believe utility company earnings over the long-term have historically been more predictable, and typically less volatile than the broader market.

Investment Themes & Areas of Focus

Industries/sub-industries we currently favor:

- **Regulated Utilities —** companies operating in favorable regulatory environments and geographies, with above — average projected earnings and/or dividend growth driven by regulatory rate-base investment.
- **Renewable Electricity —** we see continued momentum across multiple fronts that support on-going investment and usage in renewables, providing unique investment opportunities over the long-term.
- **Gas Distribution Companies —** the continuation of state utility commissioners encouraging spending on pipeline replacement and maintenance, enables companies to provide transparent 10-year outlooks on their spending and income plans, a positive dynamic for this sub-industry.
- **Communications Infrastructure —** wired broadband network and datacenter operators are well positioned to capitalize on exponential global data demand growth; and tower operators given their critical infrastructure, multi-year contracts, and strong free cash-flow generation.

* *MLP-structured investment may have different tax outcomes for investors in different jurisdictions.*

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Jennison Associates LLC 466 Lexington Avenue, New York, NY 10017 • tel: 212-421-1000
www.jennison.com One International Place, 42nd and 43rd Floors, Boston, MA 02110 • tel: 617-345-6850

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