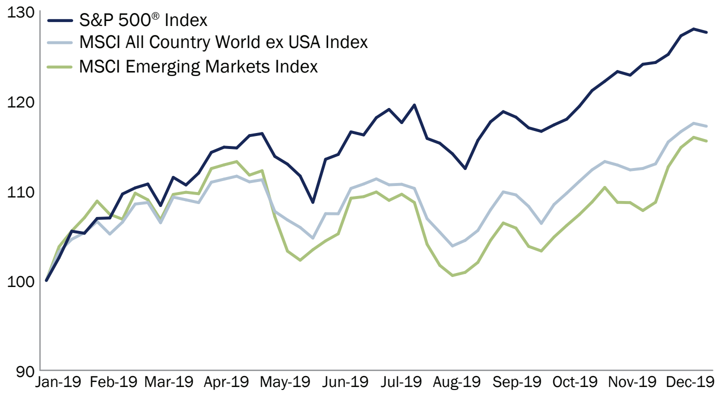
Market Review and 1st Quarter 2020 Outlook

Market Backdrop

Global equities markets advanced solidly in 2019's final quarter. The S&P 500, MSCI All Country World Index, and MSCI ACWI ex-US all gained nearly 9%, while Emerging Markets climbed 11.8%. Information technology was the best performing sector in all of the broad market indices.

Market Index Performance



As of December 31, 2019. Source: FactSet.

Gains early in the-period partly reflected market reaction to the US Federal Reserve's rate cut in late October, an implicit assertion that while the US economy remained near full employment, the benign inflation outlook allowed for another 25-basis-point reduction in the federal funds rate to help offset uncertainty about ongoing US-China trade negotiations.

In mid-December, the announcement of a framework agreement brought relief from trade war anxiety. Dubbed Phase I, the plan rolls back a portion of the US tariffs on Chinese manufactured goods initiated earlier this year and removes planned increases on a range of consumer-focused products that were set to take effect on December 15. In exchange, China purportedly is agreeing to boost agricultural imports, enforce intellectual property agreements, and alter business practices to level the playing field for non-Chinese companies looking to compete on the mainland.

The trade armistice gave markets another boost and a strong finish for the year. Major indices surpassed previous records and the levels achieved before last year's fourth-quarter trade-war-induced setback.

December also saw a decisive victory for Prime Minister Boris Johnson and the Conservative Party in UK parliamentary elections. With the Conservatives now holding a solid majority in the House of Commons, near-term realization of Brexit appears likely.

In the US, the House of Representatives approved articles of impeachment against President Trump, one for abuse of power (for pressuring Ukraine to assist him in his re-election campaign by damaging Democratic rivals), and another for obstruction of Congress (for blocking testimony and refusing to provide documents in response to House subpoenas in the impeachment inquiry). The votes along party lines confirmed persistently deep US political divisions.

The US economy proceeded along a steady path of 1.5%-2.0% growth, with unemployment holding at record low levels and the US dollar stable against major international currencies.

Pro-democracy protests in Hong Kong showed no signs of abating, leading to disruptions and a sharp decline in the administrative region's economy; retail sales were hit particularly hard.

Growth in major economies outside the US appeared stable with signs that Europe may be bottoming. A range of purchasing managers' data pointed to a manufacturing upturn beginning in the first half of 2020.

Style Performance

- Small cap growth led performance in the fourth quarter, followed by large growth.
- Midcaps, especially value, lagged, but still posted strong absolute gains.
- For longer time periods, large cap and midcap growth dominated market returns.
- Small cap value has been the weakest style index for the 1-, 3-, and trailing 5-years.

Style Index Performance

4Q19

	Value	Core	Growth
Large	7.4	9.0	10.6
Mid	6.4	7.1	8.2
Small	8.5	9.9	11.4

Trailing 1-Year

	Value	Core	Growth
Large	26.5	31.4	36.4
Mid	27.1	30.5	35.5
Small	22.4	25.5	28.5

Trailing 3-Year

	Value	Core	Growth
Large	9.7	15.1	20.5
Mid	8.1	12.1	17.4
Small	4.8	8.6	10.6

Trailing 10-Years

	Value	Core	Growth
Large	11.8	13.5	15.2
Mid	12.4	13.2	14.2
Small	10.6	11.8	13.0

As of December 31, 2019. Source: Morningstar.

Sector Performance

- Information technology was the best performing sector for the quarter, 1-, 3-, 5-, and trailing 10-years. In 2019, the sector posted a whopping 50% return.
- In the quarter, health care and financials also outperformed the broad market index.
- In 2019, energy was the weakest sector, followed by health care and materials.

GICS Sector Performance - S&P® 500 Index

	4Q19	One Year	Three Years	Five Years	Ten Years
Information Technology	14	50	28	20	17
Health Care	14	21	16	10	15
Financials	10	32	12	11	12
Communication Services	9	33	5	8	10
Materials	6	25	10	7	9
Industrials	6	29	11	9	13
Energy	5	12	-3	-2	3
Consumer Discretionary	4	28	17	13	17
Consumer Staples	4	28	10	8	12
Utilities	1	26	14	10	12
Real Estate	-1	29	12	9	13
Total	9	31	15	12	14

As of December 31, 2019. Source: FactSet.

Earnings Results

- Earnings results for the broad market S&P 500 were in-line with last quarter with 82% of companies beating or meeting consensus estimates.
- Health care had the highest hit rate of any sector with only 2% of constituents missing expectations.
- Information technology and consumer staples also had strong results in aggregate with 91% of companies surpassing or meeting estimates.
- Energy had the most disappointments with 39% 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)	82%	18%
Health Care	98%	2%
Information Technology	91%	9%
Consumer Staples	91%	9%
Industrials	85%	15%
Financials	83%	17%
Communication Services	80%	20%
Consumer Discretionary	75%	25%
Utilities	75%	25%
Materials	68%	32%
Real Estate	63%	37%
Energy	61%	39%

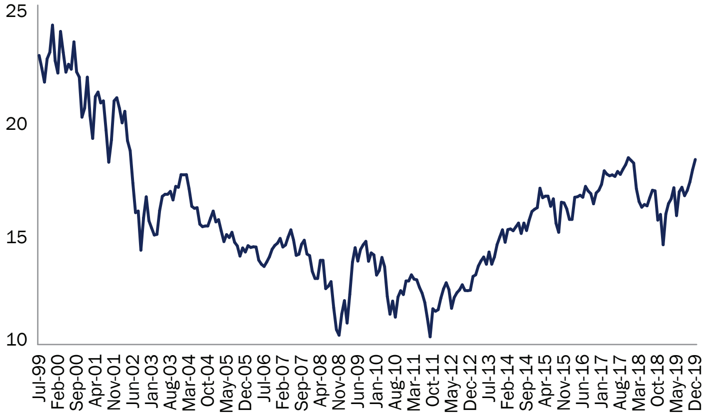
As of December 19, 2019 (most recent available) reflecting the end of the second quarter reporting season. Source: Standard & Poor's. A consensus estimate is a figure based on the combined estimates of analysts covering a public company. Percentages refer to companies meeting, beating or missing consensus estimates. Chart was created by Jennison using Standard & Poor's estimates.

Sector Weights as of December 31, 2019

	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	10	7	12	8	15%	22
Consumer Discretionary	10	12	14	6	7%	20
Consumer Staples	7	9	5	9	22%	17
Energy	4	7	0	8	-5%	13
Financials	13	21	3	24	26%	16
Health Care	14	9	15	13	13%	17
Industrials	9	12	9	10	16%	22
Information Technology	23	9	39	6	19%	18
Materials	3	7	1	4	14%	19
Real Estate	3	3	2	5	-13%	41
Utilities	3	3	--	7	5%	20

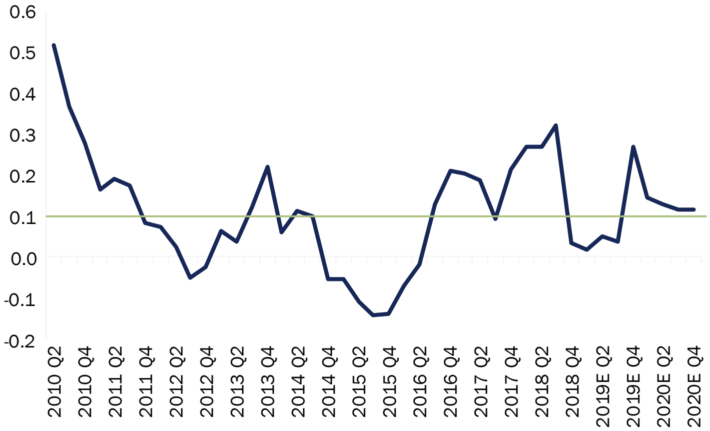
As of December 31, 2019. Source: FactSet and MSCI. MSCI ACWI ex US Index = MSCI All Country World ex USA Index. NTM = Next Twelve Months.

S&P 500® Index - NTM P/E



As of December 31, 2019. NTM = Next Twelve Months. Source: FactSet.

S&P 500® Index - YoY EPS Growth



As of December 31, 2019. YoY = Year over Year. Source: FactSet.

Past performance is not a guarantee of future results. See Disclaimer for index definitions, GICS classification and other important information.

Outlook from Jennison's Growth Teams

Although the eventual outcome of the US-China Phase I trade agreement is unclear, the deal will likely allay worries about the possibility of further trade-disruptive action, provide a more stable backdrop for business investment planning, and reduce the threat of recession. Given the stop-and-go trajectory of the negotiations over the past couple of years, the details and timing will be watched carefully.

The US economy, and the US consumer in particular, remain on firm ground. Unemployment is low, wage gains are driving consumption, housing activity is improving, and corporate profits are forecast to grow in the mid to high single digits in 2020.

Market reaction to the passage of articles of impeachment in the House has been muted, as acquittal in the Republican-controlled Senate is generally assumed should the articles be sent to the upper chamber. A prolonged trial in the Senate could impinge on the campaigns of Senate Democratic presidential candidates. The broader political effect of how the proceedings ultimately play out is highly uncertain.

Politics and the US elections are likely to be front and center in the minds of investors in 2020. The Iowa caucuses on February 3 are followed by the New Hampshire primary on February 11 and the Super Tuesday primaries on March 3. The presidential campaigns are generating various policy and regulatory proposals, with the health care, technology, and financial services industries receiving the most scrutiny. We are paying particular attention to proposals targeting technology and health care as these tend to be strong growth sectors. The health care policy differences between the parties are well-delineated, and debate will likely center on approaches to health insurance coverage and drug pricing. We expect that technology proposals will be more fluid and unpredictable, given the rapid and constant evolution of the technological landscape. Data privacy, market power, and national interest are among the issues affecting the sector; corporate breakups and business practice reform are among the proposed remedies. Several Federal Trade Commission and Department of Justice actions are already underway or contemplated, and investigative activity is sure to increase. Understanding how policy and regulatory actions might challenge growth expectations for affected companies remains a key focus for us; regulatory scrutiny, both actual and possible, have already resulted in valuation discounts in the equity values of many major tech companies.

We believe that secular growth opportunities and industry-leading companies will continue their long-term outperformance.

Sector Views

Information Technology

Information technology was the best-performing sector in the S&P 500® Index in 2019, advancing 50%.

We attribute this impressive performance to recent strong technology sector earnings reports and market recognition of the underlying strength of technology company business models. The market continues to favor companies with faster organic growth in this low real GDP; low rate/inflation environment.

Tech stocks remain reasonably valued. As of December 31, 2019, the S&P 500® Index's information technology sector's next-12-month P/E of 21.5 was only modestly above the 18.2 P/E 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

- 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 a slowing global growth environment.

Health Care

In 2019, the Health Care sector of the S&P 500® Index advanced 21%, underperforming the overall index, which rose 31%.

87% of the S&P 500® Index's Health Care constituents beat third-quarter consensus EPS estimates, 2% fell short of forecasts, and 11% met expectations.

As of December 31, 2019, the S&P 500® Health Care Index traded at 20.2 times 2019 EPS estimates and 16.1 times 2020 EPS estimates.

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.

Many biotherapeutic companies have what we view as compelling fundamentals and innovative products and pipeline drugs.

However, the biotechnology and pharmaceuticals sectors continue to be affected by continuing political campaign discussions of, and competing proposals to address, drug pricing. The future of any government pricing proposal is highly uncertain, as anything passing with bipartisan support in the current political and electoral environment seems remote. This uncertainty is in effect creating a cap on the performance of biotech and pharma stocks. Investors appear to be increasingly pricing this uncertainty into drug company stock prices. Given this environment, we see the life sciences tools and services, and health care equipment and supplies sectors as more resilient to macroeconomic, political, and policy-related headwinds. Biotechnology companies in China, where drug pricing issues are uncorrelated to US developments, also represent an opportunity. In China, multiple generics of older drugs are creating pricing competition, allowing the diversion of funds to cover higher prices for newer drugs. The fundamentals and clinical trial successes of some midcap biotherapeutic companies with promising developmental drugs may overcome policy headwinds. Importantly, no current legislative or executive proposals are attempting to restrict the prices of new drugs that would serve substantial unmet medical needs.

Litigation involving the Affordable Care Act (ACA) persists, creating a degree of uncertainty for health care providers. A 3-judge panel of the 5th US Circuit Court of Appeals recently ruled that the ACA's individual mandate is unconstitutional, but stopped short of declaring the entire health care law invalid.

The "Medicare for All" concept will continue to be defined with various proposals expected as the 2020 election cycle ramps. As such, its potential impact on the industry is purely hypothetical and dependent on details. 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. Nevertheless, market negativity related to the issue is creating significant headwinds that add risk, which could increase as the election cycle proceeds.

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

The S&P 500® Index's financial sector had a strong fourth quarter, gaining 10.3% relative to the broader market return of 8.9%. The sector modestly outperformed the S&P 500 for the year with a return of 31.3% versus 30.7%. Valuations also remain compelling with the sector currently trading at a P/E of 13X versus the S&P 500® Index at 20X.

US economic data and modest earnings growth expectations continue to be supportive of the sector, but the effect on global growth and credit trends from the continued standoff between the US and China on trade have all weighed on the group. On the positive side, business activity remains robust, leading indicators are moving higher, the credit outlook remains positive, the Fed has indicated a willingness to cut rates, the US yield curve is starting to steepen, and concerns of an imminent recession look to have been assuaged.

While slower global growth has led to multiple contraction in cyclical and rate sensitive industries such as financials, certain areas can be relative safe havens in this environment. For example, insurance companies were able to outperform when growth slowed in the past. Select banks have also moved-up the quality spectrum, specifically by executing on several fronts; increasing their FCF profiles, returning excess reserves and higher cash earnings through buybacks and higher dividends, and demonstrating margin stability within today's overall low rate backdrop. Additionally, financial technology companies, such as payment processors, were able to buck the broader industry trend and outperform recently with their secular growth profile and business models less exposed to the economic cycle.

For financials broadly, multiple contraction has more than offset the positive development in earnings fundamentals, balance sheet strengths, and credit trends. Areas with outsized growth, such as financial technology, can be sources of additional alpha generation.

Investment Themes & Areas of Focus

- Overall, management teams continue to have multiple revenue and cost levers at their disposal, which they should be able to exploit to meet consensus EPS (earnings per share) expectations.
- Valuation discounts present a compelling entry point for financial services stocks.
- Certain pockets of the sector performed better historically as growth slowed and areas such as financial technology could potentially capture additional upside from a global trend toward e-payments.
- We continue to monitor the macro environment for any signs of risks to the industry, namely a deterioration in credit conditions or an entrenched inverted yield curve as a result of stalled economic growth.

Midstream Infrastructure*

Following a strong 1Q19, the midstream infrastructure sector sold-off over the second half of 2019, despite midstream companies reporting decent third quarter earnings results, with operating performance coming in modestly better than consensus estimates. Aside from the extreme bearish energy sentiment, challenges in the 4Q19 included slowing production growth, weak NGL and natural gas prices, and year-end tax loss selling that have all negatively weighed on midstream performance.

Fundamentals within the midstream group continue to gradually improve as overall balance sheet leverage ratios have decreased,

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

management teams are exhibiting more capital discipline, and free cash-flows should continue to rise for many of these names as projects come online and capex wanes. But while significant progress has been made across all areas, the market continues to punish those stocks that have failed to reduce capex irrespective of the company's fundamentals, while many investors are now looking for companies to initiate stock buyback programs – an uncommon practice that hasn't been an area of focus for the sector.

Given the headwinds, midstream (as measured by the Alerian MLP Index) declined 4.08%, underperforming the 5.49% return of the broader energy sector within the S&P 500® Index. Recent performance has illustrated the bifurcation in results across corporate structures, as those midstream companies structured as traditional corporations drastically outperformed those structured as master limited partnerships. The divergence also was evident among the sub-segments of the group, as the large, diversified and more integrated midstream players have outperformed the gathering & processing names, while the liquid pipes & storage segment led the Index. Natural gas pipes & storage names posted low single-digit returns for 2019.

As the midstream sector continues along its transformation into a less volatile, more stable, and free cash-flow positive group, the current intrinsic asset value and highly attractive yields along with the tailwinds of healthy end-user demand and exports may provide a compelling total return opportunity for investors.

Investment Themes & Areas of Focus

We currently favor the following midstream infrastructure companies:

- Corporate structure agnostic – instead focusing on assets that display growth visibility
- "Reformed" companies (i.e., companies with self-funding business models, lower leverage, and solid corporate governance).
- Firms with exposure to the natural gas liquid (NGL), liquefied natural gas (LNG), and natural gas demand export themes.
- Integrated business models – (the "Haves") firms that have higher barriers-to-entry and offer the lowest cost infrastructure from the well-head to the burner top - by providing gathering & processing, transportation, and the storage & delivery of hydrocarbons to end-users and to export markets.

Utilities

As confidence in the economy strengthened amid an accommodative Fed policy and potential reduction in trade war tensions, investor sentiment shifted away from low volatility and defensive equities, such as utilities, sending the broader S&P 500® Index to all-time record highs over the period. While utilities' absolute returns have been strong for much of 1H19 – having benefitting from the macro uncertainty and shift to defensive stocks in the 1H19 – the defensive trade lost steam as the more beta-oriented stocks rebounded, causing the utility sector to lag the market over the 2H19.

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, electric utilities contributed the most to its overall performance, given it comprises over 60% of the overall Index. To a lesser extent, the independent power producers & energy traders segment also helped, posting total returns just over 12% over the quarter, as its overall contribution to the Index was limited, given that it comprises less than 3% of the overall Index.

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. As P/E ratios for the sector trade at a premium to the broader market, the low growth, low rate environment could make those statistics less relevant in our view, while the overall yields and visible growth rates of utility stocks look more attractive given corporate earnings within the S&P 500 Index struggle to be positive on a year-over-year basis.

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.

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