2Q22 Market Review and 3Q Outlook

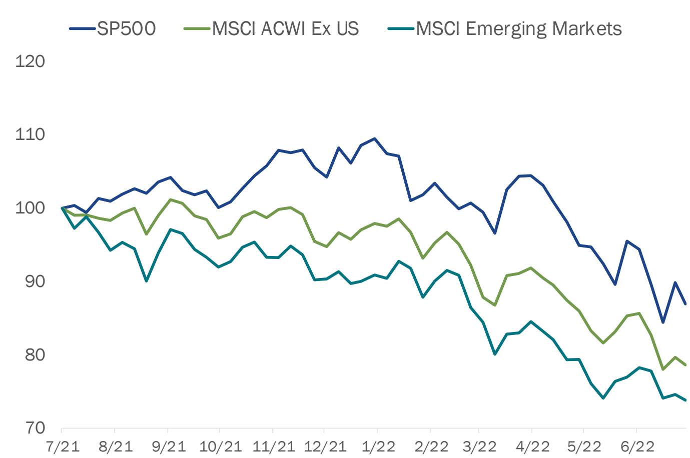
Market Backdrop

Stock prices continued to suffer from the impacts of the war in Ukraine, unexpectedly high inflation, tightening monetary policy, and ongoing COVID-19 lockdowns in China, leading to one of the largest selloffs in a three-month period since the global financial crisis nearly fifteen years ago. The accumulation of these events started to weigh on GDP growth around the globe. Lower-income households were hit hardest, with inflation rapidly consuming pandemic-driven savings and wages unable to keep pace. This reverberated across the spectrum of retail sales and was captured in trading down and prioritizing essentials over discretionary. Global retailers called out these developments as they reported monthly sales trends and earnings.

Commodity prices exhibited strength, as Russia/Ukraine-related supply constraints met still-resilient demand over much of the period. However, concerns over the effects of high prices on demand and downward revisions in global growth expectations drove a reversal across many commodities into quarter end. Rising US interest rates, global growth concerns, and a flight to safety drove the US dollar higher versus other global currencies in the period, adding a further headwind from translation of foreign profits for US multinationals.

US Federal Reserve policy tightening increased markedly during the quarter, with the unusual move of a 75 basis point (bp) hike during the Fed's June meeting and expressions that a further 75 bp hike could be necessary in July. The effective Fed Funds rate closed the quarter at 1.50%–1.75%, up from 0%–0.25% at the start of the year.

Market Index Performance



As of June 30, 2022. Source: Jennison, FactSet, MSCI

Style Performance

- All of the nine market cap style boxes declined double digits in the quarter. Value outperformed growth across all market cap segments.
- Large cap value is the best performing group for the trailing one-year, while small cap growth is the weakest for the trailing one- and three-years.
- Large cap growth still leads for the trailing three- and ten-years.

Style Index Performance

2Q22

	Value	Core	Growth
Large	-12.2	-16.7	-20.9
Mid	-14.7	-16.8	-21.1
Small	-15.3	-17.2	-19.3

Trailing 1-year

	Value	Core	Growth
Large	-6.8	-13.0	-18.8
Mid	-10.0	-17.3	-29.6
Small	-16.3	-25.2	-33.4

Trailing 3-Year

	Value	Core	Growth
Large	6.9	10.2	12.6
Mid	6.7	6.6	4.3
Small	6.2	4.2	1.4

Trailing 10-Years

	Value	Core	Growth
Large	10.5	12.8	14.8
Mid	10.6	11.3	11.5
Small	9.1	9.4	9.3

As of June 30, 2020. Source: Jennison, FactSet, MSCI.

Sector Performance

- Along with energy, defensive sectors such as consumer staples, utilities, and health care held up better in the second quarter. Growth sectors like consumer discretionary, communication services, and information technology were the weakest.
- Energy also led for the trailing one-year, followed by utilities and consumer staples.
- Information technology maintained its lead position for the three-, five-, and trailing ten-years.

GICS Sector Performance - S&P® 500 Index

	2Q	One Year	Three Years	Five Years	Ten Years
Consumer Staples	-5	7	11	9	11
Utilities	-5	14	9	10	10
Energy	-5	40	10	7	4
Health Care	-6	3	14	12	15
Real Estate	-15	-5	7	8	9
Industrials	-15	-13	6	7	11
Materials	-16	-9	10	9	10
Financials	-18	-13	7	7	12
Information Technology	-20	-14	19	20	19
Communication Services	-21	-29	5	6	6
Consumer Discretionary	-26	-24	5	10	14
Total	-16	-11	11	11	13

As of June 30, 2020. Source: Jennison, FactSet, MSCI.

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

Earnings Results

- First-quarter earnings results overall were weaker quarter over quarter. 69% of the S&P 500's constituents met or beat expectations versus 80% last quarter.
- Industrials and consumer staples had the best results with 90% of companies meeting or beating consensus estimates. Information technology companies also continue to post strong earnings, with only 12% missing expectations.
- Consumer discretionary, real estate, and utilities had less than 70% of companies beating or meeting expectations.

Sector Name	% of Companies Beating/Meeting	% of Companies Missing
S&P 500	69%	31%
Industrials	90%	10%
Consumer Staples	90%	10%
Information Technology	88%	12%
Financials	83%	17%
Health Care	78%	22%
Energy	76%	24%
Materials	75%	25%
Communication Services	73%	27%
Utilities	69%	31%
Real Estate	69%	31%
Consumer Discretionary	68%	32%

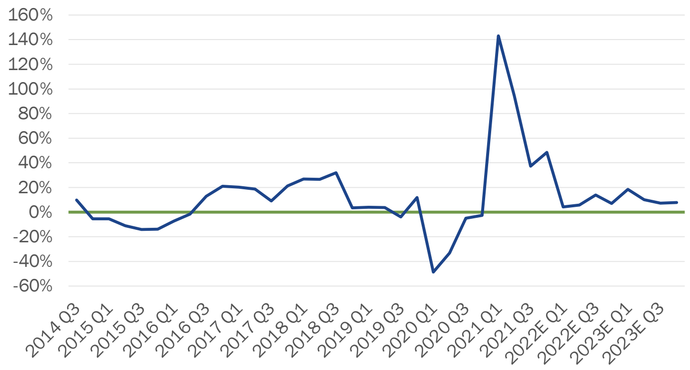
As of June 15, 2022 (most recent available) reflecting the end of the first quarter 2022 reporting season. Source: Standard & Poors.

Sector Weights

	S&P 500	MSCI ACWI ex US	Russell 1000 Growth	Russell 10000 Value
Communication Services	9	6	8	9
Consumer Discretionary	11	12	15	6
Consumer Staples	7	9	6	7
Energy	4	6	1	7
Financials	11	20	3	20
Health Care	15	10	12	17
Industrials	8	12	7	10
Information Technology	27	11	44	9
Materials	3	8	1	4
Real Estate	3	2	2	5
Utilities	3	3	0	6

As of June 30, 2020. Source: Jennison, FactSet, MSCI.

S&P 500® Index - YoY EPS Growth



As of June 30, 2020. YoY = Year over Year. Source: FactSet. Forecasts may not be achieved and are not a guarantee or reliable indicator of future results.

S&P 500® Index - NTM P/E

As of June 30, 2020. Source: Jennison, FactSet, MSCI.

Outlook from Jennison's Growth Teams

Over the past year, the investment backdrop has transformed from one of stimulus and spending to one of inflation and tightening financial conditions, with the need to control inflation moving aggressively to the fore. Investors remain concerned about the Fed's willingness to take the measures necessary to combat high inflation, despite the recently stepped-up magnitude and pace of rate increases and language communicating a "whatever it takes" approach. The uncomfortable reality for policymakers is that the primary sources of elevated headline inflation this year are supply driven—tied directly to the war in Ukraine and related Russia sanctions—which challenges the effectiveness of monetary policy as a tool for addressing the problem. Meanwhile, an intensifying slowdown in global economic activity and rising concerns about recession in many countries will confront investors and policymakers as the second half of the year unfolds. In that vein, the Fed's task of bringing inflation back to its 2% target without undermining the robust employment backdrop and precipitating a recession underscores current uncertainty around the macro outlook.

We are not yet at the point where a US recession is inevitable, but the prospects for one continue to build. Companies across our portfolio are approaching their planning with the recognition that the intermediate-term outlook poses greater uncertainty today than it did when the year began. Adjustments in hiring plans and greater impact from foreign currency translation on reported profits are among the shifts that are affecting full-year financial outlooks at this stage.

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The advantages and attributes of high-quality growth companies tend to attract greater investor attention during periods of slowing growth, given their relative resiliency to economic headwinds. For much of the past 40 years, disinflation was the common theme, and interest rates trended lower, particularly during economic slowdowns. In the current cycle, however, a spike in inflation has forced policymakers and the market to respond with sharply higher interest rates, pushing up the discount rate investors apply to the value of future cash flows for many of the growth companies that make up our portfolio. As a result, the overall valuation of our large cap growth portfolio has adjusted significantly to this impact over the past several months, returning to pre-pandemic levels.

One of the lessons learned over 50+ years of investing on behalf of our clients is that extreme equity market weakness can lead to unexpected end market weakness, and we are analyzing the risks to revenue growth, operating margins, cash flow, and earnings growth under different distress scenarios. Through our bottom-up research and analysis, we continue to see the companies in our portfolios as best placed to withstand the slowdown through their exposure to unique products and services that address demands in growing markets through innovation and agility. The companies' strong balance sheets and financial flexibility should allow them to gain market share from weaker competitors, while continuing to invest for future growth throughout the period.

Sector Views

Information Technology

The S&P 500 Index's information technology sector was down -20.2% in the second quarter of 2022 and was one of the worst performing sectors in the broader market S&P 500, which was down -16.1% in the quarter. The quarter was a continuation of the give-back trend we've seen since November 2021 from especially strong technology results the previous two+ years.

The short-term difficult macro environment along with negative global economic sentiment through 2023 continued to drive stock prices. As a result, performance in the quarter was driven by multiple compressions and the ongoing normalization of earnings to pre-COVID levels, especially for technology. This has also led to the lowering of forward guidance into 2023 for many companies in the secular growth basket, thus compounding the situation for these stocks. Nevertheless, the longer-term underlying strength in these business models and their secular trends remain solid. This is reflected in the industry results within the sector, where areas that have some of the highest levels of long duration earnings growth (IT services, software, and semiconductors) had the largest negative performance.

The current macro uncertainty was the driver behind this. Factors such as rising rates (occurring quickly); persistent inflation; the hawkish Fed; energy supply; China turbulence; and then the Ukraine invasion are responsible for the uncertainty and thus the resulting elevation of the discounting mechanism for equities. It is thus not surprising that the longest duration equities (areas such as secular growth and especially technology stocks) had the worst performance and the highest levels of multiple compression. It does not look like the current environment is expected to change in the short-run (risk levels will remain elevated), so on a go-forward basis we can expect continued volatility and consolidation for the technology sector, both relative and absolute.

Nevertheless, we believe the market over the long-term should continue to favor companies with asset-light business models, subscription model revenue streams, disruptive products, large total addressable markets (TAM); and faster organic growth with long runways of opportunity. This is especially true as the overall economic environment is expected to slow back to its post global financial crisis average, given that the easy comparisons from the 2020-2021 COVID shutdown have been annualized for companies that are more cyclical and rate sensitive (often classified as "old economy"). If this occurs, growth will become scarce again and the market should pivot towards the select few companies that can produce it organically.

It is important to recognize that technology is no longer a distinct sector; rather, it is woven through every industry in which we invest. This backdrop creates an attractive environment for long-term champions of innovation. For example, we expect continued accelerated CAPEX spending on tech, software, and R&D, especially since these expenditures have now become a "necessity for survival" for businesses instead of a way to reduce costs and a "nice to have." This can be seen across multiple fronts: technology-heavy capital expenditures; AI/deep-learning, ecommerce strategies; the enterprise transition to the cloud; direct-to-consumer business models; and software applications that extend across businesses. The long-term implications of this change in CAPEX spend will likely be profound.

We also see continued acceleration and long duration technology demand from the large global millennial population, given their early uptake of so many digital economy related products (many of which are driven through the smartphone) that are solving their real-world problems. We believe these large, global-oriented total addressable markets provide an ample runway for long-duration top- and bottom-line growth, with many disruptive trends expected to double over the next three to five years. Historically, earlier stages of mass adoption have spurred more innovation, greater ease of use, and an expansion of the ecosystem, which in turn has kept the virtuous cycle spinning with yet greater adoption.

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. This includes social media companies (classified as "communication services"); internet retailers and electric vehicles ("consumer discretionary"); communication tower companies ("real estate); and robotic surgery, diagnostic, and biopharmaceutical companies ("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

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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.

- We look for companies positioned to benefit from increased business spending on technology. This includes investing in industries such as 5G, SaaS, 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. Business and consumer behaviors have clearly changed, with adoption and uptake rates inflecting higher.

Health Care

In 2022's second quarter, the health care sector of the S&P 500® Index declined 5.9%, which outperformed the overall Index, which lost 16.1%. Over the trailing 12-months, the health care sector rose 3.4% compared to the Index's 10.6% decline.

The investment environment at the start of 2022 was clouded by uncertainties related to the pandemic, inflation, and the prospect of slowing growth on the back of the Federal Reserve's plans for policy tightening. The brutal military conflict in Ukraine added a dangerous new dimension of uncertainty in late February, leaving a humanitarian crisis and tragedy in its wake. The immediate reaction was a further ratcheting down in risk tolerance, as investors began to weigh the potential effects on European growth and the global ramifications of the most provocative conflict in Europe since WWII. In response to Russia's aggression, the United States and European Union rolled out comprehensive economic sanctions aimed at the Russian economy and its access to the global financial system. Commodity prices rose sharply, led by crude oil, as the sanctions made it difficult for the world's largest oil exporter to complete transactions.

The Fed raised the Federal Funds rate for the first time since 2018 and indicated a commitment to tighten policy until inflation returns to the target range. The yield on the 10-year US Treasury note finished the second quarter at 3.0%— up approximately 150 basis points from year-end 2021—and a flattening yield curve suggested rising concerns about a potential recession. The US dollar strengthened against most major currencies. US equities posted a second consecutive negative quarter and were down 20% to start the year. This marked the worst first six months of a year since 1970. Higher-growth, higher-valuation and development stage companies within the healthcare sector were relatively poor performers throughout the period. Subsequently, the velocity of the recent selloff in biotech has truly been unprecedented.

As we move further into 2022, it is our view that the impact from COVID, coupled with many headwinds the sector faced in 2021, are subsiding. We believe the sector has begun to show signs of leadership again as investors place more emphasis on stable company fundamentals and the significant alpha generating opportunity that broad innovation in the sector can provide. Furthermore, drug pricing legislation is back in the headlines. We continue to believe that the bills being discussed will be manageable and have a limited impact on the sector. We ultimately believe that clarity on drug pricing would remove a six year overhang and be and long term positive for the sector, in particular, biotech. We are pleased to see that the most negative elements of drug pricing reform are now off the table and expect the final details of any reform to be manageable. More specifically, now that some "action" is potentially being taken on drug pricing the likelihood of any draconian changes that were potentially negative for the industry are off the table. A "no news" stance out of Washington, coupled with the appointment of an FDA commissioner, should position health care well into 2023.

Investment Themes & Areas of Focus

Healthcare is one of the fastest growing sectors in the global economy which is driving rapid scientific and technological advancements. The convergence of technology and consumerization is fueling an unprecedented flow of innovation to address unmet medical needs and reduce costs. This evolution will have a lasting impact on the patient experience as Healthcare is switching to more preventive medicine and an outcome-based economic model. This backdrop presents unique opportunities to allocate capital to multiple healthcare industries.

- 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 bio-therapeutic companies have compelling fundamentals and innovative products and pipeline drugs.
- The number of drug candidates in biopharma pipelines continues to be high. 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.
- Many tools and diagnostic companies are engaged in improving the physician decision making process, accelerating the drug development & approval process and integrating biology faster.
- Medical device companies are improving the quality of life, offering less invasive procedures, increasing the ease of use for both doctor and patient, all of which reduces facility stays.
- The healthcare service companies we focus on are leading sources to improve access to care, increase patient engagement, improve disease management, shift treatments to lower cost, more convenient sites of care, and lower overall cost of care.

Utilities

Following a rally that began in December of 2021, the utilities sector of the S&P 500® Index continued to outperform the broader market in the second quarter. Despite the relative outperformance, the sector posted negative returns. While concerns about rising rates, high commodity prices and an investigation into solar tariffs weighed on the group during the quarter, utilities continued to benefit from being a "safe haven" sector, which has helped drive both strong

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gains in the first quarter and relative outperformance in the first half of 2022. While utilities finished the period down 5.1%, the group ended the second quarter 1100bps ahead of the S&P 500.

Utilities have seen a meaningful recovery in the last three quarters. The group had been the worst-performing sector on a trailing 2-year basis prior to 2Q22, in spite of strong fundamentals. Even during this period of economic volatility, the companies have continued to execute operationally and deliver strong earnings while also de-risking their portfolios. The gap in performance has closed, with utilities now outperforming the S&P500 by more than 6% over the last 24 months. Continued solid execution, along with the potential growth opportunities from renewable energy investments, should help to drive the sector's earnings going forward. In addition, geopolitical concerns as well as a flattening yield curve, remain macro tailwinds. Strong fundamentals and macro tailwinds underscore the opportunity in the sector, especially given the lower-than-average interest rate environment.

Utilities represents a compelling defensive growth proposition for investors for several reasons, both sector-specific and macro-related:

- The Renewables Opportunity: improving economics in wind and solar power continue to remain a growth driver for the overall sector; companies are only now beginning to incorporate renewables into their capex plans, allowing them to earn a regulated rate of return on their renewable investments.
- Predictable cash flow and earnings: utilities are by nature a defensive sector and those companies with regulated or quasi-regulated (renewables) businesses generate long-duration cash flows and predictable rate base earnings; in addition to providing stable dividends even in periods of uncertainty, growth in renewables should help drive earnings above the sector's historical 3%-5% growth rate.
- Continued low interest rate environment: rates remain low from a historical perspective; in a "lower for longer" interest rate environment, utilities should continue to benefit from the lower cost of capital – savings that eventually should flow directly to the bottom-line.
- Policy tailwinds: renewables should continue to benefit from government stimulus packages tailored to a green recovery, as well as development tailwinds that should sustain dividend growth.

Investment Themes & Areas of Focus

- 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 – the energy transition is driving ongoing investment and usage of renewables and should continue to provide unique investment opportunities over the long-term.
- Water Utilities – a focus on improving water quality, as well as pipeline replacement and maintenance, provides 10-years of transparency into spending and income plans.
- Communications Infrastructure - tower operators provide critical infrastructure and strong free cash-flow generation due to multi-year contracts.
- Midstream Energy - specifically companies with exposure to natural gas, a critical bridge fuel.

Midstream Infrastructure

Despite a negative return in the second quarter, midstream infrastructure continues to be a strong performer in the 19 months since the COVID vaccine announcement in late 2020. While midstream – and energy broadly – outperformed the S&P500 once again in the second quarter, energy was the worst-performing sector of the market in the month of June. Despite the fact that fundamentals and cyclical tailwinds remain intact, broader macro concerns as well as technical factors weighed on the group toward the end of the quarter. Midstream held up better than most other energy sub-sectors in June's sell-off, lagging only the refiners. For the full 3-month period, the Alerian MLP Index lost over 7%, while the Alerian Midstream Energy Index, which includes a broader group of midstream infrastructure companies as well as MLPs, fell by more than 8%. The midstream indices outperformed the S&P 500 index by more than 700bps.

Midstream energy has been a sector in transition for several years. Most of the larger companies have taken decisive measures to conserve cash and "right-the-ship" during this global pandemic, and we believe this disciplined behavior will continue. Cash-flow metrics have improved across the board after companies reduced capex and growth spending over the last two years. Many larger companies are now free cash flow positive for the first time, an important inflection point reached in 2021. Added cost reductions and increased asset optimization should continue to fortify balance sheets, while offering management teams further opportunities to reduce debt levels as well as return cash to shareholders.

Recent weakness aside, improvements in fundamentals were finally starting to be reflected in stock prices. While a recovery is clearly underway, it will likely continue to be non-linear, as the world is still dealing with COVID and intermittent lockdowns in China. While it is likely that we have seen the last of severe global economic shocks due to the pandemic, hiccups along the way – whether pandemic- or geopolitically-induced – should be expected. However, as economic activity continues to ramp up, stocks should increasingly price in the long-term positive benefits from the significant transformational corporate reform that has occurred over the past few years. The group is well-positioned for performance beyond the cyclical recovery.

The global energy transition will require multiple sources of energy to be successful. Hydrocarbons will continue to have a role, driving future demand not just for the commodities but for the essential logistical systems that move them. With physical steel in the ground, midstream infrastructure companies have difficult-to-replicate asset networks with high barriers to entry, and whose adaptability to transport other energy sources is underappreciated. Management teams are increasingly aware of the role they will play in our energy future, focusing not just on the environmental impact of their operations but also on how their asset bases can and will be part of a greener future.

Investment Themes & Areas of Focus

- "Reformed" companies – those companies exhibiting higher capital discipline, and healthier, more conservative balance sheets that can withstand a downturn, along with improving ESG metrics such as solid corporate governance.
- Integrated business models – the larger, more integrated companies with multiple touch points along the energy value chain, higher barriers-to-entry, and steady cash-flows.

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- Firms with exposure to the natural gas liquid (NGL), liquefied natural gas (LNG), and natural gas demand export themes.
- Companies with liquids exposure that will benefit from the re-opening of the economy.
- Renewable energy companies to get exposure to an area of significant growth as part of the global energy transition.

Financials

In what was a very ugly equity market (negative returns for all S&P sectors) in the second quarter, the financials sector of the S&P 500® Index modestly underperformed the broader market. While the expectation of Fed hikes was a tailwind for financials earlier in the year, this has since been offset by geopolitical conflict and inflationary pressure, which have given rise to concerns that we may be headed toward a recession. The sector would be negatively impacted if this occurred, specifically around higher credit losses and slowing consumer/business activity. This concern has showed-up across all risk assets. For example, high yield spreads went from 340 bps to 565 bps during the quarter. Financials returned -17.5% for 2Q22, trailing the -16.1% return of the S&P 500 Index. Despite the negative return in the last three months, financials have outperformed the S&P 500 by more than 400 bps over the last 18 months.

While the sector's fundamentals are experiencing some labor cost pressures, this has been offset by the continued, albeit non-linear, economic recovery, improved tech driven efficiencies, better credit conditions, interest rate hike announcements, and the lingering effects of the second stimulus. Nevertheless, the market is less concerned with these dynamics and is solely focused on the expectation of a hard economic landing and the course of Fed tightening.

While the end of the pandemic and return to sustainable pre-2020 growth levels are starting to come into view, the timeframe for a full recovery has now been hampered by the difficult forward macro environment. The drivers behind this are rising rates (occurring quickly), persistent inflation, the hawkish Fed, energy supply, China turbulence, and the invasion of Ukraine. We now have much higher uncertainty, which has resulted in a sharply higher discounting mechanism for equities. With market expectations coalescing around a possible recession (mainly induced by the Fed having to over-tighten to control inflation), financials would be negatively impacted by potential falling consumer and business confidence and eroding credit conditions.

Despite the gathering storm clouds, from a relative basis the current environment is supportive of banks given modest loan growth, improving interest income from rising rates, ample loan loss reserves, and credit conditions that remain solid enough to absorb some expected deterioration. Property and casualty insurance remains a safe haven given its defensive nature and strong pricing dynamics. Additionally, both of these industries have attractive valuations and reasonable earnings floors to support the stocks under a more difficult macro environment.

Investment Themes & Areas of Focus

- Overall, banks are significantly better-positioned today than they were in 2008-2009 financial crisis across a broad range of balance sheet, capital, and risk management metrics.
- With the rapid rise in rates since the summer of 2021 (a double in the ten year US Treasury yield), valuations in the sector have normalized. Tailwinds for future bank earnings growth will be primarily driven by solid loan demand and credit conditions from strong economic growth; ongoing expansion of their fee based business opportunities; and continued efficiency improvements through better use of technology.
- Fundamentals for P&C insurance companies are solid (driven by favorable pricing dynamics) and valuations remain attractive.
- As a return to normalized growth plays out over time, secular growth companies with defensive attributes (low leverage rates, asset light models, sustainable, high margin, and high free cash flow businesses) should fare better. Several digital payment and financial technology companies meet these criteria.

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