

Jennison Market Review and Outlook 2023

Market Backdrop

The US economy remained resilient throughout the second quarter of the year. The positive trends in consumer spending and wage growth countered an uptick in the unemployment rate that ended the quarter at 3.7%, a slight increase from 3.5% when the year began. US factory orders were slightly positive in the second quarter while the US manufacturing Purchasing Managers Index remained just under 50. Despite a mixed picture of the economy's health, investors cheered the slowing pace of the Federal Reserve's monetary policy adjustment, with the second quarter seeing just one additional increase of 25 basis points. Commentary from Fed board members in the past three months emphasized the need to remain vigilant in the ongoing process of fighting inflation. At the same time, they acknowledged the diminishing pace of gain in the headline inflation rate year over year, coupled with the lagging impacts of the rate increases of the past 12 months that have yet to fully reveal themselves. Corporate profits also signaled a more optimistic outcome than forecast at the start of the year. US equities appreciated through the period, with growth companies building on their strength from early 2023. For the quarter, the S&P 500® Index gained 8.7% while the Russell 1000 Growth Index advanced 12.8%.

Fallout from the first quarter's banking failures was evident in continued deposit outflows at smaller institutions, though with a moderating trend following steps by the FDIC to fully guarantee deposits greater than the FDIC insurance limit of \$250,000 at the failed institutions (Silicon Valley Bank, First Republic Bank, and Signature Bank). These actions calmed both depositors and investors, but without resolving the underlying issue of asset/liability mismatch on many banks' balance sheets.

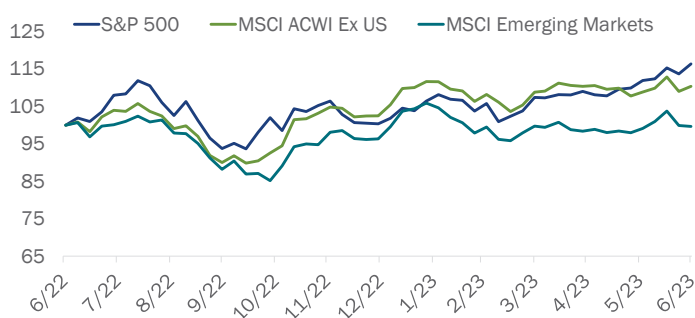
The nascent environment surrounding artificial intelligence (AI)—catalyzed by the launch of ChatGPT in late November of last year—emerged throughout the quarter, heralding transformative technological change. Implications around the threats and opportunities created by the technologies that make up the generative AI landscape were debated throughout the three-month period. Investors expressed greatest enthusiasm for companies that supply the foundational components to architect and run AI and machine-learning capabilities. Share prices of select semiconductor and software companies advanced as a result. Thereafter, there remained a wide variety of opinion on who has the most to gain/lose from the application of these new technologies across companies and industries.

China's economy continued to rebound from the end of the zero covid policy, adding to the global growth outlook. However, China's recovery to date has been less impactful than in other economies given domestic property market weakness and its interrelationship with overall consumer wealth.

European interest rate increases continued apace while its economies faced ongoing disruptions caused by the Russia-Ukraine conflict. European central bankers showed less willingness to pause than their US counterparts because inflation was running at higher-than-desired levels than in the United States. Overall growth expectations remained at restrained levels given this backdrop, though consumer spending surprised positively.

Past performance is not a guarantee of future results. See Disclaimer for index definitions, GICS classification and other important information. There is no guarantee our objectives will be met. All investments contain risk, including possible loss of principal. The strategy may vary significantly from the benchmark in several ways including, but not limited to, sector and issuer weightings, portfolio characteristics, and security types.

Market Index Performance



As of June 30, 2023. Source: Jennison, FactSet, MSCI.

Style Performance

- Most style indices posted solid gains in the quarter, once again led by large cap growth stocks. Growth outperformed value across capitalizations and large caps outperformed mid and small caps. Small cap value was the weakest market segment for the second consecutive quarter.
- For the trailing one-year, all style indices also posted gains, led by large and mid cap growth. Small cap value lagged.
- Mid- and small-cap value lead for the trailing three-years, while large cap growth is the best performer for the trailing ten.

Style Index Performance

		2023			Trailing 1-Year		
		Value	Core	Growth	Value	Core	Growth
Small	MidLarge	4.1	8.6	12.8	11.5	19.4	27.1
	Mid	3.9	4.8	6.2	10.5	14.9	23.1
	Small	3.2	5.2	7.1	6.0	12.3	18.5
		Trailing 3-Year			Trailing 10-Years		
		Value	Core	Growth	Value	Core	Growth
Small	MidLarge	14.3	14.1	13.7	9.2	12.6	15.7
	Mid	15.0	12.5	7.6	9.0	10.3	11.5
	Small	15.4	10.8	6.1	7.3	8.3	8.8

As of June 30, 2023. Source: Jennison, FactSet, MSCI.

Sector Performance

- In the second quarter, growth sectors led, with information technology, communication services, and consumer discretionary posting the largest gains.
- Utilities and energy were both negative in the quarter.
- Energy was the best performing sector on a three-year basis; however, information technology leads for five and ten years by a wide margin.

GICS Sector Performance - S&P® 500 Index

	2Q	One Year	Three Years	Five Years	Ten Years
Information Technology	17	40	20	22	22
Consumer Discretionary	15	25	9	10	13
Communication Services	13	17	7	9	6
Industrials	6	25	18	11	12
Financials	5	10	16	7	10
Materials	3	15	16	10	10
Health Care	3	5	12	12	13
Real Estate	2	-4	6	7	8
Consumer Staples	0	7	12	11	10
Energy	-1	19	35	7	4
Utilities	-3	-4	8	8	9
Total	9	20	15	12	13

As of June 30, 2023. Source: Jennison, FactSet, MSCI.

Earnings Results

- Overall, first-quarter 2023 earnings were much better than the previous quarter with 80% of the S&P 500®'s constituents meeting or beating consensus expectations versus 73% last quarter.
- Seven of 11 sectors saw 85% or better of companies matching or exceeding expectations with the best results among energy companies.
- Communication services, real estate, and utilities had the worst results with more than 30% of companies in each sector missing expectations.

Sector Name	% of Companies Beating/Meeting	% of Companies Missing
S&P 500	80%	20%
Energy	87%	13%
Health Care	86%	14%
Consumer Staples	86%	14%
Materials	86%	14%
Information Technology	85%	15%
Consumer Discretionary	85%	15%
Industrials	85%	15%
Financials	68%	32%
Utilities	67%	33%
Real Estate	67%	33%
Communication Services	65%	35%

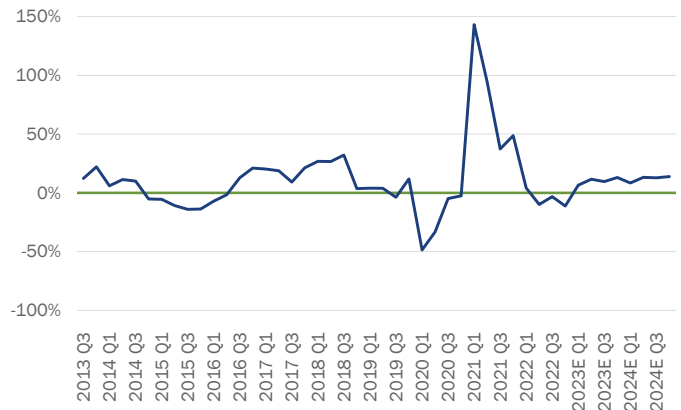
As of June 30, 2023 (most recent available) reflecting the end of the first quarter 2023 reporting season. Source: Standard & Poors.

Sector Weights

	S&P 500	MSCI ACWI ex US	Russell 1000 Growth	Russell 10000 Value
Communication Services	8	6	11	5
Consumer Discretionary	11	12	16	5
Consumer Staples	7	9	4	8
Energy	4	5	0	8
Financials	12	21	6	20
Health Care	13	10	11	16
Industrials	8	13	6	13
Information Technology	28	12	43	9
Materials	2	8	1	5
Real Estate	2	2	1	5
Utilities	3	3	0	5

As of June 30, 2023. Source: Jennison, FactSet, MSCI.

S&P 500® Index - YoY EPS Growth



As of June 30, 2023. 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, 2023. Source: Jennison, FactSet, MSCI.

Outlook from Jennison's Growth Teams

The US economy stands in better shape than we anticipated when the year began. Robust employment has sustained consumer spending at a solid pace. Consumer confidence currently reflects optimism in the near term despite announced work force reductions, interest rates at the highest levels in over a decade, and reduced credit availability in the financial system. It therefore seems likely that the slope of the economy's slowing trajectory will remain shallower while employment remains healthy.

Inflationary pressures, while still evident, will likely continue to moderate. We expect further increases in interest rates, though evidence leans towards the bulk of the rate increases being behind us for this cycle.

Trends in technology spending, which weakened earlier last year, have begun to stabilize. A combination of easing year-over-year comparisons and the priority of digital transformation, with an emerging impetus from AI, increasingly suggest a rebound in spending and a return to longer-term investment trends moving toward year-end. The strong rebound in the prices of select technology shares year-to-date reflects both the depressed nature of valuations when the year began and the first signs of upgrades to near- and medium-term revenue and profit expectations from company managements, a trend we believe will gather pace in the coming quarters.

We would expect to see generative AI use cases and applications spread from technology providers and developers to a wide variety of industries and companies that use these tools to increase competitive positioning through improved time to market, streamlined customer service, and accelerated efforts to harness data in increasingly sophisticated ways. There is a looming challenge in balancing the costs of these investments with business model improvements and other priorities. It is still very early, but the sense of urgency could lead to tangible results sooner and more spending than is currently discounted. As always, we are focused on our investment time horizon as we think about sizing our existing positions in companies directly exposed to these spending trends as well as opportunities that are still early in both their life cycle and monetization potential. We continue to own a broadly diversified portfolio of companies that we believe are positioned to outpace the market averages in growing revenue and earnings over our investment time horizon.

Sector Views

Information Technology

The S&P 500® Index's information technology sector was up 17.2% (after a +20% return in Q1) in the second quarter of 2023, outperforming the broader market S&P 500® (+8.7% in the quarter). It has been a strong first half of the year, reflecting both better-than-expected fundamentals along with a slight improvement in the macro environment and its effect on the forward discounting mechanism for long duration equities. We are clearly in an environment where "less bad equals good" for technology stocks.

Calendar year 2022 produced multiple compression and lowered earnings revisions across the entire sector. Forward consensus on near term fundamentals and growth trajectories have been reset lower in anticipation of further deterioration of the macro.

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Nevertheless, driven by the digital transformation of the consumer and businesses, the longer-term underlying strength in these business models and their secular revenue trends remain solid and were highlighted across the overall sector's reported earnings this year.

Trends in technology spending, which weakened earlier last year, have begun to stabilize. A combination of easing year-over-year comparisons and the priority of digital transformation, with an emerging impetus from AI, increasingly suggest a rebound in spending and a return to longer-term investment trends moving toward year-end. The strong rebound in the prices of select technology shares year-to-date reflects both the depressed nature of valuations when the year began and the first signs of upgrades to near- and medium-term revenue and profit expectations from company managements, a trend we believe will gather pace in the coming quarters.

Longer term we believe the market will continue to favor companies with asset-light business models, high incremental gross profit margins, subscription model revenue streams, disruptive products, large total addressable markets (TAM), and faster organic growth with long runways of opportunity.

It is important to recognize that technology is no longer a distinct sector. Rather, it is woven through every industry in which we invest, a backdrop that creates an attractive environment for long-term champions of innovation. For example, we expect continued accelerated long-term CAPEX spend 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; health care and medical technology; 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 massive global millennial and Gen-Z 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 4-5 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.

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 technologies such as social media, mobile devices, artificial intelligence, and cloud computing.
- We look for companies positioned to benefit from increased business CAPEX 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

The health care sector of the S&P 500® Index advanced 3.0%, trailing the overall Index 8.7% return. Additionally, the Nasdaq Biotechnology Index declined -1.0%. Over the trailing 12-months, the health care sector's 5.2% return trailed the overall Index's 19.5% gain.

While the health care sector trailed the S&P 500® Index over the prior year, the broad market's return has almost entirely been driven by 7 stocks (Apple, Microsoft, Amazon, Alphabet, Nvidia, Meta and Tesla). That said, we have been encouraged by the post pandemic recovery now being observed within in the health care sector and feel confidently that many industries will realize above historic trend growth, particularly for drug reviews, drug approvals, and elective procedural growth. Additionally, merger and acquisition activity has accelerated, Washington D.C. has become more amenable to approvals, and, should market volatility increase, the sector is not as economically sensitive as others.

As we look towards the remainder of 2023, it is our view that 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 can provide. As a result, we believe an acceleration in investment and innovation is not yet reflected in the price of many stocks.

Investment Themes & Areas of Focus

- We believe health care is positioned to continue delivering outsized growth. Innovation is modernizing the industry, as technology adoption is improving the patient experience, and influencing lower costs. Patients have become more tech savvy and more aware of their own health. At the same time, advancements in the ability to diagnose, monitor, and treat diseases with personalized therapeutics is creating a broad set of investment opportunities.
- We believe the current wave of consumerization and innovation is paving the way for a select group of companies with access to data to demonstrate durable, outsized growth over the next decade. This move to allow innovation to replace legacy approaches to provide the most impactful and efficient care should parallel what we observed evolve in the information technology sector from 2010 to 2020.
- We think data will also play a crucial function in defining long-term winners in the health care sector. Tech-enabled health care is the future of the industry and it starts with data. Data enables the development of methods to monitor and optimize the delivery of care, and allows physicians to better understand patients. Over time, we expect the health care companies that can effectively collect, process, and make sense of data to emerge as the industry's large conglomerates with established competitive advantages.
- On the innovation front, advances in DNA sequencing, artificial intelligence, and computational biology in the biotechnology industry have translated into new treatments for chronic diseases

such as diabetes and obesity. There are also early signs that more effective obesity treatments are having a positive impact on cardiovascular disease, which is among the world's deadliest and most costly conditions to treat. For investors, these advancements are creating new opportunities among select pharmaceutical companies that have the depth of resources—including large balance sheets and sizeable manpower—to capitalize on this enormous market for cardiovascular treatments and prevention.

- At the same time, we expect the biotechnology industry to remain volatile. We believe too much public company creation over the past five years fostered an environment where less than “ready” companies were vying for capital, thus overly diluting the pool of investible ideas. Against this backdrop, we believe stock selection will be absolutely paramount, as we expect ongoing innovation will create a compelling set of opportunities to allocate capital. Presently, the mid-cap biotech segment has been attractive, as not only do many of these companies have pipelines but they also offer positive EBITDA, thus making them more attractive in a rising rate environment and, more importantly, attractive to possible larger company “suitors.” That said, we have been able to identify opportunities regardless of market cap.
- Innovation in the sector expands beyond biotechnology and biopharma. For example, a shift towards a value-based care model where costs are directly associated with the quality of the result is encouraging technology investments to increase efficiencies. Healthcare service providers are guiding this evolution, with access to patient data and developing methods to monitor and optimize the delivery of care. Additionally, the forward opportunity for medical equipment is improving as inflation, nurse shortages, strong dollar as well as concerns with the hospital spending environment abate, the backlog for surgical procedures should provide above historic trend growth for well positioned companies.

Utilities

Volatility in bond yields and falling power prices weighed on utilities during the quarter. It was another tough quarter for utilities as the market's attention was captured by growth sectors at the expense of defensives and cyclicals. The group, as measured by the S&P 500 utilities sector (“utilities”), was the worst-performing sector of the market—under performing the S&P 500® Index by over 1100 basis points (bps) and apart from energy, was the only sector to lose ground during the quarter. Utilities did relatively well in April as concerns about bank failure contagions still lingered, as well as sporadically throughout the quarter when recessionary fears spiked. But the market turned its focus back to growth as concerns abated deeper into the quarter and the sector lagged. Utilities finished 2Q23 down 2.5% versus the +8.7% return of the S&P 500® Index.

Despite a meaningful recovery in relative performance in 2022, the excess return gap to the broader market has largely closed this year. While fundamentals have remained strong, the group's relative performance has struggled the last few years and, with the exception of 2022, the utilities sector has been one of the weakest. However, even during the economic volatility of the past few years, the companies have continued to execute operationally and deliver strong earnings while also de-risking their portfolios. 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, continued recessionary concerns and a flattening yield curve remain tailwinds. Strong fundamentals and macro factors underscore the opportunity in the sector, especially given what remains a lower-than-average interest rate

environment.

Utilities are 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:** even with the Fed's loosening, 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:** the Inflation Reduction Act (IRA) contains many provisions that are supportive of renewables development over the next decade as the US aims to lower carbon emissions, which should help to 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 ten years of transparency into spending and income plans.
- **Midstream Energy** — specifically companies with exposure to natural gas, a critical bridge fuel.
- **Communications Infrastructure** — tower operators provide critical infrastructure and strong free cash-flow generation due to multi-year contracts.

Midstream Energy Infrastructure

Despite lagging the return of the S&P 500® Index during the second quarter, midstream energy gained ground again in 2Q. Recessionary fears continued to weigh on the broader energy sector - as well as on crude prices despite OPEC's best efforts to support the commodity - while natural gas finally saw some stability after two quarters of plummeting prices. While energy was one of the worst-performing sectors during the quarter and finished the period with a very slight negative return, midstream posted a solid gain. The sub-group has been the best-performing segment within the energy sector, both on a quarterly and year-to-date basis. For the full 3-month period, the Alerian MLP Index gained 5.3% but underperformed the S&P 500® Index by 340bps.

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

While some of 2022's strong tailwinds have dissipated and macro uncertainties persist (weighing on energy broadly year-to-date), the midstream segment has bucked the broader trend. The group is well-positioned both near- and long-term, generating above-average cash flow yields yet trading at a significant valuation discount to the broader market. We think this disconnect presents an opportunity given the significant transformation in the sector over the last few years. We believe the capital discipline shown by management teams will continue, the sector will remain free cash flow positive, and companies will continue to return capital to shareholders. Earnings results have been strong and share buybacks continue to provide stock valuation support.

Over the longer-term, midstream energy companies will play an important role in our energy future. The global energy transition will require multiple sources of energy to be successful and hydrocarbons – especially natural gas - 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 energy 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 greater 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.
- **Firms with exposure to the natural gas liquid (NGL), liquefied natural gas (LNG), and natural gas demand export themes.**
- **Companies with liquids exposure that we expect will benefit from the re-opening of the economy.**

Financials

The US economy remained resilient throughout the second quarter of the year. The positive trends in consumer spending and wage growth countered an uptick in the unemployment rate that ended the quarter at 3.7%, a slight increase from 3.5% when the year began. Because of the inherent time lags following aggressive Fed tightening and uncertainty around the level and timing of the terminal inflation rate, expectations still remain that we may be headed toward a hard-landing recession. The financial sector would be negatively impacted if this were to occur, specifically around higher credit losses and slowing consumer/business lending activity.

The financials sector of the S&P 500® Index returned 5.3% for 2Q23 versus the 8.7% return of the S&P 500® Index. This positive return reflects the sector's recovery from a difficult Q1 along with improving news on credit quality and balance sheet trends.

Despite a mixed picture of the economy's health, investors cheered the slowing pace of the Federal Reserve's monetary policy

adjustment, with the second quarter seeing just one additional increase of 25 basis points. Commentary from Fed board members in the past three months emphasized the need to remain vigilant in the ongoing process of fighting inflation. At the same time, they acknowledged the diminishing pace of gain in the headline inflation rate year over year, coupled with the lagging impacts of the rate increases of the past 12 months that have yet to fully reveal themselves.

Fallout from the first quarter's banking failures was evident in continued deposit outflows at smaller institutions, though with a moderating trend following steps by the FDIC to fully guarantee deposits greater than the FDIC insurance limit of \$250,000 at the failed institutions (Silicon Valley Bank, First Republic Bank, and Signature Bank). These actions calmed both depositors and investors, but without resolving the underlying issue of asset/liability mismatch on many banks' balance sheets.

The sector's focus continues to be directed toward liquidity and duration differences between a given bank's assets (loans, securities) and liabilities (deposits and term funding). In addition to liquidity, we believe another key risk to banking health is the status of loan quality. Banks carry significant exposure to commercial real estate (CRE), which is experiencing significant secular (post Covid) and cyclical challenges. As this economic cycle potentially turns, asset quality will need to be watched closely.

Future income statement pressure will come from continued labor cost pressures, but this is being offset by improved tech driven efficiencies and generally better overall operation of the businesses by management. Nevertheless, the market is less concerned with these dynamics and is solely focused on the expectation of a future economic slowdown and the course of Fed tightening. For the quarter within the sector all industry groups had a positive return.

Consumer finance and financial services did the best (reflecting "less bad" news on consumer trends).

Investment Themes & Areas of Focus

- Overall, the large money center and super-regional banks are significantly better positioned today than they were in the 2008-2009 financial crisis across a broad range of balance sheet, capital, and risk management metrics.
- With the rapid rise in rates and rapid sell-off from the SVB default, valuations in the sector have normalized. Tailwinds for future bank earnings growth will be primarily driven by solid revenue trends and credit controls; stabilizing net interest margins; ongoing expansion of their fee-based business opportunities; and continued efficiency improvements through better use of technology.
- Global alternative asset management firms that are publicly listed have attractive valuations, especially given their strong recurring revenue business models and consistent ability to raise fee-based assets to fund their ongoing deal-making activity.
- Fundamentals for P&C insurance companies are solid (driven by favorable pricing dynamics) and valuations remain attractive. This industry group continues to be a defensive safe haven for investors.
- As a return to normalized growth plays out over the long-term, 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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