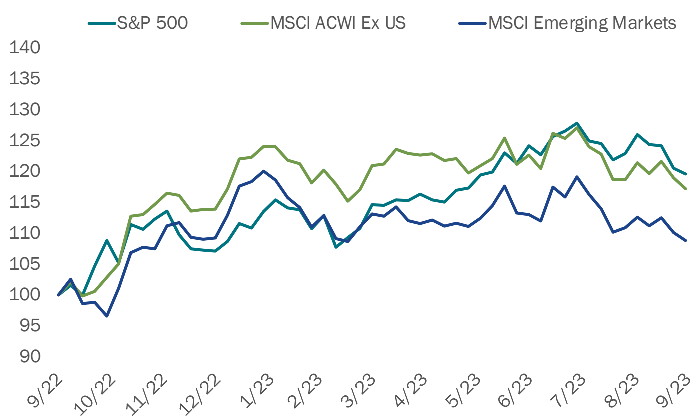
3Q23 Market Review and 4Q Outlook

Market Backdrop

US equities closed out the quarter in September on a softer note following a sideways summer. For the third quarter, the S&P 500 Index declined 3.3% while the Russell 1000 Growth Index fell 3.1%.

Macroeconomic and political developments stoked investor unease at the end of the third quarter. Threats of a federal government shutdown, strikes at several US auto makers, and tensions with China made the path to slower growth and a soft landing appear less smooth or as likely as expected. Oil prices moved higher on the back of coordinated OPEC supply restraint and a subsequent rebound in gasoline prices. US consumer confidence ticked down over the summer months, while employment and home prices held firm. The US economy's ongoing resilience, coupled with higher interest rates, reinvigorated the value of the US dollar, which closed the three-month period near its levels at the start of 2023.

Market Index Performance



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

Style Performance

- All major style indices were negative in the third quarter. Small cap value and the large cap indices held up best. Small cap growth had the weakest return.
- For the trailing one year, all style indices posted gains, led by large cap growth and core. Small caps lagged.
- Value stocks lead for the trailing three years across all market caps, while large cap growth is the best performer for the trailing ten years.

Style Index Performance

3Q23	Value	Core	Growth
Large	-3.2	-3.1	-3.1
Mid	-4.5	-4.7	-5.2
Small	-3.0	-5.1	-7.3

Trailing 1-year	Value	Core	Growth
Large	14.4	21.2	27.7
Mid	11.0	13.4	17.5
Small	7.8	8.9	9.6

Trailing 3-Year	Value	Core	Growth
Large	11.1	9.5	8.0
Mid	11.0	8.1	2.6
Small	13.3	7.2	1.1

Trailing 10-Years	Value	Core	Growth
Large	8.4	11.6	14.5
Mid	7.9	9.0	9.9
Small	6.2	6.6	6.7

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

Sector Performance

- In the third quarter, energy and communication services were the only positive sectors. Utilities and real estate were the weakest sectors.
- Energy was also the best performing sector on a five-year basis; however, information technology leads for three and ten years by a wide margin.
- Utilities and real estate were the poorest performing sectors for most time periods.

GICS Sector Performance - S&P® 500 Index

	3Q	One Year	Three Years	Five Years	Ten Years
Energy	12	6	30	51	9
Communication Services	3	40	38	5	8
Financials	-1	-2	12	14	6
Health Care	-3	-4	8	9	8
Materials	-5	3	18	9	9
Consumer Discretionary	-5	27	14	2	7
Industrials	-5	4	25	11	7
Information Technology	-6	35	41	13	18
Consumer Staples	-6	-5	7	6	9
Real Estate	-9	-5	-2	2	4
Utilities	-9	-14	-7	3	6
Total	-3	13	22	10	10

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

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Earnings Results

- Overall, second-quarter 2023 earnings were better than the previous quarter with 82% of the S&P 500's constituents meeting or beating consensus expectations versus 80% last quarter.
- Information technology had the strongest results with only 3% of companies missing estimates. This was followed by health care and consumer discretionary, with 89% and 85% topping expectations respectively.
- Real estate and utilities had the worst results with 30% of companies in each sector missing expectations.

Sector Name	% of Companies Beating/Meeting	% of Companies Missing
S&P 500	82%	18%
Information Technology	97%	3%
Health Care	89%	11%
Consumer Discretionary	85%	15%
Consumer Staples	84%	16%
Communication Services	82%	18%
Industrials	81%	19%
Materials	79%	21%
Financials	76%	24%
Energy	74%	26%
Utilities	70%	30%
Real Estate	**70%**	**30%**

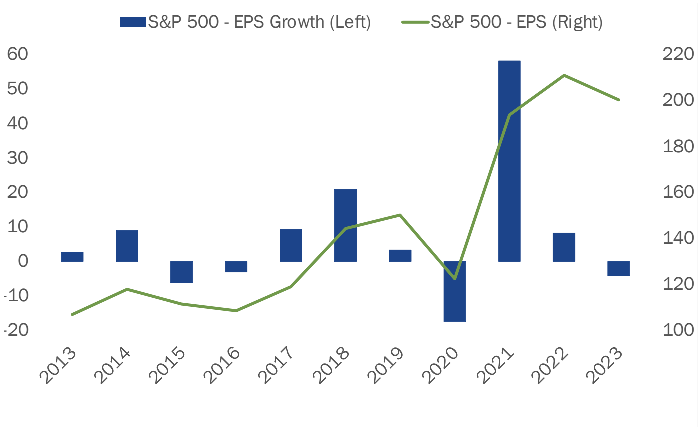
As of September 30, 2023 (most recent available) reflecting the end of the second quarter 2023 reporting season.
Source: Standard & Poors

Sector Weights

	S&P 500	MSCI ACWI ex US	Russell 1000 Growth	Russell 10000 Value
Communication Services	9	5	12	12
Consumer Discretionary	11	12	16	16
Consumer Staples	7	8	4	4
Energy	5	6	1	1
Financials	13	21	7	7
Health Care	13	10	11	11
Industrials	8	13	6	6
Information Technology	27	11	42	42
Materials	2	8	1	1
Real Estate	2	2	1	1
Utilities	2	3	0	0

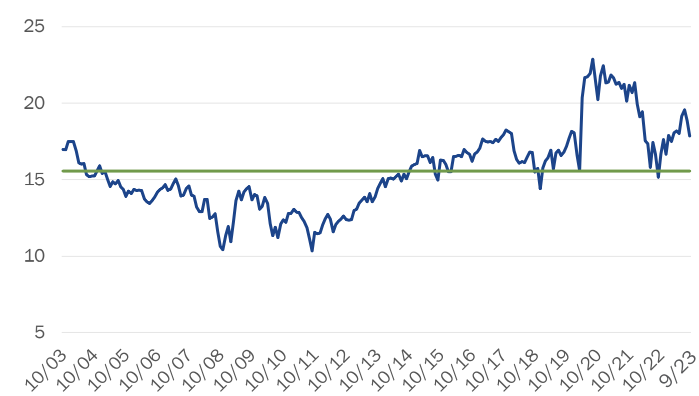
As of September 30, 2023. Source: Jennison, FactSet, MSCI

S&P 500® Index - YoY EPS Growth



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

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Outlook from Jennison's Growth Teams

Sentiment in the near term is clouded by uncertainties due to—but not limited to—repeated threats of a government shutdown, auto strikes, the restart of student loan repayments, and the lagged effect on financing costs and spending intentions from interest rates that are at 15-year highs. These impediments will likely weigh on economic growth into year end and deepen the deceleration that we have been anticipating since the year began.

US consumers, with less robust prospects overall, are beginning to show stress—primarily at lower income levels. Overall, a healthy employment backdrop and residential real estate strength, which bolsters net worth, are variables that point to a moderate slowdown. As it relates to consumer-oriented companies, we believe those that remain tightly focused on leading brands, retailers, and service providers are best positioned to take wallet share and grow revenues and profits on a multi-year basis.

Technology spending trends have turned to cost optimization, rationalization of past customer investments to drive efficiencies, and headcount reductions. We are now more than a year into this environment and believe we will begin to see greater stability in spending activity and investment intentions moving into 2024. The broad categories of cloud adoption, data mining and analytics, and the still-nascent development and adoption of generative AI capabilities remain at the forefront of longer-term investment plans across a wide range of industries.

Sector Views

Information Technology

The S&P 500 Index's information technology sector returned -5.6% (after a +20% return in the first half of 2023) in the third quarter, underperforming the broader market S&P 500 (-3.3% in the quarter). Despite a recent mild pullback (sentiment driven), it has been a solid recovery for tech stocks after a difficult 2022 (both the income statement and stock prices). This reflects both better-than-expected fundamentals along with a slight improvement in the macro environment, which includes its effect on the forward discounting mechanism (i.e., less uncertainty) for long duration equities.

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 environment. 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 in 2023.

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 management teams, a trend we believe will gather pace in the coming quarters.

Longer term we believe the market overall 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 spending 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

- 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.
- 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.

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- 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 healthcare sector of the S&P 500® Index returned -2.7%, holding up modestly better than the -3.3% return of the overall S&P 500 Index. Additionally, the Nasdaq Biotechnology Index declined -2.8%. Over the trailing 12-months, the healthcare sector's 8.2% return trailed the S&P 500 Index's 21.6% gain.

While the healthcare sector trailed the S&P 500 Index over the prior year, it has largely been in line with major indices for the trailing 3 years. However, the S&P 1500 healthcare Index is trailing the broader S&P 500, MSCI ACWI, and FTSE All World Indices by greater than 10% on both a year-to-date and trailing one-year basis, which was last observed during the internet bubble in the late 1990s. The S&P 500 Index's return has almost entirely been driven by 7 stocks (Apple, Microsoft, Amazon, Alphabet, Nvidia, Meta and Tesla). As a result, healthcare stocks are not expensive today and are priced below the broader markets. Slowing global economies call for the resilience that healthcare companies can offer, yet the sector remains at a 10% discount to global equity markets compared to an average premium of 3% over the past two decades. We believe several factors will drive relative results across multiple healthcare industries, as outlined in the investment themes and areas of focus below.

Investment Themes & Areas of Focus

Therapeutic Advancements Targeting Massive Total Addressable Markets

- Innovation and spending across drug development, genetic sequencing, data collection and healthcare service delivery is accelerating and has continued to increase post-COVID.
- We've seen an unprecedented level of development aimed at some of the world's largest total addressable markets including diabetes, obesity, cardiovascular disease, and cancer.
- Data from this summer's American Diabetes Association conference indicated even greater effectiveness of Eli Lilly and Novo Nordisk's (NVO) next gen diabetes and obesity drugs (approaching weight loss reduction of over 15% in 32-36 weeks). Initial results from NVO's SELECT trial also indicated a 20% reduction in cardiovascular events, which are among the world's deadliest and most costly conditions to treat. We look forward to the full readout at the American Heart Association in November and believe the data can unlock additional catalysts for the industry.
- 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.
- Research indicates that these assets will have an even greater comorbidity opportunity, with potential impacts on diseases such as chronic kidney disease, nonalcoholic steatohepatitis (NASH), and sleep apnea.
- We're witnessing significant advancements in antibody drug conjugate platforms that can directly target various forms of cancer.
- Notable advancements in gene-based therapies have the potential to address a large number of genetic diseases, most of which do not currently have treatments.

Increasing Procedural Spending and Utilization

- Healthcare utilization and procedures have increased post-COVID, with an acceleration over the past 12 months. United and Humana recently released data points citing the increased outpatient and inpatient utilization among seniors. These data points have been confirmed by others, suggesting outpatient hip/knee and cardio procedures have continued to be strong.
- As we look forward, we also expect to see more headwinds for the industry subsiding, including a decrease in inflation, improvements in supply chains, and a declining dollar.
- An aging population, more engaged consumers, and advancements in tech-enabled procedures and devices should support further upside over the long term.

Improving Capital Markets Activity

- M&A activity, both in terms of count and dollar size, has notably improved. Based on the current run rate for the year, 2023 is on pace to be one of the strongest M&A years in over a decade. We believe the uptick in M&A activity is sustainable as cash rich larger cap biopharma companies continue to look to replace the loss in revenues from commercial drugs that are scheduled to come off patent in the coming years.
- Year-to date, the pace of activity has been driven by the availability of clinical data as bolt-on and in-licensing deals have outpaced cost synergy driven acquisitions. The trend of science-led deals has benefited our portfolio as we have owned multiple acquisition targets in 2023. In addition, rates have been more stable and, as pharma looks to make deals, they may be more comfortable because the cost of capital will be more favorable (i.e., it potentially won't double again) over next 12-18 months.

Significant Investments in Data Management and AI

- We believe healthcare will resemble the information technology sector from 2010-2020, with increased digitalization expanding throughout the sector.
- The US healthcare economy is undergoing a generational transformation to a value-based system, which will be further supported by technological advancements.
- In our view, select HMOs will benefit from this dynamic as they are the backbone of these efforts over the medium to long term.

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Utilities

Despite a relief rally late in the period, utilities, as represented by the utilities sector of the S&P 500 Index, underperformed the broader S&P 500 Index in the third quarter of 2023 and are also a laggard year-to-date, largely due to very strong performance by growth sectors as well as rising interest rates. While there have been periods this year where recessionary concerns have spiked and utilities have performed better, broadly speaking defensives and cyclicals have lagged. Concerns about inflation and rising interest rates still linger, but the defensive nature of utilities works to the benefit of relative returns. Inflation remains a factor for the group, but utilities have shown that they are able to manage the impact of inflationary pressures with efficiency gains, as evidenced in earnings results. Utilities finished 3Q23 with a -9.3% return versus the -3.3% 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 closed this year. While fundamentals have remained strong, the group's relative performance has struggled the past few years and, except for 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 (even when considering the recent run-up in rates).

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, in our opinion.
- Ability to effectively navigate a rising interest rate environment: While rapidly rising rates increase utilities' cost of capital in the near-term, over time they are able to pass those costs along, resulting in higher ROEs.
- 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 and 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 10 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; data centers are well-positioned to benefit from generative AI, as well as increased pricing power driven by specialization.

Midstream Infrastructure

Midstream energy, as represented by the Alerian MLP Index, posted its fifth straight quarter of gains in 3Q23 and outperformed the S&P 500 Index by over 1300 basis points as the energy sector roared back, driven by an almost 30% gain in oil prices. Energy was largely immune to rising recessionary fears during the quarter, as OPEC's commitment to supporting the price of oil drove the commodity, and the sector, higher. Natural gas continued to be stable after extreme volatility early in the year. As has been the case often since late 2020, energy was once again the best-performing sector during the quarter, posting double-digit returns. Despite its own strong return, midstream lagged the broader energy group as more commodity-sensitive segments benefitted from rising prices. However, year-to-date midstream is one of the best-performing sub-sectors of energy, along with the refiners. For the full 3-month period, the Alerian MLP Index (AMZ) gained 9.8%, significantly outperforming the -3.3% return of the S&P500.

Some of 2022's strong tailwinds dissipated in the first half of the year and macro uncertainties weighed on energy broadly, but the midstream segment 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 will benefit from the re-opening of the economy.
- Utilities with midstream infrastructure assets that can benefit from the broad tailwinds driving the sector.

Financials

The US economy remained resilient throughout the third quarter of the year. The stable trends in consumer spending and wage growth countered an uptick in the unemployment rate that ended the quarter at 3.8%, a slight increase from 3.4% 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 remain that we may be headed toward a hard-landing recession. The financial sector would be negatively impacted if this would occur, specifically around higher credit losses and slowing consumer/business lending activity.

Financials, as represented by the financials sector of the S&P 500 Index, returned -1.1% for 3Q23 versus the -3.3% return of the S&P 500 index. This essentially flat return reflects the sector's recovery and then stabilization 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 third quarter seeing just one additional increase of 25 basis points (upper range now 5.5%). 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 the only industry group that had a positive return was insurance. Consumer finance, mortgage REITs, and capital markets underperformed.

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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2023-30620

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