3Q24 Market Review and 4Q 2024 Outlook

Market Backdrop

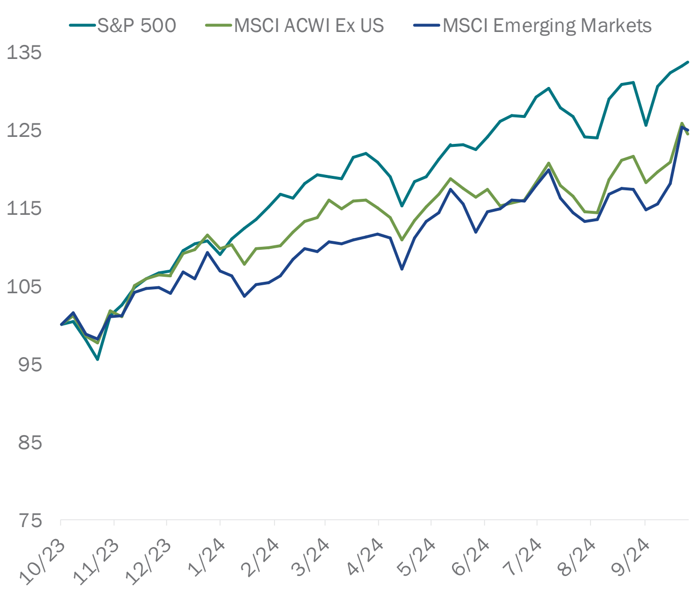
US equity markets fluctuated over the summer months and gave back some of their year-to-date gains on concerns over the slowing pace of US employment and related fears that US interest rates may have been sustained at levels more than necessary to reduce the pace of inflation. Satisfied that the underlying rate of inflation is headed towards its long-term objective, coinciding with ebbing employment strength, the Federal Reserve moved to lower the fed funds rate by 50 basis points at its September meeting. Markets were cheered by the move as well as the tone of the accompanying statement, which expressed confidence in the path of economic growth and the ability to continue to ease policy in the future.

The easing action in the United States was echoed across other economies throughout the quarter. Most impactful, though least defined, were measures outlined by Chinese policymakers to arrest the pervasive weakness associated with real estate and equity declines and headwinds from growing sanctions on technological transfer and tariffs on manufactured goods such as passenger vehicles.

Markets responded favorably to these easing actions, with most major US equity indices closing the quarter at new highs, rebounding sharply from the levels of late July/early August. Revised savings and income data released in late September bolstered the case that the consumer's financial position is healthy by historical standards and that consumption is supported by not only the favorable employment backdrop but also net worth.

US Real GDP growth tracking at approximately 3% for the third quarter signaled continued healthy growth in corporate profits.

Market Index Performance



As of September 30, 2024. Source: Jennison, FactSet, MSCI.

Style Performance

- All major style indices were positive in the quarter, however with different trends than other recent quarters. Small and mid-cap value stocks led, while large cap growth lagged.
- Large cap growth continues to lead market returns for the trailing one, three, and ten years.
- Small caps lagged for all longer times periods.

Style Index Performance

3Q24

	Value	Core	Growth
Large	9.4	6.1	3.2
Mid	10.1	9.2	6.5
Small	10.2	9.3	8.4

Trailing 1-Year

	Value	Core	Growth
Large	27.8	35.7	42.2
Mid	29.0	29.3	29.3
Small	25.9	26.8	27.7

Trailing 3-Year

	Value	Core	Growth
Large	9.0	10.8	12.0
Mid	7.4	5.8	2.3
Small	3.8	1.8	-0.4

Trailing 10-Years

	Value	Core	Growth
Large	9.2	13.1	16.5
Mid	8.9	10.2	11.3
Small	8.2	8.8	8.9

As of September 30, 2024. Source: Jennison, FactSet, MSCI.

Sector Performance

- There was significant disparity among sector returns in the third quarter. Defensive and cyclical sectors led, with utilities, real estate, industrials, and financials posting the largest gains. Energy was the only negative sector, while information technology and communication services lagged.
- Information technology leads for the trailing one, five, and ten years, while energy was the best performing sector for the three year period.
- However, energy was the worst performing sector for one and ten years; real estate was the weakest sector for three and five years.

GICS Sector Performance - S&P 500® Index

	3Q	One Year	Three Years	Five Years	Ten Years
Utilities	19	42	12	8	10
Real Estate	17	36	4	6	9
Industrials	12	36	13	14	12
Financials	11	39	9	12	11
Materials	10	25	9	13	9
Consumer Staples	9	25	10	10	10
Consumer Discretionary	8	28	5	12	13
Health Care	6	22	8	13	11
Communication Services	2	43	6	15	10
Information Technology	2	53	20	27	22
Energy	-2	1	24	14	4
Total	6	36	12	16	13

As of September 30, 2024. Source: Jennison, FactSet, MSCI.

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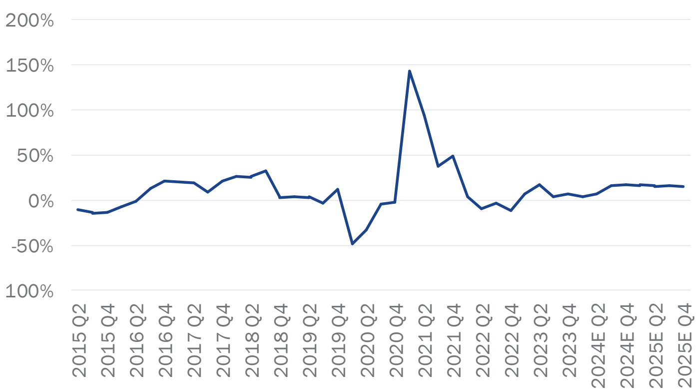
Sector Weights

	S&P 500	MSCI ACWI ex US	Russell 1000 Growth	Russell 10000 Value
Information Technology	32	13	49	9
Financials	13	23	6	21
Health Care	12	9	8	16
Consumer Discretionary	10	11	14	6
Communication Services	9	6	13	4
Industrials	9	14	5	15
Consumer Staples	6	7	4	8
Energy	3	5	0	7
Utilities	3	3	0	5
Real Estate	2	2	1	5
Materials	2	7	1	5

As of September 30, 2024. Source: Jennison, FactSet, MSCI.

S&P 500® Index - YoY EPS Growth



As of September 30, 2024. 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, 2024. Source: Jennison, FactSet, MSCI.

Outlook from Jennison's Growth Teams

Markets ended the quarter on a positive note as the tide of global liquidity lifted capital asset prices around the globe. Several of the most popular US equity indices ended the period at or near record highs. US equities remain underpinned by earnings growth, a resilient albeit slowing economy, historically low unemployment, and inflation trends falling back into pre-Covid patterns. Equity price appreciation has fared better than we initially expected through the first nine months of the year, and we have benefited from our focus on companies with above-average growth rates. We see this trend as likely to continue as the pace of economic activity moderates.

The geopolitical uncertainties that existed at the outset of the year have only intensified. The US presidential election looks to be a close contest without clear policy implications. Furthermore, control of Congress looks equally difficult to call. This dampens advance market shifts, which are often the case when wider election result margins are perceived to exist.

While we take note of heightened geopolitical uncertainty, we continue to focus on company fundamentals and idiosyncratic drivers of growth. It is where we derive conviction and find opportunity for businesses that are doing well and, in our view, will grow at above-average rates, now and in the future.

Outlook from Jennison's Sector Teams

Information Technology

Following-up on a very strong first half of the year, the S&P 500 Index's information technology sector was up 1.6% in the third quarter of 2024 (trailing the S&P 500's 5.9% return). For the trailing twelve months, the technology sector was up +52.7% vs. +36.4% for the S&P 500 Index. This reflects continued better than expected fundamentals across a broad range of business models (mainly the AI leaders), along with an improving macro (primarily inflation coming down sharply and the consumer holding up well). Additionally, we are seeing ongoing improvement in the forward discounting mechanism (i.e., less uncertainty) for long duration equities.

Fundamentals are being driven by the disruptive opportunity for AI and the digital transformation of the consumer and businesses, especially the mega cap companies in the space that can invest heavily to stay ahead with respect to innovation and disruption. The longer-term underlying strength in these business models and their secular revenue/profit trends remain solid and were highlighted across the overall sector's reported earnings these past few quarters.

The US economy continues to be holding up. Solid employment has sustained consumer spending at a steady pace. Consumer confidence currently reflects optimism in the near term despite announced work force reductions, interest rates and spreads have started to come down, and the Fed has begun the process of lowering rates in response to rapidly improving inflation numbers. Consensus expectations are that the slope of the economy's slowing trajectory will remain shallower while employment remains healthy.

Trends in technology spending continue to improve. The priority of the digital transformation, with an emerging impetus from AI (primarily driven by productivity opportunities), increasingly suggest

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an ongoing rebound in spending and solid longer-term CAPEX investment trends.

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 with wide competitive moats, large total addressable markets (TAM), and faster organic growth with long and durable 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. This backdrop 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 in manufacturing; 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 continue to be profound, again with AI the dominant driver.

We also see continued acceleration and long duration technology demand from the massive global millennial and Gen-Z populations, 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

- AI and the super high speed computing processing that it requires continues to drive accelerating demand across a broad range of chip and silicon companies (especially the most advanced). This also includes the software architecture players and cloud platform leaders, along with the high-end design and manufacturing/fabrication providers. This also extends into these new AI data centers and their unique demands for power consumption and control/distribution, along with cooling and signal processing within the stack.
- We would expect to see 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 (both to lower costs and improve profit margins).
- The use of digital technologies to create new (or alter existing) business processes and customer experiences has become a strategic imperative as enterprises seek to meet changing operating and market needs. This digital transformation has been driven by technologies such as social media platforms, 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 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 continuing to inflect higher.

Health Care

The S&P Composite 1500 Health Care Index (the Index) advanced 6.1% in the third quarter, outperforming the S&P 500, which gained 5.9%. Additionally, the Nasdaq Biotechnology Index advanced 5.0%. Over the trailing 12-months, the S&P Composite 1500 Health Care Index's 21.6% return trailed the overall S&P 500 Index's 36.4% gain.

The current macroeconomic environment seems favorable for defensive sectors, particularly health care, which has historically outperformed the broader market during periods following the first interest rate cut, yield curve un-inversion, yield curve steepening, and rising unemployment—all of which are present today. With earnings growth in health care expected to exceed that of the broader S&P 500 index and the sector appearing attractively priced relative to the S&P 500, there is potential for multiple expansion. Additionally, operating margins, which had previously been a headwind for the sector, have now stabilized, and we anticipate margin expansion in 2025 to outpace the broader market. Given these factors, we believe health care is well positioned for strong relative performance moving forward.

Investment Themes & Areas of Focus

- **Therapeutic advancements targeting massive total addressable markets - Catalyst rich calendar going forward.**
  - We believe the current set up for the sector is extremely favorable. Health care is one of few sectors that offers access to open ended total addressable markets. Presently, there are several drug/therapies in both late stage and pre-commercialization in large markets (Obesity, Asthma, Cholesterol, COPD, Multiple Sclerosis, Lupus).
  - A few of the catalysts we are excited to see data for include the FCRNs in myositis, COVID-POTS, Sjogren's, Graves and TED, additional data for AstraZeneca's ADC platform in breast cancer, Krystal Biotech's aesthetics pipeline, data from several new targets in various forms of epilepsy, data from new mechanisms in neuropsychiatric diseases as well as data for Crinetics Pharmaceutical in several endocrine disorders. In the new product launch side, we are closely following Arcutis Biotherapeutic's launch of Vtama in seb derm and atopic dermatitis, Krystal Biotech's launch in DEB, Argenx's launch in CIDP, Eli Lilly and Novo Nordisk's continued launch in obesity, Merck & Co's launch in in PAH and several more.
- **Innovation in the sector expands beyond biotech and biopharma companies.**
  - 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. Health care

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service providers are guiding this evolution through access to patient data and developing methods to monitor and optimize the delivery of care.

- **Improving capital markets activity.**
  - Since the second half of 2023, a healthy backdrop of successful capital raising and M&A have been just as impactful to the biopharma industry as scientific breakthroughs. As the trends for deals have been evolving, we believe the uptick is sustainable as cash-rich larger cap biopharma companies continue to look to replace the large loss in revenues from commercial drugs that are scheduled to come off patent in the coming years. Overall activity has been driven by the availability of clinical data as bolt-on and in-licensing deals have outpaced cost synergy driven acquisitions. Year to date, acquirers have targeted immune system disorders, oncology, and rare disease. In addition, rates have been more stable and as pharma looks to make deals, they may be more comfortable because the cost of capital 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 trajectory in 2010-2020, with increased digitalization expanding throughout the sector.
  - Significant company creation of AI companies concentrated in drug discovery as they work with pharmaceutical companies to prioritize their resources and drive time and cost savings.
  - The US health care 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.

Utilities

The utilities sector of the S&P 500 advanced again this quarter, gaining 19.4%, significantly outperforming the 5.9% return for the broader S&P 500. The beginning of the Fed rate cut cycle this quarter has been a tailwind to the sector after experiencing headwinds from the lack of Fed rate cuts earlier in the year. A handful of Independent Power Producers and Utilities with the ability to grow generation have been the biggest beneficiaries. Continued investor enthusiasm for the strong outlook for generative AI-related data center power demand growth propelled shares of our utilities sector and energy midstream holdings higher during 3Q24 due to rising expectations for forward power prices, regulated utilities electricity load growth, renewable energy development activity, and natural gas demand for gas-fired generation. We believe strong long-term fundamentals and still-reasonable valuations underscore the opportunity in the utilities sector.

While absolute performance has continued to steadily improve in 2024, the utilities sector had its worst relative performance in over 40 years in 2023 and the utilities sector has been one of the weakest sectors over the past five years. 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, despite investor volatility, the increase in power demand growth driven by AI presents both a challenge to meet that demand but also supports underlying earnings growth potential. Strong fundamentals and macro factors underscore the opportunity in the sector, especially given what remains a lower-than-average interest rate environment.

Utilities can be 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.
- More favorable interest rate environment provides relief: Rapidly rising rates increased utilities' cost of capital in the near-term, but the beginning of the Fed rate cut cycle should continue to be a tailwind.
- 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 Energy Infrastructure

Midstream energy continues to advance, outperforming both the broad energy sector and the S&P 500 in 3Q24. After being one of the best performing sectors in 1Q24, the energy sector was negative in the following two quarters, underperforming the broader market. Oil prices dipped during the quarter on continued worries of new OPEC+ supply coming on in 4Q24, which was earlier than anticipated. However, prices again rebounded later in the quarter reiterating that OPEC+ will re-assess supply quota increases

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if prices are too low. Natural gas spiked off multi-year lows as seasonal electricity demand expectations along with the long-term need for new electricity generation will benefit natural gas—the most environmentally friendly fossil fuel. Long term, natural gas demand growth and high cash returns to shareholders remain positive tailwinds for the sector and recent bolt-on capex projects have the potential to drive accelerated growth in 2025. For the full 3-month period, the Alerian MLP Index (AMZ) was up marginally at 0.7%, underperforming the 5.9% return of the S&P500. The more diversified Alerian Midstream Energy Index (AMNA) advanced 9.7%

Thus far in 2024, midstream continued its strong relative performance from last year, where it had the best returns within the energy sector and matched the gains of the S&P 500. The energy sector at large, including midstream infrastructure companies, is in the midst of an historic period of financial strength, shareholder friendly corporate discipline, and high capital returns. We believe that the midstream sector in particular is well-positioned for continued financial success, both in fundamental earnings drivers and equity performance. The sector continues to generate well above average free cash flow yields yet trades at a valuation discount to the broader market. We think this disconnect presents an opportunity given the significant transformation in the sector and the market appears to now be taking notice; 2024 has seen steady growth in cash flows during Q2 earnings and management teams reiterating shareholder friendly capital policies.

Over the longer-term, midstream energy companies are expected to 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 in our view. 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 should benefit from volume growth.

Financials

Market consensus continues to coalesce around slowing growth but not outright recession ahead. The easing pace of inflation, along with stable financial conditions are now mildly supportive to activity. Real wage rates, one of the last contrary indicators, have stabilized along with a slight improvement in productivity. Finally, corporate profits are posting solid high single digit gains, and upside surprise vs. consensus earlier in the year.

Nevertheless, there is still a possibility of a hard landing recession due to the inherent time lags following aggressive Fed tightening (key here will be to what extent that the unemployment increases) and uncertainty around the level and timing of the terminal inflation rate. The financial sector would be negatively impacted if this would occur, specifically around higher credit losses and slowing consumer/ business lending activity.

The financials sector of the S&P 500 returned 10.7% for 3Q24 versus the +5.9% return of the S&P 500 index. Overall, the current credit quality and balance sheet trends are doing well for the sector. All industries had positive returns for the quarter, led by insurance up, capital markets, consumer finance, and financial services up.

Another positive is the recent 50 bp easing by the Federal Reserve. Commentary from Fed board members in the past three months emphasized the need to remain vigilant in the ongoing process of fighting inflation while recognizing the solid trends toward their sub-2.0% target. At the same time, they acknowledged the lagging impacts of the rate increases of the past 12 months that have yet to fully reveal themselves in economic growth.

The sector’s focus continues to be directed toward liquidity and the forward yield curve dynamics. 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 also 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.

Investment Themes & Areas of Focus

- Overall, the large money center, consumer finance, and super-regional banks are significantly better positioned today across a broad range of balance sheet, capital, and risk management metrics.
- Valuations in the sector have normalized. We believe that tailwinds for future earnings growth will be primarily driven by solid revenue trends and credit controls; growing net interest margins; ongoing expansion of their fee-based business opportunities; and continued efficiency improvements through better use of technology.
- Global alternative asset management business models have attractive valuations, especially given their strong recurring revenue businesses and consistent ability to raise fee-based assets to fund their ongoing deal-making activity along with optimizing their spread-based revenue streams.
- 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.
- Secular growth companies with defensive attributes (low leverage rates, asset light models, sustainable, high margin, and high free cash flow businesses) continue to attract investors looking for both quality and durability of growth. Several digital payment and financial technology companies meet these criteria.

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