JENNISON ASSOCIATES

PERSPECTIVES

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Buy and Hold Forever?

Jennison's Global Equity team believes holdings should earn their place in the portfolio every day.

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While investors spend most of their time and energy identifying opportunities, knowing when to sell is an equally important part of long-term investment success. Selling at the right time can have as large an impact on performance as buying at the right time. Building and analyzing a strong sell discipline must be as important a part of an investment process as the identification of good new investments to buy. But it generally doesn't work that way.

Don't Let Conviction Become Complacency

Jennison's sector-expert analysts conduct deep research that includes on-site meetings with a company's senior leadership, customers, suppliers, and competitors, and evaluating financial statements, all of which inform their fundamental outlooks and earnings models. Jennison's global equity team focuses on the magnitude and duration of the long-term growth drivers for each company the portfolio holds. We are willing to accept short-term stock price volatility as part of the price that needs to be paid for the potential to create significant growth in value over time.

Evaluating a company's fundamental prospects requires a deep understanding of its competitive advantages and growth potential, especially for emerging growers in their early stages. Usually, these take a long time to develop and become entrenched, which makes a long-term mindset essential.

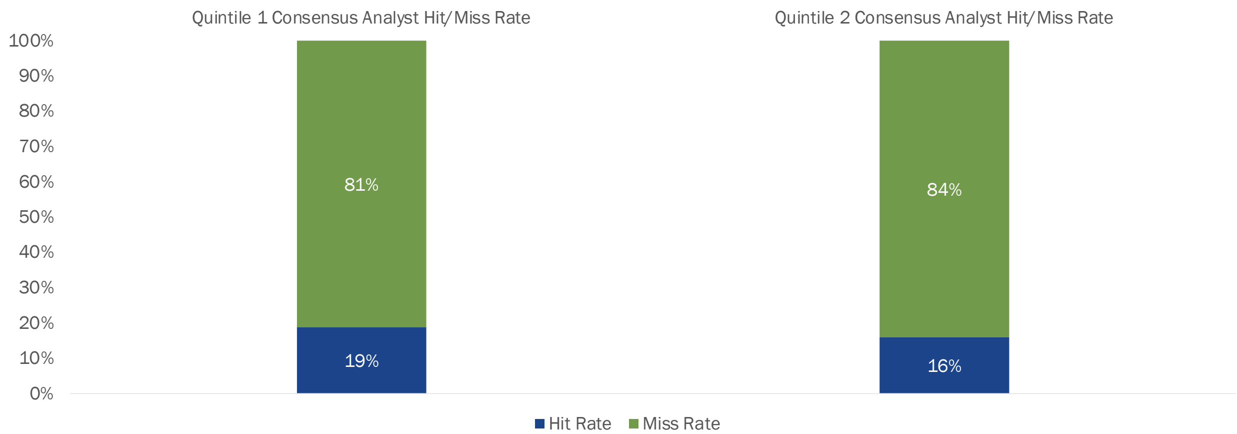
However, this long-term mindset should not be misconstrued as complacency or a plan to buy and hold for a long period. The sources and nature of growth drivers are continuously evolving and changing over time, and so the best global growth equity portfolios must reflect and mirror that all the time.

Effectively identifying early indications that a company's growth expectations might not be met is also a critical component of generating attractive long-term returns. Long-duration growth companies, after all, are not common, and identifying in advance the companies that will deliver high and sustainable growth is extremely difficult.

Historical data shows that most companies fail to live up to consensus growth expectations (Exhibit 1). To demonstrate this point, we grouped the MSCI All Country World Index into quintiles using historical five-year earnings growth—companies in quintile 1 had the highest earnings growth and companies in quintile 5 had the lowest earnings growth. Exhibit 1 highlights consensus earnings estimates of companies in quintiles 1 and 2 compared to realized earnings growth five years later. Companies that remained in the quintiles after five years were "hits." Companies that dropped out of the quintiles were "misses." In both of the top quintiles, less than 20% of companies lived up to consensus expectations for earnings growth.

Exhibit 1: It's very difficult to identify top performers in advance

MSCI All Country World Index: Company Earnings Hit Rate Companies Grouped by Historical Five-Year Earnings Growth



MSCI All Country World Index data from June 2005 through December 2023. Companies with expected top quintile EPS growth (according to consensus) contrasted with the actual constituents of those quintiles five years later. Companies that met earnings expectations are "hits;" companies that did not meet expectations are "misses." For this analysis we used company data going back to 2005, the first year in our view with enough data to ensure thorough and meaningful analysis. In addition, we sought 19 years of data (versus a more standardized 15 year period) to have enough context for the Global Financial Crisis in 2008–2009.

Source: Jennison, FactSet. Past performance does not guarantee future results.

The market's errors in predicting growth stocks fall into two categories:

- Overly optimistic—trees really can grow to the sky
- Overly pessimistic—this can't go on, returns will revert back to the mean soon

We believe global stocks suffering from over-optimism need to be weeded out, while stocks experiencing over-pessimism can turn into long-term winners and ought to have more capital allocated to them in the portfolio. For this reason, Jennison's global equity team does not follow a strict "buy-and-hold" approach to investing. Holdings must earn their place in our global portfolio every day.

"Low portfolio turnover" is not an inherent virtue. On the contrary, the more rapidly the world changes, the more it can be seen as a detriment to long-term outperformance.

Conviction Cuts Both Ways

The pitfalls of a strict buy-and-hold approach are obvious after considering the history of the corporate world. For example, many growth darlings that dominated industries for many years eventually lost leadership because of new technologies, new competitors, or a new macroeconomic environment—e.g., Blackberry and Yahoo. It would be an act of complacency—if not arrogance—for us to assume that the holdings in our global portfolio at any point in time will justify all their theses and always represent our view of the best growth ideas in the world over the subsequent three-to-five-year periods.

We prefer to be open minded and rigorous in our global portfolio construction. This means we are constantly "weeding the garden," identifying and exiting stocks where the growth may be maturing, new competition may be emerging, or execution may be failing to deliver on its initial promise. This allows us to be patient over the long term with potential "flowers"—companies that we believe will blossom and have the potential for high returns and high growth over the long term. We believe that several of Jennison's global portfolio holdings offer this potential at any given time but, at the time of purchase, it is impossible to know which ones will continue to earn their place over several years.

The most successful companies over the long term have been able to innovate, evolve, and reinvent themselves. They string a sequence of great business ideas together to create wave after wave of strong growth. For example, Mercado Libre, Latin America's largest online marketplace, continued to innovate by creating an ecosystem of additional product offerings around its e-commerce platform, including payment solutions, logistics, financing, advertising, and software services.

Sell Discipline: Both an Art and a Science

In Jennison's global portfolios, we primarily sell a position for the following three reasons:

- To fund more attractive growth opportunities
- To realize gains
- To reflect a change in fundamentals that alters our investment thesis

We are not satisfied holding a company—even if it is successful—if we believe there are more attractive opportunities available. We constantly evaluate what the opportunity set is relative to the risk/reward in other stocks we do and can own.

Other times, the idea that fuels a company's growth runs its course, the "new" market gets saturated, and the company appears to have no promising ideas in development. Or, we can exit a position because the company's strategy is sound, the management effective, and the market appreciative. The stock reaches our price target, and our thesis is fulfilled.

Another reason to sell is a deterioration in the company's fundamentals. An obvious sign of trouble is a shortfall in earnings and revenue, but this can reflect several issues—not all of them negative. For example, many earnings disappointments do not reflect a company's longer-term potential and investors will need to ride out these speed bumps toward higher growth. Orders and revenues may be pushed into later time periods, but this represents growth deferred rather than growth lost. Other times, however, revenue and market share growth falls below our expectations for salient issues, revealing flaws in our investment thesis. We rely on deep fundamental analysis to distinguish between the different types of disappointments.

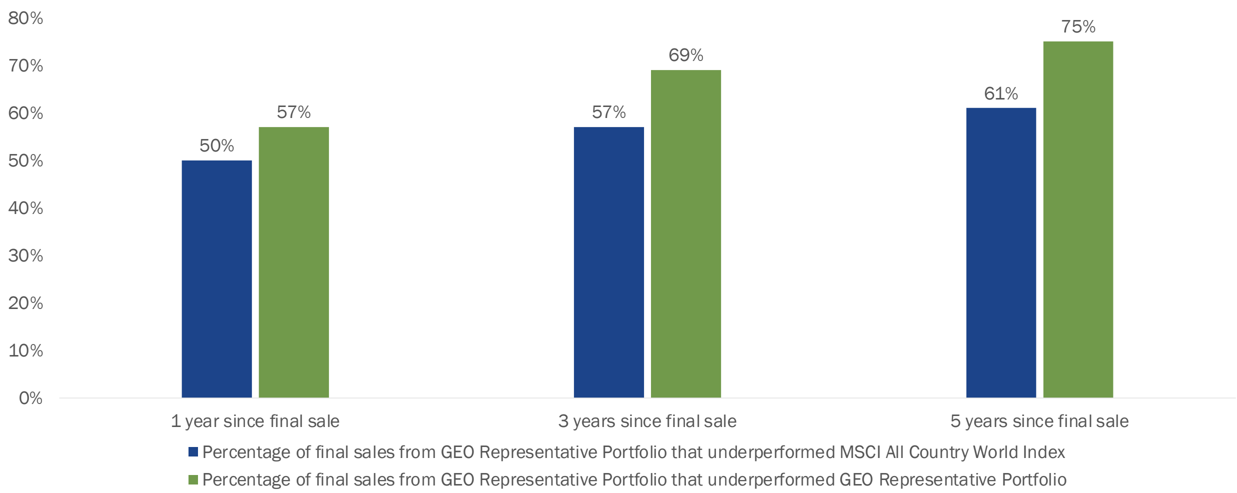
There are several factors to consider when making sell decisions, and their relative importance will vary according to the circumstances. Accordingly, it is important to measure the success rates of those decisions, over the short, medium, and long term. Exhibit 2 shows the percentage of our sell decisions that go on to subsequently underperform the market (blue bars) or the rest of our portfolio (green bars). This data is for our

Global Equity Opportunities representative portfolio and is based on the final sale only. As Exhibit 2 highlights, more than 50% of the stocks we sold underperformed the global portfolio in the subsequent one-year period following the sale. Over the subsequent five-year period, the percentage of companies that underperformed the global portfolio (after we sold them) increased to 75%.

Exhibit 2. Evaluating the impact of sell discipline in Jennison's Global Equity Opportunities (GEO) Representative Portfolio

	Annualized Returns: Periods Ending 12/31/23*		
	Trailing 1 Year (%)	Trailing 5 Years (%)	Trailing 10 Years (%)
GEO Composite (Gross)	42.7	17.0	13.1
GEO Composite (Net)	41.6	16.2	12.2
MSCI All Country World Index (Net of Taxes)	22.2	11.7	7.9

The performance of Jennison's global portfolio holdings subsequent to sale**



As of December 31, 2023.

*Inception of Global Equity Opportunities Composite: 4/30/11. Source: Jennison, MSCI and FactSet. Gross of fee performance is presented before custodial and Jennison's actual advisory fees but after transaction costs. Net of fee performance shown reflects the deduction of a model fee. Due to the inclusion of performance-based fee accounts, model net of fee performance presented herein may be higher or lower than the actual net of fee performance of the composite. Model net of fee performance is based on the highest tier of the standard asset-based fee schedule (0.75%). Actual net of fee returns are available upon request and are calculated using estimated performance fee accruals, where applicable, which are subject to change based on the account's performance as of each period end until the actual fees are invoiced. Past performance does not guarantee future results.

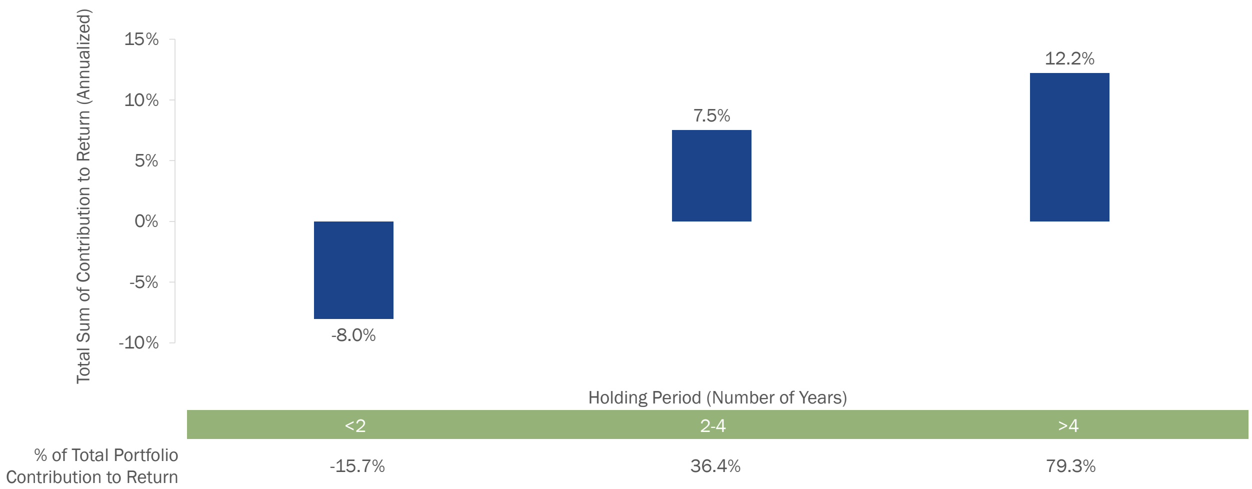
**The performance of GEO stocks sold from the portfolio is based on Jennison's books and records of a representative account prior to fees being charged. Information is supplemental to the Global Equity Opportunities Composite presentation. The bar chart above shows how stocks have performed after being eliminated from the portfolio (i.e., 1 year after final sale, 3 years after final sale, etc.). Data is shown since the inception (6/1/11) of the Global Equity Opportunities representative portfolio. The total number of holdings is dependent on the time period and the final sale date. This illustration includes securities that have been added back to the portfolio if the security was eliminated again after repurchase. Past performance does not guarantee future results.

Short-term Rigor Enhances Long-term Focus

Great growth ideas can deliver strong returns for long periods of time, so it is crucially important that a sell discipline accounts for the risks of selling too early as much as holding a stock after its key growth drivers have matured.

Our own experience shows the need to focus on both risks equally: a significant portion of our long-term returns have come from stocks we have held for greater than four years (Exhibit 3). The aspect that isn't visible in the chart below is that we are able to allocate more capital to these long-term winners ("the flowers") because we are quick to exit those stocks where the thesis is not working ("the weeds").

Exhibit 3: Top contributors have been held over the long-term



Data from April 30, 2011 to December 31, 2023.

Based on Jennison's books and records of a representative account prior to fees being charged. Inception Global Equity Opportunities Composite: 4/30/11. Information is supplemental to the Global Equity Opportunities Composite presentation. GEO = Global Equity Opportunities. The total sum of contribution to return data for the GEO portfolio is based on the cumulative sum of all securities held within each holding period range shown since inception, and is then annualized. Note that this analysis includes those securities that were held in the GEO portfolio for at least one month or more since inception. The holdings included in the above analysis do not represent all of the securities purchased, sold or recommended by Jennison during the time period shown. A complete list of holdings and how each contributed to the overall portfolio's return is available upon request. Source: FactSet. Past performance does not guarantee future results.

Finding Growth

Many business models and growth ideas today are lumped together under the "growth category," but they may not offer exposure to pure growth. Understanding the differences one business model at a time—one growth driver at a time—can reveal enormous disparities. Some business models become more cyclical as they grow and mature. Others accelerate as adoption rates and the size of addressable markets increase simultaneously. Investors need to understand this evolution in real time, determine the market value, and make a judgment on whether to buy more, hold, or sell a security.

A Critical Part of Investment Success

The sell discipline is one of the most complex, and least understood parts of the investment process. We believe it is essential to keep "weeding the garden" by constantly monitoring the viability and investment thesis of each holding. Long-term growth companies are rare, and many fail to fulfill investor expectations. Each holding must continuously justify its place in Jennison's global portfolios. Our sell discipline is a critical element in our investment success: it eliminates the companies that fail to fulfill our investment theses and offers us the capital to devote more resources to "flowers"—companies that we believe have the potential to compound their growth over time and deliver long-term outperformance to clients in our global portfolios.

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資本金	2億1,900万円
主要業務	① 投資運用業
	② 投資助言・代理業
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