

1Q21 Market Review and 2Q Outlook

Market Backdrop

Equity markets extended their gains in the first quarter of 2021, but were volatile in a backdrop of U.S. political turmoil and continued COVID-19 uncertainty. The MSCI ACWI Index gained 4.6%, the S&P 500 Index advanced 6.2%, and the MSCI Emerging Markets Index returned 2.3%.

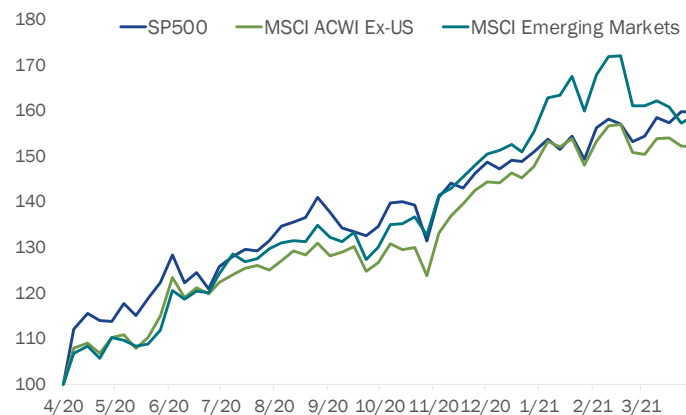
Although overall COVID-19 trends improved, steps to re-open certain U.S. states were met with rising case counts and mortality rates. Similar and, at times, worse scenarios unfolded across the globe, with a number of European nations forced back into full or partial lockdowns. Encouragingly however, the pace of vaccinations in the United States improved as the quarter progressed and a new vaccine from Johnson & Johnson was introduced in February.

The new U.S. administration moved quickly to pass the American Rescue Plan Act and, in March, finalized a \$1.9 trillion package consisting of direct payments to individuals and families, additional unemployment benefits, funding for state and local governments, and funds for vaccinations and testing.

Cyclical stocks performed well during the quarter as investors favored companies worst hit by the pandemic amid rising expectations that the global economy will reopen this year. Small cap companies were notable outperformers due to their greater exposure to U.S. economic activity compared to large multinational firms.

The Federal Reserve continued to advocate for extreme policy accommodation, citing the pandemic's drag on the labor market. Longer-term bond yields rose, reflecting U.S. monetary and fiscal stimulus and rising inflation expectations. The benchmark 10-year US Treasury yield ended the quarter at 1.74% compared to 0.92% at the beginning of the year.

Market Index Performance



As of March 31, 2021. Source: Jennison, FactSet, MSCI.

Style Performance

- Continuing on from 4Q 2020, value stocks outperformed growth stocks by a wide margin in 1Q 2021. Small caps also significantly outperformed large- and mid-caps in the quarter across growth, core, and value.
- Large cap growth stocks led core and value stocks for the trailing one-, three-, and ten-year time periods; however, mid and small cap value stocks outperformed for the trailing one-year.
- Large caps dominated market performance over longer time periods but the spread over mid and small is narrowing.

Style Index Performance

	1Q21			Trailing 1-year		
	Value	Core	Growth	Value	Core	Growth
Small Large	11.3	5.9	0.9	56.1	60.6	62.7
Mid Large	13.1	8.1	-0.6	73.8	73.6	68.6
Small Small	21.2	12.7	4.9	97.1	94.8	90.2

	Trailing 3-Year			Trailing 10-Years		
	Value	Core	Growth	Value	Core	Growth
Small Large	11.0	17.3	22.8	11.0	14.0	16.6
Mid Large	10.7	14.7	19.4	11.1	12.5	14.1
Small Small	11.6	14.8	10.6	10.1	11.7	13.0

As of March 31, 2021. Source: Jennison, FactSet, MSCI.

Sector Performance

- Sectors also continued a trend that started in 4Q 2020 with cyclical sectors like energy, financials, materials, and industrials performing the best. These cyclical sectors have also taken the lead for the trailing one-year.
- The defensive consumer staples, utilities, and health care sectors underperformed, as did the heavily weighted growth sectors information technology and consumer discretionary.
- Information technology and consumer discretionary maintain their leadership positions for the three-, five-, and trailing ten-years.

GICS Sector Performance - S&P® 500 Index

	1Q	One Year	Three Years	Five Years	Ten Years
Energy	31	75	-5	-1	-2
Financials	16	67	10	16	12
Industrials	11	70	12	14	12
Materials	9	78	14	14	9
Real Estate	9	32	12	8	10
Communication Services	8	61	19	10	10
Health Care	3	34	15	14	16
Consumer Discretionary	3	70	20	18	18
Utilities	3	19	12	9	11
Information Technology	2	67	29	28	20
Consumer Staples	1	28	12	8	12
Total	6	17	16	14	14

As of March 31, 2021. Source: Jennison, FactSet, MSCI.

Earnings Results

- Fourth quarter earnings results for the broad market S&P 500 were slightly worse than last quarter with 80% beating or meeting expectations versus 87% last quarter.
- Despite lackluster performance for the sectors, information technology and communication services posted the strongest earnings results with over 95% of companies exceeding or matching consensus expectations.
- Energy and real estate had the largest number of disappointments with 46% and 40% missing expectations respectively. The consumer discretionary sector saw 27% of its companies falling short of consensus.

Sector Name	% of Companies Beating/Meeting	% of Companies Missing
S&P 500	80%	20%
Communication Services	96%	4%
Information Technology	95%	5%
Financials	85%	15%
Consumer Staples	81%	19%
Health Care	81%	19%
Industrials	81%	19%
Materials	79%	21%
Utilities	79%	21%
Consumer Discretionary	73%	27%
Real Estate	60%	40%
Energy	54%	46%

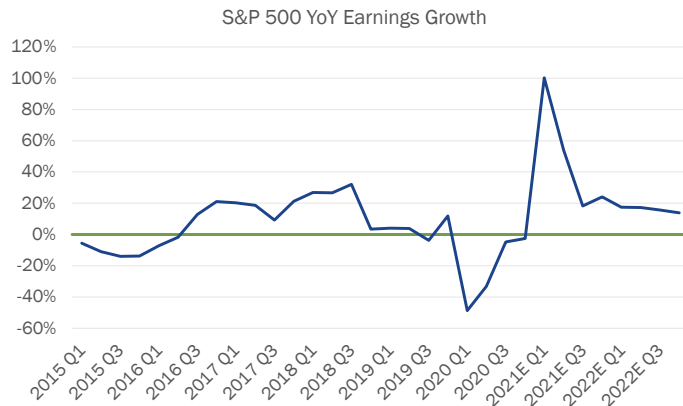
As of March 31, 2021 (most recent available) reflecting the end of the fourth quarter 2020 reporting season. Source: Standard & Poors

Sector Weights as of March 31, 2021

	S&P 500	MSCI ACWI ex US	Russell 1000 Growth	Russell 10000 Value
Communication Services	11	7	12	9
Consumer Discretionary	12	14	17	8
Consumer Staples	6	8	4	7
Energy	3	4	0	5
Financials	11	19	2	21
Health Care	13	9	14	13
Industrials	9	12	5	14
Information Technology	27	13	44	10
Materials	3	8	1	5
Real Estate	2	3	2	4
Utilities	3	3	0	5

As of March 31, 2021. Source: Jennison, FactSet, MSCI.

S&P 500® Index - YoY EPS Growth



As of March 31, 2021. 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 March 31, 2021. Source: Jennison, FactSet, MSCI.

Outlook from Jennison's Growth Teams

Just twelve months ago the outlook was bleak as the world was in the early grip of the pandemic with no vaccine in sight. By contrast, there are currently three approved vaccines in the United States, with a host of other vaccines available internationally. As economies around the world reopen and markets rallied dramatically, the focus has shifted from fear to optimism and the strength of the coming global recovery.

Price pressures appear to be building. The demand recovery is creating global bottlenecks and supply constraints with shortages in semiconductors and various raw materials as well as rising freight prices at forefront of this trend. Strong U.S. housing demand has also driven up house prices and transaction rates. While mortgages remain affordable, interest rates have begun to rise.

Additionally, higher levels of personal savings and the latest stimulus will likely continue to bolster personal expenditures. The employment rate remains a drag on growth as U.S. job gains lag the recovery, although unemployment is expected to decline through year-end.

Higher interest rates add to the uncertainty at a time when government debt in the United States and other countries is at

record levels, and weigh on equity valuations. However, we believe inflationary fears will prove transitory as the recovery should normalize once economies around the world reopen in a sustainable manner and as the effects of fiscal and monetary stimulus fade. We believe the rise in bond yields reflects expectations of more normal levels of growth to come.

Late last year, investors began to favor areas of the market that were most exposed to a recovery and most debilitated by the pandemic. This rotation was funded through sales of companies that were beneficiaries of the pandemic, as suggested by market performance. These adjustments have boosted valuations of economically sensitive companies and reduced the earnings multiples of secular growth companies. History shows us that corrections such as this are not unusual and can be expected over longer periods of time.

We are encouraged by the continued strong results of companies, especially those in the growth sectors of the economy like information technology and communication services. Secular growth opportunities remain our focus, as they have been over our long history of growth investing. We believe that the moderation in valuations in the first quarter improves the outlook for share price appreciation, adding to the attractiveness of the superior growth characteristics that we seek over an extended investment time horizon.

Sector Views

Information Technology

The S&P 500 Index's information technology sector rose 2.0% in the first quarter of 2021, underperforming the broader market S&P 500, which advanced 6.2%. The sector outperformed meaningfully over the trailing one year, advancing 66.6% compared to the S&P 500's 56.4% gain.

Recent technology sector earnings reports continue to be strong, confirming the underlying strength in many companies and secular trends. We believe the market should continue to favor companies with asset-light business models, disruptive products, and faster organic growth in the current Covid-19-affected environment and as the world returns to normal.

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 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." The long-term implications of this change in CAPEX spend will likely be profound.

However, unlike the last 2009-2019 economic cycle, valuations are more reflective of these powerful secular trends, and market broadening is still in-place given the large expansion in GDP growth expected for 2021 and 2022, along with the consensus views that higher rates and inflation are ahead (albeit from a very low starting-point). So on a go-forward basis we can expect continued volatility and consolidation for the technology sector, both relative and absolute.

The pandemic has accelerated the adoption of digital technologies by several years, and we expect that many of these changes will be permanent. Companies are understanding that to remain competitive in this new environment they must value technology's strategic importance as a critical component of business, not just as a source of cost efficiencies. As a result, businesses are making the kinds of investments that are likely to ensure the trend's perpetuation. This can be seen across multiple fronts: technology-heavy capital expenditures; ecommerce strategies; the enterprise transition to the cloud; direct-to-consumer business models; and software applications that extend across businesses.

Consumers have adapted even more rapidly, with consumption behaviors shifting dramatically over the past year toward digital. We believe this mass adoption and new baseline will be the foundation for continued superior growth for the right companies. We believe 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 3-5 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.

Strong earnings growth isn't limited to "tech" companies grouped in the index's information technology sector. It extends to other businesses with technologically driven advantages in other sectors, as well, such as social media companies, classified as "communication services," internet retailers and streaming entertainment providers, grouped in "consumer discretionary," and robotic surgery, diagnostic, and biopharmaceutical companies classified as "health care."

Investment Themes & Areas of Focus

- The use of digital technologies to create new (or alter existing) business processes, cultures, and customer experiences has become a strategic imperative as enterprises seek to meet changing business and market needs. This digital transformation has been driven by digital technologies such as social media, mobile devices, artificial intelligence, and cloud computing.
- Software as a service (SaaS), another of these transformative digital technologies, delivers mission-critical cloud applications and services that are disrupting the software industry. Initially adopted by internet- and cloud-native businesses, and still in the nascent stages of utility, SaaS has begun to penetrate the mother lode of large mainstream enterprise markets. As the strategic necessity of implementing software enhancements as they become available becomes increasingly apparent, businesses are being driven to adopt the SaaS model. With penetration rates remaining relatively low, SaaS expansion opportunities over the coming decade look substantial.
- The Covid-19 pandemic has highlighted the prudence – and in many cases, the necessity – of working from home or at other offsite locations. Investors are viewing tech companies with products and services that facilitate seamless offsite work and communication capabilities with renewed appreciation.

- We look for companies positioned to benefit from increased business spending on technology. This includes investing in industries such as 5G, SaaS, business intelligence (AI), semiconductors, cloud storage and software, and life sciences tools.
- We think the continued ramping-up of data/information/entertainment usage across a broad range of devices and applications, along with digital payments, are among the areas that offer long-duration opportunities and huge addressable markets for companies with the right technologies. Business and consumer behaviors have clearly changed, with adoption and uptake rates inflecting higher.

Health Care

In 2021's first quarter, the health care sector of the S&P 500® Index rose 3.2%, underperforming the overall Index, which advanced 6.2%. Over the trailing 12-months, health care rose 34.0% compared to the Index's 56.4% gain.

Even though vaccines for Covid-19 were developed and approved remarkably quickly, it may still be several months before doses have been distributed and widely administered – the likely prerequisite for a broad-based recovery in confidence and activity.

We believe the pandemic could have a permanent and salutary impact on the health care sector. The past several months have highlighted inefficiencies within the system and the serious implications of administrative mismanagement. At the same time, there has been phenomenal speed of discovery and multiple modalities available within the biotechnology, life sciences, and health care technology industries to address unmet medical needs. As a result, many companies may be able to penetrate their total addressable markets at accelerated rates.

Other possible post-Covid changes include:

- Increased use of telemedicine
- An accelerated shift to alternative sites of care, for example, more surgeries and procedures performed in ambulatory surgical centers rather than hospitals
- Increased awareness of personal health and use of self-monitoring technologies
- Touchless check-ins at doctors' offices
- Increased use of noninvasive diagnostics like liquid biopsy and noninvasive prenatal testing, as well as the acceptance of advanced technologies that monitor immune responses by monitoring the behavior of immune cells
- Increased use of virtual clinical trials that could accelerate drug development and lower costs.

Investment Themes & Areas of Focus

- We expect that productive research and development activity will yield effective disease treatments that improve the quality of patients' lives. These characteristics historically have been the source of longer-term outperformance in the sector.
- We believe many biotherapeutic companies have compelling fundamentals and innovative products and pipeline drugs.

- The number of drug candidates in biopharma pipelines continues to be high. Increased research and development investment by large global pharma companies, as well as advancements in drug screening and discovery, are driving the increase in drug candidates.
- Larger multinational pharmaceutical companies, especially those with patent-expiration pressures, will continue to make acquisitions of smaller cap companies with single products or promising pipeline assets.

Financials

The tide turned for the S&P500 financial sector with the announcement of a COVID-19 vaccine in November of 2020 and the sector has been a strong performer since that time. The vaccine news and anticipation of an economic recovery that signaled better credit conditions, coupled with rising interest rates and the passage of a second stimulus plan, fueled the performance of the sector during 1Q21. The S&P500 Financials index returned 16.0%, versus 6.2% for the S&P500 and was one of the best performing sectors of the market, second only to energy.

The news of a COVID-19 vaccine served as a boost to the market and, in particular, to sectors that had underperformed for most of the year. The worst performing sectors of 2020 have been the best performing sectors so far in 2021. However, while the end of the pandemic and return to pre-2020 growth levels are starting to come into view, the timeframe for a full recovery is still unknown due to lingering effects on consumer and business confidence and balance sheets. Many of the macro concerns that plagued the sector before the pandemic are still in place. The Fed has signaled that interest rates will remain at depressed levels for the foreseeable future, and there is still no certainty around longer-term higher economic growth. As such, the sustainability of the rally in the sector is uncertain.

The current environment is favorable for universal banks and brokers as the capital markets are very robust and expenses well-controlled. Also, higher interest rates (especially with a steeper yield curve) translate into higher interest revenue and earnings for the regional banks, though this is largely priced into stocks.

Investment Themes & Areas of Focus

- Overall, banks are significantly better-positioned today than they were in 2008-2009 financial crisis across a broad range of balance sheet, capital, and risk management metrics.
- Despite the recent rally, valuations remain very attractive and are near their lower historical bounds on a both relative and absolute basis. They compare favorably to years immediately following the Global Financial Crisis, despite much stronger company fundamentals and forward prospects.
- Looking forward for the next few years, consensus is expecting rates to stay historically low, the curve to remain generally flat and potential credit risks to remain across a broad range of bank and insurance company assets. The result is that we can expect continued headwinds working against traditional fundamentals and market sentiment, which will continue to put downward pressure on their P/E's.

- Fundamentals for P&C insurance companies are very strong (driven by favorable pricing dynamics) and valuations very attractive as this segment has lagged in the rally.
- Secular growth companies with defensive attributes (low leverage rates, asset light models, sustainable, high margin, and high free cash flow businesses) should continue to fare better in this type of environment. Several digital payment and financial technology companies meet these criteria and have demonstrated superior fundamentals and stock price performance through the COVID-19 crisis especially.
- Integrated business models – (the “haves”) 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.
- Renewable energy companies to diversify our overall energy holdings, and provide exposure to the renewables investment theme.
- Companies with liquids exposure that will benefit from the re-opening of the economy.

Midstream Infrastructure

In 1Q21, midstream infrastructure saw a continuation of the strong performance that began with the announcement of a COVID-19 vaccine in November 2020. While energy investors had been unaccustomed to positive news for most of 2020, the beaten down sector has rallied on positive vaccine news, an improving macro environment, and the anticipation of returning to normalized levels of supply and demand in a post-pandemic world. Midstream and MLP stocks rallied in the quarter, with the Alerian MLP Index up 22.0%, while the Alerian Midstream Energy Index (which includes not just MLPs, but a broader group of midstream infrastructure companies) gained 20.9%.

Many midstream companies took decisive measures to conserve cash and “right-the-ship” during this global pandemic, something we believe will continue. Cash-flow metrics have improved across the board after companies have reduced capex and growth spending over the last 18+ months, which we expect to continue throughout 2021. Added cost reductions and increased asset optimizations should continue to fortify balance sheets, while offering management team’s further opportunities to reduce debt levels.

Moreover, improvement in fundamentals are finally starting to be reflected in stock prices. However, while a recovery is clearly underway, uncertainty as to the exact timing of a full re-opening of the US and global economy may give investors pause. As economic activity continues to slowly ramp, stocks should begin to price in not only the short-term economic recovery bounce, but also the long-term positive benefits from the significant transformational corporate reform that has occurred over the past few years. All of which, spells better times ahead for the midstream group, in our view.

Demand for energy hydrocarbons will surely continue. These midstream infrastructure companies have physical steel “in the ground,” many with asset networks that have high barriers-to-entry and are difficult to replicate. Furthermore, with the Biden administration unlikely to make permitting easier for new pipeline projects, we believe the value of existing infrastructure could also increase as a result, and we would not be surprised to see M&A and industry consolidation occur over the next 12 to 18 months.

Investment Themes & Areas of Focus

- “Reformed” companies (i.e., companies exhibiting higher capital discipline, and healthier, more conservative balance sheets that can withstand a downturn, along with improving ESG metrics such as solid corporate governance).

Utilities

Underperformance for the utility sector continued in 1Q21 as market sentiment shifted dramatically toward economically sensitive sectors expected to benefit from a global economic reopening and rebound in economic activity. In addition, a spike in interest rates has caused investors to question the attractiveness of utility stocks amid a higher rate environment.

As a result, utilities lagged the broader market in 1Q21 and have been the worst performing sector over the past 12-month period as well. This occurred despite the fact that utility company fundamentals have been quite good throughout this period for the overall market and economic uncertainty.

The underperformance is also at odds with the underlying stability of the group, given utility company fundamentals have been quite good. In fact, despite the period of market and economic uncertainty, utilities have continued to execute operationally – delivering on earnings guidance and de-risking their portfolios, along with the potential growth opportunities from renewable energy investments that should not only support, but could also drive the sector’s earnings going forward, in our view. The discrepancy between utility fundamentals and performance may underscore both the attractive absolute and relative opportunity ahead for the sector. As such, we continue to find the sector attractive given the (still) lower-than-average interest rate environment, along with the sector’s predictable fundamentals.

We believe the utility sector represents a compelling “defensive growth” proposition for investors for several reasons:

- Despite a low growth environment, improving economics in renewables such as wind and solar power, continue to remain a growth driver for the overall sector – companies now have renewables incorporated into their capex strategy plans (versus five years ago when renewables weren’t included) – allowing those utilities to earn a regulated rate of return on their renewable investments.
- Their “defensive” nature – those with regulated activities and quasi-regulated renewable portfolios, combined with their long-duration cash-flows and predictable rate base earnings – remain not only attractive given their ability to provide stable dividends for investors amidst any macro uncertainty, but should also provide earnings growth above the sector’s historical 3%-5% EPS growth.

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

- Despite the recent spike in interest rates, rates are still low from a historical perspective. In a “lower for longer” interest rate environment, utilities should continue to benefit from access to lower cost of capital – savings that eventually flow directly to their bottom-line.
- The renewables segment within the utility group should continue to benefit from government stimulus packages tailored to a green recovery, along with renewables development tailwinds that should sustain dividend growth.

Investment Themes & Areas of Focus

- Regulated Utilities - companies operating in favorable regulatory environments and geographies, with above- average projected earnings and/or dividend growth driven by regulatory rate-base investment.
- Renewable Electricity - we see continued momentum across multiple fronts that support on-going investment and usage in

renewables, stemming from the “energy transition” – a secular trend toward renewables – that will provide unique investment opportunities over the long-term.

- Water Utilities - state utility commissioners encouraging spending on improving water quality as well as pipeline replacement and maintenance, enables companies to provide transparent 10-year outlooks on their spending and income plans, a positive dynamic for this sub-industry.
- Communications Infrastructure - wired broadband network and datacenter operators are well positioned to capitalize on exponential global data demand growth; and tower operators given their critical infrastructure, multi-year contracts, and strong free cash-flow generation.
- Selectively adding to midstream energy names—especially those with exposure to natural gas.

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