

Jennison Associates

Investment Opportunities Overseas

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Title: International Equities: Investment Opportunities Overseas

Doug Richardson:

Hello, and welcome to our discussion today on international equities. My name is Doug Richardson. I'm a client portfolio manager at Jennison, with a focus on global and international equities. And with me today is Tom Davis, co-portfolio manager of the International Equity Strategy at Jennison. Tom, thank you for joining us today.

Tom Davis:

Thanks, Doug. Glad to be here.

Doug Richardson:

So Tom, let's set the table for our discussion today. Why should investors allocate to international equities?

Tom Davis:

For the same reasons we invest in great businesses here in the US. We can find similar, very profitable, well-run businesses overseas offering a very dynamic product set or service well worth an investment, that perhaps helps bring a different mix of exposures and opportunities than what you find here in the US.

Doug Richardson:

What does the market most often misunderstand about the international equity market?

Tom Davis:

If you're looking just at the international markets, what most people try to do is more or less replicate those markets, and that's a dangerous game to play because those overseas markets typically have a greater exposure to many older companies, incumbent companies, incumbent industries. It's much more productive to be very, very focused on businesses and to focus on growth companies that are offering something new or something exciting in the marketplace.

Doug Richardson:

What are the typical characteristics of an international company that generates significant alpha?

Tom Davis:

We have found over many years that some of the best investments typically fall into one of three buckets, and the first one is innovation, a technological advantage that is either disrupting incumbent industries, incumbent companies, or perhaps creating new products or services that we may not even realize we need until we see them and realize the value they bring, either to a business or to our own personal lives. Second category would be consumer oriented brands and going through various product cycles that resonate with the consumer, resonate with the buyer. And the third bucket would simply be opportunities that play into or are tied to a very long-tailed secular growth trend.

Doug Richardson:

What do you believe will be the biggest secular trends benefiting the international markets over the next decade?

Tom Davis:

I think there are probably four or five trends that will benefit or impact the markets globally. First and foremost, we're in the middle of a rapidly advancing transition in mobility. Look around, you see a huge interest in electric vehicles that will continue to only grow larger over time around the world. Secondly, I think we will continue to see a renaissance in industrial automation, factory automation, as we shift into the next generation of making things, making goods.

The third one would certainly be something that's a hot topic today, artificial intelligence or AI, that seemingly has exploded into the open in the last six months, but it's really taken on a new life, a much more public life, much broader applications, touching virtually every industry, every sector around the world. I would say fourth remains focused, we continue to see interest in development and consumer facing a brand. And lastly, I would point to healthcare. A lot of innovation in the biotech and pharma space focused on individualized or more personalized medicines, the use of AI and in improving odds of success in selecting molecules for new drugs to fight certain new diseases that have not been treated to date.

Doug Richardson:

Over the past two decades as an international investor, what has surprised you the most about the international equity markets, and how should investors approach the asset class over the long term?

Tom Davis:

In the last two decades of my career, the first probably two thirds of it, we saw trends towards globalization, the use of or the focus on trying to make capital investment as efficient as possible, the use of global supply chains, the relative decline of importance in where a business was located. More recently, in the last five to seven, eight years, we've started to see that reverse. And so we've seen a trend of globalization going backwards. Unfortunately, due to some of the increasing geopolitical tensions we see in the world today, countries and regions are more focused on redeveloping their own supply chains, their own product manufacturing capabilities, to ensure no disruption that stems out of

these disagreements potentially that we see in the world today. And so that's a little less efficient or creating inefficiencies, but it also is creating investment opportunity.

Doug Richardson:

Tom, thank you for your time today.

Tom Davis:

Absolutely, Doug. Pleasure talking with you.

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