Around the World in 20 Years

JENNISON ASSOCIATES

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The literary classic *Around the World in 80 Days* begins in 1872 London, when Phileas Fogg makes a high-stakes wager that he can circumvent the globe in just 80 days. Fogg and his redoubtable valet encounter many adventures on their trip, with thrilling tales of derring-do and madcap escapes. One key theme of the book is the importance of learning lessons from the vicissitudes of life.

The Jennison Global Equity team's journey around the world is, on the surface, very different. First, it starts in Boston in 2004 and spans two decades. However, like Fogg and his companion, we have encountered challenges, discovered opportunities, had a few adventures of our own, and learned many lessons along the way.

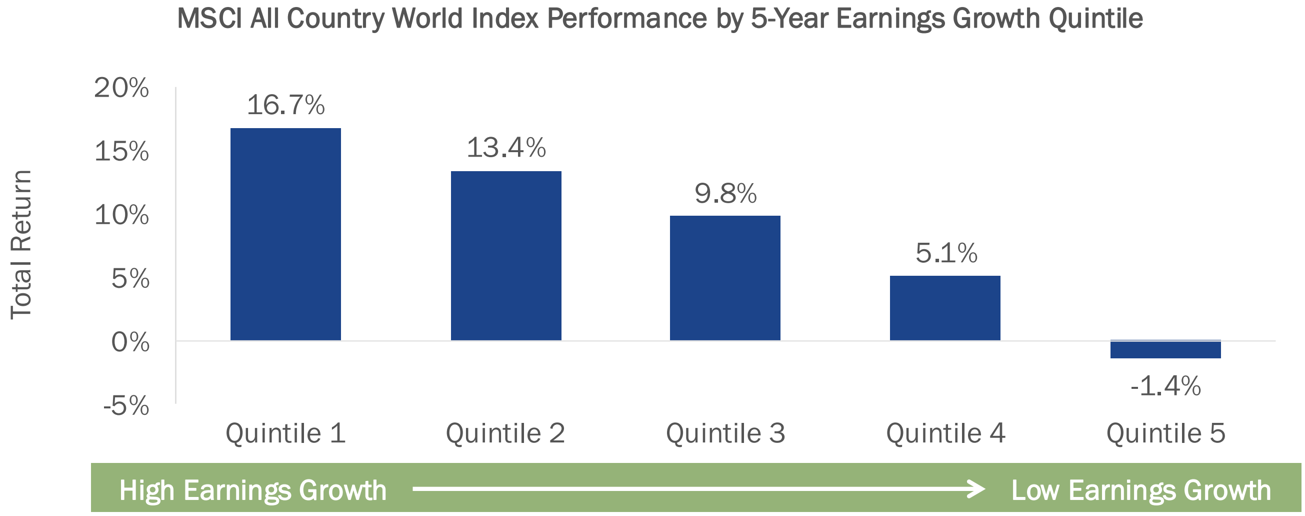
The most important is that our approach—through a range of different market environments and geographies—can evolve while remaining true to our investment principles. We seek to identify companies that deliver above-average, sustainable growth. These companies generate the strongest compound returns over time, a role that has been amply rewarded by investors and can drive portfolio outperformance. These opportunities, however, are rare. They require experienced, skilled, and well-resourced investors to uncover, and portfolios need to be carefully constructed and managed for risk.

Around the World in 80 Days delighted readers and helped make its author, Jules Verne, famous and wealthy. Our own story is admittedly not as colorful, but we hope you find its insights helpful, intriguing, and ultimately rewarding.

The Journey Begins

The team's roots go back to 2003 when Mark Baribeau, a US growth equity PM, called Tom Davis, a colleague and analyst, about a potential new strategy. Studies showed that a small number (around 3%–5%) of companies generated virtually all the long-term investment returns in the United States and global equity markets. The data, then as now, demonstrated overwhelmingly that returns follow growth (Exhibit 1). Mark and Tom created a philosophy and process that focused solely on discovering, investing in, and then exiting these elite growth companies. At the heart of the strategy was extensive bottom-up, fundamental work, and the universe was expanded to include global companies.

Exhibit 1: Returns Have Historically Followed Growth



Data for 12/31/97 to 3/31/25. Most recent data available.
Source: FactSet and MSCI. Chart was created by Jennison using FactSet data for the MSCI All Country World Index. The chart above reflects the average median annualized returns of index stocks over rolling 5-year periods, ranked by quintiles based on 5-year historical earnings growth (1=highest, 5=lowest).
Past performance does not guarantee future results.

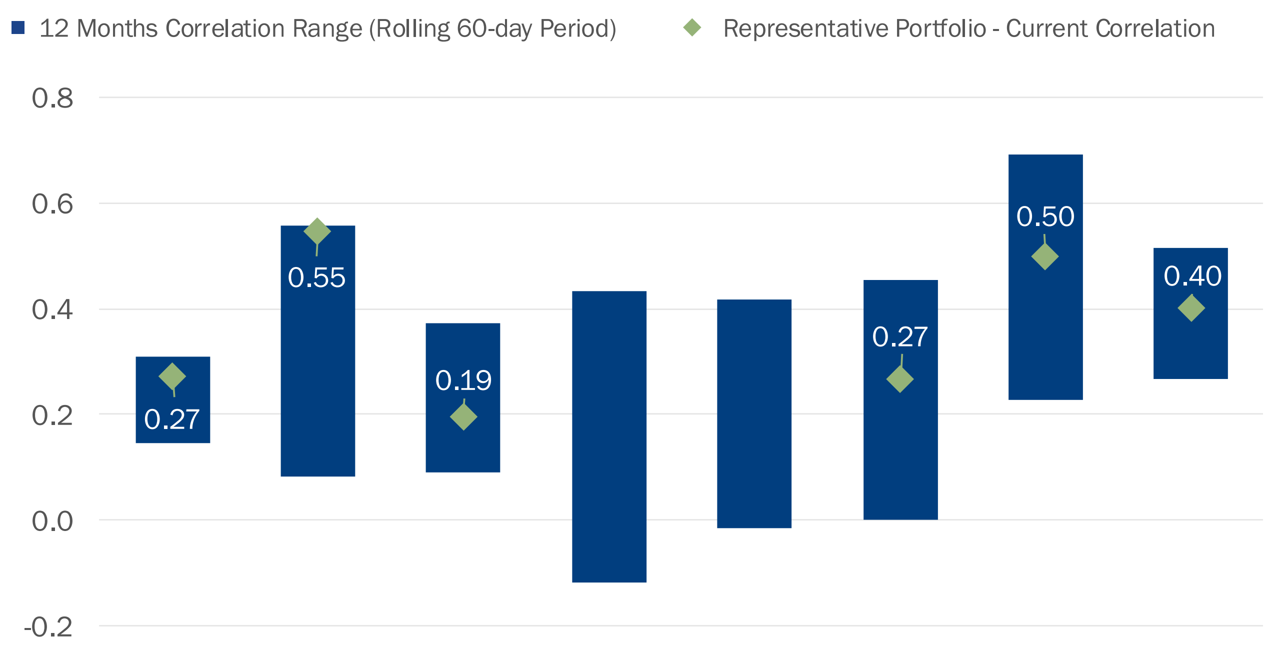
Lesson 1: Risk Control

Along with their pursuit of returns, the team sought to understand and control portfolio risk. Contemporary risk measures, however, seemed to start from the wrong premises. Metrics such as tracking error and beta were more appropriate for portfolios that placed a heavy emphasis on risk relative to the benchmark, implicitly assuming the benchmark is the most appropriate starting point for active portfolios.

The Global Equity strategy, however, employed a bottom-up benchmark-agnostic approach, evaluating each company on its own merits. In addition, because the strategy was focused, the team was especially concerned that holdings could be highly correlated, exposing the portfolio to one theme or trend. To avoid this risk, the team analysed the correlations of stocks within regions, sectors and, most importantly, the pairwise correlation of each stock to every other stock in the portfolio, not the benchmark (Exhibit 2). This analysis, in their view, revealed the genuine diversification each new stock idea brought to the portfolio versus the existing holdings.

Over time, the team moved to a slightly more focused portfolio. Where previously they had held 45 to 50 holdings, they decided the best balance between concentration and diversification was 35 to 45 holdings. This was supported by the growing body of academic literature looking at the narrowness of growth and return drivers, as well as their own experience that the longer tail often brought more risks than rewards. In fact, a high conviction, focused portfolio could have lower risk than a portfolio with more holdings.

Exhibit 2: Risk Management



	Jennison Global Equity Opportunities	Communication Services	Consumer Discretionary	Consumer Staples	Financials	Health Care	Industrials	Information Technology
# of Securities	41	5	10	1	1	6	2	15
% of Weight		20%	29%	3%	1%	11%	2%	33%

As of 3/31/25
Information is supplemental to the Global Equity Opportunities Composite presentation, which is available at: https://www.jennison.com/us/en/institutional/gips/gips-global-equity-opportunities-composite. The 12 month range shows how correlated (the degree to which the securities move in relation to each other) the securities within the portfolio or sector are for a rolling-60 day period. Only sectors that had one or more securities during the time period are shown. If a sector holds only one security, it cannot compare securities and therefore will not have a current correlation data point. Diversification does not protect an investor from market risk and does not ensure a profit or guarantee against a loss. Source: FactSet and MSCI

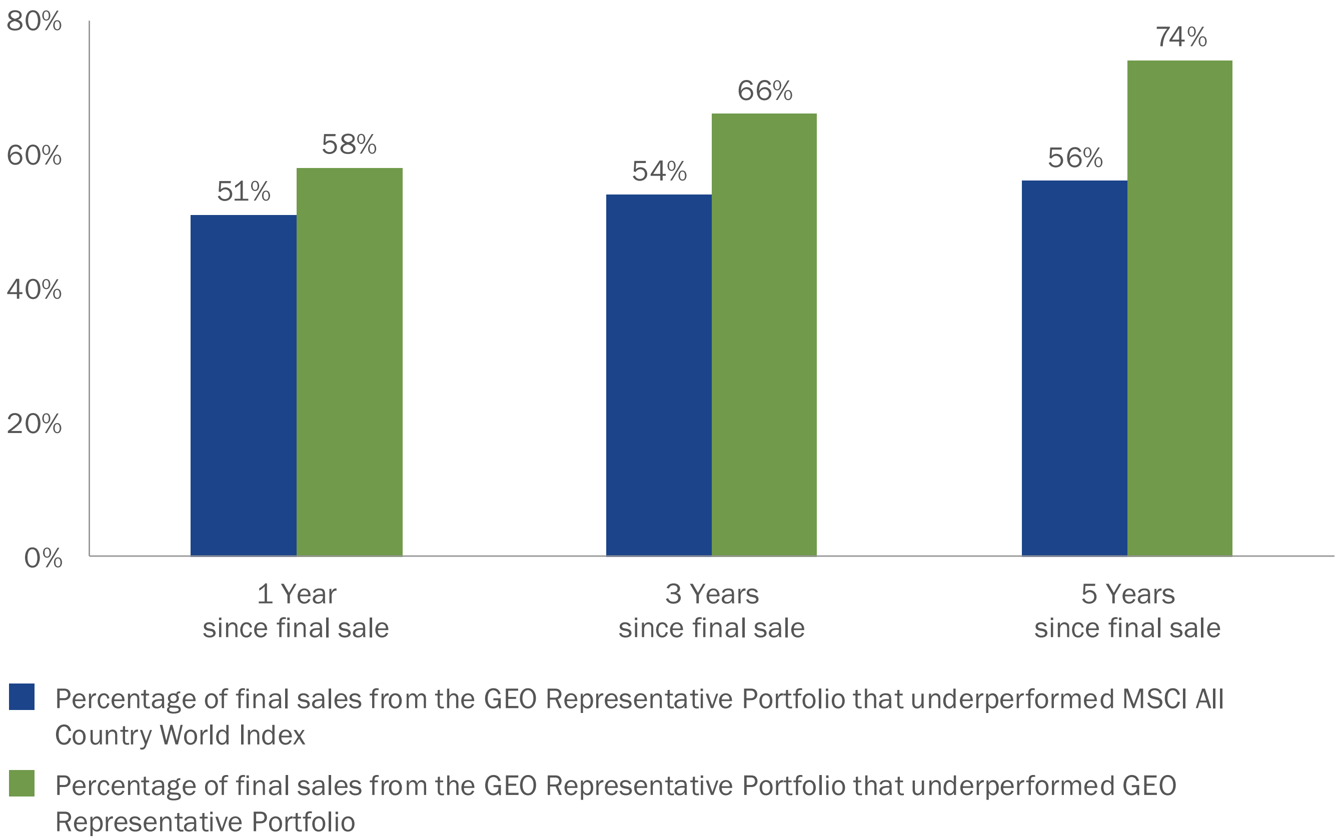
Lesson 2: Sell Discipline

The Global Equity team believes that growth companies can be often better understood as growth ideas over varying periods of time. While some companies can extend their growth with new ideas, most are less successful, and an important aspect of growth investing is to mitigate the risk of continuing to hold a stock when the growth slows down or runs out. Not only does the stock suffer from downward earnings revisions to future growth, but it is also usually accompanied by severe multiple compression. If one could buy and hold growth companies forever, surely everyone would still be holding IBM and Kodak, Nokia and Ericsson?

The team had tried different forms of their sell discipline (including a quantitative stop loss limit), but none were particularly satisfactory. In the 2010s, the team switched to a more qualitative approach. They sought to differentiate between drawdowns due to enduring, fundamental reasons, and those that were due to temporary factors that in all probability would be rectified in the coming quarters.

There is a significant difference between a company missing earnings estimates because of changing customer preferences and a company missing estimates because it is unable to keep up with booming demand. The former cause requires a quick sale as hesitation may cause further pain (Exhibit 3). The latter, however, can often be a buying opportunity.

Exhibit 3: Sell Discipline Track Record

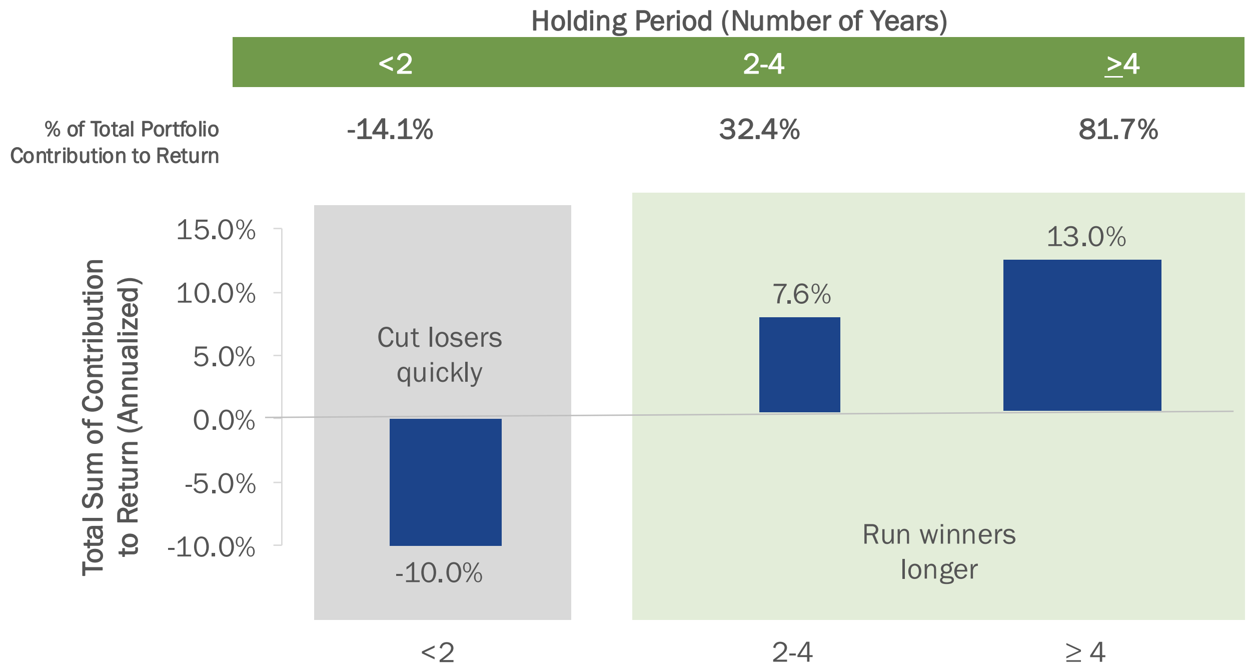


As of 3/31/25

Based on Jennison's books and records of a representative account prior to fees being charged. GEO = Global Equity Opportunities. Information is supplemental to the Global Equity Opportunities Composite presentation. Please visit https://www.jennison.com/us/en/institutional/gips/gips-global-equity-opportunities-composite for the Global Equity Opportunities Composite presentation for overall impact of fees. The 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.). Ten years since final sale was excluded from this analysis as we believe the data would not be meaningful since it encapsulates longer than typical market cycle. 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. Source: MSCI and FactSet. **Please see Performance disclosure for impact of fees.**

A strong sell discipline, combined with a relatively focused portfolio, helps underwrite a process where capital can consistently be reallocated from investments where growth may be faltering, or execution is poor, to companies with strong growth prospects and great execution. Simply put: it supports the objective of cutting losers quickly, which then enables us to run bigger positions in the winners, for longer (Exhibit 4). (For more information, see our whitepaper: *Buy and Hold Forever*).

Exhibit 4: Cutting Losers Quickly Lets Winners Run



Data from 4/30/11 to 3/31/25
Based on Jennison's books and records of a representative account prior to fees being charged. Inception Global Equity Opportunities Composite: 4/30/11. GEO = Global Equity Opportunities. Information is supplemental to the Global Equity Opportunities Composite presentation. Please visit https://www.jennison.com/us/en/institutional/gips/gips-global-equity-opportunities-composite for the Global Equity Opportunities Composite presentation and for overall impact of fees. This analysis is based on security level performance within the portfolio. Net of fee data is not available. Total sum of contribution to return is the total amount all holdings contributed to the portfolio's return on annualized basis during stated time period. The % of total portfolio contribution to return sums the cumulative portfolio contribution to return for all holding periods and then a percent contribution for each holding period is calculated. This analysis is based on security level performance within the portfolio and net of fee data is not available. Data includes those securities that were held in the GEO portfolio for at least one month or more since inception. Source: FactSet. **Please see Performance disclosure for impact of fees.**

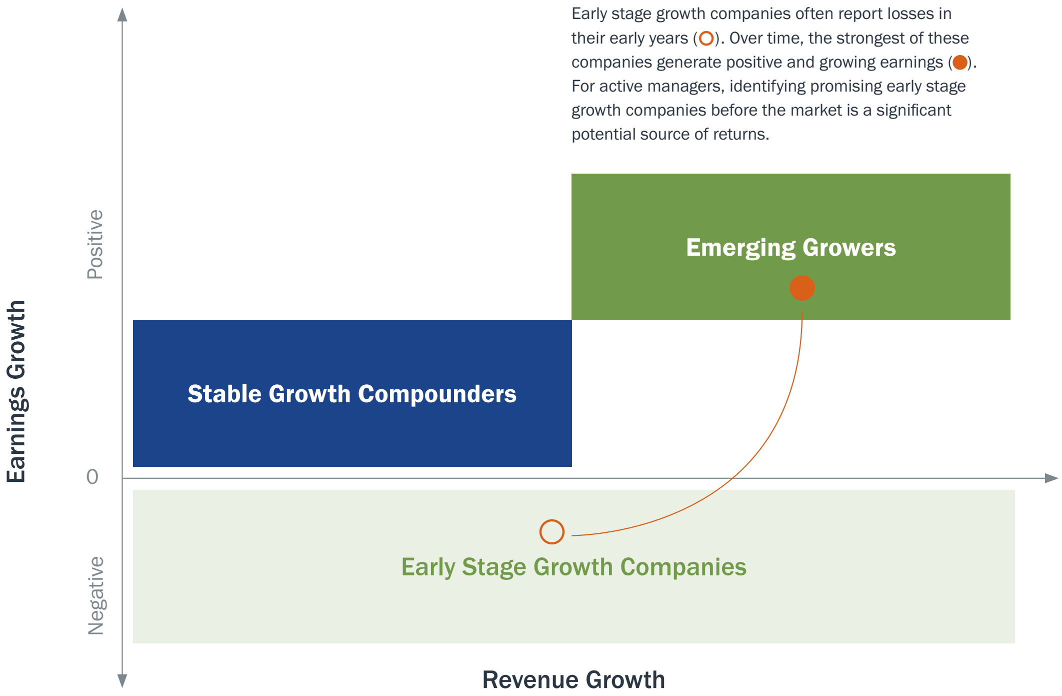
Lesson 3: The Global Spectrum of Global Growth

The sources of growth can vary and are often fluid. While strong, persistent growth is typically driven by innovation or technological disruption, the drivers are rarely, if ever, predictable or static. In the course of our fundamental research, we have observed two distinct types of growth companies: emerging growers and stable growth compounders.

Although both groups consist of growth stocks, the differences in their characteristics and performance can be profound (Exhibit 5). Emerging growers are typically young disruptors, in a new or developing industry, and offer significant upside potential. To fuel their rapid growth, these companies reinvest their cash flow into sales, marketing, research, product development, and achieving scale, while reporting relatively low—or no—profits. These strategic decisions can depress margins and earnings over the short term (usually 1–2 years), but this is typically followed by a phase of pronounced growth over the following 3–5 years.

Stable growth compounders also demonstrate above-average growth potential, but they have a history of profitability and established drivers of growth. They are often former emerging growers that have matured into large or mega cap companies with a flourishing mix of products and services. They can maintain their competitive position through continued innovation and expansion into new markets or by leveraging an established business that cannot be easily replicated by competitors.

Exhibit 5: Two Distinct Types of Growth Companies: Emerging Growers and Stable Growth Compounders



For illustrative purposes only.
Source: Jennison

We follow a bottom-up investment process and do not deliberately weight the portfolio toward emerging growers versus stable growth compounders or vice versa. In adverse conditions, some active managers deviate from their philosophy and process, sometimes called "style drift", or more colloquially, "capitulation." Whilst we try to learn as many lessons as possible from the experience (see our *The Global Spectrum of Growth* paper), we do not deviate from our fundamental long-term philosophy.

We also do not implement secular themes top down in our portfolio, but secular themes often impact companies and influence our analysis. Thus, secular themes can drive significant changes in our portfolio:

- We sold Chinese tech giants in 2020–2021 because of a negative sea-change in the attitude of the Chinese Communist Party (CCP) towards its own highly successful tech sector.
- By the end of 2022, it became clear that inflation was a secular force, and the Federal Reserve began an interest rate tightening cycle. This put pressure on both bonds and equities, but growth equities were the hardest hit. Much of the 2022 drawdown was from multiple contraction, and many of our companies showed revenue and profit growth in-line with or above expectations. Thus, our holdings benefited when the market reversed some of the multiple compression in 2023.
- The generative AI revolution began in late 2022, and by the end of 2023 the GEO portfolio was benefiting because of its exposure to generative AI-related trends, though notable contributions also came from stocks in such diverse sectors as healthcare and consumer discretionary. This continued through the first half of 2024 but, by the end of the year, we had reduced our exposure to generative AI infrastructure. Our long experience of innovation and disruption suggested that the next phases may see more value creation in the software layer and the applications that succeed in bringing the power of generative AI models to the day-to-day operations of companies and individuals.

Lesson 4: Investing in Growth Starts at Home

Our long experience of analysing growth companies makes it clear to us that, in the long-term, failing to invest in people, products, and services for the future is the most common cause of growth rates fading and declining. Thus, whilst staying true to our philosophy and process, we have continued to evolve, develop, and grow over the years.

Albert Kwok and Sara Moreno joined Jennison at the same time as Mark Baribeau and Thomas Davis in 2011, helping to generate new ideas in the emerging markets. They were instrumental in the 2014 launch of the Global Emerging Market Equity strategy, which is uniquely focused on seeking out and investing in the most dynamic, innovative, and disruptive growth companies within emerging markets.

John Donnelly had previously worked on small and mid cap growth companies and knew Mark, Tom, Albert, and Sara at their previous firm. He joined the team in 2019 and in 2020 helped launch global and international small and mid cap growth equity strategies. He was joined by Ed Duggan as PM on those strategies. Zach Gill and Aditi Puri have further deepened and broadened our analytical firepower in the emerging markets growth equity space.

Rebecca Irwin, a consumer discretionary and then global Internet consumer stock analyst, interacted closely with the team and over the years made very significant contributions to the portfolio. In 2022 she joined Mark and Tom as a co-lead manager on the global equity strategy. In 2023 she helped to launch a new strategy, investing in global growth companies, with the additional objective of aligning with certain key UN SDGs.

Conclusion: The World Changes, But Our Approach Remains the Same

We continue to look at opportunities to apply the philosophy and process to other areas of global equity markets. Ultimately, we believe the strength of our process is that it addresses change.

One of the benefits of being relatively focused is that it keeps the bar high for companies to enter and remain in our portfolio. Our sell discipline recognises the fact that the world is always evolving. The wise growth equity investor benefits from periods of strong growth whilst always remembering that “this too shall pass.” We believe that by exiting investments that are past their sell-by date we are also more open and receptive to the next new “big thing”, and thus are more likely to catch the next wave of innovation and disruption early.

Like Phileas Fogg, who eventually won his high stakes wager that he could circumnavigate the world in 80 days, Jennison’s Global Equity team have faced, and learned from, a lot of challenges around the world. We have 20 years of experience and learning on behalf of our clients, and we hope to earn the right to do that for the next 20.

Important Disclosures

As of May 2025

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All non-performance portfolio data provided is based on a representative Jennison Global Equity Opportunities portfolio. The representative portfolio was selected because it is in the composites and we believe the holdings, characteristics and risk profiles are representative of this strategy.

Performance notes: Inception of Global Equity Opportunities Composite: 4/30/11. As of March 31, 2025 net of fee returns for the Global Equity Opportunities Composite are: 1 Year: -5.9%.; 3 Year: 3.5%; 5 year: 14.5%; 10nYear: 12.2%; Since Inception: 12.3%. Returns for the MSCI All Country World Index (Net) for 3/31/25 are: 1 Year: 7.2%; 3 Year: 6.9%; 5 Year: 15.2%; 10 Year: 8.8%; Since Inception: 8.3%.

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The cover art started as an Artificial Intelligence (AI)–generated image. It combines several themes, including a balloon that evokes the original *Around the World in 80 Days* novel, a varied landscape that represents a range of potential investments, and the sense of adventure our investors feel as they seek out opportunities on behalf of clients. This is our first use of AI in a cover image.

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