
# Large Cap Growth Equity

## Fundamental-Research-Driven, Bottom-Up Large Cap Growth

### Strategy Overview

| | |
|---|---|
| **Firm AUM:** | $173.2B |
| **Strategy AUM:** | $63.0B |
| **Inception Date:** | July 31, 1969 |
| **Number of Holdings:** | Typically 50-70 |
| **Benchmark:** | Russell 1000® Growth Index |
| **Available Vehicles:** | ▪ Institutional Separate Account<br>▪ Collective Investment Trust<br>▪ US Mutual Fund<br>▪ Managed Account<br>▪ UCITS Fund |

### Team Members

**Portfolio Managers**

*Average Experience: 39 years*

| | |
|---|---|
| Spiros "Sig" Segalas | Michael Del Balso |
| Kathleen A. McCarragher | Rebecca Irwin |
| Blair A. Boyer | Natasha Kuhlkin, CFA |

**Dedicated Analysts: 12**

*Average Experience: 22 years*

### Highlights

- The strategy is based on belief that growth in earnings and cash flows drive share prices over the long term, that excess returns are generated by investing in market-leading companies that create economic value through long-duration competitive advantages
- The investment team seeks to invest in companies with:
  - Unique business models that build sustainable competitive advantages
  - Catalysts that drive long-term growth rates well above that of the market
  - Superior financial characteristics
  - Attractive valuations
- The strategy is high-conviction and benchmark-agnostic
- The experienced research team drives bottom-up stock selection
- The disciplined sell process reflects fundamental and valuation measures
- Risk management is integrated throughout the process
- The Large Cap Growth Equity Composite outperformed the Russell 1000® Growth Index since the index's inception in 1979 (gross and net)

### Large Cap Growth Equity Composite Performance

| | 4Q19 | Full Year 2019 | 3 Years | 5 Years | 10 Years | Since Inception of R1000G | Since Inception of Composite |
|---|---|---|---|---|---|---|---|
| **Large Cap Growth Equity Composite (Gross)** | 12.4% | 33.8% | 22.4% | 15.4% | 15.3% | 13.9% | 12.1% |
| **Large Cap Growth Equity Composite (Net)** | 12.4 | 33.5 | 22.1 | 15.1 | 15.0 | 13.5 | 11.7 |
| **Russell 1000® Growth Index** | 10.6 | 36.4 | 20.5 | 14.6 | 15.2 | 11.6 | NA |

***Past performance does not guarantee future results.*** *Source: Jennison/Mellon Analytical Solutions. Inception of Large Cap Growth Equity Composite: 7/31/69. Inception of Russell 1000® Growth Index: 1/1/79. Periods greater than one year are annualized. See disclosures for important information.*



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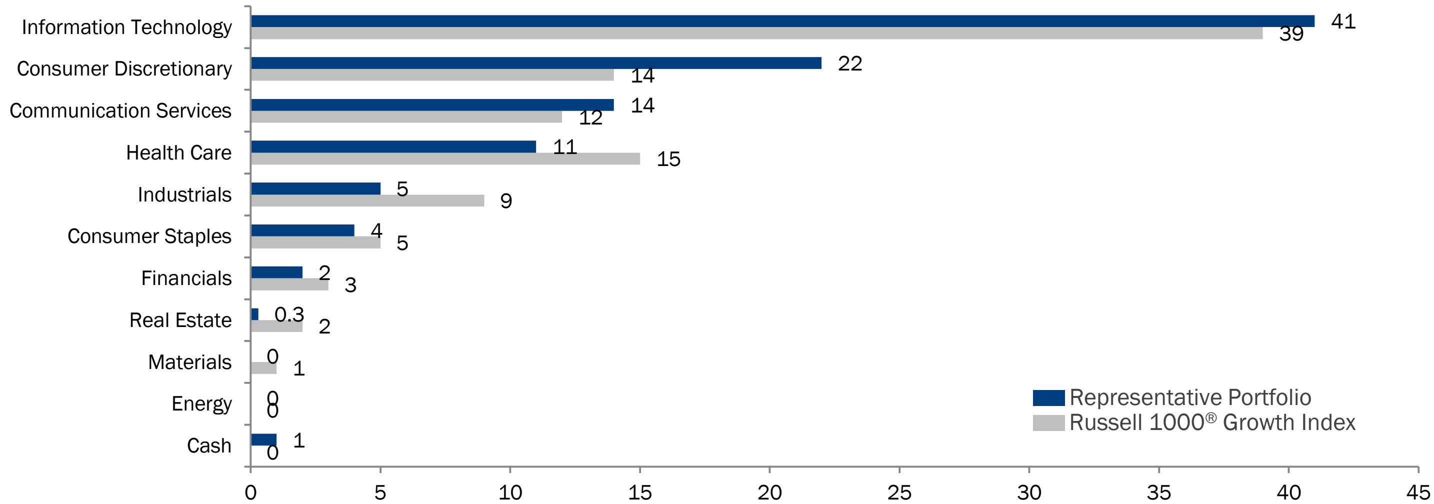
## Sector Allocation




*Source: Jennison/Mellon Analytical Solutions. Companies within the Utilities sector typically do not possess the fundamental attributes that meet the strategy's requirements for investment. Securities are not held in this sector and are, therefore, not shown. The cash percentage represents cash and cash equivalents. See disclosures for important information.*

## Equity Characteristics

| | Representative Portfolio | Russell 1000® Growth Index | S&P 500® Index |
|---|---|---|---|
| Earnings Per Share Growth 2019E | 15% | 10% | 9% |
| Earnings Per Share Growth 2020E | 19% | 12% | 8% |
| P/E 2019E | 33x | 27x | 20x |
| P/E 2020E | 27x | 23x | 18x |
| Wtg. Avg. Market Cap | $370.1 bil. | $361.6 bil. | $269.0 bil. |
| Median Market Cap | $79.1 bil. | $13.1 bil. | $23.6 bil. |
| Dividend Yield | 0.6% | 1.2% | 1.5% |
| Number of Holdings | 50-70 | 530 | 505 |
| Cash Range | <5% | N/A | N/A |

*Source: Jennison/Mellon Analytical Solutions. Dollar-Weighted Median EPS Growth shown. See disclosures for important information.*

## Largest Holdings

| | |
|---|---|
| Alphabet | 6.4% |
| Amazon.com | 5.5 |
| Microsoft | 5.2 |
| Apple | 5.2 |
| MasterCard | 3.9 |
| Salesforce.com | 3.8 |
| Alibaba | 3.6 |
| Visa | 3.4 |
| Adobe | 3.2 |
| Facebook | 3.0 |
| | 43.1% |

*Source: Jennison. See disclosures for important information.*

## Largest Absolute Impact (4Q)

| Top Five | Average Weight | Total Return | Contribution to Return |
|---|---|---|---|
| Apple | 4.9% | 32% | 144 bps |
| Tesla | 1.6 | 74 | 94 |
| Alibaba | 3.2 | 27 | 82 |
| NVIDIA | 2.4 | 35 | 77 |
| Microsoft | 5.2 | 14 | 72 |

| Bottom Five | Average Weight | Total Return | Contribution to Return |
|---|---|---|---|
| Boeing | 2.3% | -14% | -39 bps |
| Sage Therapeutics | 0.3 | -57 | -21 |
| Home Depot | 1.4 | -5 | -8 |
| Twilio | 0.5 | -11 | -7 |
| Constellation | 0.5 | -8 | -6 |

*Source: FactSet. The holdings identified 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 representatives portfolio's return is available upon request. See disclosures for important information.*



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## Overview

The Russell 1000® Growth Index advanced 10.6% in the fourth quarter, while the S&P 500® Index rose 9.1%. Every sector in the growth index gained ground: health care, information technology, and communication services the most; real estate, materials, and industrials the least.

The Large Cap Growth Equity Composite outperformed the Russell 1000® Growth Index. Consumer discretionary, information technology, and communication services positions were strong contributors to representative portfolio positive absolute and relative performance. Stock selection was also strong in financial services. Health care holdings posted a double-digit advance but lagged the benchmark sector. Industrial positions detracted from absolute return.

## Key Contributors

- **Apple**'s fundamental strength reflects the proliferation of the iOS platform across the global mobile phone, tablet, and personal device landscape. With its huge installed base, Apple is now benefiting from rapid growth in service business subscriptions (apps, music), which are a key source of recurring revenue. The services business is the company's fastest-growing and highest-margin business segment. Investor sentiment about Apple seems to have become less focused on near-term declines in the flagship iPhone business and more defined by a growing willingness to discount near-term lackluster top-line results in anticipation of a potentially robust product cycle that incorporates 5G wireless standards in 2020.
- **Tesla**'s strong earnings and free cash flow reflected strong demand and higher margins, driven by solid sales of higher-priced Model 3 variants. In addition to the strong financial results, Tesla moved up the launch of its Model Y and seems to be tracking ahead of schedule on the ramp of a new factory in Shanghai.
- **Alibaba**, one of the world's largest e-commerce companies, is benefitting from significant revenue synergies of its various segments, laying the groundwork for strong, durable top-line growth. The company operates China's largest global online wholesale platform for small businesses, largest online retail website, and largest online third-party platform for brands and retailers. Revenue and adjusted earnings growth has been solid, with user engagement gauges showing continued strength.

## Key Detractors

- **Boeing** declined on news that it is halting production of the Boeing 737 Max 8 jet as it waits for recertification. The aircraft has been grounded since two tragic accidents, the most recent in March 2019. We continue to gauge the impact of the shutdown, but without more detail on the duration of the suspension and the supplier terms, it is difficult to quantify the economic impact to Boeing and its suppliers. The recertification process is taking longer than anticipated, but we expect that once the issues are resolved, Boeing's strong brand, market position, long-term order backlog, and balance sheet will come to the fore.
- **Sage Therapeutics** fell on disappointing data from a Phase 3 clinical trial of its drug SAGE-217 in major depression (MDD). The drug's statistically significant efficacy and strong safety profile in post-partum depression (PPD) were thought to bode well for its commercial applications in MDD. MDD represents a much larger unmet medical need than PPD, and the promise of SAGE-217 in the MDD market was a key element of our investment rationale.
- **Home Depot**, the world's largest home improvement chain, is consolidating its leadership position in the industry with investments in customer service, inventories, job-site pro delivery, online assortment, online shipping, buy online pickup in store, and pricing. We believe the investments, which could slow gross margin improvement in the near term, help Home Depot prepare for an increasingly competitive environment. Third-quarter earnings met consensus forecasts, but US comparable-store sales growth was lower than expected, and the company scaled-back its guidance.

## Outlook

The resolution of trade and other issues affecting US-China relations remains uncertain, but progress, including the Phase I trade deal, is likely to create a more stable backdrop for business investment planning and reduce the threat of recession. Given the stop-and-go trajectory of the negotiations over the past couple of years, the details and timing will be watched carefully. The US economy, and the US consumer in particular, remain on firm ground. Unemployment is low, wage gains are driving consumption, housing activity is improving, and corporate profits are forecast to grow in the mid to high single digits in 2020. Market reaction to the passage of articles of impeachment in the House has been muted, as acquittal in the GOP-controlled Senate is generally assumed. A prolonged trial in the Senate could impinge on the campaigns of Senate Democratic presidential candidates. The broader political effect of how the proceedings ultimately play out is highly uncertain. Politics and the US elections are likely to be front and center in the minds of investors in 2020. The Iowa caucuses on February 3 are followed by the New Hampshire primary on February 8 and the Super Tuesday primaries on March 3. The presidential campaigns are generating various policy and regulatory proposals, with the health care, technology, and financial services industries receiving the most scrutiny. We are paying particular attention to proposals targeting technology and health care, as these sectors are major components of the portfolio. The health care policy differences between the parties are well-delineated, and debate will likely center on approaches to health insurance coverage and drug pricing. We expect that technology proposals will be more fluid and unpredictable, given the rapid and constant evolution of the technological landscape. Data privacy, market power, and national interest are among the issues affecting the sector; corporate breakups and business practice reform are among the proposed remedies. Several Federal Trade Commission and Department of Justice actions are already underway or contemplated, and investigative activity is sure to increase. Understanding how policy and regulatory actions might challenge growth expectations for affected companies remains a key focus for us; regulatory scrutiny, both actual and possible, has already resulted in valuation discounts in the equity values of many major tech companies. Most companies in the portfolio met our above-average-growth expectations in 2019, and many of the largest holdings made robust stock price gains, reflecting their healthy operating fundamentals. In 2020, we expect mid-teens earnings growth for the portfolio, once again surpassing the earnings growth projected for the S&P 500® (mid-single digits) and the Russell 1000® Growth (low teens) indexes. The overall portfolio appreciated substantially in 2019, although modestly less than the Russell 1000® Growth benchmark. The portfolio has underperformed periodically in the past, but as we have stayed true to our investment disciplines, these periods have been followed by recovery and a return to outperformance. We believe the secular growth opportunities and industry-leading positions of many companies held in the portfolio will lead to strong long-term performance.

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