

SMid Cap Core Equity

Bottom-up fundamental approach focused on investing across the Growth/Value spectrum

Strategy Overview

Firm AUM:	\$173.2B
Strategy AUM:	\$2.2B
Inception Date:	May 31, 2004
Number of Holdings:	Typically 110-135
Benchmark:	Russell 2500™ Index
Available Vehicles:	<ul style="list-style-type: none"> ▪ Institutional Separate Account ▪ US Mutual Fund ▪ Managed Account

Team Members

Portfolio Managers

Average Experience: 27 years

John P. Mullman, CFA Jonathan M. Shapiro
Jason M. Swiatek, CFA

Dedicated Analysts: 6

Average Experience: 17 years

Highlights

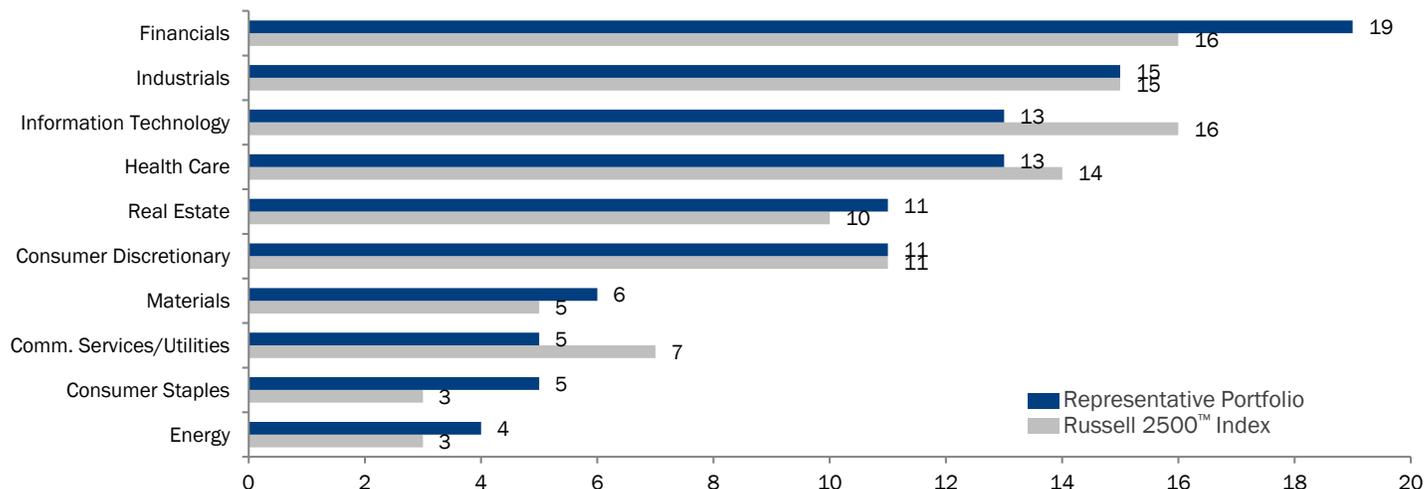
- We have a deep and experienced team dedicated to our small and midcap strategies, focused on understanding business models and investing in companies with long-term appreciation potential. We buy businesses rather than just stocks.
- We spend time evaluating the appropriate values for our investments even before we buy them. Our price targets allow us to maintain a disciplined approach to buying and selling stocks.
- We explore investment opportunities outside conventional boundaries. We are willing and able to investigate controversial or complex stories which may be misunderstood and not followed by Wall Street.
- A research-intensive approach is used to build diversified portfolios with stocks in a variety of industries and sectors that have attractive valuations and should experience solid earnings growth on an intermediate term basis.
- The team focuses on business evaluation to identify companies with the majority of the following criteria. This list is fluid and focuses on what is most relevant to our current thinking in our view.
 - Strong competitive positions
 - Quality management teams
 - Positive industry dynamics
 - Balance sheet flexibility and strength
 - Strong earnings growth prospects

Performance	4Q19	Full Year 2019	3 Years	5 Years	10 Years	15 Years	Since Inception
SMid Cap Core Equity Composite (Gross)	10.0%	29.8%	11.1%	8.8%	12.4%	9.9%	10.5%
SMid Cap Core Equity Composite (Net)*	9.8	28.7	10.2	7.9	11.5	9.2	9.7
Russell 2500™ Index	8.5	27.8	10.3	8.9	12.6	8.8	9.4

*Past performance does not guarantee future results. Source: Jennison/Mellon Analytical Solutions. *For periods prior to 2010, net of fee performance is presented net of Jennison's actual advisory fees and transaction costs. For periods beginning January 1, 2010, net of fee performance reflects the deduction of a model fee. It is net of transaction costs and is calculated based on the highest tier of the fee schedule in effect during the period shown (.90% 2010; .80% thereafter), which may not reflect the actual historical fees applied to accounts in the Composite. Inception of SMid Cap Core Equity Composite: 5/31/04. Periods greater than one year are annualized. See disclosure for important information.*

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Sector Allocation



Source: Jennison/Melon Analytical Solutions. Cash excluded. See disclosure for important information.

Equity Characteristics

	Representative Portfolio	Russell 2500™ Index
EPS Growth 2019E	10%	4%
EPS Growth 2020E	16%	10%
P/E 2019E	21x	26x
P/E 2020E	18x	23x
Weighted Avg. Market Cap	\$5.85 bil.	\$5.58 bil.
Median Market Cap	\$4.42 bil.	\$1.19 bil.
Dividend Yield	1.48%	1.62%
Number of Holdings	114	2,499

Source: Jennison/Melon Analytical Solutions. See disclosures for important information.

Largest Holdings

Pinnacle Financial Partners	3.2%
WPX Energy	2.7
CDW	2.4
Gaming and Leisure Properties	2.4
East West Bancorp	2.3
BankUnited	2.3
Summit Materials	2.2
Performance Food	2.2
HubSpot	2.1
Mobile Mini	2.1
	23.8%

Source: Jennison. See disclosure for important information.

Largest Absolute Impact (4Q19)

Top Five	Average Weight	Total Return	Contribution to Return	Bottom Five	Average Weight	Total Return	Contribution to Return
WPX Energy	2.2%	30%	66 bps	Sage Therapeutics	0.5%	-51%	-37 bps
Darling Ingredients	1.4	47	59	Party City	0.1	-65	-22
Cardlytics	0.7	88	43	SmileDirectClub	0.3	-37	-16
Horizon Therapeutics Public	1.4	33	42	Hexcel	0.6	-3	-13
Pinnacle Financial Partners	3.1	13	41	Howard Hughes	1.8	-2	-12

Past performance does not guarantee future results. Source for data: 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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Performance Review

Global equities markets advanced solidly in 2019's final quarter. Gains early in the-period reflected in part market reaction to the US Federal Reserve's rate cut in late October, an implicit assertion that while the US economy remained near full employment, the benign inflation outlook allowed for another 25-basis-point reduction in the federal funds rate to help offset uncertainty about ongoing US-China trade negotiations.

In mid-December, the announcement of a framework agreement brought relief from trade war anxiety. The trade armistice gave markets another boost and a strong finish for the year. Major indexes surpassed previous records and the levels achieved before last year's fourth-quarter trade-war-induced setback.

In the fourth quarter, across Russell's US equity indices, small cap outperformed mid and large cap, while growth outperformed value across capitalizations. For its part, the Russell 2500™ Index (index) gained 8.5%, supported by advances in all sectors except for utilities. Health care gained the most ground by a wide margin driven by biotech, followed by information technology and energy.

The SMid Cap Core Equity Composite (composite) outperformed in the quarter. In the representative portfolio, consumer staples led performance, driven by our food-related holdings. Energy, information technology, and consumer discretionary were other notable sources of gain. Software and electronic equipment and semiconductors led results in technology, while hotels, restaurant, and leisure stood out in the latter group.

The health care sector was the largest detractor from relative performance due mostly to our positions in biotech; our holdings did not keep pace with very strong returns of the index's constituents and our underweight also hurt. Equipment and supplies also detracted in aggregate.

The composite also had a strong absolute and relative 2019. It outperformed the 27.85% advance of the Russell 2500™ Index.

Key Contributors

- Oil & gas producer **WPX Energy** rose over the quarter as WTI crude oil prices rallied over 10% in both December and the fourth quarter of 2019. We believe the company's management team should continue to differentiate itself and be a relative outperformer versus its energy peers, as it continues to operationally execute on its goal of generating mid-single digit free cash-flows.
- **Darling Ingredients** enjoyed a solid third quarter with improving core results, strong profitability, incremental debt repayment, and share repurchase activity. The company develops, produces, and sells natural ingredients from edible and inedible bio-nutrients and operates through three segments: Feed Ingredients, Food Ingredients, and Fuel Ingredients. We continue to like the operating environment and the company's self-funded growth trajectory.
- **Cardlytics** operates a proprietary bank advertising channel that enables marketers to reach consumers through their online and mobile banking channels. We believe its initiatives such as increased automation, improved staffing into new verticals, and landing larger accounts will achieve ongoing billings growth. The company has executed extremely well, more than doubling its monthly active user base in the third quarter and demonstrating impressive fixed cost leverage.

Key Detractors

- **Sage Therapeutics** fell on news that in a Phase 3 clinical trial in major depression (MDD), SAGE-217 failed to meet the study's primary endpoint of a statistically significant reduction in patient Hamilton Rating Scale for Depression scores. In early 2019, the company reported highly positive topline data from a Phase 3 study of Sage-217 in post-partum depression (PPD). The drug's statistically significant efficacy and strong safety profile in 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.
- **Party City** posted a poor quarter, with an earnings miss and lower margins. The company cited weak Halloween sales. We eliminated the position as we see core fundamentals eroding, rather than improving.
- **Smile Direct** reported solid earnings but disappointing fourth quarter guidance and limited visibility into sales expectations for next year. We continue to believe there is a large, underpenetrated market that offers a long runway for sustained top-line growth. In addition, we like its ability to leverage sales and marketing investments.

Portfolio Positioning & Outlook

The resolution of trade and other issues affecting US-China relations remains uncertain, but progress is likely to create a more stable backdrop for business investment planning and reduce the threat of recession. 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. However, the US political landscape remains unsettled and is apt to weigh on business and consumer confidence and spend, as impeachment proceedings against President Trump begin and the 2020 election cycle ramps up.

As economic and market uncertainty rise, we continue to identify those companies that have strong fundamentals and can outgrow market averages. We believe this favors our disciplined and bottom-up investment approach that focuses on identifying these above average growers with reasonable valuations.

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Additional Disclosure

All data is as of December 31, 2019 unless otherwise noted. Due to rounding, individual values may not sum to total shown.

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