

Small Cap Core Equity

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

Strategy Overview

Firm AUM:	\$173.2B
Strategy AUM:	\$2.4B
Inception Date:	April 30, 1998
Number of Holdings:	Typically 110-135
Benchmark:	Russell 2000® Index
Available Vehicles:	<ul style="list-style-type: none"> ▪ Institutional Separate Account ▪ Collective Investment Trust

Team Members

Portfolio Managers

Average Industry Experience: 22 years

Jason M. Swiatek, CFA Sheetal M. Prasad, CFA

Eric Sartorius, CFA

Dedicated Analysts: 4

Average Industry Experience: 18 years

Highlights

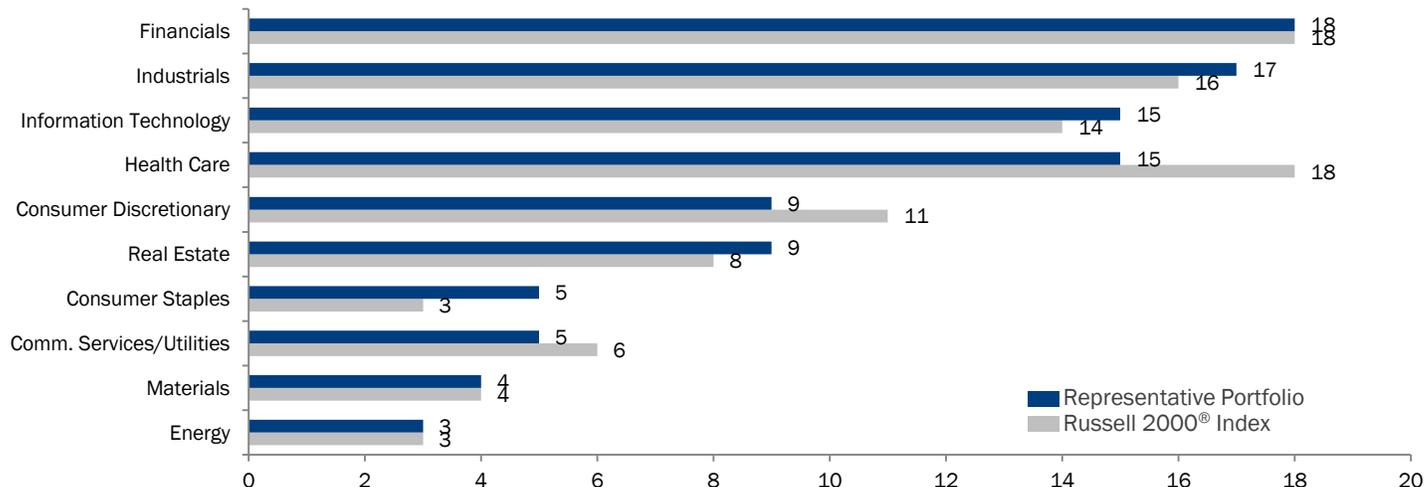
- We have a deep and experienced team dedicated to our small and midcap strategies, focused on understanding business models and investing in companies with long-term appreciation potential. We buy businesses rather than just stocks.
- We spend time evaluating the appropriate values for our investments 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 in our view.
- 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.
 - 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	20 Years	Since Inception
Small Cap Core Equity Composite (Gross)	9.3%	27.1%	10.8%	8.2%	13.0%	9.8%	9.9%	9.9%
Small Cap Core Equity Composite (Net)	9.2	26.3	10.1	7.5	12.3	9.2	9.3	9.2
Russell 2000® Index	9.9	25.5	8.6	8.2	11.8	7.9	7.6	7.3

Past performance does not guarantee future results. Source: Jennison/Mellon Analytical Solutions. Inception of Small Cap Core Equity Composite: 4/30/98. Periods greater than one year are annualized. See disclosures for important information.

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All investments involve risk, including the possible loss of capital.

Sector Allocation



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

Equity Characteristics

	Representative Portfolio	Russell 2000® Index
EPS Growth 2019E	11%	5%
EPS Growth 2020E	18%	11%
P/E 2019E	25x	32x
P/E 2020E	21x	26x
Weighted Avg. Market Cap	\$3.34 bil.	\$2.45 bil.
Median Market Cap	\$2.49 bil.	\$0.78 bil.
Dividend Yield	1.23%	1.46%
Number of Holdings	126	1,995

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

Largest Holdings

Performance Food	2.0%
Summit Materials	2.0
Saia	1.8
Mobile Mini	1.7
Pinnacle Financial Partners	1.6
BankUnited	1.6
Rexnord	1.5
HubSpot	1.5
East West Bancorp	1.5
Darling Ingredients	1.5
	16.6%

Source: Jennison. See disclosures 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
Darling Ingredients	1.2%	47%	50 bps	Party City	0.1%	-65%	-19 bps
Cardlytics	0.6	88	41	Proofpoint	1.2	-11	-16
Horizon Therapeutics Public	1.4	33	41	Goosehead Insurance	0.8	-14	-13
Planet Fitness	1.3	29	38	Tabula Rasa Healthcare	0.7	-11	-11
WPX Energy	1.1	30	33	Glaukos	0.8	-13	-11

Past performance does not guarantee future results. 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 disclosure 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. This 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 2000® Index (index) gained 9.9%, supported by advances in all sectors except for utilities. Health care gained the most ground by a wide margin, followed by information technology and materials.

The Small Cap Core Equity Composite (composite) underperformed in the quarter. In the representative portfolio, the health care sector was mostly responsible for the shortfall due primarily to stock selection and an underweight stance in biotechnology. Our pharmaceuticals holdings also underperformed in aggregate. Semiconductor positions hurt results in information technology.

Security choices in the consumer sectors as well as energy contributed the most to relative gain. In staples, our food-related names drove outperformance, while hotels, restaurants, and leisure boosted results in discretionary.

Despite giving back some relative ground in the fourth quarter, the composite had a strong absolute and relative 2019. It outperformed the 25.5% advance of the Russell 2000® Index.

Key Contributors

- **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.
- **Planet Fitness** is a franchisor and operator of fitness centers. It has more than 1,800 clubs, making it one of the largest fitness club franchises by number of members and locations. Quarterly results included membership growth and continued progress on Black Card penetration. The company expects to open 1,000 stores over the next 4 years and is entering a new country with Australia. We continue to like the company's long runway for growth, believing it's a strong brand, with value pricing and powerful advertising.

Key Detractors

- **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.
- **Proofpoint** is a security-as-a-service provider and the market leader in email protection. We view this as a growth market as more customers move their email solution to the cloud and we believe the company will continue to benefit from its reach in international markets and new product offerings. Proofpoint has a loyal customer base with consistently high renewal rates. Third quarter results were as expected with steadily improving profitability and subscription revenue growth, but some investors may have been disappointed as expectations continue to rise.
- **Goosehead Insurance** provides personal insurance agency services in the United States. While third quarter earnings were in-line with consensus, organic growth was disappointing. Our investment thesis remains intact as management is developing new technologies to enhance their growth capabilities, efficiency, and improve customer service. Furthermore, we believe the company's exclusive personal lines focus and unique insurance brokerage business model will enable it to continue delivering robust revenue growth and margin expansion over time.

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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