

# Large Cap Value Equity

## Focused on companies trading below their intrinsic value

### Strategy Overview

<b>Firm AUM:</b>	\$173.2B
<b>Strategy AUM:</b>	\$2.4B
<b>Inception Date:</b>	May 31, 2000
<b>Number of Holdings:</b>	Typically 60-80
<b>Benchmark:</b>	Russell 1000® Value Index
<b>Available Vehicles:</b>	<ul style="list-style-type: none"> <li>▪ Institutional Separate Account</li> <li>▪ US Mutual Fund</li> <li>▪ Managed Account</li> </ul>

### Team Members

#### Portfolio Managers

Average Experience: 28 years

Warren Koontz, Jr., CFA    Joseph Esposito, CFA

#### Dedicated Analysts: 11

Average Experience: 20 years

### Highlights

#### What we believe:

- Short-term factors cause stock prices to deviate from their underlying intrinsic value - which can create opportunities to uncover mispriced securities
- Free cash-flow is the primary driver of a company's intrinsic value
- Over the long-term, stock prices will reflect the underlying intrinsic value of a company - the value derived from the earnings and cash-flow its business generates

#### Our approach:

- A deep understanding of a business gives us an informed view of a company's intrinsic value and drives our high-conviction
- A long-term investment horizon allows us to capitalize on "time horizon arbitrage" opportunities created by the short-term orientation of market participants
- Utilizing a well-vetted and disciplined risk management process is critical to adding value and enhancing the probability of achieving consistent and repeatable results, in our view

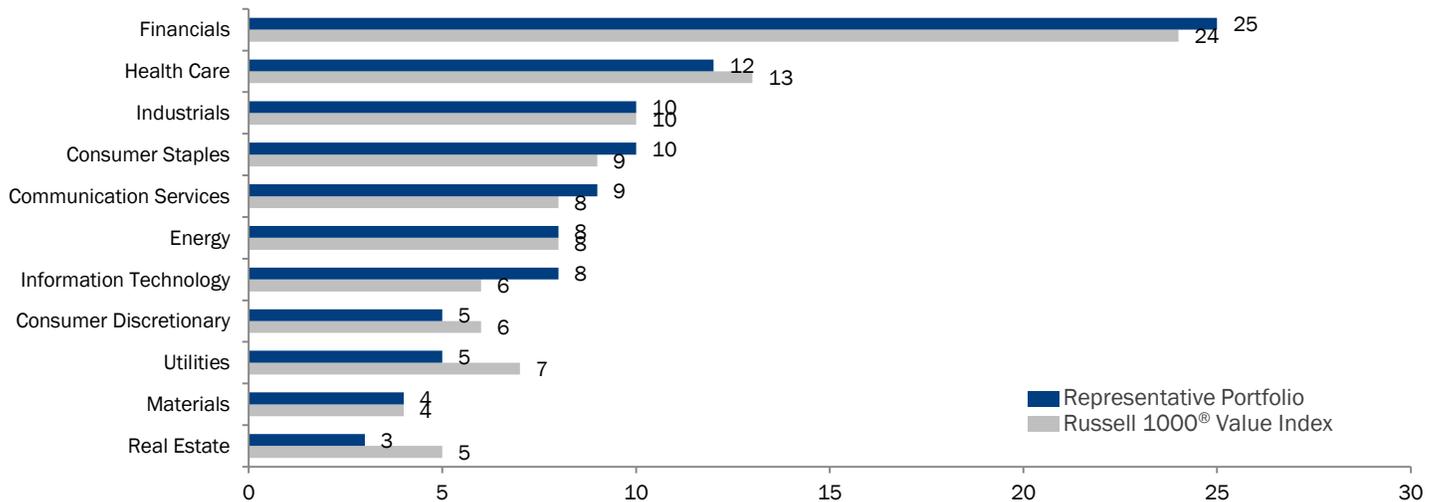
### Large Cap Value Equity Composite Performance

	4Q19	Full Year 2019	3 Years	5 Years	10 Years	Since Inception
Large Cap Value Equity Composite (Gross)	7.1%	26.7%	10.4%	6.8%	9.8%	8.0%
Large Cap Value Equity Composite (Net)*	6.9	25.9	9.7	6.0	9.3	7.6
Russell 1000® Value Index	7.4	26.5	9.7	8.3	11.8	7.2

*Past performance does not guarantee future results. Source: Jennison/Mellon Analytical Solutions. Inception of Large Cap Value Equity Composite: 5/31/00. \*For periods beginning 8/1/14, net of fee performance reflects the deduction of a model fee, is net of transaction costs and is calculated based on the highest tier of the fee schedule in effect for the respective period (0.75%), which may not reflect the actual historical fees applied to accounts in the Composite. Periods greater than one year are annualized. See disclosures for important information.*

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Sector Allocation



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

Equity Characteristics

	Representative Portfolio	Russell 1000® Value Index
Earnings Per Share Growth 2019E	7%	2%
Earnings Per Share Growth 2020E	10%	5%
P/E 2019E	16x	16x
P/E 2020E	15x	16x
Wtg. Avg. Market Cap	\$188.1 bil.	\$123.2 bil.
Median Market Cap	\$100.7 bil.	\$9.7 bil.
Dividend Yield	2.4%	2.5%
Number of Holdings	60-80	764
Cash Range	<5%	N/A

Source: Jennison/Mellon Analytical Solutions. Securities with EPS Growth rates deemed to be outliers (>75% and <-75%) by Jennison investment professionals were excluded from EPS Growth calculation. See disclosures for important information.

Largest Holdings

JPMorgan Chase	4.8%
Bank of America	3.1
Chevron	2.9
Walmart	2.5
Citigroup	2.5
American Electric Power	2.5
Chubb	2.2
Comcast	2.2
Walt Disney	2.2
Linde	2.2
	27.0%

Source: Jennison. See disclosures for important information.

Largest Absolute Impact (4Q)

Top Five	Average Weight	Total Return	Contribution to Return	Bottom Five	Average Weight	Total Return	Contribution to Return
JPMorgan Chase	4.6%	19%	85 bps	Boeing	1.4%	-14%	-26 bps
Bank of America	2.9	21	59	Nokia - ADR	0.2	-23	-15
Apple	1.4	32	39	Dollar Tree	0.6	-18	-13
Citigroup	2.4	16	38	McDonald's	1.3	-7	-12
United Rentals	1.1	34	34	Johnson Controls	1.6	-7	-12

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 Large Cap Value Equity Composite advanced, but underperformed the Russell 1000® Value Index “the Index”. Relative to the Index, the representative portfolio’s (hereinafter, the “Portfolio”) performance was driven by both security selection and overweight allocations to diversified banks, along with allocations to both interactive media & services and health care equipment stocks which also contributed. While allocations to health care services also helped, contributions were partially offset from poor stock selection within the segment. Conversely, the Portfolio’s relative performance was primarily hurt by poor security selection within semiconductors and general merchandise stores. Overweight positions to integrated oil & gas stocks also hampered results over the period.

## Key Contributors

- **JPMorgan** cleanly beat consensus expectations as revenues rose 8% YoY. The Company stated its strategic growth initiatives continue to focus on leveraging scale and deepening customer relationships across the businesses, while committing to investment spending and productivity improvement.
- **Bank of America** reported a solid 3Q19, with core numbers ahead of consensus driven largely by strong investment banking revenues, better expenses, and better credit that was attributable to recoveries related to non-core loan sales.
- **Apple’s** fundamental strength reflects the proliferation of the iOS platform across the global mobile phone, tablet, and personal device landscape. 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 (provided earnings remain insulated and the services/subscription business continues to grow) in anticipation of a potentially robust product cycle that incorporates 5G wireless standards in 2020.

## Key Detractors

- **Boeing**, the world’s largest aerospace firm, has struggled after the grounding of its new 737 MAX planes by the FAA. Boeing appears to be in regulatory purgatory while awaiting for final re-certification by the FAA that has dragged on for months. Jennison believes the news flow doesn’t change the technical solution, which they believe is in place to get the 737 MAX re-certified and flying again.
- Discount-store **Dollar Tree** underperformed over the period after missing its quarterly earnings. The Company also revised its guidance, along with experiencing continued cost pressures into 2020 have hampered the stock price as of late.
- **McDonald’s** shares suffered another defeat over the quarter when its Board of Directors announced in November, the firing of CEO Steve Easterbrook after determining he violated company policy involving a recent relationship with an employee. The news came only a month after McDonalds reported softer than expected US comp sales, along with management guiding to increased general & administration (G&A) costs through fiscal year 2019 versus the prior flat guidance it had provided.

## Outlook

We attempt to ignore market participants’ predilection or need to categorize investments into pre-defined paradigms like growth or value or momentum, and instead focus our efforts on our investment process and our fiduciary duty to clients. Our focus remains on performing in-depth research to understand a company’s business model and uncover its intrinsic value, which we believe is ultimately derived from free cash-flows. Given the low-yield and even negative yield environment we currently find ourselves in, we believe a reasonable and prudent response is to continue to focus on cash-flow durability and dependability – all desirable traits in our view – which we believe leads to higher levels of franchise durability.

While we don’t know which style will outperform over the next few years, we will note that the valuation dispersion between growth and value stocks hasn’t been this wide since the tech-bubble. In addition, the length of growth’s outperformance over value is approaching 13 years, a new record. So while value investors’ patience have surely been tested over the years, recent market volatility suggests we may be edging closer to reaching that inflection point in the cycle.

We continue to face an environment of high macro uncertainty (i.e., earnings growth decelerating; US/China trade wars; Trump impeachment inquiry ramifications; increasing geopolitical risks, etc.) As a result, market swings will be magnified and styles, sectors, and/or companies can quickly fall in or out of favor, in our view. Remember, stock prices can fluctuate much more dramatically than the value of their underlying business fundamentals. While this volatility in and among sectors has become increasingly common, understanding the secular implications of these events and investing rationally for the long-term in light of their full-effect on a business is key for success, in our view.

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**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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