

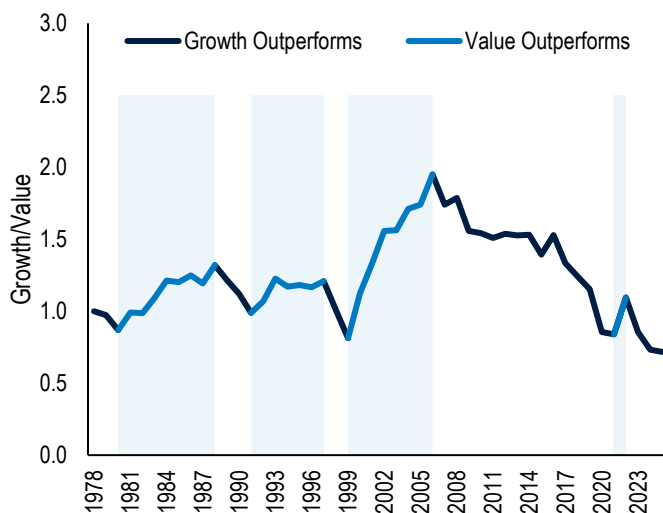
THE ROLE OF VALUE INVESTING IN EQUITY PORTFOLIOS TODAY

Every extended period of value underperformance in the past half century has been followed by a sustained reversal—and today's setup looks familiar.

Both growth and value have enduring roles in a well-constructed equity portfolio. Growth exposure focuses on companies with rapid earnings expansion. Value exposure anchors portfolios in cash flow discipline and provides resilience when sentiment shifts. For investors underweight value, the case for adding exposure now is compelling.

While the core principles of value investing are structurally enduring, underperformance or outperformance can be driven by the macroeconomic regime, market structure, and investor psychology. Periods of extended value underperformance have historically preceded stronger forward returns, particularly when valuation dispersion widens and market leadership becomes increasingly concentrated.

Relative performance of value and growth investing has gone in cycles



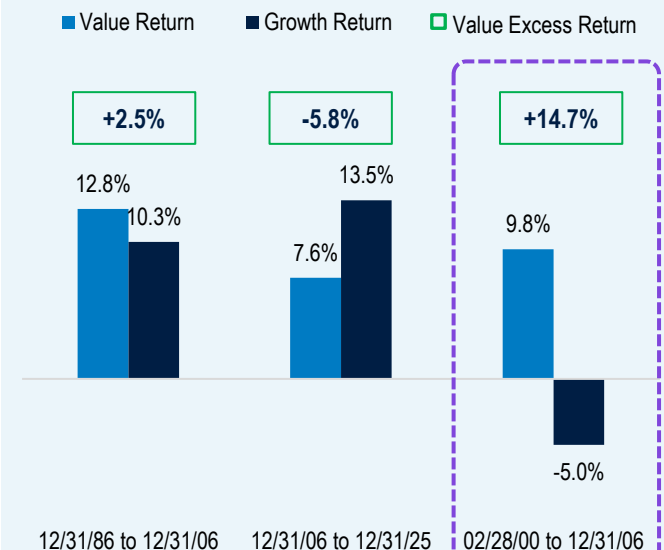
Source: FactSet as of 12/31/2025. Growth represented by Russell 1000 Growth Index (R1000G) and Value represented by Russell 1000 Value Index (R1000V). Past performance does not guarantee future results. It is not possible to invest directly in an index.

From 1987 to 2006, the Russell 1000 Value outpaced the Russell 1000 Growth by roughly 2.5 percentage points per year. Over the nearly two decades since, that relationship has fully reversed: Growth stocks have outpaced value stocks by 6% annually, a gap that dwarfs the prior outperformance of value. Historically, disparities this large and prolonged have not persisted indefinitely. In today's market, the question is not whether value is relevant, but how investors should access it.

The last time growth stocks were this extended, the aftermath was stark

In the seven years following the dot-com bubble peak, the Russell 1000 Growth averaged a loss of nearly 5% per year, while value stocks averaged a gain of 10%.

Annualized returns



Source: FactSet as of 12/31/2025. Past performance does not guarantee future results. Growth represented by Russell 1000 Growth Index (R1000G) and Value represented by Russell 1000 Value Index (R1000V). It is not possible to invest directly in an index.

WHEN HAS VALUE TYPICALLY WORKED?

Historically, value has performed best when valuation spreads between expensive and inexpensive stocks are wide, when market leadership broadens beyond a narrow set of dominant companies, and when inflation or interest rates rise or become more volatile.

Adding value exposure to an otherwise diversified portfolio represents a disciplined de-risking step that reduces duration sensitivity and valuation concentration while potentially enhancing resilience across varying economic environments. Value-oriented equities have the potential to generate more immediate cash flows and have historically demonstrated relative strength in inflationary or rising-rate conditions, providing meaningful diversification against growth-led disinflationary outcomes. Rather than a tactical rotation, it reflects a structural rebalancing designed to improve portfolio robustness over a full market cycle.

INVESTMENT PERSPECTIVES

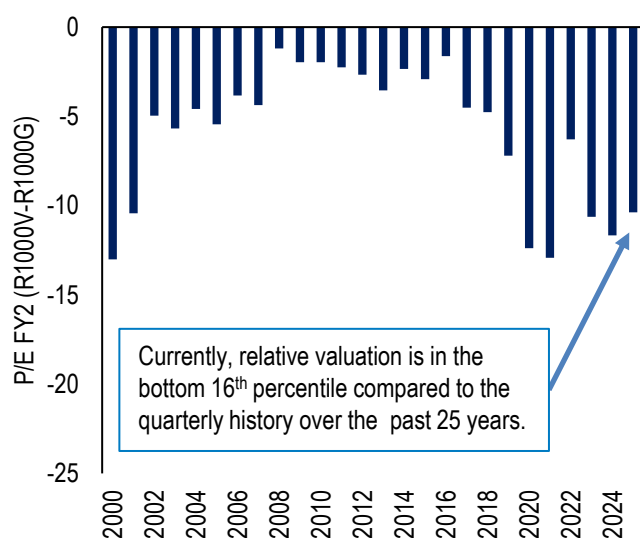
WHERE ARE WE IN THE CYCLE TODAY?

From a factor-cycle perspective, the current environment exhibits several characteristics that have historically been associated with improving value outcomes. Broad equity indices have become increasingly concentrated, with a small number of companies accounting for a disproportionate share of returns.

This concentration has coincided with elevated valuation dispersion across the broader market.

As the chart below illustrates, the forward P/E spread between the Russell 1000 Growth and Russell 1000 Value indexes has expanded dramatically since 2010—from a modest premium to a historically anomalous divergence. In other words, value stocks are trading at levels that have historically preceded periods of meaningful outperformance.

Valuation disparities are wide



Source: FactSet as of 12/31/2025.

At the same time, higher capital costs and greater macro uncertainty have increased investor focus on realized fundamentals such as cash flow generation, return on invested capital, and balance-sheet durability. These conditions tend to favor a more discriminating, intrinsically driven approach to value rather than simple price-based definitions.

NOT ALL VALUE IS CREATED EQUAL: WHERE JENNISON SITS ON THE SPECTRUM

Value investing encompasses a wide range of sub-styles, and where a manager sits on that spectrum matters—particularly in the current environment. Deep value strategies focus on stocks trading at extremely low multiples; relative or quantitative value screens for cheapness versus peers or sectors; macro and event-driven approaches look for catalysts like restructurings or spin-offs. Each has its moment, but in our view neither is well suited to capture the full range of opportunities available today.

Jennison's Value team takes an intrinsic value approach, looking beyond surface-level multiples to identify underappreciated business durability and free cash flow growth. This is particularly relevant in a dynamic and fast-moving market environment because when innovation alters a company's total addressable market, an intrinsic value framework can capture the present value of those changed prospects in ways that P/E, P/B, or EV/EBITDA screens cannot. It also allows skilled managers to hold a position even when near-term multiples have expanded, if the long-term free cash flow thesis remains intact. This is another critical advantage in markets where innovation is reshaping industries. The result is a portfolio with a quality bias, high active share, and the demonstrated ability to participate in value created by innovative companies.

ACTIVE VS. PASSIVE: HOW SHOULD INVESTORS ACCESS VALUE?

Passive value strategies offer low-cost exposure but are inherently constrained by index construction rules and backward-looking valuation metrics. In highly concentrated markets, these strategies can unintentionally embed sector or factor risks and may struggle to adapt to structural changes in the economy.

Active value strategies, by contrast, have greater flexibility to redefine value using intrinsic cash-flow frameworks, identify fundamental inflection points, and avoid businesses facing secular decline. Historically, environments characterized by high dispersion and elevated concentration have been among the most favorable for active stock selection.

TRANSLATING MARKET CONDITIONS INTO PORTFOLIO DECISIONS

Taken together, today's market conditions suggest that investors may benefit from reassessing not only their allocation to value but also the form that allocation takes. As valuation gaps widen and fundamentals reassert importance, active approaches that combine valuation discipline with quality and business durability may be better positioned to capture the next phase of the value cycle. Value investing has not disappeared; it has evolved. Success in the current environment depends less on owning statistically cheap stocks and more on understanding why a business is undervalued, whether that mispricing is temporary, and how intrinsic value can compound over time.

For Professional and Institutional Investor use only.

PGIM is the principal asset management business of Prudential Financial, Inc. (PFI), and a trading name of PGIM, Inc. and its global subsidiaries and affiliates. PGIM, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Jennison Associates is a registered investment adviser and a Prudential Financial affiliate. Registration with the SEC does not imply a certain level of skill or training.

This material is provided for informational purposes only and is not intended as investment advice or a recommendation, nor is it a solicitation. Views and opinions expressed may not reflect PGIM's and are subject to change.

Past performance is not a guarantee or reliable indicator of future results.

References to specific asset classes, market segments, investment strategies, or investment vehicles are provided for illustrative purposes only and should not be interpreted as recommendations or advice.

Please refer to the Terms and Conditions on www.pgim.com for important information.

PFI is not affiliated in any manner with Prudential plc, incorporated in the United Kingdom, or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom.

© 2026 PFI and its related entities, registered in many jurisdictions worldwide.

5386513