CORONAVIRUS

March 3, 2020

Jennison strategies have limited direct exposure to the coronavirus, and we have not made significant changes based on the epidemic at this time. We are monitoring the situation closely.

According to The New York Times, more than 90,000 people in more than 60 countries have been infected, and more than 3.000 have died. According to Reuters, eight times as many cases of coronavirus have been reported outside of China than in the republic in the past 24 hours (March 2), increasing the risk that the virus will spread globally.

The drop in equity and credit markets as a result of the accelerating spread of coronavirus globally has significantly pressured virtually all risk asset markets. There are indications of a continued slowdown in infections in China, which could allow for a slow recovery in economic activity there. However, the acceleration of new cases outside of China has caused a widespread selloff across global risk assets.

Supply chain disruptions, as well as hits to consumer spending and business activity in other countries affected by the outbreak, are likely to result in additional fiscal and monetary stimulus beyond China. Finance chiefs and central bankers from the largest economies warned recently that they see the virus bringing downside risks to global growth. The US Federal Reserve cut the federal funds rate by 50 basis points to 1.0%-1.5% on March 3.

Initially affecting the Chinese industrial, travel and tourism, and retail sectors, the ripple effect is now disrupting global supply chains, while reports of community spread have started to weigh on everyday consumer activity in other countries.

The ripple effect of weaker Chinese demand, particularly in tourism, is more important for the regional and world economies now than it was in 2003 during the SARS epidemic. According to the World Bank, Chinese GDP was more than eight times bigger in 2018 than it was in 2003 ($13.6 trillion versus $1.7 trillion).

Concerns that supply chain disruptions could slow production globally have become more acute, but the hit to downstream production could be minor if the disruption period is short. We believe that lower production outside of China due to supply chain disruptions remains modest so far and that most sectors have enough inventory to continue production as normal for now.

Equity markets could be increasingly exposed to near-term downward surprises to earnings growth. An increasing number of companies have begun to warn about the impact of the virus in their guidance, with comments from Apple and Microsoft the latest high profile examples. Apple, Microsoft, and other tech companies were important drivers of better-than-estimated fourth-quarter earnings results.

As the spread of the virus is contained and a vaccine is developed, risk assets should recover. Market and economic rebounds from similar events in the past have been relatively rapid. We believe the financial quality and market-leading positions of companies held in Jennison portfolios could perform particularly well in this environment.

We build portfolios from the bottom up based on our research-driven assessment of individual companies' long-term fundamentals and earnings prospects. As fundamental investors, we examine company and industry prospects over short and long terms, working to understand and anticipate how industries and businesses will change over time. Numerous factors, including company fundamentals, macroeconomic conditions, and market risk tolerance, cause variability in the way

equity markets price securities in the short term. We constantly assess if and how these factors affect our investment thesis and company long-term value.

Recent trading in Jennison portfolios has been modest. We have trimmed some positions for risk purposes and added to high-conviction names with less exposure to the virus's impact.

To ensure continuity of our own business operations in the event of a pandemic scenario, Jennison has long had in place comprehensive back-up infrastructure and alternative worksite contingency plans. In response to the immediate situation, we have restricted employees from traveling to China and South Korea, and require approval for travel to other Asia/Pacific countries and Italy.