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Jennison Associates
Manager of the Curate Global Growth Equity Fund

Outstaying your welcome in a growth stock can be painful

At Jennison Associates we look for growing companies with unique business models and catalysts that can drive a rapid change in their growth rates. This could be a disruptive technology, new product cycle or new addressable market.

It should be no surprise that Tesla ticked several boxes for us. We bought it for the portfolio in May 2013, and held it for over a decade. But, perhaps even more interesting, is why we decided to sell it.

Our original investment thesis was that the company could revolutionise the electric auto industry with its mid-size premium sedan, the Model S. We liked its proprietary battery management system (a significant competitive advantage); lean operations (which drive profitability at low production levels); unique culture (which generates innovative solutions); and solid financial position.

Tesla's future was brightening rapidly, with positive announcements related to production run rates, rising profit margins, the start of deliveries into Europe and Asia, a national network of super-chargers, and a capital raise that allowed the company to pay off its loans guaranteed by the US government.

We started investing in the stock in 2013, with a position of 1% in the portfolio, which is typical for a new holding. The weight fluctuated

between 2% and 3% for the next five to six years, before we meaningfully started scaling up in early 2020. As the stock began to take off, the position reached a peak of 10% in March 2022. That is the highest limit at which we can hold any stock, and so it was trimmed back as we took some profits.

Even though the company was exceeding expectations around production, deliveries, and profit margins at this stage, we still believed the opportunity for it to scale up and improve its margins was not fully reflected in the market expectations. Given that view, we still thought Tesla deserved to be one of our largest holdings.

We believed Tesla would capture an important share of the rapidly accelerating demand for electric vehicles globally over the next several years. Despite raising prices, the company continued to see record demand across the globe.

We continued to own the company through the ups and downs of the first three quarters of 2022, but then something changed. For us at Jennison, knowing when to sell is just as important as getting the buy decision right. When the fundamentals change, the product cycle matures or if the market catches up with our forward-looking view of the company, we will exit.

In the fourth quarter of 2022, we began aggressively trimming our position size in Tesla. Elon Musk's acquisition of Twitter (now X) and subsequent controversy around his day-to-day involvement as CEO weighed on Tesla's brand perception. In addition, the stock was hurt by short-term concerns around demand growth in China and the risk of demand deferral in the US. Huge and accelerated investment in capacity in China meant that the world swung from being in undersupply to being in structural oversupply of electric vehicles. We reduced our position size meaningfully during the quarter.

Our weight in Tesla dropped steadily, and we eliminated our position in January 2024. Execution risks and pricing pressures were mounting as margins continued to decline and there was less visibility into production, volume growth, and gross margins.

Tesla remains one of the largest contributors to the strategy's outperformance over the last five years, and since inception, but ultimately growth investing is not a buy and hold forever approach. Outstaying your welcome in a growth stock can be a painful, and expensive business. Knowing when to sell is crucial.



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