

Value Stands Out in Our Fundamental Credit Research

Transcript

Brian Barnhurst, CFA, Head of Global Credit Research: Conventional wisdom is of little value in active investment management. What's critically important is that we're very curious, we're skeptical, and we take differentiated views in order to come to the right conclusion.

[Music]

Elizabeth Halpin, CFA, Head of U.S. and Japan Investment Grade Research: We are fundamental credit research analysts. When we go to market, we talk about identifying investment opportunities from the bottom-up and our credit research analysts are the ones that are doing that fundamental work to understand an industry, a credit, and an investment opportunity.

Nick Ivanov, CFA, Head of Emerging Markets Corporate Bond Research: We are quite the diverse team in terms of country origin, the languages we speak, culture—and this is extremely important because we're analyzing emerging markets companies.

Elizabeth: We're aligned by asset class. And within each of those asset classes, we have a senior analyst and a junior analyst that are doing the fundamental research work in order to understand the credits and the stories, evaluating news on a day-to-day basis.

Gary Horbacz, CFA, Head of Securitized Products Research: In structured products in particular, we have an expertise across all of the four major sub-sectors, including esoteric assets. And what that means is we broaden the opportunity set from which to select securities.

Brian: It's also critically important that the analyst spends time off-site, visiting company assets, interacting with management teams, talking to industry consultants, truly leveraging the network and expertise to build those fundamental perspectives and marry them up with market metrics, trading levels, investment attractiveness, richness/cheapness, and, in partnership with the portfolio management team, develop our joint view on relative value.

Gary: We capture relative value, really through two analytic statistics. One is the internal rating that's signed by the credit research analyst and also that analyst's expectation for return of the security or option-adjusted spread. Those statistics allow the portfolio manager to make an apples-to-apples comparison between securities within a sector. The process of determining a credit rating is really trying to size the uncertainty of each security. And so, the more uncertainty, the more credit risk, the lower the credit rating and vice versa.

Brian: Part of our approach to risk is employing attribution across the organization on a daily basis. We decompose our performance attribution into market beta, industry and issuer selection so that sector portfolio managers know where the investment performance is and isn't coming from and are able to course-correct accordingly.

Nick: Each analyst presents their investment ideas and discuss various pros and cons against them, which requires a lot of manpower. So, we have large teams—analysts, economists, strategists, geopolitical analysts, and the PMs (portfolio managers).

Gary: We've made a significant investment in technology that really allows us to synthesize a tremendous amount of data very quickly to identify opportunities as they arise.

Elizabeth: I think at other investment firms sometimes credit is viewed as reporting to portfolio management. That's not the case here. We're really partners in the investment process.

[Music]

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Source(s) of data (unless otherwise noted): PGIM Fixed Income, as of July 2024.

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