

2025 Best Ideas: Uncovering Alpha in Evolving Markets

Hello, everyone, and welcome. I'm Pamela Peace, Principal and Head of North America Institutional Client Manager at PGIM Fixed Income. I'm looking forward to moderating our discussion today. Change would certainly be an operative word to describe the state of financial markets and the broader global economy over the past year. The US economy remains a standout amongst its peers, exhibiting resilience against global headwinds, higher interest rates and persistent inflationary pressures, while Europe and China have struggled to jumpstart growth. Meanwhile, election results punctuated by the US presidential race signal new trade and fiscal policies that hold the potential to bring forth further changes to an already volatile backdrop. These macro forces make it crucial for investors to continuously examine the implications for asset allocation strategies. With uncertainty as constant presence in the current investment environment, the challenges for investors will be to look beyond macro volatility and identify long-term opportunities. So this year's edition of PGIM's Annual Best Ideas examines a host of these opportunities, along with the potential headwinds. To discuss them with us today, I'm joined by three of our distinguished PGIM investors. I will let them introduce themselves.

Hello, Pam. And thank you everyone for tuning in. And also thank you for giving me the privilege of speaking to you and the team here today. My name is Edwin Wilches, and I help the PGIM Fixed Income team co-lead the Securitised Products area. Our clients have entrusted us with about 130 billion of capital to invest globally across CLOs, CMBS, RMBS, and ABS as they also recognise the attractive spreads and diversification benefits from the sector.

Good morning, Pamela and everyone. Thank you for having me and for organising the event. My name is Ken D'Souza. I'm a managing director and portfolio manager at PGIM Quantitative Solutions Quant Equity Portfolio Management Team. I manage a team of portfolio managers and analysts that focus on research and portfolio management. We manage about 55 billion across global equity markets. This spans the market cap spectrum. Everything from large cap to a couple of microcap products that we've recently very successfully launched. And it also spans countries across the globe, everything from developed markets like the US and Japan to emerging markets where we've been investing for over 20 years.

Great. Thanks. Thanks, Pamela. And I want to extend my welcome to everyone who's participating from around the globe today. I am Dianna Carr-Coletta. I am a managing director with PGIM Private Capital. We are focused on managing the corporate private credit for PGIM and all of our investors, and we currently have about 108 billion of assets under management.

Thank you, Edwin, Ken, and Dianna. We are looking forward to hearing your views and your insights today. But before we dive into this discussion, I'd like to take care of just a few housekeeping items. To our audience, on your screen are multiple boxes, including a Q&A box. We encourage you to submit questions at any time. Also, an on-demand version of the webcast and a written summary will be available after today's event for those of you who might be interested in reading more about the session today. So, let's kick off our discussion and we're going to focus on the themes that were part of this year's Best Ideas publication from PGIM. Edwin, I'm going to start with you, and maybe you'd like to lead us off and provide some insights on what is driving the demand for AAA CLOs and why the strategy and vehicle may be appealing in the current environment.

Sure. I guess, first off, you know, yields -- all-in yields across fixed income are very attractive at this point in time. You know, starting yields are generally a good indicator of prospective returns. So from that lens, we're in a very favourable environment today. However, as institutional and retail investors recognise this, we're also seeing credit spreads at or near tights. We've seen credit cards flatten as the marginal compensation for taking on more credit risk has narrowed. Thus, as we look across fixed income markets today, AAA CLOs stand out as an investment that provides attractive spreads, yields, and given the senior nature of these securities, also benefit from being less susceptible to unexpected idiosyncratic risks in the market and are generally better poised to weather, economic downturns.

While the CLO market is about \$1.5 trillion globally and has been a mainstay for decades across our portfolios, up until recently retail investors could not readily access this market. So with the advent of ETFs, we've also seen a large increase in retail investor participation. So maybe just to sum it up, you know, we find AAA CLOs offer attractive spreads, yields, downside protection, and diversification benefits across our institutional and retail clients.

Terrific. As you know, PGIM has been in the business of CLOs for a very long time, so this is within our wheelhouse. Dianna, maybe we'll move on to you and let's talk about private credit a bit. Perhaps you can talk about PGIM Private Capital's idea around enhancing diversification through non-sponsored direct lending.

Yeah, direct lending, a very topical, you know, asset class that we hear about today a lot. And I'm sure a lot of the individuals joining us today have allocated, you know, to this asset class. I would also posture that a lot of the allocations tend to be with those managers that are targeting LBOs that private equity funds are doing for companies, and they tend to be large market, upmarket, you know, 75, \$100 million of EBITDA. So, very good to have that part of the asset class, call it the golden age, very good returns that you're getting in that asset class. But in terms of diversification, if you diversified even amongst managers, you're probably actually seeing very similar names in your portfolio, given that the participants within that group are financing those large companies. So where do you go for diversification? Well, one is middle market, and we're seeing people move into the middle market for direct lending. But the other thing, if you move to the middle market managers, again, a lot of them are private equity kind of LBO sponsor-focused. So, I would put forth that the next frontier is what we'll call non-sponsored transactions. And those are -- Though those are family-owned companies, privately held, and 90% of the middle market companies in the US and in Europe are comprised of that. So those middle market companies are all family-owned. So these are companies that have always been getting their financing from commercial banks. We're seeing ongoing regulatory pressures with regard to that. And so it's ripe for the direct lenders to come in and help support some of those. And I think having both of that -- those arms available to you, so both sponsored and non-sponsored investors with a nice little diversification, play within their direct lending portfolio in addition to whether they've already allocated. And just to give you a little case in point.

Yeah. You know, we had a transaction where there was a portfolio company that we had, private equity-owned, 13 million of EBITDA. We had structured it, you know, appropriately for that size. They were doing an acquisition going to 18 million of EBITDA and they came back to us, they wanted, you know, less tighter spreads, fewer covenants. At the same time, we were looking at a family-owned business which people think is mom and pop. It was actually a \$60 million family-owned business, third generation. And with that, they needed to get an acquisition done. So we were able to look and juxtapose those two together, and you're looking at that going, I have 60 million, I can get better covenants, I can get the same pricing, you know, what's better for your investors. So you're able to take a pass on one and actually invest in the other. So I think it's great. That tells you right there is a good example of the diversification that you can get in this space.

Absolutely. And are there any other industry trends that you'd like to highlight as you're looking at the space now? This sounds like there's plenty of opportunity there, but any other highlights you'd like to give to the audience today?

Yeah, I think you're hearing more and more about this non-sponsored flow. And I think what you're seeing is you're seeing a lot of partnerships with some direct lenders out there partnering with banks. And the idea is that they can -- the banks can go and they have these relationships with these privately-owned companies and they're able to help deliver that. You know, there are lenders out there like ourselves, direct lenders out there that already have a network, that already are in and boots on the ground. And I think that's the key. In order to do non-sponsored effectively, you are going to have to have direct access and direct relationships with these type of family-owned businesses.

That's great. Thank you, Dianna. Ken, let's turn to you. PGIM Quant's idea touched on opportunities across emerging markets, including the benefit of active management.

Would you provide some details on that and what you might be seeing right now in the space?

Sure, Pamela. I'd be happy to. I'd like to actually begin by acknowledging a couple of my colleagues, Chris Zani and Wen Jin, who are also co-authors on the Best Ideas paper that you mentioned. And one of the things we really get into in the paper is how the emerging markets have underperformed developed markets for over a decade now, or 13 years to be even more specific. And we're optimistic that that decade plus underperformance is coming to end -- is coming to an end. And there's two arguments in the paper I'd highlight. The first is the relative valuation argument. So emerging markets, they trade at around 12 times price-to-earnings ratio, about 1.8 times price-to-book. When you compare that to developed markets, that's a very significant discount. It's -- Actually, one of the charts in the paper that really stand out is how the last time the discount was this large was during the dotcom bubble. And -- I mean, that's back when everyone got their email on America Online, and Netscape was the hot new browser. So that's how long it's been. So we see a very strong valuation argument and also couple that with a strong growth that we're seeing for our emerging markets. Consensus analysts' forecasts are at about 14% earnings growth, which is similar to developed. So the combination of both very strong relative valuations along with growth is why we're quite positive and optimistic on emerging markets going forward.

That's great. So maybe I'll follow up on that with you and let's talk about the dollar's impact as it relates to emerging markets and maybe the global markets writ large. But the dollar has been hovering around nearly multi-year highs at this point, right? And it's

a number of reasons why that's so. Can you talk about some of the factors behind that high and the impact on the emerging markets, and should the dollar continue to strengthen? What are you seeing there?

Sure. So, firstly, that is something we're very actively monitoring as well. The US dollar, it's been, like you said, at strength for quite some time now and it's strengthened even further. Some of the recent macroeconomic data that's come out, it's reduced the probability of rate cuts or pushed it out further. And then you've also had the recent election in the US and more rhetoric of Trump's America First policy. So the strength in the dollar should negatively impact some of the emerging markets, particularly some of the net exporters like China and South Korea and such. But we still believe you will see positive growth driven by countries like India where you have a growing middle class population. So that expected growth driven by countries like India, along with the strong valuation argument, is why we're positive on emerging markets.

Tremendous. I'm going to pivot back to Edwin and Dianna, because there's a lot of buzz about the private credit space and public markets, particularly public fixed incomes. So I'm going to let the two of you sort of dialogue for us in your prospective fields about how there might be some overlap within the public space. And, Edwin, you can speak broadly about public fixed income and then the private credit space. And are there advantages that we can take? And maybe when you do this dialogue, we talk about some of the fundamentals that you think about when you're looking at these two asset classes coming together.

Sure. So, across both corporate and securitised credit markets, we're definitely seeing increasing overlap between both investors and issuers. While it may be less evident in some smaller capital structures, we're definitely seeing, as businesses grow and their needs for financing grow, much more convergence between public and private. Within CLO specifically, Pam, I would say we've definitely seen a rise in middle market and direct lenders use securitisation market, whether that's CLOs or even rated feeders, as a way of diversifying their funding sources.

Notably in the US, as BDCs, or business development companies, continue to grow, we've seen a substantial rise in the amount of issuance within the CLO market over the last few years. Historically, these BDCs use traditional bank facilities or they'd issue unsecured investment grade debt out of the BDC to get financing. But as they grow and their needs to borrow grow, we've seen CLOs become a pretty prominent funding channel. This trend with regards to private credit within CLOs is global. So we've also seen, you know, issuance of private credit CLOs. So CLOs that focus just on direct lending or private credit in Europe as well. Quickly turning to the underlying collateral within CLOs, you know, the loan market in particular. You know, a few years ago, we saw, you know, the advent of very large private credit lenders, you know, have an ability to refinance or just outright finance deals that are in the billions of dollars. So these are, you know, companies that have, you know, hundreds of millions of EBITDA. And we saw, you know, private credit start to take or refinance some of the issuers that were traditionally funded and broadly syndicated. So we've definitely seen, you know, this market change in terms of the amount of capital that we're seeing both in public and private. And in times of stress where private capital may have more flexibility or provide more certainty given the nature of, you know, of their capital, we've definitely seen convergence, if you will, within market participants. But I'd say, you know, circling back to your question around, one common theme across, you know, whether it's public or private is really the need to have large teams, have scale. You know, we think it's really critical to understand not just the credit risks, but also the covenants, probably as important as it's ever been as these markets continue to change.

That's great. Yeah. I mean, I'll come in and just approach it, for me, an allocator perspective, right, because I agree. I mean, we're definitely utilis

ing the CLO more as a funding mechanism for direct lending. But I see where there's an overlap, you know, those public and private. I view it as a liquid and illiquid strategy, right? And a lot of people are looking that, OK, I'll have a certain amount in liquid and a certain amount in illiquid. And there's different underwriting styles that you end up -- that you do, I'm sorry, different underwriting approaches in each of those, right, if you're approaching it from a public where you can trade out of it, right? You're looking at those that can research, you're looking at those that have good research kind of capabilities. You're underwriting via a book that you're getting across your desk. So it's a different underwriting, but at the same time, you know, you're able to trade out of it if things go sideways a little bit. If, on the other hand, when you look at the private side -- this is a buy and hold strategy, right? For the most part, this is illiquid. And so your go-to market strategy and how you underwrite has to be much deeper. And your credit underwriting capabilities or just credit fundamentals are different. And you're also going to have covenants, right? Because you can't trade out of it, your covenant package is going to be, you know, tighter than what you would see in the upmarket, and that is so that you can actually be at the table, reprice your risk, et cetera. So I think they're two different strategies. And if you have a manager that has capabilities in both of them, I think it's great because you can leverage off of both of those expertise, which are different in both of those markets.

I think that's great. And you both talked about the covenants, liquid versus illiquid. And then I'm hearing the relationship aspect too, so that you can get access to that information and be able to make those decisions when you're thinking about it. Dianna, is there any other factors that you consider when you're evaluating the quality of the loans? And I know that you've talked quite a bit, but just want to make sure that we've highlighted all the aspects that you'd want to get out there when we're talking about private credit. And Edwin, you can [inaudible] here as well.

Yeah, I think when you're evaluating it, I mean you are, you do have to have the relationship. Like, are you talking to the CEO, are you talking to the CFO and do you have direct relationship to the shareholders when it comes to that? I also think that it's history, like knowing the company and how long they've been around. I mean, you often have folks, again like the commercial banking model, but there are folks that have been talking to companies for 12-plus years.

And in that, that is where, you know, you can see how this company perform through cycles, which is key. And I'm not just talking about COVID, like I'm talking about the GFC and I'm talking about, you know, the internet, you know, kind of the bust of the internet, like how did they perform. So I do think that all of that is really important. And you're getting the information directly from the company as opposed to coming and being all, you know, tied up nicely by an investment bank, which makes it look really nice. You're seeing kind of the warts as well.

Yeah. You know, I would say across, you know, managers that we speak to, you know, as it relates to investments across CLOs, you know, I think the key point around, you know, not just credit, but also covenants, Pam and Dianna, I think you'd probably agree, is, you know, we historically have seen some of the loan investors, you know, that have very deep credit expertise have pretty high levels of conviction in terms of like how they construct portfolios. Meaning, you know, some folks run more diversified strategies while others had much more concentrated pools. I think as we've seen deterioration of credit covenants and, you know, I'm not talking about just oblige, but rather, you know, things that were once considered sacred rights in some of these documents, you know, weakened, for lack of better terms, we've definitely seen that level of conviction come way down. And what I mean by that is, historically, where maybe folks only had to think through the, you know, while there was some credit risk and we acknowledged that, you know, there's an ability to trade at some point, you know, the analysis was really still deeply rooted in credit. I think, you know, as we're seeing the, you know, rise of liability management exercises or liability management transactions, which has been quite topical and a popular discussion point within credit markets, we've definitely seen that, you know, the economics change because now companies can proactively, you know, do things to reduce your economics throughout the life of the deal that are not just related to simple credit. It could just be simply, you know, the price of the loan or the security is lower in the market. They could take advantage of that. So I do think, you know, some of the poor covenant packages are changing the face of how, you know, investors, you know, generally are looking at it, are looking at investments and how we think it'll operate into the future. I think really quick, stepping back from corporate markets, you know, within securitised, we've seen pretty large growth in opportunities and interest in kind of this convergence of public and private markets. For private markets, you know, we've definitely heard about and are active in ABF. You know, as funding from the real economy continues to evolve away from banks and, you know, they optimise their balance sheets to address changing regulations, we've seen opportunities in consumer assets, commercial assets, real estate, and as I like to tell my kids, you know, what's old is new again. You know, many of these markets existed in the private space, you know, way before they went to the banking system, only to come back, you know, for decades. We benefit here from, you know, having folks that have been in securitised for well over three decades. And a lot of these markets, again, are about understanding the credit risk, understanding how to construct, you know, the financing box, and then also, you know, making sure that you can negotiate covenants to help mitigate losses. So I think, you know, whether you're talking hold credit or securitised, especially in markets like today, you know, credit analysis and understanding your covenant packages is, I think, pretty critical.

Edwin, I want to build on. You talked about liability management exercises like, you know, just break it down for people, right? That is a lender or a company positioning themselves, right, in a better position relative to the other lenders, which they're supposed to be, you know, working with in tandem. And that can decrease value a lot. And I would say you see that a lot. Well, you're seeing that more. You've heard about it in J.Crew, Chewy, Pluralsight, all of those, and you're seeing it in the upmarket, right? But you do see sometimes, it can try to creep in to the middle market. And because these -- The private equity sponsors, you know, they're used to working in both worlds. And I think that in a smaller group, right, where you only have like two or three maybe lenders there, and I know us, we're incredibly heightened to ensure that if there's any type of hole in a document that would allow for these type of exercises, we are keenly aware of that, and we're negotiating hard. We just had an example where, you know, we went back and had a discussion directly with the sponsor and said, you know, why do you need this? Right?

And at the end of the day, they didn't need quite a big a basket as they thought they did, or as they were asking for, and they were willing to close it up, right? So you just ask what the business reason is. So I do think it's heightened, and I think it continues to. It can impact the value of the investments.

Yeah. And as far from the [inaudible], you mentioned -- oh, I'm sorry. I was going to say you mentioned Pluralsight, right? I mean, it's spanning really across both public and private, right? So it really comes down to the manager and the kind of discipline. Sorry, Pam.

No, no, that's OK. It was a great discussion, and I didn't want to end you, but we do need to get to a few other points that we want to address today. So maybe, Ken, I'm going to go back to you on this one just to kick us off. And Dianna and Edwin, you can add in, but we're going to focus on the US presidential inauguration happened this week. And we know that we have, obviously, a new administration coming in. I would like to ask each of you to broadly touch on how the stated policies or perceived policies of this new administration may impact your investment areas and how you would think about, you know, what do you do with what you have now and making decisions. So give us some -- a bit of color there.

Sure, Pamela. And certainly, with President Trump's inauguration and amongst his many policies and -- that he had announced, one of the key risks that we were monitoring was the trade tariffs and its potential impact on emerging markets. And within emerging markets, the two countries that would perhaps be most directly impacted would be China and Mexico. And initially, at least investors and business executives, they -- this I believe on, at least on his first day, he didn't sign any kind of executive action on putting out some trade tariffs. But more recent news has been out that there will be some on Feb 1st, but there's still a lot of uncertainty on what exactly that will be and how it will be implemented. So from our perspective, it's challenging to predict what President Trump will do on things like trade tariffs. I remember during his first presidency, he frequently surprised even some of his closest advisors. So it's hard to predict what he'll do and it's even harder to predict what the corresponding impact would be on emerging market equity stocks. So from an investment perspective, we stay close to our beliefs to focus on the economic fundamentals, looking at valuation, growth and quality across the entire spectrum. And the political risk that we're seeing from this election is just one of many of the political risks that we see across emerging markets.

Thanks. Dianna, how about in your space?

Yeah, I think it goes back to, you know, the buy and hold strategy that I talked about in terms of, it all comes down to your underwriting and the acumen that you apply to that. Tariffs are definitely top of mind. But I think, and we are definitely looking at, you know, does nearshoring even work anymore with the tariffs? Right? Is it really that much more economical? Are you going to see more onshoring? So you look at companies and look at where are they getting their supplies from, where are their manufacturing, are they going to be suffered from that? But I think what we're really focused on, too, is I think we're going to be in a little bit of a higher for longer kind of interest rate environment going forward. Could be as a result of the tariffs, right? I think we're going to see inflation, you know, kind of stay where it's at or maybe even, you know, go up a little bit more if we really -- if some of the stated policies happen, if, you know, you have a tighter workforce and also you have the impact of the tariffs. So in that, when you're structuring a credit, you know, a capital structure balance sheet, you know, your leverage has to be appropriate, right, to be able to withstand that type of interest environment. We're not going down -- back down to a zero-interest rate environment at which time people were leveraging, you know, companies, you could put on a lot more leverage. But I think we're looking at a much more, you know, modest leverage for companies going forward because of the interest rate environment.

Great. And, Edwin, we'll close this one out with you.

Sure. I think, you know, as we think about both the macro and micro impacts of the new administration, I think, you know, from a very macro perspective, I think within fixed income and maybe securitised products specifically, you know, I think the secular changes to the banking system will continue.

The administration will undoubtedly be less restrictive, as we've seen, you know, bank stocks surged, kind of an earnest reaction to that. But the path of banks moving into more senior lending, I do think is a multi-year trend that maybe slows but continues. You know, the trends of this, you know, were obvious last year with not only the growth of ABF, but also the record issuance across ABS, CLOs, pockets of CRE like single asset single borrower. So we simply mean, you know, that ultimately means that the size of this \$5.5 trillion securitised markets will simply continue to grow as economies grow, and they increasingly rely less and less from the banking system. I think outside the US, particularly in Europe, Pam, we're definitely seeing an intense focus on lowering the reliance of banks and having securitisation play a larger role. As you know, Mario Draghi recently released a long-

awaited report on, you know, EU's global competitiveness, and, you know, one of the major suggestions, conclusions was that, you know, the need for a more robust securitisation market across Europe to help fund growth and potentially increase financial stability as the economy is largely financed by banks there, which is quite different from what we see across US and Australia. On a much more micro level, you know, some of the policies, you know, we're definitely focused on are going to be around, you know, impact to consumer lending, you know, things like consumer protection will definitely matter. Subsidies that, you know, were extended to, you know, EVs or solar, solar is something that was being pretty heavily financed across the securitisation markets, and even the potential privatisation of GSEs. I think that's gotten a lot more headlines lately across Fannie and Freddie and, you know, kind of what actions are taken there? So I think needless to say, a lot of different impacts, both micro and macro. But, you know, we think on that, it'll be lots of opportunities as well for us to take advantage of for our clients.

Great, thank you. Let's turn to inflation. Arguably, it's one of the biggest macro factors globally, and the US seems to be hovering around the 3%. And Europe continues to face inflation headwinds as the war in Ukraine continues. So how significant of a headwind or tailwind would accelerating or slowing inflation be to your investment strategies? Ken, I'm going to kick this back to you as well if you can give us kind of a global lens from your seat on the equity markets.

Sure. Thank you, Pamela. And inflation is really all over the place within emerging markets. And as you said, it's a very important macroeconomic risk. But I would also add that it doesn't mean that it has a strong correlation with equity markets. And there's two examples that I'll give in emerging markets. The first is Turkey where the most recent inflation print came in at 44%, and this had slowed down from 47% and over 70% in the middle of last year. But in spite of that ridiculously high inflation numbers that you saw, Turkish equity markets were actually up 12.5% in US dollar terms last year, outperforming emerging markets. And at the other end is China, which has had very low single digits inflation, zero to 1, close, or zero to 2%, really. And the stock market over there continues to remain in the doldrums as it has been now for years, as it continues to have economic challenges. So to answer your question, we continue to monitor risks and macroeconomic risks like inflation. But our investment strategy is to systematically pick stocks and country industry pairs that score well on value, growth, and quality. And we customise those factors depending upon a stock's profile for every stock in our universe, and that's where our conviction lies, to continue to follow our systematic process.

Great. Dianna, how about you in inflation. And then, Edwin, let's close with you on this question on inflation given the fixed income tilt.

Yeah. For us, it's how is it impacting the individual company. But even one step further, there are certain sectors that we would see that probably are being -- would be more impacted if inflation continued to rise again, and we have seen it already, and that's like consumer. So consumer discretionary. So the consumer's ability to actually, you know, purchase items in a higher inflation is difficult. And we're seeing stress in that market.

So I would think we have a heightened awareness of that. You're seeing, you know, in the UK, in Europe, in the US. So anything with type of consumer discretionary, any type of products in there, you know, we're kind of a red light on that right now in terms of looking at it and leveraging that one, putting some leverage on that. So to me, that's forefront in the mind. Needless to say, inflation can flow through all companies in the terms of their cost of their raw materials and their ability to pass it on to their end customers, whatever it would be. But I think consumer discretionary is key in our forefront of our mind.

Yeah, I think for us in securitised products, I mean generally speaking, we're funding the real economy and a lot of real assets. So in some cases, inflation isn't all bad as it is supportive of some real asset valuations. You know, that said, we remain pretty focused on the impact of, you know, disposable income to consumers. I guess soak and heat, similar theme to Dianna. I mean, they are two-thirds of our GDP here in the US, so it is something that we're keenly aware of in terms of trying to find signs around any creep into consumers that you normally don't see, you know, have levels of stress in today's environment. I think going back to, you know, the initial best idea, you know, AAA CLOs, I mean, given their floating rate investments, and they are very senior in the capital structure, and maybe tying back to something that Dianna said earlier, you know, if rates do remain higher for longer and, you know, markets are generally, you know, cautious on inflation which keeps rates higher, maybe, you know, for us, ultimately it means that investors will continue to enjoy pretty attractive, you know, all in yields, you know, given the, you know, the floating rate nature of CLOs. You know, I think very high level, my opinion is, you know, one of the largest risks is not necessarily just inflation, but candidly stagflation, where you have periods of inflation and slowing economy. You know, we've seen a much lower probability to that, but I would say it's not zero. So it's one of these things where, you know, we're trying to weigh, you know, kind of -- the direction of the economy as well as kind of the direction of inflation and trying to think through which sectors may benefit or candidly what part of the capital structures most insulated, you know, and what offers the best relative value today.

Great. So we have one more question that we want to pose to each of you, and this will draw on your experiences and perhaps some antidotes of things that you've seen in the past. Edwin, you mentioned that you've gone through some market cycles. You've been, you know, in the business 30 years or so for the organisation. So, as we step into another new year, unpredictability will continue to persist. So drawing from your experience and any anecdotes in navigating past market uncertainties, are there lessons to be remembered or strategies to apply that might mitigate some of the volatility, potential volatility, that we could see in this coming year? I know that this is a tall question, but I think we have to think about how we react and what we do from the experiences that we have is part of what PGIM is, right? We have this longstanding credibility and experience in the markets. Ken, I'm also going to ask you to include in your comments how investors can make sense of the growing complexity surrounding the geopolitical issues as you think about your experience over your career. So let's start with you. We'll go to Dianna and then we'll wrap it with Edwin.

Great. Thank you, Pamela. It's a great question and certainly a very timely question right now as we kick off 2025. So from a geopolitical viewpoint, there's always going to be some geopolitical risk within emerging markets. They tend to flare up from time to time along with macroeconomic risks. Suddenly, over the last couple of years, you have had the Indian election surprise, Mexico election surprise, the political and economic issues and the 70% inflation that you had in Turkey. Another one that's come up recently that we've been looking closely at is the South Korean political issues where the president essentially attempted to seize power and now has been arrested. So from our perspective, in South Korea, the political risks are still elevated, but they're trending in the right direction.

And similar to what Edwin said earlier, we usually view these sorts of events as good investment opportunities -- as a good time to find investment opportunities, as you look for the proverbial baby that has been thrown out with the bathwater. So our systematic process will identify stocks unemotionally that are cheap, with strong quality attributes that can withstand this economic downturn. And that's how we continue to navigate political flare-ups like what you're seeing in South Korea that can happen from time to time in emerging markets.

Yeah. Can I think that's -- it's agree. It all comes down to, right, where you can find the opportunities in disruption, right, and markets are volatile. And, you know, Pam mentioned -- Pamela mentioned, you know, how do you mitigate the volatility. I don't know if you mitigate volatility, right? But you know, living through the GFC like 25 years, 38 -- 30 plus years and in the various economic kind of cycles, I always come back to if you're in the middle of a roller coaster, right, you're riding a roller coaster and whether you're on an up or down, right, you just hang on. Like, you don't jump off the roller coaster. And so my view is like it's a long-term perspective. Play the long-term game, you know, pick the right managers who are able to underwrite for this type of volatility and then just hang on and enjoy the ride, even though your stomach may be, you know, fallen out on a couple of those bumps along the way. But that's my way of mitigating through these cycles.

The imagery on the roller coaster is tremendous to try to see, right?

I basically -- You know, lessons or, you know, to be remembered strategies, I think, you know, today's markets are tough, right, because yields, as we mentioned, are attractive but spreads are narrow. You know, in our experience in these markets and, you know, maybe a way that we try to, you know, to Dianna's point, you can eliminate or ignore volatility, but, you know, there's ways within active, you know, especially public fixed income, that you could position yourself to take advantage of it or to mitigate some of it and lean in when markets are cheaper. You know, we generally -- Markets like this, we recognise there's downside risks. We appreciate spreads that reflect it. You know, in fact, I think spreads reflect a lot of really good outcomes. You know, it's really important to go back to first principles and remain super disciplined on credit underwriting, risk managements, constantly remind yourself, your teams, you know, the importance that, you know, credit and liquidity cycles do happen. And although we expect them, they're usually by surprise. So remaining anchored in, you know, bottom-up credit investing, as Dianna said, take a long-term approach, is usually a really good way to deliver outperformance. You know, in practice, you know, that means today we're moving up the capital structure, trying to, you know, ensure that we're taking, you know, finding the best risk adjusted returns, which again given where credit curves are, it usually means we're in safer assets, maybe even shorter spread duration assets, you know, handling things exactly like AAA CLOs. If you have the liquidity, you know, can give the liquidity. I think there's a lot of places within ABF where you can extract really good value for high-quality assets that banks aren't as active in financing anymore. But, you know, generally speaking, I would say, you know, those first principles around, you know, how you, you know, do your process and staying disciplined and being long term, I think, is key to navigating cycles, markets and particularly in this environment.

So, Edwin, maybe if I throw one more at you, if we're talking about this, and Dianna mentioned, you know, disruptions, advancements in AI and any other disruptive technologies that's -- this driving force here. How do you think about that in the space of the uncertainty and potential volatility there?

Yeah, you know, AI is interesting, right? I mean, I think across markets, the promise of AI is definitely being factored into, you know, and maybe this is Ken's realm, but show equity valuations and maybe even in real rates across fixed income. I think, you know, the timing and impact of any productivity benefits is really tough to predict, or at least it is for me. I think, you know, more tangibly, you know, we'll definitely see some improvements in maybe, you know, the ability to process information quicker. You know, securitised products is ripe with lots of data.

You know, we have about 39 terabytes sitting in the cloud and databases just, you know, on the securitised products team. So the ability to, you know, more quickly analyse and spot trends, I think, will only increase as, you know, things like AI are factored into the process. But I think more tangibly, you know, in the very short run, you know, we're definitely seeing a rise in the need to finance all this digital infrastructure. So if it's things like data centres or chips, 5G or even things like fiber are all coming into both public and private markets. So, as you know, I focus predominantly on fixed income and debt, but obviously across other parts of PGIM, you know, we see our real estate colleagues have strategies that are focusing to take advantage of kind of the growth of data centres and opportunities being created from the use of AI. So I'd say, you know, it's longer term. I think it'll take some time. Some markets are valuing in others in the short run. You know, we're seeing an opportunity to finance or invest in different ways to take advantage of some of these build-outs. Obviously, not all things are, you know, while the secular trend might be positive, you know, there's always kind of -- some pitfalls and you got to be really careful. But generally speaking, I think, you know, it'll improve kind of the ability for folks to process information. Just kind of like the, you know, the last set of tech impact was on finance. You know, Ken mentioned AOL, so I think, you know, kind of years from dialing into the internet.

I think there's some people listening in that don't even know what AOL is.

Well, I'm -- We're going to leave it there. This was a great conversation. I want to thank our panelists for sharing your expertise with us today. And thank you to everyone who joined us for this timely and far-reaching discussion. If you're interested in reading all about PGIM's Best Ideas, please click the link to download the paper, or you can go and visit us @pgim.com. Thanks again, and we wish you all the best in the New Year.

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