

Q&A: PGIM QUANT MICRO CAP EQUITY STRATEGIES

About PGIM Quant Solutions Micro Cap Equity Strategies

PGIM Quantitative Solutions' US Micro Cap Equity and International Micro Cap Equity are actively managed, multi-factor strategies that seek high-quality, well-priced, "pure" micro cap names with strong prospects for growth. These strategies build upon our nimble and time-tested quantitative equity investment process to capitalize on inefficiencies found in the micro cap space. Below we provide answers to some of the questions surrounding this often-misunderstood segment of the market.

What are micro cap equities?

- Publicly traded companies with a market cap between \$50 million and \$300 million.
- Companies that are typically in the early stages of development, which may yield higher-growth opportunities.
- An under-tapped asset class with less available information, requiring a skilled investor to efficiently analyze these opportunities.
- Riskier than their larger cap counterparts, but with possible greater upside potential.

What are the return profiles of PGIM Quant's Micro Cap Equity strategies?

- Private equity-like, typically with less risk and much greater (though still limited) liquidity.
- PGIM Quant Solution's Micro Cap Equity strategies may provide investors with a differentiated return structure that results in higher expected alpha.

Why do micro cap strategies have greater volatility than larger cap strategies?

- Newer companies with an unproven track record and greater risk of going out of business.
- Information scarcity can lead to company mispricing.
- Higher volatility can lead to a greater opportunity for alpha.
- A longer investment horizon can smooth out the ride, minimizing the risk impact and maximizing outperformance.¹
- PGIM Quant's Micro Cap Equity strategies can take advantage of opportunities while managing risk in this less efficient segment through active management, diversification, and built-in risk management.

¹ Center for Research in Security Prices (CRSP) monthly data from Jan 1926 – Dec 2021

FOR MORE INFORMATION

To learn more about our capabilities, please contact PGIM Quantitative Solutions by email at contactus@pgim.com or by phone in the US at: **+1 (866) 748-0643** or in the UK at: **+44 (0) 20-7663-3400**

ABOUT PGIM QUANTITATIVE SOLUTIONS

As the quantitative and multi-asset specialist of PGIM, we combine the agility of an independently run boutique with the stability and scale of a leading global institutional asset manager*. For over 45 years, we have designed proprietary methods that seek to solve beyond alpha by combining the latest technology with scalable, rigorous risk controls to nimbly build and manage diversified and customized solutions that help solve clients' evolving challenges. We manage portfolios across equities, multi asset, liquid alts and retirement for a global client base with \$86 billion in assets under management as of 12/31/2022.

Why is a quantitative approach an advantage in micro cap investing?

- The micro cap universe has thousands of companies with limited information making it virtually impossible for comprehensive fundamental analyst coverage.
- Conversely, a quantitative investment approach can quickly and efficiently synthesize the large amount of noisy data across these stocks to identify outliers and confirm its validity.
- Risk management is often embedded in the portfolio construction process, systematically taking into consideration not only portfolio constraints, but also anticipated transaction costs and trading liquidity. This is particularly important in the micro cap segment.
- We believe PGIM Quant's proprietary models and comprehensive portfolio construction process are particularly effective in this space, which behaves differently than other strategies in other style boxes.

Why is now the time to invest in the US or International Micro Cap Equity strategies?

- The micro cap universe is vast and underexplored.
- Interest in micro caps is expanding as investors look for differentiated sources of alpha at attractive prices.
- The universe has matured significantly, but not so much so that alpha has been diversified away.
- Micro caps have far greater liquidity than private equities, and we have seen that liquidity improve, a pattern we expect will continue.
- The upside potential of the names in micro cap is immense, which is why realized alpha is so impressive.

What is the capacity of these strategies?

- PGIM Quant US Micro Cap Equity: \$900 million.
- PGIM Quant International Micro Cap Equity: \$500 million.

Who should invest in PGIM Quant's Micro Cap Equities?

- Organizations that are large enough to benefit from the diversification of alpha, but small enough to get meaningful returns without overwhelming the fund.
- Investors aiming to hold their investments for an extended period of time.

How could PGIM Quant's Micro Cap Equity strategies be used?

- We believe PGIM Quant Solution's Micro Cap Equity strategies can fit neatly into most equity allocations within a portfolio, but there are a few instances where we think they could be a particularly compelling investment:
 - As a completion strategy aimed at improving the portfolio's risk and return outcomes.
 - As a return diversifier to passive-heavy portfolios.
 - As a complementary investment to allocations with a large cap bias.
 - As an opportunistic investment for anyone looking for additional alpha.

What does PGIM Quant believe are the keys to success in micro cap?

- Diversification:
 - Because the upside potential of micro cap stocks is immense, the possibility of concentrating in too few names is a real risk.
 - We actively allocate across numerous positions, sectors, industries, and size groups to limit concentration risk and smooth the ride.
- Risk Control:
 - With so many fast-moving names, risk control is particularly important in micro cap.
 - Risk management is built into our portfolio construction process, and we add in an additional layer through portfolio management oversight and review.
- Experience:
 - Due to the unique nature of this dynamic asset class, not just any investment team can leverage the opportunities in this space. It takes an experienced hand to help ensure a balanced portfolio – a team that not only understands the need for diversification and risk controls, but also understands the data limitations.
 - This is especially true in trading, where the right relationships and experience can help uncover opportunities in a liquid, but tight, trading environment.

Notes to Disclosure

*PGIM is the investment management business of Prudential Financial, Inc. (PFI). PFI is the 11th largest investment manager (out of 431 firms surveyed) in terms of worldwide institutional assets under management based on Pensions & Investments' Top Money Managers list published June 2022. This ranking represents institutional client assets under management by PFI as of December 31, 2021. Participation in the P&I ranking is voluntary and open to managers that have any kind of U.S. institutional tax-exempt AUM. Managers self-report their data via a survey. P&I sends the survey to previously identified managers and to any new managers asking to participate in the survey/ranking. No compensation is required to participate in the ranking.

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