PGIM QUANTITATIVE SOLUTIONS

SUSTAINABLE DEVELOPMENT GOALS:
A LIQUID MARKET APPROACH TO IMPACT INVESTING

Historically, measuring the impact of public companies has been challenging due to the lack of reported data. To make matters worse, certain companies employ deceptive marketing practices to mislead investors into believing their products, services, and policies are in line with Environmental, Social and Governance (ESG) values. These are the very reasons that some asset owners have begun to view ESG as only part of the solution for investing with impact, and why PGIM Quant has devoted several years to building a complete, transparent, and effective ESG model.

Despite the challenges facing impact investing, we believe that today asset owners have an opportunity to go further with their investment ambitions by broadening their investment goals from risks and returns to incorporate approaches that truly help address the increasing social and environmental challenges facing the world.

Here, we introduce an improved approach for investing with impact in global equities markets.

SUSTAINABLE DEVELOPMENT GOALS (SDGs) = IMPACT

From an investment perspective, a clear and transparent framework is required to help define and identify products and services that positively impact the environment and society.

The United Nations' (UN) 17 Sustainable Development Goals (SDGs - below) represent a "shared blueprint for peace and prosperity for people and the planet, now and into the future" and can serve as a framework that provides investors an intuitive approach to evaluate the impact of companies and mitigate concerns around corporate greenwashing.

The UN's Sustainable Development Goals

Source: United Nations, Department of Economic and Social Affairs, Sustainable Development

MEASURING IMPACT: BOTH SDGs AND ESG

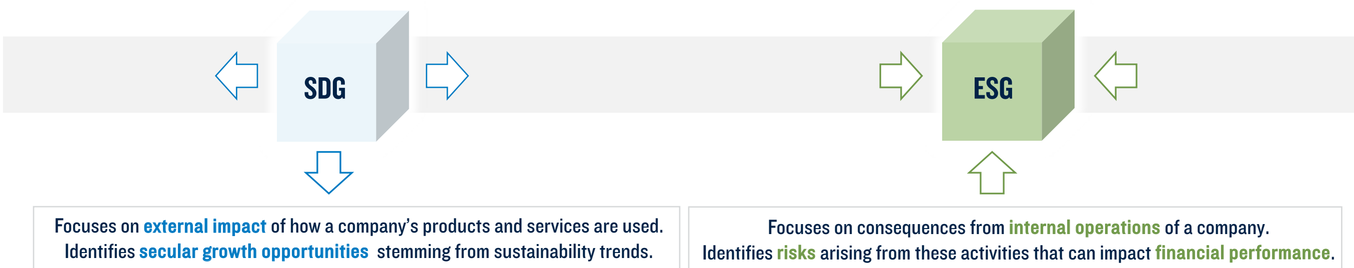
It is important to understand the differences between the UN's SDG framework and measurements of material ESG risk factors. While both insights are important when holistically evaluating a company, they are distinct. As the chart below shows, quite simply, SDGs can measure the impact of what a company produces, while analysis of material ESG risk factors can measure how a company produces its output. This external vs. internal focus is important because while SDGs help identify companies with products that can positively impact the world and its citizens, material ESG risk factors focus on operational processes helps to identify both a company's financial risks, as well as those activities that could have harmful consequences for the environment and society.

Importantly, when assessing ESG attributes, we use our proprietary ESG model built from a set of carefully curated ESG metrics from across multiple data providers. Based on our research, these metrics are largely comparable across companies and representative of their true operating activities.

The combination of these powerful signals leads to broader and more transparent insights into the impact of a company's products and services as well as an understanding of whether its operations are conducted in a clean, fair, and beneficial way.

Using this double-barreled insight, we are able to better identify companies that best align with an investor's sustainability objectives.

Distinguishing Between SDG & ESG



Source: PGIM Quant. For informational purposes only. Please see 'Notes to Disclosure' for important information including risk factors and disclosures.

IDENTIFYING ATTRACTIVE IMPACT INVESTMENTS

Contributing to the progress on SDGs is important for the environment and society. This can also be financially valuable to a company. Changing consumer preferences and demand, which have driven companies to provide more impactful and responsible products and services, have also led asset owners to increasingly search for investments that intersect upside returns and sustainability. This shifting demand trend is a tremendous secular growth opportunity for companies, one that not only underscores how contributing to the progress on SDGs is important for society, but can also benefit a company's performance through the generation of new cash flow streams. Given the importance, prominence, and magnitude of the problems that a firm's products and services can be used to solve, there is potential for meaningful cash flow growth over time. Until recently, it was a burden for investors to identify companies that made a positive impact and were also attractive from an investment perspective. However, by using carefully chosen and constructed factors (or fundamental attributes), we can assess performance potential, while focusing on overall sustainability impact.

Alpha Attributes of Sustainable Investments

Value	
Factor Rationale	Target companies that are attractively priced relative to peers.
SDG Benefit	Avoid stocks where the market has priced the growth potential of the sustainable product.

Growth	
Factor Rationale	Target stocks with improving expectations about future fundamentals.
SDG Benefit	Focus on stocks where secular growth potential from sustainable products is being realized.

Quality	
Factor Rationale	Target stocks where underlying fundamentals are strong.
SDG Benefit	Avoid stocks that could have overinvested or overstretched their financial position developing new sustainable products and services.

Source: PGIM Quant. There can be no guarantee that the objective will be achieved. Please see 'Notes to Disclosure' for important information including risk factors and disclosures

BUILDING CUSTOM SDG SOLUTIONS

At PGIM Quant, we have nearly 30 years of quantitative expertise to convert the identification of attractive impact investments into portfolio solutions. We leverage this experience when constructing impact portfolios. Complex problems require multi-dimensional solutions that not only target companies with alignment to SDGs, but also those with strong ESG and fundamental attributes, while balancing risk considerations.

The trade-off between risk and sustainability necessitates advanced portfolio engineering. PGIM Quant's sophisticated portfolio construction methods build SDG-focused portfolios that span a frontier of portfolio outcomes; we provide solutions that vary in the level of active risk and also the strength of portfolio alignment with SDGs. Such frontiers help inform investor decision-making around which solution is best for them.

Source: PGIM Quant. For informational purposes only. Please see 'Notes to Disclosure' for important information including risk factors and disclosures.

Most importantly, customization is required because no two asset owners have the same view on what areas of sustainability they want to focus on. The ability to customize which SDGs are targeted in a portfolio (and therefore what impact is achieved) is critical, along with considerations such as geographic regions, market capitalization, and the target index.

PGIM Quant's solutions can help provide immense value to investors and can be an attractive alternative to a standard core equity allocation. Asset owners are unique in their investment goals and desires, and therefore require unique, customized solutions that can help complete sustainability exposures across their broader equity allocations.

PGIM QUANTITATIVE SOLUTIONS

FOR MORE INFORMATION

To learn more about our capabilities, please contact us 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 QUANT

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, and liquid alts for a global client base with $102 billion ** in assets under management/administration as of 3/31/2024.

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