PGIM REAL ESTATE

4Q23

Global Real Estate Securities Market Review

				Annualized			
GRES Strategy Performance (%)	**Inception Date**	**Fourth Quarter**	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**Since Inception**
Global Real Estate Strategy (gross)	1/31/2007	14.27	12.33	2.37	5.45	5.31	3.60
Global Real Estate Strategy (net)		14.00	11.26	1.42	4.47	4.32	2.66
FTSE EPRA/NAREIT Developed Index		15.30	9.68	1.18	2.81	3.57	1.67
Variance (gross – benchmark)		**-1.03**	**2.65**	**1.19**	**2.64**	**1.74**	**1.93**
U.S. Real Estate Strategy (gross)	12/21/2010	13.66	17.04	8.77	10.80	9.67	9.76
U.S. Real Estate Strategy (net)		13.37	15.87	7.68	9.69	8.47	8.50
FTSE NAREIT Equity REIT Index		16.22	13.73	7.21	7.39	7.65	8.20
Variance (gross – benchmark)		**-2.56**	**3.31**	**1.56**	**3.41**	**2.02**	**1.56**
Select Real Estate Strategy (gross)	8/1/2014	15.18	14.26	3.53	9.50	--	7.37
Select Real Estate Strategy (net)		14.87	13.05	2.46	8.37	--	6.24
FTSE EPRA/NAREIT Developed Index		15.30	9.68	1.18	2.81	--	2.60
Variance (gross – benchmark)		**-0.12**	**4.58**	**2.35**	**6.69**	--	**4.77**
Real Estate Income Strategy (gross)	9/29/2014	14.83	11.81	5.07	7.89	--	5.05
Real Estate Income Strategy (net)		14.51	10.57	3.92	6.71	--	3.91
Blended Benchmark[1]		14.55	11.90	0.46	3.08	--	2.67
Variance (gross – benchmark)		**0.28**	**-0.09**	**4.61**	**4.81**	--	**2.38**

Source: PGIM Real Estate, Bloomberg. Performance as of December 31, 2023. Net performance shown is based on the mutual fund fee schedule. **Past performance is not a guarantee or a reliable indicator of future results.**

Global Market Review

The macroeconomic backdrop for real estate investment trusts (REITs) in 2023 was volatile, as investors struggled with uncertainty around interest rates, inflation and economic growth. Green shoots around stabilization in each of those metrics led to some optimism early in the year as inflation began to cool; however, as the year progressed and the Fed continued to raise interest rates and the 10-year US Treasury touched 5%, global REITs retreated to negative territory, bottoming out in October. In the fourth quarter of 2023, clarity around the end of Fed rate hikes and tempering inflation in most parts of the world led many investors to believe that the elusive soft landing had been achieved. As a result, global REITs rallied sharply and finished the year up nearly 10%, led by U.S. REITs up nearly 14% in 2023.

Our overweight positions in assisted living, data centers, Japanese developers hotels and Canadian apartments contributed significantly to our outperformance of the benchmark in 2023. Our underweight in office and tactical positioning around U.S. office also contributed positively to our outperformance in 2023.

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REITs continue to trade at a wide disconnect between private real estate pricing and public real estate pricing. Each time we have seen discounts to private real estate of this magnitude within the REIT market, publicly traded REITs have outperformed private real estate on a three-year forward basis of 25–50%.

Additionally, when we have seen disconnects of this magnitude between private and public real estate, we have seen significant M&A and consolidation activity once capital markets stabilize. In today's environment, we are focusing particularly on consolidation within listed property types. We have already seen six public-to-public consolidation transactions in the past 18 months, with target companies up from 15 to 50% from last-traded value. We expect that trend to accelerate as the haves continue to buy the have-nots within property types by issuing shares to accretively buy higher-cost-of-capital companies and thereby achieve general-and-administrative synergies but also layer in their technology platforms to drive more cash flow out of an existing piece of real estate. We have identified several take-out target opportunities in the portfolio.

It is difficult to determine exactly where cap rates and net asset values sit today given the lack of transaction volume. However, with the end of Fed rate hikes and with movement toward Fed easing in 2024, we have already seen debt costs come down significantly for real estate borrowers. We expect that that decrease opens up the transaction markets in 2024 because hundreds of billions of dollars of dry capital continue to be on the sidelines, waiting to be deployed into real estate. As a result, we should get better transparency on real estate pricing in 2024. Due to the Fed rate hike cycle in 2022 and 2023 and the regional bank crisis, we expect supply additions to drop substantially in 2025 and 2026, setting up REITs for the possibility of strong rental growth.

We are currently finding our best opportunities in property companies that can use their cost-of-capital advantage to generate external accretive growth; in defensive demand sectors like health care, in which assisted-living occupancy levels remain well below pre-COVID levels; in special situations in select M&A targets; and in the second half of the year, self-storage and apartments as they cycle through certain decelerating fundamentals and head into 2025 with limited supply and accelerating revenue growth opportunities.

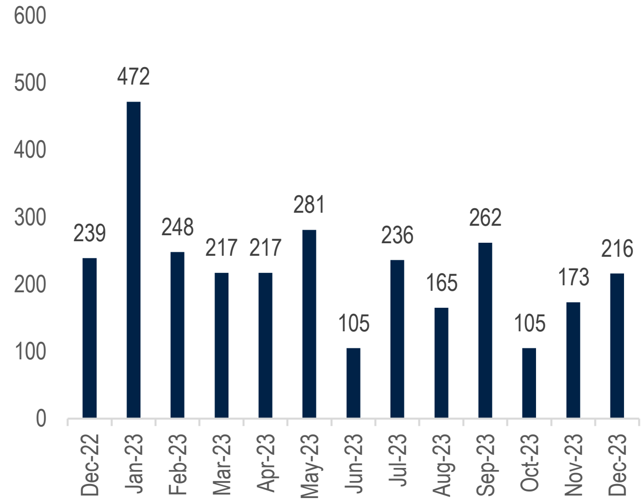
United States[2]

Market Review

The U.S. REIT market closed out 2023 on an exceptionally strong note, posting a 15.5% total return in the fourth quarter, with gains of nearly 10% in December alone. The REIT market was the best-performing subsector among the 11 S&P 500 Global Industry Classification Standard classifications for the fourth quarter. The group benefited from a dramatic shift in rates, with the 10-year dropping more than 100 basis points from its mid-October peak of 5.0%. In the past two years, the REIT market has had to battle a negative-sentiment overhang associated with the uncertainties of the durations of interest rate cycles. A recent string of moderate economic data has dramatically increased the odds of soft landings and deflating rates and thereby largely removing that overhang from the sector. The REIT market's year-end rally enabled the group to post a healthy, 11.8% total return for full-year 2023. In our view, the REIT market has only just begun to recoup a portion of its relative underperformance in the past several years and will likely benefit from the continued moderation in interest rates and stable real estate fundamentals. The U.S. REIT market has demonstrated records of outperformance after the conclusions of past tightening cycles. Moreover, given today's low supply risk and strong secular demand trends, fundamentals are likely to remain resilient even if economic growth softens.

The U.S. economy continues to ease into a soft-landing phase. We've seen growth moderate in almost every area of the economy, with inflationary pressure moderating as well. Meanwhile, the employment environment remains stable, with average monthly jobs creation of roughly 165,000 during the fourth quarter and unemployment closing out 2023 at 3.7%. That, combined with a moderating interest rate outlook creates an ideal scenario for the REIT market. Healthy job creation and consumer spending should continue to support the more-economically-sensitive sectors in real estate, such as office, retail and lodging. In addition, failing rates create a more favorable environment for defensive REITs that are more dependent on accretive acquisitions for growth. As we continue making our way through the economic cycle, it's also important to note how much the underlying makeup of the U.S. REIT market has shifted versus prior cycles. The REIT sector today is much more concentrated in defensive sectors with secular demand support, such as data centers, health care and industrial. Meanwhile, sectors with more sensitivity to economic cycles such as office, lodging and malls have witnessed a considerable drop in market cap within REIT benchmarks.

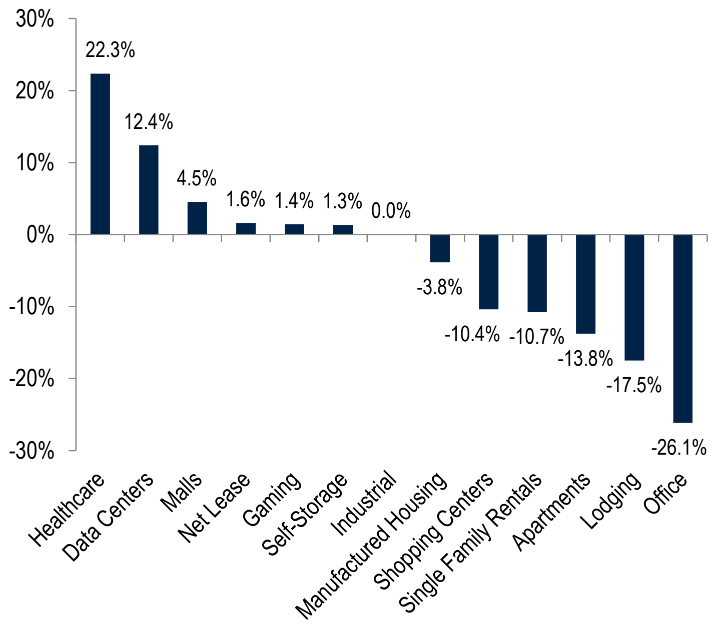
Monthly Gains (000) for Office-Using and Non-Office-Using Jobs[3]



During the quarter, the best-performing sectors were malls and self-storage. Malls REITs gained an impressive 33% for the quarter. Recall that we increased our exposure to retail REITs earlier this year with regard to both shopping centers and malls based on stable fundamentals and overly discounted valuation. As a result, we view the recent gains as justified and continue to favor the sector into 2024. The storage sector rebounded sharply in the last two months of the year after posting disappointing results in the third quarter of 2023. Given the short-lease duration of the sector (month to month) and declining street rates, we expect fundamentals to remain under pressure in the first half of 2024 and are more cautious on the sector following its recent strength.

The worst-performing sectors during the quarter were apartments and health care. For apartments, third-quarter results were largely disappointing, with REITs pointing to incremental supply pressures expected in early 2024. The group's recent underperformance has increased the group's relative attractiveness, but our overall conviction on the sector is more balanced, given likely near-term operational headwinds. Health-care REITs underperformed largely on some performance reversion after a strong 2023 for both assisted-living-focused REITs as well as skilled-nursing-home REITs. Given strong demographic demand support and limited supply risk, we expect 2024 to be another strong year for the health-care REIT sector.

U.S.-Sector Price/Net Asset Value[4]



Market Outlook

We view the recent rally in the REIT market as appropriate and indicative of the potential upside if macroeconomic factors remain supportive. The group's dramatic underperformance since the beginning of 2022 and discounted valuation leave the sector well positioned for continued gains. Moreover, a still healthy labor market combined with softening inflation data bodes well for a near-term end to the Fed's current rate-tightening cycle and improved REIT sentiment. Outside the office sector, fundamentals remain steady, with roughly 5% funds-from-operations-per-share growth expected in 2024, followed by 6% in 2025. Barring a major economic contraction, we expect REIT fundamentals to remain steady for most property types given long lease durations, low supply risk and defensive and secular-based demand.

The current spread between REIT implied valuations and private real estate values remains wide, at roughly 5% on an equally weighted basis. As rates stabilize, that valuation discrepancy is likely to lead to increased M&A opportunities for private-equity players looking to deploy capital toward the discounted REIT sector. We also expect large institutional investors to rotate their real estate allocations from private to public to take advantage of the arbitrage opportunity. The liquidity benefit of the publicly traded REIT structure became abundant during the course of 2023, and that will likely have long-term implications for real estate allocations.

Public REIT-to-REIT M&A was a recurring theme of 2023, with roughly seven announced and closed deals. The current environment is rewarding REITs with better balance sheets and superior platforms with premium valuations. As such, many REITs are taking advantage of the valuation spread to consolidate attractive, smaller-cap peers. Without a dramatic change in the current macroeconomic backdrop, we see that trend as likely to continue in the first half of 2024. If the debt markets continue to improve during the course of the year, we wouldn't be surprised to see more-traditional, core-private-equity players look to privatized discounted REITs if valuations don't improve dramatically.

We continue to favor a barbell approach to our sector allocation, minimizing unintended-factor exposure. We have added to our assisted-living overweight, but through increased exposure to the Canadian assisted-living market, which we expect to experience a recovery similar to that in the United States. We remain overweight data centers because that sector represents the only one in REITs to directly benefit from AI-related demand. We've also increased our weight to retail—both shopping centers and malls—given decent growth prospects in 2024 and beyond. In retail, we've become slightly more constructive on the mall sector relative to shopping centers given valuation. We remain cautious on office despite discounted valuations, because we view the sector as in only early stages of a multiyear secular headwind. That said, increased volatility has led to tactical opportunities—especially in more-defensive areas within office, such as life sciences. We see reasonable valuations in multifamily and storage, but near-term rental growth is likely limited given challenging comps of record growth in 2021 and 2022, which makes us hesitant to fully embrace those sectors today.

Europe[2]

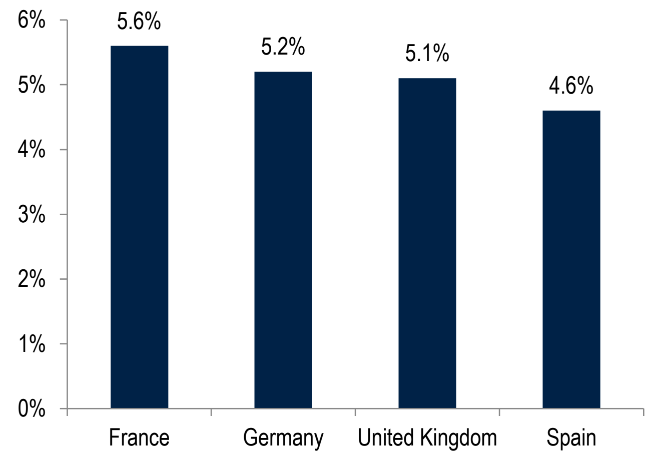
Market Review

Europe finished the year with a dramatic rally in the fourth quarter of 2023, producing a total return (U.S. dollar gross total return) of 26.8% in the fourth quarter as equity markets rebounded on softening inflation data and an improving interest rate outlook. The exceptionally strong fourth quarter was enough to put Europe far ahead of other global regions for 2023 after its disappointing relative performance in 2022 on leverage concerns as the interest-rate-tightening cycle took off. Europe's total return for the 2023 full year was an impressive 20.4%, significantly better than North America's with 11.6% and Asia Pacific's with minus 1.1%. Europe's 2023 performance was significantly positive across all countries, with 2022's losers leading the performance ranking in 2023 as fears about leverage and further interest rate tightening drastically reduced.

The fourth quarter also saw double-digit positive returns for all European countries as bond yields eased across the region and the market started to price in central bank rate cuts in the United States and Europe from 2024. The major markets in Europe were led by Sweden in the fourth quarter of 2023 with a 44.2% total return, followed by Spain with 30.1% and Germany with 28.5%. Sweden had been the country with the worst index share price performance in 2022 due to high financial leverage and debt refinancings, but it bounced back strongly on an improving interest rate outlook in the fourth quarter of 2023. Like Sweden, Germany had underperformed for the first half of the year on leverage concerns but bounced back strongly in November and December. Core markets the UK and France were generally in line with the European average, with total returns of 24.0% and 25.0%, respectively, in the fourth quarter of 2023.

For the 2023 full year, the worst performers—Germany and Sweden—stood out on the positive side, with total returns of 36.5% and 23.3%, respectively, underlining a dramatic investor sentiment improvement with regard to highly leveraged companies by the end of 2023. France also disappointed in 2022 but bounced back in 2023 with a total return of 23.7%, thanks primarily to a 37.4% total return from highly leveraged retail owner Unibail-Rodamco-Westfield. Despite residual concerns surrounding overextended balance sheets and bond refinancings in 2024, investors covered shorts and returned to stocks because they considered them oversold following their extended period of major underperformance.

Europe-Sector Implied Cap Rates[5]



Market Outlook

Inflation figures have been falling in Europe since November 2022, with the pace of declines picking up in the second half of 2023 after slow initial progress. Though the level of inflation still remains higher in parts of the European region than in the other global regions, interest-rate-outlook expectations improved considerably, and bond yields moved down significantly in November and December.

The magnitude of recovery in the European index (27% fourth-quarter total return) and the speed of the rally since the index hit its year low in late October mean that a pause or a partial consolidation of gains is likely in our view. The recovery and the rally imply a risk that the market probably got ahead of itself with regard to timings and sizes of expected rate cuts, which seems to be playing out in the initial trading days of 2024 as market expectations of the timings of central bank rate cuts get rolled back. However, in the absence of significant external shocks, it does seem clear that we will soon be entering a new phase of the interest rate cycle and, potentially, the economic cycle as well.

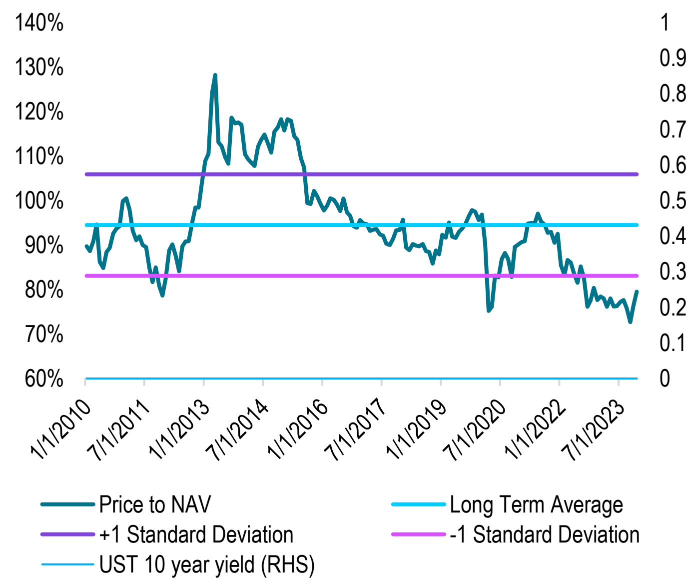
REIT share price valuations in Europe have staged a major rebound in the past two months, and the sector is still overshadowed by pockets of high leverage and substantial volumes of bond and bank debt. The period of adjustment to higher interest rates and balance sheet restructuring will therefore continue throughout 2024—and possibly beyond. However, even with the strong fourth-quarter-2023 recovery, the European index is still roughly 33% below its level at the end of 2021, and average valuations remain at attractive discounts to values that have already been substantially written down. We have been adding to selected names in our portfolio for several months to moderate our defensive positioning as we approached and have now reached the peak of the interest rate cycle in Europe.

Asia Pacific[2]

Market Review

Asia Pacific (APAC) real estate equities closed the December 2023 quarter up 7.4% in U.S. dollar terms, albeit the increase paled in comparison to far stronger average returns witnessed in the United States and the European Union. Markets were no doubt helped in mid-December by a surprising pivot in the Fed outlook, when the Fed chair announced rate cuts rather than hikes going forward. As a result, countries and sectors that had been under the most selling pressure year to date—including Australian REITs (22% in the fourth quarter), Singapore REITs (12%) and Hong Kong REITs (14%)—rebounded the most post the pivot announcement. With signs of slowing inflation in the United States on top of the Fed announcement, the 10-year U.S. Treasury yield declined sharply from its peak of 5% in October to a sub-4% handle by year-end. At the same time, the US dollar saw significant weakening (about 3–7%) against most of the regional Asian currencies.

APAC Real Estate Stocks P/NAV[6]



During the quarter, Japanese developers were largely flat on local currency terms (1%) but rose 7% in U.S. dollar terms. The sector had been by far the best performing in Asia, rising about 25% for the 2023 full year as it leveraged on Japan's general equity market rally. Developer share prices had risen to record levels not seen since the early days of Abenomics a decade ago. Record levels of operating profit boosted by Japan's post-COVID reopening as well as marked improvement in the state of corporate governance triggered a sharp rally. Major developers were key beneficiaries of Japan's virtuous asset cycle, reaping divestment gains from rising real estate values undergirded by record low interest rates. Those rising real estate values stood in sharp contrast to J-REITs, which had been the worst-performing general equity sector in Japan last year. During the December quarter, the sector was up about 3% in U.S. dollar terms but in reality was down 3% in local yen terms. Since the COVID pandemic, the Bank of Japan had been the sole global central bank that operated with a policy of negative interest rates (short-term policy rate). That situation will likely reverse as Japan gradually moves onto a more sustainable inflation path. With the backdrop of upcoming potential Fed rate cuts, rising rates in Japan could continue to exert negative pressure on REIT valuations.

Hong Kong developers and landlords were the worst performers in 2023 (minus about 30%), continuing their decline amid rising rates and continued China growth concerns. Lack of positive catalysts and the uncertain economic trajectory has driven share prices to significant levels of disconnect with private market valuations. Hong Kong developers and landlords now trade at historical lows: at about 0.3–0.4x price to net asset value and about 6.5% fiscal year 2024 estimate dividend-per-share yield, with most names trading below COVID-era troughs. Performance in the December quarter was arguably saved by news of the Fed's sudden pivot in mid-December, with the developers down an average of about 3%, and landlords up about 5%, led by a galvanized link REIT of about 14%). Developers have been hampered by a weak residential market given still high interest rates and two consecutive years of weak new home sales. Grade A office faces a massive oversupply situation, with current vacancy of about 13% likely to be exacerbated by upcoming calendar years 2025-2026 supply estimate of about 2.8 million square feet per annum coupled with slower-than-expected recovery in demand from China corporates. Retail landlords are perhaps facing the least worst situation, with U.S. rates peaking and potential renminbi stabilization likely leading a reversal in outflow of Hong Kong retail spend to Shenzhen.

Australia REITs had a strong fourth quarter of 2023, at 24%, outperforming the rest of the region by 7% in U.S. dollar terms. That outperformance helped materially offset Australia REITs' weakness in the first three quarters of 2023, as the sector ended the year down 14%. The A-REIT recovery started at the end of October given the sharp decline in 10-year U.S. Treasury yields from about 5% to below 4% by end of December. The recovery was further aided by news of the Fed's pivot, which drove valuations higher. Industrial REITs, fund managers and retail REITs outperformed, thereby rewarding our decision to overweight those sectors. Industrial REITs outperformed on the back of higher-releasing spreads underpinned by an approximately 20% increase in market rents. Retail witnessed the best-releasing spreads in a decade with net operating income attaining pre-COVID levels. On the other hand, office continued to face headwinds, with lackluster demand in the midst of REIT occupancies of about 93%.

Singapore REITs mirrored their Aussie counterparts—albeit to a lesser degree as S-REITs rose about 12% in the fourth quarter of 2023. The recovery was relatively broad based, as retail/office REITs similarly rallied on the back of lower U.S. Treasury yields and news from the Fed. It was clear that market preference in 2023 was for low-gearing, high-quality industrial REITs. Singapore developers rose on average 8% in the December quarter, benefiting from potential rate cuts moving forward. Sector performance in 2023 (minus 7.5%) was constrained by residential cooling measures on top of rising interest rates.

Market Outlook

There is no doubt the Fed pivot has become the single-most-important determinant of how APAC real estate equities will perform in 2024. With the backdrop of a more conducive interest rate environment, market sentiment will at least shift toward being more constructive in sectors with strong real estate fundamentals. That bodes well for our investment strategies across the region. We are positive on Australian data centers and logistics. AI/cloud-driven demand and e-commerce trends provide structural tailwinds for the two sectors. We are slightly overweight the Japanese developers and prefer names that exhibit strong shareholder returns with greater reopening exposure. We are slightly underweight the J-REITs but maintain sizable overweight in hospitality names that benefit from pent-up tourism demand. We are overweight logistic J-REITs given their strong fundamentals driving dividend per unit growth. In Singapore, we are overweight fund manager/landlord plays. For S-REITs, we like hospitality and industrial names with solid dividend growth underpinned by strong fundamentals. Despite their cheap valuations, we are slightly underweight Hong Kong given the continued lack of positive catalysts and challenging market conditions for residential as well as office. Geopolitical risk continues to be the wildcard in 2024, with ongoing conflicts in Ukraine and the Middle East. The U.S. presidential elections in November will also be closely watched for any potential increase in volatility in United States–China relations.

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Holdings in a strategy can vary significantly from broad market indexes. As a result, performance of an individual strategy can deviate from the performance of such indexes. As a strategy invests in stocks, there is the risk that the price of a stock owned within a strategy could go down or pay lower-than-expected or no dividends. In addition, the value of the equity markets or of companies comprising the real estate industry could go down. Other considerations relative to the public markets may include, but not be limited to: borrowing and leverage, currency futures and options, debt securities, derivatives, exchange-traded funds, foreign exchange transactions, foreign investment risks, hedging, illiquid or restricted securities, initial public offerings, investment in emerging markets, investment in other investment companies, mortgage-backed securities, options, repurchase agreements , risk factors involving derivatives, securities lending, short sales, temporary defensive strategy and short-term investments, U.S. Government securities, warrants and rights, and forward commitments.

Investors are advised to review the Investment Prospectus, Statement of Additional Information and other information related to specific strategies for further detail regarding the risks associated with investment in REITs and real estate securities.

The FTSE EPRA/NAREIT Real Estate Index Series reflects the stock performance of companies engaged in specific aspects of the of the major real estate markets/regions of the world - Americas, EMEA (Europe, Middle East and Africa) and Asia. The Index Series is designed to represent general trends in eligible listed real estate companies and REITS worldwide, covering Global, Developed and Emerging indices, as well the UK's AIM market. Relevant real estate activities are defined as the ownership, disposure and development of income-producing real estate. Dividends, using their ex-dividend dates, are used to calculate the Total Return Indices on the FTSE EPRA/NAREIT Global Real Estate Index Series.

All dividends are applied as declared. "FTSE®" is a trademark of the London Stock Exchange Plc and The Financial Times Limited and is used by FTSE under license. Note: A benchmark Index is not professionally managed, does not have a defined investment objective, and does not incur fees or expenses. Investors cannot invest directly in an index.

[1] Blended benchmark is 80% FTSE/EPRA NAREIT Developed Index/ 20% BofA Merrill Lynch 7 Const. REIT Preferred Securities Index

[2] Reference to out- and under-performance is within the context of and relative to the specific region's REIT market unless otherwise noted.

[3] Bloomberg. As of December 31, 2023

[4] PGIM RE, Bloomberg and Green Street. As of January 17, 2024

[5] Morgan Stanley, Citi. As of December 31, 2023

[6] Bloomberg. As of December 31, 2023.