Global Core Strategy

As of June 30, 2019

STRATEGY HIGHLIGHTS

Objective
To add +100 basis points (bps) of annualized excess return over a broad global market fixed income index over a full market cycle.

Target Sources of Excess Return
- Sector Allocation: 45 bps
- Security Selection: 30 bps
- Duration/Curve: 15 bps
- Currency: 10 bps

Inception Date
September 01, 2008

Strategy Assets
$5.0 billion

Benchmark
Bloomberg Barclays Global Aggregate Index

INVESTMENT PHILOSOPHY & PROCESS

- The Strategy seeks highly diversified, sustainable sources of excess return across global fixed income sectors and currencies with an emphasis on managing downside risk. The Strategy’s approach focuses on relative-value based country and sector allocation, research-based subsector and security selection, and duration, yield curve, and currency management. The Strategy favors the credit-oriented sectors, reflecting the Firm’s significant research expertise.

- The Strategy represents a culmination of our best ideas throughout the firm.

- We seek to capture several market inefficiencies when investing across the global fixed income markets. We seek to anticipate both positive and negative economic and credit-related events before others do, through our large internal research staff.

- To do so, we organize our macro-economic, portfolio management and research teams by region/sector/industry, fostering an in-depth knowledge of trends and individual companies, including ones not always followed closely by Wall Street.

- We also seek to capitalize on currency dislocations and aberrations in yield curves using proprietary modeling.

- We seek to capture inefficiencies driven by supply/demand and other technical factors, such as dislocations in spreads across different countries, sectors, industries, and even different maturity bonds, or bonds and loans, of the same issuer.

- The Strategy invests in debt securities of developed and emerging foreign corporations and governments (including supranational organizations, semi-governmental entities, or government agencies); in investment-grade developed market mortgages and mortgage-related securities; and in developed and emerging short-term and long-term bank debt securities or bank deposits. We look mostly for investment-grade securities denominated in U.S. dollars or foreign currencies but may opportunistically invest a portion of assets in non-investment grade, high yield bonds, if permitted by client guidelines.

- The Global Core Fixed Income Strategy’s philosophy is that diversified portfolios, built through the integration of credit research, quantitative research, and risk management, can achieve consistent excess returns for clients with a high information ratio. This same research-based and relative-value oriented process is implemented across all multi-sector fixed income strategies managed by PGIM Fixed Income.

Your capital is at risk and the value of investments can go down as well as up. No investment strategy or management technique can guarantee returns or eliminate risk in any market environment. Where overseas investments are held the rate of currency may cause the value of investments to fluctuate. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Non-USD securities are converted to USD using a spot rate conversion. There can be no guarantee that this objective will be achieved, on average, over a full market cycle defined as three to five years. Available for professional and institutional investors only. Please see the Notice for important disclosures regarding the information contained herein.
Past performance is not a guarantee or a reliable indicator of future results. The value of investments can go down as well as up. No investment strategy or management technique can guarantee returns or eliminate risk in any market environment. Please see the Notice for important disclosures regarding the information contained herein. Totals may not sum due to rounding. Source: PGIM Fixed Income. Source of Benchmark: Bloomberg Barclays. Where overseas investments are held the rate of currency may cause the value of investments to fluctuate. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Non-USD securities are converted to USD using a spot rate conversion. Periods over one year are annualized. Net returns reflect the deduction of investment advisory fees and other expenses. Gross and net performance have been calculated in U.S. dollars and reflect the deduction of transaction costs and withholding taxes, if any, and the reinvestment of income. Effective yield is calculated excluding the yield impact of foreign exchange positions and derivatives (other than interest rate futures, which are included in the calculation). Excludes cash and FX hedges. Middle of Moody's, S&P and Fitch ratings – excluding cash and cash equivalents. Available for professional and institutional investors only.
INVESTMENT COMMENTARY

Markets
Interest rates across the G4 tumbled throughout the second quarter driven by lackluster global economic data, lingering U.S.-China trade tensions, and rising probabilities of easier global monetary policies. Our preferred bullish rate expression in the U.S. is in 5-10 year TIPS. We continue to expect rates in the Eurozone to remain low and rangebound given the economic malaise, potentially rising trade tensions later this year, and lingering Brexit uncertainty.

Portfolio Attribution

Sector & Issue Selection: In April, after the strongest quarterly S&P 500 (+13%) gains seen in a decade, risk assets continued their rally on the back of dovish central banks and expected successful trade negotiations between the US and China. In May, risk assets began to taper off after the OECD updated its global economic growth outlook, emphasizing vulnerable, moderate growth over the next two years. Cited risks to growth included trade tensions, policy uncertainty, and a China slowdown. In June, risk assets rebounded on the back of dovish fed rhetoric and US trade progress with China. Overweight positioning in Emerging and Developed Sovereigns added to performance. Security selection in both sectors also benefitted performance; overweight to Romania and Peru, Greece and Portugal were among the top performers. An overweight to structured products and Security selection in IG Corporates also added to performance.

Duration and Yield Curve Positioning: In the US, the period was highlighted by positive economic data releases, dovish fed rhetoric, and a continued equity rally. A series of strong NFP gains helped diminish fears of a looming recession after February's heavy miss (+33,000). In a largely expected move, the Fed kept rates unchanged. Fed Chairman Jerome Powell cited declining core and headline inflation and slowing household spending and business fixed investment as key indicators to watch moving forward. Over the period, trade tensions caused a flight to safe-haven assets, but during the last week of June investor fears were quelled at the G20 summit where the US and China made major headway in trade talks. Overall, in the US, both spread product and rates rallied and a long duration position in US rates added to performance. A curve-flattener detracted from performance. In Europe, weak Eurozone PMI and growth data have worried investors. Although stronger than expected Q1 GDP data helped pacify some of this trepidation in April, the European Commission slashed its Eurozone growth forecast to 1.2% from 1.3% the following month. Additionally, Italy and the European Union clashed over Italy's high debt levels and Salvini's attempts to cut taxes to increase growth. Accordingly, the 10-year sovereign Italian bond spread over bunds increased to a year-to-date high in May. Long duration and curve positioning in Euro rates added to performance. In the UK, Prime Minister May announced her resignation; She will stay in office until a successor is chosen. Boris Johnson is the current front-runner in emerging markets, overweight duration positioning in Brazil, Colombia, and Chile added to performance.

Currency Selection: Overweights to Russia and Egypt added to performance while an underweight to the Brazil and Turkey detracted from performance.

PGIM FIXED INCOME

PGIM Fixed Income is a global asset manager offering active solutions across all fixed income markets. As of June 30, 2019, the firm had $809 billion of assets under management, and over 737 institutional asset owners have entrusted PGIM Fixed Income with their assets.

At PGIM Fixed Income our extensive size and scale benefits our clients in our ability to have the necessary resources to maintain large and deep research teams, implement world-class risk management systems, establish ourselves as a known entity to both corporate issuers and sell side analysts and add considerable value to our investment process in finding key opportunities for our investors.

Our investment approach is supported by 295 investment professionals based in the U.S., London, Tokyo, and Singapore, as of June 30, 2019. These senior investment personnel average 23 years tenure with the firm, providing stability and leadership. 9 regional macroeconomists, 109 fundamental analysts, and 59 analysts in quantitative modeling, risk management, and portfolio analysis provide deep, broad perspectives on the global fixed income markets.

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INDEX DESCRIPTIONS: The benchmark for the composite is the Bloomberg Barclays Global Aggregate Bond Index USD Unhedged (Bloomberg Barclays Global Aggregate Index). The Bloomberg Barclays Global Aggregate Bond Index USD Unhedged provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment-grade 144A securities. Securities included in the index must have at least 1 year until final maturity and be rated investment-grade (Baa3/BBB-/BBB-) or better using the middle rating of Moody's, S&P, and Fitch. Source of the Bloomberg Barclays Global Aggregate Index: Bloomberg Barclays.

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