EMD Hard Currency Strategy

As of June 30, 2019

Strategic Highlights

Objective
To add +200 basis points (bps) of annualized excess return over a broad emerging markets debt index over a full market cycle.

Target Sources of Excess Return
- FX: 30 bps
- Country Selection: 90 bps
- Security Selection: 80 bps

Investment Philosophy & Process

PGIM Fixed Income’s Emerging Markets Debt investment philosophy is grounded in four beliefs:

1. The ever-changing risk appetite of investors is a primary contributor to both market opportunity and market volatility. We therefore begin our investment process with a comprehensive assessment of the global appetite for risk.

2. Country allocation is a primary determinant of emerging markets portfolio returns. We therefore focus a significant part of our investment process on determining our country views. Our country decision process incorporates our global risk view along with an analysis of a country’s foreign exchange, local bonds, and hard currency bonds from a fundamental, relative value, and technical perspective. We heavily emphasize qualitative factors in our fundamental analysis, as they are often the best predictors of performance.

3. Security selection is also a primary source of alpha generating opportunities. Our philosophy is to seek the widest possible universe of security selection opportunities, guidelines permitting. We analyze sovereign issuers as well as “quasi-sovereign” issuers within the same country. We evaluate opportunities in both hard currency and local currency bond curves based on potential changes in policy rates and inflation outlook. We evaluate corporate issuers, guidelines permitting.

4. Dynamic risk budgeting provides a disciplined framework for investment decision-making and provides important risk management as well. We heavily rely on risk budgeting and management to provide a consistent and disciplined framework for all investment decisions. We develop a broad strategic risk budget for each client portfolio that reflects the client’s long-term objectives and risk parameters, as well as a tactical risk budget that permits us to incorporate our day-to-day views of market risk tolerances and opportunities within the broader strategic risk budget.

   • PGIM Fixed Income’s investment approach seeks to add value primarily through research-based country allocation, security selection, FX, and, to a lesser extent, yield curve management. Duration management decisions are made on a country by country basis based on the outlook for central bank policy, inflation, and output gaps.

   • Duration management is also a function of our assessment of the global appetite for risk, which is Step 1 of our investment process.

   • Yield curve decisions are made with similar considerations.

   • When we interpret the global appetite for risk as a positive factor (i.e. global investors appear willing to assume more risk), we will tend to express this through slightly more aggressive yield curve positioning.

Inception Date
July 01, 1996

Strategy Assets
$27.7 billion

Benchmark
JPM EMBI Global Diversified Index

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.
Performance | Periods Ending June 30, 2019

Gross Returns %

Net Returns %

JPM EMBI Global Diversified Index

<table>
<thead>
<tr>
<th>Gross Excess Returns (bps)</th>
<th>QTD</th>
<th>YTD</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>10 Year</th>
<th>Since Inception (01 Jul 1996)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+58</td>
<td>127</td>
<td>73</td>
<td>181</td>
<td>114</td>
<td>202</td>
<td>239</td>
</tr>
<tr>
<td>Tracking Error (%)</td>
<td>NM</td>
<td>NM</td>
<td>NM</td>
<td>1.45</td>
<td>1.39</td>
<td>1.99</td>
<td>2.51</td>
</tr>
<tr>
<td>Information Ratio</td>
<td>NM</td>
<td>NM</td>
<td>NM</td>
<td>1.22</td>
<td>0.82</td>
<td>0.99</td>
<td>0.90</td>
</tr>
</tbody>
</table>

Gross Excess Returns may reflect rounding differences. Information ratio and tracking error are not meaningful (NM) for periods less than 3 years. Additional performance information is available upon request. Please visit www.pgimfixedincome.com for contact information.

Portfolio Highlights

Sector Allocation (%)

- Hard Currency Sovereign
- Hard Currency Quasi-Sovereign
- Hard Currency Corporates
- Local Currency Sovereign
- Local Currency Quasi-Sovereign

Representative Characteristics (%)

| Effective Duration (yrs) | 7.58 | 7.12 |
| Effective Yield (%)      | 5.95 | 4.90 |
| Spread (bps)             | 399  | 285  |
| Average Yield (%)        | 6.33 | 5.61 |
| Average Coupon (%)       | Ba3  | Ba1  |
| Number of Issuers        | 147  | 129  |

Top 10 Country Allocation (%)

- Indonesia 5.6 4.2
- Mexico 5.5 4.5
- Argentina 5.1 2.4
- Ukraine 4.6 2.5
- Brazil 4.4 3.0
- Turkey 4.3 3.2
- Ecuador 3.8 2.5
- Russian Federation 3.7 3.2
- South Africa 3.1 2.5
- Egypt 3.1 2.4

Quality Distribution (%)

| AA    | 1.7 | 3.9 |
| A     | 4.1 | 12.3|
| BBB   | 26.4| 34.9|
| BB    | 13.8| 14.3|
| B     | 46.9| 31.7|
| CCC & Below | 4.8 | 1.9 |
| Not Rated | 1.5 | 0.9 |

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: JP Morgan. 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

The emerging market debt sector continued to benefit from investors’ search for yield in Q2 amid expectations for Fed rate cuts and ongoing, below-trend growth in most developed markets.

The prospects for a global recession in the near to medium term also remain faint given the relatively healthy growth in the U.S. and expectations for additional stimulus from China. The prospect for avoiding a full-blown U.S./China trade war is key for EM as further slowing in global trade and EM growth would pose a headwind regardless of policy accommodation from DM central banks.

In EM sovereigns, the performance by country reflected the rally in U.S. Treasuries and idiosyncratic developments. Some higher rated, more UST-sensitive names outperformed, and the underperformers reflected political risk and uncertainty. In terms of positioning, we continue to favor spreads, particularly select, lower-rated sovereign issuers with proven market access and/or IMF support. We also find select quasi-sovereigns attractive.

Looking forward, there may be opportunities for the underperformers to post attractive returns later in the year.

Portfolio Attribution

Country Selection: Overweights to Venezuela and Argentina along with underweights to Kazakhstan, Philippines and Panama drove negative performance. Argentina underperformed following uncertainty surrounding the upcoming presidential election. Overweights to Ukraine, Greece and Brazil along with underweights to Poland and China offset some of these losses. Ukraine outperformed on the back of improved sentiment following Volodymyr Zelesnkiy’s election and his perceived willingness to work with the IMF.

Security Selection: Sovereign positioning in Romania and Venezuela contributed to performance while positioning in Mexico detracted. Corporate and Quasi-sovereign positioning in Mexico detracted from performance.

Currency Selection: Emerging market currencies were stronger during the quarter, posting a total return of +2.07%. An overweight to the Argentine peso along with an underweight to the Colombian peso contributed to performance. An overweight to the Taiwan along with underweights to the Turkey and Brazil detracted from performance.

PORTFOLIO MANAGERS

David Bessey
Managing Director and Co-Head of Emerging Markets Debt Team

Cathy L. Hepworth, CFA
Managing Director and Co-Head of Emerging Markets Debt Team

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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As of June 30, 2019

PGIM Fixed Income EMD Hard Currency Strategy

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INDEX DESCRIPTION: As of March 1, 2006 the benchmark for this composite is the JP Morgan Emerging Markets Bond Index Global Diversified (JP Morgan EMBI Global Diversified). The Emerging Markets Bond Index Global Diversified (EMBI Global) tracks total returns for USD-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds. It limits the weights of the index countries with larger debt stocks by only including specified portions of these countries’ eligible current face amounts of debt outstanding. Source of the benchmark: JP Morgan. Prior to March 1, 2006 the benchmark for this composite was the JP Morgan Emerging Markets Bond Index Plus. This index is a liquid US-dollar emerging markets debt benchmark that tracks total returns for actively traded external debt instruments by emerging market sovereign entities: US-dollar denominated Brady bonds, Eurobonds, and loans. Countries included in the index must be rated Baa1/BBB+ or below by Moody’s/S&P rating agencies. Source of the benchmark: JP Morgan. The change in benchmark was made to more accurately reflect the strategy of the composite.

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