### STRATEGY HIGHLIGHTS

<table>
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<th>Objective</th>
<th>To add +60 basis points (bps) of annualized excess return over a broad market fixed income index over a full market cycle.</th>
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</table>
| Target Sources of Excess Return | • Sector Allocation 30 bps  
• Security Selection 25 bps  
• Duration/Curve/Currency 5 bps |

### INVESTMENT PHILOSOPHY & PROCESS

- Core Fixed Income portfolios can invest in all sectors included in the managed benchmark, or similar broad market fixed income index.

- The Strategy is predominantly investment grade focused but, if individual client guidelines permit, also can allocate modestly to non-benchmark high yield bond and emerging markets debt sectors.
  - The universe of sectors included in the investment grade portion of the Strategy are index-specific—typically U.S. Treasuries, government agencies, corporate bonds, mortgage-backed securities, CMBS, and asset-backed securities—with the remaining assets dispersed among other ABS, senior secured loans, municipal bonds, non-dollar global bonds, and currencies.

- The Strategy generates excess return over the benchmark primarily from sector allocation and subsector security selection decisions. Duration and yield curve positioning are considered when strong market opportunities dictate, but historically have not been the primary sources of return.

- Our portfolios take an actively-managed, relative-value driven approach to security selection.
  - We analyze various security relationships in the market in order to exploit temporary market inefficiencies.
  - Each trade is intended to capture relative value, with the sum of all security selection expected to contribute a meaningful portion of expected excess return over time.
  - The Strategy is expected to perform best in markets with excess spread dislocations that it can capitalize on through relative value trading.
  - In contrast, a low volatility interest rate environment with little spread or interest rate movements would most likely lead to more stable security-to-security relationships and, in turn, make it more difficult to outperform.

- We believe 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.

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1. Senior investment team assesses global market environment  
- Economic Research  
- Sector Analysis

2. Senior portfolio managers construct portfolio with sector specialist and analysts  
- Risk Budgeting  
  - Establish risk targets within client’s risk budget  
  - Capture thresholds for systematic and idiosyncratic risks
- Asset Allocation  
  - Determine risk, sector, and term structure positioning  
  - Incorporate themes given current market dynamics  
  - Ideas from sector specialists are emphasized
- Security Selection  
  - Sector specialists and research analysts aligned by industry determine individual securities  
  - Research-based approach

3. Senior portfolio managers and risk manager oversee risk positions

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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.

Visit us at PGIMFIXEDINCOME.com for more information on our investment strategies.
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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 (%)

Representative Characteristics\(^3\) (%)

Corporate Industry Allocation (%)

Quality Distribution\(^4,5\) (%%)
INVESTMENT COMMENTARY

Markets
Developed market interest rates 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. Higher supply, lower primary mortgage rates, faster prepayment speeds and worsening characteristics of new production weighed on MBS, as did the lack of Fed MBS purchases as prepayments increased and balance sheet reinvestments went back into U.S. Treasuries. As a core theme, we continue to favor specified pools in lieu of TBAs.

U.S. and European corporate bonds delivered positive excess returns in Q2, rallying on weaker global economic growth and dovish comments from the Fed and ECB. Corporate bonds remain supported against a backdrop of slow but constructive economic growth, low inflation, and strong technicals. As in prior quarters, we continue to overweight lower-quality, shorter maturities and underweight higher-quality, long-maturity corporates.

CMBS spreads generally tightened in Q2 as fundamentals remained stable and vacancies remained low. We remain biased toward senior tranches from broadly diversified deals over mezzanine tranches.

Portfolio Attribution
Duration and Yield Curve Contribution: The U.S. Treasury curve was lower and steeper during the quarter. Long duration positioning added to performance, while a curve flattening bias detracted.

Sector Allocation: MBS, Agency and ABS spreads widened during the quarter, while Municipals, IG Corporates, HY, Sovereign, and Emerging Markets spreads tightened. An overweight in CMBS along with an underweight in MBS/CMO contributed positively.

Industry/Security Selection: Positioning within MBS/CMO, Non-Agency RMBS, and Investment Grade Corporates led to outperformance; however, selection in Treasury and Interest Rate Swaps limited results. Security selection in Health Care & Pharmaceutical, as well as an overweight in Banking outperformed. Security selection in Foreign Non-Corporate, along with an underweight in Consumer Non-Cyclical limited results.

PORTFOLIO MANAGERS

Gregory Peters
Managing Director and Senior Portfolio Manager

Michael Collins, CFA
Managing Director and Senior Portfolio Manager

Richard Piccirillo
Managing Director and Senior Portfolio Manager

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 DESCRIPTION: The Bloomberg Barclays US Aggregate Bond Index (Bloomberg Barclays US Aggregate Index) covers the USD-denominated, investment-grade, fixed-rate or step ups, taxable bond market of SEC-registered securities and includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS sectors. 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 Bloomberg Barclays US Aggregate Bond Index: Bloomberg Barclays.

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