STRATEGY HIGHLIGHTS

Objective
To add +125 basis points (bps) of annualized excess return over a broad high yield index over a full market cycle.

Target Sources of Excess Return
- Security Selection: 100 bps
- Industry Allocation: 15 bps
- Beta & Spread Curve Positioning: 10 bps

Inception Date
March 01, 2002

Strategy Assets
$15.2 billion

Benchmark
Bloomberg Barclays U.S. Corporate High Yield Bond Index

INVESTMENT PHILOSOPHY & PROCESS

- In our Broad Market High Yield Strategy, we seek to earn 125 bps of alpha with a tracking error budget of 200 bps versus the Bloomberg Barclays US High Yield Index.
- We expect tracking error based on historical volatility measured over a long term period to occur from holding position sizes in portfolios that differ from the issuer’s weighting in the benchmark and from holding positions in issuers that are not in the benchmark.
- PGIM Fixed Income believes that actively managed high yield bond portfolios, constructed from the bottom up using methodical, research-based subsector and security selection, can lead to consistent outperformance versus the broad high yield index with a high information ratio.
- PGIM Fixed Income attempts to achieve this through well-diversified portfolios of performing credits that are carefully researched. Intensive fundamental research is conducted by a large and experienced internal credit research staff to identify strong and improving credits.
- The size and experience of the research organization permit us to apply intense focus on individual securities identified from a broad pool of investment opportunities.
- Portfolios are then actively managed to capture the best opportunities and minimize credit losses, within an environment of disciplined risk management oversight.
- We use a sector based approach, whereby portfolio managers specialize on certain industries (typically 4 to 6 each). As a result of not having to cover the entire universe of industries, our sector PMs can (a) more deeply understand the issuers and trading levels in their sectors to better evaluate relative value and more quickly respond to market opportunities and (b) can have more frequent dialogue with, traders at brokers/dealers for secondary trades and also from capital markets/syndicates individuals at underwriters for new issues.
- We inherently think long term and are typically patient investors. Also, our institutional client base tends to be more stable (less flows). These two attributes enable us to take advantage of market opportunities because, on a relative basis versus peers, we tend to be liquidity providers as opposed to liquidity takers. In a world of less liquidity, we can take advantage of available market inefficiencies.

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 %

Bloomberg Barclays U.S. Corporate High Yield Bond Index %

<table>
<thead>
<tr>
<th>QTD</th>
<th>YTD</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>10 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.49%</td>
<td>3.36%</td>
<td>11.18%</td>
<td>9.94%</td>
<td>9.21%</td>
<td>8.66%</td>
</tr>
</tbody>
</table>

Total may not sum due to rounding.

Source: PGIM Fixed Income.

Source of Benchmark: Bloomberg Barclays.

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1Periods over one year are annualized.

2Net 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.

3Effective yield is calculated excluding the yield impact of foreign exchange positions and derivatives (other than interest rate futures, which are included in the calculation).

4Excludes cash and FX hedges.

5Middle of Moody’s, S&P and Fitch ratings – excluding cash and cash equivalents.

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Investor Disclosures:

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.
INVESTMENT COMMENTARY

Markets

U.S. high yield credit spreads widened slightly in Q2 as European high yield credit spreads tightened. The rate decline contributed to solid total returns in both the U.S. and Europe. If the market remains constructive, compression of the lower-rated (but performing) credits will likely be a theme during the second half of 2019.

Looking ahead in the U.S., we prefer single-B rated credits and are taking advantage of the steepness of the spread curve via an underweight to low-spread, short-dated issues, in conjunction with an overweight to the 4- to 7-year portion of the curve. We remain constructive on European high yield given benign default expectations, favourable supply technicals, and dovish central banks.

Portfolio Attribution

Overall security selection was the largest contributor to performance on the quarter, highlighted by positioning within the upstream energy, cable & satellite, electric utilities, automotive and foreign non-corporate sectors. Security selection in the aerospace & defense and health care & pharmaceutical sectors detracted from performance.

Industry selection was also positive for the quarter with an overweight to building materials & home construction and an underweight to upstream energy boosting returns. This was offset by underweights to the banking and transportation & environmental services sectors which hurt performance.

Having more beta in the portfolio relative to the benchmark on average over the period was a modest detractor from performance in the second quarter.

PORTFOLIO MANAGERS

Robert Cignarella, CFA
Managing Director and Head of U.S. High Yield

PGIM Fixed Income U.S. Broad Market High Yield Strategy
As of June 30, 2019

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 benchmark for this composite is the Bloomberg Barclays US Corporate High Yield Bond Index (Bloomberg Barclays US High Yield Index). The Index tracks the USD-denominated, non-investment-grade, fixed-rate or step up, taxable corporate bond market. The index excludes Emerging Markets debt. Securities must be rated below investment-grade (B+ or below) using the middle rating of Moody’s, S&P, and Fitch, and have at least 1 year until final maturity. The Bloomberg Barclays U.S. High Yield 1% Issuer Capped Index is an issuer-constrained version of the U.S. Corporate High-Yield Index that covers non-investment grade, fixed-rate, taxable corporate bond market. It limits issuer exposures to a maximum 1% and redistributes the excess market value index-wide on a pro-rata basis. Securities must be rated BB or using the middle rating of Moody’s, S&P, and Fitch, and have at least 1 year until final maturity. Source of the benchmarks: Bloomberg Barcals.

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