Strategic Bond Strategy

As of June 30, 2019

STRATEGY HIGHLIGHTS

<table>
<thead>
<tr>
<th>Objective</th>
<th>To add +375 basis points (bps) of annualized excess return over the Bloomberg Barclays U.S. Intermediate Aggregate Index over a full market cycle.</th>
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</thead>
<tbody>
<tr>
<td>Inception Date</td>
<td>September 01, 2015</td>
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<tr>
<td>Strategy Assets</td>
<td>$504.9 million</td>
</tr>
<tr>
<td>Benchmark</td>
<td>Bloomberg Barclays U.S. Intermediate Aggregate Index</td>
</tr>
</tbody>
</table>

Target Sources of Excess Return

- Sector Allocation 200 bps
- Security Selection 100 bps
- Duration/Curve/Currency 75 bps

INVESTMENT PHILOSOPHY & PROCESS

- The Strategic Bond Strategy is an actively managed strategy that seeks to achieve positive returns by investing across a broad range of fixed income sectors, securities and derivatives.

- The Strategy combines “best ideas” from macro top-down and credit bottom-up teams across PGIM Fixed income opportunistically using asset class and sector ideas to find alpha generating trades.

- Portfolio positioning at any given time is based on where we believe the most attractive risk-adjusted values lie across the investable universe.

- The Strategy is designed to provide flexibility to respond to changing market opportunities to both generate alpha and to mitigate downside risk, diversifying across individual issuers, industries and country positions.

- As for security selection, the Strategy takes an actively-managed, relative-value driven approach. Within our corporate bond allocation, for example, we continually analyze various security relationships 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.

- As such, 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 our philosophy for managing Strategic Bond portfolios will be successful in the future because it is diversified—relying on several proven strategies rather than a single interest rate, term structure, or credit decision.

- Two of these strategies—subsector rotation and fundamental security selection—are strategies that we believe are equally appropriate in strong and weak markets, although naturally the subsectors and securities chosen will vary given the economic and market environment.

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Visit us at PGIMFIXEDINCOME.com for more information on our investment strategies.
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INVESTMENT COMMENTARY

Markets
The second quarter’s collapse in developed market government bond yields set the stage for positive total returns across the spectrum of fixed income sectors. Our preferred bullish rate expression in the U.S. is in 5-10-year TIPS.

While AAA and AA-rated CLO spreads tightened during the quarter, they continued to lag the broader spread rally in 2019. At these spreads, senior CLOs continue to offer excellent risk-adjusted total returns, and we remain cautious on mezzanine tranches.

Although U.S. high yield credit spreads widened slightly in Q2, the rate decline contributed to solid high yield total returns in the U.S. and Europe. 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 are maintaining overweights to independent power producers and U.S. consumer-related names, while remaining cautious on commodities. U.S. and European investment grade corporate bonds also delivered positive excess returns in Q2, rallying on weaker global economic growth and dovish comments from the Fed and ECB.

The positive total returns in the emerging market debt sector were driven by investors’ search for yield amid expectations for Fed rate cuts and below-trend growth in most developed markets.

Portfolio

Duration and Yield Curve Contribution: The US treasury curve was lower and steeper during the quarter. Duration positioning added to performance; however, yield curve positioning limited results.

Sector Allocation: MBS, Agency and ABS spreads widened during the quarter, while Municipals, IG Corporates, HY, Sovereign, and Emerging Markets spreads tightened. Overweights in High Yield and CLOs as well as an underweight in MBS/CMO contributed to results.


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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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