Long Duration Government/Credit Strategy

PGIM FIXED INCOME

As of March 31, 2020

STRATEGY HIGHLIGHTS

Objective[1]	To add +60 basis points (bps) of annualized excess return over the Bloomberg Barclays U.S. Long Govt/Credit Index over a full market cycle.	
Target Sources of Excess Return	• Sector Allocation	20-40 bps
	• Security Selection	15-40 bps
	• Duration/Curve/Currency	0-10 bps

Inception Date	December 01, 2009
Strategy Assets[2]	$10.2 billion
Benchmark	Bloomberg Barclays U.S. Long Govt/Credit Index

INVESTMENT PHILOSOPHY & PROCESS

- PGIM Fixed Income's Long Duration Government Credit Fixed Income portfolios are managed based on the philosophy that research-driven security selection is the most consistent strategy for adding value to client portfolios. We complement that base strategy with modest sector rotation, duration management, and disciplined trade execution. Risk budgeting is central to our approach.
- The Strategy typically generates its excess return from both sector allocation and subsector/security allocation, in fairly equal increments. Duration and yield curve positioning is generally de-emphasized, but will be considered when exceptional market opportunities dictate.
- 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.

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

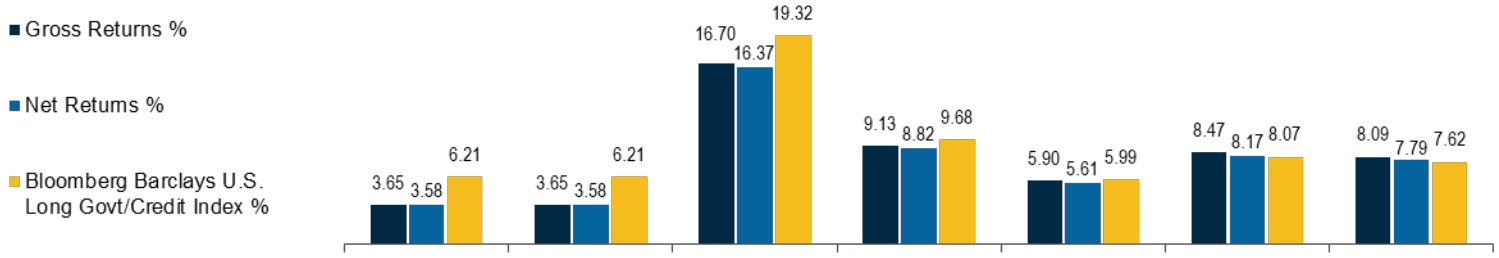
Security Selection

- Sector specialists and research analysts aligned by industry determine individual securities
- Research-based approach

3 Senior portfolio managers and risk manager oversee risk positions

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. [1]There can be no guarantee that this objective will be achieved, on average, over a full market cycle defined as three to five years. [2] AUM as of December 31, 2019.* ***Available for professional and institutional investors only. Please see the Notice for important disclosures regarding the information contained herein.***

PERFORMANCE[1,2] | PERIODS ENDING MARCH 31, 2020

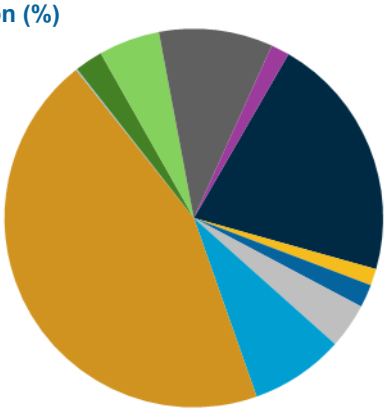


	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (01 Dec 2009)
Gross Excess Returns (bps)	-256	-256	-262	-56	-9	+40	+48
Tracking Error (%)	NM	NM	NM	1.42	1.16	1.02	1.01
Information Ratio	NM	NM	NM	-0.33	-0.05	0.38	0.45

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 (%)



US Government
Agencies
Mortgages
ABS
CMBS
IG Corporates
Non-US Govt Related
High Yield
Emerging Markets
Municipals
Cash & Equivalents

	Portfolio	Bloomberg Barclays U.S. Long Govt/Credit Index
US Government	21.0	45.4
Agencies	1.4	1.1
Mortgages	2.0	0.0
ABS	3.9	0.0
CMBS	8.0	0.0
IG Corporates	44.7	44.9
Non-US Govt Related	0.1	0.4
High Yield	2.4	0.0
Emerging Markets	5.2	3.9
Municipals	9.7	4.3
Cash & Equivalents	1.6	0.0
Total	**100.0**	**100.0**

Representative Characteristics[3] (%)

	Portfolio	Bloomberg Barclays U.S. Long Govt/Credit Index
Effective Duration (yrs)	15.79	15.91
Effective Yield (%)	2.87	2.71
Spread (bps)	221	144
Average Coupon (%)	4.50	4.18
Average Quality (Moody's)	A1	Aa3
Number of Issuers	300	567

Corporate Industry Allocation (%)

	Portfolio	Bloomberg Barclays U.S. Long Govt/Credit Index
Finance	11.8	8.2
Industrial	24.6	31.6
Utility	11.1	5.8
Non Credit	4.9	3.6
Top 10 Industries (%)		
Electric	10.0	5.2
Banking	8.1	4.5
Non-US Govt Related	4.9	3.6
Health Care & Pharma	4.8	5.2
Pipelines & Other	3.2	1.9
Insurance	3.2	2.8
Telecom	2.4	3.6
Cable	2.2	1.9
Foods	2.0	2.7
Technology	1.3	3.9

Quality Distribution[4,5](%)

	Portfolio	Bloomberg Barclays U.S. Long Govt/Credit Index
AAA	38.4	48.3
AA	7.9	5.5
A	20.6	21.2
BBB	28.4	25.0
BB	2.8	0.0
B	0.1	0.0
Not Rated	0.4	0.0

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INVESTMENT COMMENTARY

Markets

Spreads widened sharply in Q1 as a one-two punch from the coronavirus and oil price shock led to acute declines across most spread sectors. When looking at the developed market rates complex, we observed some tangible improvement toward quarter end after steps by central banks to improve conditions across the most liquid rate markets. In particular, the Fed's open-ended Treasury and MBS purchases, as well as its larger repurchase operations, narrowed the severe dislocation between off-the-run and on-the-run Treasuries.

In the months ahead, it seems likely that the 10-year Treasury yield will remain in the lower half of its recent 0.3-1.3% range. Once recovery takes hold, a central tendency of 1.25-1.50% seems in order given the headwinds facing the global economy. In terms of the spread markets, credit selection will be paramount as the sudden stoppage of business activity will cause stresses across the economy. Nevertheless, most credits are likely to pull through the crisis and their spreads are likely to tighten over the coming 12 to 24 months.

We maintain our positive view of the credit sectors over the medium to long term, and are currently overweight CMBS, ABS, high yield, emerging markets, and municipals. Within structured products, we are biased to own the top of the capital structure for liquidity and certainty of outcomes. We believe losses on CMBS mezzanine tranches are possible, but we are confident in the structural integrity of our senior positions. In high yield, we believe current spreads provide an attractive entry point. We also see opportunities in many higher-quality investment grade corporates with good liquidity.

Portfolio

During Q1, duration positioning detracted from performance, while yield curve positioning was a contributor. Positions in municipal bonds, CMBS, and high yield were the largest detractors from performance, while positions in Treasuries were the largest contributor.

In credit, security selection within the electric & water, banking, and upstream energy industries contributed to performance. Security selection in the midstream energy industry was the largest detractor.

PORTFOLIO MANAGERS

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Senior Portfolio Manager

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Managing Director and
Senior Portfolio Manager

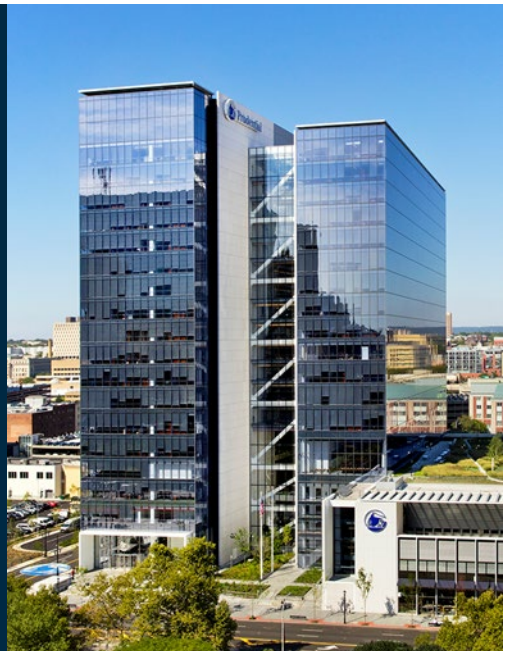
Richard Piccirillo
Managing Director and
Senior Portfolio Manager

PGIM FIXED INCOME

PGIM Fixed Income is a global asset manager offering active solutions across all fixed income markets. As of December 31, 2019, the firm had $851 billion of assets under management, and over 759 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 301 investment professionals based in the U.S., London, Amsterdam, Tokyo, and Singapore as of December 31, 2019. Senior investment personnel average 23 years tenure with the firm, providing stability and leadership. Nine regional macroeconomists, 110 fundamental analysts, and 56 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 Long Government/Credit Bond Index. The index is a broad-based benchmark that measures the non-securitized component of the US Aggregate Index. It includes investment grade, US dollar-denominated, fixed-rate Treasuries, government-related and corporate securities. Securities must have a maturity of 10 years or greater and be rated investment-grade (Baa3/ BBB-/BBB-) or better using the middle rating of Moody's, S&P, and Fitch. Source of the index: Bloomberg Barclays.

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