

Global High Yield Strategy



As of March 31, 2020

STRATEGY HIGHLIGHTS

Objective¹	To add +125 basis points (bps) of annualized excess return over a global high yield index over a full market cycle.	
Target Sources of Excess Return	• Security Selection	80 bps
	• Regional Allocation	20 bps
	• Industry Allocation	15 bps
	• Beta & Spread Curve Positioning	10 bps

Inception Date May 01, 2002

Strategy Assets² \$4.5 billion

Benchmark Bloomberg Barclays Global High Yield Index (Euro Hedged)

INVESTMENT PHILOSOPHY & PROCESS

- The Global High Yield Strategy, which seeks to identify attractive high yield credits in multiple countries and currencies around the world, is designed to benefit from enhanced diversification and alpha through active regional and currency allocations absent from just US or European high yield.
- 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.
- PGIM Fixed Income does not take extremely large positions, either on an absolute basis or relative to benchmarks, in any single issuer or industry as a primary means to achieve outperformance.
- We do not hold a significant portion of the portfolio in an asset class other than US and European high yield bonds, such as common stocks or emerging markets.

1 Senior portfolio manager develops top down themes and regional views by leveraging firms resources

2 Investment Team selects securities and constructs portfolio

Fundamental Value Assessment

Credit analysts evaluate all industries and issuers in the universe. Focus on downside protection:

- Asset quality
- Capital structure
- Covenants

Relative Value Security Selection

Sector portfolio managers evaluate and maximize relative value among approved universe:

- Choose credits with strong fundamentals and best relative value

Position Sizing

Sector portfolio managers size positions:

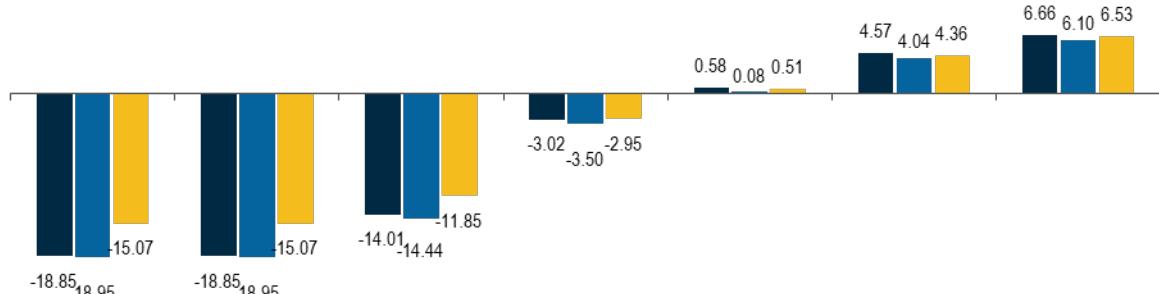
- Evaluate industry, issuer and market fundamentals
- Achieve top-down beta and curve positioning objectives
- Refine position sizes as risk profiles and thresholds change

3 Portfolio Managers and Risk Managers monitor portfolio risk at all levels—interest rate, beta, industry, region, issuer, and quality

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. ¹There can be no guarantee that this objective will be achieved, on average, over a full market cycle defined as three to five years. ²AUM 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

■ Gross Returns %



■ Net Returns %

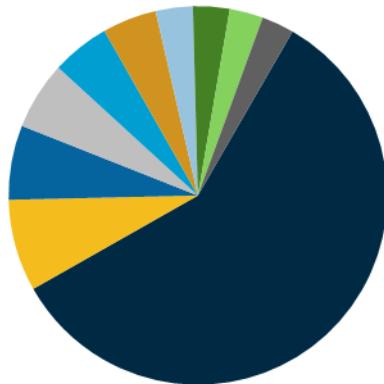
■ Bloomberg Barclays Global High Yield Index (Euro Hedged) %

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (01 May 2002)
Gross Excess Returns (bps)	-378	-378	-216	-7	+7	+21	+13
Tracking Error (%)	NM	NM	NM	2.19	1.81	1.45	2.12
Information Ratio	NM	NM	NM	0.07	0.11	0.18	0.03

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

Top 10 Country Allocation (%)



- United States
- Canada
- Argentina
- Greece

- Turkey
- United Kingdom
- Mexico

- Brazil
- Luxembourg
- Ukraine

Top 10 Country Allocation (%)

	Portfolio	Bloomberg Barclays Global High Yield Index (Euro Hedged)
United States	41.7	49.1
Turkey	5.6	4.2
Brazil	4.5	4.7
Canada	4.1	2.3
United Kingdom	3.5	3.1
Luxembourg	3.3	1.2
Argentina	2.3	1.4
Mexico	2.2	0.4
Ukraine	2.0	0.9
Greece	2.0	0.1

Representative Characteristics³ (%)

	Portfolio	Bloomberg Barclays Global High Yield Index (Euro Hedged)
Effective Duration (yrs)	4.57	4.47
Effective Yield (%)	11.09	9.42
Spread (bps)	1,045	879
Average Coupon (%)	6.18	5.78
Average Quality (Moody's)	B2	B1
Number of Issuers	235	1,396

Corporate Industry Allocation (%)

	Portfolio	Bloomberg Barclays Global High Yield Index (Euro Hedged)
Finance	4.7	10.5
Industrial	55.9	67.2
Utility	3.9	2.3
Non Credit	28.7	20.0

Top 10 Industries (%)

	Portfolio	Bloomberg Barclays Global High Yield Index (Euro Hedged)
Non-US Govt Related	28.7	20.0
Telecom	5.9	7.2
Capital Goods	4.8	5.3
Technology	4.7	4.2
Chemicals	4.1	1.9
Building Mat. & Const.	4.1	4.5
Electric	3.9	2.0
Health Care & Pharma	3.7	6.3
Foods	3.6	4.7
Cable	3.0	5.0

Quality Distribution^{4,5}(%)

	Portfolio	Bloomberg Barclays Global High Yield Index (Euro Hedged)
AAA	0.0	0.0
AA	0.0	0.0
BBB	2.9	0.1
BB	26.2	51.4
B	43.8	36.4
CCC & Below	21.9	10.5
Not Rated	0.3	1.5

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INVESTMENT COMMENTARY

Markets

Following the dislocation seen in the high yield market during Q1, we remain cautious on spreads in the near term given current high volatility and potential outflows. Additional uncertainty is fueled by the potential for an influx of paper from previously BBB-rated issuers as they are downgraded to below-investment grade. Helping to balance some of the risk, high yield issuers were more defensively positioned heading into this downturn than in previous ones.

While the length of the Covid-19 shutdown and the effectiveness of policy response will drive returns over the short term, we believe current valuations offer an attractive entry point in the medium to long term. As our base case, we are assuming an annualized default rate of 8% over the next three years. This compares to an implied default rate of 9%-10% at current spread levels, thus a reasonable amount of compensation for our default scenario. Further, high yield spreads have reached a level that has historically been an attractive entry point.

In terms of positioning, we are adding to credits we view as clear survivors and selectively to those with default risk but are trading at prices well below our expected recovery values. We are cutting exposure to higher levered credits that have not appropriately repriced due, in our view, to market perception that their industry is more insulated than we believe. We are also purging default candidates that we expect to have low recovery values. Ultimately, we think actively managed credit selection will be a differentiating factor between managers in volatile markets.

Portfolio

Overall beta positioning detracted from performance during Q1, as the average credit risk of the portfolio was greater than that of the benchmark. Industry allocation was a slight drag on performance, with underweight positioning to the healthcare & pharmaceutical industry the largest detractor. Overweight positioning to the chemicals, electric & water, and technology industries added to performance.

Overall, security selection detracted from performance. By industry, selection within gaming & lodging & leisure, aerospace & defense, automotive, and capital goods were the largest detractors. Security selection in the telecom, consumer non-cyclical, metals & mining, and retailers & restaurants industries were positive contributors to performance.

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.

PORTFOLIO MANAGERS



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



Jonathan Butler
Managing Director and
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INDEX DESCRIPTIONS: The benchmark for this composite is the Bloomberg Barclays Global High Yield Bond Index (Euro Hedged) (Bloomberg Barclays Global High Yield Index). The Global High-Yield Index provides a broad-based measure of the global high-yield fixed income markets. The Global High-Yield Index represents that union of the U.S. High-Yield, Pan-European High-Yield, U.S. Emerging Markets High-Yield, CMBS High-Yield, and Pan-European Emerging Markets High-Yield Indices. Securities must have at least 1 year until final maturity and be rated high-yield (Ba1/BB+ or lower) using the middle rating of Moody's, S&P, and Fitch. The index is hedged to Euro. Source of the benchmark: Bloomberg Barclays.

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