Intermediate Core Strategy

As of June 30, 2019

STRATEGY HIGHLIGHTS

Objective^3 To add +50 basis points (bps) of annualized excess return over the Bloomberg Barclays U.S. Intermediate Aggregate Index over a full market cycle.

<table>
<thead>
<tr>
<th>Target Sources of Excess Return</th>
<th>Inception Date</th>
<th>Strategy Assets</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Security Selection</td>
<td>May 01, 2012</td>
<td>$11.4 billion</td>
<td>Bloomberg Barclays U.S. Intermediate Aggregate Index</td>
</tr>
<tr>
<td>• Sector Allocation</td>
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<td></td>
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<tr>
<td>• Duration &amp; Yield Curve</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

INVESTMENT PHILOSOPHY & PROCESS

• PGIM Fixed Income’s Intermediate Core 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 over benchmark from fairly equal increments of both sector allocation and subsector/security allocation. Duration and yield curve positioning have historically not been primary sources of excess return but will be considered when exceptional market opportunities dictate.

• The Strategy is predominately investment grade-focused, but, if individual client guidelines permit, will allocate modestly to non-benchmark high yield bond and emerging markets debt sectors.

• 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.

Senior investment team assesses global market environment
  • Economic Research   • Sector Analysis

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

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. 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.
Past performance is not a guarantee or a reliable indicator of future results. 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. Please see the Notice for important disclosures regarding the information contained herein.

Totals may not sum due to rounding. Source: PGIM Fixed Income. Source of Benchmark: Bloomberg Barclays. 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. Periods over one year are annualized. Net 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. Effective yield is calculated excluding the yield impact of foreign exchange positions and derivatives (other than interest rate futures, which are included in the calculation). Excludes cash and FX hedges. Middle of Moody’s, S&P and Fitch ratings – excluding cash and cash equivalents. Available for professional and institutional investors only.

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
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. Bonds remain supported against a backdrop of slow but constructive economic growth, low inflation, and strong technicals.

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. 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.

Portfolio Attribution
Duration and Yield Curve Contribution: The U.S. Treasury curve was lower and steeper in Q2. 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. Based on spread duration positioning, overweights in CMBS, Investment Grade Corporates, CLOs, and ABS and an underweight in MBS/CMO contributed positively.

Industry/Security Selection: Positioning within MBS/CMO, Investment Grade Corporates, ABS, and CMBS was positive. Security selection in Banking and Health Care & Pharmaceutical benefited the portfolio. An overweight in Electric Utilities, in addition to security selection in Automotive limited results.

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 Intermediate Aggregate Bond Index (Bloomberg Barclays US Intermediate Aggregate Index) covers the USD-denominated, investment-grade, fixed-rate or step ups, taxable bond market of SEC-registered securities with maturities of 1-10 years 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 Intermediate Aggregate Bond Index: Bloomberg Barclays.

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