

## Form ADV Part 2A

### **PGIM, Inc. – PGIM Fixed Income**

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This brochure provides information about the qualifications and practices of the PGIM Fixed Income unit within PGIM, Inc. (“PGIM Fixed Income (U.S.)”) and the PGIM Fixed Income unit within PGIM Limited (“PGIM Fixed Income (U.K.)”). Both PGIM, Inc. and PGIM Limited are investment advisers registered with the United States Securities and Exchange Commission (the “SEC”). The information in this brochure has not been approved or verified by the SEC or by any state securities authority. Registration of an investment adviser does not imply any level of skill or training.

If you have any questions about the contents of this brochure, please contact:

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Additional information about PGIM Fixed Income (U.S.) and PGIM Fixed Income (U.K.) is also available on the SEC’s web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2—Material Changes

This brochure dated March 29, 2024, updates and replaces our prior annual PGIM Fixed Income (U.S.) and PGIM Fixed Income (U.K.) brochure, dated March 30, 2023. It reflects the following material changes:

- We have updated our disclosure regarding our available investment strategies and added money market and ultra short bond, government, and credit income strategies to our list of investment strategies. We have also added language noting our ability to utilize derivatives in implementing certain of our investment strategies (Item 4).
- We have updated the Environmental, Social and Governance Issues disclosure to provide further detail regarding, among other things, our proprietary ESG impact ratings framework and our ESG committee (Items 8).
- We have added a Reference Rate Discontinuation or Modification Risk disclosure. The transition away from a reference rate and the adoption or use of one or more alternative reference rates could lead to, among other things, increased volatility and liquidity adversely affecting client account performance (Item 8).
- We have added a Sustainability Risk disclosure. Sustainability risk encompasses ESG events that could negatively affect investment values (Item 8).
- We have added a Risks of Originated Investments disclosure. Investing in loans originated by us on behalf of certain client accounts entails significant risks such as lower yields due to competition and legal and regulatory uncertainties relating to, among other things, lender licensing (Item 8).
- We have added a Recent European Events risk disclosure. Recent defaults and debt restrictions in Europe have led to credit challenges and volatility that could negatively impact investment values (Item 8).
- We have added a Risks Associated with Global Conflict disclosure. War, conflict and civil disturbances around the world can have significant and negative economic effects, given the interconnectedness of financial markets across the world (Item 8).
- We have added a Third-Party Service Provider Risk disclosure. Clients may suffer adverse consequences due to actions, errors or failures to act by third-party service providers (Item 8).
- We have added an Artificial Intelligence Risk disclosure. AI is becoming more common in the financial services industry and it could be used in a way that poses risks to us or our clients (Item 8).
- We have updated the Public Health Risk disclosure to remove specific references to the COVID-19 pandemic (Item 8).
- We have removed disclosures related to Brexit Risk and LIBOR Discontinuation Risk as we no longer deem them as significant to our business (Item 8).
- We have updated the Conflicts Related to Investment of Client Assets in Affiliated Funds disclosure describing our financial incentive to favor investing client assets in affiliated funds (Item 10).

- We have updated the Receipt of Material Non-Public Information (MNPI) and Information Barrier Standards disclosure to describe, in more detail, our internal information barriers around a small number of our employees involved in evaluating private market opportunities, as well as potential transactions in public securities which have not yet been announced (Item 11).

In addition, we have made other changes that we do not consider to be material.

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## Item 4—Advisory Business

### Our Firm

PGIM Fixed Income is a global asset manager primarily focused on fixed income investments. Its United States business (which we refer to herein as “PGIM Fixed Income (U.S.)”) operates as a unit within PGIM, Inc., an SEC-registered investment adviser organized as a New Jersey corporation. PGIM Fixed Income’s United Kingdom business (which we refer to herein as “PGIM Fixed Income (U.K.)”) operates as a unit within PGIM Limited, an SEC-registered investment adviser organized as a company that is registered in England (registration number 03809039). PGIM Limited is also authorized and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom.

When we use the terms “we,” “us” or “our” in this brochure, we are referring to PGIM Fixed Income, which includes PGIM Fixed Income (U.S.) and PGIM Fixed Income (U.K.), but, in some cases, these references include personnel in legal entities other than PGIM, Inc. and PGIM Limited. In addition, any references to “our employees” or “our officers” mean officers or employees of various legal entities who work in the PGIM Fixed Income unit. For example, the portfolio management and credit teams for some of our investment strategies include personnel from several affiliates. In addition, account management, operations and other services with respect to certain client accounts are performed by some of these affiliates. Depending on the client relationship and applicable investment management agreement, we may delegate investment advisory and other services to our affiliates, or vice versa. While these affiliates are separate legal entities, they operate within PGIM Fixed Income as an integrated global business. PGIM Fixed Income is headquartered in Newark, New Jersey, U.S.A. with affiliated offices across the globe, including in Amsterdam, Hong Kong, London, Munich, Paris, Singapore, Stockholm, Sydney, Tokyo, and Zurich.

PGIM, Inc. and PGIM Limited, along with their affiliates referenced herein, are indirect wholly-owned subsidiaries of Prudential Financial, Inc. (“PFI”), a publicly-listed company (NYSE Ticker “PRU”) headquartered in the State of New Jersey, U.S.A. None of PFI, PGIM, Inc., PGIM Limited or any of their affiliates referenced herein is affiliated in any manner with Prudential plc, incorporated in the United Kingdom or with Prudential Assurance Company Limited, a subsidiary of M&G plc, incorporated in the United Kingdom.

### PGIM, Inc. and its units

In addition to PGIM Fixed Income (U.S.), the other units within PGIM, Inc. are PGIM Real Estate (a provider of debt and equity real estate investment advisory services), PGIM Private Capital (a private fixed income investment adviser) and PGIM Institutional Advisory & Solutions (a provider of multi-asset class advisory services). Each of PGIM Real Estate, PGIM Private Capital and PGIM Institutional Advisory & Solutions has one or more separate brochures that have been filed with the SEC and provide information about the applicable advisory business.

PGIM, Inc. was formed in June 1984 and was registered with the SEC as an investment adviser in December 1984. PGIM, Inc.’s predecessor companies began managing fixed income portfolios for affiliates in 1875 and for unaffiliated institutional clients in 1928. In addition to being a registered investment adviser, PGIM, Inc. is also registered with the U.S. Commodity Futures Trading Commission as a commodity trading advisor and commodity pool operator and is a member of the National Futures Association (the “NFA”).

## **PGIM Limited**

PGIM Limited was formed in July 1999, has been authorized and regulated by the FCA (registration number 193418) or a predecessor regulator since 1999 and was registered with the SEC as an investment adviser in March 2012. PGIM Fixed Income (U.K.) began managing fixed income portfolios for affiliates and for unaffiliated institutional clients in 2005.

## **Our Advisory Services**

We are a global fixed income manager offering a range of fixed income strategies and products. We manage our strategies in separately managed accounts, publicly offered investment funds (including U.S. registered investment companies), collective and commingled trust funds, collateralized loan obligations ("CLOs"), private investment funds and other vehicles (each, unless the context may otherwise require, we refer to interchangeably as an "account," "portfolio" or "fund"). As noted above, in some cases, a PGIM Fixed Income unit operating in one legal entity may delegate the investment management of strategies or products to a PGIM Fixed Income unit operating in another legal entity.

Our fixed income investment strategies fall under the following general categories:

### *Multi-Sector*

We manage a range of multi-sector fixed income strategies that seek an excess return over global, country-specific, regional (e.g., Europe and Asia) or cash benchmarks. These strategies invest primarily in government securities, mortgage-backed securities, corporate bonds, high yield bonds, emerging markets bonds and securitized products. These strategies take various levels of active risk versus the relevant benchmarks ranging from core conservative (least active risk) to strategic bond and multi asset credit (most active risk). These strategies are available with a range of duration targets.

### *Securitized Products*

We manage a range of strategies that invest either across securitized products or in dedicated segments of the market, including residential mortgage-backed securities, commercial mortgage-backed securities, CLO tranches, consumer and commercial asset-backed securities and other types of asset-backed securities against a variety of benchmarks. These securities can be either public or private.

### *Investment Grade Credit*

We manage U.S., European and global credit/corporate bond strategies against a variety of benchmarks. Our U.S. investment grade corporate bond strategy actively overweights/underweights industries and issuers based on both top-down economic analysis as well as bottom-up fundamentals. Our global credit/corporate bond strategy emphasizes U.S. and European corporate bonds, seeking to generate a majority of excess return from regional allocation, individual security selection, and industry rotation primarily based on security specific or bottom-up fundamentals. These strategies are available with a range of duration targets.

### *Leveraged Finance*

We manage a range of high yield bond and bank loan strategies against a variety of benchmarks. These strategies seek to generate excess return through industry and security selection. We offer U.S. high yield, U.S. higher quality high yield, European high yield, European higher quality high yield, broad market high yield and global high yield strategies as well as U.S., European and global bank loan strategies. Each of these strategies has different risk and geographic parameters. These strategies are available with a range of duration targets.

### *Emerging Markets*

We manage a wide range of emerging markets debt strategies that seek an excess return over global, regional or cash benchmarks, including a broad emerging markets debt strategy that invests in hard currency sovereign and quasi-sovereign bonds, with opportunistic allocations to local currency instruments and corporate bonds. We also manage emerging markets local currency and corporate fixed income strategies, as well as blended emerging markets debt strategies that invest in both U.S. dollar denominated and local currency issues. These strategies are available with a range of duration targets.

### *Municipals*

We manage several municipal bond strategies that invest primarily in securities that are exempt from U.S. federal income taxes, against a variety of benchmarks. These strategies are available with a range of duration targets.

### *Money Market and Ultra Short Bond*

We manage a wide range of money market and ultra short strategies that invest in short duration fixed income instruments and money market instruments and that are managed against a variety of benchmarks.

### *Government*

We manage a range of government and government-related strategies that seek an excess return over global, regional and cash benchmarks, including global sovereign, U.S. government, U.S. Treasury inflation-protected securities and agency mortgage-backed securities mandates. Each of these strategies has different risk and geographic parameters.

### *Short Duration*

We manage a number of strategies that invest in short duration fixed income instruments against a variety of benchmarks.

### *Long Duration*

We manage a range of liability-driven and long duration strategies against market benchmarks and client specific, custom benchmarks. These include long government/credit, long corporate/long credit, long custom and custom liability & completion solutions.

### *Alternative Strategies*

We manage (or offer) a range of alternative strategies, including the following:

- Global Liquidity Relative Value and U.S. Liquidity Relative Value strategies are long/short relative value strategies with varying risk budgets that seek to maximize total return on a risk-adjusted basis by investing in relative value opportunities within fixed income sectors of the U.S., developed country and select emerging markets, as applicable, that are considered to be liquid (including government securities, sovereign securities, agency securities and derivatives). We also manage the U.S. liquidity relative value strategy with an overlay intended to provide broad equity market or “beta” exposure.
- Emerging Markets Debt Long/Short and Emerging Markets Blend Plus strategies are actively managed, diversified strategies that seek to maximize total return on a risk-adjusted basis by investing primarily in sovereign, quasi-sovereign, and corporate emerging markets debt securities and their derivatives, denominated in both hard and local currencies. These leveraged strategies employ various trading strategies, including country-specific trades, relative value trades, carry trades,

volatility trades and foreign exchange and rates trades. These strategies can be managed against a variety of benchmarks.

- Alpha Opportunities is an actively managed, diversified strategy that seeks to maximize total return while being market neutral over time. The strategy utilizes both relative value and directional strategies by investing primarily in fixed income markets and derivatives over varying time horizons. It invests primarily across corporate, securitized, emerging markets and government debt sectors and seeks to generate returns mainly through active sector and security selection across geographies, which may include tactical duration, credit quality, yield curve, volatility and currency positions.
- Credit Opportunities is a concentrated, high conviction strategy that seeks to maximize total return on a risk-adjusted basis by investing in special situations, distressed and higher yielding performing credits. The strategy invests primarily in high yielding, less liquid credit opportunities primarily across U.S. and European high yield, senior secured loans, and emerging markets credit.
- Special Opportunities is a strategy that is expected to focus on stressed, distressed and special situation investments. The strategy is expected to seek to maximize absolute returns on a risk-adjusted basis by opportunistically investing in a concentrated portfolio of U.S.-centric illiquid and idiosyncratic credits comprised of higher yielding stressed, distressed and special situation investments such as opportunistic financings, capital solutions, direct lending in mezzanine and rescue financings and stressed and distressed debt.
- Credit Income is a multi-sector fixed income strategy consisting of a portfolio of less liquid credits and securitized products, utilizing both public and private securities. The objective of the strategy is to seek total return, through a combination of current income and capital appreciation. The strategy has flexibility to actively adjust allocations over time while adapting to the market and economic environment. The strategy may invest without limit in investment grade and below investment grade debt securities, including securities of stressed and distressed issuers. Leverage will also be utilized by the strategy on an opportunistic basis.

In implementing certain of our investment strategies, we may use derivatives as a substitute for taking a position in the underlying asset and/or as part of a strategy designed to manage exposure to other risks. We also may use derivatives to attain leverage in an account.

#### *CLO Collateral Management*

We believe that CLO management is a natural extension of our expertise in both global credit and securitized transactions. We serve as collateral manager for CLOs that invest primarily in U.S. or European loans and, in some cases, also invest in high yield bonds. We also serve as back-up manager for certain CLOs.

#### *Environmental, Social and Governance Investing*

We recognize the importance of integrating financially-material environmental, social and governance (“ESG”) factors into our investment research and decision-making process. Our investment approach generally seeks to outperform a market-based benchmark over the long-term. Within this context, we consider ESG risks and opportunities that we believe are likely to materially impact an investment’s financial performance, alongside other credit risk factors and opportunities in arriving at our overall fundamental credit view of potential investments as part of our research process for all strategies that we manage. Where consistent with applicable law and regulation and specifically requested by a client, certain of the strategies or accounts that we manage also apply non-economic or non-credit material ESG factors in the selection of investments. These strategies or accounts are constructed using proprietary



ESG impact ratings and/or client methodologies to adjust the eligible investment universe to meet client specifications or account guidelines.

#### *Our Securities Lending and Reverse Repurchase Services*

In addition to our investment advisory services, PGIM Fixed Income (U.S.) provides securities lending and, in some cases, reverse repurchase services to certain of our affiliates (including affiliated insurance companies and trust funds/accounts) and unaffiliated clients. We lend U.S. government and agency securities, corporate bonds, domestic and foreign equities and foreign fixed income securities. Generally, companies and institutions borrow securities for various reasons, including short selling, arbitrage and to facilitate settlement.

We also may engage in reverse repurchase transactions for affiliated and unaffiliated clients, where we (on the client's behalf) will agree to sell a security with an obligation to repurchase it at an agreed-upon price and time. We may enter into a reverse repurchase agreement on behalf of an account for several reasons, including purchasing additional investments or creating additional liquidity.

Some clients have established separate securities lending arrangements (each, a "Third-party Lending Arrangement") through their custodian or another third-party securities lending agent (each, a "Third-party Securities Lending Agent"). We are not responsible for a client's obligations under such Third-party Lending Arrangements. For accounts that we manage, we execute transactions based on several factors and generally do not consider factors relating to a client's Third-party Lending Arrangement, such as whether the client's Third-party Securities Lending Agent may need to recall securities on loan to settle sales transactions, vote proxies or participate in other corporate actions.

#### *Customization of Our Advisory Services*

We seek to accommodate the individual needs of our clients in providing our advisory services. Our investment management or similar agreements with clients, which include investment guidelines, are negotiated to incorporate mutually acceptable terms. Under these agreements, clients can impose limitations on our investment discretion, such as restrictions regarding investment in certain securities or types of securities. (See Item 16 below for more information regarding limitations on our investment discretion imposed by our clients.) Restrictions imposed by a client can prevent us from making investments that we would otherwise make for the account, which could result in lower performance.

### **Our Assets Under Management**

As of December 31, 2023, our assets under management were as follows:

	<b>Discretionary</b>	<b>Non-discretionary</b>
<b>PGIM Fixed Income (U.S.)</b>	\$ 717,260,043,466	\$ 368,023,870
<b>PGIM Fixed Income (U.K.)</b>	\$ 56,216,855,277	\$0

The assets under management figures reported above by PGIM Fixed Income (U.S.) also include accounts being reported above by PGIM Fixed Income (U.K.). In addition, the assets under management amounts above do not include assets managed by our affiliated offices for which minimal or no services are provided by PGIM Fixed Income (U.S.) or PGIM Fixed Income (U.K.).

## Item 5—Fees and Compensation

### Advisory Fees

Fees paid by clients are negotiated individually and vary based on the type of advice provided and other factors, such as the size of the client account (including the aggregate size of multiple accounts for the same client or related clients), the investment strategy, the degree and complexity of client-directed investment guidelines or constraints, whether the client is an affiliate or has a relationship with one of our affiliates, whether an investment consultant (including an outsourced chief investment officer (“OCIO”) provider) is utilized by the client, the nature of the overall fee structure (i.e., asset-based fee, fixed fee or performance-based fee) and the required level of customization of reporting and service. Fees also differ based on account type. For example, fees for commingled vehicles, including those that we sub-advise, can differ from fees for separately managed accounts. Since fees are negotiable, clients with similar investment objectives or strategies could pay different fees.

We are generally compensated for our advisory services under asset-based fee schedules or performance-based fee schedules. On occasion, in our discretion, we are paid a fixed fee, which could be paid on a stand-alone basis or in combination with an asset-based or performance-based fee. Generally, unless otherwise instructed by clients, asset-based and performance-based fees are calculated from custodian and/or administrator pricing and not our internal valuations. Our asset-based fees are customarily offered in tiered schedules with breakpoints linked to the amount of assets in the account, so that the fee rate decreases with respect to the portion of assets that reach a particular breakpoint. Asset-based fees may also be offered in a “cliff-pricing” fee structure where all assets move to a lower fee rate once certain requirements are met.

In circumstances where we manage multiple accounts for a single client (or group of affiliated clients), we have, in some cases, agreed to aggregate the client’s assets across related accounts to enable the client (or group of affiliated clients) to benefit from a lower fee tier or to consider such total assets in determining the fee schedule for each such account.

In addition, we have entered into arrangements with investment consultants (including OCIO providers) and other investment managers under which the assets of clients of such consultants or managers are aggregated to allow such clients to benefit from a lower fee tier, or the total assets of clients of such consultants or managers are considered in determining the fee schedule for each client of such consultant or manager. Such clients pay lower fees than some other clients as a result of their relationship with these investment consultants or managers. (See Item 10 below for a description of our relationships with investment consultants and managers.)

Subject to the above, each of the following fee schedules is representative of our fees for the strategies listed below and could apply to one or more portfolios:

Strategy	Fee Schedule
<b>Absolute Return Fixed Income and Securitized Product Unconstrained</b>	39 basis points on the first \$100,000,000 35 basis points on the next \$100,000,000 29 basis points thereafter
<b>Agency and Non-Agency Mortgage-Backed Securities, Global Sovereign, and U.S. Treasury STRIPS</b>	15 basis points on the first \$100,000,000 12 basis points on the next \$100,000,000 10 basis points thereafter
<b>CLO Management</b>	20 basis points on all assets senior fee

	30 basis points on all assets subordinated fee Annual Incentive fee: 20% of return over a 10% internal rate of return
<b>CLO Senior Debt and Securitized Product Higher Quality</b>	29 basis points on the first \$100,000,000 25 basis points on the next \$100,000,000 19 basis points thereafter
<b>Core Conservative Fixed Income</b>	12 basis points on the first \$200,000,000 10 basis points on the next \$200,000,000 8 basis points thereafter
<b>Core Fixed Income, Government/Credit Fixed Income, and Government/Agency Fixed Income</b>	25 basis points on the first \$100,000,000 21 basis points on the next \$100,000,000 18 basis points on the next \$100,000,000 15 basis points thereafter
<b>Credit Income</b>	160 basis points on all assets
<b>Core Plus Fixed Income</b>	29 basis points on the first \$100,000,000 27 basis points on the next \$100,000,000 22 basis points on the next \$100,000,000 20 basis points thereafter
<b>Credit Opportunities</b>	Annual Management Fee: 150 basis points plus Annual Incentive Fee: 20% of net return over 7%
<b>Emerging Markets Debt Blend Plus</b>	Annual Management Fee: 125 basis points plus Annual Incentive Fee: 20% of net return over the applicable benchmark
<b>Emerging Markets Fixed Income</b>	50 basis points on the first \$100,000,000 45 basis points on the next \$100,000,000 40 basis points thereafter
<b>Emerging Markets Long/Short</b>	Annual Management Fee: 125 basis points plus Annual Incentive Fee: 20% of net return over ICE BofA 3-month U.S. Treasury Bill Index
<b>Global Core and Investment Grade Corporate Fixed Income and LDI</b>	30 basis points on the first \$100,000,000 25 basis points on the next \$100,000,000 22 basis points on the next \$100,000,000 15 basis points thereafter
<b>Global Liquidity Relative Value Fixed Income and Alpha Opportunities</b>	Annual Management Fee: 150 basis points plus Annual Incentive Fee: 20% of net return over ICE BofA 3-month U.S. Treasury Bill Index
<b>Global Total Return</b>	35 basis points on the first \$100,000,000 27 basis points on the next \$100,000,000 22 basis points on the next \$100,000,000 20 basis points thereafter
<b>High Yield Fixed Income</b>	40 basis points on the first \$100,000,000 30 basis points thereafter

<b>Inflation Protected Fixed Income</b>	14 basis points on the first \$100,000,000 7 basis points on the next \$100,000,000 5 basis points thereafter
<b>Mortgage-Backed Securities Plus and Active Aggregate Bond</b>	19 basis points on the first \$100,000,000 15 basis points on the next \$100,000,000 12 basis points thereafter
<b>Municipal Bond (High Yield)</b>	35 basis points on the first \$100,000,000 29 basis points on the next \$100,000,000 24 basis points thereafter
<b>Municipal Bond (Investment Grade)</b>	29 basis points on the first \$100,000,000 24 basis points on the next \$100,000,000 19 basis points thereafter
<b>Senior Secured Loans</b>	45 basis points on the next \$100,000,000 35 basis points thereafter
<b>Special Opportunities</b>	Annual Management Fee: 200 basis points plus Annual Incentive Fee: 20% of net return over 8%
<b>Strategic Bond, Multi Asset Credit, and Strategic Credit</b>	45 basis points on the first \$100,000,000 39 basis points on the next \$100,000,000 35 basis points thereafter
<b>Ultra Short Bond</b>	18 basis points on the first \$200,000,000 15 basis points on the next \$200,000,000 13 basis points thereafter
<b>U.S. Liquidity Relative Value Fixed Income and U.S. Liquidity Relative Value Fixed Income with Overlay</b>	Annual Management Fee: 100 basis points plus Annual Incentive Fee: 20% of net return over ICE BofA 3-month U.S. Treasury Bill Index or applicable overlay hurdle

## Payment of Fees

Depending on the client's preference, we either bill a client for our fees or deduct fees from the client's account held at its custodian. Asset-based fees are typically payable either monthly or quarterly in arrears. Performance-based fees, if earned, are payable after the calculation period for such fees. The weighting of cash flows in our fee calculations varies by client and is negotiated on a case-by-case basis.

We do not require or solicit clients to pay advisory fees in advance. If a client were to choose to pay advisory fees in advance and the client's advisory contract were to terminate before the end of a billing period, we would refund any unearned, prepaid fees on a pro rata basis.

## Conflicts Related to Valuation and Fees

When client accounts hold illiquid or difficult to value investments, we face a conflict of interest when we make recommendations regarding the value of such investments since our fees are generally based on the value of assets under management. We could be viewed as having an incentive to value investments at higher valuations. We have valuation policies and procedures that we believe mitigate this conflict effectively and enable us to value client assets fairly and in a manner that is consistent with the client's

best interests. This conflict generally does not exist and is further mitigated or eliminated in circumstances where fees are calculated from custodian and/or administrator pricing and not our internal valuations.

### Other Amounts Payable by Clients

Our advisory fees are the only amounts payable by clients to PGIM Fixed Income (unless we also provide securities lending and/or reverse repurchase services to a client pursuant to a separate agreement or arrangement). Clients are generally responsible for other fees and expenses related to their accounts, including custodial fees, brokerage fees, specialized management software platform expenses (in the case of CLOs) and other transaction costs. (See Item 12 below for a discussion of our policies regarding the selection of broker-dealers/counterparties.) In addition, clients may incur withholding and other taxes in connection with investments in their account. Investors in funds we manage typically bear additional expenses associated with the fund structures, such as administrator and other third-party service provider fees.

Certain U.S. and non-U.S. trading and currency markets impose charges and penalties for trade and currency settlement failures that could result in additional costs to our clients. For example, in an effort to reduce the overall incidence of fails in the U.S. government securities marketplace, any market participant that fails to deliver U.S. Treasury, agency debt or agency mortgage-backed securities on settlement date is assessed a “fails charge” to compensate the “non-failing” counterparty. This “fails charge” will, consistent with market practice, be assessed against and borne by a client’s account. This is so even if, for example, the failure to deliver a security that was sold from the client’s account was caused by a different counterparty that failed to deliver or failed to timely deliver the security in connection with a preceding purchase for the client’s account. Likewise, pursuant to the Central Securities Depository Regulation (the “CSDR”) of the European Union (“EU”), EU/EEA central securities depositories can impose charges for late or failed settlements of any instrument that is cleared through an EU central clearing house or is settled by an EU trading venue or an EU/EEA central securities depository.

In the U.S., in certain cases, we will reimburse a client account for such charges because of our agreement with the client or because the client is unable (or will not allow its account) to pay such charges. With respect to client accounts subject to CSDR, our current policy (which we may change without notice) is to reimburse client accounts for charges that are imposed on such accounts by the central securities depositories. In all other instances, we seek to address these or similar additional costs or charges in accordance with market practice and other factors we consider reasonable and appropriate.

The European Union Markets in Financial Instruments Directive effective in 2018 (“MiFID II”) and the European Union Markets in Financial Instruments Regulation (“MiFIR”), as they form part of United Kingdom domestic law by virtue of the European Union (Withdrawal) Act 2018, including any amendments and/or supplemental measures implemented subsequently (together “U.K. MiFID II/MiFIR”) require that PGIM Fixed Income (U.K.) provide clients with ex-ante and ex-post disclosure of all costs and charges associated with the services it provides and the costs of the financial instruments to be recommended or marketed to the client. This information is provided to clients prior to the provision of services and on an annual ex-post basis.

### Securities Lending and Reverse Repurchase Agreement Fees

PGIM Fixed Income (U.S.) is compensated for its securities lending and reverse repurchase services by receiving a portion of the proceeds generated from its lending and reverse repurchase activities or a flat fee based on securities outstanding in reverse repurchase transactions, as agreed to by a client. For the avoidance of doubt, we do not receive such compensation when using securities lending or reverse repurchase agreements in managing a client’s account where such client has not also entered into a separate agreement or arrangement for securities lending or reverse repurchase services.

The type of proceeds earned from securities lending transactions depends on the collateral provided by the borrower. Securities lending borrowers may provide collateral consisting of cash, securities or a letter of credit. For loans collateralized by securities or a letter of credit, client accounts receive a fee from the borrower for the borrower's use of the loaned securities. If loaned securities are collateralized with cash, we invest the cash in short-term and intermediate-term funds that we manage. For these loans, the proceeds from securities lending are equal to the difference between the interest rate earned from investing the cash collateral and the interest returned to the borrower (which is commonly referred to as the "rebate rate"). When we engage in reverse repurchase services where we also perform securities lending services, our compensation generally is either similar to securities lending, as described above, where we receive a portion of the proceeds generated, or an agreed upon flat fee that is based on the amount of securities outstanding. For clients where we do not also perform securities lending services but perform only reverse repurchase services, we can receive a separate agreed-upon fee.

### **Conflicts Related to Securities Lending and Reverse Repurchase Fees**

In certain cases, when we manage a client account and PGIM Fixed Income (U.S.) also serves as securities lending agent and/or engages in reverse repurchase transactions for the account, PGIM Fixed Income (U.S.) is compensated for its securities lending and reverse repurchase services by receiving a portion of the proceeds generated from the securities lending and reverse repurchase activities of the account. In cases where we are compensated in this manner, we could be considered to have an incentive to invest in securities that would generate higher securities lending or reverse repurchase returns, even if these investments were not otherwise in the best interest of the client account. In addition, if we are acting as securities lending agent and providing reverse repurchase services for the same client, we may be incented to select the option that generates higher proceeds for us. (See Item 10 for discussion on conflicts related to affiliates and Item 17 for discussion of conflicts related to proxy voting.)

### **Other Compensation**

PGIM Fixed Income (U.S.) does not receive any direct compensation for the sale of securities or other investment products. PGIM Limited acts as distributor of securities or other investment products that are managed by it or affiliated entities, for which it is compensated on a cost-plus or other agreed fee basis. Our employees do not receive any compensation directly related to the sale of securities or other investment products, but the sale of our or an affiliate's advisory services or interests in funds that we or our affiliates manage is considered in determining the compensation of our sales personnel. Any such compensation would be payable by us or other affiliated entities and not our clients or investors in the funds.

## **Item 6—Performance-Based Fees and Side-By-Side Management**

### **Performance-Based Fees**

As described in Item 5 above, we negotiate fees paid by our clients individually. While the majority of our fees are asset-based, we do accept performance-based fees. Asset-based fees are calculated based on the value of a client's portfolio at periodic measurement dates or over specified periods of time.

Performance-based fees are generally based on a share of the total return of a portfolio and can offer greater upside potential to us than asset-based fees, depending on how the fees are structured. Most of our performance-based fees are derived from the percentage by which we outperform the benchmark against which the client's portfolio is measured. We will generally be entitled to be paid a portion of that percentage, although the formulas and particular details of these negotiated fees vary. For client accounts

where a performance-based fee is payable, it is also customary to include an asset-based component, which we collect regardless of the performance of the account; however, not all performance-based fee schedules will include an asset-based component.

### Side-by-Side Management of Accounts and Related Conflicts of Interest

We manage accounts with asset-based fees alongside accounts with performance-based fees. This side-by-side management creates an incentive for us and our investment professionals to favor one account over another. Specifically, we have an incentive to favor accounts for which we receive performance fees, and possibly take greater investment risks in those accounts, in order to bolster performance and increase our fees.

Other types of side-by-side management of multiple accounts can also create conflicts of interest. Examples are detailed below, followed by a discussion of how we address conflicts related to side-by-side management.

- *Affiliated accounts*—we manage accounts on behalf of our affiliates as well as unaffiliated accounts. We have an incentive to favor accounts of affiliates over others. Additionally, at times, our affiliates provide initial funding or otherwise invest in vehicles managed by us, for example by providing “seed capital” for a fund or account. Managing “seeded” accounts alongside “non-seeded” accounts creates an incentive to favor the “seeded” accounts to establish a track record for a new strategy or product and possibly earn a higher return for our affiliate. Additionally, our affiliated investment advisers from time to time allocate their asset allocation clients’ assets to us. We have an incentive to favor accounts used by our affiliates for their asset allocation clients to receive more assets from our affiliates.
- *Larger accounts/higher fee strategies*—larger accounts and clients typically generate more revenue than do smaller accounts or clients, and certain of our strategies have higher fees than others. As a result, a portfolio manager could have an incentive when allocating scarce investment opportunities to favor accounts that pay a higher fee or generate more income for us (or which we believe would generate more revenue in the future).
- *Long only and long/short accounts*—we manage accounts that only allow us to hold securities long as well as accounts that permit short selling. As a result, there are times when we sell a security short in some client accounts while holding the same security long in other client accounts. These short sales could reduce the value of the securities held in the long only accounts. Conversely, purchases for long only accounts could have a negative impact on our short positions in long/short accounts. Consequently, we have conflicts of interest in determining the timing and direction of investments.
- *Securities of the same kind or class*—we sometimes buy or sell, or direct or recommend that a client buy or sell, securities of the same kind or class that are purchased or sold for another client, at prices that may be different. Although such pricing differences could appear as preferences for one client over another, our trade execution in each case is driven by our consideration of a variety of factors consistent with our duty to seek best execution (as discussed in more detail in Item 12 below). There are times when we execute trades in securities of the same kind or class in one direction for an account and in the opposite direction for another account, or we determine not to trade securities in one or more accounts while trading for others. While such trades (or a decision not to trade) could appear inconsistent in how we view or treat a security for one client versus another, they generally result from differences in investment strategy, portfolio composition or client direction.



- *Investment at different levels of an issuer's capital structure*—there are times when we invest client assets in the same issuer, but at different levels in the issuer's capital structure. This could occur, for instance, when a client holds private securities or loans of an issuer and other clients hold publicly traded securities of the same issuer. In addition, there are times when we invest client assets in a class or tranche of securities of a securitized finance vehicle (such as a collateralized loan obligation, asset-backed security or mortgage-backed security) and also, at the same or different time, invest the assets of another client (including affiliated clients) in a different class or tranche of securities of the same vehicle. These different securities can have different voting rights, dividend or repayment priorities, rights in bankruptcy or other features that conflict with one another. For some of these securities or other investments (particularly private securitized product investments for which our clients own all or a significant portion of the outstanding securities or obligations), we have had input regarding the characteristics and the relative rights and priorities of the various classes or tranches.

When we invest client assets in different levels of an issuer's capital structure, we are permitted to take actions with respect to the assets held by one client (including affiliated clients) that are potentially adverse to other clients, for example, by foreclosing on loans or by putting an issuer into default. In negotiating the terms and conditions of any such investments, or any subsequent amendments or waivers, we could find that the interests of a client and the interests of one or more other clients (including affiliated clients) could conflict. In these situations, decisions over proxy voting, corporate reorganizations, how to exit an investment, bankruptcy matters (including, for example, whether to trigger an event of default or the terms of any workout) or other actions or inactions can result in conflicts of interest. Similarly, if an issuer in which a client and one or more other clients directly or indirectly hold different classes of securities encounters financial problems, decisions over the terms of any workout will raise conflicts of interest (including potential conflicts over proposed waivers and amendments to debt covenants). For example, a senior bond holder or lender might prefer a liquidation of the issuer in which it could be paid in full, whereas an equity or junior bond holder might prefer a reorganization that holds the potential to create value for the equity holders or junior bond holders. There will be times where we refrain from taking certain actions (including participating in workouts and restructurings) or making investments on behalf of certain clients or where we determine to sell investments for certain clients, in each case in order to mitigate conflicts of interest or legal, regulatory or other risks to us. This could potentially disadvantage the clients on whose behalf the actions are not taken, investments are not made, or investments are sold. Conversely, in other cases, we will not refrain from taking such actions or making investments on behalf of some clients (including affiliated clients), which could potentially disadvantage other clients. Any of the foregoing (or similar) conflicts of interest will be resolved or managed on a case-by-case basis (including, where determined to be required, by escalating matters to, and seeking direction and guidance from, senior management). Any such resolution will take into consideration the interests of the relevant clients, the circumstances giving rise to the conflict and applicable laws.

- *Financial interests of investment professionals*—our investment professionals from time to time invest in certain investment vehicles that we manage, including exchanged-traded funds ("ETFs"), mutual funds and (through a retirement plan) collective investment trusts. Also, certain of these investment vehicles are options under the 401(k) and deferred compensation plans offered by PFI. In addition, the value of grants under our long-term incentive plan and targeted long-term incentive plan is affected by the performance of certain client accounts. As a result, our investment professionals have financial interests in accounts we manage and/or related to the performance of certain client accounts. (See description of our compensation of investment professionals in Item 11.)



- *Non-discretionary/limited discretion accounts*—we provide non-discretionary and limited discretion investment advice to some clients and manage others on a fully discretionary basis. Trades in non-discretionary accounts or accounts where discretion is limited could occur before, in concert with, or after we execute similar trades in our discretionary accounts. The non-discretionary/limited discretion clients may be disadvantaged if we deliver investment advice to them after we initiate trading for the discretionary clients, or vice versa. Furthermore, a non-discretionary/limited discretion client may not be able to participate in trades if there is a delay in receiving such client's direction or consent. In some cases, when such a client requests additional information prior to giving its direction or consent, we are prohibited from sharing information because, for example, the information is non-public. (See also Item 10 at "Conflicts Arising Out of Legal and Regulatory Restrictions" and Item 11 at "Receipt of Material Non-Public Information (MNPI) and Information Barrier Standards".)

## How We Address These Conflicts of Interest

We have developed policies and procedures reasonably designed to address the conflicts of interest with respect to our different types of side-by-side management described above.

- Each quarter, one or both of our co-chief investment officers hold a series of meetings with the senior portfolio manager and team responsible for the management of each of our investment strategies. During these meetings, they review and discuss the investment performance and performance attribution for client accounts managed in the strategy. These meetings generally are also attended by the CEO of PGIM Fixed Income, the head of quantitative analysis and risk management or his designee and a member of our compliance group, among others.
- In keeping with our fiduciary obligations, our policy with respect to trade allocation is to treat all of our client accounts fairly and equitably over time. Our trade management oversight committee, which generally meets quarterly, is responsible for providing oversight with respect to trade aggregation and allocation.
- Our compliance group periodically reviews a sampling of new issue allocations and related documentation to confirm compliance with our trade allocation policy. In addition, our compliance and investment risk management groups review forensic reports regarding new issue and secondary trade activity on a quarterly basis. This forensic analysis includes such data as the:
  - number of new issues allocated in the strategy;
  - size of new issue allocations to each portfolio in the strategy;
  - profitability of new issue transactions;
  - portfolio turnover; and
  - metrics related to large trade activity, which includes block trades.
- The results of these analyses are reviewed and discussed at our trade management oversight committee meetings.
- The procedures above are designed to detect patterns and anomalies in our side-by-side management and trading so that we may assess and improve our processes.
- We have procedures that specifically address conflicts related to our side-by-side management of certain long/short and long only portfolios. These procedures address potential conflicts that could arise from differing positions between long/short and long only portfolios. In addition, lending opportunities with respect to securities for which the market is demanding a slight

premium rate over normal market rates are allocated to long only accounts prior to allocating the opportunities to long/short accounts.

## Item 7—Types of Clients

### Types of Clients

We provide investment advisory services to a variety of affiliated and unaffiliated global institutional clients. Our clients include pension and profit-sharing plans, public employee retirement systems, municipalities, Taft-Hartley plans, sovereign wealth funds, central banks, credit institutions, corporations, publicly offered investment funds (including registered investment companies) and their investment managers, insurance companies, commingled trust funds, charitable institutions, foundations, endowments, CLOs, family offices, and private investment funds and their investment managers. Minimum account sizes vary by investment strategy. We may waive these minimums in our discretion. Separately managed accounts and funds of one typically have higher investment minimums than investments in commingled funds that we manage.

Affiliated clients and certain other clients request and receive greater transparency, operational support, training or other resources, in each case as permitted under applicable law. For example, representatives of PFI, the general account of The Prudential Insurance Company of America (“PICA”) and accounts of other affiliates that are responsible for assessing PFI’s enterprise investment risk have access to information about our assets under management, including for third parties, that is not made available to unaffiliated clients unless required by applicable law. This information does not include specific unaffiliated client identifying information or portfolio information for clients that have prohibited us from sharing such information with affiliates.

## Item 8—Methods of Analysis, Investment Strategies and Risk of Loss

### Our Methods of Analysis and Investment Strategies

We believe that research-driven security selection is the most consistent strategy for adding value to client portfolios. We complement this research-driven security selection with active sector rotation, duration/yield curve/currency management and a focus on trade execution.

Our research-based investment process integrates credit and securitized products research, quantitative analysis, and risk management. Our portfolio managers are divided into the following teams:

- Credit Portfolio Management:
  - Corporate
  - Leveraged Finance (including high yield securities and bank loans)
  - Municipal

- Developed Market Rates
- Agency MBS
- Short-Term Investments
- Multi-Sector:
  - U.S.-Indexed Multi-Sector
  - Global-Indexed Multi-Sector
- Emerging Markets and Foreign Currency
- Securitized Products

In addition, a separate team is dedicated to securities lending and reverse repurchase activities.

## **Our Investment Process**

PGIM Fixed Income seeks to achieve long-term investment performance consistent with our clients' investment objectives. In doing so, we generally use the following portfolio construction process:

### **Develop Top-Down Investment Outlook**

- Quarterly, we formulate a market outlook that assesses economic, interest rate, and fixed income sector scenarios. This top-down outlook is prepared with input from a cross-functional group consisting of our co-chief investment officers of PGIM Fixed Income, chief investment strategist, senior economists, senior portfolio managers for each strategy, heads of each of our sector teams, and head of quantitative analysis and risk management.
- The market outlook plays a role in helping to determine the level and types of risk to assume in our client portfolios. We discuss this market outlook on a weekly basis throughout the quarter.

### **Develop Portfolio Strategy and Security Selection**

- The senior portfolio manager for each strategy develops the portfolio strategy, seeking excess return over the portfolio's benchmark by establishing risk exposures within a pre-established risk budget.
- As discussed below in "Our Investment Risk Management and Quantitative Research Processes", we use risk budgets to manage expected portfolio tracking error.
- Each strategy team meets periodically to discuss portfolio strategy, positioning and attribution.
- For multi-sector portfolios, the senior portfolio manager for the applicable strategy conveys the overall portfolio strategy to the applicable individual sector teams.
- Individual securities are selected by the applicable sector team based on:
  - fundamental research;
  - quantitative relative value modeling; and
  - technical and relative value analysis and trading expertise in the applicable markets.
- The senior portfolio manager for each strategy is responsible for all investment decisions and portfolio positioning, subject to the supervision of the co-chief investment officer overseeing the strategy and, where applicable, the head of the relevant investment team.

## Portfolio Monitoring

- Subject to certain exceptions, on a daily basis, each portfolio's risk characteristics and positioning versus its benchmark are reported and made available for review by both the portfolio manager for the account and our investment risk management group.
- Where appropriate, the investment risk management group escalates any concerns, as necessary, to the portfolio manager for the account, the head of the relevant investment team, one or both of our co-chief investment officers, and ultimately the CEO of PGIM Fixed Income.
- Credit meetings are held on a daily basis at which credit analysts discuss industry and individual issuer developments and events while portfolio managers discuss the market environment, trading technicals, and spread levels.
- Throughout the day, analysts and portfolio managers interact informally on specific news-related issues as they arise.
- Periodically, sector teams meet and conduct comprehensive subsector reviews.
- Any of these discussions can result in changes in a portfolio's positions.

## Our Macroeconomic Research Process

We conduct in-house economic and strategic research to develop views on economic, policy and market trends to support the fixed income investment process. Our global macroeconomic research and investment strategy groups continually evaluate incoming economic data as well as monetary and fiscal policy developments in real time. We supplement our internal research with third party research that focuses on economic and policy analysis. We also analyze market supply and demand trends from a range of sources.

Our global macroeconomic research and investment strategy groups interact with the sector portfolio managers and research teams to integrate their top-down macroeconomic analysis with the sector teams' bottom-up fundamental views. On a weekly basis, the senior investment team meets to discuss economic and market developments, and investment opportunities across the fixed income sectors. As discussed above, we summarize our macroeconomic views each quarter in the quarterly market outlook. This document includes not only our macroeconomic and interest rate outlook, but also an outlook for each fixed income sector.

## Our Credit Research Process

### Corporate, Leveraged Finance and Municipal Debt

We have a team of credit analysts who are each responsible for a group of credits within an industry sector or group of industry sectors. To initiate coverage on an issuer, an analyst will prepare an internal rating and outlook on the issuer. The rating and outlook will be determined based on a comprehensive review of the financial health and trends of the issuer, which will include a review of the composition of revenue, revenue trends, profitability margins and trends, cash flow margins and trends, and leverage and coverage trends. In addition, the analyst will review the issuer's business strategy, financial policies and position within its industry. The analyst will also determine the creditor rights and ranking of the security or securities being proposed for purchase.

Once a security is purchased for a portfolio, the analyst will monitor the performance of the issuer on an ongoing basis by reviewing its financial statements and other disclosures, as well as ratings changes, relevant sell-side research and other news about the issuer using a variety of data services and news feeds. The analysts may listen to management conference calls detailing business results, attend industry

conferences to learn about trends affecting issuers in their coverage universe and meet directly with issuer management.

At any time an analyst determines that events, business results, a change in financial policy or strategic direction, or other developments warrant a change in our internal rating, the analyst will notify the portfolio managers and make the change in our credit database, where our ratings, outlooks and other credit related information is maintained. These changes appear on a dashboard of most recent updates to the database that is available on the desktop of all the portfolio managers and analysts.

### **Securitized Products**

Our research approach to securitized credit consists of the analysis and monitoring of underlying collateral, transaction structure, underwriting quality and macroeconomic factors. Our analysts are responsible for evaluating the attractiveness of securities, estimating expected cash flows and maintaining an internal rating for each security held in a client portfolio. Our analysts also maintain comprehensive views on the credit profiles and trends in covered subsectors. We regularly assess creditworthiness while a security is held in any client portfolio.

### **Sovereign Debt**

We closely follow sovereign and quasi-sovereign issuers across a range of developed and emerging market countries. Given our emphasis on country selection during the investment process, much of the sovereign credit research we do is focused on the fundamental analysis of the quantitative and qualitative factors driving sovereign credit risk. We also perform relative value and technical research on sovereign issuers, and we identify key risk factors that could cause a particular sovereign to outperform or underperform over a base case scenario. This process helps us to incorporate research findings into actual portfolio construction by providing a framework for translating a research-based stand-alone country recommendation into a risk-adjusted country allocation within an overall portfolio.

### **Environmental, Social and Governance Issues**

We recognize the importance of integrating financially-material ESG factors into our investment research and decision-making process. This means that when making or evaluating investments, we aim to incorporate ESG factors we believe are likely to have a material impact on the financial value of an investment alongside other credit risk factors in arriving at our overall fundamental credit view of the issuer. In addition, where consistent with applicable law and regulation and specifically requested by a client, we consider non-financial ESG factors. (See Item 4 under “Environmental, Social and Governance Investing”.)

Our internal credit research group takes into account ESG risks and opportunities that it believes are likely to materially impact an investment’s financial value, alongside other risks and opportunities as part of the overall analysis of the financial value of the investments we make on behalf of the accounts we manage. As part of the credit research process, our analysts review available information related to ESG factors, which may be provided by the issuer or obtained from third-party ESG research providers or alternative data sources (e.g., NGO analyses, governmental and inter-governmental studies, etc.). Our analysts may supplement this information through engagement with the issuer. The ESG factors considered during our research assessment will vary depending on the industry and/or individual issuer.

Where ESG-related constraints for specific mandates determined by us and/or our clients are based on non-financial factors, such factors can be based on sustainability values and the harm or benefit that investments might have for the environment, society or governance practices and/or based on our proprietary ESG impact ratings framework. An assignment of a high ESG impact rating under our proprietary ESG impact ratings framework is generally based on the credibility and ambition of an issuer’s strategy to reduce negative environmental and social impacts, and their actual achievements at the time

of our analysis. Accordingly, the extent and quality of efforts and actual achievements by issuers to reduce their negative impacts is the key driver of our ESG impact ratings, while efforts to enhance their positive impacts will serve as an additional differentiator yielding higher ESG impact ratings. In assigning a proprietary ESG impact rating, the relevance of certain ESG issues considered by our credit analysts can vary depending on the industry and/or individual issuer. Where applicable, we utilize data, research and screens from third-party service providers (among a number of inputs) in connection with our analysis of ESG issues and applying the constraints to relevant portfolios. Clients (or investors in our funds) for whom we apply ESG factors should understand that we are sometimes dependent on information provided by these providers in determining whether an investment meets relevant characteristics (e.g., industry or sector).

We have established an ESG policy committee (the “ESG Policy Committee”) that is supported by an ESG ratings sub-committee (the “ESG Ratings Sub-Committee”, together with the ESG Policy Committee, the “ESG Committee”). The ESG Policy Committee focuses mainly on high-level policy decisions, steers and guides our ESG strategy, and makes decisions on material ESG business matters. The ESG Policy Committee is composed of senior leaders and department heads across various regions. The ESG Ratings Sub-Committee is responsible for approving methodologies for our internal ESG impact ratings framework, incorporating and developing our approach to climate risk, impact and stewardship, and making decisions on matters pertaining to ESG integration in credit analysis.

To meet our clients’ needs we implement a range of negative screens and exclusions according to specific exclusion criteria requested by our clients. For certain clients, we use specialist third-party screening providers to implement such exclusionary screens. For other clients, we exclude investments contained on detailed “restricted lists” provided by the applicable client.

As a signatory to the Principles of Responsible Investment (the “Principles”), we are committed to implement the Principles, where consistent with our fiduciary obligations and client guidelines. In addition, we are a signatory to the U.K. Stewardship Code.

## **Our Investment Risk Management and Quantitative Research Processes**

Our proprietary risk management system is used by risk managers and portfolio managers to analyze portfolio risk, monitor portfolio positioning relative to pre-established risk budgets and perform detailed performance attribution. This system incorporates a tracking error model designed to estimate the systematic risk of a portfolio’s active positioning versus its benchmark resulting from yield curve, currency and spread movements. We supplement our tracking error model with short-term spread risk measures and with scenario analyses derived from actual historical events. Non-systematic risk is addressed by applying market-value based thresholds and using custom stress-tests.

Our investment risk management team develops risk budgets for each client portfolio, with certain limited exceptions. The risk budgets guide and monitor the allocation of a portfolio’s active risk capacity across the range of available investment opportunities, with active risk defined as the portfolio’s risk relative to its benchmark. The investment risk management team sets discrete thresholds for monitoring both systematic and non-systematic risks. Systematic risks monitored include interest rate, currency, and credit spread risks, while non-systematic risks monitored include issuer, industry, country and liquidity risk. Risk budget thresholds are not intended to establish absolute limits, but rather to trigger discussions between the risk management and portfolio management teams.

Our quantitative modeling and strategies team develops proprietary quantitative models to support relative value trading and asset allocation for portfolio management as well as various risk models to support risk management. These proprietary models are used to evaluate interest rates across major currencies and to perform relative value analysis on asset classes such as government bonds, emerging market bonds, agency mortgages and securitized products.

## Primary Risks Associated with Our Methodology and Strategies

Investing in securities and other financial instruments involves risk of loss that clients should be prepared to bear. Investment strategies may not achieve their performance objectives and may result in losses.

We have summarized below certain important risks for clients and prospective clients to consider. Where applicable, clients and prospective clients should also carefully review the governing documents related to their investment for additional risk disclosures. As applicable, risks referencing securities also include bank loans and other instruments (including other debt and hybrid instruments) that are not considered to be securities.

### General Risks Related to Fixed Income Investments

- **Market Risk**
  - **General.** The value of securities and other investments may move up or down, sometimes rapidly and unpredictably. Securities markets are volatile. A client account could at any point in time be worth less than its initial value. Regardless of how well an individual investment performs, if financial markets decline, a client account could lose money. We typically compare our performance against a benchmark. Even if we exceed the benchmark, our clients can lose money.
  - **Interest Rate Risk.** Debt securities can lose value because of interest rate changes. For example, debt securities tend to decrease in value if interest rates rise. Debt securities with longer maturities generally are more sensitive to interest rate changes than those with shorter maturities. In addition, short-term and long-term interest rates do not necessarily move in the same direction or by the same amount. Changes in interest rates can also cause certain types of debt obligations to become subject to prepayment risk or duration extension risk. These include securities such as mortgage-backed securities and bonds with embedded call or put options.
  - **Inflation Risk.** Debt securities can lose value because of changes in the rate of inflation. For example, fixed rate debt securities tend to decrease in value as inflation rises due to the declining purchasing power of cashflows generated by these securities. Inflation-indexed debt securities (e.g., Treasury inflation-protected securities (“TIPS”)) are subject to the effect of changes in market interest rates caused by factors other than inflation (i.e., real rates).
  - **Spread Risk.** Portfolio returns are affected by changes in the spreads over risk-free rates of the underlying sectors and assets. In particular, a portfolio that is systematically overweighted in spread product would lose value if spreads widen. This systematic risk is dependent on the portfolio’s exposure to various fixed income asset classes with varying degrees of spread risk.
  - **Reference Rate Discontinuation or Modification Risk.** A reference rate (e.g., Secured Overnight Financing Rate) is a benchmark interest rate or other financial metric used to determine the pricing, payments performance of various instruments including fixed income securities and derivative contracts. These reference rates are subject to regulatory changes, market developments, or other factors that could lead to their discontinuation or modification. The transition away from a reference rate and the adoption or use of one or more alternative reference rates may lead to increased volatility and illiquidity in markets that are tied to such rates, errors in the calculation of payments due or monies owed, fluctuations in values of investments in issuers that utilize such

rates, increased difficulty in borrowing or refinancing, and diminished effectiveness of hedging strategies, thereby adversely affecting a client account's performance.

- **Currency Risk.** Assets in our client accounts may be denominated or quoted in currencies other than the base (or share class) currency for the account. Accordingly, changes in currency exchange rates will affect the value of these client accounts. Generally, when the base (or share class) currency of an account rises in value versus another currency, assets denominated in a currency other than the base (or share class) currency lose value because that currency is worth less than the base (or share class) currency, and vice versa.
- **Issuer-Specific/Counterparty and Industry Credit Risk.** The issuer, the guarantor or the insurer of a fixed income security, or the counterparty to a contract, may be unable or unwilling to make timely principal and interest payments or to otherwise honor its obligations. Additionally, securities could lose value due to a loss of confidence in the ability of the issuer, guarantor, insurer or counterparty to pay back debt. The longer the maturity and lower the credit quality of an instrument, the more likely its value will decline as a result of such a loss of confidence. From time to time, several issuers in a given industry may experience such difficulties simultaneously, making it difficult for issuers in that industry to roll-over obligations, to repay creditors or to obtain liquidity in the market.
- **Liquidity/Valuation/Turnover Risk.** Assets in client accounts may, at any given time, include financial instruments for which no market exists, that are or become thinly traded or that are not readily transferable under applicable securities laws. The sale of any thinly-traded or illiquid investments may be possible only at substantial discounts, if at all. Further, illiquid investments may be extremely difficult to value. Liquidity can change without notice and without apparent reason, even in segments of the market that are generally deemed highly liquid. Liquidity can be so severely constrained, especially in times of crises, that there is no assurance that any steps we take or trading strategies we employ will be successful in overcoming such constraints. Our investment strategies may include long-term purchases, short-term purchases, short sales or margin transactions. Frequent trading may result in higher transaction costs.
- **Prepayment Risk or Extension Risk.** Prepayment risk is the risk that a loan, bond or other security or investment might be called, prepaid or redeemed before maturity. In the case of mortgage- or asset-backed securities, as interest rates decrease or spreads narrow, the likelihood of prepayment increases. In the case of earlier than expected payment, our portfolio managers may not be able to invest the proceeds in other investments providing as high a level of income, resulting in a reduced yield. Prepayment risk may be amplified if the purchase price of a bond is greater than par. Conversely, extension risk is the risk that an unexpected rise in interest rates or spreads will extend the life of a mortgage- or asset-backed security beyond the manager's expectation, thus resulting in earning a lower yield for a longer period of time.
- **Municipal Securities Risk.** Municipal securities are issued by states, territories or other local governments and their agencies. These securities can be backed by the issuer's general obligations, or by revenue from a particular project. They can be impacted by economic or political changes, such as legislative events, impacting the issuer. Further, the issuer's ability to pay can be impacted by litigation, or, in the case of securities backed by revenue from particular projects, issues related to the collection of revenue from such projects. These securities are subject to interest rate, credit and market risk, as well as uncertainties related to the tax status of the securities or rights of investors.
- **Non-U.S. Securities and Sovereign Risk.** Investing in securities of certain developing and emerging market issuers may involve more risk than investing in securities of issuers from



developed countries. Political, economic and legal systems may be less stable and more volatile than the corresponding systems in developed countries. Certain jurisdictions may impose restrictions on the ability of their issuers to make payments of principal and interest or dividends to investors located outside the country, due to blockage of foreign currency exchanges or otherwise. Investments in emerging markets are typically subject to greater volatility and price declines than investments in developed markets. In addition, investments in sovereign debt can involve a high degree of risk. A governmental entity's willingness or ability to repay principal and interest in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the governmental entity's policy towards the International Monetary Fund and the political constraints to which a governmental entity may be subject.

- *Investing in China Risk.* Investing in securities of issuers located or operating in the People's Republic of China involves risks arising from: greater government control over the economy; political, legal and regulatory uncertainty; nationalization, expropriation, or confiscation of property; difficulty in obtaining information necessary for investigations into and/or litigation against such issuers, as well as in obtaining and/or enforcing judgments; limited legal remedies for shareholders or creditors; alteration or discontinuation of economic reforms; military conflicts, either internal or with other countries; inflation, currency fluctuations and fluctuations in inflation and interest rates that may have negative effects on the economy and securities markets in China; and China's dependency on the economies of other Asian countries, many of which are developing countries.
- *Securitized Products Risk.* Securitized products are securities that are collateralized by, or linked to the performance of, all or a portion of, a pool of assets including commercial mortgage loans, residential mortgage loans, syndicated bank loans, credit card receivables, auto loans, student loans or other assets. Certain securitizations are split into two or more portions, called tranches, that vary in risk and yield. The riskiest portion is the "equity" or "residual" tranche which incurs the first loss resulting from any defaults on the securitized loans or assets, although more senior tranches may also incur losses. Investors in securitized products rely on securitization trustees to ensure compliance with documentation and to take actions with respect to underlying assets. In a breach or event of default scenario, such a trustee might not act in accordance with investor wishes and may refuse to take action without receiving an indemnity (which certain investors might be unable to provide). Securitized products are often not guaranteed by any governmental entity or other party and their payments may be contingent on the performance of assets that are not guaranteed. In addition, global regulations may limit the securitized products that are eligible for certain client accounts (for example, by prohibiting certain types of investors from acquiring or holding investments in securitized product issuers domiciled in certain countries or securitized products that do not meet certain regulatory requirements).

Investing in certain securitized products may entail a variety of unique risks, such as prepayment risk, credit risk, concentration risk, liquidity risk, market risk, structural risk, geographic concentration risk, regulatory/legal risk and interest rate risk. Additional risks of certain securitizations include, without limitation, the possibility that distributions from collateral securities will be insufficient to make interest or other payments, the possibility that the quality of the collateral may decline in value or default, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets, challenges by taxation authorities to the tax treatment of securitization transaction structures and the characterization of proceeds, and challenges by state and federal regulators to such structures and the origination and servicing practices relating to the securitized loans or assets.

- **Settlement Risk.** Settlement risk is the possibility that a trading counterparty fails to pay cash or deliver securities upon the scheduled settlement of a trade. All loan and securities trading involves a degree of settlement risk, and such risk can be exacerbated by adverse market conditions. The inability to dispose of a loan or security due to settlement problems could result in losses, and a delay in the settlement of a purchase could result in periods when cash is uninvested and no return is earned thereon. For example, the settlement of a bank loan purchase could be delayed due to a processing backlog at the agent bank, the bank's "know-your-customer" process or the need to obtain borrower consent. During the period of such settlement delay, the buyer may not be entitled to accrued interest on the loan. Certain markets, such as the market for syndicated bank loans, can be subject to lengthy periods between trade date and settlement date. Settlement risk is expected to increase as markets move to shorter settlement cycles.
- **High Yield Debt Securities.** Fixed income securities with below investment grade ratings may be speculative and their issuers, compared to the issuers of higher rated securities, may have a weakened capacity to make principal and interest payments in adverse economic conditions or other circumstances. High yield, high risk and lower rated securities are subject to additional risk factors, such as increased possibility of default, decreased liquidity and fluctuations in value due to public perception of the issuer of such securities. In addition, both individual high yield securities and the entire high yield bond market can experience sharp price swings due to a variety of factors, including changes in economic forecasts, stock market activity, large and sustained sales by major investors or high-profile defaults.
- **Private Investment Risk.** Private securities are securities that are sold in private placement transactions between issuers and their purchasers that are typically neither listed on an exchange nor traded in other established markets. In many cases, private securities may not be freely transferable under the laws of the applicable jurisdiction or due to contractual restrictions on resale. In addition, private issuers are not subject to the same reporting and disclosure requirements as public companies. As a result of the absence of a public trading market, private securities may be less liquid and more difficult to value than publicly traded securities. To the extent that private securities may be resold in privately negotiated transactions, the prices realized from the sales could be less than those originally paid by the client or less than their fair market value.
- **ETF Risk.** Investments in ETFs pose specific risks, such as the risk that the ETF's performance may not track the performance of the index the ETF is designed to track. An ETF incurs advisory and administrative expenses and transaction costs in trading securities to align with benchmark performance while trying to manage cash inflows and outflows from and to investors buying and redeeming shares in the ETF. Flows may create cash balances that cause the ETF's performance to deviate from the index. An ETF also may deviate from the index it is designed to track because the securities held by the ETF may differ from the index components. Several factors may cause ETF shares to trade at a premium or a discount to net asset value, such as market volatility, lack of an active trading market for ETF shares, disruptions at market participants (such as authorized participants or market makers) and any disruptions in the ordinary functioning of the creation/redemption process. In addition, errors in the construction, calculation, or transmission of an index could cause an ETF's price to vary materially from its reference index.
- **Non-Economic ESG Restrictions Risk.** Certain clients apply non-economic ESG restrictions and/or objectives in their guidelines. In these specific cases, these ESG restrictions/objectives can lead us to select or exclude securities of certain issuers for reasons other than financial risk/return considerations, which could result in lower returns than accounts whose investment criteria are solely focused on seeking the highest risk-adjusted returns. The application of this

strategy might affect the account's exposure to certain sectors or types of investments, which could negatively impact the account's performance. Non-economic ESG investing is qualitative and subjective by nature, and there is no guarantee that the criteria utilized by us or any judgment exercised by us will reflect the beliefs or values of any particular client, and our proprietary internal ESG impact rating of a particular investment could differ from the view of others. Further, while all of our analysts receive internal guidance, because of the subjective nature of ESG, there may be different views among analysts when it comes to their assessment of ESG considerations for particular issuers. In evaluating an issuer or in assigning an internal ESG impact rating to an investment, we are sometimes dependent upon information and data obtained through third-party reporting that may be incomplete, inaccurate or unavailable, which could impact or impair our ability to assess an issuer's business practices with respect to ESG practices. Additionally, a client could disagree with the classification of an issuer by our data provider. Socially responsible norms differ by asset class, region, industry and issue, and an issuer's ESG practices or our assessment of an issuer's ESG practices will change over time. Accordingly, it is possible that we would have assigned a different ESG impact rating to an issuer had we had access to additional or more accurate information. If the addition of a new screen or an update to the existing list of ineligible or prohibited investments from a third-party agent or a change to an internal ESG impact rating (in each case where applicable to a client account) causes an investment held by a client account to not comply with the ESG constraints or considerations applicable to the client account, we could be required to sell the investment at a disadvantageous price or time, causing the client account to incur losses that would not otherwise be realized in the absence of such ESG constraints or considerations. The screens or constraints related to certain ESG strategies could result in an account forgoing an opportunity to make certain investments when it might otherwise be advantageous to do so. An account that invests in indices might also have exposure to investments that would be restricted under the applicable ESG constraints if held directly due to the composition of the index. Our proprietary internal ESG impact ratings are not investment risk or return ratings and are differentiated from our proprietary credit ratings, which focus on seeking to achieve the highest risk-adjusted returns for our clients. Successful application of an account's ESG strategy will depend on our skill in identifying and analyzing material ESG issues and there can be no assurance that the strategy or techniques employed will be successful.

Additionally, the global regulatory environment applicable to ESG strategies is evolving and will likely lead to increased complexity impacting us and some of the accounts (including funds) we manage. Further, certain ESG-related regulations (including the European Union's Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector), contain elements of subjectivity, which could lead to our regulatory and legal interpretation differing from that of others and could also result in the regulatory reclassification of products that we manage, changes to our account-level disclosures and changes to our internal policies, procedures and processes. Compliance with ESG-related regulations could lead to increased costs for relevant accounts.

- **Sustainability Risk.** Sustainability risk means an environmental, social, or governance event or condition, that, if it occurs, could potentially or actually cause a negative material impact on the value of investments. Sustainability risk can represent a risk on its own, and can contribute significantly to other risks, such as market risks, liquidity risks or operational risks. Sustainability risks could have a negative impact on the market price of securities, and thus on the return of a fund or account. For example, climate change could lead to increasing intensity and instances of severe weather, leaving issuers vulnerable to financial hardships such as work stoppages, decreases in revenues and increased insurance premiums (or, if the issuer is an insurer, increased claims). Consequently, issuers' abilities to repay debt, and the value of equity securities, could be negatively impacted. Further, if issuers underestimate or fail to adequately assess sustainability risks, negative impacts of sustainability-related events on their securities

would be heightened. In addition, reputational risks caused by unsustainable acts of an issuer could adversely affect the market price of its securities.

- **Tax Risk.** Dividends, interest and other amounts payable (including, without limitation, principal amounts) with respect to financial instruments and other funds held by a client may be subject to taxes, including withholding taxes. Certain investment strategies (such as bank loans) involve risk to non-U.S. collective investment vehicles (including CLOs) and other non-U.S. investors if such vehicles or investors are deemed to be engaged in a U.S. trade or business based on investment activity. The effect of taxation will reduce the return on the relevant financial instrument. Where tax is withheld, clients may be able to recover the amount withheld or otherwise offset part or all of the amount withheld against the client's tax liability. However, there can be no assurance that any such recovery will be successful. The location of a client's custodian (or its nominee) may also impact the tax treatment and (where applicable) the process for recovery of tax withheld. Additionally, we may be unable to make certain investments or take certain actions with respect to investments held in certain funds and accounts due to tax-related limitations.

Tax laws and regulations, and their interpretation and application, may change from time to time, including with retroactive effect. As a result of such changes, clients might incur unanticipated tax liabilities and/or may lose tax benefits previously attaching to particular financial instruments. As a result, the actual investment return may differ (potentially, significantly) from the expected return. Unless otherwise agreed in writing, we are not responsible for providing tax advice and are not responsible for and provide no guarantee or assurance with respect to the tax treatment of any financial instrument.

- **Distressed Investments Risk.** Client accounts in strategies that invest in, or whose investments have become, distressed investments may be exposed to greater risks than if the strategy invested only in higher credit quality investments. Distressed investments are the obligations of issuers that are, or might be, involved in reorganizations or financial restructurings, either out of court or in bankruptcy. As a result, it is often difficult to obtain information as to the true condition of financially distressed investments. In certain periods, there may be little or no liquidity in the markets for distressed investments. The prices of such investments may be subject to periods of abrupt and erratic market movements and above-average price volatility and it may be more difficult to value such investments. In some cases, we are unable to take actions on behalf of certain client accounts (such as commencing or joining litigation or providing an indemnity to a bond trustee) which actions could, among other things, help mitigate losses. In other cases, clients may have the relevant securities out on loan through their lending agents. If clients cannot recall their securities in a timely manner, they may not be able to benefit from such or other actions. Clients may lose a substantial portion or all of their investment in distressed investments or may be required to accept cash or obligations with a value less than their original investment.
- **Financing Distressed Companies Risk.** Although we have no obligation to do so, we, on behalf of one or more clients, can invest in companies in financial or business difficulties, including companies subject to bankruptcy or other reorganization proceedings, by providing new debt or other capital. These transactions are complex and can involve a substantial degree of risk. There can be no assurance of obtaining results that are favorable to our clients or that any financing or reorganization will be successful.
- **Restructuring and Participation on Creditors' Committees Risk.** Although we have no obligation to do so, we, on behalf of one or more clients, sometimes participate in ad hoc committees of unsecured creditors, committees of secured creditors, committees of cross-holders or similar bodies or other committees in seeking to improve our clients' recoveries with respect to borrowers or otherwise negotiate directly with borrowers with respect to restructuring their debt or their capital structure. There can be no assurance of obtaining results that are favorable to our clients.

We may participate, on behalf of one or more clients, on official unsecured creditor committees appointed by trustees in bankruptcies, where we are deemed to have duties to other creditors of the borrower, which might thereby expose us or our clients to liability. In connection with some reorganizations or financial restructurings, it is possible that claims are made, or litigation is commenced or threatened, against the borrower, us, and/or our clients who participate in such reorganizations or restructurings. In cases where we are unable to conclude negotiations, we may, but are not obligated to, take actions against a borrower, which may include, declaring default or acceleration, commencing legal action, instituting a proceeding seeking a judgment of insolvency or bankruptcy, or any other relief under applicable laws affecting creditors rights, which actions might expose us or our clients to liability or counterclaims. In certain cases, we may decide not to participate on a committee or may not be permitted or be able to do so, which could limit a client's recovery.

- **Risks of Originated Investments.** Investing in loans originated by us on behalf of certain client accounts, including funds, entails significant risks. Competition with other lenders may result in lower yields and reduced returns. The successful financing of borrowers, particularly those facing financial challenges, demands a high level of financial and legal proficiency; despite our best efforts, there is no guarantee that we will be able to accurately assess asset values or predict the likelihood of successful repayment or reorganization. Further, companies engaged in loan origination and servicing are frequently embroiled in legal disputes, ranging from individual lawsuits to class action suits involving numerous plaintiffs. Regulatory actions by state and federal authorities against industry participants are also common. Additionally, loan origination and servicing activities are subject to various regulatory regimes, including lender licensing requirements. While certain exemptions may exist, reliance on them carries the risk of regulatory disagreement, fines, activity restrictions, or other adverse actions, leading to limitations on certain actions and imposing associated costs.

### **Risks Related to Our Strategies**

- **Management Risk.** Each actively managed account is subject to management risk. We apply investment techniques and risk analyses in making investment decisions for actively managed accounts, but there can be no guarantee that these decisions will produce the desired results. The discussions of risk management in this brochure are intended to describe our efforts to monitor and manage risk but do not imply low risk.
- **Concentration Risk.** By concentrating investments of a particular client account in a specific issuer, sector, market, industry, strategy, country or geographic region, that client account will be subject to the risks of such issuer, sector, market, industry, strategy, country or geographic region, such as rapid obsolescence of technology, sensitivity to regulatory changes, minimal barriers to entry and sensitivity to overall market swings, and may be more susceptible to risks associated with a single economic, political or regulatory circumstance or event than a more diversified portfolio might be.
- **Leverage Risk.** Certain of our investment strategies employ various levels of leverage. The use of leverage exposes client accounts to additional levels of risk, including:
  - greater losses from investments than would otherwise have been the case if we had not borrowed to make the investments;
  - margin calls or interim margin requirements which may force premature liquidations of investment positions; and
  - losses on investments where the investment fails to earn a return that equals or exceeds the cost of borrowing such funds (including interest, transaction costs and other costs of borrowing).

- **Short Sale Risk.** The sale of securities not owned by a client (short sales) involves certain additional risks. There is the risk that securities sold by a client account could become scarce or “special” in the financing markets. If a security becomes special, it may be very costly or even impossible to borrow in order to fulfill the delivery obligation of a short sale. A “short squeeze” could occur where an account might be compelled to purchase the shorted securities at a disadvantageous time, possibly at prices significantly in excess of the proceeds received in the earlier sale.
- **Hedging Risk.** We have engaged, and will in the future, engage in hedging transactions. To the extent we employ a hedging strategy, the success of any such hedging strategy will depend, in part, upon our ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of a hedging strategy will also be subject to our ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. If the value of an instrument moves more or less than the value of the hedged instrument, a client account will experience a gain or loss that will not be completely offset by movements in the value of the hedged instruments, which means that a position may not be fully hedged during this time. While we may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance than if we had not engaged in such hedging transactions. Additionally, we may not hedge against a particular risk because we do not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because we did not foresee the occurrence of the risk. Moreover, there is no guarantee that such intended hedging strategy will be successful in hedging out the subject risks.
- **Derivatives Risk.** Derivatives are financial contracts whose value depends on, or is derived from, the value of an underlying asset, reference rate or index. Derivatives can be used to hedge a portfolio’s investments or seek to enhance returns. In implementing certain of our investment strategies, we may use derivatives as a substitute for taking a position in the underlying asset and/or as part of a strategy designed to manage exposure to other risks. We also may use derivatives to attain leverage in an account. Derivatives investments involve specific risks that may reduce returns or increase volatility that may be different from, or greater than, the risks associated with investing directly in securities or other traditional investments. The prices of derivatives may move in unexpected ways, especially in abnormal market conditions. Derivatives risks include:
  - Cleared and uncleared derivatives involve counterparty credit risk, which is the risk that the counterparty (or the exchange in the case of cleared derivatives) will not meet its contractual obligations to our clients.
  - Uncleared derivatives are subject to liquidity risk. Uncleared derivatives are often highly customized to meet specific client or portfolio needs. Depending on the level of customization, a liquid secondary market may not always exist for these positions, and it may often be limited to the counterparty to the instrument.
  - The use of derivatives for hedging purposes involves correlation risk (as described in “Hedging Risk” above).
  - Derivatives also involve the risk of mispricing or improper valuation. A derivative contract’s performance could deviate substantially from the cash instruments referenced in the derivative contract.
  - Futures, forward contracts, swaps, options and other derivative instruments also are subject to leverage risk because they contain inherent leverage wherever they provide

more market exposure than the amount paid on the initiation of the transaction. As a result, a relatively small adverse market movement can not only result in the loss of the entire investment but may also expose a client to the possibility of a loss exceeding the original amount invested or committed.

- Derivatives also are potentially subject to currency risk, depending on the currency or currencies being used and the underlying reference asset(s).
- In addition, many derivative products are subject to margin risk, as variation or other interim margin requirements may force premature liquidation of investment positions if there are not sufficient client assets to meet the margin requirement.

U.S. and various non-U.S. regulators have adopted and are continuing to implement regulations governing derivatives markets, including mandatory clearing of certain derivatives, margin and reporting requirements. Further amendment to these regulations and the adoption of additional requirements are likely to continue. Additional regulation of derivatives may make derivatives more costly, limit their availability or utility, increase concentration risk with exchanges that clear derivatives transactions and dealers that act as counterparties, or otherwise adversely affect their performance or disrupt markets.

- **Model Risk.** Some of our investment strategies and risk management processes utilize proprietary mathematical models. There is a risk that we may select models that are not well-suited to prevailing market conditions. In addition, models that have been formulated on the basis of past market data may not be predictive of future price movements. Models may also have hidden biases or exposure to broad structural or sentiment shifts.
- **Reverse Repurchase Agreement Risk.** Reverse repurchase agreements create leverage and could magnify losses. If an account borrows money to purchase securities and those securities decline in value, then the value of the account may decline faster than if the account were not leveraged. In addition, interest costs and investment fees relating to leverage may exceed potential investment gains.
- **Securities Lending Risk.** The primary risk of securities lending is the credit and market risk related to the re-investment of cash collateral. In addition, securities lending involves the risk that a counterparty will default on its obligation to return loaned securities, which is mitigated by the collateral posted by a counterparty.
- **Data Source Risk.** We use a variety of proprietary and non-proprietary data to evaluate securities and formulate investment advice. If a data source is incorrect or unexpectedly becomes unavailable or unreliable, client accounts may be negatively impacted. We also subscribe to external data sources for various purposes and functions, including in making investment decisions. While we believe those third-party data sources to be generally reliable, we do not guarantee that the data received will be accurate or complete and are not responsible for errors by those sources.

#### **Other Risks Related to Our Business**

- **Risks Related to Regulation.** Laws and regulations affecting our business change from time to time, and we are currently operating in an environment of significant U.S. and global regulatory reform. We cannot predict the effects, if any, of future legal and regulatory changes on our business or the services we provide.
- **Certain Material Non-Public Information Related Considerations.** In certain instances, our ability to buy or sell or transact for one or more client accounts will be constrained as a result of our voluntary or involuntary receipt of material non-public information ("MNPI"), various insider trading laws and related legal requirements. For example, we would generally be unable to invest in,

divest securities of or share investment analyses regarding companies for which we possess MNPI, and such inability (which could last for an uncertain period of time until the information is no longer deemed material or non-public) can result in us being unable to buy, sell or transact for one or more client accounts or to take other actions that would otherwise be to the benefit of one or more clients. In addition, in certain circumstances, we may restrict ourselves from receiving MNPI with respect to an issuer so as not to prevent our ability to trade in securities of the issuer, even if such information may be beneficial to certain other client accounts holding such issuer's securities.

- **Recent European Events.** Recently in Europe, many non-governmental issuers, and even certain governments, have defaulted on, or been forced to restructure, their debts; many other issuers have faced difficulties obtaining credit or refinancing existing obligations; financial institutions have in many cases required government or central bank support, have needed to raise capital, and/or have been impaired in their ability to extend credit; and financial markets in Europe and elsewhere have experienced extreme volatility and declines in asset values and liquidity. Responses to these financial problems by European governments, central banks and others, including austerity measures and reforms, may not be effective in addressing these issues.
- **Sanctions and Related Considerations.** Economic sanction laws in the United States and other jurisdictions prohibit us, our personnel and accounts we manage from investing in or transacting with certain countries, companies and issuers. Economic sanctions, and other similar and related laws and regulations, could make it difficult for an account to pursue certain investment opportunities, adversely impact the value of investments in client accounts, cause forced sales of securities, cause increased volatility and illiquidity, impact the accuracy of valuations and prevent the receipt of interest and principal payments. In the United States, the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") administers and enforces laws, executive orders and regulations establishing U.S. economic and trade sanctions, which restrict or prohibit, among other things, direct and indirect transactions (including receipt of interest and principal payments) with, and the provision of services to and the receipt of services from, certain non-U.S. countries, territories, individuals and entities. These types of sanctions could significantly restrict or completely prohibit investment activities in certain jurisdictions, and violation of any such laws or regulations may result in significant legal and monetary penalties, as well as reputational damage. OFAC sanctions programs change frequently, which may make it more difficult for us, our affiliates or our clients to ensure compliance. Moreover, OFAC enforcement is increasing, which may increase the risk that we, our affiliates or our clients become the subject of such actual or threatened enforcement.

In 2022, the U.S., Canada, the U.K. and the EU, among other jurisdictions and regulatory bodies, imposed a series of economic sanctions related to hostilities between Russia and Ukraine. Among other things, these sanctions consist of prohibiting certain securities trades, asset freezes and prohibition of certain business. Sanctions and other actions against Russia adversely impacted, among other things, the Russian economy, regional and global economic markets, companies in other countries (particularly those that have done business with Russia) and various sectors, industries and markets for securities and commodities globally. These sanctions also impaired or prevented our ability to receive interest and principal payments, buy, sell, hold, receive or deliver the impacted holdings, and impacted our relationship with, and/or business operations of, third parties with whom we conduct business and/or in whom client assets have been invested. There is no guarantee that any steps taken by us to mitigate any adverse impact of these sanctions will be successful, and client accounts could be impacted by, among other things, significantly decreased valuations, creditor default and illiquidity. The extent and duration of hostilities between Russia and Ukraine, and the extent and impact of existing and future sanctions, market disruptions and volatility, cannot be predicted.



- *Risks Associated with Global Conflict.* War, conflict, and civil disturbances around the world can have negative economic effects given the interconnectedness of financial markets across the world. These events can cause significant disruptions to the global financial system and international trade; for example, they may impact supply chains and commodity prices, leading to inflation. These events may also impact the ability of accounts to source, diligence and execute investments or adversely affect the liquidity, pricing or market for such investments. Further, these events may result in sanctions against the impacted countries, which could lead to various negative consequences as explained under “Sanctions and Related Considerations.”

Since October 7, 2023, Hamas, a Palestinian group which has ruled the Gaza Strip since 2007, has been engaged in ongoing military conflict with Israel. The Hamas-Israel Conflict has increased the threat of a wider regional war, cyberattacks and additional regional or global conflicts. It has also caused significant disruptions to the global financial system and international trade.

- *Operational Risk.* We rely heavily on our portfolio management, trading, financial, accounting and other data processing systems. Operational risks arising from failed processes and systems, human error or external events, as part of the trading lifecycle (execution, confirmation, and settlement) as well as other activities in support of our clients, may cause financial loss to us or our clients, disruption to our business, liability to clients or third parties, regulatory action, or reputational harm. An increase in the number of clients or volume or complexity of client transactions could increase these risks.
- *Third-party Service Provider Risk.* Investors in fixed income securities rely on various third-party service providers, such as trustees, to ensure compliance with documentation and to take actions with respect to underlying assets. Clients may suffer adverse consequences from actions, errors, or failures to act by such third parties. For example, in a breach or event of default scenario, such a trustee might not act in accordance with our wishes and may refuse to act without receiving an indemnity (which certain clients might be unable to provide).
- *Certain Risks Related to Cybersecurity and Technology.* Investment advisers, including PGIM Fixed Income, must rely in part on digital and network technologies to conduct their businesses and to maintain substantial computerized data relating to client account activities. These technologies include those owned or managed by us, as well as those owned or managed by others, such as custodians, financial intermediaries, transfer agents, and other parties to which we or they outsource the provision of services or business operations.

Like all businesses that use computerized data, we, our affiliates, our third-party service providers, and their affiliates and service providers, and the systems we use are subject to a variety of cybersecurity related risks, including ransomware and other cyber or data extortion risks, and exposed to incidents or similar events that lead to the inadvertent disclosure of confidential, personal, proprietary, or other non-public data to unintended parties, or are subject to the intentional misappropriation, misuse, disclosure, encryption, threat to disclose, or destruction of such data by unauthorized parties or malicious actors mounting an attack on computer systems. We are also subject to disruptions to business operations and continuity risks, including system and supply chain failures, denial of service attacks, and ransomware and other destructive cyberattacks. Various actors, such as for-profit criminal hackers and nation-state sponsored or affiliated actors, engage in cyberattacks against the financial services sector. We could experience cybersecurity attacks from such actors and other sources. These attacks would likely be aimed at our computers, systems, networks and/or cloud operations.

We and our affiliates have implemented and maintain an information technology security policy and program that includes certain technical, administrative, and physical safeguards intended to protect the integrity, availability and confidentiality of the data we have and the systems that store

it. In addition, we take other commercially reasonable precautions to limit the potential for cybersecurity incidents or similar events, and to protect data from inadvertent disclosure or wrongful misappropriation or destruction.

Nevertheless, despite reasonable precautions, cybersecurity incidents can occur and might, in some circumstances, result in unauthorized access to or acquisition of sensitive information about us or our clients. In addition, such incidents could cause damage to client accounts, data or systems or affect account management.

Furthermore, our systems could fail to operate properly or become disabled as a result of events or circumstances wholly or partly beyond our or others' control. Technology failures, whether deliberate or not, including those arising from use of third-party service providers or client usage of systems to access accounts, could have a material adverse effect on our business or our clients and could result in, among other things, financial loss, reputational damage, regulatory penalties, litigation or the inability to transact business.

- **Artificial Intelligence Risk.** Recent technological advances in artificial intelligence ("AI") and machine learning technology pose risks to us and our clients. We use forms of AI with human intervention in certain operational aspects of our business. There is concern about potential misuse of these technologies by consultants, service providers, or other parties associated with us. The risks associated with these technologies are heightened by their novelty and rapid adoption rates. These risks include cybersecurity threats, as such technologies could be exploited for sophisticated phishing attacks or to bypass security measures, increasing the likelihood of cyber-attacks and data breaches. Additionally, these technologies could be used to create forged documents or impersonate individuals, potentially impacting our operations and client accounts.
- **Public Health Risk.** Occurrences of epidemics and pandemics, depending on their scale, could cause different degrees of damage to national and local economies. Global economic conditions could be disrupted by widespread outbreaks of infectious or contagious diseases, and such disruption could adversely affect investment returns, despite advances in vaccinations and treatments. There can be no certainty as to how long effects of such outbreaks will continue, particularly as markets grapple with unintended consequences of fiscal and monetary policies designed to curb any economic impact (such as inflation). These economic disruptions may negatively impact the value and performance of investments in client accounts, and there is no way to predict the extent of any such future consequences for clients.
- **Extraordinary Events.** Extraordinary events such as natural disasters, epidemics and pandemics, power outages, terrorism, war, conflicts and social unrest can have significant impacts on issuers, industries, governments and other systems, including the financial markets or the liquidity, pricing or the markets for relevant investments. As global systems, economies and financial markets are increasingly interconnected, events that once had only local impact are now more likely to have regional or even global effects. These impacts can be exacerbated by failures of governments and societies to appropriately respond to, and by public fear of, such an event or threat. For example, any preventative or protective actions taken by governments in response to such crises or events may result in periods of regional, national or international business disruption. Clients can be negatively impacted if there are fewer investment opportunities, if there is reduced credit available to borrowers, if markets are more difficult to model reducing the accuracy of projections or valuations, if the value of client account portfolio holdings decreases as a result of such events, if these events adversely impact our operations or the operations of key service providers, or if these events disrupt systems and processes necessary or beneficial to the management of accounts.
- **Social Media and Internet-Based Information Risk.** In recent years, social media platforms have become a means for instantaneous information sharing. Given the relative lack of regulation of

these platforms, they can be used as vehicles for dissemination of inaccurate information. Any such information related to issuers could negatively impact the value of their securities.

### **Risks Related to Conflicts of Interest**

Like other investment advisers, we are subject to various conflicts of interest in the ordinary course of our business. We strive to identify potential risks, including conflicts of interest, that are inherent in our business, and we conduct annual conflict of interest reviews. However, it is not possible to identify every potential conflict that can arise. When actual or potential conflicts of interest are identified, we seek to address such conflicts through one or more of the following methods:

- elimination of the conflict;
- disclosure of the conflict; or
- management of the conflict through the adoption of appropriate policies, procedures or other mitigants.

Various conflicts of interest are discussed throughout this document. Please review this information carefully and contact us if you have any questions.

We follow PFI's policies on business ethics, personal securities trading, and information barriers. We have adopted a code of ethics (please also see Item 11), allocation policies and conflicts of interest policies, among others, and have adopted supervisory procedures to monitor compliance with our policies. We cannot guarantee, however, that our policies and procedures will detect and prevent, or result in the disclosure of, each and every situation in which a conflict arises or could potentially arise.

## **Item 9—Disciplinary Information**

Under Item 9, we are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of us or the integrity of our management. There have been no material legal or disciplinary events related to PGIM Fixed Income that are required to be disclosed pursuant to Item 9.

## **Item 10—Other Financial Industry Activities and Affiliations**

### **Our Staff's Distributor Activities**

Certain of our management persons and other employees are registered representatives of Prudential Investment Management Services LLC ("PIMS"), an affiliated SEC-registered broker-dealer. In addition, PGIM Limited and PGIM Netherlands B.V. ("PGIM Netherlands") act as distributor for certain investment products that are managed by PGIM Fixed Income.

### **Our Commodity and Derivatives Trading Activities**

PGIM, Inc. is registered with the NFA as a commodity trading advisor and a commodity pool operator, and certain of our management persons are our associated persons when we act in those capacities. Notwithstanding such registration, PGIM, Inc. relies on exemptions from registration as a commodity pool operator with respect to certain accounts and pools. In addition, it relies on an exemption for relief from certain reporting and recordkeeping requirements applicable to commodity trading advisors.

## Our Relationships with Affiliates

As an indirect wholly-owned subsidiary of PFI, we are part of a diversified, global financial services organization. We are affiliated with many types of U.S. and non-U.S. financial service providers, including insurance companies, broker-dealers, commodity trading advisors, commodity pool operators and other investment advisers. Some of our employees are officers of and/or provide services to some of these affiliates.

### Relationships with Affiliated Broker-Dealers

PIMS provides marketing support in connection with the offer and sale of securities of certain commingled vehicles that we advise or sub-advise. As noted above, some of our management persons and other employees are registered representatives of PIMS.

### Relationships with Affiliated Investment Vehicles

*Insurance Company Separate Accounts.* We provide advisory services to the separate accounts of certain of our insurance company affiliates, including PICA and Prudential Legacy Insurance Company of New Jersey.

*Mutual Funds/ETFs/UCITS.* PGIM Fixed Income (U.S.) serves as sub-adviser and may provide certain ancillary services to mutual funds and ETFs managed or co-managed by our affiliate PGIM Investments LLC ("PGIM Investments"), along with AST Investment Services, Inc. ("AST Investments") in certain circumstances. In addition, PGIM Fixed Income (U.K.) also serves as sub-adviser to mutual funds managed or co-managed by our affiliate PGIM Investments. These include certain funds in the PGIM Investments family of funds, the Prudential Series Fund and the Advanced Series Trust. We also manage sub-funds of PGIM Funds plc ("PF"), an Irish domiciled investment company authorized as an Undertaking for Collective Investment in Transferable Securities ("UCITS"). Certain employees of PGIM, Inc. or an affiliate of PGIM, Inc. are directors of PF. In addition, one or more of our affiliates has invested in certain of the sub-funds and may do so in the future.

*Collective and Commingled Trust Funds.* Our affiliate Prudential Trust Company ("Pru Trust"), a trust company organized under the Pennsylvania Banking Code, is the trustee of several collective and common trust structures, as well as certain other Pru Trust trust assets. We provide investment advice and certain ancillary services to Pru Trust with respect to funds established within these trust structures and other trust accounts. Certain PGIM Fixed Income (U.S.) personnel are officers or directors of Pru Trust.

### Long/Short Funds and Other Private Funds

We manage a range of long/short funds and other private funds, including the following:

*Master-Feeder Funds.* We manage multiple master-feeder fund structures, including structures where each of the master fund and Cayman feeder fund is structured as a segregated portfolio company. Several of these structures have master funds that are domiciled in the Cayman Islands and both U.S. and non-U.S. feeder funds invest, directly or indirectly, all or a substantial portion of their assets in their respective master fund. Certain of the directors of the funds that are organized as corporations are employees of PGIM, Inc. Subsidiaries of PGIM, Inc. serve as the general partner or managing member of the funds that are organized as limited partnerships or limited liability companies. In addition, at least one of our affiliates has invested in each of these fund structures.

*Irish Qualifying Investor Alternative Investment Funds.* We manage sub-funds for PGIM Qualifying Investor Funds plc (the "QIF") and PGIM Fixed Income Alternatives Master Fund ICAV (the "ICAV"). The QIF and the ICAV are Irish collective asset-management vehicles organized as qualifying investor alternative investment funds. PGIM Netherlands acts as the alternative investment funds manager for

both the QIF and the ICAV. The ICAV also serves as a master fund to feeder funds that we manage. Some of the directors of the QIF and the ICAV are employees of PGIM, Inc. or an affiliate. In addition, affiliates have invested in certain of the QIF and ICAV sub-funds and may do so in the future.

*Cayman Unit Trusts.* We manage sub-trusts of Cayman unit trusts, each an open-ended umbrella unit trust organized in the Cayman Islands.

*Other Affiliated Non-U.S. Funds.* We act as investment sub-adviser to certain funds domiciled in Japan that are sponsored by our affiliate PGIM Japan Co., Ltd. ("PGIM Japan").

*CLOs.* We and/or certain of our affiliates hold equity and/or debt interests in certain CLOs for which we serve as collateral manager. These CLOs may be considered affiliates of ours due to these investments. In addition, we and/or one or more of our affiliates may temporarily finance or otherwise take an economic interest (through equity and/or debt) in all or a portion of the assets purchased for CLO vehicles. These assets may change in value from the time of purchase to the time such financing or other interest is terminated. Any increase or decrease in the value of the assets may impact the value of the CLO notes.

*Side Letters.* We have entered into side letters with respect to certain of the funds that we manage and may do so with respect to funds (including CLOs) that we may manage in the future. Such side letters are agreements with investors in the funds (including affiliated investors) that grant such investors terms and conditions more advantageous than those granted to other investors. For example, investors have side letters granting more favorable redemption rights, reduced fees or expenses or access to more frequent or detailed information regarding the fund's investments (which may also be provided to certain investors pursuant to arrangements other than side letters), in each case only as permitted under applicable law. For certain investors in commingled funds managed by us, we rebate a portion of the management fee paid to us. The rebate is either reinvested into the fund or is paid to the investor in cash, as agreed to with the investor. We may have multiple side letters with respect to a single fund, each with a different investor.

Some of the insurance company separate accounts, collective trusts, and mutual funds described above are investment options under PFI's 401(k) plan. In addition, employees that are eligible to participate in PFI's deferred compensation plan can choose to have all or a portion of their deferred amounts generate a return equal to the return of certain of the separate accounts, collective trusts or mutual funds described above.

#### **Relationships with Affiliated Investment Advisers**

- *General.* In addition to PGIM Investments, which is described above, other affiliated investment advisers include PGIM Quantitative Solutions LLC (formerly known as QMA LLC), PGIM Wadhwani LLP (formerly known as QMA Wadhwani LLP), Jennison Associates LLC, PGIM Japan, PGIM (Singapore) Pte. Ltd. ("PGIM Singapore"), PGIM Netherlands, Pru Trust, AST Investments, and PGIM Portfolio Advisory LLC. We provide sub-advisory services with respect to accounts managed by affiliates and certain of these affiliates provide sub-advisory services with respect to accounts managed by us. We also have service agreements with some of these affiliates under which we perform services for them, or they perform services for us.
- *PGIM Fixed Income Global Offices.* As discussed above, PGIM Fixed Income is headquartered in Newark, New Jersey, with affiliated offices across the globe, including in Amsterdam, Hong Kong, London, Munich, Paris, Singapore, Stockholm, Sydney, Tokyo, and Zurich. Please see below for additional information regarding these and other affiliated offices.
  - *PGIM Japan.* Certain members of PGIM Fixed Income's investment teams and certain client advisory/sales, compliance and operations personnel are employees of PGIM Japan, an affiliate located in Tokyo, Japan. PGIM Japan is registered as a discretionary

investment manager with, and authorized by, the Japan Financial Services Agency (the “Japan FSA”). PGIM Japan is also registered as a “Type II Financial Instruments Business Operator” with the Japan FSA, and thereby acts as a placement agent to market Japanese investment trusts sponsored by PGIM Japan and funds structured as limited partnerships to Japanese prospective investors.

- *PGIM Singapore.* Members of our emerging markets credit team are employees of PGIM Singapore, an affiliate located in Singapore. PGIM Singapore holds a capital markets services license for fund management from the Monetary Authority of Singapore and is an exempt financial adviser.
- *PGIM Netherlands.* Members of our compliance team and our operational risk management team and certain client advisory/sales personnel are employees of PGIM Netherlands, an affiliate located in Amsterdam, Netherlands. PGIM Netherlands has been authorized and licensed by the Dutch Authority for the Financial Markets since August 12, 2019, as an alternative investment fund manager with the ability to provide “MiFID top-up services” (including investment advice and portfolio management). Certain sales, client advisory and operations risk personnel may operate through PGIM Netherlands. PGIM Netherlands also has branch offices in Frankfurt, Germany, Paris, France and Stockholm, Sweden.
- *Other Offices/Operational Support.* In addition, members of our client advisory group operate from an office in Thousand Oaks, California. In Asia, members of our client advisory group operate from an office in Hong Kong. In Europe, PGIM Fixed Income (U.K.) has a sales team which operates its representative office in Zurich, Switzerland. Members of our client advisory group operate from Munich, Germany, Stockholm, Sweden and Sydney, Australia. In addition, certain PGIM Fixed Income personnel provide operational support from an office in Letterkenny, Ireland.
- *Participating Affiliate Arrangements.* Within the guidance set forth under applicable law, relevant no-action letters and related SEC staff guidance, SEC-registered investment advisers are permitted to access, under prescribed conditions, the services of unregistered affiliates (“participating affiliates”). The prescribed conditions include that the participating affiliate provide the SEC access to trading and other records, observe specific recordkeeping rules, submit to the jurisdiction of U.S. courts and cooperate with the SEC as it relates to relevant accounts. PGIM Netherlands is a participating affiliate of PGIM, Inc. and PGIM Limited, and it and certain of its personnel are subject to the supervision of PGIM, Inc. and PGIM Limited with respect to the services that PGIM Netherlands provides to PGIM, Inc. and PGIM Limited as a participating affiliate. PGIM Japan is a participating affiliate of PGIM, Inc., and it and certain of its personnel are subject to the supervision of PGIM, Inc. with respect to the services that PGIM Japan provides to PGIM, Inc. as a participating affiliate. Please also see “PGIM LOM” below.
- *PGIM LOM.* PGIM Loan Originator Manager Limited (“PGIM LOM”) is an affiliate based in the United Kingdom. PGIM LOM and PGIM Limited act as co-managers of European CLOs, with PGIM LOM acting as an “originator-manager” and providing advice with respect to loans only. Certain PGIM Fixed Income personnel serve as portfolio managers for both PGIM LOM and PGIM Limited. PGIM Limited also provides certain other services to PGIM LOM. PGIM LOM is not required to be authorized and regulated by the FCA. PGIM LOM is a participating affiliate of PGIM Limited, and it and certain of its personnel are subject to the supervision of PGIM Limited with respect to the services that PGIM LOM provides to PGIM Limited as a participating affiliate.

## Relationships with Affiliated Insurance Companies

We provide advisory services with respect to the general accounts of some of our affiliated insurance companies, including PICA (and certain of its subsidiaries) in the U.S.; and Gibraltar Life Insurance Co., Ltd. (and certain of its affiliates) in Japan. We also provide advisory services with respect to the insurance company separate accounts described above. Assets of the general accounts of affiliated insurance companies constitute a material portion of our assets under management.

Because of the substantial size of the general accounts of our affiliated insurance companies, trading by these general accounts, including our trades on behalf of the accounts, may affect the market prices or limit the availability of the securities or instruments transacted. Although we do not expect that the general accounts of affiliated insurers will execute transactions that will move a market frequently, and generally only in response to unusual market or issuer events, the execution of these transactions could have an adverse effect on transactions for or positions held by other clients.

## Affiliate Relationships with Limited Partnerships and Limited Liability Companies

As described above, we manage certain commingled investment vehicles, including limited partnerships and limited liability companies, for which our affiliates serve as general partner or managing member.

## Relationships with Affiliated Real Estate and Mortgage Finance Business

Our affiliate, PGIM Real Estate Finance, LLC ("PGIM REF"), is a national full-service, commercial and multifamily mortgage finance business. PGIM REF originates loans for, and also provides adviser services with respect to agricultural and other debt and equity real property investments to, investors that include PFI affiliates, certain third-party investors and various government and government sponsored enterprise programs. A subsidiary of PGIM REF also provides mortgage loan servicing. PGIM Fixed Income provides limited advisory services to a portfolio managed by PGIM REF.

## Conflicts Related to Affiliations

- *Conflicts Related to Investment of Client Assets in Affiliated Funds.* We invest client assets in funds that we manage or sub-advise for one or more affiliates. In choosing to invest client assets in such affiliated funds, we could be considered to have a financial incentive to prefer investing client assets in such funds instead of in funds, investments or products managed or sponsored by parties that are not affiliated with us. Investments in affiliated funds may, for example, benefit us and/or our affiliates through increasing assets under management and/or fees. Under certain conditions, we offset, rebate or otherwise reduce our fees or other compensation with respect to investments in affiliated funds; however, this offset, reduction or rebate, if available, will not necessarily eliminate conflicts, as we could nevertheless be considered to have a financial incentive to favor investing client assets in affiliated funds (because, for example, the fee applicable to the affiliated fund is higher than the amount of any fee waiver, investing in such funds would increase assets under management of such funds or could be viewed as being undertaken solely for the purposes of supporting the commercial growth of our or our affiliates' funds, products or lines of business). Further, if our affiliates provide initial funding to or otherwise invest in affiliated funds, we are incentivized to invest client assets in such funds in order to facilitate the redemption of all or part of our affiliates' interest in such affiliated fund. We also invest cash collateral from securities lending transactions in some of these funds. These investments benefit us and/or our affiliate through increasing assets under management and/or fees.
- *Conflicts Related to Referral Fees to Affiliates.* From time to time, we have arrangements where we compensate affiliated parties for client referrals. We also have arrangements with an affiliated entity which provide for payments to our affiliate if certain investments by others are made in

certain of our products or if we establish certain other advisory relationships. These investments benefit both us and our affiliates through increasing assets under management and fees.

- ***Conflicts Related to Co-investment by Affiliates.*** Our affiliates provide initial funding to or otherwise invest in certain vehicles managed by us. When certain of our affiliates provide “seed capital” or other capital for a fund, they generally do so with the intention of redeeming all or part of their interest at a future point in time or when they deem that sufficient additional capital has been invested in that fund.
  - The timing of a redemption by an affiliate could benefit the affiliate. For example, the fund may be more liquid at the time of the affiliate’s redemption than it is at times when other investors may wish to withdraw all or part of their interests.
  - In addition, a consequence of any withdrawal of a significant amount, including by our affiliate, is that investors remaining in the fund will bear a proportionately higher share of fund expenses following the redemption.
  - We could also face a conflict if the interests of an affiliated investor in a fund we manage diverge from those of the fund or other investors. For example, our affiliates, from time to time, hedge some or all of the risks associated with their investments in certain funds we manage. We may provide assistance in connection with this hedging activity.

We believe that the conflicts related to our affiliations described above are mitigated by our allocation policies and procedures, our supervisory review of accounts and our procedures with respect to side-by-side management, including of long only and long/short accounts.

#### **Conflicts Related to Our Financial Interests and the Financial Interests of Our Affiliates**

We, PFI, PICA and other affiliates of ours at times have financial interests in, or relationships with, companies whose securities or related instruments we hold, purchase or sell in our client accounts. Certain of these interests and relationships are material to us or to the PFI enterprise. At any time, these interests and relationships could be inconsistent or in potential or actual conflict with positions held or actions taken by us on behalf of our client accounts. For example:

- We invest in the securities of one or more clients for the accounts of other clients.
- Our affiliates sell various products and/or services to certain companies whose securities we purchase and sell for our clients.
- We invest in the debt securities of companies whose equity is held by affiliates.
- Our affiliates hold public and private debt and equity securities of a large number of issuers. We invest in some of the same issuers for our client accounts. For example:
  - Affiliated accounts have held and can in the future hold the senior debt of an issuer whose subordinated debt is held by our clients or hold secured debt of an issuer whose public unsecured debt is held in client accounts. (See Item 6 above for additional information regarding conflicts of interest resulting from investment at different levels of an issuer’s capital structure.)
  - To the extent permitted by applicable law, we can also invest client assets in offerings of securities the proceeds of which are used to repay debt obligations held in affiliated accounts or other client accounts. Our interest in having the debt repaid creates a conflict of interest. We have adopted a refinancing policy to address this conflict.
- Certain of our affiliates’ directors or officers are directors or officers of issuers in which we invest from time to time. These issuers could also be service providers to us or our affiliates.



- In addition, some of our affiliates originate and/or service commercial mortgage loans that are sold to certain issuers of agency and private-label commercial mortgage-backed securities (“CMBS”) and serve as security for CMBS issued by them. The proceeds of CMBS offerings by such issuers may be used to pay the purchase price for commercial mortgage loans sold to such issuers by our affiliates. Purchases of CMBS for our clients may be viewed as supporting the business of the sponsors of the CMBS who acquire mortgages from our affiliates. In addition, the commercial mortgage loans sold by our affiliates are typically sold on a servicing retained basis, which means one of our affiliates (an “affiliated servicer”) may provide certain services with respect to the mortgage loans for compensation. As a result, these commercial mortgage loans will typically be serviced by our affiliated servicer for the life of the CMBS deal or until the deal or the specific commercial mortgage matures or is terminated. In the event that a dispute arises with respect to an affiliate’s origination or servicing of a commercial mortgage loan in a CMBS trust, the affiliate’s positions and efforts may be contrary to the interests of holders of the CMBS. Unless prohibited by applicable law, we can invest assets of clients in CMBS secured by commercial mortgage loans originated and/or serviced by our affiliates. In order to mitigate the conflicts of interest related to purchases of these CMBS, we generally will not invest in CMBS offerings for unaffiliated clients in the primary or secondary market where commercial mortgage loans contributed by our affiliates are known to exceed 25% of the commercial mortgage loans backing such CMBS at the time of purchase. As a result, the activities of this affiliate can restrict the universe of CMBS that we are able to purchase for client accounts.

In general, conflicts related to the financial interests described above are addressed by the fact that we make investment decisions for each client independently considering the best economic interests of such client under the circumstances.

#### **Conflicts Arising Out of Legal and Regulatory Restrictions.**

- At times, we are restricted by law, regulation, executive order, contract or other constraints as to how much, if any, of a particular security we can purchase or sell on behalf of a client, and as to the timing of such purchase or sale. Sometimes these restrictions apply as a result of our relationship with PFI and our other affiliates. For example, we do not purchase securities issued by PFI or our other affiliates for client accounts.
- In certain instances, our ability to buy or sell or transact for one or more client accounts will be constrained as a result of our voluntary or involuntary receipt of MNPI (please also see Item 11), various insider trading laws and related legal requirements. For example, we would generally be unable to invest in, divest securities of or share investment analyses regarding companies for which we possess MNPI, and such inability (which could last for an uncertain period of time until the information is no longer deemed material or non-public) can result in us being unable to buy, sell or transact for one or more client accounts or to take other actions that would otherwise be to the benefit of one or more clients.
- We face conflicts of interest in determining whether to accept MNPI. For example, we have sought with respect to the management of investments in certain loans for clients to retain the ability to purchase and sell other securities in the borrower’s capital structure by remaining “public” on the loan. In such cases, we will seek to avoid receiving MNPI about the borrowers to which an account can or expects to lend or has lent (through assignments, participations or otherwise), which could place an account at an information disadvantage relative to other accounts and lenders. Conversely, we have chosen to receive MNPI about certain borrowers/issuers for our clients that invest in bank loans or private debt instruments, which has restricted our ability to trade in other securities of the borrowers/issuers for our clients that invest in corporate bonds or other public securities. (See Item 11 for additional information on the receipt of MNPI.)

- Our holdings of a security on behalf of our clients are required, under certain regulations, to be aggregated with the holdings of that security by other PFI affiliates. These holdings could, on an aggregate basis, exceed certain reporting or ownership thresholds. These aggregated holdings are centrally tracked, and we or PFI can choose to restrict purchases, sell existing positions, or otherwise restrict, forgo, or limit the exercise of rights to avoid crossing such thresholds because of the potential consequences to us or PFI if such thresholds are exceeded.

### **Conflicts Related to Investment Consultants.**

Many of our clients and prospective clients retain investment consultants (including discretionary investment managers and OCIO providers) to advise them on the selection and review of investment managers (including with respect to the selection of investment funds). We have dealings with these investment consultants in their roles as discretionary managers or non-discretionary advisers to their clients. We also have independent business relationships with investment consultants.

We provide investment consultants with information about accounts that we manage for their clients (and similarly, we provide information about funds in which such clients are invested), in each case pursuant to authorization from the clients. We also provide information regarding our investment strategies to investment consultants, who use that information in connection with searches that they conduct for their clients. We often respond to requests for proposals in connection with those searches.

Other interactions we have with investment consultants include the following:

- we provide advisory services to the proprietary accounts of investment consultants and/or their affiliates, and advisory services to funds offered by investment consultants and/or their affiliates;
- we invite investment consultants to events or other entertainment hosted by us;
- we purchase software applications, market data, access to databases, technology services and other products or services from certain investment consultants; and
- we sometimes pay for the opportunity to participate in conferences organized by investment consultants.

We will provide you with information about our relationship with your investment consultant upon request. In general, we rely on the investment consultant to make the appropriate disclosure to its clients of any conflict that the investment consultant believes to exist due to its business relationships with us.

Please note that your relationship with an investment consultant could result in restrictions in the eligible securities or trading counterparties for your account. For example, accounts of certain clients (including clients that are subject to ERISA) can be restricted from investing in securities issued by the client's consultant or its affiliates and from trading with, or participating in transactions involving, counterparties that are affiliated with the investment consultant. In some cases, these restrictions could have a material impact on account performance.

### **Conflicts Related to Service Providers.**

We retain third party advisors and other service providers to provide various services for our firm as well as for funds that we manage or sub-advise. Some service providers provide services to PGIM Fixed Income or one of our funds while also providing services to other PGIM, Inc. or PGIM Limited units, other PGIM, Inc. or PGIM Limited advised funds, or affiliates of PGIM, Inc. or PGIM Limited, and negotiate rates in the context of the overall relationship. We can benefit from negotiated fee rates offered to our funds and vice versa. There is no assurance, however, that we will be able to obtain or maintain advantageous fee rates from a given service provider negotiated by our affiliates based on their relationship with the service provider, or that we will know of such negotiated fee rates.

## **Item 11—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics**

We maintain a code of ethics as required by applicable SEC rules. Our code of ethics requires employees to conduct business in an honest and forthright manner in accordance with the highest of ethical standards. In addition, the code of ethics requires employees to put client interests ahead of our own and disclose actual and potential conflicts of interest. The code of ethics references our information barrier and personal securities trading standards that are described in greater detail below. Our employees are required to report any violation of the code of ethics promptly. (See Items 6 and 10 for a description of conflicts of interest related to our side-by-side management of accounts and to our affiliations.)

We will provide you with a copy of our code of ethics upon request.

### **Receipt of Material Non-Public Information (MNPI) and Information Barrier Standards**

In the ordinary course of our business, we receive MNPI. MNPI can be received voluntarily or involuntarily and under varying circumstances, including upon execution of a non-disclosure agreement, as a result of serving on the board of directors of a company, serving on an ad hoc or official creditors' committee or when using the services of an expert network.

From time to time, certain PGIM Fixed Income employees use paid expert networks or industry experts to enhance their research capabilities. To mitigate the risk of inadvertently receiving MNPI from such expert networks, PGIM Fixed Income's compliance team exercises oversight with regard to the engagement of such experts and periodically reviews the controls employed by such expert networks.

PGIM Fixed Income personnel are prohibited from improperly sharing or using MNPI for their personal benefit or for the benefit of any other person, regardless of whether that person is a client of PGIM Fixed Income. PFI's information barrier standards, which apply to us, and our related procedures are designed to prevent the communication of MNPI across the various PFI asset management investment sectors, and the misuse of MNPI. Under the standards, an employee of one PFI asset management investment sector, including PGIM Fixed Income, is not permitted to communicate MNPI to an employee of another PFI asset management investment sector without approval from the relevant compliance team. The information barrier standards also restrict, as appropriate, physical access to an investment sector's offices by employees of a different investment sector.

In connection with evaluating private market opportunities (e.g., private equity, direct lending, and other private transactions), as well as potential transactions in public securities which have not yet been announced, we erect internal information barriers around a small number of our employees involved in evaluating such opportunities, so that MNPI received by such employees is not attributed to the rest of PGIM Fixed Income. Similar to the PFI information barrier standards, the internal information barriers restrict, as appropriate, physical access to certain offices/areas by other employees of PGIM Fixed Income.

In addition, we maintain restricted lists of issuers and borrowers (and their affiliates) about whom we have MNPI. Restricted issuers and borrowers are also added directly into the trading system so that our trading activities are screened against our restricted lists. Investment personnel must receive an override from our compliance unit prior to transacting for client accounts in the securities of any issuers or, in some cases, loans of any borrowers that are restricted in the trading system. Our restricted lists limit investment opportunities available to our clients, and client accounts that hold restricted securities and/or loans are

not permitted to sell or buy securities or, in some cases, loans until such time as the related issuers or borrowers are removed from the restricted lists. (See Item 10 at “Conflicts Arising Out of Legal and Regulatory Restrictions” for further information about how our ability to buy, sell, or transact is limited as a result of our receipt of MNPI.)

Under certain circumstances, contractual obligations owed by us to third parties to maintain confidentiality and legal and regulatory requirements prevent us from sharing (or may limit our ability to share) MNPI, information based on MNPI (including, but not limited to analyses), or other confidential information with PGIM Fixed Income clients and others.

## **Personal Securities Trading Standards**

To manage the conflict of interest presented if our employees were to invest in the same securities that we recommend to clients, we have implemented the restricted lists (discussed above) and the following personal securities trading standards to address the conflicts that arise in connection with personal trading. We maintain personal securities trading standards that govern the trading activities of our employees as well as their household members and dependents. Subject to certain exceptions, employees are required by the standards to:

- report personal securities transactions to our corporate compliance unit;
- pre-clear personal securities transactions;
- maintain brokerage accounts only with certain approved brokers who are requested to report transaction information to our corporate compliance unit; and
- annually report securities holdings to our corporate compliance unit.

Our access persons and investment personnel are subject to additional restrictions under the standards, including the following (which are subject to exceptions for certain de minimis transactions):

- investment personnel are generally prohibited from purchasing securities in initial public offerings;
- access persons may not knowingly trade any security on the same day that we trade such security for client accounts;
- investment personnel are prohibited from knowingly trading any security within seven days before or after we trade such security for client accounts;
- investment personnel who invest in proprietary and certain non-proprietary mutual funds and ETFs must hold such investments for a period of at least 60 days, with certain exceptions; and
- access persons may not write naked call options or buy naked put options on a security held in a client account.

We compare personal trading activity versus firm trading and restricted list content, and any matches are investigated by our compliance unit. An ethics committee meets regularly to consider possible violations and take disciplinary action where appropriate.

All employees receive routine training regarding our personal securities trading and information barrier standards. In addition, employees must annually confirm that they have read and understand our code of ethics, including the personal securities trading and information barrier standards.

## **Gift and Entertainment Policy**

Our employees may occasionally give or receive gifts, meals or entertainment of moderate value, subject to compliance with applicable laws and regulations (including the U.S. Foreign Corrupt Practices Act and

the U.K. Bribery Act 2010) and rules of self-regulatory organizations. PGIM, Inc. and PGIM Limited have adopted policies to address the conflicts of interest related to gifts and entertainment, such as the appearance of having given or received something of value that influenced our business decisions or the business decisions of our clients. The policies require the reporting and preclearance of gifts, meals and entertainment given or received which exceed certain thresholds. In addition, PGIM, Inc. and PGIM Limited employees are prohibited from soliciting the receipt of gifts, meals or entertainment. Senior management periodically reviews summaries of gifts and entertainment activity to detect trends of abuse, conflicts of interest, or possible violations of the policy.

## **Political Contributions**

Due to the potential for conflicts of interest, PFI, PGIM, Inc. and PGIM Limited have established policies and procedures relating to political contributions that are designed to comply with applicable federal, state and local law. Under PGIM, Inc. and PGIM Limited's political contributions policy, all employees (including spouses, partners, and dependent children) must obtain preapproval before making any U.S. political contribution. This policy also prohibits our employees from making any political contributions with the intent of influencing a public official regarding the award of a contract to us or our affiliates.

## **Compensation of Our Investment Professionals**

### **General**

An investment professional's base salary is primarily based on market data relative to similar positions as well as the past performance, years of experience and scope of responsibility of the individual. PGIM Fixed Income is allocated an overall incentive pool based on the investment and financial performance of the business. Incentive compensation for investment professionals, including the annual cash bonus, the long-term equity grant and grants under our long-term incentive plans, is primarily based on such person's contribution to our goal of providing investment performance to clients consistent with portfolio objectives, guidelines, risk parameters, and our compliance, risk management and other policies, as well as market-based data such as compensation trends and levels of overall compensation for similar positions in the asset management industry. In addition, an investment professional's qualitative contributions to the organization and its commercial success are considered in determining incentive compensation. Incentive compensation is not solely based on the performance of, or value of assets in, any single account or group of client accounts.

PGIM Fixed Income (U.K.) has adopted a remuneration policy in relation to activities conducted through the entities authorized and regulated by the FCA in the United Kingdom. The remuneration policy is intended to be compliant with the United Kingdom's Investment Firms Prudential Regime ("IFPR") and governs the remuneration of PGIM Fixed Income (U.K.) staff and "material risk takers" of PGIM Fixed Income (U.K.) including those that are based outside the United Kingdom.

### **Cash Bonus**

An investment professional's annual cash bonus is paid from an annual incentive pool. The pool is developed as a percentage of our operating income and the percentage used to calculate the pool may be refined by factors such as:

- business initiatives;
- the number of investment professionals receiving a bonus and related peer group compensation;
- financial metrics of the business relative to those of appropriate peer groups; and
- investment performance of portfolios: relative to appropriate peer groups and/or as measured against relevant investment indices.

## **Long-Term Compensation**

Long-term compensation consists of PFI restricted stock and grants under our long-term incentive plan and targeted long-term incentive plan. Our long-term incentive plan is intended to align compensation with investment performance. Our targeted long-term incentive plan is intended to align the interests of certain of our investment professionals with the performance of the particular alternative investment strategies or commingled investment vehicles they manage. Grants under our long-term incentive plan and targeted long-term incentive plan are participation interests in notional accounts with a beginning value of a specified dollar amount. For our long-term incentive plan, the value attributed to these notional accounts increases or decreases over a defined period of time based on the performance of investment composites representing a number of our investment strategies. With respect to targeted long-term incentive awards, the value attributed to the notional accounts increases or decreases over a defined period of time based (as applicable) on the performance of either a composite of particular alternative investment strategies or a commingled investment vehicle. An investment composite is an aggregation of accounts with similar investment strategies. The CEO of PGIM Fixed Income also receives performance shares which represent the right to receive shares of PFI common stock conditioned upon, and subject to, the achievement of specified financial performance goals by PFI. Each of the restricted stock, grants under our long-term incentive plans, and performance shares is subject to vesting requirements.

## **Conflicts Related to Long-Term Compensation**

As a result of the long-term incentive plan and targeted long-term incentive plan, our portfolio managers from time to time have financial interests related to the investment performance of some, but not all, of the accounts they manage. For example, the performance of some client accounts is not reflected in the calculation of changes in the value of participation interests under our long-term incentive plan. This may be because the composite representing the strategy in which the account is managed is not one of the composites included in the calculation or because the account is excluded from a specified composite due to guideline restrictions or other factors. In addition, the performance of only a small number of our investment strategies is covered under our targeted long-term incentive plan. Further, for certain investment professionals, participation interests in the targeted long-term incentive plan constitute a significant percentage of their total long-term compensation. To address potential conflicts related to these financial interests, we have procedures, including trade allocation and supervisory review procedures, designed to confirm that each of our client accounts is managed in a manner that is consistent with our fiduciary obligations, as well as with the account's investment objectives, investment strategies and restrictions. For example, one or both of our co-chief investment officers review performance among similarly managed accounts on a quarterly basis during a series of meetings with the senior portfolio manager and team responsible for the management of each of our investment strategies. These quarterly investment strategy review meetings generally are also attended by the CEO of PGIM Fixed Income, the head of quantitative analysis and risk management or his designee and a member of our compliance group, among others.

## **Conflicts Related to the Offer and Sale of Securities**

Certain of our employees offer and sell securities of, and interests in, commingled funds that we manage. Employees offer and sell securities in connection with their roles as registered representatives of PIMS, officers of Pru Trust, agents of PICA, approved persons of PGIM Limited or other roles related to such commingled funds. (See Item 10 for more information about these affiliations.) There is an incentive for our employees to offer these securities to investors regardless of whether the investment is appropriate for such investor since increased assets in these vehicles will result in increased advisory fees to us. In addition, such sales could result in increased compensation to the employee. (See "Other Compensation" in Item 5.)

### **Conflicts Related to Employee/Investment Professional Trading**

*Personal Trading by Our Employees.* Personal trading by our employees creates a conflict when they are trading the same securities or types of securities as we trade on behalf of our clients. This conflict is mitigated by our personal trading standards and procedures described above.

*Side-by-Side Management of Accounts.* See Item 6 for a description of conflicts of interest related to our side-by-side management of accounts.

### **Conflicts Related to Outside Business Activity**

From time to time, certain of our employees or officers engage in outside business activity, including outside directorships. Any outside business activity is subject to prior approval pursuant to our personal conflicts of interest and outside business activities policy. Actual and potential conflicts of interest are analyzed during such approval process. We could be restricted in trading the securities of certain issuers in client portfolios in the unlikely event that an employee or officer, as a result of outside business activity, obtains material, nonpublic information regarding an issuer.

## **Item 12—Brokerage Practices**

### **Factors Used in Selecting or Recommending Broker-Dealers/Counterparties**

#### **Approved Counterparties**

Transactions for client accounts must be made through approved counterparties. All counterparties are reviewed, approved and monitored by our credit research group. Criteria for approval include:

- profitability;
- liquidity;
- capital;
- financial metrics;
- economic factors;
- size; and
- market presence.

Our approval process considers both transactional risk and counterparty creditworthiness, with transaction approval divided into various categories based on our view of the risk of the transaction. We may approve counterparties for one or more transaction categories. These categories include:

- delivery versus payment transactions with standard settlement (a settlement period of five days or less);
- extended settlement transactions (a settlement period of over five days);
- securities lending and reverse repurchase transactions;
- collateralized derivatives transactions; and
- uncollateralized derivatives transactions.

Any concerns regarding the creditworthiness of an approved counterparty are reported to our quantitative analysis and risk management group for a review of applicable exposures to such counterparty. Any material exposures are notified to senior management.

Our counterparty risk committee is responsible for general oversight of the counterparty approval process. This committee reviews counterparty usage data, patterns (if any) relating to counterparty use, and other information relevant to our counterparty selection process.

### **Execution of Trades**

We seek to execute transactions in client accounts at the most advantageous terms reasonably attainable in the circumstances (i.e., we seek to achieve best execution when we have the discretion to execute the transaction). Factors that we may consider in seeking to achieve best execution include:

- the counterparty's execution and settlement capability (including factors such as timing and speed of execution);
- price;
- commission rates (including commission equivalents) and other transaction costs, if any;
- responsiveness and administrative cooperation of the counterparty;
- creditworthiness, reputation and financial responsibility of the counterparty;
- the counterparty's willingness to commit capital under certain circumstances;
- the counterparty's willingness to maintain confidentiality (e.g., not reveal details about our trades or trading patterns to other brokers or market participants);
- the counterparty's ability to execute large transactions and to limit the market impact of large transactions; and
- client direction/restriction or regulatory restrictions regarding the use of certain counterparties.

PGIM Fixed Income (U.K.) is required to take into account the following additional factors when seeking to achieve best execution:

- the characteristics of the client, including categorization;
- the characteristics of the client order, including any specific instructions from the client in relation to the order;
- the characteristics of the financial instruments that are the subject of that order; and
- the characteristics of brokers or execution venues to which the order may be directed.

Our trade management oversight committee, which generally meets quarterly, provides oversight with respect to best execution, trade allocation and other trade related matters. The applicability and importance of the factors listed above will vary based on, among other things, the size, timing and nature of the transaction; the market in which it occurs; the number of counterparties capable of executing the transaction; the liquidity and other characteristics of the instrument being traded; and market conditions.

Transactions may not always be executed at the best available price due to the consideration of relevant factors other than price, and it is possible that our clients pay transaction costs in excess of those which another firm might have charged for executing the same transaction.

We manage foreign currency ("FX") transactions through our approved counterparties or our clients' custodians. We will execute FX transactions through a client's custodian when directed by a client or



when local market rules or settlement practices indicate this to be a more efficient method for settling our trade orders. We will seek to aggregate and/or net FX transactions when doing so would be in the clients' best interests and where permitted by applicable regulation. When we execute through custodians at the direction of our clients, our execution is generally subject to the limitations and considerations described below under "Directed Brokerage." Our portfolio managers review FX transaction price and execution taking into account factors such as available market quotations, liquidity, capability of our counterparties, applicable regulatory restrictions, or local rules and practices.

### **Soft Dollars and Research Services**

#### *PGIM Fixed Income (U.S.)*

Currently, PGIM Fixed Income (U.S.) does not enter into arrangements whereby brokerage business is promised in exchange for services, information or other benefits (e.g., soft dollars or soft commissions).

PGIM Fixed Income (U.S.) receives a broad range of information and data from broker-dealers or other counterparties, including information on the economy, industries, groups of securities and individual companies, statistical information, market data, accounting and tax law interpretations, information regarding political developments, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and other information regarding matters that may affect the economy and/or security prices. It may receive written reports, periodicals, investment seminars, access to databases, software, dedicated phone lines to be used to communicate trades and telephone contacts and personal meetings with, securities analysts, economists, government representatives and corporate and industry spokespersons. As noted above, these items are not received pursuant to arrangements or agreements to exchange brokerage business for services or benefits and are not considered to be obtained using soft dollars. PGIM Fixed Income (U.S.) is not obliged to direct brokerage in order to receive such items.

PGIM Fixed Income (U.S.) uses the information, data, services and other items referred to above in connection with its investment activities. Such information, data, services or other items obtained in connection with the execution of transactions for one client account could also be useful in managing other accounts, including accounts managed for its affiliates. However, PGIM Fixed Income (U.S.) does not consider the receipt of such information, data, services and other items in connection with its selection or evaluation of counterparties.

#### *PGIM Fixed Income (U.K.)*

PGIM Fixed Income (U.K.)'s policies and procedures regarding the receipt of and payment for research reflect changes to the inducements rules introduced by U.K. MiFID II/MiFIR.

PGIM Fixed Income (U.K.) is not permitted to pay for research using soft dollars. Any research that it receives must be paid for on a hard dollar basis, either from its own account or via a separate research payment account that is funded by its clients. PGIM Fixed Income (U.K.) has taken the decision to pay for all research received from third party research providers (including counterparties) from its own account. The amount that it pays for research varies according to the third-party provider. It is still permitted to receive certain types of research for free where it constitutes an acceptable minor non-monetary benefit as defined in the FCA rules.

In respect of wider research services (e.g., corporate access), these must also be paid for by PGIM Fixed Income (U.K.), unless they fall within a defined list of acceptable minor non-monetary benefits. PGIM Fixed Income (U.S.) is not subject to U.K. MiFID II/MiFIR and does not share research it receives from broker-dealers with PGIM Fixed Income (U.K.).

## Brokerage for Client Referrals

In selecting or recommending counterparties, we do not consider whether we or any of our related persons receive referrals from such counterparties or any other third parties.

## Our Relationships with Trading Counterparties

Our relationships with broker-dealers and other counterparties, particularly those affiliated with large financial services organizations, are complex. These relationships with trading counterparties include the following:

- we invest client assets in securities issued by trading counterparties or their affiliates;
- we provide investment management services with respect to the accounts of certain trading counterparties or their affiliates;
- trading counterparties or their affiliates select us to manage accounts of their clients and invest assets of their clients in funds that we manage;
- trading counterparties distribute funds that we manage or sub-advise and such funds may be included on the investment platforms of trading counterparties;
- broker-dealers serve as prime brokers to funds that we manage;
- we or funds that we manage participate in certain broker-dealer capital introduction programs;
- trading counterparties sometimes agree to bear all or a portion of the legal fees incurred by us in reviewing certain investments arranged by them or to have such legal fees paid as transaction expenses; further, such agreements by their nature are contingent on our investment in the transaction (with PGIM Fixed Income bearing such fees if such investment is not made);
- as noted above, trading counterparties provide both internally generated and third-party research to us; and
- family members of some of our personnel are employed by trading counterparties or their affiliates.

All of these relationships pose the potential for a conflict in the selection of counterparties to execute client transactions.

## Directed Brokerage

We do not recommend, request or require that clients direct us to execute transactions through a specified broker-dealer or other counterparty.

We do permit clients to direct the use of a particular broker-dealer or other counterparty for their account. Any such direction must be in writing or evidenced by our client's contract with the applicable counterparty. If a client directs us to use a specific counterparty, specific counterparties or a class of counterparties, the client:

- could pay higher prices or otherwise receive inferior execution, depending on its arrangements with the counterparty and upon other factors such as trading volume, the market for the security, and market-making capabilities of the counterparty;
- could lose the possible advantage which non-directing clients derive from the aggregation of orders for multiple clients as a single "batch" transaction, where we would, in some instances, be in a better position to negotiate pricing if the brokerage were not directed; and

- would be responsible for monitoring the creditworthiness of the counterparty it has selected.

ERISA accounts are subject to additional requirements and restrictions with respect to directed brokerage.

Clients should evaluate the relative costs, advantages and disadvantages of directed brokerage when considering whether or not to direct us to use one or more specific counterparties or a class of counterparties. Similar considerations apply in instances where a client restricts the universe of eligible trading counterparties pursuant to investment guidelines or otherwise.

## Trade Aggregation and Allocation

Our policy with respect to trade allocation is to treat all client accounts fairly and equitably over time.

We seek to aggregate and allocate all new issue orders across accounts with an appetite for the particular trade. While not required, we often aggregate secondary transactions. However, in many other cases, we execute trades to meet the specific needs of a single account.

Our trade allocation policy (including the supervisory review procedures regarding allocation described in Item 6) exempts transactions in securities or instruments that are deemed to be both liquid and fungible. Examples of such securities or instruments are: eligible securities as defined by Rule 2a-7 under the U.S. Investment Company Act of 1940; U.S. government securities, including agencies and agency mortgage-backed securities; non-U.S. government securities issued in their native currency that we consider to be investment grade; exchange-traded futures and options; index credit default swaps; interest rate swaps; and foreign currency instruments. Nevertheless, we may determine (and in some cases have determined) that certain such liquid and fungible securities and instruments will not be exempt from our trade allocation policy (although we remain free to exempt any such securities or instruments that we have previously determined not to exempt).

As stated above, our trade allocation policy provides for the fair and equitable allocation of trading opportunities over time. However, a specific trade, when viewed in isolation, may have the effect of benefiting one account over another.

In determining individual account appetite, including whether such account participates in an aggregated order, we may be influenced by numerous factors including:

- an account's cash or liquid asset availability, including known or anticipated cashflows (and that new accounts or accounts that are "ramping-up" will be expected to have cash or liquid asset availability);
- the benchmark weight of the security;
- maturity, quality, duration or risk contribution represented by the security;
- existing holdings of each account;
- specific account and mandate objectives, guidelines and constraints, including maintaining compliance with CLO portfolio tests and other transaction obligations;
- legal requirements;
- liquidity requirements;
- timing considerations;
- *de minimis* allocation considerations based on criteria such as round lot provisions, minimum percentage of NAV or minimum transaction size; or

- any other portfolio construction considerations.

In addition, preference may be given to accounts whose investment guidelines limit their universe of available securities.

Our general practice is that all aggregated orders will be allocated across accounts at the time of the transaction, or promptly thereafter, based on each account's appetite for the issue, including affiliated accounts. Due to the factors identified above, allocations across accounts (whether such accounts are differently-situated or similarly-situated) will not necessarily be made on a pro rata basis. Order allocation is not based upon account performance, fee structure, or any proprietary interest that we or our affiliates may have in an account.

If less than an entire aggregated order is executed, the fill that each account receives may be adjusted based on one of a number of methodologies approved by our compliance group and senior management, such as pro rata based on original order or position or duration weight relative to benchmark. In determining final allocations, we may also consider the factors described above with respect to the determination of individual account appetite (including within groups of similarly-situated accounts).

In certain circumstances, the manner in which we structure our business may cause counterparties to fill orders in a way that could impact or disadvantage some of the accounts we manage. For example, PGIM LOM and PGIM Limited act as co-managers of certain European CLOs (the "PGIM LOM Accounts") with PGIM LOM acting as an "originator-manager" and providing advice with respect to loans only. PGIM Limited manages other European CLOs and certain other European and global bank loan mandates for which PGIM LOM does not act as a co-manager (the "PGIM Limited Accounts"). Certain PGIM Fixed Income personnel serve as portfolio managers for both the PGIM LOM Accounts and the PGIM Limited Accounts. When these portfolio managers place orders with a counterparty for both the PGIM LOM Accounts and the PGIM Limited Accounts, they also place orders for the PGIM LOM Accounts separate from orders for the PGIM Limited Accounts rather than placing only a single, aggregated order in an amount equal to the aggregate of such separate orders (as would likely be the case if PGIM Limited alone managed the PGIM LOM Accounts and the PGIM Limited Accounts). It is possible that the counterparty could fill the separate orders in an aggregate amount that is less advantageous than had only the single order been placed and/or that the counterparty could fill the separate orders for the PGIM LOM Accounts and for the PGIM Limited Accounts in amounts other than their respective pro-rata shares of the aggregate appetite of the PGIM LOM Accounts and the PGIM Limited Accounts. This could result in accounts receiving or selling fewer loans or receiving poorer pricing than would be the case with an aggregated order.

### **Aggregation/Allocation of Futures**

We can seek to enter a single futures order for multiple client accounts that have appetite for the same instrument. This is commonly referred to as a "block order." Block orders can result in "split fills" (an execution of a block order at more than one price) or "partial fills" (an execution of a block order at less than specified quantities). We allocate block orders and any resulting split and/or partial fills in a non-preferential, predetermined and objective manner.

### **Cross Trades**

To the extent permitted by applicable law, our policies and procedures, and our agreements with clients (including, where applicable, a client's governing documents), we can, but are not in any specific case required to, engage in cross trades pursuant to which we cause purchases and sales between client accounts. For example, we may cause one client account to purchase a security or loan directly from another client account. Not all accounts will participate in cross trades or any particular cross trade. In some cases, where we are able to cross trade, we are nevertheless only permitted (or we only elect) to cross trade between certain accounts. We do not permit cross trades for ERISA accounts. Cross trades

for accounts where we (directly or because of an affiliate) act as principal are subject to certain requirements, including obtaining appropriate client consents as required.

Cross trades present a conflict of interest and are subject to certain conditions but can benefit both the buying and the selling accounts by eliminating or reducing transaction costs or capitalizing on investment opportunities, which can be preferable to selling or buying the instrument in the open market. With respect to conflicts of interest, we may be viewed as benefitting one client to the cross trade at the expense of the other client or treating a client participating in a cross trade more favorably than a client that does not. The potential conflict is greater where one of the accounts is a proprietary or affiliated account, or where we receive a higher fee or have negotiated a performance-based fee. There also are risks that the cross trade transaction price will not be as favorable as if it were executed on the open market or that the buying account receives a security that is illiquid or hard to sell. We also could decline to execute cross trades for certain accounts, which might disadvantage those accounts when compared to accounts that participate in cross trades.

We maintain procedures and controls to mitigate the conflicts associated with cross trades. We engage in cross trades where we believe that the cross trades are in the best interests of, and fair to, each client that participates in the cross trade, and use reasonable, independent pricing in accordance with applicable law. The reporting of cross trade information is required for some clients.

Neither PGIM Fixed Income nor any affiliated or unaffiliated broker-dealer receives any commission or transactional compensation for effecting cross trades, and there are no additional client fees other than customary processing fees, which may include fees for settlement of the transaction or effecting compliance with local reporting requirements.

### **Our Trade Error Policy**

Errors, including trade errors and operational errors, may occasionally occur in connection with PGIM Fixed Income's management of client accounts. We maintain a trade and operational errors and corrections policy. We seek to correct all errors covered under the policy in a manner that is fair and reasonable under the circumstances.

We generally consider an error to be an action we take in contravention of, or our failure to act in accordance with, the applicable standard of care or our contractual obligations to clients (including our obligations under client investment guidelines).

We determine whether an error has occurred on a case-by-case basis taking into consideration factors we deem reasonable including, without limitation, applicable legal and regulatory requirements, our contractual obligations to clients and the applicable standard of care (our consideration of these factors is informed, to the extent appropriate and permissible, by applicable business practices, market conventions, industry practices and other relevant facts and circumstances). We attempt to resolve similar situations in a consistent manner, although our view as to whether we have met our standard of care and of other relevant considerations may change over time.

There will be actions we take or fail to take, and there will be mistakes and other incidents and events, which we reasonably determine are not errors. Further, our policies and obligations do not generally require perfect implementation of investment management decisions, trade processing or other functions. Accordingly, not all mistakes or other incidents or events will be considered errors (and as such will not require notice or compensation to clients).

Unless we determine otherwise in light of one or more of the various factors we consider when determining whether an error has occurred, the following (among others) are examples of events or incidents that we generally would not consider to be errors:

- certain imperfections in implementation of investment decisions, quantitative strategies, financial modeling, trade execution, cash movements, portfolio rebalancing, processing of instructions, facilitation of securities settlement, processing of corporate actions or the generation of cash or holdings reports, even if such imperfections result in trading activity;
- instances in which an investment professional executes a trade that results in a portfolio position that is different from the exposure intended by the portfolio management team, provided that the portfolio position does not violate applicable client investment guidelines and is not substantially inconsistent with the portfolio management team's investment intent;
- failure to adhere to internal targets, internal risk thresholds, or other parameters that may be used to manage risk or otherwise guide portfolio management decision-making;
- to the extent consistent with industry practice or market convention, settlement failures, late settlements or other related issues resulting in losses or penalties or charges to a client account of \$500 or less (including overdraft fees), or in such other amounts as are from time to time applicable or customary in relevant U.S. or non-U.S. markets;
- an error that is the fault of an executing broker-dealer, custodian, counterparty or other third party (irrespective of whether we seek compensation on behalf of a client from such parties); and
- in certain cases, the purchase of a security for which a client appears ineligible as a result of an express restriction in the issuer's prospectus or offering documents or in other issuer-imposed rules (to the extent that the purchase did not also violate applicable client investment guidelines).

An error for which we have determined we are responsible could result in a gain or in a loss to a client account or could have no financial impact on the client account. If such an error, after correction, results in a loss to a client account, we will determine the amount of the loss and reimburse the client account. If such an error, after correction, results in a gain to a client's account, the client account will retain the gain. Unless prohibited by applicable law or regulation or agreement with the client, we can choose to net the client's gains and losses arising in connection with errors under circumstances that include, without limitation, where more than one transaction must be effected to correct an error (e.g., unwinding both components of a relative value trade), or there occurs a series of related errors with the same root cause. The calculation of the amount of any net impact will depend on the facts and circumstances of an error, and the calculation methodology can vary. In some cases, the net impact will be as simple as the difference between the security purchase and sale prices. With respect to, for example, more complex errors or those continuing over a longer period of time, we can consider, among other factors, the performance during the period of the account, the account's benchmark, comparable securities and/or the industry in which the security is included. Reimbursement is generally limited to direct losses and does not include any amounts we determine to be speculative or uncertain or that would result in an undue performance gain, or windfall. In certain circumstances, to the extent permitted by applicable law or regulation, we can decide or agree to compensate a client for a loss even though we do not believe it was caused by an error for which we were responsible (or in an amount that is different from the amount that we would have determined by relying solely on our own methodologies for calculating losses).

To avoid potential errors in client accounts, our policy permits trades, where appropriate, to be cancelled or modified prior to settlement. In addition, our policy provides that an error in one client's account may be avoided through reallocation of a trade, prior to settlement, to another client's account, subject to certain conditions. Unless otherwise provided in client agreements, clients will not be notified if an error in their account is avoided through cancellation, modification or reallocation.

Errors involving a breach of a client's investment guidelines and any error resulting in a reimbursable loss to the client will be reported to the client. Unless otherwise provided in client agreements, non-

compensable errors (other than those involving client investment guideline breaches) will generally not be reported to clients. Investors in pooled investment vehicles will generally not be notified by us of the occurrence of an error or of the resolution thereof.

From time to time we could be required to evaluate facts and circumstances relating to our models or modeling processes. Coding mistakes can occur in the programming or implementation of investment models or other models that are applied to client accounts. When such coding mistakes are identified, we seek to understand the cause and determine their impact. In certain cases, coding mistakes may not significantly impact the overall objective of the model or significantly influence an investment decision and will not be compensable or reportable to a client. Certain data received from external sources are inputs to our models and/or other investment processes. Trades or other issues resulting from inaccuracies in data received from external sources will generally not be considered errors.

## **Master Trading Agreements for Derivatives**

### **General**

Certain investment strategies that we manage utilize derivatives, such as swaps, futures, forwards and other forward settling transactions. These types of transactions typically require the negotiation of an agreement with one or more counterparties (for example, International Swaps and Derivatives Association “ISDA” master agreements and credit support annexes (“ISDA Agreements”), customer agreements with futures commission merchants, clearing agreements and master securities forward transaction agreements) (collectively, “Master Agreements”). Certain non-derivative securities, such as to-be-announced transactions, including adjustable rate mortgage transactions and transactions in collateralized mortgage obligations, are also traded under Master Agreements. These agreements may be executed by our clients or, with client authorization, by us on a client’s behalf.

### **Execution of Derivatives Agreements on Behalf of Clients**

When a client authorizes us to execute Master Agreements on its behalf, we are acting solely as agent on behalf of the client. This means that the client is the named party to the agreement and a party to the underlying transactions. Accordingly, such clients are responsible for any obligations incurred under the agreements. We also may adhere to industry standard ISDA protocols on behalf of our clients, which effectively amend ISDA Agreements that are already in place. Master Agreements require each party to make certain representations and warranties. We do not have the information necessary to confirm the accuracy of many of these representations and warranties on behalf of our clients, and therefore it is important for clients to review these agreements and other materials that we provide in order to understand the applicable terms and to confirm the accuracy of these representations and warranties. Inaccurate or incomplete information in a Master Agreement can result in an event of default and allow the counterparty to terminate the agreement and take other adverse actions. Clients should also note that Master Agreements often contain indemnification provisions and, for sovereign or government clients, require the waiver of sovereign immunity.

### **Timing**

Counterparties to Master Agreements generally require credit approval and the satisfaction of other due diligence requirements prior to executing a new agreement or adding a new account to existing Master Agreements. This can be a lengthy approval process that typically does not begin until a client’s investment management agreement is signed and delivered to the counterparty. Clients may receive requests for additional information from the counterparties. Any failure to provide the requested information in a timely manner can result in a delay in the launch of client accounts or delay in the ability to transact in derivatives for the account, which may affect the overall performance of the account.

## **Foreign Exchange Forwards**

When an account which is permitted to trade certain derivatives is launched but the ISDA Agreement negotiation process is not completed or under certain other circumstances, we may trade foreign exchange forwards by adhering on behalf of our clients to certain Dodd-Frank protocols and electing a “deemed ISDA” for Dodd-Frank purposes. This is a form of agreement that does not contain many of the protections usually contained in a negotiated ISDA Agreement. For instance, deemed ISDAs do not include a Credit Support Annex and do not require the parties to exchange collateral. The absence of collateral increases the counterparty risk for these transactions, and given these additional risks, we generally only trade under a deemed ISDA for a limited period of time until the client can be added to a formal ISDA Agreement. Failure to finalize negotiations of an ISDA Agreement may affect our ability to use derivatives in managing a client’s account.

## **Other Agreements Related to Investments**

When making investments in securitized products and bank loans (either directly or through participations), investors are generally required, including under the terms of industry-standard documentation, to make representations and warranties and to indemnify certain transaction parties for losses suffered by such parties due to inaccuracies in representations and warranties and for the investor’s share of certain liabilities and expenses incurred by such parties. Similar provisions may be contained in agreements related to the purchase of other securities, such as securities purchased in private placement transactions or in connection with restructurings. As a result of the foregoing indemnities, clients could be required to expend additional funds in respect of an investment beyond the acquisition price for such investment or the value of a client’s investment could be reduced by the amounts paid or payable under such indemnities. Agreements executed in connection with negotiating restructurings for distressed investments can also contain indemnities and such agreements also give rise to other obligations. (See Item 17 under “Pre-bankruptcy/Bankruptcy Proceedings”.)

## **Other Matters Related to Account Transactions**

### **Trading Ahead of Cash Settlement**

We are not required to invest cash flows in client accounts prior to confirmation that the cash has been received by the client’s custodian. We may, in our discretion and at the request of our clients, choose to invest cash prior to such settlement so long as the client provides adequate assurances that the cash will be received by its custodian prior to the settlement date for the investment. Any losses or other costs incurred as a result of the failure to deliver cash by the date specified in our client’s instruction will be the responsibility of the client.

### **Client-Directed and Certain Other Trades Between Accounts**

Upon client request or direction or in other limited circumstances, we may engage in trades or transfers between accounts owned by a client or affiliated clients using a broker-dealer to effect the trades or transfers.

## **Item 13—Review of Accounts**

### **Periodic Review of Client Accounts**

Each quarter, one or both of our co-chief investment officers hold a series of meetings with the senior portfolio manager and team responsible for the management of each of our investment strategies. At each of these quarterly investment strategy review meetings, they review and discuss the investment



performance and performance attribution for each client account managed in the strategy. These meetings generally are also attended by the CEO PGIM Fixed Income, the head of quantitative analysis and risk management or his designee and a member of our compliance group, among others.

## **Risk Management Reviews**

Our investment risk management team also conducts the following periodic reviews:

- *Daily Risk Reporting and Review.* Subject to certain exceptions, on a daily basis, our investment risk management team reviews risk reports which indicate where active risk is taken relative to a portfolio's risk budget. If necessary, a member of our investment risk management team will discuss potential risk issues with the portfolio managers of the applicable account.
- *Weekly Review.* Our head of quantitative analysis and risk management generally conducts weekly meetings with our investment risk management team to discuss current risk positioning in client portfolios. At this meeting, the investment risk management team also discusses potential risk issues highlighted in the daily risk reporting process. When appropriate, issues are escalated by bringing them to the attention of the CEO of PGIM Fixed Income.

## **Additional Ongoing Review of Accounts**

Functional areas such as our compliance team also monitor and assess certain data and processes relating to our management and trading. They report the results of these analyses independently to our senior management. Examples of these independent reviews include:

- trade date compliance review of transactions for consistency with guideline restrictions;
- post-trade compliance reviews, including manual and semi-manual reviews of certain calculation-based guidelines such as percentage limitations;
- periodic review of trading to examine allocation and trade errors; and
- periodic review by oversight committees of various investment and trading activities, including reviews by our:
  - trade management oversight committee;
  - valuation committee;
  - risk operating committees;
  - counterparty committee; and
  - ESG Committee, as appropriate.

## **Commingled Account Reviews**

We serve as sub-adviser to commingled accounts such as mutual funds, ETFs, collective investment trusts and other pooled investment vehicles. For these sub-advised accounts, we are also subject to the oversight of the investment manager for the account and the governing body of the vehicle (such as the board of directors or trustees or investment committee of the vehicle).

## Reports to Clients

We provide written reports regularly to all of our clients. In most cases we distribute these reports monthly but may provide certain reports quarterly or annually. Our reports generally include:

- a list of all activity in the account during the applicable period;
- a list of positions;
- the market value of the positions in the account;
- a calculation of the account's return and the return of the applicable benchmark;
- a comparison of the characteristics of the account (such as industry, sector, issuer, credit quality and country weightings) versus the applicable benchmark; and
- performance attribution.

In addition, we send our clients a quarterly investment outlook that summarizes our current views regarding the fixed income markets in general.

We agree with some clients to provide additional information in our reports or to provide some reports more frequently than monthly.

## Item 14—Client Referrals and Other Compensation

### Other Compensation

Other than the permitted information, services and other items described in Item 12 under the caption "Soft Dollars and Research Services," we do not receive economic benefits from anyone who is not a client in connection with the advisory services we provide to our clients.

### Client Referrals

From time to time, we have arrangements where we compensate, either directly or indirectly, affiliated and/or unaffiliated parties for client referrals. The manner and amount of compensation is negotiated on a case by-case basis. PGIM, Inc. currently has an agreement with an unaffiliated entity that provides for the payment to a United Kingdom company of a percentage of the management fee we receive if we obtain a client as a result of our successful submission of responses to requests for proposals organized by such company. We currently have arrangements with an affiliated entity which provide for payments to our affiliate if certain investments by others are made in certain of our products or if we establish certain other advisory relationships. The amount of compensation is based on a percentage of the management fee we receive or a percentage of assets under management.

## Item 15—Custody

We generally do not take physical custody of the assets of our clients, and if we were to receive such assets inadvertently, they would be returned or redirected in accordance with regulatory requirements. Client assets are generally held in custodial accounts with banks, broker-dealers or other qualified custodians retained by our clients under arrangements negotiated by them. Although we do not have possession of client assets, when our clients permit or instruct us to deduct our management fees directly from their custodial accounts, the SEC deems us to have custody over the assets of those clients. There are certain other circumstances under which the SEC deems us to have custody of client assets as well,

such as when an affiliated company serves as a general partner of a limited partnership or a managing member of a limited liability company. Investors in such funds will receive the vehicle's annual audited financial statements and should review them carefully.

A client's custody agreement with its custodian may contain authorizations with respect to the transfer of client funds or securities broader than those in the client's written investment management agreement with us. In these circumstances, our authority is limited to the authority set forth in our written investment management agreement with the client regardless of any broader authorization in the client's custody agreement with its custodian. The custodian's monitoring, if any, of the client's account is governed by the client's relationship with its custodian.

In certain cases, where we are deemed to have custody of client assets, our clients will receive account statements from their custodians no less frequently than quarterly. Clients should carefully review those statements. Where our fees are deducted from the client's custodial account, the statements will show those deductions, among other information. As described in Item 13 under "Review of Accounts: Reports to Clients," we also generally provide statements or reports to our clients. Some of the types of information we provide in those statements or reports are comparable to information in the account statements clients receive from their custodians. Clients should compare the account statements they receive from their qualified custodians with the statements that they receive from us and alert us to any differences.

## Item 16—Investment Discretion

We typically have the discretionary authority to purchase and sell assets for client accounts. This authority is granted pursuant to a written investment management or similar agreement.

Our discretionary authority to manage client accounts is in all cases subject to the specific objectives, guidelines and limitations set forth in the applicable investment management or similar agreement or fund documentation, as applicable. Investment guidelines generally set forth the universe of eligible investments and issuers. Guidelines may also contain one or more of the following types of restrictions or limitations:

- a list of prohibited issuers or types of issuers;
- percentage limitations regarding the investment in certain issuers, industries or asset classes;
- limitations on the use of derivatives;
- percentage limitations regarding deviation from the holdings of the account's benchmark; and
- specifications regarding the credit quality of holdings for the account.

Certain regulated clients, such as U.S. mutual funds and ETFs, UCITS and pension fund (including ERISA) accounts, are subject to additional investment, diversification and other limitations imposed by applicable law.

Our ability to purchase and sell assets for client accounts is also subject to applicable laws and regulations and to our own policies, including with respect to specific industries. For example, in the U. S., the use and possession of cannabis is illegal under federal law for any purpose pursuant to the Controlled Substances Act of 1970 ("CSA") and is also illegal under laws of certain states. As a result, accepting proceeds derived from the growth or distribution of cannabis could violate applicable U.S. or state laws. Similarly, individuals and companies based or operating in the U.K. who receive revenues from overseas cannabis related businesses ("CRBs"), even where lawful or licensed in the relevant jurisdiction, could commit an offence under the U.K. Proceeds of Crime Act 2002 ("POCA"). As such, we limit client account

investments in issuers that derive revenues from CRBs. In addition, where POCA is applicable, we purchase financial instruments for our clients from issuers where, following due inquiry and diligence, we are satisfied that the CRBs are considered lawful, have no suspicion that any remittances to clients will be derived from the proceeds of unlawful cannabis activities or using reasonable judgement, consider that remittances from the issuer to our clients would not be an offence under POCA. To the extent any clients hold financial instruments of an issuer which later exposes the clients to revenue from the issuer's unlawful activities including cannabis activities and which could result in an offence being committed under POCA, CSA or other applicable law, we will take such steps as are required by law or are reasonably necessary, which can include: (i) disposing of the financial instrument acquired; (ii) filing a suspicious activity report ("SAR") with the relevant authority with respect to the proceeds from the relevant issuer; or (iii) doing both (i) and (ii) if the suspicion has arisen after the revenues have been received. We will not for legal and/or regulatory reasons be able to notify or inform any client that an SAR has been filed. Changes in laws or regulations (if enacted) could result in the removal or relaxation of the limitations described above with respect to investments in CRBs.

Any of the above limitations can impact the potential returns of client accounts.

## Item 17—Voting Client Securities

### Proxy Voting

#### In General

We accept the authority to vote securities held in our clients' accounts when our clients wish to provide us with this authority. Our investment management agreements with our clients will generally specify whether or not we have the authority to vote proxies on their behalf. We do not receive a significant number of proxies since we primarily invest client assets in debt instruments. Proxy voting is reviewed by our trade management oversight committee.

#### Our Proxy Voting Policy and Procedures

Our policy is to vote proxies in the best economic interest of our clients. In the case of pooled accounts, our policy is to vote proxies in the best economic interest of the pooled account.

Our proxy voting policy contains detailed voting guidelines on a wide variety of issues commonly voted upon by shareholders. These guidelines reflect our judgment of how to further the best economic interest of our clients through the shareholder or debt-holder voting process. We generally vote with management on routine matters such as the appointment of accountants or the election of directors. From time to time, ballot issues arise that are not addressed by our policy or circumstances may suggest a vote not in accordance with our established guidelines. In these cases, voting decisions are made on a case-by-case basis by the applicable portfolio manager taking into consideration the potential economic impact of the proposal.

Not all ballots are received by us in advance of voting deadlines, but when ballots are received in a timely fashion, we strive to meet our voting obligations. We cannot, however, guarantee that every proxy will be voted prior to its deadline.

With respect to non-U.S. holdings, we take into account additional restrictions in some countries that might impair our ability to trade those securities or have other potentially adverse economic consequences. We generally vote non-U.S. securities on a best efforts basis if we determine that voting is in the best economic interest of our clients.

### **Client Direction of Voting**

We will use our best efforts to implement any written client voting instructions with respect to a specific solicitation where appropriate.

### **Conflicts of Interest in the Voting Process**

Occasionally, a conflict of interest may arise in connection with proxy voting. For example, the issuer of the securities being voted may also be a client of ours. When we identify an actual or potential material conflict of interest between our firm and our clients with respect to proxy voting, the matter is presented to senior management who will resolve such issue in consultation with the compliance and legal departments.

### **Accounts for Which We Do Not Vote Securities**

Some of our clients elect to retain voting authority for themselves. If a client has a question about a particular solicitation, the client may contact its account management representative and we will try to address the client's question. We will not, however, disclose how we intend to vote on an issue for other clients' accounts.

### **How to Obtain Information Regarding Proxy Voting**

Any client may obtain a copy of our proxy voting policy, guidelines and procedures, as well as the proxy voting records for that client's securities, by contacting the account management representative responsible for the client's account.

### **Securities Lending and Proxies**

Clients that participate in our securities lending program should be aware that when securities are on loan, they cannot be voted by us. Under certain circumstances, we may not recall loaned securities in order to vote, including if:

- we deem the benefit of exercising the vote to be outweighed by the economic benefit of keeping the securities on loan or the administrative burden of calling them back;
- it is impracticable to obtain the return of the securities from the borrower in time to vote; or
- we are not aware of a pending vote.

### **Other Actions with Respect to Securities in Client Accounts**

#### **Class Actions/Litigation**

In addition to voting rights with respect to securities held in our clients' portfolios, there may be other rights associated with those securities, including the right or opportunity to participate in class actions.

Where we agree to take action with respect to class action lawsuits relating to securities held, or formerly held, in client portfolios while managed by us, our responsibilities are generally limited to filing proofs of claim, and only for class action lawsuits generally in the U.S. Certain clients may have their custodians handle proofs of claim or may handle such matters themselves.

If we handle proofs of claim filings for a client, we will generally use our best efforts to file such notices in U.S. class action lawsuits in which the client is eligible to participate. In so doing, we will not inquire into the particular circumstances of any client, and largely act in an administrative capacity to permit the client to participate in the recovery of proceeds that have been awarded to the class. As a result, we will not seek to determine on an individual basis whether facts and circumstances relevant to that client would suggest that non-participation in the class action is appropriate or more advantageous to that client. For

example, a client on whose behalf a proof of claim is filed may, as a result of having joined the class, waive or relinquish other claims that it may have against the target of the class action. The client may also have an interest or position with respect to the nature of the class action claim that is adverse to that of the class of plaintiffs. We would generally not be aware of those circumstances. Had the client elected to handle class action lawsuits for itself, it might have determined not to file the proof of claim in such a class action.

Unlike the U.S. class action process, investors are generally required to join non-U.S. actions as named plaintiffs or to “opt-in” at commencement of the lawsuit. This “opt-in” process usually requires an affirmative decision to join the lawsuit at an early stage in order to participate in any subsequent recovery of proceeds. The investor is also usually required to enter into one or more legal contracts for retention of counsel, funding arrangements and limitations of liability.

We do not provide any legal advice or analysis to our clients, and we generally do not handle non-U.S. class actions for our clients. In addition, we generally do not act on behalf of our unaffiliated clients as a lead plaintiff in a class action lawsuit or as a plaintiff in any potential direct action.

### **Corporate Actions**

In addition to voting rights and class actions, investors from time to time have the right to participate in corporate actions in relation to securities that they hold, such as an issuer’s merger, tender offer, plan of reorganization/restructuring or dividend distribution. We typically participate in corporate actions on behalf of clients unless instructed otherwise, taking such action as we deem to be in the best interest of the clients’ accounts and consistent with the investment strategy and objectives. Securities that are out on loan pursuant to a securities lending agreement may not be able to participate in a corporate action.

### **Out-of-Court Restructurings and Bankruptcy Proceedings**

In addition to voting rights, class actions and corporate actions, investors from time have the right to join and participate in ad hoc or official creditors’ committees in relation to distressed investments that they hold. We, at our discretion, participate in such committees on behalf of clients, unless instructed otherwise, in order to negotiate restructurings of investments (or, at our discretion, we can negotiate directly without participating in such committees). As part of the negotiations, we, on behalf of our clients, may at our discretion execute agreements and commitments (e.g., restructuring support agreements, non-disclosure agreements, lock-up agreements and backstop commitments) and take other actions (e.g., commence lawsuits or otherwise participate in legal actions) in relation to such distressed investments (including with respect to investments in interests issued (or to be issued) in connection with such distressed investments). Such agreements and actions will bind clients and, in some cases, limit the actions that we can take on behalf of clients with respect to the affected investments. For example, both restructuring support agreements and backstop commitments could require the provision of indemnities that could commit clients to expend additional funds in respect of an investment beyond the acquisition price or value of such investment. Non-disclosure agreements can limit our ability to communicate with clients regarding an investment or limit the client’s ability to disclose certain information that it may receive from us relating to the investment. Lockup agreements limit our ability to sell a security for a certain time period. In addition, in some cases we agree to bear expenses (including legal expenses) related to (i) any actual, pending or threatened insolvency (or bankruptcy or similar) proceeding or out of court restructuring or (ii) the exercise of remedies on behalf of some clients (for example, because the clients have not authorized the payment of such expenses). In such instances, these clients benefit without bearing or otherwise being subject to such expenses, whereas other clients remain responsible for their respective pro-rata shares of such expenses.

## Item 18—Financial Information

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to our clients.

### **Note for Clients Subject to ERISA**

This brochure is being provided for informational purposes. In providing this brochure, PGIM, Inc. and PGIM Limited are not acting as your fiduciary as defined by the U.S. Department of Labor and are not giving advice in a fiduciary capacity and are not undertaking to provide impartial investment advice as PGIM, Inc. and PGIM Limited will receive compensation for their investment management services.