

## Form ADV Part 2A

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

655 Broad St.  
Newark, NJ 07102, USA  
(973) 367-6089

### **PGIM Limited – PGIM Fixed Income**

Grand Buildings, 1 – 3 Strand,  
Trafalgar Square, London WC2N 5HR, United  
Kingdom  
+44 (0)20 7766 2550

[www.pgimfixedincome.com](http://www.pgimfixedincome.com)

March 30, 2021

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 (“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:

- For PGIM, Inc.: Matthew J. Fitzgerald, Chief Compliance Officer of PGIM Fixed Income at (973) 367-6089 or [Matthew.Fitzgerald@prudential.com](mailto:Matthew.Fitzgerald@prudential.com)
- For PGIM Limited: James Bronk, Director, PGIM Fixed Income Compliance at +44 (0)20 7766 2550 or [james.bronk@pgim.com](mailto:james.bronk@pgim.com)

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 30, 2021, updates and replaces our prior annual PGIM Fixed Income (U.S.) and PGIM Fixed Income (U.K.) brochure, dated March 30, 2020. It reflects the following material changes:

- We have updated disclosure regarding the strategies that we manage (Item 4).
- We have updated disclosure regarding our environmental, social and governance investment process (Items 4 and 8).
- We have added disclosure regarding our reverse repurchase services and fees (Items 4 and 5).
- We have updated disclosure regarding conflicts of interest related to side-by-side management of accounts (Item 6).
- We have updated risk factors and included additional risk factors (Item 8).
- We have updated disclosure regarding our relationships with affiliated businesses and related conflicts (Item 10).
- We have expanded disclosure regarding material, non-public information (Items 10 and 11).
- We have updated disclosure regarding compensation (Item 11).
- We have updated disclosure regarding brokerage practices, including with respect to cross trades (Item 12).
- We have updated disclosure regarding client referrals and other compensation (Items 10 and 14).
- We have added disclosure regarding pre-bankruptcy/bankruptcy proceedings (Item 17).

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

**Item 3—Table of Contents**

Item 1—Cover Page .....	1
Item 2—Material Changes .....	2
Item 3—Table of Contents .....	3
Item 4—Advisory Business .....	4
Item 5—Fees and Compensation .....	8
Item 6—Performance-Based Fees and Side-By-Side Management .....	11
Item 7—Types of Clients .....	15
Item 8—Methods of Analysis, Investment Strategies and Risk of Loss .....	15
Item 9—Disciplinary Information .....	29
Item 10—Other Financial Industry Activities and Affiliations .....	29
Item 11—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	36
Item 12—Brokerage Practices .....	40
Item 13—Review of Accounts .....	49
Item 14—Client Referrals and Other Compensation .....	50
Item 15—Custody .....	51
Item 16—Investment Discretion .....	51
Item 17—Voting Client Securities .....	52
Item 18—Financial Information .....	54

## Item 4—Advisory Business

### Our Firm

PGIM Fixed Income is a global asset manager primarily focused on public 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 3809039). 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. PGIM Fixed Income is headquartered in Newark, New Jersey, U.S.A. with affiliated offices across the globe, including in London, Tokyo, Singapore and Amsterdam. While these affiliates are separate legal entities, they operate with the Newark headquarters as an integrated global business. 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 advisory and other services to our affiliates, or vice versa.

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, 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.

**PGIM Limited**

PGIM Limited was formed in July 1999 and has been authorized and regulated by the FCA (registration number 193418) or a predecessor regulator since 1999. 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 registered investment companies), collective and commingled trust funds, collateralized loan obligations ("CLOs"), private investment funds and other vehicles. As noted above, in some cases, a PGIM Fixed Income unit operating in one legal entity may delegate the 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., United States, Japan, 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, multi asset credit and global dynamic bond (most active risk).

*Short Duration*

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

*Long Duration*

We manage liability-driven strategies against a variety of benchmarks. We also offer a wide range of long duration fixed income strategies, including long duration corporate, long duration government/credit, and long duration custom portfolios to help institutions solve pension or other liability challenges.

*Securitized Products*

We manage a broad range of strategies that invest in one or more of residential mortgage-backed securities, commercial mortgage-backed securities, CLO tranches and consumer and commercial asset-backed securities against a variety of benchmarks.

*Investment Grade Credit*

We manage U.S., European and global credit/corporate bond strategies against a variety of benchmarks. The 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 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.

*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 market 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.

*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.

*Alternative Strategies*

We manage 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 long/short is an emerging markets debt long/short strategy that invests in sovereign, quasi-sovereign and corporate bonds of emerging market issuers in hard and local currencies and related derivatives instruments. This leveraged strategy employs various trading strategies, including country-specific trades, relative value trades, carry trades, volatility trades and foreign exchange and rates trades.
- Global Macro is a strategy that seeks to maximize absolute return on a risk-adjusted basis by investing across global capital markets. The strategy is directional in nature, incorporating our highest conviction macro trades with a focus on interest rates, credit and currencies. The strategy is also active, albeit to a lesser extent, in the commodities and equities markets.
- Credit Opportunities is a concentrated, high conviction strategy that seeks to maximize total return by investing in global credit opportunities. The strategy invests in high yielding, less liquid credit opportunities including both performing and special situation investments.

*CLO Collateral Management*

We believe that CLO management is a natural outgrowth 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 environmental, social, and governance (“ESG”) factors into our investment research and decision-making process, where consistent with applicable law or regulation. Our investment approach generally seeks to outperform a market-based benchmark over the long-term. Within this context, we consider the credit-material environmental, social and governance risks and opportunities of potential investments as part of our research process for all client portfolios. Certain of the strategies that we manage also apply non-economic ESG factors in the selection of investments within the strategy. These strategies are constructed using proprietary ESG impact ratings and/or client methodologies to adjust the eligible investment universe.

### **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 to several accounts of an unaffiliated client. We lend U.S. government and agency securities, corporate bonds, domestic and foreign equities, and foreign fixed income securities. 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 clients and the same unaffiliated client, 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 portfolio investments or creating additional liquidity to meet a withdrawal or redemption.

### **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, 2020, our assets under management were as follows:

	<b>Discretionary</b>	<b>Non-discretionary</b>
<b>PGIM Fixed Income (U.S.)</b>	\$ 849,955,525,388	\$ 258,954,575
<b>PGIM Fixed Income (U.K.)</b>	\$ 67,618,012,717	\$0

Please note that 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, 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 service. Fees also differ based on account type. For example, fees for commingled vehicles, including those that we subadvise, 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. 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 as the assets increase.

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>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 Annual Incentive Fee: 20% of net return over ICE BofA 3-month U.S. Treasury Bill Index +4%
<b>Emerging Markets Debt Blend Plus</b>	Annual Management Fee: 125 basis points 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 Dynamic Bond</b>	49 basis points on the first \$100,000,000 45 basis points on the next \$100,000,000 39 basis points thereafter
<b>Global Liquidity Relative Value Fixed Income</b>	Annual Management Fee: 150 basis points Annual Incentive Fee: 20% of net return over ICE BofA 3-month U.S. Treasury Bill Index
<b>Global Liquidity Relative Value LV Fixed Income</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
<b>Global Macro</b>	Annual Management Fee: 150 basis points Annual Incentive Fee: 20% of net return over ICE BofA 3-month U.S. Treasury Bill Index
<b>Global Total Return and International Bond</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</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>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 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 making 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 believe that our valuation policies and procedures 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. In addition, separately managed account clients often calculate fees based on the valuation of assets provided by their custodian or administrator.

## 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 or reverse repurchase services to a client). 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 CLO funds) and other transaction costs. (See Item 12 below for a discussion of our policies regarding the selection of broker-dealers.) 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.

The EU Markets in Financial Instruments Directive effective in 2018 ("MiFID II") requires that PGIM Fixed Income (U.K.) provides 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.

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 funds that we manage. For these loans, the proceeds from securities lending is 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 similar to securities lending where we receive a portion of the proceeds generated. Where we do not also perform securities lending services, we may receive a separate, agreed-upon fee.

## Conflicts Related to Securities Lending and Reverse Repurchase Fees

When we manage a client account and PGIM Fixed Income (U.S.) also serves as securities lending agent 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. We could, therefore, 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 lending agent and providing reverse repurchase services, we may be incented to select the less costly alternative to increase our revenues. (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 compensation related to 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. 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. As a result, 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 of securities of the same kind or class in one direction for an account and in the opposite direction for another account, or determine not to trade such 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 (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 conflicts of interest will be resolved on a case-by-case basis. 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.

### 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, the chief investment officer/head of PGIM Fixed Income holds 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, the chief investment officer/head of PGIM Fixed Income and the strategy's portfolio management team 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 head of our investment risk management group or his designee and a member of our compliance group, among others.
- In keeping with our fiduciary obligations, our policy with respect to trade aggregation and 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 aggregation and allocation procedures. 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 and block trade activity.
  - 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 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, 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, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, CLO funds, 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 have requested and received, greater transparency, operational support, training or other resources. 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. 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 and bank loans)
  - Municipal
- Emerging Markets and Foreign Currency
- Multi-Sector and Liquidity:
  - Liquidity (including developed market government securities and agency mortgage-backed securities)
  - US-Indexed Multi-Sector
  - Short Term Investments
  - Global-Indexed Multi-Sector

- 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 the chief investment officer/head of PGIM Fixed Income, head of multi-sector and investment strategy, chief investment strategist, chief economist, head of credit research, head of quantitative analysis and risk management, head of securitized products, senior portfolio managers for each strategy and heads of each of our sector teams.
- 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, 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 chief investment officer/head of PGIM Fixed Income 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.
- 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 formally and informally 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, High Yield 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 (“ESG”) Issues**

We recognize the importance of integrating ESG factors into our investment research and decision-making process, where consistent with applicable law or regulation. This means that when making or evaluating investments, we consider the implications that ESG factors have on the financial value of an investment. In addition, where consistent with applicable law or regulation and, where permitted, under an account’s guidelines, we can consider non-financial ESG factors. (See Item 4 under “Environmental, Social and Governance Investing.”)

Our internal credit research group takes ESG risks as well as opportunities arising from ESG factors into account as part of the 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 publicly available information related to ESG factors, as well as information obtained from third-party ESG research providers and alternative data sources (e.g., NGO analyses, governmental and inter-governmental studies, etc.). The ESG factors considered during our research assessment will vary depending on the industry and/or individual issuer.

Where ESG-related constraints 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. 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 Committee to act as the governing body for directing and overseeing our ESG-related activities, including establishing and overseeing our proprietary internal ESG impact ratings framework and establishing and maintaining the ESG considerations applicable to client portfolios. The ESG Committee is also responsible for our policies and procedures with respect to sustainability. As a signatory to the Principles of Responsible Investment (the “Principles”), we are committed to adopt and implement the Principles, where consistent with our fiduciary obligations. We also recognize that applying the Principles of the UN Global Compact (the “UNGC”) and the UN Sustainable Development Goals (the “UNSDG”) may better align investors with broader objectives of society and consider them where we consider appropriate.

## 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 debt instruments that are not considered 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 extension risk. These include securities such as mortgage-backed securities and bonds with embedded call or put options.

- *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.
- *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.
- *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.

- **Securitized Products Risk.** Securitized products are securities that are collateralized by, or linked to the performance of, pools of assets including commercial mortgage loans, residential mortgage loans, syndicated bank loans, credit card receivables, auto loans, student loans or other assets. Securitized products carry risks in varying degrees including credit risk, concentration risk, prepayment risk, interest rate risk, geographic concentration risk, the risk of poor performance due to adverse economic conditions, the risk of changes in the regulation of the consumer credit industry and price volatility. 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.
- **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 European bank loans, are subject to lengthy periods between trade date and settlement date.
- **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 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.
- **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 grade 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. 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.

- *Passive 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.
- *ESG Investing Risk.* An account's ESG strategy, which may select or exclude securities of certain issuers for reasons other than financial risk/return considerations (where consistent with applicable law or regulation), could have lower returns than accounts whose investment criteria are solely focused on seeking the highest risk-adjusted returns. The application of this strategy may affect the account's exposure to certain sectors or types of investments, which could negatively impact the account's performance. 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. 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 region, and an issuer's ESG practices or our assessment of an issuer's ESG practices may 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 may 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 opportunities to make certain investments when it might otherwise be advantageous to do so. An account that invests in indices may also have exposure to investments that would be restricted under the applicable ESG constraints if held directly due to the composition of the index. Furthermore, 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.

- **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. 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.

- **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.
- **Participation on Creditors' Committees Risk and Litigation Against Debtor Risk.** Although we have no obligation to do so, we, on behalf of one or more clients, can participate in an ad hoc committee of unsecured creditors, a committee of secured creditors, an official committee of unsecured creditors or a similar body in seeking to improve our clients' recoveries with respect to a debtor or we may otherwise negotiate directly with a debtor with respect to restructuring the debtor or its capital structure. There can be no assurance of obtaining results that are favorable to our clients. By participating on official committees in the case of bankruptcies, we are deemed to have duties to other creditors of the debtor, which might thereby expose us or our clients to liability. In certain cases, we may decide not to participate on a committee or may not be permitted to do so, which could limit a client's recovery. In addition, if we are unable to conclude negotiations with the debtor or for other reasons, we may, but are not obligated to, commence a lawsuit seeking recoveries or we may seek the involuntary bankruptcy of the debtor, which actions might expose us or our clients to liability or counter claims.

### **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.

- **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 such 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 can be used to hedge a portfolio’s investments or seek to enhance returns. In implementing certain of our investment strategies, we also 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 obligations to our clients.
  - Uncleared derivatives are subject to liquidity risk. Not only may a liquid secondary market not always exist for derivatives positions, but many uncleared derivatives will not have liquidity beyond 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.

#### **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 global regulatory reform. We cannot predict the effects, if any, of future legal and regulatory changes on our business or the services we provide.
- *Brexit Risk*. On January 31, 2020, the United Kingdom exited the European Union (“EU”) (following a non-binding referendum in June 2016) with a transition period in relation to existing laws and regulations until December 31, 2020. While the United Kingdom and the EU have

entered into a Trade and Cooperation Agreement effective January 1, 2021, there is no agreement between the United Kingdom and the EU with respect to financial services. The United Kingdom and the EU have signed a Joint Declaration agreeing to establish a memorandum of understanding by March 2021 to, amongst other things, set a framework for regulatory cooperation and also discuss equivalence determinations. There is a high degree of uncertainty regarding the outcome and timing of such negotiations between the United Kingdom and EU on financial services. The passporting regime previously allowed regulated entities licensed or authorized in the United Kingdom (and each other European Economic Area ("EEA") country) to operate on a cross-border basis in other EEA countries without the need for a separate license or authorization. PGIM Limited relied on these passporting rights to conduct investment business in the EU which are now no longer available until an agreement is reached on that matter between the EU and the United Kingdom. In preparation of losing such passporting rights, we implemented contingency plans to address Brexit (including a potential hard Brexit). These include having established an EU entity, PGIM Netherlands B.V. ("PGIM Netherlands") and having obtained authorization in the Netherlands, and the potential reliance on "third country license regimes" in certain EU countries, where applicable. Despite these measures, our ability to market and provide investment services in the EU may be adversely affected by Brexit.

- *Brexit Risk – Market Volatility.* The United Kingdom's exit from the EU may lead to increased uncertainty and volatility in United Kingdom, EU and other financial markets, fluctuations in asset values and/or exchange rates, decreased liquidity of investments located, traded or listed within the United Kingdom, the EU or elsewhere, changes in the willingness or ability of financial and other counterparties to enter into transactions, or the price and terms on which they are prepared to do so; and/or changes in legal and regulatory regimes to which we, our clients or their assets are or become subject. Furthermore, the exit of the United Kingdom from the EU could have a material impact on the United Kingdom's economy and the future growth of that economy, which may damage customers' and investors' confidence. As a result, clients face potential risks associated with Brexit, including volatility in foreign exchange markets and weakness in the United Kingdom exchange rate, and a prolonged period of uncertainty, as the United Kingdom seeks to negotiate the terms of its relationship with the EU, which could materially adversely impact clients. The United Kingdom's exit from the EU may also destabilize some or all of the other EU countries, including countries in which we conduct business, and/or the Eurozone, and it may have a negative impact on the value of clients' investments and on our ability to enter into transactions, value or realize on investments or to implement investment policy on behalf of our clients.
- *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.
- *LIBOR Discontinuation Risk.* It is likely that banks will be unable to provide submissions for the calculation of the London Interbank Offered Rate ("LIBOR") as it is phased out beginning at the end of 2021 through June 2023. As a result, accounts that procure debt financings that use LIBOR rates or other interbank offered rates to determine interest rate obligations may be adversely affected in terms of liquidity and pricing. Some indentures or other agreements may be difficult to amend before the cessation of LIBOR since they are predicated upon consent from other bondholders. Uncertainty and risk remain regarding the willingness and ability of issuers and lenders to include revised provisions in new and existing contracts or instruments. Furthermore, the elimination of LIBOR or changes to other reference rates or any other changes or reforms to the determination or supervision of reference rates could have an adverse impact on the market for, or value of, any securities or payments linked to those reference rates, which

may adversely affect a client account's performance. Consequently, the transition away from LIBOR to other reference rates may lead to increased volatility and illiquidity in markets that are tied to LIBOR, fluctuations in values of LIBOR-related investments or investments in issuers that utilize LIBOR, increased difficulty in borrowing or refinancing and diminished effectiveness of hedging strategies, thereby adversely affecting a client account's performance.

- *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, disruption to our business, liability to clients or third parties, regulatory action, or reputational harm. An increase in the volume or complexity of client transactions could increase these risks.
- *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 and our affiliates and the systems we use may, under some circumstances, be subject to a variety of cybersecurity incidents or similar events that could potentially result in the inadvertent disclosure of data to unintended parties, or the intentional misappropriation or destruction of data by malicious hackers mounting an attack on computer systems. We and our affiliates have implemented and maintain an information technology security policy and program that includes certain technical and physical safeguards intended to protect the integrity, availability and confidentiality of the data we have and the systems that store it. We take other reasonable precautions to limit the potential for cybersecurity incidents, and to protect data from inadvertent disclosure or wrongful misappropriation or destruction.

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

Furthermore, these systems may 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 or the inability to transact business.

- *Public Health Risk.* Occurrences of epidemics and pandemics, depending on their scale, could cause different degrees of damage to the 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.

As of the date of this Brochure, there is an outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic. The outbreak of COVID-19 has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. Many countries have implemented quarantines, prohibitions on travel and required the closure of offices, businesses, schools, retail stores, and other public venues. Businesses have

implemented similar precautionary measures. The COVID-19 pandemic and its impact on the global economy has had an adverse effect on the value, operating results and financial condition of some or all of the companies and holdings in your portfolio. The impact of COVID-19 has led to significant volatility in the global public markets and it is uncertain how long this volatility will continue. There can be no assurance that any vaccines or treatments currently available will be effective against treating new variants of COVID-19 or will be sufficient to protect against the ongoing effect of the pandemic.

The impact of COVID-19, and other related or unrelated public health issues that may arise in the future, could adversely affect the economies of many nations, individual companies and investment products, and the market in general in ways that cannot necessarily be foreseen at the present time. Any public health emergency, or the threat thereof, could have a significant adverse impact on a portfolio and its investments and could adversely affect a portfolio's ability to fulfill its investment objectives. The extent of the impact of any public health emergency on the operational and financial performance of our business, including the portfolios we manage, will depend on many factors, including the duration and scope of such public health emergency, the extent of any related travel advisories and restrictions implemented, the impact of such public health emergency on overall supply and demand, goods and services, investor liquidity, consumer confidence and levels of economic activity and the extent of its disruption to important global, regional and local supply chains and economic markets, all of which are highly uncertain and cannot be predicted. The effects of a public health emergency could result in significant losses to the client.

- *General Uncertainty and Economic Inability or Inaction.* Social, political, economic and other conditions and events (such as natural disasters, epidemics and pandemics, terrorism, conflicts and social unrest) occur that have significant impacts on issuers, industries, governments and other systems, including the financial markets. 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. Events that occur in one country, region or financial market will, more frequently, adversely impact issuers in other countries, regions or markets. These impacts can be exacerbated by failures of governments and societies to adequately respond to an emerging event or threat. Clients will be negatively impacted if there are fewer investment opportunities, if there is reduced credit available to borrowers, if liquidity in the markets is constrained, if markets are more difficult to model (thus reducing the accuracy of projections or valuations), if the value of their portfolio holdings decreases as a result of such events, if these events adversely impact our operations and effectiveness or those of key service providers, or if these events disrupt systems and processes necessary or beneficial to the management of client accounts.

### **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 acts as distributor for 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 subadvise. 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, Prudential Retirement Insurance and Annuity

Company ("PRIAC"), Prudential Annuities Life Assurance Corporation ("PALAC") and Prudential Legacy Insurance Company of New Jersey ("PLIC").

*Mutual Funds/ETFs.* 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. 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 organized as a UCITS. All but three of the directors of PF are employees of PGIM, Inc. or an affiliate. In addition, an affiliate has invested in certain of the sub-funds.

*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**

*Master-Feeder Funds.* We manage multiple master-feeder fund structures, including one structure 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. Each feeder fund invests all or a substantial portion of its assets in its 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/Trusts.* 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 two feeder funds that we manage. We also manage sub-funds of Pramerica Fixed Income Funds Trust ("PFIF" and together with the QIF and the ICAV, the "Irish Funds"), an Irish domiciled investment company organized as an open-ended umbrella unit trust. Some of the directors for Irish Funds are employees of PGIM, Inc. or an affiliate. In addition, affiliates have invested in certain of the Irish Fund sub-funds.

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

*Other Affiliated Non-U.S. Funds.* We provide advisory services to certain funds domiciled in Italy and Luxembourg that are sponsored and organized by Pramerica SGR S.p.A., a joint venture owned, in part, by our affiliate Prudential International Investments Company, LLC. In addition, 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 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). 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 QMA LLC, QMA Wadhvani LLP, Jennison Associates LLC, PGIM Japan, PGIM (Singapore) Pte. Ltd. ("PGIM Singapore"), PGIM Netherlands, Pru Trust, Prudential International Investments Advisers, LLC and Global Portfolio Strategies, Inc. 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 in London, Tokyo, Singapore and Amsterdam. These affiliates are separate legal entities but operate with the Newark headquarters as an integrated global business. 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 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.
  - *PGIM Singapore.* Members of our emerging markets credit team and two client advisory/sales and administrative personnel are employees of PGIM Singapore, an affiliate located in Singapore. PGIM Singapore holds a capital markets services license 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 and

client advisory personnel may operate through PGIM Netherlands. PGIM Netherlands also has branch offices in Germany.

- Other Offices/Operational Support.* In addition, three members of our client advisory group operate from an office in Thousand Oaks, California. Two members of our investment management team split their time between leased office space in Lake Worth, Florida and our Newark headquarters. In Asia, three members of our sales team operate from an office in Hong Kong. In Europe, one member of our sales team operates from an office in Zurich, Switzerland, and two members operate from an office in Munich, Germany. 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), PRIAC and PALAC in the U.S.; and Gibraltar Life Insurance Co., Ltd. (and certain of its subsidiaries) 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. In addition, certain of our derivatives transactions on behalf of our affiliated insurance companies and other affiliates are executed through an affiliated counterparty with whom we share certain officers.

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 subadvise for one or more affiliates. We also invest cash collateral from securities lending transactions in some of these funds. These investments benefit both us and our affiliate through increasing assets under management and fees.
- *Conflicts Related to Referral Fees to Affiliates.* From time to time, we have arrangements where we compensate affiliated parties for client referrals. 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. 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 but at different levels in the capital structure. 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 advisory 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 will be constrained as a result of our receipt of material, non-public information (please also see Item 11), various insider trading laws and related legal requirements. For example, we would generally be unable to (i) invest in, (ii) divest securities of or (iii) share investment analysis regarding companies for which we possess material, non-public information, 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 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 material, non-public information. 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 material, non-public information 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 material, non-public information about certain borrowers for our clients that invest in bank loans, which has restricted our ability to trade in other securities of the borrowers for our clients that invest in corporate bonds. (See Item 11 for additional information on the receipt of material, non-public information.)
- 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 subadvise. 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 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 meaningful 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 and Information Barrier Standards**

In the ordinary course of our business, we receive material, non-public information. Material, non-public information 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, or serving on an ad hoc or official creditors' committee. In addition, we expect to engage the services of

expert networks, and we could also involuntarily receive material, non-public information from such networks.

PGIM Fixed Income personnel are prohibited from improperly sharing or using material, non-public information 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 (i) the communication of material, non-public information across the various PFI asset management investment sectors, and (ii) the misuse of material, non-public information. Under the standards, an employee of one PFI asset management investment sector, including PGIM Fixed Income, is not permitted to communicate material, non-public information to an employee of another PFI asset management investment sector without approval from each sector's compliance unit. The information barrier standards also restrict physical access to an investment sector's offices by employees of a different investment sector. In some instances, we have established (and expect to establish from time to time when appropriate) an isolated information barrier around a small number of our employees so that material, non-public information received by such employees is not attributed to the rest of PGIM Fixed Income.

In addition, we maintain restricted lists of issuers and borrowers about whom we have material, non-public information. Restricted issuers and borrowers are also added directly into the trading system so that our trading activities are screened on a front-end basis 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 material, non-public information).

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) material, non-public information, information based on material, non-public information (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 (or related securities or instruments, e.g., warrants, options or futures) 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 limited 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 (or an equivalent security) for client accounts (other than in client accounts that replicate a broad-based index);
- investment personnel are prohibited from knowingly trading any security within seven days before or after we trade such security (or an equivalent security) for client accounts (other than in client accounts that replicate a broad-based index);
- investment personnel who invest in proprietary and certain non-proprietary mutual funds must hold such investments for a period of at least 60 days; 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 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. Incentive compensation, 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.

### **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: (i) relative to appropriate peer groups and/or (ii) 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 more closely 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 a particular long/short composite or commingled investment vehicle. 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, in whole or in part (depending on the date of the grant), 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 on the performance of either (i) a long/short investment composite or (ii) a commingled investment vehicle. An investment composite is an aggregation of accounts with similar investment strategies. The chief investment officer/head 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. 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, the chief investment officer/head of PGIM Fixed Income reviews 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 head of our investment risk management group 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**

#### **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, is responsible for providing 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.

### **Top-Five Venue Reporting**

Under MiFID II, PGIM Limited is required to publish, on an annual basis, the top-five execution venues where it has executed transactions, and the top five brokers with whom it has placed orders for execution, in terms of trading volumes, during the previous year, including information on the quality of execution obtained.

### **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 MiFID II from January 2018.

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 a permissible minor non-monetary benefit as per guidance under MiFID II.

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 MiFID II 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 subadvise 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;
- 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;
- The client 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
- The client 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 aggregation and allocation is to treat all client accounts fairly and equitably over time.

We aggregate and allocate all new issue orders among 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 aggregation and 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 aggregation and 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 aggregation and 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;
- 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. 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, each account may be cut back 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.

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 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 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 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 and 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 (including reporting to mutual fund boards for mutual fund 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**

We maintain a trade and operational errors corrections policy that requires all errors covered under the policy to be corrected in a manner that is fair and reasonable. In the event of a loss in a client account resulting from an error for which we have concluded we are responsible, we will determine the amount of the loss, reimburse the client and notify the client of the error. Not all mistakes or other issues will be considered errors under the policy and not all errors will be considered compensable to the client. Please note that certain non-material settlement errors may be corrected without notice to the client.

An error could result in a gain or in a loss to an account or accounts. Unless prohibited by applicable regulation or agreement with the client, we can choose to net the client’s gains and losses 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.

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 a transaction in one client's account may be avoided through reallocation, prior to settlement, to another client's account, subject to certain conditions. Clients will not be notified if an error in their account is avoided through cancellation, modification or reallocation.

From time to time we could be required to evaluate facts and circumstances relating to our models or modeling processes. Errors can occur in the programming or implementation of investment models or other models that are applied to client accounts. When such errors are identified, we seek to understand the cause and determine the impact of the error. In certain cases, coding or other errors may not significantly impact the overall objective of the model or significantly influence an investment decision and will not be compensable to the client. Certain data received from external sources are inputs to our models and/or other investment processes. Trades 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, ISDAs, 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, also use 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 ISDA protocols on behalf of our clients, which effectively amend ISDAs 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 any 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 trades certain derivatives is launched and either the ISDA 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. For instance, these ISDAs do not have a Credit Support Annex and do not require the parties to exchange collateral. The absence of collateral increases the counterparty risk of 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. Failure to finalize negotiations of an ISDA 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 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. 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, the chief investment officer/head of PGIM Fixed Income holds 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, the chief investment officer/head of PGIM Fixed Income and the strategy's portfolio management team 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 head of our investment risk management group 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 investment 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 chief investment officer/head 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 (for absolute restriction-based rules such as prohibited securities or counterparties);
- 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; and

- counterparty committee.

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

In accordance with MiFID II, PGIM Limited is also required to notify its clients in the event that the value of their portfolio decreases by 10% or more and further multiples of 10% from the value notified in the previous report. Clients must be notified by the end of the business day on which the threshold was crossed.

## 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 as a result of our 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.

## 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 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.

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.

Our clients will receive account statements from their custodians no less frequently than quarterly and should carefully review these 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. 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.

### **Pre-bankruptcy/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 connection with investments in interests issued or to be issued in connection with any actual, pending or threatened insolvency (or bankruptcy or similar) proceeding or out of court restructuring. 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, restructuring support agreements require the provision of indemnities, which 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 any actual, pending or threatened insolvency (or bankruptcy or similar) proceeding or out of court restructuring 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 (i) 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 (ii) are not undertaking to provide impartial investment advice as PGIM, Inc. and PGIM Limited will receive compensation for their investment management services.