



Institutional Advisory & Solutions

INFLATION & REAL ASSETS INVESTING



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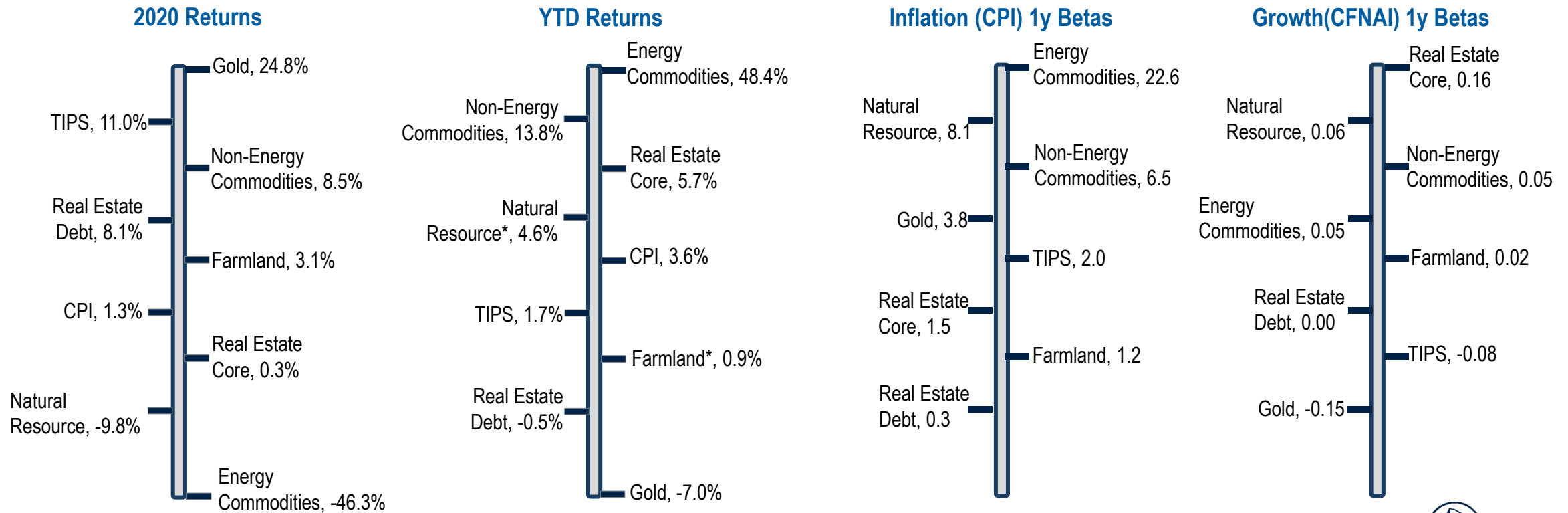
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THE PURSUIT OF OUTPERFORMANCE

The Diversity of Real Assets

- Investors often group different real assets into a single general category
- In 2020, real assets with high-inflation exposure performed poorly, while assets with low-growth exposure did well
- YTD (as of 6/30/2021), this relative performance reversed, real assets with high inflation or growth exposure did better
- Macroeconomic and market sensitivities also greatly differ at asset-class and subsector levels



Note: * Performance as of Q1, 2021 Source: Datastream and PGIM IAS, as of 12/31/2020. Provided for illustrative purposes only.

The Four Elements for Successful Real Assets Investing

Horizon

- Investor's investment horizon matters
- Correlations and betas differ with horizon



Uncertainty

- Parameters like betas are very uncertain
- Account for uncertainty in portfolio construction

Economic Environment

- Betas differ in stagflation vs. stagnation
- Allocations to real assets differ depending on economic environment



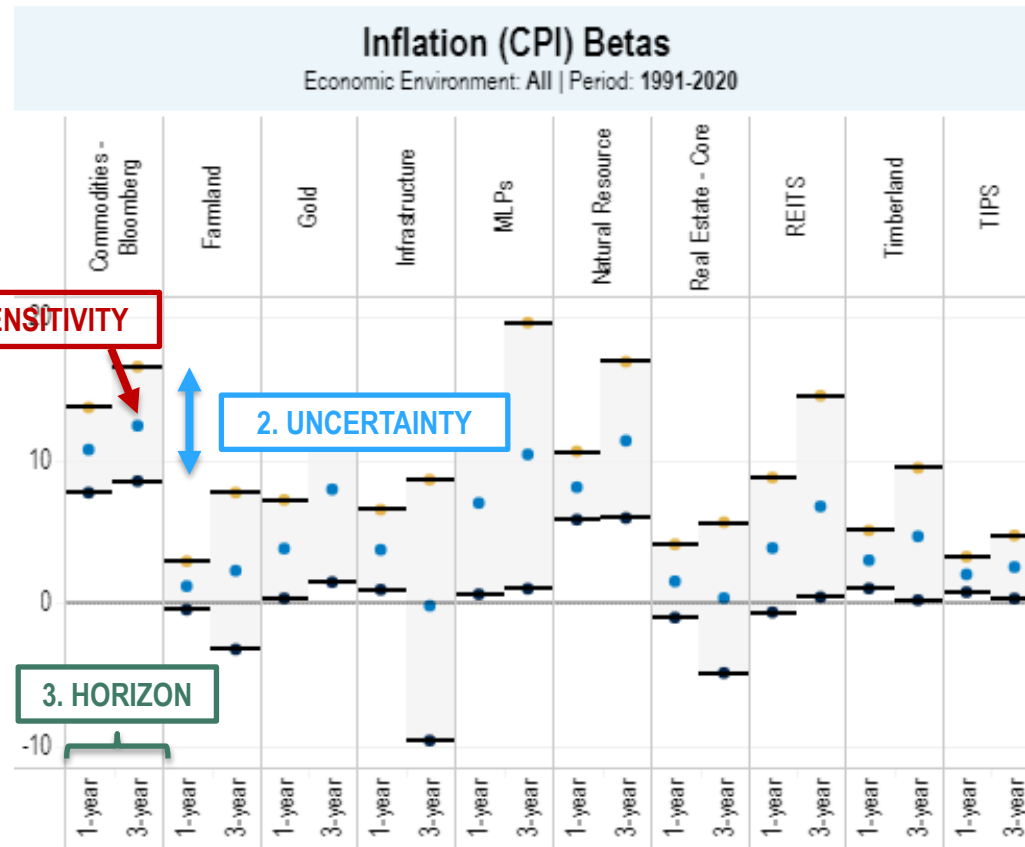
RASA™

Sensitivities

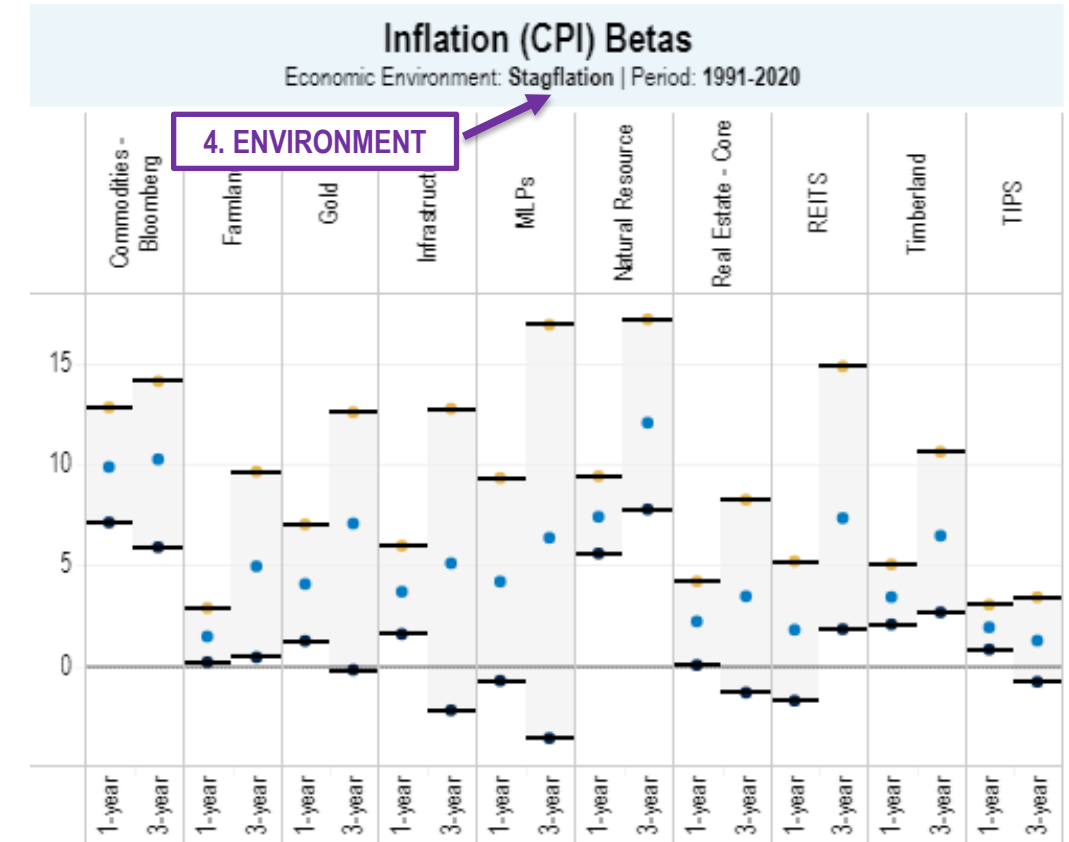
- Real assets sensitivities (*i.e.*, betas) differ widely
- Align allocations with investment objectives

Visualizing the Four Elements of Real Asset Investing

- Sensitivities to macroeconomic (inflation and growth) and financial (stocks and bonds) variables vary with horizon
- These sensitivities are uncertain, and their accuracy generally decreases as horizon increases
- Sensitivities also differ depending on the economic environment (*i.e.*, stagflation or stagnation)

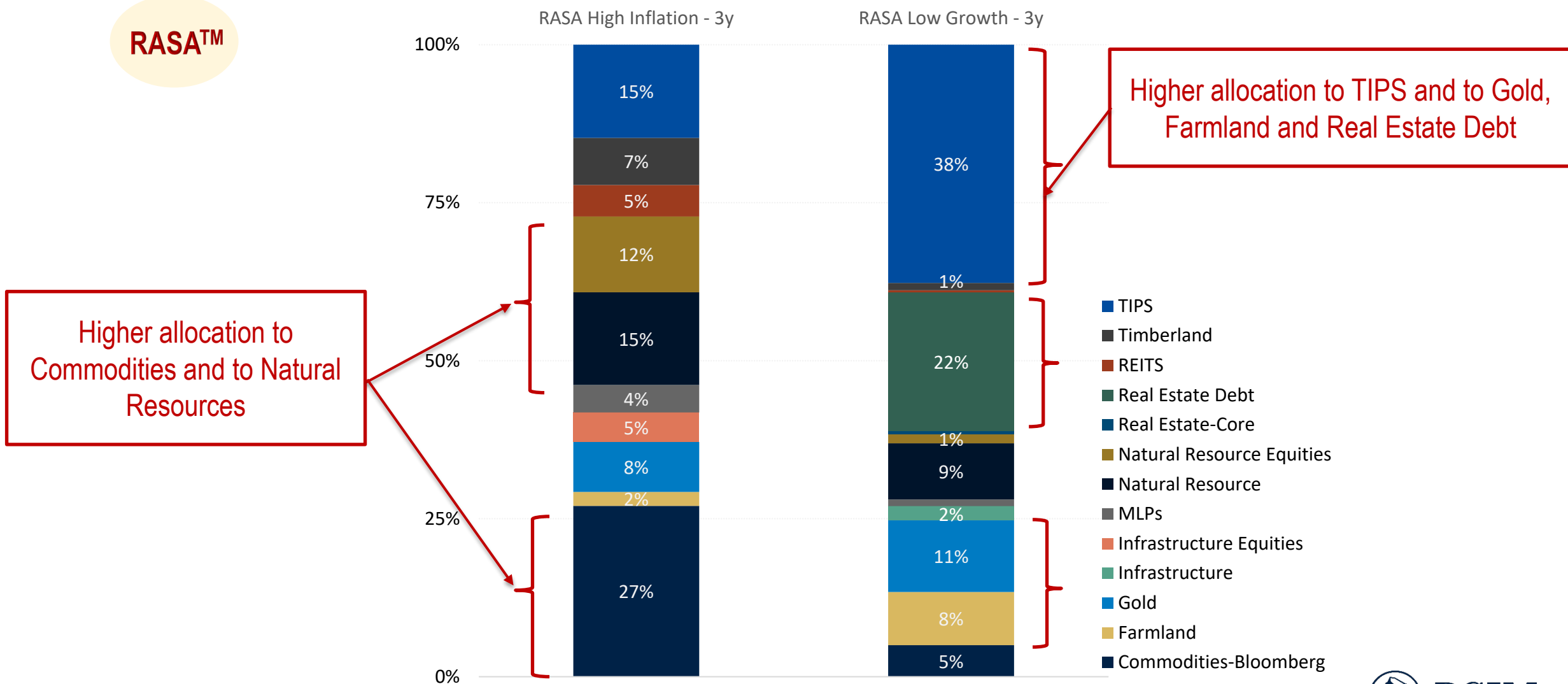


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Using RASA to Align a Real Asset Portfolio with Investor's Objectives

RASA™



Long-Term Dynamics

Demographics

- Sweet spot of dependency ratios are souring mostly around the world

Politics

- Worsening inequality has shifted voter preferences to the left on economic matters
- U.S. policymakers seeking to create a “high pressure” economy to boost wages for workers

Globalization

- Globalization is no longer advancing and thus no longer disinflationary
- Move toward deglobalization or regional trade blocks would be inflationary

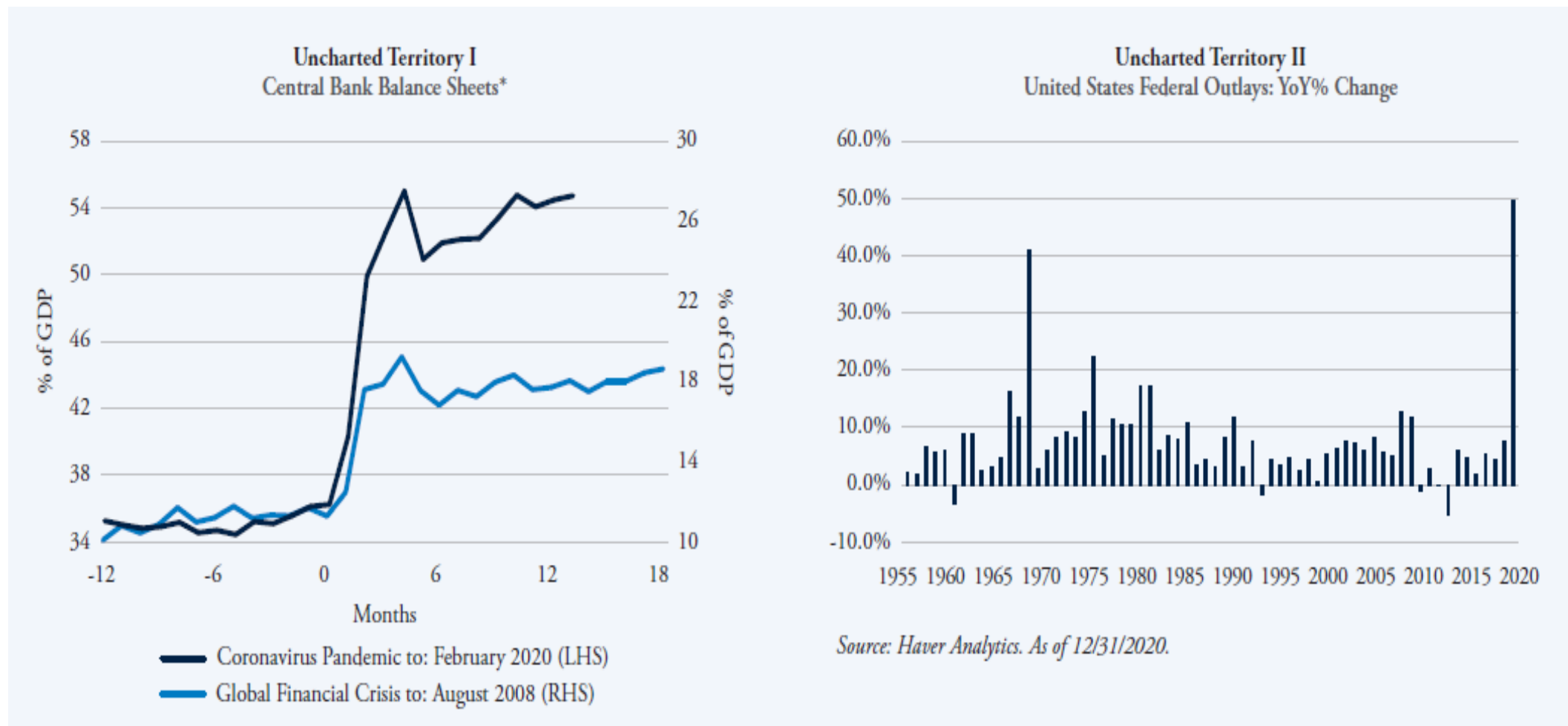
Climate spending

- Massive amounts of “green” investment required to substantially lower carbon emissions could boost inflation
- But, long-term impact of climate change on inflation is complex

Technology and productivity

- Signs that companies are massively accelerating automation and digitalization in response to the pandemic may exert downward pressure on inflation that could mitigate and/or potentially offset some of the forces described above

Where are We Now? Unprecedented Monetary and Fiscal Policy



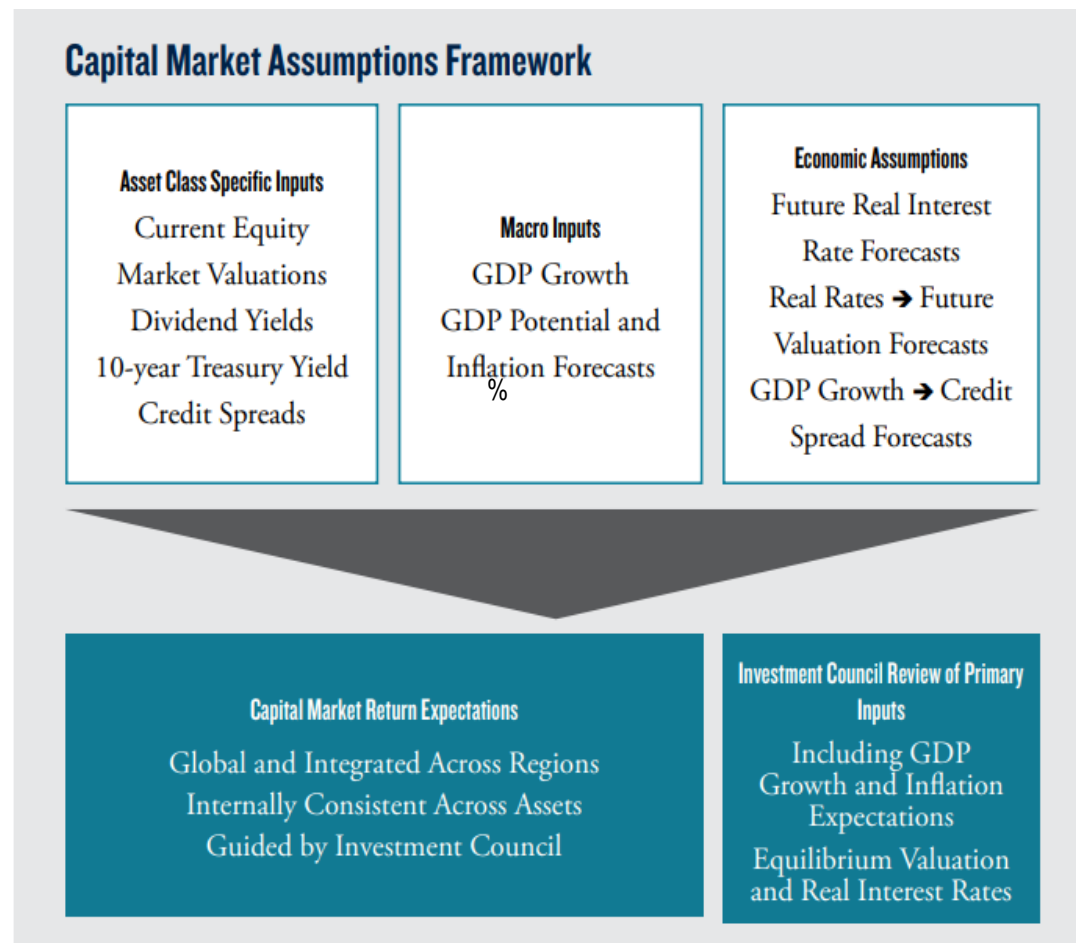
*Federal Reserve, ECB, Bank of Japan, and Bank of England; GDP is a sum across the four economies.

As of 3/31/2020/21.

Source: Haver Analytics.

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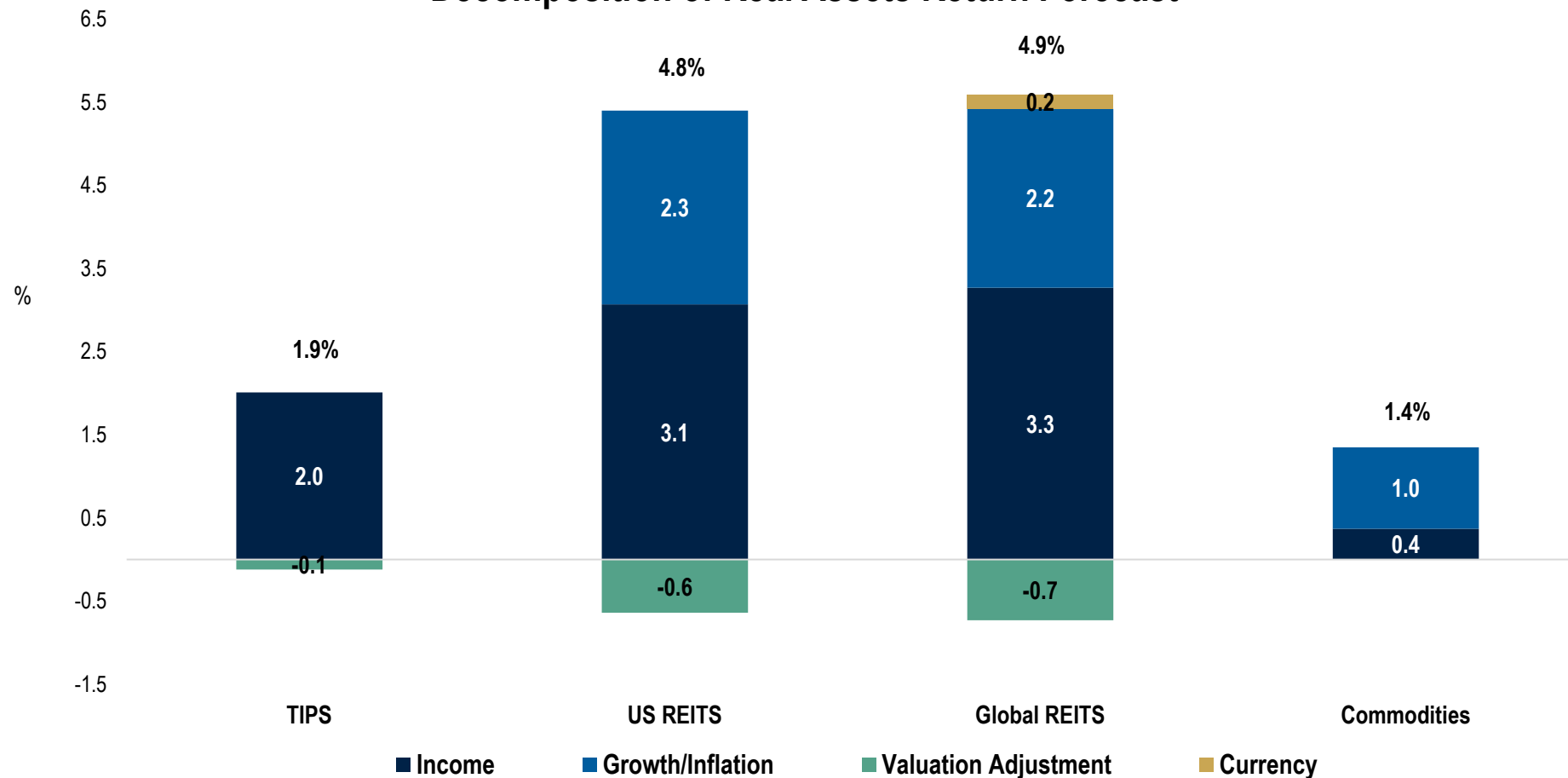
QMA Capital Market Assumptions (Q3 2021)



Shown for illustrative purposes only. Source: QMA.

QMA Capital Market Assumptions (Q3 2021)

Decomposition of Real Assets Return Forecast

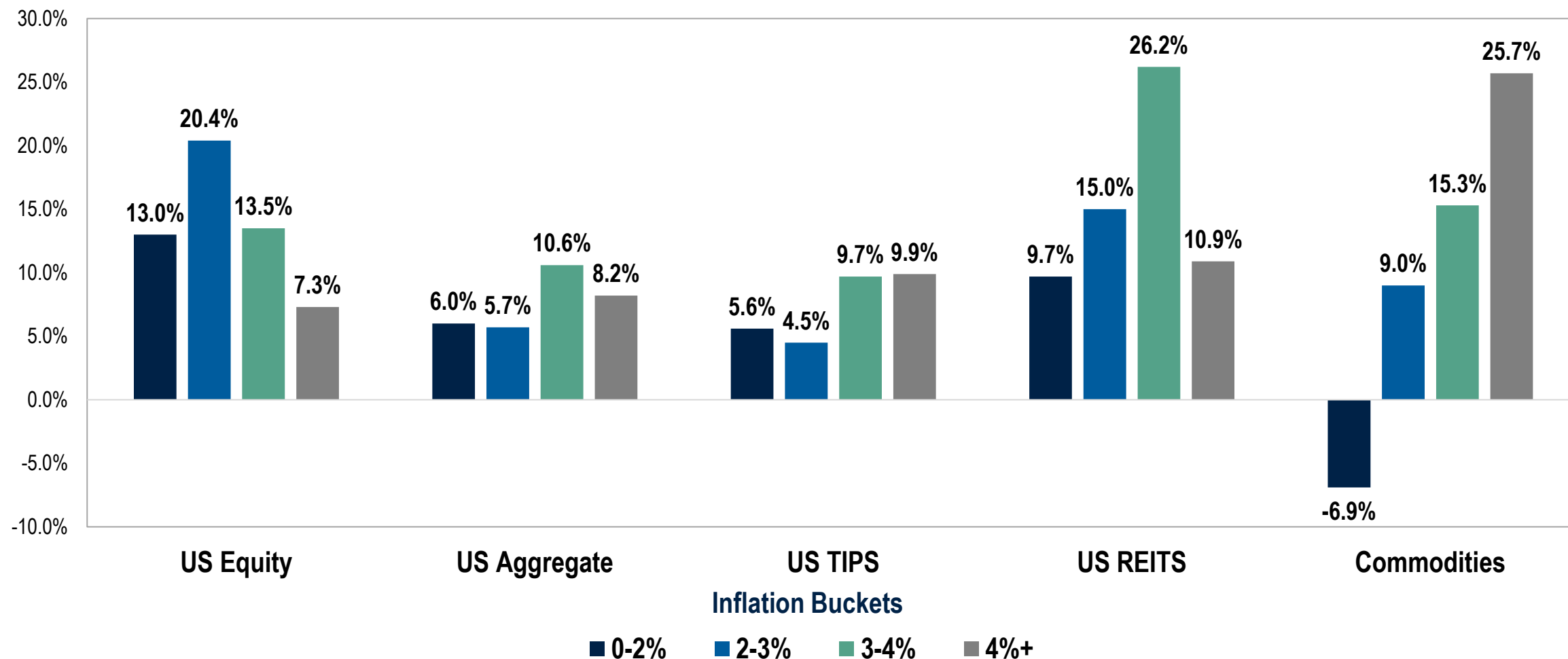


As of 6/30/2021.

Source: QMA.

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What to Do? Asset Class Performance at Various Inflation Levels



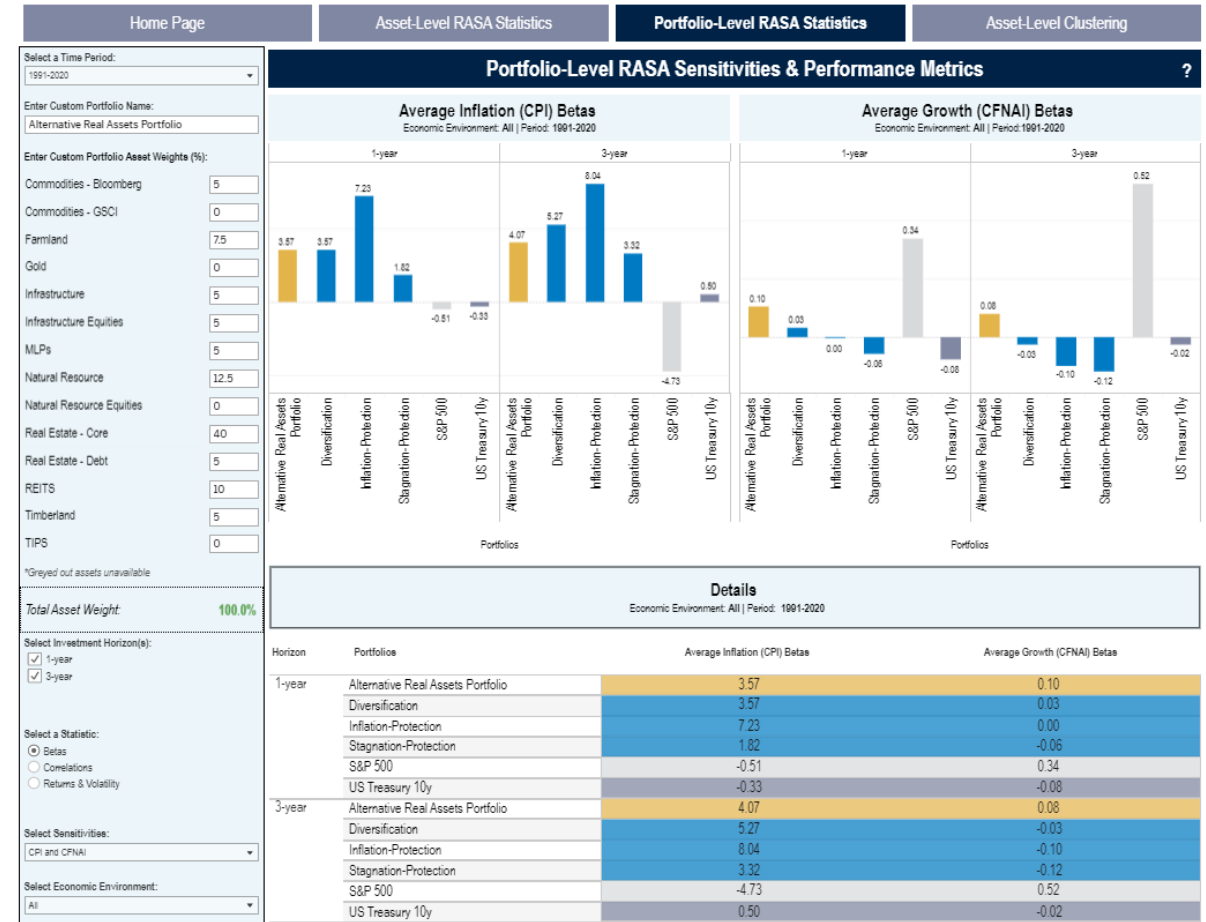
Notes: Average annualized returns for real and nominal assets within different inflation buckets. Quarterly returns data and YoY inflation at quarterly frequency. As of 5/31/2021. Source: Datastream, Bloomberg, FactSet, QMA. For illustrative purposes only. Please see 'Notes to disclosure' page for Important Information including risk factors and disclosures. Past performance is not a guarantee or a reliable indicator of future results.

Presenting RASA™ Interactive

Current Real Assets Portfolio



Alternative Real Assets Portfolio



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A series of thin, overlapping, wavy lines in shades of light blue and white flow horizontally across the upper half of the slide, creating a sense of motion and depth.

THANK YOU

THE PURSUIT OF OUT**PERFORMANCE**

A large, light blue arrow with a white-to-blue gradient points diagonally upwards from the bottom right corner towards the center of the slide.

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