PGIM FIXED INCOME

2020

ESG ANNUAL REPORT

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FOREWORD

From Michael Lillard, CFA

HEAD OF PGIM FIXED INCOME AND CHIEF INVESTMENT OFFICER

The sharpening focus on environmental, social, and governance issues over the last decade reveals their transcendence across society and the capital markets. We've witnessed climate change bear down with increasing intensity, social issues permeate our daily routines, and corporations acknowledge their shortcomings regarding employee diversity, particularly among senior management and board level positions.

Social issues continued advancing to the forefront of public consciousness in 2020. COVID-19 exacerbated societal inequality as lower-income families bore the brunt of financial hardships while racial injustice in the U.S. challenged the essence of the country's foundation and continued exposing deeply-rooted systemic inequities. These developments were an undeniable aspect of living through the pandemic, further emphasizing the gravity of these issues for investors and other financial market participants.

The rising importance of ESG exposes the complexities facing impact-focused investors. While the regulatory environment evolves in an effort to enhance clarity, the continued lack of global standards highlights the confusion about critical topics ranging from screening and disclosures to research and product classification.

As a firm, we understand and appreciate the importance of publishing the **PGIM Fixed Income Annual ESG Report**. The report describes our framework aimed at ensuring clients understand our ESG approach in every portfolio.

We manage assets across a wide range of products and vehicles, and our ESG philosophy remains consistent throughout: we believe in providing clients with an explicit choice of how to express their policies, views and beliefs through their investments.

The financial markets play a critical role in enabling businesses to pursue innovation. As an asset manager and fiduciary, we see a critical role in ensuring that the portfolios of ESG-focused clients pursue their desired objectives. With fundamental credit research at our core, we evaluate ESG factors across all issuers that we cover and fixed income asset classes, and we believe that the inclusion of credit-material ESG factors into our investment process can lead to higher risk-adjusted excess returns for our clients[1].

We also acknowledge that many clients want their investment portfolios to go a step further in pursuing their ESG and sustainability goals. Our ESG Impact Ratings evaluate an issuer's positive and negative impact, which provide a holistic view of its direction of travel on ESG. This view is particularly important for clients and portfolio managers of ESG strategies, both of whom can use our impact ratings to help determine the eligibility of an issuer's debt for investment.

As we partner with clients to achieve their investment objectives, our ESG approach will continue to evolve along with our strategy offerings. Our evolution will remain based on the accountability, transparency, and dedication needed to provide clients with the optimal approach of investing their assets in accordance with their ESG beliefs and objectives.

Sincerely,

Mike Lillard, CFA
Head of PGIM Fixed Income and Chief Investment Officer

[1] There is no guarantee that this objective can be achieved.

ABOUT PGIM FIXED INCOME

PGIM Fixed Income is a global asset manager offering active solutions across all fixed income markets for institutional clients, affiliated insurance companies, mutual funds, and managed accounts, as well as specialised products and customised solutions.

PGIM Fixed Income's culture is centred around mutual respect, trust in each other, collegiality, teamwork, meritocracy, intellectual honesty, transparency, and an unwavering commitment to our clients.

Our business model is aligned with our mission to provide consistent, superior risk-adjusted returns and top-quality service to our clients and to generate superior value for our stakeholders.[2]

Accordingly, our strategy and objectives are designed with a consistent focus on our ability to:

- Protect and evolve the strength of our investment culture, processes, and philosophy to generate consistently strong investment performance;
- Demonstrate commitment to our clients by being both proactive and highly responsive;
- Build and refine our product mix to meet market needs;
- Refine our global distribution strategy;
- Focus on global integration of our business;
- Invest in technology and infrastructure to support growth; and
- Focus on talent and culture.

Our philosophy hinges on investing for the long term with fundamental research driven security selection at the heart of everything we do. We believe that diversified portfolios, built through the integration of macroeconomic, credit, quantitative, and ESG analysis—coupled with an emphasis on risk management—can achieve consistent excess returns with high information ratios.

We seek to generate alpha from multiple sources through active allocation primarily in credit. Risk budgeting is central to our approach, with allocations made within portfolio specific "risk budget" thresholds.

As a global fixed income manager, we have the resources and ability to strategically hire and develop the infrastructure needed to support our business objectives.

[2] There is no guarantee that this objective can be achieved.

ESG PHILOSOPHY AND APPROACH

As a fundamental research-focused active manager, we believe that ESG issues can affect the performance of investment portfolios. Therefore, we recognise the importance of integrating environmental, social and governance factors in our global investment research, decision making, and portfolio management processes.[3] We consider relevant ESG factors in our investment process as part of working toward our ultimate fiduciary duty—searching for the highest risk-adjusted returns for our clients. [1] Our ESG framework and analysis cover all of our assets. The core tenets of our ESG philosophy and approach are summarised below.

- We believe that ESG factors impact the performance of investment portfolios, and we have integrated them into our investment analysis and decision-making processes for all traditional and ESG strategies.
- We assess ESG factors for all issuers that we cover, across all asset classes.
- We believe that analysing credit-material ESG factors can lead to higher risk-adjusted excess returns. [1] We consider this critical to our fiduciary duty.
- We believe our 100+ fundamental research analysts, economists and ESG specialists are best placed to analyse an issuer's ESG characteristics, and as such, we conduct our own ESG research and risk assessments as part of our credit analysis. We have developed ESG Impact Ratings as a proprietary tool to help clients invest according to their ESG/sustainability preferences.
- Our credit ratings incorporate analysis of credit material risks and opportunities arising from ESG factors and reflect our overall fundamental credit view of the issuer.
- Our ESG Impact Ratings assess negative and positive impacts of the issuers on the environment and society and determine the eligibility of the issuer/issue for investment by our ESG strategies.
- We use issuer engagement to communicate our views on fundamental and ESG issues. We believe in disclosing our ESG Impact Ratings/rankings to issuers, creating opportunity for dialogue around the potential increase in funding costs for issuers who lag peers on ESG and the potential impact on future market demand for their new issue bonds.
- As a signatory to the Principles of Responsible Investment (PRI) since February 2015, we are committed to implementing the PRI.

PGIM Fixed Income primarily manages fixed income securities, which supports consistency in our broad ESG approach and philosophy across all of our managed strategies.

As one of the world's premier active fixed income managers, we cater to a variety of client needs, and a growing number of these clients demand a robust approach to ESG and the stewardship to enable them to fulfil their ESG obligations and aspirations. Integrating ESG and stewardship into our investment process and culture is essential to our mission of providing "consistent superior risk-adjusted returns[4] and excellent client service to our clients and value for our stakeholders."

We manage assets across a wide range of products and vehicles, and our ESG philosophy remains consistent throughout: we believe in providing clients with an explicit choice of how to express their policies, views and beliefs through their investments. We are committed to providing clients with the tools and analysis to better understand ESG risks and opportunities, while also evaluating the potential impact of their investments on society and the environment.

[3] Where consistent with applicable law and regulation.

[4] There is no guarantee that this objective can be achieved.

MAJOR ESG DEVELOPMENTS IN 2020

Creation of Proprietary ESG Impact Ratings

As we evolve our ESG capabilities to meet the needs of our clients, we continue to refine our process and the tools we provide to help inform portfolio construction and investment decisions. The most significant advancement in 2020 was the introduction of our proprietary ESG Impact Ratings framework, which focuses on the negative and positive impacts that issuers have on the environment and society, irrespective of their credit materiality today. This gives us a holistic view of the issuer and helps identify those that are actively reducing their adverse impacts and increasing their positive impacts. This identification is particularly important for the portfolio managers of ESG strategies and ESG-focused clients, who can use our impact ratings to determine the eligibility of an issuer's debt for investment.

Our analyst teams (corporate, sovereign, securitised credit, municipal) take ESG risks and opportunities, as well as adverse impacts and positive contributions to society and environment, into account as part of their analysis. Analysts then parse these ESG factors into those that they believe to be:

A) Credit material, focusing on economic value; and

B) Impactful on the environment and society, whether those impacts are immediately credit material or not.

Analysts' assessment of credit material ESG factors are key inputs to their credit ratings. Their assessment of impact factors determines an issuer's "ESG Impact" rating. Both credit and ESG Impact Ratings are proprietary and assigned to credits we own for our clients. Over time, ESG factors that are initially not deemed credit material can become so, as we have seen with issues, such as diversity & inclusion, community relations, and plastic pollution. Similarly, we are observing an increase in consideration for factors, such as supply chain due diligence, deforestation, and other bio-diversity issues, which although not credit material today, may become so in the future. As such, ESG factors assessed under our ESG ratings framework can influence credit ratings over time. For clients who desire that their portfolios focus on investments that have a higher ESG impact assessment relative to peers, we use our ESG Impact Ratings as portfolio construction criteria.

Creation of ESG Research Team

Our commitment to ESG was emphasised by the creation of a dedicated ESG research team. In September 2020, Eugenia Unanyants-Jackson joined PGIM Fixed Income in the newly created role of head of environmental, social & governance (ESG) research. Eugenia is responsible for managing further strategic integration of ESG research across all elements of PGIM Fixed Income. She co-chairs the ESG committee tasked with governing PGIM Fixed Income's ESG approach, alongside existing co-chair Temple Houston, head of global investment grade credit research. Alongside Eugenia, John Ploeg joined PGIM Fixed Income as an ESG Specialist to help with the continued expansion of the ESG research team and supporting infrastructure.

The ESG research team's primary responsibilities include:

- Maintaining and enhancing the consistent implementation of PGIM Fixed Income's ESG integration, including the processes used to analyse ESG risks and opportunities, as well as the framework for applying ESG Impact Ratings;
- Undertaking sector, thematic, and issuer-level ESG research across all fixed income asset classes and regions;

- Partnering with credit research analysts, economists, and portfolio managers to identify and incorporate material ESG factors into their investment analyses and decisions;
- Engaging with issuers on ESG factors, both individually and in partnership with credit research analysts and economists;
- Tracking ESG-related developments from a market, regulatory, and thematic perspective, while formulating strategies for PGIM Fixed Income to adapt accordingly;
- Analysing third party ESG data and research, working with the firm's technology support group to constantly improve ways to access and apply this information; and
- Interfacing with peers, industry groups, and other external ESG organisations.
- Participating in the design and launch of new ESG products and strategies.

Measuring Impact: Turning Brown into Green

In 2020, we also introduced a proprietary Green Bonds assessment framework, where we assess both the issuer's credibility with respect to the green bond and the potential incremental positive impact the issuance can have in replacing "brown" assets or activities with "green" for the issuer or its industry. This assessment results in an uplift (or a lack thereof) of a Green Bond's ESG impact rating versus ESG impact rating of its issuer. After issuance, Green Bond ratings are reviewed alongside the issuer's other ratings and may be revised in light of actual activity. This approach allows our ESG strategies to invest in more impactful green bonds of issuers that would otherwise be ineligible for inclusion, thus adding to the positive impacts of our investments.

ESG Commitments and Collaborations

Regarding collaborative engagements, we joined the Advisory Committee on Structured Products Workstream (ACSP), the ESG Committee of the European Leveraged Finance Association, and we publicly supported the TCFD guidelines and recommended disclosures.

Enhancing ESG Infrastructure

We are also taking specific steps to advance our commitment to responsible investment over the next two years with a continued focus on evolving the tools and infrastructure supporting our ESG investing. Examples include:

- Further enhancement of ESG integration and our ESG Impact Ratings framework (assisted by the build out of our ESG research team and technological enhancements);
- Enhancement of ESG-related data and analytics infrastructure;
- Continued enhancement of analytical tools for climate change, including improvements to risk tools and the development of dedicated, Paris-aligned methodologies;
- Enhancement of ESG reporting tools for client and public reporting;
- Advancement of engagement with issuers on ESG-related topics, with a specific focus on ESG disclosures; and
- Further increasing our participation in industry working groups in order to contribute, collaborate, and learn from our peers to help establish market best practices in ESG.

GOVERNANCE, RESOURCES, AND INCENTIVES TO SUPPORT ESG STEWARDSHIP

The ultimate responsibility for our ESG policies and procedures lies with PGIM Fixed Income's ESG Committee. The Committee was established in 2014 as the internal governing body for directing and overseeing our ESG-related activities and ensuring that our policies are implemented in an aligned and consistent way across the organisation. This includes:

- The development of all policies and procedures that integrate ESG factors into the firm's investment process, both generally and with respect to specific PGIM Fixed Income products;
- Establishing the methodology for our internal ESG Impact Rating framework;
- Overseeing the assignment of ESG Impact Ratings;
- Monitoring ESG-related engagement with issuers;
- Establishing and maintaining guidelines for ESG-related funds managed by PGIM Fixed Income; and
- Incorporating and developing our approach to climate risk and stewardship.

The PGIM Fixed Income ESG Committee, co-chaired by our head of ESG research and head of investment grade corporate research, is composed of senior investment professionals and executives, including the head of fixed income / chief investment officer, head of credit, head of global macroeconomic research, and senior credit research analysts from our investment grade, emerging markets, leveraged finance, and securitised credit desks, with representation from our Newark, London, and Tokyo offices.

ESG responsibilities are also the designated responsibility of a UK and Dutch Board Member, providing a further level of oversight over our ESG and Stewardship approach. Furthermore, our culture of transparency, intellectual honesty, and unwavering commitment to our clients aligns with our ESG and stewardship efforts across the organisation.

In 2020, the ESG Committee focused on developing our ESG Impact Ratings framework, while continuing to oversee ESG integration and engagement activities across our portfolios. Our research teams have ultimate responsibility for assigning ESG Impact Ratings to each issuer they cover. As the impact ratings framework evolved, the focus on ESG factors by our analysts and portfolio managers increased materially as they sought to establish ESG Impact Ratings on over 110,000 CUSIPS, to validate these ratings across sectors and fixed income asset classes, and to work through the process of incorporating these ratings in ESG focused portfolios.

As it relates to the ESG Committee's continued oversight of ESG integration and engagement, our fundamental credit research analysts and economists are required to consider all material ESG factors for the issuers they cover as part of the analysis of the creditworthiness of the investments we make on behalf of clients. As an example, we have sharpened our focus on climate-related risks and opportunities, as these issues have become increasingly relevant to the long-term sustainability of profits for companies in businesses that produce carbon-intensive products, extract resources, operate agri-business, or provide services with a significant carbon footprint.

With the build out of the ESG research team, we are able to leverage one of the market's largest teams of analysts and economists to cover the spectrum of the global fixed income markets. Our credit research team comprises 131 research analysts with an average of 13 years of experience in their respective sectors and industries, making them well placed to keep abreast of the latest ESG, regulatory, and industry developments for the issuers they cover.

The following chart highlights the levels of collaboration between our fundamental research analysts and ESG specialists.

	Credit Analyst/ Economist Roles	Credit Analyst/ Economist + ESG Specialist Collaboration	ESG Specialist Role
Fundamental Research	Financial, Operational and Economic Analysis—industry/ country overview, financial reports, third party research	Consideration of how much ESG affects credit quality	Industry/country level ESG research, data, news, regulatory and political developments, academic and third-party research
Due Diligence	Communication with leadership teams to ask key credit and ESG questions/updates	Engagement with issuers on fundamental and ESG topics	Review of issuer ESG data and trends; engagement with leadership on ESG issues
Analytical Framework	Financial model; assessment of industry/country's overall credit profile and individual issuer's ranking	Determination of ESG risk materiality for a credit; ESG impact analysis	Framework for ESG credit risk and ESG impact analysis; key ESG metrics for each asset class
Ratings	PGIM Fixed Income Credit Rating and ESG Impact Rating	Robust ESG integration process and high-quality ESG Impact Ratings	Monitoring ESG integration into credit analysis and application of ESG Impact Ratings
Ongoing Monitoring	Economic, operational and financial data, external ratings, news, regulatory and political changes	Evaluation of key ESG trends, news, regulatory and political changes and other ESG-related developments	Country, industry and issuer level ESG-related developments

Our research analysts and other investment professionals are reviewed and compensated largely based on their ability to assess an issuer's relative value, identify attractive relative value opportunities, incorporating and accounting for ESG-related credit material factors, and position portfolios to take advantage of those opportunities, while strictly adhering to investment guidelines. These same factors are components of the promotion criteria for career progression, along with the discretionary compensation structure.

Management of Conflicts of Interest in ESG/Stewardship Activities

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.

Further detail around our management and handling of conflicts of interest can be found in the Appendix.

ESG in Risk Management

Our risk management framework combines monitoring the risk of individual credits and the risk of the overall portfolio. ESG factors are incorporated in the identification and monitoring of individual credit risks.

Relative value decisions, including sizing and hedging, are made by portfolio management in coordination with credit research analysts. Credit research analysts are responsible for ESG research as part of their credit analysis.

ESG constraints are considered when constructing portfolio risk budgets, which are used in our daily risk surveillance. Guideline constraints for ESG dedicated accounts and accounts with specific ESG related restrictions are monitored by compliance as part of their daily process.

Market Implied Rating curves that drive our risk analytics are recreated each night based on market spread levels. These curves are then used to assign CUSIP-specific ratings based on the spread and tenor of each bond. In this framework, if an individual credit, industry, or country trades with a spread premium due to ESG or other factors, it would be assigned a lower credit rating in our risk system. The lower rating would result in tighter thresholds and/or bigger stress shocks being applied to those credits. While not a specific ESG filter, if market forces cause names with less favourable ESG characteristics to trade with wider spreads, they will be assigned lower ratings and higher risk weights in our system.

Selection & Monitoring of Service Providers

PGIM Fixed Income uses third-party providers for ESG data, research, and screening services. We do not use third-party providers for stewardship services.

PGIM Fixed Income has implemented ongoing monitoring of our ESG service providers, which includes frequent assessment of the quality and appropriateness of their services, their coverage and screening parameters, the quality of data and research received, the robustness of the providers' research, ratings and screening methodologies, technical support, data feed capabilities, and the quality of customer service.

We provide regular feedback to our providers through ongoing communication on specific issues, as well regular service review meetings. We proactively engage with our ESG providers to improve data coverage and functionality of their platforms, as well as to question and, when necessary, correct any inaccuracies we may find in their research. In addition to monitoring our existing providers, we are actively exploring new sources of ESG data and insights in the market, with a particular focus on climate and carbon related data and analytics, which supports our assessment of the existing providers and their ability to meet our needs.

In general, we find that our current ESG data and research needs cannot be fully met by any of the third-party providers with fixed income asset classes, such as high yield, bank loans, emerging market corporates, and securitised products, experiencing particularly insufficient ESG coverage. However, we acknowledge that this is a systemic issue arising from the lack of respective disclosures on the issuer side and is not due to the shortcomings of any particular data provider. PGIM Fixed income actively engages with issuers, banks, trade bodies, and regulators to encourage relevant and consistent ESG disclosures.

ESG INTEGRATION

In order to frame our approach to ESG integration, it's important to first characterise our understanding of ESG risks and opportunities. We define "ESG risk" and "ESG opportunity" as an environmental, social or governance event or condition that, if it occurs, could cause a material negative or positive impact on the financial and/or economic value of an investment.

Our approach to integrating ESG into our investment process therefore aims to analyse ESG risks and opportunities with an eye toward any potential negative or positive impact(s) on the value of investments. These credit-material ESG factors are incorporated into the management of all client portfolios.

As part of the credit research process, PGIM Fixed Income analysts review information related to ESG factors from a wide range of sources, including the issuer, a third-party ESG research provider, or alternative data sources (e.g., NGO analyses, governmental and inter - governmental studies, etc.). The PGIM Fixed Income analysts may supplement this information through engagement with the issuer. Our analysts will incorporate the material, or potentially material, adverse risks into their fundamental credit ratings. Fundamental credit ratings are in turn a key factor in our relative value assessments, and our portfolio managers will consider material ESG risks and opportunities when assessing the overall relative attractiveness of potential investments.

ESG factors that are considered to be materially positive will also be reflected in our fundamental analysis and considered in relative-value assessments. Although our views are often informed by quantitative metrics, our ultimate decision on how ESG issues should influence our investment decisions is largely qualitative, as with other types of risks and opportunities.

Governance Analysis

The quality of governance is an important investment consideration. It is incumbent on our analysts to assess

CORPORATE DEBT

U.S. UTILITY HOLDING COMPANY

The utility began disclosing governance failures in the second half of 2020, and we took the developments very seriously given the importance of governance to our credit risk assessment and the scale of the failures, which included:

- The lack of an effective control environment, which was exacerbated by the dismissal of two senior executives. Although this deficiency did not result in a material misstatement of its financial reports, it likely complicates the company's relationship with its regulatory commission, which could take a hard line with the company.
- The firing of a CEO related to a significant, controversial payment to a regulatory entity. This payment was in addition to allegations that the company made improper lobbying payments to state legislators.
- Despite the governance failures to this point, the newly named CEO is a long-time company insider as opposed to an external hire who may have introduced a stronger governance regime.
- In return for waiving the requirement for certain representations and warranties, the utility reduced the amount of a bank facility available to the parent from $2.5B to $1.5B, hence reducing its liquidity.
- The disclosures will complicate the company's relationship with the utility commission.

Outcome: We did not reduce our exposure to the credit when the headlines pertaining to the governance failures emerged as spreads widened by about 100 bps. We believed it was an over-reaction by the market and .as such, the spread of the bonds rebounded in the subsequent months by roughly 70 bps off the wides. The spreads came under renewed pressure after a credit ratings downgrade, and we continued to hold the securities as we believed the spread level was sufficient compensation even at the lower rating. The bonds subsequently rallied again in late 2020, and at that point, we reduced our exposure in the portfolios. After in depth discussions among the credit research team and portfolio managers, we sold our longer-dated positions in the holding company based on our opinion that the trading levels were not adequately compensating investors for the downside risk associated with the governance failures.

The case studies are provided for illustrative purposes only solely as an illustration of our ESG evaluation process. The case studies are not inclusive of all potential ESG issues and engagements, are subject to change and are not intended to represent a specific portfolio's performance or characteristics. PGIM Fixed Income's ESG processes may yield different results than other investment managers, including its affiliates. The information should not be construed as investment advice.

governance structures and practices at the issuer level. Our governance analysis is asset class and sector specific and may include the following issues: alignment of interests between management, controlling shareholders and other providers of capital; related party transactions; board quality, effectiveness and oversight; management incentives; audit and accounting issues; quality of risk management; business ethics and conduct issues (e.g., bribery and corruption; anti-competitive practices; and advertising/sales practices); and supply chain sustainability practices.

Environmental and Social Analysis

The environmental and social factors considered during our research assessment, including ESG risks which may cause a material negative impact on the value of potential investments should those risks occur, will vary depending on the asset class, the industry and/or individual issuer. These include, but are not limited to, the following aspects.

A) Environmental risks may include climate change (both from a transition and physical risk perspective); pollution of air, water or land; harm to biodiversity through changes in land use, deforestation and ecosystem damage; energy inefficiency; generation and poor management of hazardous and non-hazardous waste; and high water consumption/withdrawal needs, especially in water-stressed areas.

B) Social risks may include poor occupational health and safety and process safety; poor product safety and quality; privacy and data security weaknesses; poor labour relations and/or human capital management, including diversity and inclusion; breaches of employee rights/labour rights; human rights violations; child labour/forced labour; and infringements of rights of local communities/indigenous populations.

LEVERAGED FINANCE

U.S. NATURAL GAS EXTRACTOR

The company has demonstrated active efforts to achieve zero net emissions across its operations and reducing its water waste. The company has prioritized the minimization of methane emissions and volatile organic compounds (VOCs) as it routinely evaluates its production facilities through a robust leak detection and repair program. As a result, the company has reduced its leak ratio by 70% over the past three years. Additionally, the firm participates in the American Petroleum Institute Environmental Partnership and facilitates quarterly meetings with other operators to foster the sharing and education of best practices. Furthermore, the company began recycling other operator’s water in Pennsylvania, helping to reduce overall fresh water needs and improve well costs. As a result, the company reuses approximately 100% of its operated water needs and roughly 153% total, which includes reuse from other operators. The company ranked second among top producers on water management and corporate environmental practices ("Rankings according to “Disclosing the Facts 2019: Transparency and Risk in Water & Chemicals Management for Hydraulic Fracturing Operations").

Outcome: Given the company’s thorough green initiatives, we’ve been increasing our exposure to the name.

LEVERAGED FINANCE

ALUMINUM MANUFACTURER

The company manufactures panels that were involved in a significant fire in Europe in recent years. Investigations into the fire focused on whether the panels contributed to the severity of the fire and if the company was aware that the panel’s fire performance was below Europe’s minimum requirement for that particular type of product.

Outcome: Given the potential liability and concerns surrounding management, we passed on the company’s most recent debt offering and have avoided adding the name to portfolios based on ESG concerns.

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Sovereign and Macroeconomic Research

An important focus of our sovereign research is on macroeconomic stability and debt sustainability. ESG issues feature prominently in this analysis and, in particular, the sovereign credit ratings process.

In addition to a fundamental macroeconomic score that captures pertinent macroeconomic strengths and vulnerabilities, our sovereign ratings framework is also based upon a comprehensive assessment of qualitative aspects that guide policy making. These aspects include institutional strengths and weaknesses, potential governance issues, as well as social and environmental issues that could affect relevant macroeconomic variables. Nevertheless, while we carefully consider the relevant ESG issues, we believe these factors should always be considered within a broader macroeconomic context.

In line with our bottom up, fundamental credit approach, we view issuers' credit profiles from a holistic perspective, rather than separating them into distinct components that must then be reconciled. Therefore, we do not evaluate issuers' ESG risks and opportunities in isolation, but, instead, integrate them directly into our fundamental credit ratings and thus into our relative-value assessments. So, our portfolio managers are provided with information on ESG risks and opportunities and take ESG factors into account when making an investment decision. But these are a part of a holistic picture of the risk/opportunity of each issuer's credit, which is considered by PGIM Fixed Income before an investment decision is made. Generally, a higher potential return or credit spread would be required for issuers with credit material ESG risks and incorporated into the overall risk limits.

EMERGING MARKETS DEBT

BELARUS

Certain emerging market economies have long been associated with undemocratic electoral processes (e.g., ballot-rigging, barring opposition candidates, etc.), which creates opportunities for social backlash. Accordingly, election risk is a consideration we regularly incorporate into our credit outlooks. Leading up to the August 2020 presidential elections in Belarus, we believed this risk was not properly factored into valuations.

Outcome: We consequently passed on a Eurobond offering and further reduced our exposure to neutral. The aftermath of the elections featured widespread protests. The (eventual) political transition away from President Lukashenko is a central tenet to the investment thesis for Belarus.

EMERGING MARKETS DEBT

TURKEY

During several trips to Turkey after the failed coup in July 2016, our regional economist began to notice that several high-level government personnel and public servants were being dismissed. As we monitored the situation, we began to witness a slow, but steady deterioration in the country's institutions. This deterioration came to a head in the summer and autumn of 2019 when Turkey's electoral board annulled the election for the mayor of Istanbul after President Erdogan's AK Party candidate lost to the Republican People's Party candidate, which would have ended the AK Party's control of Istanbul. While the original results were eventually upheld after large protests, the episode showed the lengths that President Erdogan would take to retain power. A few weeks later, Murat Cetinkaya, the Governor of the Central Bank, was removed from his post, and it became clear that the central bank was losing its independence.

Outcome: As we witnessed the governance deterioration under President Erdogan, we reduced our positioning in Turkey to an underweight in the autumn of 2019. We continued to reduce positioning throughout 2020 due to Turkish aggression in Libya and conflicts with both France and Greece.

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Climate Risk Analysis

We consider climate change and the associated policy and regulatory response to be an important risk factor that should be incorporated in our credit assessment, especially where the issuer's exposure to climate risk is deemed high. The impact that issuers have on climate change via Greenhouse Gas (GHG) emissions generated by operations, products, or value chain is also a significant consideration under our ESG impact rating framework.

In measuring climate risks, we take account of "physical" risks (for example, the impact of severe climate events leading to business disruption or investment losses) as well as "transition" risks, which pertain to the risk to investments as the world's economies decarbonise.

We seek to identify, understand, and manage the impact of climate-related risk on our investments. This is achieved by a combination of approaches applicable to different asset classes, including:

- Incorporating climate risk assessment in fundamental analysis. Our analysts evaluate an issuer's exposure to climate-related risks and impending regulatory changes by considering their GHG footprint and intensity and, where applicable, the physical location of key assets. They also consider the issuer's targets and credible plans for reducing their credit material climate risk exposures. This is consistent with our general focus on fundamental, bottom up analysis, which we feel is core to our ability to add value.
- Focusing on sectors with high direct exposures to the physical and transition risks of climate change, including those particularly exposed to supplying or consuming fossil fuels (e.g., energy, mining, utilities, transportation), industrials (e.g., producing or using products like steel, cement and aluminum), as well as the agricultural sector. Our research involves:
  - Monitoring regulatory developments and analysing potential impact on issuers;
  - Incorporating the risk of an increase in carbon prices or lower demand for fossil fuels;
  - Identifying sub-industries and issuers with higher mid-term resilience and long-term adaptation capacity;
  - Identifying issuers with a credible strategy for transitioning towards lower-carbon business models; and
  - Exploring indirect climate risk vulnerabilities (e.g., physical and transition risks in supply chains).
- Requiring more compensation in terms of higher spreads for credits with credit material climate risks, such as current and future carbon costs, the risk of future stranded assets, and the costs to address physical risk. Credible plans for mitigation of those risks are also considered.
- For sovereigns, analysing climate risk exposure and mitigation/adaptation capacity of individual countries to consider the potential impact of the future repricing of sovereign debt around climate risk;
- For securitised assets, understanding climate risk associated with underlying assets/asset pools, as well as the extent to which investors are exposed to/shielded from physical and/or transition risks through the deal structure;
- Considering the time frame over which climate risks are likely to materialise, while also recognising that the expectation of future climate risks may also impact asset valuations well before they have fully unfolded; and
- Identifying and monitoring sectors and issuers that we believe are likely to be beneficiaries of and/or contribute to a low-carbon transition.

Furthermore, climate change and GHG emissions are a significant factor in our ESG impact assessment and ESG Impact Ratings. Although these ratings do not focus solely on climate, climate considerations play a large role in analysts' assessments of GHG emissions in intensive sectors where negative climate impacts are material. Where an issuer has significant, negative climate impacts arising from Scope 1, 2, or 3 emissions[5] and is not taking credible measures to materially reduce that impact, this could weigh heavily on its ESG impact rating. That in turn may lead to the issuer being excluded from portfolios that include criteria based on our ESG Impact Ratings.

In addition to their ESG Impact Rating criteria, certain portfolios we manage have exclusions on some of the most carbon-intensive activities, such as thermal coal extraction, thermal coal power generation, and oil production in the Arctic and from tar sands, as well as limitations on an issuer's overall carbon intensity.

Where significant, we also endeavour to raise our concerns over an issuer's climate impacts via engagement (please refer to our Asset Class Engagement Case Study–Multinational Consumer Goods), noting how those concerns impact our credit assessment and ESG Impact Ratings, as well as how this could limit our demand for its bonds. Our large size and global coverage of fixed income markets allow us to provide issuers with constructive insights into how such concerns could affect demand for their debt more generally, as well as how they compare to their peers with regards to climate performance, strategy, and disclosure.

We strive to ensure that we have adequate access to resources, including staff, data, and analytical tools, to assess, implement and monitor climate-related risks/opportunities and measures. We also dedicate resources to exploring and testing new sources of data, including emerging methodologies to calculate climate value at risk, implied temperature rise, and similar metrics. In addition, we rely on company reported information and strategies, industry reports and external analysis from a variety of sources as relevant (e.g., the IEA, Transport & the Environment, UNEP, etc.).

PGIM Fixed Income has publicly supported the Task Force on Climate-Related Financial Disclosures ("TCFD") recommendations, which are a set of voluntary climate-related financial risk disclosures. In our engagements with issuers, we strongly encourage climate related disclosures and reporting aligned with the TCFD principles (please refer to our Asset Class Engagement Case Study–Multinational Air Conditioning Manufacturer).

[5] Scope 1 covers direct emissions from owned or controlled sources; Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company; Scope 3 includes all other indirect emissions that occur in a company's value chain. Source: https://www.carbontrust.com/.

Engagement as Critical Component of ESG Integration

We believe engagement is a key tool in our investment process. By discussing our ESG concerns with an issuer, we make them aware of how those concerns factor into our investment decision, while at the same time gaining a better understanding of what the issuer is doing to address them. This can increase focus on ESG at the issuer, while at the same time enriching our investment analysis.

During these discussions, our analysts probe management on the ESG issues we see as material and assess the issuer's plans to address them. This is all then factored into both our fundamental credit ratings, which drive our relative value assessments and our ESG Impact Ratings. At the same time, analysts aim to be constructive when raising ESG concerns with issuers by offering context around why they feel ESG issues are important and how they factor into our investment analysis. Further, given our scale and global coverage, such discussions often provide useful insights to issuers into how they compare to industry peers and how markets perceive their ESG initiatives. As a result, engagement can also positively influence issuer behaviour.

As an illustrative example, we met with the Chairman and Chief Executive of a European financial services firm to discuss the firm's ESG strategy, in particular the ongoing response to a money laundering scandal that has engulfed the firm since early 2019. Since the scandal, the new chair has replaced much of the board and several members of the executive committee, and the new appointments have been made with a particular eye on experience in sustainability and enterprise risk management.

Through our ongoing research and engagement, we are able to conclude that the firm is committed to improving its culture and compliance processes and that the wider ESG strategy is well thought out and increasingly well integrated into the day to day business. In addition, compliance reporting lines are simplified and now feed directly into the CEO, avoiding the poor communication and limited accountability which allowed the breaches to occur in the first place. Beyond AML, management sees social inclusion as the area where the firm can make the most positive impact through better provision of basic personal finance - a statement that we agree with although we are also interested in seeing greater use of environmental factors in the credit underwriting process.

We continue to monitor the firm's progress in its remediation program but view this as an improving ESG story.

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Our engagements with issuers are focused mainly on improving our understanding of their efforts to improve areas of concern identified when integrating ESG into our fundamental credit analysis and/or our ESG Impact Ratings. They may also cover recent controversies surrounding the issuer and/or key ESG themes for the issuer's industry. Finally, at times, issuers take the initiative to approach us to request feedback on their ESG efforts. We aim for these discussions to be constructive for both sides, which helps maintain an ongoing dialogue between our analysts and the issuers they cover. In this regard, our ESG Impact Ratings offer additional tangibility and context to the conversations, as they allow our analysts to show issuers how we rank them on ESG impacts, while also providing the rationale and factors behind the ratings.

Feedback from these meetings is used to inform our fundamental credit ratings and ESG Impact Ratings. The ESG issues raised, as well as the issuers' response to our comments (where applicable), are then noted in our internal credit reports and engagement notes, which are available to portfolio managers.

Exercising Rights & Responsibilities

Transaction Structures and Documentation Packages

Understanding the terms and conditions of indentures, contracts, prospectus supplements and related transaction documents is a central part of our governance or due diligence relating to securitisations.

At the transaction level, our securitisation documentation underwriting begins with the initial offering materials and, depending on the type of transaction, the prospectus/prospectus supplement/private placement memorandum/indenture or equivalent documentation. Amongst other things, we focus on:

- The structural features of the transaction, especially provisions and definitions that may directly or indirectly impact the cashflow waterfall;
- The events of default or any intercreditor rights, as well as any redemption rights provided to the sponsor or equity class;
- Any class of amendments that can occur without noteholder consent;
- Amendments that do require noteholder vote including the quorum requirements, the threshold level for approvals as well as the mechanical notice process to call a first or second meeting or respond to a written resolution. This is particularly relevant for European securitisations, which tend to have lower quorum requirements than in the U.S.;
- The ability of the sponsor to amend the actual governing documents (e.g., pooling and servicing agreement) to conform to the offering materials, or vice versa;
- Representations and warranties, if any, provided by the seller/sponsor; and
- Rights and responsibilities of key transaction parties including independent third parties such as the servicer, administrative agent, and the trustee.

SECURITISED CREDIT

UNSECURED SUBPRIME CONSUMER LENDING

From a securitised credit perspective, social and governance factors are core to PGIM Fixed Income's evaluation of all consumer lenders, especially in the unsecured subprime consumer lending subsector. Our issuer engagements focus on whether the loan product design affords good utility for the borrower, the lender, and the securitisation investor. Our assessment of responsible lending includes due diligence on the lender's consideration of a borrower's ability to pay relative to their income, other debts and living expenses as well as the lender's servicing practices. The consequences of the 2020 COVID-19 pandemic were an unfortunate test of both aspects of our diligence process: U.S. unemployment levels far exceeded the levels experienced during the global financial crisis, testing both a borrower's ability to pay and a loan servicer's ability to quickly develop compassionate and fair deferment and forbearance polices. As an investor across consumer FICO levels and throughout the securitisation capital structure, including residual tranches, the pandemic-related financial stress on borrowers could have resulted in material losses.

Outcome: We immediately engaged with issuers asking about their servicing plans and found nearly all to be very accommodative. Actual 2020 loan delinquency, loss, and recovery levels all performed better than our March 2020 expectations, supporting the original due diligence finding that the lending was in line with a consumer's ability to service the debt. By the end of 2020, we did not have any securities under heightened COVID-19 surveillance, nor did we see any volume of negative news articles or increased regulatory reviews of our issuers or servicers for their 2020 lending practices.

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In the new issue context, depending upon the sector and specific investment opportunity, credit analysts negotiate transaction terms with issuers and sponsors to improve credit protections and governance on behalf of our clients. We may also request enhanced reporting packages and actively negotiate transparency provisions if we feel the proposed or existing reporting is deficient for our surveillance requirements.

Following the closing of a transaction, we endeavor to receive the transaction documents, including the Trust Deed, from the arranger, the trustee or from public filings. The ability to receive private documents depends on the transaction and local market conventions of the Trustee. In the U.S., we are generally able to receive electronic versions of the executed Indenture from the Trustee, whereas in Europe, the Trustee may only provide access to the Trust Deed in their office.

Impairment Rights

In the consumer ABS and RMBS markets, the credit underwriting of any securitisation begins with analysis of the sponsor. Before investing in a new sponsor, we conduct due diligence, preferably on site, to understand their business thesis and how the sponsor underwrites and services their loans. Special attention is paid to servicing practices, particularly late stage delinquency management, charge-off policies, modification policies and collection practices. Our diligence process also focuses on the sponsor's compliance, complaint, audit controls, and ESG philosophy. Once onboarded, credit analysts actively maintain an ongoing dialogue with a sponsor.

In the CLO market, special attention is paid to the rights afforded to the equity tranche holders. In recent years, much has been written about the weak covenants in the loan market and efforts by some investors to exploit these deficiencies at the expense of CLO investors. We try to balance giving equity investors and CLO managers the flexibility to defend the integrity of the CLO collateral investments, with our need to protect senior debt holders from structural features that could allow equity investors to prime other securitisation participants.

In the CMBS market, special attention is paid to the rights afforded to the controlling class holder and the special servicer. Wherever feasible, we attempt to negotiate provisions in the documentation that curtail the ability of controlling class holders to engage in self-dealing (e.g., buying REO from the SPVs) or indulge in extend-and-pretend modifications at the expense of more senior debtholders.

Other Mechanisms for Exercising Rights and Responsibilities

In addition to the due diligence measures outlined above, there are other avenues for exercising rights and responsibilities.

- **Trade Associations:** PGIM Fixed Income is an active participant in trade associations including the Structured Finance Association (Board of Directors), SIFMA, and others. We believe these organizations can serve as an important channel for dialogue between securitisation stakeholders, as well as an effective conduit to policy makers. We will continue to evaluate opportunities to participate in trade associations relevant to our business, our clients, and our ESG initiatives in the future.
- **Legal Remedies:** Litigation is generally a last resort for resolving disputes, but PGIM Fixed Income has experience successfully litigating on behalf of our clients' interests. More information may be furnished upon request.
- **Regulatory Bodies:** PGIM Fixed Income engages with a variety of regulators that can influence investment outcomes and impact our clients' rights and remedies. Examples include the SEC, CFPB, and Federal Reserve Bank amongst others. For example, PGIM Fixed Income is an active member on the

Federal Reserve Bank of New York's Alternative Reference Rates Committee, which was created to develop industrywide solutions to LIBOR succession challenges.

- **Legislative Bodies:** Through our external affairs team, PGIM Fixed Income may directly engage with legislators who influence our clients' rights and remedies. For example, PGIM Fixed Income has been activity involved in seeking New York State legislation that addresses deficiencies in LIBOR fallback provisions in legacy securitisations governed by New York law.

Impact of ESG Integration on Investment Portfolios

At PGIM Fixed Income, relative-value assessments are at the core of our investment process. Corporate industry analysts / sovereign regional economists determine their fundamental and ESG assessments for their issuers, ordinally rank their credits by fundamental value and, together with the sector portfolio manager decide on a relative value ranking. Credit material ESG risks and opportunities are factored into an analyst's fundamental assessment. Issues with higher ESG risk can be owned within our broader portfolios if the portfolio manager / analyst together believe that other fundamental strengths of the issuer and / or wider spreads compensate for the higher ESG risk. An outcome of the meeting may help to identify topics for further engagement with respective issuers on ESG risk factors.

ESG IMPACT ASSESSMENT

ESG Impact Ratings Concept & Methodology

We strive to help our clients understand the impacts that their investments have on the environment and society by assessing investments against negative and positive ESG impacts relevant to the industry, issuer and/or issue. This ESG impact assessment is distinct from our assessment of the risk that ESG events could have on the financial/economic value of our clients' investments.

After conducting this assessment, our investment analysts assign an ESG rating on a 100-point scale in 5-point increments, with 0 as the lowest and 100 as the highest ESG rating ("ESG Impact Rating"), to an issuer or issue. In assigning an ESG Impact Rating, investment analysts review information provided by the issuer, third-party ESG research providers, and/or alternative data sources (e.g., NGO analyses, governmental and inter-governmental studies, etc.). This third-party research may, among other things, be used to screen our investable universe for specified economic activities and controversies (including violations of the UNGC principles); provide information regarding ongoing litigation; review performance data for a large number of environmental, social and governance key performance indicators; or otherwise analyse various ESG issues and risks. In certain instances, it may not be possible or practical to obtain and/or analyse the information needed to assess and rate each investment. Where this is the case, our analysts either make reasonable assumptions to rate the investments based on, for example, information relating to the industry of an underlying issuer and/or issue or identify the investment as unrated.

In assigning an ESG Impact Rating, the environmental and social issues and the negative and positive impacts considered by our investment analysts vary depending on the asset class, industry, individual issuer and/or issue, but generally may include, but are not limited to:

Climate and Environmental Sustainability Indicators	Negative/Adverse Impacts	Positive Impacts
Energy use/performance; greenhouse gas (GHG) emissions	High greenhouse gas emissions; high carbon footprint or carbon intensity; consumption of energy from non-renewable sources	Sustainable sourcing of energy; use of or revenues from renewable energy; practices that improve energy efficiency; R&D in energy efficient products
Waste management/hazardous materials; pollution	Generation of and poor management of hazardous and non-hazardous waste; plastic pollution; packaging waste; use of hazardous materials in products	Reducing use of non-recyclable packaging and plastics; remediation of existing contaminants; lifecycle management of products; new technologies reducing environmental impact
Water consumption and pollution; air pollution; ecosystems	Destruction of natural habitats and biodiversity loss; ecosystem damage; high water consumption; water pollution; dust and other particle emissions; noise pollution	Water efficiency solutions; strong chain of custody in supply chains; environmental rehabilitation strategies; land conservation areas and protected endangered species habitat; carbon sequestration

Social Sustainability Indicators	Negative/Adverse Impacts	Positive Impacts
Human rights; employee rights/ labour rights; health & safety; community relations	Modern slavery or forced labour; child labour; irresponsible labour practices; discriminatory exclusion (e.g., against low-income communities or underprivileged segments of society); infringement of rights of local/indigenous communities; poor occupational health and safety	Robust worker training programs; robust worker health & safety policies and controls; local and indigenous community relations; product safety measures; provision of affordable services to underprivileged/ underserved segments of society
Business conduct	Bribery and corruption; anti-competitive practices; financing of crime, terrorism, and other illegal activities; fraud, insider trading and profiteering from access to trade secrets; tax avoidance or abetting tax avoidance	Robust audit and transparency practices; training and human capital development practices; encouraging workforce diversity; protection of privacy and security of customer and personal data

While certain corporate governance considerations (e.g., ownership structures or board effectiveness) are not considered to directly affect an issuer's and/or issue's impacts on the environment and society, they are an important part of the overall evaluation of an investment opportunity and are considered by the investment analysts as part of the credit research and the initial evaluation of an investment. They also can play an important role in assessing the credibility of an issuer's efforts to reduce its negative impacts and/or enhance its positive impacts. These potential indirect effects on environmental and social impacts are also evaluated under our ESG Impact Ratings framework.

Our ESG Committee provides detailed guidance to the analysts on the environmental and social impacts of issuers and/or issues for 150+ GICS[6] sub-industries. The PGIM Fixed Income ESG Committee also provides detailed governance guidance covering major governance factors and relevance for credit risk analysis and ESG Impact Ratings. Analysts rate issuers and/or issues based on the severity of the negative sustainability impacts and the issuers' efforts to reduce and minimise negative, as well as enhance positive impacts. Although often informed by quantitative metrics, these ratings ultimately reflect the qualitative judgement of our credit analysts regarding sustainability impacts.

An ESG Impact Rating between 40-100 requires that the economic activities, products/services, and practices of an issuer (or financed by an issue):

(i) are inherently positive for either environment or society; and

(ii) associated key negative impacts are being reduced and/or minimised.

An ESG Impact Rating below 40 generally means that the economic activities, products/services, and practices of an issuer (or financed by an issue):

(i) are inherently positive for either environment or society, but there are only limited efforts to reduce associated key negative impacts; or

(ii) come with significant environmental or social costs, and there are no credible efforts to minimise these negative impacts; or

[6] Global Industry Classification Standard

(iii) have such significant negative impacts to environment or society that they cannot be outweighed by any other potential positive contributions

The ESG impact assessment generally applies to all asset classes.

An assignment of a high ESG Impact Rating is generally based on the credibility and ambition of an issuer's strategy to reduce negative environmental and social impacts as well as their actual achievements at the time of our analysis. Accordingly, the extent and quality of efforts by issuers to reduce their negative impacts and to enhance their positive impacts will serve as a differentiator yielding higher ESG Impact Ratings.

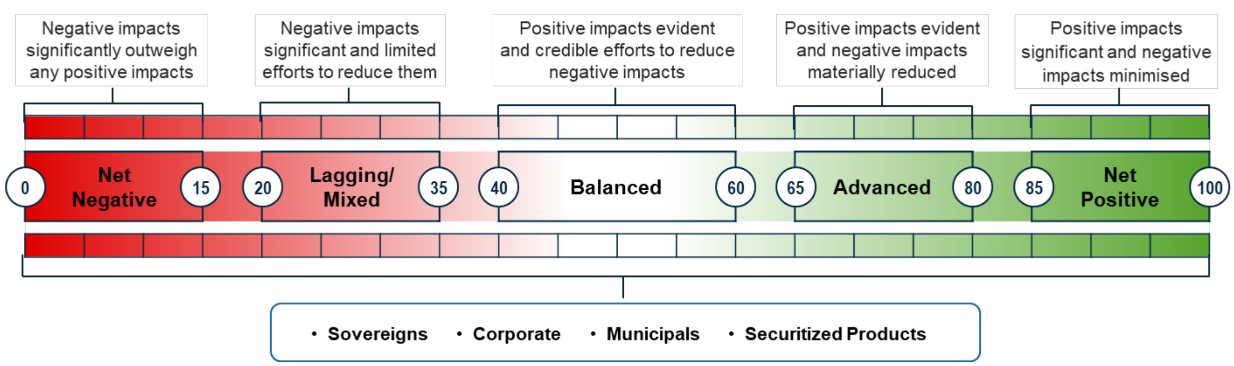
Sovereign ESG Impact Ratings have been developed by our global economics team, using a quantitative approach with a qualitative overlay to determine a final ESG Impact Rating.

ESG Impact Ratings for securitised products are generally based on those of the associated issuer/sponsor and/or the industry guidance most relevant to the underlying collateral. This may be further adjusted for certain factors specific to the transaction.

The ESG Impact Rating for currency and derivative contracts referencing a single investment will reflect the ESG Impact Rating of that investment (e.g., a U.S. Treasury future or U.S. interest rate swap would get the same ESG Impact Rating as the corresponding U.S. Treasury). Similarly, a single name sovereign or corporate credit default swap would get the same ESG Impact Rating as the corresponding sovereign or corporate issuer that it references.

For currency and derivative contracts (such as a Euro or High Yield CDX contracts) that reference multiple underlying investments, the analysts will assign an ESG Impact Rating to the contract that is based on the average ESG Impact Rating for the underlying constituents within that contract for which we have assigned an ESG Impact Rating.

ESG Impact Categories and Definitions



An issue may have a different ESG Impact Rating from an Issuer in the case of ESG labelled bond issuance. As of March 2021, for illustrative purposes only. Subject to change. Not indicative of future expectations.

Asset Class Examples: Corporates

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Major Auto Company — ESG Impact Rating: 50

We assigned the company an ESG score of 50. It is favourably positioned on environmental aspects versus other OEMs given a high share of mild hybrid vehicles on the road (c.25% of unit sales in FY2021) and a proven track record of success in the transition away from more traditional, pure diesel and petrol vehicles. The company has focused its environmental strategy on hybrid technology, and as such, we think it will be able to adapt to various local CO2 regulations without facing penalties and with more ease than some larger OEMs. However, its hybrids are not dependent on high-voltage battery packs, but rather 48V technology, hence the "hybrid" vehicles continue to be substantially more polluting than battery electric vehicles. In May 2021, the company updated its strategy, now aiming to reach carbon neutrality by 2039. Management now targets 5.5mn electrified units (HEV, PHEV, BEV and FCEV) by 2025, which accounts for c.55% of the company's unit sales in comparison to 1.92mn or c.20% currently. Of the projected 5.5mn, 500k units will be BEV and FCEV, continuing to show the firm's reliance on less "green" mild hybrid models. We note that while this is an improvement, targets remain well behind European peers that look to have > 50% BEV penetration by 2030. Our assessment of the strategy would improve if the company brought the target dates closer or if it increased its commitment to BEV and FCEV vehicles by reducing its reliance on mild hybrid vehicles.

Another key consideration for the company includes corporate governance, where it is an underperformer amid product-quality issues (which are not uncommon for the industry), few independent board members, relatively opaque ESG disclosures, and c.20% of its voting rights held by inside entities.

German Real Estate Company — ESG Impact Rating: 55

We assigned a major German real estate company an ESG score of 55. Our assessment views the company as advanced in environmental factors given its commitment to CO2 neutrality by 2050. In order to achieve this target, the company has committed to a 60% reduction in CO2 intensity, a 3% energy efficient modernisation rate, and proprietary district heating, as well as sector coupling, heat pumps and/or solar. In order to reduce the CO2 intensity of standing assets, the company is committing to capex-heavy modernisation by converting heating systems and replacing windows, switching fuel sources to gas systems, targeting EPC A or better energy ratings in new developments and engaging in modular construction and wood construction schemes to help manage energy intensity and waste during development. Additionally, as of 2020, the German government taxes CO2 emissions from fossil heating and fuel in Germany at €25 per ton, although this will increase to €55 by 2025. The firm's portfolio generates c.1m tonnes of CO2 p.a., taking the total liability to €25mn. Current legislation means that the tax is borne by the tenants, although a discussion is under way about sharing the burden. We see the company's focus on modernisation as a positive in its ability to perform better than peers over time and as a result, the carbon tax liability for a tenant is likely to be lower, positively affecting the total cost of accommodation.

A key consideration is the social assessment, which we view as negative due to well-publicised concerns around rent affordability and landlords applying pressure to relatively poor tenants to move out in order to enable owners to modernise the apartment and hike rents (known as "ren-eviction"). However, the company is taking steps to mitigate these concerns, and we will continue to monitor the situation. Lastly, the company's governance picture is strong. It has a large and independent board of directors and reports a good level of attendance at meetings. It has also established its own Sustainability Performance Index (SPI), which incorporates progress on CO2 intensity targets, customer satisfaction and workforce gender diversity, and its reporting is audited by the group's statutory auditor. This has carried over into management compensation, which has long term incentives split equally between: (i) relative total shareholder return; (ii) development in adj. NAV per share; (iii) development of Group FFO per share; and (iv) customer satisfaction index (CSI), which forms part of the SPI. As such, we see sustainability as well-integrated into management's core values.

Emerging Markets Auto Parts Manufacturer **ESG Impact Rating: 40**

The manufacturer of aluminum auto parts traditionally focused on powertrain components for internal-combustion engine vehicles. From an environmental impact perspective, the company is transitioning to production of battery housings and other components for electric vehicles. The company currently has an order book for $900mm of annual revenue from EV and other light weight structural components and a goal of reducing its ICE share of revenue to 62% by 2025. In addition, the company recently released its scope 1 and 2 greenhouse gas emission reduction target of 28% by 2030 (with 2019 baseline). Regarding social impact, over 80% of the firm's workforce are employed under union contracts or are otherwise employed under collective bargaining agreements. The company's governance is average compared to its industry peers. In 2020, the entity was spun-off from a conglomerate that owned 75% of its equity, and the family that controls the conglomerate still controls seven out of 12 board seats. However, it is positive that the company's shares are publicly listed as some privately-held competitors are much less transparent.

Asset Class Example: Sovereigns

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China **ESG Impact Rating: 25**

Our assessment of China's ESG Impact Rating involves multiple steps. First, we collect ESG data compiled by third-party providers, including Yale University, the Social Progress Imperative, the World Bank, and the United Nations. We refer to these as components, of which there are 10 for E (including Climate & Energy and Ecosystem Services), 12 for S (including Personal Safety and Income Equality), and six for G (including Control of Corruption and Rule of Law). Second, we rescale each of China's components within each pillar of ESG. This is performed for all countries and ensures the distribution, or spread, of the scores reflects our universe of sovereign issuers rather than that of the compilers. The output is a value ranging from 0 to 100, where higher is "better" ESG. Third, we aggregate China's component-level data into an ESG score. We first aggregate components within each E/S/G pillar to generate a separate score for ESG. We then aggregate China's ESG pillar scores into a single ESG score.

Finally, we map China's final ESG score into an ESG impact rating. All countries in PGIM Fixed Income's universe are sorted by ESG score and mapped into rating buckets, which fall in increments of five and can range from 0 to 100. We see where China lands in this ranking and assign it a rating based on its relative placement. Gaps in adjacent scores and intuitiveness of country groupings help inform breakpoints around buckets. Importantly, however, analysts can override the data-implied rating to incorporate real-time views that better reflect a country's ESG performance. For China, our analyst implemented a 5-notch downgrade relative to what its score would imply, given governance and social concerns arising from the National Security Law in Hong Kong and similar measures under the administration of President Xi.

Asset Class Example: Securitised Products

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Student Loan Securitizations — ESG Impact Rating: 60

Our assessment is that the specific operations related to these student loan transactions are of relatively high ESG quality, which culminated in a rating of 60. In terms of environmental impact, the effects are inherently minor given that the collateral is student loans. From a social perspective, the issuer has historically produced higher-quality loans with better servicing and borrower outcomes. High-quality student loan refi lenders work to ensure product suitability and provide transparency and fair advice for customers. For prospective borrowers, they demonstrate the degree of savings achievable through refinancing on a monthly, annual, or loan-term basis against their current student loan arrangement. Due to the highly competitive nature of finding high-quality borrowers in this space, lenders are very transparent with the rates and savings that they are currently offering. By refinancing these loans to better reflect the creditworthiness of the borrower, these loans often lead to improved outcomes for the borrower through clear, periodic savings. The 60 rating puts the issuer's deals at the upper end of the Balanced category, which we feel is warranted given that the deals essentially lower the cost of higher education financing. We do not put the transaction in Advanced as some concerns around the practices of its parent remain, but are lower at the issuer level.

ESG Impact Ratings in Portfolio Construction

Our portfolio construction emphasises bottom up credit selection but within a risk budgeting construct such that diversification across countries, industries and individual issuers is emphasised.

Within our ESG portfolios, issuers with significant negative impacts on the environment / society and exhibiting limited efforts in our opinion to reduce those impacts (low ESG impact rated issuers / issues) are not considered for selection. Our strategy for these portfolios is to seek to achieve the alpha target for our clients operating within the risk budget for the portfolios using the same fundamental and relative value assessments that we use across all portfolios.

Given the portfolio restrictions, alpha targets are typically set below those of traditional portfolios, however there are market environments where ESG portfolios will outperform. The first quarter of 2020, in which the energy sector was severely challenged, provides a recent example illustrating the scenario in which ESG portfolios with less exposure to the relatively high beta energy sector outperformed their broad market counterparts. According to Morningstar, 51 of their 57 ESG-screened indexes[7], or 89%, outperformed their broad market equivalents in the first quarter of 2020. In contrast, periods of energy sector outperformance are generally expected to favour portfolios taking a traditional portfolio construction approach.

[7] Morningstar https://www.morningstar.com/insights/2020/04/06/how-did-esg-indexes-fare

ESG LABELLED BONDS

Our Approach

A case-by-case analysis of the credibility and additionality of individual Green Bonds is part of our security selection process. Credibility is assessed at the security and issuer level, while additionality measures the potential incremental positive impact that the bond could have on the environment.

Credibility

In order to assess impact, we need to understand an issuer's overall ESG strategy and how the Green Bond fits into that strategy. A Green Bond is more credible the more that it is consistent with, or supportive of, an issuer's ESG strategy.

As part of our assessment, we consider whether an issuer is following the Green Bond Principles. These assess whether the issuer established overarching ESG policies and objectives, created an implementation strategy, and, where appropriate, implemented specific targets that the proceeds from the issuance will directly support.

Furthermore, it is critical that the bond's proceeds only finance eligible projects and that issuers provide complete transparency regarding the specific use of proceeds. Timing also plays a role in establishing the credibility of a Green Bond—the faster the proceeds are distributed to a green project, the better.

Second party opinions on an issuer's green bond philosophy or on specific issues support our pre-investment analysis. In this context, we consider a Climate Bonds Standard Certification as a good indication of credibility[8]. The EU Green Bond Standard will provide a similar indication when it is introduced[9]. As we monitor the allocation of proceeds and implementation of projects over time, we expect an annual report from the issuer and third-party verification.

Additionality

Our framework assigns a higher ESG Impact Rating to Green Bonds with a greater environmental impact. The more the Green Bond enables a transformation from brown activities to green ones—either in terms of the issuer or the industry—the greater its incremental impact. For example, if the proceeds have been slated for an existing project or would have happened regardless of the bond, then the issue has less of an impact. We assign higher additionality to bonds where proceeds are being used to finance new projects versus refinancing existing ones. When proceeds are used in part for refinancing, the longer the lookback period, the lower the additionality.[10]

Our additionality assessment expects disclosure of the anticipated impact of the bond using quantifiable impact metrics that are normalised to the millions of US dollars invested. We also expect regular impact reporting following a Green Bond offering.

The combination of the credibility and additionality assessments determines the assessment of the overall impact of the bond.

[8] Climate Bonds Initiative https://www.climatebonds.net/standard

[9] European Commission https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-green-bond-standard_en

[10] Lookback refers to the timeframe in which existing projects might be financed with proceeds from a Green Bond.

Green Bonds Framework and ESG Ratings

The Combinations of Determining a Green Bond Impact Rating

Credibility		Additionality		Impact
High	+	High	→	High
Medium		High		Higher
High		Medium		
Medium		Medium		Medium
Low		High		
Low		Medium		Low
Medium		Low		
Low		Low		No

Source: PGIM Fixed Income.

The overall impact assessment allows us to decide whether a given bond's ESG impact rating deserves an uplift compared to the issuer's ESG impact rating and, if so, to what extent. For example, the numeric uplift from a Green Bond could be additive to an issuer's numeric ESG impact rating.

Impact Examples

The case studies are provided for illustrative purposes only solely as an illustration of our ESG evaluation process. The case studies are not inclusive of all potential ESG issues and engagements, are subject to change and are not intended to represent a specific portfolio's performance or characteristics. PGIM Fixed Income's ESG processes may yield different results than other investment managers, including its affiliates. The information should not be construed as investment advice.

High Impact

Projects financed by Green Bond proceeds are core to transforming an issuer's business model and operations from brown to green, with green economic activities expected to replace brown activities.

Many of the High Impact bonds will likely be issued by relatively "brown" issuers considering that they have the most room to transform themselves via credible, ambitious plans and need a way to finance the transition. Furthermore, a substantial uplift to an issuer's ESG impact rating may allow us to buy their Green Bonds in ESG-oriented portfolios, even if we can't buy their traditional bonds in those portfolios.

Example: We recently re-assessed a Green Bond from a U.S. building materials company given its additional reporting. Our second review assessed the issue as having a high impact with the maximum uplift relative to the issuer's balanced ESG Impact Rating. In terms of credibility indicators, the issuer's guiding principle includes quantifiable 2030 sustainability goals, a science-based target for reducing greenhouse gas emissions by 50% within the next decade, and ambitious targets in other environmental areas (e.g., emissions of volatile organic compounds). Furthermore, the Green Bond proceeds are set to only fund green projects, the issuer is committed to an annual report on the use of proceeds, and all the proceeds were allocated within six months of issuance.

Similarly, many of the bond's additionality indicators are high, including a detailed description of the green projects being financed, quantification of the expected environmental impact in the context of firm-level objectives and achievements, and an ambitious use of proceeds based on the reported plans.

Medium Impact

Projects financed by Green Bond proceeds are either non-core to the issuer's business or are an addition to core brown activities.

Even though the share of green activities in an issuer's mix is growing, they are not replacing "brown" activities. For example, when Green Bond proceeds finance new, renewable energy projects that expand a utility's capacity, but do not meaningfully speed up the retirement of its coal power plants, the issue may fall into these categories.

Example: We viewed a Green Bond from a European-based building controls firm as having high creditability and medium additionality. From a credibility perspective, the company is focused on improving its own environmental footprint as well as those of its customers based on its product offerings. The company also has a long list of green projects—some of which are based on its products—and plans to use the proceeds from the offering within 24 months.

The issuer's medium additionality is based on its status as a company that is already fairly green and that the proceeds represent an incremental improvement to activities that the issuer is already involved in.

Low Impact

A Green Bond with low credibility, proceeds slated towards a relatively unambitious project, or a combination of both characteristics.

Low additionality often occurs when an issuer has a large proportion of green economic activities in their overall mix and are using Green Bonds mainly to finance these existing activities. In this case, there is no meaningful increase in the overall share of green activities or active replacement of brown activities with green ones. It is worth noting that in this scenario, even though the Green Bond impact is assessed as low with a smaller ESG Impact Ratings uplift, the issuer is likely to have a higher ESG impact rating to begin with because it is already involved in a large number of green activities.

Example: We recently assessed a Green Bond from a European mobile/cable operator as having a low impact with a minimal uplift to the issuer's ESG Impact Rating, which is at the higher end of the universal range and in the middle of those in the cable sector. Some notable credibility indicators on the Green Bond included the structure for the use of proceeds—the amount raised was slated for general corporate purposes with an equivalent amount "earmarked" for green projects—and the lack of a green projects register.

The additionality considerations included the issuer's inability to specify the proportion of the earmarked proceeds dedicated to energy efficiency projects (likely the most impactful among its five potential project categories) and a three-year lookback period to allocate to prior projects. Although a three-year lookback is common, the issuer acknowledged that it had yet to do any work to identify existing, eligible projects. The Green Bond's low credibility and low additionality resulted in a low-impact rating on the issue.

ESG INVESTMENT GUIDELINES & PRODUCTS

Throughout 2020, our Client Advisory Group was instrumental in working with clients to align guidelines, risk budgets, and portfolio construction approach to their investment beliefs. Many of our clients have increased their focus on ESG criteria, in turn fueling more frequent discussions with our research analysts and economists both on a broad trend level, as well as more specifically on sectors and credits of focus.

Looking to PGIM Fixed Income holdings at a firm level, there are certainly credits we own that we have observed ESG challenges. Our rationale for owning credits where we observe credit-material ESG challenges is two-fold. We either see the company or country moving in the right direction to reduce these risks and/or- we feel that we are sufficiently compensated through spread. We work closely with our clients on such cases and believe timely discussions on the rationale for our views on the current status and trajectory of individual credits with our clients to be a valuable contribution to their stewardship efforts.

Environmental risks in particular have driven ongoing dialogue with our clients regarding their investment goals pertaining to climate change. As a steward of our clients' assets and consistent with the goals of the Paris Agreement, we recognise our role in helping any clients with decarbonisation targets to meet such goals at the portfolio level. Accordingly, we are committed to working in partnership with our clients to develop decarbonisation solutions for their portfolios, while reflecting their bespoke return expectations, risk appetite and timeframes. This may include, among other things, measuring and reporting on the carbon intensity or footprint of certain portfolios, as well as setting absolute or relative targets based on such metrics.

As it relates to PGIM Fixed Income portfolio emissions data, weighted-average carbon intensity (WACI) metrics are included below.

As an illustrative example, we have been working with continental European fiduciary managers to help implement their clients' ESG beliefs in sovereign and corporate debt portfolios. Building on our proprietary ESG ratings for sovereigns, which combine quantitative metrics with qualitative assessment of the countries' performance and progress on ESG, we were able to facilitate robust discussions with clients around ESG assessments of sovereigns in focus. That includes an informed assessment of whether the efforts by policymakers and politicians to improve their respective country's ESG performance are consistent with our own and our clients' expectations.

	Corporates Emissions Intensity (Sales)	Corporates as a % of Total Portfolio	% of Corporate Subset Missing Data
All Portfolios	489	55.9%	14.1%
Sample Global Corporate Bond Portfolio	262	98.6%	5.9%
Sample Global High Yield Bond Portfolio	446	96.9%	32.0%
Sample Emerging Markets Corporate Bond Portfolio	845	89.0%	26.0%
Sample Global Corporate ESG Bond Portfolio	118	96.7%	7.8%

As more of our clients issue climate action plans and make net-zero commitments, we recognize the critical role PGIM Fixed Income plays as asset manager and fiduciary and expect our assets under management with net-zero commitment to increase over time. We acknowledge progress will be incremental as we continue developing resources to support our clients in achieving their net-zero portfolio objectives.

The commitment to transparency evidenced within PGIM Fixed Income extends to our parent company ('PFI')* which engaged S&P Trucost Limited, a leading third-party provider of carbon and environmental data and risk analysis, to perform a carbon footprint and climate change analysis covering 70% of the firm's portfolio across all asset classes. Trucost also performed a physical and transition risk analysis covering 50-70% of public debt and equity portfolios (metric dependent). Based on this work, PFI's public corporate bond portfolio is aligned with 2 to 3 degrees of warming potential. We recognize measurement of portfolio temperature is at an early stage, and as measurement evolves, we will explore ways to refine this estimate.

*Prudential Financial, Inc. of the United States is not 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.

Approach to Exclusions and Restricted Lists

In an effort to give clients options in their approach to ESG investing, one of the tools we offer and implement across a range of portfolios involves negative screens and exclusions which are built according to specific, client-determined criteria. For certain clients, we use specialist third-party screening providers to implement such exclusionary screens. For other clients, we exclude investments contained in detailed "restricted lists" provided by the client. In addition to exclusions and constraints in our separate account mandates, we employ several similar constraints across certain comingled products that we manage. In most cases, this includes limits on thermal coal extraction and generation, among other limitations. Our ESG-labelled products also include limits on Arctic oil & gas, oil sands, and overall carbon intensity.

As a point of reference, 86% of the assets managed for our European/UK clients in 2020 were managed with client custom ESG criteria incorporated. While there were some variations in perspective depending on the country of domicile of our clients and their sector (i.e., corporate pension, public pension, insurance, private wealth), the following exclusions were incorporated, either directly or in conjunction with external ESG providers:

1) Client-specific sovereign credit exclusions to which our economists contributed thoughts on the trajectory of the ESG profile of the countries analysed;
2) Corporate issuer exclusions based on munitions (86%), tobacco (64%), coal (16%);
3) Companies found to be in breach of UN Global Compact (62%).

These exercises for our separate account clients are a useful basis from which our ESG Committee assesses appropriate guidelines for our pooled funds. -.

Examples of Exclusion Guidelines for ESG Strategies

Ineligible ESG Investments

- issuers that violate UN Global Compact ("UNGC") Principles.
- issuers that are involved in the production of nuclear or other controversial weapons (including landmines, cluster weapons and biological/chemical weapons).
- issuers that are conventional weapon manufacturers deriving at least 10% of revenues from such activities.
- issuers that are tobacco manufacturers deriving at least 5% of revenues from such activities.
- issuers deriving at least 25% of revenues from thermal coal generation.

- issuers deriving at least 10% of revenues from thermal coal extraction.
- issuers deriving at least 10% of revenues from arctic oil and gas exploration.
- issuers deriving at least 10% of revenues from oil sands extraction.
- issuers deriving at least 50% of revenues from gambling activities.
- issuers having an emission intensity of above 3,000 tons CO_2 per million USD sales.

Proprietary ESG Impact Score Criteria

- No investments in issuers that have an ESG Impact Rating below 40.
- The relevant portfolio must have a higher average ESG Impact Score compared to the applicable investment universe.

A third-party screening agent is used to screen for the Ineligible ESG Investments in our ESG-focused portfolios. The investments comprising the list of the Ineligible ESG Investments are provided to PGIM Fixed Income by the Screening Agent, and information with respect to such list is updated and provided to PGIM Fixed Income monthly.

ESG PRODUCTS

PGIM Fixed Income launched its first dedicated global corporate ESG strategy in June 2020. The strategy incorporates our internal ESG Impact Ratings to develop an ESG-friendly product by screening issuers below a certain ESG Impact Ratings threshold.

In February 2021, we launched a global total return ESG strategy, which also utilises our proprietary ESG impact rating framework. This strategy seeks to achieve return through a combination of current income and capital appreciation while applying ESG principles in the selection of securities. It invests primarily in global developed market sovereign, corporate, mortgage-related, and asset-backed debt securities.

PGIM Fixed Income integrates ESG considerations into its investment process for both traditional and ESG strategies. These considerations result in:

- Enhancement of credit analysis by incorporating credit-material ESG considerations;
- Influence over investment decisions by requiring a higher return / credit spread from issuers with credit-material ESG risks; and
- Communication of our views on fundamental and ESG risks to issuers

In addition to the above, our ESG investment strategies seek to achieve the following for investors[11]:

- Outperform a market-based benchmark over the long-term while achieving environmental and social good;
- Use proprietary ESG Impact Ratings to achieve the desired ESG characteristics; and
- Invest in issuers with stronger environmental, social and governance characteristics.

Please find below a comparison of a sample global corporate investment strategy portfolio versus its ESG-focused equivalent.

ESG Characteristics Comparison

Sample Global Corporate Portfolio and Sample Global Corporate ESG Portfolio

	Global Corporate ESG Sample Portfolio	Global Corporate Sample Portfolio	Bloomberg Barclays Global Corporate (USD Hedged) Index
Average Internal ESG Rating	61	55	53
Internal ESG Rating Score Breakdown* (% MV)			
80-100	8	4	4
60-79	54	42	39
40-59	36	41	40
20-39	1	11	10
0-19	0	0	3
Not Rated	0	0	5
Emission Intensity (Sales)[12]	112	265	239

As of March 31, 2021, unless otherwise noted. Source: PGIM Fixed Income. Source of benchmark: Bloomberg Barclays Indices. The above table and graph compare characteristics of a sample portfolio within the Global Corporate (USD Hedged) Composite. The data shown is subject to change and may not be indicative of future portfolio characteristics. Actual results may vary for each client due to specific client guidelines and other factors and should not be construed as investment advice. *ESG Rating Score Breakdown excludes Not Rated (NR).

[11] There is no guarantee that these objectives will be achieved.

[12] Tons CO_2 per million USD sales

ENGAGEMENT ACTIVITIES

Approach to Issuer Engagement

Debt investors are a critical stakeholder for corporate and sovereign issuers reliant on debt financing markets. We see issuer engagement as an important tool in our investment process insofar as it helps us gain a more holistic understanding of the issuers, from both the fundamental and ESG impact perspectives. We believe that this, in turn, helps us achieve better investment and, where applicable, ESG outcomes for our clients and investors. As a result, our analysts are encouraged to initiate discussions with issuers should an ESG issue surface during the research process.

During these discussions, our analysts probe management on the ESG issues we see as material and assess the issuer's plans to address them. We point out to issuers our assessment of credit-material ESG risks and our assessment of how their policies, practices or products impact the environment and society. Where applicable, we discuss the implications these assessments have for our future demand for their bonds and their future funding costs.

Raising our ESG concerns with an issuer makes them aware of how those concerns factor into our investment decision, while at the same time providing our analysts a better understanding of what the issuer is doing to address them. This can increase focus on ESG at the issuer level while at the same time enriching our investment analysis.

Further, given our scale and global coverage, such discussions often provide useful insights for issuers on how they compare to industry peers and how markets perceive their ESG initiatives. Our ESG Impact Ratings offer additional tangibility and context to the conversations, as they allow our analysts to show issuers how we rank them on ESG impacts, while also providing the rationale and factors behind the ratings. As a result, engagement can also positively influence issuer behaviour.

Being one of the largest active fixed income managers in the world, we feel that issuers take our views and concerns seriously and value the insights they gain through dialogue with our analysts and economists. This allows us to engage constructively with management and elevate ESG issues to their attention.

Given our team of over 100 fundamental research analysts, economists and ESG specialists, we are able to engage frequently with issuers in our universe, including not just corporate issuers, but also sovereigns, municipalities, and securitised products.

Our ESG engagement activities are focused on issuers that have credit material ESG risks, generate significant adverse impacts on the environment or society, or lag their peers in ESG practices. Our engagements are prioritised on the basis of the materiality of ESG factors on financial and/or operational performance, our proprietary ESG Impact Rating of the issuer, the quality of an issuer's ESG disclosures, the exposure to specific ESG factors and events that, in our view, require special attention, as well as the size of our overall exposure to the issuer.

Feedback from these meetings is used to inform our fundamental credit ratings and ESG Impact Ratings. The ESG issues raised, as well as the issuers' response to our comments (where applicable), are then noted in our engagement notes, which are available to portfolio managers.

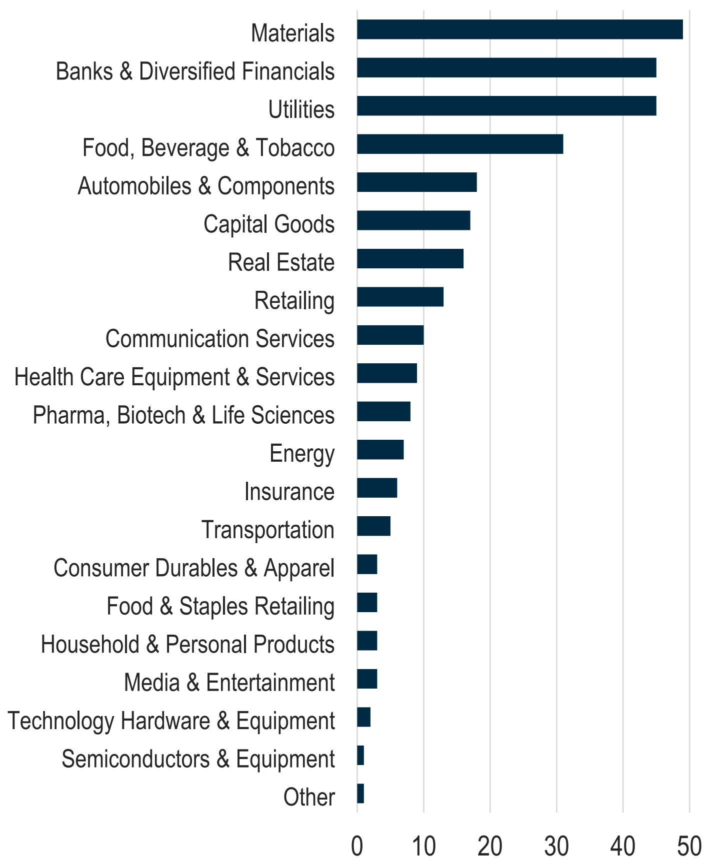
Given our engagement activities with issuers are directly linked to our investment research and investment decisions, our strong preference is for direct engagements with issuers to enable us to speak openly and frankly when highlighting our ESG concerns to company management, government officials, arranging banks, etc. We are open to collaboration with other investors in instances where our individual engagement efforts are deemed to have low chances of success in isolation. Our preference is to collaborate via trade associations and other industry initiatives of which PGIM Fixed Income is a member.

As a manager of primarily fixed income investments, we generally do not have ownership rights and, therefore, are not able to use proxy voting, which is considered to be one of the most effective escalation mechanisms available to equity holders. As a bondholder, the engagement escalation mechanisms available to us include: 1) seeking engagement at a more senior level within the issuer; 2) collaborating with industry groups and other institutional investors; and 3) reducing or exiting our investment position, or foregoing an opportunity to participate in a new issue (any decision with respect to investment positions will be taken at a portfolio level). Where our decision to not buy/hold the issuer's bonds is linked to ESG concerns, we will strive to inform the issuer of our decision.

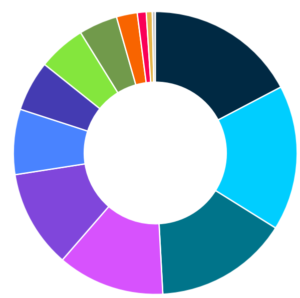
Engagement Activities in 2020

Corporate Engagement Counts

By Industry



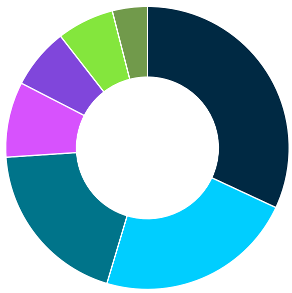
By Sector



Financials	51
Materials	49
Utilities	45
Consumer Staples	36
Consumer Discretionary	33
Industrials	22
Health Care	17
Real Estate	16
Communication Services	13
Energy	7
Information Technology	3
Other	2
Food & Staples	1

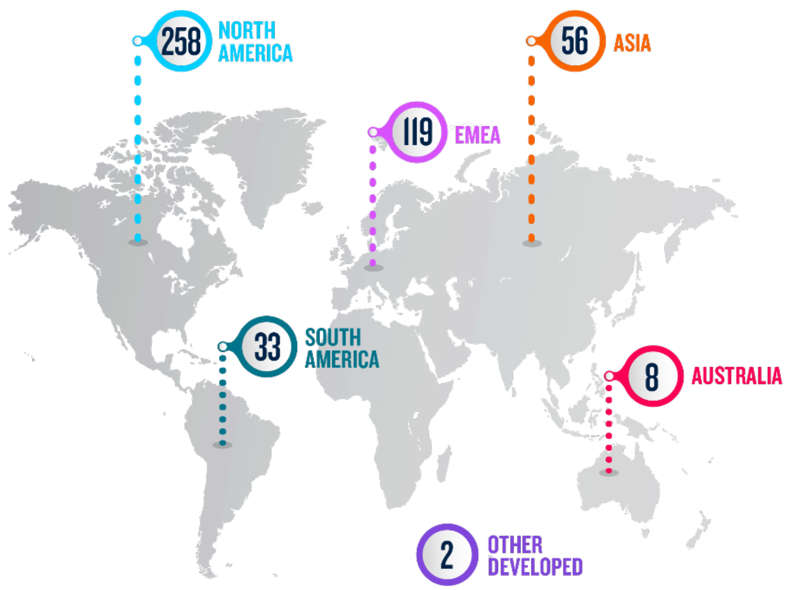
ESG Engagements

By Type



■	Governance	152
■	Environmental, Social, and Governance	108
■	Environmental	92
■	Environmental and Governance	41
■	Social and Governance	33
■	Social	31
■	Environmental and Social	19

By Region



Source: PGIM Fixed Income, as of December 31, 2020

Collaboration & External Initiatives

Memberships

We believe in constructive engagement with policymakers and regulators. We are a member of several trade associations and industry initiatives and are committed to providing feedback to policy consultations or technical input into regulatory processes that materially impact PGIM Fixed Income, our clients, or our investments. We also engage financial regulators on ESG-related topics. The selected list of our current memberships and collaborative initiatives related to ESG topics is below:

- Principles for Responsible Investment (PRI)
- PRI Securitised Products Advisory Committee
- PRI Structured Products Workstream
- Task Force on Climate-Related Financial Disclosures (Formal Supporter)

EXAMPLES OF COLLABORATION TO PROMOTE BEST PRACTICES

PRI ADVISORY COMMITTEE ON STRUCTURED PRODUCTS WORKSTREAM (ACSP)

PGIM Fixed Income was one of ten firms to have representation. This working group was formed to identify how ESG factors are considered in structured products. We view this initiative as a productive exercise in sharing best practices and thought leadership on ESG integration specific to structured products.

ESG COMMITTEE OF THE EUROPEAN LEVERAGED FINANCE ASSOCIATION (ELFA)

ELFA develops industry guidelines and standards to promote transparency, improve data, and establish industry best practices within the European leveraged finance markets.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

We publicly supported the TCFD guidelines and recommended disclosures, and we are currently in the process of exploring the implementation of the specific recommendations.

- European Leveraged Finance Association – ESG Committee
- Investment Company Institute
- UK Investment Association (Stewardship in Fixed Income Working Group)
- The Conference Board (Corporate Governance and Stewardship Council)
- Structured Finance Association ESG Steering Committee
- Center for Real Estate Finance Council's (CREFC) Sustainability Steering Committee, and the Transparency Subcommittee
- Association for Financial Markets in Europe
- Loan Market Association

Engagement Examples

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Corporate Fixed Income

Issuer: Consumer Products Company	
Topic	Carbon Emissions & Packaging
Objective	Follow-up to the launch announcement of a 10-year plan to replace all carbon from fossil fuels in home care products by FY30 in order to analyse the delivery mechanism and identify any incremental spend.
Summary	We view the company's plan as broad and thorough. However, the €1.0B implementation cost is mostly redirected from R&D earmarked for fossil fuel derivatives rather than an incremental spend. Under the plan, the company is set to re-purpose its manufacturing processes to use recycled or renewably sourced hydrocarbons, formulations will be adapted to use biological or recycled feedstocks, energy in all facilities will be renewably sourced, and virgin paper and plastic will be phased out of packaging.
Assessment	We see the plan as a key component of the company's existing pledge of net zero GHG emissions by FY39. Phasing will be over the full 10 years.
Rating Impact	Raised ESG Impact rating, although we still have some residual concerns on social performance regarding marketing missteps (i.e., skincare ranges in EM). Credit neutral, no rating impact.
Next Steps	Continue to monitor progress within carbon intensity reporting, ensure ESG rationale remains core to all M&A decisions in ongoing portfolio rotation.

Source: PGIM Fixed Income as of September 2020.

Issuer: Air Conditioning Manufacturer	
Topic	Climate Change, Reporting
Objective	To get updates on the company's ESG related activities, particularly environmental issues.
Summary	The company is encouraging the adoption of air-conditioners that use energy-saving inverter technology and R32 refrigerant that has less of a warming effect on the atmosphere. The company endorsed the recommendation of TCFD in May 2019, and we requested disclosure of the results of climate-related scenario analysis based on TCFD recommendation, including the estimated of cost

	impact. The company promised to consider such disclosure in future (potentially together with their announcement of new management plan in 2021).
Assessment	The firm takes an active role in contributing to a sustainable society. While the air-conditioning industry faces tightening environmental regulations, we view the company as well-positioned to take advantage of increased demand for energy efficient air-conditioning equipment by offering environmentally conscious products.
Rating Impact	Confirmed ESG Impact Rating, progress insufficient to upgrade the impact rating at this stage.
Next Steps	Monitor progress of the company's ESG efforts, including its response to climate change.

Source: PGIM Fixed Income as of September 2020.

Emerging Markets Debt

Issuer: EM Electric Utility	
Topic	Waste Management, Board Effectiveness
Objective	Assess the impact of environmental abatement and waste collection issues that forced the temporary shut-down of a significant generation facility.
Summary	A follow up with management regarding the closure of a generation plant, which was temporarily closed due to concerns about a breach in a waste dam. The failure to address the remediation issue over the years (eventually contributing to recent load shedding across its market) points to the inability of the Board and CEO to proactively mitigate risks to reliability and continuity of optimal operations.
Assessment	The company has failed to directly respond to our engagement despite repeat attempts; After refurbishment of the dam, the plant successfully reopened.
Rating Impact	No impact on ratings; issues surrounding the company's governance and their impact on operation and financial performance are well documented and reflected in the current PGIM Fixed Income ESG impact rating and credit assessment. The company's failure, however, to proactively address our concerns and the fact that the incident temporarily impaired asset availability highlight that these concerns remain ongoing and act as an impediment to current consideration of raising our ESG impact rating.
Next Steps	We will continue reaching out to the CFO/IR officers for an update on internal progress with previously announced governance-improvement initiatives. A separate note and assessment of the impact on our ESG Impact Ratings will be published subsequent to a response from management.

Source: PGIM Fixed Income as of July 2020.

Issuer: EM Food Processor	
Topic	Deforestation and Supply Chain
Objective	In response to a Greenpeace report on rainforest deforestation, we sought to better understand the initiatives that the company is taking to minimise deforestation across its supply chain. We focused on how the company is monitoring its indirect suppliers, which have been reported as the worst deforestation offenders.
Summary	The discussion highlighted the key initiatives that the company is taking to address deforestation across its supply chain. A software program it is using has the capability to monitor about 30 million hectares in its domestic biome, covering over 16,000 farms, 3,100+ of which are blacklisted by the company. To tackle the indirect supplier issue, it is testing another software program, which uses government mandated identification records to track the indirect suppliers. In addition, the firm

	evaluates the productivity of the farm. If productivity exceeds a certain point, the farm is flagged and further investigated as it could be a sign that it sells not just its own product, but also other suppliers' products. If it is found that any direct or indirect supplier violates the company's zero-deforestation policy, the business relationship is immediately terminated.
Assessment	We believe that the company is taking deforestation seriously, especially given that it has already made a substantial investment in monitoring its supply chain. Clearly, this is an industry-wide problem and will require all stakeholders, including the federal government to do its part to eliminate illegal deforestation in the supply chain. We continue to view the firm as one of the more ESG-committed companies in the industry.
Rating Impact	The firm's ESG rating already reflects it as an ESG-leader within the industry. A further upgrade would be warranted after substantial progress is shown. No impact on credit rating.
Next Steps	Actively monitor the company's progress in tracking its indirect suppliers and engage with the company to discuss pertinent issues.

Source: PGIM Fixed Income as of July 2020.

Leveraged Finance

Issuer: Steel Manufacturer	
Topic	Carbon Emissions, Ownership Structure
Objective	Raise environmental and governance issues as part of a credit discussion with the CFO.
Summary	We discussed the positive environmental sentiment regarding 1) hot briquetted iron (HBI) and 2) the ability for electric arc furnaces to produce greener steel for auto manufacturers. The CFO noted that 1) HBI has been regarded as an environmental positive as it reduces CO2 emissions in steel production, and 2) auto OEMs have been eager to source more material from the EAF steel producers because they can then highlight that the steel they are buying is sourced from recycled scrap steel. We also raised the governance issue as the company is privately owned with several owners of the company's common and preferred equity.
Assessment	This was a positive engagement for us and reinforced our positive view of the company within the steel sector. The entity is very focused on its ability to be an ESG-friendly supplier, specifically to auto manufacturers who have historically sourced a majority of their steel from domestic blast furnaces, which have much higher emissions and require mined iron ore and coal as primary feedstocks. While the CFO did not provide specific OEM targets, he highlighted a clear trend line higher of engagements on auto platforms with the ESG angle being a part of the value proposition. On the governance side, we also think the questions have been addressed by the company in how they structured the sale of a minority stake and future call option. We view this as a slight positive in terms of governance as the cash flow generated during this time cannot be distributed to owners.
Rating Impact	After the new issuance in September 2020, we raised our ESG impact rating primarily due to the company's use of recycled scrap steel in its business and the relative efficiency of its EAF capacity which is among the newest in the industry (operating since late 2016).
Next Steps	We will continue to monitor the trends of higher ESG engagements from auto platforms and the need for HBI in the industry. We will stay cautious on the governance front due to the private ownership, noting that some concerns arose when the minority stake sale was fully distributed to owners with none retained as cash in the business for future debt reduction.

Source: PGIM Fixed Income as of September 2020.

Issuer: Plastic Product Manufacturer	
Topic	Waste Management and Packaging
Objective	Gain more comprehensive understanding of the issuer's business and environmental initiatives in the context of its issuance of secured notes to finance the acquisition by a private equity sponsor.
Summary	Management noted on the call that the U.S. is approximately ten years behind Europe in its environmental initiatives around the collection and recycling of plastic waste. Therefore, the company's European footprint is very beneficial as it has first-hand experience with customer education and the significant investment required to enforce environmental change.
Assessment	The company is also not involved in any single-use plastic products. The lack of single-use plastic and the company's knowledge of environmental initiatives are viewed positively.
Rating Impact	Positive impact, but ultimately did not participate in the financing given unattractive relative value and call structure.
Next Steps	We will continue to monitor the developments of environmental initiatives around U.S. plastic recycling.

Source: PGIM Fixed Income as of August 2020.

Securitised Credit

Issuer: U.S. Consumer Loan ABS	
Topic	The issuer's and PGIM Fixed Income's ESG framework
Objective	To discuss PGIM Fixed Income's ESG methodology for consumer ABS and to understand the firm's progress on ESG topics, with a focus on the development of its social bond issuance program.
Summary	The ABS team discussed PGIM Fixed Income's consumer ABS ESG methodology for unsecured consumer ABS and auto ABS. More specifically, we discussed key considerations on how the ESG Impact Ratings are determined for the firm's issuance conduits. The company has highlighted its comprehensive ESG Report during a previous conversation. We provided detailed feedback and welcomed its transparency on ESG topics as an industry leader. Given the company's interest in developing a social bond issuance program, we discussed how PGIM Fixed Income evaluates labelled bonds for credibility and additionality.
Assessment	Engagement was very constructive with both sides exchanging ideas on ESG topics.
Rating Impact	No immediate impact on ratings. We will continue the conversation as the company continues to develop its ESG framework.
Next Steps	The firm is going to reflect on the discussion and will follow up when they have progressed in their social bond framework.

Source: PGIM Fixed Income as of March 2021.

Issuer: European Consumer Loan ABS	
Topic	COVID-19 Support for customers
Objective	To ascertain COVID-19 support for credit card customers.
Summary	The issuer's originated receivables are originated under its own brand or via a partnership trust. The former focuses on more near prime customers with the latter focusing on prime customers. Broadly the firm provides critical unsecured financing to customers who are typically not able to access credit

	cards. The need for credit cards was evident during the pandemic where most retail was limited to some form of online channel; therefore, we feel the company provides a critical service to underserved customer segments in the UK. As part of COVID-19 support measures, the FCA guided regulated firms to provide payment holidays to lenders across mortgages, credit cards and auto sectors. The company responded in variety of ways, including payment holidays and freezes, depending on the delinquent status of the borrower.
Assessment	We believe this was a good balance of providing support to borrowers whilst not recklessly lending to customers who were already in arrears.
Rating Impact	No impact on the rating of the company. We rate the firm in line with our balanced unsecured consumer lenders and credit card lenders.
Next Steps	Continue dialogue with the company to understand servicing practice as FCA guidelines expire.

Source: PGIM Fixed Income as of March 2021.

Issuer: EM Sovereign	
Topic	Environmental Strategy
Objective	The country's 2035 national energy strategy indicates that it wants to increase its production and export of oil and gas further in the coming years. The objective of this engagement was to raise economic and environmental concerns surrounding this strategy and get the President's thoughts more broadly.
Summary	The President suggested that the country is not actually increasing its dependence on oil and gas, referencing the oil and gas portion of the federal budget. He added that the country is looking to use various tax instruments to restructure its economy in such a way that makes it more diversified. The President still acknowledged the sovereign's dependence on oil and gas, though linked projected supply in the coming years to growing international demand.
Assessment	Despite the suggestions from the administration, we believe it is not credibly focused on environmental protection. That being said, soon after the engagement, the country's Energy Minister held a briefing to explain the country's energy policy. It was later reported that the President signed a decree ordering the government to try and meet the 2015 Paris Agreement.
Rating Impact	No immediate impact on ratings
Next Steps	Although the recent announcements are positive, we will now look for the country to provide concrete plans and actions for achieving its 30% reduction target, especially given the caveat on socio-economic development.

Source: PGIM Fixed Income as of October 2020.

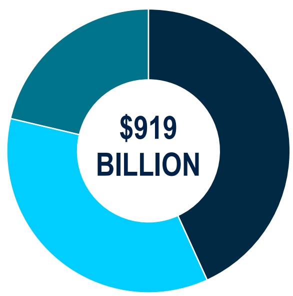
APPENDIX

I. PGIM Fixed Income: Facts & Figures

PGIM Fixed Income's business includes a wide breadth of fixed income strategies and products, including traditional multi-sector and single-sector fixed income strategies for institutional clients, insurance companies, and mutual funds, as well as alternative products, including long/short strategies and collateralised loan obligations (CLOs), with an emphasis on credit-related strategies.

With $919 billion in assets managed globally, we serve 916 global clients with 331 investment professionals across the globe. PGIM Fixed Income is routinely recognised as a leader in fixed income, receiving numerous industry awards for the full range of our global, U.S., European, and Asian funds.

PGIM Fixed Income Assets Under Management



Third Party Institutional	$397 Billion
Proprietary	$326 Billion
Third Party Retail	$196 Billion

Expertise Across a Broad Range of Sectors

Corporates	$353 Billion
Governments	$164 Billion
Securitized Products	$111 Billion
High Yield	$76 Billion
Emerging Markets	$71 Billion
Money Markets	$55 Billion
Bank Loans	$35 Billion
Municipals	$30 Billion
Mortgages	$22 Billion
Other*	$2 Billion

Assets as of March 31, 2021. Please see the Notice section for important disclosures, including risk. Source: PGIM Fixed Income. Assets under management (AUM) are based on company estimates and are subject to change. PGIM Fixed Income's AUM includes the following businesses: (i) the PGIM Fixed income unit within PGIM, Inc, located in the USA; (ii) the public fixed income unit within PGIM Limited, located in London; (iii) PGIM Netherlands B.V. located in Amsterdam; (iv) locally managed assets of PGIM Japan Co., Ltd. ("PGIM Japan"), located in Tokyo; and (v) the public fixed income unit within PGIM (Singapore) Pte. Ltd., located in Singapore. Asset class breakdown based on company estimates and is subject to change. *Other includes Japanese equities and Japanese real estate equities.

PGIM Fixed Income has experienced significant growth in assets under management over the last decade, from ~$400 billion as of 31 December 2011 to $919 billion as of 31 March 2021. Through the same period, we have seen significant growth in the number of institutional clients and employees with 916 institutional clients and 1,016 employees as of 31 March 2021, compared to 270 institutional clients and 467 employees as of 31 December 2011.

During this period, we have increased the number of credit research analysts and portfolio managers employed at our firm. With the addition of high-quality staff and the stability of senior leadership, we believe the growth of our business has had a positive impact on our ability to generate alpha within the fixed income market.

Workforce Disclosures

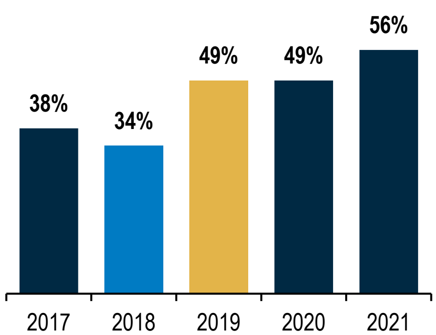
PGIM Fixed Income is steadfast in promoting inclusion, diversity, and culture across the firm, as well as broader PGIM. As part of those efforts, we are committed to diverse hiring practices as evidenced by the increase in ethnically diverse hires which rose from 34% in 2018 to 49% for all of PGIM in 2020, bringing the total ethnically diverse employee base as of March 31, 2021 to 36%. Gender diversity remains a priority in terms of both recruiting and retaining top talent, and global female employee representation for PGIM stands at 36%.

PGIM Diversity Figures by Job Category

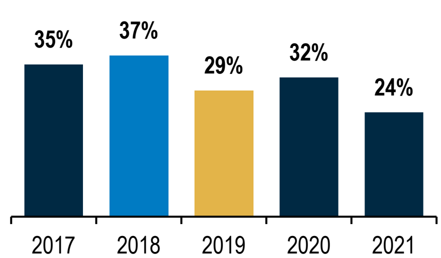
	Employee Diversity in the U.S.					
Job Category	Asian/Pacific Islander	Black/African American	Hispanic/ Latino	Two or More Races	White	Global Female Representation
Exec./ Sr. Level	3%	3%	5%	3%	86%	16%
Investment Professionals	21%	2%	5%	1%	71%	22%
Operations/ Administrative	20%	9%	11%	1%	59%	48%
Total	20%	6%	9%	1%	64%	36%

Employees Hired, Annually

Ethnically Diverse (U.S.)



Female (Global)



Source: PGIM. Representation at March 31, 2021. Exec./Sr Level is Managing Director and equivalent and above. Hires and Promotions 2017-1Q 2021. Gender is representative of the global population; Ethnicity is U.S. only.

Technology and Infrastructure

We have the resources necessary to maintain a comprehensive, technology-driven infrastructure. We invest significant resources in technology and information systems for research, portfolio construction and management, trading, portfolio administration, and compliance. As of 31 March 2021, 72 professionals in our internal quantitative analysis and risk management as well as a 93-member applications development team are focused on developing and maintaining technology-based quantitative research, risk management, and performance analysis analytics.

Ongoing investment in technology to support our global business objectives is a strategic priority for us. In the last 18 months, we have invested considerably through a multi-phased project to update our data architecture and processes across the firm, with the goal of increasing the accuracy and performance of the portal and Business Intelligence platforms. We also commenced a series of data and cloud initiatives aimed at improving the speed to deliver data to our investment desks and distribution businesses. This series of initiatives has increased our capacity to ingest, consume, process, distribute and analyse data in our proprietary quantitative analytics, risk management and research tools with greater speed, accuracy, reliability, and scalability.

Risk management is another area where we invest considerable resources and have developed proprietary systems and methods of analysis that we believe best capture the most relevant risks for our strategies and promote optimal investment practice rather than just instilling binary risk limits. This includes designing a less pro-cyclical system (compared to more typical Value at Risk based approaches) and using proprietary principal component analysis (to focus and drill-down into the most relevant risks).

II. Management of 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. 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.

Please see PGIM Fixed Income's Form ADV Part 2A for a description of conflicts of interest affecting our business.

We have adopted various policies and procedures designed to address conflicts of interest. For example, we follow policies on business ethics, personal securities trading, and information barriers. In addition, we have adopted a code of ethics, allocation policies and conflicts of interest policies, among others, and have implemented supervisory procedures to monitor compliance with our policies.

We accept the authority to vote securities held in our clients' accounts when our clients wish to provide us with this authority. Our policy is to vote proxies in the best economic interest of our clients.

We do not receive a significant number of proxies since we primarily invest client assets in debt instruments.

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. Please see PGIM Fixed Income's Form ADV Part 2A for a more detailed description of its proxy voting policy.

Our clients, including affiliated clients, may have differing views regarding ESG issues. Where significant, we endeavour to raise our ESG and other concerns via engagement with issuers. We point out to issuers our assessment of credit-material ESG risks and our assessment of how their policies, practices or products impact the environment and society. Where applicable, we discuss the implications these assessments have for our future demand for their bonds and their future funding costs.

To avoid conflicts of interest related to affiliated investments, we do not purchase securities issued by our parent company or our other affiliates for client accounts.

Our affiliations and the activities of our employees can also create conflicts of interest, including conflicts related to engagement activities. Any outside business activity by our employees 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.

III. Prudential Financial, Inc. ("PFI")[13]

At the enterprise level, PFI, of which PGIM Fixed Income is a part, published its 2020 ESG Report, titled "Transformation," replacing the company's annual Sustainability Report and underscoring Prudential's continued efforts to meet the evolving needs of its customers, employees, shareholders and communities and to fulfill the company's purpose of solving the financial challenges of our changing world.

The full report can be found here: 2020 ESG Report: Transformation

[13] Prudential Financial, Inc. of the United States is not 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

The UK Stewardship Code Related Disclosures

PGIM Fixed Income is not yet a signatory to the UK Stewardship Code 2020; however, we have included stewardship related disclosures in our annual ESG report and it is our intention to apply to the Financial Reporting Council ("FRC") to become a signatory. PGIM Fixed Income will not be a signatory to the UK Stewardship Code until our application has been reviewed and accepted.

Stewardship Code Principles	Relevant Disclosures in the Report	Page
Principle 1: Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.	• About PGIM Fixed Income	5
	• Appendix I. PGIM Fixed Income Facts & Figures	43
	• ESG Philosophy and Approach	6
	• Major ESG Developments in 2020	7
Principle 2: Signatories' governance, resources and incentives support stewardship.	• Governance, Resources, and Incentives to Support ESG and Stewardship	9
Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	• Management of conflicts of Interest in ESG / Stewardship Activities	10
	• Appendix II. Management of Conflicts of Interest	45
Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	• ESG Commitments and Collaborations	8
	• Other mechanisms for exercising rights and responsibilities	19
	• Collaboration & External Initiatives	37
Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.	• Governance, Resources, and Incentives to Support ESG and Stewardship	9
Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	• Appendix I. PGIM Fixed Income Facts & Figures	43
	• ESG Investment Guidelines & Products	31
Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	• ESG Integration	12
	• ESG Impact Assessment	21
Principle 8: Signatories monitor and hold to account service providers.	• Selection & Monitoring of Service Providers	11
Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.	• Engagement as Critical Component of ESG Integration	17
	• Engagement Activities	35

Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.	• ESG Commitments and Collaborations • Approach to Issuer Engagement • Collaboration & External Initiatives	8 35 37
Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers	• Approach to Issuer Engagement	35
Principle 12: Signatories actively exercise their rights and responsibilities.	• Engagement as Critical Component of ESG Integration • Exercising Rights & Responsibilities	17 18

Task Force on Climate-Related Financial Disclosures (TCFD) Related Disclosures

TCFD Recommendations	Relevant Disclosures in the Report	Page
Governance	• Governance, Resources, and Incentives to Support ESG and Stewardship	9
Strategy	• Climate Risk Analysis	15
Risk Management	• Governance, Resources, and Incentives to Support ESG and Stewardship • Climate Risk Analysis	9 15
Metrics and Targets	• Climate Risk Analysis • ESG Investment Guidelines & Products	15 31

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All investments involve risk, including the possible loss of capital.

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Benchmark Description for Bloomberg Barclays Global Aggregate Corporate Bond Index (USD Hedged) (Bloomberg Barclays Global Corporate Index (USD Hedged)) (Global Corporate (USD Hedged): The Bloomberg Barclays Global Aggregate Corporate Bond Index (USD Hedged) is a component of the Global Aggregate Index that includes the global investment-grade, fixed-rate or step up, taxable securities sold by industrial, utility and financial issuers. The three major components of this index are the U.S. Aggregate Corporate, the Pan-European Aggregate Corporate, and the Asian-Pacific Aggregate Corporate indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian corporate securities, and USD investment-grade 144A securities. Securities included in the index must have at least 1 year until final maturity and be rated investment-grade (Baa3/ BBB-/BBB-) or better using the middle rating of Moody's, S&P, and Fitch. The index is hedged to USD.

PGIM FIXED INCOME