

Structural Inefficiencies and Relative Value Fixed Income

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PGIM Fixed Income

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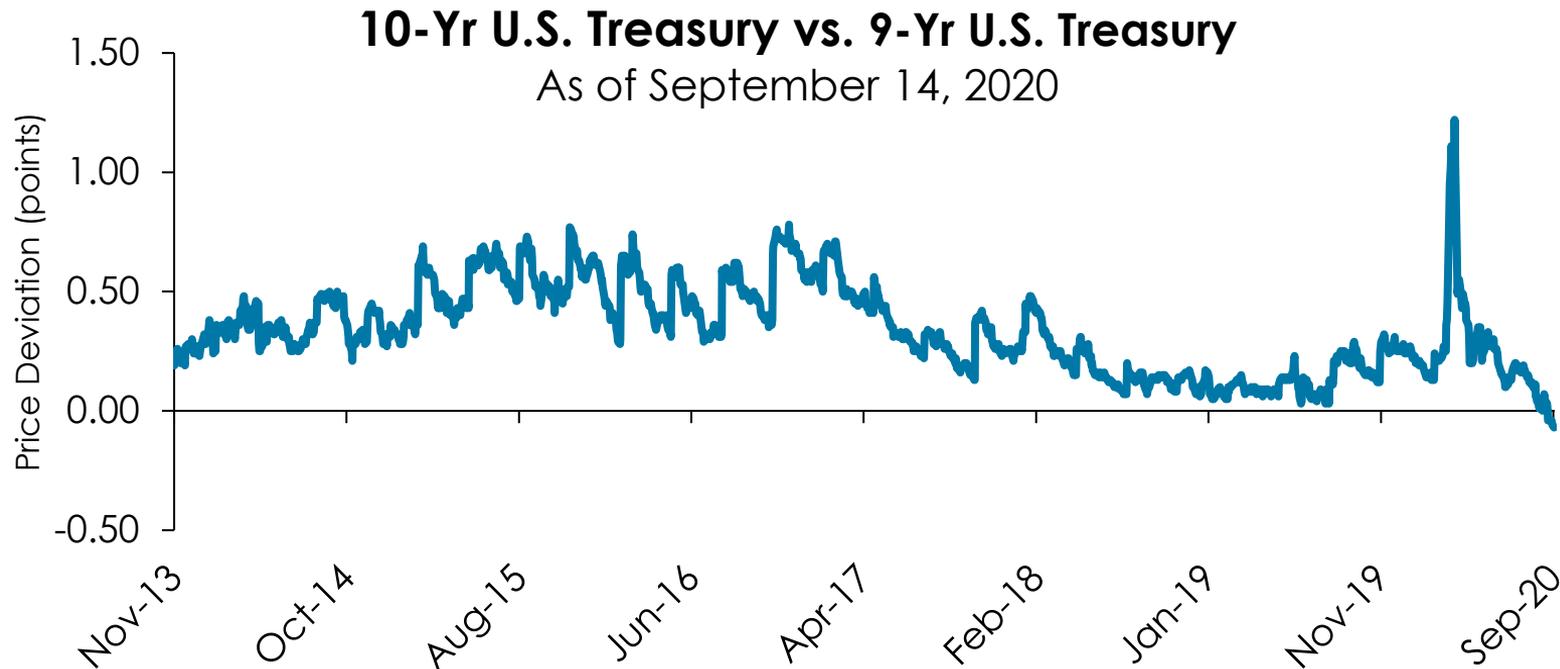
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10-Year Liquidity Premium

NEWLY ISSUED ON-THE-RUN 10-YEAR TREASURY BONDS EXHIBIT LIQUIDITY PREMIUM VERSUS OFF-THE-RUN 9-YEAR TREASURY BONDS



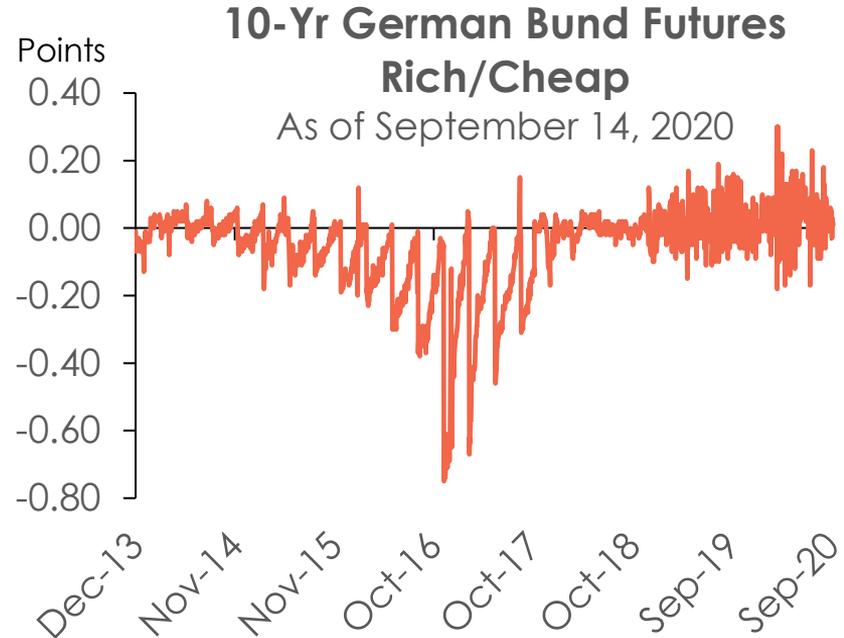
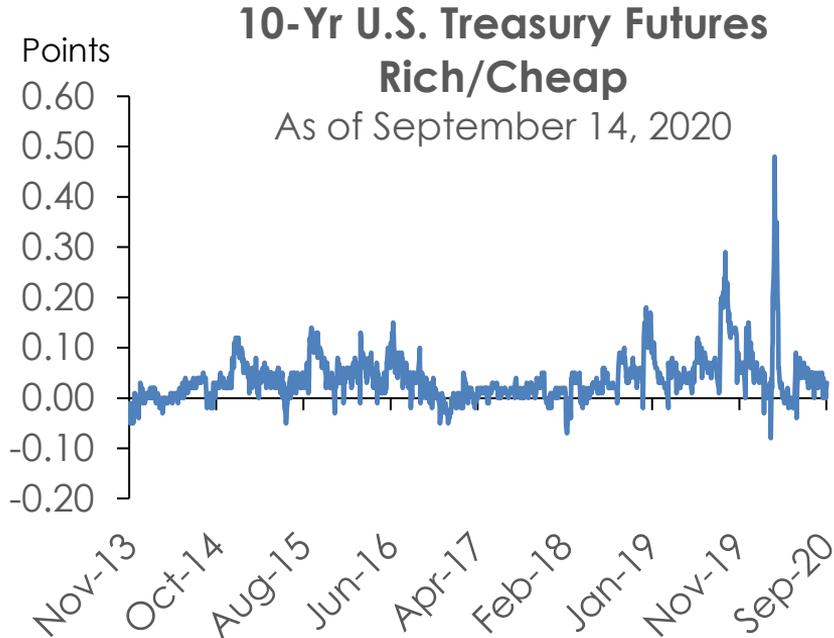
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Source: PGIM Fixed Income

U.S. & German 10-Year Front Futures Contracts

Rich/ Cheap

THE PRICE OF A FUTURE AND ITS DELIVERABLE BASKET OF GOVERNMENT BONDS CAN DIVERGE PRIOR TO DELIVERY, CREATING AN ARBITRAGE OPPORTUNITY



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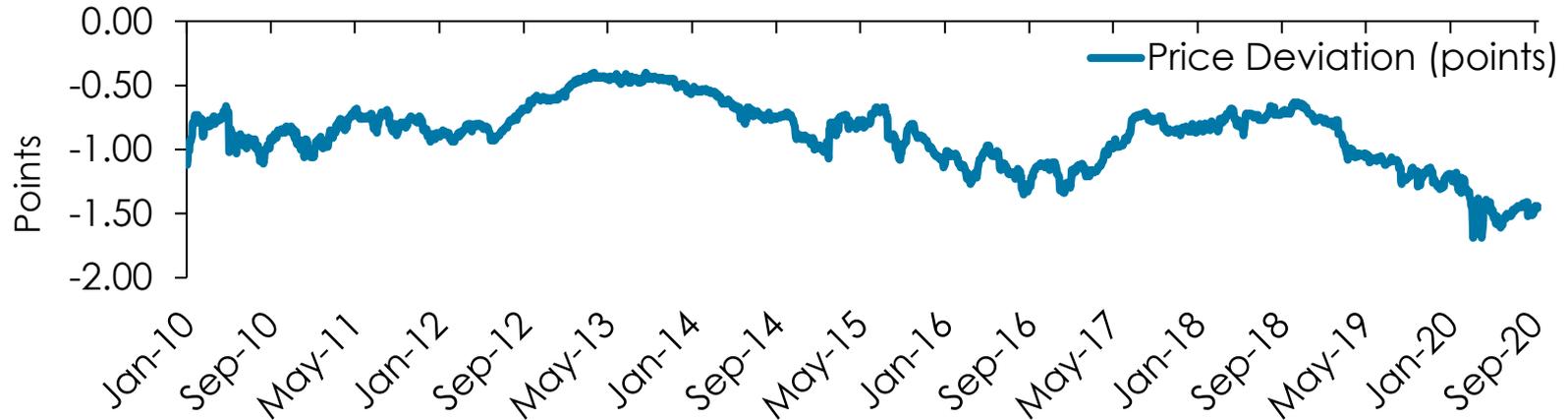
Source: PGIM Fixed Income

U.S. Treasury Optimal Fundamental Value

STRUCTURAL DISLOCATIONS AND EMBEDDED VALUE IN THE TREASURY MARKET AT NEAR RECORD HIGHS SINCE THE 2008 FINANCIAL CRISIS

Optimal Model Portfolio: Price Deviation

As of September 14, 2020



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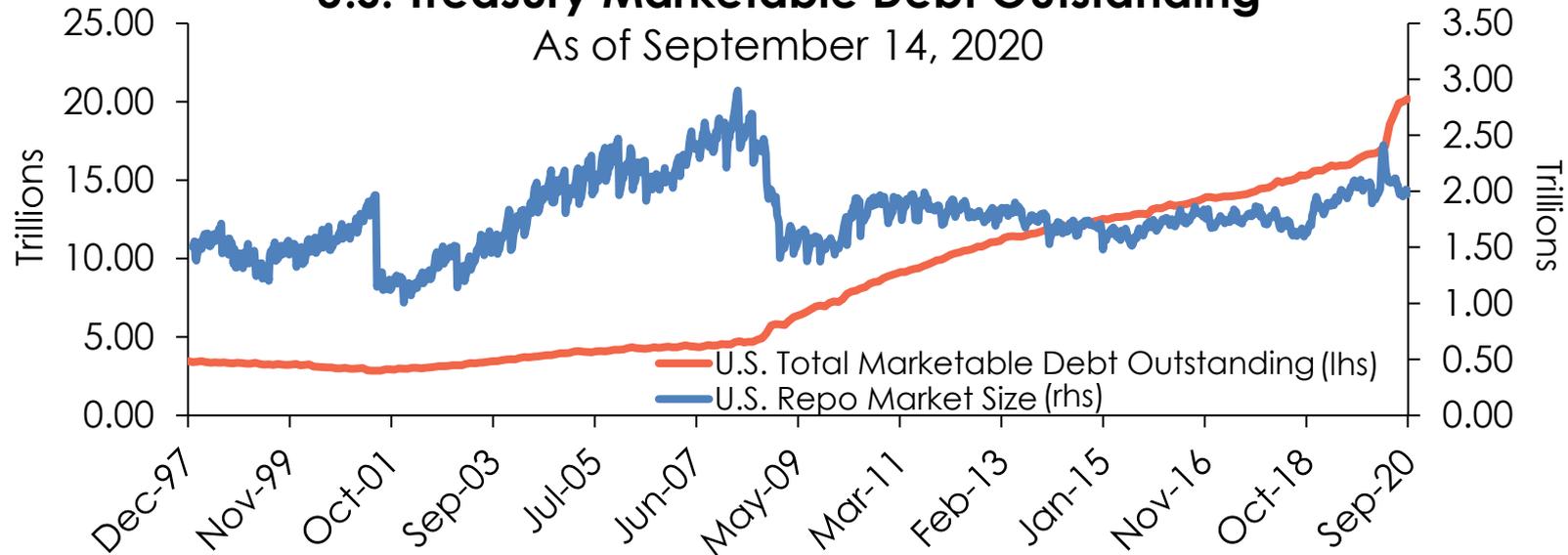
Source: PGIM Fixed Income. The U.S. proprietary yield curve model derives an "optimal" long versus short portfolio that is neutral to the systematic parameters of the underlying model. Positions are scaled according to the overall level of value determined, as well as expected mean reversion speed.

Availability of Financing

THE TREASURY MARKET HAS GROWN CONSISTENTLY OVER THE LAST DECADE AND INCREASINGLY SO THIS YEAR WHILE THE REPO MARKET HAS REMAINED CONSTANT

**U.S. Treasury Repo Market Size¹ vs.
U.S. Treasury Marketable Debt Outstanding**

As of September 14, 2020



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Source: U.S. Treasury & Federal Reserve Bank of New York. ¹U.S. Repo Market Size includes securities lent for data consistency.

Reference

Presenter Biographies

Erik Schiller, CFA, is a Managing Director and Head of Liquidity. Mr. Schiller is responsible for developed market rates for PGIM Fixed Income's Multi-Sector and Liquidity Team, specializing in government securities, futures, interest rate swaps/derivatives, and agency debentures. Mr. Schiller holds a senior portfolio management role where he develops portfolio strategy, performs quantitative analysis, and designs and implements risk positions within the liquidity relative value strategy portfolios, multi-sector fixed income portfolios, liability-driven portfolios, and government securities focused mutual funds. In addition, he has oversight of agency mortgages for the firm. Formerly, Mr. Schiller was a Vice President for PGIM Fixed Income's U.S. Liquidity Sector Team, and previously a hedge fund analyst within the Portfolio Analysis Group. Mr. Schiller joined the Firm in 2000 as an operations associate in the mortgage-backed securities group. He received a BA with high honors in Economics from Hobart College and holds the Chartered Financial Analyst (CFA) designation.

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