Prudential Impact Investments

Zurich Investor Day

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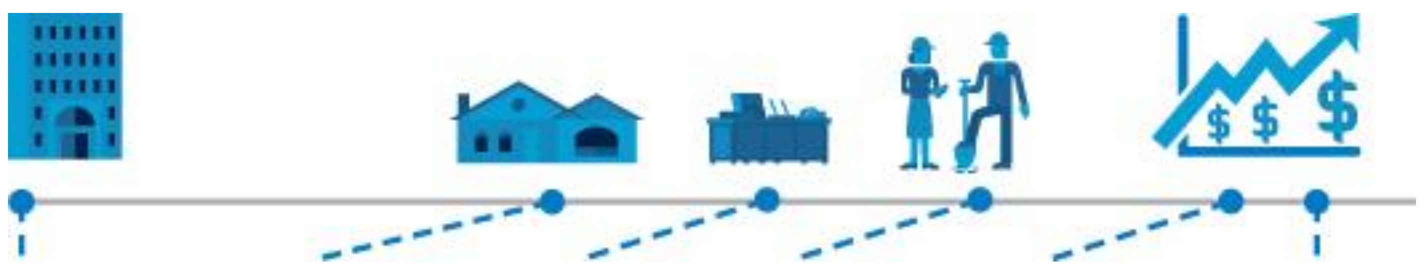
Prudential
Bring Your Challenges®

Why Prudential Makes Impact Investments

- **DNA** - Prudential was founded in Newark, NJ in 1876 as a social purpose business providing burial insurance to the working poor. The company remains headquartered in Newark and its founding mission is an essential part of the company's identity.
- **Senior Leadership** - There is a deep organizational and board commitment to corporate social responsibility (CSR) and a long history of senior management being actively involved on the most pressing social issues.
- **Track Record** - A stand-alone investments unit was formalized in 1976, long before the term "impact investing" was coined, and has made more than $2 billion in investments since that time. Investment and social performance during this period have been consistently strong.
- **R&D** - Investments ideas nurtured within Impact Investments unit have frequently migrated into larger, more mainstream businesses (*i.e.* Leapfrog).



1875	1931	1956	1976	2004	2014
Prudential founded	Invests in affordable housing project in Newark, NJ	Establishes a Loan Department to finance small and medium enterprises	Impact Investing Program is formalized	$1 billion in cumulative impact investments made to date.	Commits to building a $1 billion impact investment portfolio by 2020

Social Impact Focus Areas for Prudential

- CSR Mission to build a shared and lasting prosperity for the underserved by eliminating barriers to financial and social mobility.
- Integrated CSR Strategy - Foundation, Impact Investments, and Human Capital all report under a single CSR strategy.
  - Focus areas are designed to leverage different tools and strength of Prudential as an enterprise

Focus Area	Description
Quality Jobs	Supporting the creation and growth of 'quality' jobs and the businesses that provide them. We also support efforts aimed at improving the ability of underserved people to access these jobs, by improving the systems and institutions that provide the needed skills, competencies, credentials and certifications.
Savings and Protection	Increasing access to and availability and awareness of long-term savings, asset-protection and wealth building products for the underserved. Build partnerships to target policy changes to support increased savings and a more secure retirement.
Urban Transformation	Addressing issues resulting from concentrated urban poverty by targeting key social systems and increasing amenities and attractions that add vitality, and improve quality of life for all residents.

Socially Responsible vs. Impact Investing

- **Socially Responsible Investing ("do no harm"):** Investors apply negative/positive screens to avoid investments in "harmful" companies or encourage general improvements in environmental, social and corporate governance practices. Investments are typically in liquid public sectors and culled from existing investment opportunities.

- **Impact Investing ("create good"):** Investors actively seek out opportunities that have an explicit social or environmental purpose. For the most part investments are made in private markets and include earlier stage and untested interventions. Key characteristics that distinguish an impact investment include:
  - Intentionality of creating both financial and social returns
  - Rigorous impact measurement
  - Willingness to make not just find investments

Overview of Prudential Impact Investments

- One of the largest managers exclusively focused on Impact Investments (II)
  - $423 million in AUM and over $650 million in total outstanding commitments
  - Portfolio is committed to grow to $1 billion by 2020
  - $200-$250 million in annual authorizations
  - 8 FTE who work exclusively on the II portfolio

- Multi-Asset/Multi-Strategy capabilities
  - II has the freedom to opportunistically invest in a wide range of largely private asset classes to identify the most attractive risk/return/impact opportunities
  - Investments are made both directly and through fund managers

- Strong oversight and collaboration
  - Dual authorization processes led by Global Head of CSR and Chief Credit Officer of PCG
  - Oversight by two separate sub-committees of Board of Directors
  - All assets are subject to same risk, valuation and compliance protocols as other investments
  - Investment leverage firm's expertise and relations in a wide range of asset classes

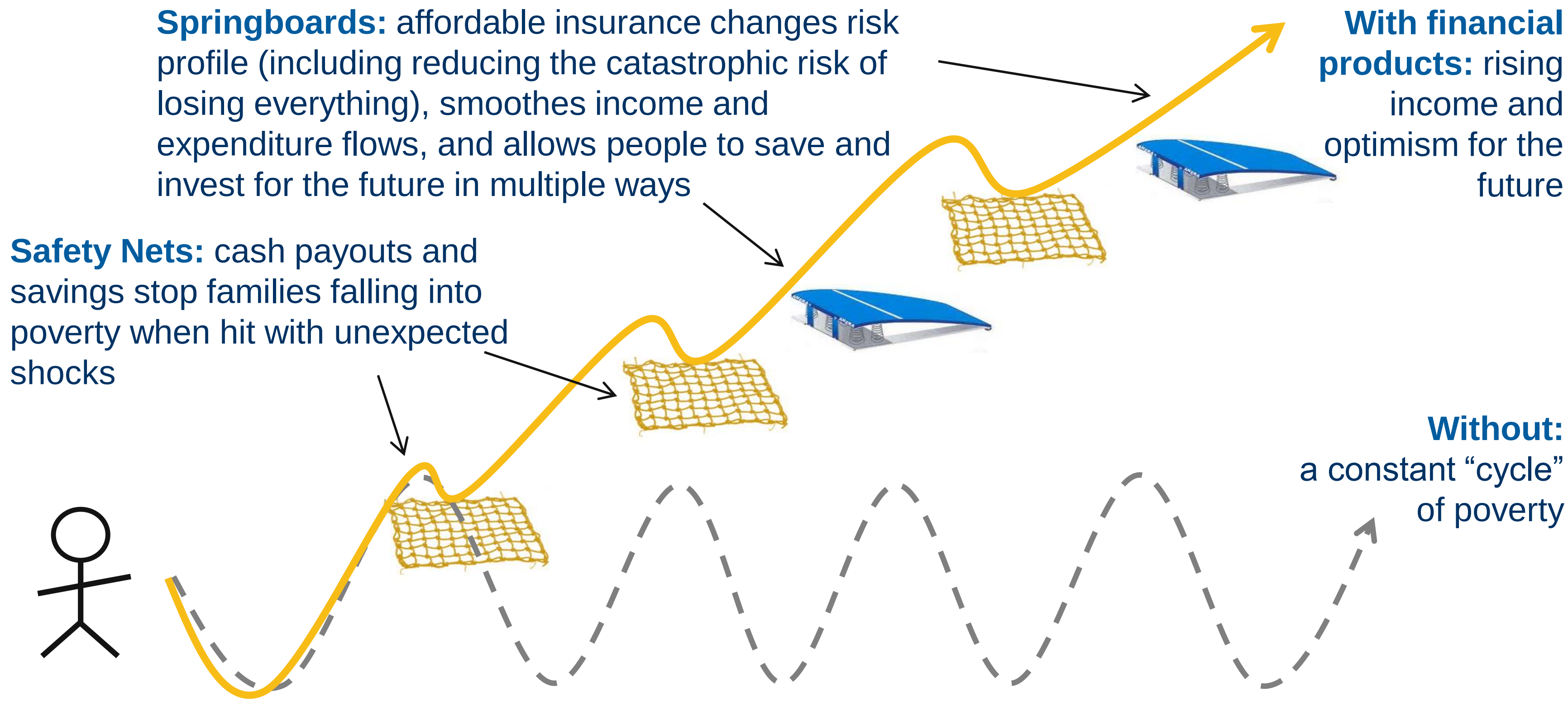
Signature Transaction – Hahne Redevelopment

- Iconic department store built in 1911 that has been vacant since 1987 and lies next door to new Prudential Tower.
- Hahnes' redevelopment weaves together urban fabric including Rutgers, New Jersey Performing Arts Center, Prudential, Broad and Halsey Streets.
- May 2015 – Closed and fully funded the $174 million full renovation of the Hahnes building, located next to Prudential's new office tower in partnership with L+M Development Partners.
- Prudential's $27.5 million loan was partially repaid and $20 million converted into an equity investment.
- Project used funds from Citibank, Goldman Sachs, The Reinvestment Fund, The Low Income Investment Fund, NJ Housing Mortgage Finance Agency, New Jersey EDA, and L+M.
- Building will house:
  - Whole Foods
  - 160 mixed income apartments
  - 50,000 square feet for Rutgers

Urban Transformation in Action

Signature Transaction - Leapfrog Fund II

- Leapfrog is a private equity fund that invests in insurance and insurance related businesses in the developing world that target emerging customers.
- Prudential invested a total of $15 million in Fund II, which was oversubscribed and raised over $400 million. This investment led to a relationship with the broader enterprise.
- In January 2016 Prudential International Insurance created a separate managed account of $350 million with Leapfrog to address the African Insurance Market.



Portfolio Summary (12/31) - Unaudited

- 60:40 Debt to Equity Ratio
  - Private debt is an under-appreciated impact instrument and allows for careful tailoring of social and economic covenants.
- Performance on yield producing investments (mortgages, private placements, dividend stocks, tax credts) continues to be strong with a current yield above 4.7%.

Asset Type	Outstanding Par/Cost (Income Producing)	Outstanding Par/Cost (Non-Income Producing)	Annualized Return
Bonds	$ 198,167,742		4.44%
Equity	35,000,000	55,522,098	4.43%
Mortgage	36,392,015		6.06%
Tax Credits	7,927,332		11.37%
Total	**$ 277,487,089**	**55,522,098**	**4.74%**

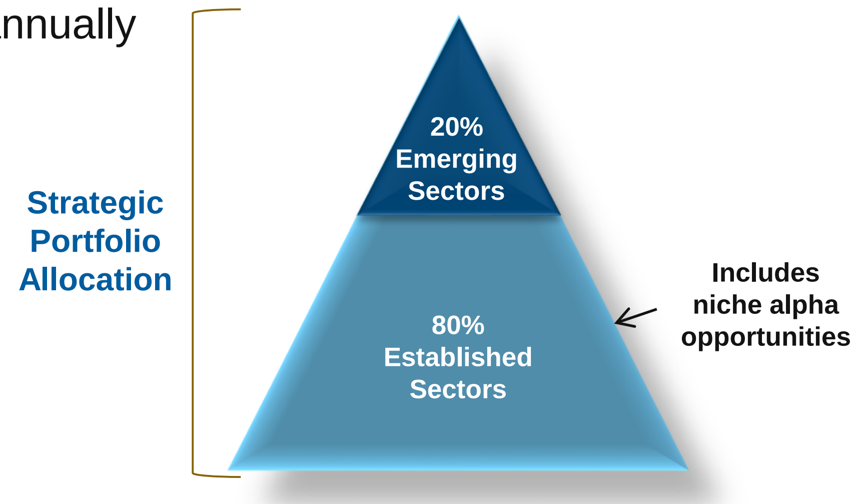
- Performance on investments in Limited Partnership Funds (including Venture Capital, Mezz Debt and Private Equity) is also strong. For funds more than 3 years old (i.e. past the J-Curve) unrealized IRR net of management fees is just under 10%. This represent a portfolio of approximately $80 million.

Conceptual Model of Investment Sectors

	Pre-Investment	Emerging Sectors	Established Sectors	Mainstream
Risk/Return	Conceptual, no prior track record, business model may be unclear	Establishing business model, conducting initial be-spoke transactions, creating new templates	Scaling proven business model	Mainstream capital markets
Alpha	Unpredictable	Disproportionate risk, may be offset by structure or credit enhancements	Potential	Limited
Capital Deployment	Very Small <1m	Modest <5m	Meaningful <25M	No capital restrictions
Investment Level Impact	Pre-investment stage	Highest	High	Limited
Philanthropic Participation	Essential	Important	Possible	Unnecessary
Examples		Informal fin services, next gen manufacturing, green infrastructure	Marginalized cities, charter school debt	Affordable housing

Investment Strategy

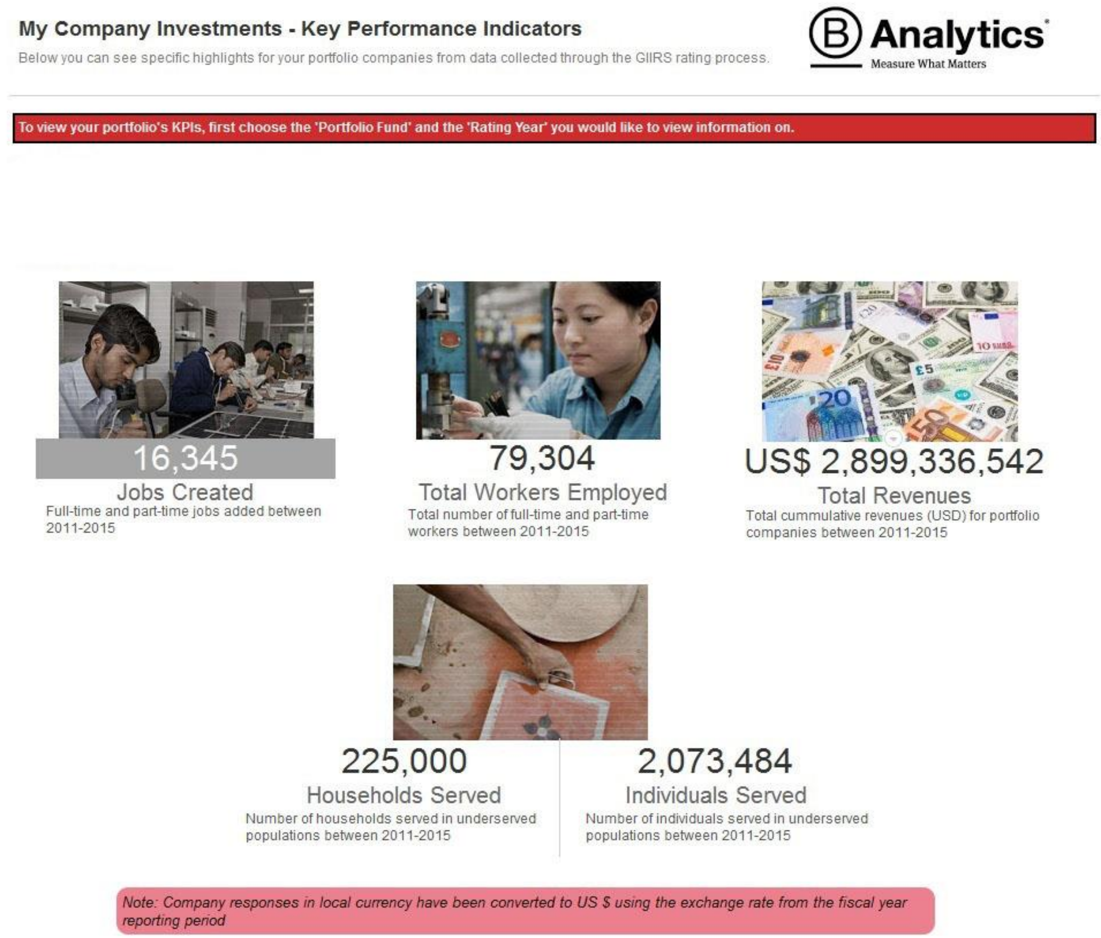
- 80:20 - ratio between "Core" portfolio and "R&D" portfolio
  - Core assets are held by different regulated business line of company
    - Core assets have market, or better, risk-return profiles
    - Investments typically come from seasoned sponsors and ventures with established track records
    - Individual investments typically $10-$30 million
    - Modest impairment levels 30-40 basis points annually
  - R&D portfolio provides funding for
    - Exploring new sectors, markets or borrowers
    - Individual investments typically $1-$5 million
    - Significant exposure to non-profits
    - Source of pipeline for Core portfolio
    - Direct equity concentrated in this portfolio



- Absolute Return - Strategic mix between core and corporate, as well as underlying asset mix will be actively managed to maximize impact and to maintain steady absolute returns and modest average annual impairments.
  - 5% is a logical absolute return target to maximize impact and minimize volatility

Impact Assessment and Reporting

- As part of the impact evaluation process, distinct frameworks were established for three major subsets of the portfolio: real assets, financial services, and operating entities.
- Portfolio is further delineated into three types of impact levels: investment, enterprise/sponsor, and product level.
- Leverage third party services and standards
  - Impact Reporting and Investment Standards (IRIS): provides standardized terminology around social and environmental reporting.
  - B-Analytics (f.k.a.Global Impact Investing Rating System): provides a comprehensive impact rating to a company or fund.
  - Aeris, National Community Investment Fund: provides impact assessment for community development financial institutions and development banks.



Enterprise Level Impact Framework

Operating Impact

- Labor Practices
- Production Methods
- Supply Chain
- Business Practices

Product Impact

- What the good or services does (or avoids) for end user
- Accessibility
- Permanent disruption

Mission Preservation

- Mission = Margin
- Alternative Ownership (B-corps, ESOPs, etc)
- Regulatory Safeguards
- Mission Transparency

- Relative importance of each aspect of impact will vary by context but each should be analyzed in every transaction
- Outputs versus Outcomes
  - Most impact measurements are output driven (e.g units sold, low-income employees hired) and don’t directly identify whether the intervention changed outcomes.
  - Exceptions in Healthcare, Educations and some Social Impact Bonds where public sector involvement can provide means of evaluating outcomes more than just outputs.

Lessons Learned

- Process is concessionary, investments are generally not
  - Legal, diligence and staffing costs as percentage of AUM are higher, at least in short run than comparable mainstream private strategies.
  - Impact investments are often made not found.
  - Work is in illiquid, complicated sectors often with regulatory overlays.
  - Tax credits and government policy and incentives are often crucial element of analysis.

- Sensibly deviating from traditional rules
  - LTV ratios for affordable housing and charter schools are higher since they have more stable top line revenues.
  - For impact private equity funds, a recent Cambridge Associates study found no performance trade offs in first-time or small funds.

- Talent matters
  - Despite small size of many investees, they are drawing best in class talent from a wide range of fields
  - Older organizations tend to struggle more to recruit and integrate talent
  - Able to draw top flight investment managers to Impact Investments

Lessons Learned

- Need a capacity to make not just find investments
  - Active role on boards of investees, standards organizations and trade associations
  - Willing to absorb additional upfront legal, diligence and staffing costs
  - Understanding where government, philanthropic and other private capital can be sourced to support different aspects of a company's business model

- Patient Capital
  - Willing to make small investments in initiatives and partners who will have potential to scale and use larger amounts of capital
  - An ability to make early commitments even before a transaction is fully structured
  - Open to illiquid, complicated sectors often with regulatory overlays
  - Stretching duration of investments where needed to fuel impact

- Impact and investment merits are usually correlated
  - Strong mission and purpose attract top operators and talent
  - Mission features are typically directly aligned to public subsidies
  - Strong mission organizations have best ability to raise capital (even philantrophy) and governance support where needed

Lessons Learned – ways of driving impact

Price/ Position/ Pledges	• These are all form of concessionary terms and have their role but may introduce marketplace distortion and is not scalable. • We use these features for supporting R&D and one-time investments in catalytic and unique entities with paradigm shifting role (Freelancers, B-Lab) • Also are more appropriate for non-profits
Perspicacity	• Understand complex markets with interactions between community, government and private market that may create excessive perception of risk. Examples from our portfolio include Education, Community Development, and Affordable Housing. • Understand government incentives (NMTC, LIHTC, EB-5) that can catalyze risky endeavors while de-risking projects for investors.
Perspective	• In a fixed market (for example LIHTC) where amount of subsidies is capped there are important choices about resource allocation implicit in funding mechanisms. • Mission lock/mission emphasis – generally back stopped by loan covenants or board involvement
Patience	• Invest in longer dated instruments and additional duration risk in exchange for enhanced yield. • Commit well in advance of a transaction being consummated. Early commitment will often catalyze remaining steps.
Learning Dividend	• As investors we learn greatly about the nuances of a problem working with entities that are struggling to solve it. Insights can flow both ways both in the investment and in future investments.