

Prudential Short Duration High Yield Fund, Inc.  
Form N-CSR  
July 31, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANIES**

|   |  |
|---|--|
| Investment Company Act file number:                 | 811-22632  |
| Exact name of registrant as specified in charter:   | Prudential Short Duration High Yield Fund, Inc.  |
| Address of principal executive offices:             | Gateway Center 3,<br>100 Mulberry Street,<br>Newark, New Jersey 07102                    |
| Name and address of agent for service:              | Deborah A. Docs<br>Gateway Center 3,<br>100 Mulberry Street,<br>Newark, New Jersey 07102 |
| Registrant's telephone number, including area code: | 973-367-7521   |
| Date of fiscal year end:                            | 5/31/2014  |
| Date of reporting period:                           | 5/31/2014  |



Item 1 Reports to Stockholders

PRUDENTIAL INVESTMENTS»CLOSED-END FUNDS

## **PRUDENTIAL SHORT DURATION HIGH YIELD FUND, INC.**

**ANNUAL REPORT · MAY 31, 2014**

### **Fund Type**

Short Duration, High Yield Bond

### **Objective**

High level of current income

The views expressed in this report and information about the Fund's portfolio holdings are for the period covered by this report and are subject to change thereafter.

Prudential Fixed Income is a unit of Prudential Investment Management, Inc. (PIM), a registered investment adviser. PIM is a Prudential Financial company. © 2014 Prudential Financial, Inc. and its related entities. Prudential Investments LLC, Prudential, the Prudential logo, Bring Your Challenges, and the Rock symbol are service marks of Prudential Financial, Inc. and its related entities, registered in many jurisdictions worldwide.

July 15, 2014

Dear Shareholder:

We hope you find the annual report for the Prudential Short Duration High Yield Fund, Inc. informative and useful. The report covers performance for the 12-month period that ended May 31, 2014.

Since market conditions change over time, we believe it is important to maintain a diversified portfolio of funds consistent with your tolerance for risk, time horizon, and financial goals.

Your financial advisor can help you create a diversified investment plan that may include funds covering all the basic asset classes and that reflects your personal investor profile and risk tolerance. Keep in mind, however, that diversification and asset allocation strategies do not assure a profit or protect against loss in declining markets.

Prudential Investments® is dedicated to helping you solve your toughest investment challenges whether it's capital growth, reliable income, or protection from market volatility and other risks. We offer the expertise of Prudential Financial's affiliated asset managers\* that strive to be leaders in a broad range of funds to help you stay on course to the future you envision. They also manage money for major corporations and pension funds around the world, which means you benefit from the same expertise, innovation, and attention to risk demanded by today's most sophisticated investors.

Thank you for choosing the Prudential Investments family of funds.

Sincerely,

Stuart S. Parker, President

Prudential Short Duration High Yield Fund, Inc.

\*Most of Prudential Investments' equity funds are advised by Jennison Associates LLC, Quantitative Management Associates LLC (QMA), or Prudential Real Estate Investors. Prudential Investments' fixed income and money market funds are advised by Prudential Investment Management, Inc. (PIM) through its Prudential Fixed Income unit. Jennison Associates, QMA, Prudential Investments LLC and PIM are registered investment advisers and Prudential Financial companies. Prudential Real Estate Investors is a unit of PIM.

## Your Fund's Performance (Unaudited)

Performance data quoted represent past performance and assume the reinvestment of all dividends. Past performance does not guarantee future results. An investor may obtain performance data as of the most recent month-end by visiting our website at [www.prudentialfunds.com](http://www.prudentialfunds.com).

### Investment Objective

The Fund seeks to provide a high level of current income by investing primarily in higher-rated, below-investment-grade fixed income instruments\*. The Fund seeks to maintain a weighted average portfolio duration of three years or less and a weighted average maturity of five years or less.

\*There can be no guarantee the Fund will achieve its objective. Higher-rated high yield bonds, commonly referred to as junk bonds, are below investment grade and are considered speculative. They are rated Ba, B by Moody's Investors Service, Inc. (Moody's); BB, B by Standard & Poor's Ratings Services (S&P) or Fitch, Inc. (Fitch); or comparably rated by another nationally recognized statistical rating organization (NRSRO), or if unrated, are considered by PIM to be of comparable quality.

### Performance Snapshot as of 5/31/14

| Price Per Share        | Total Return For<br>12-Months Ended<br>5/31/14 |
|------------------------|--|
| \$18.82 (NAV)          | 6.75%  |
| \$17.84 (Market Price) | 0.24%  |

Total returns are based on changes in net asset value (NAV) or market price, respectively. NAV total return assumes the reinvestment of all distributions, including returns of capital, if any, at NAV. Market Price total return assumes the reinvestment of all distributions, including returns of capital, if any, in additional shares in accordance with the Fund's Dividend Reinvestment Plan.

Source: Prudential Investments LLC.

### Key Fund Statistics as of 5/31/14

|          |           |                  |           |
|----------|-----------|------------------|-----------|
| Duration | 2.4 years | Average Maturity | 4.2 years |
|----------|-----------|------------------|-----------|

Duration shown includes the impact of leverage. Duration measures investment risk that takes into account both a bond's interest payments and its value to maturity. Average Maturity is the average number of years to maturity of the Fund's bonds.

2 Visit our website at [www.prudentialfunds.com](http://www.prudentialfunds.com)

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**Credit Quality** expressed as a percentage of total investments as of 5/31/14

|                          |               |
|--------------------------|---------------|
| A                        | 0.3%          |
| BBB                      | 4.0           |
| BB                       | 44.0          |
| B                        | 43.1          |
| CCC                      | 8.2           |
| Cash/Cash Equivalents    | 0.4           |
| <b>Total Investments</b> | <b>100.0%</b> |

*Bond credit quality ratings are based on the highest rating assigned by Moody's, S&P, and Fitch.*

**Yield and Dividends** as of 5/31/14

| <b>Total Monthly Dividends<br/>Paid per Share for Period</b> | <b>Current Monthly Dividend<br/>Paid per Share</b> | <b>Yield at Market Price<br/>as of 5/31/14</b> |
|--|--|--|
| \$1.5978   | \$0.1225   | 8.24%  |

*Yield at market price is the annualized rate determined by dividing Current Monthly Dividend paid per share by the market price per share as of May 31, 2014.*

Prudential Short Duration High Yield Fund, Inc. 3

## Strategy and Performance Overview

### How did the Fund perform?

For the 12-month reporting period that ended May 31, 2014, the Prudential Short Duration High Yield Fund's (the Fund) NAV per share decreased by \$0.36 from \$19.18 to \$18.82. Including the reinvestment of dividends, the Fund returned 6.75% for the period, outperforming the 6.61% gain of the Barclays US High Yield Ba/B 1-5 Year 1% Issuer Constrained Index (the Index). The Fund underperformed the 11.39% gain of the Lipper High Current Yield Funds (Leveraged) Average. The Fund's market price declined by \$1.61, from \$19.45 to \$17.84 for the period. The Fund's market price total return including the reinvestment of dividends was 0.24% for the period.

### What were conditions like in the short-term US high yield corporate bond market?

High yield bonds performed very well throughout the period with the Barclays US High Yield Index returning 7.90%. The short duration, higher quality sub-style of high yield, as measured by the Index, also performed well, returning 6.61% throughout the period. Despite periodic bouts of volatility during the year, the high yield market was fueled by the continuing search for yield, against a backdrop of strong fundamentals for high yield issuers and default rates that remain well below historical averages. During the period, average high yield bond prices rose \$0.95 while credit spreads—the amount of extra yield that high yield bonds provide over similar-duration US Treasury securities—narrowed by 100 basis points (bps) (a basis point is one-hundredth of a percentage point).

Over the period as a whole, CCC-rated bonds performed best returning 10.17%. Higher quality tiers somewhat underperformed, with BB and B-rated bonds returning 7.23% and 7.56% respectively. The banking, brokerage and capital goods sectors were among the best performers, each returning over 8%. Building materials and construction, gaming, and packaging all lagged, each returning less than 5%.

### What strategies proved most beneficial to the Fund's performance?

The Fund benefited from strong debt-security selection within the building materials and construction, gaming, and aerospace/defense sectors.

The Fund had a smaller weighting than its benchmark in the building materials and construction and pipeline industries, which helped performance, as issuers in these industries underperformed the broad market during the period. The Fund had a larger weighting than its benchmark in the technology sector, which also benefited performance, since the sector outperformed.

In individual company selection, the Fund's position in cable company **Dish Network** was a large contributor. The Fund also had smaller weightings

relative to the Index in the financial company **Icahn Enterprises** and pipeline company **Kinder Morgan**, which contributed positively to performance.

**What strategies detracted most from the Fund's performance?**

Security selection in the media and entertainment, capital goods, and metals sectors hindered the Fund's performance.

The Fund had a smaller weighting than its benchmark in the banking sector, which detracted from performance, as banking outperformed. It also had a larger weighting than its index in the gaming and packaging industries, which was another detractor from performance.

In individual company selection, the Fund held a higher weighting of debt securities in the gaming company **Caesars Entertainment Corp.**, the media company **Getty Images**, and the retailer **Claire's**, which detracted from performance, as these securities underperformed throughout the reporting period.

**How did the Fund's borrowing (leverage) strategy affect its performance?**

The Fund's use of leverage positively contributed to results as the returns of the securities purchased was in excess of the cost of borrowing. As of May 31, 2014, the Fund had borrowed approximately \$238 million and was about 27.5% leveraged. During the reporting period, the average amount of leverage utilized by the Fund was about 26.0%.

**Did the Fund hold derivatives and how did they affect performance?**

The Fund briefly utilized the CDX High Yield Index (CDX HY) to get broad market exposure from April 11 through June 4. This had a positive effect on performance. The CDX HY is based on a basket of 100 equally weighted credit default swaps on high yield issuers. A credit default swap is similar to buying or selling insurance contracts on a corporation's debt.

## Benchmark Definitions

**Barclays US High Yield Ba/B 1-5 Year 1% Issuer Constrained Index**

The Barclays US High Yield Ba/B 1-5 Year 1% Issuer Constrained Index is an unmanaged index which represents performance of US higher-rated short duration high yield bonds.

Source: Barclays.

**Lipper High Current Yield Funds (Leveraged) Average**

The Lipper High Current Yield Funds (Leveraged) Average (Lipper Average) represents returns based on an average return of 35 funds in the Closed-End High Current Yield Funds (Leveraged) category.

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Investors cannot invest directly in an index or average.

Prudential Short Duration High Yield Fund, Inc. 5

## Strategy and Performance Overview (continued)

### **Looking for additional information?**

The Fund is traded under the symbol `ISD` and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available online under the symbol `XISDX` on most financial websites. *Barron's* and *The Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues press releases that can be found on most major financial websites as well on [www.prudentialfunds.com](http://www.prudentialfunds.com).

In a continuing effort to provide information concerning the Fund, shareholders may go to [www.prudentialfunds.com](http://www.prudentialfunds.com) or call (800) 451-6788 (toll free), Monday through Friday from 8:00 a.m. to 5:30 p.m. Eastern Time, for the Fund's current NAV, market price, and other information.

6 Visit our website at [www.prudentialfunds.com](http://www.prudentialfunds.com)

## Portfolio of Investments

as of May 31, 2014

| Description                                    | Interest Rate | Maturity Date | Principal Amount (000)# | Value (Note 1) |
|--|---------------|---------------|-------------------------|----------------|
| <b>LONG-TERM INVESTMENTS</b> 137.3%            |               |               |                         |                |
| <b>BANK LOANS(a)</b> 5.6%                      |               |               |                         |                |
| <b>Cable</b> 0.5%                              |               |               |                         |                |
| Newsday LLC                                    | 3.650%        | 10/12/16      | 2,954                   | \$ 2,952,000   |
| <b>Capital Goods</b> 0.3%                      |               |               |                         |                |
| CPM Acquisition Holdings, Inc.                 | 10.250        | 03/01/18      | 1,749                   | 1,770,862      |
| <b>Chemicals</b> 0.5%                          |               |               |                         |                |
| Axalta Coating Systems US Holdings             | 4.000         | 02/01/20      | 1,000                   | 998,750        |
| Colouroz Investment 2 LLC                      | 4.750         | 09/30/21      | 2,250                   | 2,242,267      |
|  |               |               |                         | 3,241,017      |
| <b>Electric</b> 0.6%                           |               |               |                         |                |
| Calpine Corp.                                  | 4.000         | 10/09/19      | 3,744                   | 3,749,399      |
| <b>Energy Other</b> 0.3%                       |               |               |                         |                |
| Samson Investment Co.                          | 5.000         | 09/25/18      | 1,850                   | 1,848,348      |
| <b>Gaming</b> 0.3%                             |               |               |                         |                |
| MGM Resorts International                      | 3.500         | 12/20/19      | 1,975                   | 1,969,446      |
| <b>Healthcare &amp; Pharmaceutical</b> 0.2%    |               |               |                         |                |
| Catalent Pharma Solutions, Inc.                | 6.500         | 12/29/17      | 1,500                   | 1,511,250      |
| <b>Media &amp; Entertainment</b> 0.2%          |               |               |                         |                |
| Gray Television, Inc.                          | 4.500         | 10/11/19      | 1,432                   | 1,431,537      |
| <b>Technology</b> 2.7%                         |               |               |                         |                |
| Ancestry.com, Inc.                             | 4.500         | 12/28/18      | 332                     | 331,391        |
| Avago Technologies Finance Pte Ltd.            | 3.750         | 05/06/21      | 7,000                   | 7,020,419      |
| First Data Corp.                               | 4.231         | 09/24/18      | 1,675                   | 1,676,395      |
| Interactive Data Corp.                         | 4.750         | 05/03/21      | 2,000                   | 2,013,750      |
| Kronos, Inc.                                   | 9.750         | 04/30/20      | 3,743                   | 3,858,346      |
| Sungard Availability Services Capital, Inc.    | 6.000         | 03/29/19      | 2,000                   | 1,988,750      |
|  |               |               |                         | 16,889,051     |
| <b>TOTAL BANK LOANS</b><br>(cost \$35,094,843) |               |               |                         | 35,362,910     |

See Notes to Financial Statements.

## Portfolio of Investments

as of May 31, 2014 continued

| Description  | Interest Rate | Maturity Date | Principal Amount (000)# | Value (Note 1) |
|--|---------------|---------------|-------------------------|----------------|
| <b>CORPORATE BONDS 131.7%</b>  |               |               |                         |                |
| <b>Aerospace &amp; Defense 2.1%</b>  |               |               |                         |                |
| Bombardier, Inc. (Canada),<br>Sr. Unsec d. Notes, 144A(b)  | 7.500 %       | 03/15/18      | 2,875                   | \$ 3,255,938   |
| Esterline Technologies Corp., Gtd. Notes   | 7.000         | 08/01/20      | 1,225                   | 1,316,875      |
| Michael Baker International, Inc.,<br>Sr. Sec d. Notes, 144A(b)  | 8.250         | 10/15/18      | 4,825                   | 5,126,562      |
| TransDigm, Inc., Gtd. Notes  | 7.750         | 12/15/18      | 3,000                   | 3,225,000      |
|  |               |               |                         | 12,924,375     |
| <b>Automotive 3.8%</b>   |               |               |                         |                |
| Allison Transmission, Inc., Gtd. Notes, 144A   | 7.125         | 05/15/19      | 2,420                   | 2,595,450      |
| American Axle & Manufacturing, Inc.,<br>Gtd. Notes   | 5.125         | 02/15/19      | 1,550                   | 1,627,500      |
| Chrysler Group LLC/CG Co.-Issuer, Inc.,<br>Sec d. Notes(b)   | 8.000         | 06/15/19      | 7,500                   | 8,193,750      |
| General Motors Co., Sr. Unsec d. Notes, 144A(b)  | 3.500         | 10/02/18      | 2,925                   | 2,998,125      |
| Lear Corp., Gtd. Notes   | 8.125         | 03/15/20      | 1,214                   | 1,320,225      |
| Schaeffler Holding Finance BV (Germany),<br>Sr. Sec d. Notes, PIK, 144A(b)   | 6.875         | 08/15/18      | 6,850                   | 7,235,312      |
|  |               |               |                         | 23,970,362     |
| <b>Building Materials &amp; Construction 6.5%</b>  |               |               |                         |                |
| Beazer Homes USA, Inc.,<br>Gtd. Notes, 144A  | 5.750         | 06/15/19      | 1,675                   | 1,666,625      |
| Sr. Sec d. Notes(b)  | 6.625         | 04/15/18      | 5,275                   | 5,644,250      |
| Building Materials Corp. of America,<br>Sr. Unsec d. Notes, 144A<br>(original cost \$2,103,860; purchased 06/20/13)(b)(c)(d) | 6.875         | 08/15/18      | 2,000                   | 2,081,250      |
| Cemex Finance LLC (Mexico), Sr. Sec d. Notes, 144A(b)  | 9.875         | 04/30/19      | 5,000                   | 5,765,000      |
| D.R. Horton, Inc., Gtd. Notes(b)   | 4.750         | 05/15/17      | 3,000                   | 3,183,750      |
| Lennar Corp.,<br>Gtd. Notes  | 4.500         | 06/15/19      | 2,600                   | 2,639,000      |
| Gtd. Notes(b)  | 4.750         | 12/15/17      | 5,075                   | 5,341,437      |
| Standard Pacific Corp.,<br>Gtd. Notes  | 8.375         | 05/15/18      | 1,000                   | 1,180,000      |
| Gtd. Notes(b)  | 10.750        | 09/15/16      | 4,000                   | 4,780,000      |
| Taylor Morrison Communities, Inc./Monarch Communities, Inc.,<br>Gtd. Notes, 144A(b)  | 7.750         | 04/15/20      | 2,500                   | 2,743,750      |

See Notes to Financial Statements.

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| Description  | Interest Rate | Maturity Date | Principal Amount (000)# | Value (Note 1) |
|--|---------------|---------------|-------------------------|----------------|
| <b>CORPORATE BONDS (Continued)</b>   |               |               |                         |                |
| <b>Building Materials &amp; Construction (cont d.)</b>   |               |               |                         |                |
| Toll Brothers Finance Corp.,   |               |               |                         |                |
| Gtd. Notes   | 4.000 %       | 12/31/18      | 400                     | \$ 412,000     |
| Gtd. Notes(b)  | 8.910         | 10/15/17      | 1,600                   | 1,920,000      |
| US Concrete, Inc., Sr. Sec d. Notes, 144A  | 8.500         | 12/01/18      | 3,325                   | 3,599,313      |
|  |               |               |                         | 40,956,375     |
| <b>Cable 8.7%</b>  |               |               |                         |                |
| Cablevision Systems Corp.,   |               |               |                         |                |
| Sr. Unsec d. Notes(b)  | 7.750         | 04/15/18      | 2,750                   | 3,107,500      |
| Sr. Unsec d. Notes(b)  | 8.625         | 09/15/17      | 6,200                   | 7,254,000      |
| CCO Holdings LLC/CCO Holdings Capital Corp.,   |               |               |                         |                |
| Gtd. Notes(b)  | 7.000         | 01/15/19      | 9,620                   | 10,173,150     |
| Gtd. Notes(b)  | 7.250         | 10/30/17      | 2,900                   | 3,070,375      |
| Gtd. Notes   | 8.125         | 04/30/20      | 1,000                   | 1,090,000      |
| CSC Holdings LLC, Sr. Unsec d. Notes(b)  | 8.625         | 02/15/19      | 2,500                   | 2,981,250      |
| DISH DBS Corp.,  |               |               |                         |                |
| Gtd. Notes(b)  | 4.250         | 04/01/18      | 3,390                   | 3,542,550      |
| Gtd. Notes   | 7.875         | 09/01/19      | 1,000                   | 1,190,000      |
| Nara Cable Funding Ltd. (Spain),   |               |               |                         |                |
| Sr. Sec d. Notes, 144A   | 8.875         | 12/01/18      | 5,225                   | 5,616,875      |
| Sr. Sec d. Notes, 144A   | 8.875         | 12/01/18      | 5,100                   | 5,444,250      |
| Numericable Group SA (France),   |               |               |                         |                |
| Sr. Sec d. Notes, 144A(b)  | 4.875         | 05/15/19      | 7,775                   | 7,930,500      |
| Unitymedia Hessen GmbH & Co. KG / Unitymedia NRW GmbH (Germany),   |               |               |                         |                |
| Sr. Sec d. Notes, 144A   | 7.500         | 03/15/19      | 1,625                   | 1,742,812      |
| Videotron Ltee (Canada), Gtd. Notes  | 9.125         | 04/15/18      | 41                      | 42,435         |
| Virgin Media Finance PLC (United Kingdom),   |               |               |                         |                |
| Gtd. Notes(b)  | 8.375         | 10/15/19      | 1,350                   | 1,434,375      |
|  |               |               |                         | 54,620,072     |
| <b>Capital Goods 9.1%</b>  |               |               |                         |                |
| Avis Budget Car Rental LLC/Avis Budget Finance, Inc., Gtd. Notes(b)  |               |               |                         |                |
|  | 2.986(a)      | 12/01/17      | 6,375                   | 6,422,812      |
| BlueLine Rental Finance Corp., Sec d. Notes, 144A (original cost \$1,142,312; purchased 01/16/14 - 02/12/14)(c)(d) |               |               |                         |                |
|  | 7.000         | 02/01/19      | 1,125                   | 1,203,750      |

See Notes to Financial Statements.

## Portfolio of Investments

as of May 31, 2014 continued

| Description   | Interest Rate | Maturity Date | Principal Amount (000)# | Value (Note 1) |
|---|---------------|---------------|-------------------------|----------------|
| <b>CORPORATE BONDS (Continued)</b>  |               |               |                         |                |
| <b>Capital Goods (cont d.)</b>  |               |               |                         |                |
| Cleaver-Brooks, Inc., Sr. Sec d. Notes, 144A<br>(original cost \$1,526,000; purchased 03/21/14)(c)(d)                                     | 8.750 %       | 12/15/19      | 1,400                   | \$ 1,557,500   |
| CNH America LLC, Gtd. Notes(b)  | 7.250         | 01/15/16      | 7,235                   | 7,840,931      |
| CNH Capital LLC, Gtd. Notes(b)  | 3.875         | 11/01/15      | 2,075                   | 2,126,875      |
| Columbus McKinnon Corp., Gtd. Notes(b)  | 7.875         | 02/01/19      | 2,900                   | 3,099,375      |
| Hertz Corp. (The),<br>Gtd. Notes(b)   | 4.250         | 04/01/18      | 3,875                   | 4,030,000      |
| Gtd. Notes  | 6.750         | 04/15/19      | 925                     | 988,594        |
| Gtd. Notes(b)   | 7.500         | 10/15/18      | 3,250                   | 3,432,813      |
| International Wire Group Holdings, Inc.,<br>Sec d. Notes, 144A  | 8.500         | 10/15/17      | 1,000                   | 1,090,000      |
| Kenan Advantage Group, Inc. (The),<br>Sr. Unsec d. Notes, 144A<br>(original cost \$10,792,500; purchased 04/04/14 -<br>04/15/14)(b)(c)(d) | 8.375         | 12/15/18      | 10,000                  | 10,700,000     |
| Laureate Education, Inc., Gtd. Notes, 144A  | 9.250         | 09/01/19      | 3,875                   | 4,068,750      |
| Safway Group Holding LLC/Safway Finance Corp., Sec d. Notes,<br>144A(b)   | 7.000         | 05/15/18      | 2,900                   | 3,074,000      |
| SPX Corp., Gtd. Notes(b)  | 6.875         | 09/01/17      | 1,000                   | 1,130,000      |
| Unifrax I LLC/Unifrax Holding Co., Gtd. Notes, 144A<br>(original cost \$4,280,280; purchased 05/14/14)(c)(d)                              | 7.500         | 02/15/19      | 4,038                   | 4,239,900      |
| WireCo WorldGroup, Inc., Gtd. Notes(b)  | 9.500         | 05/15/17      | 2,000                   | 2,050,000      |
|   |               |               |                         | 57,055,300     |
| <b>Chemicals 6.4%</b>   |               |               |                         |                |
| Ashland, Inc., Sr. Unsec d. Notes(b)  | 3.000         | 03/15/16      | 3,350                   | 3,412,813      |
| Celanese U.S. Holdings LLC, Gtd. Notes  | 6.625         | 10/15/18      | 495                     | 519,131        |
| Hexion U.S. Finance Corp., Sr. Sec d. Notes   | 8.875         | 02/01/18      | 3,000                   | 3,127,500      |
| Huntsman International LLC, Gtd. Notes(b)   | 8.625         | 03/15/20      | 3,500                   | 3,815,000      |
| Kissner Milling Co., Ltd. (Canada),<br>Sr. Sec d. Notes, 144A   | 7.250         | 06/01/19      | 2,025                   | 2,075,625      |
| Koppers, Inc., Gtd. Notes(b)  | 7.875         | 12/01/19      | 5,494                   | 5,837,375      |
| Olin Corp., Sr. Unsec d. Notes(b)   | 8.875         | 08/15/19      | 2,000                   | 2,113,400      |
| Orion Engineered Carbons Bondco GmbH (Germany), Sr. Sec d.<br>Notes, 144A(b)  | 9.625         | 06/15/18      | 4,000                   | 4,310,000      |

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|--|---------------|---------------|-------------------------|----------------|
| <b>CORPORATE BONDS (Continued)</b>   |               |               |                         |                |
| <b>Chemicals (cont d.)</b>   |               |               |                         |                |
| Orion Engineered Carbons Finance & Co. SCA (Luxembourg), Gtd. Notes, PIK, 144A | 9.250 %       | 08/01/19      | 2,850                   | \$ 2,971,125   |
| PetroLogistics LP/PetroLogistics Finance Corp., Gtd. Notes                     | 6.250         | 04/01/20      | 1,000                   | 1,082,500      |
| Taminco Global Chemical Corp. (Belgium), Sec d. Notes, 144A(b)                 | 9.750         | 03/31/20      | 9,800                   | 11,000,500     |
|  |               |               |                         | 40,264,969     |
| <b>Consumer 3.2%</b>   |               |               |                         |                |
| Gibson Brands Escrow Corp., Sr. Sec d. Notes, 144A                             | 8.875         | 08/01/18      | 600                     | 621,000        |
| Jarden Corp., Gtd. Notes(b)  | 7.500         | 05/01/17      | 3,750                   | 4,265,625      |
| QVC, Inc., Sr. Sec d. Notes, 144A  | 7.500         | 10/01/19      | 750                     | 791,776        |
| Scotts Miracle-Gro Co. (The), Gtd. Notes(b)                                    | 6.625         | 12/15/20      | 2,000                   | 2,160,000      |
| Service Corp. International, Sr. Unsec d. Notes(b)                             | 7.625         | 10/01/18      | 2,753                   | 3,203,941      |
| West Corp., Gtd. Notes(b)  | 7.875         | 01/15/19      | 6,000                   | 6,375,000      |
| Gtd. Notes   | 8.625         | 10/01/18      | 2,190                   | 2,321,400      |
|  |               |               |                         | 19,738,742     |
| <b>Electric 3.9%</b>   |               |               |                         |                |
| AES Corp. (The), Sr. Unsec d. Notes(b)   | 8.000         | 10/15/17      | 4,000                   | 4,690,000      |
| Sr. Unsec d. Notes(b)  | 9.750         | 04/15/16      | 6,120                   | 6,961,500      |
| DPL, Inc., Sr. Unsec d. Notes(b)   | 6.500         | 10/15/16      | 1,550                   | 1,674,000      |
| GenOn REMA LLC, Pass-Through Certificates, Series B(c)                         | 9.237         | 07/02/17      | 1,160                   | 1,200,224      |
| Series C(b)  | 9.681         | 07/02/26      | 900                     | 981,000        |
| Mirant Mid Atlantic LLC, Pass-Through Certificates, Series B                   | 9.125         | 06/30/17      | 819                     | 877,877        |
| NRG Energy, Inc., Gtd. Notes(b)  | 7.625         | 01/15/18      | 7,000                   | 7,988,750      |
|  |               |               |                         | 24,373,351     |
| <b>Energy Integrated 0.3%</b>  |               |               |                         |                |
| Pacific Rubiales Energy Corp. (Colombia), Gtd. Notes, 144A(b)                  | 7.250         | 12/12/21      | 1,500                   | 1,661,250      |

See Notes to Financial Statements.

## Portfolio of Investments

as of May 31, 2014 continued

| Description   | Interest Rate | Maturity Date | Principal Amount (000)# | Value (Note 1) |
|---|---------------|---------------|-------------------------|----------------|
| <b>CORPORATE BONDS (Continued)</b>                                |               |               |                         |                |
| <b>Energy Other 4.9%</b>  |               |               |                         |                |
| Cie Generale de Geophysique-Veritas (France), Gtd. Notes          | 9.500 %       | 05/15/16      | 5,030                   | \$ 5,149,462   |
| EP Energy LLC/EP Energy Finance, Inc., Sr. Unsec d. Notes         | 9.375         | 05/01/20      | 1,250                   | 1,435,938      |
| Harvest Operations Corp. (South Korea), Gtd. Notes(b)             | 6.875         | 10/01/17      | 3,050                   | 3,305,437      |
| Hilcorp Energy I LP/Hilcorp Finance Co., Sr. Unsec d. Notes, 144A |               |               |                         |                |
| (original cost \$7,717,500; purchased 03/15/13)(b)(c)(d)          | 8.000         | 02/15/20      | 7,000                   | 7,507,500      |
| Kodiak Oil & Gas Corp., Gtd. Notes                                | 8.125         | 12/01/19      | 3,675                   | 4,079,250      |
| Ocean Rig UDW, Inc. (Cyprus), Sr. Unsec d. Notes, 144A            | 7.250         | 04/01/19      | 1,125                   | 1,116,563      |
| PHI, Inc., Gtd. Notes, 144A                                       | 5.250         | 03/15/19      | 1,225                   | 1,246,438      |
| SESI LLC, Gtd. Notes  | 6.375         | 05/01/19      | 2,550                   | 2,718,937      |
| Tesoro Corp., Gtd. Notes(b)                                       | 4.250         | 10/01/17      | 3,675                   | 3,858,750      |
|   |               |               |                         | 30,418,275     |
| <b>Foods 5.9%</b>   |               |               |                         |                |
| ARAMARK Corp., Gtd. Notes   | 5.750         | 03/15/20      | 950                     | 1,010,563      |
| Constellation Brands, Inc., Gtd. Notes(b)                         | 7.250         | 09/01/16      | 3,052                   | 3,418,240      |
| Cott Beverages, Inc., Gtd. Notes(b)                               | 8.125         | 09/01/18      | 6,750                   | 7,129,687      |
| Dave & Buster s, Inc., Gtd. Notes(b)                              | 11.000        | 06/01/18      | 3,000                   | 3,186,300      |
| Landry s, Inc., Sr. Unsec d. Notes, 144A                          |               |               |                         |                |
| (original cost \$1,795,625; purchased 05/27/14)(c)(d)             | 9.375         | 05/01/20      | 1,625                   | 1,793,594      |
| Michael Foods Group, Inc., Gtd. Notes                             | 9.750         | 07/15/18      | 5,505                   | 5,829,795      |
| Pilgrim s Pride Corp., Gtd. Notes                                 | 7.875         | 12/15/18      | 2,250                   | 2,396,250      |
| Smithfield Foods, Inc., Sr. Unsec d. Notes, 144A                  | 5.250         | 08/01/18      | 2,625                   | 2,749,687      |
| Stater Brothers Holdings, Inc., Gtd. Notes                        | 7.375         | 11/15/18      | 2,990                   | 3,157,440      |
| Tops Holding Corp./Tops Markets LLC, Sr. Sec d. Notes(b)          | 8.875         | 12/15/17      | 6,000                   | 6,547,500      |
|   |               |               |                         | 37,219,056     |
| <b>Gaming 7.9%</b>  |               |               |                         |                |
| Boyd Gaming Corp., Gtd. Notes(b)                                  | 9.125         | 12/01/18      | 5,120                   | 5,440,000      |
| Caesars Entertainment Operating Co., Inc., Sr. Sec d. Notes(b)    | 11.250        | 06/01/17      | 6,550                   | 5,764,000      |

See Notes to Financial Statements.

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| Description   | Interest Rate | Maturity Date | Principal Amount (000)# | Value (Note 1) |
|---|---------------|---------------|-------------------------|----------------|
| <b>CORPORATE BONDS (Continued)</b>  |               |               |                         |                |
| <b>Gaming (cont d.)</b>   |               |               |                         |                |
| Caesars Entertainment Resort Properties LLC, Sr. Sec d. Notes, 144A                                 | 8.000 %       | 10/01/20      | 1,575                   | \$ 1,628,156   |
| CCM Merger, Inc., Gtd. Notes, 144A (original cost \$3,788,015; purchased 09/04/13 - 05/21/14)(c)(d) | 9.125         | 05/01/19      | 3,618                   | 3,871,260      |
| GLP Capital LP/GLP Financing II, Inc., Gtd. Notes, 144A(b)  | 4.375         | 11/01/18      | 2,775                   | 2,879,063      |
| Isle of Capri Casinos, Inc., Gtd. Notes(b)  | 7.750         | 03/15/19      | 4,575                   | 4,872,375      |
| MGM Resorts International, Gtd. Notes(b)  | 7.500         | 06/01/16      | 2,000                   | 2,220,000      |
| Gtd. Notes(b)   | 10.000        | 11/01/16      | 5,000                   | 5,937,500      |
| MTR Gaming Group, Inc., Sec d. Notes(b)   | 11.500        | 08/01/19      | 3,502                   | 3,935,372      |
| Peninsula Gaming LLC/Peninsula Gaming Corp., Gtd. Notes, 144A                                       | 8.375         | 02/15/18      | 4,000                   | 4,260,000      |
| Pinnacle Entertainment, Inc., Gtd. Notes(b)   | 7.500         | 04/15/21      | 3,050                   | 3,297,813      |
| Gtd. Notes(b)   | 8.750         | 05/15/20      | 4,974                   | 5,434,095      |
|   |               |               |                         | 49,539,634     |
| <b>Healthcare &amp; Pharmaceutical 9.4%</b>   |               |               |                         |                |
| Allergan Inc., Sr. Unsec d. Notes(b)  | 1.350         | 03/15/18      | 2,940                   | 2,854,249      |
| Capella Healthcare, Inc., Gtd. Notes(b)   | 9.250         | 07/01/17      | 4,828                   | 5,063,365      |
| Capsugel SA, Sr. Unsec d. Notes, PIK, 144A  | 7.000         | 05/15/19      | 750                     | 770,625        |
| CHS/Community Health Systems, Inc., Gtd. Notes(b)   | 8.000         | 11/15/19      | 6,750                   | 7,408,125      |
| ConvaTec Finance International SA (Luxembourg), Sr. Unsec d. Notes, PIK, 144A                       | 8.250         | 01/15/19      | 1,525                   | 1,559,313      |
| ConvaTec Healthcare E SA (Luxembourg), Gtd. Notes, 144A   | 10.500        | 12/15/18      | 5,615                   | 6,134,387      |
| Emdeon, Inc., Gtd. Notes(b)   | 11.000        | 12/31/19      | 8,000                   | 9,220,000      |
| HCA, Inc., Gtd. Notes   | 8.000         | 10/01/18      | 1,325                   | 1,580,063      |
| Sr. Sec d. Notes(b)   | 3.750         | 03/15/19      | 3,075                   | 3,128,812      |
| Sr. Unsec d. Notes(b)   | 6.375         | 01/15/15      | 1,325                   | 1,364,750      |
| Sr. Unsec d. Notes, MTN(b)  | 9.000         | 12/15/14      | 6,203                   | 6,474,381      |
| MedAssets, Inc., Gtd. Notes(b)  | 8.000         | 11/15/18      | 6,901                   | 7,315,060      |
| Tenet Healthcare Corp., Sr. Sec d. Notes  | 6.250         | 11/01/18      | 1,500                   | 1,653,750      |
| Sr. Unsec d. Notes  | 8.000         | 08/01/20      | 1,000                   | 1,090,000      |
| Sr. Unsec d. Notes, 144A  | 5.000         | 03/01/19      | 1,200                   | 1,224,000      |

See Notes to Financial Statements.

## Portfolio of Investments

as of May 31, 2014 continued

| Description   | Interest Rate | Maturity Date | Principal Amount (000)# | Value (Note 1) |
|---|---------------|---------------|-------------------------|----------------|
| <b>CORPORATE BONDS (Continued)</b>  |               |               |                         |                |
| <b>Healthcare &amp; Pharmaceutical (cont d.)</b>  |               |               |                         |                |
| Valeant Pharmaceuticals International, Gtd. Notes, 144A(b)  | 6.750 %       | 08/15/18      | 2,000                   | \$ 2,160,000   |
|   |               |               |                         | 59,000,880     |
| <b>Lodging 0.9%</b>   |               |               |                         |                |
| MISA Investments Ltd., Unsec d. Notes, PIK, 144A  | 8.625         | 08/15/18      | 5,400                   | 5,494,500      |
| <b>Media &amp; Entertainment 6.5%</b>   |               |               |                         |                |
| AMC Entertainment, Inc., Gtd. Notes(b)  | 9.750         | 12/01/20      | 5,140                   | 5,885,300      |
| AMC Networks, Inc., Gtd. Notes  | 7.750         | 07/15/21      | 2,170                   | 2,424,975      |
| Carmike Cinemas, Inc., Sec d. Notes   | 7.375         | 05/15/19      | 1,250                   | 1,365,625      |
| Cedar Fair LP/Canada s Wonderland Co./Magnum Management Corp., Gtd. Notes(b)  | 9.125         | 08/01/18      | 2,872                   | 3,033,550      |
| Gannett Co., Inc., Gtd. Notes(b)  | 8.750         | 11/15/14      | 6,254                   | 6,457,255      |
| Inmarsat Finance PLC (United Kingdom), Gtd. Notes, 144A   | 7.375         | 12/01/17      | 840                     | 874,356        |
| Intelsat Jackson Holdings SA (Luxembourg), Gtd. Notes   | 7.250         | 04/01/19      | 4,000                   | 4,275,000      |
| LIN Television Corp., Gtd. Notes(b)   | 8.375         | 04/15/18      | 880                     | 929,500        |
| NAI Entertainment Holdings/NAI Entertainment Holdings Finance Corp., Sr. Sec d. Notes, 144A (original cost \$1,225,000; purchased 07/30/13)(c)(d) | 5.000         | 08/01/18      | 1,225                   | 1,274,000      |
| Sinclair Television Group, Inc., Gtd. Notes   | 8.375         | 10/15/18      | 800                     | 850,000        |
| SSI Investments II Ltd./SSI Co.-Issuer LLC, Gtd. Notes  | 11.125        | 06/01/18      | 4,220                   | 4,454,759      |
| Telesat Canada/Telesat LLC (Canada), Gtd. Notes, 144A(b)  | 6.000         | 05/15/17      | 7,400                   | 7,649,750      |
| Univision Communications, Inc., Sr. Sec d. Notes, 144A (original cost \$1,381,912; purchased 05/27/14)(c)(d)                                      | 6.875         | 05/15/19      | 1,290                   | 1,380,300      |
|   |               |               |                         | 40,854,370     |
| <b>Metals 11.6%</b>   |               |               |                         |                |
| AK Steel Corp., Sr. Sec d. Notes(b)   | 8.750         | 12/01/18      | 7,691                   | 8,594,692      |
| Alcoa, Inc., Sr. Unsec d. Notes(b)  | 6.750         | 07/15/18      | 3,000                   | 3,436,314      |

See Notes to Financial Statements.

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| Description  | Interest Rate | Maturity Date | Principal Amount (000)# | Value (Note 1) |
|--|---------------|---------------|-------------------------|----------------|
| <b>CORPORATE BONDS (Continued)</b>   |               |               |                         |                |
| <b>Metals (cont d.)</b>  |               |               |                         |                |
| ArcelorMittal SA (Luxembourg),<br>Sr. Unsec d. Notes   | 5.000 %       | 02/25/17      | 3,600                   | \$ 3,807,000   |
| Sr. Unsec d. Notes   | 6.125         | 06/01/18      | 1,800                   | 1,973,250      |
| Sr. Unsec d. Notes   | 9.500         | 02/15/15      | 6,000                   | 6,330,000      |
| Arch Coal, Inc., Gtd. Notes  | 9.875         | 06/15/19      | 675                     | 577,125        |
| Barmenco Finance Pty Ltd. (Australia),<br>Gtd. Notes, 144A<br>(original cost \$2,400,000; purchased 05/13/13)(c)(d)  | 9.000         | 06/01/18      | 2,400                   | 2,220,000      |
| Berau Capital Resources Pte Ltd. (Indonesia),<br>Sr. Sec d. Notes, 144A  | 12.500        | 07/08/15      | 5,000                   | 5,130,000      |
| Calcipar SA (Luxembourg), Sr. Sec d. Notes, 144A<br>(original cost \$4,476,425; purchased 05/27/14 - 05/30/14)(c)(d) | 6.875         | 05/01/18      | 4,195                   | 4,457,188      |
| FMG Resources (August 2006) Pty Ltd. (Australia),<br>Gtd. Notes, 144A(b)   | 6.000         | 04/01/17      | 3,000                   | 3,105,000      |
| Gtd. Notes, 144A(b)  | 6.875         | 02/01/18      | 4,000                   | 4,190,000      |
| Gtd. Notes, 144A(b)  | 8.250         | 11/01/19      | 6,500                   | 7,068,750      |
| Murray Energy Corp., Sr. Sec d. Notes, 144A<br>(original cost \$2,669,920; purchased 05/27/14)(c)(d)                 | 9.500         | 12/05/20      | 2,368                   | 2,652,160      |
| Peabody Energy Corp., Gtd. Notes(b)  | 6.000         | 11/15/18      | 4,074                   | 4,247,145      |
| Steel Dynamics, Inc., Gtd. Notes(b)  | 6.125         | 08/15/19      | 6,525                   | 7,095,937      |
| Westmoreland Coal Co./Westmoreland Partners,<br>Sr. Sec d. Notes   | 10.750        | 02/01/18      | 5,000                   | 5,425,000      |
| Sr. Sec d. Notes, 144A   | 10.750        | 02/01/18      | 2,000                   | 2,170,000      |
|  |               |               |                         | 72,479,561     |
| <b>Non-Captive Finance 2.5%</b>  |               |               |                         |                |
| CIT Group, Inc., Sr. Unsec d. Notes(b)   | 4.250         | 08/15/17      | 4,175                   | 4,373,313      |
| International Lease Finance Corp.,<br>Sr. Unsec d. Notes(b)  | 3.875         | 04/15/18      | 1,350                   | 1,387,125      |
| Sr. Unsec d. Notes(b)  | 8.875         | 09/01/17      | 4,000                   | 4,760,000      |
| SLM Corp.,<br>Sr. Unsec d. Notes, MTN  | 8.000         | 03/25/20      | 425                     | 490,875        |
| Sr. Unsec d. Notes, MTN(b)   | 8.450         | 06/15/18      | 3,650                   | 4,297,875      |
|  |               |               |                         | 15,309,188     |

See Notes to Financial Statements.

## Portfolio of Investments

as of May 31, 2014 continued

| Description   | Interest Rate | Maturity Date | Principal Amount (000)# | Value (Note 1) |
|---|---------------|---------------|-------------------------|----------------|
| <b>CORPORATE BONDS (Continued)</b>  |               |               |                         |                |
| <b>Packaging 4.8%</b>   |               |               |                         |                |
| AEP Industries, Inc., Sr. Unsec d. Notes(b)<br>Ardagh Packaging Finance PLC (Ireland),<br>Gtd. Notes, 144A                          | 8.250 %       | 04/15/19      | 4,500                   | \$ 4,792,500   |
| Gtd. Notes, 144A  | 6.250         | 01/31/19      | 200                     | 207,000        |
| Sr. Sec d. Notes, 144A  | 9.125         | 10/15/20      | 3,000                   | 3,322,500      |
| Beverage Packaging Holdings Luxembourg II SA, Gtd. Notes,<br>144A   | 7.375         | 10/15/17      | 3,000                   | 3,161,250      |
| BWAY Holding Co., Gtd. Notes<br>(original cost \$1,929,688; purchased 07/20/12 - 09/11/13)(c)(d)                                    | 6.000         | 06/15/17      | 1,150                   | 1,173,000      |
| Greif, Inc., Sr. Unsec d. Notes   | 10.000        | 06/15/18      | 1,750                   | 1,841,875      |
| Owens-Brockway Glass Container, Inc.,<br>Gtd. Notes(b)  | 6.750         | 02/01/17      | 1,200                   | 1,339,500      |
| Reynolds Group Issuer, Inc./Reynolds Group<br>Issuer LLC/Reynolds Group LU, Gtd. Notes  | 7.375         | 05/15/16      | 5,965                   | 6,621,150      |
| Sealed Air Corp., Gtd. Notes, 144A(b)   | 9.875         | 08/15/19      | 3,000                   | 3,303,750      |
|   | 8.125         | 09/15/19      | 4,000                   | 4,430,000      |
|   |               |               |                         | 30,192,525     |
| <b>Paper 0.9%</b>   |               |               |                         |                |
| Cascades, Inc. (Canada), Gtd. Notes   | 7.875         | 01/15/20      | 1,850                   | 1,972,563      |
| Smurfit Kappa Acquisitions (Ireland),<br>Sr. Sec d. Notes, 144A   | 4.875         | 09/15/18      | 3,450                   | 3,648,375      |
|   |               |               |                         | 5,620,938      |
| <b>Pipelines &amp; Other 0.5%</b>   |               |               |                         |                |
| AmeriGas Partners LP/AmeriGas Eagle Finance Corp., Sr.<br>Unsec d. Notes  | 6.500         | 05/20/21      | 725                     | 781,188        |
| Rockies Express Pipeline LLC,<br>Sr. Unsec d. Notes, 144A<br>(original cost \$2,144,688; purchased 01/10/13 -<br>05/02/13)(b)(c)(d) | 6.000         | 01/15/19      | 2,150                   | 2,209,125      |
|   |               |               |                         | 2,990,313      |
| <b>Real Estate Investment Trusts 1.0%</b>   |               |               |                         |                |
| CTR Partnership LP/CareTrust Capital Corp.,<br>Gtd. Notes, 144A   | 5.875         | 06/01/21      | 525                     | 530,250        |
| Felcor Lodging LP, Sr. Sec d. Notes(b)  | 10.000        | 10/01/14      | 5,866                   | 6,012,650      |
|   |               |               |                         | 6,542,900      |

See Notes to Financial Statements.

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| Description  | Interest Rate | Maturity Date | Principal Amount (000)# | Value (Note 1) |
|--|---------------|---------------|-------------------------|----------------|
| <b>CORPORATE BONDS (Continued)</b>   |               |               |                         |                |
| <b>Retailers 2.7%</b>  |               |               |                         |                |
| Academy Ltd./Academy Finance Corp.,<br>Gtd. Notes, 144A  | 9.250 %       | 08/01/19      | 4,250                   | \$ 4,595,313   |
| Claire's Stores, Inc.,<br>Sr. Sec d. Notes, 144A   | 6.125         | 03/15/20      | 400                     | 381,000        |
| Sr. Sec d. Notes, 144A(b)  | 9.000         | 03/15/19      | 5,200                   | 5,343,000      |
| HT Intermediate Holdings Corp.,<br>Sr. Unsec d. Notes, PIK, 144A   | 12.000        | 05/15/19      | 350                     | 358,750        |
| Michaels Stores, Inc., Gtd. Notes(b)   | 7.750         | 11/01/18      | 3,800                   | 4,018,500      |
| Petco Holdings, Inc., Sr. Unsec d. Notes, PIK, 144A<br>(original cost \$348,250; purchased 10/04/12)(c)(d)   | 8.500         | 10/15/17      | 350                     | 356,566        |
| Toys R Us Property Co. II LLC,<br>Sr. Sec d. Notes   | 8.500         | 12/01/17      | 1,500                   | 1,530,000      |
|  |               |               |                         | 16,583,129     |
| <b>Technology 18.3%</b>  |               |               |                         |                |
| Alcatel-Lucent USA, Inc. (France), Gtd. Notes, 144A  | 4.625         | 07/01/17      | 2,800                   | 2,877,000      |
| Anixter International, Inc., Gtd. Notes(b)   | 5.625         | 05/01/19      | 1,500                   | 1,597,500      |
| Avaya, Inc., Sec d. Notes, 144A  | 10.500        | 03/01/21      | 1,250                   | 1,131,250      |
| Brightstar Corp.,<br>Gtd. Notes, 144A<br>(original cost \$5,328,375; purchased 04/27/12 - 02/12/14)(b)(c)(d) | 9.500         | 12/01/16      | 5,000                   | 5,406,250      |
| Sr. Unsec d. Notes, 144A<br>(original cost \$3,193,501; purchased 07/26/13 - 10/23/13)(c)(d)                 | 7.250         | 08/01/18      | 3,100                   | 3,402,250      |
| CDW LLC/CDW Finance Corp.,<br>Gtd. Notes(b)  | 8.500         | 04/01/19      | 7,870                   | 8,568,462      |
| Sr. Sec d. Notes(b)  | 8.000         | 12/15/18      | 6,139                   | 6,568,730      |
| Ceridian Corp.,<br>Gtd. Notes<br>(original cost \$3,143,969; purchased 01/07/13 - 04/24/13)(c)(d)            | 11.250        | 11/15/15      | 3,075                   | 3,098,370      |
| Gtd. Notes, PIK<br>(original cost \$3,315,450; purchased 02/19/13 - 05/16/13)(c)(d)                          | 12.250        | 11/15/15      | 3,198                   | 3,222,305      |
| Ceridian LLC / Comdata, Inc., Gtd. Notes, 144A   | 8.125         | 11/15/17      | 6,400                   | 6,464,000      |

See Notes to Financial Statements.

## Portfolio of Investments

as of May 31, 2014 continued

| Description  | Interest Rate | Maturity Date | Principal Amount (000)# | Value (Note 1) |
|--|---------------|---------------|-------------------------|----------------|
| <b>CORPORATE BONDS (Continued)</b>   |               |               |                         |                |
| <b>Technology (cont d.)</b>  |               |               |                         |                |
| CommScope Holding Co., Inc.,<br>Sr. Unsec d. Notes, PIK, 144A(b)                             | 6.625 %       | 06/01/20      | 4,355                   | \$ 4,648,963   |
| CommScope, Inc., Gtd. Notes, 144A  | 8.250         | 01/15/19      | 6,637                   | 7,207,782      |
| First Data Corp.,<br>Gtd. Notes  | 12.625        | 01/15/21      | 3,060                   | 3,679,650      |
| Sr. Sec d. Notes, 144A(b)  | 7.375         | 06/15/19      | 2,500                   | 2,681,250      |
| Sr. Sec d. Notes, 144A(b)  | 8.875         | 08/15/20      | 2,240                   | 2,486,400      |
| Freescale Semiconductor, Inc., Gtd. Notes  | 10.750        | 08/01/20      | 9,374                   | 10,674,642     |
| iGATE Corp., Gtd. Notes, 144A  | 4.750         | 04/15/19      | 1,050                   | 1,064,438      |
| Igloo Holdings Corp., Sr. Unsec d. Notes, PIK, 144A  | 8.250         | 12/15/17      | 950                     | 967,813        |
| Infor US, Inc.,<br>Gtd. Notes  | 9.375         | 04/01/19      | 4,350                   | 4,866,562      |
| Gtd. Notes   | 11.500        | 07/15/18      | 4,559                   | 5,242,850      |
| Interactive Data Corp., Gtd. Notes, 144A   | 5.875         | 04/15/19      | 5,850                   | 5,897,531      |
| Jabil Circuit, Inc.,<br>Sr. Unsec d. Notes(b)  | 7.750         | 07/15/16      | 2,000                   | 2,270,000      |
| Sr. Unsec d. Notes   | 8.250         | 03/15/18      | 1,325                   | 1,576,750      |
| Seagate Technology HDD Holdings, Gtd. Notes, 144A  | 3.750         | 11/15/18      | 2,500                   | 2,575,000      |
| Sensata Technologies BV (Netherlands),<br>Gtd. Notes, 144A(b)                                | 6.500         | 05/15/19      | 3,700                   | 3,959,000      |
| SunGard Data Systems, Inc.,<br>Gtd. Notes  | 6.625         | 11/01/19      | 1,425                   | 1,506,938      |
| Gtd. Notes   | 7.375         | 11/15/18      | 5,343                   | 5,656,901      |
| TransUnion Holding Co., Inc.,<br>Sr. Unsec d. Notes, PIK                                     | 8.125         | 06/15/18      | 3,835                   | 4,003,740      |
| Sr. Unsec d. Notes, PIK  | 9.625         | 06/15/18      | 1,000                   | 1,053,000      |
|  |               |               |                         | 114,355,327    |
| <b>Telecommunications 9.9%</b>   |               |               |                         |                |
| CenturyLink, Inc., Sr. Unsec d. Notes  | 5.150         | 06/15/17      | 565                     | 614,438        |
| Digicel Group Ltd. (Jamaica),<br>Sr. Unsec d. Notes, 144A                                    | 8.250         | 09/01/17      | 5,000                   | 5,175,000      |
| Eileme 2 AB (Poland), Sr. Sec d. Notes, 144A   | 11.625        | 01/31/20      | 750                     | 898,125        |
| Embarq Corp., Sr. Unsec d. Notes<br>(original cost \$4,869,312; purchased 04/11/13)(b)(c)(d) | 7.082         | 06/01/16      | 4,225                   | 4,693,299      |

See Notes to Financial Statements.

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| Description   | Interest Rate | Maturity Date | Principal Amount (000)# | Value (Note 1) |
|---|---------------|---------------|-------------------------|----------------|
| <b>CORPORATE BONDS (Continued)</b>  |               |               |                         |                |
| <b>Telecommunications (cont d.)</b>   |               |               |                         |                |
| Frontier Communications Corp., Sr. Unsec d. Notes(b)  | 8.250 %       | 04/15/17      | 2,000                   | \$ 2,332,500   |
| Level 3 Communications, Inc., Sr. Unsec d. Notes  | 11.875        | 02/01/19      | 2,750                   | 3,073,125      |
| Level 3 Financing, Inc., Gtd. Notes   | 8.125         | 07/01/19      | 2,675                   | 2,922,437      |
| Gtd. Notes, 144A  | 3.823(a)      | 01/15/18      | 1,145                   | 1,162,175      |
| Sprint Communications, Inc., Gtd. Notes, 144A(b)  | 9.000         | 11/15/18      | 3,500                   | 4,252,500      |
| Sr. Unsec d. Notes(b)   | 8.375         | 08/15/17      | 7,550                   | 8,861,812      |
| Sr. Unsec d. Notes(b)   | 9.125         | 03/01/17      | 1,900                   | 2,246,750      |
| T-Mobile USA, Inc., Gtd. Notes(b)   | 6.464         | 04/28/19      | 5,760                   | 6,098,400      |
| Telecom Italia Capital SA (Italy), Gtd. Notes   | 6.999         | 06/04/18      | 3,000                   | 3,457,500      |
| Wind Acquisition Finance SA (Italy), Sr. Sec d. Notes, 144A   | 7.250         | 02/15/18      | 4,000                   | 4,220,000      |
| Windstream Corp., Gtd. Notes(b)   | 7.875         | 11/01/17      | 6,250                   | 7,203,125      |
| Zayo Group LLC/Zayo Capital, Inc., Sr. Sec d. Notes   | 8.125         | 01/01/20      | 4,494                   | 4,909,695      |
|   |               |               |                         | 62,120,881     |
| <b>TOTAL CORPORATE BONDS</b><br>(cost \$814,712,705)  |               |               |                         | 824,286,273    |
| <b>TOTAL LONG-TERM INVESTMENTS</b><br>(cost \$849,807,548)  |               |               |                         | 859,649,183    |
|   |               |               | <b>Shares</b>           |                |
| <b>SHORT-TERM INVESTMENT 1.5%</b>   |               |               |                         |                |
| <b>AFFILIATED MONEY MARKET MUTUAL FUND</b>  |               |               |                         |                |
| Prudential Investment Portfolios 2 - Prudential Core Taxable Money Market Fund<br>(cost \$9,527,395)(e) |               |               | 9,527,395               | \$ 9,527,395   |
| <b>TOTAL INVESTMENTS 138.8%</b><br>(cost \$859,334,943; Note 5)   |               |               |                         | 869,176,578    |
| Liabilities in excess of other assets(f) (38.8)%  |               |               |                         | (243,155,754)  |
| <b>NET ASSETS 100.0%</b>  |               |               |                         | \$ 626,020,824 |

See Notes to Financial Statements.

## Portfolio of Investments

as of May 31, 2014 continued

The following abbreviations are used in the portfolio descriptions:

144A Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may not be resold subject to that rule except to qualified institutional buyers. Unless otherwise noted, 144A securities are deemed to be liquid.

CDX Credit Derivative Index

MTN Medium Term Note

PIK Payment-in-Kind

# Principal amount is shown in U.S. dollars unless otherwise stated.

(a) Variable rate instrument. The interest rate shown reflects the rate in effect at May 31, 2014.

(b) Represents security, or a portion thereof, with aggregate value of \$477,225,889, segregated as collateral for amount borrowed and outstanding as of May 31, 2014. Of such securities, securities in the amount of \$69,230,860 have been loaned for which, the amount borrowed serves as collateral. Securities on loan are subject to contractual netting arrangements (See Note 7).

(c) Indicates a security or securities that have been deemed illiquid.

(d) Indicates a restricted security; the aggregate cost of the restricted securities is \$69,572,582. The aggregate value, \$69,168,442, is approximately 11.0% of net assets.

(e) Prudential Investments LLC, the manager of the Fund, also serves as manager of the Prudential Investment Portfolios 2 Prudential Core Taxable Money Market Fund.

(f) Includes net unrealized appreciation on the following derivative contracts held at reporting period end:

Credit default swap agreements outstanding at May 31, 2014:

| Reference Entity/Obligation  | Termination Date | Fixed Rate | Notional Amount (000)#(3) | Value at Trade Date | Value at May 31, 2014(2) | Unrealized Appreciation |
|--|------------------|------------|---------------------------|---------------------|--------------------------|-------------------------|
| <b>Exchange-Traded credit default swaps on credit indices Sell Protection(1)</b> |                  |            |                           |                     |                          |                         |
| CDX.NA.HY.21.V21   | 12/20/18         | 5.000%     | 7,425                     | \$ 535,640          | \$ 656,106               | \$ 120,466              |

Cash of \$350,000 has been segregated with Citigroup Global Markets to cover requirements for open exchange-traded and cleared swap contracts at May 31, 2014.

The Fund entered into credit default swaps as the protection seller on credit indices to take an active short position with respect to the likelihood of a particular issuer's default or the referenced entity's credit soundness.

(1)

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If the Fund is a seller of protection, it receives the fixed rate. When a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

- (2) The fair value of credit default swap agreements on asset-backed securities and credit indices serves as an indicator of the current status of the payment/performance risk and represents the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement be closed/sold as of the reporting date. Increasing fair value in absolute terms, represents a deterioration of the referenced entity s

See Notes to Financial Statements.

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credit soundness and a greater likelihood of risk of default or other credit event occurring as defined under the terms of the agreement.

(3) Notional amount represents the maximum potential amount the Fund could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

# Notional amount is shown in U.S. dollars unless otherwise stated.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in the three broad levels listed below.

Level 1 - quoted prices generally in active markets for identical securities.

Level 2 - other significant observable inputs including, but not limited to, quoted prices for similar securities, interest rates and yield curves, prepayment speeds, foreign currency exchange rates, and amortized cost.

Level 3 - significant unobservable inputs for securities valued in accordance with Board approved fair valuation procedures.

The following is a summary of the inputs used as of May 31, 2014 in valuing such portfolio securities:

|                                     | Level 1             | Level 2               | Level 3             |
|-------------------------------------|---------------------|-----------------------|---------------------|
| <b>Investments in Securities</b>    |                     |                       |                     |
| Bank Loans                          | \$                  | \$ 32,080,798         | \$ 3,282,112        |
| Corporate Bonds                     |                     | 822,105,049           | 2,181,224           |
| Affiliated Money Market Mutual Fund | 9,527,395           |                       |                     |
| <b>Other Financial Instruments*</b> |                     |                       |                     |
| Credit Default Swap Agreements      |                     | 120,466               |                     |
| <b>Total</b>                        | <b>\$ 9,527,395</b> | <b>\$ 854,306,313</b> | <b>\$ 5,463,336</b> |

See Notes to Financial Statements.

## Portfolio of Investments

as of May 31, 2014 continued

The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value:

|  | <b>Bank<br/>Loans</b> | <b>Corporate<br/>Bonds</b> |
|--|-----------------------|----------------------------|
| <b>Balance as of 5/31/13</b>                       | \$                    | \$ 3,705,430               |
| Realized gain (loss)                               |                       | (104,031)                  |
| Change in unrealized appreciation (depreciation)** | (20,303)              | (66,090)                   |
| Purchases  | 1,788,352             | 239,712                    |
| Sales  |                       | (1,593,797)                |
| Transfers into Level 3                             | 1,514,063             |                            |
| <b>Balance as of 5/31/14</b>                       | <b>\$ 3,282,112</b>   | <b>\$ 2,181,224</b>        |

\* Other financial instruments are derivative instruments not reflected in the Portfolio of Investments, such as futures, forwards and swaps contracts, which are recorded at the unrealized appreciation/depreciation of the instrument.

\*\* Of which, (\$86,393) was included in Net Assets relating to securities held at the reporting period end.

It is the Fund's policy to recognize transfers in and transfers out at the fair value as of the beginning of the period. At the reporting period end, there was one Bank Loan transferred into Level 3 as a result of being priced using a single broker quote.

Level 3 securities as presented in the table above are being fair valued using pricing methodologies approved by the Board of Directors, which contain unobservable inputs. Such methodologies include, but are not limited to, using pricing provided by a single broker/dealer, the cost of the investment, and prices of any recent transactions or bids/offers for such securities or any comparable securities.

See Notes to Financial Statements.

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The industry classification of investments and liabilities in excess of other assets shown as a percentage of net assets as of May 31, 2014 was as follows:

|                                       |        |
|---------------------------------------|--------|
| Technology                            | 21.0%  |
| Metals                                | 11.6   |
| Telecommunications                    | 9.9    |
| Healthcare & Pharmaceutical           | 9.6    |
| Capital Goods                         | 9.4    |
| Cable                                 | 9.2    |
| Gaming                                | 8.2    |
| Chemicals                             | 6.9    |
| Media & Entertainment                 | 6.7    |
| Building Materials & Construction     | 6.5    |
| Foods                                 | 5.9    |
| Energy Other                          | 5.2    |
| Packaging                             | 4.8    |
| Electric                              | 4.5    |
| Automotive                            | 3.8    |
| Consumer                              | 3.2%   |
| Retailers                             | 2.7    |
| Non-Captive Finance                   | 2.5    |
| Aerospace & Defense                   | 2.1    |
| Affiliated Money Market Mutual Fund   | 1.5    |
| Real Estate Investment Trusts         | 1.0    |
| Lodging                               | 0.9    |
| Paper                                 | 0.9    |
| Pipelines & Other                     | 0.5    |
| Energy Integrated                     | 0.3    |
|                                       | 138.8  |
| Liabilities in excess of other assets | (38.8) |
|                                       | 100.0% |

The Fund invested in derivative instruments during the reporting period. The primary type of risk associated with these derivative instruments is credit risk. The effect of such derivative instruments on the Fund's financial position and financial performance as reflected in the Statement of Assets and Liabilities and Statement of Operations is presented in the summary below.

Fair values of derivative instruments as of May 31, 2014 as presented in the Statement of Assets and Liabilities:

| Derivatives not accounted for<br>as hedging instruments,<br>carried at fair value | Asset Derivatives                     |             | Liability Derivatives |       |
|---|---------------------------------------|-------------|-----------------------|-------|
|   | Balance                               | Fair        | Balance               | Fair  |
|   | Sheet Location                        | Value       | Sheet Location        | Value |
| Credit contracts  | Due from broker - variation<br>margin | \$ 120,466* |                       | \$    |

\* Includes cumulative appreciation/depreciation as reported in the schedule of exchange-traded swap contracts. Only unsettled variation margin receivable (payable) is reported within the Statement of Assets and Liabilities.

See Notes to Financial Statements.



## Portfolio of Investments

as of May 31, 2014 continued

The effects of derivative instruments on the Statement of Operations for the year ended May 31, 2014 are as follows:

| <b>Amount of Realized Gain or (Loss) on Derivatives Recognized in Income</b>                       |              |
|--|--------------|
| <b>Derivatives not accounted for as hedging instruments, carried at fair value</b>                 | <b>Swaps</b> |
| Credit contracts   | \$ (24,438)  |
| <br><b>Change in Unrealized Appreciation or (Depreciation) on Derivatives Recognized in Income</b> |              |
| <b>Derivatives not accounted for as hedging instruments, carried at fair value</b>                 | <b>Swaps</b> |
| Credit contracts   | \$ 120,466   |

For the year ended May 31, 2014, the Fund's average notional amount for credit default swap as writer was \$1,485,000.

See Notes to Financial Statements.

## Statement of Assets &amp; Liabilities

as of May 31, 2014

|   |                       |
|---|-----------------------|
| <b>Assets</b>   |                       |
| Investments at value, including securities on loan of \$69,230,860:                                     |                       |
| Unaffiliated Investments (cost \$849,807,548)   | \$ 859,649,183        |
| Affiliated Investments (cost \$9,527,395)   | 9,527,395             |
| Cash  | 30,964                |
| Deposit with broker   | 350,000               |
| Dividends and interest receivable   | 16,455,206            |
| Receivable for investments sold   | 6,894,037             |
| Due from broker variation margin  | 7,618                 |
| Prepaid expenses  | 1,612                 |
| <b>Total assets</b>   | <b>892,916,015</b>    |
| <b>Liabilities</b>  |                       |
| Loan payable (Note 7)   | 238,000,000           |
| Payable for investments purchased   | 28,025,876            |
| Management fee payable  | 583,324               |
| Dividends payable   | 169,421               |
| Accrued expenses  | 98,348                |
| Loan interest payable (Note 7)  | 13,222                |
| Deferred directors fees   | 5,000                 |
| <b>Total liabilities</b>  | <b>266,895,191</b>    |
| <b>Net Assets</b>   | <b>\$ 626,020,824</b> |
| Net assets were comprised of:   |                       |
| Common stock, at par  | \$ 33,257             |
| Paid-in capital in excess of par  | 633,874,484           |
|   | 633,907,741           |
| Undistributed net investment income   | 5,419,836             |
| Accumulated net realized loss on investment transactions  | (23,268,854)          |
| Net unrealized appreciation on investments  | 9,962,101             |
| <b>Net assets, May 31, 2014</b>   | <b>\$ 626,020,824</b> |
| Net asset value per share<br>(\$626,020,824 ÷ 33,256,724 shares of common stock issued and outstanding) | \$ 18.82              |

See Notes to Financial Statements.

## Statement of Operations

Year Ended May 31, 2014

|  |                      |
|--|----------------------|
| <b>Net Investment Income</b>                                   |                      |
| Income   |                      |
| Interest income (net of foreign withholding taxes of \$10,140) | \$ 50,158,197        |
| Other income   | 67,949               |
| Affiliated dividend income                                     | 17,373               |
| <b>Total income</b>  | <b>50,243,519</b>    |
| Expenses   |                      |
| Management fee   | 6,812,469            |
| Loan interest expense  | 2,290,669            |
| Shareholders' reports  | 120,000              |
| Custodian's fees and expenses                                  | 94,000               |
| Legal fees and expenses  | 68,000               |
| Registration fees  | 62,000               |
| Directors' fees  | 51,000               |
| Audit fee  | 41,000               |
| Transfer agent's fees and expenses                             | 16,000               |
| Insurance expenses   | 9,000                |
| Miscellaneous  | 22,550               |
| <b>Total expenses</b>  | <b>9,586,688</b>     |
| Net investment income  | 40,656,831           |
| <b>Realized And Unrealized Gain (Loss) On Investments</b>      |                      |
| Net realized gain (loss) on:                                   |                      |
| Investment transactions  | (57,672)             |
| Swap agreements transactions                                   | (24,438)             |
|  | (82,110)             |
| Net change in unrealized appreciation (depreciation) on:       |                      |
| Investments  | 542,450              |
| Swap agreements  | 120,466              |
|  | 662,916              |
| Net gain on investment transactions                            | 580,806              |
| <b>Net Increase In Net Assets Resulting From Operations</b>    | <b>\$ 41,237,637</b> |

See Notes to Financial Statements.



## Statement of Changes in Net Assets

|   | Year Ended May 31, |                |
|---|--------------------|----------------|
|   | 2014               | 2013           |
| <b>Increase (Decrease) In Net Assets</b>                                |                    |                |
| <b>Operations</b>   |                    |                |
| Net investment income   | \$ 40,656,831      | \$ 41,009,948  |
| Net realized gain (loss) on investment transactions                     | (82,110)           | 3,625,946      |
| Net change in unrealized appreciation (depreciation) on investments     | 662,916            | 20,809,076     |
| Net increase in net assets resulting from operations                    | 41,237,637         | 65,444,970     |
| Dividends from net investment income (Note 1)                           | (53,136,185)       | (51,887,729)   |
| <b>Fund share transactions (Note 6)*</b>                                |                    |                |
| Net proceeds from shares sold   |                    | 51,500,000     |
| Net asset value of shares issued in reinvestment of dividends           | 215,376            | 3,182,781      |
| Sales load charged to paid-in capital in excess of par                  |                    | (2,317,500)    |
| Common stock offering costs charged to paid-in capital in excess of par |                    | (103,000)      |
| Net increase in net assets from Fund share transactions                 | 215,376            | 52,262,281     |
| Total increase (decrease)   | (11,683,172)       | 65,819,522     |
| <b>Net Assets:</b>  |                    |                |
| Beginning of year   | 637,703,996        | 571,884,474    |
| End of year(a)  | \$ 626,020,824     | \$ 637,703,996 |
| (a) Includes undistributed net investment income of:                    | \$ 5,419,836       | \$ 5,752,744   |
| <b>* Share Capital Activity</b>   |                    |                |
| Shares issued for underwriters over-allotment option                    |                    | 2,575,000      |
| Shares issued in the reinvestment of dividends                          | 11,499             | 164,985        |

See Notes to Financial Statements.

## Statement of Cash Flows

For the Year Ended May 31, 2014

**Increase (Decrease) in Cash****Cash flows from operating activities:**

|   |                   |
|---|-------------------|
| Interest and dividends paid (excluding discount and premium amortization of \$(12,029,976)) | \$ 61,546,562     |
| Operating expenses paid   | (7,323,902)       |
| Loan interest paid  | (2,283,424)       |
| Purchases of long-term portfolio investments  | (676,244,414)     |
| Proceeds from disposition of long-term portfolio investments                                | 624,033,844       |
| Net purchases and sales of short-term investments   | (4,835,460)       |
| Decrease in receivable for investments sold   | 2,635,275         |
| Increase in payable for investments purchased   | 26,586,782        |
| Decrease in net cash paid for swap agreement transactions                                   | (24,438)          |
| Increase in deposit with broker   | (350,000)         |
| Decrease in due from broker variation margin  | (7,618)           |
| Decrease in prepaid expenses  | 595               |
| <b>Net cash provided from operating activities</b>  | <b>23,733,802</b> |

**Cash flows from financing activities:**

|   |                     |
|---|---------------------|
| Net asset value of shares issued in reinvestment of dividends | 215,376             |
| Cash dividends paid   | (52,966,764)        |
| Increase in borrowing   | 29,000,000          |
| <b>Net cash used in financing activities</b>                  | <b>(23,751,388)</b> |
| <b>Net increase /(decrease) in cash</b>                       | <b>(17,586)</b>     |
| Cash at beginning of year                                     | 48,550              |
| <b>Cash at end of year</b>                                    | <b>\$ 30,964</b>    |

**Reconciliation of Net Increase in Net Assets to Net Cash Provided from Operating Activities**

|  |                      |
|--|----------------------|
| Net increase in net assets resulting from operations                       | \$ 41,237,637        |
| Increase in investments  | (45,016,054)         |
| Net realized loss on investment and swap agreement transactions            | 82,110               |
| Increase in net unrealized appreciation on investments and swap agreements | (662,916)            |
| Decrease in net cash paid for swap agreement transactions                  | (24,438)             |
| Decrease in interest and dividends receivable                              | (726,933)            |
| Decrease in receivable for investments sold                                | 2,635,275            |
| Increase in deposit with broker  | (350,000)            |
| Increase in due from broker variation margin                               | (7,618)              |
| Decrease in prepaid expenses   | 595                  |
| Increase in payable for investments purchased                              | 26,586,782           |
| Increase in loan interest payable  | 7,245                |
| Decrease in accrued expenses and other liabilities                         | (32,883)             |
| Increase in deferred directors fees  | 5,000                |
| <b>Total adjustments</b>   | <b>(17,503,835)</b>  |
| <b>Net cash provided from operating activities</b>                         | <b>\$ 23,733,802</b> |

**Supplemental disclosure of cash flow information:**

Noncash financing activities not included herein consist of reinvestment of dividends and distributions of \$ 215,376.

See Notes to Financial Statements.

## Notes to Financial Statements

Prudential Short Duration High Yield Fund, Inc. (the Fund) is a diversified, closed-end management investment company, registered under the Investment Company Act of 1940, as amended (1940 Act). The Fund was incorporated as a Maryland corporation on November 14, 2011. The Fund's investment objective is to provide a high level of current income.

### Note 1. Accounting Policies

The following accounting policies conform to U.S. generally accepted accounting principles. The Fund consistently follows such policies in the preparation of its financial statements.

*Security Valuation:* The Fund holds securities and other assets that are fair valued at the close of each day the New York Stock Exchange (NYSE) is open for trading. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Board of Directors (the Board) has adopted Valuation Procedures for security valuation under which fair valuation responsibilities have been delegated to Prudential Investments LLC (PI or Manager). Under the current Valuation Procedures, the established Valuation Committee is responsible for supervising the valuation of portfolio securities and other assets. The Valuation Procedures permit the Fund to utilize independent pricing vendor services, quotations from market makers, and alternative valuation methods when market quotations are either not readily available or not deemed representative of fair value. A record of the Valuation Committee's actions is subject to the Board's review, approval, and ratification at its next regularly-scheduled quarterly meeting.

Various inputs determine how the Fund's investments are valued, all of which are categorized according to the three broad levels (Level 1, 2, or 3) detailed in the table following the Portfolio of Investments.

Common stocks, exchange-traded funds, and derivative instruments that are traded on a national securities exchange are valued at the last sale price as of the close of trading on the applicable exchange. Securities traded via NASDAQ are valued at the NASDAQ official closing price. To the extent these securities are valued at the last sale price or NASDAQ official closing price, they are classified as Level 1 in the fair value hierarchy except for exchange-traded and cleared swaps which are classified as Level 2 in the fair value hierarchy, as the prices marked at the official settle are not public.

## Notes to Financial Statements

continued

In the event that no sale or official closing price on valuation date exists, these securities are generally valued at the mean between the last reported bid and asked prices, or at the last bid price in the absence of an asked price. These securities are classified as Level 2 in the fair value hierarchy, as the inputs are observable and considered to be significant to the valuation.

Common stocks traded on foreign securities exchanges are valued using pricing vendor services that provide model prices derived using adjustment factors based on information such as local closing price, relevant general and sector indices, currency fluctuations, depositary receipts, and futures, as applicable. Securities valued using such model prices are classified as Level 2 in the fair value hierarchy, as the adjustment factors are observable and considered to be significant to the valuation. Securities not valued using such model prices are valued in accordance with exchange-traded common stocks discussed above.

Investments in open-end, non-exchange-traded mutual funds are valued at their net asset values as of the close of the NYSE on the date of valuation. These securities are classified as Level 1 in the fair value hierarchy since they may be purchased or sold at their net asset values on the date of valuation.

Fixed income securities traded in the over-the-counter market are generally valued at prices provided by approved independent pricing vendors. The pricing vendors provide these prices after evaluating observable inputs including, but not limited to yield curves, yield spreads, credit ratings, deal terms, tranche level attributes, default rates, cash flows, prepayment speeds, broker/dealer quotations, and reported trades. Securities valued using such vendor prices are classified as Level 2 in the fair value hierarchy.

Over-the-counter derivative instruments are generally valued using pricing vendor services, which derive the valuation based on inputs such as underlying asset prices, indices, spreads, interest rates, and exchange rates. These instruments are categorized as Level 2 in the fair value hierarchy.

Securities and other assets that cannot be priced according to the methods described above are valued based on pricing methodologies approved by the Board. In the event that significant unobservable inputs are used when determining such valuations, the securities will be classified as Level 3 in the fair value hierarchy.

When determining the fair value of securities, some of the factors influencing the valuation include: the nature of any restrictions on disposition of the securities; assessment of the general liquidity of the securities; the issuer's financial condition and the markets in which it does business; the cost of the investment; the size of the holding and the capitalization of the issuer; the prices of any recent transactions or bids/offers for such securities or any comparable securities; any available analyst media or other reports or information deemed reliable by the investment adviser regarding the issuer or the markets or industry in which it operates. Using fair value to price securities may result in a value that is different from a security's most recent closing price and from the price used by other mutual funds to calculate their net asset values.

*Restricted and Illiquid Securities:* Subject to guidelines adopted by the Board, the Fund may invest up to 15% of its net assets in illiquid securities, including those which are restricted as to disposition under securities law (restricted securities). Restricted securities are valued pursuant to the valuation procedures noted above. Illiquid securities are those that, because of the absence of a readily available market or due to legal or contractual restrictions on resale, cannot be sold within seven days in the ordinary course of business at approximately the amount at which the Fund has valued the investment. Therefore, the Fund may find it difficult to sell illiquid securities at the time considered most advantageous by its Subadviser and may incur expenses that would not be incurred in the sale of securities that were freely marketable. Certain securities that would otherwise be considered illiquid because of legal restrictions on resale to the general public may be traded among qualified institutional buyers under Rule 144A of the Securities Act of 1933. These Rule 144A securities, as well as commercial paper that is sold in private placements under Section 4(a)(2) of the Securities Act, may be deemed liquid by the Fund's Subadviser under the guidelines adopted by the Directors of the Fund. However, the liquidity of the Fund's investments in Rule 144A securities could be impaired if trading does not develop or declines.

*Swap Agreements:* The Fund entered into credit default, interest rate, total return and other forms of swap agreements. A swap agreement is an agreement to exchange the return generated by one instrument for the return generated by another instrument. Swap agreements are negotiated in the over-the-counter market and may be executed either directly with counterparty (OTC-traded) or through a central clearing facility, such as a registered commodities exchange (Exchange-traded). Swap agreements are valued daily at current market value and any change in value is included in the net unrealized appreciation or depreciation on investments. Exchange-traded swaps pay or receive an amount known as variation margin, based on daily changes in the valuation of the swap contract. Payments received or paid by the Fund are recorded

## Notes to Financial Statements

continued

as realized gains or losses upon termination or maturity of the swap. Risk of loss may exceed amounts recognized on the Statements of Assets and Liabilities. Swap agreements outstanding at period end, if any, are listed on the Portfolio of Investments.

*Credit Default Swaps:* Credit default swaps involve one party (the protection buyer) making a stream of payments to another party (the protection seller) in exchange for the right to receive a specified payment in the event of a default or as a result of a default (collectively a credit event) for the referenced entity (typically corporate issues or sovereign issues of an emerging country) on its obligation; or in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising a credit index.

The Fund is subject to credit risk in the normal course of pursuing its investment objectives. The Fund entered into credit default swaps to provide a measure of protection against issuer default. The Fund sold protection using credit default swaps to take an active short position with respect to the likelihood of a particular issuer's default. The Fund's maximum risk of loss from counterparty credit risk for purchased credit default swaps is the inability of the counterparty to honor the contract up to the notional value due to a credit event.

As a seller of protection on credit default swap agreements, the Fund generally receives an agreed upon payment from the buyer of protection throughout the term of the swap, provided no credit event occurs. As the seller, the Fund effectively increases its investment risk because, in addition to its total net assets, the Fund may be subject to investment exposure on the notional amount of the swap.

The maximum amount of the payment that the Fund, as a seller of protection, could be required to make under a credit default swap agreement would be equal to the notional amount of the underlying security or index contract as a result of a credit event. This potential amount will be partially offset by any recovery values of the respective referenced obligations, or net amounts received from the settlement of buy protection credit default swap agreements which the Fund entered for the same referenced entity or index. As a buyer of protection, the Fund generally receives an amount up to the notional value of the swap if a credit event occurs.

Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate or sovereign issues of an

emerging country as of period end are disclosed in the footnotes to the Portfolio of Investments, if applicable. These spreads serve as indicators of the current status of the payment/performance risk and represent the likelihood of default risk for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to enter into the agreement. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values serve as indicators of the current status of the payment/performance risk. Wider credits spreads and increased market value in absolute terms, when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood of risk of default or other credit event occurring as defined under the terms of the agreement.

*Master Netting Arrangements:* The Fund is subject to various Master Agreements, or netting arrangements, with select counterparties. A master netting arrangement between the Fund and the counterparty permits the Fund to offset amounts payable by the Fund to the same counterparty against amounts to be received; and by the receipt of collateral from the counterparty by the Fund to cover the Fund's exposure to the counterparty. However, there is no assurance that such mitigating factors are easily enforceable. The right to set-off exists when all the conditions are met such that each of the parties owes the other determinable amounts, the reporting party has the right to set-off the amount owed with the amount owed by the other party, the reporting party intends to set-off and the right of set-off is enforceable by law. During the reporting period, there were no instances where the right of set-off existed and management has not elected to offset.

The Fund is a party to ISDA (International Swaps and Derivatives Association, Inc.) Master Agreements (Master Agreements) with certain counterparties that govern over-the-counter derivative and foreign exchange contracts entered into from time to time. The Master Agreements may contain provisions regarding, among other things, the parties' general obligations, representations, agreements, collateral requirements, events of default and early termination. With respect to certain counterparties, in accordance with the terms of the Master Agreements, collateral posted to the Fund is held in a segregated account by the Fund's custodian and with respect to those amounts which can be sold or re-pledged, is presented in the Portfolio of Investments. Collateral pledged by the Fund is segregated by the Fund's custodian and identified in the Portfolio of Investments. Collateral can be in the form of cash or debt securities issued by the U.S. Government or related agencies or other securities as agreed to by the Fund and the applicable counterparty. Collateral requirements are determined based on the Fund's net position with each counterparty. Termination events applicable to the Fund may occur upon a decline in the Fund's net assets below a

## Notes to Financial Statements

continued

specified threshold over a certain period of time. Termination events applicable to counterparties may occur upon a decline in the counterparty's long-term and short term credit ratings below a specified level. In each case, upon occurrence, the other party may elect to terminate early and cause settlement of all derivative and foreign exchange contracts outstanding, including the payment of any losses and costs resulting from such early termination, as reasonably determined by the terminating party. Any decision by one or more of the Fund's counterparties to elect early termination could impact the Fund's future derivative activity.

In addition to each instrument's primary underlying risk exposure (e.g. interest rate, credit, equity or foreign exchange, etc.), swap agreements involve, to varying degrees, elements of credit, market and documentation risk. Such risks involve the possibility that no liquid market for these agreements will exist, the counterparty to the agreement may default on its obligation to perform or disagree on the contractual terms of the agreement, and changes in net interest rates will be unfavorable. In connection with these agreements, securities in the portfolio may be identified or received as collateral from the counterparty in accordance with the terms of the respective swap agreements to provide or receive assets of value and to serve as recourse in the event of default or bankruptcy/insolvency of either party. Such over-the-counter derivative agreements include conditions which, when materialized, give the counterparty the right to cause an early termination of the transactions under those agreements. Any election by the counterparty for early termination of the contract(s) may impact the amounts reported on financial statements.

As of May 31, 2014, the Fund has not met conditions under such agreements which give the counterparty the right to call for an early termination.

Forward currency contracts, written options, short sales, swaps and financial futures contracts involve elements of both market and credit risk in excess of the amounts reflected on the Statement of Assets and Liabilities. Such risks may be mitigated by engaging in master netting arrangements.

*Loan Participations:* The Fund may invest in loan participations. When the Fund purchases a loan participation, the Fund typically enters into a contractual relationship with the lender or third party selling such participations ( Selling Participant ), but not the borrower. As a result, the Fund assumes the credit risk of the borrower and any other persons interpositioned between the Fund and the borrower.

The Fund may not directly benefit from the collateral supporting the senior loan in which it has purchased the loan participation.

*Payment In Kind Securities:* The Fund may invest in open market or receive pursuant to debt restructuring, securities that pay in kind (PIK) the interest due on such debt instruments. The PIK interest, computed at the contractual rate specified, is added to the existing principal balance of the debt when issued bonds have same terms as the bond or recorded as a separate bond when terms are different from the existing debt, and is recorded as interest income. The interest rate on PIK debt is paid out over time.

*Cash Flow Information:* The Fund invests in securities and distributes dividends from net investment income, which are paid in cash or are reinvested at the discretion of stockholders. These activities are reported in the Statement of Changes in Net Assets and additional information on cash receipts and cash payments is presented in the Statement of Cash Flows.

Accounting practices that do not affect reporting activities on a cash basis include carrying investments at value, accruing income on PIK (payment-in-kind) securities and accreting discounts and amortizing premiums on debt obligations.

*Securities Transactions and Net Investment Income:* Securities transactions are recorded on the trade date. Realized gains or losses from investment transactions are calculated on the identified cost basis. Dividend income is recorded on the ex-dividend date. Interest income, including amortization of premium and accretion of discount on debt securities, as required, is recorded on the accrual basis. Expenses are recorded on the accrual basis, which may require the use of certain estimates by management, that may be different from actual.

*Dividends and Distributions:* The Fund intends to make a level dividend distribution each month to the holders of Common Stock. The level dividend rate may be modified by the Board from time to time, and will be based upon the past and projected performance and expenses of the Fund. The Fund intends to also make a distribution during or with respect to each calendar year (which may be combined with a regular monthly distribution), which will generally include any net investment income and net realized capital gain for the year not otherwise distributed.

PI has received an order from the Securities and Exchange Commission granting the Fund an exemption from Section 19(b) of the 1940 Act and Rule 19b-1 thereunder to permit certain closed-end funds managed by PI and certain closed-end funds managed by PI to include realized long-term capital gains as a part of their respective regular distributions to the holders of Common Stock more frequently than would

## Notes to Financial Statements

continued

otherwise be permitted by the 1940 Act (generally once per taxable year). The Fund intends to rely on this exemptive order. The Board may, at the request of PI, adopt a managed distribution policy.

Dividends and distributions to stockholders, which are determined in accordance with federal income tax regulations and which may differ from generally accepted accounting principles, are recorded on the ex-dividend date. Permanent book/tax differences relating to income and gains are reclassified amongst undistributed net investment income, accumulated net realized gain or loss and paid-in capital in excess of par, as appropriate.

*Organization and Offering Costs:* PI has agreed to pay all of the Fund's organizational costs and such amount of the Fund's offering costs (other than sales load) that exceed \$0.04 per share of common stock. Organizational costs are expensed by the Fund as incurred.

*Federal Income Taxes:* It is the Fund's policy to continue to meet the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable net income and capital gains, if any, to its stockholders. Therefore, no federal income tax provision is required.

*Estimates:* The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

### **Note 2. Agreements**

The Fund has a management agreement with PI. Pursuant to this agreement, PI has responsibility for all investment advisory services and supervises the subadviser's performance of such services. PI has entered into a subadvisory agreement with Prudential Investment Management, Inc. ( PIM ). The subadvisory agreement provides that PIM will furnish investment advisory services in connection with the management of the Fund. In connection therewith, PIM is obligated to keep certain books and records of the Fund. PI pays for the services of PIM, the cost of compensation of officers of the Fund, occupancy and certain clerical and bookkeeping costs of the Fund. The Fund bears all other cost and expenses.

The management fee paid to PI is computed daily and payable monthly, at an annual rate of .80% of the average daily value of the Fund's investable assets. Investable assets refers to the net assets attributable to the outstanding Common Stock of the Fund plus the liquidation preference of any outstanding preferred stock issued by the Fund, the principal amount of any borrowings and the principal on any debt securities issued by the Fund.

PI and PIM are indirect, wholly-owned subsidiaries of Prudential Financial, Inc. ( Prudential ).

### **Note 3. Other Transactions with Affiliates**

The Fund invests in the Prudential Core Taxable Money Market Fund (the Core Fund ), a portfolio of the Prudential Investment Portfolios 2, registered under 1940 Act, and managed by PI. Earnings from the Core Fund are disclosed on the Statement of Operations as affiliated dividend income.

### **Note 4. Portfolio Securities**

Purchases and sales of portfolio securities, other than short-term investments, for the year ended May 31, 2014, aggregated \$676,244,414 and \$624,013,779, respectively.

### **Note 5. Distributions and Tax Information**

Distributions to stockholders, which are determined in accordance with federal income tax regulations and which may differ from generally accepted accounting principles, are recorded on the ex-dividend date. In order to present undistributed net investment income, accumulated net realized loss on investment transactions and paid-in capital in excess of par on the Statement of Assets and Liabilities that more closely represent their tax character, certain adjustments have been made to undistributed net investment income and accumulated net realized loss on investment transactions. For the year ended May 31, 2014, the adjustments were to increase undistributed net investment income and increase accumulated net realized loss on investment transactions by \$12,146,446 due to differences in the treatment for book and tax purposes of premium amortization and certain transactions involving paydowns and swaps. Net investment income, net realized loss on investment transactions and net assets were not affected by this change.

For the years ended May 31, 2014 and May 31, 2013, the tax character of dividends paid as reflected in the Statement of Changes in Net Assets were \$53,136,185 and \$51,887,729 of ordinary income, respectively.

## Notes to Financial Statements

continued

As of May 31, 2014, the Fund had accumulated undistributed ordinary income on a tax basis of \$5,590,288.

The United States federal income tax basis of the Fund's investments and the net unrealized depreciation as of May 31, 2014 were as follows:

|                  |                     |                     | <b>Net</b>          |                    |                     |
|------------------|---------------------|---------------------|---------------------|--------------------|---------------------|
|                  |                     |                     | <b>Unrealized</b>   | <b>Other Cost</b>  | <b>Total Net</b>    |
| <b>Tax Basis</b> | <b>Appreciation</b> | <b>Depreciation</b> | <b>Depreciation</b> | <b>Basis</b>       | <b>Unrealized</b>   |
|                  |                     |                     |                     | <b>Adjustments</b> | <b>Depreciation</b> |
| \$871,311,153    | \$9,691,987         | \$(11,826,562)      | \$(2,134,575)       | \$119,435          | \$(2,015,140)       |

The difference between book basis and tax basis was primarily attributable to deferred losses on wash sales and differences in the treatment of premium amortization for book and tax purposes. The other cost basis adjustments are primarily attributable to appreciation of swaps.

For federal income tax purposes, the Fund had a capital loss carryforward as of May 31, 2014 of approximately \$4,057,000 which can be carried forward for an unlimited period. No capital gains distributions are expected to be paid to shareholders until net gains have been realized in excess of such losses.

In accordance with the provision of Subchapter M of the Internal Revenue Code and the excise tax requirements, the Fund elected to treat post-October capital losses of approximately \$7,236,000 as having been incurred in the following fiscal year (May 31, 2015).

Management has analyzed the Fund's tax positions taken on federal income tax returns for all open tax years and has concluded that no provision for income tax is required in the Fund's financial statements for the current reporting period. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

**Note 6. Capital**

There are 1 billion shares of \$0.001 par value common stock authorized. Prior to commencement of operations on April 30, 2012, the Fund issued 5,240 shares of common stock to Prudential at an aggregate purchase price of \$100,084. As of May 31, 2014, Prudential owned 6,125

shares of the Fund.

For the year ended May 31, 2014, the Fund issued 11,499 shares in connection with the Fund's dividend reinvestment plan.

On June 13, 2012, an additional 2,575,000 shares were issued in connection with the exercise of the underwriters over-allotment option. An amount of \$49,182,500 (net of sales load of \$2,317,500) was received pursuant to this allotment. An amount of \$103,000 (\$0.04 per share of the common stock) will be used to offset any offering costs as described in Note 1 of the Notes to the Financial Statements.

During the period ended May 31, 2012, the Fund issued 30,500,000 shares of common stock in its initial public offering. These shares were all issued at \$20.00 per share before a sales load of \$0.90 per share. Offering costs of \$1,220,000 (representing \$0.04 per share) were offset against the proceeds of the offering and have been charged to paid-in capital in excess of par.

#### **Note 7. Borrowings and Re-hypothecation**

The Fund currently is a party to a committed credit facility (the "credit facility") with a financial institution. The credit facility provides for a maximum commitment of \$300 million. Interest on any borrowings under the credit facility is payable at the negotiated rates. The Fund's obligations under the credit facility are secured by the assets of the Fund segregated for the purpose of securing the amount borrowed. The purpose of the credit facility is to provide the Fund with portfolio leverage and meet its general cash flow requirements.

During the year ended May 31, 2014, the Fund utilized the credit facility and had an average daily outstanding loan balance of \$221,753,425 during the 365 day period that the facility was utilized, at an average interest rate of 1.02%. The maximum amount of loan outstanding during the period was \$245,000,000. There was a balance of \$238,000,000 outstanding at May 31, 2014.

*Re-hypothecation:* The credit facility agreement permits, subject to certain conditions, the financial institution to re-hypothecate, up to the amount outstanding under the facility, portfolio securities segregated by the Fund as collateral. The Fund continues to receive interest on re-hypothecated securities. The Fund also has the right under the agreement to recall the re-hypothecated securities from financial institution on demand. If the financial institution fails to deliver the recalled security in a timely manner, the Fund will be compensated by the financial institution for any fees or losses related to the failed delivery or, in the event a recalled security will not be returned by financial institution, the Fund, upon notice to the financial institution,

## Notes to Financial Statements

continued

may reduce the loan balance outstanding by the value of the recalled security failed to be returned plus accrued interest. The Fund will receive a portion of the fees earned by the financial institution in connection with the re-hypothecation of portfolio securities. Such earnings are disclosed in the statement of operations under Other Income.

### **Note 8. Subsequent Event**

*Dividends and Distributions:* On May 28, 2014 the Fund declared monthly dividends of \$0.1225 per share payable on June 30, 2014, July 31, 2014 and August 29, 2014, respectively, to shareholders of record on June 20, 2014, July 18, 2014 and August 21, 2014, respectively. The ex-dividend dates were June 18, 2014, July 16, 2014 and August 19, 2014, respectively.

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## Financial Highlights

|   | Year Ended May 31, |           | April 30,                             |
|---|--------------------|-----------|---------------------------------------|
|   | 2014(b)            | 2013(b)   | 2012(a)<br>through<br>May 31,<br>2012 |
| <b>Per Share Operating Performance:</b>   |                    |           |                                       |
| <b>Net Asset Value, Beginning Of Period</b>   | \$19.18            | \$18.75   | \$19.10*                              |
| <b>Income (loss) from investment operations:</b>  |                    |           |                                       |
| Net investment income   | 1.22               | 1.24      | .07                                   |
| Net realized and unrealized gain (loss) on investment transactions                                | .02                | .74       | (.38)                                 |
| Total from investment operations  | 1.24               | 1.98      | (.31)                                 |
| <b>Less Dividends:</b>  |                    |           |                                       |
| Dividends from net investment income  | (1.60)             | (1.57)    | -                                     |
| <b>Fund share transactions:</b>   |                    |           |                                       |
| Common stock offering costs charged to paid-in capital in excess of par                           | -                  | -(g)      | (.04)                                 |
| Accretion to net asset value from the exercise of the underwriters over-allotment option (Note 6) | -                  | .02       | -                                     |
| Total of share transactions   | -                  | .02       | (.04)                                 |
| Net asset value, end of period  | \$18.82            | \$19.18   | \$18.75                               |
| Market price, end of period   | \$17.84            | \$19.45   | \$20.09                               |
| <b>Total Return(c):</b>   | 0.24%              | 4.97%     | .35%                                  |
| <b>Ratios/Supplemental Data:</b>  |                    |           |                                       |
| Net assets, end of period (000)   | \$626,021          | \$637,704 | \$571,884                             |
| Average net assets (000)  | \$630,017          | \$635,754 | \$576,384                             |
| Ratios to average net assets(d):  |                    |           |                                       |
| Expenses after waivers and/or expense reimbursement   | 1.52%(e)           | 1.47%(e)  | 1.16%(e)(f)                           |
| Expenses before waivers and/or expense reimbursement  | 1.52%(e)           | 1.53%(e)  | 1.20%(e)(f)                           |
| Net investment income   | 6.45%              | 6.45%     | 4.20%(f)                              |
| Portfolio turnover rate   | 75%                | 74%       | 12%(h)                                |
| Asset coverage  | 363%               | 405%      | 524%                                  |
| Total debt outstanding at period-end (000)  | \$238,000          | \$209,000 | \$135,000                             |

\* Initial public offering price of \$20.00 per share less sales load of \$.90 per share.

(a) Commencement of operations.

(b) Calculated based on average shares outstanding during the period.

(c) Total return is calculated assuming a purchase of common stock at the current market price on the first day and a sale at the closing market price on the last day for the period reported. Dividends are assumed, for the purpose of this calculation, to be reinvested at prices obtainable under the Fund's dividend reinvestment plan. This amount does not reflect brokerage commissions or sales load. Total returns for periods less than a full year are not annualized.

(d) Does not include expenses of the underlying portfolio in which the Fund invests.

(e) Includes interest expense of 0.36% for the year ended May 31, 2014, 0.35% for the year ended May 31, 2013, and 0.08% for the period ended May 31, 2012.

(f) Annualized.

(g) Less than \$.005 per share.

(h) Not annualized.

See Notes to Financial Statements.



## Report of Independent Registered Public

### Accounting Firm

The Board of Directors and Shareholders

Prudential Short Duration High Yield Fund, Inc.:

We have audited the accompanying statement of assets and liabilities of Prudential Short Duration High Yield Fund, Inc. (hereafter referred to as the Fund ), including the portfolio of investments, as of May 31, 2014, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended and the financial highlights for the two-year period then ended and for the period April 30, 2012 (commencement of operations) through May 31, 2012. These financial statements and financial highlights are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of May 31, 2014, by correspondence with the custodian, transfer agent and brokers or by other appropriate auditing procedures when replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Fund as of May 31, 2014, and the results of its operations, the cash flows, the changes in its net assets and the financial highlights for the periods described in the first paragraph above, in conformity with U.S. generally accepted accounting principles.

New York, New York

July 21, 2014

## Tax Information

(Unaudited)

For the year ended May 31, 2014, the Fund reports the maximum amount allowable but not less than 81.74% as interest related dividends in accordance with Section 871(k)(1) and 881(e)(1) of the Internal Revenue Code.

Interest-related dividends do not include any distributions paid by a fund with respect to Fund tax years beginning after May 31, 2014. Consequently, this provision expires with respect to such distributions paid after the Fund's fiscal year end.

In January 2015, you will be advised on IRS Form 1099-DIV or substitute 1099-DIV as to the federal tax status of distributions received by you in calendar year 2014.

## Other Information

(Unaudited)

**Dividend Reinvestment Plan.** Unless a holder of Common Stock elects to receive cash by contacting Computershare Trust Company, N.A. (the Plan Administrator), all dividends declared on Common Stock will be automatically reinvested by the Plan Administrator pursuant to the Fund's Automatic Dividend Reinvestment Plan (the Plan), in additional Common Stock. The holders of Common Stock who elect not to participate in the Plan will receive all dividends and other distributions (together, a Dividend) in cash paid by check mailed directly to the stockholder of record (or, if the Common Stock is held in street or other nominee name, then to such nominee) by the Plan Administrator as dividend disbursing agent. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by notice if received and processed by the Plan Administrator prior to the Dividend record date; otherwise such termination or resumption will be effective with respect to any subsequently declared Dividend. Such notice will be effective with respect to a particular Dividend. Some brokers may automatically elect to receive cash on behalf of the holders of Common Stock and may re-invest that cash in additional Common Stock.

The Plan Administrator will open an account for each common stockholder under the Plan in the same name in which such common stockholder's Common Stock is registered. Whenever the Fund declares a Dividend payable in cash, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in Common Stock. The Common Stock will be acquired by the Plan Administrator for the participants' accounts, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized Common Stock from the Fund (Newly Issued Common Stock) or (ii) by purchase of outstanding Common Stock on the open market (Open-Market Purchases) on the NYSE or elsewhere. If, on the payment date for any Dividend, the closing market price of the Common Stock plus per share fees (as defined below) is equal to or greater than the NAV per share of Common Stock (such condition being referred to as market premium), the Plan Administrator will invest the Dividend amount in Newly Issued Common Stock on behalf of the participants. The number of Newly Issued Common Stock to be credited to each participant's account will be determined by dividing the dollar amount of the Dividend by the NAV per share of Common Stock on the payment date, provided that, if the NAV per share of Common Stock is less than or equal to 95% of the closing market price per share of Common Stock on the payment date, the dollar amount of the Dividend will be divided by 95% of the closing market price per Common Stock on the payment date. If, on the payment date for any Dividend, the NAV per share of Common Stock is greater than the closing market value per share of Common Stock plus per share fees (such condition being referred to as market discount), the Plan Administrator will invest the Dividend amount in shares of Common Stock acquired on behalf of the participants in Open-Market Purchases.

Per share fees include any applicable brokerage commissions the Plan Administrator is required to pay.

In the event of a market discount on the payment date for any Dividend, the Plan Administrator will have until the last business day before the next date on which the Common Stock trades on an ex-dividend basis or 30 days after the payment date for such Dividend, whichever is sooner (the Last Purchase Date), to invest the Dividend amount in Common Stock acquired in Open-Market Purchases on behalf of participants. If, before the Plan Administrator has completed its Open-Market Purchases, the market price per share of Common Stock exceeds the NAV per share of Common Stock, the average per share purchase price paid by the Plan Administrator for Common Stock may exceed the NAV per share of the Common Stock, resulting in the acquisition of fewer shares of Common Stock than if the Dividend had been paid in Newly Issued Common Stock on the Dividend payment date. Because of the foregoing difficulty with respect to Open-Market Purchases, the Plan provides that if the Plan Administrator is unable to invest the full Dividend amount in Open-Market Purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Administrator may cease making Open-Market Purchases and may invest the uninvested portion of the Dividend amount in Newly Issued Common Stock at the NAV per share of Common Stock at the close of business on the Last Purchase Date, provided that, if the NAV is less than or equal to 95% of the then current market price per share of Common Stock, the dollar amount of the Dividend will be divided by 95% of the market price on the payment date for purposes of determining the number of shares issuable under the Plan.

The Plan Administrator maintains all stockholder accounts in the Plan and furnishes written confirmation of all transactions in the accounts, including information needed by stockholders for tax records. Common Stock in the account of each Plan participant will be held by the Plan Administrator on behalf of the Plan participant, and each stockholder proxy will include those shares purchased or received pursuant to the Plan. The Plan Administrator will forward all proxy solicitation materials to participants and vote proxies for shares held under the Plan in accordance with the instructions of the participants.

In the case of the holders of Common Stock such as banks, brokers or nominees that hold shares of Common Stock for others who are the beneficial owners, the Plan Administrator will administer the Plan on the basis of the number of shares of Common Stock certified from time to time by the record stockholder's name and held for the account of beneficial owners who participate in the Plan.

## Other Information

(Unaudited) continued

The Plan Administrator's service fee, if any, and expenses for administering the plan will be paid for by the Fund. If a participant elects by written, Internet or telephonic notice to the Plan Administrator to have the Plan Administrator sell part or all of the shares held by the Plan Administrator in the participant's account and remit the proceeds to the participant, the Plan Administrator is authorized to deduct a \$15.00 transaction fee plus a \$0.12 per share fee. If a participant elects to sell his or her shares of Common Stock, the Plan Administrator will process all sale instructions received no later than five business days after the date on which the order is received by the Plan Administrator, assuming the relevant markets are open and sufficient market liquidity exists (and except where deferral is required under applicable federal or state laws or regulations). Such sale will be made through the Plan Administrator's broker on the relevant market and the sale price will not be determined until such time as the broker completes the sale. In every case the price to the participant shall be the weighted average sale price obtained by the Plan Administrator's broker net of fees for each aggregate order placed by the participant and executed by the broker. To maximize cost savings, the Plan Administrator will seek to sell shares in round lot transactions. For this purpose the Plan Administrator may combine a participant's shares with those of other selling participants.

There will be no brokerage charges with respect to shares of Common Stock issued directly by the Fund. However, each participant will pay a pro rata share of brokerage commissions incurred in connection with Open-Market Purchases. Each participant will be charged a per share fee (currently \$0.05 per share) on all Open-Market Purchases. The automatic reinvestment of Dividends will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such Dividends. See Tax Matters. Participants that request a sale of Common Stock through the Plan Administrator are subject to brokerage commissions.

Each participant may terminate the participant's account under the Plan by so notifying the Plan Administrator via the Plan Administrator's website at [www.computershare.com/investor](http://www.computershare.com/investor), by filling out the transaction request form located at the bottom of the participant's Statement and sending it to the Plan Administrator or by calling the Plan Administrator. Such termination will be effective immediately if the participant's notice is received by the Plan Administrator prior to any dividend or distribution record date. Upon any withdrawal or termination, the Plan Administrator will cause to be delivered to each terminating participant a statement of holdings for the appropriate number of the Fund's whole book-entry shares of Common Stock and a check for the cash adjustment of any fractional share at the market value of the Fund's shares of Common Stock as of the close of business on the date the termination is effective less any applicable fees. In the event a participant's notice of

termination is on or after a record date (but before payment date) for an account whose dividends are reinvested, the Plan Administrator, in its sole discretion, may either distribute such dividends in cash or reinvest them in shares of Common Stock on behalf of the terminating participant. In the event reinvestment is made, the Plan Administrator will process the termination as soon as practicable, but in no event later than five business days after the reinvestment is completed. The Plan may be terminated by the Fund upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any dividend or distribution by the Fund.

The Fund reserves the right to amend or terminate the Plan. There is no direct service charge to participants with regard to purchases in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants.

All correspondence or questions concerning the Plan should be directed to the Plan Administrator, Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078 or by calling (toll free) 800-451-6788.

## Management of the Fund (Unaudited)

Information about the Directors and Officers of the Fund is set forth below. Directors who are not deemed to be interested persons of the Fund, as defined in the Investment Company Act of 1940 (the 1940 Act), are referred to as Independent Directors. Directors who are deemed to be interested persons of the Fund are referred to as Interested Directors. The Directors are responsible for the overall supervision of the operations of the Fund and perform the various duties imposed on the directors of investment companies by the 1940 Act. The Board in turn elects the Officers, who are responsible for administering the day-to-day operations of the Fund.

| <b>Independent Directors</b>                                   |   |   |  |
|--|---|---|--|
| <b>Name, Address, Age Position(s) Portfolios Overseen</b>      | <b>Principal Occupation(s) During Past Five Years</b>   | <b>Term of Office &amp; Length of Time Served</b> | <b>Other Directorships Held</b>  |
| Ellen S. Alberding (56)<br>Director<br>Portfolios Overseen: 67 | President and Board Member, The Joyce Foundation (charitable foundation) (since 2002); Vice Chair, City Colleges of Chicago (community college system) (since 2011); Trustee, Skills for America's Future (national initiative to connect employers to community colleges) (since 2011); Trustee, National Park Foundation (charitable foundation for national park system) (since 2009); Trustee, Economic Club of Chicago (since 2009). | Since 2013<br>(Class I)                           | None.  |
| Kevin J. Bannon (62)<br>Director<br>Portfolios Overseen: 67    | Managing Director (since April 2008) and Chief Investment Officer (October 2008-November 2013) of Highmount Capital LLC (registered investment adviser); formerly Executive Vice President and Chief Investment Officer (April 1993-August 2007) of Bank of New York Company; President (May 2003-May 2007) of BNY Hamilton Family of Mutual Funds.   | Since 2011<br>(Class II)                          | Director of Urstadt Biddle Properties (since September 2008).  |
| Linda W. Bynoe (62)<br>Director<br>Portfolios Overseen: 67     | President and Chief Executive Officer (since March 1995) and formerly Chief Operating Officer (December 1989-February 1995) of Telemat Ltd. (management consulting); formerly Vice President (January 1985-June 1989) at Morgan Stanley & Co (broker-dealer).   | Since 2011<br>(Class III)                         | Director of Simon Property Group, Inc. (retail real estate) (May 2003-May 2012); Director of Anixter International, Inc. (communication products distributor) (since January 2006); Director of Northern Trust Corporation (financial services) (since April 2006); Trustee of Equity Residential (residential real estate) (since December 2009). |

Prudential Short Duration High Yield Fund, Inc.

## Management of the Fund (continued)

| <b>Independent Directors</b>   |   |   |  |
|--|---|---|--|
| <b>Name, Address, Age Position(s) Portfolios Overseen</b>                          | <b>Principal Occupation(s) During Past Five Years</b>   | <b>Term of Office &amp; Length of Time Served</b> | <b>Other Directorships Held</b>  |
| Keith F. Hartstein (57)<br>Director<br>Portfolios Overseen: 67                     | Retired; Formerly President and Chief Executive Officer (2005-2012), Senior Vice President (2004-2005), Senior Vice President of Sales and Marketing (1997-2004), and various executive management positions (1990-1997), John Hancock Funds, LLC (asset management); Chairman, Investment Company Institute's Sales Force Marketing Committee (2003-2008). | Since 2013<br>(Class II)                          | None.  |
| Michael S. Hyland, CFA (68)<br>Director<br>Portfolios Overseen: 67                 | Retired (since February 2005); Formerly Senior Managing Director (July 2001-February 2005) of Bear Stearns & Co, Inc.; Global Partner, INVESCO (1999-2001); Managing Director and President of Salomon Brothers Asset Management (1989-1999).   | Since 2011<br>(Class III)                         | None.  |
| Douglas H. McCorkindale (75)<br>Director<br>Portfolios Overseen: 67                | Retired; Formerly Chairman (February 2001-June 2006), Chief Executive Officer (June 2000-July 2005), President (September 1997-July 2005) and Vice Chairman (March 1984-May 2000) of Gannett Co. Inc. (publishing and media).   | Since 2011<br>(Class I)                           | Director of Lockheed Martin Corp. (aerospace and defense) (since May 2001).                          |
| Stephen P. Munn (72)<br>Director<br>Portfolios Overseen: 67                        | Lead Director (since 2007) and formerly Chairman (1993-2007) of Carlisle Companies Incorporated (manufacturer of industrial products).  | Since 2011<br>(Class I)                           | Lead Director (since 2007) of Carlisle Companies Incorporated (manufacturer of industrial products). |
| James E. Quinn (62)<br>Director<br>Portfolios Overseen: 67                         | Retired; Formerly President (2003-2012) and Director (2003-2008), and Vice Chairman and Director (1998-2003), Tiffany & Company (jewelry retailing); Director, Mutual of America Capital Management Corporation (asset management) (since 1996); Director, Hofstra University (since 2008); Vice Chairman, Museum of the City of New York (since 1994).     | Since 2013<br>(Class III)                         | Director of Deckers Outdoor Corporation (footwear manufacturer) (since 2011).                        |
| Richard A. Redeker (70)<br>Director & Independent Chair<br>Portfolios Overseen: 67 | Retired Mutual Fund Senior Executive (44 years); Management Consultant; Independent Directors Council (organization of 2,800 Independent Mutual Fund Directors)-Executive Committee, Chair of Policy Steering Committee, Governing Council.   | Since 2011<br>(Class I)                           | None.  |

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**Independent Directors**

| <b>Name, Address, Age<br/>Position(s)<br/>Portfolios Overseen</b>        | <b>Principal Occupation(s) During<br/>Past Five Years</b>   | <b>Term of<br/>Office &amp;<br/>Length of<br/>Time Served</b> | <b>Other Directorships<br/>Held</b>  |
|--|---|---|--|
| Robin B. Smith (74)<br><br>Director<br><br>Portfolios Overseen: 67       | Chairman of the Board (since January 2003) of Publishers Clearing House (direct marketing); Member of the Board of Directors of ADLPartner (marketing) (since December 2010); formerly Chairman and Chief Executive Officer (August 1996-January 2003) of Publishers Clearing House.  | Since 2011<br>(Class I)                                       | Formerly Director of BellSouth Corporation (telecommunications) (1992-2006). |
| Stephen G. Stoneburn (71)<br><br>Director<br><br>Portfolios Overseen: 67 | Chairman, (since July 2011), President and Chief Executive Officer (since June 1996) of Quadrant Media Corp. (publishing company); formerly President (June 1995-June 1996) of Argus Integrated Media, Inc.; Senior Vice President and Managing Director (January 1993-1995) of Cowles Business Media; Senior Vice President of Fairchild Publications, Inc. (1975-1989). | Since 2011<br>(Class II)                                      | None.  |

**Interested Director**

| <b>Name, Address, Age<br/>Position(s)<br/>Portfolios Overseen</b>     | <b>Principal Occupation(s) During Past Five Years</b>   | <b>Other Directorships<br/>Held</b> |
|---|---|-------------------------------------|
| Scott E. Benjamin (41)<br><br>Director<br><br>Portfolios Overseen: 67 | Executive Vice President (since June 2009) of Prudential Investments LLC; Executive Vice President (June 2009-June 2012) and Vice President (since June 2012) of Prudential Investment Management Services LLC; Executive Vice President (since September 2009) of AST Investment Services, Inc.; Senior Vice President of Product Development and Marketing, Prudential Investments (since February 2006); Vice President of Product Development and Product Management, Prudential Investments (2003-2006). | None.                               |

**Fund Officers<sup>(a)</sup>**

| <b>Name, Address and Age<br/>Position with Fund</b> | <b>Term of<br/>Office</b> | <b>Principal Occupation(s) During Past Five Years</b>   |
|---|---------------------------|---|
| Stuart S. Parker (51)<br><br>President              | Since 2011                | President of Prudential Investments LLC (since January 2012); Executive Vice President of Prudential Investment Management Services LLC (since December 2012); Executive Vice President of Jennison Associates LLC and Head of Retail Distribution of Prudential Investments LLC (June 2005-December 2011). |

Prudential Short Duration High Yield Fund, Inc.

## Management of the Fund (continued)

**Fund Officers<sup>(a)</sup>**

| <b>Name, Address and Age<br/>Position with Fund</b>                              | <b>Term of<br/>Office</b> | <b>Principal Occupation(s) During Past Five Years</b>   |
|--|---------------------------|---|
| Raymond A. O Hara (58)<br>Chief Legal Officer & Chief<br>Compliance Officer      | Since 2012                | Vice President and Corporate Counsel (since July 2010) of Prudential Insurance Company of America (Prudential); Vice President (March 2011-Present) of Pruco Life Insurance Company and Pruco Life Insurance Company of New Jersey; Vice President and Corporate Counsel (March 2011-Present) of Prudential Annuities Life Assurance Corporation; Chief Legal Officer of Prudential Investments LLC (since June 2012); Chief Legal Officer of PMFS (since June 2012) and Corporate Counsel of AST Investment Services, Inc. (since June 2012); formerly Assistant Vice President and Corporate Counsel (September 2008-July 2010) of The Hartford Financial Services Group, Inc.; formerly Associate (September 1980-December 1987) and Partner (January 1988-August 2008) of Blazzard & Hasenauer, P.C. (formerly, Blazzard, Grodd & Hasenauer, P.C.). |
| Deborah A. Docs (56)<br>Secretary  | Since 2011                | Vice President and Corporate Counsel (since January 2001) of Prudential; Vice President (since December 1996) and Assistant Secretary (since March 1999) of Prudential Investments LLC; formerly Vice President and Assistant Secretary (May 2003-June 2005) of AST Investment Services, Inc.   |
| Jonathan D. Shain (55)<br>Assistant Secretary                                    | Since 2011                | Vice President and Corporate Counsel (since August 1998) of Prudential; Vice President and Assistant Secretary (since May 2001) of Prudential Investments LLC; Vice President and Assistant Secretary (since February 2001) of PMFS; formerly Vice President and Assistant Secretary (May 2003-June 2005) of AST Investment Services, Inc.  |
| Claudia DiGiacomo (39)<br>Assistant Secretary                                    | Since 2011                | Vice President and Corporate Counsel (since January 2005) of Prudential; Vice President and Assistant Secretary of Prudential Investments LLC (since December 2005); Associate at Sidley Austin Brown & Wood LLP (1999-2004).   |
| Andrew R. French (51)<br>Assistant Secretary                                     | Since 2011                | Vice President and Corporate Counsel (since February 2010) of Prudential; formerly Director and Corporate Counsel (2006-2010) of Prudential; Vice President and Assistant Secretary (since January 2007) of Prudential Investments LLC; Vice President and Assistant Secretary (since January 2007) of PMFS.  |
| Amanda S. Ryan (36)<br>Assistant Secretary                                       | Since 2011                | Director and Corporate Counsel (since March 2012) of Prudential; Director and Assistant Secretary (since June 2012) of Prudential Investments LLC; Associate at Ropes & Gray (2008-2012).   |
| Theresa C. Thompson (52) Deputy<br>Chief Compliance Officer                      | Since 2013                | Vice President, Compliance, Prudential Investments LLC (since April 2004); and Director, Compliance, Prudential Investments LLC (2001-2004).  |
| M. Sadiq Peshimam (50)   | Since 2011                | Assistant Treasurer of funds in the Prudential Mutual Fund Complex (2006-2014); Vice President (since 2005) of Prudential Investments LLC.  |
| Treasurer & Principal Financial and<br>Accounting Officer<br>Peter Parrella (55) | Since 2011                | Vice President (since 2007) and Director (2004-2007) within Prudential Mutual Fund Administration; formerly Tax Manager at SSB Citi Fund Management LLC (1997-2004).  |
| Assistant Treasurer  |                           |   |

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### Fund Officers<sup>(a)</sup>

| Name, Address and Age<br>Position with Fund    | Term of<br>Office | Principal Occupation(s) During Past Five Years   |
|--|-------------------|--|
| Lana Lomuti (47)<br><br>Assistant Treasurer    | Since 2014        | Vice President (since 2007) and Director (2005-2007), within Prudential Mutual Fund Administration; formerly Assistant Treasurer (December 2007-February 2014) of The Greater China Fund, Inc. |
| Linda McMullin (53)<br><br>Assistant Treasurer | Since 2014        | Vice President (since 2011) and Director (2008-2011) within Prudential Mutual Fund Administration.   |

<sup>(a)</sup> Excludes Mr. Benjamin, an Interested Director of the Fund who also serves as Vice President.

### Explanatory Notes to Tables:

Directors are deemed to be Interested, as defined in the 1940 Act, by reason of their affiliation with Prudential Investments LLC and/or an affiliate of Prudential Investments LLC.

Unless otherwise noted, the address of all Directors and Officers is c/o Prudential Investments LLC, Gateway Center Three, 100 Mulberry Street, Newark, New Jersey 07102-4077.

The Board of Directors is divided into three classes, each of which has three year terms. Class I term expires in 2016, Class II term expires in 2017 and Class III term expires in 2015. Officers are generally elected by the Board to one-year terms.

There is no set term of office for Directors or Officers. The Directors have adopted a retirement policy, which calls for the retirement of Directors on December 31 of the year in which they reach the age of 75.

Other Directorships Held includes only directorships of companies required to register or file reports with the SEC under the Securities Exchange Act of 1934 (that is, public companies) or other investment companies registered under the 1940 Act.

Portfolios Overseen includes all investment companies managed by Prudential Investments LLC. The investment companies for which Prudential Investments LLC serves as manager include the Prudential Investments Mutual Funds, The Prudential Variable Contract Accounts, Target Mutual Funds, Prudential Short Duration High Yield Fund, Inc., Prudential Global Short Duration High Yield Fund, Inc., The Prudential Series Fund, Prudential's Gibraltar Fund, Inc. and the Advanced Series Trust.

Prudential Short Duration High Yield Fund, Inc.

## Privacy Notice

This privacy notice is being provided on behalf of the companies listed in this notice. It describes how information about you is handled and the steps we take to protect your privacy. We call this information customer data or just data. If you have other Prudential products or relationships, you may receive a separate privacy notice describing the practices that apply to those products or relationships. If your relationship with us ends, we will continue to handle data about you the same way we handle customer data.

### Protecting Customer Data

We maintain physical, electronic, and procedural safeguards to protect customer data. The only persons who are authorized to have access to it are those who need access to do their jobs. We require them to keep the data secure and confidential.

### Information We Collect

We collect data you give us and data about the products and relationships you have with us, so that we can serve you, including offering products and services to you. It includes, for example:

- your name and address,
- income and Social Security number.

We also collect data others give us about you, for example:

- medical information for insurance applications,
- consumer reports from consumer reporting agencies, and
- participant information from organizations that purchase products or services from us for the benefit of their members or employees, for example, group life insurance.

### Sharing Data

We may share data with affiliated companies and with other companies so that they can perform services for us or on our behalf. We may, for example, disclose data to other companies for customer service or administrative purposes. We may disclose limited information such as:

- your name,
- address, and
- the types of products you own

to service providers so they can provide marketing services to us.

We may also disclose data as permitted or required by law, for example:

- to law enforcement officials,
- in response to subpoenas,
- to regulators, or

to prevent fraud.

Prudential, the Prudential logo and the Rock symbol are service marks of Prudential Financial, Inc. and its related entities, registered in many jurisdictions worldwide.

**Your Financial Security, Your Satisfaction & Your Privacy**

Privacy 0019 Ed. 3/2014

MUTU-D5563

We do not disclose data to Prudential affiliates or other companies to allow them to market their products or services to you. We may tell you about a product or service that a Prudential company or other companies offer. If you respond, that company will know that you were in the group selected to receive the information.

#### **Annual Notices**

We will send notices at least once a year, as federal and state laws require. We reserve the right to modify this policy at any time.

If you have questions about Prudential's Privacy Notice please call us. The toll-free number is (800) 236-6848.

Many Prudential Financial companies are required to send privacy notices to their customers. This notice is being provided to customers of the Prudential Financial companies listed below:

#### **Insurance Companies and Separate Accounts**

Prudential Insurance Company of America, The

Prudential Annuities Life Assurance Corporation

Pruco Life Insurance Company

Pruco Life Insurance Company of New Jersey

Prudential Retirement Insurance and Annuity Company (PRIAC)

PRIAC Variable Contract Account A

CG Variable Annuity Account I & II (Connecticut General)

Pruco Insurance Company of Iowa

All separate accounts that include the following names: Prudential, Pruco, or PRIAC

#### **Insurance Agencies**

Prudential Insurance Agency, LLC

#### **Broker-Dealers and Registered Investment Advisers**

AST Investment Services, Inc.

Prudential Annuities Distributors, Inc.

Global Portfolio Strategies, Inc.

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Pruco Securities, LLC

Prudential Investment Management, Inc.

Prudential Investment Management Services LLC

Prudential Investments LLC

Prudential Private Placement Investors, L.P.

### **Bank and Trust Companies**

Prudential Bank & Trust, FSB

Prudential Trust Company

### **Investment Companies and Other Investment Vehicles**

Asia Pacific Fund, Inc., The

Prudential Investments Mutual Funds

Prudential Capital Partners, L.P.

Target Asset Allocation Funds

Target Portfolio Trust, The

Advanced Series Trust

The Prudential Series Fund

Private Placement Trust Investors, LLC

All funds that include the following names: Prudential or PCP

MUTU-D5563

## Edgar Filing: Prudential Short Duration High Yield Fund, Inc. - Form N-CSR

**MAIL**

Computershare

P.O. Box 30170

College Station, TX 77842-3170

**MAIL (OVERNIGHT)**

Computershare

211 Quality Circle

Suite 210

College Station, TX 77845

**TELEPHONE**

(800) 451-6788

**WEBSITE**

www.prudentialfunds.com

**PROXY VOTING**

The Board of Directors of the Fund has delegated to the Fund's investment subadviser the responsibility for voting any proxies and maintaining proxy recordkeeping with respect to the Fund. A description of these proxy voting policies and procedures is available without charge, upon request, by calling (800) 451-6788 or by visiting the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov). Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available on the Fund's website and on the Securities and Exchange Commission's website.

**DIRECTORS**

Ellen S. Alberding   Kevin J. Bannon   Scott E. Benjamin   Linda W. Bynoe   Keith F. Hartstein   Michael S. Hyland   Douglas H. McCorkindale   Stephen P. Munn  
 James E. Quinn   Richard A. Redeker   Robin B. Smith   Stephen G. Stoneburn

**OFFICERS**

Stuart S. Parker, *President*   Scott E. Benjamin, *Vice President*   M. Sadiq Peshimam, *Treasurer and Principal Financial and Accounting Officer*   Raymond A. O'Hara, *Chief Legal Officer and Chief Compliance Officer*   Deborah A. Docs, *Secretary*   Theresa C. Thompson, *Deputy Chief Compliance Officer*   Jonathan D. Shain, *Assistant Secretary*   Claudia DiGiacomo, *Assistant Secretary*   Amanda S. Ryan, *Assistant Secretary*   Andrew R. French, *Assistant Secretary*   Peter Parrella, *Assistant Treasurer*   Lana Lomuti, *Assistant Treasurer*   Linda McMullin, *Assistant Treasurer*

**MANAGER**

Prudential Investments  
 LLC

Gateway Center Three  
 100 Mulberry Street  
 Newark, NJ 07102

**INVESTMENT SUBADVISER**

Prudential Investment  
 Management, Inc.

Gateway Center Two  
 100 Mulberry Street  
 Newark, NJ 07102

**CUSTODIAN**

The Bank of New York  
 Mellon

One Wall Street  
 New York, NY 10286

**TRANSFER AGENT**

Computershare Trust  
 Company, N.A.

PO Box 30170  
 College Station, TX  
 77842-3170

**INDEPENDENT REGISTERED  
 PUBLIC ACCOUNTING FIRM**

KPMG LLP

345 Park Avenue  
 New York, NY 10154

**FUND COUNSEL**

Sidley Austin LLP

787 Seventh Avenue  
 New York, NY 10019

**SHAREHOLDER COMMUNICATIONS WITH DIRECTORS**

Shareholders can communicate directly with the Board of Directors by writing to the Chair of the Board, Prudential Short Duration High Yield Fund, Inc., Prudential Investments, Attn: Board of Directors, 100 Mulberry Street, Gateway Center Three, Newark, NJ 07102. Shareholders can communicate directly with an individual Director by writing to the same address. Communications are not screened before being delivered to the addressee.

**AVAILABILITY OF PORTFOLIO SCHEDULE**

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (the Commission) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the Commission's website at [www.sec.gov](http://www.sec.gov). The Fund's Forms N-Q may also be reviewed and copied at the Commission's Public Reference Room in Washington, D.C. Information on the operation and location of the Public Reference Room may be obtained by calling (202) 551-8090. The Fund's schedule of portfolio holdings is also available on the Fund's website as of the end of each month.

**CERTIFICATIONS**

The Fund's Chief Executive Officer has submitted to the New York Stock Exchange (NYSE) the required annual certifications and the Fund has also included the certifications of the Fund's Chief Executive Officer and Chief Financial Officer as required by Section 302 of the Sarbanes-Oxley Act, on the Fund's Form N-CSR filed with the Commission, for the period of this report.

This report is transmitted to shareholders of the Fund for their information. This is not a prospectus, circular, or representation intended for use in the purchase or sale of shares of the Fund or any securities mentioned in this report.

**An investor should consider the investment objective, risks, charges, and expenses of the Fund carefully before investing.**

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase, from time to time, shares of its common stock at market prices.

**PRUDENTIAL SHORT DURATION HIGH YIELD FUND, INC.**

**NYSE  
CUSIP**

**ISD  
74442F107**

PICE1000E 0264573-00001-00

Item 2 Code of Ethics See Exhibit (a)

As of the end of the period covered by this report, the registrant has adopted a code of ethics (the Section 406 Standards for Investment Companies - Ethical Standards for Principal Executive and Financial Officers ) that applies to the registrant's Principal Executive Officer and Principal Financial Officer; the registrant's Principal Financial Officer also serves as the Principal Accounting Officer.

The registrant hereby undertakes to provide any person, without charge, upon request, a copy of the code of ethics. To request a copy of the code of ethics, contact the registrant 973-367-7521, and ask for a copy of the Section 406 Standards for Investment Companies - Ethical Standards for Principal Executive and Financial Officers.

Item 3 Audit Committee Financial Expert

The registrant's Board has determined that Mr. Stephen P. Munn, member of the Board's Audit Committee is an audit committee financial expert, and that he is independent, for purposes of this Item.

Item 4 Principal Accountant Fees and Services

(a) Audit Fees

For the fiscal year ended May 31, 2014 and May 31, 2013, KPMG, the Registrant's principal accountant, billed the Registrant \$41,200 and \$40,000, respectively for professional services rendered for the audit of the Registrant's annual financial statements or services that are normally provided in connection with statutory and regulatory filings.

(b) Audit-Related Fees

None.

(c) Tax Fees

None.

(d) All Other Fees

None.

(e) (1) Audit Committee Pre-Approval Policies and Procedures

## THE PRUDENTIAL MUTUAL FUNDS

### AUDIT COMMITTEE POLICY

on

#### *Pre-Approval of Services Provided by the Independent Accountants*

The Audit Committee of each Prudential Mutual Fund is charged with the responsibility to monitor the independence of the Fund's independent accountants. As part of this responsibility, the Audit Committee must pre-approve any independent accounting firm's engagement to render audit and/or permissible non-audit services, as required by law. In evaluating a proposed engagement of the independent accountants, the Audit Committee will assess the effect that the engagement might reasonably be expected to have on the accountant's independence. The Committee's evaluation will be based on:

a review of the nature of the professional services expected to be provided,

a review of the safeguards put into place by the accounting firm to safeguard independence, and

periodic meetings with the accounting firm.

#### **Policy for Audit and Non-Audit Services Provided to the Funds**

On an annual basis, the scope of audits for each Fund, audit fees and expenses, and audit-related and non-audit services (and fees proposed in respect thereof) proposed to be performed by the Fund's independent accountants will be presented by the Treasurer and the independent accountants to the Audit Committee for review and, as appropriate, approval prior to the initiation of such services. Such presentation shall be accompanied by confirmation by both the Treasurer and the independent accountants that the proposed services will not adversely affect the independence of the independent accountants. Proposed services shall be described in sufficient detail to enable the Audit Committee to assess the appropriateness of such services and fees, and the compatibility of the provision of such services with the auditor's independence. The Committee shall receive periodic reports on the progress of the audit and other services which are approved by the Committee or by the Committee Chair pursuant to authority delegated in this Policy.

The categories of services enumerated under *Audit Services*, *Audit-related Services*, and *Tax Services* are intended to provide guidance to the Treasurer and the independent accountants as to those categories of services which the Committee believes are generally consistent with the independence of the independent accountants and which the Committee (or the Committee Chair) would expect upon the presentation of specific proposals to pre-approve. The enumerated categories are not intended as an exclusive list of audit, audit-related or tax services, which the Committee (or the Committee Chair) would consider for pre-approval.

#### **Audit Services**

The following categories of audit services are considered to be consistent with the role of the Fund's independent accountants:

Annual Fund financial statement audits

Seed audits (related to new product filings, as required)

SEC and regulatory filings and consents

**Audit-related Services**

The following categories of audit-related services are considered to be consistent with the role of the Fund's independent accountants:

Accounting consultations

Fund merger support services

Agreed Upon Procedure Reports

Attestation Reports

Other Internal Control Reports

Individual audit-related services that fall within one of these categories and are not presented to the Audit Committee as part of the annual pre-approval process will be subject to pre-approval by the Committee Chair (or any other Committee member on whom this responsibility has been delegated) so long as the estimated fee for those services does not exceed \$50,000.

### **Tax Services**

The following categories of tax services are considered to be consistent with the role of the Fund's independent accountants:

Tax compliance services related to the filing or amendment of the following:

Federal, state and local income tax compliance; and,

Sales and use tax compliance

Timely RIC qualification reviews

Tax distribution analysis and planning

Tax authority examination services

Tax appeals support services

Accounting methods studies

Fund merger support services

Tax consulting services and related projects

Individual tax services that fall within one of these categories and are not presented to the Audit Committee as part of the annual pre-approval process will be subject to pre-approval by the Committee Chair (or any other Committee member on whom this responsibility has been delegated) so long as the estimated fee for those services does not exceed \$50,000.

#### **Other Non-audit Services**

Certain non-audit services that the independent accountants are legally permitted to render will be subject to pre-approval by the Committee or by one or more Committee members to whom the Committee has delegated this authority and who will report to the full Committee any pre-approval decisions made pursuant to this Policy. Non-audit services presented for pre-approval pursuant to this paragraph will be accompanied by a confirmation from both the Treasurer and the independent accountants that the proposed services will not adversely affect the independence of the independent accountants.

#### **Proscribed Services**

The Fund's independent accountants will not render services in the following categories of non-audit services:

Bookkeeping or other services related to the accounting records or financial statements of the Fund

Financial information systems design and implementation

Appraisal or valuation services, fairness opinions, or contribution-in-kind reports

Actuarial services

Internal audit outsourcing services

Management functions or human resources

Broker or dealer, investment adviser, or investment banking services

Legal services and expert services unrelated to the audit

Any other service that the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

**Pre-approval of Non-Audit Services Provided to Other Entities Within the Prudential Fund Complex**

Certain non-audit services provided to Prudential Investments LLC or any of its affiliates that also provide ongoing services to the Prudential Mutual Funds will be subject to pre-approval by the Audit Committee. The only non-audit services provided to these entities that will require pre-approval are those related directly to the operations and financial reporting of the Funds. Individual projects that are not presented to the Audit Committee as part of the annual pre-approval process will be subject to pre-approval by the Committee Chair (or any other Committee member on whom this responsibility has been delegated) so long as the estimated fee for those services does not exceed \$50,000. Services presented for pre-approval pursuant to this paragraph will be accompanied by a confirmation from both the Treasurer and the independent accountants that the proposed services will not adversely affect the independence of the independent accountants.

Although the Audit Committee will not pre-approve all services provided to Prudential Investments LLC and its affiliates, the Committee will receive an annual report from the Fund's independent accounting firm showing the aggregate fees for all services provided to Prudential Investments and its affiliates.

(e) (2) Percentage of services referred to in 4(b)-(4)(d) that were approved by the audit committee

Not applicable.

(f) Percentage of hours expended attributable to work performed by other than full time employees of principal accountant if greater than 50%.

The percentage of hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees was 0%.

(g) Non-Audit Fees

Not applicable to Registrant for the fiscal years 2014 and 2013. The aggregate non-audit fees billed by KPMG for services rendered to the registrant's investment adviser and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant for the fiscal years 2014 and 2013 was \$0 respectively.

(h) Principal Accountant's Independence

Not applicable as KPMG has not provided non-audit services to the registrant's investment adviser and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to Rule 2-01(c)(7)(ii) of Regulation S-X.

Item 5 Audit Committee of Listed Registrants

The registrant has a separately designated standing audit committee (the Audit Committee) established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the Audit Committee are Stephen P. Munn (chair), Kevin J. Bannon, Robin B. Smith, Ellen S. Alberding, Douglas McCorkindale, James E. Quinn, and Richard A. Redeker (ex-officio).

Item 6 Schedule of Investments The schedule is included as part of the report to shareholders filed under Item 1 of this Form.

Item 7 Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies

**PROXY VOTING POLICIES OF THE SUBADVISER**

**PRUDENTIAL FIXED INCOME**

Our policy is to vote proxies in the best economic interest of our clients. In the case of pooled accounts, our policy is to vote proxies in the best economic interest of the pooled account. Our proxy voting policy contains detailed voting guidelines on a wide variety of issues commonly voted upon by shareholders. These guidelines reflect our judgment of how to further the best economic interest of our clients through the shareholder or debt-holder voting process.

Prudential Fixed Income invests primarily in public debt, thus there are few traditional proxies voted by us. We generally vote with management on routine matters such as the appointment of accountants or the election of directors. From time to time, ballot issues arise that are not addressed by our policy or circumstances may suggest a vote not in accordance with our established guidelines. In these cases, voting decisions are made on a case-by-case basis by the applicable portfolio manager taking into consideration the potential economic impact of the proposal. If a security is held in multiple accounts and two or more portfolio managers are not in agreement with respect to a particular vote, our proxy voting committee will determine the vote. Not all ballots are received by us in advance of voting deadlines, but when ballots are received in a timely fashion, we strive to meet our voting obligations. We cannot, however, guarantee that every proxy will be voted prior to its deadline.

We take into account restrictions in some countries that might impair our ability to trade those securities or have other potentially adverse economic consequences. We generally vote securities on a best efforts basis and in the best economic interest of our clients.

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 conflict of interest between our firm and our clients, we refer the proxies regarding that issuer for resolution to our proxy voting committee, which is composed of senior management. This may include abstaining from a particular vote or voting in accordance with the policy of the proxy voting facilitator rather than our own policy.

Some of our clients elect to retain voting authority for themselves. If a client has a question about a particular solicitation, the client may contact its client service representative and we will try to address the client's question. We will not, however, disclose how we intend to vote on an issue for other clients' accounts.

Any client may obtain a copy of our proxy voting policy, as well as the proxy voting records for that client's securities, by contacting the client service representative responsible for the client's account.

## Item 8 Portfolio Managers of Closed-End Management Investment Companies

### Portfolio Managers

The following individuals have primary responsibility for the day-to-day implementation of the Fund's investment strategy.

**Paul Appleby, CFA**, is a Managing Director and co-Head of Prudential Fixed Income's Leveraged Finance Team, which includes the US and European High Yield Bond and Bank Loan sector teams. Previously, he was Director of Credit Research and Chief Equity Strategist for Prudential Financial's proprietary portfolios. Mr. Appleby was also a high yield bond credit analyst and worked in Prudential Financial's private placement group. Before joining Prudential Financial in 1987, he was a strategic planner for Amerada Hess. Mr. Appleby received a BS in Economics from The Wharton School of the University of Pennsylvania and an MBA from the Sloan School at the Massachusetts Institute of Technology (MIT). He holds the Chartered Financial Analyst (CFA) designation.

**Robert Cignarella, CFA**, is a Managing Director and co-Head of Prudential Fixed Income's Leveraged Finance Team, which includes the US and European High Yield Bond and Bank Loan sector teams. Previously, Mr. Cignarella was a managing director and co-head of high yield and bank loans at Goldman Sachs Asset Management. He also held positions as a high yield portfolio manager and a high yield and investment grade credit analyst. Earlier, he was a financial analyst in the investment banking division of Salomon Brothers. Mr. Cignarella received an MBA from the University of Chicago, and a bachelor's degree in operations research and industrial engineering from Cornell University. He holds the Chartered Financial Analyst (CFA) designation.

**Michael J. Collins, CFA**, is a Managing Director and Senior Investment Officer for Prudential Fixed Income. He is also senior portfolio manager for Core Plus, Absolute Return, and other multi-sector Fixed Income strategies. Previously, Mr. Collins was a High Yield Portfolio Manager and Fixed Income Investment Strategist. He continues to work closely with the high yield team and other credit teams on portfolio strategy and construction. Earlier he was a credit research analyst, covering investment grade and high yield corporate credits. Additionally, he developed proprietary quantitative international interest rate and currency valuation models for our global bond unit. Mr. Collins began his career at Prudential Financial in 1986 as a software applications designer. He received a BS in Mathematics and Computer Science from the State University of New York at Binghamton and an MBA in Finance from New York University. Mr. Collins holds the Chartered Financial Analyst (CFA) designation and is a Fellow of the Life Management Institute (FLMI).

**Daniel Thorogood, CFA**, is a Vice President for Prudential Fixed Income's High Yield Team, responsible for portfolio strategy and managing high yield bond allocations in multi-sector portfolios. Prior to joining the High Yield Team, Mr. Thorogood was a member of Prudential Fixed Income's Quantitative Research and Risk Management Group. Mr. Thorogood was the head of a team of portfolio

analysts who support the firm's credit-related strategies, including investment grade corporate, high yield corporate, and emerging market debt sectors. The team was primarily responsible for performing detailed portfolio analysis relative to benchmarks, monitoring portfolio risk exposures, and analyzing performance through proprietary return attribution models. Prior to joining the Quantitative Research and Risk Management Group in 1996, Mr. Thorogood was Associate Manager in Prudential Fixed Income's Trade Support and Operations Unit. He received a BS in Finance from Florida State University and an MBA in Finance from Rutgers University. Mr. Thorogood holds the Chartered Financial Analyst (CFA) designation.

**Brian Clapp, CFA**, is a Principal and a high yield portfolio manager for Prudential Fixed Income's High Yield Team. Mr. Clapp was previously a senior high yield credit analyst on Prudential Fixed Income's Credit Research team. He joined Prudential Financial in 2006 from Muzinich & Co. While there, Mr. Clapp held several positions, including portfolio manager for a high yield bond based hedge fund, hedge fund credit analyst, and credit analyst covering the chemical, industrial, and transportation sectors. Earlier at Triton Partners, an institutional high yield fund manager, Mr. Clapp was a credit analyst covering the metals and mining, healthcare, homebuilding, building products and transportation sectors. He received a BS in Finance from Bryant College, and an MS in Computational Finance, and an MBA from Carnegie Mellon. Mr. Clapp holds the Chartered Financial Analyst (CFA) designation.

**Robert Spano, CFA, CPA**, is a Principal and a high yield portfolio manager for Prudential Fixed Income's High Yield Bond Team. Prior to assuming his current position in 2007, Mr. Spano was a high yield credit analyst for 10 years in Prudential Fixed Income's Credit Research Group, covering the health, lodging, consumer, gaming, restaurants, and chemical industries. Earlier, he worked as an investment analyst in the Project Finance Unit of Prudential Financial's private placement group. Mr. Spano also held positions in the internal audit and risk management units of Prudential Securities. He received a BS in Accounting from the University of Delaware and an MBA from New York University. Mr. Spano holds the Chartered Financial Analyst (CFA) and Certified Public Accountant (CPA) designations.

**Ryan Kelly, CFA**, is a Principal and a high yield portfolio manager for Prudential Fixed Income's High Yield Team. Prior to his current position, Mr. Kelly was a senior high yield credit analyst in Prudential Fixed Income's Credit Research Group, covering the automotive, energy, technology and finance sectors. Previously, Mr. Kelly was a senior high yield bond analyst at Muzinich & Company. Earlier, he was an investment banker at PNC Capital Markets/PNC Bank where he worked in the high yield bond, mergers and acquisition (M&A) and loan syndication groups. Mr. Kelly began his career in investment banking at Chase Manhattan Bank, working on project finance transactions and M&A advisory mandates for the electric power sector. He received a BA in Economics from Michigan State University and holds the Chartered Financial Analyst (CFA) designation.

**Terence Wheat, CFA**, is a Principal, global high yield portfolio manager and an emerging markets corporate portfolio manager at Prudential Fixed Income. Previously, he was a high yield portfolio manager for Prudential Fixed Income's High Yield Team for six years. Mr. Wheat also spent 12 years as a credit analyst in Prudential Fixed Income's Credit Research Group, where he was responsible for the consumer products, gaming and leisure, retail, supermarkets, and textile/apparel industries. Mr. Wheat covered high yield bonds from 1998 to 2003, and investment grade issues from 1993 to 1998. Earlier, he worked for Prudential's Financial Management Group. Mr. Wheat joined Prudential Financial in 1988. He received a BS in Accounting and an MBA from Rider University. Mr. Wheat holds the Chartered Financial Analyst (CFA) designation.

*Other Accounts Managed by the Portfolio Managers.* The following tables set forth certain information with respect to the portfolio managers for the Fund. Unless noted otherwise, all information is provided as of May 31, 2014.

The table below identifies, for each portfolio manager, the number of accounts (other than the Fund) for which the portfolio manager has day-to-day management responsibilities and the total assets in such accounts, within each of the following categories: registered investment companies, other pooled investment vehicles, and other accounts. For each category, the number of accounts and total assets in the accounts whose fees are based on performance is indicated in *italic typeface*.

| <b>Portfolio Managers</b> | <b>Registered Investment Companies/<br/>Total Assets</b> | <b>Other Pooled Investment Vehicles</b> | <b>Other Accounts/<br/>Total Assets</b> | <b>Fund Ownership</b> |
|---------------------------|--|---|---|-----------------------|
| Paul Appleby, CFA         | 18/\$11,591,735,588                                      | 32/\$7,320,593,896                      | 58/\$11,047,983,407                     | \$50,000 - \$100,000  |
|                           |  | <i>18/\$5,061,293,065</i>               | <i>1/\$0</i>                            |                       |
| Michael J. Collins, CFA   | 27/\$25,726,880,773                                      | 8/\$4,644,541,691                       | 16/\$5,922,507,802                      | \$10,000 - \$50,000   |
| Robert Spano, CFA, CPA    | 18/\$11,591,735,588                                      | 16/\$4,513,148,200                      | 58/\$10,864,557,184                     | \$10,000 - \$50,000   |
|                           |  |   | <i>1/\$0</i>                            |                       |
| Terence Wheat, CFA        | 18/\$11,591,735,588                                      | 17/\$4,539,321,635                      | 58/\$10,864,557,184                     | \$10,000 - \$50,000   |
|                           |  |   | <i>1/\$0</i>                            |                       |
| Daniel Thorogood, CFA     | 16/\$5,465,826,300                                       | 16/\$4,513,148,200                      | 54/\$9,566,086,229                      | \$10,000 - \$50,000   |
| Ryan Kelly, CFA           | 18/\$11,591,735,588                                      | 16/\$4,513,148,200                      | 58/\$10,864,557,184                     | None                  |
|                           |  |   | <i>1/\$0</i>                            |                       |
| Robert Cignarella, CFA    | 18/\$11,591,750,076                                      | 16/\$4,513,148,200                      | 54/\$9,566,086,229                      | None                  |
|                           |  |   | <i>1/\$0</i>                            |                       |
| Brian Clapp, CFA          | 18/\$11,591,750,076                                      | 16/\$4,513,148,200                      | 54/\$9,566,086,229                      | None                  |
|                           |  |   | <i>1/\$0</i>                            |                       |

Compensation and Conflicts Disclosure:

**Compensation**

General

The base salary of an investment professional in the Prudential Fixed Income unit of PIM is based on market data relative to similar positions as well as the past performance, years of experience and scope of responsibility of the individual. Incentive compensation, including the annual cash bonus, the long-term equity grant and grants under Prudential Fixed Income's long-term incentive plan, is primarily based on such person's contribution to Prudential Fixed Income's goal of providing investment performance to clients consistent with portfolio objectives, guidelines and risk parameters and market-based data such as compensation trends and levels of overall compensation for similar positions in the asset management industry. In addition, an investment professional's qualitative contributions to the organization are considered in determining incentive compensation. Incentive compensation is not solely based on the

performance of, or value of assets in, any single account or group of client accounts.

### Cash Bonus

An investment professional's annual cash bonus is paid from an annual incentive pool. The pool is developed as a percentage of Prudential Fixed Income's operating income and is refined by business metrics, such as:

business development initiatives, measured primarily by growth in operating income;

the number of investment professionals receiving a bonus; and

investment performance of portfolios relative to appropriate peer groups or market benchmarks.

### Long-Term Compensation

Long-term compensation consists of Prudential Financial restricted stock and grants under the long-term incentive plan. Grants under the long-term incentive plan are participation interests in notional accounts with a beginning value of a specified dollar amount. The value attributed to these notional accounts increases or decreases over a defined period of time based, in part, on the performance of investment composites representing a number of Prudential Fixed Income's most frequently marketed investment strategies. An investment composite is an aggregation of accounts with similar investment strategies. The long-term incentive plan is designed to more closely align compensation with investment performance and the growth of Prudential Fixed Income's business. Both the restricted stock and participation interests are subject to vesting requirements.

### Conflicts Related to Long-Term Compensation

The performance of many client accounts is not reflected in the calculation of changes in the value of participation interests under Prudential Fixed Income's long-term incentive plan. This may be because the composite representing the strategy in which the account is managed is not one of the composites included in the calculation or because the account is excluded from a specified composite due to guideline restrictions or other factors. As a result of the long-term incentive plan, Prudential Fixed Income's portfolio managers from time to time have financial interests related to the investment performance of some, but not all, of the accounts they manage. To address potential conflicts related to these financial interests, Prudential Fixed Income has procedures, including trade allocation and supervisory review procedures, designed to ensure that each of its client accounts is managed in a manner that is consistent with Prudential Fixed Income's fiduciary obligations, as well as with the account's investment objectives, investment strategies and restrictions. Specifically, Prudential Fixed Income's chief investment officer reviews performance among similarly managed accounts to confirm that performance is consistent with expectations. The results of this review process are discussed at meetings of Prudential Fixed Income's trade management oversight committee.

### *Conflicts of Interest In General*

Like other investment advisers, Prudential Fixed Income is subject to various conflicts of interest in the ordinary course of its business. Prudential Fixed Income strives to identify potential risks, including conflicts of interest, that are inherent in its business, and conducts annual conflict of interest reviews. When actual or potential conflicts of interest are identified, Prudential Fixed Income seeks 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 and procedures.

Prudential Fixed Income follows the policies of Prudential on business ethics, personal securities trading by investment personnel, and information barriers. Prudential Fixed Income has adopted a code of ethics, allocation policies and conflicts of interest policies, among others, and has adopted supervisory procedures to monitor compliance with its policies. Prudential Fixed Income cannot guarantee, however, that its policies and procedures will detect and prevent, or assure disclosure of, each and every situation in which a conflict may arise.

### *Side-by-Side Management of Accounts and Related Conflicts of Interest*

Prudential Fixed Income's side-by-side management of multiple accounts can create conflicts of interest. Examples are detailed below, followed by a discussion of how Prudential Fixed Income addresses these conflicts.

**Performance fees** Prudential Fixed Income manages accounts with asset-based fees alongside accounts with performance-based fees. This side-by-side management may be deemed to create an incentive for Prudential Fixed Income and its investment professionals to favor one account over another. Specifically, Prudential Fixed Income could be considered to have the incentive to favor accounts for which it receives performance fees, and possibly take greater investment risks in those accounts, in order to bolster performance and increase its fees.

**Proprietary accounts** Prudential Fixed Income manages accounts on behalf of its affiliates as well as unaffiliated accounts. Prudential Fixed Income could be considered to have an incentive to favor accounts of affiliates over others.

**Large accounts** large accounts typically generate more revenue than do smaller accounts and certain of Prudential Fixed Income's strategies have higher fees than others. As a result, a portfolio manager could be considered to have an incentive when allocating scarce investment opportunities to favor accounts that pay a higher fee or generate more income for Prudential Fixed Income.

**Long only and long/short accounts** Prudential Fixed Income manages accounts that only allow it to hold securities long as well as accounts that permit short selling. Prudential Fixed Income may, therefore, sell a security short in some client accounts while holding the same security long in other client accounts.

**Securities of the same kind or class** Prudential Fixed Income may buy or sell for one client account securities of the same kind or class that are purchased or sold for another client at prices that may be different. Prudential Fixed Income may also, at any time, execute trades of securities of the same kind or class in one direction for an account and in the opposite direction for another account due to differences in investment strategy or client direction. Different strategies affecting trading in the same securities or types of securities may appear as inconsistencies in Prudential Fixed Income's management of multiple accounts side-by-side.

**Benefit plan accounts** Prudential Fixed Income manages certain commingled vehicles that are options under the 401(k) and deferred compensation plans offered by Prudential Financial. As a result, its investment professionals may have direct or indirect interests in these vehicles.

**Non-discretionary accounts or models** Prudential Fixed Income provides non-discretionary investment advice and non-discretionary model portfolios to some clients and manages others on a discretionary basis. Trades in non-discretionary accounts could occur before, in concert with, or after Prudential Fixed Income executes similar trades in its discretionary accounts. The non-discretionary clients may be disadvantaged if Prudential Fixed Income delivers the model investment portfolio or investment advice to them after it initiates trading for the discretionary clients, or vice versa.

*How Prudential Fixed Income Addresses These Conflicts of Interest*

Prudential Fixed Income has developed policies and procedures designed to address the conflicts of interest with respect to its different types of side-by-side management described above.

The head of Prudential Fixed Income and its chief investment officer periodically review and compare performance and performance attribution for each client account within its various strategies.

In keeping with Prudential Fixed Income's fiduciary obligations, its policy with respect to trade aggregation and allocation is to treat all of its accounts fairly and equitably over time. Prudential Fixed Income's trade management oversight committee, which meets at least quarterly, is responsible for providing oversight with respect to trade aggregation and allocation.

Prudential Fixed Income has compliance procedures with respect to its aggregation and allocation policy that includes independent monitoring by its compliance group of the timing, allocation and aggregation of trades and the allocation of investment opportunities. In addition, its compliance group reviews a sampling of new issue allocations and related documentation each month to confirm compliance with its allocation procedures. Prudential Fixed Income's compliance group reports the results of its monitoring processes to its trade management oversight committee.

Prudential Fixed Income's trade management oversight committee reviews forensic reports of new issue allocation throughout the year so that new issue allocation in each of its strategies is reviewed at least once during each year. This forensic analysis includes such data as the:

number of new issues allocated in the strategy;

size of new issue allocations to each portfolio in the strategy; and

profitability of new issue transactions.

The results of these analyses are reviewed and discussed at Prudential Fixed Income's trade management oversight committee meetings.

Prudential Fixed Income's trade management oversight committee also reviews a secondary issue allocation report.

The procedures above are designed to detect patterns and anomalies in Prudential Fixed Income's side-by-side management and trading so that it may assess and improve its processes.

Prudential Fixed Income has policies and procedures that specifically address its side-by-side management of long/short and long only portfolios. These policies address potential conflicts that could arise from differing positions between long/short and long only portfolios. In addition, lending opportunities with respect to securities for which the market is demanding a slight premium rate over normal market rates are allocated to long only accounts prior to allocating the opportunities to long/short accounts.

#### *Conflicts Related to Prudential Fixed Income's Affiliations*

As an indirect wholly-owned subsidiary of Prudential Financial, Prudential Fixed Income is part of a diversified, global financial services organization. Prudential Fixed Income is affiliated with many types of U.S. and non-U.S. financial service providers, including insurance companies, broker/dealers and other investment advisers. Some of its employees are officers of some of these affiliates.

*Conflicts Arising Out of Legal Restrictions.* Prudential Fixed Income may be restricted by law, regulation or contract as to how much, if any, of a particular security it may purchase or sell on behalf of a client, and as to the timing of such purchase or sale, even when such purchase or sale might otherwise be beneficial to the client. These restrictions may apply as a result of its relationship with Prudential Financial and its other affiliates. For example, Prudential Fixed Income's holdings of a security on behalf of its clients may, under some SEC rules, be aggregated with the holdings of that security by other Prudential Financial affiliates. These holdings could, on an aggregate basis, exceed certain reporting thresholds unless Prudential Fixed Income monitors and restricts purchases. In addition, Prudential Fixed Income could receive material, non-public information with respect to a particular issuer and, as a result, be unable to execute transactions in securities of that issuer for its clients. For example, Prudential Fixed Income's bank loan team often invests in private bank loans in connection with which the borrower provides material, non-public information, resulting in restrictions on trading securities issued by those borrowers. Prudential Fixed Income has procedures in place to carefully consider whether to intentionally accept material, non-public information with respect to certain issuers. Prudential Fixed Income is generally able to avoid receiving material, non-public information from its affiliates and other units within PIM by maintaining information barriers. In some instances, it may create an isolated information barrier around a small number of its employees so that material, non-public information received by such employees is not attributed to the rest of Prudential Fixed Income.

*Conflicts Related to Investment of Client Assets in Affiliated Funds.* Prudential Fixed Income may invest client assets in funds that it manages or subadvises for an affiliate. Prudential Fixed Income may also invest cash collateral from securities lending transactions in these funds. These investments benefit both Prudential Fixed Income and its affiliate. Prudential Fixed Income does not receive a management fee for advising these funds. Prudential Fixed Income is only entitled to reimbursement of its costs and expenses for these services.

*Conflicts Related to Co-investment by Affiliates.* Prudential Fixed Income affiliates may provide initial funding or otherwise invest in vehicles it manages. When an affiliate provides seed capital or other capital for a fund, it may do so with the intention of redeeming all or part of its interest at a future point in time or when it deems that sufficient additional capital has been invested in that fund.

The timing of a redemption by an affiliate could benefit the affiliate. For example, the fund may be more liquid at the time of the affiliate's redemption than it is at times when other investors may wish to withdraw all or part of their interests.

In addition, a consequence of any withdrawal of a significant amount, including by an affiliate, is that investors remaining in the fund will bear a proportionately higher share of fund expenses following the redemption.

Prudential Fixed Income could also face a conflict if the interests of an affiliated investor in a fund it manages diverge from those of the fund or other investors. Prudential Fixed Income believes that these conflicts are mitigated by its allocation policies and procedures, its supervisory review of accounts and its procedures with respect to side-by-side management of long only and long-short accounts.

*Conflicts Arising Out of Industry Activities.* Prudential Fixed Income and its affiliates have service agreements with various vendors that are also investment consultants. Under these agreements, Prudential Fixed Income or its affiliates compensate the vendors for certain services, including software, market data and technology services. Prudential Fixed Income's clients may also retain these vendors as investment consultants. The existence of these service agreements may provide an incentive for the investment consultants to favor Prudential Fixed Income when they advise their clients. Prudential Fixed Income does not, however, condition its purchase of services from consultants upon their recommending Prudential Fixed Income to their clients. Prudential Fixed Income will provide clients with information about services that it obtains from these consultants upon request.

*PICA General Account.* Because of the substantial size of the general account of The Prudential Insurance Company of America (PICA), trading by PICA's general account, including Prudential Fixed Income's trades on behalf of the account, may affect market prices. Although Prudential Fixed Income doesn't expect that PICA's general account will execute transactions that will move a market frequently, and generally only in response to unusual market or issuer events, the execution of these transactions could have an adverse effect on transactions for or positions held by other clients.

#### *Conflicts Related to Financial Interests*

##### *Conflicts Related to the Offer and Sale of Securities*

Certain of Prudential Fixed Income's employees may offer and sell securities of, and units in, commingled funds that it manages. Employees may offer and sell securities in connection with their roles as registered representatives of an affiliated broker/dealer, officers of an affiliated trust company, agents of PICA or the role of an affiliate as general partner of investment partnerships. There is an incentive for Prudential Fixed Income's employees to offer these securities to investors regardless of whether the investment is appropriate for such investor since increased assets in these vehicles will result in increased advisory fees to it. In addition, such sales could result in increased compensation to the employee.

##### *Conflicts Related to Securities Holdings and Other Financial Interests.*

*Securities Holdings.* Prudential Financial, PICA's general account, Prudential Fixed Income's proprietary accounts and accounts of other affiliates of it (collectively, affiliated accounts) hold public

and private debt and equity securities of a large number of issuers and may invest in some of the same companies as other client accounts but at different levels in the capital structure. These investments can result in conflicts between the interests of the affiliated accounts and the interests of Prudential Fixed Income's clients. For example:

Affiliated accounts can hold the senior debt of an issuer whose subordinated debt is held by Prudential Fixed Income's clients or hold secured debt of an issuer whose public unsecured debt is held in client accounts. In the event of restructuring or insolvency, the affiliated accounts as holders of senior debt may exercise remedies and take other actions that are not in the interest of, or are adverse to, other clients that are the holders of junior debt.

To the extent permitted by applicable law, Prudential Fixed Income may also invest client assets in offerings of securities the proceeds of which are used to repay debt obligations held in affiliated accounts or other client accounts. Prudential Fixed Income's interest in having the debt repaid creates a conflict of interest. Prudential Fixed Income has adopted a refinancing policy to address this conflict.

Prudential Fixed Income may be unable to invest client assets in the securities of certain issuers as a result of the investments described above.

*Financial Interests.* Prudential Fixed Income and its affiliates may also have financial interests or relationships with issuers whose securities it invests in for client accounts. These interests can include debt or equity financing, strategic corporate relationships or investments, and the offering of investment advice in various forms. For example, Prudential Fixed Income may invest client assets in the securities of issuers that are also its advisory clients. In addition, Prudential Fixed Income may invest client assets in securities backed by commercial mortgage loans that were originated or are serviced by an affiliate.

In general, conflicts related to the securities holdings and financial interests described above are addressed by the fact that Prudential Fixed Income makes investment decisions for each client independently considering the best economic interests of such client.

#### *Conflicts Related to Valuation and Fees*

When client accounts hold illiquid or difficult to value investments, Prudential Fixed Income faces a conflict of interest when making recommendations regarding the value of such investments since its management fees are generally based on the value of assets under management. Prudential Fixed Income believes that its valuation policies and procedures mitigate this conflict effectively and enable it to value client assets fairly and in a manner that is consistent with the client's best interests. When the Fund is utilizing leverage, the fees paid to Prudential Fixed Income will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on the Fund's investable assets, which includes any assets attributable to money borrowed, including as a result of any shares of preferred stock or notes or other debt securities that may be issued by the Fund. In such case, Prudential Fixed Income may have a financial incentive to increase the Fund's use of leverage, which constitutes an inherent conflict of interest.

#### *Conflicts Related to Securities Lending Fees*

When Prudential Fixed Income manages a client account and also serves as securities lending agent for the account, it could be considered to have the incentive to invest in securities that would yield higher securities lending rates. This conflict is mitigated by the fact that Prudential Fixed Income's advisory fees

are generally based on the value of assets in a client's account. In addition, Prudential Fixed Income's securities lending function has a separate reporting line to its chief operating officer (rather than its chief investment officer).

Item 9 Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers

There have been no purchases of equity securities by the registrant or any affiliated purchasers during the period covered by this report.

Item 10 Submission of Matters to a Vote of Security Holders Not applicable.

Item 11 Controls and Procedures

(a) It is the conclusion of the registrant's principal executive officer and principal financial officer that the effectiveness of the registrant's current disclosure controls and procedures (such disclosure controls and procedures having been evaluated within 90 days of the date of this filing) provide reasonable assurance that the information required to be disclosed by the registrant has been recorded, processed, summarized and reported within the time period specified in the Commission's rules and forms and that the information required to be disclosed by the registrant has been accumulated and communicated to the registrant's principal executive officer and principal financial officer in order to allow timely decisions regarding required disclosure.

(b) There has been no significant change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter of the period covered by this report that has materially affected, or is likely to materially affect, the registrant's internal control over financial reporting.

Item 12 Exhibits

(a) (1) Code of Ethics Attached hereto as Exhibit EX-99.CODE-ETH

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act Attached hereto as Exhibit

(2) EX-99.CERT.

(3) Any written solicitation to purchase securities under Rule 23c-1. Not applicable.

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act Attached hereto as Exhibit EX-99.906CERT.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant: Prudential Short Duration High Yield Fund, Inc.

By: /s/ Deborah A. Docs  
Deborah A. Docs  
Secretary

Date: July 18, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Stuart S. Parker  
Stuart S. Parker  
President and Principal Executive Officer

Date: July 18, 2014

By: /s/ M. Sadiq Peshimam  
M. Sadiq Peshimam  
Treasurer and Principal Financial and Accounting Officer

Date: July 18, 2014