

Prudential Short Duration High Yield Fund, Inc.  
Form N-CSR  
July 26, 2017

**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:	655 Broad Street, 17 <sup>th</sup> Floor Newark, New Jersey 07102
Name and address of agent for service:	Deborah A. Docs 655 Broad Street, 17 <sup>th</sup> Floor Newark, New Jersey 07102
Registrant's telephone number, including area code:	973-367-7521
Date of fiscal year end:	5/31/2017
Date of reporting period:	5/31/2017



Item 1 Reports to Stockholders

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

ANNUAL REPORT

MAY 31, 2017

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Objective: High level of current income

## Highlights

Relative to the Fund's benchmark, the Bloomberg Barclays US High Yield Ba/B 1-5 Year 1% Issuer Constrained Index (the Index), the Fund benefited from strong security selection during the period highlighted by positioning in the industrial, health care & pharmaceutical, gaming/lodging/leisure and building materials & home construction sectors.

In individual company selection, the Fund's overweight to **Unifrax** (industrial) was the largest contributor to performance. Avoiding **Noble Group** (industrial), and overweights to **Laureate Education** (services), **Beazer Homes** (building materials & home construction) and **BMC Software** (technology) added value as well.

Sector allocation hurt performance for the one-year period. An overweight to the health care & pharmaceutical sector was the largest detractor from performance as the sector struggled at the end of 2016, exacerbated by declining volumes for hospitals and headline volatility within pharmaceuticals. Underweights to the upstream energy (exploration and production) and metals & mining sectors also limited results.

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.

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## Letter from the President

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 ended May 31, 2017.

Effective April 3, 2017, Prudential Investments became known as PGIM®

Investments. Why PGIM? This new name was chosen to further align with the global investment management businesses of Prudential Financial, which rebranded from Prudential Investment Management in January 2016. This new name allows for one brand and reflects our ability and commitment to delivering investment solutions to clients around the globe. Please keep in mind that only the Fund adviser's name was changed: the name of your Fund and its management and operation will remain the same.

Major global events during the reporting period included the US presidential election and domestic issues related to the new administration's policy initiatives. The US economy experienced weak growth during the first quarter of 2017, although expectations for a healthier rebound were expected for the second quarter. Britain began its formal legal process to leave the European Union, and recent parliamentary elections resulted in a hung parliament, meaning no party could claim a majority. Global geopolitical tensions generally heightened, and political concerns arose over growing internal divisions in some key developing nations.

Despite these global uncertainties, the worldwide economy continued to grow at a slow pace and international equities markets rose significantly. Equities in the US reached new highs. European stocks posted impressive results. Asian markets were solid, and emerging markets outperformed most regions.

Shortly after the reporting period, in mid-June, the Federal Reserve raised its Federal Funds rate by 0.25% for the second time in 2017. Fixed income markets were mixed, as rising interest rates affected bond markets. High yield and emerging markets bonds were among the top performers.

Given the uncertainty in today's investment environment, we believe that active professional portfolio management offers a potential advantage. Active managers often have the knowledge and flexibility to find the best investment opportunities in the most challenging markets.

Even so, it's best if investment decisions are based on your long-term goals rather than on short-term market and economic developments. We also encourage you to work with an experienced financial advisor who can help you set goals, determine your tolerance for risk, and build a diversified plan that's right for you and make adjustments when necessary.



## Letter from the President (continued)

At PGIM Investments, we consider it a great privilege and responsibility to help investors participate in opportunities across global markets while meeting their toughest investment challenges. We're part of PGIM, the 9th-largest global investment manager with more than \$1 trillion in assets under management. This investment expertise allows us to deliver actively managed funds and strategies to meet the needs of investors around the globe.

Thank you for choosing our family of funds.

Sincerely,

**Stuart S. Parker, President**

Prudential Short Duration High Yield Fund, Inc.

July 14, 2017

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## 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.pgiminvestments.com](http://www.pgiminvestments.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 S&P Global Ratings (S&P) and Fitch, Inc. (Fitch); or comparably rated by another nationally recognized statistical rating organization (NRSRO), or if unrated, are considered by PGIM Fixed Income to be of comparable quality.

### Performance Snapshot as of 5/31/17

	Total Return For 12 Months Ended 5/31/17
<b>Price Per Share</b>	
\$16.84 (NAV)	8.05%
\$15.59 (Market Price)	8.36%

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: PGIM Investments LLC

### Key Fund Statistics as of 5/31/17

Duration	2.1 years	Average Maturity	3.4 years
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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.

**Your Fund's Performance** (continued)

Credit Quality expressed as a percentage of total investments as of 5/31/17 (%)	
BBB	8.4
BB	49.8
B	35.5
CCC	5.0
Cash/Cash Equivalents	1.3
Total Investments	100.0

Source: PGIM Fixed Income

*Credit ratings reflect the highest rating assigned by a NRSRO such as Moody's, S&P or Fitch. Credit ratings reflect the common nomenclature used by both S&P and Fitch. Where applicable, ratings are converted to the comparable S&P/Fitch rating tier nomenclature. These rating agencies are independent, and are widely used. Credit ratings are subject to change. Values may not sum to 100.0% due to rounding.*

Yield and Dividends as of 5/31/17		
Total Monthly Dividends Paid per Share for Period	Current Monthly Dividend Paid per Share	Yield at Market Price as of 5/31/17
\$1.2525	\$0.1025	7.89%

*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, 2017.*

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## Strategy and Performance Overview

### How did the Fund perform?

For the 12-month reporting period that ended May 31, 2017, the **Prudential Short Duration High Yield Fund** generated a positive NAV return of 8.05%, underperforming both the 9.24% return of the Index and the 17.20% return of the Lipper High Current Yield Funds (Leveraged) Average.

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

High yield bonds posted very strong results for the period with the broad high yield index returning 13.58%. The short duration, higher quality sub-style of high yield, as measured by the Index, also produced solid performance but underperformed the broad index.

During the reporting period, the market experienced several significant events including the aftermath of the Brexit vote, a surprise Trump victory in the US Presidential election and two Federal Reserve rate hikes. Early in the period, commodities, particularly the metals & mining, chemicals, and energy sectors, outperformed the broad market. Energy benefited from a jump in oil prices as OPEC's agreement to reduce supply brought forward expectations of a balanced market.

In the second half of the period, health care rebounded with investors taking comfort that the Senate would be a more difficult place to pass a bill to repeal Obamacare. The lack of onerous language regarding drug pricing was also a benefit for pharmaceutical companies.

For the full 12-month period, the best performing sectors included metals & mining, upstream and midstream energy and capital goods. The health care & pharmaceutical, industrial and electric & water sectors struggled during the one-year period.

The par-weighted US High Yield default rate ended May at 1.31% versus 3.57% at the start of 2017. That is well below the historical average range of 3.5% to 4%, and it's the lowest rate since March of 2014, when the default rate was 0.61%.

### What worked?

The Fund benefited from strong security selection during the period highlighted by positioning in the industrial, health care & pharmaceutical, gaming/lodging/leisure and building materials & home construction sectors.

In individual company selection, the Fund's overweight to **Unifrax** (industrial) was the largest contributor to performance. Avoiding **Noble Group** (industrial), and overweights to **Laureate Education** (services), **Beazer Homes** (building materials & home construction) and **BMC Software** (technology) added value as well.

## Strategy and Performance Overview (continued)

The Fund's underweight to the banking sector and overweights to the technology and chemicals sectors added to performance.

### What didn't work?

Sector allocation hurt performance during the reporting period. An overweight to the health care & pharmaceutical sector was the largest detractor from performance as the sector struggled at the end of 2016 exacerbated by declining volumes for hospitals and headline volatility within pharmaceuticals. Underweights to the upstream energy and metals & mining sectors also limited results.

Security selection in the retailers & restaurants, paper & packaging and electric & water sectors hindered the Fund's performance.

In individual company selection, an overweight to issuers in the retail sector including **Neiman Marcus** and **Claire's** hurt performance. An overweight to **NRG Energy** (electric & water) and an underweight to **First Quantum Minerals** (metals & mining) also detracted from performance.

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

The Fund's use of leverage contributed positively to results as the returns of the securities purchased were in excess of the cost of borrowing. As of May 31, 2017, the Fund had borrowed \$180 million and was about 24.3% leveraged. During the reporting period, the average amount of leverage utilized by the Fund was about 26.6%.

### Did the Fund use derivatives and how did they affect performance?

The Fund used derivatives, specifically currency forwards to hedge the currency risk from owning non-dollar denominated bonds, and US Treasury futures to hedge interest rate risk relative to the Index. The derivatives help immunize any impact from fluctuating currencies and interest rates.

### Were there any changes to the management of the Fund's portfolio?

Effective October 31, 2017, Michael Collins will no longer serve as a portfolio manager for the Fund. Mr. Collins' responsibilities in PGIM Fixed Income have increased due to substantial asset growth in both the institutional and retail multi-sector fixed income strategies. Accordingly, PGIM Fixed Income believes it is appropriate to remove him as a portfolio manager to better represent the portfolio management of the Fund. Given the depth and experience of the Fund's existing portfolio management team, PGIM Fixed Income does not believe that any additional portfolio managers are currently necessary, and that Mr. Collins' removal will not have any material impact on the Fund's investment strategy.

### Current outlook

Long-term demand for high yield is supported by a thirst for yield as interest rates are low due to low inflation and central bank support, although waning somewhat. Default rates outside of the energy and basic materials sectors should remain benign through 2018. Recent mergers & acquisitions (M&A) have generally been positive for high yield credits and are expected to increase under Republican oversight.

However, many macroeconomic concerns could weigh on the market including uncertainty in China, North Korea, the Middle East, European elections, and the Fed. Populism, nationalism and isolationism are on the rise globally, which is negative for economic growth over the longer term. While pro-business, President Trump's anti-globalization policies and his unpredictable positions should elevate risk premiums.

Key positioning themes continue to be underweights in the energy, finance & insurance and banking sectors. Overweights include gaming/lodging/leisure, building materials & home construction, health care & pharmaceutical, and technology.

## Benchmark Definitions

**Bloomberg Barclays US High Yield Ba/B 1-5 Year 1% Issuer Constrained Index** The Bloomberg 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: Bloomberg 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) universe.

Investors cannot invest directly in an index or average.

### 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 as on [www.pgiminvestments.com](http://www.pgiminvestments.com).

In a continuing effort to provide information concerning the Fund, shareholders may go to [www.pgiminvestments.com](http://www.pgiminvestments.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.

## Schedule of Investments

as of May 31, 2017

Description	Interest Rate	Maturity Date	Principal Amount (000)#	Value
<b>LONG-TERM INVESTMENTS</b> 129.1%				
<b>BANK LOANS(c)</b> 5.6%				
<b>Chemicals</b> 0.3%				
MacDermid, Inc.	4.602%	06/07/20	1,423	\$ 1,434,681
<b>Commercial Services</b> 0.8%				
Laureate Education, Inc.	5.656	04/30/24	4,194	4,200,771
<b>Lodging</b> 0.2%				
Golden Nugget, Inc.	4.672	11/21/19	653	662,437
Golden Nugget, Inc.	4.678	11/21/19	280	283,902
				946,339
<b>Media &amp; Entertainment</b> 0.3%				
LSC Communications, Inc.^	7.045	09/30/22	1,626	1,634,280
<b>Packaging</b> 0.2%				
Coveris Holdings SA (Luxembourg)	4.655	05/08/19	1,389	1,376,642
<b>Retail</b> 0.3%				
Rite Aid Corp.	4.875	06/21/21	1,700	1,703,897
<b>Software</b> 0.9%				
Symantec Corp.	2.900	08/01/21	5,128	5,096,154
<b>Technology</b> 2.2%				
BMC Software Finance, Inc.	1.150	09/12/22	3,577	3,593,046
Dell International LLC	3.150	12/31/18	4,500	4,504,689
First Data Corp.	3.656	04/26/24	936	941,459
Genesys Telecom Labs, Inc.	5.150	12/01/23	1,621	1,630,366
Informatica Corp.	4.647	08/05/22	1,750	1,746,355
				12,415,915
<b>Wireless</b> 0.4%				
Digicel International Finance Ltd.	4.940	05/31/24	2,400	2,419,001
TOTAL BANK LOANS (cost \$30,635,810)				31,227,680
<b>CORPORATE BONDS</b> 122.9%				
<b>Airlines</b> 0.5%				
United Airlines Pass-Through Trust, Series 2007-1, Class A, Pass-Through Certificates(aa)	6.636	01/02/24	2,800	3,013,564

See Notes to Financial Statements.

## Schedule of Investments (continued)

as of May 31, 2017

Description	Interest Rate	Maturity Date	Principal Amount (000)#	Value
<b>CORPORATE BONDS (Continued)</b>				
<b>Auto Manufacturers 0.3%</b>				
Jaguar Land Rover Automotive PLC (United Kingdom), Gtd. Notes, 144A	4.250%	11/15/19	1,600	\$ 1,652,000
<b>Auto Parts &amp; Equipment 1.5%</b>				
American Axle & Manufacturing, Inc.,				
Gtd. Notes	5.125	02/15/19	1,415	1,433,064
Gtd. Notes(aa)	7.750	11/15/19	3,020	3,329,550
IHO Verwaltungs GmbH (Germany), Sr. Sec d. Notes, PIK, 144A	4.125	09/15/21	2,200	2,246,750
Meritor, Inc., Gtd. Notes	6.750	06/15/21	1,200	1,242,000
				8,251,364
<b>Building Materials 1.3%</b>				
Cemex Finance LLC (Mexico),				
First Lien, RegS	9.375	10/12/22	750	801,000
Sr. Sec d. Notes, 144A	9.375	10/12/22	2,000	2,136,000
Griffon Corp., Gtd. Notes	5.250	03/01/22	1,708	1,746,430
Standard Industries, Inc., Sr. Unsec d. Notes, 144A(g)	5.125	02/15/21		