PALMER SQUARE
CAPITAL MANAGEMENT

Palmer Square Opportunistic Income Fund (PSOIX)

October 2022

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Fund Refresher

As a refresher, the Palmer Square Opportunistic Income Fund ("PSOIX" or the "Fund") seeks to not only capture a high level of current income, but also long-term capital appreciation by investing with a flexible mandate to find the best relative value opportunities across corporate credit and structured credit.

Performance Summary

The Fund returned -0.68% (net of fees) for the third quarter of 2022, driven by broad based credit spread widening* seen across the entire market. Indeed, the credit markets were particularly weak in May and June as investors became increasingly concerned with growth. However, we remain confident in our positioning in CLO Debt, bank loans and high yield bonds and believe the total return outlook hasn't looked this constructive since mid-2020. The yield on the fund is now 13.97%, which is the highest it's ever been since inception in 2014.

Fund Performance Net of Fees as of 9/30/2022 (inception 8/29/2014*)

	Q3 2022	YTD 2022	2021	2020	2019	2018	2017	2016	2015	2014*
PSOIX	-0.68%	-7.96%	6.66%	5.92%	7.59%	-0.47%	11.04%	12.10%	-5.32%	-0.76%

	1 Year	3 Years	5 Years	Since Inception Annualized
PSOIX	-7.33%	2.29%	5.57%	3.32%

Annual Expense Ratio: Net 1.50%. **The performance data quoted represents past performance and that past performance does not guarantee future results. Investment return and principal value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. To obtain performance information current to the most recent month-end please call 866-933-9033.**

Portfolio Snapshot

Please refer to the table below for a portfolio snapshot by quarter.

	9/30/2021	12/31/2021	3/31/2022	6/30/2022	9/30/2022
Interest Rate Duration*	0.49 yrs	0.49 yrs	0.48 yrs	0.53 yrs	0.51 yrs
Spread Duration*	2.31 yrs	2.40 yrs	2.97 yrs	3.58 yrs	3.84 yrs
Credit Spread	585	553	633	902	997
Weighted Average Price	$98.06	$98.5	$94.3	$90.5	$89.1
Yield to Expected Call*	6.33%	6.39%	8.23%	12.04%	13.97%
Yield to Maturity	7.15%	6.61%	7.90%	11.37%	12.95%
Current Yield	6.17%	5.56%	5.92%	7.82%	9.66%
Beta vs. S&P 500	0.51	0.48	0.47	0.44	0.41
Beta vs. Bloomberg Barclays U.S. Aggregate Bond Index	0.32	0.32	0.31	0.31	0.34

Past performance does not guarantee future results. *Please see Notes and Disclosure for definitions.

Allocation / Attribution Summary

Select Portfolio Attribution and Characteristic Dashboard

Allocation	9/30/2022 Allocation	Q3 2022 Gross Attribution	Average Price	Yield to Expected Call*
CLO Debt	60%	-0.80%	$87.4	13.77%
Bank Loans	24%	0.33%	$94.8	8.88%
High Yield Bonds	9%	-0.05%	$84.1	9.43%
Sub Notes	5%	0.12%	$51.8	20.27%
ABS/MBS	0%	0.02%	$79.2	12.34%
IG Corp Debt	1%	0.00%	$78.0	5.79%

Asset-backed Securities (ABS), Mortgage-backed Securities (MBS).

Historic Positioning Detail by Asset Type:

	9/30/2021 Allocation	12/31/2021 Allocation	3/31/2022 Allocation	6/30/2022 Allocation	9/30/2022 Allocation	Q3 2022 Gross Attribution
CLO Debt	73%	65%	64%	63%	60%	-0.80%
Bank Loans	11%	9%	9%	17%	24%	0.33%
High Yield Bonds	5%	5%	8%	11%	9%	-0.05%
Sub Notes	7%	7%	8%	6%	5%	0.12%
ABS/MBS	3%	2%	1%	1%	0%	0.02%
IG Corp Debt	1%	1%	1%	1%	1%	0.00%

Please note the allocation above is on a gross exposure basis as a percent of NAV and does not include cash. Gross attribution does not include hedges, expenses and fees if applicable. Investment return and principal value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. Attribution refers to the process of measuring returns generated by various sources.

Q3 2022 Performance and Attribution:

» The Fund delivered a negative return of 0.68% in 3Q 2022 despite continued pressure across fixed income, particularly duration sensitive product. The yields on 2Y and 10Y treasuries jumped 133bps and 81bps respectively during the quarter as inflation data showed little improvement and investors discounted an incrementally more hawkish Fed policy. This led to treasuries and corporate bonds being down 4-5% while high yield bonds fared better given their lower duration and higher carry. High quality floating rate product was the main outperformer, with senior CLOs (AAA, AA) and BB-rated bank loans providing a positive return in a sea of red font. The Fund's positioning in floating rate securities helped mitigate the rate impact while still allowing the Fund's yield to reach the highest level since inception at 13.97%. Below is a quick Q3 performance recap for selected indices (as of 9/30/2022):

Selected Indicies	Q3 2022 Performance
Bloomberg U.S. Treasury Index	-4.35%
Bloomberg U.S. Aggregate Bond Index	-4.75% (spread +6bps)
Bloomberg U.S. Corporate Index	-5.06% (spread +3bps)
Bloomberg 1-3 Year U.S. Corporate Index	-1.23% (spread -4bps)
Bloomberg U.S. High Yield Index	-0.65% (spread -17bps)
iBoxx Liquid Leveraged Loan Index	+1.38% (discount margin +17bps)
Palmer Square CLO Senior Debt Index	+0.42% (discount margin +20bps)
Palmer Square CLO Debt Index	-1.06% (discount margin +72bps)
S&P 500 Index	-4.89%
Bloomberg Commodity Index	-4.75%

Source: Bloomberg as of 9/30/2022

*Please see Notes and Disclosure for definitions.

- » As seen from above, the weakness in Q3 was mostly driven by rate duration rather than spread widening. But within the quarter there was a decent amount of spread volatility. The quarter started with a significant rally in credit spreads with IG and HY spreads tightening 30bps and 180bps respectively until mid-August. But another bad inflation print coupled with a hawkish Powel speech in Jackson Hole led to a nearly complete reversal of this spread rally in September. We tactically added HY exposure in early July as spreads moved wider, but reduced in August as relative value looked much less compelling. We also added to our bank loan exposure throughout the quarter, taking exposure from 17% to 24%. The largest contributor to attribution was bank loans, adding +33bps of performance over the quarter.

- **CLO Allocation/Opportunity to Capture Income and Total Return** – As of quarter-end, 65% (CLO debt and sub notes) of the portfolio, down from 69% last quarter. CLO BBBs are currently trading on average at a spread of 550bps with prices in the high $80s and BBs are at a spread of 1000bps with prices in the low to mid $80s. Since 2008 we have only seen wider levels during two short timeframes- February 2016 and March-May 2020 (please see table below). Looking at CLO BBs in particular, there have only been 9 months in the past 10 years where spreads were wider than 900bps. Looking at 12 month forward returns from those points in time, the average return was +40.33% and the minimum return was +25.04%. The breakeven spread widening on CLO BBs is approximately 360bps, which means that spreads could widen a further 360bps over the next 12 months before one lost money on $1 invested. That type of spread widening from here would put us back at levels we saw in March of 2020. Another tailwind for CLO debt going forward is the increase in LIBOR*. In October almost the entire CLO portion of the portfolio will reset higher by almost 150bps (3m LIBOR is currently at 3.8%). Over the next year the forward curve is implying an average LIBOR of about 4.7%. *We continue to add to CLO portfolios that are higher quality and more liquid as we believe they will continue to outperform portfolios with more risky collateral.*

BB SPREADS AND 1YR FORWARD RETURNS

Period	CLO BB Spread	1yr Forward Return
1/29/2016	954	32.57%
2/29/2016	1193	51.32%
3/31/2016	972	35.39%
5/31/2016	916	30.62%
6/30/2016	909	30.77%
3/31/2020	1384	63.03%
4/30/2020	1299	55.59%
5/29/2020	1094	38.61%
7/31/2020	916	25.04%

Source: Bloomberg / Palmer Square CLO Indices. As of 9/30/2022.

- **Bank Loan Allocation** – As of quarter end, bank loans were 24% of the portfolio, up from 17% last quarter. Assets added in the quarter have a weighted average spread over the reference rate* of 352bps and a weighted average Moody's rating of B1, reflective of the stronger credit quality. Bank loans were not immune to the broad-based risk asset sell off in the quarter, but did outperform bonds thanks to the floating rate

*Please see Notes and Disclosure for definitions.

nature of the asset class and higher coupons. *We continue to view the asset class as attractive given the low interest rate duration, and will focus our efforts on adding high quality/lower risk credits in the coming quarter.*

- **High Yield Bond Allocation** – As of quarter-end, HY bonds were 9% of the portfolio. While exposure was mostly unchanged during the quarter, we tactically added exposure early in the quarter and reduced in August as spreads retraced towards our targets. Our focus was on BB-rated bonds, which are relatively less risky and benefitted the most from the temporary pull back in interest rates. However, by mid-August HY spreads had retraced 180bps from the wides and we took profit on most of the bonds purchased in July. HY spreads subsequently widened out again and as we sit today, the opportunity looks similar to early July. *The Fund is currently adding exposure to HY BB-rated bonds in the mid 80 price context and 7.5-8.5% yield context. Overall, we view current HY valuation levels as reasonably attractive on a historical basis and relative to underlying HY market fundamentals.*
- **CMBS Allocation has Provided Diversification and Total Return** – As of quarter-end, 0.4% of the portfolio had exposure to CMBS. The portfolio's current exposure includes AAA/AA-rated retail investments and mezzanine debt in mixed use and office. Of note:
  - The portfolio's investment in a single asset CMBS transaction collateralized by One Times Square, the site of the Times Square New Year's Eve ball drop, was defeased in April 2022. It is expected to pay off at par after a ~1.75-year hold in September 2022, achieving an 8.5%+ IRR. The Fund's cost basis for the A/A-rated tranche was $92-12. This asset was acquired as part of the investment team's "re-opening" thesis – the significant dollar price discount provided convexity for an iconic asset that has strong fundamental real estate value and a unique, visual advertising-driven business model. This investment will be carried as a AAA until its expected prepayment date in September 2022.
  - The portfolio's investment in a single asset CMBS transaction collateralized by West Town Mall, a Class A Simon super regional mall located in Knoxville, TN, paid off at par in July 2022, achieving a 4.75%+ IRR for the Fund's AAA-rated tranche investment over a ~1.5-year hold. The Fund's cost basis for the AAA-rated tranche was $99.40, initially made at the end of 2020. The investment was acquired as part of our "re-opening" thesis – that investments in high-quality COVID-sensitive assets (such as market-dominant malls) with compelling structural protections would outperform.

Outlook / Focus on CLO Relative Value

Issuance Forecast and Outlook

- CLO issuance is off to a strong start in 2022 with about $100BN in new issue volumes through the 3rd quarter. This is impressive given the volatility we have seen so far this year and is only down 15% from last year's record setting issuance. The size of the CLO market continues to grow in the U.S. and is now $900BN and over $1.1 trillion globally, which is now the largest credit sector within securitized products. For the remainder of 2022, we see issuance slowing down modestly to $125BN. CLO structures have continued to perform well over time and with higher rates and wider spreads; we believe demand will continue.

- After a period of negative performance, it's always worthwhile to try to assess what is being priced into valuations. Looking at credit specifically, there are several lenses which one can assess value: Yield to maturity, current yield, credit spread, cash price, duration, convexity, etc. In many cases, credit is looking attractive in all of the aforementioned ways. We discuss the CLO BB upside potential above, but also see opportunities now across other areas of credit. Taking U.S. high yield as an example, after looking relatively expensive for all of 2021, the index now trades at a price of $85, yields over 9% (highest since 2016 outside of the 3rd week of March 2020), with a spread of 505bps (83rd percentile over last 10 years), and a breakeven spread widening of 200bps (which means the index spread could widen a further 200bps over the next 12 months before one lost money on $1 invested). Similar pictures can be painted for bank loans. In general, credit went from pricing in very little slowdown in economic growth earlier in the year to pricing in a significant slowdown currently, but not yet a full proper recession.
- The fundamental outlook for credit deteriorated somewhat throughout the quarter. There were numerous earnings misses and guidance downgrades, particularly in the retail, automotive, tech hardware, and food sectors. The drivers of these earnings gaffs were mixed: supply chain issues, chip shortages, inventory mismanagement, cost inflation, rising interest rates, and weaker demand in spots (e.g. housing). Europe's energy crisis deepened further with the curtailment of the Nordstream gas pipeline, which led to a sharp spike in electricity prices and fears of gas shortages/rationing this winter. The sharp appreciation of the USD also led to some earnings pressures for US-based corporates, and is also, seemingly, causing financial stress in various areas/regions (JPY intervention, UK pensions, China property, etc.). Overall, however, the earnings misses so far have been mostly an equity problem (vs a credit problem). And by that we mean a lot of the guidance reductions are simply reducing growth targets (i.e. company X now sees sales up 2-5% vs 7-10% previously). While the housing sector and related industries are clearly seeing a slow down in activity, the overall consumer demand picture still remains robust. And the supply chain issues that plagued companies earlier in the year appear to be easing – just look at freight rates. So the earnings picture isn't entirely a bleak one. That said, the real time indicators along with anecdotal CEO commentary did indicate a sharp deterioration in demand late in the quarter. With that in mind 3rd quarter earnings will be hugely important, and likely dictate how the market performs for the rest of the year. To conclude, we will remind our readers that despite the admittedly cloudy fundamental outlook, corporate credit profiles started this cycle from a position of strength, having spent the previous two years reducing leverage, building liquidity and extending maturities post COVID-19. As such, we think defaults will be moderate and below prior cycle peaks.

Relative Value and Current Upside potential

- We see a lot of value in CLO debt at current levels, as spreads are near the wides only seen for a few short periods since 2008. If CLO debt levels return to their average post crisis spreads, total return potential is **very** attractive. Please see the table below highlighting current price/spreads and potential upside from current levels. Yield to expected illustrates yields if spreads were to stay the same and the bonds pull to par by maturity. The Average 1-year upside represents the 1yr total return if spreads return to their 10yr average levels, and the Tight 1-year upside represents the 1yr total return if spreads return to their 10yr tight levels.

*Please see Notes and Disclosure for definitions.

CLO LEVELS AND 1YR UPSIDE TO AVERAGE/TIGHTS					
Rating	Current Average Price	Discount Margin	Yield to Expected	Average 1yr Upside[1]	Tight 1yr Upside[2]
CLO AAA	$97.28	203	6.19%	8.50%	8.76%
CLO AA	$94.98	273	6.73%	11.12%	12.18%
CLO A	$91.76	378	7.82%	14.90%	16.53%
CLO BBB	$88.87	545	9.50%	20.04%	22.29%
CLO BB	$83.35	1014	14.33%	29.72%	35.12%
CLO B	$70.24	1478	19.18%	49.05%	55.45%

Source: JPM / Intex / Palmer Square. As of 9/30/2022. Below investment grade ratings are subject to higher risks. Figures shown are not indicative of the performance of the Fund. [1]Refers to the potential increase in value of the investment in on year if spreads return to 10-year average levels. [2]Refers to the potential increase in value of the investment in one year if spreads return to 10-year tight levels

- CLO BBs remain a significant allocation in the portfolio and at current valuations offer a lot of potential value on an absolute and relative basis. As compared to High Yield (HY) opportunities, CLO BBs on a historical basis still look very cheap. CLO BBs currently pick up 462bps of spread versus HY, which looking back to 2012 is a 98th percentile reading (meaning CLO BBs have been relatively cheaper only 2% of the time). The median spread differential over the same time period is 242bps, which means CLO BBs need to tighten* about 220bps just to get back to historical average levels vs HY.

CLO BB vs HY Spreads

Source: Bloomberg.

Fundamentals

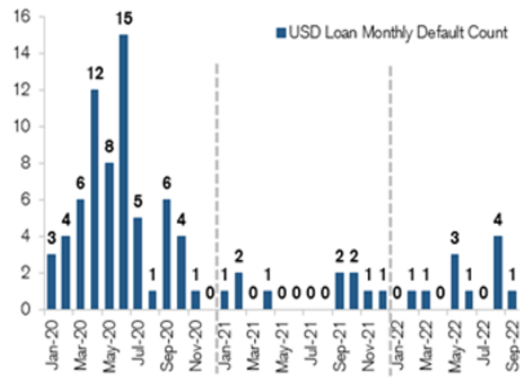
- As spreads drift wider with broader macro concerns, underlying loan fundamentals have been resilient. Loan defaults are still hovering near multi year lows at 1.1%, with only one default reported in September (see below). We expect defaults to tick modestly higher, closer to long term averages, near the 2% range. The percentage of underlying

*Please see Notes and Disclosure for definitions.

CLO collateral trading at distressed levels (under $80) is currently less than 4%, which is typically a good barometer of future defaults. Also, loans with maturities before 2024 represent a small portion of the loan market at about 9%, meaning refinancing risk is low. The current CCC% in CLO portfolios is under 4% and still have ample cushion to withstand an uptick in downgrades.

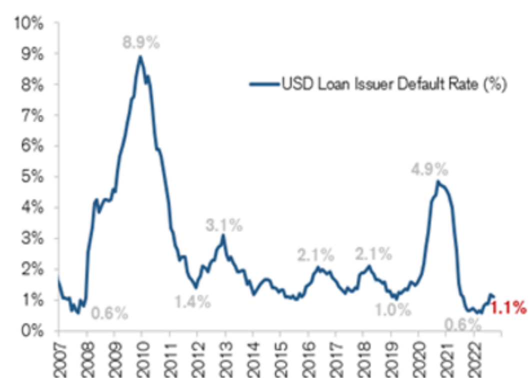
Exhibit 1 - Loan default rates continue to decline, distress ratio still low

One loan issuer default in Sep after four last month



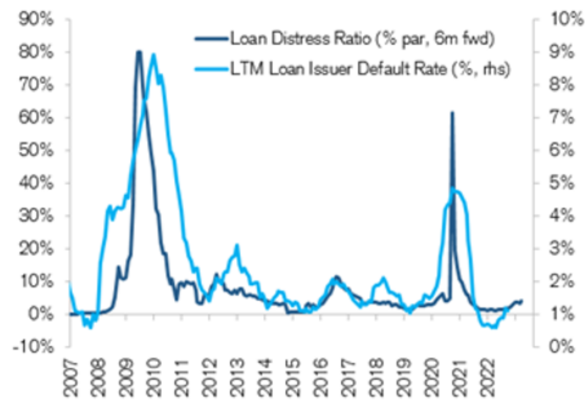
Source: Credit Suisse

Loan default rate has risen from record lows



Source: Credit Suisse

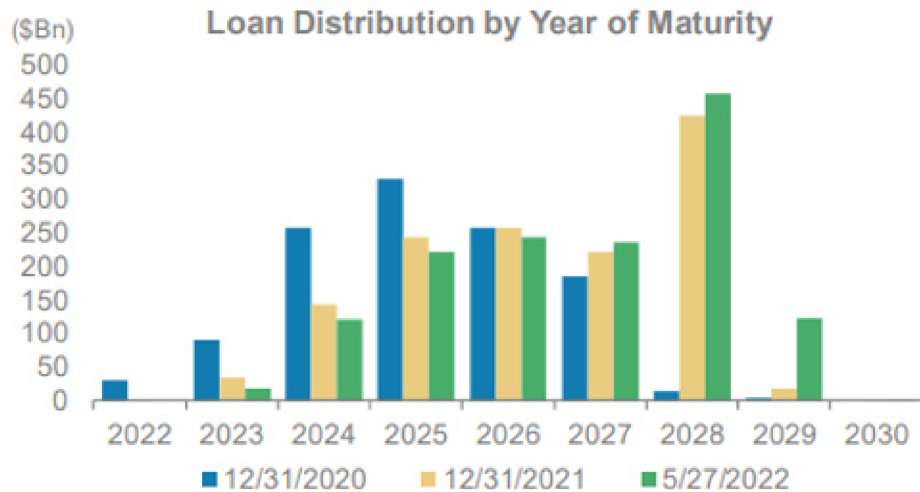
Loan issuer distress remains subdued



Source: Credit Suisse

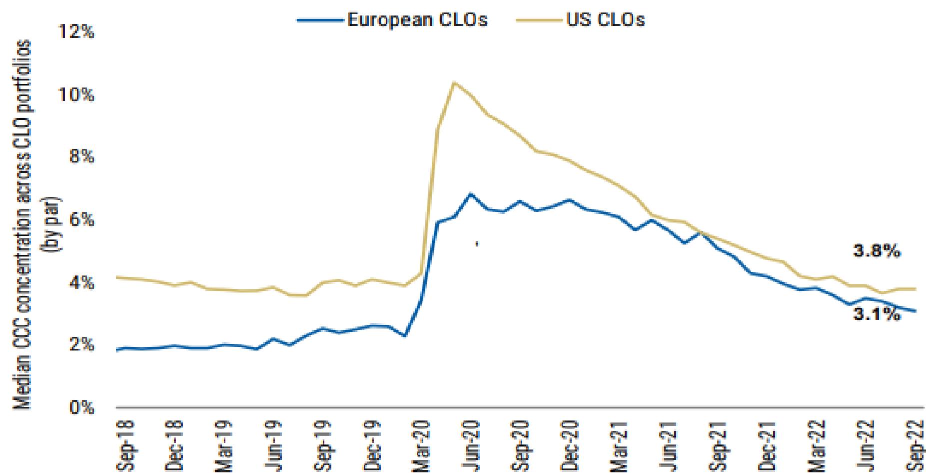
Source: Credit Suisse. As of 9/30/2022.

Exhibit 2 - Loan Maturity Wall



Source: Morgan Stanley, S&P LCD.

Exhibit 3 - CCC assets continue to decline in CLO Portfolios



Source: Morgan Stanley, Intex. As of 9/30/2022.

Summary

Given the portfolio positioning, we are confident in the outlook moving forward. We believe our portfolio is embedded with strong catalysts that will not only drive potential returns, but will also help mitigate volatility. More specifically, the portfolio has high current yield and the potential to generate price appreciation, and finally the portfolio has been providing low interest rate and relatively low spread duration*.

Please do not hesitate to contact us at investorrelations@palmersquarecap.com or 816-994-3200 should you desire more information. We would also be happy to set up a call and/or meeting at your convenience.

Notes and Disclosure

This overview is for informational and comparative purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any interests in the Palmer Square Opportunistic Income Fund, the ("Fund"), and/or any other securities, or to provide any other advisory services. Any offer to invest in the funds will be made pursuant to the Fund's prospectus, which will contain material information not contained herein and to which prospective investors are directed. Before investing, you should carefully read such materials in their entirety. This overview is not intended to replace such materials, and any information herein should not be relied upon for the purposes of investing in the Funds or for any other purpose. This overview is a summary and does not purport to be complete.

The Palmer Square Opportunistic Income Fund is a closed-end fund.

Interest Rate Duration measures a portfolio's sensitivity to changes in interest rates. **Spread Duration** measures the sensitivity of a bond price based on basis point changes of more than 100. **Yield To Call** is the yield of a bond or note if you were to buy and hold the security until the call date. **Yield To Maturity** is the rate of return anticipated on a bond if held until the end of its lifetime. **Current Yield** is annual income divided by price paid. **Beta** describes an investment's volatility in relation to that of the stock or bond market as a whole. For example, the S&P 500 is typically considered to be "the equity market" and it has a beta of 1.0. Yield to Expected Call is a Yield to Call metric that assumes callable bonds are not called on their call date, but at some later date prior to maturity. **Yield to Expected Call** considers contractual terms in a bond's indenture or other similar governing document. A bond may be called before or after this date, which has the potential to increase or decrease the Yield to Expected Call calculation. All else equal, when a bond's price is below par, Yield to Expected Call is a more conservative yield metric than Yield to Call. If a bond is not callable, Yield to Expected Call calculates the bond's Yield to Maturity. **Credit Spreads** are often a good barometer of economic health - **wide or widening (bearish sentiment)** and **narrowing/tight or tightening (bullish sentiment)**.

The **Bloomberg Barclays U.S. Aggregate Bond Index** is an unmanaged index of publicly issued investment grade corporate, US Treasury and government agency securities with remaining maturities of one to three years. The **Bloomberg Barclays 1-3 Year US Corporate Index** measures the performance of investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related debt with 1 to 2.9999 years to maturity. It is composed of a corporate and a non-corporate component that includes non-US agencies, sovereigns, supranationals and local authorities. **S&P 500 Index** is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S. **U.S. Treasury index** is an index based on recent auctions of U.S. Treasury bills and is commonly used as a benchmark when determining interest rates, such as mortgage rates. **Bloomberg Barclays U.S. Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. **Bloomberg Barclays U.S. High Yield Index** measures the USD-denominated, high yield, fixed-rate corporate bond market. **Bloomberg Barclays U.S. HY BB Corporates Index** tracks the performance of USD-denominated below investment grade rated corporate debt publicly issued in the U.S. domestic market. **Credit Suisse Leveraged Loan Index** tracks the investable market of the U.S. dollar denominated leveraged loan market. **Palmer Square CLO Senior Debt Index (CLOSE)** seeks to reflect the investable universe for U.S. dollar denominated CLOs. CLOSE is comprised of original rated AAA and AA debt issued after January 1, 2009 subject to certain inclusion criteria. **Palmer Square CLO Debt Index (CLODI)** seeks to reflect the investable universe for U.S. dollar denominated CLOs. CLODI is comprised of original rated A, BBB, and BB debt issued after January 1, 2009 subject to certain inclusion criteria. **Palmer Square CLO BB TR Index (PCLOBBTR)** seeks to reflect the investable universe for U.S. dollar denominated CLOs. The index is comprised of original rated BB debt issued after January 1, 2009 subject to certain inclusion criteria. **LIBOR** (London Interbank Offered Rate) is the benchmark interest rate at which major global banks lend to one another. As of January 1, 2022 many banks ar no longer required to submit the data needed to calculate the LIBOR rate. In June 2023, LIBOR will be replaced by SOFR. A **Reference Rate** is an interest rate benchmark used to set other interest rates. Various types of transactions use different reference rate benchmarks, but the most common include the Fed Funds Rate, LIBOR, the prime rate, and the rate on benchmark U.S. Treasury securities. Unlike mutual funds, indices are not managed and do not incur fees or expenses. It is not possible to invest directly in an index.

The allocation and credit quality distribution figures shown are used for illustrative purposes only. Palmer Square does not guarantee to execute that allocation and credit quality distribution. Allocation and exposures information, as well as other referenced categorizations, reflect classifications determined by Palmer Square as well as certain Palmer Square assumptions based on estimated portfolio characteristic information. Allocation and credit quality distribution figures may not sum to 100%. Ratings listed herein are assigned by Standard & Poor's (S&P) and Moody's Investor Service (Moody's). Credit quality ratings are measured on a scale with S&P's credit quality ratings ranging from AAA (highest) to D (lowest) and Moody's credit quality ratings ranging from Aaa (highest) to C (lowest). We use the higher of the two ratings. Credit ratings listed are subject to change. Please contact Palmer Square for more information.

Market opportunities and/or yields shown are for illustration purposes only and are subject to change without notice. Palmer Square does not represent that these or any other strategy/opportunity will prove to be profitable or that the Fund's investment objective will be met.

Notes and Disclosure cont'd

This material represents an assessment of the market environment at a specific point in time, is subject to change without notice, and should not be relied upon by the reader as research or investment advice. With regard to sources of information, certain of the economic and market information contained herein has been obtained from published sources and/or prepared by third parties. While such sources are believed to be reliable, Palmer Square or their employees or representatives do not assume any responsibility for the accuracy of such information. Palmer Square is under no obligation to verify its accuracy.

The performance presented here is past performance and not indicative of future returns. Different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will be profitable. Please note that the performance of the funds may not be comparable to the performance of any index shown. Palmer Square has not verified, and is under no obligation to verify, the accuracy of these returns. Past performance does not guarantee future results.

Collateralized Loan Obligations Risk – The Fund may invest in CLOs. The Fund is subject to asset manager, legal and regulatory, limited recourse, liquidity, redemption, and reinvestment risks as a result of the structure of CLOs in which the Fund may invest. A CLO's performance is linked to the expertise of the CLO manager and its ability to manage the CLO portfolio. Changes in the regulation of CLOs may adversely affect the value of the CLO investments held by the Fund and the ability of the Fund to execute its investment strategy. CLO debt is payable solely from the proceeds of the CLO's underlying assets and, therefore, if the income from the underlying loans is insufficient to make payments on the CLO debt, no other assets will be available for payment. CLO debt securities may be subject to redemption and the timing of redemptions may adversely affect the returns on CLO debt. The CLO manager may not find suitable assets in which to invest and the CLO manager's opportunities to invest may be limited.

The risks of an investment in a collateralized debt obligation depend largely on the type of the collateral securities and the class of the debt obligation in which the Fund invests. Collateralized debt obligations are generally subject to credit, interest rate, valuation, prepayment and extension risks. These securities are also subject to risk of default on the underlying asset, particularly during periods of economic downturn. Defaults, downgrades, or perceived declines in creditworthiness of an issuer or guarantor of a debt security held by the Fund, or a counterparty to a financial contract with the Fund, can affect the value of the Fund's portfolio. Credit loss can vary depending on subordinated securities and non-subordinated securities. If interest rates fall, an issuer may exercise its right to prepay their securities. If this happens, the Fund will not benefit from the rise in market price, and will reinvest prepayment proceeds at a later time. The Fund may lose any premium it paid on the security. If interest rates rise, repayments of fixed income securities may occur more slowly than anticipated by the market which may result in driving the prices of these securities down. The Fund is "non-diversified," meaning the Fund may invest a larger percentage of its assets in the securities of a smaller number of issuers than a diversified fund. Investment in securities of a limited number of issuers exposes the Fund to greater market risk and potential losses than if its assets were diversified among the securities of a greater number of issuers. Foreign investments present additional risk due to currency fluctuations, economic and political factors, government regulations, differences in accounting standards and other factors. Investments in emerging markets involve even greater risks. High yield securities, commonly referred to as "junk bonds," are rated below investment grade by at least one of Moody's, S&P or Fitch (or if unrated, determined by the Fund's advisor to be of comparable credit quality high yield securities).

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