Palmer Square Opportunistic Income Fund (PSOIX)

July 2025

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 both corporate credit and structured credit.

Performance Summary

The Fund returned +1.75% (net of fees) for the second quarter of 2025.

We remain confident in our positioning in CLO (Collateralized Loan Obligation) Debt, bank loans and high yield bonds as well as believe the total return outlook still remains very attractive. The current yield on the Fund is now 7.52%.*

Fund Performance Net of Fees as of 06/30/2025 (inception 8/29/2014)

	Q2 2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014[1]
PSOIX	1.75%	11.50%	18.94%	-4.48%	6.66%	5.92%	7.59%	-0.47%	11.05%	12.10%	-5.32%	-0.76%

	1 Year	3 Years	5 Years	10 Years	Since Inception Annualized[1]
PSOIX	7.38%	12.10%	9.59%	5.89%	5.83%

[1]Inception date is August 29, 2014. Annual Expense Ratio: Gross 2.35%/Net 2.35% with expense waivers that are in effect until December 1, 2025. See expense waiver details in Notes and Disclosures. The performance returns shown above are calculated by comparing the net asset value (NAV) on the first day of the time period to the NAV on the last day of the time period and reflect reinvested dividends and capital gains. Returns less than 1 year are not annualized. **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.

	06/30/2024	09/30/2024	12/31/2024	03/31/2025	06/30/2025
Interest Rate Duration	0.36 yrs	0.40 yrs	0.40 yrs	0.43 yrs	0.43 yrs
Spread Duration	2.38 yrs	2.35 yrs	2.17 yrs	2.15 yrs	2.24 yrs
Credit Spread	471	443	397	346	356
Weighted Average Price	$99.4	$99.5	$99.8	$99.3	$99.5
Yield to Expected Call	9.10%	7.91%	7.77%	7.06%	6.97%
Yield to Maturity	8.94%	7.84%	8.02%	7.15%	7.02%
Current Yield	9.79%	9.37%	8.29%	7.48%	7.52%

Past performance does not guarantee future results.

Allocation / Attribution Summary

Select Portfolio Attribution and Characteristic Dashboard

Allocation	06/30/2025 Allocation	Q2 2025 Gross Attribution	Average Price	Yield to Expected Call*
CLO Debt	76%	1.55%	$100.0	7.28%
Bank Loans	15%	0.36%	$98.6	7.41%
High Yield Bonds	6%	0.29%	$97.7	7.20%
Sub Notes	1%	-0.77%	n/a	17.96%
ABS/MBS/CMBS	1%	0.02%	$91.1	12.76%

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

**Please see Notes and Disclosures for definitions.*

Historic Positioning Detail by Asset Type:

	06/30/2024 Allocation	09/30/2024 Allocation	12/31/2024 Allocation	03/31/2025 Allocation	06/30/2025 Allocation	Q2 2025 Gross Attribution
CLO Debt	74%	72%	74%	71%	76%	1.55%
Bank Loans	17%	18%	17%	17%	15%	0.36%
High Yield Bonds	5%	6%	6%	9%	6%	0.29%
Sub Notes	3%	3%	2%	2%	1%	-0.77%
ABS/MBS/CMBS	1%	1%	1%	1%	1%	0.02%

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.

- **Performance and Attribution: The Fund returned +1.75% (net of fees) for the second quarter of 2025.** After the widening in April due to the Liberation Day selloff, the positive absolute performance was driven by a broad-based rally in credit spreads during the rest of the quarter and high coupons, particularly within our CLO exposure. Also, as Fed interest rate cuts have slowly been priced out over the course of the year, technicals for floating rate products have been favorable. The Fund's exposure to CLO debt and sub notes provided the largest contribution at +1.57%, followed by bank loans at +0.35% and HY (High Yield) bonds at +0.31%. There were no meaningful detractors during the quarter. Below is a summary of major benchmark performance for comparison.

Selected Indices*	Q2 2025 Performance	YTD 2025 Performance
Bloomberg U.S. Treasury Index	+0.85% (Yield -0.08%)	+3.79% (-0.43%)
Bloomberg U.S. Aggregate Bond Index	+1.21% (spread -2bps)	+4.02% (-1bps)
Bloomberg U.S. Corporate Index	+1.82% (spread -9bps)	+4.17% (+4bps)
Bloomberg 1-3 Year U.S. Corporate Index	+1.48% (spread -4bps)	+3.13% (+1bps)
Bloomberg U.S. High Yield Index	+3.53% (spread -54bps)	+4.57% (+4bps)
iBoxx Liquid Leveraged Loan Index	+2.35% (DM -46bps)	+2.25% (-16bps)
Palmer Square CLO Senior Debt Index	+1.53% (DM -9bps)	+2.83% (+5bps)
Palmer Square CLO Debt Index	+2.27% (DM -23bps)	+3.83% (+5bps)
S&P 500 Index	+10.94%	+5.50%
STOXX 600 Index	+3.29%	+6.65%

Source: Bloomberg as of 06/30/2025. Bps = basis points or 0.01%

Macro Takeaways and Outlook

- **Tariff Uncertainty Here to Stay:** We believe there remains considerable uncertainty on the scope and severity of tariffs and trade policy generally. And while there has been some token deals reached already, combined with delays and "broad strokes" agreements, we think tariff uncertainty will be a theme throughout the second Trump term.
- **Lower But Still Positive Growth:** Tariffs will likely have some negative impact on growth in the near term; the consensus estimate for 2025 GDP growth declined from 2.2% to 1.5% since April. But the fears of a tariff-driven recession in April now seem exaggerated.
- **The AI Capex Boom is a $2.9 trillion private sector stimulus:** This is a theme we have been amplifying for several quarters now, but it just keeps getting bigger and more impactful. Regardless of your view on the impact of AI or the valuation of AI-related companies, there is a space-race occurring to be the first mover. Companies like Meta and Google view AI as an existential threat/opportunity and are throwing hundreds of billions of dollars into the AI arena. This money is being spent and will likely continue to be spent for years, even if the ROIC ends up being disappointing. A recent report from Morgan Stanley projects AI spending to reach $2.9

trillion from 2025-2028. This surge of capital will have a significant trickle-down demand effect, including chips, datacenters, fiber, electricity, rare earths, electronics, construction, etc.

- **Fiscal Policy and Rate Volatility:** On top of the largest private sector stimulus in history we also have the One Big Beautiful Bill, which codifies in 5-6% deficit spending for at least the next 3 years. This level of spending is unprecedented in peace time, but also depressingly the new status quo in Washington. This presents a very weak set up for long-end treasuries, which are dealing with both a demand problem (tariff uncertainty, de-dollarization) and a supply problem (record deficit spending). This foretells more volatility in long-end treasury yields, regardless of what the Fed does to the short-end.
- **Floating Rate as a Core Allocation:** Give this backdrop of rate volatility, we think floating rate income should demand a core allocation in everyone's portfolio. The tailwinds that once propelled the traditional core duration allocation are now secular headwinds. Not only does floating-rate neutralize rate volatility, but it also offers a significant spread pick-up versus traditional corporate credit.
- **Tighter Spreads + Less Dispersion = Discipline and Patience:** The credit market has largely retraced any/all spread widening since Liberation Day. We believe this warrants near-term caution, and means investors need to be more patient and selective in the credit exposure.

Relative Value and Current Upside Potential

- **We see value in CLO debt at current levels, as spreads are still wide compared to other areas of corporate credit.** If CLO debt levels return to their tight post crisis spreads, total return potential is still attractive. We currently favor newer vintage issue CLO deals with cleaner portfolios. Please see the table of indices below highlighting current price and spreads as well as potential upside from current levels. Yield to Expected (YTE) illustrates the yields if spreads were to stay the same and the bonds pull to par by maturity. The Average 1yr Upside represents an opportunity for the 1-year total return if spreads return to their 10-year average levels, and the Tight 1yr Upside represents the opportunity for the 1-year total return if spreads return to their 10-year tight levels.[1,2]

PALMER SQUARE CLO INDEX 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	$100.11	117	4.98%	5.63%	6.00%
CLO AA	$100.07	159	5.46%	6.12%	6.49%
CLO A	$100.14	183	5.77%	6.40%	6.78%
CLO BBB	$100.21	281	6.75%	6.79%	8.54%
CLO BB	$97.78	638	10.28%	11.53%	14.60%
CLO B	$69.92	1113	14.95%	23.58%	29.30%

Source: JPM / Intex / Palmer Square. As of 06/30/2025. 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 one 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. The potential increase in value is calculated by determining the return resulting from the positive or negative difference between the current price of the securities and the price of the securities at the respective spread levels noted in the above performance (i.e., spread levels at 10-year averages) plus the income from anticipated coupon payments over the next 12 months. For purposes of this analysis, anticipated coupon payments incorporate the forward LIBOR/SOFR curve. The presented performance does not reflect the impact of material economic and market factors on decision making, any changes to the Fund over time, and was prepared with the benefit of hindsight. Please see Notes and Disclosures for definitions.

- **<u>CLO Allocation/Opportunity to Capture Income and Total Return:</u>** As of quarter-end, CLO Debt and Sub Notes accounted for 73% of the portfolio, roughly flat quarter-over-quarter. CLO BBBs are currently trading on average at a spread of 310bps and CLO BBs are at a spread of 596bps for higher quality portfolios. We were able to take advantage of wider spreads in April, while tactically selling deals with lower quality portfolios as spreads in May and June. *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.*

- 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 HY opportunities, CLO BBs on a historical basis still look very cheap. CLO BBs currently pick up 358bps of spread versus HY, which looking back to 2012 is a 62nd percentile reading (meaning CLO BBs have been relatively cheaper only 38% of the time). The median spread differential over the same time period is 308bps, which means CLO BBs need to tighten* about 50bps just to get back to historical average levels vs HY. Also of note, HY and IG spreads have tightened more relative to CLOs during the rally in May and June

CLO BB vs HY Spreads

Source: Bloomberg as of 6/30/2025. Current performance is not a guarantee of future performance of the Fund. LF980AS is the Bloomberg U.S. Corporate High Yield Option-Adjusted Index. PSBBDMSF is the Palmer Square CLO BB Discount Margin Index.

- **<u>Bank Loan Allocation:</u>** As of quarter-end, bank loan exposure was 15.0% of the portfolio, slightly below that of Q1 2025. April's tariff-related disruption was very short-lived, as the strong technical in loans meant prices snapped back quickly once the administration announced a 90 day pause on tariffs. The window to deploy capital at dislocated prices was narrow, yielding few opportunities. However, the quick rally meant the primary market reopened very quickly after shutting for the month of April. This generated a decent number of new money opportunities at attractive spreads throughout May and into June. *We continue to view the asset class as attractive given the combination of high current income and low interest rate duration (particularly given the uncertainty in rates). We plan to focus our efforts on selecting high quality credits in the primary market, as well as total return opportunities.*

*Please see Notes and Disclosure for definitions.

- **<u>High Yield Bond Allocation:</u>** As of quarter-end, HY corporate bond exposure was 6.3% of the portfolio, down from 9.2% the prior quarter. Early in the quarter, tariff-related market swings led to appealing secondary market opportunities. Bonds with minimal tariff exposure were indiscriminately sold off, allowing us to boost our HY exposure at favorable spread levels. We gradually reduced HY exposure throughout the remainder of the quarter as spreads continued to grind tighter and ended the quarter at or below first quarter levels. Although secondary spreads became less compelling near the end of the quarter, a very active primary market in June did produce attractive new issue opportunities in both the US and Europe. *The HY corporate bond allocation is likely to remain at or near current levels with a focus on idiosyncratic total return opportunities.*

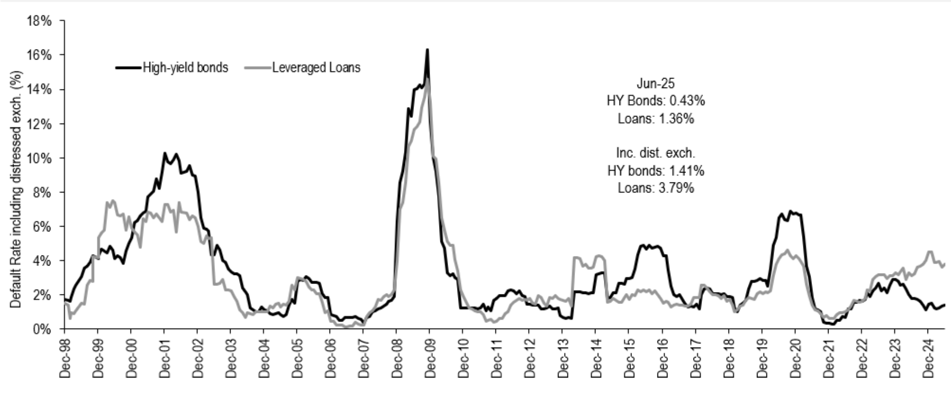
Outlook / Focus on CLO Relative Value

- **<u>CLO Issuance Forecast and Outlook:</u>** CLO issuance set a new record in 2024 at $201bn, up about 73% from 2023 levels. Reset/refi activity has also exploded higher with $306bn priced in 2024. The size of the CLO market continues to grow in the U.S. and has surpassed $1 trillion and $1.4 trillion globally, which is now the largest credit sector within securitized products. Demand continued in 2025 with $96.8B in new issue (-4% YoY) and $159B in refi/resets.

Fundamentals

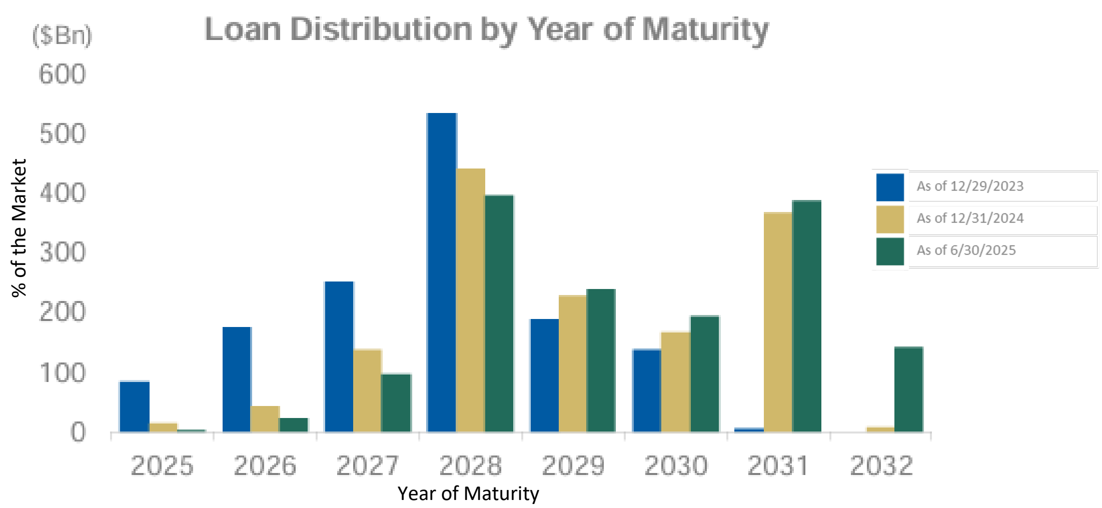
- Loan defaults including restructurings are above long-term averages at 3.79% including distressed exchanges (down from 4.49% in Q4 2024 and 3.86% last quarter), however current defaults in CLO portfolios are lower at 0.46%. We foresee defaults to settle in during the year and remain in the 2-3% range, closer to long-term averages. The percentage of underlying CLO collateral trading at distressed levels (under $80) is currently around 3.26%, which is typically a good barometer of future defaults (Palmer Square deals are much lower in the 1-3% range). Also, loans with maturities before 2026 represent a small portion of the loan market at about 3%, meaning refinancing risk is low. The current CCC% in CLO portfolios is 4.5% range and continue to slowly trend lower since the highs in 2023 and still have ample cushion to withstand an uptick in downgrades.

Exhibit 1: Loan default rates below recent highs



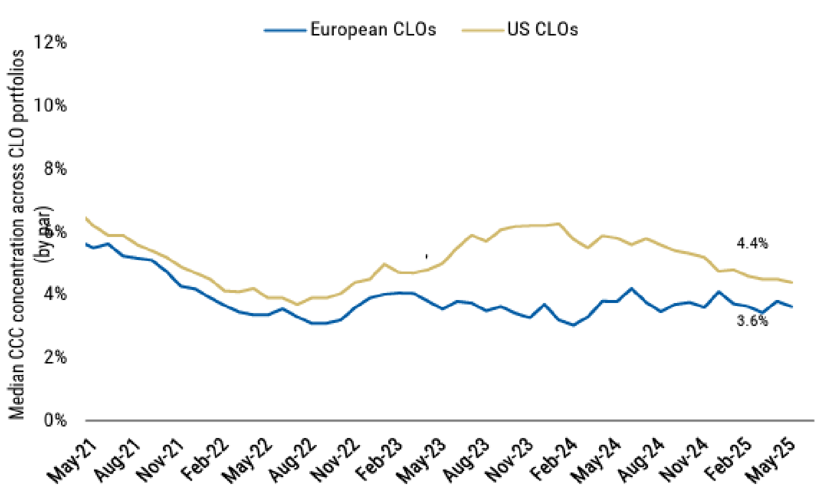
Source: J.P. Morgan; PitchBook Data, Inc; Bloomberg Finance L.P.; S&P/IHSMark; Data as of 6/30/2025

Exhibit 2: Loan maturities by YE 2026 came down by $215bn (79%) in 2024 and continue to decline



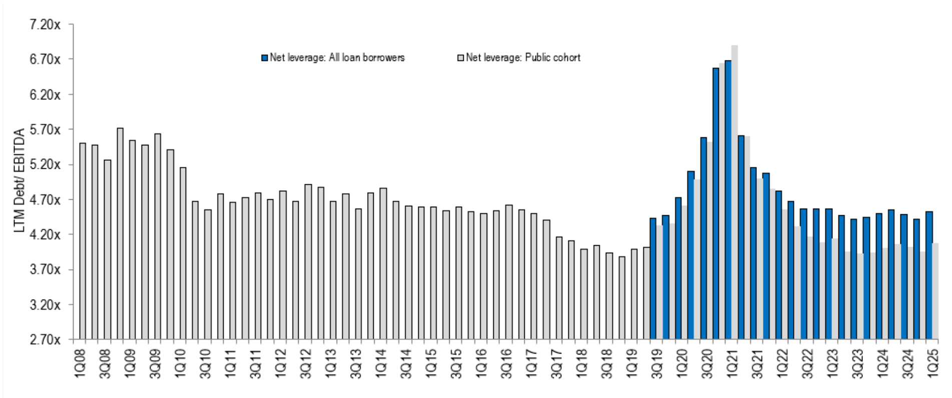
Source: ICE, Pitchbook LCD, Morgan Stanley Research as of 6/30/2025

Exhibit 3: Median CCC assets in CLO portfolios



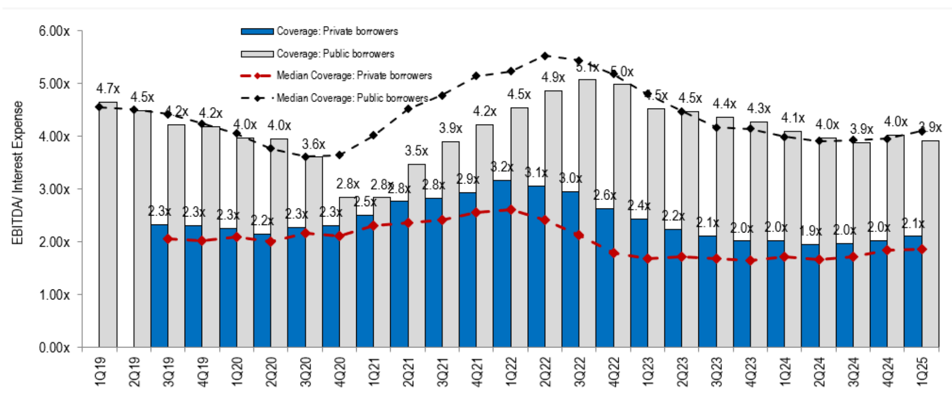
Source: Morgan Stanley Research, Intex. Data as of 6/30/2025

Exhibit 4: Loan gross leverage still near multi year low
Bank Loan Net Leverage (TM)



Source: J.P. Morgan, Capital IQ; Bixby Research and Analytics, Inc.

Exhibit 5: Interest coverage ratios in line with historical averages, larger companies outperform



Source: J.P. Morgan, Capital IQ; Bixby Research and Analytics, Inc.

Notes and Disclosures

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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 interval fund. You should not expect to be able to sell your Shares other than through the Fund's repurchase policy, regardless of how the Fund performs.

The Fund's advisor has contractually agreed to waive or reduce its management fees and/ or reimburse expenses of the Fund to ensure that total annual Fund operating expenses (excluding taxes, leverage interest, brokerage commissions, dividend and interest expenses on short sales, acquired fund fees and expenses, expenses incurred in connection with any merger or reorganization, and extraordinary expenses such as litigation expenses) do not exceed 1.50% of the Fund's average daily net assets. This agreement is in effect until December 1, 2025, and it may be terminated before that date only by the Fund's Board of Trustees. The Fund's advisor is permitted to seek reimbursement from the Fund, subject to certain limitations, of fees waived or payments made to the Fund for a period of three years from the date of the waiver or payment.

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 Yield is a weighted calculation of the annual coupon rate divided by the price of each individual security within the portfolio and represents the return an investor would expect if the securities were held for a year and the price did not change. 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 option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is then adjusted to take into account an embedded option. Typically, an analyst uses Treasury yields for the risk-free rate. The original issue discount (OID) is the difference between the original face value amount and the discounted price paid for a bond. The option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return. Basis points (BPS) refers to a common unit of measure for interest rates and other percentages in finance. The relationship between percentage changes and basis points can be summarized as follows: 1% change = 100 basis points and 0.01% = 1 basis point. Return on Invested Capital ("ROIC") is a financial metric used to evaluate a company's efficiency and profitability in generating returns from the capital it has invested in the business.

The Bloomberg 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 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 U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. Bloomberg U.S. High Yield Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Bloomberg 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. The STOXX 600 Index seeks to offer broader exposure to European companies. Thus, it's often cited as a close European alternative to Standard & Poor's 500 Index (S&P 500). 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 are no longer required to submit the data needed to calculate the LIBOR rate. 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 Disclosures (cont'd)

CAPEX refers to capital expenditure or the money a company spends to buy, improve or maintain long-term assets. **Magnificent 7** is a common term used to represent seven specific technology companies (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla). The **Atlanta Fed GDPNow** model forcast GDP (gross domestic product) growth by aggregating the 13 subcomponents that make up GDP with the chain-weighted methodology used by the U.S. Bureau of Economic Analysis. **Core CPI** (consumer price index) is a measure of inflation that excludes the price of food and energy. **Yield Curve** is a graph that plots the yield (or interest rate) across different maturity dates. **YTW** (yield-to-worst) is a financial metric that calculates the lowest possible return on a bond. **Put Strike**, also known as the exercise price, is the predetermined price at which the holder of a put option can sell the underlying security or asset.

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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