

Monthly commentary

MAY 2026

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May marked a continuation of the trends in play in April. The Strait of Hormuz remains closed and progress towards a proper cessation of hostilities is fitful, but there is too much excitement in equities for markets to trade anything other than well. Unceasing enthusiasm for the artificial intelligence (AI) story and the first quarter 2026 uplift in corporate earnings powered equity markets higher. Global rates markets were more attuned to the inflationary implications of the continuing Middle East crisis and tended to fluctuate with oil, which traded 10% lower on the month, as confidence built in the progress of negotiations between Iran and the United States.

Emerging markets debt (EMD) continued to trade positively with the JP Morgan EM Equal Weight Index +0.74% on the month, with the strong risk environment driving a continued grind tighter in spreads (-10 basis points (bps) to 237 bps for the EMBIG Div sovereign spread). While U.S. yields ended the month higher (+10 bps to 4.37%), finally succumbing to the reality of increasing inflation and limited immediate economic weakness leading to a more hawkish Federal Reserve (Fed) reassessment, emerging markets (EM) local (-20 bps) and EUR rates (-10 bps) outperformed on the month trading more correlated to the move in oil prices. As many volatility indices continue to move lower, EM carry continues to act as a large driver of all-in returns. The Finisterre Emerging Markets Debt Total Return strategy performance marginally outperformed that of the blended index by 19 bps gross (13 bps net) over the month but displayed a less volatile behaviour through the U.S. yield spike in mid-month thanks to its lower duration and foreign exchange (FX) risk exposures.

Market overview

The process of finding a durable end to the Iranian conflict has been noisy and nonlinear. Recent months have made clear to the White House, the Iranians, and the rest of the world, that the U.S. administration has a weaker negotiating position than it would like: having imposed a war on Iran, it is unable to impose a peace. The President has done a masterful job of guiding markets to believe that this is almost over without tangible evidence that the Americans and the Iranians have found mutually acceptable common ground on the key points of dispute. Additionally, the Israeli's have continued to press their advantage in Lebanon and Gaza both to advance their situational interests while attention is elsewhere and potentially undermining the negotiations with Iran.

May was a volatile month for oil with prices moving up and down based on actual or expected progress towards an end to the crisis. Prices spiked in the middle of the month but trended progressively lower into month end as the market bought into the proposed 60-day U.S.-Iran truce to reopen the Strait of Hormuz and allow shipping flows to normalise. The fact the prices have moved below \$100 per barrel once again is testament to a broad confidence that we are close to regaining access to Gulf production capacity. The relative calm in oil markets is a reflection of the huge drawdown in global stocks that has occurred since the beginning of the crisis. The depletion of these stocks makes it imperative that a resolution is forthcoming forthwith since these buffers to contain prices will not last much longer. The need to rebuild these commercial and strategic inventories will also keep a floor on prices for some amount of time going forward.

As noted, for the last couple of weeks U.S. rates have traded with a strong correlation with oil—peaking with oil in the middle of May and declining from that peak as oil trended lower. While oil has been the dominant driver of rates, a more profound reassessment of the potential trajectory of Fed policy has also been in play. Markets have moved from pricing in multiple interest rate cuts at the start of the year to anticipating that the

Fed will hold rates steady, with a growing probability of rate hikes due to stubborn inflation.

Even before the spike in energy prices caused by the Middle East crisis, some Fed governors were expressing concern about the persistence of inflation amidst labor market strength. The minutes of the last meeting at the end of April showed that the majority of the committee would tighten policy if inflation continued to run above 2% with some looking to remove the easing bias from the statement altogether. Kevin Warsh will walk into his first meeting as Chair with the governors increasingly reading hawkish: most now explicitly agree that “some policy tightening would likely become necessary” if inflation continues to hover stubbornly above the 2% target. Christopher Waller (no longer simpering on the Apprentice) came out swinging: “I can no longer rule out rate hikes further down the road if inflation does not abate soon.”

Market expectations have indeed shifted towards additional inflationary concerns tilting the monetary policy balance towards higher rates. The U.S. economy remains in good shape thanks to the AI capex wave and associated strong equity index performance supporting corporate and consumer spirits. The modest weakening in the labor market seen at the end of last year seems to have shifted positively. CPI came in hot, printing 3.8% year-over-year and core PCE edged up to 3.2%. Inflation is forecast to continue heading higher in the near term with a potential respite in the later part of the year.

A real change in the data (weak labor or moderating inflation) can shift the outlook but at this stage the momentum continues to be in favour of more incremental hikes in the U.S. yields look attractive, perhaps it may be too aggressive to fade this move higher in U.S. yields at this point. That is in contrast to our views on European rates, where we feel that the European Central Bank will struggle to deliver more than one or two hikes, versus the more than three currently priced.

Additionally, although duration is mainly trading as a function of the front end at present, it feels as though we are a heartbeat away from concerns around fiscal risks manifesting again (which would create pressure on duration). Bond vigilantes remain well awake in G10 government debt markets, and an uncontrolled rise in long-end yields has the potential to ultimately spoil the AI-related equity and credit spread party.

The performance of U.S. and EM equity markets over the last two months has indeed been exceptional in nominal terms but equity bulls would note that the performance of earnings has been equally remarkable. S&P 500 earnings are up almost 30% year-on-year—an achievement normally limited to a post-recession recovery. Although this is almost exclusively led by companies benefitting from the AI story, U.S. 1Q earnings strength has been broader based than initially expected. EM equities have also become an AI/tech thematic trade of their own, with Samsung and Hynix semiconductors leading the Korean equity index earnings forecasts towards +300% and Taiwan's TAIEX at almost 25%. Even European earnings are tracking for the best growth in three years largely led by the exceptional performance of energy companies.

The focus going forward should shift to the outlook for that “K” shaped narrative about the global economy, which resurfaced last month: on the one hand, the seemingly unstoppable advance of the AI capex boom, boosting energy generation needs and semiconductors prices globally, and on the other hand, many other economic sectors (no longer adequately captured in equity indices) or government balance sheets, which have to somehow absorb the lingering cost of the ongoing oil and energy supply shock. Only upcoming macro and earnings data will tell how much of a payoff

Portfolio statistics

Strategy AUM USD mn (month-end)	7,356
Current yield^{*1}	6.30%
YTW^{*1}	7.62%
YTM^{*1}	7.92%
Duration (cash adjusted)	4.17
Rating	BB
Cash & equivalents	8.51%
Net EM exposure	58.27%
Gross EM exposure	141.81%
Long	100.04%
Short	-41.77%

Active EM exposures	Net	Gross
Hard Currency Bonds	62.2%	62.2%
Local Currency Bonds	27.1%	27.1%
EM FX Total	-4.2%	17.15%
CDS	-31.1%	31.08%
IRS	1.26%	1.26%

Cash / hedge exposures	Net	Gross
DM Rates	8.1%	8.1%
DM FX Total	-	-
US Treasury Notes	-	-
US T-bills	-	-
Free Cash	8.5%	8.5%

Top 5 sovereign / quasi exposures	NAV
PETROLEOS DE VENEZUELA SA	1.69
CHILE (REPUBLIC OF)	1.57
UKRAINE REPUBLIC OF (GOVERNMENT)	2.02
PETROLEOS MEXICANOS	2.13
GHANA (REPUBLIC OF)	1.30
Total top 5	8.71

Top 5 corporate exposures	NAV
SAAVI ENERGIA LUXEMBOURG SARL	0.91
IVANHOE MINES LTD	0.90
VEON HOLDINGS BV	0.92
ALDAR PROPERTIES PJSC	0.91
CZECHOSLOVAK GROUP AS	0.92
Total top 5	4.56

Source: Principal Finisterre. As of 31 May 2026. Information shown above is from the representative portfolio of the Finisterre Emerging Markets Debt Total Return Strategy. NAV is defined as the sum of absolute market value adjusted for derivatives and hedges.

^{*1} Yields and yield related characteristics shown are only one component of performance or expected performance and are not and should not be viewed as a statement of the current or future performance of the strategy. See the gross and net performance of the strategy.

there should be for war-related energy and commodity supply disruptions.

Our USD view essentially follows from the above: U.S. rates are likely to be priced higher, and the U.S. is growing strongly (and much more strongly than the rest of the world). U.S. growth will likely be double that in Europe and 2.5 times Japan and the U.S. is functioning as the primary and indispensable engine of global growth for the remainder of 2026. There are factors at play that make the dollar less appealing than it was historically, but it is hard to see a repetition of last year's dollar weakness. If there are issues in the U.S. (i.e. AI bubble deflation) that will be a massive risk off factor and will take out global growth (USD positive ceteris paribus).

For much of 2025 it looked as if Turkey was going to be able to engineer a relatively painless process of policy normalisation. The return to orthodox monetary and fiscal policies was delivering disinflation without a dramatic hit to growth. High nominal and real rates, together with a stable pace of depreciation made the carry trade a low-risk proposition for both local and foreign investors, while keeping dollarization risks at bay. Although the carry trade continues to look relatively attractive, many of 2025's tailwinds have turned into headwinds in 2026. The disinflationary process has stalled, and the current account has weakened as a consequence of higher energy prices, gold imports, and some exports weakness due to the currency's real appreciation. Expectations for monetary policy easing have receded with renewed inflationary pressures. May also saw fresh political noise as the Ankara appeals court invalidated the Republican People's Party's (CHP) 2023 party convention, removing Özgür Özel and reinstating Kemal Kılıçdaroğlu. The engineered chaos in the leading opposition party and the positive views of Recep Tayyip Erdoğan's foreign policy acumen during the Middle East crisis significantly increases the odds of early elections. The previous narrative assumed that Erdoğan would wait for a further reduction in inflation and play for 2027. With economic dynamics unlikely to improve in the near term, there is little incentive for him to wait for next year. We continue to run a long TRY position but have sold down our domestic bonds. In credit, we maintain some shorter duration high yield corporate exposures but are wary of the compressed risk premia (Turkey CDS trading low 200s).

Venezuela announced in mid-May the hiring of advisors Centerview Partners with the aim of kicking off a debt restructuring process. This takes what has been an optionality trade into a new phase where the optimism needs to make progress towards a real deal. We are under no illusion that this restructuring process will be anything but "normal", as many precedents are being broken: no International Monetary Fund involvement, Office of Foreign Assets Control (OFAC) licenses still needed, legitimacy questions for the Delcy administration, and an opaque U.S. government. However, we see a big enough space in the middle of Venezuela, U.S., and bondholders interests for there to be a deal worth pursuing. Venezuela/PDVSA bonds hit multi-year highs during the month before finishing flattish on profit taking. We have similarly tactically modestly reduced our exposure but see the story as one

of the most compelling trades in EMD over the medium term, just one we need to express a bit more tactically.

Performance and portfolio positioning

For the month of May, the Finisterre Emerging Markets Debt Strategy returned +0.93% gross (0.87% net) marginally outperforming the JP Morgan EM Equal Weight Index which returned +0.74%. Hungary local positions continued to be a large contributor with continued inflows into the local market post-election, combined with a dovish central bank hold, paving the way for a series of cuts starting during the summer. Ukraine has also benefitted from the Hungary election outcome with the unblocking of European Union (EU) funds and there has also been growing optimism of a ceasefire which has contributed to a strong month for external bonds. Our other local market exposures in Egypt and South Africa also saw positive contributions as they continued to recover along with the tentatively more positive news on the conflict. Our largest detractors were our credit hedges in Itraxx Xover and CDX HY as strong equity earnings saw a dumping of credit protection.

The main portfolio change on the month has been to incrementally add duration via futures in 5-year U.S. Treasury, 5-year Bunds, and selective local bonds. While our broader view remains that any lasting resolution to the Gulf situation will take time to negotiate and that the energy price shock will have a more lasting impact on inflation, the move in yields has been equally sharp. Taking a more medium-term view where the energy shock will also hit global growth and where policy rates will be restrictive, we saw value in incrementally adding duration. We have continued to be biased to lower credit spread exposure and FX risk, where the risks are relatively more underpriced. The portfolio also continues to focus on more idiosyncratic opportunities.

Outlook

This is a difficult juncture for investors—particularly fixed income investors. Global growth will slow somewhat as a function of the Middle East crisis, but the early indications are that it is a headwind rather than a body blow. In this environment, EM assets should trade well—as they have been. The catch here is two-fold. Firstly, risk premia have compressed—credit spreads are at some of the tightest levels in recent memory. Secondly, yields—the most attractive part of the fixed income equation in an environment of compressed premia—are potentially vulnerable to being made even more attractive by further inflationary pressures. Breakevens at these yields' levels provide protection, particularly in shorter duration assets, but a meaningful move higher would still be painful for those too.

The data makes clear that there are real inflationary pressures globally that will not be easily resolved even with some kind of 'deal'. Having been slow to react in 2022 (particularly in developed markets) no central bank wants to repeat that mistake, even if it is clear that 2026 is not 2022.

The noticeable change over the past month has been how much the AI narrative has expanded as a driver of

risk appetite, over and above war-related concerns. The "K" shaped economy narrative has come back in force as a useful template to discuss regional disparities in outlook between the U.S., Europe, Asia, and the rest of EMs. One has to assume that, pending macro or 2Q earnings data over the next few weeks (which may or not paint a more sober picture of the negative growth impact of the commodity supply shock), the two key drivers of investors sentiment will remain: 1. a belief that somehow a ceasefire will be delivered and 2. the AI and tech narrative remains alive and well.

In this environment we do not dislike EMD assets at all. The AI capex boom, the energy supply shock, or specific election events offer fresh idiosyncratic or relative value opportunities linked to how certain countries benefit or not from the situation.

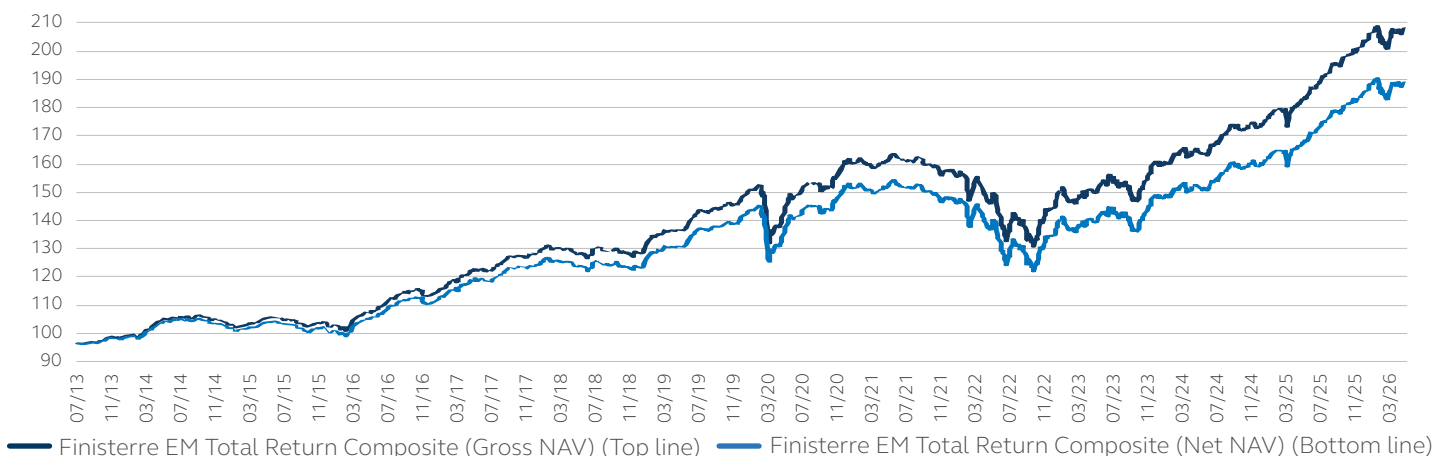
For example, in the past year the Israeli shekel and the Korean won have displayed opposite dynamics, based on different FX hedging and technical patterns, despite both economies being major beneficiaries of the AI/tech boom. Brazilian oil related corporates should continue to ride the unprecedented (and timely) rise in the country's oil production. Uzbekistan and Kazakhstan remain havens of macro stability given their strong terms of trade position. EM telcos remain defensive macro plays in a world of broad currency stability. Some elections (like Hungary in April, but now Colombia and Peru, and later this year in Brazil and Israel) can lead to drastic policy changes creating opportunities. Meanwhile potential for debt restructuring (Venezuela), or not (Senegal), or recent Ukrainian battlefield successes amidst fresh EU funding continue to offer idiosyncratic "alpha" potential.

In our portfolios, we continue to pursue an "income-maximization" and "alpha-seeking" approach and see little in terms of immediate beta opportunities. Short duration sovereign and corporate credits and local bonds continue to make sense as "carry to volatility" plays, even in a world of tighter credit spreads, where yield harvesting remains the best argument and risk visibility feels clear. We remain relatively light in both hard and local currency duration exposure but are eyeing the moment where growth concerns from the oil price shock will start outpacing inflation ones, as the trigger for a further increase in our duration positioning. This may happen over the next few weeks through macro data or 2Q earning calls. Finally, although the outlook for the USD is more balanced, we continue to see attractive EMFX carry opportunities, cross trades versus EUR, or relative value ideas within Asia. Yet our overall net EMFX exposure versus USD remained quite low at month end.

Emerging markets debt has not experienced any significant outflows since late February, and the level of engagement by end investors continues to paint a picture of significant under-ownership and technical strength. We do not feel defensive about the EMD opportunity set and continue to reduce cash levels opportunistically through new issues. However, the key remains about the right mix of performance drivers in this fluid environment. Our Finisterre Emerging Markets Debt Total Return investment process leaves us fully equipped to deal with it.

Growth of \$100

Composite performance (cumulative since inception)



Source: Principal Finisterre. As of 31 May 2026.

Finisterre EM Total Return Composite inception date 31 May 2013.

Past performance does not guarantee future return.

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	Returns (%)		Annualised returns (%)					Volatility (%)					Sharpe ratio				
	MTD	YTD	1-year	3-year	5-year	10-year	ITD	1-year	3-year	5-year	10-year	ITD	1-year	3-year	5-year	IDT	10-year
Finisterre EMTR Composite (gross)	0.93	3.12	14.33	11.45	5.09	6.74	5.80	3.15	3.90	4.79	4.37	4.04	4.26	2.78	1.04	1.39	1.49
Finisterre EMTR Composite (net)	0.87	2.78	13.39	10.61	4.32	5.96	5.03	3.15	3.90	4.79	4.37	4.04	4.00	2.59	0.88	1.21	1.32
EMBI Global Diversified	1.00	2.58	13.66	10.89	2.59	3.99	4.05	3.30	4.45	5.70	6.08	5.84	3.90	2.32	0.45	0.68	0.64
CEMBI Broad Diversified	0.38	1.79	7.86	8.23	2.75	4.36	4.22	1.35	2.06	2.80	3.03	2.98	5.62	3.83	0.97	1.39	1.41
GBI-EM Global Diversified	0.85	1.32	10.63	8.41	1.88	3.26	0.86	5.43	6.25	7.34	8.28	8.63	1.87	1.29	0.25	0.10	0.39
JPM EM Equal Weight Total Return	0.74	1.91	10.72	9.21	2.45	3.92	3.09	3.10	3.83	4.77	5.25	5.25	3.29	2.30	0.51	0.58	0.73

Gross returns (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2013						-3.37	0.10	0.19	0.68	1.73	-0.47	0.76	-0.47
2014	-0.75	2.37	1.95	1.55	0.72	0.53	0.18	0.18	-0.53	-0.62	-0.36	-1.34	3.86
2015	-0.54	0.64	0.45	1.53	0.36	-0.53	-0.36	-0.89	-1.80	1.28	0.63	-1.08	-0.36
2016	-0.64	0.92	2.81	1.59	0.52	1.99	1.61	1.76	0.74	0.49	-2.09	1.07	11.21
2017	1.63	2.10	1.33	1.47	0.38	-0.32	1.45	1.73	0.88	0.21	0.44	0.57	12.51
2018	1.93	-0.85	-0.27	-0.58	-0.46	-0.44	2.12	-1.08	0.75	-1.52	-0.03	0.36	-0.14
2019	4.24	0.99	0.34	0.55	0.39	2.87	1.85	-0.37	0.75	1.28	-0.33	2.51	16.04
2020	0.94	-1.50	-8.54	1.85	5.14	2.20	2.59	0.29	-1.64	0.50	3.63	3.09	8.15
2021	-0.58	-0.23	-0.97	1.02	1.32	-0.10	-0.63	0.74	-1.61	-0.42	-2.16	1.44	-2.24
2022	-0.94	-3.18	2.16	-3.72	0.57	-7.83	0.53	0.48	-4.68	0.25	6.83	1.36	-8.60
2023	3.91	-2.09	1.19	1.25	-0.05	2.34	1.28	-1.54	-2.35	-1.42	5.21	3.56	11.52
2024	-0.32	0.86	2.04	-1.28	0.84	-0.38	2.00	1.99	2.42	-1.35	1.05	-0.51	7.46
2025	2.08	1.51	-0.62	1.18	0.94	2.51	0.80	2.08	1.58	1.53	0.90	0.97	16.57
2026	2.50	0.97	-3.84	2.66	0.93								3.12

Net returns (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2013						-3.44	0.03	0.12	0.61	1.66	-0.54	0.69	-0.94
2014	-0.82	2.30	1.88	1.48	0.65	0.47	0.11	0.12	-0.58	-0.68	-0.41	-1.40	3.10
2015	-0.60	0.58	0.40	1.48	0.30	-0.59	-0.41	-0.95	-1.86	1.23	0.58	-1.14	-1.05
2016	-0.70	0.86	2.75	1.53	0.46	1.93	1.55	1.70	0.68	0.43	-2.15	1.01	10.43
2017	1.57	2.05	1.27	1.42	0.32	-0.37	1.39	1.67	0.82	0.15	0.38	0.51	11.73
2018	1.86	-0.90	-0.33	-0.64	-0.53	-0.50	2.06	-1.15	0.69	-1.59	-0.10	0.30	-0.90
2019	4.18	0.93	0.27	0.49	0.33	2.81	1.79	-0.43	0.69	1.21	-0.39	2.45	15.20
2020	0.88	-1.56	-8.60	1.79	5.08	2.13	2.52	0.23	-1.70	0.44	3.56	3.02	7.34
2021	-0.64	-0.29	-1.04	0.96	1.26	-0.16	-0.69	0.68	-1.67	-0.48	-2.22	1.38	-2.94
2022	-1.00	-3.23	2.10	-3.77	0.51	-7.89	0.47	0.42	-4.74	0.20	6.76	1.31	-9.23
2023	3.85	-2.14	1.13	1.20	-0.11	2.29	1.22	-1.60	-2.40	-1.48	5.16	3.50	10.79
2024	-0.38	0.80	1.99	-1.34	0.78	-0.43	1.94	1.93	2.36	-1.42	0.98	-0.58	6.70
2025	2.01	1.44	-0.69	1.11	0.87	2.44	0.73	2.01	1.51	1.46	0.83	0.90	15.61
2026	2.43	0.90	-3.91	2.59	0.87								2.78

12-month net rolling return (%)

	Jun 2021-May 2022	Jun 2022-May 2023	Jun 2023-May 2024	Jun 2024-May 2025	Jun 2025-May 2026
Net	-8.39	-0.31	8.59	9.86	13.38

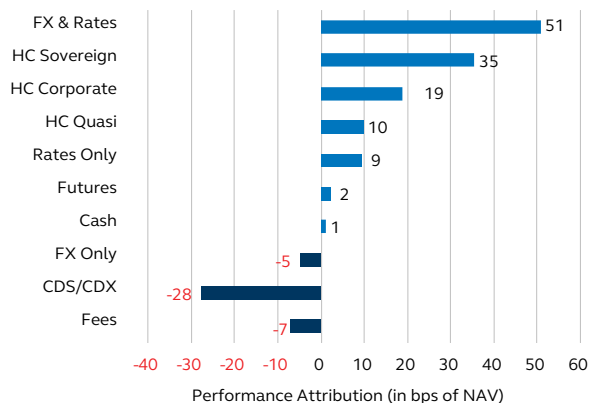
Source: Principal Finisterre. As of 31 May 2026.

Finisterre EM Total Return composite inception date: 31 May 2013.

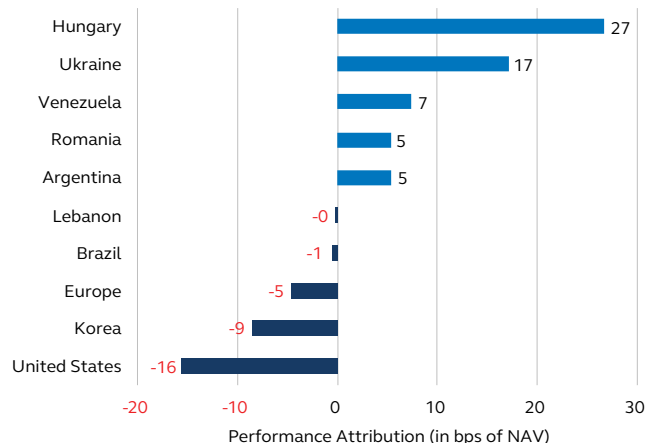
Past performance is not indicative of future performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees, accrued daily YTD figures are compounded monthly. Additional information on calculation of composite performance data is available on request. Actual investment advisory fees charged to clients may vary. Portfolio performance, characteristics and volatility may differ from the benchmark shown.

Monthly composite attribution

Performance attribution by sector (bps)

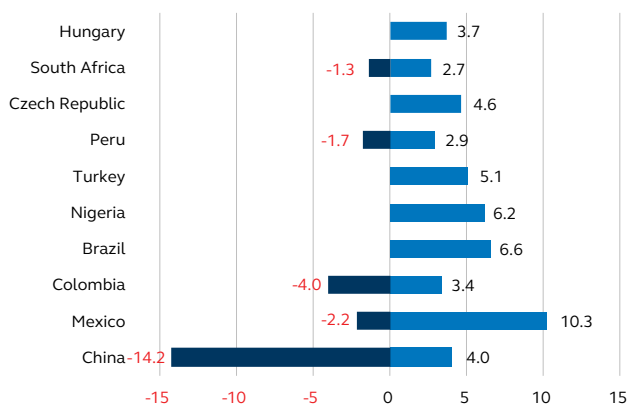


By country (top 5 contributors and detractors, bps)

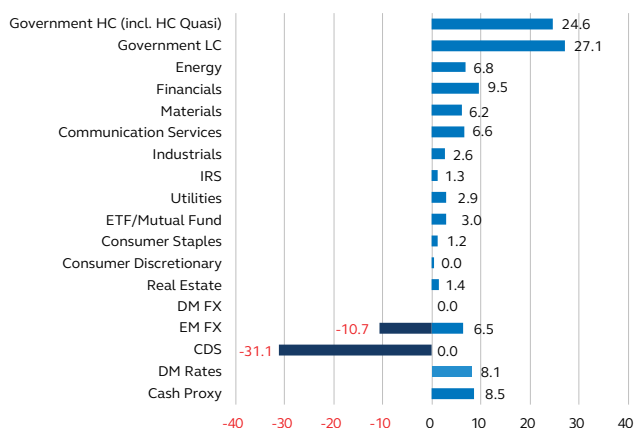


Month-end representative portfolio exposures

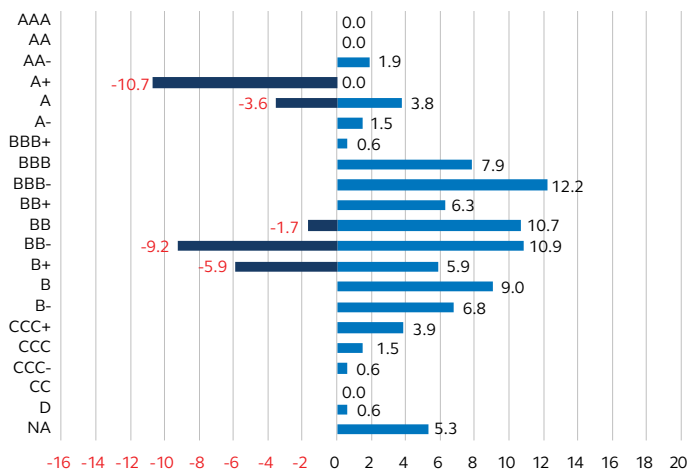
Top 10 country gross exposure (% NAV)



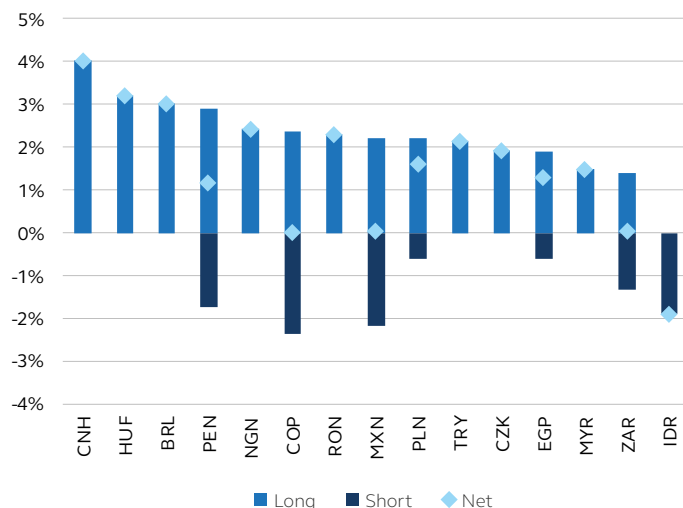
Sector allocation (% NAV)



Credit allocation (% NAV)



Local currency exposure (% NAV)



Source: Principal Finsterre. Data as of 31 May 2026. Monthly attribution is shown based upon gross performance.

Investment objective

The Finisterre Emerging Markets Debt Total Return Strategy is an active, unconstrained, adaptive, long-biased, benchmark-agnostic multi-EMD fixed income strategy. The strategy seeks to earn a high yield utilizing an unconstrained, holistic approach to the entire EM fixed income universe and associated derivative instruments.

Investment team

DAMIEN BUCHET, CFA - Chief Investment Officer, Principal Finisterre

CHRISTOPHER WATSON, CFA - Senior Portfolio Manager, Principal Finisterre

About Principal Finisterre

Our vision remains today what it was at our launch: to remain an investment manager with an unrelenting focus on active investing in Emerging Market Debt.

We are a solutions-driven organization and aim to deliver the investment knowledge and experience that our clients need, combined with striving to consistently provide competitive investment performance and outstanding service.

JP Morgan EM Equal Weight Index: An equal-weighted blend of CEMBI Broad Diversified, EMBI Global Diversified, and GBI-EM Global Diversified, gross of withholdings taxes, rebalanced monthly.

CEMBI Broad Diversified: Corporate Emerging Markets Bond Index – Broad Diversified is a market capitalization weighted index consisting of USD denominated emerging market corporate bonds with a broad distribution of country weights.

EMBI Global Diversified: Emerging Markets Bond Index – Global Diversified is liquid U.S. dollar emerging markets debt benchmark that tracks total returns for actively traded external debt instruments in emerging markets.

GBI-EM Global Diversified: Government Bond Index-Emerging Markets Global Diversified is a comprehensive Emerging Markets debt index that tracks local currency bonds issued by Emerging Market governments that do not have explicit capital controls.

MOVE Index: The Move Index is a measure of price volatility in government bonds

Indices are unmanaged and do not take into account fees, expenses and transaction costs are not available for direct investment.

Composite Performance results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite performance is presented net of foreign withholding taxes on dividends, interest income, and capital gains. Gross performance shown does not reflect the deduction of investment management fees and certain transaction costs, which will reduce portfolio performance. Net performance results reflect a reduction for investment advisory fees based on the firm's applicable asset management fee schedule. Additional information on calculation of composite performance data is available on request. Actual investment advisory fees charged to clients may vary.

Each portfolio included in the composite is managed according to its own individual investment restrictions and limitations and therefore their characteristics may vary from those of the Representative Portfolio shown.

Risk Considerations

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