

of default risk and may be less liquid than higher-rated bonds. These securities may be subject to greater price volatility due to such factors as specific corporate developments, interest rate sensitivity, negative perceptions of junk bonds generally, and less secondary market liquidity. This potential lack of liquidity may make it more difficult for a Fund to accurately value these securities. In the event that a Fund disposes of a portfolio security after it is downgraded, the Fund may experience a greater loss than if such security had been sold prior to the downgrade.

*Interest Rate Risk.* The values of debt instruments held by a Fund may fall in response to increases in interest rates. In general, the values of debt securities fall in response to increases in interest rates, and rise in response to decreases in interest rates. The value of a security with a longer duration will be more sensitive to increases in interest rates than a similar security with a shorter duration. Duration is a measure of the expected life of a bond that is used to determine the sensitivity of a security's price to changes in interest rates. For example, the price of a bond fund with an average duration of three years generally would be expected to fall approximately 3% if interest rates rose by one percentage point. Inverse floaters, interest-only and principal-only securities are especially sensitive to interest rate changes, which can affect not only their prices but can also change the income flows and repayment assumptions for those investments. Adjustable rate instruments also react to interest rate changes in a similar manner, although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other things). Given the current historically low interest rate environment, risks associated with rising rates are heightened.

If interest rates rise, repayments of principal on certain debt securities, including loans, may occur at a slower rate than expected and the expected length of repayment of those securities could increase as a result (i.e., extension risk). Securities that are subject to extension risk generally have a greater potential for loss when prevailing interest rates rise, which could cause their values to fall sharply. Prepayment risk results from borrowers paying debt securities prior to their maturity date. When a prepayment happens, all or a portion of the obligation will be prepaid. A borrower is more likely to prepay an obligation which bears a relatively high rate of interest. This means that in times of declining interest rates, a portion of a Fund's higher yielding securities are likely to be pre-paid and the Fund will probably be unable to reinvest those proceeds in an investment with as high a yield. A decline in income received by a Fund from its investments is likely to have a negative effect on the yield and total return of the Fund's shares.

*Swaps.* Investments in swaps involve the exchange by a Fund with another party of all or a portion of their respective interests or commitments. In the case of currency swaps, a Fund may exchange with another party their respective commitments to pay or receive currency. Use of swaps subjects a Fund to risk of default by the counterparty. If there is a default by the counterparty to such a transaction, a Fund will have contractual remedies pursuant to the agreements related to the transaction. There are currently a large number of banks and investments banking firms acting both as principals and agents and utilizing standardized swap documentation. As a result, swap markets are generally relatively liquid in comparison with the market for other similar instruments that are traded in the interbank market. In times of market turmoil, however, spreads can widen substantially and these markets can become very illiquid with the result that positions may not be able to be offset or closed out at a reasonable price, if at all.

A Fund may also enter into currency, interest rate, total return or other swaps that may be surrogates for other instruments such as currency forwards and interest rate options.