Rothschild & Co
Asset Management

# LongRun Equity

QUARTERLY LETTER

ADVERTISING COMMUNICATION

JANUARY 2026

# Investment philosophy

"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price." — Warren Buffett

We act as long-term business owners investing the wealth you have entrusted us with in a concentrated portfolio of high-quality companies.

## Long-term business owners

We want to own the highest-quality franchises for the long term. Little do we care about potential moves in short-term stock prices. What's crucial for us is a company's competitive position, a superior and sustainable business model and the ability to compound earnings. We want management teams that allocate capital as if it were their own. We care about valuation, but take the long-term view, avoiding excessively valued businesses but not shying away from high valuations. When you have a great business that continues to prosper, the share price tends to follow. Conversely, a narrow focus on valuation can lead one astray from truly great businesses. We are determined to avoid this mistake.

## Wealth preservation

A disciplined focus on preserving our clients' wealth and mitigating the risk of permanent capital loss has been part of our investment philosophy for centuries. We avoid businesses exposed to external factors outside of their own control, which can crush attractive returns. We think long and hard about whether a business will still have a license to operate in the long term and if there are environmental or social risks. Only robust companies in control of their own destiny make the cut. To find these, we conduct deep research to understand business models so we can take advantage of noise and temporary swings in stock prices. We would expect our portfolio companies to do the same.

## Compounding

Einstein once dubbed compounding as the "eighth wonder of the world". We couldn't agree more. We look for companies with superior economics and the resulting ability to compound their earnings over the long term. Strong market positions, pricing power, high margins and asset-light business models are the key characteristics that result in high returns on capital and the ability to compound earnings. A sustainable competitive advantage resulting from high barriers to entry is crucial to maintain these high returns in the face of competition, therefore avoiding a permanent destruction of value.

## Deep research

We spend most of our time reading annual reports, conducting and analysing expert calls and speaking with management teams and industry experts. We engage regularly with management, talk to industry insiders and conduct grassroots research. Books on companies and their leaders, industry newsletters and trade publications as well as podcasts are hugely valuable and are often neglected sources of information.

## Capital allocation

Managing our clients' money is a privilege and a role we take very seriously. It is important to us that our clients know us and understand how we operate. In a similar vein, we want to understand how the management of our businesses thinks, acts and is incentivised. Capital allocation is the most important job of management, and the great returns of a high-quality business can be diluted via poor mergers and acquisitions or empire building. We look for management teams with incentives centred on long-term value creation and that have "skin in the game". These are critical if they are to think and act like owners, rather than managers.

## Quality over quantity

We prefer to analyse and own fewer companies but understand them properly. We see little value in constant screening for 'cheap' companies and it distracts us from our focus on quality. With financial information abundant, no real edge can be gained based on quantitative information in our view. On the other hand, a deep understanding of business models takes time, but this is the only way we believe it is possible to generate superior long-term performance.

## Focus

Focus is front and centre of everything we do. We like focused businesses that are easy to manage and understand. We do not need our companies to diversify; we will take care of this ourselves. Our investment universe and portfolio is equally focused, with limited turnover. This allows us to compound our knowledge of our companies in a way that is similar to how we want them to compound their earnings and cash flows.

## Bottom line

The combination of the above results in a high-quality portfolio of businesses. LongRun's main financial metrics remain strong, with cross-cycle sales growth of 10%, a 32% operating margin, an operating return on invested capital of 67% and a net debt to EBITDA leverage ratio of 0.6x. On a 3.0% free-cash-flow yield, we consider valuation attractive and expect annualised forward returns in the low double digits for LongRun Equity.

Figures provided relate to previous years. Past performance is not a reliable indicator of future performance and is not constant over time. Main risk to which the investor is exposed: risk of capital loss.

[1] All data as of 31 December 2025

# Notes from the manager

LongRun was up 0.5% in Q4 2025

## Strategy performance

The strategy increased 0.5% (in EUR, unhedged) in the fourth quarter compared to its benchmark which rose 3.3%.[2][3]

Annualised returns since inception of the strategy close to ten years ago stand at 9.7% compared to 11.1% for global equities.

## Performance drivers

Consistent with the previous quarters, our investment style and the industries where we invest have been out of sync with the markets and were the main detractors of performance: Our preference for highly profitable businesses has not been shared by the market. Such businesses generally have a lower beta as their earnings are consistent, making them a lower risk investment. As one would expect from a quality orientated fund, the beta is lower than the broader index. In an environment whereby markets rally strongly, as was the case for most of the year, the lower beta creates a relative drag. This is also visible when looking at the effect that the momentum has had on the portfolio. In a very much narrative driven market, the price rather than the worth of a business has taken precedent. This was exacerbated by a very "narrow" market, whereby the largest market-cap stocks now comprise a proportion of the market not seen since the 1970s.

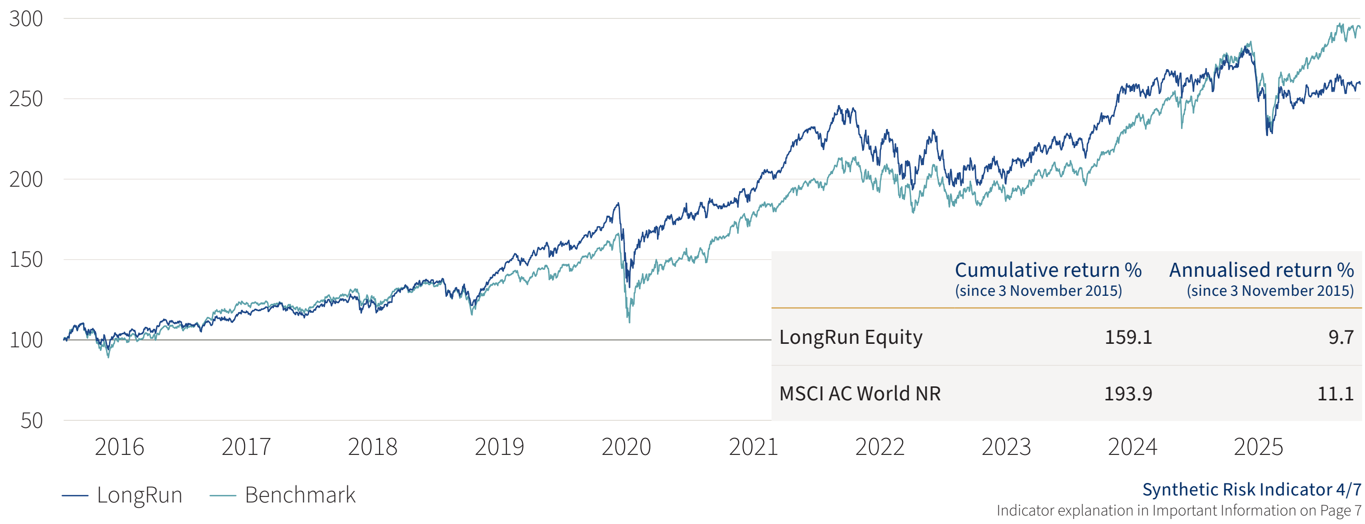
Looking more closely at industries, the above echoes as one would expect, particularly in the Tech space. Our preference for software businesses was penalised in the face of the strong performance of the semiconductor sector. This despite the fact that the former have delivered strong earnings. The narrative that "AI will eat software", one which we believe cannot be universally applied (read further and you will see why), resulted in multiple compression for several of our businesses. Furthermore, we hold software names that are active in the semiconductor industry but have suffered simply because they are software providers.

In this respect, we see the AI topic evolving, moving from what we call the "build it" stage to the "use it" stage. We see a growing opportunity for software companies driven by decades of innovation and efficiency gains, with AI marking another major leap forward. Historically, these advances have expanded the market for both incumbents and new entrants, as software continues to capture a larger share of IT spend. AI is set to benefit established vendors with deep customer integration, while also enabling new development models.

While AI introduces change, the challenge for software firms remains the same: staying innovative to defend and grow market position.

Leading software companies such as Microsoft, SAP, Salesforce, Intuit and RELX are already embedding AI into their offerings and forging partnerships to enable new workflows. Those that combine domain expertise with AI capabilities are best positioned to help

**CUMULATIVE TRACK RECORD (SI A EUR UNHEDGED, %)**




| | Cumulative return % (since 3 November 2015) | Annualised return % (since 3 November 2015) |
|---|---|---|
| LongRun Equity | 159.1 | 9.7 |
| MSCI AC World NR | 193.9 | 11.1 |

Synthetic Risk Indicator 4/7
Indicator explanation in Important Information on Page 7

The synthetic risk indicator allows you to assess the level of risk of this product in relation to others. It indicates the probability that this product will incur losses in the event of market movements or our inability to pay you. We have classified this product as risk class 4 out of 7, which is a medium risk class. In other words, the potential losses associated with the future performance of the product are at an average level, and if the market situation deteriorates, our ability to pay you may be affected. The risk category indicated is not guaranteed and may change over time. The lowest risk category does not mean a 'risk-free' investment. Be aware of currency risk. In certain circumstances, the amounts paid to you may be in a different currency, so your final gain will depend on the exchange rate between the two currencies. This risk is not taken into account in the indicator. Other important risks not taken into account by the indicator include: concentration risk; emerging market risk; derivative and leverage risk; credit and interest rate risk; liquidity risk. As this product does not provide protection against market fluctuations, you could lose all or part of your investment. For more information on the risks please refer to the Prospectus available on our website: am.eu.rothschildandco.com

[2] Share class SI A EUR
[3] Source: Rothschild & Co, Bloomberg (31.12.2025)

customers become more efficient and capture the next wave of growth.

Hence, we expect to see these platform-like providers inflect. It is our belief that the narrative will change from these businesses being "eaten" to being "facilitators". While we may have anticipated this inflection too early, this has not altered our conviction. Powerful platforms, combined with good execution (in this case, AI) produce powerful results: We also believe our portfolio companies are uniquely positioned to embed AI into their proprietary data, unlocking significant internal efficiencies while accelerating innovation. This will make their products even more valuable to customers, strengthening demand and widening their competitive moat over time.

In terms of notable performers, Alphabet continued to rerate on the growing perception that it will be a major force in the AI industry. We fully agree, as the company demonstrates model and chip leadership on top of first-class management execution in applying the technology to their own business, particularly in the search space, where fears of displacement were high.

Over the course of the year, we have been penalised for our "picks & shovels" approach, whereby we seek out those businesses that are broadly exposed to key industries such as technology or healthcare through the provision of critical services or equipment that underlie key trends. In the semiconductor space, ASML has been a good example. With competition between GPU and ASIC chips rising, the market broadened its focus towards the only business that provides the equipment to manufacture them.

Similarly, Thermo Fisher and Danaher gained traction on the back of a "thawing" of their end markets, helped along by deals struck between the pharma industry and Donald Trump.

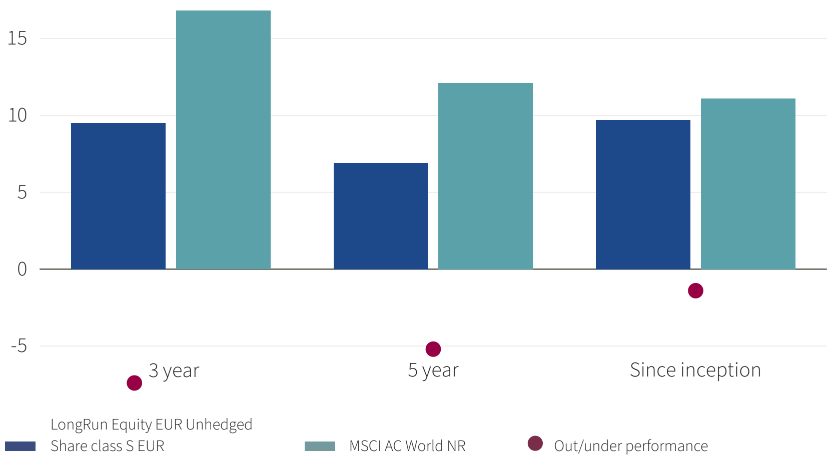
## Activity

We exited Adobe in favour of SAP SE, where we see better prospects. We write about SAP SE in our investment case later in this report.

**ANNUAL PERFORMANCE**

| | Net asset value | QTD (%) | YTD (%) | Inception to date (%) |
|---|---|---|---|---|
| LongRun Equity EUR Unhedged Share class S EUR | 2,431.5 | 0.5 | -3.6 | 159.1 |
| MSCI AC World NR | — | 3.3 | 7.9 | 193.9 |
| Out/under performance | — | -2.9 | -11.5 | -34.8 |

**ANNUALISED PERFORMANCE (%)**




**ANNUAL PERFORMANCE**

| | LongRun Equity EUR Unhedged Share class SI A EUR (%) | MSCI AC World NR (%) |
|---|---|---|
| 2025 | -3.6 | 7.9 |
| 2024 | 12.3 | 25.3 |
| 2023 | 21.2 | 18.1 |
| 2022 | -18.5 | -13.0 |
| 2021 | 30.4 | 27.5 |
| 2020 | 10.4 | 6.7 |
| 2019 | 34.8 | 28.9 |
| 2018 | 1.1 | -4.8 |
| 2017 | 10.0 | 8.9 |
| 2016 | 5.8 | 11.1 |
| 2015 | 6.0 | 4.9 |

Synthetic Risk Indicator 4/7
Indicator explanation in Important Information on Page 7

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All data as of 31.12.2025.
Source: Rothschild & Co, Bloomberg (31.12.2025).

# Case study: SAP

Accelerating growth through cloud and AI innovation

In the fourth quarter of 2025, we initiated a position in SAP, a global leader in enterprise software. The market for enterprise software is attractive, as organisations increasingly seek solutions that deliver efficiency, resilience, and innovation while navigating rising complexity and cost pressure. The company is currently in the process of migrating its substantial installed base towards the cloud, which in our view creates a highly compelling investment opportunity. This letter outlines SAP's evolution, business model, competitive advantages, structural growth drivers, Artificial Intelligence (AI) strategy, and long-term financial outlook - key factors underpinning our investment thesis.

## Brief history

Founded in 1972 by five former IBM engineers in Mannheim, Germany, SAP[1] pioneered standardised software for real-time business processes. This innovative DNA has guided the company for over 50 years and is the basis of its leadership in enterprise software today. The company now serves customers and operates in more than 180 countries, with software fully localised in over 40 languages, enabling multinational enterprises to standardise business processes across regions. SAP's scale and reach are remarkable: its customers generate 84% of total global commerce, 98 of the 100 largest companies in the world run SAP and 85 of the 100 largest companies are S/4HANA[2] users. At the same time, approximately 80% of SAP's customers are small and medium-sized enterprises, highlighting the breadth of its adoption and its ability to serve both global corporates and growing businesses. This combination of deep roots, global reach, and wide adoption underpins SAP's entrenched position and reinforces the high switching costs that protect its installed base.

## Business model

SAP has been frontrunner in Enterprise Resource Planning (or ERP) software since pioneering the category in the early 1970s. Its comprehensive portfolio spans core business functions such as finance, controlling, procurement, supply chain, manufacturing, expense management, and human resources. Beyond ERP, SAP offers advanced data management and analytics solutions, including tools for demand and supply planning. For many organisations, SAP serves as the operational backbone, powering everything from the general ledger in accounting to acting as the system of record for transactions across procurement, production, and outbound logistics.

SAP's revenue is well diversified across regions and industries: around 46% is generated in EMEA, including its home market Germany, and about 32% in the US. SAP is particularly strong in sectors characterised by complex transactions and supply chains, such as manufacturing (aerospace, automotive, electronics, pharmaceuticals), energy (oil & gas, utilities & renewables), and consumer industries (retail as well as consumer products). Importantly, SAP's customer base is broad, with no single client accounting for more than 1% of total revenue.

## High switching costs reinforce SAP's competitive position

SAP benefits from a strong competitive moat, rooted in deep customer integration and long-standing relationships. The first layer is switching cost: SAP's software is so embedded in customers' operations that replacing it entirely is usually deemed highly disruptive. As a result, more than 90% of SAP customers typically remain with the company for their next-generation upgrade rather than switching to a competitor. The high cost and significant risk associated with migrating core business systems to a new platform provide strong protection for SAP's installed base.

The second component is SAP's broad, integrated product suite. Unlike point-solution competitors, SAP offers an end-to-end suite on a unified data architecture. This "best-of-suite" approach ensures seamless interoperability from the start. For example, SAP's new AI assistant (Joule) can natively draw on information across 13 different SAP applications, something that would be impossible if a customer were piecing together disparate vendors. This seamless integration improves the user experience and boosts customer loyalty, as SAP clients can meet new needs by activating additional modules instead of implementing separate products. SAP is actively selling on this integration advantage, often pitching the value of end-to-end processes (spanning ERP, HR, analytics, etc.) rather than siloed products. This drives cross-selling of add-ons and further increases switching barriers.

## Cloud transformation is driving a stronger growth outlook

Over the past five years, SAP has focused on moving customers from on-premises software to cloud-based applications. Under the traditional on-premises model, customers ran software applications on their own in-house servers. They paid upfront for licenses and then smaller annual maintenance fees, typically about 20% of the license cost, to keep systems supported and secure. In contrast, the cloud model hosts all applications in the cloud. This eliminates upfront payments; instead, customers pay recurring annual subscription fees, which are usually about twice the size of previous maintenance costs. This higher price reflects the added value of cloud hosting, which reduces infrastructure costs for customers and

[1] The acronym SAP originally stood for Systeme, Anwendungen und Produkte in der Datenverarbeitung (Systems, Applications, and Products in Data Processing).
[2] SAP S/4HANA is an enterprise resource planning software for large enterprises developed by SAP SE.

enables faster, more seamless software updates. Management is targeting up to a 5x increase in cloud revenue per customer over time, versus the 2–3x uplift being achieved today upon initial migration. Even if not every client hits 5x, an increase of even 2–3x in recurring revenue per customer translates to years of double-digit growth from the installed base. We view a +5–10% annual contract value growth for migrated customers as a conservative baseline, and SAP is clearly aiming higher.

Although the shift to cloud models began a long time ago, ERP adoption has lagged due to the complexity and scale of these systems. This is now changing as customers recognise that moving to the cloud is essential for greater agility and access to innovation, especially AI. SAP is accelerating this transition by concentrating its R&D on cloud solutions and gradually increasing support costs for on-premises software. The move to the cloud model enhances SAP's recurring revenue base, improves visibility, and, in our view, strengthens the overall quality of the business.

Another tailwind is SAP's move to monetise the data flows passing through its systems. The new Business Data cloud offering allows customers to integrate SAP data with external analytics/AI platforms and SAP charges for that data transfer and management. As enterprises increasingly harness data for AI and decision-making, SAP effectively positions itself to collect a toll on these activities. While still early, this could become a meaningful incremental revenue stream as AI adoption grows.

## Embracing AI

SAP has made AI a core pillar of its strategy. The flagship initiative is the previously mentioned SAP Joule. Joule can answer natural-language questions and provide recommendations within SAP workflows. Crucially, because it is woven into SAP's unified data model, Joule can operate across multiple business domains simultaneously (finance, HR, supply chain, etc.), offering insights in the context of the entire enterprise. This is a strong differentiator: an AI assistant that understands a company's processes end-to-end, rather than being confined to one silo.

SAP is also rolling out pre-built AI agents for specific tasks. These are autonomous bots that handle processes (for example, processing invoices or optimising a production schedule) using SAP's underlying data and business rules. The goal is major efficiency gains in everyday operations. SAP has cited about a 30% increase in productivity among early customers leveraging its new AI capabilities. Improvements of that magnitude make the value proposition of SAP's AI very clear and indeed, if customers can save or speed up processes, they are willing to pay for these tools. Importantly, SAP is monetising AI in a way that benefits the company's financials. While basic machine learning features are included in existing modules, advanced AI functions are sold as add-ons or in premium editions. Further, the company has introduced higher-tier subscriptions that bundle AI and data integration features (at a higher price), and enterprise clients opting for full AI functionality will correspondingly increase their spending. We view this as a sensible strategy: SAP is packaging real innovation that drives customer return on investment (ROI) and capturing a share of that value through pricing. Notably, SAP has even made certain new AI features available to customers on older SAP systems, rather than restricting them only to S/4HANA users, to spur early adoption and demonstrate value. This pragmatic move should further accelerate the eventual uptake of AI and the associated revenue, as those customers migrate to the latest platform.

SAP's deep understanding of customer processes and access to context-rich data position it uniquely to embed AI and automation across its suite. While AI enables more in-house development, enterprises typically favour third-party vendors due to complexity and cost. Many are using SAP cloud migrations to replace custom-built systems with standardised modules, negating the argument that in-house developed AI will replace the incumbent provider.

AI brings direct benefits to SAP. It reduces migration costs by automating expensive steps in moving to the cloud. With two-thirds of SAP's cost base in personnel, automation is delivering significant savings, already in the hundreds of millions of euros in 2025. The risk from customer headcount reductions is limited, as less than half of SAP's revenue is seat-based, and a gradual shift toward outcome- and usage-based pricing aligns with customer needs. SAP is responding to these AI changes with innovation. The company has introduced over 100 AI use cases and signed partnerships with large enterprises such as Microsoft or Palantir to enable new workflows. In our view, SAP's strong position and commitment to innovation make it uniquely capable of helping customers become more efficient in an AI-driven world.

## Long-term financial outlook and profitability

SAP's financial trajectory over the next several years looks very strong. Management expects an acceleration in revenue growth through 2028 (with further runway beyond that), underpinned by the cloud migration and cross-sell opportunities discussed above. We estimate SAP can deliver double-digit revenue growth through 2031.

We also anticipate significant margin expansion. During the early cloud transition, SAP's operating margins were pressured by heavy investments and the shift from upfront licenses to subscription revenue. Now that the pivot is largely behind it, SAP is seeing efficiencies and scale benefits. In 2023, the company restructured and eliminated around 8,000 positions, streamlining operations and helping make SAP more "agile" (and profitable) going forward. In parallel, SAP has brought in fresh talent and reduced management layers, reorienting the organisation around key priorities like AI. As cloud revenue continues to grow, economies of scale in hosting and support should boost gross margins. Moreover, selling additional modules or AI features to existing customers comes at minimal incremental cost, meaning that revenue is almost pure profit. This dynamic will further lift SAP's overall margins, as noted by observers of its pricing strategy. We expect SAP's operating margin to rise steadily over the next few years, moving closer to the levels it historically enjoyed in the on-premises era.

In sum, SAP today combines the resilience of a software incumbent with fresh avenues for growth and profitability. The company's successful pivot to cloud and AI is unlocking greater value per customer and expanding its addressable market. We view SAP as a high-quality franchise, with accelerating growth while improving margins, and believe its best days lie ahead. We are pleased to be investors in SAP as it enters this next chapter of innovation and value creation, and we will continue to monitor SAP's progress closely and update you in our future letters.

# Business owner's portfolio

A deeper look into the strategy and its companies[3]

### SALES BY BUSINESS (%)

| | |
|---|---|
| Software | 21 |
| Professional Services | 14 |
| Online commerce and advertising | 10 |
| Medtech | 11 |
| Capital goods | 8 |
| Other | 7 |
| Payments | 7 |
| Retail | 6 |
| Semi-conductors | 5 |
| Industrial gases | 5 |
| Luxury | 4 |
| Fast moving consumer goods | 2 |

By weight in portfolio, excluding cash.

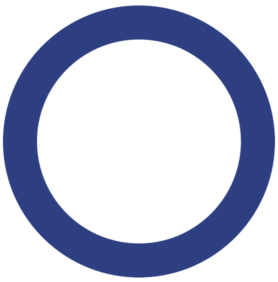
### DEGREE OF PRICING POWER* (%)

| | |
|---|---|
| Medium | 57 |
| Low | 27 |
| High | 16 |

*In the investable universe, around 5% of companies have medium or high pricing power.

By weight in portfolio, excluding cash.

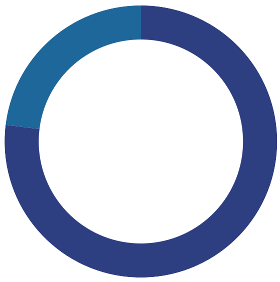
### STRENGTH OF COMPETITIVE ADVANTAGE (%)



| | |
|---|---|
| High | 100 |

By weight in portfolio, excluding cash.

### STRENGTH OF SWITCHING COSTS (%)



| | |
|---|---|
| High | 77 |
| Medium | 23 |

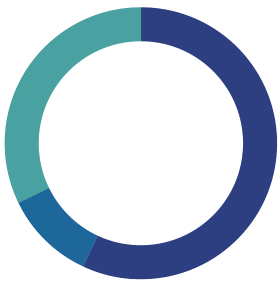
By weight in portfolio, excluding cash.

### ESG RATING BREAKDOWN (%)[4]

| | |
|---|---|
| AAA | 30 |
| AA | 14 |
| A | 30 |
| BBB | 19 |
| BB | 4 |
| not rated | 3 |

By weight in portfolio, excluding cash.

### CARBON EXPOSURE RISK BREAKDOWN (%)



| | |
|---|---|
| 1.5° Aligned | 57 |
| 2.0° Aligned | 11 |
| Misaligned | 32 |

By weight in portfolio, excluding cash.

[3] Values: all data as at 31 December 2025, Source: Rothschild & Co.
[4] ESG labels only attest to the responsible and sustainable nature of management and should not be considered as a guarantee of capital security or of the fund's financial performance

Geographic and sector allocations and breakdowns are not fixed and may change over time, within the limits of the Fund's prospectus.

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we offer personalised asset management services to a broad client base of institutional investors, financial intermediaries and distributors. Our development is focused on a range of open-ended funds, marketed under five strong brands: Conviction, Valor, Thematic, 4Change and OPAL, leveraging our long-term expertise in active management with conviction as well as in delegated management. Based in Paris and established in 9 European countries, we manage more than 40 billion euros and employ nearly 180 people.

More information at:
www.am.eu rothschildandco.com

## Risk level

Lower risk — Higher risk

| 1 | 2 | 3 | **4** | 5 | 6 | 7 |
|---|---|---|---|---|---|---|

Potentially lower return — Higher yield potential

### Recommended investment horizon: 5 years

### SRI : 4/7

The synthetic risk indicator allows you to assess the level of risk of this product in relation to others. It indicates the probability that this product will incur losses in the event of market movements or our inability to pay you. We have classified this product as risk class 4 out of 7, which is a medium risk class. In other words, the potential losses associated with the future performance of the product are at an average level, and if the market situation deteriorates, our ability to pay you may be affected. The risk category indicated is not guaranteed and may change over time. The lowest risk category does not mean a 'risk-free' investment. Be aware of currency risk. In certain circumstances, the amounts paid to you may be in a different currency, so your final gain will depend on the exchange rate between the two currencies. This risk is not taken into account in the indicator. Other important risks not taken into account by the indicator include: concentration risk; emerging market risk; derivative and leverage risk; credit and interest rate risk; liquidity risk. As this product does not provide protection against market fluctuations, you could lose all or part of your investment. For more information on the risks please refer to the Prospectus available on our website: am.eu.rothschildandco.com

## Disclaimers

**Failure to Meet Investment Objective:** There can be no assurances that the Company will be able to achieve its investment objective. An investment in the Company will entail a high degree of risk, including the possible loss of a substantial part, or even the entire amount, of such investment.

**Capital Risk:** The Company does not provide its investors with any guarantee against the loss of capital. Accordingly, investors in the Company bear the risk of the loss of some or all of their investment in the Company.

**Valuation of the Shares:** the value of a Share will fluctuate as a result of changes in the value of, amongst other things, the Company's assets, the Underlying Asset and, where applicable, the financial derivative instruments used to expose the Company to the Underlying Asset synthetically.

**Valuation of the Underlying Asset and the Company's assets:** the Company's assets, the Underlying Asset or the financial derivative instruments used to expose the Company to the Underlying Asset synthetically may be complex and specialist in nature. Valuations for such assets or financial derivative instruments will usually only be available from a limited number of market professionals which frequently act as counterparties to the transactions to be valued. Such valuations are often subjective and there may be substantial differences between any available valuations.

**Exchange rates:** an investment in the Shares may directly or indirectly involve exchange rate risk. Because the net asset value of the Company will be calculated in its Reference Currency, the performance of an Underlying Asset or of its constituents denominated in a currency other than the Reference Currency will also depend on the exchange rate of such currency. Equally, the currency denomination of any Company's asset in a currency other than the Reference Currency will involve exchange rate risk for the Company.

**Interest rates:** fluctuations in interest rates of the currency or currencies in which the Shares, the Company's assets and/or the Underlying Asset are denominated may affect financing costs and the real value of the Shares.

**Inflation:** the rate of inflation will affect the actual rate of return on the Shares. An Underlying Asset may reference the rate of inflation.

Yield: returns on Shares may not be directly comparable to the yields which could be earned if any investment were instead made in the Company's assets and/or Underlying Asset.

**Correlation:** the Shares may not correlate perfectly, nor highly, with movements in the value of Company's assets and/or the Underlying Asset.

**Volatility:** the value of the Shares may be affected by market volatility and/or the volatility of the Company's assets and/or the Underlying Asset.

**Credit Risk:** Credit risk involves the risk that an issuer of a bond (or similar money-market instruments) held by the Company may default on its obligations to pay interest and repay principal and the Company will not recover their investment.

**Public Counterparty risk:** the Company may invest in OTC Derivative and may find thus itself exposed to risk arising from the solvency of its counterparts and from their ability to respect the conditions of these contracts. The Company may enter into futures, options and swap contracts including CDS or use derivative techniques, each of which involves the risk that the counterpart will fail to respect its commitments under the terms of each contract.

**Liquidity risk:** certain types of securities may be difficult to buy or sell, particularly during adverse market conditions, which may affect their value. The fact that the Shares may be listed on a stock exchange is not an assurance of liquidity in the Shares.

**Repurchase and Reverse Repurchase Agreement Risk:** Where authorized, the use of repurchase and reverse repurchase agreements, if any, by the Company involves certain risks. For example, if the seller of securities to the Company under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Company will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganisation under applicable bankruptcy or other laws, the ability of the Company to dispose of the underlying securities may be restricted. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, the Company may suffer a loss to the extent that it is forced to liquidate its position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller.

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