

borrowing or selling short the underlying asset. The value of a derivative is linked to the price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset also may be applicable to derivatives trading. However, there are a number of additional risks associated with derivatives trading. Transactions in certain derivatives are subject to clearing through a U.S. clearinghouse while other derivatives are subject to risks of trading in the over-the-counter markets, and others are subject to non-U.S. regulatory regimes. Price movements of futures and options contracts and payments pursuant to derivative agreements are influenced by, among other things, the longevity of the contract, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of futures, options and derivative agreements also depends upon the price of the assets that are underlying them. In addition, an Underlying Fund's assets are also subject to the risk of the failure of any of the clearinghouses or counterparties. Additional risks associated with derivatives trading include:

**Tracking.** When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative and the underlying investment sought to be hedged may prevent an Underlying Fund from achieving the intended hedging effect or expose an Underlying Fund to risk of loss. If an Underlying Fund invests in derivatives at inopportune times or incorrectly judges market conditions, the investments may lower the return of the Underlying Fund or result in a loss. An Underlying Fund also could experience losses if derivatives are poorly correlated with its other investments.

**Liquidity.** Derivatives, especially when traded in large amounts, may not be liquid in all circumstances, so that in volatile markets an Underlying Fund may not be able to close out a position without incurring a loss. In addition, daily limits on price fluctuations and speculative position limits on exchanges on which an Underlying Fund may conduct its transactions in derivatives may prevent profitable liquidation of positions, subjecting the Underlying Fund to the potential of greater losses. The market for many derivatives is, or suddenly can become, illiquid. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for derivatives.

**Leverage.** Trading in derivatives can result in large amounts of leverage. Thus, the leverage offered by trading in derivatives may magnify the gains and losses experienced by an Underlying Fund and could cause an Underlying Fund's net asset value to be subject to wider fluctuations than would be the case if such Underlying Fund did not use the leverage feature of derivatives.

**Over-the-Counter Trading.** Derivatives that may be purchased or sold by an Underlying Fund may include instruments not traded on an exchange. The risk of non-performance by the obligor or derivative counterparty on an instrument may be greater than, and the ease with which an Underlying Fund can dispose of or enter into closing transactions with respect to a security or instrument may be less than, the risk associated with an exchange-traded security. In addition, significant disparities may exist between "bid" and "asked" prices for derivatives that are not traded on an exchange. Derivatives not traded on exchanges also may not be subject to the same type of government regulation as exchange-traded securities, and many of the protections afforded to participants in a regulated environment may not be available in connection with the transactions.