

## ***Information Supplement***

### ***Closed-End Strategy: Master Municipal Income Portfolio – California Series 2020-3***

### ***Closed-End Strategy: Master Municipal Income Portfolio – New York Series 2020-3***

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This Information Supplement provides additional information concerning the risks and operations of the Portfolios which is not described in the prospectus. You should read this Information Supplement in conjunction with the prospectus. This Information Supplement is not a prospectus (but is incorporated into the prospectus by reference). It does not include all of the information that you should consider before investing in the Portfolios. This Information Supplement may not be used to offer or sell Units without the prospectus. You can obtain copies of the prospectus by contacting the Sponsor's unit investment trust division at 3500 Lacey Road, Suite 700, Downers Grove, Illinois 60515-5456, or by contacting your broker. This Information Supplement is dated as of the date of the prospectus. All capitalized terms have been defined in the prospectus.

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## **RISK FACTORS**

**Closed-End Funds.** Closed-end funds' portfolios are managed and their shares are generally listed on a securities exchange. The net asset value of closed-end fund shares will fluctuate with changes in the value of the underlying securities that the closed-end fund owns. In addition, for various reasons closed-end fund shares frequently trade at a discount from their net asset value in the secondary market. The amount of such discount from net asset value is subject to change from time to time in response to various factors. Closed-end funds' articles of incorporation may contain certain anti-takeover provisions that may have the effect of inhibiting a fund's possible conversion to open-end status and limiting the ability of other persons to acquire control of a fund. In certain circumstances, these provisions might also inhibit the ability of stockholders (including a Portfolio) to sell their shares at a premium over prevailing market prices. This characteristic is a risk separate and distinct from the risk that a fund's net asset value will decrease. In particular, this characteristic would increase the loss or reduce the return on the sale of those closed-end fund shares that were purchased by a Portfolio at a premium. In the unlikely event that a closed-end fund converts to open-end status at a time when its shares are trading at a premium there would be an immediate loss in value to the Portfolios since shares of open-end funds trade at net asset value. Certain closed-end funds may have in place or may put in place in the future plans pursuant to which the fund may repurchase its own shares in the marketplace. Typically, these plans are put in place in an attempt by a fund's board of directors to reduce a discount on its share price. To the extent that such a plan is implemented and shares owned by a Portfolio are repurchased by a fund, the Portfolio's position in that fund will be reduced and the cash will be distributed.

A Portfolio is prohibited from subscribing to a rights offering for shares of any of the closed-end funds in which it invests. In the event of a rights offering for additional shares of a fund, Unitholders should expect that a Portfolio will, at the completion of the offer, own a smaller proportional interest in such fund than would

otherwise be the case. It is not possible to determine the extent of this dilution in share ownership without knowing what proportion of the shares in a rights offering will be subscribed. This may be particularly serious when the subscription price per share for the offer is less than the fund's net asset value per share. Assuming that all rights are exercised and there is no change in the net asset value per share, the aggregate net asset value of each shareholder's shares of common stock should decrease as a result of the offer. If a fund's subscription price per share is below that fund's net asset value per share at the expiration of the offer, shareholders would experience an immediate dilution of the aggregate net asset value of their shares of common stock as a result of the offer, which could be substantial.

Closed-end funds may use leveraging in their portfolios. Leveraging can be expected to cause increased price volatility for those fund's shares, and as a result, increased volatility for the price of the Units of a Portfolio. There can be no assurance that a leveraging strategy will be successful during any period in which it is employed.

In limited cases certain closed-end funds may employ an investment strategy which includes investments in derivatives such as forward contracts, options, futures contracts, options on futures contracts and swap agreements or intricate derivative-like features, including reverse convertibles, steeper notes, reference point investments and knockout/knock-in features. These strategies may utilize multiple features that affect investment returns differently under various scenarios. Derivatives may be purchased on established exchanges or through privately negotiated transactions. Derivatives can be volatile and involve various types and degrees of risk, depending upon the characteristics of the particular derivative. Derivatives may entail investment exposures that are greater than their cost would suggest, meaning that a small investment in derivatives could have a large potential impact on performance. 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. Structured notes and other related instruments carry risks similar to those of more traditional derivatives such as futures, forward and option contracts. Structured instruments may entail a greater degree of market risk and volatility than other types of debt obligations. There can be no assurance that a derivative based strategy will be successful during any period in which it is employed.

An exclusion has been claimed for each Portfolio from the definition of the term “commodity pool operator” under the Commodity Exchange Act (“CEA”) and, therefore, your Portfolio is not subject to registration as a commodity pool operator under the CEA.

***Municipal Bonds.*** The closed-end funds in your Portfolio invest in certain types of bonds described below. Accordingly, an investment in your Portfolio should be made with an understanding of the characteristics of and risks associated with such bonds.

Certain of the bonds in a closed-end fund may be general obligations of a governmental entity that are backed by the taxing power of such entity. Other bonds are revenue bonds payable from the income of a specific project or authority and are not supported by the issuer’s power to levy taxes. General obligation bonds are secured by the issuer’s pledge of its faith, credit and taxing power for the payment of principal and interest. Revenue bonds, on the other hand, are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise tax or other specific revenue source. There are, of course, variations in the security of the different bonds in a closed-end fund, both within a particular classification and between classifications, depending on numerous factors.

Certain of the bonds in a closed-end fund may be obligations which derive their payments from mortgage loans. Certain of such housing bonds may be FHA insured or may be single family mortgage revenue bonds issued for the purpose of acquiring from originating financial institutions notes secured by mortgages on residences located within the issuer’s boundaries and owned by persons of low or moderate income. Mortgage loans are generally partially or

completely prepaid prior to their final maturities as a result of events such as sale of the mortgaged premises, default, condemnation or casualty loss. Because these bonds are subject to extraordinary mandatory redemption in whole or in part from such prepayments of mortgage loans, a substantial portion of such bonds will probably be redeemed prior to their scheduled maturities or even prior to their ordinary call dates. Extraordinary mandatory redemption without premium could also result from the failure of the originating financial institutions to make mortgage loans in sufficient amounts within a specified time period. Additionally, unusually high rates of default on the underlying mortgage loans may reduce revenues available for the payment of principal of or interest on such mortgage revenue bonds. In each case the issuer of the bonds has covenanted to comply with applicable requirements and bond counsel to such issuer has issued an opinion that the interest on the bonds is exempt from Federal income tax under existing laws and regulations. Certain issuers of housing bonds have considered various ways to redeem bonds they have issued prior to the stated first redemption dates for such bonds.

Certain of the bonds in a closed-end fund may be health care revenue bonds. Ratings of bonds issued for health care facilities are often based on feasibility studies that contain projections of occupancy levels, revenues and expenses. A facility’s gross receipts and net income available for debt service may be affected by future events and conditions including, among other things, demand for services and the ability of the facility to provide the services required, physicians’ confidence in the facility, management capabilities, competition with other health care facilities, efforts by insurers and governmental agencies to limit rates, legislation establishing state rate-setting agencies, expenses, the cost and possible unavailability of malpractice insurance, the funding of Medicare, Medicaid and other similar third party pay or programs, government regulation and the termination or restriction of governmental financial assistance, including that associated with Medicare, Medicaid and other similar third party pay or programs.

Certain of the bonds in a closed-end fund may be obligations of public utility issuers, including those selling wholesale and retail electric power and gas. General problems of such issuers would include the difficulty in financing large construction programs in an inflationary period, the limitations on operations and increased costs and delays attributable to environmental considerations, the difficulty of the capital market in absorbing utility debt, the difficulty in obtaining fuel at reasonable prices and the effect of energy conservation. In addition, Federal, state and municipal governmental authorities may from time to time review existing, and impose additional, regulations governing the licensing, construction and operation of nuclear power plants, which may adversely affect the ability of the issuers of certain of the bonds in a closed-end fund to make payments of principal and/or interest on such bonds.

Certain of the bonds in a closed-end fund may be obligations of issuers whose revenues are derived from the sale of water and/or sewerage services. Such bonds are generally payable from user fees. The problems of such issuers include the ability to obtain timely and adequate rate increases, population decline resulting in decreased user fees, the difficulty of financing large construction programs, the limitations on operations and increased costs and delays attributable to environmental considerations, the increasing difficulty of obtaining or discovering new supplies of fresh water, the effect of conservation programs and the impact of “no-growth” zoning ordinances.

Certain of the bonds in a closed-end fund may be industrial revenue bonds (“IRBs”). IRBs have generally been issued under bond resolutions pursuant to which the revenues and receipts payable under the arrangements with the operator of a particular project have been assigned and pledged to purchasers. In some cases, a mortgage on the underlying project may have been granted as security for the IRBs. Regardless of the structure, payment of IRBs is solely dependent upon the creditworthiness of the corporate operator of the project or corporate guarantor. Corporate operators or guarantors may be affected by many factors which may have an adverse impact on the credit quality of the

particular company or industry. These include cyclicity of revenues and earnings, regulatory and environmental restrictions, litigation resulting from accidents or environmentally-caused illnesses, extensive competition and financial deterioration resulting from a corporate restructuring pursuant to a leveraged buy-out, takeover or otherwise. Such a restructuring may result in the operator of a project becoming highly leveraged which may impact on such operator’s creditworthiness which in turn would have an adverse impact on the rating and/or market value of such bonds. Further, the possibility of such a restructuring may have an adverse impact on the market for and consequently the value of such bonds, even though no actual takeover or other action is ever contemplated or effected.

Certain of the bonds in a closed-end fund may be obligations that are secured by lease payments of a governmental entity (hereinafter called “lease obligations”). Lease obligations are often in the form of certificates of participation. Although the lease obligations do not constitute general obligations of the municipality for which the municipality’s taxing power is pledged, a lease obligation is ordinarily backed by the municipality’s covenant to appropriate for and make the payments due under the lease obligation. However, certain lease obligations contain “non-appropriation” clauses which provide that the municipality has no obligation to make lease payments in future years unless money is appropriated for such purpose on a yearly basis. A governmental entity that enters into such a lease agreement cannot obligate future governments to appropriate for and make lease payments but covenants to take such action as is necessary to include any lease payments due in its budgets and to make the appropriations therefor. A governmental entity’s failure to appropriate for and to make payments under its lease obligation could result in insufficient funds available for payment of the obligations secured thereby. Although “non-appropriation” lease obligations are secured by the leased property, disposition of the property in the event of foreclosure might prove difficult.

Certain of the bonds in a closed-end fund may be obligations of issuers which are, or which govern the operation of, schools, colleges and universities and

whose revenues are derived mainly from ad valorem taxes or for higher education systems, from tuition, dormitory revenues, grants and endowments. General problems relating to school bonds include litigation contesting the state constitutionality of financing public education in part from ad valorem taxes, thereby creating a disparity in educational funds available to schools in wealthy areas and schools in poor areas. Litigation or legislation on this issue may affect the sources of funds available for the payment of school bonds. General problems relating to college and university obligations include the prospect of a declining percentage of the population consisting of “college” age individuals, possible inability to raise tuitions and fees sufficiently to cover increased operating costs, the uncertainty of continued receipt of Federal grants and state funding, and government legislation or regulations which may adversely affect the revenues or costs of such issuers.

Certain of the bonds in a closed-end fund may be obligations which are payable from and secured by revenues derived from the ownership and operation of facilities such as airports, bridges, turnpikes, port authorities, convention centers and arenas. The major portion of an airport’s gross operating income is generally derived from fees received from signatory airlines pursuant to use agreements which consist of annual payments for leases, occupancy of certain terminal space and service fees. Airport operating income may therefore be affected by the ability of the airlines to meet their obligations under the use agreements. From time to time the air transport industry has experienced significant variations in earnings and traffic, due to increased competition, excess capacity, increased costs, deregulation, traffic constraints and other factors, and several airlines have experienced severe financial difficulties. Similarly, payment on bonds related to other facilities is dependent on revenues from the projects, such as user fees from ports, tolls on turnpikes and bridges and rents from buildings. Therefore, payment may be adversely affected by reduction in revenues due to such factors as increased cost of maintenance, decreased use of a facility, lower cost of alternative modes of transportation, scarcity of fuel and reduction or loss of rents.

Certain of the bonds in a closed-end fund may be obligations which are payable from and secured by revenues derived from the operation of resource recovery facilities. Resource recovery facilities are designed to process solid waste, generate steam and convert steam to electricity. Resource recovery bonds may be subject to extraordinary optional redemption at par upon the occurrence of certain circumstances, including but not limited to: destruction or condemnation of a project; contracts relating to a project becoming void, unenforceable or impossible to perform; changes in the economic availability of raw materials, operating supplies or facilities necessary for the operation of a project or technological or other unavoidable changes adversely affecting the operation of a project; and administrative or judicial actions which render contracts relating to the projects void, unenforceable or impossible to perform or impose unreasonable burdens or excessive liabilities. The Sponsor cannot predict the causes or likelihood of the redemption of resource recovery bonds prior to the stated maturity of the bonds.

Certain of the bonds in a closed-end fund may be subject to redemption prior to their stated maturity date pursuant to sinking fund provisions, call provisions or extraordinary optional or mandatory redemption provisions or otherwise. A sinking fund is a reserve fund accumulated over a period of time for retirement of debt. A callable debt obligation is one which is subject to redemption or refunding prior to maturity at the option of the issuer. A refunding is a method by which a debt obligation is redeemed, at or before maturity, by the proceeds of a new debt obligation. In general, call provisions are more likely to be exercised when the offering side valuation is at a premium over par than when it is at a discount from par. The exercise of redemption or call provisions will result in the distribution of principal and may result in a reduction in the amount of subsequent interest distributions. Extraordinary optional redemptions and mandatory redemptions result from the happening of certain events. Generally, events that may permit the extraordinary optional redemption of bonds or may require the mandatory redemption of bonds include,

among others: a final determination that the interest on the bonds is taxable; the substantial damage or destruction by fire or other casualty of the project for which the proceeds of the bonds were used; an exercise by a local, state or Federal governmental unit of its power of eminent domain to take all or substantially all of the project for which the proceeds of the bonds were used; changes in the economic availability of raw materials, operating supplies or facilities or technological or other changes which render the operation of the project for which the proceeds of the bonds were used uneconomic; changes in law or an administrative or judicial decree which renders the performance of the agreement under which the proceeds of the bonds were made available to finance the project impossible or which creates unreasonable burdens or which imposes excessive liabilities, such as taxes, not imposed on the date the bonds are issued on the issuer of the bonds or the user of the proceeds of the bonds; an administrative or judicial decree which requires the cessation of a substantial part of the operations of the project financed with the proceeds of the bonds; an overestimate of the costs of the project to be financed with the proceeds of the bonds resulting in excess proceeds of the bonds which may be applied to redeem bonds; or an underestimate of a source of funds securing the bonds resulting in excess funds which may be applied to redeem bonds. The issuer of certain bonds in a closed-end fund may have sold or reserved the right to sell, upon the satisfaction of certain conditions, to third parties all or any portion of its rights to call bonds in accordance with the stated redemption provisions of such bonds. In such a case the issuer no longer has the right to call the bonds for redemption unless it reacquires the rights from such third party. A third party pursuant to these rights may exercise the redemption provisions with respect to a bond at a time when the issuer of the bond might not have called a bond for redemption had it not sold such rights. No one can predict all of the circumstances which may result in such redemption of an issue of bonds. See also the discussion of single family mortgage and multi-family revenue bonds above for more information on the call provisions of such bonds.

### **California Risk Factors.**

The California Series invests in funds that invest primarily in California municipal securities. Accordingly, the Portfolio is susceptible to certain factors that could adversely affect issuers of California municipal obligations.

The following information constitutes only a brief summary of a number of the complex factors which may impact issuers of California municipal securities and does not purport to be a complete or exhaustive description of all adverse conditions to which issuers of California municipal securities may be subject. Such information is derived from official statements utilized in connection with the issuance of California municipal securities, as well as from other publicly available documents. Such an official statement, together with any updates or supplements thereto, generally may be obtained upon request to the State's Treasurer's office. Such information has not been independently verified by the Sponsor and the Sponsor assumes no responsibility for the completeness or accuracy of such information. The summary below does not include all of the information pertaining to the budget, receipts and disbursements of the State that would ordinarily be included in various public documents issued thereby, such as an official statement prepared in connection with the issuance of general obligation bonds of the State. Additionally, many factors, including national, economic, social and environmental policies and conditions, which are not within the control of such issuers, could have an adverse impact on the financial condition of such issuers. Neither the Sponsor nor the investment advisers to the underlying closed-end funds can predict whether or to what extent such factors or other factors may affect the issuers of California municipal securities, the market value or marketability of such securities or the ability of the respective issuers of such securities acquired by the underlying closed-end funds to pay interest on or principal of such securities. The creditworthiness of obligations issued by local California issuers may be unrelated to the creditworthiness of obligations issued by California, and there is no assurance on the part of the State to make payments on such local obligations. There may be

specific factors that are applicable in connection with investment in the obligations of particular issuers located within the State, and it is possible the underlying closed-end funds will invest in obligations of particular issuers as to which such specific factors are applicable. However, the information set forth below is intended only as a general summary and not as a discussion of any specific factors that may affect any particular issuer of California municipal securities.

The economy of the State of California (“California” or the “State”) is diverse, with major components in the high-technology, trade, entertainment, manufacturing, tourism, construction and services sectors. In addition, governmental agencies at the state, local and federal levels employ a significant number of the State’s residents. As these sectors represent the largest share of employment in the State, economic problems or factors that adversely impact these sectors may have a negative effect on the value of the State’s municipal securities, which may reduce the performance of the California Series.

The State faces significant fiscal challenges including significant underfunding of the State’s pension systems. Furthermore, the economic outlook in the rest of the United States remains uncertain. A future economic downturn could significantly impact the State’s finances and, therefore, its municipal securities. Moreover, the level of public debt in the State may affect long-term growth prospects and could cause some municipalities to experience financial hardship.

From year-to-year, the State may experience a number of political, social, economic, and environmental circumstances that influence the State’s economic and fiscal condition. Such circumstances include, but are not limited to: (i) persistent structural imbalances; (ii) rising debt levels; (iii) significant pension underfunding; (iv) revenue volatility; (v) developments with respect to the U.S. and world economies; (vi) environmental considerations and natural disasters; and (vii) U.S. federal economic and fiscal policies, including the amount of federal aid provided to the State and its municipalities.

There can be no guarantee that the State’s economic and fiscal conditions will continue to improve or that future developments will not have a materially adverse impact on the State’s finances. Any deterioration in the State’s financial condition may have a negative effect on the marketability, liquidity or value of the securities issued by the State and its municipalities, which could reduce the performance of the California Series.

*Current Economic Climate.* California’s economy, the largest state economy in the United States and one of the largest and most diverse in the world, has major components in high technology, trade, entertainment, manufacturing, government, tourism, construction and services, and may be sensitive to economic factors affecting those industries.

California’s fiscal health has improved since the severe recession ended in 2009, which caused large budget deficits. In recent years, the State has paid off billions of dollars of budgetary borrowings, debts and deferrals that were accumulated to balance budgets during the most recent recession and years prior. However, California’s General Fund will be materially adversely impacted by the health-related and economic impacts of the COVID-19 pandemic. Efforts to respond to and mitigate the spread of COVID-19 have had a severe impact on the California and national economies and triggered a historic drop and ongoing volatility in the stock market. These efforts are expected to result in significant declines in state revenues from recent levels, as well as increased expenditures required to manage and mitigate COVID-19’s impact. Moreover, there is uncertainty with respect to General Fund cash flow for fiscal year 2019-20 due to the delayed deadlines for filing and payment of personal income, corporation, and sales and use taxes. It is not presently possible to predict the extent of the short- and long-term harm that COVID-19 could cause to California’s economy. A meaningful decline in revenues could negatively impact California’s ability to meet its debt obligations, including with respect to investments held by a Fund.

California’s real gross domestic product (“GDP”) increased by 2.6% in 2019, and totaled more than \$3.0 trillion at current prices, making California the fifth largest economy in the world. Despite the increase in

the minimum wage, lower-wage sectors, such as leisure and hospitality, and educational and health services continued to grow throughout 2019. However, as more than one-third of California jobs are in sectors that are directly impacted by COVID-19, unemployment is expected to grow significantly. The unemployment rate in April 2020 was 16.4%, and the unemployment rate could peak at around 25%.

*Constraints on the Budget Process.* Over the years, a number of laws and constitutional amendments have been enacted, often through voter initiatives that have limited the State's ability to use local government taxing sources to aid its budget and use discretion in developing and executing budget plans.

Likewise, local governments are constrained by certain legislative and constitutional measures in their ability to raise revenue. As a result of these and other limits to the ability of local governments to raise revenue, local governments may face significant fiscal problems in periods of economic stress, which could cause these issuers to default on their outstanding obligations or file for bankruptcy protection under Chapter 9 of the U.S. Bankruptcy Code.

Chapter 9 of the U.S. Bankruptcy Code provides insolvent municipalities that meet certain conditions with protection from their creditors while the municipalities develop plans to reorganize their debts. In the past, as a result of financial and economic difficulties, several California municipalities filed for bankruptcy protection under Chapter 9. Additional municipalities could file for bankruptcy protection in the future. Any such action could negatively impact the value of the California Series' investments in the securities of those issuers or other issuers in California.

*2019-2020 Budget.* The fiscal year 2020 Budget Act, enacted on June 27, 2019, continues to build reserves and pay down budgetary debt. The fiscal year 2019-2020 (the "fiscal year 2020 Budget") allocates \$14.3 billion to build budgetary resiliency and pay down the State's unfunded liabilities. This includes \$4.5 billion to eliminate debts and reverse deferrals, \$5.5 billion to build reserves, and \$4.3 billion to pay down unfunded retirement liabilities, and projects a

structurally balanced budget through fiscal year 2022-2023. The fiscal year 2020 Budget projects total General Fund resources of \$150.6 billion, which includes \$1.4 billion in the State's Special Fund for Economic Uncertainties and \$16.5 billion in the Budget Stabilization Account/Rainy Day Fund.

The fiscal year 2020 Budget provided for total State funding of \$163 billion for health and human services, including \$41.9 billion from the General Fund, with the remaining funding to be provided from special funds.

*Retirement Systems.* Underfunded pension plans continue to add spending pressure to the State's budget. California's two main public pension funds are the California Public Employees' Retirement System ("CalPERS") and the California State Teachers' Retirement System ("CalSTRS"). As of June 30, 2018, CalPERS and CalSTRS served a combined total of approximately 1.56 million members. CalPERS and CalSTRS each face unfunded future liabilities in the tens of billions of dollars. For fiscal year 2018-19, the actuarially determined General Fund pension contributions to the California Public Employees' Retirement System ("CalPERS") and California State Teachers' Retirement System ("CalSTRS") were approximately \$3.6 billion and \$3.1 billion, respectively. For fiscal year 2019-20, the actuarially determined General Fund pension contributions to CalPERS and CalSTRS are estimated to be approximately \$3.9 billion and \$3.3 billion, respectively.

Legislation with respect to both CalPERS and CalSTRS and changes made by both systems in actuarial assumptions in the last several years, including expected investment returns and funding methodologies, are expected to result in significant annual increases in the amount the State is required to pay from the General Funding the foreseeable future.

In addition to pension benefits, the State also provides certain other post-employment benefits ("OPEB"), such as health care and dental benefits, for eligible retired employees of the State. Because the State currently funds its OPEB costs on a "pay-as-you-go" basis, the State has amassed large unfunded actuarial liabilities with respect to its OPEB obligations.



The State has an actuarial accrued liability relating to these other post-employment benefits estimated at \$86.47 billion as of June 30, 2018 (virtually all unfunded) as compared to an actuarial accrued liability of \$91.51 billion estimated as of June 30, 2017.

Because the State may ultimately be responsible for paying the difference between the benefits paid and the contributions received by the systems, these unfunded liabilities pose a significant risk to the State's fiscal condition. In addition, with more money diverted to pension contributions, the State may have less resources available to meet its debt obligations (including those obligations related to debt held by your Portfolio), which could impact the credit rating and marketability of its municipal bonds.

*2020 – 2021 Budget.* The Governor released his proposed budget for fiscal year 2020-21 on January 10, 2020 ("Governor's Budget"). The Governor's Budget focused on building California's reserves and making investments to help reduce the cost of health care. Previous budgets allocated discretionary resources in excess of constitutional funding requirements, such as those required by Proposition 98, and the Governor's Budget seeks to increase the level of Proposition 98 funding relative to the previous year.

On May 14, 2020, the Governor revised the projections contained in the Governor's Budget ("May Revision"), which projections take into account the impact that COVID-19 has had on California's economy and anticipated revenues. Consistent with California's constitutional requirement to enact a balanced budget and not issue long-term bonds to finance deficits, the May Revision proposed to cancel new initiatives in Governor's Budget, cancel and reduce spending included in the budget for fiscal year 2019-20, draw down on reserves, borrow from special funds, and temporarily increase revenues. The May Revision projected total reserves of \$5.1 billion by the end of fiscal year 2020-21 and \$8.4 billion in the Budget Stabilization Account ("BSA"), as required under Proposition 2.

The May Revision projected that General Fund revenues and transfers for fiscal year 2020-21 would be

\$137.4 billion and expenditures would be \$133.9 billion. These expenditure and revenue estimates represent a reduction of \$19 billion and \$14 billion, respectively, from the amounts anticipated in the Governor's Budget. The May Revision stated that the General Fund began fiscal year 2019-20 with a surplus balance of \$11.3 billion, and projected that the General Fund would begin fiscal year 2020-21 with a surplus of approximately \$1.6 billion. The projected fiscal year 2020-21 General Fund revenues and transfers were 0.4% greater than the revised fiscal year 2019-20 estimate of \$136.8 billion, while the projected fiscal year 2020-21 expenditures were 8.6% lower than the revised fiscal year 2019-20 estimate of \$146.5 billion.

On June 29, 2020, the Governor signed into law the budget for fiscal year 2020-21 ("Enacted Budget"). To address the potential budget deficit resulting from the impacts of COVID-19, the Enacted Budget suspended several ongoing programmatic expenditures enacted in previous budgets and draws down on various reserves. The Enacted Budget projects that General Fund revenues and transfers will be \$137.7 billion and expenditures will be \$133.9 billion. The Enacted Budget states that the General Fund began fiscal year 2019-20 with a surplus balance of \$11.3 billion, and projects that the General Fund will begin fiscal year 2020-21 with a surplus of approximately \$2.0 billion. The projected fiscal year 2020-21 General Fund revenues and transfers are 0.1% greater than the revised fiscal year 2019-20 estimate of \$137.6 billion, while the projected fiscal year 2020-21 expenditures are 8.9% lower than the revised fiscal year 2019-20 estimate of \$146.9 billion.

The Legislative Analyst's Office ("LAO"), California's nonpartisan fiscal and policy advisor, released a report on the May Revision that addressed the budgetary issues facing California. The LAO noted that, to address a potential \$54.3 billion budget shortfall, the Governor adjusted baseline revenue expectations, used reserves, implemented new revenue generating mechanisms, and reduced spending. The LAO also observed that the May Revision contemplates approximately \$8.6 billion in direct COVID-19-related expenditures and conditioned approximately \$15 billion in spending on the receipt of certain federal assistance funds. While the LAO

acknowledged that the mix of potential solutions would be helpful in addressing the budgetary problems, the LAO cautioned against certain cost shifting mechanisms in the May Revision, such as suspending increases in the rate of payment on certain pension obligations. The LAO also commented that reliance on federal relief funds to fund certain programs would not address long-term budget issues.

*Debt.* California has a substantial amount of debt outstanding. As of July 1, 2019, the State had approximately \$81.3 billion of outstanding general obligation bonds and lease revenue bonds principally payable from the State's General Fund or from lease payments paid from the operating budget of the respective lessees, which operating budgets are primarily, but not exclusively, derived from the General Fund. As of July 1, 2019 there were approximately \$35.5 billion of authorized and unissued long-term voter-approved general obligation bonds which, when issued, will be payable principally from the General Fund and approximately \$7.6 billion of authorized and unissued lease-revenue bonds. The State Constitution prohibits the creation of general obligation indebtedness of the State unless a bond measure is approved by a majority of the electorate voting at a general election or a direct primary. Additionally, the State constitution generally prevents these bonds from being used to finance State budget deficits.

*Litigation.* The State, its officials and employees are named as defendants in legal proceedings that occur in the normal course of governmental operations. Some of these proceedings involve claims for substantial amounts, which if decided against the State might require the State to make significant future expenditures or substantially impair future revenue sources. Because of the prospective nature of these proceedings, it is not presently possible to predict the ultimate outcome of such proceedings, estimate the potential impact on the ability of the State to pay debt service costs on its obligations, or determine what impact, if any, such proceedings may have on your Portfolio's investments. If the State eventually loses any of these cases, the final remedies may not have to be implemented in any one year.

*Credit Rating.* As of March 20, 2020, California's general obligation debt was assigned a rating of Aa2 by Moody's AA- by S&P and AA by Fitch. These ratings reflect only the views of the respective rating agency, an explanation of which may be obtained from each such rating agency. There is no assurance that these ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by the rating agency if, in the judgment of such rating agency, circumstances so warrant. A downward revision or withdrawal of any such rating may have an adverse effect on the market prices of the securities issued by the State, its municipalities, and their political subdivisions, instrumentalities, and authorities.

*Other Considerations.* Substantially all of California is within an active geologic region subject to major seismic activity. Northern California, in 1989, and Southern California, in 1994, experienced major earthquakes causing billions of dollars in damages. California has historically been susceptible to wildfires and hydrologic variability including drought. Extreme weather, intensified by climate change, has led to an essentially a year-round fire season, with larger and more intense fires. In October and December 2017 wildfires struck the State, destroying thousands of structures and burning over 500,000 acres and contributing to a 2017 total of more than 1.4 million acres burned. The November 2018 Camp Fire was the single deadliest and most destructive fire in California history, destroying thousands of structures and burning more than 150,000 acres, bringing the 2018 total to over 1.8 million acres burned. The total costs of the 2017, 2018 and 2019 fires are estimated to be in the tens of billions of dollars and the full economic impacts may not be realized for years. The State's and any other municipal issuers' outstanding obligations could be affected by an interruption of revenues because of damaged facilities, or, consequently, income tax deductions for casualty losses or property tax assessment reductions due to earthquakes or fire. The 2020 Budget estimates the General Fund share of wildfire recovery costs to be \$923 million.

The recent wildfires, as well as the large-scale power shutoffs implemented by the utilities companies for

wildfire prevention, have significantly impacted the State's economy, and there can be no guarantee that future wildfires and related power outages would not have an equally detrimental effect on the State's economy or environment.

The State Legislature enacted AB 1054 on July 12, 2019, to address public utility liability for wildfires by, among other measures, establishing a Wildfire Fund to pay eligible claims arising from certain wildfires. It is anticipated that the State's three largest public utilities' shareholders and their ratepayers (by a charge collected by the public utilities at the direction of the California Public Utilities Commission) will jointly contribute to the Wildfire Fund in an amount up to \$21 billion. In addition to allowing direct transfers of ratepayer charge to the Wildfire Fund, the legislation authorizes the Department of Water Resources to issue up to \$10.5 billion in bonds to support the Wildfire Fund, debt service on such bonds to be paid by the ratepayer charge.

### **New York Risk Factors.**

The New York Series invests in funds that invest primarily in New York municipal securities. Accordingly, the Portfolio is susceptible to certain factors that could adversely affect issuers of New York municipal obligations. The ability of issuers to pay interest on, and repay principal of, New York municipal obligations may be affected by: (1) amendments to the Constitution of the State of New York ("State") and other statutes that limit the taxing and spending authority of New York government entities; (2) the general financial and economic profile as well as the political climate of the State, its public authorities and political subdivisions; and (3) a change in New York laws and regulations or subsequent court decisions that may affect, directly or indirectly, New York municipal obligations. The New York Series' yield and share price is sensitive to these factors as one or more of such factors could undermine New York issuers' efforts to borrow, inhibit secondary market liquidity, erode credit ratings and affect New York issuers' ability to pay interest on, and repay principal of, New York municipal obligations. Furthermore, it should be noted that the creditworthiness of obligations issued by local New York

issuers may be unrelated to the creditworthiness of obligations issued by the State and the City of New York ("City"), and that there is no obligation on the part of the State to make payment on such local obligations in the event of default.

Summarized below are important financial concerns relating to the New York Series' investments in funds investing in New York municipal obligations. This section is not intended to be an entirely comprehensive description of all risks involved in investing in New York municipal obligations. The information in this section is intended to give a recent historical description and is not intended to indicate future or continuing trends in the financial or other positions of the State and the City. It should be noted that the information recorded here primarily is based on the economic and budget forecasts and economic risks found in certain reports issued by the State, the City and the Metropolitan Transportation Authority ("MTA"). The accuracy and completeness of the information in those reports have not been independently verified. Since the time that such resources were published, there may have been, and may yet be, significant changes in circumstances altering the economic and budget predictions found in those resources and presented here. In addition, it is important to note that many of the dollar amounts referenced in this section have been truncated to one digit after the decimal and rounded up or down to the appropriate dollar denomination. Because such dollar amounts generally reference large sums of money (e.g., millions or billions of dollars), the truncation and/or rounding of such dollar amounts may significantly differ from the untruncated and unrounded dollar amounts.

Although the economy of the State of New York ("State") is diverse, the State is heavily dependent on the financial activities sector, which accounts for a significant portion of the State's employment and wages. In addition, the State has large concentrations in the education and health services sector; the trade, transportation and utilities sector; professional and business services sector; and the government sector. As these sectors represent the largest share of employment in the State, economic problems or factors that adversely impact these sectors may have a

negative effect on the value of the State's municipal securities, which may reduce the performance of the New York Series.

While New York's economy has exhibited signs of growth, this growth may be slow as the State continues to face significant fiscal challenges including a relatively high unemployment rate and budget deficits. Furthermore, the economic outlook in the rest of the United States remains uncertain. A future economic downturn could significantly impact State finances and, therefore, its municipal securities. Moreover, the level of public debt in the State may affect long-term growth prospects and could cause some municipalities to experience financial hardship. As a result of these and other factors, the State has faced fiscal stress in recent years.

From year-to-year, the State may experience a number of political, social and economic circumstances that influence the State's economic and fiscal condition. Such circumstances include, but are not limited to: (i) rising debt levels; (ii) revenue volatility; (iii) developments with respect to the U.S. and world economies; and (iv) U.S. federal economic and fiscal policies, including the amount of federal aid provided to the State and its municipalities.

Furthermore, there can be no assurances that the State will not continue to face fiscal stress or that such circumstances will not become more difficult in the future. There can also be no guarantee that current or future economic conditions or federal actions will not have a materially adverse impact on the State's fiscal position. Any deterioration in the State's financial condition may have a negative effect on the marketability, liquidity or value of the securities issued by the State, which could reduce the performance of the New York Series.

*Current Economic Climate.* New York's civilian labor force consists of approximately 9.5 million individuals. As of November 2019, New York had an unemployment rate of approximately 4.0%, which was up from 3.9% in November 2018, and above the national average of 3.5% during November 2019. While national job growth accelerated slightly in 2018, employment in New York

decelerated modestly, with an increase of 1.1% after an increase of 1.2% the previous year. New York added nearly 110,000 jobs and total employment grew to over 9.6 million in 2018.

New York State's private sector started calendar year 2019 strong with jobs growing 1.7% during the first quarter compared to calendar year 2018. The State's leading industrial sectors continue to be healthcare, transportation and warehousing, management and administrative services, and construction. In contrast, the retail and wholesale trade, utilities and manufacturing sectors continue to exhibit losses. Although the real estate rental and leasing and educational services sectors added jobs at a slower pace during the first quarter compared to the fourth quarter of 2018, job growth in finance and insurance, and professional, scientific, and technical services sectors improved during the first quarter. The Division of the Budget of the State of New York ("DOB") expected State private sector job growth to slow down slightly in calendar year 2019 with growth of 1.4%, following 1.5% growth in calendar year 2018. Slower job growth of 1.2% is projected for calendar year 2020. Overall wage growth of 3.7% is estimated for fiscal year 2020.

New York was one of the epicenters of the COVID-19 outbreak in the United States. Since the outbreak began in early 2020, New York has adopted many restrictive measures intended to slow the spread of COVID-19 and expand health care system capacity. For example, in March 2020, the Governor issued an executive order requiring all non-essential businesses statewide to close in-office personnel functions and banning all non-essential gatherings of individuals. In addition, New York implemented a \$40 million special emergency appropriation for pandemic response services and expenses. The outbreak of COVID-19 has caused economic activity within New York to decline dramatically, which could lead to a decrease in revenues for the State. It is not presently possible to predict the extent of the short- and long-term harm that COVID-19 could cause to New York's economy. A meaningful decline in revenues could negatively impact New York's ability to meet its debt obligations, including with respect to investments held by a Fund.

The abrupt halt of economic activity in most industries led to layoffs and furloughs throughout the beginning of 2020. While the State projects total nonagricultural employment growth of 0.8% for Fiscal Year 2020, a decline of 7.0% is expected in Fiscal Year 2021. Private sector employment is expected to decline by 7.5% in 2020 and recover in 2021 to a growth rate of 3.1%. The State projects that wages will decrease by 7.2% for 2020, accompanied by a decline in total personal income (excluding bonuses) of 2.2%. The State's unemployment rate as of April 2020 was 15.3%, which was up from 3.9% in April 2019. The State's unemployment rate was above the national average of 14.7% in April 2020.

There are many factors that pose significant risk to the State's economy, including, but not limited to, the effects of: national and international events, climate change and extreme weather events; pandemics, epidemics, or other public health emergencies; ongoing financial instability in the Euro Zone; major terrorist events, hostilities or war; changes in consumer confidence, oil supplies and oil prices; cyber security attacks; Federal statutory and regulatory changes concerning financial sector activities; changes concerning financial sector bonus payouts; and shifts in monetary policy affecting interest rates and the financial markets.

The fiscal demands on the State may be affected by the fiscal condition of New York City, which relies in part on State aid to balance its budget and meet its cash requirements, and the City has been greatly impacted by COVID-19. Since the outbreak of COVID-19, unemployment in the City increased from 4.1% to 14.5%. The unexpected increase in expenses to address the pandemic as well as reduced revenues from decreasing tax collections has had a severe adverse impact on the City's cash flow and increased pressure on its budget.

Total wages paid to all employees increased at a slightly slower rate in New York (4.9%) than nationally (5.0%) in 2018. Gains in the average annual wage at the national level were also somewhat stronger than those in New York, with increases of 3.4% and 3.1%, respectively.

New York City is the nation's leading center for banking and finance and, as a result, this is a far more

important sector for the State than for the nation as a whole. Although this sector accounts for less than one-tenth of all nonagricultural jobs in the State, it contributes about one-fifth of total wages.

New York's economy is subject to many of the same risks facing the national economy, such as reduced demand for goods and services due to slowing economies abroad, particularly in Europe and Asia, the effects of the Federal Reserve's interest rate policies, and the continued volatility in energy markets. This international weakness may cause a continued increase in the value of the dollar, which may slow exports and overseas business and thus negatively impact the State. Furthermore, the State's economy remains heavily dependent on the U.S. economy and transfers from the federal government. As a result, any downturn in the national economy would likely have a negative impact on the State's economy and fiscal position. Similarly, because of New York's status as a global financial center, national events that affect financial markets, such as the gradual implementation of the Dodd Frank Wall Street Reform and Consumer Protection Act, may have a disproportionate impact on the State's economy. Because many New York issuers continue to face fiscal pressure, any deterioration in current fiscal or economic conditions would likely have an adverse impact on the ability of such issuers to satisfy the payment obligations on their outstanding debt.

*Budget.* In April 2020, the State's Division of Budget ("DOB") issued an Enacted Budget Financial Plan related to the State's enacted budget for Fiscal Year 2021 ("Enacted Budget"), which includes projections for FYs 2020 through 2024. The DOB estimated that COVID-19 will result in a \$60.5 billion decline in State revenues through Fiscal Year 2024. While the Enacted Budget anticipates that New York will finish Fiscal Year 2021 with a balanced budget, the State expects that there will be budget deficits in each of Fiscal Year 2022, 2023, and 2024 even after the implementation of gap-closing measures. A budget gap represents the difference between: (a) the projected General Fund disbursements, including transfers to other funds, needed to maintain anticipated service levels and

specific commitments; and (b) the expected level of resources to pay for them.

Estimated total General Fund receipts for the Enacted Budget are projected to be \$70.9 billion for Fiscal Year 2021, a decrease of \$8.3 billion, or 10.4%, from Fiscal Year 2020 results. These receipts consisted of \$41.6 billion in personal income tax revenues (a decrease of 17.6% from Fiscal Year 2020), \$12.0 billion in consumption/use tax receipts (a decrease of 15.7% from Fiscal Year 2020) and \$6.5 billion in business tax receipts (an increase of 2.1% from Fiscal Year 2020). The growth is primarily attributable to growth in corporation franchise tax receipts, driven by higher gross receipts and lower refunds. Against these revenues and transfers, the Enacted Budget included approximately \$73.2 billion in General Fund disbursements, representing a decrease of \$4.3 billion relative to Fiscal Year 2020 (a decrease of 5.6%). The amount allocated in the Enacted Budget for local assistance and personal and non-personal service costs declined by 10.5% and 3.3%, respectively, relative to the Fiscal Year 2020 budget, while the resources allocated to school aid spending grew by \$532 million.

*Local Governments.* With a population of over 8.6 million, New York City (the “City”) is the economic engine that drives growth in the region. As a result, the fiscal condition of the State is closely tied to the fiscal condition of the City. Currently, the City is facing certain fiscal challenges, such as large structural budget deficits, relatively high unemployment, slow wage growth, and significant underfunding of the City’s retirement systems and other post-employment benefits, which may impact the City’s fiscal condition. In addition, the City has a significant amount of public debt outstanding. As of June 30, 2019, New York City’s outstanding general obligation debt totaled \$37.52 billion, while the City’s primary government debt totaled \$95.5 billion. Because the City relies on State aid to balance its budget and meet its cash requirements, any increased pressure on the City’s finances could increase pressure on State finances.

Moreover, certain localities outside New York City have experienced financial problems and have requested and received additional State assistance

during the last several years. While a relatively infrequent practice, deficit financing by local governments has become more common in recent years. Additionally, the State has periodically enacted legislation to create oversight boards in order to address deteriorating fiscal conditions within a locality.

Like the State, local governments must respond to changing political, economic and financial conditions over which they have little or no control, but which can adversely affect their financial position. For example, the State or Federal government may reduce (or, in some cases, eliminate) funding of local programs, thus requiring local governments to pay these expenditures using their own resources. Similarly, past cash flow problems for the State have resulted in delays in State aid payments to localities. In some cases, these delays have necessitated short-term borrowing at the local level. A reduction in State aid or federal funding, as well as constraints on revenue generation, may cause localities to suffer serious financial difficulties that could jeopardize their access to the public credit markets and potentially affect the marketability of their securities. As a result, these economic and fiscal conditions could cause a locality to file for bankruptcy protection under Chapter 9 of the U.S. Bankruptcy Code in the future.

*Debt.* State law restricts the issuance of State-supported debt to capital purposes only and limits such debt to a maximum term of 30 years. State law also limits the amount of new State-supported debt to 4% of State personal income and new State-supported debt service costs to 5% of all State funds receipts. Once these caps are met, the State is prohibited from issuing any new State supported debt until such time as the State’s debt is found to be within the applicable limits. As of March 31, 2019, the State had \$2.3 billion in general obligation bonds outstanding. The total amount of general obligation bonds authorized but not issued at March 31, 2019 was \$2.5 billion. As of March 31, 2019, the State had \$59.6 billion in bonds, notes, and other financing agreements outstanding compared to \$56.2 billion in 2018, an increase of \$3.4 billion.

As part of its cash management program, the General Fund is authorized to borrow resources temporarily from other available funds in the State’s

short-term investment pool (“STIP”) for up to four months, or until the end of the fiscal year, whichever period is shorter. The amount of resources that can be borrowed by the General Fund is limited to the available balances in STIP. The State is expected to have sufficient liquidity to make payments as they become due for the remainder of FY2020. The State continues to reserve money on a quarterly basis for debt service payments that are financed with General Fund resources.

*Pension and Other Benefits.* The New York State and Local Retirement System (the “System”) provides pension benefits to public employees of the State and its local governments, with the exception of employees of New York City. The System consists primarily of the State and Local Employees’ Retirement System (“ERS”) and the New York State and Local Police and Fire Retirement System (“PFRS”). The Net Pension Liability (“NPL”) for ERS was \$7.09 billion for the measurement period ended March 31, 2019, as compared to \$3.23 billion for the measurement period ended March 31, 2018. The fiduciary net position, restricted for pension benefits as of March 31, 2019, was \$182.72 billion, which represents 96.27% of the calculated total pension liability for ERS. The NPL for PFRS was \$1.68 billion for the measurement period ended March 31, 2019, as compared to \$1.01 billion for the measurement period ended March 31, 2018. The fiduciary net position, restricted for pension benefits as of March 31, 2019, was \$32.45 billion, which represents 95.09% of the calculated total pension liability for PFRS.

In addition to pension benefits, the State also provides certain other post-employment benefits (“OPEB”), such as health care, for eligible retired employees of the State. Because the State currently funds its OPEB costs on a “pay-as-you-go” basis, the State has amassed large unfunded actuarial liabilities with respect to its OPEB obligations. The State recognized a total OPEB liability of \$50.9 billion for the fiscal year ended March 31, 2019.

Because the State may ultimately be responsible for paying the difference between the benefits paid and the contributions received by the System or for unfunded

amounts related to OPEB, any unfunded liabilities pose a significant risk to the State’s fiscal condition. In addition, with more money diverted to pension contributions, the State may have less resources available to meet its debt obligations (including related to debt held by the New York Series), which could impact the credit rating and marketability of its municipal bonds.

*Litigation.* The State, its officials and employees are named as defendants in legal proceedings that occur in the normal course of governmental operations. Some of these proceedings involve claims for substantial amounts, which if decided against the State might require the State to make significant future expenditures or substantially impair future revenue sources. Because of the prospective nature of these proceedings, it is not presently possible to predict the ultimate outcome of such proceedings, estimate the potential impact on the ability of the State to pay debt service costs on its obligations, or determine what impact, if any, such proceedings may have on the New York Series’ investments.

*Credit Rating.* As of May 2020, New York’s general obligation debt was assigned a rating of Aa1 by Moody’s Investors Service, Inc. (“Moody’s”) and AA+ by both S&P Global Ratings (“S&P”) and Fitch Ratings, Inc. (“Fitch”). These ratings reflect only the views of the respective rating agency, an explanation of which may be obtained from each such rating agency. There is no assurance that these ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by the rating agency if, in the judgment of such rating agency, circumstances so warrant. A downward revision or withdrawal of any such rating may have an adverse effect on the market prices of the securities issued by the State, its municipalities, and their political subdivisions, instrumentalities, and authorities.

**High-Yield Securities.** An investment in Units of a Portfolio should be made with an understanding of the risks that an investment in “high-yield, high-risk” debt obligations or “junk” obligations may entail, including increased credit risks and the risk that the value of the Units will decline, and may decline precipitously, with

increases in interest rates. In recent years there have been wide fluctuations in interest rates and thus in the value of debt obligations generally. Certain of the securities included in the funds in a Portfolio may be subject to greater market fluctuations and risk of loss of income and principal than are investments in lower-yielding, higher-rated securities, and their value may decline precipitously because of increases in interest rates, not only because the increases in rates generally decrease values, but also because increased rates may indicate a slowdown in the economy and a decrease in the value of assets generally that may adversely affect the credit of issuers of high-yield, high-risk securities resulting in a higher incidence of defaults among high-yield, high-risk securities. A slowdown in the economy, or a development adversely affecting an issuer's creditworthiness, may result in the issuer being unable to maintain earnings or sell assets at the rate and at the prices, respectively, that are required to produce sufficient cash flow to meet its interest and principal requirements. For an issuer that has outstanding both senior commercial bank debt and subordinated high-yield, high-risk securities, an increase in interest rates will increase that issuer's interest expense insofar as the interest rate on the bank debt is fluctuating. However, many leveraged issuers enter into interest rate protection agreements to fix or cap the interest rate on a large portion of their bank debt. This reduces exposure to increasing rates, but reduces the benefit to the issuer of declining rates. The sponsor cannot predict future economic policies or their consequences or, therefore, the course or extent of any similar market fluctuations in the future.

"High-yield" or "junk" securities, the generic names for securities rated below BBB- by Standard & Poor's or Fitch, or below Baa3 by Moody's, are frequently issued by corporations in the growth stage of their development, by established companies whose operations or industries are depressed or by highly leveraged companies purchased in leveraged buyout transactions. The market for high-yield securities is very specialized and investors in it have been predominantly financial institutions. High-yield securities are generally not listed on a national securities exchange. Trading of

high-yield securities, therefore, takes place primarily in over-the-counter markets that consist of groups of dealer firms that are typically major securities firms. Because the high-yield security market is a dealer market, rather than an auction market, no single obtainable price for a given security prevails at any given time. Prices are determined by negotiation between traders. The existence of a liquid trading market for the securities may depend on whether dealers will make a market in the securities. There can be no assurance that a market will be made for any of the securities, that any market for the securities will be maintained or of the liquidity of the securities in any markets made. Not all dealers maintain markets in all high-yield securities. Therefore, since there are fewer traders in these securities than there are in "investment grade" securities, the bid-offer spread is usually greater for high-yield securities than it is for investment grade securities. The price at which the securities may be sold and the value of a Portfolio will be adversely affected if trading markets for the securities are limited or absent. If the rate of redemptions is great, the value of a Portfolio may decline to a level that requires liquidation.

Lower-rated securities tend to offer higher yields than higher-rated securities with the same maturities because the creditworthiness of the issuers of lower-rated securities may not be as strong as that of other issuers. Moreover, debt if a security is recharacterized as equity by the Internal Revenue Service for federal income tax purposes, the issuer's interest deduction with respect to the security will be disallowed and this disallowance may adversely affect the issuer's credit rating. Because investors generally perceive that there are greater risks associated with the lower-rated securities in the funds in a Portfolio, the yields and prices of these securities tend to fluctuate more than higher-rated securities with changes in the perceived quality of the credit of their issuers. In addition, the market value of high-yield, high-risk securities may fluctuate more than the market value of higher-rated securities since these securities tend to reflect short-term credit development to a greater extent than higher-rated securities. Lower-rated securities generally involve greater risks of loss of income and principal than higher-rated securities.



Issuers of lower-rated securities may possess fewer creditworthiness characteristics than issuers of higher-rated securities and, especially in the case of issuers whose obligations or credit standing have recently been downgraded, may be subject to claims by debtholders, owners of property leased to the issuer or others which, if sustained, would make it more difficult for the issuers to meet their payment obligations. High-yield, high-risk securities are also affected by variables such as interest rates, inflation rates and real growth in the economy. Therefore, investors should consider carefully the relative risks associated with investment in securities that carry lower ratings.

The value of the shares of the closed-end funds reflects the value of the portfolio securities, including the value (if any) of securities in default. Should the issuer of any security default in the payment of principal or interest, the closed-end funds in a Portfolio may incur additional expenses seeking payment on the defaulted security. Because amounts (if any) recovered by the funds in payment under the defaulted security may not be reflected in the value of the fund shares until actually received by the funds, and depending upon when a Unitholder purchases or sells his or her Units, it is possible that a Unitholder would bear a portion of the cost of recovery without receiving any portion of the payment recovered.

High-yield, high-risk securities are generally subordinated obligations. The payment of principal (and premium, if any), interest and sinking fund requirements with respect to subordinated obligations of an issuer is subordinated in right of payment to the payment of senior obligations of the issuer. Senior obligations generally include most, if not all, significant debt obligations of an issuer, whether existing at the time of issuance of subordinated debt or created thereafter. Upon any distribution of the assets of an issuer with subordinated obligations upon dissolution, total or partial liquidation or reorganization of or similar proceeding relating to the issuer, the holders of senior indebtedness will be entitled to receive payment in full before holders of subordinated indebtedness will be entitled to receive any payment. Moreover, generally no payment with respect to subordinated indebtedness

may be made while there exists a default with respect to any senior indebtedness. Thus, in the event of insolvency, holders of senior indebtedness of an issuer generally will recover more, ratably, than holders of subordinated indebtedness of that issuer.

Obligations that are rated lower than “BBB-” by Standard & Poor’s, or “Baa3” by Moody’s, respectively, should be considered speculative as such ratings indicate a quality of less than investment grade. Investors should carefully review the objective of a Portfolio and consider their ability to assume the risks involved before making an investment in the Portfolio.

**Discount Securities.** Certain of the securities held by the closed-end funds in your Portfolio may have been acquired at a market discount from par value at maturity. The coupon interest rates on the discount securities at the time they were purchased and deposited in the funds were lower than the current market interest rates for newly issued securities of comparable rating and type. If such interest rates for newly issued comparable securities increase, the market discount of previously issued securities will become greater, and if such interest rates for newly issued comparable securities decline, the market discount of previously issued securities will be reduced, other things being equal. Investors should also note that the value of securities purchased at a market discount will increase in value faster than securities purchased at a market premium if interest rates decrease. Conversely, if interest rates increase, the value of securities purchased at a market discount will decrease faster than securities purchased at a market premium. In addition, if interest rates rise, the prepayment risk of higher yielding, premium securities and the prepayment benefit for lower yielding, discount securities will be reduced. Market discount attributable to interest changes does not indicate a lack of market confidence in the issue.

**Premium Securities.** Certain of the securities held by the closed-end funds in your Portfolio may have been acquired at a market premium from par value at maturity. The coupon interest rates on the premium securities at the time they were purchased by the fund were higher than the current market interest rates for newly issued

securities of comparable rating and type. If such interest rates for newly issued and otherwise comparable securities decrease, the market premium of previously issued securities will be increased, and if such interest rates for newly issued comparable securities increase, the market premium of previously issued securities will be reduced, other things being equal. The current returns of securities trading at a market premium are initially higher than the current returns of comparable securities of a similar type issued at currently prevailing interest rates because premium securities tend to decrease in market value as they approach maturity when the face amount becomes payable. Because part of the purchase price is thus returned not at maturity but through current income payments, early redemption of a premium security at par or early prepayments of principal will result in a reduction in yield. Redemption pursuant to call provisions generally will, and redemption pursuant to sinking fund provisions may, occur at times when the redeemed securities have an offering side valuation which represents a premium over par or for original issue discount securities a premium over the accreted value.

**Liquidity.** Whether or not the securities in your Portfolio are listed on an exchange, the securities may delist from the exchange or principally trade in an over-the-counter market. As a result, the existence of a liquid trading market could depend on whether dealers will make a market in the securities. We cannot guarantee that dealers will maintain a market or that any market will be liquid. The value of the securities could fall if trading markets are limited or absent.

**Additional Units.** The Sponsor may create additional Units of your Portfolio by depositing into a Portfolio additional securities or cash with instructions to purchase additional securities. A deposit could result in a dilution of your investment and anticipated income because of fluctuations in the price of the securities between the time of the deposit and the purchase of the securities and because the Portfolios will pay brokerage or acquisition fees.

**Voting.** Only the Trustee may sell or vote the securities in your Portfolio. While you may sell or redeem your Units, you may not sell or vote the

securities in your Portfolio. The Trustee will vote the underlying funds in the same general proportion as shares held by other shareholders.

## **SPONSOR INFORMATION**

Invesco Capital Markets, Inc. is the Sponsor of your Portfolio. The Sponsor is a wholly owned subsidiary of Invesco Advisers, Inc. (“Invesco Advisers”). Invesco Advisers is an indirect wholly owned subsidiary of Invesco Ltd., a leading independent global investment manager that provides a wide range of investment strategies and vehicles to its retail, institutional and high net worth clients around the globe. The Sponsor’s principal office is located at 11 Greenway Plaza, Houston, Texas 77046-1173. As June 30, 2020, the total stockholders’ equity of Invesco Capital Markets, Inc. was \$88,797,298.43 (unaudited). The current assets under management and supervision by Invesco Ltd. and its affiliates were valued at approximately \$1,145.2 billion as of June 30, 2020. (This paragraph relates only to the Sponsor and not to your Portfolio or to any other Series thereof. The information is included herein only for the purpose of informing investors as to the financial responsibility of the Sponsor and its ability to carry out its contractual obligations. More detailed financial information will be made available by the Sponsor upon request).

The Sponsor and your Portfolio have adopted a code of ethics requiring Invesco’s employees who have access to information on Portfolio transactions to report personal securities transactions. The purpose of the code is to avoid potential conflicts of interest and to prevent fraud, deception or misconduct with respect to your Portfolio.

If the Sponsor shall fail to perform any of its duties under the Trust Agreement or become incapable of acting or shall become bankrupt or its affairs are taken over by public authorities, then the Trustee may (i) appoint a successor Sponsor at rates of compensation deemed by the Trustee to be reasonable and not exceeding amounts prescribed by the Securities and Exchange Commission, (ii) terminate the Trust Agreement and liquidate the Portfolios as provided therein or (iii) continue to act as Trustee without terminating the Trust Agreement.

## **TRUSTEE INFORMATION**

The Trustee is The Bank of New York Mellon, a trust company organized under the laws of New York. The Bank of New York Mellon has its principal unit investment trust division offices at 2 Hanson Place, 12th Floor, Brooklyn, New York 11217, (800) 856-8487. The Bank of New York Mellon is subject to supervision and examination by the Superintendent of Banks of the State of New York and the Board of Governors of the Federal Reserve System, and its deposits are insured by the Federal Deposit Insurance Corporation to the extent permitted by law.

The duties of the Trustee are primarily ministerial in nature. It did not participate in the selection of Securities for the Portfolios.

In accordance with the Trust Agreement, the Trustee shall keep proper books of record and account of all transactions at its office for the Portfolios. Such records shall include the name and address of, and the number of Units of a Portfolio held by, every Unitholder. Such books and records shall be open to inspection by any Unitholder at all reasonable times during the usual business hours. The Trustee shall make such annual or other reports as may from time to time be required under any applicable state or federal statute, rule or regulation. The Trustee is required to keep a certified copy or duplicate original of the Trust Agreement on file in its office available for inspection at all reasonable times during the usual business hours by any Unitholder, together with a current list of the Securities held in the Portfolios.

Under the Trust Agreement, the Trustee or any successor trustee may resign and be discharged of its responsibilities created by the Trust Agreement by executing an instrument in writing and filing the same with the Sponsor. The Trustee or successor trustee must mail a copy of the notice of resignation to all Unitholders then of record, not less than 60 days before the date specified in such notice when such resignation is to take effect. The Sponsor upon receiving notice of such resignation is obligated to appoint a successor trustee promptly. If, upon such resignation, no successor trustee has been appointed and has accepted the appointment within 30 days after

notification, the retiring Trustee may apply to a court of competent jurisdiction for the appointment of a successor. The Sponsor may remove the Trustee and appoint a successor trustee as provided in the Trust Agreement at any time with or without cause. Notice of such removal and appointment shall be mailed to each Unitholder by the Sponsor. Upon execution of a written acceptance of such appointment by such successor trustee, all the rights, powers, duties and obligations of the original trustee shall vest in the successor. The resignation or removal of a Trustee becomes effective only when the successor trustee accepts its appointment as such or when a court of competent jurisdiction appoints a successor trustee.

Any corporation into which a Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which a Trustee shall be a party, shall be the successor trustee. The Trustee must be a banking corporation organized under the laws of the United States or any state and having at all times an aggregate capital, surplus and undivided profits of not less than \$5,000,000.

## **PORTFOLIO TERMINATION**

A Portfolio may be liquidated at any time by consent of Unitholders representing 66 2/3% of the Units of the Portfolio then outstanding or by the Trustee when the value of the Securities owned by the Portfolio, as shown by any evaluation, is less than \$500,000 (\$3,000,000 if the value of the Portfolio has exceeded \$15,000,000). A Portfolio will be liquidated by the Trustee in the event that a sufficient number of Units of the Portfolio not yet sold are tendered for redemption by the Sponsor, so that the net worth of the Portfolio would be reduced to less than 40% of the value of the Securities at the time they were deposited in the Portfolio. If a Portfolio is liquidated because of the redemption of unsold Units by the Sponsor, the Sponsor will refund to each purchaser of Units the entire sales charge paid by such purchaser. The Trust Agreement will terminate upon the sale or other disposition of the last Security held thereunder, but in no event will it continue beyond the Mandatory Termination Date.

Commencing during the period beginning nine business days prior to, and no later than, the Mandatory Termination Date, Securities will begin to be sold in connection with the termination of a Portfolio. The Sponsor will determine the manner, timing and execution of the sales of the Securities. The Sponsor shall direct the liquidation of the Securities in such manner as to effectuate orderly sales and a minimal market impact. In the event the Sponsor does not so direct, the Securities shall be sold within a reasonable period and in such manner as the Trustee, in its sole discretion, shall determine. Unitholders will receive a cash distribution from the sale of the remaining Securities within a reasonable time following the Mandatory Termination Date. The Trustee will deduct from the funds of a Portfolio any accrued costs, expenses, advances or indemnities provided by the Trust Agreement, including estimated compensation of the Trustee, costs of liquidation and any amounts required as a reserve to provide for payment of any applicable taxes or other governmental charges. Any sale of Securities in a Portfolio upon termination may result in a lower amount than might otherwise be realized if such sale were not required at such time. The Trustee will then distribute to each Unitholder of a Portfolio his pro rata share of the balance of the Income and Capital Accounts of a Portfolio.

The Sponsor may, but is not obligated to, offer for sale units of a subsequent series of a Portfolio. There is, however, no assurance that units of any new series of a Portfolio will be offered for sale at that time, or if offered, that there will be sufficient units available for sale to meet the requests of any or all Unitholders.

Within 60 days of the final distribution Unitholders will be furnished a final distribution statement of the amount distributable. At such time as the Trustee in its sole discretion will determine that any amounts held in reserve are no longer necessary, it will make distribution thereof to Unitholders in the same manner.

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