

Sweden Looks to Create a Stronger Fund Market

On 16 May 2025, the Fund Market Inquiry submitted its interim report on measures to strengthen the competitiveness of the Swedish funds markets, including a review of the rules on redemption frequency in mutual funds and special funds, to the Swedish Minister for Financial Markets.¹

This interim report was originally instigated by the Swedish government on 14 December 2023² and at the highest level focuses on modernising Swedish fund legislation to enhance the competitiveness and resilience of its local funds market.

The Swedish funds market

The Swedish funds market is one of the most mature in the European Economic Area (EEA) with 73 percent of Swedes aged between 18 and 76, with a taxable income exceeding SEK 50,000, investing directly in funds. When “premium pensions” are included, that figure rises to 100 percent.

Swedish investors have access to around 690 domestic UCITS funds³ (with a further c.5,300 EEA funds, mostly domiciled in either Luxembourg or Ireland) and over 660 domestic Alternative Investment Funds (AIFs).⁴

Amongst other things, the interim report proposes measures including a new transparent fund structure for institutional investors, new opportunities for trading fund units on Multilateral Trading Facility (MTF) platforms (exchange-traded funds), and more flexible rules for redeeming fund units.

Key proposals and legislative changes contained in the interim report

An overview of core tasks originally assigned by the investigation are:



Adaptation of local legislation to EU Directives

- Alternative Investment Fund Managers Directive (AIFMD)
- Undertakings for Collective Investment in Transferable Securities (UCITS) Directive



Competitive measures

- Propose initiatives to strengthen the Swedish fund market
- Particularly as regards exchange-traded funds and new fund structures for institutional investors



Redemption frequency review

- Re-evaluate Swedish rules on redemption frequency
- For UCITS funds and special funds



Swedish Financial Supervisory Authority Intervention

- Update legislation regarding the Swedish Financial Supervisory Authority’s intervention powers against fund management companies and AIF managers



Association-based Funds (Corporate Law Funds)

- Analyse and determine the appropriate design of regulation on corporate law funds with variable capital to be disclosed in the final report by 30 November 2025

A key aspect involves adapting Swedish law to new EU directives, specifically the AIFMD and UCITS Directive, in particular liquidity management tools and the lending activities of Alternative Investment Funds (AIFs).

Other key areas of discussion include requirements for AIFMs and UCITS management companies, delegation rules, information disclosure to investors, reporting obligations to supervisory authorities, and the marketing of funds, particularly in the context of third countries and pension/savings programs. The document highlights the complexities of transposing EU law into national legislation and the need for clear, consistent, and comprehensive regulations to ensure market integrity and investor confidence.

The proposals in more detail

The interim report provides a detailed section-by-section analysis of how various articles of the AIFM and UCITS Directives are, or should be, implemented into Swedish law, specifically the Swedish Alternative Investment Fund Managers Act (Sw. Lag 2013:561 om förvaltare av alternativa investeringsfonder – LAIF), Swedish UCITS Act (Sw. Lag 2004:46 om värdepappersfonder – (LVF) and respective Swedish Financial Supervisory Authority Regulatory Codes (Finansinspektionens föreskrifter – FFFS).

Key Implementation Goals

- **Legislative Changes:** Direct amendments to LAIF and LVF.
- **Regulatory Level Implementation:** Detailed rules and requirements to be adopted by the Finansinspektionen (the Swedish Financial Supervisory Authority – FI) often to allow for flexibility and adaptation to specific market conditions without requiring legislative changes.
- **Clarification/Interpretation:** Explaining how existing Swedish laws should be interpreted, given the AIFMD and UCITS Directive review proposals, sometimes proposing linguistic adjustments to ensure full alignment.

The interim report often highlights discrepancies or areas where current Swedish law might not fully align with the directives or where the interpretation could lead to unintended consequences (e.g., the “mailbox company” – letter-box entity – concern, the narrow scope of marketing rules for pension programs, or the differing definition of “financial instrument” between laws). It also frequently references the need for FI to issue guiding regulations to ensure effective implementation.

Tax-Transparent Funds for Institutional Investors

A new tax-transparent fund structure for institutional investors has been proposed. The proposed structure, a special form of UCITS fund, would be open only to certain categories of institutional investors and would have specific provisions in the income tax law. This is intended to be a more cost-effective and tax-efficient option compared to regular UCITS funds or direct investments for specific institutional investors.

Exchange-Traded Funds (ETFs)

The interim report proposes equal treatment for fund units traded on a MTF platform and those listed on a regulated market.

It also suggests an explicit opportunity for an exchange-traded unit class for UCITS funds and special funds, which is anticipated to increase competition and potentially lower fees for investors.

More Flexible Redemption Frequency Rules

The proposal suggests adapting the redemption provisions in the LVF to the minimum level of the UCITS Directive, allowing UCITS funds to be open for redemption at least twice a month, or even once a month with permission from FI.

There is also a proposal on the possibility of applying a notice period (of up to five business days) before redemption, with the aim of enhancing the fund market’s resilience and benefitting consumers by offering more flexibility while ensuring orderly redemptions.

It’s interesting to note that the current Swedish regulation for redemption is already stricter than requirements under the UCITS Directive, requiring immediate redemption if funds are available, with a minimum of once per week, and lacking explicit notice period provisions.

The proposals in the interim report aim to align Swedish law more closely with those EU standards, allowing for greater flexibility and better liquidity management.

Harmonised Rules for Lending Funds

At a high-level, a new regulatory framework is proposed for AIFs that issue loans known in EU legislation as ‘loan-origination funds.’ Key aspects in the interim report include:

- **Risk Management and Diversification:** Requirements for risk management and diversification in lending.
- **Prohibition on Certain Loans:** A prohibition of loans to certain individuals and companies.
- **Anti-Transfer Strategy:** A ban on strategies where loans are issued solely for the purpose of transferring them to third parties.
- **Risk Retention:** An explicit requirement to maintain at least 5% exposure to each issued loan.
- **Definition of ‘Lending Alternative Investment Funds’:** These funds are funds primarily issuing loans, or with issued loans constituting at least 50% of their Net Asset Value (NAV). These funds should also generally be closed-ended and be subject to specific limitations on financial leverage.



Further details on the proposals contained in the interim report can be found under the following sections:

New Definitions (Chapter 7, Section 2 LAIF):	<p>Capital of an AIF: Total capital contributions and unused commitments, minus investor fees/costs.</p> <p>Lending: Loans issued directly or indirectly by an AIF or its AIFM, where they participate in structuring or determining the loan.</p> <p>Loans: Direct or indirect loans as defined above.</p> <p>Lending Alternative Investment Fund: AIF whose primary strategy is to issue loans, or whose issued loans constitute at least 50% of its NAV.</p> <p>Unitholder Loan: A loan from an AIF to a company where the fund owns at least 5% of capital/votes, and the loan cannot be sold independently of the capital instruments.</p>
Risk Management in Lending (Chapter 7, Section 3 LAIF)	<p>AIFMs must have appropriate guidelines and procedures for credit assessment, continuous credit risk assessment, and credit portfolio management, updated at least annually. This does not apply to unitholder loans not exceeding 150% of the fund's capital.</p>
Prohibition on Loans to Certain Recipients (Chapter 7, Section 5 LAIF)	<p>AIFs are prohibited from lending directly or indirectly to:</p> <ol style="list-style-type: none"> 1. AIFM or their staff. 2. Fund's custodian or related delegated units. 3. Units to which the AIFM has delegated functions or their staff. 4. Units within the same group as the AIFM (unless exclusively financing other non-prohibited borrowers).
Maintaining Risk for Loans (Chapter 7, Section 7 LAIF)	<p>An AIF's investment strategy should not solely be to issue loans for transferring them to third parties. The fund must retain at least 5% of the nominal value of each loan issued:</p> <ul style="list-style-type: none"> • Until maturity for loans up to 8 years, or for consumer loans of any term. • For at least 8 years for other loans. <p>Exceptions apply for fund liquidation, restrictive measures (e.g., EU Treaty Article 215), strategic investment implementation, or risk deterioration of the loan.</p>
Closed and Open Long-Term Alternative Investment Funds (Chapter 7, Section 8 LAIF)	<p>Lending AIFs should generally be closed. However, an AIF can remain open if the manager demonstrates consistent liquidity risk management with its investment strategy and redemption policy.</p> <p>Notification to FI is required for open-ended lending AIFs.</p>
Financial Leverage Limits (Chapter 7, Section 9 LAIF)	<p>The financial leverage for lending AIFs should not exceed:</p> <ul style="list-style-type: none"> • 175% if the fund is open. • 300% if the fund is closed. • If limits are exceeded due to uncontrollable circumstances, the AIFM must take reasonable action to reduce leverage. • Leverage is calculated as the ratio of the fund's exposure to its NAV. <p>The interim report acknowledges that these limits are high compared to current practices in Sweden and other EEA member states but notes that member states cannot set lower limits.</p>
Loans from Alternative Investment Funds to Consumers (Chapter 7, Section 10 LAIF)	<p>The investigation discusses whether Sweden should prohibit AIFs from lending to consumers. While it does not take a definitive stance, it presents arguments for and against:</p> <p>Arguments against prohibition:</p> <ul style="list-style-type: none"> • New directives introduce rules for lending AIFs, making them more resilient. • A ban would contradict the current permissibility, albeit with less strict regulation. • The general rule for lending AIFs to be closed strengthens consumer protection for mortgage loans. • New rules on prohibiting 'originate-to-distribute' strategies and risk retention contribute to a healthier credit market. • Existing consumer protection laws (e.g., in the Act (2016:1024) on activities related to housing credits and Consumer Credit Act) would still apply. • Increased competition from AIFs could benefit consumers. <p>Arguments for prohibition:</p> <ul style="list-style-type: none"> • The government's proposed repeal of Law (2014:275) on certain activities related to consumer credits suggests that only credit institutions should issue consumer loans. • Requirements for AIFMs are less extensive than for credit institutions. • Potential for negative impacts on borrowers (e.g., in mortgage market) due to high leverage and short fixed-interest periods in Sweden. • Lending AIFs represent a very small part of the Swedish mortgage market, so a ban would have minimal impact. <p>The report suggests that any ban should apply to both direct and indirect lending, and to both Swedish and foreign AIFMs (licensed or registered).</p>

Broader Services for Fund Managers

Under the proposals, UCITS management companies and AIFMs, authorised to do so, would be able to provide a wider range of services to third parties, leveraging their internal competencies. This includes leasing out IT systems for portfolio and risk management, administering reference values (benchmarks), receiving and forwarding orders for financial instruments, and providing credit management services.

However, the requirement for discretionary management permission to offer other financial services would be removed.

Liquidity Management Tools

The interim report proposes new regulations for liquidity management tools as regards the operation of LVF and LAIF, which would implement changes from the relevant European directives (AIFMD and UCITS). As such, UCITS management companies and AIFMs must indicate at least two of the following tools for each managed fund and apply them as needed:

The following tools are proposed to be implemented (see Chapter 6, Section 4.3):

- **Redemption Barriers:** Temporarily and partially restricting unitholders' right to redeem units.
- **Extension of Notice Period:** Extending the period unitholders must give notice before redeeming.
- **Redemption Fee:** A fee paid by unitholders upon redemption to cover liquidity costs, ensuring fairness for remaining investors.
- **Swing Pricing:** Adjusting the NAV by a factor to reflect liquidity costs.
- **Dual Pricing:** Setting subscription and redemption prices by adjusting NAV to reflect liquidity costs.
- **Dilution Protection Fee:** A fee paid by unitholders during subscription/redemption to compensate the fund for liquidity costs due to transaction size.
- **Transfer of Assets (In-kind Redemptions):** Transferring fund assets instead of cash for redemption requests from professional clients, proportional to the fund's assets, unless for index funds traded on regulated markets/MTF.

The fund company or AIFM must choose at least two of these tools (excluding solely swing pricing and dual pricing) and specify them in their fund regulations, which are subject to FI approval. In line with the UCITS Directive, authorised money market funds will need only apply one of the above tools.

In addition to the above liquidity management tools, the proposals would allow UCITS management companies and AIFMs to segregate assets (side pockets) under exceptional circumstances where asset characteristics have significantly changed or become uncertain.

Segregated assets would be managed for the unit holders present at the time of segregation and liquidated when conditions are favourable. Unclaimed funds after five years would go to the National Inheritance Fund. Management companies are entitled to reasonable compensation from the segregated assets or, under special circumstances, from the fund itself. Prior notification to FI will be required for asset segregation into side pockets.

Finally, the proposals would grant AIFMs the ability to postpone sales and redemptions in open-ended AIFs under specific circumstances, provided they notify FI, relevant investors, shareholders, and competent authorities in other EEA member states where the fund is marketed. FI must also be informed when the reasons for postponement cease. FI can also mandate postponement or cessation of sales and redemptions under exceptional circumstances, in the shareholders' interest, and to protect investors or financial stability. Prompt notification is required when applying or ceasing to apply liquidity management tools deviating from normal operations.

Conditions for, and Application for, Permission

Article 8(1)(c) of the AIFMD requires individuals responsible for the AIFM's business (board members, managing directors, and delegates) to meet suitability and experience criteria. It also requires that at least two individuals must be full-time employees or executive/management body members dedicated to leading operations and be based in the EEA.

The interim report details the proposed requirements for AIFM authorisation, including details of responsible individuals, and states that they should be assessed for suitability by FI in the same manner as, among others, board members and the CEO.

Similar provisions would be applied to LVF in line with the UCITS Directive Article 7(1).

Delegation Through Assignment Agreements

Under Article 20 of the AIFMD, AIFMs must notify competent authorities before delegating functions. Conditions include objective justification, sufficient delegate resources, and no impediment to effective supervision or investor interest. Delegation must not be so extensive that the AIFM becomes a "mailbox company."

Under the proposals, the provisions in LAIF (Chapter 8, Sections 14-18) would be amended to clarify that delegation rules apply to all functions in Annex I of the AIFMD. Also, Chapter 8, Section 30 would be amended to state that the compensation regulations also apply to customers in relation to the delegation of services.

In terms of exemptions, marketing activities by distributors acting on their own behalf (e.g., under MiFID II or Insurance Distribution Act) are explicitly not considered delegation.

Sub-delegation would be possible, however the AIFM would be responsible for ensuring the delegate operates in accordance with the rules.

Similar provisions would be applied to LVF in line with the UCITS Directive.

Information Requirements Towards Investors

AIFMs are required under Article 23 of the AIFMD to provide extensive information to investors, including fund name, liquidity management tools, all fees (direct and indirect), and annual reports on portfolio composition (issued loans), fees, and use of parent/subsidiary companies.

Under the LAIF proposals (Chapter 8, Section 6), information brochures must include the fund's name (which must be fair, clear, and not misleading), details on liquidity management tools, and a list of all AIFM-borne fees and costs that directly or indirectly burden the fund or its investments.

For LVF Fact Sheets, the proposals state the name of the fund will constitute preliminary information, and must be fair, clear, and not misleading. The proposals also note that LVF currently allows a UCITS management company to prepare Fact Sheets either as a UCITS Key Investor Information Document or Packaged Retail and Insurance-based Investment Products Key Information Document.

Reporting to Supervisory Authorities

Under the AIFMD (Article 24), AIFMs must regularly report to the competent authority on markets, instruments, and delegated arrangements.

New notification requirements are proposed for significant operational or organisational changes, and special reports for funds initiated by third parties.

For UCITS, Article 7.7 introduces a notification requirement for significant changes by UCITS management companies. Reporting requirements for UCITS funds (Article 20a) are like AIFs covering main instruments, markets, exposures, liquidity management, and risk profiles.

Storage Institutions (Depositaries)

Under Article 21 of the AIFMD, foreign AIFs established in the EEA can, under certain conditions, choose to have a depositary in another EEA member state if permitted by the home state's authorities.

The proposals include changes to LAIF to recognise these permissions however, the investigation's assessment in the interim report states that Sweden should not allow Swedish-established AIFs to appoint non-Swedish depositaries, citing investor protection, the competitive Swedish market, and administrative benefits for FI.

Regarding the delegation of safekeeping arrangements by a UCITS or AIF depositary, the proposals state that tasks performed by Central Securities Depositories (CSDs) acting as

issuing CSDs are not considered delegation of custodial duties. Investing CSDs are considered a delegation of custodial duties.

Collaboration Between Authorities

Both the UCITS and AIFM Directives include protocols for information exchange and cooperation between competent authorities in different member states, The European Securities and Markets Authority (ESMA), and the European Systemic Risk Board. The Directives also includes clauses that state if a competent authority does not agree with a request for action from another EEA competent authority, it must notify that authority and ESMA, stating its reasons.

The Directives also clarify that, in terms of intervention rights, a host competent authority can request other member states' authorities to act against management companies and AIFMs operating in the host jurisdiction.

The interim report states that these requirements should be introduced to LAIF and LVF as appropriate.

Marketing in Pension and Savings Programs

The interim report states that under Article 43.3 of the AIFMD, member states may allow marketing to non-professional investors for funds predominantly investing in a single company, where investors are employees of that company or its group, and the marketing is part of a pension/savings program.

The interim report states that these requirements should be introduced to LAIF, covering both Swedish and EEA AIFs authorised to market to professional investors in Sweden.

Interventions and Waivers of Permits

Here, FI has broad powers to intervene against financial companies that neglect obligations, including limiting operations, imposing sanctions, or revoking licenses.

For Voluntary Revocations, the investigation proposes granting FI expanded rights to intervene even when a fund company or AIFM voluntarily waives its license or has not operated for six



continuous months. The interim reports says that this allows FI to assess regulatory violations and make intervention decisions before the license is formally revoked.

Financial Instrument Definition and Other Legislative Proposals

UCITS Directive (Articles 2(1)(t), 6(3)): The investigation proposes aligning the definition of “financial instrument” in Swedish fund law (LVF) with the broader Securities Market Act (2007:528), which implements MiFID II. This aims for consistency across financial legislation.

Whistleblowing (UCITS Article 99d.2c): Proposes that confidentiality provisions for whistleblowing in the LVF should protect both the identity of the notifier and the reported party, aligning with the UCITS Directive and other EU legislations.

Implementation of Other Amendments to AIFM and UCITS Directives

Functions of AIF Management (Chapter 8, Section 2 LAIF)

– The interim report states that new provisions should clarify that AIFMs can perform additional functions beyond portfolio and risk management, such as administrative services, marketing, and services related to invested assets, as defined in Annex I of the AIFMD.

Services Provided by Third Parties (Chapter 8, Section 3 LAIF & LVF) – Also set out is that it should no longer be required for AIFMs or UCITS management companies to have discretionary management licenses to provide ancillary services like holding/administering units, receiving funds with accounting obligations, forwarding financial instrument orders, and providing investment advice. This aims to promote competition and streamline operations. External AIFMs can also manage benchmark values and engage in credit management operations under specific conditions.

Conditions for Permission (Chapter 8, Section 4 LAIF) – Applications for an AIFM license must include the name and identification code of the AIFM. At least two individuals effectively leading the AIFM's operations must have good reputation, sufficient experience, reside in the EU, and be full-time employees or executive members committed to full-time leadership.

Delegation and Sub-delegation (Chapter 8, Section 5 LAIF)

– Also in the interim report, more detailed requirements are introduced for information on delegation and sub-delegation to third parties, including official names, identification codes, jurisdiction, and supervisory authority of delegates. AIFMs remain responsible for delegated activities and must monitor them.

Reporting Requirements (Chapter 8, Section 7 LAIF) – The report suggests implementing new reporting requirements to FI for AIFMs, including quarterly reports to ESMA regarding authorisations and changes in the list of managed AIFs.

Next Steps

On 26 June 2025, Fondbolagens förening, the Swedish Investment Fund Association, announced that it had set up meetings with industry participants to prepare responses to the proposals by 30 September 2025.

The Fund Market Inquiry will submit its final report, which will include the proposed introduction of incorporated funds with variable share capital, by 30 November 2025.

Industry participants will be invited to comment on these final proposals prior to the publication of final rules that will be adopted by the Swedish parliament.

Effective Date and Transitional Provisions

Proposed amendments are expected to come into effect on 16 April 2026, with transitional provisions, especially for new rules from the amending directive, through to April 2029.

Conclusion

The intention of the interim report is to ensure:

- Enhanced investor protection, which is a recurring theme – through stricter requirements on management, clearer delegation rules, and more comprehensive information disclosure.
- Regulatory alignment and harmonisation where the core recommendation is to align Swedish financial law more closely with updated EU directives (AIFM and UCITS) to ensure consistency across the European Union and facilitate cross-border activities.
- Increase FI authority where FI's powers to intervene, assess suitability, and receive detailed reports are proposed to be enhanced, reflecting a more proactive regulatory approach.
- Transitional provisions which acknowledge the significant changes required. Here the interim report proposes various transitional periods (e.g., 6 months for applications for liquidity management tools, with potential for extension) to allow financial entities and FI to adapt smoothly.
- Ongoing regulatory development where many detailed rules are left to the regulatory level, indicating an ongoing process of refinement and adaptation by FI. At the EU level – ESMA is also tasked with developing technical standards for several areas.
- An acknowledgement of the challenges such as balancing strict EU requirements with national market nuances and the administrative burden for both financial firms and the supervisory authority during implementation.

Overall, the direction of travel is towards a more robust, transparent, and harmonised regulatory framework for the Swedish fund market, aiming to foster market stability and investor confidence in line with evolving European standards.

And while the proposals have been assessed as incurring additional costs, primarily for UCITS management companies, AIFMs, and FI, they are seen as potentially beneficial for consumers and investors, and are expected to strengthen the competitiveness and resilience of the fund market, together with increased competition from exchange-traded unit classes that may lead to lower fees for investors.

¹ See Government Offices of Sweden, “En starkare fondmarknad – (A Stronger Mutual Fund Market: Interim report of the Fund Market Investigation)” (2025) at <https://www.regeringen.se/rattsliga-dokument/statens-offentliga-utredningar/2025/05/sou-202560>

² Government Offices of Sweden, “Den svenska fondmarknadens konkurrenskraft ska stärkas” “The competitiveness of the Swedish fund market will be strengthened” (2023) at <https://www.regeringen.se/pressmeddelanden/2023/12/den-svenska-fondmarknadens-konkurrenskraft-ska-starkas>

³ Finansinspektionen quarterly fund holdings report Q1 2025.

⁴ En starkare fondmarknad – Interim report of the Fund Market Investigation



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