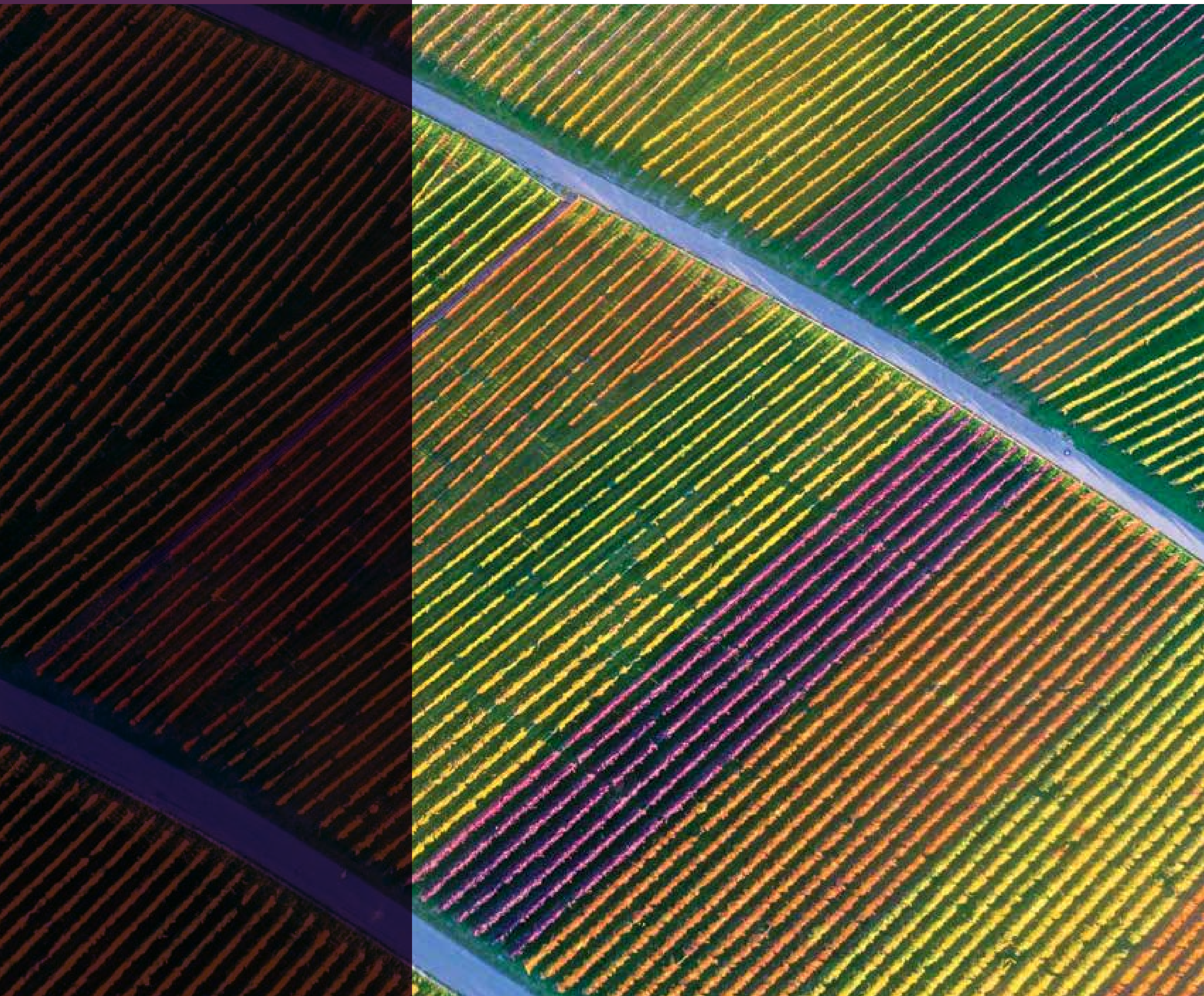
GUGGENHEIM

November 2019

The Risk Mitigation Advantage in Active Fixed-Income Management



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Report Highlights

- In the long-running active vs. passive debate, the different characteristics and market structure for stocks and bonds help account for different performance outcomes.
- Unlike in equities, where passive strategies have generally outperformed active managers, active fixed-income managers have generally outperformed passive strategies.
- Risk mitigation is the real advantage of active fixed-income management. The opportunity set of investments outside of the fixed-income benchmark index, and the ability of managers to dial up or dial down risk, are not options for a passive strategy.
- Alert active fixed-income managers can trade out of potential problems before they hurt client portfolios. We believe the next problem to address with active management is the leverage bubble in corporate debt. In particular, the disproportionately large BBB market poses a risk to the markets in the event of a wave of downgrades in the next downturn.
- Using our own active portfolio management decisions as an example, this paper details how an active approach has the potential to outperform passive strategies over time.

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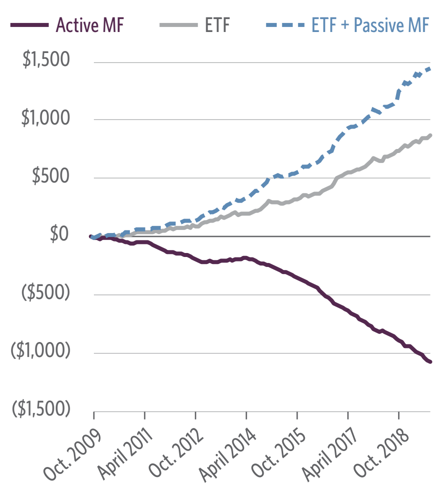
Passive equity strategies have had the upper hand in flows, while in fixed income, passive strategies have made some headway in attracting assets but active flows are still dominant.

Active vs. Passive: It’s Different for Bonds

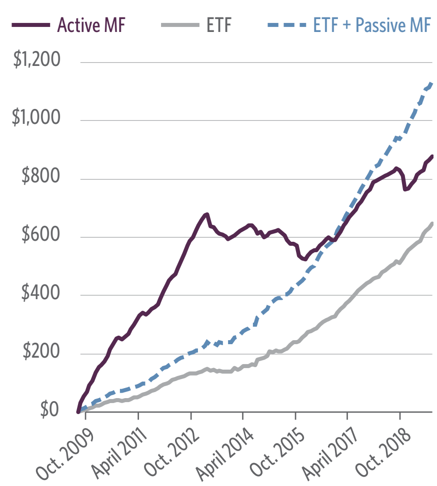
The rising flow of capital from active managers into passive, index-tracking investment vehicles has been accompanied by a similar rise in the number of papers and articles that defend or attack both styles of management. The active versus passive debate has raged since Vanguard’s John Bogle introduced the first index fund in 1976, but now that nearly half of all U.S. stock fund assets are invested in mutual funds and exchange-traded funds that passively track indexes, some would say that the market has spoken and the matter is settled. The issue is not insignificant, for it speaks to the important decision that investors make when choosing to allocate their assets to different strategies. In this case, the choice between active management and passive management reflects an investor’s tolerance for risk, expectations for returns, and in many cases, preferences on fee structures.

Indeed, the flow of capital into passive structures has become pronounced in recent years, particularly for equities. The divergence in market demand and flows for mutual funds shows differing sentiment between equities and fixed income.

U.S. Equity: Cumulative Net Flows ($ billions)



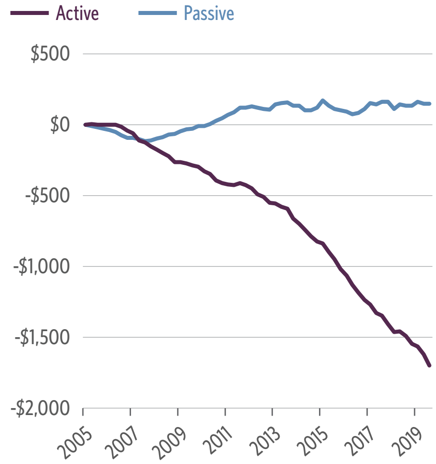
Taxable Fixed Income: Cumulative Net Flows ($ billions)



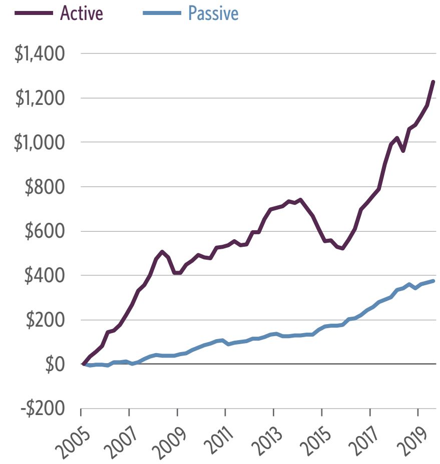
Source: Morningstar as of 9.30.2019. Data represents trailing 10 years.

In institutional flows the story is similar. Passive equity strategies have had the upper hand in flows, while in fixed income, passive strategies have made some headway in attracting assets but active flows are still dominant.

Cumulative Institutional Flows–Equity ($ billions)



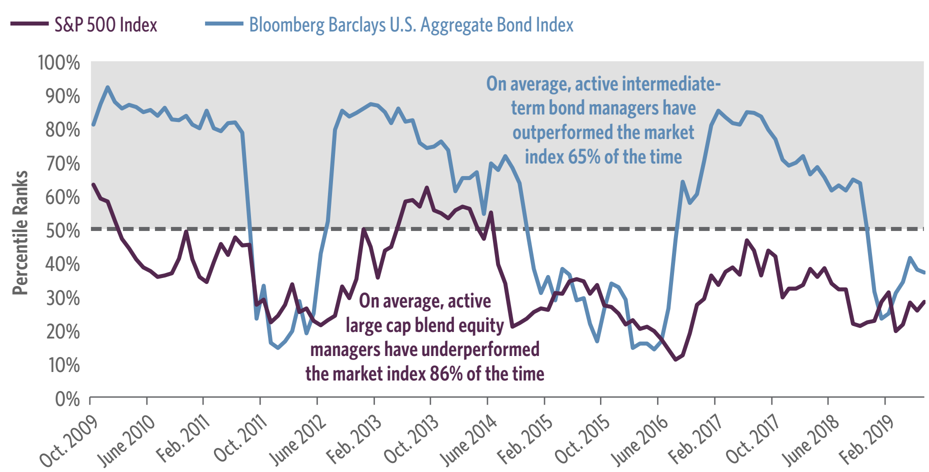
Cumulative Institutional Flows–Fixed Income ($ billions)



Source: Guggenheim Investments, eVestnet. Data as of 9.30.2019.

While the flows data may seem conclusive, the choice between active and passive is not open and shut. The historical track record shows that for stocks, passive index-tracking vehicles have generally outperformed active managers. As of Dec. 31, 2018, 92 percent of active large-cap funds underperformed the S&P 500 over

Trailing One-Year Total Return Percentile Rank of Index Within Respective Morningstar Category



Morningstar as of 9.30.2019. Based on institutional share class. S&P 500 is compared against the Morningstar U.S. Fund Large Blend Category. Bloomberg Barclays U.S. Aggregate Bond Index is compared against a combination of the Morningstar U.S. Fund Intermediate Core Bond and Morningstar U.S. Fund Intermediate Core-Plus Bond categories. Each line represents the performance ranking percentile of a respective benchmark relative to the funds in the aforementioned categories. The best performance ranking percentile is 1 percent, and the worst performance ranking percentile is 100 percent. If the benchmark's performance ranking is below 50 percent, then the majority of funds underperformed the benchmark (bottom half, unshaded). Conversely, if the benchmark's performance is above 50 percent, then the majority of funds outperformed the benchmark (top half, shaded).

a 15-year period. As the chart on the prior page shows, over the past 10 years, the average active large-cap equity fund manager has underperformed the benchmark index 86 percent of the time. In contrast, over the same 10-year period, the average active intermediate-term bond fund manager has outperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index (the Agg), 65 percent of the time.

Bonds and the Information Premium

> "In contrast to stocks, fixed-income active managers generally outperform passive strategies.

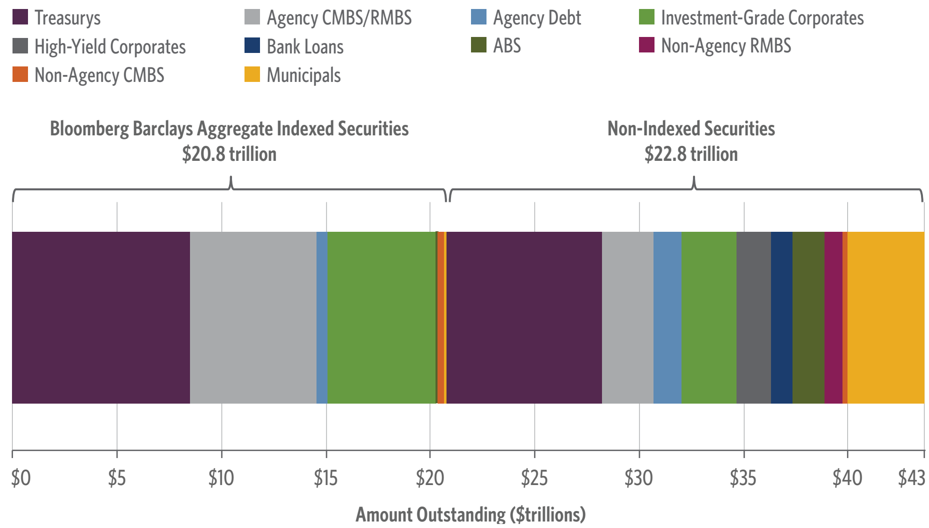
There are a few reasons that help explain why the active vs. passive story for fixed-income is different than for stocks. First and most importantly, the particular characteristics and market structure for each type of security help account for contrasting performance outcomes.

The universe of listed stocks in the United States amounts to only about 3,600 companies, with a total market capitalization of approximately $30 trillion. All public companies report their financial results according to GAAP rules, generally with quarterly frequency, and comply with fair disclosure rules. Moreover, publicly traded equities generally have exchange-based price discovery on a continuous basis. This relative homogeneity and transparency of financial data, news disclosures, and market data makes the equity market as close to an efficient market as it gets. In addition, most equity indexes are market-capitalization weighted, so they reflect the proportional size of each company in the index. Thus, while there are talented active equity managers who have consistently outperformed the index—and deserve to get paid for the alpha they generate—the market structure of equities makes it more challenging to gain any information premium.

The fixed-income universe, on the other hand, is sprawling, diverse, and huge. With approximately $43 trillion outstanding, it comprises 4.7 million non-matured CUSIPs as well as non-CUSIP debt instruments like bank loans. Most importantly, less than half of these securities are in the Agg, which is the primary index used to represent the broad U.S. fixed-income market.

Inclusion in the Agg requires that securities be U.S. dollar-denominated, investment-grade rated, fixed rate, taxable, and have above a minimum par amount of $300 million outstanding. At its inception in 1986, the Agg was a good proxy for the broad universe of fixed-income assets, which at the time primarily consisted of Treasurys, Agency bonds, Agency mortgage-backed securities (MBS), and investment-grade corporate bonds—all of which met the inclusion criteria. Sectors outside the Agg include many types of asset-backed securities (ABS), non-Agency residential MBS (RMBS), high-yield corporate bonds, leveraged loans, municipal bonds, and any security with a floating-rate coupon.

U.S. Fixed-Income Market



Source: As of 6.30.2019. .SIFMA, Wells Fargo, S&P LCD, Barclays. Excludes sovereigns, supranationals, and covered bonds.

Unlike investment-grade corporates, Treasurys, and Agency securities, the non-indexed sectors of the fixed-income market have a wide range of structures, documentation, and reporting protocols. In addition, it is an over-the-counter market where pricing is less transparent. The complexity of the deal structures and security-specific collateral of certain securities, such as commercial ABS, CLOs, and bank loans, require proactive and comprehensive credit and legal analysis. It takes significant resources to take advantage of the opportunities in the non-indexed part of the market, which helps to explain why active management can realize the value of the inherent information premium, but passive management cannot.

Problems With the Agg: Follow the Leverage

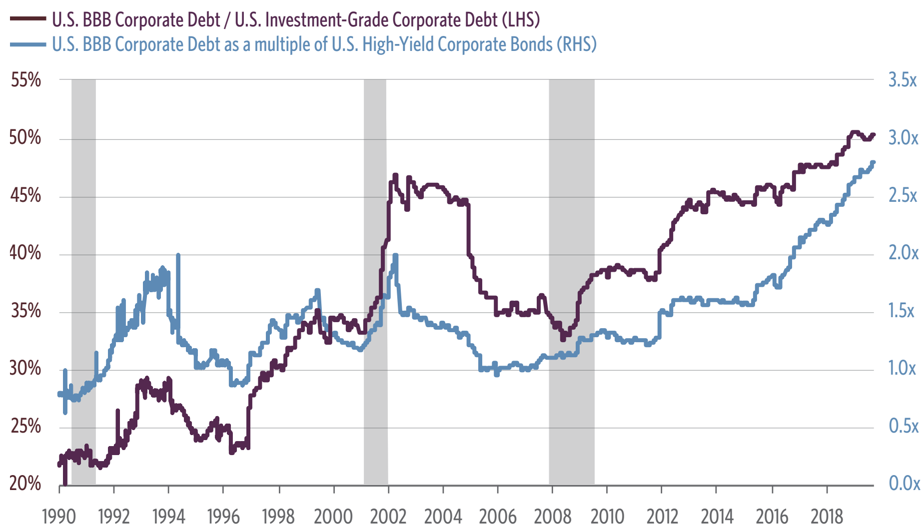
“The eligibility rules of the Agg reflect a weighting toward the largest debtors.

A second factor that accounts for the different outcomes for active management in stocks and bonds is the structure of the Agg itself. The Agg still has its usefulness, but the bond market has evolved over the past 30-plus years. Rather than reflect the fixed-income universe in its current composition, the eligibility rules of the Agg—and other indexes that form the basis of passive investing—reflect a weighting that is tilted towards the activities of the largest debtors. In the late 1970s and into the early 1980s, the largest debt issuers were utilities, partly because of the big expansion in building nuclear plants. In the early 1980s, they started to default.

Fast forward to the late 1990s and early 2000s when the largest debt issuers were the dotcoms and telecoms, and many of the largest issuers—like Global Crossing and WorldCom—failed. In the mid-2000s, some of the largest issuers were banks and financial institutions, many of which failed in the financial crisis. An index-following passive strategy would have held onto these securities until they dropped out of the index, whereas an alert active manager would have had the ability to trade out of these potential problems before they hurt client portfolios.

Today, the leverage bubble in the market is in corporate debt. A decade of ultra-easy monetary policy has led corporate issuers to accumulate record levels of debt, making them vulnerable to downgrades when the turn in the business cycle arrives. The problem is most acute in the investment-grade market, where nearly one third of nonfinancial debt outstanding has been issued by firms whose leverage multiples are already consistent with a high-yield rating. We expect a material dislocation in credit markets when a wave of issuers lose their investment-grade status and become "fallen angels."

BBB-Rated Debt Growth Has Outpaced Growth of Other Corporate Ratings



Source: ICE Bank of America Merrill Lynch. Data as of 10.31.2019. Market size is based on debt outstanding in the ICE BofA Merrill Corporate Bond Index and the ICE BofA Merrill Lynch High-Yield Index. Shaded areas represent recession.

> “We expect a material dislocation in credit markets when a wave of issuers lose their investment-grade status and become “fallen angels.”

The impact will be far-reaching due to the sheer size of the problem. The indexed corporate bond market has grown to around $6 trillion, of which more than $3 trillion is rated BBB. Due to the large size and deteriorating quality of U.S. investment-grade corporate debt outstanding, the risks posed by a slew of rating downgrades are more pronounced today than at any time in the past 30 years. Given the record size of the BBB market, the potential fallen angel volume in the next downturn is the largest ever, exceeding the volume of fallen angels in the last cycle by two to three times. Like past debt bubbles, we believe this will have far-reaching macroeconomic implications that remain underappreciated today. Unfortunately, passive investment strategies with no ability to invest beyond the index are vulnerable to this risk.

The other major issue that has arisen because of the Agg’s eligibility rules is that it is increasingly concentrated in Treasury and Agency securities, which have become a central part of the fixed-income landscape since the financial crisis. The sheer glut of Treasurys and their dominant representation in the Agg is unlikely to reverse anytime soon—the need to fund present and future government deficits is significant. Index investors are vulnerable to interest rate and duration risk at current low yields. Even modest increases in rates would be sufficient for passive fixed-income strategies to incur losses.

Moving beyond the benchmark not only expands the possible investment universe to include other sectors for relative value, the diversification also enables an active manager to avoid problem sectors, particularly overindebted credits or unduly low-yielding categories. The flip side of more opportunity is greater risk avoidance.

The Active Fixed-Income Management Advantage: Risk Mitigation

The broader set of investment options available in the fixed-income market partly explains why active managers have been able to beat passive benchmarks. But it is up to the skill of the active fixed-income manager to know where to find relative value in the market and how to avoid problems that might not be evident from the weighting of indexes. The combination of these two attributes—the greater opportunity set and the ability of managers to make the right choices—is what provides the real advantage of active fixed-income management: risk mitigation.

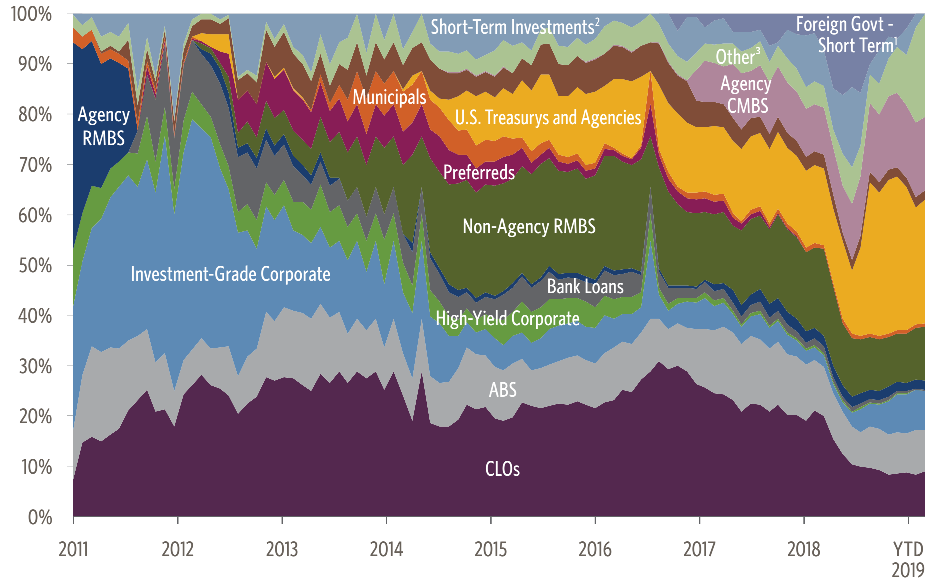
> Active fixed-income managers can position their portfolios in a way that passive strategies cannot as risks emerge and trade opportunities develop.

Active fixed-income managers have the ability to properly position their portfolios as risks emerge and trading opportunities develop in a way that is not permissible for a passive strategy. For example, the impact of rate and yield curve changes on long duration assets can be managed with active decisions around portfolio duration positioning. Active managers also can dial up or dial down credit exposure over the course of a business cycle where appropriate. Right now, for example, with the risks lurking in BBB corporate credit and a recession possible as soon as the first half of 2020, our team has dialed down credit risk to the lowest allocation percentages in our history. In short, as an active manager without a tether to the benchmark, our goal is to position our portfolios to help protect client assets from drawdown risk by underweighting sectors that could negatively affect returns before anything happens. By definition, for passive fixed-income vehicles, this type of strategic positioning is simply not an option.

Risk mitigation is a central tenet of all active fixed-income investing because of the inherent difference in the return proposition of stocks versus bonds. In stocks, the goal is to try to find good companies whose value will appreciate over time—there are winners and losers, but a typical long investor is hoping for gains. If you pick the right stocks and market conditions are friendly, the upside can be rewarding. A passive strategy will reflect this general approach. For bonds, the risk and return is asymmetric. If an investor's research is correct and everything goes as planned and no bonds default, over time the total return is the coupon and return of principal. The upside is limited, but the downside can be significant in the event of any deterioration in credit quality. For fixed-income investors, the object is to generate stable returns by playing what Charles Ellis famously termed a "loser's game," in which one wins by avoiding defaults and other "mistakes" rather than chasing returns.

As an example of how an active manager shifts allocations over the course of the cycle, the next chart shows the change in allocations in our Total Return Bond Fund over the course of the last cycle.

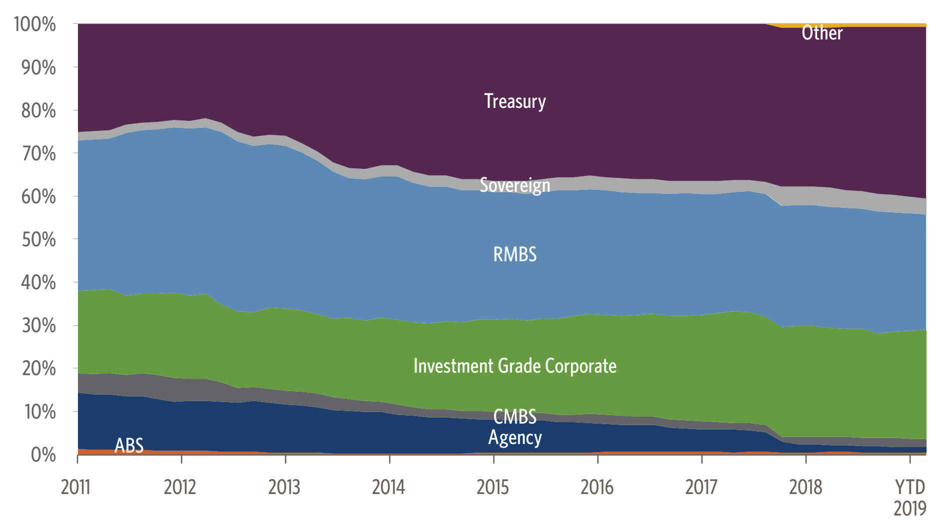
Total Return Bond Fund: Allocations Over Time



Source: Guggenheim Investments. Data as of 9.30.2019. Data is subject to change on a daily basis. Past performance is not indicative of future results. Shown for illustrative purposes. 1. Short Term Investments include Commercial Paper, Cash, and T-Bills. 2. Other may consist of military housing bonds, derivatives, equities, mutual funds, and ETFs.

For comparison, the chart below shows the evolution in the Agg over the same period: Fewer colors/sectors, less movement....and as we will see later, lower returns to investors.

Bloomberg Barclays U.S. Aggregate: Allocations Over Time

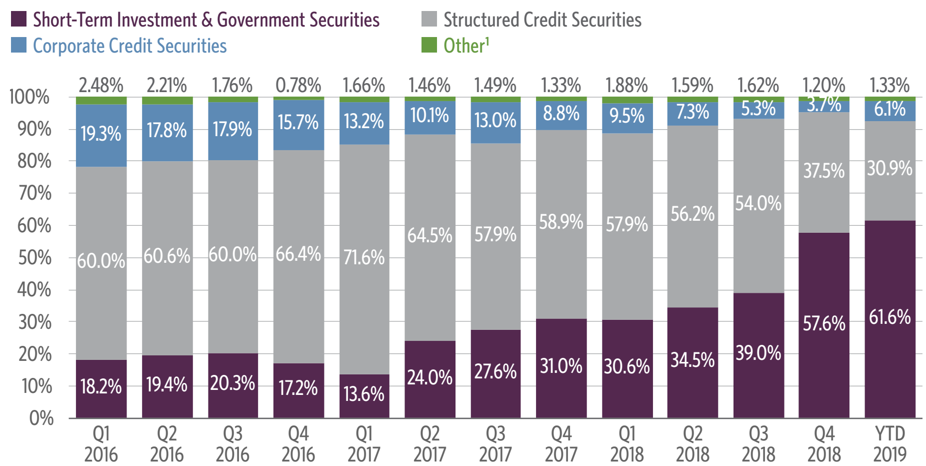


Source: Guggenheim Investments, Bloomberg. Data as of 9.30.2019. Shown for illustrative purposes.

While Treasury and Agency representation in the Agg was rising over the last cycle, and as BBB-rated investment-grade corporate debt has increased in proportion more recently, our active management was seeking relative value throughout the fixed-income universe and trying to avoid problem areas. Driven by a comprehensive global macroeconomic outlook coupled with a detailed assessment of sector, industry, security, liquidity, and regulatory trends, we made many allocation changes during the last 10 years, most recently reducing our exposure to corporate credit in response to record—and in our view unsustainable—levels of corporate debt. Be wary of active managers that are really "closet indexers." These managers masquerading as active will not employ the strategies we illustrate here.

Another way to look at active vs. passive strategies, again using our own history, is presented in the table below. In the first quarter of 2016, our Total Return Bond Fund was in risk-on mode, with close to 80 percent of assets allocated to

Total Return Bond Fund: Allocations Over Last Three Years



Q1 2016	Total Return Bond[2]	BB Agg[3]
Market Price[4]	$94.60	$106.23
Option-Adjusted Spread	346 bps	66 bps
YTM	4.7%	2.1%
Effective Duration	4.3 years	5.3 years
Spread Duration	4.7 years	3.6 years
Average Quality[5]	BBB+	AA

Q3 2019	Total Return Bond[2]	BB Agg[3]
Market Price[4]	$99.91	$102.49
Option-Adjusted Spread	62 bps	43 bps
YTM	3.3%	3.0%
Effective Duration	4.0 years	5.7 years
Spread Duration	2.4 years	3.7 years
Average Quality[5]	AA-	AA

Source: Guggenheim Investments. Data as of 9.30.2019. Allocations are based on representative accounts, include cash and exclude hedges and leverage. The representative account changed on 12.31.2011 to a more accurate representation of what a potential investor would receive. 1) Other includes Municipals, Equity, FX, Rates Derivative and Fixed Income - Other. 2) The Total Return Bond Fund Characteristics are based on a representative account of Core Plus Fixed Income composite that was chosen because it is the account within the composite which generally and over time most closely reflects the portfolio management style of the composite. 3) Bloomberg Barclays US Aggregate Index. 4) Average Price excludes zero coupon, interest only and principal only bonds, preferred securities not priced at 100 par, and other alternative sector buckets when applicable. 5) See credit quality methodology at the end of this presentation. Shown for illustrative purposes. This information is supplemental information only and complements the composite performance presentation and accompanying notes at the end of this presentation.

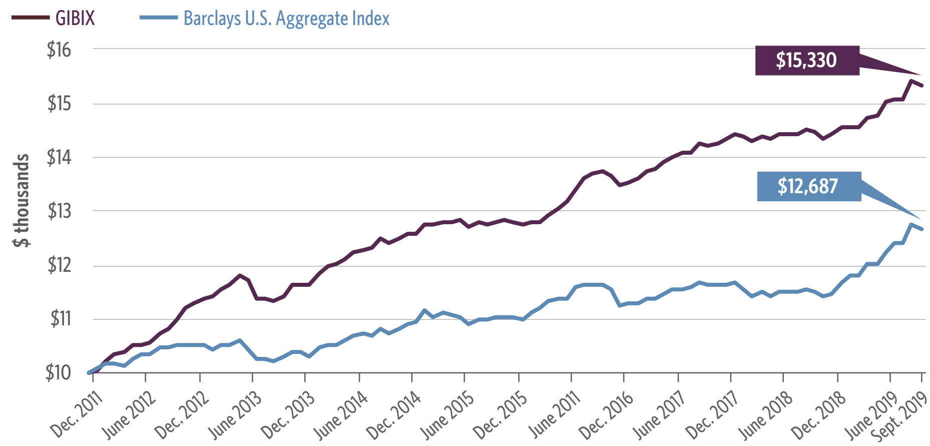
structured credit and corporate credit. Today, these sectors have been cut in half as our portfolio team has upgraded credit quality, built liquidity buffers, and shortened spread duration. Conversely, the Agg has not changed that much. In addition, as the Agg's relative duration increases, so does its exposure to interest rate risk.

Results Tip Toward Active Managers

There will be periods when the Agg will outperform an active fixed-income manager, but over a cycle a capable active manager should be able to find opportunity and avoid risk in order to seek better results for their clients.

While past performance is no guarantee of future results, our own experience versus the Agg is shown in the following chart.

Total Return Bond Fund: Growth of $10,000



The hypothetical $10,000 investment assumes an investment on 12.1.2012 is plotted monthly, includes changes in share price and reinvestment of dividends and capital gains.

Guggenheim's Scorecard: Average Annual Total Returns

	One-Year	Three-Year	Five-Year	Since Fund Inception
Total Return Bond Fund	6.03%	3.75%	4.28%	5.60%
Bloomberg Barclays U.S. Aggregate Index	10.30%	2.92%	3.38%	3.08%

Source: Guggenheim Investments. **Gross/net expense ratio for the fund is 0.57 percent/0.51 percent.** Fund inception date: 11.30.2011. The advisor has contractually agreed to waive fees and expenses through 2.1.2020 to limit the ordinary operating expenses of the fund. Data as of 9.30.2019. Data is subject to charge on a daily basis. Partial year returns are cumulative, not annualized. Returns reflect the reinvestment of dividends. The referenced index is unmanaged and not available for direct investment. Index performance does not reflect transaction costs, fees or expenses. Index data source: Bloomberg Barclays.

Performance displayed represents past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than original cost. Total returns reflect the reinvestment of all dividends. Current performance may be lower or higher than the performance data quoted. For up-to-date fund performance, including performance current to the most recent month-end, please visit our website at www.GuggenheimInvestments.com.

Concerns have been growing related to the liquidity mismatch between ETF shares and the bonds that they hold. In April 2019, the Securities and Exchange Commission's Fixed-Income Market Structure Advisory Committee released a report on the investment implications for ETF and mutual fund investors under stressful market conditions. The report cited one study that suggested that "ETFs may lead to persistent price distortions of individual bonds from fundamentals, and excessive co-movements in returns of individual bonds." The real-world experience of the impact of intra-day liquidity of ETFs during stressed markets is mixed, but during the Taper Tantrum of 2013 the outflows from ETFs led to significant yield movements (that subsequently reversed when market conditions calmed down).

In conclusion, rather than buying the benchmark and hoping for the best, we believe that fixed-income investors are better served allocating their assets to an active strategy. Right now, with a recession possible as soon as the first half of 2020, we believe late-cycle signals suggest that the risk-reward of owning credit is unfavorable. We have reduced our credit exposure and continue to maintain liquidity buffers that are higher than typical. With mounting economic and market risks, this is no time to be an indexer. As active managers, we believe that deploying these risk mitigation strategies today will position investors to pick up undervalued credits during more opportune times.

Important Notices and Disclosures

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The Total Return Bond Fund may not be suitable for all investors. Investments in fixed-income instruments are subject to the possibility that interest rates could rise, causing the value of the Fund's holdings and share price to decline. Investors in asset-backed securities, including collateralized loan obligations ("CLOs"), generally receive payments that are part interest and part return of principal. These payments may vary based on the rate loans are repaid. Some asset-backed securities may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices volatile and they are subject to liquidity and valuation risk. CLOs bear similar risks to investing in loans directly. Investments in loans involve special types of risks, including credit, interest rate, counterparty, prepayment, liquidity, and valuation risks. Loans are often below investment grade, may be unrated, and typically offer a fixed or floating interest rate. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. The Fund's use of leverage, through borrowings or instruments such as derivatives, may cause the Fund to be more volatile and riskier than if it had not been leveraged. The more a Fund invests in leveraged instruments, the more the leverage will magnify any gains or losses on those investments. Investments in reverse repurchase agreements expose the Fund to many of the same risks as leveraged instruments, such as derivatives. You may have a gain or loss when you sell your shares. Please read the prospectus for more detailed information regarding these and other risks.

Read a fund's prospectus and summary prospectus (if available) carefully before investing. It contains the fund's investment objectives, risks, charges, expenses and other information, which should be considered carefully before investing. Obtain a prospectus and summary prospectus (if available) at GuggenheimInvestments.com or call 800.820.0888.

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasurys, government-related and corporate securities, MBS (Agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS (Agency and non-Agency).

1. Guggenheim Investments assets under management are as of 9.30.2019. The assets include leverage of $11.8bn for assets under management. Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Funds Distributors, LLC, GS GAMMA Advisors, LLC, Guggenheim Partners Europe Limited, and Guggenheim Partners India Management.

2. Guggenheim Partners assets under management are as of 9.30.2019 and include consulting services for clients whose assets are valued at approximately $67bn.

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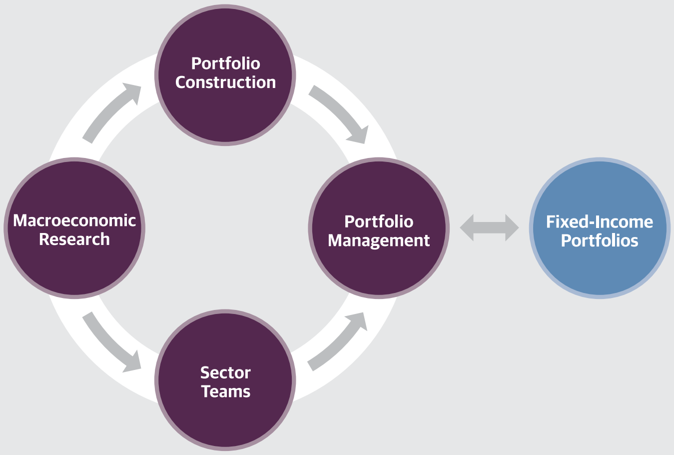
Guggenheim's Investment Process

Guggenheim's fixed-income portfolios are managed by a systematic, disciplined investment process designed to mitigate behavioral biases and lead to better decision-making. Our investment process is structured to allow our best research and ideas across specialized teams to be brought together and expressed in actively managed portfolios. We disaggregated fixed-income investment management into four primary and independent functions—Macroeconomic Research, Sector Teams, Portfolio Construction, and Portfolio Management—that work together to deliver a predictable, scalable, and repeatable process. Our pursuit of compelling risk-adjusted return opportunities typically results in asset allocations that differ significantly from broadly followed benchmarks.



About Guggenheim Investments

Guggenheim Investments is the global asset management and investment advisory division of Guggenheim Partners, with more than $213 billion[1] in total assets across fixed income, equity, and alternative strategies. We focus on the return and risk needs of insurance companies, corporate and public pension funds, sovereign wealth funds, endowments and foundations, consultants, wealth managers, and high-net-worth investors. Our 295+ investment professionals perform rigorous research to understand market trends and identify undervalued opportunities in areas that are often complex and underfollowed. This approach to investment management has enabled us to deliver innovative strategies providing diversification opportunities and attractive long-term results.

About Guggenheim Partners

Guggenheim Partners is a global investment and advisory firm with more than $275 billion[2] in assets under management. Across our three primary businesses of investment management, investment banking, and insurance services, we have a track record of delivering results through innovative solutions. With 2,400+ professionals worldwide, our commitment is to advance the strategic interests of our clients and to deliver long-term results with excellence and integrity. We invite you to learn more about our expertise and values by visiting GuggenheimPartners.com and following us on Twitter at twitter.com/guggenheimptnrs.

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