Managed Duration Investment Grade Municipal Fund

MZF Portfolio Manager Commentary

United States Gross Domestic Product rebounded in the second quarter, rising 3.9%. However, some of this outsized gain was due to unusual weakness in Q1, similar to the pattern in 2014. At this point, it appears Q3 will be softer, and we believe trend growth is around 2.5%. Labor markets continue to tighten, albeit at a decelerating pace, with payroll growth averaging 167,000 in Q3. Wage growth remains subdued at 2.2%, which is surprisingly low given an unemployment rate of 5.1% and elevated job openings, raising the possibility there is a structural skills gap between jobs available and the unemployed. As the labor market continues to tighten, we would expect wage growth to accelerate. Inflation pressures remain muted with the Core Personal Consumption Expenditure Price Index only up 1.3% in August, well below the Federal Reserve's inflation target. Construction spending and housing starts continue to be the stand-out sectors, though consumer spending has firmed, thanks to high employment and low gas prices. The Federal Open Market Committee (FOMC) deferred raising rates in September, citing international developments and financial market volatility, which has increased the uncertainty around the first hike. Subject to financial conditions, we expect a rate hike in December with significant risk the first hike slips into 2016. By seemingly adding international developments to the dual mandate, the FOMC has increased rather than decreased uncertainty, and a failure to move in 2015 could seriously undermine the committee's credibility. We are increasingly attuned to the slowing in emerging markets, particularly Brazil, which will likely contract through 2016, and China whose slowdown has impacted commodity prices and risk sentiment more generally. We believe the Chinese government has the capacity, and the will, to manage a gradual slowdown and avoid a hard landing, and China sentiment will be a key driver of financial markets. While risks to the downside have increased, the U.S. is better positioned than most countries, which should lead to continued growth next year and permit the FOMC to raise rates in a gradual fashion.

United States interest rates have been reacting to global growth and potential changes to monetary policy, both of which have introduced bouts of volatility. Domestic economic data has softened and the global economy has shown signs of a slowdown in a large part due to China. Inflation has been absent in most markets. Many market participants have been left preoccupied with attempting to decipher what economic variables they should be considering to gauge the probability of an upcoming FOMC tightening. However, adding a new element of uncertainty to the trajectory of interest rates, the FOMC's September statement included wording about considerations of global growth and the potential impact on the U.S. economy, something they had not made reference to in the past. The market viewed the lack of encouraging news and uncertainty surrounding the FOMC as negative and, generally, risk assets sold-off during the 3rd quarter. So where does this leave the municipal bond market? Is it a risk asset or a rates product?

The municipal bond market can be considered to be largely bifurcated. The majority of the issuers are healthy, in fact more than healthy as the U.S. Census Bureau indicated tax receipts increased by an astounding 6.9% during Q2. However, certain high profile issuers have the ability, due to their size, to push this market in one direction or another in what may amount to a regime shift in the way we perceive municipal risk. The two large issuers that come to mind are the Commonwealth of Puerto Rico and the City of Chicago. Both issuers are facing varying degrees of financial strain, but their commonality is that both are dealing with large unfunded pension balances. The potential for a regime shift will increase if both of these issuers continue to push not only for a reduction in their total indebtedness, but if they target their pensioners in some sort of workout agreement or restructuring. Most issuers have had very little success in doing so and municipal bond investors have thus far taken the brunt of restructurings relative to the pensioners who, generally, walk away unscathed. However,

Many market participants have been left preoccupied with attempting to decipher what economic variables they should be considering to gauge the probability of an upcoming FOMC tightening. However, adding a new element of uncertainty to the trajectory of interest rates, the FOMC's September statement included wording about considerations of global growth and the potential impact on the U.S. economy, something they had not made reference to in the past.

issuers are getting to the point where wiping out bond investors altogether is not enough to overcome the damage done from years of offering unaffordable pension benefits. Should this battle eventually make its way up to the U.S. Supreme Court, we may get our answer, but I would not count on that happening near-term. Whatever the ultimate decision, it will likely set precedent for other issuers and there is a growing line behind Puerto Rico and Chicago.

To the surprise of some, the municipal market has again bucked the performance trend of many asset classes. Many fixed-income sectors traded with significantly wider credit spreads during the quarter while municipal bonds tightened relative to U.S. Treasury securities. The expectation for a tightening of monetary policy by the FOMC move seemed less likely due to slowing growth, which drove a "risk-off" sentiment during the quarter, however, tax-exempt bonds rallied. It seems that in this retail-dominated sector, the absolute low level of interest rates inspired a "grab for yield" environment, which drove municipal credit spreads tighter, even benefitting issuers with structural budgetary concerns.

Supply was bountiful during the third quarter and year-to-date supply has now pierced the $300 billion mark. At this pace, we will exceed $400 billion by the end of the year, which will be an increase of over 20% versus 2014.

The Barclays Municipal Bond Index returned 1.65% in the third quarter. The slope of the 30-year municipal yield curve flattened from 297 to 281 basis points during the quarter. The yield on 30-year AAA municipal general obligations decreased from 3.28% to 3.04% and 10-year yields decreased by 25 basis points to 2.03%. Tax-exempt yields still appear attractive relative to U.S. Treasury yields. The ratio of 30-year tax-exempt yields to like-maturity Treasury yields was unchanged at 105.6%.

The Barclays Municipal Bond Index has returned 1.77% year-to-date with much of this year's performance coming from the 3rd quarter. Return data showed that investors once again pushed their investments out longer on the yield curve driving the outperformance of bonds with maturities of 10 years or more. Additionally, 30-year maturities outperformed the index by 42 basis points and 10-year maturities outperformed by 36 basis points. According to Barclays, A-rated bonds outperformed the index by 3 basis points and BBB-rated bonds underperformed the index by 52 basis points. It is interesting to note that investors seem more willing to take on interest rate risk, but are less inclined to subject themselves to credit risk. High yield tax-exempt credit spreads stabilized during the quarter and the Barclays Municipal High Yield Index outperformed the investment grade index by 34 basis points.

Guggenheim Investments Overview

Guggenheim Investments represents the investment management division of Guggenheim Partners, LLC. Collectively, we have had a long, distinguished history of serving institutional investors, ultra-high-net-worth individuals, family offices, and financial advisors. We offer clients a wide range of differentiated capabilities built on a commitment to investment excellence. Each of our investment teams brings a unique expertise and point of view about what drives asset and market behavior, and what drives risk and reward. Our clients have valued us for our traditions of independence, thought leadership, purposeful innovation, and nimbleness. For more information, visit guggenheiminvestments.com.

The investment advisor for MZF is Cutwater Investor Services Corp. Please visit guggenheiminvestments.com for a more detailed discussion about fund risk and considerations.

Risk Considerations For illustrative purposes only. Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. The forecasts and opinions are those of Cutwater Asset Management as of 12.31.2014, and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes. Such forward-looking statements are subject to significant business, economic, and competitive uncertainties and actual results could be materially different. There are no guarantees associated with any forecast. This document is not an offer to sell securities of the funds and it is not soliciting an offer to buy securities of the funds. There can be no assurance that a fund will achieve its investment objectives. The net asset value (NAV) of each fund will fluctuate with the value of the underlying securities. It is important to note that closed-end funds trade on their market value, not NAV and closed-end funds often trade at a discount to their NAV. Past performance is not an indication of future performance. There can be no guarantee that the funds' hedging strategies will be employed under all market conditions or will be successful. Additionally, the cost paid for the hedging strategies may result in a reduction of the NAV of a fund and, as a result, could make the fund worse off than if such hedging strategies had not been used. Certain risks are associated with the leveraging of a fund's common shares. Both the NAV and the market value of the common shares may be subject to higher volatility and a decline in value. A fund's leveraging strategy may not be successful. **Variable and Floating Rate Securities:** Variable and floating rate instruments involve certain obligations that may carry variable or floating rates of interest, and may involve a conditional or unconditional demand feature. Such instruments bear interest at rates which are not fixed, but which vary with changes in specified market rates or indices. The interest rates on these securities may be reset daily, weekly, quarterly, or some other reset period, and may have a set floor or ceiling on interest rate changes. There is a risk that the current interest rate on such obligations may not accurately reflect existing market interest rates. **Municipal Bonds Risk:** There are also specific risks associated with investing in municipal bonds, including but not limited to interest rate and credit risk. Interest rate risk is the risk that prices of municipal bonds generally increase when interest rates decline and decrease when interest rates increase. Prices of longer-term securities generally change more in response to interest rate changes than prices of shorter-term securities. Credit risk is the risk that the issuer will be unable to pay the interest or principal when due. The degree of credit risk depends on both the financial condition of the issuer and the terms of the obligation. The secondary market for municipal bonds is less liquid than many other securities markets, which may adversely affect the fund's ability to sell its bonds at prices approximating those at which the fund currently values them. The ability of municipal issuers to make timely payments of interest and principal may be diminished during general economic downturns. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest. In the event of bankruptcy of an issuer, the fund could experience delays in collecting principal and interest. **Interest Rate and Credit Risk:** The fund invests in municipal bonds, which are subject to interest rate and credit risk. Interest rate risk is the risk that prices of municipal bonds generally increase when interest rates decline and decrease when interest rates increase. Prices of longer-term securities generally change more in response to interest rate changes than prices of shorter-term securities. Credit risk is the risk that the issuer will be unable to pay the interest or principal when due. The degree of credit risk depends on both the financial condition of the issuer and the terms of the obligation. The fund intends to invest in municipal bonds that are rated investment grade by S&P, Moody's, or Fitch. It may also invest in unrated municipal bonds that Cutwater believes are of comparable quality. Obligations rated in the lowest investment grade category may have certain speculative characteristics. In addition to the risks described above, the fund is also subject to: **Market Risk and Selection Risk, Call and Redemption Risk, Private Activity Bonds, Risks of Tobacco- Related Municipal Bonds, Leverage, Inflation Risk, Derivatives Risk, Affiliated Insurers, Anti-takeover Provisions, and Market Disruption.**

Index Considerations **Barclays Municipal Bond Index** is considered representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year. **Barclays Municipal High Yield Bond Index** is an unmanaged index of municipal bonds composed of municipal bonds rated below BBB/Baa.

Guggenheim Investments represents the investment management business of Guggenheim Partners, LLC, and includes Guggenheim Funds Distributors, LLC, the servicing agent to the referenced fund.

Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: GS GAMMA Advisors, LLC, Guggenheim Aviation, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Partners Investment Management, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners India Management, Guggenheim Real Estate, LLC, Security Investors, LLC, and Transparent Value Advisors, LLC. This material is intended to inform you of services available through Guggenheim Investments' affiliate businesses.

GIC-MZF-0915 x1215 #19729