GUGGENHEIM

Managed Duration Investment Grade Municipal Fund
MZF Portfolio Manager Commentary

2Q15

United States Gross Domestic Product (GDP) was weak in the first quarter, contracting 0.2% with transitory factors like the West Coast Port shutdown weighing meaningfully. Additionally, there is increasing evidence that Q1 GDP is artificially depressed due to a poor seasonal adjustment (recall last year's 2.1% Q1 decline followed by a 5% Q2), and we expect growth to rebound notably in Q2, averaging about 3% over the remainder of 2015. Labor markets remain solid, with payroll growth averaging 221,000 in Q2. Despite continued job gains, wage growth remains subdued at about 2.0%, which is surprisingly low as the unemployment rate has dropped to 5.3%. As the labor market continues to tighten, we would expect wage growth to accelerate. Inflation pressures are muted with the Core Personal Consumption Expenditure Price Index only up 1.2% in May, well below the Federal Reserve's (Fed's) inflation target. Construction spending and housing starts have recovered nicely while consumers are just now starting to spend some of their gas savings. The Federal Open Market Committee (FOMC) has begun preparing markets for the hiking cycle, and we expect the first hike in September, though there is risk that the Fed waits until December if financial market volatility continues. Beyond the first hike, the pace of hikes will be gradual and dependent on growth and financial conditions. Oil and other commodity prices remain low, which will benefit consumers and oil importers like India, South Korea, and the Philippines, while continuing to pressure Russia, Venezuela, Australia, and Canada. A "Grexit" looks increasingly likely, though we believe the impact in Europe and elsewhere will be containable and transitory in nature. The Chinese stock market has also plummeted 30% in recent weeks, which has weighed on commodities and risk assets; nonetheless, we believe the government has the will and financial resources to support the real economy. While Greece and China have driven market activity lately, we expect these issues to fade with time and the market to refocus on the coming hiking cycle as we believe the U.S. continues its checkmark recovery.

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Despite the upward trajectory of the United States economy and increasing municipal tax revenues, the second quarter of 2015 was overshadowed by the dark clouds of two prominent issuers. The City of Chicago was hit with an unexpected muni-notch downgrade from Moody's Investor Service in mid-May, which sent their general fund-backed debt to "non-investment grade rated." The ratings action was largely a function of Illinois' Supreme Court having struck down the proposed pension reform plan, which leaves the city somewhat hand-cuffed in dealing with its massively underfunded pension system. Illinois' constitution does not allow for the impairment of pension benefits, which could place bond investors in a subordinated position relative to the pensioners. The end result of the downgrade was an abrupt repricing of Chicago debt resulting in yields as high as 6% for certain issuers.

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The Commonwealth of Puerto Rico also pressured market volatility during the quarter. Puerto Rico's Governor Alejandro Padilla has been quite vocal over the last year about providing certain Puerto Rican issuers with the ability to file for Chapter 9 bankruptcy as there are currently no laws governing a restructuring of the Commonwealth's debt. The Governor has been explicit in stating that he was only seeking the bankruptcy option for revenue-backed issuers, however, general obligation debt and debt backed by sales taxes (COFINA) were to be excluded from any potential bankruptcy filings. At a time when most investors were focused on the looming Greek default and exit from the euro, Governor Padilla announced that Puerto Rico's $73 billion of debt is not payable and the island has run out of options. Puerto Rico has experienced a nearly decade-long recession, a massively underfunded pension plan, and great difficulty in collecting taxes, and the Governor fears the Commonwealth will enter in to a "death spiral" if the economy does not begin to grow. Governor Padilla is urging the island's creditors to "share the sacrifices." Shortly following this announcement, the price of most Puerto Rican credits plummeted from their already low valuations. Both Chicago and Puerto Rico are regarded as "troubled credits" by many investors, and have been forewarned about their financial challenges. Although the price of these credits was negatively impacted, investors took the news in stride and did not seem worried about contagion effects.

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As mentioned earlier, The FOMC's June communication did not provide much new information as to when they intend on raising their benchmark target rate. Although the markets seemed to have viewed their recent communication as somewhat dovish, the expectation is for at least one rate hike during 2015. Fed rate hike expectations and a growing United States economy have driven a well warranted drift higher in treasury yields, which may have inspired mutual fund redemptions during the quarter in fear of negative total returns. Despite these negative forces, the municipal market held its course during the quarter and performed well relative to other fixed-income asset classes. From a fundamental perspective, municipalities have reduced their debt burdens while tax revenues have increased, giving rise to improved balance sheets. There has been a decrease in Chapter 9 filings this year and an increase in primary market issuance, which has been absorbed by investors. New issue supply increased by approximately 40% in the first half of 2015 and is projected to end the year near $400 billion.

The Barclays Municipal Bond Index returned -0.89% in the second quarter. The slope of the 30-year municipal yield curve steepened from 261 to 297 basis points during the quarter. The yield on 30-year AAA municipal general obligations increased from 2.80% to 3.28%, and 10-year yields increased by 32 basis points to 2.28%. Tax-exempt yields still appear attractive relative to the U.S. Treasury yields. The tax-exempt sector outperformed during the quarter, which pushed the ratio of 30-year tax-exempt yields to like-maturity Treasury yields from 110.2% to 105.6%.

The Barclays Municipal Bond Index managed to stay in positive territory for the year despite rising interest rates and returned 0.11% in the first half of 2015. However, return data showed that investors shortened the maturity profile of their investments leading to a clear underperformance of long maturity bonds during the second quarter. Furthermore, 30-year maturities underperformed the general index by 70 basis points and 10-year maturities underperformed by 25 basis points. According to Barclays, A-rated bonds underperformed the general index by 15 basis points and BBB-rated bonds also underperformed the index by 15 basis points. High yield tax-exempt credit spreads widened during the quarter on Puerto Rico concerns, and the Barclays Municipal High Yield Index underperformed the investment grade index by 211 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.

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