

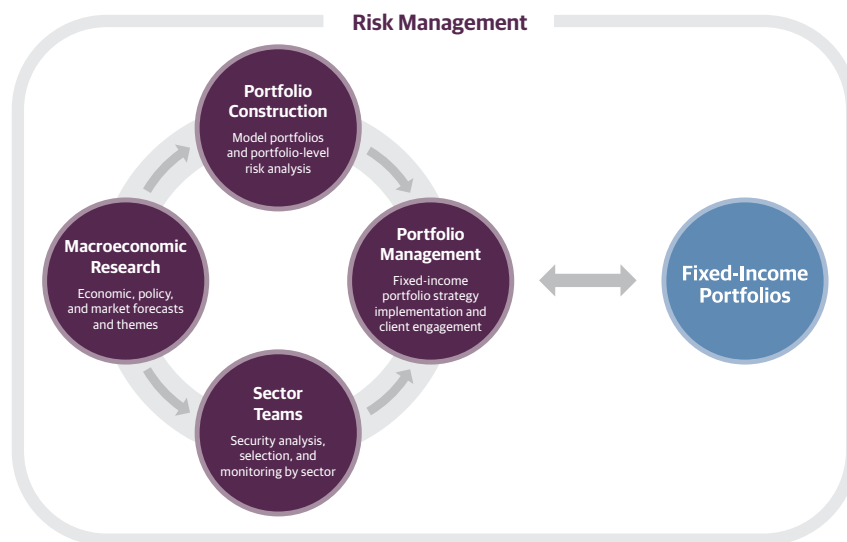
Guggenheim's Fixed Income Investment Process Case Study

Specialized Teams Evaluate War in Ukraine

There are good and bad markets, and every so often investors have to contend with a market crisis, such as the Great Financial crisis, the pandemic, or the oil price shock of 2014-2016. The challenge for investors—and one of the lessons from behavioral finance—is to have an investment process that is consistently applied whatever the market condition. We have designed the Guggenheim investment process to be a repeatable, scalable, and predictable approach to asset management. Now we are contending with the repercussions of the war in Ukraine and once again leveraging our process to evaluate the rising threat both to the global economy and individual industries and companies.

We wish for a swift conclusion to the hostilities in Ukraine. In the meantime we continue to seek to mitigate downside risk while seeking compelling long-term risk-adjusted returns for our clients.

A principal goal of the Guggenheim Investment Fixed Income Investment Process is to avoid suboptimal decisions that can result from thinking and responding too reactively. Guggenheim's investment process deliberately seeks to slow down decision making by disaggregating the primary functions in portfolio management into specialized teams: Macroeconomic Research, Sector Teams, the Portfolio Construction Group, and Portfolio Management, overlaid with a dedicated Risk Management function. In doing so, each of these groups has more time to focus on its area of expertise. In keeping with our philosophy, rooted in behavioral finance, Guggenheim's investment process synthesizes information from each group with the goal of making purposeful decisions while minimizing cognitive biases. In short, the Guggenheim investment process seeks to ensure that we have gathered all the information we need to make a decision, and that we have taken the time to weigh the potential outcomes of that decision.



Each of our Fixed Income Teams has been and continues to conduct analysis of the situation in Ukraine that is specific to each Team's specialty. Each team's effort contributes to the collective knowledge of the Firm's overall investment process.

Our [investment team of teams](#) had not planned in advance a response to a full-scale invasion of Ukraine by Russia.

Nevertheless, as General Stanley McChrystal wrote about Captain Sully Sullenberger's crew, "all were capable of adjusting to the unexpected with creative solutions on the spot, coherently and as a group. Their structure—not their plan—was their strategy." The following is a selection of the work done by each team in this undertaking.

Macroeconomic Research

- Conducted scenario analysis of the likely paths and outcomes of the conflict, their drivers, and their probabilities, and analyzed the impacts of the war on global and regional economies based on these scenarios.
- Identified the sovereign credits with direct and indirect exposures to Russia and Ukraine and identified those countries that are most exposed to Russia and Ukraine commodity exports.
- Analyzed the reaction of the U.S. Treasury Curve and other markets during historical global geopolitical and economic crises.
- Conducted specific analysis on Russia: the effect of sanctions on Russia's reserves, its economy, and how fiscal finances will impact Russia's ability to continue prosecuting the war.
- Analyzed the components, investor base, coupon payment schedule and prospects for default of Russian sovereign debt; and balance sheet pressures on the Russian banking sector.
- Monitored European policy initiatives to strengthen security and enhance food and energy independence.

Sector Teams

- Analyzed the impact on individual securities from a fundamental credit and market trading basis.
- Identified systematic and idiosyncratic credit risks, including direct exposure to Russian and Ukrainian assets, and indirect exposure via rising commodity prices, supply chain impacts, and effects on global growth and inflation.
- Analyzed potential material exposures for counterparties that would impair liquidity.
- Assessed and interpreted the impact on the market in terms of liquidity and pricing in primary and secondary markets.
- In ABS, identified exposures to Russian-leased aircraft and the location of the planes, collateral leased to Russian and Ukrainian airlines, adjusted recovery forecasts, and the impact of sanctions on potential recovery of assets, including insurance and timing.
- In corporate credit, conducted a consolidated review and analysis of exposure and industry themes, highlighting potential areas of concern.
- Conducted ongoing monitoring of market conditions for affected securities as well as potential value opportunities in securities not affected by Russia's actions.

Portfolio Construction

- Incorporated forward-looking expectations from the Macroeconomic Research Group and the Sector Teams into models.
- Performed portfolio-level sensitivity analysis and reviewed results with Portfolio Managers.

Portfolio Management

- Utilized Macroeconomic Research Team's estimates of first-order impact on global growth, commodity prices, supply chains, inflation, global central bank policy, and mapping out second- and third-order impacts by portfolio and strategy.
- Worked with Sector Teams to identify first-order impact on sectors, including energy, utilities, commercial aerospace and air lessors in particular, outsourced technology services, semiconductors, and certain chemical and consumer subcategories.
- Performed stress testing scenarios with Portfolio Construction Group and Risk Management to quantify the shock on performance at the fund level and assessed liquidity plans for open end vehicles.
- Evaluated potential paths of outcomes and how each might impact higher level portfolio strategy, including credit beta, duration targets, etc.
- Canvassed holdings for direct and indirect exposure to Russia and Ukraine, and quantified broader European exposure.
- Compiled a list of compelling investment opportunities and issuers to monitor as the situation evolves.

Risk Management

- Conducted stress tests and analyzed firmwide holdings to identify portfolios with exposure to Russia, Belarus or Ukraine.
- Performed a review of our trading counterparties to quantify their unique exposures to Russia Ukraine and Belarus.
- Liaised with Guggenheim's global anti-money laundering compliance team to identify potential direct and indirect exposure in light of recent international sanctions imposed following Russia's invasion of Ukraine.
- Reviewed general market liquidity conditions and potential impact to our funds.
- Participated in industry calls with respect to the events in Ukraine, focusing on market volatility, liquidity, and valuation.
- Engaged with the Macroeconomic Research team on evolving the Ukraine stress test, which includes potentially direct and indirect exposure to Russia and Belarus, as the situation developed.

These inputs illustrate how each team approaches the same central challenge from different perspectives to inform a much more detailed roadmap than any one group could provide on its own. It also shows that while each team operates independently of the others, the information gathered is freely and constantly communicated for the benefit of the whole group. In our dynamic investment process, there is a constant communication flow within

each of the investment teams, as well as between and among teams. The same process is generally followed for all of our actively managed fixed-income accounts, from institutional separate accounts to investment products such as mutual funds. Most importantly, while the specifics of each market cycle or crisis might be different, the process is the same, enabling our investment team of teams to continually evaluate investment risks and opportunities.

Important Notices and Disclosures:

One of the most important aspects of our review and analysis is ensuring that our firm complies with all applicable sanctions restrictions in connection with Russia, Belarus & Ukraine. All of our investment and business operations are subject to a robust internal compliance program that ensures appropriate compliance with such laws and regulations.

There is no guarantee that Guggenheim's risk management will be successful. Current and future holdings are subject to investment risk, including the possible loss of principal.

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](https://www.guggenheiminvestments.com) or call 800.820.0888.

This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

This material contains opinions of the author, but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are subject to change without notice. Forward-looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable, but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information.

Guggenheim Investments represents the following affiliated investment management businesses: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Fund Management (Europe) Limited, Guggenheim Partners Japan Limited, GS GAMMA Advisors, LLC, and Guggenheim Partners India Management. **Securities offered through Guggenheim Funds Distributors, LLC.**

© 2022 Guggenheim Partners, LLC. No part of this article may be reproduced in any form, or referred to in any other publication, without express written permission of Guggenheim Partners, LLC.

52285