GUGGENHEIM

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Portfolio Strategy

It's Called Core-*Plus* for a Reason

Core-Plus vs. Core Fixed-Income Portfolio Management

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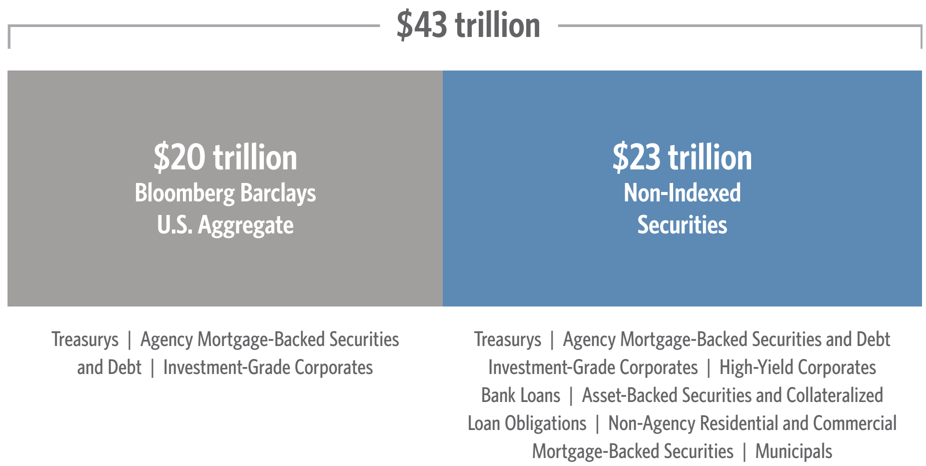
When Morningstar recently divided its Intermediate Term Bond Fund category into Intermediate Core and Intermediate Core-Plus, it clearly defined the category to make it easier for financial professionals to understand the two investment options. The recognition of the Core-Plus category also serves to highlight Guggenheim's active approach to fixed-income investment management: With an investment philosophy and process that is built on the principles of behavioral finance, our deep bench of investment professionals looks beyond the benchmark to achieve compelling returns while maintaining an investment-grade portfolio.

The motivation behind our approach is that we believe Core-Plus is the solution to the Core Conundrum, which is the term we use to refer to the challenge of finding income when the benchmark index for most Core strategies, the Bloomberg Barclays Aggregate Index (Agg), is dominated by low-yielding government-related securities. Since its creation in 1986, the Agg has become the most widely used proxy for the U.S. bond 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 outstanding.

Financial advisors may think that by buying a benchmark-following Core Strategy they are broadly participating in the entire U.S. fixed-income market, but that is incorrect. At $20 trillion, the Agg actually represents less than half of the total U.S. fixed-income universe. It excludes $23 trillion in securities that do not meet its requirements for inclusion. The fixed-income universe has evolved over the past 30-plus years with the growth of sectors such as asset-backed securities (ABS), non-Agency residential MBS (RMBS), high-yield corporate bonds, leveraged loans, and municipal bonds.

The Core Conundrum

The Benchmark Represents Less Than Half of the U.S. Fixed-Income Universe



Important note: Including these additional types of non-indexed securities in a core-plus plus portfolio involves different types of risk. Please see risk considerations at the end of the article for additional information.

Source: Guggenheim Investments, SIFMA, Bloomberg Barclays. Data as of 12.31.2018. Excludes categories with de minimis amounts.

As active fixed-income managers, we believe that all of these securities, at the appropriate time in the cycle, can have a place in a diversified, investment-grade fixed-income portfolio designed for long-term performance. For example, we have the ability to dial up or dial down credit exposure over the business cycle. Using our deep and experienced credit team, we can analyze specific credit risks and evaluate trends in the credit cycle, including the risks posed by lax underwriting that often prevail during bull markets.

At other times, the impact of rate and yield curve changes over the course of a business cycle can be actively managed with portfolio duration positioning by using more floating-rate assets during a Fed tightening period.

Finally, a Core-Plus manager without a tether to the benchmark can also work to help protect client assets from drawdown risk by underweighting sectors of the benchmark with heightened volatility. In the current market, our current negative view of investment grade corporate bonds has led to a material underweight vs the Agg.

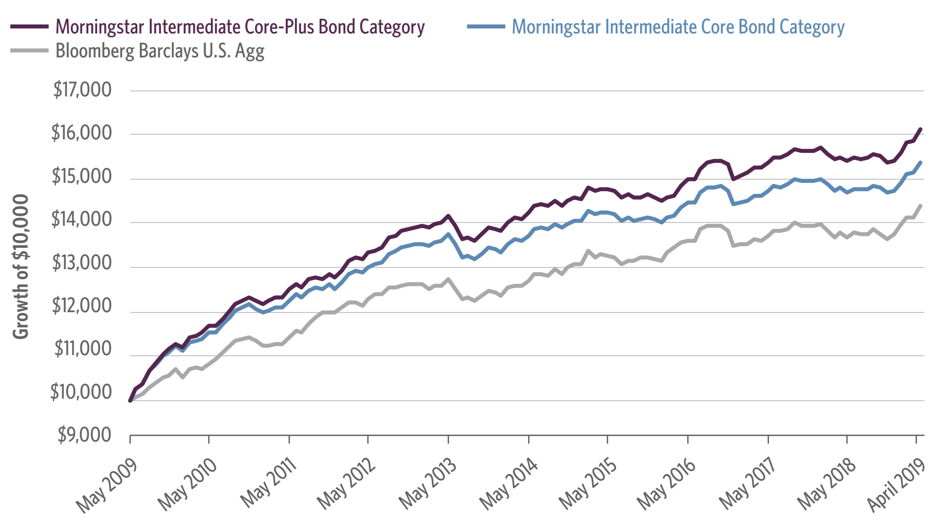
As a result, it should be no surprise that our portfolios look different from passively managed or benchmark-constrained Core funds. For example, we typically have higher allocations to structured credit sectors, such as CLOs and commercial ABS, that represent the kinds of instruments available beyond the benchmark. These sectors often offer comparable or higher yields and lower durations than similarly rated corporate bonds. A typical passive or benchmark-constrained Core Fixed-Income strategy cannot go into these sectors. (Please note that structured products are complex investments and not suitable for all investors. Please see "Risk Considerations" for more information.)

Our investment process is built on the principles of behavioral finance, which help mitigate the cognitive biases that are prevalent in all human decision making. In our process, we disaggregate the management roles into separate groups that work together to slow down decision making. After careful evaluation, we concluded that the investment process can be broken down into four key components—macroeconomic and investment research, security selection, risk management, and portfolio management—and we established separate groups to pursue each of these tasks. A major goal in the disaggregation of our process is to foster expertise in these separate areas of investment decision making. Not only is each team better at its specific role than if these roles were not disaggregated, but at the same time, the division of responsibility means that no one person or group can make an investment decision. At Guggenheim, investment decisions are only made in accordance with the expert input from each group. This process requires collaboration, communication, deliberation, and effort. The four groups within our investment process are intended to work together to deliver a process that is predictable, scalable, and repeatable. We also like to say that it is explainable because of the fundamental principles upon which it is built.

As markets evolve, investment opportunities and risks change. Core Plus strategies that are not constrained to the benchmark can evaluate market conditions and identify attractive relative value across the U.S. fixed income market. In doing so, Core Plus strategies seek to deliver superior risk-adjusted returns while maintaining some of the risk characteristics as Core strategies and the benchmark. We believe that a more diversified, multi-sector approach to fixed-income management that relies on the active manager's ability to uncover value in investment-grade securities outside of the traditional benchmark-driven framework may help generate higher yields without adding undue credit or duration risk.

Core-Plus: Has Provided Superior Returns Over a Cycle

Growth of $10,000, May 2009–April 2019

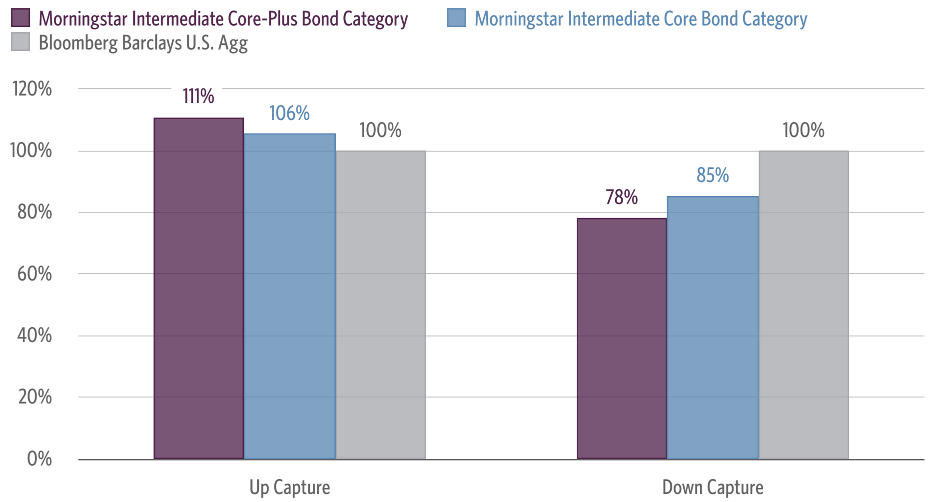


Source: Guggenheim Investments, Morningstar. Data as of 4.30.2019. Past performance does not guarantee future returns.

We believe the data support this conclusion. Not only has Core-Plus offered superior cumulative returns over the course of the past 10 years, but it has done so with less risk overall. The up-capture/down-capture ratios of Core Plus strategies are more favorable than those of Core. In addition, Core-Plus has a higher Sharpe Ratio than Core—1.49 vs 1.35 (although past performance is no guarantee that a core-plus portfolio will outperform in the future).

Core-Plus: Has Delivered More Upside and Less Downside

Up Capture / Down Capture Ratios, May 2009-April 2019



Source: Guggenheim Investments, Morningstar. Data as of 4.30.2019. Past performance does not guarantee future returns.

Core-Plus: Average Annual Total Returns Over One, Five and 10 Years

Name	One-Year Return	Five-Year Return	10-Year Return
Morningstar Intermediate Core-Plus Bond Category	4.94%	2.60%	4.93%
Morningstar Intermediate Core Bond Category	4.69%	2.33%	4.41%
Bloomberg Barclays U.S. Aggregate Index	5.29%	2.57%	3.72%

Source: Morningstar. Data as of 4.30.2019. Past performance does not guarantee future results.

We believe the new Morningstar category is a validation of our philosophy and approach to fixed-income investing. Core-Plus can be thought of as the ability to invest in the Core benchmark PLUS the rest of the fixed-income universe. But whatever you want to call it, our goal in fixed-income investing is to solve the Core Conundrum and deliver compelling risk-adjusted returns no matter where we are in the market cycle.

Important Notices and Disclosures:

Investing involves risk, including the possible loss of principal. Investments in fixed-income instruments are subject to the possibility that interest rates could rise, causing their values to decline. 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. 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, such as 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.

There is no guarantee that the investment views of active fund managers will produce the desired results or expected returns, which may cause a fund to fail to meet its investment objective or underperform its benchmark index. Furthermore, active and frequent trading that can accompany active management, also called "high turnover," may have a negative impact on performance. Active and frequent trading may result in higher brokerage costs or mark-up charges, which are ultimately passed on to shareholders.

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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 pass-throughs), ABS, and CMBS (Agency and non-Agency).

Up Market Capture: A statistical measure of an investment manager's overall performance in up markets. The up-market capture ratio is used to evaluate how well an investment manager performed relative to an index during periods when that index has risen.

Down Market Capture: A statistical measure of an investment manager's overall performance in down markets. The down-market capture ratio is used to evaluate how well or poorly an investment manager performed relative to an index during periods when that index has dropped.

Sharpe Ratio: A risk- adjusted measure developed by William F. Sharpe calculated using standard deviation and excess return to determine reward per unit of risk. The higher the Sharpe Ratio, the better the fund's risk-adjusted performance.

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.

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