GUGGENHEIM

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High-Yield and Bank Loan Outlook
Focus on Floating Rate

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In our Q1 2016 High-Yield and Bank Loan Outlook titled "The Passing Storm," we correctly predicted that fundamental deterioration would remain contained to the commodities sector and recommended that long-term investors look to cheap valuations as an attractive entry point. After posting 4.5 percent losses during the first eight weeks of 2016, the high-yield sector saw an impressive turnaround.

Looking ahead, we expect an improvement in leveraged credit fundamentals on the back of an earnings recovery and macroeconomic conditions, but it appears the majority of this has already been priced into spreads. Entering 2017 with the tightest high-yield bond spreads since August 2014, we expect this will mostly be a year of clipping coupons in high-yield.

The loan market looks appealing as the demand for floating-rate products accelerates. The evolving geopolitical environment could create temporary turbulence. On balance, we conclude that this is not yet the time to sell credit, but another year of double-digit returns in credit is unlikely.

Report Highlights

- The credit rally continued through the fourth quarter despite one of the worst selloffs in government bond markets since the 2013 taper tantrum.
- We expect that fiscal easing and reduced regulation will boost U.S. economic growth, but there are potential downside risks from trade protectionism, deportations and geopolitical risks.
- Declining default rates and improving macroeconomic conditions should sustain positive returns in leveraged credit, but tight spreads and high bond prices make the sector vulnerable to volatility.
- Our proprietary Corporate Health index supports the view that 2017 will prove to be a more benign credit environment than 2016.

Leveraged Credit Scorecard
As of 12.31.2016

High-Yield Bonds

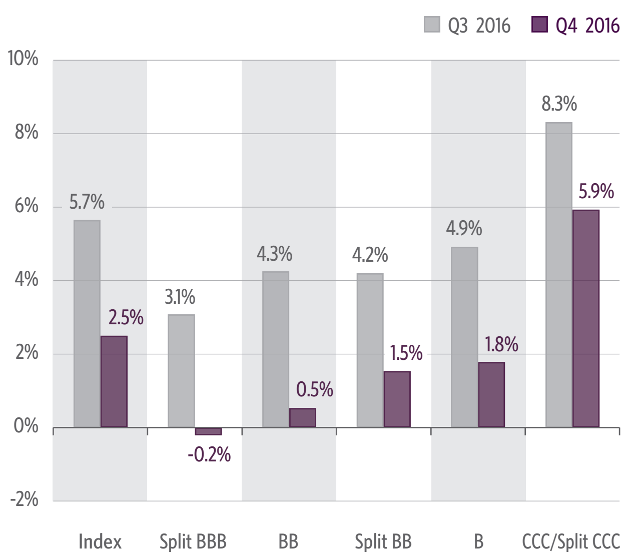
	December 2015		October 2016		November 2016		December 2016	
	Spread	Yield	Spread	Yield	Spread	Yield	Spread	Yield
Credit Suisse High-Yield Index	753	9.18%	549	6.70%	522	6.88%	472	6.47%
Split BBB	338	5.10%	256	3.93%	249	4.31%	224	4.13%
BB	460	6.29%	326	4.45%	309	4.70%	278	4.51%
Split BB	538	7.00%	400	5.19%	378	5.40%	342	5.16%
B	748	9.11%	526	6.45%	495	6.60%	435	6.06%
CCC/Split CCC	1,625	17.95%	1,237	13.66%	1,208	13.83%	1,124	13.07%

Bank Loans

	December 2015		October 2016		November 2016		December 2016	
	DMM*	Price	DMM*	Price	DMM*	Price	DMM*	Price
Credit Suisse Leveraged Loan Index	643	91.43	494	95.12	488	96.48	461	97.18
Split BBB	307	98.95	256	100.23	240	100.27	228	100.60
BB	420	97.32	315	99.96	313	99.95	296	100.41
Split BB	544	95.90	397	99.71	394	99.62	364	100.28
B	728	92.05	511	97.64	509	97.52	480	98.12
CCC/Split CCC	1,512	79.83	1,333	82.59	1,333	82.13	1,251	83.63

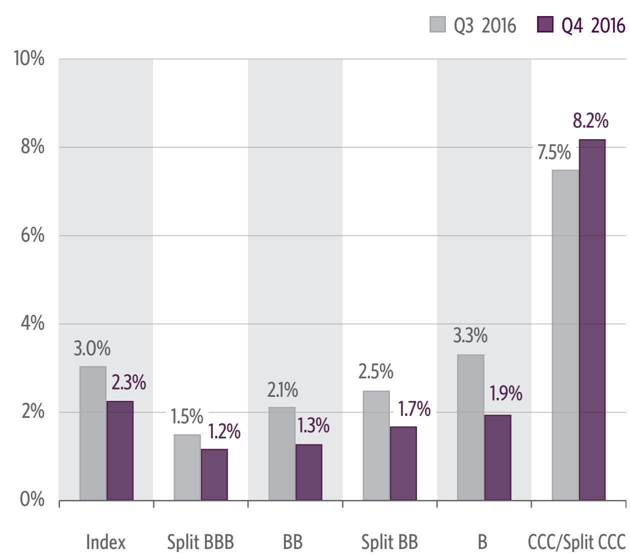
Source: Credit Suisse. Split ratings shown use a single "blended" Moody's/S&P rating to compute averages sorted by rating. Excludes split B because the split B loan index is heavily represented by one single corporate issuer. *Discount Margin to Maturity assumes three-year average life.

Credit Suisse High-Yield Index Returns



Source: Credit Suisse. Data as of 12.31.2016. Past performance is not indicative of future results.

Credit Suisse Leveraged Loan Index Returns



Source: Credit Suisse. Data as of 12.31.2016. Past performance is not indicative of future results.

Macroeconomic Overview
Long on Promise, Short on Delivery

"As the Fed moves to adjust for faster growth, shorter-maturity Treasurys will be more vulnerable to further price declines while the risk of a sudden spike in inflation will diminish. Bond yields are not rising because of increasing inflationary expectations; they are rising because of an increase in anticipation of real growth. Given that inflationary fears are overblown, longer-term bond yields are probably close to their highs for this cycle, and the environment will remain positive for riskier assets like high-yield bonds, bank loans and stocks."

– Scott Minerd,
Chairman of Investments and Global Chief Investment Officer

Donald Trump's win in the November U.S. Presidential election defied investor expectations and polling trends. Immediately following the election, equity futures markets indicated that the major U.S. stock indices would open deeply negative, but concerns about the implication of Trump's victory proved short-lived. Between election day and the end of December, the S&P 500 rallied 4.6 percent, high-yield spreads tightened 83 basis points, and 10-year Treasury yields rose 57 basis points. We expect, if successful, that fiscal easing and reduced regulation will boost U.S. economic growth, but we are mindful of potential downside risks from trade protectionism, deportations and geopolitical risks.

The market reaction to the outcome of the U.S. presidential election set the stage for the Fed to hike in December. As widely expected, the Fed raised target interest rates by 25 basis points from a range of 0.25–0.50 percent to 0.50–0.75 percent. More importantly, the Federal Open Market Committee (FOMC) now projects three rate increases in 2017, up from two in September. We think there is a risk of four rate hikes. The upward shift appears to reflect the view that there may be less room for accommodative policy to continue in light of recent labor market data. We believe the participation rate introduces meaningful uncertainty to the pace of Fed tightening. In 2016, a rising participation rate helped keep the Fed at bay for most of the year as it stabilized the unemployment rate slightly above what the Fed considers full employment. However, the participation trend reversed in October and November, causing the unemployment rate to decline to only 4.7 percent by December.

Fed Chair Janet Yellen noted that fiscal easing expectations have not yet entered into the Summary of Economic Projections (SEP) forecasts in a meaningful way. Therefore, even away from the trend in the participation rate, there are upside risks to the FOMC's newly revised rate projections. Thus, on the U.S. monetary policy front, the discussion has shifted dramatically going into 2017. Where the focus in recent years had been on the Fed's inability to achieve its dual mandate and on the risks of removing accommodation too quickly, it is now centered on a likely acceleration of the pace of tightening and the potential for the Fed to overshoot its goals.

Given our view that the Fed will raise rates three, possibly four, times in 2017, the effects of monetary policy divergence will be important to watch as two major central banks, the European Central Bank (ECB) and the Bank of Japan (BOJ), continue their purchase programs. In December, the ECB committed to extend its asset-purchase program through the end of 2017, albeit at a reduced monthly pace of €60 billion (from €80 billion currently) beginning in April. The ECB also changed its criteria for asset purchases, allowing the purchase of sovereign bonds with yields lower than the -0.40 percent deposit rate. In our view, the extension of the program to at least the end of 2017 makes it highly likely that the ECB will continue to buy assets well into 2018. The growing gap in policy rates and global yields could drive further U.S. dollar appreciation, which would weigh on oil prices and stem

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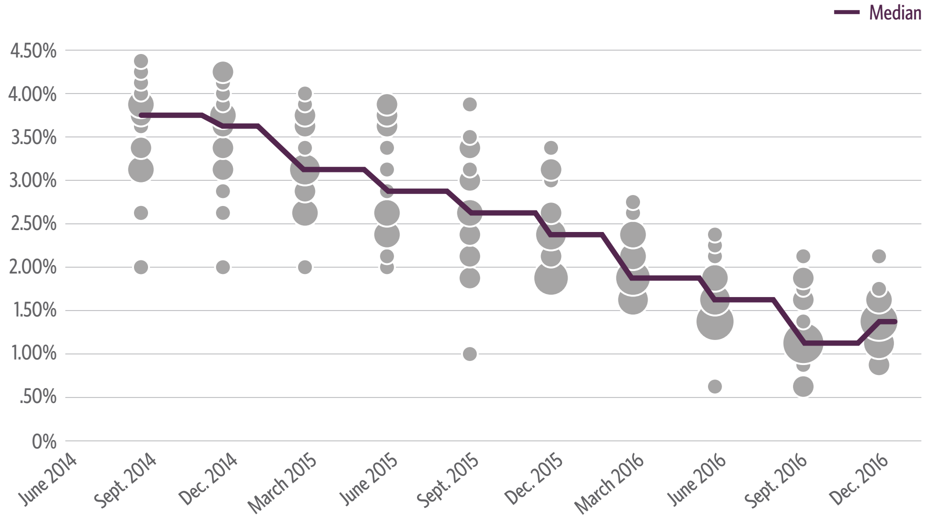
Evolution of FOMC's 2017 Funds Rate Projection

Fed funds rate projections, or dot plots, are trending higher.



Source: Bloomberg, Federal Reserve Board, Guggenheim Investments. Data as of 12.31.2016. Note: projections are taken from the Summary of Economic Projections. The larger the dot, the larger percentage of submissions for that rate. Thus, for the December 2016 meeting, the number of participants who projected the 2017 fed funds rate at each level were as follows: two at 0.875 percent, four at 1.125 percent, six at 1.375 percent, three at 1.625 percent, one at 1.74 and one at 2.125 percent.

the recovery in the energy market. Currently, our oil model projects oil prices will remain below $60 per barrel through the end of 2017.

Trump's planned infrastructure spending and border tax adjustment could also put upward pressure on the U.S. dollar. A sizable increase in infrastructure spending coupled with deregulation could improve labor productivity and raise the natural rate of interest, in turn prompting the Fed to raise rates faster than currently anticipated. Meanwhile, the border tax adjustment (as currently proposed) would create an incentive for manufacturers to produce in the U.S. by denying them the ability to deduct import costs from taxable income, but also entices them to sell externally by allowing them to deduct export-related revenue. The incentive to import less and export more could cause the U.S. dollar to strengthen, all else equal.

Judging by the rise in real rates across the curve, the sudden bounce in TIPS inflation breakevens, the steepening of the 2s/30s Treasury yield curve, and the significant tightening of corporate bond spreads, the market is pricing in Trump's fiscal measures before the Fed has even had a chance to formally consider the implications, and before these policies are finalized and passed in the House and Senate. The level of progress that the new administration makes in Washington may confirm or challenge the market's current assigned probabilities of success. Yet, current equity and corporate bond market valuations seem to suggest that the new administration's success in implementing pro-growth policies is very likely. We're now long on promise and short on delivery, which should cause the market to pause and start digesting incoming data. Given elevated valuations against the backdrop of tightening monetary policy and some political uncertainty, an ongoing re-assessment of relative value will be critical to the investment process throughout 2017.

Q4 2016 Leveraged Credit Performance Recap

The credit rally continued through the fourth quarter despite one of the worst selloffs in government bond markets since the 2013 taper tantrum. High-yield bonds and bank loans delivered returns of 2.5 percent and 2.3 percent for the quarter, respectively. High-yield bond spreads tightened by 95 basis points over the quarter to end the year at 472 basis points, while bank loan discount margins decreased by 44 basis points to end the year at 461 basis points.

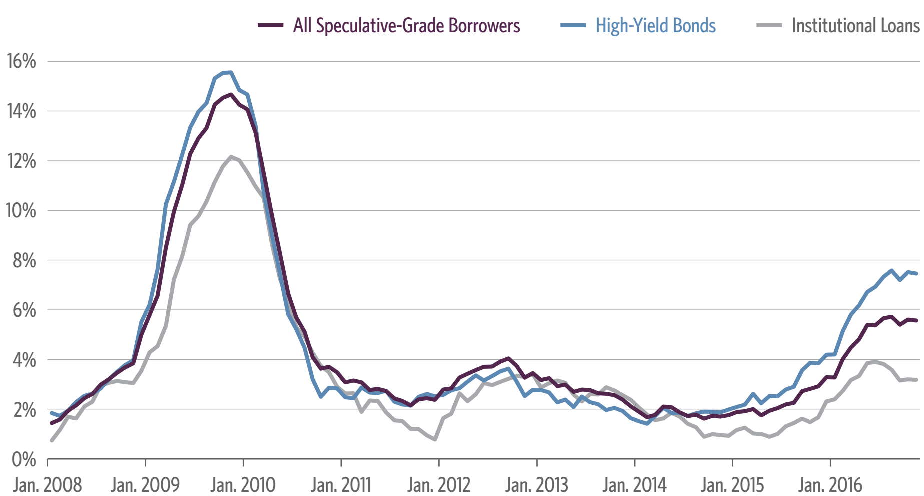
In the leveraged credit sector, the biggest gains in the year came from lower credit quality assets. CCC-rated bonds returned 33.1 percent for the year, outperforming BB-rated bonds and B-rated bonds by 21 percent and 18.6 percent, respectively. CCC-rated loans returned 25.6 percent, also outperforming BB-rated loans and B-rated loans by 18.7 percent and 16.1 percent, respectively. On a sector basis, the energy space delivered its strongest annual performance on record. Energy bonds, which began 2016 yielding 16.3 percent, delivered total returns of 40 percent and yields have now fallen to only 7.6 percent.

In retrospect, events that unfolded in the high-yield market in 2016 followed a fairly predictable path. The continuation of a depressed commodity-price environment ultimately pressured earnings in oil, gas, and metals, causing a wave of defaults to materialize. Based on the 1998 default cycle, we predicted that defaults would peak in 2016. Since peaking at 5.7 percent in August, 12-month trailing default rate for all U.S. speculative-grade borrowers rated by Moody's has fallen to 5.5 percent. It is expected to decline further to approximately 4.0 percent by the end of 2017, according to Moody's.

Based on the 1998 default cycle, we predicted that defaults would peak in 2016. Since peaking at 5.7 percent in August, 12-month trailing default rates for all U.S. speculative-grade borrowers rated by Moody's has fallen to 5.5 percent. It is expected to decline further to approximately 4.0 percent by the end of 2017, according to Moody's.

Leveraged Credit Issuer-Weighted Default Rates

Energy spreads indicated that the market had priced in higher default rates than actually materialized.



Source: Moody's. Data as of 11.30.2016.

Credit concerns extended beyond commodities and spilled over into other sectors in 2016. Valuations suggested that lenders believed this was the beginning of another default cycle that would mirror those seen in 1990–1991, 1998–2001, and 2008–2009. Energy spreads at 1,300 basis points were discounting over half of high-yield energy borrowers defaulting within a year, which seemed unrealistic. Worse yet, spreads in sectors that were relatively unscathed by declining commodity prices—and even stood to benefit from lower input costs—also widened to peak at 740 basis points, on average. A strong dollar pressured earnings outside of commodities, but the high-yield market's exposure to overseas revenues is relatively limited compared to the investment-grade market. Our review of fundamental data and our position on economic growth told us that the market was pricing in higher defaults than were likely to materialize.

Guggenheim's Corporate Health Index

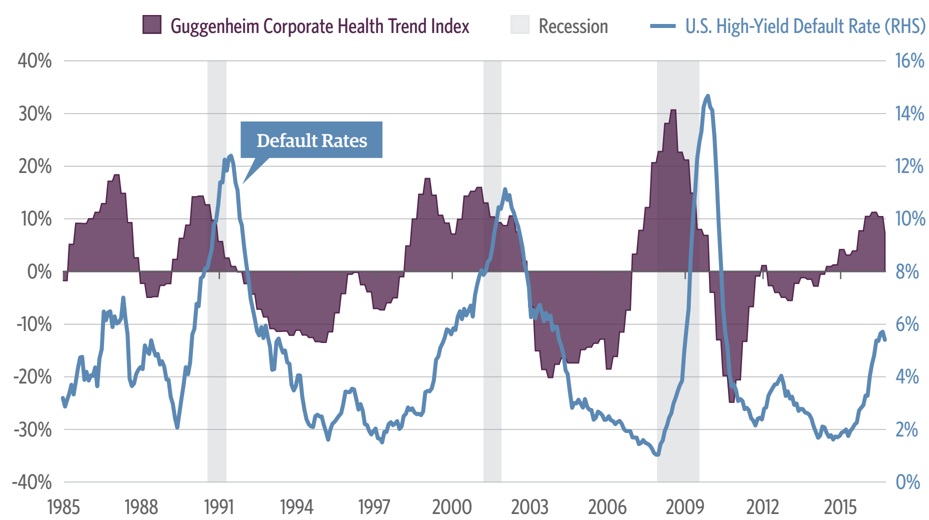
As corporate borrowers moved through several consecutive quarters of negative earnings growth in 2016, we carefully studied the strength of nonfinancial corporate borrowers across all industries. As we will discuss in this section, methodologically combining balance sheet metrics into a single index, shown in the chart below, provides us with a leading indicator for high-yield default rates.

A positive corporate health index reading tells us that corporate balance sheets are deteriorating. This index highlights that U.S. nonfinancial corporate balance sheet health has been deteriorating since June 2014, just before the beginning of the oil bear market. Coincidentally, this was also the time when our credit spread dashboard, which measures current spreads relative to historical levels, was flashing red, signifying that corporate bonds were overvalued.

Our proprietary corporate health index aggregates measures of corporate leverage, interest coverage, and return on capital. A positive corporate health index reading tells us that corporate balance sheets are deteriorating.

Guggenheim's U.S. Nonfinancial Corporate Health Index and 12-Month Trailing Speculative-Grade Default Rate

U.S. nonfinancial corporate balance sheet health has been deteriorating since June 2014.



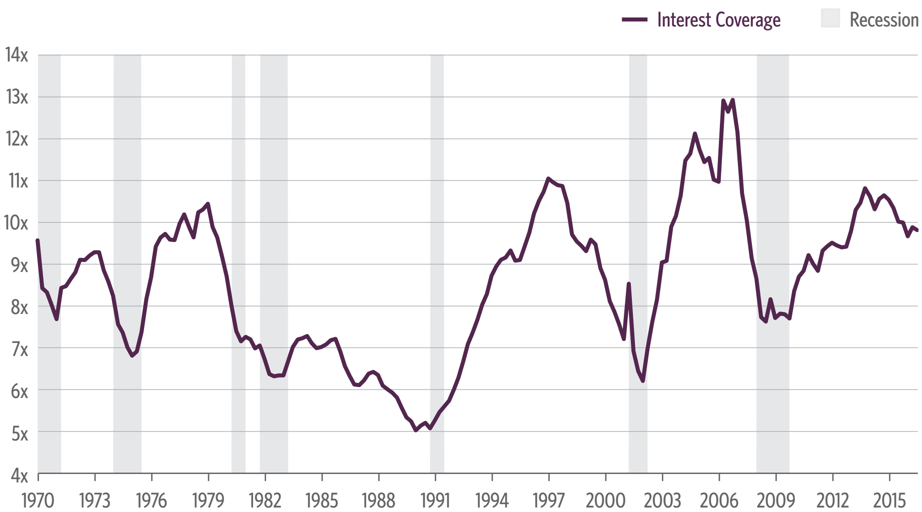
Source: U.S. Federal Reserve Financial Accounts. Data as of 9.30.2016.

The corporate health index combines measures we've discussed in previous reports: interest coverage, leverage and return on capital. The inability to cover ongoing interest expenses would be a clear sign of deteriorating corporate health. The industry-standard ratio to analyze this is interest coverage, which is calculated as 12-month trailing earnings before interest, taxes, depreciation, and amortization (EBITDA) divided by 12-month trailing interest expense. This ratio remains well above historical average levels as the Fed's efforts to keep rates low have translated into lower corporate borrowing costs. Data specific to investment-grade and high-yield corporate borrowers is limited to only the last few cycles, but the Fed's quarterly Financial Accounts data series (formerly known as Flow of Funds) allows us to examine this credit metric for all U.S. nonfinancial corporate borrowers over multiple recessions. From this macro-level picture, we can derive similar trends underlying the corporate bond market.

Thanks to the recent period of lower interest rates, the next peak in the default cycle may coincide with interest coverage at a higher level than the last recession. Nonetheless, the important takeaway from this metric is that it always declines ahead of a downturn.

U.S. Nonfinancial Corporate Borrower Interest Coverage

Interest coverage typically declines in advance of a recession.



Source: U.S. Federal Reserve Financial Accounts. Data as of 9.30.2016.

Interest coverage typically declines in advance of a recession, as evidenced in the chart above. In the period leading up to the 1990-1991 recession, interest coverage declined for nearly the entire business cycle as borrowing costs skyrocketed in the early 1980s on the back of double-digit Treasury yields. Throughout the 1980s, leverage levels increased with the growth of the corporate bond market in the midst of a leveraged buyout boom, and corporate interest rates that had been committed to at the beginning of the cycle were locked in at historical highs. The result was a gradual decline in the interest coverage ratio to the lowest level in 45 years. Since then, interest coverage has trended upward as interest rates have fallen.

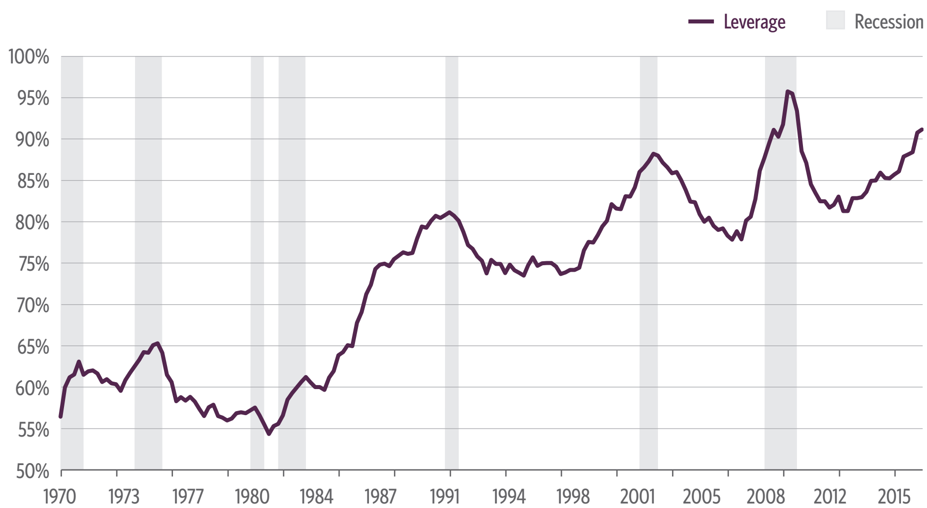
Unfortunately, the level of interest coverage has been a poor leading indicator of default volume. Interest coverage bottomed at 6.2x during the 2001–2002 default cycle, with 12-month trailing default rates peaking at 11 percent, and then bottomed at 7.8x in 2009 (higher than the low point during the previous downtown) as 12-month trailing default rates peaked at 14 percent. The next peak in the default cycle may coincide with interest coverage at a higher level than the last recession. Nonetheless, the important takeaway from this metric is that it always declines ahead of a downturn.

Leverage multiples supplement our view on interest coverage. Leverage is typically measured as the ratio of total debt (gross or net) over EBITDA. With the benefit of hindsight, crippling levels of debt in 2007 foreshadowed a meaningful default wave coming in 2008 and 2009. A frothy market and irrational exuberance, however, emboldened many borrowers to assume heavy debt burdens, with the risk distributed among bank lenders and institutional investors.

Leverage multiples gradually increase throughout the cycle and peak toward the end of recessions, and no specific level is consistent with distress. This credit metric has also peaked at higher levels with each cycle since 1982. The current level of leverage is the highest for a non-recession period.

Total U.S. Nonfinancial Corporate Bonds and Loans/Gross Value Added to GDP

Current leverage and interest coverage multiples reflect the low rate environment.



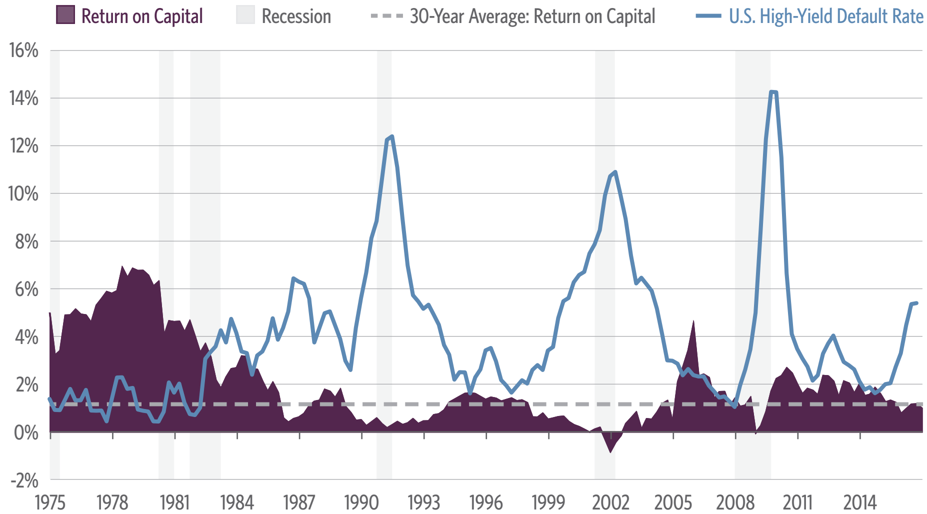
Source: U.S. Federal Reserve Financial Accounts. Data as of 9.30.2016.

Known leverage multiples for investment-grade or high-yield borrowers are also limited to only the past few cycles, but the Fed's Financial Accounts data allows us to observe a top-level trend going back over multiple recessions. We measured leverage as total nonfinancial corporate bonds and loans outstanding divided by the gross value added to U.S. gross domestic product (GDP). Gross value added is a value of goods and services produced less costs of inputs directly attributed to the production of those goods. It does not account for consumption of fixed assets (depreciation) or fixed costs. By replacing the traditional debt-to-EBITDA measure with debt to gross value added, we eliminate the vulnerability of EBITDA measure to accounting manipulations.

The past three downturns have been accompanied by very narrow net return on capital and over 10 percent default rates.

Net Return on Capital – U.S. Nonfinancial Corporations

Attractive net return on capital in the 1970s and 1980s kept default rates low.



Source: Fed flow of funds, Guggenheim Investments. Data as of 9.30.2016.

Leverage measures are also not a strong timing tool for the next downturn or a scale indicator of the next default cycle. Leverage multiples gradually increase throughout the cycle and peak toward the end of recessions, and no specific level is consistent with distress. This credit metric has also peaked at higher levels with each cycle since 1982. When analyzed together, however, interest coverage and leverage multiples allow us to assess the extent to which corporate balance sheets are deteriorating or improving.

Current leverage and interest coverage multiples reflect the low rate environment, but fail to take into account the returns generated from inexpensive capital. At low or negative return on capital, equity valuations decline, junior debt's usefulness as a loss-absorbing cushion is reduced, and access to new capital becomes limited or prohibitively expensive. Looking at the history of net returns on capital, the chart above shows that when net return on capital falls below the historical average of 1.0 percent, defaults begin to rise. By the end of 2016, net return on capital dropped to a level consistent with the 30-year average. We expect it to rise in 2017 on the back of a 10-15 percent recovery in corporate earnings.

As the chart shows, the past three downturns have been accompanied by very narrow net return on capital and over 10 percent default rates. During the 1970s and early 1980s, however, net return on capital remained positive, despite four recessions which did not see meaningful defaults volumes. Although this is partly due to the fact that the high-yield market was miniscule at the time, we believe the data also indicate that attractive net return on capital in the 1970s and 1980s (along with low leverage and healthy interest coverage) kept default rates low in the face of contracting real economic activity. Elevated rates of inflation also served to bail out many debtors.

2017 Outlook

Turning to the next 12 months, the market outlook has turned positive and we agree with the brighter outlook. S&P 500 fourth quarter 2016 earnings growth was positive for the first time in six quarters, which is also a good indication for the broader market. The market is projecting 2017 earnings growth of 10–15 percent year-over-year, offsetting the rise in corporate borrowing costs. Lastly, fewer banks are tightening lending standards for corporate loans than at the beginning of 2016. This trend is measured by the Fed's Senior Loan Officer Survey and, although it only dates back to 1990, it was a strong leading indicator of 1999–2002 and 2008–2009 corporate defaults.

Combining our corporate health index and the trend in lending standards, we developed a two-variable model to project default rates 12 months into the future. According to this model, we expect that 12-month trailing speculative-grade default rates will fall to 4 percent by the end of 2017, consistent with Moody's estimate. Our review of the fundamental data, the market economic backdrop, and current valuations mean investors should not avoid leveraged credit at this stage.

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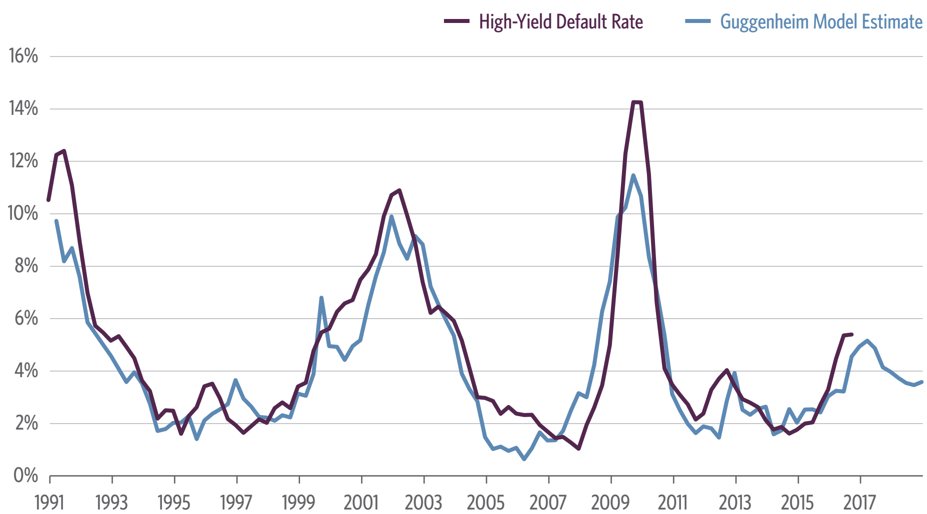
Guggenheim 2017 Default Rate Estimate

Default rates should trend lower over the course of the year.



Source: Guggenheim Investments, Moody's. Data as of 11.30.2016.

Despite an improving fundamental picture for corporate borrowers, tight spreads, high bond prices, and elevated debt multiples make for a mixed picture going into 2017. Below is the corporate bond and leveraged loan section of Guggenheim's credit spread dashboard, which provides our portfolio managers and credit sector teams with a snapshot of the fixed-income market. The percentile measures in the right hand column calculate current spreads against the full history of spreads available, and tell us the percent of time that spreads have been cheaper. Colors indicate where the market is in this context. The dashboard was almost entirely green—signifying cheap—in February 2016, with the exception of government-related assets, but has slowly turned orange, highlighting historically tight spreads.

Our credit spread dashboard provides a current snapshot of market pricing compared to the history of spreads. For example, current BB spreads are the tightest vs. the historical average. Only 22 percent of the time have spreads been tighter.

Guggenheim's Credit Spread Dashboard

	Current Spread	Ex-Recession Average	Ex-Recession, Pre-Crisis Average	Historical Minimum	Historical Minimum Date	Current %
Barclays Investment-Grade Corporate Bonds						
Index	123	118	99	51	07.31.1997	60%
AAA	71	65	64	26	06.30.1989	56%
AA	76	74	62	31	07.31.1997	56%
A	100	104	89	47	02.28.1997	49%
BBB	154	158	139	71	07.31.1997	51%
CS High Yield Corporate Bond Index						
Index	469	541	523	271	05.31.2007	37%
Index Ex-Commodities	458	-	-	-	-	37%
BB	274	353	334	175	02.28.2005	22%
B	435	536	516	248	05.31.2007	23%
CCC	119	1142	1182	398	08.31.1987	54%
CS Leveraged Loans Index						
Index	461	423	343	230	04.28.2006	52%
BB	297	300	253	154	08.31.1995	45%
B	480	467	385	255	05.31.2007	46%
CCC	1253	1235	1254	215	07.31.1997	60%

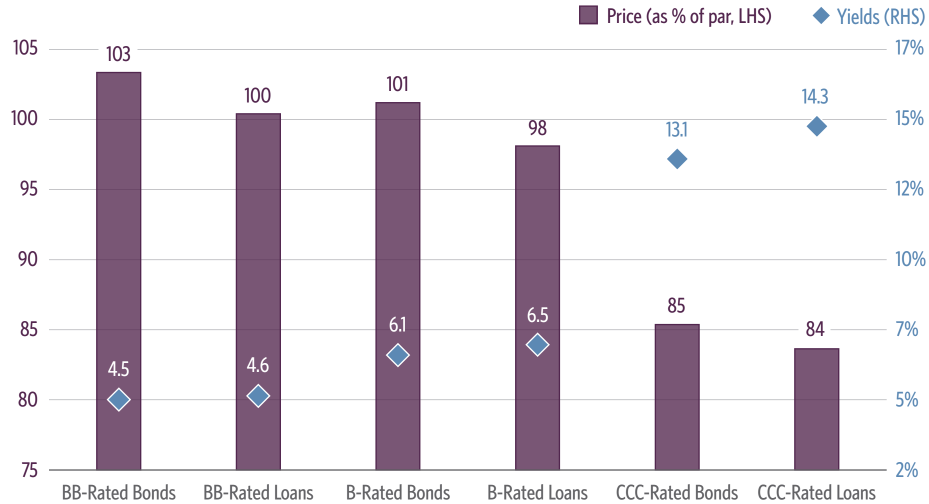
Source: Credit Suisse, Barclays, Guggenheim Investments. Data as of 12.30.2016.

By comparison, the leveraged loan market does not appear as richly valued as the high-yield corporate bond market. With loans trading at LIBOR plus a spread of 350-500 basis points (depending on credit), investors are finding the floating-rate aspect of the loan coupon attractive in the current environment. Mutual funds are already aware of this relative value proposition, with fund flows totaling \$8.9 billion in the second half of 2016 compared to a \$5.7 billion outflow in the first half. However, we are also concerned about high valuations in this sector. BB-rated loans are currently trading at slightly above par, on average, according to Credit Suisse data. With limited-to-no call protection, a loan trading at a high price carries a negative yield-to-call. Therefore, we prefer to stay in the lower B- or selective CCC-rated space in the loan market.

Investors should expect 4-6 percent total returns from higher quality BB- and B-rated bonds and loans, mostly earned through yield, and some additional upside in CCC-rated credit.

High Prices and Low Yields Temper 2017 Credit Return Expectations

Declining default rates and improving macroeconomic conditions should sustain positive returns in leveraged credit.



Source: Credit Suisse, Guggenheim. Data as of 12.31.2016.

Our strategy for 2017 will be based on a careful assessment of the balance of risks. Declining default rates and improving macroeonomic conditions should sustain positive returns in leveraged credit, but tight spreads and high bond prices make the sector vulnerable to volatility. The market has already discounted a slew of fiscal easing measures promised by Trump and his incoming cabinet, but progress towards those goals will be carefully monitored. Any sign of trouble can reintroduce market volatility. This mixed picture causes us to be less bullish than at the beginning of 2016. As our final chart shows, investors should expect 4-6 percent total returns from higher quality BB- and B-rated bonds and loans, mostly earned through yield, and some additional upside in CCC-rated credit.

Important Notices and Disclosures

INDEX AND OTHER DEFINITIONS

The referenced indices are unmanaged and not available for direct investment. Index performance does not reflect transaction costs, fees or expenses.

The **Credit Suisse Leveraged Loan Index** tracks the investable market of the U.S. dollar denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/ BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.

The **Credit Suisse High-Yield Index** is designed to mirror the investable universe of the $US-denominated high yield debt market.

The **S&P 500 Index** is a capitalization-weighted index of 500 stocks, actively traded in the U.S., designed to measure the performance of the broad economy, representing all major industries.

The **Dow Jones EURO STOXX 50** is a market capitalization-weighted stock index of 50 large, blue-chip European companies operating within euro zone nations.

The **Chicago Board Options Exchange (CBOE) Volatility Index,** or **VIX**, shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

Beta is a measure of the volatility, or systematic risk, of a security or a portfolio, in comparison to the market as a whole.

Spread is the difference in yield to a Treasury bond of comparable maturity.

A **basis point (bps)** is a unit of measure used to describe the percentage change in the value or rate of an instrument. One basis point is equivalent to 0.01%.

Discount margin to maturity (dmm) is the return earned at maturity that is over and above a specific reference rate associated with some type of floating rate security. Discount margin to maturity assumes three year average life. Spreads and discount margin to maturity figures shown throughout this piece are expressed in basis points.

RISK CONSIDERATIONS

Fixed-income investments are subject to credit, liquidity, interest rate and, depending on the instrument, counter-party risk. These risks may be increased to the extent fixed-income investments are concentrated in any one issuer, industry, region or country. The market value of fixed-income investments generally will fluctuate with, among other things, the financial condition of the obligors on the underlying debt obligations or, with respect to synthetic securities, of the obligors on or issuers of the reference obligations, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Investing in bank loans involves particular risks.

Bank loans may become nonperforming or impaired for a variety of reasons. Nonperforming or impaired loans may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate and/or a substantial write down of the principal of the loan. In addition, certain bank loans are highly customized and, thus, may not be purchased or sold as easily as publicly-traded securities. Any secondary trading market also may be limited, and there can be no assurance that an adequate degree of liquidity will be maintained. The transferability of certain bank loans may be restricted. Risks associated with bank loans include the fact that prepayments may generally occur at any time without premium or penalty. High-yield debt securities have greater credit and liquidity risk than investment grade obligations.

High-yield debt securities are generally unsecured and may be subordinated to certain other obligations of the issuer thereof. The lower rating of high-yield debt securities and below investment grade loans reflects a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions, or both, may impair the ability of the issuer thereof to make payments of principal or interest. Securities rated below investment grade are commonly referred to as "junk bonds." Risks of high-yield debt securities may include (among others): (i) limited liquidity and secondary market support, (ii) substantial market place volatility resulting from changes in prevailing interest rates, (iii) the possibility that earnings of the high-yield debt security issuer may be insufficient to meet its debt service, and (iv) the declining creditworthiness and potential for insolvency of the issuer of such high-yield debt securities during periods of rising interest rates and/ or economic downturn. An economic downturn or an increase in interest rates could severely disrupt the market for high-yield debt securities and adversely affect the value of outstanding high-yield debt securities and the ability of the issuers thereof to repay principal and interest. Issuers of high-yield debt securities may be highly leveraged and may not have available to them more traditional methods of financing.

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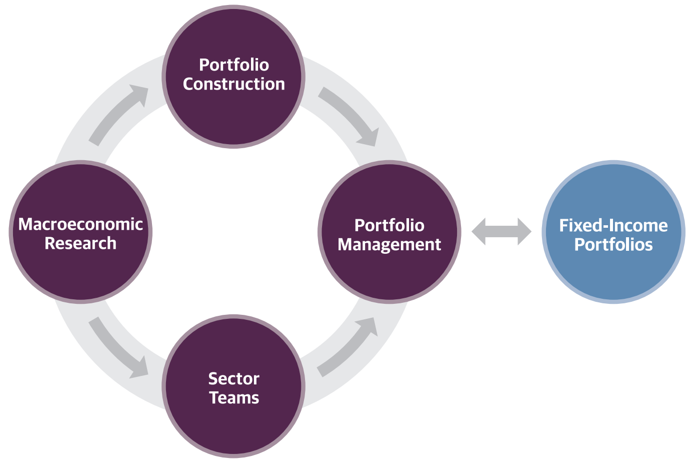
Guggenheim's Investment Process

Designed to be disciplined, systematic, and repeatable, our fixed-income investment process is disaggregated into four specialized teams: Macroeconomic Research, Sector Teams, Portfolio Construction, and Portfolio Management. This process does not rely on one key individual or group, and is structured to avoid cognitive biases, snap judgments, and other decision-making pitfalls identified by studies on behavioral finance. Our pursuit of compelling risk-adjusted return opportunities typically results in asset allocations that differ significantly from broadly followed benchmarks.



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Guggenheim Partners

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