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Guggenheim bond shop outperforms by taking fearless advantage of Fed policy

Seven of the firm's eight taxable actively managed bond funds rank in the top 6% of their respective categories, beating the largest 50 fixed-income funds tracked by Morningstar

By Jeff Benjamin

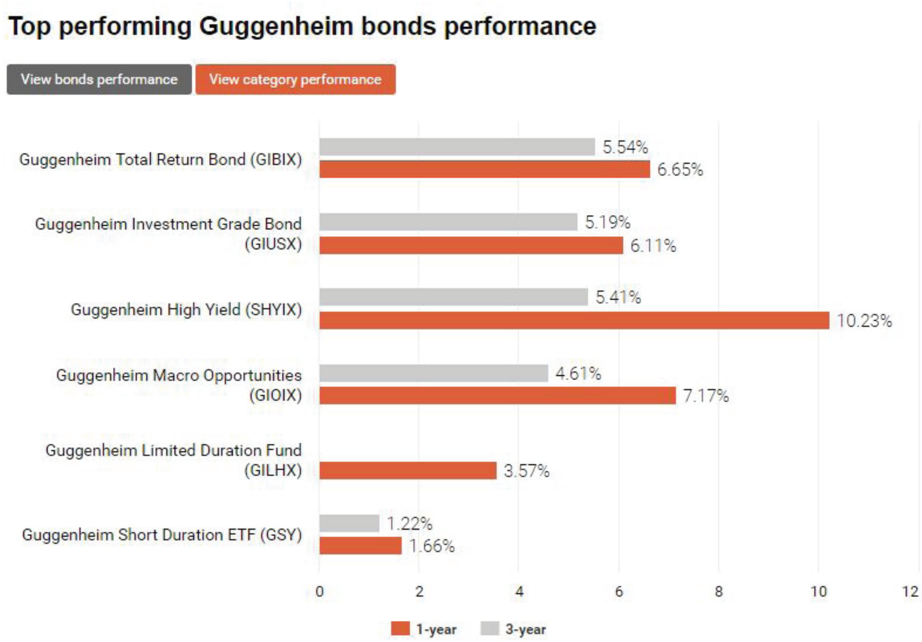
As Guggenheim Investments closes in on its five-year anniversary as a retail mutual fund shop, it continues to test the limits of bond-portfolio creativity and performance.

This year through October, seven of Guggenheim's eight taxable actively managed bond funds rank in the top 6% of their respective categories, a feat not matched by any of the largest 50 fixed-income mutual fund and ETF families tracked by Morningstar.

The only outlier is the $36.4 million, nine-month-old Guggenheim Total Return Bond ETF (GTO), which ranks in the 11th percentile of its peer group.

As an asset management shop that was created through the 2011 acquisition of Rydex Funds, Guggenheim Investments has $204 billion under management, including $154 billion in fixed-income assets.

The fact that only about $20 billion of those assets are in retail bond funds helps explain how the outperformance has been largely overshadowed by many of the bigger and higher-profile bond managers.



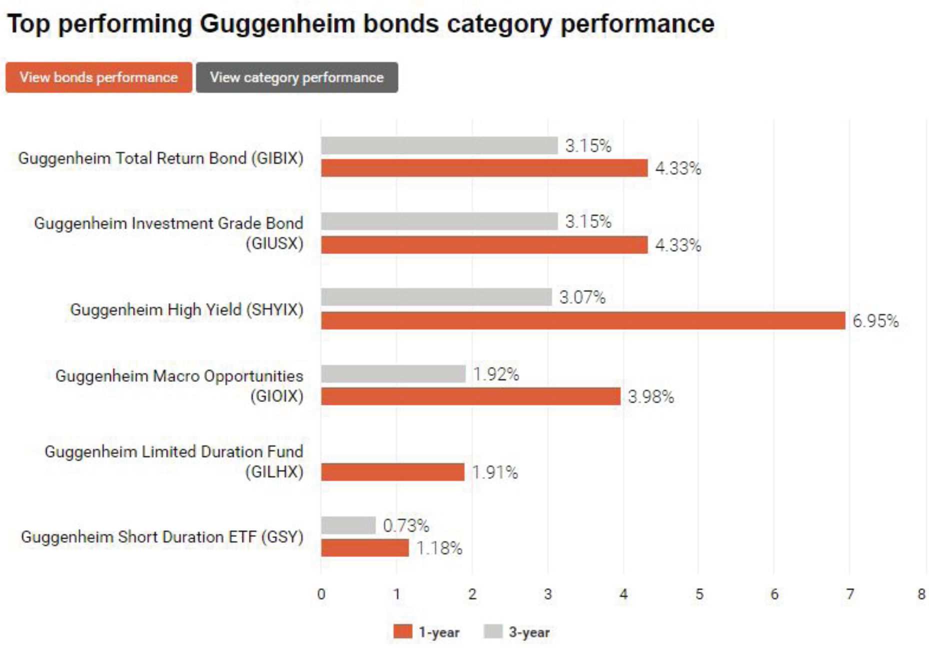
Source: Morningstar

Even though Morningstar doesn't yet apply any forward-looking analysts' ratings on any of the Guggenheim bond funds, the performance has not gone unnoticed by the fund tracker.

"It's clear these funds have had a very strong record, to date, but a lot of what I would stress is that they are taking on a very different risk profile," said Sarah Bush, Morningstar bond fund analyst.

Citing the performance of the flagship $4.1 billion Guggenheim Total Return Bond Fund (GIBIX), Ms. Bush pointed out that the portfolio is definitely marching to its own beat, which is something potential investors should understand.

This year through October, the fund



Source: Morningstar

is up 7.31%, which compares to an intermediate-term bond category average of 5.3%.

But, as Ms. Bush explained, there is no cheating the risk-reward tradeoff when it comes to investing.

"The fund has a 30% allocation to asset-backed securities, and it looks pretty light on standard corporate bonds," she said. "This is a fund that's going to behave quite differently than the Barclays Aggregate Bond Index, which has a lot of Treasury bond exposure."

The fact that almost 20% of the portfolio is below investment grade, and another 13% is listed as not rated, also sticks out as a reminder of the kind of risk the portfolio managers are taking, according to Ms. Bush.

"There will be the question of how a fund like this would hold up in a sustained period of stress for the credit markets," she said.

Guggenheim's global chief investment officer and chairman of investments B. Scott Minerd, does not back away from challenges to the firm's investment philosophy.

"What's different is our willingness to allocate into other areas, like a 30% allocation to asset-backed securities while our peers are averaging 5%," he said. "We're not trying to replicate the benchmark; we're trying to get the highest absolute returns."

Mr. Minerd acknowledged that Guggenheim's fixed-income strategies would generally suffer in the event of a sudden credit crunch, including a wave of corporate bond defaults.

But that's not what his team sees on the horizon.

"Credit crunches have historically occurred at the end of Fed tightening cycles," he said.

Mr. Minerd's outlook is for the Fed to roll into a tightening cycle that would put the overnight rate around 2.5% by 2019, up from 25 basis points today.

"We think the Fed's guidance is now fairly accurate, and a rate of around 2.5% will squeeze cash flows to the point where you will induce a recession," he said. "Sometimes when people see our portfolios they think we're making some kind of big bets on rates. The positioning is designed to provide good performance in a rising-rate environment, but we're also trying to build a strategy that is as diversified as possible and as a result that leads to us being outside of conventional wisdom."

Looking at duration as one way of measuring bond risk, Mr. Minerd points out that at about 4.4 years' worth of duration, the core strategy still only has about 80% of the duration exposure of Barclays Aggregate Bond Index.

A higher duration means the bond prices will fall more relative to rising interesting rates.

Bob Rice, chief investment strategist at Tangent Capital, gives Guggenheim credit for being nimble and not being afraid to stray from the bond-fund herd.

"They have been aggressive with going long various kinds of instruments that have had higher yields, like asset-backed securities, and they have picked up a lot of wind from that," he said. "A real test will be how they do in this period now, where it appears to be transitioning to period of higher rates."

To that point, Mr. Minerd says, bring it on.

"Some look at our strategies and say it's a lot of risk, we say it's just out of the consensus," he said.

Read the 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. To obtain a prospectus and summary prospectus, (if available) visit www.guggenheiminvestments.com or call 800.820.0888.

Morningstar Rankings do not include the effect of a fund's sales load, if applicable. Other share classes may have different performance characteristics. Morningstar rankings are based on a fund's average annual total return relative to all funds in the same Morningstar category. Fund performance used within the rankings, reflects certain fee waivers, without which, returns and Morningstar rankings would have been lower. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1. Multiple share classes of a fund have a common portfolio but impose different expense structures.

Past performance does not guarantee future returns. Performance displayed represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than original cost. Current performance may be lower or higher than the performance data quoted. For up-to-date fund performance, including performance current to the most recent month end, please visit our web site at guggenheiminvestments.com.

Average Annual Total Returns (As of 09.30.2016)	Ticker	1-Year	5-Year	10-Year	Since Inception	Inception Date	Gross/Net Expense
Guggenheim Total Return Bond Fund	GIBIX	7.26%	N/A	N/A	6.77%	11.30.2011	0.76%/0.57%
Guggenheim Investment Grade Bond Fund	GIUSX	6.83%	N/A	N/A	5.19%	01.29.2013	0.94%/0.82%
Guggenheim High Yield Fund	SHYIX	10.95%	9.19%	N/A	8.74%	07.11.2008	0.94%/0.94%
Guggenheim Macro Opportunities Fund	GIOIX	5.97%	N/A	N/A	6.38%	11.30.2011	1.25%/1.10%
Guggenheim Limited Duration Fund	GILHX	3.43%	N/A	N/A	2.80%	12.16.2013	0.73%/0.62%
Guggenheim Enhanced Short Duration ETF (Market)	GSY	1.53%	1.28%	N/A	0.92%	02.12.2008	0.28%/0.28%
Guggenheim Enhanced Short Duration ETF (NAV)	GSY	1.59%	1.29%	N/A	0.92%	02.12.2008	0.28%/0.28%

The advisor has contractually agreed to waive fees and expenses through 2.1.2017, to limit the ordinary operating expenses of the funds. The funds may have net expenses greater than the expense cap as a result of any acquired fund fees and expenses or other expenses that are excluded from the calculation.

Morningstar Rankings (As of 09.30.2016)	Morningstar Category	1 Year Percentile Rank	1 Year Rank and Fund Count	5 Year Percentile Rank	5 Year Rank and Fund Count	10 Year Percentile Rank	10 Year Rank and Fund Count
Guggenheim Total Return Bond Fund	GIBIX	5	53 out of 1069	N/A	N/A	N/A	N/A
Guggenheim Investment Grade Bond Fund	GIUSX	10	104 out of 1069	N/A	N/A	N/A	N/A
Guggenheim High Yield Fund	SHYIX	17	129 out of 765	3	12 out of 524	N/A	N/A
Guggenheim Macro Opportunities Fund	GIOIX	26	108 out of 412	N/A	N/A	N/A	N/A
Guggenheim Limited Duration Fund	GILHX	12	68 out of 583	N/A	N/A	N/A	N/A
Guggenheim Enhanced Short Duration ETF	GSY	10	2 out of 12	25	2 out of 5	N/A	N/A

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Investors in asset-backed securities, including mortgage-backed securities and structured finance investments, generally receive payments that are part interest and part return of principal. These payments may vary based on the rate at which the underlying borrowers pay off their loans. Some asset-backed securities, including mortgage-backed securities, may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices very volatile, and they are subject to liquidity risk.

Risk Considerations. The Funds may not be suitable for all investors. • The Funds' market value will change in response to interest rate changes and market conditions, among other factors. In general, bond prices rise when interest rates fall and vice versa. • You may have a gain or loss when you sell your shares. • It is important to note that the Funds are not guaranteed by the U.S. government. • The Funds may have exposure to high yield securities, municipal securities, floating rate securities, foreign securities, derivative instruments, real estate, commodity markets, and other fixed income securities. • Exposure to high yield securities may subject a Fund to greater volatility. • Investments in municipal securities can be affected by events that affect the municipal bond market. • Investments in syndicated bank loans generally offer a floating interest rate and involve special types of risks. • Investments in foreign securities carry additional risks when compared to U.S. securities due to the impact of diplomatic, political or economic developments in the country in question (investments in emerging markets securities are generally subject to an even greater level of risks). • Investments in derivative instruments can be more volatile and less liquid, increasing the risk of loss when compared to traditional securities. Certain of the derivative instruments are also subject to the risks of counterparty default and adverse tax treatment. • Investments in real estate securities subjects a Fund to the same risks as direct investments in real estate, which is particularly sensitive to economic downturns. • When market conditions are deemed appropriate, the Funds may use leverage to the full extent permitted by their investment policies and restrictions and applicable law. Leveraging will exaggerate the effect on net asset value of any increase or decrease in the market value of the Fund's portfolio. • Please see each Fund's prospectus for more information on these and other risks.

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