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Guggenheim's fixed-income shop shaping up to be next bond kingdom

Recent fund performance is leaving higher-profile competitors in the dust

By Jeff Benjamin

While most bond fund managers have been walking the tightrope to try and balance the risks and opportunities in an unprecedented interest-rate environment, Guggenheim Partners has been quietly finding ways to rise above the herd.

Through Sept. 20, all seven of Guggenheim's actively managed taxable bond funds and exchange-traded funds ranked in the top 3% of their respective Morningstar peer groups for the trailing 3-year period, or for the trailing 1-year period if the fund in question had not yet achieved a 3-year track record. No other individual fund company has more than two funds reaching this level.

- Guggenheim Total Return Bond Fund (GIBIX): 1-year 2.85%, 3-year 5.22%
- Guggenheim Investment Grade Bond Fund (GIUSX): 1-year 2.47%, 3-year 4.85%

(Category average: 1-year 1.53%, 3-year 1.67%)

- Guggenheim Floating Rate Strategy Fund (GIFIX): 1-year 2.71%, 3-year 5.2%

(Category average: 1-year 0.33%, 3-year 2.89%)

- Guggenheim High Yield Fund (SHYIX): 1-year -1.9%, 3-year 5.64%

(Category average: 1-year -3.05%, 3-year 3.2%)

- Guggenheim Macro Opportunities Fund (GIOIX): 1-year 2.01%, 3-year 4.92%

(Category average: 1-year -1.89%, 3-year 0.94%)

- Guggenheim Limited Duration Fund (GILHX): 1-year 2.37% (launched December 2013)

(Category average: 1-year 0.54%)

- Guggenheim Enhanced Short Duration ETF: (GSY) 1-year 1.18%, 3-year 1.24%

(Category average: 1-year 0.21%, 3-year 0.73%)

For context, those results rank the $206 billion asset management firm near the top of the largest 50 fixed-income mutual fund and ETF families tracked by Morningstar.

Guggenheim, which manages 17 mutual funds and 62 ETFs, has five funds ranked in the top 1% over the trailing 3-year period, which is more than the 31 other qualifying fund companies combined.

Morningstar does not cover the Guggenheim funds with analyst ratings, but analyst Sarah Bush acknowledged the "very strong short-term records" for the funds.

Without taking a real deep dive into the portfolios, Ms. Bush suggested that some of the Guggenheim funds might be benefiting from a heavy reliance on asset-backed securities and possibly some leverage, both of which are fully within the funds' mandates.

"Asset-backed securities is an area where Guggenheim has some expertise, and they appear to be taking advantage of that," she added. "But whenever you see a fund with very different performance, there is the question of whether it is taking on more credit risk, and more liquidity risk."

Ms. Bush cited the $1.9 billion Guggenheim Total Return Bond Fund (GIBIX), for example, which has a 38% allocation to asset-backed securities. That compares to the Barclays Aggregate Bond Index, which has less than 1% allocated to asset-backed securities.

"But, to be fair, a lot of bond funds look different than the Barclays Agg today," Ms. Bush added.

On the topic of asset-backed securities, B. Scott Minerd, Guggenheim's global chief investment officer and chairman of investments, acknowledged a favoritism for the asset class in the current market environment, but said that there is very little leverage used in the funds.

"The asset-backed issue is actually real; we do use a lot of asset-backed securities," he said. "The sector is relatively cheap, but asset-backs will not always been the cheapest sector in the market, and as things change I wouldn't be surprised if our allocation to asset-backed securities goes down."

Steven Wruble, the chief investment officer at RiskX Investments, has a lot of faith in Guggenheim's ability to do the right thing when it comes asset allocation, particularly during this period of unprecedented monetary policy by the Federal Reserve. He cited, for example, the $3.7 billion Guggenheim Macro Opportunities Fund (GIOIX), which has the ability to "change the fixed-income exposure pretty drastically across the board.

"They have more asset-backed and mortgage-backed exposure, but with rate volatility, those securities are a little less sensitive to that," Mr. Wruble said. "The consensus here is that Guggenheim has an outstanding credit-analysis team, and there's a lot of focus on rate sensitivity, but it looks like Guggenheim has been able to perform well in the respective categories."

Mr. Minerd cited Guggenheim's history that evolved from the asset-backed securities firm Liberty Hampshire as providing "a level of competence probably which exceeds anybody in the industry.

"When others are feeling uncomfortable buying securities in the asset-backed sector, we have the capability to get in early, get under the hood and identify opportunities that typically have lower risk than corporate bonds, but with higher returns," he said.

On the risks often associated with asset-backed securities, Mr. Minerd said the research teams employ screens to test whether the asset-backed holdings can withstand a scenario like the one seen in 1937 when collateralized-debt obligations experienced their worst losses in history.

"There's never been a period since 1937 when that has occurred, and our screen is designed to determine if we can withstand that scenario," he explained.

Emphasis on asset-backed securities notwithstanding, Guggenheim's recent bond fund performance is seen by some market watchers and analysts as proof of a solid bond shop.

"We think Guggenheim has a broad suite of strong-performing fixed-income funds, yet is below the radar of many investors," said Todd Rosenbluth, director of mutual fund and ETF research at S&P Capital IQ.

"Their performance is as strong as more well-known firms," he added. "It is hard to generate success across various fixed-income investment styles since short-term and high-yield teams have little overlap in approaches."

In addition to the oversight of Mr. Minerd, one common denominator is Anne Walsh, who is listed as portfolio manager on five of the seven top-performing funds.

Mr. Minerd, who designed the investment process at Guggenheim 15 years ago, said that the firm's investment committees are divided into teams and operate separately from the portfolio managers.

"The portfolio managers work to come up with the right portfolio construction based on a top-down, macro view," he said. "It's an organic process, and I like to say that every security runs for office every day, but the people out there researching securities don't really manage the portfolios."

Bob Rice, chief investment strategist at Tangent Capital, has nothing but good things to say about the Guggenheim team, but he also pointed out that it takes aggressive strategies to stand out in the current fixed income environment.

"They do a bang-up job of due diligence, and they've been in the space forever running private money, so it doesn't surprise me that they can do way better than an undifferentiated index," he said. "They have been aggressive, and the bond market has worked out for them."

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.

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Average Annual Total Returns

As of 9.30.2015	Ticker	1-Year	3-Year	5-Year	10-Year	Since Inception	Inception Date	Gross/Net Expense
Guggenheim Total Return Bond Fund	GIBIX	2.91%	5.14%	N/A	N/A	6.64%	11.30.2011	0.81%/0.57%
Guggenheim Investment Grade Bond Fund	GIUSX	2.37%	N/A	N/A	N/A	4.59%	01.29.2013	0.88%/0.78%
Guggenheim Floating Rate Strategies Fund	GIFIX	2.59%	5.02%	N/A	N/A	6.16%	11.30.2011	0.87%/0.80%
Guggenheim High Yield Fund	SHYIX	-2.21%	5.37%	5.95%	N/A	8.44%	07.11.2008	1.01%/1.01%
Guggenheim Macro Opportunities Fund	GIOIX	1.92%	4.81%	N/A	N/A	6.49%	11.30.2011	1.21%/1.05%
Guggenheim Limited Duration Fund	GILHX	2.41%	N/A	N/A	N/A	2.46%	12.16.2013	0.98%/0.59%
Guggenheim Enhanced Short Duration ETF (Market)	GSY	1.17%	1.22%	0.96%	N/A	0.84%	02.12.2008	0.25%/0.25%
Guggenheim Enhanced Short Duration ETF (NAV)	GSY	1.12%	1.21%	0.93%	N/A	0.83%	02.12.2008	0.25%/0.25%

For up-to-date mutual fund performance, including performance current to the most recent quarter and month end, please visit our web site at **http://guggenheiminvestments.com/products/mutual-funds/performance.** The advisor has contractually agreed to waive fees and expenses through 2.1.2016, to limit the ordinary operating expenses of the fund. The fund 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.

For up-to-date ETF performance, including performance current to the most recent quarter and month end, please visit, our web site at **http://guggenheiminvestments.com/products/etf/performance-yields.** The gross expense ratio reflects the fund's actual total annual operating expense ratio, gross of any fee waivers or expense reimbursements as of its most recent prospectus. While there is currently a contractual fee waiver in place through December 31, 2016, some expenses fall outside of this expense cap and therefore net operating expenses may be higher. Without this expense cap, actual returns would be lower. See the prospectus for information on the fees and expenses.

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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