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IT'S CALLED CORE *PLUS* FOR A REASON

Core Plus vs. Core Fixed-Income Portfolio Management

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, 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. 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. 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.

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. Our experienced credit team 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.

Untethered from a benchmark, a Core Plus manager 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 versus 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, which are not available to benchmark-constrained Core funds, often offer comparable or higher yields and lower durations than similarly rated corporate bonds.

The Core Conundrum

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

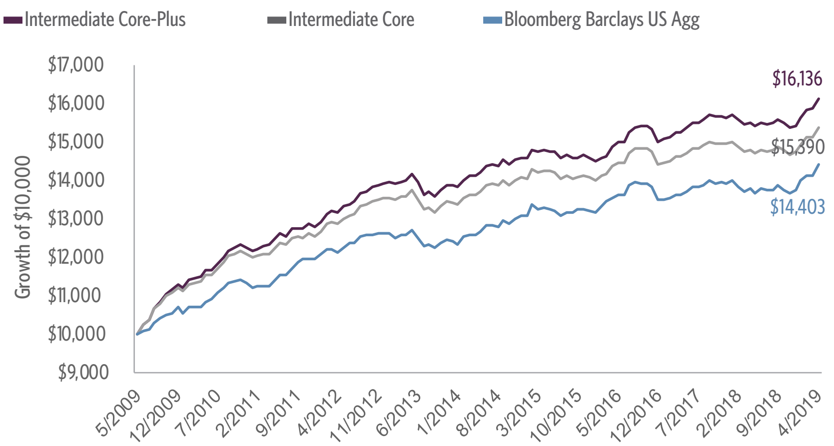
Treasurys | Agency Mortgage-Backed Securities and Debt | Investment-Grade Corporates

Treasurys | Agency Mortgage-Backed Securities and Debt | Investment-Grade Corporates | High-Yield Corporates | Bank Loans | Asset-backed Securities and Collaterized Loan Obligations | Non-Agency Residential and Commercial | Mortgage-Backed Securities | Municipals

Important note: Including these additional types of non-indexed securities in a core-plus portfolio involves different types of risk. Please see risk considerations at the end of the presentation for additional information. Source: Guggenheim Investments, SIFMA, Bloomberg Barclays. Data as of 12.31.2018. Excludes categories with the minimis amounts.

Core Plus: Has Provided Attractive Returns Over A Cycle

Growth of $10,000, 5.1.2009–4.30.2019



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

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. Our process disaggregates 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 functions—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. 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 attractive 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. We believe data supports this conclusion. As of April 30, 2019, not only has Core Plus offered attractive 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 categories are more favorable than those of Core. In addition, Core Plus has a higher Sharpe Ratio than Core—1.49 vs 1.35 over the same period.

In our view, 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.