

# Income Opportunity in the Middle Market

## An Overview of Business Development Companies (BDCs)

Finding attractive levels of income can be a challenge for investors. Business Development Companies (“BDCs”) comprise a segment of the market that may provide alternative opportunities to access attractive income streams.

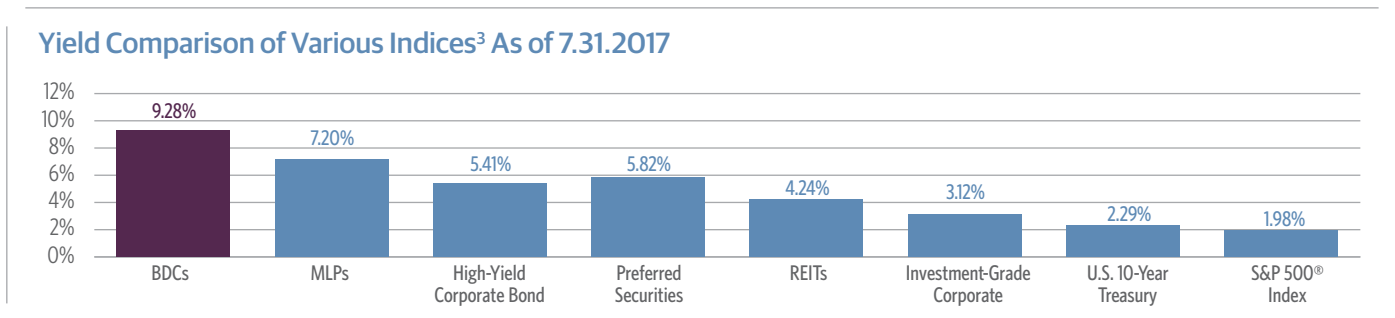
BDCs are domestic, closed-end investment companies<sup>1</sup> that are operated for the purpose of making investments in small and developing businesses and financially troubled businesses. BDCs seek to provide investors with exposure to assets throughout the capital structure of private companies, including senior secured and subordinated debt and preferred and common equity. They are subject to restrictions on their investments, and primarily invest in “eligible portfolio companies,” which generally include small developing businesses and financially troubled businesses that have little access to traditional sources of financing. Traditional lenders, such as banks, are facing increased regulatory burdens and are unable to lend to

small and mid-sized businesses, resulting in increased demand for BDC capital. BDCs have become an important source of capital by lending to American businesses that might not otherwise be able to obtain financing. Additionally, BDCs must make available significant managerial assistance to certain companies in which they invest. This not only allows for cash flow, but also for investment in a publicly-held company whose success may be stimulated or revived by the infusion of new capital or managerial assistance by providing a layer of support that these companies may not receive otherwise. In many instances, managers for BDCs have extensive experience in enhancing the operations capabilities and profitability of companies.<sup>2</sup>

### Seeking Alternative Sources of Income

Due to the relatively high interest rates on the loans they make and the fact that BDCs have to distribute at least 90% of their taxable income in order to be exempt from corporate level tax, they have the

potential to deliver high levels of income when compared to other investments, as shown in the chart below.



**Past performance is no guarantee of future results.** It is important to note the differences between asset classes, including additional risks. For example, Treasury bonds offer timely interest payments and are backed by the U.S. government, while corporate bonds are more susceptible to the risk of default (especially high yield bonds). BDC, MLP, and REIT structures offer certain tax advantages; however, BDC prices can be volatile as they invest in small- to medium-sized companies susceptible to credit risk, while MLPs and REITs are subject to the sector risks associated with the energy and real estate sectors respectively. MLPs are subject to the risks generally applicable to companies in the energy and natural resources sectors. The value of a REIT and the ability of a REIT to distribute income may be adversely affected by several factors beyond the control of the issuer of the REIT. Preferred securities’ primary investment objective is to provide income, while stocks, as represented by the S&P 500, are generally more volatile but offer investors the opportunity to participate in the growth of a company. Preferred securities are typically subordinated to bonds and other debt instruments in a company’s capital structure in terms of priority to corporate income and therefore will be subject to greater risk than those debt instruments. Please note that while some of the indices listed represent yield earning asset classes such as High Yield Corporate Bonds, others such as the MLPs are not.

<sup>1</sup> Business Development Companies are not afforded the full protection of the Investment Company Act of 1940. <sup>2</sup> BDCs can be internally managed or managed by a separate investment adviser. Managers or investment advisers for BDCs often receive a management fee and incentive or compensation based on performance. <sup>3</sup> Source: Bloomberg, Barclays, S&P Dow Jones Indices, 7/31/2017. Index representation definitions are found on p. 4 of this document. **Past performance is no guarantee of future results.** The chart is for illustrative purposes only and it is not meant to forecast, imply or guarantee the future performance of any Guggenheim Investments products. The chart above provides the 12-month trailing dividend yield for equity securities and for fixed income (in all cases, measured based on the performance of indices of U.S. publicly-traded securities) shown is yield-to-worst as of 7/31/2017. The 12-month trailing dividend yield is the total dividends paid over the previous 12 months divided by the current market price. Please be aware yield represents only a portion of the overall return of an investment and entire return potential and risk profile of an investment should be considered when making an investment decision. This chart does not reflect fees and expenses.

However, it is important to note that BDCs are not appropriate for all investors. BDCs generally experience limited liquidity, have share

values that may be influenced by general market sentiment and are subject to high operating fees/expenses.

## Breaking Down BDCs

While they can make both debt and equity investments, BDCs primarily provide floating rate loans to client companies. Based upon company size and credit worthiness, interest on these loans can be attractive when compared to fixed-income instruments issued by larger and more credit worthy companies. Potential investment benefits include a degree of protection if interest rates rise, high current income and capital appreciation, making BDCs an attractive alternative for yield-seeking investors. It is important to note that BDCs invest primarily in debt securities that may be non-rated or below investment-grade, and equity securities of financially troubled companies, many of which are privately held and lack publicly available information. These factors can introduce a degree of risk to investor portfolios.

BDCs maintain a hybrid structure that represents a portfolio of loans, similar to private equity or venture capital, which can be traded

publicly, subject to fees and expenses. BDCs are registered with the SEC as investment companies that have elected to be treated as business development companies, subject to certain provisions of the Investment Company Act of 1940, which requires less than 1:1 debt-to-equity ratio. BDCs are further subject to restrictions on their investments, rules regarding diversification, industry concentration and transactions with affiliates.

BDCs may experience share price decline for a number of reasons, such as if the underlying companies default on BDC-provided loans. In addition, BDCs generally depend on the ability to access capital markets, raise cash and acquire suitable investments and monitor and administer those investments in order to maintain their status as a BDC. Any failure to achieve these objectives may adversely affect the value of the BDC shares.

### A Closer Look at BDCs

<b>Alternative Asset Class</b>	BDCs invest in the alternative asset class of direct lending. Direct lending generally refers to a private transaction negotiated directly between a corporate borrower and a sole lender or small group of lenders. These loans are typically made to small and medium-sized companies at attractive rates of return.
<b>Source of Yield</b>	BDCs are yield-oriented instruments, which the average investor cannot access through more traditional strategies. BDCs are able to lend at relatively higher interest rates than traditional banks because these mid-market firms are underserved. These higher rates are then passed to shareholders in the form of a generally high level of dividend income.
<b>Publicly Traded</b>	Many BDC shares are publicly traded, usually on an exchange, similar to stock in publicly held companies.
<b>Access to Capital</b>	BDCs have access to "permanent capital" that is not subject to shareholder redemption or the requirement that capital be distributed to investors as income is generated. Unlike most venture capital and private equity funds, BDCs have the flexibility to raise more capital through additional public equity offerings.
<b>Diversification</b>	BDCs generally must have at least 70% of their investments in designated assets, including securities of certain companies, cash, cash items, U.S. government securities, and high quality debt instruments.
<b>Risks</b>	Portfolio company credit and investment risk, leverage risk, market and valuation risk, price volatility risk, liquidity risk, capital markets risk, interest rate risk, dependence on key personnel, structural and regulatory risk, and other such risks are associated with the purchase of BDCs and are important to consider when assessing a decision of whether to purchase an investment product involving a BDC.

# Wells Fargo® Business Development Company Scorecard

Due to a lack of comprehensive research and scant analyst attention, the market for BDCs was not, initially, well understood by investors. In 2011, Wells Fargo became the first firm to produce a quantitative tool to help investors measure and understand risk through its introduction of the Wells Fargo® Business Development Company Scorecard. The Scorecard was constructed to help investors in the

BDC market make better, more educated investment decisions—as there are often subpar BDC management teams/strategies that may lead to underperformance. In short, the Wells Fargo Scorecard helps to identify high quality, lower risk BDCs that can provide sustainable/attractive income to investors throughout cycles.

## Scorecard Methodology

Wells Fargo Equity Research's Scorecard methodology is utilized to select top-ranked BDCs and serves as the basis for the Wells Fargo® Business Development Company Scorecard Weighted Index. The index is comprised of BDCs that have consistently generated market and above-market returns, while simultaneously maintaining a lower risk profile than BDCs as a whole, over different market cycles. Wells Fargo Equity Research's Scorecard methodology is utilized to select top-ranked BDCs, based on analyst expertise, and follows an optimal risk-weighted allocation to seek superior risk-adjusted performance.

## BDC's Ranking

A BDC's ranking is based on Wells Fargo's Scorecard methodology, which takes into account the following fundamental factor areas:

- Ability and willingness to leverage
- Management fees and expenses as a percentage of assets
- Cash flow coverage of the dividend
- Vintage
- Portfolio optimization
- Ability to underwrite
- Effective leverage
- The "intangible" or qualitative factor

## Quartile Weighting

BDCs are sorted and ranked in one of four quartiles. Quartile 1 contains BDCs which exhibit less risk potential.

**Quartile 1:** Approximately 50% of the final index

**Quartile 2:** Approximately 30% of the final index

**Quartile 3 & 4:** Each quartile aggregates to approximately 10% of the final index

## Guggenheim Offers Access to the BDC Market in a UIT Structure

BDCs provide the potential for strong, diversified returns, and offer an attractive opportunity for investors seeking new ways to generate income. Guggenheim Investments provides access to the BDC market through its BDC Scorecard Portfolio, which utilizes the Wells Fargo® BDC Scorecard Weighted Index.

### BDC Scorecard Portfolio

Guggenheim's BDC Scorecard Portfolio seeks to provide high current income with capital appreciation as a secondary objective:

- **High Income Potential:** BDCs, as measured by the Wells Fargo® BDC Scorecard Weighted Index, may offer the potential for a high level of income in today's low-yield environment.

- **Diversifying Strategy:** BDCs are an often under-allocated alternative to more traditional asset classes and may provide diversification\* potential during periods of volatility.
- **BDC Expertise:** The Wells Fargo Equity Research's Scorecard methodology and qualitative processes selects top-ranked BDCs, based on analyst expertise, and follows an optimal risk-weighted allocation to seek superior risk-adjusted performance—now in one timely, efficient investment.

\* Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

Before investing in a UIT that invests in BDC securities, it is important to understand and discuss with your financial advisor the structure and terms of the security and the potential risks. Investors in a UIT focused on BDCs should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment. If buying such investments in an offering, you should obtain and read the prospectus. If buying such securities in the secondary market, you should review the issuer's publicly available financial and other information (such as recent annual, quarterly and current reports). Obtain a prospectus at [GuggenheimInvestments.com](http://GuggenheimInvestments.com).

## For more information on BDCs or Guggenheim's current BDC Scorecard Portfolio, please visit [GuggenheimInvestments.com](http://GuggenheimInvestments.com), or speak with your financial advisor.

**Index Definitions:** The Wells Fargo® BDC Scorecard Weighted Index is a risk weighted index intended to measure the performance of lower risk rate BDCs included in the Wells Fargo BDC Scorecard. BDCs are represented by the Wells Fargo Business Development Company Index, a rules-based index measuring the performance of certain NYSE and NASDAQ listed Business Development Companies (BDCs). MLPs are represented by the Alerian MLP Index, a composite of the most prominent energy master limited partnerships. High-Yield Corporate Bonds are represented by the Bloomberg Barclays U.S. Corporate High Yield Bond Index which measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on the indices' EM country definition, are excluded. Preferred Securities are represented by the S&P U.S. Preferred Stock Index which is designed to measure the performance of the U.S. preferred stock market. REITs are represented by the FTSE NAREIT Equity REITs Index, a free float-adjusted index of REITs that own, manage and lease investment-grade commercial real estate. Investment-Grade Corporates are represented by the Bloomberg Barclays U.S. Corporate Bond Index, which measures the USD-denominated investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers. The S&P 500® Index is a capitalization-weighted index of 500 stocks. The Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The U.S. 10-Year Treasury is represented by the U.S. 10-Year Yield which represents the on-the-run 10-Year U.S. Treasury Bond. Indices are unmanaged and it is not possible to invest directly in the Indices.

**Risk Considerations: As with all investments, you may lose some or all of your investment in the trust. No assurance can be given that the trust's investment objective will be achieved.** The trust also might not perform as well as you expect. This can happen for reasons such as these: • Securities prices can be volatile. • Securities selected according to this strategy may not perform as intended. The trust is exposed to additional risk due to its policy of investing in accordance with an investment strategy. Although the trust's investment strategy is designed to achieve the trust's investment objective, the strategy may not prove to be successful. The investment decisions may not produce the intended results and there is no guarantee that the investment objective will be achieved. • Share prices or dividend rates on the securities in the trust may decline during the life of the trust. • The trust is concentrated in the financial sector; the factors that impact the financial sector will likely have a greater effect on this trust than on a more broadly diversified trust. The profitability of companies in the financial sector is largely dependent upon the availability and cost of capital which may fluctuate significantly in response to changes in interest rates and general economic developments. Financial sector companies are subject to the adverse effects of economic recession, decreases in the availability of capital, volatile interest rates, portfolio concentrations in geographic markets and in commercial and residential real estate loans, and competition from new entrants in their fields of business. • The trust invests in shares of BDCs. BDCs' ability to grow and their overall financial condition is impacted significantly by their ability to raise capital. In addition to raising capital through the issuance of common stock, BDCs may engage in borrowing. A BDC's credit rating may change over time which could adversely affect their ability to obtain additional credit and/or increase the cost of such borrowing. BDCs are generally leveraged, which may magnify the potential for gains and losses on amounts invested and may increase the risks associated with those securities. While the trust invests only in publicly-traded securities, investments made by BDCs are frequently not publicly traded; there is uncertainty as to the value and liquidity of those investments. If a BDC is required to liquidate all or a portion of its portfolio quickly, it may realize significantly less than the value at which such investments are recorded. The fixed-income securities held by a BDC may generate Payment In Kind (PIK) interest payments. PIK loans are a type of debt where all or a portion of the interest payments are paid in additional principal amounts of such debt and not in cash, therefore may not provide any cash flow from the borrower to the lender between the draw down date of the loan and the maturity date. PIK loans are generally unsecured loans that may have deeply subordinated security structures. Given the deferral of cash payments of interest expense, these loans can be expensive and high-risk financing instruments. BDCs frequently have high expenses which may include, but are not limited to, the payment of management fees, administration expenses, taxes, interest payable on debt, governmental charges, independent director fees and expenses, valuation expenses, and fees payable to third parties relating to or associated with making investments. A BDC may pay an incentive fee to its investment adviser. The potential for the investment adviser to earn incentive fees may create an incentive for the investment adviser to make investments that are riskier or more speculative than would otherwise be in the best interests of the BDC. If the base management fee is based on gross assets, the investment adviser may have an incentive to increase portfolio leverage in order to earn higher base management fees, which raises the expenses paid by a BDC. The trust will indirectly bear these expenses, which may fluctuate significantly over time. • The BDCs are subject to annual fees and expenses, including a management fee. Unitholders of the trust will bear these fees in addition to the fees and expenses of the trust. • The value of the fixed-income securities in the BDCs will generally fall if interest rates, in general, rise. Typically, fixed-income securities with longer periods before maturity are more sensitive to interest rate changes. The duration of a security will also affect its price sensitivity to interest rate changes. The trust may be subject to greater risk of rising interest rates than would normally be the case due to the current period of historically low rates. • A BDC or an issuer of securities held by a BDC may be unwilling or unable to make principal payments and/or to declare distributions in the future, may call a security before its stated maturity, or may reduce the level of distributions declared. This may result in a reduction in the value of your units. • The financial condition of a BDC or an issuer of securities held by a BDC may worsen, resulting in a reduction in the value of your units. This may occur at any point in time, including during the primary offering period. • Economic conditions may lead to limited liquidity and greater volatility. • Certain BDCs held by the trust invest in securities that are rated below investment-grade and are considered to be "junk" securities, speculative and are subject to greater market and credit risks, and accordingly, the risk of nonpayment or default is higher than with investment-grade securities. Such securities may be more sensitive to interest rate changes and more likely to receive early returns of principal in falling rate environments. • Certain BDCs held by the trust may invest in securities that are rated as investment-grade by only one rating agency; such split-rated securities may have more speculative characteristics and are subject to a greater risk of default than securities rated as investment-grade by more than one rating agency. • Certain BDCs held by the trust are small-capitalization and mid-capitalization companies and they invest in securities issued by small-capitalization and mid-capitalization companies, which may have limited product lines, markets or financial resources and may be more vulnerable to adverse general market or economic developments. These securities customarily involve more investment risk than securities of large-capitalization companies. • Certain BDCs held by the trust may invest in foreign securities, subject to regulatory limits. Securities of foreign issuers present risks beyond those of domestic securities; foreign risk is the risk that foreign securities will be more volatile than U.S. securities due to such factors as adverse economic, currency, political, social or regulatory developments in a country, including government seizure of assets, excessive taxation, limitations on the use or transfer of assets, the lack of liquidity or regulatory controls with respect to certain industries or differing legal and/or accounting standards. • Inflation may lead to a decrease in the value of assets or income from investments. **Please see the current trust prospectus for more complete risk information.**

Unit Investment Trusts are fixed, not actively managed and should be considered as part of a long-term strategy. Investors should consider their ability to invest in successive portfolios, if available, at the applicable sales charge. UITs are subject to annual fund operating expenses in addition to the sales charge. Investors should consult an attorney or tax advisor regarding tax consequences associated with an investment from one series to the next, if available, and with the purchase or sale of units. Guggenheim Funds Distributors, LLC does not offer tax advice.

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**Read the trust's prospectus carefully before investing. It contains the trust's investment objectives, risks, charges, expenses and other information, which should be considered carefully before investing. Obtain a prospectus at [GuggenheimInvestments.com](http://GuggenheimInvestments.com).**

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