Deep Dive

This \$20 billion bond fund produced outsized returns by capitalizing on market turmoil, and is set to do it again

By Philip van Doorn

Anne Walsh of Guggenheim Investments explains her strategy in a difficult environment for income investors

With bond prices high and yields low, an income-seeking investor might wonder if it is even worth owning a bond fund these days.

There are several reasons, underlined by the performance and characteristics of the Guggenheim Total Return Bond Fund, along with the possibility that interest rates may keep falling and stay low for many years.

This year has turned out to be a paradise for borrowers, with record-low interest rates in the U.S., but it has also become a difficult environment for fixed-income investors. You simply have to get used to much lower yields than you enjoyed in years past.

Then again, money managers can take advantage of market turmoil to scoop up discounted securities, setting up gains and relatively good yields for the long term.

Anne Walsh, chief investment officer for fixed income at Guggenheim Investments, explained how the \$19.6 billion Guggenheim Total Return Bond Fund has outperformed its benchmark by a wide margin this year. She co-manages the fund with Scott Minerd, Guggenheim's chairman and global chief investment officer, and Steven Brown, senior managing director of the firm.

First, here's how the fund's Class A and institutional shares have performed, with dividends reinvested, against its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, and three



Anne Walsh, chief investment officer for fixed income at Guggenheim Investments. GUG-GENHEIM INVESTMENTS

exchange traded funds that aim to track the same benchmark:

What really stands out this year is the fund's second-quarter performance. The Federal Open Market Committee lowered its target for the federal funds rate to a range of zero to 0.25% on March 15 (https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315a.htm), and also announced it would increase the size of its balance sheet by buying bonds. The Federal Reserve's massive bond-buying activity has also pushed down long-term interest rates. Ten-year U.S. Treasury notes were yielding 0.55% on July 31, down from 1.92% on Dec. 31.

Taking advantage of the turmoil in

March and afterward

During an interview, Walsh explained how the fund has outperformed this year. At the end 2019, the fund was "very conservatively positioned," with a high percentage of the portfolio in U.S. government bonds and only about a third in corporate bonds, she said. The portfolio had almost no securities that lacked investment-grade ratings. There were two reasons for such a position: Walsh and her team thought that with long-term interest rates already low, investors "weren't compensated for risk," and "there were signs of a coming recession."

Walsh expected "a risk-off event," a period during which investors would sell corporate bonds in a panic, setting up a buying opportunity. The previous major event of this type had been the credit crisis of 2008, with "some mini-cycles in 2011 and 2016." she said.

So after taking advantage of the market turmoil starting in March of this year, by selling highly liquid government securities and buying discounted corporate bonds, as well as asset-backed securities with attractive yields, Walsh said the portfolio is now about 60% corporate bonds, with 10% of that portion securities with ratings that are below investment grade. (The fund's total portfolio is typically at least 80% investment-grade securities.)

Prices for residential mortgage-backed securities fell during March, as investors feared loan default risk. But this is another area where the market reality can outweigh investors' worries. The U.S. housing market is now on fire, with homes in many markets not only selling immediately, but having their prices bid considerably higher than the asking prices. This action was described in a recent New York Post (https://nypost.

| | TICKER | TOTAL RETURN - 2020 THROUGH JULY 31 | TOTAL RETURN - FIRST QUARTER, 2020 | TOTAL RETURN - SECOND QUARTER, 2020 | AVERAGE RETURN - 3 YEARS | AVERAGE RETURN - 5 YEARS |
|---|---------------|--|---------------------------------------|--|--------------------------|--------------------------|
| Guggenheim Total Return Bond Fund - Class A | GIBAX, -0.53% | 11.53% | 2.97% | 5.63% | 6.16% | 5.52% |
| Guggenheim Total Return Bond Fund - Institutional | GIBIX, -0.50% | 11.94% | 3.08% | 5.70% | 6.45% | 5.86% |
| Bloomberg Barclays U.S. Aggregate Bond Index | | 7.72% | 3.15% | 2.90% | 5.69% | 4.47% |
| iShares Core U.S. Aggregate Bond ETF | AGG, -0.11% | 7.69% | 3.10% | 3.08% | 5.62% | 4.39% |
| Schwab US Aggregate Bond ETF | SCHZ, -0.16% | 7.87% | 2.03% | 4.29% | 5.62% | 4.38% |
| SPDR Portfolio Aggregate Bond ETF | SPAB, -0.12% | 7.64% | 3.33% | 2.77% | 5.61% | 4.38% |
| | | | | | | Source: FactSet |

com/2020/07/18/corporations-are-buying-houses-robbing-families-of-american-dream/)article.

The Guggenheim Total Return Bond Fund's class A shares have a 30-day SEC yield of 1.91%, while the institutional shares have a yield of 2.27%. Those yields might seem low, but they are very good compared to 10-year U.S. Treasury notes (0.52% early on Aug. 4) and a yield-to-maturity of 1.07% for the Bloomberg Barclays U.S. Aggregate Bond Index, according to FactSet.

Walsh discussed the fund's "carry advantage," which means the higher rates are locked in for a relatively long time. The weighted average effective duration for the fund as of June 30 was 7.4 years, compared to 6.0 years for the index.

Looking ahead, she expects more

buying opportunities as we head into the November elections, because of investors' uncertainty.

Dire prediction

Lengthening the fund's duration points to the Guggenheim team's macroeconomic expectations. Walsh said the firm's "base case" was that an economic recovery from the effects of the pandemic would take two to three years, with a "permanent change" for retail and other industries affected by the accelerating transition to online commerce.

And that long recovery means even lower interest rates. Walsh expects the yield on 10-year U.S. Treasury notes to fall further to around 40 basis points "in fairly short order." The Guggenheim team's longer-term prediction is for the 10-year yield to go negative by 2022.

Fund's advantage

Walsh said Guggenheim is "unique in the industry" in its team approach to constructing and managing income portfolios, in contrast to "a lot of other asset managers that have a star system," in which one portfolio manager who pretty much makes all the important decisions on strategy and portfolio makeup.

In a \$40 trillion U.S. fixed-income market, Walsh believes "being expert in everything is beyond human ability."

So Guggenheim has teams focusing on various sectors, asset classes, the economy, portfolio allocation and construction. This enables an "iterative process to build portfolios," and for the team to "make much more thoughtful decisions on risk budgeting, allocation and portfolio assemblage," Walsh 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.

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| Average Annual Total Returns As of 6.30.2020 | | | | | | | | | | |
|--|---------|-------|--------|--------|--------|--------------------------------------|---|---|--|--|
| | 3-Month | YTD | 1-Year | 3-Year | 5-Year | Since Fund Inception (11.30.2011) | 30-Day Subsidized/ Unsubsidized SEC Yield ¹ | Gross/Net Expense Ratio ² | | |
| Institutional | 5.70% | 8.96% | 10.05% | 5.65% | 5.45% | 6.08% | 2.27%/2,26% | 0.59%/0.52% | | |
| A Class (No Load) | 5.63% | 8.77% | 9.70% | 5.33% | 5.12% | 5.73% | 1.91%/1.88% | 0.97%/0.81% | | |
| A Class (Load) | 1.40% | 4.42% | 5.32% | 3.91% | 4.10% | 5.13% | 1.91%/1.88% | 0.97%/0.81% | | |
| Bloomberg Barclays U.S. Aggregate Bond Index | 2.90% | 6.14% | 8.74% | 5.32% | 4.30% | 3.55% | | - | | |

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. Load performance reflects maximum sales charges or contingent deferred sales charges (CDSC) as applicable. A Class shares have a maximum sales charge of 4.00%. Effective 10.1.2015, the A Class maximum frontend sales charge was changed from 4.75% to 4.00%. For performance periods that begin prior to 10.1.2015, a 4.75% load was used and for performance periods that begin after 10.1.2015, a 4.00% load was used.

1 SEC 30-day yield is based on net investment income for the 30-day period ended 6.30.2020, is annualized, and is divided by the offering price at month-end. 2 The advisor has contractually agreed to waive fees and/or reimburse fund expenses until 2.1.2021 to limit the ordinary expenses of the fund. Read the prospectus for more information regarding fees and expenses.

The potential impacts of the COVID-19 outbreak are increasingly uncertain, difficult to assess and impossible to predict, and may result in significant losses. Any adverse event could materially and negatively impact the value and performance of the fund and its ability to achieve its investment objectives.

Risk Considerations. This fund may not be suitable for all investors. • Investments in fixed-income instruments are subject to the possibility that interest rates could rise, causing the value of the fund's holdings and share price to decline. • Investors in asset-backed securities, including collateralized loan obligations ("CLOs"), generally receive payments that are part interest and part return of principal. These payments may vary based on the rate loans are repaid. Some asset-backed securities may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices volatile and they are subject to liquidity and valuation risk. CLOs bear similar risks to investing in loans directly. • Investments in loans involve special types of risks, including credit, interest rate, counterparty, prepayment, liquidity, and valuation risks. Loans are often below investment grade, and typically offer a fixed or floating interest rate. • High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. • The Fund's use of leverage, through borrowings or instruments such as derivatives, may cause the Fund to be more volatile and riskier than if it had not been leveraged. The more a fund invests in leveraged instruments, the more the leverage will magnify any gains or losses on those investments. • Investments in reverse repurchase agreements expose the fund to many of the same risks as leveraged instruments, such as derivatives. • You may have a gain or loss when you sell your shares. • Please read the prospectus for more detailed information regarding these and other risks.

Index Definition: Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and non-agency).

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