

## Rydex Funds

# Understanding Rydex Inverse Government Long Bond Strategy Fund<sup>1</sup>

Innovative Solutions. **Enduring Values.**<sup>®</sup>

When there is speculation about rising interest rates, there is often increased interest in Rydex Inverse Government Long Bond Strategy Fund. This is because the fund potentially enables investors to benefit from rising long-term interest rates as the price of the current Long Treasury Bond<sup>2</sup> falls. Specifically, the fund seeks to provide total returns that inversely correlate, before fees and expenses, to the price movements of the Long Treasury Bond on a daily basis. This objective is the opposite of most other fixed-income mutual funds' investment objectives. However, as with any mutual fund, it's essential to have a solid understanding of the investment objectives, strategies, and risks of Rydex Inverse Government Long Bond Strategy Fund before considering an investment in the fund.

The investment strategies of the fund generally are more complex than the investment strategies employed by other types of fixed-income mutual funds and involve extensive investment in derivatives and other financial instruments. As a result, an investment in Rydex Inverse Government Long Bond Strategy Fund is exposed to additional risks than those commonly associated with fixed-income mutual funds, so the need for a strong knowledge base about inverse bond funds and the fund, in particular, is even more important.

Below, we have highlighted four concepts that we believe are key to helping investors understand Rydex Inverse Government Long Bond Strategy Fund's investment objective and performance. The concepts discussed are not intended to be a complete discussion of the fund's investment strategy and risks and should be read in conjunction with the fund's prospectus, which includes more complete information about the fund and its risks.

### Key Concepts Relevant to Investing in an Inverse Bond Fund

When contemplating an investment in an inverse bond fund, there are four concepts that are key to understanding the fund's investment objective and risks:

- The interest rate environment
- The effect of compounding
- The effect of volatility on performance
- The cost of carry

<sup>1</sup> The fund is not suitable for all investors and is designed to be utilized only by sophisticated investors who (a) understand the consequences of seeking daily inverse investment results, (b) understand the risk of shorting, and (c) intend to actively monitor and manage their investments, as frequently as daily. Investors who do not understand the fund or do not intend to actively manage and monitor their investments should not buy shares of the fund.

<sup>2</sup> The Long Treasury Bond is the U.S. Treasury bond with the longest maturity, which is currently 30 years. The price movement of the Long Treasury Bond is based on the daily price change of the most recently issued Long Treasury Bond.

# I. The Interest Rate Environment

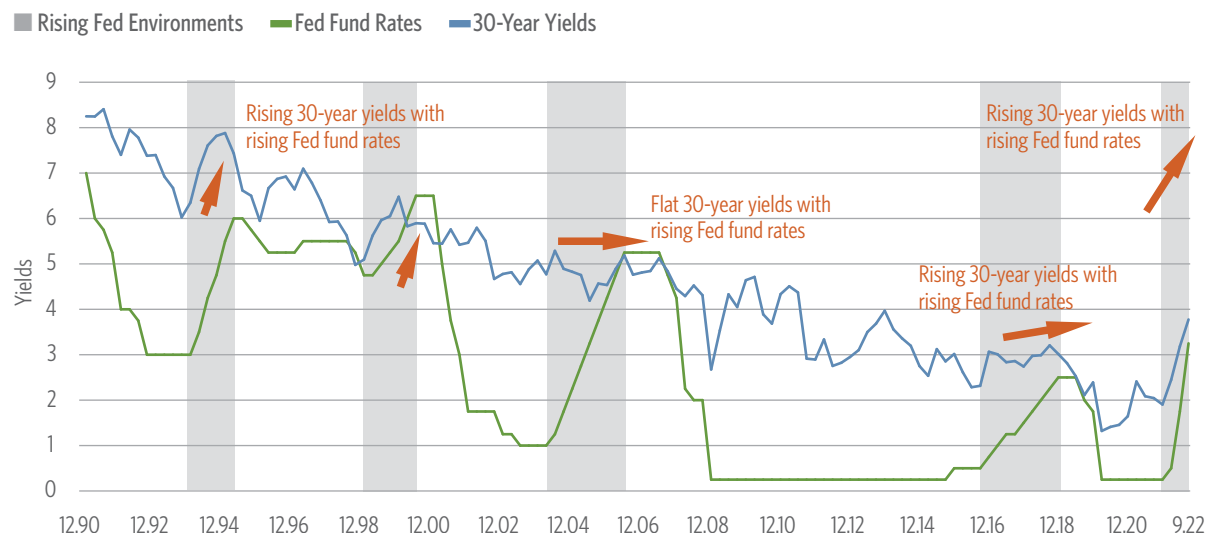
Bond prices and interest rates typically have an inverse relationship. Generally, when interest rates rise, bond prices fall. However, it's important to understand the difference between short- and long-term rates. As shown in the chart below, which depicts the Fed fund rates and the 30-year yield for the past 32 years, the yield curve does not always move in a parallel shift, so a change in the Fed fund rates, which is at the short end of the curve, may not affect the long end of the curve. The short end of the curve tends to have less risk and generally does not have the same volatility as the longer end of the curve. International and geopolitical circumstances impact long-term securities more than they impact short-term securities. In addition, a flight to quality may impact the longer end of the curve more.

Inverse bond funds, such as Rydex Inverse Government Long Bond Strategy Fund, are designed to attempt to provide positive performance during periods when long-term interest rates rise steadily. The performance of an inverse bond fund, however, is not perfectly inverse

to the rise and fall of interest rates, as measured by the performance of bonds. Rather, the performance of an inverse bond fund is affected by, among other factors, volatility in the market, the effect of compounding, and the cost of carry on its investments. Each of these factors cause the performance of inverse bond funds to diverge from that of their benchmarks over time. For this reason, inverse bond funds seek to achieve their investment objectives on a daily basis only. Each of the factors is discussed in greater detail below.

As with any mutual fund, there is no assurance that an inverse bond fund, including Rydex Inverse Government Long Bond Strategy Fund, will achieve its investment objective and an investment in an inverse bond fund could lose money. It also is important to note that an inverse bond fund is not intended to be a complete investment program, but rather an investment tool that can be used to seek to mitigate and possibly benefit from the effects of rising interest rates.

**Historical Fed Fund Rates and 30-Year Bond Yields**



Past performance does not guarantee future results. Source: Bloomberg. Data as of 9.30.2022.

## II. The Effect of Compounding

A common misconception among investors not familiar with inverse funds is that an inverse fund will simply return a negative multiple of its benchmark index's performance. For example, an investor might erroneously assume that if the U.S. Government Long Bond's price was down 5% in a single month, an inverse fund indexed to the U.S. Government Long Bond would deliver a positive 5% return during the same period. While seemingly logical, the misconception fails to take into consideration the effects on fund performance of market volatility, the cost of carry, and, most importantly, compounding.

Compounding is simply the process of calculating the investment gains or losses realized by an inverse bond fund each day and reflecting the effect of such gains

or losses on the fund's performance on a daily basis. In other words, the return for an inverse bond fund, such as Rydex Inverse Government Long Bond Strategy Fund, for a period longer than one trading day will be the result of each day's compounded returns over the period. The effect of compounding causes an inverse bond fund's performance for periods greater than one day to vary (sometimes significantly) from that of the performance of the fund's benchmark index, even before accounting for the fund's fees and expenses. Therefore, Rydex Inverse Government Long Bond Strategy Fund is designed to track the daily price movements of the Long Treasury Bond.

Over time, compounding may cause an inverse bond fund's performance to deviate significantly from that of its benchmark, as shown by the hypothetical example below.

### Hypothetical Example of Compounding Effect

Time Period	Daily Long Bond Price Change	3-Day Impact of \$100,000 Investment	Cumulative Performance For Long Bond	Daily Inverse Long Bond Price Change	3-Day Impact Of \$100,000 Investment	Cumulative Performance For Inverse Long Bond	
Day One	-5%	\$95,000	-5.00%	+5%	\$105,000	+5.00%	
Day Two	+5%	\$99,750	-0.25%	-5%	\$99,750	-0.25%	
Day Three	-4%	\$95,760	-4.24%	+4%	\$103,740	+3.74%	
			Three-Day Hypothetical Performance -4.24%				Three-Day Hypothetical Performance +3.74%

**Hypothetical example for illustrative purposes only.** The hypothetical investment shown assumes no fees and expenses. Actual results net of fees and expenses would be different.

If the Long Bond price moved down 5% one day, up 5% the next and back down 4% the third day, the cumulative performance of the Long Bond would be -4.24% (\$95,760 from an initial \$100,000 investment). Although one might initially assume that an Inverse Long Bond Fund position would rise 4.24%, the effects of compounding cannot be ignored—the actual cumulative return would be 3.74%, and a hypothetical \$100,000 investment in an inverse bond fund would be worth \$103,740. Understanding the role of daily compounding is essential to having an understanding of an inverse bond fund's performance over periods longer than one day.

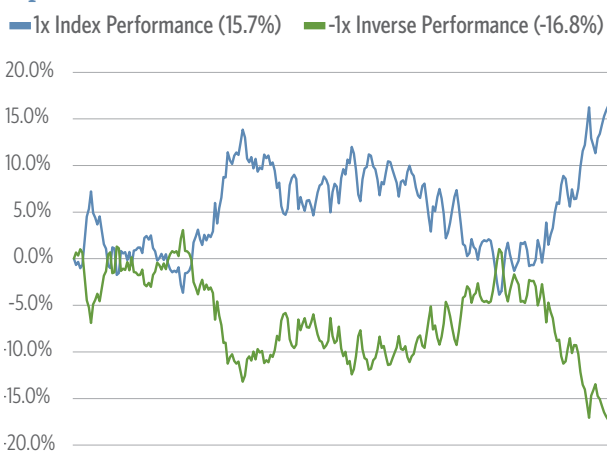
The following hypothetical graphs further illustrate the impact of inverse exposure on an inverse fund's performance in comparison to the performance of the fund's benchmark index in three different markets—upward, flat, and downward. Each of the three hypothetical graphs shows a simulated hypothetical of the one-year performance of an index (1x Index) compared to the performance of an inverse fund that perfectly achieves its investment objective of exactly

inverse the daily index returns (inverse 1x Index). To isolate the effect of inverse exposure, the hypothetical graphs assume (i) no tracking error; (ii) no dividends paid; (iii) no expenses; and (iv) borrowing and/or lending rates (required to obtain leverage) of 0%. If tracking error, fund expenses, and borrowing and lending rates of greater than 0% were included in the graphs, the fund's performance (1x Index) would be lower than that shown.

Each of the graphs also assumes an index volatility of 20%. An index's volatility is a statistical measure of the magnitude of the fluctuations in the returns of an index. For example, the average of the most recent three-year historical volatility of the Bloomberg Long Treasury Bond Index is 14.39% for the period ended November 30, 2022.<sup>1</sup> The Bloomberg Long Treasury Bond Index's volatility may be more or less significant at any given time. The hypothetical graphs are meant to demonstrate the effects of inverse investments and are in no way indicative of the actual performance of Rydex Inverse Government Long Bond Strategy Fund or any other Rydex fund.

As illustrated by the hypothetical examples and graphs, the effects of compounding (and leverage) can make it difficult to form longer-term expectations or judgments about an inverse bond fund's performance, given only the returns of the fund's unleveraged benchmark index. Generally, leverage will magnify the effect of compounding on a fund's performance. In addition, as discussed in greater detail on pages five and six, periods of high market volatility will also cause the effects of compounding to be more pronounced.

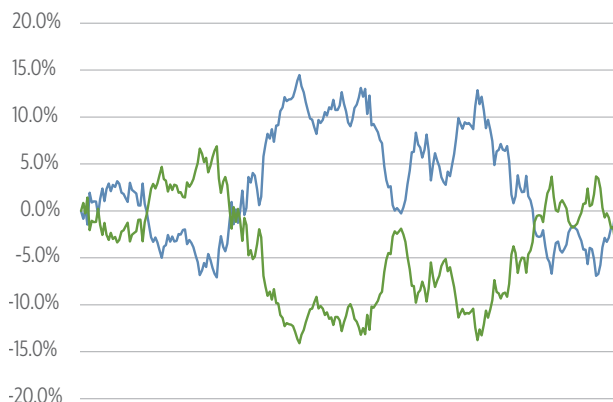
#### Upward Market—One-Year Simulation



<sup>1</sup> Source: Morningstar 11.30.2022.

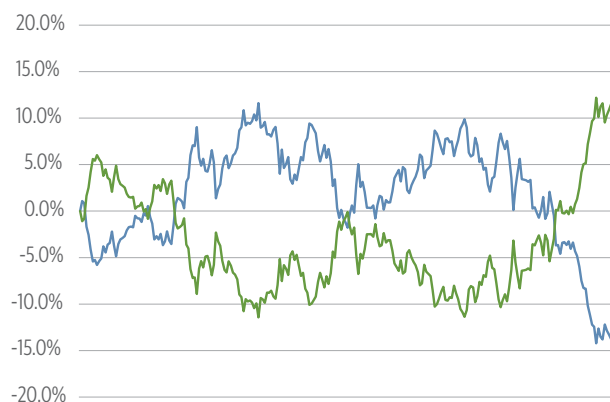
### Flat Market—One-Year Simulation

■ 1x Index Performance (-0.2%) ■ -1x Inverse Performance (-3.4%)



### Downward Market—One-Year Simulation

■ 1x Index Performance (-15.8%) ■ -1x Inverse Performance (14.2%)



Hypothetical example for illustrative purposes only.

## III. The Effect of Volatility on Performance

Market volatility affects most investments, but inverse bond funds such as Rydex Inverse Government Long Bond Strategy Fund are especially sensitive to market volatility. The effect of compounding on an inverse bond fund's performance becomes more pronounced as volatility increases due to the daily rebalance that is necessary to ensure that the fund tracks a benchmark of negative 100% exposure. As a consequence, in periods of market volatility, the path or trend of the fund's benchmark during a period longer than one day may be at least as important to the fund's cumulative return for the longer period as the cumulative return

of the benchmark for the relevant longer period. The examples on page six show the impact of volatility on the performance of the Bloomberg Long Treasury Bond Index (Rydex Inverse Government Long Bond Strategy Fund's comparative performance benchmark) compared to that of a hypothetical inverse long bond fund in a rising rate market.

The risk of Rydex Inverse Government Long Bond Strategy Fund not achieving its daily investment objective will be more acute when the Long Treasury Bond has an extreme one-day movement approaching 50%.

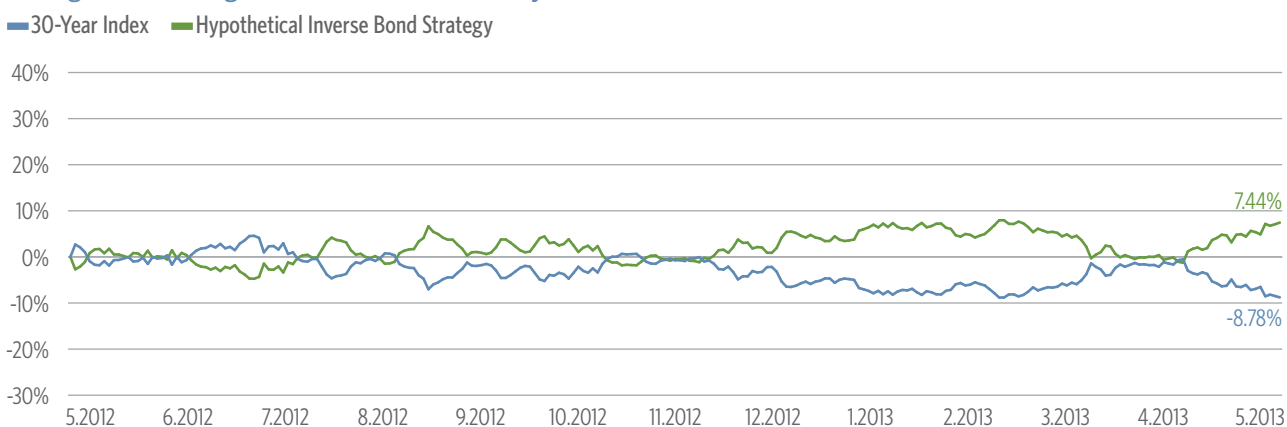
**High Volatility Environments Generally Adversely Affect Inverse Bond Fund Performance.** Over the course of almost 11 months from the end of August 2008 through July 27, 2009, the Bloomberg Long Treasury Bond Index was down 0.57%. However, volatility was relatively high and the benchmark experienced over 25% volatility throughout the year. In this year of high volatility, a hypothetical inverse fund would have experienced a negative 5.12% return. This example underscores that as interest rates rise, it is important to consider volatility and other economic factors that move the price of the 30-Year Long Bond and thus, affect the performance of an inverse bond fund.

#### Rising Rates/Falling Bond Prices/High Volatility



**Low Volatility Environments Generally Have a Lesser Impact on Inverse Bond Fund Performance.** Both 2012 and 2013 saw bond market volatility drop from the higher levels experienced throughout the 2008–2009 housing crisis. The one-year period from the end of May 2012 through the end of May 2013 saw the Bloomberg Long Treasury Bond Index drop 8.78% with relatively modest volatility of 14.3%. A hypothetical inverse strategy rose by 7.44% during that same period. Once again, this example demonstrates that as interest rates rise, it is important to consider volatility and other economic factors that move the price of the 30-Year Long Bond and their effect on an inverse bond strategy's performance.

#### Rising Rates/Falling Bond Prices/Low Volatility



**Hypothetical examples for illustrative purposes only.** The hypothetical investments shown assumes no fees and expenses. Actual results net of fees and expenses would be different.

## IV. The Cost of Carry

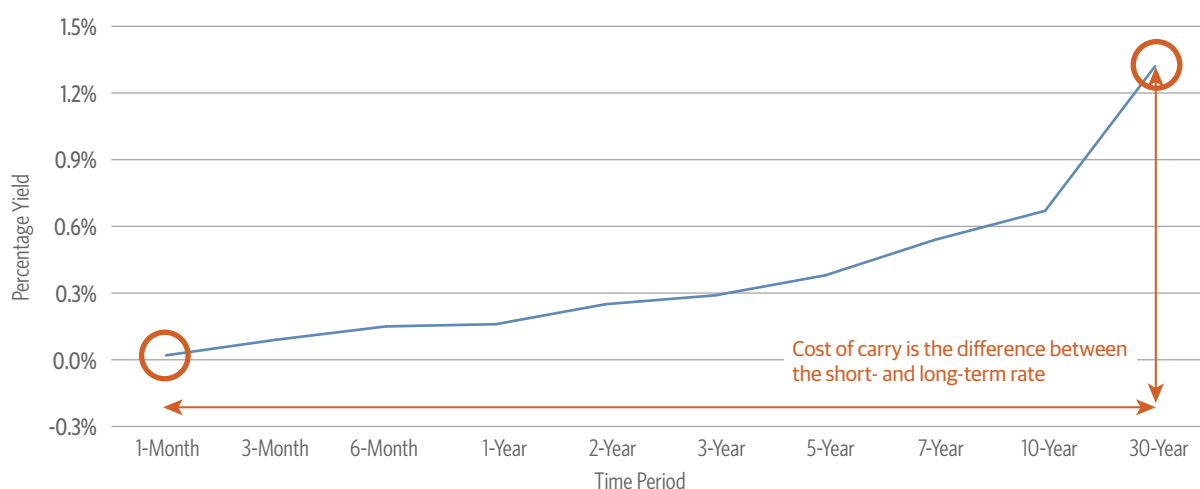
In order to obtain inverse exposure, an inverse bond fund generally will short its benchmark or the component securities of its benchmark. Short selling a security involves selling a borrowed security with the expectation that the value of the security will decline, so that the security may be purchased at a lower price when returning the borrowed security (when a bond is sold short, the short seller must make the coupon payments associated with the bond sold short). Rydex Inverse Government Long Bond Strategy Fund shorts the Long Bond, which means the fund must cover the cost of the coupon payment associated with the Long Bond (this is similar to the equity market, whereby a short-seller must pay the dividends paid by the stock being shorted). Although the fund receives interest for shorting the Long Bond (from the cash generated by the short sale), the rate paid is based on short-term interest rates.

The cost of carry is the difference between the short-term and the long-term interest rates. With a normal yield curve, the yield on the Long Bond exceeds the yield earned from shorting the Long Bond. This is known as a negative cost of carry. A steeper yield curve may result in

a higher cost of carry, while a flatter yield curve may result in a lower cost of carry. In circumstances when the yield curve is inverted, i.e., the yield on the Long Bond is lower than the yield earned from shorting the Long Bond, the cost of carry may be positive.

The cost of carry is an expense borne by Rydex Inverse Government Long Bond Strategy Fund and therefore, is reflected in the fund's net asset value and is a component of its total annual operating expenses. Because inverse bond funds generally may engage in short sales extensively, the cost of carry associated with such short sales may be significant and adversely affect the performance of inverse bond funds, including Rydex Inverse Government Long Bond Strategy Fund. Rydex Inverse Government Long Bond Strategy Fund may invest in other types of financial instruments that incur transaction-related costs. Investors should review the fund's prospectus and statement of additional information for a complete description of the types of investments in which the fund may invest and the risks of those instruments and for information about additional fees and expenses of the fund.

**Treasury Yield Curve**



Hypothetical example for illustrative purposes only.

As the previously stated information demonstrates, Rydex Inverse Government Long Bond Strategy Fund is suited only for sophisticated investors who understand the investment objectives, strategies, and risks of inverse bond funds, and can actively monitor the market and interest rate movements and their investment in the fund as frequently as daily. Due to its unique nature, the fund is not an appropriate investment for the average buy-and-hold investor. The fund, however, can be used as an effective investment tool by investors who understand that the fund can be utilized to potentially profit in a rising interest rate/falling Long Bond price environment, but understand the fund's limitations with respect to its performance for periods longer than one day in comparison to that of the Long Bond. All investors are strongly encouraged to fully understand the strategies employed by and the risks associated with an investment in an inverse bond fund, such as Rydex Inverse Government Long Bond Strategy Fund, prior to investing in an inverse bond fund.

Investors seeking to include specific market exposures in their portfolios can access dozens of Guggenheim's Rydex strategies. Each follows a specific benchmark, and our proven expertise in benchmark replication includes sector strategies, as well as broad market benchmarks—both leveraged and inverse exposure. For over 20 years, investors have relied on us to help express their market conviction using such innovative beta allocations.

***Read Rydex Inverse Government Long Bond Strategy 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. Obtain a prospectus and summary prospectus (if available) at [GuggenheimInvestments.com](http://GuggenheimInvestments.com).***

**Risk Considerations: Rydex Inverse Government Long Bond Strategy Fund** • Rydex Inverse Government Long Bond Strategy Fund (the "fund") may invest in leveraged instruments. The more the fund does so, the more the leverage will magnify any gains or losses on those investments. • An investment in the fund involves certain risks, which include increased volatility due to the fund's possible use of short sales of securities and derivatives, such as options and futures. • The fund's possible use of derivatives, such as futures, options, and swap agreements, may expose the fund's shareholders to additional risks that they would not be subject to if they invested directly in the securities underlying those derivatives. • Short-selling involves increased risks and costs. You risk paying more for a security than you received from its sale. • The fund rebalances its portfolio on a daily basis, increasing exposure in response to that day's gains or reducing exposure in response to that day's losses. Daily rebalancing will impair the fund's performance if the benchmark experiences volatility. **Investors should monitor the fund's holdings to ensure that they're consistent with its strategies as frequently as daily.** • The fund's investment in repurchase agreements may be subject to market and credit risk with respect to the collateral securing the repurchase agreements. Investments in repurchase agreements also may be subject to the risk that the market value of the underlying obligations may decline prior to the expiration of the repurchase agreement term. • The fund's investments in fixed-income securities will change in value in response to interest rate changes and other factors, such as the perception of the issuer's creditworthiness. For example, the value of fixed-income securities will generally decrease when interest rates rise, which may cause the value of the fund to decrease. In addition, the fund's investments in fixed-income securities with longer maturities will fluctuate more in response to interest rate changes. • The advisor may not be able to cause the fund's performance to correlate to that of the fund's benchmark, either on a daily or aggregate basis. Factors such as fund expenses, imperfect correlation between the fund's investments, and the Long Treasury Bond, rounding of share prices, regulatory policies, and high portfolio turnover rate all contribute to tracking error. Tracking error may cause the fund's performance to be less than you expect. • For more on these and other risks, please read the fund's prospectus.

***This material is not intended as a recommendation or as investment advice of any kind, including in connection with rollovers, transfers, and distributions. Such material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. All content has been provided for informational or educational purposes only and is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.***

Guggenheim Investments represents the investment management businesses of Guggenheim Partners, LLC ("Guggenheim"). Securities offered through Guggenheim Funds Distributors, LLC. Guggenheim Funds Distributors, LLC is affiliated with Guggenheim Partners, LLC. Member FINRA/SIPC

NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE

SI-INVLONGBOND-1222  
x1223 #55423

[GuggenheimInvestments.com](http://GuggenheimInvestments.com)

**For more information:**

Financial Professionals, please call 800 345 7999.

Individual Investors, please call 800 820 0888.

**GUGGENHEIM**

Innovative Solutions. **Enduring Values.**®