



# The Guggenheim UIT Strategy Development Process

Built for Better Decision Making

Guggenheim employs a rigorous investment process to create professionally selected unit investment trust (UIT) portfolios that provide access to diverse asset classes, investment styles, and market sectors. Our approach, designed to be predictable, repeatable, and efficient, is supported by a unique risk budget framework. We leverage the diverse expertise of our specialized investment teams to deliver distinctive strategies to meet the evolving needs of today's investors.

**GUGGENHEIM**

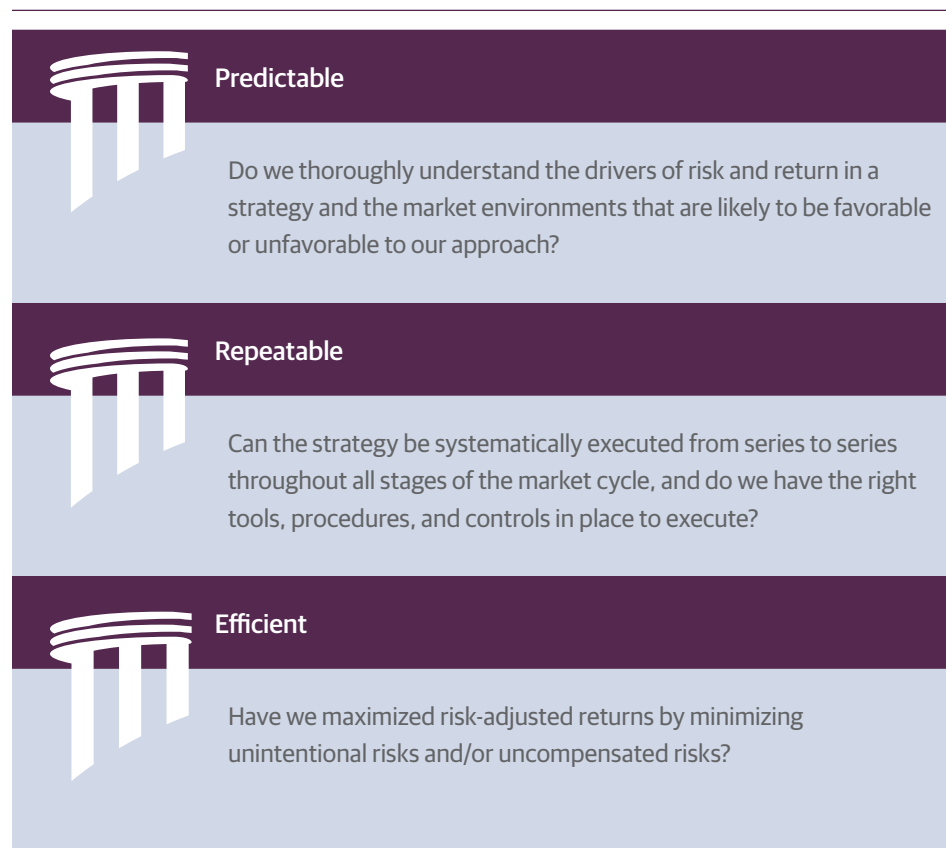
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The uncertainty in the outcome of an investment decision necessitates robust and certain investment processes. We believe the effort of getting that process right must be commensurate with the importance of helping our clients achieve their financial objectives.

**Farhan Sharaff,**  
Senior Managing Director,  
Assistant Chief Investment  
Officer, Equities

## Investment Strategy Philosophy

Our strategy development philosophy is founded on three pillars, which not only guide the development of strategies, but also provide a consistent framework to assess the quality of strategies over time:



## Meeting Client Needs with a Unique Risk-Focused Approach

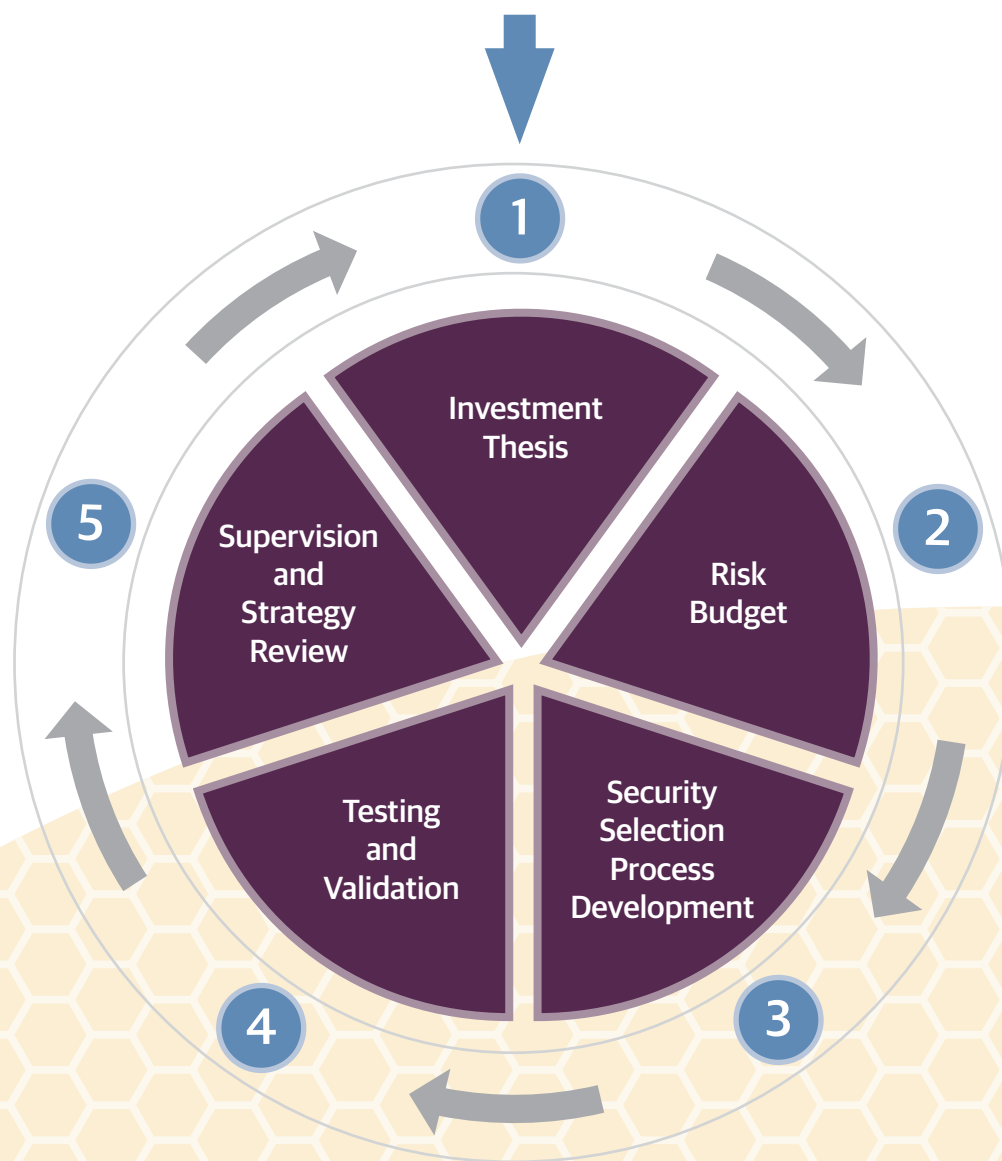
Guggenheim utilizes specialized equity expertise to deliver a wide breadth of UIT solutions. We leverage the strengths of our fundamental and quantitative teams to offer distinctive strategies that take advantage of the best of each investment discipline.

Our comprehensive risk focus incorporates a unique risk budget process, as well as rigorous stress-testing with the objective that Guggenheim UIT strategies perform as expected with minimal portfolio risk.

This differentiated approach and specialized focus, which leverages expertise across the firm, combine to enable investors to gain exposure to timely and attractive investment opportunities.

# Guggenheim's Five-Step Strategy Design

While each Guggenheim strategy has a specific investment objective and security selection, all Guggenheim research-driven UIT strategies share a consistent and meticulous approach in the development of their own unique investment thesis, risk budget, security selection, validation, as well as review and supervision.



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## Investment Thesis

Identify which segment(s) of the market are attractive and how we wish to access them.

- What market opportunities or dislocations exist?
- What problem are we solving?
- What is our investment objective?
- What is our benchmark and required outperformance?

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## Risk Budget

Develop a risk budget to guide security selection to achieve the investment objective across a full market cycle. The risk budget identifies how much risk a strategy can afford to take and where that risk can be sourced, yet still deliver desired performance. Different investment strategies require diverse approaches in how we assess and budget risk. For example, growth stocks underperform/ outperform for different reasons than value stocks and high dividend yield

stocks are influenced by different market factors than dividend growth stocks. In creating the risk budget, we address the following questions:

- What sources of risk are inherent in the types of stocks we are buying?
- How much and what types of risk can we afford to take to accomplish our investment objective?
- How do we establish an effective balance between factor and industry exposures and stock-specific risks?

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## Security Selection Process Development

Design a repeatable security selection process within the risk budget that leverages applicable Guggenheim investment expertise to efficiently deliver the desired exposure and achieve the intended investment objective.

- Dependent on the strategy, Guggenheim can draw on either its fundamental or quantitative analysis capabilities—or a combination of the two
- Quantitative analysts utilize factor and expected return models, as well as proprietary portfolio optimization techniques
- Dedicated sector specialists perform fundamental sector and stock-specific analysis
- Through its diverse investment expertise, Guggenheim avoids cursory data mining and seeks to maximize the probability of meeting the strategy's investment objective

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## Testing and Validation

Each strategy undergoes rigorous stress testing and scenario analysis to ensure that it aligns with our three investment philosophy pillars. The testing step evaluates not only the selection criteria, but also the number of securities in the portfolio, the length of the trust, as well as benchmark parameters. This additional assessment seeks to identify any weakness.

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Unlike other investment products, ongoing risk management cannot be conducted after a UIT deposit, which makes Guggenheim's unique risk budget process crucial.

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## Supervision and Strategy Review

Guggenheim continuously reviews each trust's performance and risk outcome throughout the life of the trust. Emergent risks or performance concerns are reflected back through adjustments to the risk budget and/or security selection process for future deposits.



# Case Study

## Blue Chip Growth Portfolio

### The Five-Step Process in Action

1

#### Investment Thesis

- 1 Market opportunity:** The aftermath of the financial crisis, the aging of the population, global excess capacity, and unconventional monetary policies have created an environment where productivity growth is likely to be muted, and therefore economic growth is likely to be uneven and slow. In a secular "new normal" of lower economic growth, high-quality companies that can successfully generate revenue and earnings growth are likely to outperform.
- 2 Investment objective:** Generate capital appreciation and current income by investing in a diversified portfolio of higher-quality large-cap growth stocks while generating a higher dividend yield than the growth benchmark.

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#### Risk Budget

**Risk Budgeting Philosophy:** The investible universe should only include high-growth mega-cap stocks, and portfolio construction should mitigate risks common in high-growth stocks, such as inability to turn growth into profitability and inability to turn accounting profits into cash flows, while delivering a size and sector composition in line with the universe of mega-cap growth stocks.

- 1 Growth guidelines:** Portfolio selections must rank in the top third of large-cap stocks ranked by:
  - Historical sales per share growth
  - Projected earnings growth
- 2 Quality guidelines:** Portfolio selections should have above-average:
  - Profitability, as measured by operating margin, return on assets, return on equity, and return on invested capital
  - Cash flows, as measured by cash from operations relative to revenues
  - Growth, as measured by revenues, earnings, and cash from operations
- 3 Portfolio constraints:**
  - Sectors: Portfolio constrained to benchmark weights in 11 GICS Sectors +/- 5%
  - Market Capitalization: At least 90% of portfolio must be qualified as Large-Cap
  - Dividend Yield: Portfolio's yield must exceed the benchmark
  - Country: All portfolio selections must be U.S.-domiciled and U.S.-listed
  - Liquidity: Minimum 90-day median trading volume of \$1mm, minimum \$5 share price

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#### Security Selection Process Development

Our quantitative research team tested a variety of quantitative screens to produce an investable universe of higher-quality, faster-growing companies at attractive valuations. Due to the prevalence of highly cyclical companies and idiosyncratic risks and opportunities within this universe, we determined we needed to use our dedicated sector specialists to perform stock-specific analysis to select the final portfolio.

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#### Testing and Validation

- Results from the quantitative screens were tested back to 1995, with evaluation of performance across market cycles and in a variety of market conditions in an effort to increase the probability of meeting performance investment goals.
- The proposed final portfolio was evaluated against the market benchmark. A majority of risk was expected to come from stock-specific risk, validating the need for sector specialists to drive final selection. When selecting stocks, there was also a preference for higher-quality stocks, with higher profit margins, lower revenue & earnings volatility, and lower trading activity relative to shares outstanding, reflecting our fundamental bias for quality companies.

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#### Supervision and Strategy Review

Over the life of each of the trusts, all 27 matured trusts have generated positive returns. Attribution analysis shows that outperformance has primarily been a function of security selection and the high-quality tilt of the portfolios. Past performance does not guarantee future returns.

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Innovative Solutions.  
**Enduring Values.®**

## About Guggenheim Investments

Guggenheim Investments is the global asset management and investment advisory division of Guggenheim Partners and manages assets across fixed-income, equity, and alternative strategies. Our investment professionals perform rigorous fundamental and quantitative research to understand market trends and identify undervalued opportunities. We have an extensive track record of delivering innovative solutions by focusing on the needs of institutional and retail clients across a broad range of investment products and strategies.

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