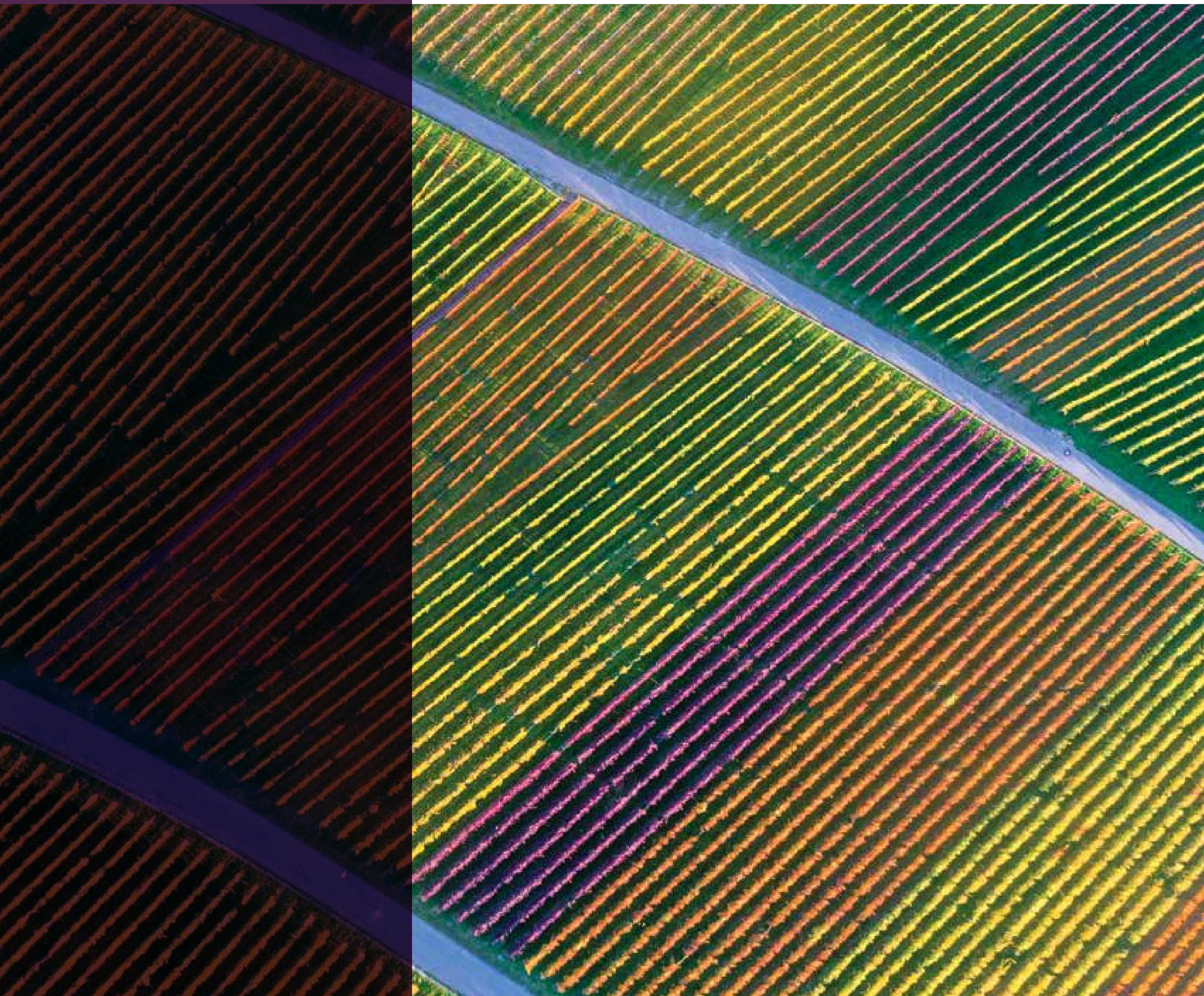
GUGGENHEIM

June 2023

The Risk Mitigation Advantage in Active Fixed-Income Management



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Report Highlights

- In the long-running active vs. passive debate, the different characteristics and market structure for stocks and bonds help account for different performance outcomes.
- Unlike in equities, where passive strategies have generally outperformed active managers, active fixed-income managers have generally outperformed passive strategies.
- Risk mitigation is the real advantage of active fixed-income management. The opportunity set of investments outside of the fixed-income benchmark index, and the ability of managers to dial up or dial down risk, are not options for a passive strategy.
- Alert active fixed-income managers can trade out of potential problems before they hurt client portfolios.
- Using our own active portfolio management decisions as an example, this paper details how an active approach has the potential to outperform passive strategies over time.

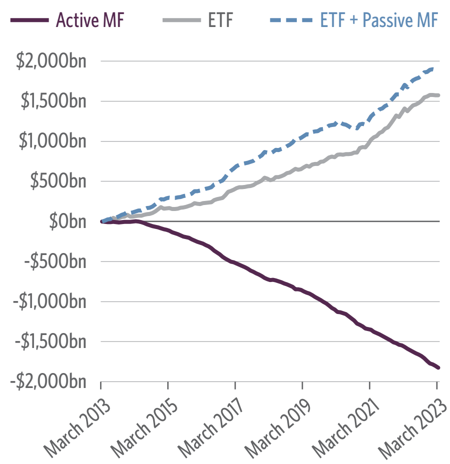
“Passive equity strategies have had the upper hand in flows, while in fixed income, passive strategies have made headway in attracting assets but active flows are still dominant.

Active vs. Passive: It’s Different for Bonds

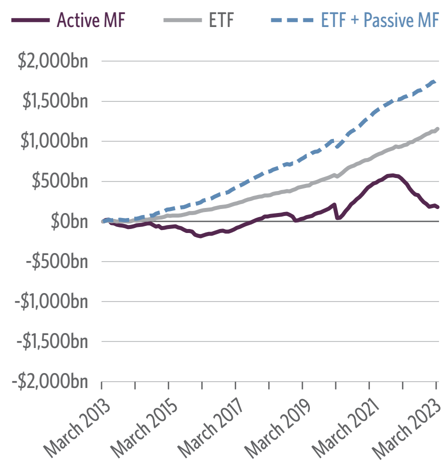
The rising flow of capital from active managers into passive, index-tracking investment vehicles has been accompanied by a similar rise in the number of papers and articles that defend or attack both styles of management. The active versus passive debate has raged since Vanguard’s John Bogle introduced the first index fund in 1976, but now that nearly half of all U.S. stock fund assets are invested in mutual funds and exchange-traded funds that passively track indexes, some would say that the market has spoken and the matter is settled. The issue is not insignificant, for it speaks to the important decision that investors make when choosing to allocate their assets to different strategies. In this case, the choice between active management and passive management reflects an investor’s tolerance for risk, expectations for returns, and in many cases, preferences on fee structures.

Indeed, the flow of capital into passive structures has become pronounced in recent years, particularly for equities. The divergence in market demand and flows for mutual funds shows differing sentiment between equities and fixed income.

U.S. Equity
Cumulative Net Flows



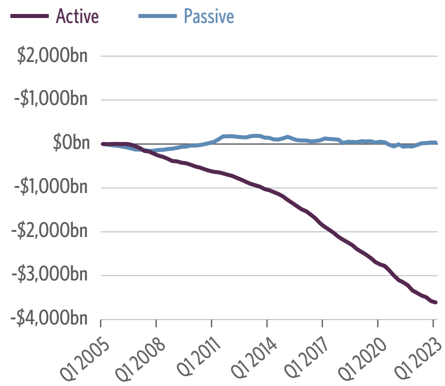
Taxable Fixed Income
Cumulative Net Flows



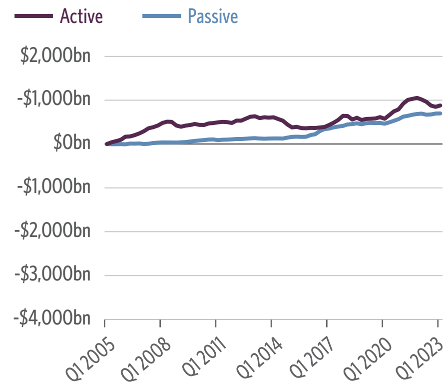
Source: Guggenheim Investments, Morningstar as of 3.31.2023. Data represents trailing 10 years.

In institutional flows the story is similar. Passive equity strategies have had the upper hand in flows, while in fixed income, passive strategies have made headway in attracting assets but active flows are still dominant.

Equity
Cumulative Institutional Flows



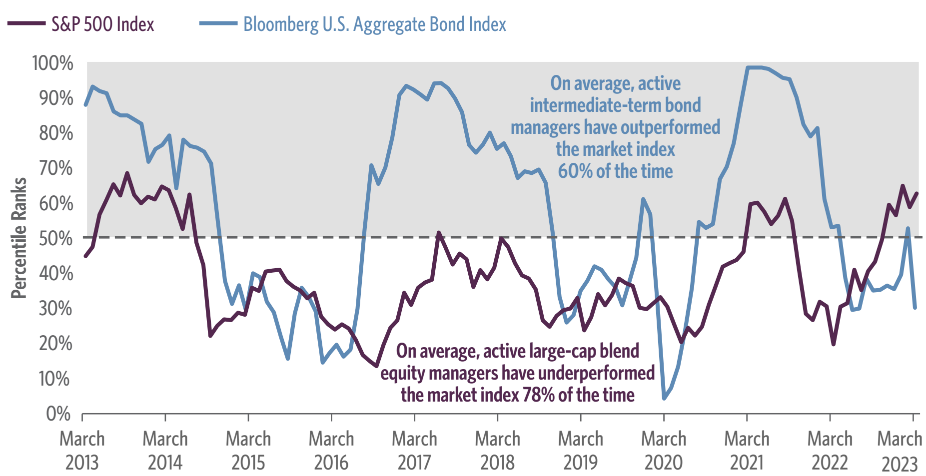
Fixed Income
Cumulative Institutional Flows



Source: Guggenheim Investments, eVestment. Data as of 3.31.2023.

The flows data story is reflected in the performance data. The historical track record shows that for stocks, passive index-tracking vehicles have generally outperformed active managers. As the chart below shows, over the past 10 years, the average active large-cap equity fund manager has underperformed the benchmark index

Trailing One-Year Total Return Percentile Rank of Index Within Respective Morningstar Category



Source: Morningstar as of 3.31.2023. **Past performance does not guarantee future results.** Based on institutional share class. S&P 500 is compared against actively managed funds in the Morningstar U.S. Fund Large Blend Category. Bloomberg U.S. Aggregate Bond Index is compared against a combination of actively managed funds in the Morningstar U.S. Fund Intermediate Core Bond and Morningstar U.S. Fund Intermediate Core-Plus Bond categories. Each line represents the performance ranking percentile of a respective benchmark relative to the funds in the aforementioned categories. The best performance ranking percentile is 1 percent, and the worst performance ranking percentile is 100 percent. **If the benchmark's performance ranking is below 50 percent, then the majority of funds underperformed the benchmark (bottom half, unshaded). Conversely, if the benchmark's performance is above 50 percent, then the majority of funds outperformed the benchmark (top half, shaded).**

78 percent of the time. In contrast, over the same 10-year period, the average active intermediate-term bond fund manager has outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index (the Agg), 60 percent of the time.

Bonds and the Information Premium

> "Unlike in equities, active fixed-income managers have generally outperformed passive strategies.

There are a few reasons that help explain why the active vs. passive story for fixed-income is different than for stocks. First and most importantly, the particular characteristics and market structure for each type of security help account for contrasting performance outcomes.

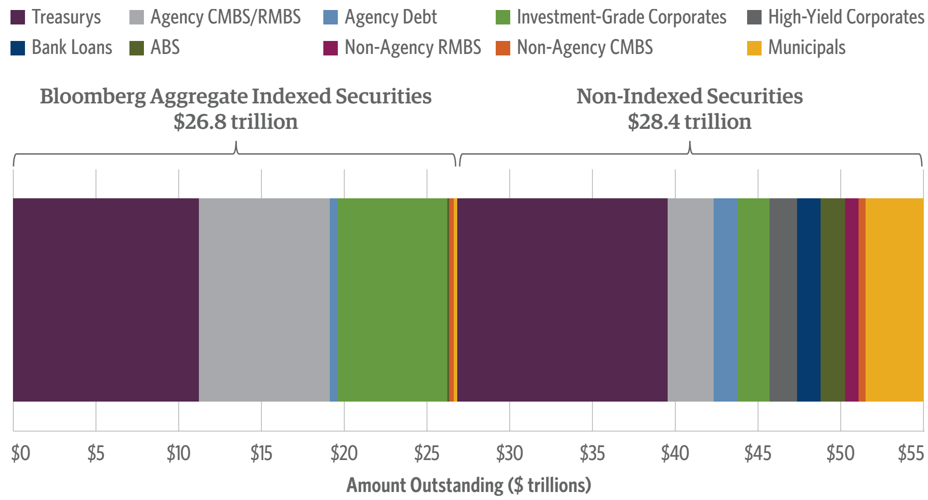
The universe of listed stocks in the United States amounts to only about 3,000 companies in the United States, with a total market capitalization of approximately \$44 trillion[1]. All public companies report their financial results according to GAAP rules, generally with quarterly frequency, and comply with fair disclosure rules. Moreover, publicly traded equities generally have exchange-based price discovery on a continuous basis. This relative homogeneity and transparency of financial data, news disclosures, and market data makes the equity market as close to an efficient market as it gets. In addition, most equity indexes are market-capitalization weighted, so they reflect the proportional size of each company in the index. Thus, while there are talented active equity managers who have consistently outperformed the index, the market structure of equities makes it more challenging to gain any information premium.

The fixed-income universe, on the other hand, is sprawling, diverse, and huge, with approximately \$55 trillion outstanding[2]. Most importantly, less than half of these securities are in the Agg, which is the primary index used to represent the broad U.S. fixed-income market.

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 of \$300 million outstanding. At its inception in 1986, the Agg was a good proxy for the broad universe of fixed-income assets, which at the time primarily consisted of Treasurys, Agency bonds, Agency mortgage-backed securities (MBS), and investment-grade corporate bonds—all of which met the inclusion criteria. Sectors that are predominantly outside the Agg include many types of asset-backed securities (ABS), non-Agency residential MBS (RMBS), high-yield corporate bonds, leveraged loans, municipal bonds, and any security with a floating-rate coupon.

1. Source: SIFMA. Data as of 3.31.2023.
2. Source: SIFMA, S&P LCD, Bloomberg. Excludes sovereigns, supranationals, and covered bonds. Data as of 12.31.2022.

U.S. Fixed-Income Market



Source: SIFMA, S&P LCD, Bloomberg. Excludes sovereigns, supranationals, and covered bonds. Data as of 12.31.2022.

Unlike investment-grade corporates, Treasurys, and Agency securities, the non-indexed sectors of the fixed-income market have a wide range of structures, documentation, and reporting protocols. The complexity of the deal structures and security-specific collateral of certain securities, such as commercial ABS, CLOs, and bank loans, require proactive and comprehensive credit and legal analysis. These sectors have the potential to compensate investors for the extra work—usually from higher spreads/yields or additional structural protections. It takes significant resources to try to take advantage of the opportunities in the non-indexed part of the market, which helps to explain why active management and managers who specialize in these markets may realize the value of the inherent information premium, but passive management cannot*.

Problems With the Agg: Follow the Leverage

“The eligibility rules of the Agg reflect a weighting toward the largest debtors.

A second factor that accounts for the different outcomes for active management in stocks and bonds is the structure of the Agg itself. The Agg still has its usefulness, but the bond market has evolved over the past 30-plus years. Rather than reflect the fixed-income universe in its current composition, the eligibility rules of the Agg—and other indexes that form the basis of passive investing—reflect a weighting that is tilted towards the activities of the largest debtors. In the late

*There is no guarantee that an active manager's views will produce the desired results or expected returns, which may lead to under-performance. Actively managed investments generally charge higher fees than passive strategies, which could affect performance. In addition, active and frequent trading that can accompany active management, also called "high turnover," may lead to higher brokerage costs and have a negative impact on performance. Further, active and frequent trading may lead to adverse tax consequences.

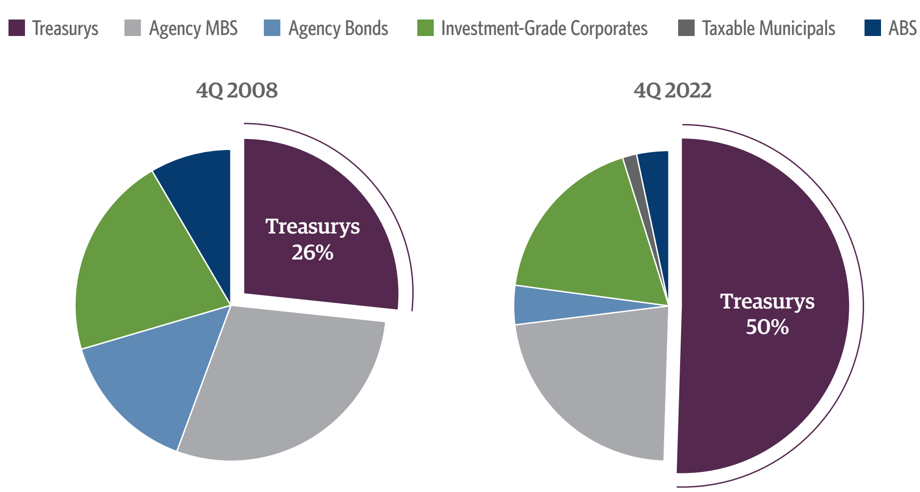
1970s and into the early 1980s, the largest debt issuers were utilities, partly because of the big expansion in building nuclear plants. In the early 1980s, they started to default.

Fast forward to the late 1990s and early 2000s when the largest debt issuers were the dotcoms and telecoms, and many of the largest issuers—like Global Crossing and WorldCom—failed. In the mid-2000s, some of the largest issuers were banks and financial institutions, many of which failed in the financial crisis. An index-following passive strategy would have held onto these securities until they dropped out of the index, whereas an alert active manager would have had the ability to trade out of these potential problems before they hurt client portfolios.

The other major issue that has arisen because of the Agg's eligibility rules is that it is increasingly concentrated in Treasury and Agency securities, which have become a central part of the fixed-income landscape since the financial crisis. Treasurys comprised 50 percent of the Agg as of Dec. 31, 2022, which, when combined with Agency securities, brings the weighting of U.S. government-related debt to 73 percent. The sheer glut of Treasurys and their dominant representation in the Agg is unlikely to reverse anytime soon—the need to fund present and future government deficits is significant.

Moving beyond the benchmark not only expands the possible investment universe to include other sectors for relative value, but the diversification also enables an active manager to mitigate concentration risk and introduce other levers to generate returns.

Treasury and Agency Securities Make Up 73 Percent of the Agg



Source: Guggenheim Investments, SIFMA. Data as of 12.31.2022.

The Active Fixed-Income Management Advantage: Risk Mitigation

"Active fixed-income managers have the ability to properly position their portfolios as risks emerge and trading opportunities develop.

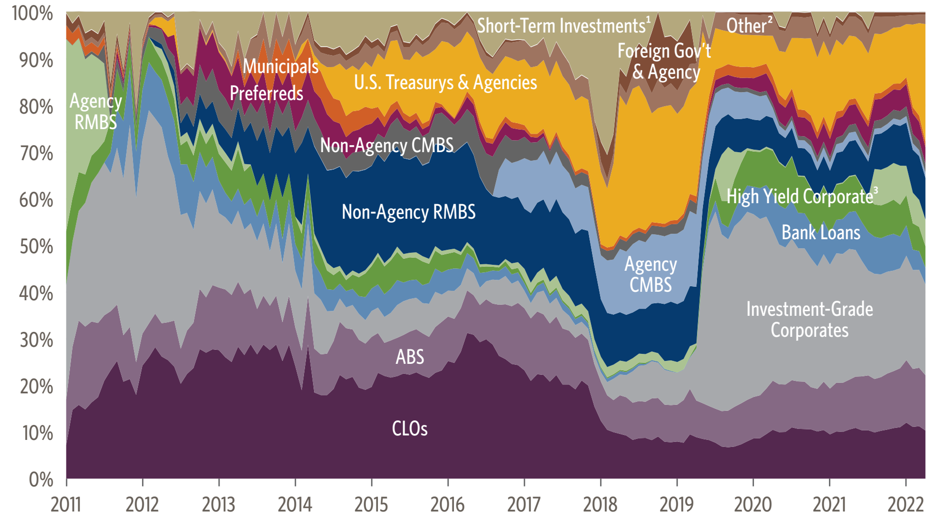
The broader set of investment options available in the fixed-income market partly explains why active managers have been able to beat passive benchmarks. But it is up to the skill of the active fixed-income manager to know where to find relative value in the market and how to avoid problems that might not be evident from the weighting of indexes. The combination of these two attributes—the greater opportunity set and the ability of managers to make the right choices—is what provides the real advantage of active fixed-income management: risk mitigation.

Active fixed-income managers have the ability to properly position their portfolios as risks emerge and trading opportunities develop in a way that is not permissible for a passive strategy. For example, the impact of rate and yield curve changes on long duration assets can be managed with active decisions around portfolio duration positioning. Active managers also can dial up or dial down credit exposure over the course of a business cycle where appropriate. Guggenheim Investments' approach means we generally allocate to sectors that are under-represented in the Agg but which we believe have the potential to generate excess returns for our clients. By definition, for passive fixed-income vehicles, this type of strategic positioning is simply not an option.

Risk mitigation is a central tenet of all active fixed-income investing because of the inherent difference in the return proposition of stocks versus bonds. In stocks, the goal is to try to find good companies whose value will appreciate over time—there are winners and losers, but a typical long investor is hoping for gains. If you pick the right stocks and market conditions are friendly, the upside can be rewarding. A passive strategy will reflect this general approach. For bonds, the risk and return is asymmetric. If an investor's research is correct and everything goes as planned and no bonds default, over time the total return is the coupon and return of principal. The upside is limited, but the downside can be significant in the event of any deterioration in credit quality. For fixed-income investors, the goal is to generate stable returns by playing what Charles Ellis famously termed a "loser's game," in which one wins by avoiding defaults and other "mistakes" rather than chasing returns.

As an example of how an active manager shifts allocations over the course of the cycle, the next chart shows the change in allocations in our Guggenheim Total Return Bond Fund (GIBIX) over the course of time.

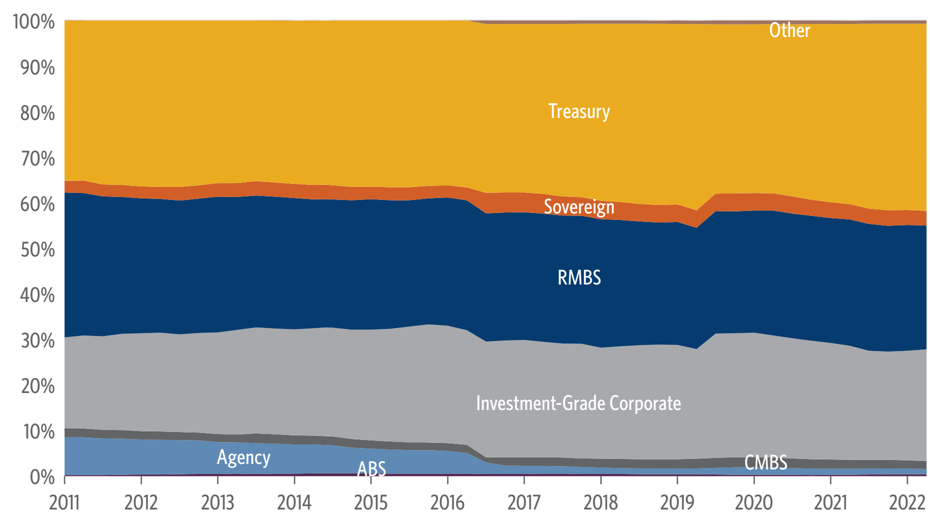
Total Return Bond Fund: Allocations Over Time Since Inception



Source: Guggenheim Investments. Data as of 3.31.2023. Data is subject to change on a daily basis. Shown for illustrative purposes. 1. Short Term Investments include Commercial Paper, Cash, and T-Bills. 2. Other may consist of military housing bonds, derivatives, equities, mutual funds, and ETFs.

For comparison, the chart below shows the evolution in the Agg over the same period: Fewer colors/sectors, less movement….and as we will see later, lower returns to investors.

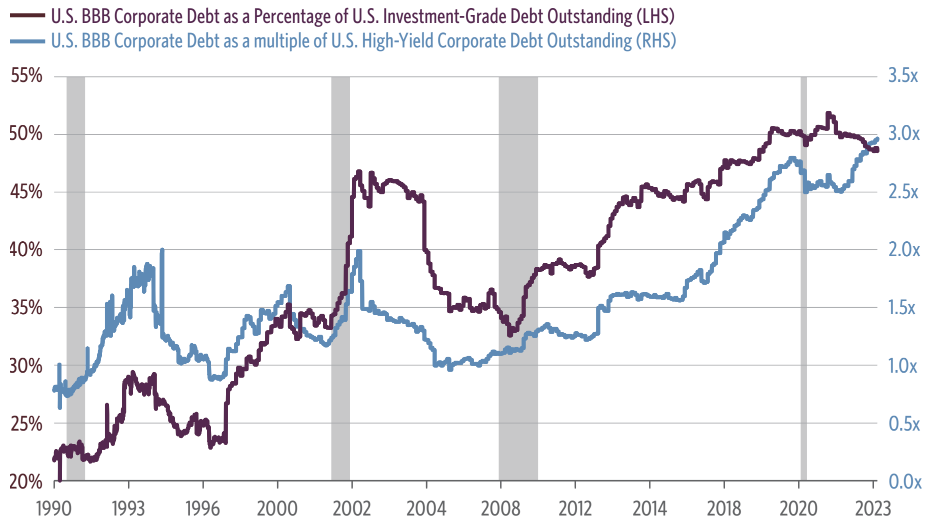
Bloomberg U.S. Aggregate: Allocations Over Time



Source: Guggenheim Investments, Bloomberg. Data as of 3.31.2023. Shown for illustrative purposes.

While Treasury and Agency representation in the Agg was rising over the last cycle, and as BBB-rated investment-grade corporate debt has increased in proportion more recently, our active management was seeking relative value throughout the fixed-income universe to potentially capitalize on opportunities while avoiding problem areas.

BBB-Rated Debt Growth Has Outpaced Growth of Other Corporate Ratings

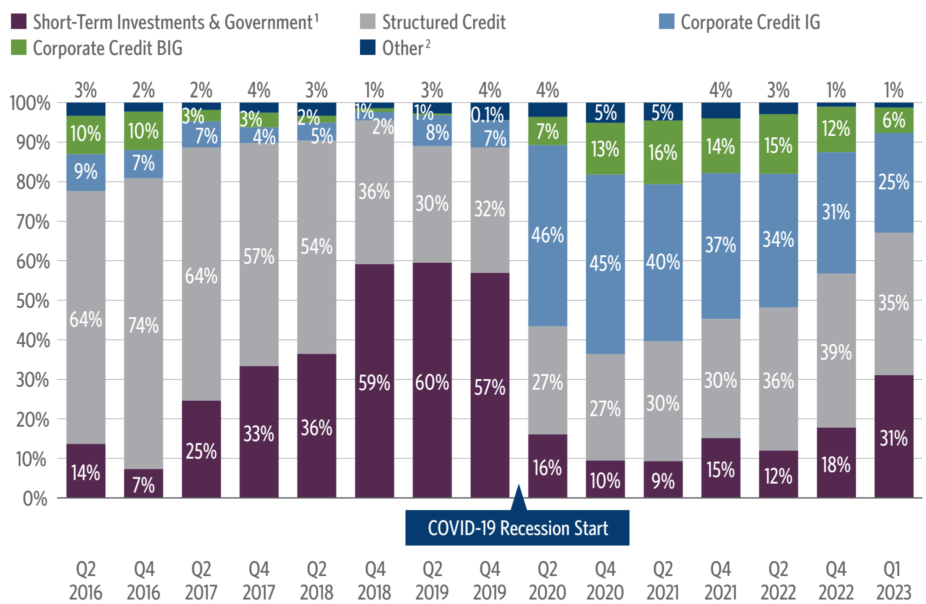


Source: Guggenheim Investments, ICE Index Systems, BofA Merrill Lynch. Data as of 3.31.2023. Market size is based on debt outstanding in the ICE BofA Corporate Bond Index and the ICE BofA High-Yield Index. Shaded areas represent recession.

Driven by a comprehensive global macroeconomic outlook coupled with a detailed assessment of sector, industry, security, liquidity, and regulatory trends, we made many allocation changes during the last 10 years, most recently an up-in-quality rotation in line with our broader defensive view. Be wary of active managers that are really "closet indexers." These managers masquerading as active will not employ the strategies we illustrate here.

Another way to look at active vs. passive strategies, again using our own history, is presented in the next illustration. In the first quarter of 2016, our Total Return Bond Fund was in risk-on mode, with close to 80 percent of assets allocated to structured credit and corporate credit. Leading up to the COVID-led recession the portfolio managers had shifted into risk-off mode, reducing credit risk and making larger allocations to short-term investments and government-related securities.

Total Return Bond Fund: Recent Allocations



	Q4 2019		Q2 2020		Q1 2023	
	GIBIX	Agg[3]	GIBIX	Agg[3]	GIBIX	Agg[3]
Option-Adjusted Spread	67 bps	43 bps	241 bps	74 bps	240 bps	81 bps
Spread Duration	2.7 years	3.7 years	7.3 years	3.8 years	4.3 years	3.9 years
% BIG Total	6.2%	0.0%	7.7%	0.0%	8.9%	0.0%
% BIG Corporate	0.1%	0.0%	7.1%	0.0%	6.3%	0.0%

Source: Guggenheim Investments. Data reflect the period 6.30.2016 through 3.31.2023. 1. Short Term Investments include Commercial Paper and Cash. 2. Other includes CDS, Equities, FX, Rates Derivative and Fixed Income - Other. 3. Bloomberg U.S. Aggregate Bond Index. Allocations include cash and exclude hedges and leverage. Data as of 3.31.2023.

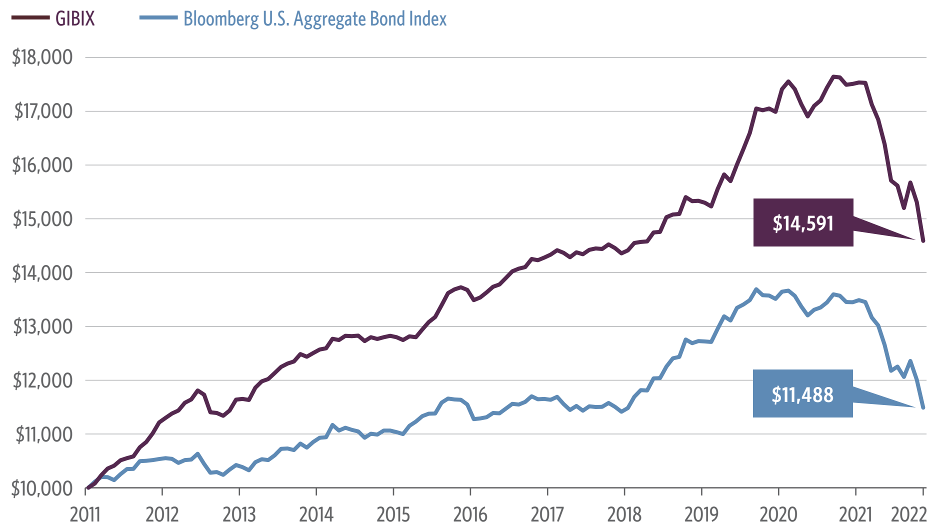
Immediately after the COVID-related sell-off and the expansion began, the Total Return Bond Fund ramped up risk again. In these examples, while we could not have predicted that COVID would be the catalyst, active management both anticipated a recession and responded to changes in market conditions. While there is no guarantee that an active manager's views will prove correct or produce the desired results, which could lead to underperformance, at all times a focus on relative value and which risks you are being compensated for—and to what degree—will drive allocation decisions.

Results Tip Toward Active Managers

There will be periods when the Agg will outperform an active fixed-income manager, but over a cycle a capable active manager should be able to find opportunity in order to seek better results for their clients.

While past performance is no guarantee of future results, our own experience versus the Agg is shown in the following chart.

Total Return Bond Fund: Growth of $10,000 as of 3.31.2023



The hypothetical $10,000 investment assumes an investment on 12.1.2012 is plotted monthly, includes changes in share price and reinvestment of dividends and capital gains. Past performance does not guarantee future results. For illustrative purposes only. It is not possible to invest in an index. Investing in GIBIX carries additional risks to those found in the Agg. Visit the portfolio section of the Fund's website for a more complete comparison of the Fund and the Agg including different characteristics, sector allocations, and credit quality.

In conclusion, rather than buying the benchmark and hoping for the best, we believe that fixed-income investors are better served allocating their assets to an active strategy. With mounting economic and market risks, this is no time to be an indexer. As active managers, we believe that by sticking to long term, thoughtful, and conservative underwriting standards we can prepare to ride out bumpier times. And by deploying portfolio level risk mitigation strategies we can position strategies to pick up potentially undervalued credits and be opportunistic when the time is right.

Guggenheim's Scorecard: Total Return Bond Fund as of 3.31.2023

Average Annual Total Returns

	3-Month	YTD	1-Year	3-Year	5-Year	10-Year	Since Fund Inception	SEC 30-Day Yield[1] Subsidized / Unsubsidized	Gross / Net Expense Ratio[2]	Fund Inception Date
Institutional	3.90%	3.90%	-6.14%	-0.68%	1.36%	2.83%	3.87%	4.77%/4.76%	0.62%/0.52%	11.30.2011
Bloomberg U.S. Aggregate Bond Index	2.96%	2.96%	-4.78%	-2.77%	0.91%	1.36%	1.66%[3]	—	—	—

Data is subject to change on a daily basis. Partial year returns are cumulative, not annualized. Returns reflect the reinvestment of dividends. The referenced index is unmanaged and not available for direct investment. Index performance does not reflect transaction costs, fees or expenses. Index Data Source: FundStation.

1. SEC 30-day yield is a standard yield calculation that allows for fairer comparisons of bond funds. It reflects dividends and interest ("income") earned during the most recent 30-day period after the deduction of the fund's expenses and is calculated by dividing the income per share by the maximum offering share price on the last day of the period. Unsubsidized SEC 30-day yield is what the yield would have been had no fee waivers and/or expense reimbursement been in place. 2 The advisor has contractually agreed to waive fees and/or reimburse fund expenses until 2.1.2024 to limit the ordinary expenses of the fund. Read the prospectus for more information regarding fees and expenses. 3 Since Inception returns are as of the Fund's oldest share class.

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 www.GuggenheimInvestments.com.

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The Total Return Bond 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, may be unrated, 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.

Read a 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 or call 800 820 0888.

Bloomberg 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 Treasurys, government-related and corporate securities, MBS (Agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS (Agency and non-Agency).

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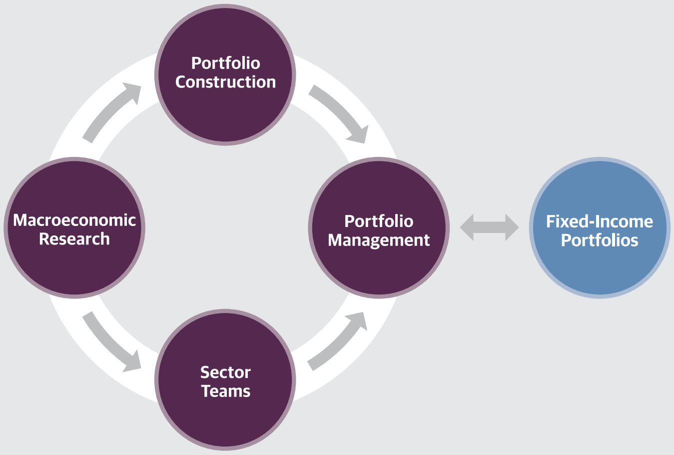
Guggenheim's Investment Process

Guggenheim's fixed-income portfolios are managed by a systematic, disciplined investment process designed to mitigate behavioral biases and lead to better decision-making. Our investment process is structured to allow our best research and ideas across specialized teams to be brought together and expressed in actively managed portfolios. We disaggregated fixed-income investment management into four primary and independent functions—Macroeconomic Research, Sector Teams, Portfolio Construction, and Portfolio Management—that work together to deliver a predictable, scalable, and repeatable process. Our pursuit of compelling risk-adjusted return opportunities typically results in asset allocations that differ significantly from broadly followed benchmarks.



About Guggenheim Investments

Guggenheim Investments is the global asset management and investment advisory division of Guggenheim Partners, with more than $224 billion[1] in total assets across fixed income, equity, and alternative strategies. We focus on the return and risk needs of insurance companies, corporate and public pension funds, sovereign wealth funds, endowments and foundations, consultants, wealth managers, and high-net-worth investors. Our 250+ investment professionals perform rigorous research to understand market trends and identify undervalued opportunities in areas that are often complex and underfollowed. This approach to investment management has enabled us to deliver innovative strategies providing diversification opportunities and attractive long-term results.

About Guggenheim Partners

Guggenheim Partners is a diversified financial services firm that delivers value to its clients through two primary businesses: Guggenheim Investments, a premier global asset manager and investment advisor, and Guggenheim Securities, a leading investment banking and capital markets business. Guggenheim's professionals are based in offices around the world, and our commitment is to deliver long-term results with excellence and integrity while advancing the strategic interests of our clients. Learn more at GuggenheimPartners.com, and follow us on LinkedIn and Twitter @GuggenheimPtnrs.

1 Assets under management are as of 3.31.2023 and include leverage of $14.7bn. Guggenheim Investments represents the following affiliated investment management businesses: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Fund Management (Europe) Limited, Guggenheim Partners Japan Limited, GS GAMMA Advisors, LLC, and Guggenheim Partners India Management.

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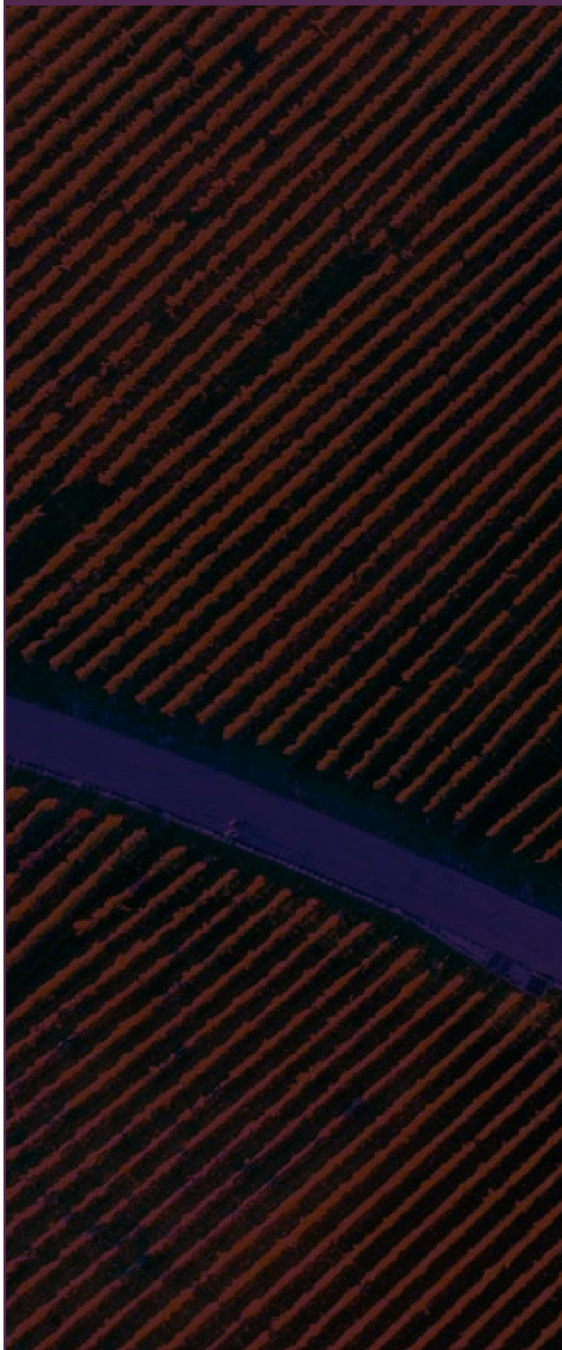
Enduring Values.®



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