

**Item 1 – Cover Page**

**GUGGENHEIM INVESTMENTS**

330 Madison Avenue, 10th Floor

New York, NY 10017

[www.guggenheiminvestments.com](http://www.guggenheiminvestments.com)

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This Brochure provides information about the qualifications and business practices of Guggenheim Investments. If you have any questions about the contents of this Brochure, please contact us at 212.739.0700. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Guggenheim Investments is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

Additional information about Guggenheim Investments also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

This brochure updates the brochure of the Security Investors, LLC, dated as of November 14, 2018.

Security Investors, LLC has updated and expanded disclosures relating to its business operations, particularly in the following areas:

- Item 10 - Other Financial Industry Activities and Affiliations
- Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading
- Item 17 – Voting Client Securities

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## Item 4 – Advisory Business

Security Investors, LLC, the “Adviser” is a Kansas limited liability company. The Adviser is a multi-product manager with focused investment teams with a mission to be a “best-in-class” asset management firm that delivers competitive risk-adjusted returns. The Adviser, a direct, wholly owned subsidiary of Rydex Holdings, LLC, does business as Guggenheim Investments, and has previously done business as Security Global Investors and Rydex Investments. The Adviser is an indirect, wholly owned subsidiary of Guggenheim Capital, LLC (“Guggenheim Capital”). Guggenheim Capital’s subsidiary, Guggenheim Partners, LLC (“Guggenheim Partners”), is a global, independent, privately-held, diversified financial services firm with more than 2,400 dedicated professionals.

As of December 31, 2018, the Adviser manages approximately \$9,294,201,905 Regulatory Assets Under Management (“RAUM”), on a discretionary basis and no assets on a non-discretionary basis.

The Adviser provides advisory services to pooled investment vehicles that are registered as investment companies (each, a “Registered Fund” and collectively, the “Registered Funds”) under the Investment Company Act of 1940, as amended (“1940 Act”). The Registered Fund’s investment objective, strategies, and any applicable investment restrictions are generally described in that Registered Fund’s Prospectus and Statement of Additional Information, as each may be supplemented from time to time, and may be changed in accordance with the Registered Fund’s Statement of Additional Information and as permitted by law. Registered Funds are not managed in the interest of any particular investor. Prospective investors in a Registered Fund should review the Registered Fund’s Prospectus and Statement of Additional Information to determine whether the Registered Fund is an appropriate investment in light of the potential investor’s individual objectives and risk tolerance. Each Registered Fund is managed in accordance with its investment objective, strategies and restrictions and is not tailored to the individualized needs of any particular Registered Fund shareholder or other fund investor. Therefore, such shareholders and investors must consider whether the Registered Fund, or any other fund, meets their investment objectives and risk tolerance prior to investing. Information about each Registered Fund can be found in its Prospectus and Statement of Additional Information.

Additionally, the Adviser offers investment supervisory services to separately-managed accounts (“SMA”) for institutions, such as insurance companies, other financial institutions, pension and profit sharing plans, U.S. governmental entities, non-U.S. governmental entities, colleges, hospitals, charitable organizations, endowment funds and foundations; and certain individuals and trusts.

Except as otherwise described herein, investments for SMAs are managed in accordance with the client’s investment objectives, strategies, restrictions and guidelines as communicated to the Adviser by the client (or the client’s primary adviser or Program Sponsor).

The description of the Adviser’s investment advisory clients above is not exhaustive; consequently, the Adviser may provide advisory services to other types of clients.

## **Item 5 – Fees and Compensation**

### **Management Fees**

For the SMAs, the Adviser generally is paid a monthly or quarterly management fee, which is usually based on assets under management (“AUM”) or the net asset value (“NAV”) (as defined in each investment management agreement) of all assets held in a client’s account. The management fee is equal to a mutually agreed upon annual fee prorated and multiplied by the SMA’s AUM or NAV as of each calendar month-end or quarter-end, and typically reduced for periods of less than a complete month and prior to any reduction for such management fee. The management fee is calculated and accrued monthly and is generally payable quarterly or monthly in arrears, subject to any different payment and calculation terms in a client’s investment management agreement (“IMA”). Fees may be negotiated in different amounts with each client in the Adviser's sole discretion based upon the type of service provided, size of the account, and relationship between the client and the Adviser.

The standard management fee for investment advisory services provided to the Adviser’s SMA portfolios generally ranges up to 1.00 percent annually of AUM or NAV. The Adviser offers several different products with varying fees some of which may be higher than this, and, as described above, SMA fees are generally negotiable. While the Adviser does not currently receive fees in advance, it is possible that it may do so in the future. If fees have been paid in advance, in the event of a withdrawal, the client would receive a *pro rata* rebate of the allocable portion of the fee not earned by the Adviser during the period.

For Registered Funds, management fees earned by the Adviser are based on the NAV at the end of the applicable period (generally, a month or quarter) and are paid in arrears. Registered Fund fees vary depending on the type of investment strategy employed by a Registered Fund, as described in more detail in the Registered Fund’s Prospectus and Statement of Additional Information. The Adviser may either voluntarily or pursuant to a written fee waiver/expense reimbursement agreement, waive fees and/or reimburse expenses. The Adviser may also enter into investment sub-advisory contracts with sub-advisers to manage Registered Fund assets (subject to requirements set forth in the 1940 Act); however, the Adviser is responsible for the fees paid to such sub-advisers.

### **Additional Fees**

The Adviser and its affiliates receive fees, commissions, remuneration, or profits made in some transactions involving affiliated entities in addition to any management and performance fees. For more information on transactions involving affiliated entities, please see Item 11.

Neither the Adviser, nor any supervised person acting on behalf of the Adviser, accepts compensation for the sale of shares of the Registered Funds. The Adviser and its affiliates will receive commissions, fees, or other remuneration for the sale of other securities to client accounts or Registered Funds. Please see “Item 10 - Other Financial Industry Activities and Affiliations – Other Potential Conflicts and Material Relationships with Affiliated Entities.”

## Expenses

Expenses charged to and borne by SMAs generally include management fees, all costs and expenses related to the SMA's portfolio investments and all other costs and expenses agreed to between the client and the Adviser, such as indemnification expenses. Costs and expenses typically borne by a SMA relating to its portfolio investments include: brokerage commissions and other trading execution and settlement related costs and fees; custody fees; interest incurred on borrowings, if any; and dividends paid on securities sold short. Please see Item 12 for a discussion of the Adviser's brokerage practices.

Costs and expenses borne by more than one SMA client will be allocated in accordance with the Adviser's methodologies for expense allocation. The Adviser's expense methodologies seek to allocate expenses in a manner that generally reflects each client's relative consumption of resources, relative allocation of benefits and/or other equitable considerations that may be appropriate under the circumstances; however, the allocation of expenses involves subjective determinations, which may involve conflicts of interest. For example, in some instances expenses may be allocated pro rata among clients participating in an investment (e.g., based on cash/capital available for investment, net assets or other methodology determined by the Adviser to be appropriate), but in other instances expenses may be allocated on a non-pro rata basis. Moreover, allocations of expenses typically rely on then-available information, estimates and assumptions, which the Adviser believes are reasonable and appropriate, but may be imprecise and subject to subsequent modification. While the Adviser believes that its allocation methodology is reasonable, other allocation methodologies exist that may yield different results.

Costs and expenses that are borne by Registered Funds (in addition to investment advisory fees) which are incidental or related to the maintenance of an account or the buying, selling and holding of investments may include, but are not necessarily limited to: (1) custodial charges; (2) brokerage fees, commissions and other related transaction costs and expenses; (3) governmental charges, taxes and duties; (4) transfer fees, registration fees, interest expenses, and other expenses associated with buying, selling or holding investments; (5) withholding taxes payable and required to be withheld by issuers or their agents; and (6) acquired fund fees and expenses associated with investments in affiliated and unaffiliated pooled investment vehicles, including investments in other Registered Funds. Registered Fund costs and expenses are described in more detail in a Registered Fund's Prospectus and Statement of Additional Information.

Registered Funds may also from time to time adopt one or more of the following: (i) a distribution plan pursuant to Rule 12b-1 of the 1940 Act that allows such Registered Funds to pay distribution fees out of net assets on an annual basis to Guggenheim Funds Distributors, LLC ("GFD"), an affiliate of the Adviser, and other firms that provide distribution-related expenses, or (ii) a shareholder servicing plan that provides that such Registered Funds may pay financial intermediaries for shareholder services out of net assets on an annual basis. These arrangements would increase such Registered Funds' operating expenses.

Guggenheim Securities, LLC ("Guggenheim Securities") and GFD are affiliates of the Adviser, and GFD receives a fee from the Adviser based on a percentage of assets of particular Registered Funds as compensation for marketing services provided by GFD. The Adviser may also pay similar fees to unaffiliated entities.

Some of the Adviser's employees or its affiliates' employees (and others who act in the capacity of a consultant or advisor) from time to time also are employed, or engaged in an operating capacity by, or serve as a director for, one or more portfolio companies or entities in which the Adviser or one of its affiliates has invested on behalf of its advisory clients. The services provided by such persons in such capacity are separate and apart from the Adviser's investment advisory services to its advisory clients. Such persons may receive cash compensation, stock options and/or restricted stock as well as other compensation in their capacity as directors or employees of a portfolio company. Any such amounts (including, without limitation, salaries, additional investment rights and similar cash and non-cash compensation and incentives) received, directly or indirectly, by such persons in respect of such portfolio companies will not reduce the management fee otherwise payable by advisory clients to the Adviser or its affiliates and will be borne by the portfolio companies. Therefore, such amounts will indirectly be borne by the advisory clients as applicable invested in the portfolio company and not by the Adviser.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

### **Performance-Based Fees**

Although the Adviser does not charge a performance or incentive fee, certain of its portfolio managers who are also employees of certain affiliated investment advisers may advise accounts with respect to which the advisory fee is based entirely or partially on performance. The simultaneous management of clients that pay performance-based fees and clients that pay only management fees or performance-based fees that are calculated in a different manner creates a potential conflict of interest as the portfolio manager may have an incentive to favor clients with the potential to generate greater fees.

Performance-based compensation arrangements reward the portfolio manager for positive performance. Such performance-based compensation arrangements create an incentive to favor accounts that pay higher fees over other accounts in the allocation of investment opportunities. For instance, a portfolio manager will face a potential conflict of interest when allocating scarce investment opportunities, which creates an incentive to allocate opportunities to client accounts that pay performance-based fees as opposed to client accounts that pay smaller or no performance-based fees.

The above conflicts of interest are mitigated by the Adviser's and its affiliates' allocation and best execution policies and procedures, which are designed to ensure their portfolio manager acts in the best interests of its clients in accordance with their fiduciary duties.

### **Valuation**

As noted above, the Adviser's fees are often based on the value of the assets held in the client account. While the Adviser is not involved in valuing its clients' portfolio investments, an affiliate of the Adviser, Guggenheim Partners Investment Management, LLC ("GPIM"), an affiliate, does play a role in the valuation of certain portfolio investments held by the Adviser's clients. When pricing a security, GPIM attempts, in good faith and in accordance with applicable laws, to determine the fair value of the security or other assets. For separately managed accounts, unless otherwise agreed to with a client, GPIM generally relies on prices provided by a broker-dealers or third-party pricing services for valuation purposes. However, when

quotations from these sources are not readily available or are believed by GPIM to be unreliable, the security or other assets will be valued by GPIM or an affiliate in accordance with applicable valuation procedures. Pricing for Registered Funds is generally determined in accordance with the Registered Funds' valuation procedures by the Registered Funds' administrator, their valuation committee and with assistance from GPIM under certain circumstances.

When GPIM values securities, GPIM values securities and assets in client accounts according to its valuation policies. GPIM may value an identical asset differently than other affiliated subsidiaries of Guggenheim Partners value the same asset, because such other entities have information regarding valuation techniques and models or other information that they do not share with GPIM. This is particularly the case in respect of difficult-to-value assets. Where appropriate, GPIM may also value an identical asset differently in different client accounts, for example because different client accounts are subject to different valuation guidelines pursuant to their respective governing agreements (or may be subject to different valuation policies) or different third-party vendors perform valuation functions for the client accounts.

GPIM evaluates the performance of certain mandates against index benchmarks. At times, a GPIM or Adviser-managed account will hold the same securities that the applicable index holds. GPIM may value those securities differently than the index provider values them, because GPIM and index providers sometimes use different pricing methodologies. In this situation, account under or over performance relative to the index benchmark may be due to the use of different pricing methodologies, as opposed to security selection or portfolio management.

GPIM may face a potential conflict with respect to such valuations because they affect the Adviser's compensation. To the extent the Adviser's fees are based on the value of client accounts, the Adviser, an affiliate of GPIM, would benefit by receiving a fee based on the impact, if any, of an increased value of assets in an account. In addition, to the extent GPIM utilizes third-party vendors to perform particular functions, these vendors may have interests and incentives that differ from those of the client accounts. In order to mitigate such potential conflicts of interest, GPIM maintains a Valuation Policy and an oversight committee to monitor GPIM's valuation determinations in accordance with its fiduciary duties.

### **Side-By-Side Management**

Portfolio managers employed by the Adviser or its affiliates may manage multiple accounts, including SMAs and Registered Funds, according to the same or similar investment strategies and may seek to make or sell investments in the same securities, instruments, sectors or strategies. This side-by-side management of multiple accounts may create potential conflicts, particularly in circumstances where the availability or liquidity of investment opportunities is limited. Some investments (such as commercial mortgage loans, products structured for insurance company investment requirements, private equity, hedge funds, venture capital and/or other equity interests) may be offered to some but not all clients when appropriately within client investment guidelines, including unaffiliated and affiliated insurance companies (as described below in "Item 10 – Other Financial Industry Activities and Affiliations – Other Potential Conflicts and Material Relationships with Affiliated Entities").

The Adviser's portfolio managers may face potential conflicts of interest because the portfolio manager may have an incentive to favor particular accounts over others that may be less lucrative in the allocation of



investments (e.g., because such accounts have the same or similar investment strategies or otherwise compete for investment opportunities, have potentially conflicting investment strategies or investments, or have differing ability to engage in short sales and economically similar transactions). These potential conflicts may arise when, for example, a portfolio manager allocates investment opportunities that he/she believes could more likely result in favorable performance, engages in cross trades or executes potentially conflicting or competing investments.

In addition, the Adviser's actions for one client account may affect other client accounts, and the Adviser's actions for one or more client accounts may affect, or be affected by, actions of the Adviser's affiliates or related persons who hold interests in a particular portfolio company, either directly or through an account managed by the Adviser. For additional information about these situations, please see respectively, "Item 11, Code of Ethics, Participation or Interest in Client Transactions and Personal Trading – Conflicts Resulting from Investment Management Activities" and "Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading – Participation or Interest in Client Transactions".

To address these potential conflicts, the Adviser's policies and procedures require that investment decisions for client accounts advised by the Adviser or its affiliates will be made independently from those of other client accounts and with specific reference to the individual needs and objectives of each client account, without consideration of the Adviser's or its employees' or affiliates' pecuniary or investment interests. In particular, under the Adviser's policies and procedures investment opportunities will be allocated in a manner that the Adviser believes is consistent with its obligations as an investment adviser. The Adviser's policies and procedures relating to allocation of investment opportunities are described further in the "Allocation" section below. For additional information relating to the Adviser's general processes to mitigate potential conflicts of interest, see "Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading – General Process Regarding Potential Conflicts". Investment groups within the Adviser are subject to these and/or other similar policies and procedures that are consistent with the Adviser's obligations as an investment adviser and that address circumstances that may be unique to their businesses. Accordingly, particular client accounts may receive an allocation in a given transaction when other client accounts do not, and account investments and performance resulting from such decisions may differ from client to client.

## **Allocation**

The Adviser maintains multiple trading facilities, each of which may have separate trade aggregation and allocation processes. The Adviser seeks to aggregate trade orders in a manner that is consistent with its duty to: (1) seek best execution of client orders; (2) treat all clients fairly and equitably over time; and (3) not systematically advantage or disadvantage any single client or group of clients.

The Adviser may advise clients with similar investment strategies. The Adviser may combine orders on behalf of an account with orders for other accounts for which it or its principals have trading authority, or in which it or its principals have an economic interest. When it does, the Adviser will allocate the securities or proceeds arising out of those transactions (and the related transaction expenses) on an average price basis among the various participants. The Adviser believes combining orders in this way will, over time, be advantageous to all participants. However, the average price could be less advantageous to an account than if an account had been the only account effecting the transaction or had completed its transaction before the other participants. Because of the Adviser's interest in some of the accounts, there may be circumstances in

which an account's transactions may not, under certain laws and regulations, be combined with those of some of the Adviser and its affiliates' other clients, and an account may obtain less advantageous execution than such other clients.

The Adviser has implemented policies and procedures that govern the allocation of investment opportunities among clients in a fair and equitable manner, taking into account the needs and investment objectives of the clients as well as prevailing market conditions. In such circumstances, if an investment opportunity would be appropriate for more than one client, the Adviser may be required to choose among those clients in allocating the opportunity, or to allocate less of the opportunity to a client than it would ideally allocate if it did not have to allocate to multiple clients. In addition, the Adviser may determine that an investment opportunity is appropriate for a particular account, but not for another. There can be no assurance that a particular investment opportunity will be allocated in any particular manner.

In order to minimize execution costs for clients, trades in the same security transacted on behalf of more than one client may be aggregated (i.e., blocked or bunched), subject to the aggregation being in the best interests of the participating clients and the firm's obligation to seek best execution. The Adviser will aggregate trades, unless it believes that doing so would conflict or otherwise be inconsistent with its duty to seek best execution for the clients and/or the terms of the respective investment advisory contracts and other agreements and understandings relating to the clients for which trades are being aggregated. When the Adviser believes that it can effectively obtain best execution, for the clients by aggregating trades, it will do so for all clients participating in the trade for which aggregated trades are consistent with the respective investment advisory contracts, investment guidelines, and other agreements and understandings relating to the clients.

The Adviser may also trade securities on a rotational basis. Under the rotation procedures, orders may be aggregated with orders of other clients of the same trade, but such orders will not be aggregated with orders for other clients of the Adviser. The Adviser uses this trade rotation procedure to ensure that all clients are treated in fair and equitable manner over time. Under the procedure, the Adviser's clients are divided into a number of separate groups. The groups are assigned an order as part of a daily rotation, in which the transactions will be executed, and execution for one group will be completed before execution for the next group will begin. Orders will be executed by a broker chosen in accordance with the Adviser's normal brokerage selection policy. Once the rotation has been completed and the entire order has been allocated, the first client is moved to the bottom of the list for the next rotation. Due to the sequential execution of orders for different groups of clients under this trade rotation procedure, it is possible that clients in one group will receive a different price for a transaction in the same security than will clients of other groups. Trade rotation may not be used in certain unusual and non-recurring situations.

Clients of the Adviser may be following the same or similar strategies at the same or different times as those being followed by the Adviser's other clients. Because different portfolio construction processes are used for different types of accounts, allocation of trading opportunities may not be granted to certain accounts with similar strategies where the portfolio manager in good faith determines that such opportunity may not be appropriate for certain such accounts.

When a trade is to be executed for a single client and the trade is not in the best interests of other clients at the time of the transaction, then the trade will be executed only for that client. Other instances in which client orders will not be aggregated include, but are not limited to, the following:

- Traders and/or portfolio managers determine that the aggregation is not appropriate due to market conditions;
- Portfolio managers effect the transactions through an approved client-requested directed-brokerage arrangement (i.e. the same security/investment with different brokers), making aggregation unfeasible; or
- A client directs a purchase or sale transaction not in the best interests of other clients at the time of the transaction.

Aggregated transactions then are allocated among the participating client accounts after taking into consideration the specific objectives and constraints for each account, which could include, but are not limited to, the following: risk tolerance; rating constraints; maturity constraints; issue size; yield; purchase price; existing exposure of the investment vehicle; minimum trade allocation; minimum position holding size; sector allocation limits; duration; convexity; strategy; lot size; market conditions; and investment guideline considerations. In addition, the Adviser will consider the strategies, liquidity requirements, investment phase of the account (i.e. ramping-up or taking gains/losses for tax purposes) and cash available in each account when making an allocation decision.

The application of the relevant factors may result in non-*pro rata* allocations, and some client accounts (including client accounts in which the Adviser or its affiliates or related persons, or their respective officers, directors or employees, including portfolio managers or senior managers of the Adviser, have an interest) may receive an allocation when other client accounts do not. As noted above in “Side-By-Side Management” of this Item 6, some investments may be offered to some but not all clients when appropriately within client investment guidelines, including unaffiliated and affiliated insurance companies.

The Adviser generally seeks to allocate transactions on an objective basis and in a manner designed to assure that no participating client is favored over any other participating client. If an investment is suitable and desirable for more than one account, an initial allocation study will be determined based upon demand ascertained from the portfolio managers. With respect to fixed income and private equity assets, this initial allocation study is overseen by the Central Allocation Group and shall generally reflect a *pro rata* participation in the investment opportunity among the participating accounts that expressed demand. Final allocation decisions are made or verified independently by the Central Allocation Group which is comprised of employees reporting up to the Adviser’s Chief Risk Officer (“CRO”). With respect to public equity securities and public equity-related securities the allocation shall generally reflect a *pro rata* participation in the investment opportunity among participating accounts. Please also see “IPO/New Issue Allocation Policies” below.

In some circumstances, relevant Adviser employees, together with the Central Allocation Group, may approve other factors to be considered in determining a fair allocation, including follow-on investments and minimum investment thresholds. In situations where the amount of fixed income or private equity assets to be purchased is too limited for all eligible clients to share (even on an allocated basis), such transactions will

be allocated in accordance with the Central Allocation Group's determination, made in good faith, to make a fair and equitable allocation which may include the use of a rotation process.

The Central Allocation Group is responsible for ensuring fair allocation of fixed income and private equity trades among eligible clients within the parameters established above. The Central Allocation Group may seek input and suggestions from Portfolio Management with regards to proposed allocations and also on the reasonableness of allocations. The Central Allocation Group makes or verifies the final allocation decision for fixed income and private equity trades and will analyze and record the allocation of fixed income or private equity orders among clients.

In certain situations in which an investment opportunity would be appropriate for one or more of the Adviser's clients (based on the criteria described above), it may be necessary or appropriate for the Adviser to obtain prior written consent from each client to place the investment in the client's account. If the Adviser is unable to obtain prior written consent from one or more clients, the Adviser may allocate the investment opportunity only to the client(s) from whom the Adviser is able to obtain prior written client consent. The investments will generally be allocated to those clients that provide timely approval, as permitted by their investment guidelines, available cash, and other factors provided herein.

#### **IPO/New Issue Allocation Policies**

The Adviser's allocations of initial public offerings or new issues ("IPOs/New Issues") are effected consistent with fiduciary duties and in accordance with the general allocation policies and procedures outlined above under "Allocation." The application of the relevant factors may result in non-*pro rata* allocations, and particular client accounts (including client accounts in which the Adviser or its affiliates or related persons, or their respective officers, directors or employees, including portfolio managers or senior managers of the Adviser, have an interest) may receive an allocation when other client accounts do not. Allocations may be adjusted under specific circumstances, such as situations of scarcity where *pro rata* allocations would result in *de minimis* positions or odd lots. Furthermore, some client accounts may not be eligible to participate in an IPO/New Issue where, for example, the investment guidelines for a client account prohibit IPOs/New Issues or the account is owned by persons restricted from participating in IPOs/New Issues pursuant to Financial Industry Regulatory Authority Rules 5130 and/or 5131, as amended, as supplemented and interpreted from time to time, or other applicable laws or rules or prudent policies in any jurisdiction.

#### **Discretionary v. Non-Discretionary Accounts**

The Adviser may provide non-discretionary investment advisory services where the Adviser provides a client with a model portfolio or advises a client regarding purchasing, selling, holding, valuing, or exercising rights with respect to particular investments, but does not have discretion to execute purchases or sales on behalf of the client accounts without the specific instruction of the client. From time to time, the Adviser may provide such non-discretionary investment advisory services to an account whose investors also receive discretionary investment advisory services, either because the client has multiple accounts or because a single client account has multiple investments sleeves that grant the Adviser different levels of discretion. The Adviser may advise with respect to the same or similar securities in discretionary and non-discretionary client accounts, and in some cases the same client may have an interest in such securities through both discretionary and non-

discretionary client accounts. There may be timing differences resulting from the transmission of advice to non-discretionary client accounts for consideration and the client's determination of whether to act on the advice. As a result, the Adviser may execute trades in investments for discretionary client accounts in advance of the Adviser communicating with non-discretionary client accounts about those investments. In other cases, the Adviser may decide to separate advice in discretionary and non-discretionary accounts. For example, in connection with non-discretionary client accounts, the Adviser may have information with respect to pending purchases or sales or relating to a non-discretionary client's business and financial position. In the event that the Adviser considers such information to be of a sensitive nature, the Adviser may, on a case-by-case basis, elect to implement internal policies and procedures (including where appropriate, the use of informational barriers) to manage the flow of such information within the Adviser, which may prevent the transmission or affect the timing of transmission of advice to some accounts.

## **Item 7 - Types of Clients**

The Adviser provides investment advisory services to SMAs and Registered Funds and may provide investment advisory services to unregistered or private funds. The Registered Funds include open-end registered funds. The Adviser's SMA clients may include institutions, such as insurance companies, other financial institutions, pension and profit sharing plans, U.S. and non-U.S. governmental entities, colleges, hospitals, charitable organizations, endowment funds and foundations; and certain individuals and trusts.

For its SMA clients, the Adviser generally requires a minimum account size of \$100 million for its fixed income strategies and \$25 million for equity strategies, subject to reduction in the Adviser's discretion.

The Adviser's Registered Fund clients have separate suitability and other requirements, and minimum investment amounts, as set forth in the applicable Registered Fund's Prospectus and Statement of Additional Information.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

Investing in securities and other instruments involves risk of loss that clients should be prepared to bear.

The Adviser tailors the investment strategies used on behalf of a client to meet a specific client's investment objectives. Each account is managed with the goal of achieving the investment objective of the client, as agreed upon by the Adviser and the client in the relevant IMA, in the case of a SMA or the Registered Fund's Prospectus and Statement of Additional Information, as applicable. With respect to the SMAs, client investment guidelines may be amended, by agreement of the client and the Adviser.

The Adviser uses a variety of techniques including fundamental, technical and quantitative analysis to manage such products and multiple sources of information to facilitate such analysis. The Adviser invests in a wide range of investments depending on a particular product's objectives, strategies, policies, applicable law and other relevant factors.

In addition, the Adviser may rely on research, economic theory, quantitative methods, and capital markets data provided by certain affiliates. The Adviser's use of these services provided by its affiliated entities may be regarded as a conflict of interest, as the Adviser may be viewed as having an incentive to use its affiliates' services. In this regard, it should be noted that a small portion of all of such services used by the Adviser is provided by the Adviser's affiliates, and the Adviser relies upon a wide range of sources for such services.

The Adviser also uses the services of third-party market service data providers.

The Adviser manages client assets using a variety of disciplines within fixed income and equity strategies, including but not limited to:

- *U.S. Value Equity Strategies:* These strategies use a blend of quantitative and fundamental analysis to identify securities that appear favorably priced and have the potential to appreciate in value. The Adviser regularly evaluates the metrics and data underlying the quantitative model and, from time to time, may make adjustments for a variety of reasons, including, without limitation, to account for changing market, financial or economic conditions. These strategies primarily invest in value-oriented companies. Value oriented companies are companies that appear to be undervalued relative to assets, earnings, growth potential or cash flows.
- *StylePlus Strategies:* These strategies seek to deliver long-term growth of capital in excess of that produced by the total return of the target index for each strategy. The Adviser seeks to add alpha above the target index by leveraging the Adviser and its affiliates' competencies in fixed income and systematic stock selection. To accomplish this, the StylePlus strategy may increase its allocation to quantitative selection models when stock picking opportunities in the market are viewed to be high. When stock selection opportunities are viewed as less attractive, the strategy may increase its allocation to derivatives based on the target index, backed by a diversified portfolio of fixed income instruments. In this way, the Adviser believes it will deliver the target index return plus an alpha component commensurate with the total return achieved by the active fixed income portfolio.
- *World Equity Income Strategies:* These strategies employ a rigorous and disciplined methodology that seeks to generate higher risk-adjusted returns primarily by targeting volatility below that of the capitalization weighted benchmark, and by focusing on higher dividend-yielding stocks. The strategies seek to outperform the MSCI World Index (Net) on a risk-adjusted basis and utilize optimized portfolios in an attempt to provide the highest certainty of outperformance and achieve the target return. Historical volatility is used to construct the risk model. Country and sector exposures normally stay relatively close the benchmark, and liquidity is an important consideration in the portfolio construction process.
- *Fixed Income Strategies:* These strategies may be designed to meet client-specific risk/reward objectives which generally include performance relative to a benchmark and duration targets by investing primarily in fixed income securities, including but not limited to a variety of asset backed securities including collateralized loan obligations, residential mortgage-backed and/or commercial mortgage-backed securities, investment grade corporate bonds, high-yield investments, bank loans, municipal bonds, treasuries, preferred stock, agencies, cash and cash equivalents, sovereigns and derivatives

across a broad range of sectors. Derivatives may be used to hedge various risk components and/or to express a directional view.

In general, fixed income securities are subject to interest rate, market, credit, spread and liquidity risks. Interest rate risk relates to changes in a security's value as a result of changes in interest rates generally. Spread risk relates to changes in the risks or perceived risks of an issuer, country or region. Credit risk relates to the ability of an issuer to make payments of principal and interest. Market risk is event or systemic risk to capital markets. Liquidity risk relates to the ability to sell securities at or near the mark in different environments.

In addition, investments in corporate bonds are subject to risks related to an issuer's financial condition, ability to meet its obligations, and willingness or ability to make principal payments or declare distributions. The value of corporate bonds may be subject to steep declines or increased volatility due to increases in interest rates and inflation. Investments in asset-backed securities bear the risks of exhaustion of credit support or enhancement and a shift in the market perception of credit worthiness. During periods of declining interest rates, prepayments can be expected to accelerate, and such prepayments will shorten these securities' weighted average life and may change their projected return. Conversely, in a rising interest rate environment, a declining prepayment rate will extend the weighted average life of these securities which generally would cause their values to fluctuate more widely in response to changes in interest rates. Treasuries and agencies are subject to the risks of changes in their value resulting from changes in US interest rates as well as market and credit risk associated with the US government. Sovereigns are subject to the risks posed by changes in the interest rates and credit and market risk associated with currency and government of their domicile as well as inherent political /government risk. Derivatives may pose risks in addition to and greater than those associated with investing directly in securities or other investments, including risks relating to imperfect correlations with underlying investments or the strategies' other portfolio holdings, high price volatility, lack of availability, counterparty credit, liquidity, valuation, legal restrictions, and mark to market requirements. Their use is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. Finally, some of our strategies may incorporate the use of leverage, through borrowings or instruments such as derivatives. The use of leverage may cause the strategy to be more volatile and riskier than if it had not been leveraged.

- *Long/Short Equity Strategies:* The strategies are managed using a multi-stage proprietary evaluation process to generate an expected return for individual stocks that guide the generation of long/short portfolios. The process uses fundamentally-based, forward-looking forecasts of equity cash flows to generate return expectations for individual stocks. Then, the expected returns for the universe of stocks are further evaluated using quantitative techniques to estimate the market's implied valuation of broad market risk factors (such as company size, enterprise valuation, profitability, sector) as well as the company-specific risks unique to each company. Finally, a portfolio is constructed within total risk and exposure guidelines that buys long the stocks (or derivatives that give exposure to stocks) that give the portfolio both the broad risk characteristics and company-specific risks that are perceived to be undervalued and sells short stocks (or derivatives that give exposure to stocks) for which those characteristics are perceived to be overpriced. "Alpha" refers to the potential to achieve

returns that are favorable relative to the amount of market risk taken. The Adviser may invest in cash or cash-type securities (high-quality, short-term debt securities issued by corporations, financial institutions, the U.S. government or foreign governments) as a temporary defensive position to avoid losses during adverse market conditions. Taking a temporary defensive position could reduce the benefit to the strategy if the market goes up. In this case, the strategy may not achieve its investment goal.

- *Quantitative Strategies:* These strategies are quantitative in nature, meaning statistical analysis and mathematical techniques are generally utilized to structure portfolios to meet specific risk/reward objectives, overall risk, and tracking error targets. The Adviser may use quantitative methods to construct portfolios that correlate highly with the performance (or inverse performance) of their respective benchmarks or market sectors, on a leveraged or unleveraged basis. Quantitative methods may also be used to model return expectations and select securities based on measurable security characteristics contained in accounting and market data. Statistical techniques and qualitative considerations may be used to determine the optimal mix of assets for each portfolio. For the Rydex Funds, the Adviser places particular emphasis on controlling risk relative to each portfolio's benchmark or market sector in order to maintain consistency and predictability. Depending on the investment strategy, a broad range of securities, instruments and investment vehicles are utilized in the management of the products, including but not limited to equities, fixed income securities, and exchange-traded and over-the-counter derivatives. The Adviser's quantitative strategies include the following:
  - *Multi-Hedge Strategies:* The Adviser seeks to develop and implement investment strategies designed to achieve the fund's objective by evaluating quantitative and qualitative inputs to determine the optimal mix of strategies. The Adviser places particular emphasis on controlling risk at the strategy and portfolio levels. Based on market observations and internal and external research, the Adviser employs directional and non-directional strategies which can be categorized into traditional hedge fund styles, including but not limited to Equity Long/Short, Equity Market Neutral, Global Macro, Merger Arbitrage, and Fixed Income Strategies. These strategies are then combined with the objective of creating returns which are differentiated from those of traditional equities and bonds over longer time periods. The Adviser utilizes several proprietary quantitative models and market insights in allocating among its investment strategies with the intent of generating capital appreciation while managing risk.
  - *Managed Futures Strategy:* The Managed Futures strategy seeks to achieve absolute returns. The strategy intends to invest in multiple proprietary and third-party investment strategies that seek to identify and profit from upcoming movements in any combination of global fixed income, currency, commodity, or equity markets. The strategies may be quantitative or fundamental in nature and may use market data and macroeconomic analysis to determine positions. The proprietary strategies may range from broad strategies that seek to provide exposure to all markets to focused strategies that seek to provide exposure to a single asset class, sector, or market. The Adviser will employ both quantitative and qualitative methods to assess and manage the level of risk, and to seek to improve returns over time. The estimated risk of each



position as measured by volatility, relative strengths of signals, certain macroeconomic views of the Adviser, and other factors, may be used to determine the relative size of positions.

## **Investment Risks**

The investment activities of the Adviser involve a significant degree of risk of loss that you should be prepared to bear. This section contains a summary of the primary risks associated with the Adviser's investment activities. However, it is not possible to identify all of the risks associated with investing, and the particular risks applicable to a client (*e.g.*, SMA or Registered Fund) will depend on the nature of a client's investment strategy or strategies and the types of investments held by the client.

While the Adviser seeks to manage accounts so that risks are appropriate to the return potential for the strategy, it is often not possible or desirable to fully mitigate risks. Any investment includes the risk of loss and there can be no guarantee that a particular level of return or objective will be achieved.

Clients and shareholders/investors should be aware that mandates may be limited to certain types of investments (*e.g.*, small and mid-cap equity securities) and may not be diversified. The Adviser's investment activities are generally not intended to provide a complete investment program and the Adviser expects that the assets it manages do not represent all of a client's or shareholder's/investor's assets. Clients and shareholders/investors are responsible for appropriately diversifying their assets to guard against the risk of loss. Investors in the Registered Funds are urged to consult the relevant Registered Fund's Prospectus and Statement of Additional Information for further information related to the specific risks of an investment in that Registered Fund.

**Active Trading Risk** – A Registered Fund may be used as a tool for certain investors that employ trading strategies involving frequent trading. Such trading strategies may lead to increased portfolio turnover and higher transaction costs. Large movements of assets into and out due to active or frequent trading also may adversely affect the client's ability to achieve their investment objective.

**Asset-Backed and Mortgage-Backed Securities Risk** – Clients may have exposure to asset-backed securities, including mortgage-backed securities and structured finance investments. Clients investing in these securities generally receive payments that are part interest and part return of principal. These payments may vary based on the rate at which the underlying borrowers pay off their loans. Some asset-backed securities, including mortgage-backed securities, may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices very volatile and they are subject to liquidity risk.

**Residential Mortgage-Backed Securities** - Residential mortgage-backed securities may be particularly sensitive to changes in interest rates given that rising interest rates tend to extend the duration of fixed-rate mortgage-backed securities. As a result, a rising interest rate environment can cause the prices of mortgage-backed securities to be increasingly volatile, which may adversely affect the client's holdings of mortgage-backed securities. In light of the current interest rate environment, the client's investments in these securities may be subject to heightened interest rate risk. Investments

in non-agency residential mortgage-backed securities are subject to increased interest rate risk and other risks, such as credit and liquidity and valuation risks.

**Commercial Mortgage-Backed Securities** - Investments in commercial mortgage-backed securities (“CMBS”) are backed by commercial mortgage loans that may be secured by office properties, retail properties, hotels, mixed use properties or multi-family apartment buildings and are particularly subject to the credit risk of the borrower and the tenants of the properties securing the commercial mortgage loans. CMBS are also subject to the risk that the value of such securities will decline because, among other things, the securities are not issued or guaranteed as to principal or interest by the U.S. government or a government sponsored enterprise. CMBS often are issued in the form of several different tranches. Depending on their respective seniority, individual tranches are subject to increased (and sometimes different) credit, prepayment and liquidity and valuation risks as compared to other tranches. These securities are often subject to prepayment and liquidity and valuation risks.

**Borrowing Risk** - Certain client accounts may borrow money for several purposes, including investment purposes (i.e., to purchase additional portfolio securities). The client’s borrowings, which would be in the form of loans from banks, may be on a secured or unsecured basis and at fixed or variable rates of interest. The client’s ability to obtain leverage through borrowings is dependent upon its ability to establish and maintain an appropriate line of credit. Borrowing also will cost the client interest expense and other fees. The cost of borrowing may reduce the client’s return. In addition to any more stringent terms imposed by a lender, the 1940 Act requires the client to maintain continuous asset coverage of not less than 300% with respect to all borrowings. This would allow the client to borrow for such purposes an amount equal to as much as 33 1/3% of the value of its total assets. The client will borrow only if the value of the client’s assets, including borrowings, is equal to at least 300% of all borrowings, including the proposed borrowing. If at any time the client should fail to meet this 300% coverage requirement, within three business days, the client will seek to reduce its borrowings to meet the requirement. The client may be required to dispose of portfolio investments on unfavorable terms if market fluctuations reduce its asset coverage to less than 300%.

**Capitalization Risk** - A client’s investment may be composed primarily of, or have significant exposure to, securities in a particular capitalization range, e.g., large-, mid- or small-cap securities. As a result, a client may be subject to the risk that the predominate capitalization range represented in a client’s portfolio may underperform other segments of the equity market or the equity market as a whole. Larger, more established companies may be unable to respond quickly to new competitive challenges such as changes in technology and many not be able to attain the high growth rate of smaller companies, especially during extended periods of economic expansion. In comparison to securities of companies with larger capitalizations, securities of small and medium-capitalization companies may experience more price volatility (especially during periods of economic uncertainty), greater spreads between their bid and ask prices, significantly lower trading volumes, and cyclical or static growth prospects. Small and medium-capitalization companies often have limited product lines, markets or financial resources, and may therefore be more vulnerable to adverse developments than larger capitalization companies. These securities may not pay dividends. Securities of smaller companies may present additional risks because their earnings are less predictable, and their securities are often less liquid than those of larger, more established companies.

**Collateralized Loan Obligations and Collateralized Debt Obligations Risk** - Through its investments in other investment companies, the client may have exposure to CLOs. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. The cash flows from the trust are split into two or more portions, called tranches, varying in risk and yield. CLOs tranches can experience substantial losses due to actual defaults, increase sensitivity to defaults due to collateral defaults and disappearance of protecting tranches, market anticipation of defaults, as well as aversion to CLO securities as a class. The risks of an investment in a CLO depend largely on the type of the collateral securities and the class of the CLO in which the client invests. loans and the tranche of CLOs in which a client invests. In addition, CLOs carry risks including interest rate risk, credit risks and default risk. Certain CLOs may not hold loans directly, but rather, use derivatives such as swaps to create “synthetic” exposure to the collateral pool of loans.

Collateralized debt obligations (“CDOs”) are structured similarly to CLOs and bear the same risks as CLOs including interest rate risk, credit risk and default risk. CDOs are subject to additional risks because they are backed by pools of assets other than loans including securities (such as other asset-backed securities), synthetic instruments or bonds and may be highly leveraged. Like CLOs, losses incurred by a CDO are borne first by holders of subordinate tranches. Accordingly, the risks of CDOs depend largely on the type of underlying collateral and the tranche of CDOs in which the client invests. For example, CDOs that obtain their exposure through synthetic investments entail the risks associated with derivative instruments.

**Commercial Paper Risk** - The value of the client’s investment in commercial paper, which is an unsecured promissory note that generally has a maturity date between one and 270 days and is issued by a U.S. or foreign entity is susceptible to changes in the issuer’s financial condition or credit quality. Investments in commercial paper are usually discounted from their value at maturity. Commercial paper can be fixed-rate or variable rate and can be adversely affected by changes in interest rates.

**Commodity Exposure Risk** - The client may have investment exposure to the commodities markets and one or more sectors of the commodities markets, which may subject the client to greater volatility than investments in traditional securities, such as stocks and bonds. Volatility in the commodities markets may be caused by changes in overall market movements, commodity index volatility, domestic and foreign political and economic events and policies, war, acts of terrorism, changes in domestic or foreign interest rates and/or investor expectations concerning interest rates, domestic and foreign inflation rates, investment and trading activities of mutual funds, hedge funds and commodities funds, and factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and other regulatory developments, or supply and demand disruptions. The prices of energy, industrial metals, precious metals, agriculture and livestock sector commodities may fluctuate widely due to factors such as changes in value, supply and demand and governmental regulatory policies. Because performance may be linked to the performance of volatile commodities, investors should be willing to assume the risks of potentially significant fluctuations in the value of the shares

**Commodities-Linked Derivatives Investments Risk** - The client may invest directly and indirectly in commodity-linked derivative instruments. The value of a commodity-linked derivatives investment typically is based upon the price movements of a physical commodity (such as heating oil, livestock, or agricultural

products), a commodity futures contract or commodity index, or some other readily measurable economic variable dependent upon changes in the value of commodities or the commodities markets. The value of these securities will rise or fall in response to changes in the underlying commodity or related benchmark or investment. These securities expose the client economically to movements in commodity prices. The client's investment in commodity-related investment products may lead to losses in excess of the client's investment in such products. Such losses can significantly and adversely affect the net asset value and, consequently, a shareholder's interest.

**Concentration Risk** - A client account that is less diversified across countries, geographic regions, sectors or industries is generally riskier than more diversified accounts. A client account that focuses on a single country, or a specific region, sector or industry, is more exposed to that country's, regions, sector's or industry's economic cycles, stock market valuations and political risks, among others, compared with a more diversified account. The economies and financial markets of certain regions can be interdependent and may be adversely affected by the same events.

**Conflicts of Interest Risk** - The Investment Manager will have the authority to select and substitute underlying funds. The Investment Manager is subject to conflicts of interest in doing so when it allocates the client's assets among the various underlying funds, both because the fees payable to it by some underlying funds may be higher than the fees payable by other underlying funds and because the Investment Manager or an affiliate may also be responsible for managing affiliated underlying funds.

**Convertible Securities Risk** - Convertible securities may be subordinate to other securities. The total return for a convertible security depends, in part, upon the performance of the underlying security into which it can be converted. The value of convertible securities tends to decline as interest rates increase. Convertible securities generally offer lower interest or dividend yields than non-convertible securities of similar quality.

**Correlation and Compounding Risk** - A number of factors may affect a client's ability to achieve a high degree of correlation and there can be no guarantee that a client will achieve a high degree of correlation. Failure to achieve a high degree of correlation may prevent a client from achieving its investment objective. The client does not attempt to, and should not be expected to, provide returns which are a multiple of the returns of the underlying index for periods other than a single day. The risk of the client not achieving the daily investment objective will be more acute when the underlying index has an extreme one-day movement approaching 50%. In addition, as a result of compounding, the client's performance for periods greater than one day is likely to be either greater than or less than the performance of the underlying index times the stated multiple in the client's investment objective, before accounting for fees and client expenses.

Compounding affects the performance of all investments over time but has a more significant impact on a leveraged index client. In general, particularly during periods of higher index volatility, compounding will cause longer-term results to be more or less than the return of the Fund's benchmark. This effect becomes more pronounced as volatility increases.

**Counterparty Credit Risk** - A client may invest in financial instruments involving counterparties that attempt to gain exposure to a particular group of securities, index, asset class or other reference asset without actually purchasing those securities or investments, to hedge a position or for other investment purposes. The

client's use of such financial instruments, including swap agreements, involves risks that are different from those associated with ordinary portfolio securities transactions. For example, through these investments and related arrangements (e.g., prime brokerage or securities lending arrangements or derivative transactions), the client is exposed to credit risks that the counterparty may be unwilling or unable to make timely payments or otherwise to meet its contractual obligations or may fail to return holdings that are subject to the agreement with the counterparty. If the counterparty becomes bankrupt or defaults on (or otherwise becomes unable or unwilling to perform) its payment or other obligations to the client, the client may not receive the full amount that it is entitled to receive. If this occurs, the value of the client's account will decrease.

**Credit Risk** - A client could lose money if the debt securities or other instruments in which they invest decline in price, or the issuer or guarantor of such instrument fails to pay interest or principal when due because the issuer or guarantor of the instrument experiences an actual or perceived decline in its financial status. Generally, credit risk is increased when a portfolio security is downgraded or the perceived creditworthiness of the issuer or guarantor deteriorates, though the effect of any credit rating downgrade can be uncertain. An investment in below investment grade instruments will be exposed to a greater amount of credit risk than an investment in investment grade securities. In addition, to the extent credit derivatives are used, such use will expose a client to additional risk in the event that the bonds underlying the derivatives default. The degree of credit risk depends on the issuer's or guarantor's financial condition and on the terms of the instruments.

**Currency Risk** - A client's indirect and direct exposure to foreign currencies subjects a client to the risk that those currencies will decline in value relative to the U.S. dollar, or, in the case of short positions, that the U.S. dollar will decline in value relative to the currency being hedged. A client also may incur transaction costs in connection with conversions between various currencies.

**Cyber Security and Operational Risk** - Cyber incidents, which can be perpetrated by a variety of means, may result in actual or potential adverse consequences for critical information and communications technology, systems and networks that are vital to the client or service providers' operations. A cyber incident could adversely impact a client or service providers by, among other things, interfering with the processing of shareholder transactions or other operational functionality, impacting the ability to calculate the net asset value or other data, causing the release of private or confidential information, impeding trading, causing reputational damage, and subjecting a client to fines, penalties or financial losses. These types of adverse consequences could also result from other operational disruptions or failures arising from, for example, processing errors, human errors, and other technological issues. In each case, the ability to calculate the net asset value correctly, in a timely manner or process trades or shareholder transactions may be adversely affected, including over a potentially extended period. The clients and service providers may directly bear these risks and related costs.

**Depository Receipt Risk** - A client may hold the securities of non-U.S. companies in the form of ADRs. The underlying securities of the ADRs in a client's portfolio are subject to fluctuations in foreign currency exchange rates that may affect the value of the client's portfolio. In addition, the value of the securities underlying the ADRs may change materially when the U.S. markets are not open for trading. Investments in

the underlying foreign securities also involve political and economic risks distinct from those associated with investing in the securities of U.S. issuers.

**Derivatives Risk** - Investments in derivatives may pose risks in addition to and greater than those associated with investing directly in securities or other investments, including risks relating to leverage, imperfect correlations with underlying investments or the other portfolio holdings, high price volatility, lack of availability, counterparty credit, liquidity, valuation and legal restrictions. Their use is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. If the Adviser is incorrect about its expectations of market conditions, the use of derivatives could also result in a loss, which in some cases may be unlimited. Some of the derivatives in which the client invests may be traded (and privately negotiated) in the OTC market. OTC derivatives are subject to heightened credit, liquidity and valuation risks. Certain risks are specific to the derivatives in which the client invests.

**Swap Agreements Risk** - Swap agreements are contracts to exchange the return of the pre-determined underlying investment (such as the rate of return of the underlying index). Swap agreements may be negotiated bilaterally and traded OTC between two parties or, in some instances, must be exchange-traded through a futures commission merchant and/or cleared through a clearinghouse that serves as a central counterparty. Risks associated with the use of swap agreements are different from those associated with ordinary portfolio securities transactions, due in part to the fact they could be considered illiquid and many swaps trade on the OTC market. Swaps are particularly subject to counterparty credit, correlation, valuation, liquidity and leveraging risks. Certain standardized swaps are subject to mandatory central clearing. Exchange trading and central clearing do not make swap transactions risk-free. Additionally, applicable regulators have adopted rules imposing certain margin requirements, including minimums, on OTC swaps, which may result in the Fund and its counterparties posting higher margin amounts for OTC swaps.

**Futures Contracts Risk** - Futures contracts are exchange-traded contracts that call for the future delivery of an asset at a certain price and date, or cash settlement of the terms of the contract. Risks of futures contracts may be caused by an imperfect correlation between movements in the price of the instruments and the price of the underlying assets. In addition, there is the risk that the client may not be able to enter into a closing transaction because of an illiquid market. Exchanges can limit the number of positions that can be held or controlled by the Adviser, thus limiting the ability to implement certain strategies. Futures markets are highly volatile, and the use of futures may increase the volatility of the value of the client's account. Futures also are subject to leverage risks and to liquidity risk.

**Options Contracts Risk** - Options or options on futures contracts give the holder of the option the right, but not the obligation, to buy (or to sell) a position in a security or in a contract to the writer of the option, at a certain price. They are subject to correlation risk because there may be an imperfect correlation between the options and the securities markets that cause a given transaction to fail to achieve its objectives. The successful use of options depends on the Adviser's ability to correctly predict future price fluctuations and the degree of correlation between the markets for options and securities markets. Exchanges can limit the number of positions that can be held thus limiting the

ability to implement certain strategies. Options also are particularly subject to leverage risk and can be subject to liquidity risk.

**Dividend-Paying Stock Risk** - A strategy of investing in dividend-paying stocks involves the risk that such stocks may fall out of favor with investors and underperform the market. Companies that issue dividend-paying stocks are not required to continue to pay dividends on such stocks. Therefore, there is the possibility that such companies could reduce or eliminate the payment of dividends in the future or the anticipated acceleration of dividends could not occur as a result of, among other things, a sharp rise in interest rates or an economic downturn. Changes in the dividend policies of companies and capital resources available for these companies' dividend payments may adversely affect the Series. Depending upon market conditions, dividend-paying stocks that meet the Series' investment criteria may not be widely available and/or may be highly concentrated in only a few market sectors.

**Dollar Roll Transaction Risk** - The client may enter into dollar roll transactions, in which the client sells a mortgage-backed or other security for settlement on one date and buys back a substantially similar security for settlement at a later date. Dollar rolls involve a risk of loss if the market value of the securities that the client is committed to buy declines below the price of the securities the client has sold.

**Early Closing Risk** - The risk that unanticipated early closings of securities exchanges and other financial markets may result in the client's inability to buy or sell securities or other financial instruments on that day and may cause a client to incur substantial trading losses.

**Emerging Markets Risk** - The client's investments may have exposure to emerging markets. Emerging markets can be subject to greater social, economic, regulatory, and political uncertainties and can be extremely volatile because they are countries or markets with low- to middle-income economies as classified by the World Bank, and other countries or markets with similar characteristics as determined by the Advisor.

**Equity Securities Risk** - Equity securities include common stocks and other equity and equity-related securities (and securities convertible into stocks). The prices of equity securities generally fluctuate in value more than other fixed-income investments, may rise or fall rapidly or unpredictably and may reflect real or perceived changes in the issuing company's financial condition and changes in the overall market or economy. A decline in the value of equity securities held by the client will adversely affect the value of your investment in the client. Common stocks generally represent the riskiest investment in a company and dividend payments (if declared) to preferred stockholders generally rank junior to payments due to a company's debtholders. A client is subject to the risk that the value of the equity securities and equity-based derivatives in the client's portfolio will decline due to volatility in the equity market caused by general market and economic conditions, perceptions regarding particular industries represented in the equity market, or factors relating to specific companies to which the client has investment exposure.

**Exchange Traded Notes ("ETNs") Risk** - ETNs are a type of unsecured, unsubordinated debt security that have characteristics and risks similar to those of fixed-income securities and trade on a major exchange and gives exposure to underlying investments, which may themselves be equity or fixed income investments. The value of an ETN may be influenced by time to maturity, level of supply and demand for the ETN,

volatility and lack of liquidity in underlying markets, changes in the applicable interest rates, changes in the issuer's credit rating and economic, legal, political or geographic events that affect the referenced investment. A client's decision to sell ETN holdings also may be limited by the availability of a secondary market. ETNs are also subject to counterparty credit risk (which includes the risk that the issuer may fail).

**Extension Risk** - Certain debt instruments, including mortgage- and other asset-backed securities, are subject to the risk that payments on principal may occur at a slower rate or later than expected. In this event, the expected maturity could lengthen, and the client's investment may sharply decrease in value and the client's income from the investment may quickly decline. These types of instruments are particularly subject to extension risk, and offer less potential for gains, during periods of rising interest rates. In addition, the client may be delayed in its ability to reinvest income or proceeds from these instruments in potentially higher yielding investments, which would adversely affect the client.

**Foreign Issuer Exposure Risk** - A client may invest in securities of foreign companies directly, or in financial instruments, that are indirectly linked to the performance of foreign issuers. The client's investments in foreign securities and foreign issuers are subject to additional risks in comparison to U.S. securities and U.S. issuers, including currency fluctuations, adverse political and economic developments, unreliable or untimely information, less liquidity, limited legal recourse and higher transactional costs.

**Foreign Securities and Currency Risk** - Investing in foreign investments, including investing in foreign securities through ADRs and GDRs, involves certain special or additional risks, including, but not limited to: (i) unfavorable changes in currency exchange rates; (ii) unfavorable changes in applicable regulations; (iii) adverse political and economic developments; (iv) unreliable or untimely information; (v) limited legal recourse; (vi) limited markets; (vii) higher operational expenses; and (viii) illiquidity. These investments are subject to additional risks, including: differing reporting, accounting, and auditing standards; nationalization, expropriation, or confiscatory taxation; foreign currency fluctuations, currency blockage, or replacement; potential for default on sovereign debt; or other diplomatic developments, which may include the imposition of economic sanctions or other measures by the U.S. or other governments and supranational organizations or changes in trade policies. These risks may even be higher in underdeveloped or emerging markets. The less developed a country's securities market is, the greater the level of risks. A Registered Fund considers a security to be a foreign security if the issuer is organized under the laws of a foreign country or is a foreign government, or a sub-division or agency of such government, or the security is traded in markets outside the United States.

**Geographic Concentration Risk** - Clients that are less diversified across countries or geographic regions are generally riskier than more geographically diversified funds. A client that focuses on a single country or a specific region is more exposed to that country's or region's economic cycles, currency exchange rates, stock market valuations and political risks (including defense concerns), among others, compared with a more geographically diversified fund. The economies and financial markets of certain regions, such as Asia or Eastern Europe, can be interdependent and may be adversely affected by the same events. In addition, many of these countries and regions have recently experienced economic downturns, making their markets more volatile than U.S. markets.



**Growth Stocks Risk** - Investments in growth stocks may lack the dividend yield that can cushion stock prices in market downturns. Growth companies often are expected to increase their earnings at a certain rate. If expectations are not met, investors can punish the stocks, even if earnings do increase.

**High Yield and Unrated Securities Risk** - The client's exposure to higher yielding, below investment grade and unrated high-risk debt securities (commonly known as "junk bonds") may present additional risk because these securities may be less liquid and present greater credit risk than investment grade bonds. The price of high yield securities tends to be subject to greater volatility due to issuer-specific operating results and outlook and to real or perceived adverse economic and competitive industry conditions. This exposure may be obtained through investments in other investment companies.

**Hybrid Instruments Risk** - Hybrid instruments combine the characteristics of securities, futures and options. Typically, a hybrid instrument combines a traditional stock, bond or commodity with an option or forward contract. Generally, the principal amount, amount payable upon maturity or redemption, or interest rate of a hybrid is tied to the price of some security, commodity, currency or securities index, or another interest rate or some other economic factor. Hybrid instruments can be used as an efficient means of pursuing a variety of investment goals, including currency hedging and increased total return. The risks of such investments would reflect the risks of investing in futures, options and securities, including volatility and illiquidity. Such securities may bear interest or pay dividends at below market (or even relatively nominal) rates. Under certain conditions, the redemption value of such an investment could be zero.

**Industry Concentration Risk** – A client may concentrate its investments in a limited number of issuers conducting business in the same industry or group of related industries. As a result, the client is more vulnerable to adverse market, economic, regulatory, political or other developments affecting such industry or group of related industries than a client that invests its assets more broadly. The industries in which the underlying index components, and thus the client's assets, may be concentrated will vary as the composition of the underlying index changes over time. To the extent the client's portfolio investments are concentrated in securities issued by companies in the Aerospace & Defense Industry, the underlying index components, and thus the client's investments, are concentrated (*i.e.*, 25% or more of its assets) in securities issued by companies in the Aerospace & Defense Industry. As a result of the client's concentration in the Aerospace & Defense Industry, the client is subject to the risks associated with that industry. Companies in the Aerospace & Defense Industry rely to a large extent on government demand for their products and services and may be significantly affected by changes in legislative or government regulations and spending policies, as well as economic conditions and industry consolidation. The aerospace industry, in particular, has recently been affected by adverse economic conditions and industry consolidation. In addition, deregulation has substantially diminished the U.S. government's role within the airline industry. Competition, labor relations and the price of fuel also can affect the Aerospace & Defense Industry. The Aerospace & Defense Industry is a separate industry within the Industrials Sector.

**Interest Rate Risk** - Investments in fixed-income instruments and other debt instruments are subject to the possibility that interest rates could rise sharply, which may cause the value of the client's holdings and share price to decline. Changes in interest rates may also affect the liquidity of the client's investments in fixed-

income instruments. The risks associated with rising interest rates are heightened given the recent near historically low interest rate environment and current increasing interest rate environment. The market value of fixed income investments and related financial instruments will change in response to interest rate changes. During periods of falling interest rates, the values of fixed income securities generally rise. Conversely, during periods of rising interest rates, the values of such securities generally decline. Securities with greater interest rate sensitivity and longer maturities generally are subject to greater fluctuations in value. Investments may consist of variable and floating rate securities. Although these instruments are generally less sensitive to interest rate changes than fixed rate instruments, the value of floating rate and variable securities may decline if their interest rates do not rise as quickly, or as much, as general interest rates.

**Investments by Investing Funds and Other Large Shareholders**—The client is subject to the risk that a large investor, including certain other investment companies, purchases or redeems a large percentage of client shares at any time. As a result, the client's performance or liquidity may be adversely affected as the client tends to hold a large proportion of its assets in cash and may have to sell investments at disadvantageous times or prices to meet large redemption requests.

**Investment in Investment Vehicles Risk** —Investing in other investment vehicles, including exchange-traded funds (“ETFs”), closed-end funds, affiliated short-term fixed income funds and other mutual funds, subjects the client to those risks affecting the investment vehicle, including the possibility that the value of the underlying securities held by the investment vehicle could decrease or the portfolio becomes illiquid. Moreover, the client and its shareholders will incur its pro rata share of the underlying vehicles’ expenses, which will reduce the client’s performance. In addition, investments in an ETF are subject to, among other risks, the risk that the ETF’s shares may trade at a discount or premium relative to the net asset value of the shares and the listing exchange may halt trading of the ETF’s shares.

**Investment in Loans Risk** - The client may invest in loans through assignments, participations or directly. Investing in loans involves special types of risks, including credit risk, interest rate risk, counterparty risk and prepayment risk. Loans may offer a fixed or floating interest rate. Loans are often generally below investment grade and may be unrated. Loans may be difficult to value and some can be subject to liquidity risk. The client is also subject to the risk that the value of any collateral for the loan may be insufficient or unavailable to cover the borrower’s obligations should the borrower fail to make payments, become insolvent, or otherwise default. Participations in loans may subject the client to the credit risk of both the borrower and the issuer of the participation and may make enforcement of loan covenants, if any, more difficult for the client as legal action may have to go through the issuer of the participation (or an agent acting on its behalf). Transactions in loans are often subject to long settlement periods, thus potentially limiting the ability of the client to invest sale proceeds in other investments and to use proceeds to meet its current redemption obligations.

**Investment in the Subsidiary Risk** - Certain strategies may invest in wholly-owned and controlled Cayman Islands subsidiaries (each, a “Subsidiary” and together, the “Subsidiaries.”) The Subsidiaries are not registered under the 1940 Act and are generally not subject to all of the investor protections of the 1940 Act. Thus, certain strategies, as the sole investor in their respective Subsidiaries, will not have all of the protections offered to shareholders of registered investment companies. By investing in the Subsidiaries, certain clients

are exposed to the risks of the Subsidiaries' investments, which in turn will be exposed primarily to the risks of investing in the commodities markets. Each applicable client also will incur its pro rata share of the expenses of its Subsidiary. In addition, changes in the laws of the United States or the Cayman Islands, under which certain of the clients and the Subsidiaries, respectively, are organized, could result in the inability of a clients and/or the Subsidiaries to operate as intended and could negatively affect a client.

**Large-Capitalization Securities Risk** - A client is subject to the risk that large-capitalization stocks may underperform other segments of the equity market or the equity market as a whole. Larger, more established companies may be unable to respond quickly to new competitive challenges such as changes in technology and may not be able to attain the high growth rate of smaller companies, especially during extended periods of economic expansion.

**Leveraging Risk** - The client achieves leveraged exposure to the underlying index through the use of derivative instruments. The more the client invests in leveraged instruments, the more this leverage will magnify any losses on those investments. The client's investment in these instruments generally requires a small investment relative to the amount of investment exposure assumed. As a result, such investments may give rise to losses that exceed the amount invested in those instruments. Since the client's investment strategy involves consistently applied leverage, the value of the client's shares will tend to increase or decrease more than the value of any increase or decrease in the underlying index. Leverage also will have the effect of magnifying tracking error.

**Liquidity and Valuation Risk** - In certain circumstances, it may be difficult for the client to purchase and sell a particular investment within a reasonable time at a fair price, or the price at which it has been valued by the Advisor for purposes of the Fund's NAV, causing the client to be less liquid. While the client intends to invest in liquid securities and financial instruments, under certain market conditions, such as when trading in a particular investment has been halted temporarily by an exchange because the maximum price change of that investment has been realized, it may be difficult or impossible for the client to liquidate such investments. In addition, the ability of the client to assign an accurate daily value to certain investments may be difficult, and the Advisor may be required to fair value the investments.

**Management Risk** – The client is actively managed, which means that investment decisions are made based on investment views. There is no guarantee that the investment views will produce the desired results or expected returns, causing the client to fail to meet its investment objective or underperform its benchmark index or funds with similar investment objectives and strategies. Furthermore, active trading that can accompany active management, also called “high turnover,” may have a negative impact on performance. Active trading may result in higher brokerage costs or mark-up charges, which are ultimately passed on to a client. Active trading may also result in adverse tax consequences.

**Market Risk** – The market value of the securities and derivatives held by the client may fluctuate over time in response to factors affecting individual companies or other factors such as changing economic, political or financial markets.

**Mid-Capitalization Securities Risk** - A client is subject to the risk that medium-capitalization stocks may underperform other segments of the equity market or the equity market as a whole. Securities of medium-capitalization companies may experience more price volatility, greater spreads between their bid and ask prices, lower trading volumes, and cyclical or static growth prospects. Medium-capitalization companies often have limited product lines, markets or financial resources, and may therefore be more vulnerable to adverse developments than larger capitalization companies.

**Municipal Securities Risk** - Municipal securities are subject to a variety of risks, including credit, interest, prepayment, liquidity, and valuation risks. In addition, municipal securities can be adversely affected by (i) unfavorable legislative, political or other developments or events, including natural disasters, and (ii) changes in the economic and fiscal conditions of state and municipal issuers or the federal government in case it provides financial support to such issuers. To the extent a client invests a substantial portion of its assets in securities issued by a particular state or municipality, the client will be particularly sensitive to developments and events adversely affecting such issuer. Certain sectors of the municipal bond market have special risks that can affect them more significantly than the market as a whole. Because many municipal instruments are issued to finance similar projects, conditions in these industries can significantly affect the overall municipal market. Municipal securities that are insured by an insurer may be adversely affected by developments relevant to that particular insurer, or more general developments relevant to the market as a whole. Municipal securities can be difficult to value and be less liquid than other investments, which may affect performance or the ability to meet redemption requests.

**Non-Diversification Risk** – The client is considered non-diversified and can invest a greater portion of its assets in securities of individual issuers than a diversified client. As a result, changes in the market value of a single issuer's securities could cause greater fluctuations in the value of client shares than would occur in a diversified fund.

**OTC Trading Risk** – Certain of the derivatives in which the client may invest may be traded (and privately negotiated) in the OTC market. While the OTC derivatives market is the primary trading venue for many derivatives, it is largely unregulated and provides for less transparency than with exchange-traded derivatives. As a result, and similar to other privately negotiated contracts, the client is subject to counterparty credit risk with respect to such derivatives contracts.

**Passive Investment Risk** - For clients that are not actively managed, the Adviser does not attempt to take defensive positions in declining markets. Therefore, a client may be subject to greater losses in a declining market than a client that is actively managed.

**Portfolio Turnover Risk** - Periodic rebalancing of the client's holdings pursuant to a daily investment objective may lead to a greater number of portfolio transactions than experienced by other mutual funds. Such frequent and active trading may lead to significantly higher transaction costs because of increased broker commissions associated with such transactions. Portfolio turnover risk may cause the client's performance to be less than you expect.

**Preferred Securities Risk** - Preferred stock represents an equity interest in a company that generally entitles the holder to receive, in preference to the holders of other stocks such as common stocks, dividends and a

fixed share of the proceeds resulting from a liquidation of the company. Preferred stocks may pay fixed or adjustable rates of return. Preferred stock is subject to issuer-specific and market risks applicable generally to equity securities. In addition, a company's preferred stock generally pays dividends only after the company makes required payments to holders of its bonds and other debt. For this reason, the value of preferred stock will usually react more strongly than bonds and other debt to actual or perceived changes in the company's financial condition or prospects.

**Prepayment and Extension Risk** - Prepayment risk is the risk that the principal on mortgage-backed securities, other asset-backed securities or any debt security with an embedded call option may be prepaid at any time, which could reduce the security's yield and market value. In the case of prepayment risk, if the investment is converted, prepaid or redeemed before maturity, the portfolio manager may not be able to invest the proceeds in other investments providing as high a level of income, resulting in a reduced yield. The rate of prepayments tends to increase as interest rates fall, which could cause the average maturity of the portfolio to shorten. Conversely, extension risk is the risk that an unexpected rise in interest rates will extend the life of a mortgage- or asset-backed security beyond the prepayment time. If investments are locked in at a lower interest rate for a longer period of time, the portfolio manager may be unable to capitalize on securities with higher interest rates or wider spreads. Certain debt instruments, including loans and mortgage- and other asset-backed securities, are subject to the risk that payments on principal may occur more quickly or earlier than expected. In this event, the client might be forced to forego future interest income on the principal repaid early and to reinvest income or proceeds at generally lower interest rates, thus reducing the client's yield. These types of instruments are particularly subject to prepayment risk, and offer less potential for gains, during periods of declining interest rates.

**Quantitative Investing Risk** - There is no guarantee that a quantitative model or algorithm used by the Investment Manager, and the investments selected based on the model or algorithm, will produce the desired results. The client may be adversely affected by imperfections, errors or limitations in the construction and implementation of the model or algorithm and the Investment Manager's ability to properly analyze or timely adjust the metrics or update the data underlying the model or features of the algorithm. Other quantitative methods and techniques used by the Investment Manager, and the investments selected based on these methods and techniques, are also subject to these types of risks.

**Real Estate Investment Trust ("REIT") Risk** - REITs are securities that invest substantially all of their assets in real estate, trade like stocks and may qualify for special tax considerations. Investments in REITs subject a client to risks associated with the direct ownership of real estate. Market conditions or events affecting the overall real estate and REIT markets, such as declining property values or rising interest rates, could have a negative impact on the real estate market and the value of REITs in general. REITs may be affected by changes in the value of the underlying property owned by the trusts, economic downturns which may have a material effect on the real estate in which the REITs invest and their underlying portfolio securities. Further, REITs are dependent upon specialized management skills and may have their investments in relatively few properties, or in a small geographic area or a single property type. Failure of a company to qualify as a REIT under federal tax law may have adverse consequences to the client. In addition, REITs have their own expenses, and the client will bear a proportionate share of those expenses.

**Regulatory and Legal Risk** - U.S. and non-U.S. governmental agencies and other regulators regularly implement additional regulations and legislators may pass new laws that affect the investments held by a client account, the strategies used by the accounts or the level of regulation applying to a client account. These regulations and laws impact the investment strategies, performance, costs and operations of a client accounts.

**Repurchase Agreement and Reverse Repurchase Agreements Risk** - The client'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. In the event of the insolvency of the counterparty to a repurchase agreement or reverse repurchase agreement, recovery of the repurchase price owed to the client or, in the case of a reverse repurchase agreement, the securities sold by the client, may be delayed. Because reverse repurchase agreements may be considered to be the practical equivalent of borrowing funds, they constitute a form of leverage. If the client reinvests the proceeds of a reverse repurchase agreement at a rate lower than the cost of the agreement, entering into the agreement will lower the client's yield.

**Restricted Securities Risk** - Restricted securities generally cannot be sold to the public and may involve a high degree of business, financial and liquidity risk, which may result in substantial losses.

**Sector Risk** - The client is subject to the Sector Risks described below.

***Consumer Discretionary Sector Risk.*** The manufacturing segment of the Consumer Discretionary Sector includes automotive, household durable goods, leisure equipment and textiles and apparel. The services segment includes hotels, restaurants and other leisure facilities, media production and services, and consumer retailing and services. The client is subject to the risk that the securities of such issuers will underperform the market as a whole due to legislative or regulatory changes, adverse market conditions and/or increased competition affecting the Consumer Discretionary Sector. The performance of the companies operating in the Consumer Discretionary Companies has historically been closely tied to the performance of the overall economy, and also is affected by economic growth, consumer confidence, attitudes, and spending. Changes in demographics and consumer tastes also can affect the demand for, and success of, consumer products and services in the marketplace. Moreover, the Consumer Discretionary Sector encompasses those business that tend to be the most sensitive to economic cycles.

***Consumer Staples Sector Risk.*** The Consumer Staples Sector includes manufacturers and distributors of food, beverages and tobacco and producers of non-durable household goods and personal products. It also includes food and drug retailing companies as well as hypermarkets and consumer super centers. The client is subject to the risk that the securities of such issuers will underperform the market as a whole due to legislative or regulatory changes, adverse market conditions and/or increased competition affecting the Consumer Staples Sector. The performance of companies operating in the Consumer Staples Sector has historically been closely tied to the performance of the overall economy, and also is affected by consumer confidence, demands and

preferences, and spending. In addition, companies in the Consumer Staples Sector may be subject to risks pertaining to the supply of, demand for, and prices of raw materials.

***Energy Sector Risk.*** The Energy Sector includes companies operating in the exploration and production, refining and marketing, and storage and transportation of oil and gas and coal and consumable fuels. It also includes companies that offer oil and gas equipment and services. The client is subject to the risk that the securities of such issuers will underperform the market as a whole due to legislative or regulatory changes, adverse market conditions and/or increased competition affecting the Energy Sector. The performance of companies operating in the Energy Sector is closely tied to the price and supply of energy fuels and international political events.

***Financials Sector Risk.*** The Financials Sector includes companies involved in banking, thrifts and mortgage finance, specialized finance, consumer finance, asset management and custody banks, investment banking and brokerage and insurance. It also includes Financial Exchanges and Data and Mortgage Real Estate Investment Trusts. The client is subject to the risk that the securities of such issuers will underperform the market as a whole due to legislative or regulatory changes, adverse market conditions and/or increased competition affecting the Financials Sector which may adversely affect a company's ability to fulfill its obligation as a financial counterparty. Companies operating in the Financials Sector are subject to extensive government regulation, which may limit the financial commitments they can make and the interest rates and fees they can charge. Profitability is largely dependent on the availability and cost of capital funds and can fluctuate significantly when interest rates change or due to increased competition.

***Health Care Sector Risk.*** The Health Care Sector includes health care providers and services, companies that manufacture and distribute health care equipment and supplies, and health care technology companies. It also includes companies involved in the research, development, production and marketing of pharmaceuticals and biotechnology products. The client is subject to the risk that the securities of such issuers will underperform the market as a whole due to legislative or regulatory changes, adverse market conditions and/or increased competition affecting the Health Care Sector. The prices of the securities of companies operating in the Health Care Sector are closely tied to government regulation and approval of their products and services, which can have a significant effect on the price and availability of those products and services.

***Industrials Sector Risk.*** The Industrials Sector includes manufacturers and distributors of capital goods such as aerospace and defense, building projects, electrical equipment and machinery and companies that offer construction and engineering services. It also includes providers of commercial and professional services including printing, environmental and facilities services, office services and supplies, security and alarm services, human resource and employment services, research and consulting services. It also includes companies that provide transportation services. The client is subject to the risk that the securities of such issuers will underperform the market as a whole due to legislative or regulatory changes, adverse market conditions and/or increased competition affecting the Industrials Sector. The prices of the securities of Industrials Companies may fluctuate widely due to the level and volatility of commodity prices, the exchange value of the dollar, import controls,

worldwide competition, liability for environmental damage, depletion of resources, and mandated expenditures for safety and pollution control devices.

**Information Technology Sector Risk.** The Information Technology Sector includes companies that offer software and information technology services, manufacturers and distributors of technology hardware and equipment such as communications equipment, cellular phones, computers and peripherals, electronic equipment and related instruments and semiconductors. The client is subject to risk that the securities of such issuers will underperform the market as a whole due to legislative or regulatory changes, adverse market conditions and/or increased competition affecting the Information Technology Sector. The prices of the securities of companies operating in the Information Technology Sector are closely tied to market competition, increased sensitivity to short product cycles and aggressive pricing, and problems with bringing products to market.

**Materials Sector Risk.** Investments are exposed to issuers conducting business in the Materials Sector. The Materials Sector includes companies that manufacture chemicals, construction materials, glass, paper, forest products and related packaging products, and metals, minerals and mining companies, including producers of steel. The client is subject to the risk that the securities of such issuers will underperform the market as a whole due to legislative or regulatory changes, adverse market conditions and/or increased competition affecting the Materials Sector. The prices of the securities of companies operating in the Materials Sector may fluctuate widely due to the level and volatility of commodity prices, the exchange value of the U.S. dollar, import controls, worldwide competition, liability for environmental damage, depletion of resources, and mandated expenditures for safety and pollution control devices.

**Real Estate Sector Risk.** The client's investments are exposed to issuers conducting business in the Real Estate Sector. The Real Estate Sector contains companies operating in real estate development and operation. It also includes companies offering real estate related services and REITs. The client is subject to the risk that the securities of such issuers will underperform the market as a whole due to legislative or regulatory changes, adverse market conditions and/or increased competition affecting the Real Estate Sector. The performance of companies operating in the Real Estate Sector has historically been cyclical and particularly sensitive to the overall economy and market changes, including declines in the value of real estate or, conversely, saturation of the real estate market, economic downturns and defaults by borrowers or tenants during such periods, increases in competition, possible lack of mortgage funds or other limits to accessing the credit or capital markets, and changes in interest rates.

**Utilities Sector Risk.** The client's investments are exposed to issuers conducting business in the Utilities Sector. The Utilities Sector comprises utility companies such as electric, gas and water utilities. It also includes independent power producers and energy traders and companies that engage in generation and distribution of electricity using renewable sources. The client is subject to the risk that the securities of such issuers will underperform the market as a whole due to legislative or regulatory changes, adverse market conditions and/or increased competition affecting the Utilities



Sector. The prices of the securities of companies operating in the Utilities Sector are closely tied to government regulation and market competition.

**Securities Lending Risk** - Loans of securities involve the risk that the borrower may fail to return the securities or deliver the proper amount of collateral, which may result in a loss to a client. In addition, in the event of bankruptcy of the borrower, a client could experience losses or delays in recovering the loaned securities. In some cases, these risks may be mitigated by an indemnification provided by the lending agent. Lending portfolio securities initially will require the borrower to provide the collateral, most commonly cash, which will be invested. Although the collateral investments are made in a conservative manner, it is possible that it could lose money from such an investment or fail to earn sufficient income from its investment to cover the fee or rebate that it has agreed to pay the borrower.

**Shareholder Trading Risk** - The Registered Fund may be used as a tool for certain investors that employ trading strategies involving frequent trading. Such trading strategies may lead to increased portfolio turnover in the Registered Fund, higher transaction costs, and the possibility of increased short-term capital gains (which will be taxable to shareholders as ordinary income when distributed to them) and/or long-term capital gains. Large movements of assets into and out of the Registered Fund due to active or frequent trading also may adversely affect the Registered Fund's ability to achieve its investment objective.

**Short Sale and Short Exposure Risk** - Short selling a security involves selling a borrowed security with the expectation that the value of that security will decline, so that the security may be purchased at a lower price when returning the borrowed security. A short exposure through a derivative exposes a client to a counterparty credit risk and leverage risk. The risk of loss on a short sale or other short exposure is greater than a direct investment in the security itself because the price of the borrowed security may rise, thereby increasing the price at which the security may be purchased. The risk of loss through a short sale or other short exposure may in some cases be theoretically unlimited. Government actions also may affect the client's ability to engage in short selling.

**Small-Capitalization Securities Risk** - A client is subject to the risk that small-capitalization stocks may underperform other segments of the equity market as a whole. Small-capitalization companies may be more vulnerable than larger, more established organizations to adverse business or economic developments. Securities of small-capitalization companies may experience much more price volatility, greater spreads between their bid and ask prices and significantly lower trading volumes, and cyclical or static growth prospects. Small-capitalization companies often have limited product lines, markets or financial resources and may therefore be more vulnerable to adverse developments than larger capitalization companies.

**Sovereign Debt Risk** - Sovereign debt instruments are subject to the risk that a governmental entity may delay or refuse to pay interest or repay principal on its sovereign debt cash flow situation, the extent of its reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward international lenders, and the political constraints to which a sovereign debtor may be subject. Sovereign debt risk is increased for emerging market issuers.

**Special Situations/Securities in Default Risk**—Investments in the securities and debt of distressed issuers or issuers in default involve far greater risk than investing in issuers whose debt obligations are being met and whose debt trade at or close to its “par” or full value because the investments are highly speculative with respect to the issuer’s ability to make interest payments and/or to pay its principal obligations in full and/or on time.

**Strategy Allocation Risk** - The ability of the client to achieve their investment objective depends, in part, on the ability of the Investment Manager to allocate effectively the client’s assets among multiple investment strategies, underlying funds and asset classes. There can be no assurance that the actual allocations will be effective in achieving the client’s investment objective or that an investment strategy or underlying fund will achieve its particular investment objective.

**Tax Risk** - To qualify for the favorable U.S. federal income tax treatment generally available to regulated investment companies, a Registered Fund must derive at least 90% of its gross income for each taxable year from sources generating “qualifying income.” Income derived from direct and certain indirect investments in commodities is not qualifying income. A Registered Fund’s investment in a Subsidiary, if applicable, is expected to provide that Registered Fund with exposure to the commodities markets within the limitations of the federal tax requirements of Subchapter M of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). The Registered Funds have received a private letter ruling from the Internal Revenue Service (the “IRS”) that the income attributable to their investments in a Subsidiary will be qualifying income. In September 2016, however, the IRS issued proposed regulations that would require a Subsidiary to distribute its “Subpart F” income (defined in Section 951 of the Internal Revenue Code to include passive income such as income from commodity-linked derivatives) each year in order for an investing Registered Fund to treat that income as qualifying income. To the extent the IRS finalizes and adopts these regulations, the Registered Funds expects the Subsidiaries will make actual annual distributions in an amount at least equal to the Subpart F income attributed to a Registered Fund. In addition, to the extent the Subsidiary makes such distributions out of earnings and profits, an investing Registered Fund expects such distributions to be treated as qualifying income. The Adviser intends to conduct a Registered Fund’s investments in the Subsidiary in a manner consistent with the terms and conditions of its private letter ruling and applicable Internal Revenue Code regulations and will monitor a Registered Fund’s investments in the Subsidiary to ensure that no more than 25% of the Registered Fund’s assets are invested in the Subsidiary.

**Temporary Defensive Investment Risk** - The Adviser generally does not attempt to take defensive positions in declining markets. Therefore, the client may be subject to greater losses in a declining market than a client that does take defensive positions in declining markets.

**Tracking Error Risk** - The Adviser may not be able to cause a client’s performance to match that of the benchmark, either on a daily or aggregate basis. Factors such as expenses, imperfect correlation between a client’s investments and those of the underlying index, rounding of share prices, changes to the composition of the underlying index, regulatory policies, high portfolio turnover rate, and the use of leverage all contribute to tracking error. Tracking error may cause a client’s performance to be less than you expect.

**Trading Halt Risk** – The client typically will hold short-term options and futures contracts. The major exchanges on which these contracts are traded, such as the Chicago Mercantile Exchange, have established

limits on how much the trading price of an option or futures contract may decline over various time periods within a day, and may halt trading in a contract that exceeds such limits. If a trading halt occurs, a client may temporarily be unable to purchase or sell certain securities, options or futures contracts. Such a trading halt near the time a Registered Fund prices its shares may limit the Registered Fund's ability to use leverage and may prevent the client from achieving its investment objective.

**U.S. Government Securities Risk** - U.S. government securities may or may not be backed by the full faith and credit of the U.S. government. The value of U.S. government securities will fluctuate, and such securities are subject to the risks associated with fixed-income and debt securities, particularly interest rate risk and credit risk.

**Value Stocks Risk** - Investments in value stocks are subject to the risk that their intrinsic values may never be realized by the market or that their prices may go down. While the clients' investments in value stocks may limit downside risk over time, a client may, as a trade-off, produce more modest gains than riskier stock funds.

**Zero Coupon Securities Risk and Payment-In-Kind Securities Risk** - The market value of a zero-coupon or payment-in-kind security, which usually trades at a deep discount from its face or par value, is generally more volatile than the market value of, and is more sensitive to changes in interest rates and credit quality than, other fixed income securities with similar maturities and credit quality that pay interest in cash periodically. Zero coupon and payment-in-kind securities also may be less liquid than other fixed-income securities with similar maturities and credit quality that pay interest in cash periodically. Zero coupon securities pay no interest to holders prior to maturity, and payment-in-kind securities pay interest in the form of additional securities. However, a portion of the original issue discount on zero coupon securities and the "interest" on payment-in-kind securities will be included in the investing client's taxable income. Accordingly, to qualify for tax treatment as a regulated investment company and to avoid certain taxes, the Registered Fund will generally be required to distribute to its shareholders an amount that is greater than the total amount of cash it actually receives with respect to these securities. These distributions must be made from the Registered Fund's cash assets or, if necessary, from the proceeds of sales of portfolio securities. The client will not be able to purchase additional income-producing securities with cash used to make any such distributions, and its current income ultimately may be reduced as a result. Zero coupon and payment-in-kind securities may be more difficult to value than other fixed income securities with similar maturities and credit quality that pay interest in cash periodically.

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment strategy. Prospective and existing investors are encouraged to consult their own financial advisors and legal and tax professionals on an initial and continuous basis in connection with the selection of and investment in a particular strategy or product. In addition, due to the dynamic nature of investments and markets, strategies may be subject to additional and different risk factors not discussed herein.

## **Item 9 – Disciplinary Information**

In April 2009, the Adviser received a notice to show cause from the Securities and Exchange Board of India (“SEBI”) regarding the delay in informing the SEBI of its name change. The Adviser replied according to the procedure outlined by the SEBI and proposed a consent order and fine. The SEBI agreed to the proposed consent and entered such order in September 2009. The fine paid was approximately \$7,053 based on then current exchange rates.

## **Item 10 - Other Financial Industry Activities and Affiliations**

The Adviser is part of a larger group of affiliated companies engaged in the financial services business. The Adviser and its affiliates and their respective officers, directors, partners, employees, and consultants (collectively, “Guggenheim Entities”), provide their clients with a broad array of investment management, insurance, broker-dealer, investment banking, and other services.

### **Broker-Dealer Registration**

Guggenheim Securities, GFD and Guggenheim Investor Services, LLC (“GIS”) are affiliates of the Adviser and are registered broker-dealers (Guggenheim Securities, GFD and GIS together, the “Affiliated Broker-Dealers”). Affiliated Broker-Dealers may engage in transactions with GPIM, an affiliated adviser, or SI.

Certain officers of the Adviser are also registered representatives of GFD.

The Adviser serves as adviser for Registered Funds offered to potential investors by certain of the Affiliated Broker-Dealers, for which the Affiliated Broker-Dealers are paid a sales charge, placement-agent fee, commission or other compensation. Guggenheim Securities also periodically acts as underwriter, initial purchaser, placement agent, financial advisor, arranger and/or structuring advisor with respect to a securities offering or loan and will generally receive a fee from the securities issuer or seller or from the loan borrower, as applicable. Guggenheim Securities Credit Partners, LLC (“GSCP”), an affiliate of Guggenheim Securities, may provide bridge or other financing to potential borrowers, or provide arranging, structuring, administrative agent or similar services to potential borrowers, and will generally receive a fee from the loan borrower for such services. GIS periodically provides structuring and documenting services to issuers and borrowers of unregistered securities and will generally receive a fee from the securities issuer or borrower for these services.

The Adviser and its affiliates may be offered and may purchase investment opportunities for their clients in transactions for which its affiliates, Guggenheim Securities, GSCP or GIS, is involved, and may have an incentive to purchase such investments where such affiliate will receive a fee. Some transactions, depending on the nature of the transaction and Guggenheim Securities’ involvement, are considered Principal Transactions under Section 206(3) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), or require client consent under the relevant client’s investment guidelines, IMA or Registered Fund Prospectus and Statement of Additional Information. The fees received by Guggenheim Securities, GSCP and/or GIS from the securities issuer or seller or the loan borrower, as applicable, with respect to such

transactions are in addition to management fees received by the Adviser from the client accounts to which the Adviser allocates the investments. The Adviser maintains processes to mitigate such potential conflicts of interest – See “Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading – General Process Regarding Potential Conflicts” for more information.

GFD and/or Guggenheim Securities may also provide administrative, operations, and infrastructure services to the Adviser and its affiliates. The Adviser is also affiliated with other broker-dealers, none of which are material to the Adviser’s business.

### **Commodity Pool Operator, National Futures Association**

The Adviser is registered as a CPO with the Commodity Futures Trading Commission (“CFTC”) and is a member of the National Futures Association. Certain management persons of the Adviser are registered with the CFTC as associated persons of the Adviser. Generally, the Adviser provides services as a CPO only to commodity pools operating pursuant to CFTC regulations that provide exemptions from regulation or operational exemptions, so that the Adviser is exempt from certain or most CFTC disclosure, reporting and recordkeeping requirements applicable to registered CPOs with respect to such pools.

### **Management Persons; Policies and Procedures**

Certain of the Adviser’s management persons also hold positions with the affiliates described above and in this Item 10. In these positions, those management persons of the Adviser may have some responsibility with respect to the business of these affiliates and the overall compensation these management persons receive may be based, in part, upon the profitability of other parts of Guggenheim. Consequently, in carrying out their roles at the Adviser and these other entities, these management persons may be subject to the same or similar potential conflicts of interest that exist between the Adviser and these affiliates. The Adviser has established a variety of restrictions, policies, procedures, and disclosures designed to address potential conflicts that may arise between the Adviser, its management persons and its affiliates. These policies and procedures include information barriers designed to prevent the flow of information between the Adviser, personnel of the Adviser and other affiliates; policies and procedures relating to brokerage selection, trading with affiliates or investing in products managed or sponsored by affiliates; and allocation and trade sequencing policies applicable to client accounts. For additional information relating to the Adviser’s general processes to mitigate potential conflicts of interest, see “Item 6 – Performance-Based Fees and Side-By-Side Management – Allocation” and “Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading – General Process Regarding Potential Conflicts”.

### **Other Potential Conflicts and Material Relationships with Affiliated Entities**

The Adviser makes investments for some client accounts that result in advisory fees, commissions, fees, or other remuneration paid to the Adviser or one of its affiliates, such as (a) Guggenheim Securities, (b) GFIA, (c) GSA, LLC, (“GSA”) (d) Guggenheim Corporate Funding, LLC, (e) GPIM and (f) GIS. Such investments may include (i) investments that the Adviser or one of its affiliates originated, arranged or placed, (ii) investments in which the Adviser’s affiliate provided investment banking, financial advisory or similar services to a party involved in the transaction to which the investment relates (such as acquisition financing in a transaction in which the Adviser’s affiliate represented the buyer or seller). (iii) investments where the Adviser

or its affiliates provided other services to a transaction participant or other third party, (iv) investments where the Adviser or one of its affiliates acts as the collateral agent, administrator, originator, manager, or other service provider, and (v) investments that are secured or otherwise backed by collateral that could include assets originated, sold or financed by the Adviser or its affiliates, investment funds or pools managed by the Adviser or its affiliates or assets or obligations managed by the Adviser or its affiliates. Such commission, fees or other remuneration may also arise in financings involving multiple staged transactions (for instance, a commitment transaction to back-stop a credit facility intended to be funded in a syndicated transaction), fees may be earned by such affiliates relating to structuring and other services on the earlier transaction (e.g., the commitment), but not paid unless and until the second transaction is completed (e.g., the syndication). The Adviser may in such circumstances allocate the earlier transaction and later transaction to different client accounts, in accordance with its allocation process as described above.

As permitted under applicable law and in client agreements or the Registered Fund's Prospectus and Statement of Additional Information, the Adviser and its affiliates may retain any commissions, fees, or other remuneration, arising from the investments described above. Except as required, such commissions, fees, or other remuneration generally will not reduce the management or other fees the Adviser receives from its advisory clients, though in some circumstances, the Adviser may waive all or part of any fees with respect to particular affiliated or related party transactions for some, but not all, of its clients pursuant to an agreement or other arrangement with each such client. Commissions, fees, or other remuneration payable to the Adviser or its affiliates in this transaction may present a potential conflict in that the Adviser may be viewed as having an incentive to purchase such investments to earn, or facilitate its affiliates' ability to earn, such additional fees or compensation. The Adviser seeks to mitigate this potential conflict of interest (a) by evaluating the transaction to determine if it appears to be a favorable investment for the participating accounts irrespective of such fees and relative to other non-related investment opportunities, (b) allocating opportunities to invest in such transactions in accordance with the Adviser's allocation policy, as described in "Item 6 – Performance-Based Fees and Side-By-Side Management – Allocation" and (c) through the processes described in "Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading – General Process Regarding Potential Conflicts".

To the extent permitted by an IMA, the Adviser may in some circumstances invest client assets in mutual funds and/or private investment funds, some of which may be advised or sub-advised by the Adviser or an affiliate. If an SMA or Registered Fund holds an interest in any such fund, the SMA client or Registered Fund investors may be subject to two fees for the management of these assets, one to the Adviser and one to the adviser of the underlying fund, which may be the Adviser or an affiliate. In other circumstances, the Adviser may make investments for clients in limited partnerships or similar vehicles to gain exposure to (i) real asset classes such as aircraft; (ii) asset backed securities; (iii) commercial mortgage backed securities; and (iv) other fixed income structures. Some of these vehicles are managed by affiliates of the Adviser that will be compensated for such management services.

The Adviser's affiliates may also receive annual management or administrative fees for asset or collateral management services provided to particular investment products (the "Structured Vehicles") in which client assets may be invested. These fees may be based on either the market value or par value of the underlying collateral, depending upon the structure of the relevant Structured Vehicle.

Where necessary or appropriate for the transactions described above, as provided by the relevant client investment guidelines, IMAs or a Registered Fund's Prospectus and Statement of Additional Information (as applicable), or under Section 206(3) of the Advisers Act, the Adviser will disclose to its clients the nature of such transactions prior to the completion of such transaction and will obtain the clients' consent. For related party transactions sought to be allocated to Registered Funds, the Adviser will follow the requirements of the 1940 Act, and the applicable Registered Fund's procedures. In certain of these cases, the Adviser may occasionally engage and appoint an independent party to provide independent analysis or recommendations with respect to decisions pertaining to Registered Funds and other clients.

For more information regarding potential conflicts of interest including participation or interest in client transactions, refer to Item 11.

Sammons Enterprises, Inc., a diversified company with several insurance company subsidiaries (together with its subsidiaries, "Sammons"), holds an economic interest of nearly 25 percent and a voting interest of approximately 35 percent in Guggenheim Capital, the Adviser's ultimate parent company, as of February 28, 2018. Guggenheim Capital holds its interest in the Adviser indirectly through GPIMH, which has a Board of Directors composed of a majority of individuals that are unrelated to Sammons other than through Sammons ownership interest in Guggenheim. As a result of its ownership stake in Guggenheim Capital, Sammons is the largest individual stakeholder of the Adviser by a significant margin and owns indirectly the same percentage of the Adviser that it owns of Guggenheim Capital. Certain of Sammons' wholly owned insurance company and other subsidiaries are advisory clients of, and pay fees to, the Adviser's affiliates. As a result, Sammons may be the largest individual source of annual advisory fees paid to certain of the Adviser's affiliates. Sammons also has other relationships with various Guggenheim entities. These relationships create potential conflicts of interest and an incentive for the Adviser and its affiliates to favor Sammons's interests. For example, the Adviser and its affiliates have invested, and may in the future invest, on behalf of its other clients in issuers in which Sammons has direct and/or indirect interests, which include a controlling or significant beneficial interest. In addition, the Sammons accounts and other clients have invested, and may in the future invest, in securities at different levels of the capital structure of the same issuer, in some cases at the same time and in other cases at different times. These transactions may benefit Sammons and its affiliates. The Adviser and its affiliates mitigate potential conflicts of interest in the foregoing and similar situations, including through policies, procedures and controls (i) designed to identify and mitigate conflicts of interest on a transaction-by-transaction basis and (ii) that require investment decisions for all client accounts to be made independently from those of other client accounts. The potential conflicts are further addressed and mitigated as described below.

In addition, Guggenheim Capital wholly owns Guggenheim Life and Annuity Company and Clear Spring Life Insurance Company, which are also advisory clients of, and pay a substantial amount of annual advisory fees to, an Adviser's affiliate. For more information on affiliated insurance companies, see Part I, Item 7.A. Some officers and directors of Guggenheim Capital and its subsidiaries, other than Adviser personnel, ("Guggenheim Related Persons"), have economic interests or voting interests in companies, including insurance companies, which are advisory clients of, and pay substantial advisory fees to, affiliates' clients. The Adviser and its affiliates have invested and will invest in the future on behalf of other clients in issuers in which these companies or Guggenheim Related Persons have direct and/or indirect interests, which may include a controlling or significant beneficial interest. These companies and other Adviser and affiliate clients

may invest in securities at different levels of the capital structure of the same issuer, in some cases at the same time and in other cases at different times. For more information about potential conflicts of interest related to these relationships and investments in different levels of the capital structure, see “Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading - Participation or Interest in Client Transactions.” Sammons and certain advisory or other clients in which Guggenheim Related Persons have interests have provided, and from time to time may provide, significant loans and other financing to the Adviser and its affiliates, both directly and from or through accounts managed by the Adviser and its affiliates or to which the Adviser’s affiliates provide certain operational services for a fee. Sammons and such other clients also have economic or voting interests, which may be controlling or otherwise material interests, in issuers in which the Adviser and its affiliates have invested or will invest on behalf of their clients or to which the Adviser and its affiliates have provided or will provide financing on behalf of their clients. Particular Guggenheim Related Persons are also directors or officers of some insurance company clients. These conflicts and potential conflicts are addressed and mitigated as described below.

In addition, a few executives of the Adviser (“Relevant Executives”) have indirect economic interests in companies, including insurance companies that are advisory clients of the Adviser’s affiliate.

None of these executives have any allocation authority among client portfolios and the potential conflicts are addressed and mitigated as described below.

For further information, see “Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading - Participation or Interest in Client Transactions”.

The above relationships pose potential conflicts of interest in transactions that involve both affiliated company advisory clients and other advisory clients, because the Adviser could, in some instances, be viewed as having an incentive to favor affiliated clients. Such conflicts are directly and purposefully mitigated by the Adviser’s designed allocation policies and procedures with respect to the allocation of investment opportunities, all more fully described in the response to Item 6, which provide that such investment opportunities must be allocated in a fair and equitable manner and are monitored on a frequent basis to detect and mitigate error. In particular, fixed income investment opportunity allocation decisions are made or verified independently by the Central Allocation Group which is comprised of disinterested employees, reporting up to the Adviser’s CRO. With respect to public equity securities and public equity-related securities the allocation shall generally reflect a pro rata participation in the investment opportunity among participating accounts. For more information regarding the Adviser’s process for mitigating potential conflicts, see “Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading - General Process Regarding Potential Conflicts”.

### **Investment Adviser Affiliates**

The Adviser is affiliated with GPIM, an investment adviser registered with the SEC. GPIM serves as a sub-adviser to certain Registered Funds, pursuant to a sub-advisory agreement with the Adviser, which was approved by the Registered Funds’ boards of trustees. Certain of the Adviser’s portfolio managers are also employees of GPIM. Additional information about GPIM is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



Guggenheim Funds Investment Advisors, LLC (“GFIA”), is an investment adviser registered with the SEC. Certain of the Adviser’s portfolio managers are also employees of GFIA. Additional information about GFIA is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The Adviser is also affiliated with other investment advisers, both registered and unregistered.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics and Personal Trading**

The Adviser has adopted a Code of Ethics (“Code”) and Insider Trading Policy to comply with Rule 204A-1 under the Advisers Act. The Code includes procedures and limitations that govern the business conduct and personal securities trading of persons associated with the Adviser. The Code is based upon the principle that the Adviser’s employees owe a fiduciary duty to clients to conduct their affairs, including their personal securities transactions and private investments, in a manner intended to avoid: (i) serving their own personal interests ahead of clients; (ii) taking inappropriate advantage of their position with the firm; and (iii) any actual or potential conflicts of interest or any abuse of their position of responsibility.

Additionally, persons associated with the Adviser are subject to policies and procedures regarding confidential and proprietary information, information barriers, private investments, personal loans, outside business activities and political contributions.

Subject to the provisions of the Code described above, the Adviser and its related persons may from time to time buy or sell, for their own accounts, securities they buy or sell for, or recommend to, the Adviser’s clients. Such trading is performed independently of the trading activities in client accounts. In addition, the Adviser or a related person may maintain an investment in the Funds the Adviser manages. Related persons may also make investments for their own account in securities that are not offered or available to SMAs or the Registered Funds.

The Code prohibits Access Persons, as that term is defined in the Code, from purchasing or selling an equity, private placement or limited offering, ETF, closed-end fund, option, future or fixed income security during the period beginning seven (7) calendar days before and ending seven (7) calendar days after a client trades in that security (unless the trade meets an exemption), and prohibits Access Persons from purchasing shares offered in an initial public offering (“IPO”) and participating in investment clubs. The Code also prohibits Access Persons from engaging in excessive trading of shares of the Registered Funds, except for those Registered Funds that allow unlimited trading, as referenced in the Code. All violations of the Code must be reported to the Adviser’s Chief Compliance Officer (“CCO”).

The Adviser and persons associated with the Adviser are not permitted to trade on securities with respect to which any of them obtains material non-public information (“MNPI”), including information obtained from public companies which are clients of the Adviser or its affiliates. If the Adviser receives MNPI about any issuers, such issuers will be placed on the restricted list. The restricted list is a list of issuers in which the

Adviser and its employees (and, in some cases, the Adviser's affiliates and their employees) are restricted from trading. For example, securities will be added to the list in the following circumstances:

- Where the Adviser's clients have a concentration of beneficial interest in a security;
- When the Adviser comes into possession of MNPI about a public company, such as business plans, earnings projections, or merger and acquisition plans;
- When the Adviser enters into a contractual agreement with the company not to trade in the company's securities for a period of time; or
- When the CCO determines that pre-clearance of trading in a security is required or desirable as an internal control to ensure continued compliance with applicable law and regulation.

With limited and specific exceptions, issuers on the restricted list may not be traded in the Adviser client or employee personal accounts. Client accounts may be forced to deviate from their stated objectives because an issuer is restricted. Specifically, the restricted list may prohibit the Adviser from buying or selling the issuer's or an affiliate's securities for SMAs or Registered Funds. If an issuer's securities are in a client account and subsequently that issuer's securities are placed on the restricted list, absent an exception, the Adviser will not trade that issuer's securities in the client's account until those securities are removed from the restricted list. Clients will bear the risk of loss during the period any such securities are on the restricted list. Accordingly, the placement of issuers' securities on the restricted list has the potential to affect the Adviser's exercise of discretion over and the performance of client accounts.

### **Participation or Interest in Client Transactions**

The Adviser, from time to time, initiates or recommends transactions in the securities of companies in which the Adviser's affiliates have a controlling interest.

Under certain circumstances, the Adviser may invest client assets in the shares of the Registered Funds. The Adviser is subject to conflicts of interest in doing so and in allocating the assets among the various underlying Registered Funds, both because the fees payable to it by some underlying Registered Funds may be higher than the fees payable by other underlying funds and because the Adviser is also responsible for managing each of the underlying Registered Funds. In such instances, the Adviser will waive advisory fees for the client's account in an amount equal to the client's proportionate share of the fees paid to the Adviser by the Registered Fund, so that the client does not effectively pay two fees to the Adviser. The Adviser may also select a controlled foreign corporation ("CFC") as an investment for certain of the Registered Funds. Since each CFC is a wholly-owned subsidiary of each investing Registered Fund, each investing Registered Fund has a vested financial interest in its respective CFC. However, because each Registered Fund is the sole owner and investor of its respective CFC, no other entity will benefit from the respective CFC's operation.

In some circumstances, the Adviser or its affiliates on behalf of its clients, invests in or provides financing to issuers or borrowers, or otherwise participates in transactions, in which the issuer, borrower or another transaction party (such as a placement agent or arranger) is, or is a subsidiary or affiliate of or is otherwise related to, (a) another Adviser affiliate's client or an investor in the Adviser affiliate's Managed Private Funds

(b) a Related Company or other company in which Guggenheim Related Persons, or officers or employees of the Adviser, have investment, financial or other interests, or relationships (including but not limited to directorships or equivalent roles). In addition, from time to time advisory clients (including affiliated insurance companies and other Related Companies, as described in “Item 10 - Other Financial Industry Activities and Affiliations - Other Potential Conflicts and Material Relationships with Affiliated Entities”) have made or may make loans or otherwise provide financing to the Adviser or its affiliates. Guggenheim Related Persons may also invest in, or provide financing to, investment vehicles or the sponsors, affiliates, managers or principals thereof (including but not limited to CLOs, sponsors of CLOs or sponsor affiliates) in which the Adviser seeks to invest or provide financing on behalf of its clients.

Potential conflicts of interest between the Adviser or its related persons and the Adviser’s clients with respect to proposed transactions described above are identified and appropriately managed by Adviser Compliance personnel designated to review transactions in which conflicts of interest may exist, as described under “Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading - General Process Regarding Potential Conflicts” below. Appropriate management includes but is not limited to obtaining specific client consent for the applicable transaction both as required for principal transactions subject to Section 206(3) of the Advisers Act or as required by client investment guidelines, IMAs or a Registered Fund’s Prospectus or Statement of Additional Information, or where otherwise determined necessary or appropriate.

Additional conflicts may arise where the Adviser invests client assets in parts of an issuer’s or borrower’s capital structure when the Adviser affiliates or related persons are investing in different parts of the same issuer’s or borrower’s (or its affiliate’s) capital structure (including but not limited to investments in public versus private securities, investments in debt versus equity, or investments in senior versus subordinated debt), or where the same or similar instruments in a given issuer or borrower held by the Adviser’s clients and the Adviser’s affiliates or related persons have different rights or benefits. The following conflicts may arise in such situations (i) enforcement of rights or determination not to enforce rights by the Adviser on behalf of its clients may have an adverse effect on the interests of its affiliates or related persons, and vice versa, (ii) the Adviser may have an incentive to invest the Adviser’s client funds in the issuer or borrower to either facilitate or obtain preferable terms for a proposed investment by a the Adviser affiliate or related person in such issuer or borrower, or (iii) the Adviser may have an incentive to preserve or protect the value or rights associated with an existing economic interest of a the Adviser affiliate or related person in the issuer or borrower, which may have an adverse effect on the interests of the Adviser’s clients.

The financial interests of the Adviser’s affiliates or related persons in issuers or borrowers create a potential conflict between the economic interests of these affiliates or related persons and the interests of the Adviser’s clients. In addition, to the extent a potential issuer or borrower (or one of its affiliates) is an affiliate’s client or an affiliate’s advisory client is a lender or financing provider to an Adviser or affiliate’s clients, a potential conflict may exist, as the Adviser or its affiliate may have an incentive to favor the interests of those clients relative to those of its other clients. However, as discussed below in “General Process Regarding Potential Conflicts”, the Adviser has developed procedures to address potential conflicts of interest involving such transactions.

The Adviser or its affiliates or related persons, or their respective officers, directors or employees, including portfolio managers or senior managers of the Adviser (together “Related Personnel”), also may have direct or

indirect proprietary or personal investments in and/or have financial or other relationships (including but not limited to directorships or equivalent roles) with some the Adviser's clients or other investment vehicles (including but not limited to collateralized debt obligation ("CDO") or collateral loan obligation ("CLO") issuers) that may create potential conflicts of interest. For example, a potential conflict could exist to the extent that portfolio managers or senior Adviser personnel have indirect personal investments in certain clients or Adviser-managed investment vehicles or when certain client accounts are investment options in the Adviser's employee benefit and/or deferred compensation plans. These participations or interests in client accounts or in the Adviser-managed investment vehicles may result in creating an incentive for the Adviser to favor these clients or investment vehicles over other advisory clients. In addition, CLO, CDO or other structured investment vehicles in which the Adviser or its affiliates, or their respective officers, directors or employees, including portfolio managers or senior managers of the Adviser, have indirect equity interests may also receive debt funding from the Adviser's clients. Related Personnel also have direct or indirect proprietary or personal investments in and/or have financial or other relationships with financial industry participants or other entities (including trading platforms) that perform services on behalf of, or in connection with, investments made by the Adviser on behalf of its clients. As a result, the Adviser may make investments for some client accounts that result in commissions, fees, or other compensation being paid to Related Personnel.

Potential conflicts of interest between the Adviser or its related persons and the Adviser's clients with respect to the situations described above are identified and appropriately managed by the Adviser Compliance personnel designated to review transactions in which conflicts of interest may exist, as described under "Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading - General Process Regarding Potential Conflicts" below. Appropriate management may include but is not limited to obtaining specific client consent for the applicable transaction both as required by applicable law and regulation, including for principal transactions subject to Section 206(3) of the Advisers Act or as required by client investment guidelines, IMAs or the Registered Fund's Prospectus or Statement of Additional Information, or where otherwise determined necessary or appropriate.

The above potential conflicts of interest are further mitigated by the Adviser's allocation policies and procedures with respect to the allocation of investment opportunities, more fully described in the response to Item 6, which provide that such investment opportunities are allocated in a fair and equitable manner and are monitored on a frequent basis. In particular, investment opportunity allocation decisions with respect to fixed income and private equity assets are made independently by the Central Allocation Group which is comprised of disinterested the Adviser employees, including the Adviser's CRO. The Adviser has allocation methodologies so that Guggenheim Related Persons and Relevant Executives do not unduly influence final allocation decisions. Additionally, Guggenheim Related Persons are not in any way involved in the Adviser's investment process. Further, the performance of accounts with similar investment strategies or that seek similar investments are reviewed to ensure that such accounts receive consistent treatment, as set forth in "Item 13 -Review of Accounts - Reviews" below. For more information regarding the Adviser's process for mitigating potential conflicts, see "Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading - General Process Regarding Potential Conflicts".

### **Cross Transactions and Principal Transactions**

The Adviser from time to time executes cross transactions between client accounts in which one client will purchase securities or other financial instruments held by another client, only so long as the transaction is in

the best interests of both clients, and the Adviser, or an affiliate, does not receive any compensation in addition to its management fee in connection with the transaction. Cross trades present an inherent conflict of interest because the Adviser represents the interests of both the selling account and the buying account in the same transaction, and the Adviser may be perceived as seeking to treat one counterparty to the cross trade more favorably than the other party. Additionally, the price of a security bought or sold through a cross trade may not be as favorable as it might have been had the trade been executed in the open market, and any benefits of a cross trade may not be equally distributed among participating clients. The Adviser has policies and procedures to mitigate these potential conflicts of interest and help ensure that internal cross transactions are in the best interests of, and appropriate for, all clients involved, and the transactions are consistent with the Adviser's obligation to seek best execution.

The Adviser seeks to effect cross transactions at a price that is fair to the clients involved. This generally will be the last traded price, a price obtained from an independent third-party source, such as a pricing service, or the average price obtained from three independent dealers, when available and reliable in accordance with the Adviser's valuation policies and procedures. The Adviser's trading desk will typically attempt to identify potential dealers by consulting available databases and utilizing dealer communication tools (e.g. Bloomberg message function), to search for potential dealers from whom the Adviser can obtain a price for the security to be cross-traded. The trading desk may also contact other dealers with whom the Adviser has traded in the past, or who are known to be active in the particular industry sector of the asset in question.

There may be circumstances when three independent offers and bids are not available or reliable, or the last traded price is believed not to reflect the market. The quantity and source of any independent quotes from unaffiliated dealers will vary depending on, among other things, market conditions, the dealer's familiarity with the asset class, the type of asset class, and various characteristics of a security (e.g., liquidity, rating, new issuances). Further, the Adviser's trading desk evaluates quotes to consider whether any such bid and/or ask is reflective of the security's value, and whether any such bid and/or ask should be deemed unreliable or an outlier and, therefore excluded as not reflective of an accurate price for the security. In such circumstances, the Adviser may use one or two independent bids and/or offers.

However, there still may be instances where no reliable quotes are available. The illiquid nature of the market for leveraged loans and securities that are not publicly traded and that trade infrequently (such as asset-backed securities, mortgage-backed securities, other structured finance securities and particular corporate bonds) may mean that the Adviser cannot readily locate dealers willing to provide a quote for such securities and loans, or such a quote is unreliable. If no quotes are available or reliable, the Adviser may proactively solicit dealer bids, or effect a cross trade at a price determined using other methods outlined in its security pricing policy and appropriate for the transaction or instrument in question, such as pricing vendors or valuation models.

On rare occasions, the Adviser may be in possession of restricted information about an asset to be cross-traded, which may also mean that the market-based price for the asset does not reflect this restricted information. In accordance with its effort to effect cross trades at prices that are fair to both buyers and sellers, GPIM may take the restricted information into account when determining a cross trade price. As a result, the cross trade price may be different from the market-based price. The method by which the Adviser determines this price may depend on the facts of each case.

Notwithstanding the methods for determining cross trade pricing above, the Adviser will only execute a cross transaction for a Registered Fund client in accordance with the requirements of Rule 17a-7 under the 1940 Act, the policies of the respective Registered Fund, as well as interpretative guidance issued by regulatory authorities or their staff such as no-action letters. The Adviser will typically not execute cross transactions in client accounts subject to the Employee Retirement Income Security Act of 1974 (“ERISA”). The Adviser may use an affiliated person (such as an affiliated broker or dealer, or an account which is more than 25 percent owned by the Adviser and/or its affiliates) to hold and clear bonds for clients where the use of the affiliated person does not create a conflict of interest. In these transactions, there will be no change in the bond price the Adviser pays or receives, and the price the Adviser’s clients pay or receive for the same bonds when the affiliated person provides the bond holding and clearing services. The affiliated person will not receive any spread, mark-up, mark-down or transaction fee from the client for this service, but the Adviser may reimburse the affiliated person’s expenses. When selling bonds, the Adviser similarly may aggregate all, or a portion of, the block at an affiliated person, prior to selling them to a dealer. This practice also may produce the same benefits as when buying securities.

The Adviser will not charge a mark-up/mark-down for cross trades. From time to time, cross trades are effected in which one or both sides of the cross trade is an affiliate of the Adviser.

Additionally, from time to time agency cross trades are effected by the Adviser in which the Adviser’s affiliate may charge a mark-up or commission for securities or other financial instruments the Adviser purchases or sells from such affiliate or another affiliate on behalf of its clients.

The Adviser has developed policies and procedures addressing principal transactions, cross transactions, including those with affiliates, and agency cross transactions. In particular, where necessary or appropriate, as provided by client investment guidelines, IMAs or a Registered Fund’s Prospectus or Statement of Additional Information (as applicable), or as required by applicable law and regulation including under Section 206(3) of the Advisers Act, the Adviser discloses to its clients the nature of the transaction prior to the completion of such transaction and obtains the clients’ consent. See “General Process Regarding Potential Conflicts” below for more information regarding the Adviser’s general processes to mitigate such potential conflicts of interest.

### **Investment Banking Activities**

The Adviser believes that the nature and range of investment banking clients and other customers to whom its affiliate broker-dealer, Guggenheim Securities, renders investment banking, financial advisory and other services is such that it would be inadvisable to exclude such clients or customers from the Adviser’s client’s portfolio. Accordingly, unless a client advises us to the contrary, it is possible that such account’s holdings may include the securities or other financial instruments of corporations or other entities for which Guggenheim Securities performs investment banking and other services, including but not limited to financial advisory or financing services and for which it receives fees. Moreover, the Adviser’s clients’ portfolios may include the securities of companies in which Guggenheim Securities makes a market. Guggenheim Securities’ receipt of fees from such companies creates a conflict of interest for the Adviser as the Adviser will have an incentive to purchase the securities of such companies.

Guggenheim Securities and the Adviser are separated by an information barrier, which generally mitigates any impact of Guggenheim Securities investment banking activities on the Adviser’s trading and investment

activities in securities or other financial instruments. At times, federal securities laws may prevent the Adviser from entering into or recommending specific types of transactions in the securities or other financial instruments of companies for which Guggenheim Securities, as an affiliated broker-dealer, is performing investment banking or other services.

### **Conflicts Resulting from Investment Management Activities**

The Adviser is an indirect subsidiary of Guggenheim Partners, which is a global, diversified financial services firm. The Guggenheim Entities provide their clients with a broad array of investment management, insurance, broker-dealer, investment banking, and other similar services which may create potential and actual conflicts of interest, including, for example, the situations described below.

Some Guggenheim Entities manage long and short portfolios which are advised by the Adviser. The simultaneous management of long and short portfolios creates potential conflicts of interest in portfolio management and trading in that opposite directional positions may be taken in client accounts advised by the same the Adviser investment team, and creates potential risks such as (i) the risk that short sale activity could adversely affect the market value of long positions in one or more portfolios (and vice versa) and (ii) the risks associated with the trading desk receiving opposing orders in the same security simultaneously. The Adviser has adopted policies and procedures that are reasonably designed to mitigate these potential conflicts.

The Guggenheim Entities may invest on behalf of themselves in securities and other instruments that would be appropriate for, held by, or fall within the investment guidelines of the Adviser's clients. The Guggenheim Entities may give advice or take action for their own accounts that may differ from, potentially conflict with or be adverse to advice given or action taken for any of their clients or the Adviser's clients.

Potential conflicts also may arise because securities or instruments may be held in some client accounts but not in others, or that various client accounts may have different levels of holdings in securities or instruments, and because various client accounts may pay different levels of fees.

The Adviser may also give advice or take action with respect to the investments of one or more client accounts that may not be given or taken with respect to other client accounts with similar investment guidelines, objectives, and strategies. Accordingly, client accounts with similar strategies may not hold the same securities or instruments or achieve the same performance. The Adviser also may advise client accounts with conflicting guidelines, objectives or strategies. For further detail, see "Item 6 – Performance-Based Fees and Side-By-Side Management".

Different clients, including funds advised by the Adviser or an affiliate, may pursuant to one transaction or in a series of transactions over time, invest in different parts of an issuer's or borrower's capital structure (including but not limited to investments in public versus private securities, investments in debt versus equity, or investments in senior versus subordinated debt), depending on the respective client's investment objectives and policies. As a result, the interests of one group of clients could conflict with those of other clients with respect to the same issuer or borrower. In managing such investments, the Adviser will consider the interests of all affected clients in deciding what actions to take with respect to a given issuer or borrower, but also at times will pursue or enforce rights on behalf of some clients in a manner that may have an adverse effect on other clients owning a different, including more senior or junior, investment in the same issuer or borrower.

These potential conflicts of interests between the Adviser's clients may also become more pronounced in situations in which an issuer or borrower experiences financial or operational challenges. For example, the Adviser may, on behalf of clients that hold senior debt investments, foreclose on loans, put an issuer or borrower into default or seek a liquidation of the issuer, whereas a client holding junior debt investments or equity securities may have benefitted from a different outcome, such as a reorganization of the issuer. An affiliate of the Adviser may also sponsor or support reorganization, recapitalization or similar workout arrangements for an issuer or borrower that (a) benefit clients holding more senior classes of securities or other financial instruments substantially more than, or even to the detriment of, clients holding more junior classes of securities or other financial instruments, (b) require additional investments from clients holding junior classes of securities or instruments that directly or indirectly refinance senior securities or instruments held by other clients, or (c) in some cases, could result in a substantial or even total loss of investment for clients holding junior securities or other financial instruments.

Any of the foregoing activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more client accounts, which could adversely impact the financial returns of the Adviser's SMA clients or advised Registered Funds.

The Adviser may also from time to time enter into arrangements with, or establish (a) collective investment vehicles for, some clients, including affiliated and unaffiliated insurance companies, pursuant to which the Adviser agrees to share a portion of the fees, commissions, remuneration, or profits otherwise retained by the Adviser and its affiliates in those transactions. For more information on such transactions and transactions involving affiliated entities, including related insurance companies, please see "Item 10 - Other Financial Industry Activities and Affiliations - Other Potential Conflicts and Material Relationships with Affiliated Entities". The foregoing arrangement could, depending on the circumstances, result in an incentive for the Adviser to favor or disfavor clients participating in these arrangements or vehicles relative to other advisory clients. The Adviser's allocation policies and procedures with respect to the allocation of investment opportunities, more fully described in the response to Item 6, are intended to mitigate potential conflicts by providing that such investment opportunities are monitored and are allocated in a fair and equitable manner.

Finally, the Adviser may have potential conflicts in allocating its time and services among its SMA clients and Registered Funds. The Adviser devotes as much time to each SMA client and Registered Fund as it deems appropriate to perform its duties in accordance with each SMA client's respective IMA or a Registered Fund's Prospectus or Statement of Additional Information as applicable.

### **General Process Regarding Potential Conflicts**

The transactions and situations described above involve potential conflicts of interest between the Adviser or its related persons and the Adviser's clients. The Advisers Act, the 1940 Act and ERISA and other applicable laws and regulations impose requirements designed to decrease the possibility of conflicts of interest between an investment adviser and its clients. In some cases, transactions may be permitted subject to fulfillment of specific conditions. Other transactions may be prohibited. In addition, the Adviser has instituted processes, policies and procedures designed to identify and mitigate potential conflicts of interest to the extent they arise in particular transactions which the Adviser seeks to execute for its managed client accounts and to ensure that the Adviser effects such transactions for such clients in a manner that is consistent with its fiduciary obligations and in accordance with applicable law.



Transactions involving potential conflicts of interest may be also elevated for review by the Guggenheim Capital Conflicts Review Committee (the “CRC”). The CRC members are senior Guggenheim executives who are not employees or clients of the Adviser. The Adviser’s affiliate has implemented written procedures that require CRC review of certain transactions involving potential conflicts of interest. Such procedures require, among other things, CRC review of any proposed purchase of securities or funding of a loan or purchase of debt where a Guggenheim affiliate owns approximately 5% or more of the beneficial equity interest in the issuer or borrower, or such other amount as may be appropriate under the circumstances. The CRC members review such transactions on a case-by-case basis and, whenever necessary in its judgment, obtain advice from outside counsel to assure compliance with all applicable law. For any transaction elevated to the CRC for review, affirmation of approval by the CRC is required before the transaction may be executed on behalf of any the Adviser’s advisory clients including when appropriate stopping such transaction.

The Adviser seeks to ensure that potential or actual conflicts of interest are appropriately resolved taking into consideration the best interest of all clients involved. Appropriate resolution will depend on the nature of the transaction and the conflict of interest, but may include, without limitation, (a) general disclosure in this brochure, or in IMAs or in governing fund documents for the relevant clients, or in specific client notifications, or (b) specific client consent for the applicable transaction both as required by applicable law and regulation including for principal transactions subject to Section 206(3) of the Advisers Act or as required by client investment guidelines, IMAs or a Registered Fund’s Prospectus or Statement of Additional Information, or where otherwise determined necessary or appropriate. In the case of potential conflicts in transactions sought to be allocated (a) to Registered Funds, the Adviser will follow the requirements of the 1940 Act, and the applicable Registered Fund’s procedures, and (b) to ERISA clients, the Adviser will follow the requirements of ERISA and the management agreements for those clients.

The Adviser compliance personnel have been designated to review transactions in which conflicts of interest may exist, including those described above, to ensure compliance with applicable the Adviser policies and legal or regulatory requirements.

## **Item 12 – Brokerage Practices**

### **Counterparty/Broker Selection**

In selecting a counterparty/broker-dealer to execute trades on behalf of clients, the Adviser seeks to obtain “best execution” for client transactions (i.e., the most favorable price and execution). In seeking best execution, the Adviser is not obligated to choose the counterparty offering the lowest available commission rate if, in the Adviser’s reasonable judgment, (i) there is material risk that the overall cost to purchase securities will be higher or the proceeds from the sale of securities will be lower; (ii) a higher commission is justified by the trading or research services provided by the counterparty that fall within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as amended, or (iii) other considerations, such as the order size and type, access to liquidity, execution efficiency, access to liquidity, execution efficiency, capital utilization, the value of brokerage and research services provided by the broker, clearance and settlement services, financial responsibility/counterparty credit statistics, responsiveness to inquiries or issues,

confidentiality, knowledge of the specific security and its industry group, the availability of securities to borrow for short sales, block trading capabilities, access to markets, and the ability to limit market impact

### **Counterparty/Brokerage Approval Policy and Procedures**

The Adviser has adopted a Counterparty Approval Policy pursuant to which it maintains an Approved Counterparty List. The Approved Counterparty List sets out counterparties/broker-dealers approved by the Adviser that advisory personnel may use to execute client transactions. Transactions may only be executed with counterparties on the Approved Counterparties List unless an exception is granted by an authorized person under the Counterparty Approval Policy. Initially and on an ongoing basis, the Adviser consults a variety of information relating to a counterparty/broker-dealer, including regulatory reports and financial information, in connection with adding and maintaining a counterparty to the Approved Counterparty List. Generally, counterparties on the Approved Counterparty List must, in the Adviser's opinion, have financial stability and a positive reputation in the industry. The Adviser may execute client transactions through Guggenheim Securities or GIS, in which case the Adviser is required to seek best execution for its clients. More information regarding the Adviser's relationship with affiliated broker-dealers is in "Item 10 - Broker-Dealer Registration".

### **Soft Dollar Policy**

The Adviser does not currently participate in soft dollar arrangements.

### **Directed Brokerage**

A client may direct the Adviser to effect part or all of the portfolio transactions for the client's account through specific brokers or dealers. Such directions may be subject to restrictions agreed to by the Adviser and the client, such as a maximum commission rate. Clients should note, however, that the designated broker or dealer may not always have the ability to obtain best execution of all transactions. Where clients designate brokers or dealers through which transactions are to be effected, the Adviser generally will not negotiate commission rates with those brokers or dealers and the counterparty/broker may not be covered under the Adviser's Approved Counterparty Policy/List. Furthermore, if a client directs brokerage, the client's account will not be able to participate in reduced commission rates which may be available to aggregated or "bunched" orders placed by the Adviser. Orders for such clients generally will be placed after orders for clients that leave the selection of brokers or dealers to the discretion of the Adviser. Execution of the transactions for the Adviser's other accounts could affect the market price of the security being bought or sold, meaning that the directing client's account may pay more for a security being purchased or receive less for a security being sold than the Adviser's other client accounts. Thus, an account utilizing a directed brokerage arrangement may pay higher commissions than those accounts which do not utilize directed brokerage.

### **Client Referrals**

The Adviser does not typically direct trades to brokers on the basis of client referrals or solicitations made by such brokers. The Adviser may execute client transactions through affiliated broker-dealers which solicit

clients for the Adviser's affiliates. The Adviser will direct execution to such brokers subject to best execution and proper disclosure to clients.

### **Wrap Fee Program**

The Adviser does not participate in or sponsor a wrap fee program.

### **Aggregation Policy**

In order to minimize execution costs and obtain best execution for clients, trades in the same security transacted on behalf of more than one client may be aggregated. Aggregation practices are described in Item 6.

## **Item 13 – Review of Accounts**

### **Reviews**

Client accounts are periodically reviewed by a combination of designated investment professionals, risk management, operations and investment committees. Each account's investment guidelines are integrated with compliance engines to help ensure adherence with identified regulatory, strategy, and client investment guideline requirements. In addition, investment performance figures and analytics are generated and reviewed by portfolio management, operations teams, risk management and the Office of the Chief Investment Officer ("CIO") to ensure consistency of style and to monitor dispersion.

Generally, investments leadership convenes bi-weekly strategy meetings with the various sector and portfolio managers and senior research professionals. During these meetings, the sector and portfolio managers provide updates of market conditions within their specific segment of the broader market conditions and portfolio investments. As a segment of the meeting, macro-economic views are discussed with specific emphasis on recent changes in the CIO's macroeconomic insights. Portfolio managers may then seek investment opportunities within their respective investment strategies which are approved for purchase by the relevant heads of research, sector and portfolio manager and/or by investment committees, or in the case of quantitative strategies, through the consistent application of the approved model(s).

The sector managers will then incorporate the CIO's macroeconomic insights into their applicable sector investment selection. Sector managers seek investment opportunities within their respective sectors, which are approved for purchase by the relevant heads of each sector team or by the investment committee dedicated to the specific sector or in the case of quantitative strategies, through the approved model.

Finally, the Office of the CIO and CRO hold quarterly performance review meetings with portfolio management. During these meetings, investment performance for each strategy and the relevant underlying investment accounts is reviewed.

## **Reports**

Registered Fund shareholders are provided with annual audited financial reports as well as semiannual unaudited reports, each of which is available through the SEC's EDGAR database at [www.sec.gov](http://www.sec.gov). In addition, on a quarterly basis, the Adviser generally meets with, and provides a comprehensive report of the performance of each Registered Fund to, the Registered Fund's board of trustees. This report includes a comparison of each portfolio's performance measured against the performance of its applicable benchmark, market sector and/or a mutual fund peer with a similar investment objective. Special reports and materials are also provided to the directors or trustees, as applicable, from time to time or as requested. All such reports will be in writing and may be delivered by electronic means.

SMA clients generally receive quarterly performance and holdings reports and monthly holdings and transaction reports directly from the client's custodian.

## **Item 14 – Client Referrals and Other Compensation**

While the Adviser does not currently have any third-party referral arrangements in place, the Adviser may enter into arrangements with both affiliated and unaffiliated third-party solicitors, including Affiliated Broker-Dealers, to refer prospective advisory clients to the Adviser. These arrangements are structured to comply with Rule 206(4)-3 under the Advisers Act. Such solicitor's compensation may be based on a percentage of the management fees, performance-based compensation, or a combination of both, earned by the Adviser from the referred client. In the case of Affiliated Broker-Dealers, referred clients receive disclosure about the affiliation between the Adviser and such Affiliated Broker-Dealer.

The response to Item 10 above provides information regarding (i) the Adviser's and its affiliates' receipt and retention of fees and other compensation for origination, structuring, arranging, placement and other services provided in relation to transactions in which the Adviser invests client assets, (ii) investments by the Adviser of client assets in limited partnerships or similar vehicles holding assets that are managed by the Adviser or its affiliates and for which the Adviser or such affiliates receive management, administrative or other fees or compensation in addition to account-level management fees payable to the Adviser, and (iii) the Adviser's affiliates' receipt of management fees services provided to structured vehicles.

## **Item 15 – Custody**

Not applicable.

## **Item 16 – Investment Discretion**

The Adviser generally is granted investment discretion over its client accounts, subject to the SMA client (or Registered Fund's) investment objectives, guidelines and restrictions (which may arise from applicable laws

and regulations or from the terms of such client's or Fund's governing documents). For SMAs, each IMA generally includes the client's investment objective, specific account constraints and states applicable restrictions. For the Registered Funds, investment guidelines and restrictions are described in the respective Registered Fund's Prospectus and Statement of Additional Information and the Adviser is generally granted discretion through the relevant Registered Fund's management agreement or organizational documents.

## **Item 17 – Voting Client Securities**

The Adviser generally is responsible for voting proxies with respect to securities held in client accounts, including Registered Funds and may include clients that are pension plans subject to ERISA.

Where the Adviser has been delegated the responsibility for voting proxies, it will take reasonable steps under the circumstances to ensure that proxies are received and voted in the best long-term economic interests of its clients. This generally means voting proxies with a view to enhancing the value of securities held in client accounts, considering all relevant factors and without giving undue weight to the opinions of other individuals or groups who may have an economic interest in the outcome of the proxy vote. The Adviser's authority is initially established by its advisory contracts with the client or comparable documents. Clients, however, may change their proxy voting direction at any time.

The financial interest of the Adviser's clients is the primary consideration in determining how proxies should be voted. Any material conflicts of interest between the Adviser and its clients with respect to proxy voting are resolved in the best interests of the clients as described later in this Item.

Corporate actions, such as rights offerings, tender offers, and stock splits or actions initiated by holders of a security rather than the issuer (such as reset rights for a CLO) or legal actions, such as bankruptcy proceedings or class action lawsuits are outside the scope of proxy voting. Corporate and legal actions involve decisions about a security itself, rather than decisions about the governance of the security's issuer. The investment team(s) managing the client's account will decide whether and how to respond to a corporate or legal action about which they are notified, with the assistance of Compliance and Legal, as needed.

The Adviser utilizes the proxy voting guidelines of an outside proxy voting firm, Institutional Shareholder Services Inc. ("ISS"), as the Adviser's proxy voting guidelines ("Guidelines"). The Adviser has also engaged ISS to act as agent for the proxy process, to maintain records on proxy votes for its clients, and to provide independent research on corporate governance, proxy and corporate responsibility issues. The Adviser reviews ISS's performance of its duties as agent at least annually. The Adviser may override the Guidelines recommending a vote on a particular proposal if the Adviser determines a different vote to be in the best interest of the client or if required to deviate under applicable law, rule or regulation.

In the absence of contrary instructions received from the Adviser, ISS will vote proxies in accordance with the ISS Guidelines, as such Guidelines may be revised from time to time. ISS will employ these Guidelines based on account set up instructions received from the Adviser. The Adviser will typically vote proxies itself in two scenarios: (1) Proposals not addressed by Guidelines and (2) When the Adviser has decided to vote some or all of the shares contrary to the Guidelines for proposals not addressed by the Guidelines. For proposals not addressed by the Guidelines, the investment team will determine how to vote the proxy for the

client account. For proposals where the Adviser has decided to vote some or all of the shares contrary to the Guidelines, the investment team will consult an 'ad hoc committee' which comprises persons from the investment teams, Intermediary Compliance Department, Risk Management team, and the Law Department to determine that overriding ISS's vote recommendation is in the best interest of the client and that no conflicts of interest exists. The vote entered by the Adviser may be different from the ISS's proprietary voting policy if it is determined to be in the best interest of the client. If the investment team responsible determines that there is no material conflict of interest, the proposal will be voted in accordance with the recommendation of said team. If there is a material conflict of interest, the Adviser will follow the procedures outlined below.

The Adviser occasionally may be subject to conflicts of interest in the voting of proxies due to relationships it maintains with persons having an interest in the outcome of particular votes. Common examples of conflicts in the voting of proxies are: (a) the provision of services or products by an Adviser affiliate to the company on whose behalf proxies are being solicited, (b) personal relationships that may exist between personnel of the Adviser or its affiliates and proponents of a proxy issue, (c) an immediate family member of the employee is a director or executive officer of the company, or (d) any other issue, shall be made by senior members of the investment team responsible for voting the proxy. If a material conflict of interest exists, the investment team will consult with persons from the investment teams and the 'ad hoc committee' to determine how to resolve the conflict consistent with the procedures below. At times, ISS itself may have a conflict of interest because it also sells corporate governance services to companies whose proxies it analyzes.

In certain cases, the Adviser may occasionally engage and appoint an independent party to provide independent analysis or recommendations with respect to consents, proxy voting, or other similar shareholder or debt holder rights decision (or a series of consents, votes or similar decisions) pertaining to Registered Funds and other clients.

If the Guidelines do not address a proposal, or the Adviser wishes to vote a proposal contrary to the Guidelines, and Adviser has a material conflict of interest as to the vote, then the Adviser may resolve the conflict in any of the following manners:

- Refer Proposal to the Client – the Adviser may refer the proposal to the client and obtain instructions from the client on how to vote the proxy relating to that proposal.
- Obtain Client Ratification – If the Adviser is in a position to disclose the conflict to the client (i.e., such information is not confidential), the Adviser may determine how it proposes to vote the proposal on which it has a conflict, fully disclose the nature of the conflict to the client, and obtain the client's consent for how the Adviser will vote on the proposal (or otherwise obtain instructions from the client on how the proxy on the proposal should be voted).
- Abstaining from voting.
- Use another Independent Third Party for All Proposals – Subject to any client-imposed proxy voting policies, the Adviser may vote all proposals in a single proxy according to the policies of an independent third party other than ISS (or have the third party vote such proxies).

- Use another Independent Third Party to Vote Only the Specific Proposals that Involve a Conflict – Subject to any client-imposed proxy voting policies, the Adviser may use an independent third party other than ISS to recommend how the proxy for specific proposals that involve a conflict should be voted (or have the third party vote such proxies).

The method selected by the Adviser to resolve the conflict may vary from one instance to another depending upon the facts and circumstances of the situation, but in each case, consistent with its duty of loyalty and care.

The Adviser will provide clients with a copy of its Proxy Voting Policies and Procedures upon written request. The Adviser will make specific voting information relating to a client available to that client upon written request. In addition, specific voting information relating to the Funds is available on SEC Form N-PX, available through the SEC's EDGAR database at [www.sec.gov](http://www.sec.gov). The Adviser's contact information appears on the cover page of this Brochure.

## **Item 18 – Financial Information**

The Adviser does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance and thus has not included a balance sheet for its most recent fiscal year. The Adviser is not subject to any financial condition that is reasonably likely to impair its ability to meet contractual commitments to its clients. Additionally, the Adviser has not been the subject of a bankruptcy proceeding.