Leveraged and inverse investment products provide the opportunity for magnified exposure to a desired index. Benchmarked daily to published indices, leveraged and inverse funds offer leveraged long or short exposure to the daily return of various indices or benchmarks. Due to their complex nature and inherent risks, these products should only be used by sophisticated investors with a solid understanding of the risks and the ongoing ability to closely monitor these investments. The funds’ use of derivatives, such as futures, options, and swap agreements, may expose the funds’ shareholders to additional risks that they would not be subject to if they invested directly in the securities underlying those derivatives. The risks associated with the funds’ use of futures and options contracts include that there may be an imperfect correlation between the changes in the market value of the derivatives and the underlying securities. The funds could experience greater losses or smaller gains than if the funds directly invested in the underlying securities.

**Leveraged Funds**

Leveraged funds allow you to magnify your exposure to a desired index. They seek to deliver multiples on a daily basis, such as 1.5 times or two times the performance of the index or benchmark they track. If you have a strong belief that the market is headed upward, you may want to invest in a leveraged investment.

Leverage causes the value of a fund’s shares to be more volatile than if the fund did not use leverage. The increased exposure to an index is achieved through the use of instruments such as derivatives (e.g., futures, swaps, and options) as well as through the underlying securities that enable the leveraged investment to pursue its objective. It’s important to note that the use of borrowing (or other forms of leverage) provides the potential for greater gains and losses than those inherent in the underlying index.

<table>
<thead>
<tr>
<th>Leverage funds:</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Employ a strategy that seeks to magnify the index’s exposure by a specific percentage on a daily basis.</td>
</tr>
<tr>
<td>● Provide enhanced exposure to an underlying benchmark per dollar invested.</td>
</tr>
<tr>
<td>● Are intended for investors who expect a specific index to go up and want accelerated investment gains when it does so—however, there is an increased risk of accelerated losses if the market declines.</td>
</tr>
</tbody>
</table>

**Inverse Funds**

Inverse funds, sometimes referred to as “short” funds, move in the opposite direction of the market, meaning they attempt to deliver the opposite of the performance of the index they track on a daily basis. These funds are designed to increase in value when the market declines and decrease in value when the market rises. Their structure gives investors the ability to hedge a portfolio or potentially profit in a down market.

**Inverse funds:**

- Employ a strategy that seeks to inversely correspond to a specific percentage of the daily performance of a stated index.
- Provide an alternative to shorting individual stocks, bonds, and currencies.
- Offer a potential portfolio hedge against market declines due to their daily inverse correlation to the underlying benchmark.
- The funds are also subject to short sales risk. Short sales are transactions in which funds sell a security they do not own, borrowing the security to make delivery to the buyer. They are obligated to replace the security borrowed by purchasing the security at the market price at the time of replacement. The price at such time may be higher or lower than the price at which the security was sold, resulting in a gain or a loss on the transaction.

Leveraged and inverse funds provide leveraged long or short exposure to the daily return of various indices or benchmarks.
A Lesson on Compounding

At first glance, some investors might make the assumption that a leveraged or inverse fund will produce a simple multiple of an index’s performance.

For example, if the S&P 500® was up 5% in a single month, an uninformed investor might assume that a fund leveraged two times to the S&P 500® would deliver a 10% return during that same period. However, that simple assumption is incorrect. Compounding plays a major role in the ending performance of most funds, but especially leveraged or inverse funds.

Leverage Magnifies Compounding

As leveraged investments magnify the impact of market movements, the results of compounding are also magnified. In an upward- or downward trending market, a leveraged investment that is on the correct side of the trend will see magnified end results, while one on the wrong side of the trend will see magnified losses. When the underlying index is volatile, the leveraged fund will amplify this volatility.

An Example of Leveraged and Inverse Leveraged Compounding

The following graphs further illustrate the impact of leverage and inverse leverage on fund performance in comparison to the performance of the fund’s underlying index in three different markets—upward, flat, and downward. Each of the three graphs shows a simulated hypothetical of the one-year performance of an index (1x index) compared with the performance of a fund that perfectly achieves its investment objective of exactly twice (200%) the daily index returns (2x index) and the inverse of exactly twice the daily index returns (inverse 2x index).

In order to isolate the impact of leverage, these hypothetical examples assume (i) no tracking error; (ii) no dividends paid by the companies included in the underlying index; (iii) no expenses; and (iv) borrowing and/or lending rates (required to obtain leverage) of 0%. If tracking error, fund expenses, and borrowing and lending rates of greater than 0% were included in the graphs, the fund’s performance (1x index) would be lower than that shown. Each of the graphs assumes an index volatility of 20%. An index’s volatility is a statistical measure of the magnitude of the fluctuations in the returns of an index. For example, the average of the most recent three-year historical volatility of the S&P 500® Index is 11.93% for the period ended 12.31.2019*. The S&P 500® Index’s volatility may be more or less significant at any given time. The indices underlying Rydex funds’ benchmarks have different historical volatilities, which may be more or less significant than the index volatilities assumed in the graphs shown. The hypothetical graphs are meant to demonstrate the effects of leverage and inverse leverage and are in no way indicative of the actual performance of any Rydex funds.

As illustrated by these simple examples, the effect of leverage can make it difficult to form longer-term expectations or judgments about a leveraged fund’s performance given only the returns of the unleveraged index. As a general rule of thumb, more leverage will magnify the compounding effect. In addition, periods of high volatility in an underlying index will also cause the effects of compounding to be more pronounced.

*Source: Morningstar.
The Importance of Monitoring Leveraged and Inverse Investments

The amplified effect of compounding on leveraged and inverse mutual funds underscores the importance of investors having a thorough understanding of these investments before making any investment decisions. Investors should monitor their leveraged and inverse holdings—as frequently as daily—to ensure that the holdings are consistent with their strategies, and consult with their financial advisor before deciding what, if any, course of action to take for their particular situation.

Fixed-Income, Commodities, & Currency Leverage and Inverse Funds Focus

<table>
<thead>
<tr>
<th>Inverse</th>
<th>Benchmark</th>
<th>Long</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2x</td>
<td>1x</td>
<td>1.2x</td>
</tr>
<tr>
<td>-1x</td>
<td>1x</td>
<td>2x</td>
</tr>
</tbody>
</table>

- Rydex Inverse Government Long Bond Strategy Fund
- Rydex Inverse High Yield Strategy Fund
- Rydex Weakening Dollar 2x Strategy Fund
- Rydex High Yield Bond Markets
- High Yield Bond Index
- Rydex Emerging Markets Bond Strategy Fund
- Emerging Markets
- Rydex Strengthening Dollar 2x Strategy Fund
- U.S. Dollar Index
- Rydex Commodities Strategy Fund
- Commodities
- Long Treasury Bond Index
- Rydex Government Long Bond 1.2x Strategy Fund
**Average Annual Total Returns**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>YTD</th>
<th>1-Year</th>
<th>3-Year</th>
<th>5-Year</th>
<th>10-Year</th>
<th>Since Fund Inception</th>
<th>Gross Expense Ratio</th>
<th>Fund Inception Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rydex Commodities Strategy Fund</td>
<td>RYMBX</td>
<td>15.48%</td>
<td>15.48%</td>
<td>0.70%</td>
<td>-5.89%</td>
<td>-7.23%</td>
<td>-7.33%</td>
<td>1.82%/1.69%</td>
</tr>
<tr>
<td>Rydex Emerging Markets Bond Strategy Fund</td>
<td>RYGTX</td>
<td>10.86%</td>
<td>10.86%</td>
<td>4.43%</td>
<td>3.76%</td>
<td>—</td>
<td>2.25%</td>
<td>1.70%</td>
</tr>
<tr>
<td>Rydex Government Long Bond 1x2 Strategy</td>
<td>RYHBX</td>
<td>17.24%</td>
<td>17.24%</td>
<td>6.82%</td>
<td>3.10%</td>
<td>—</td>
<td>5.85%</td>
<td>1.33%</td>
</tr>
<tr>
<td>Rydex High Yield Strategy</td>
<td>RYHGX</td>
<td>14.08%</td>
<td>14.08%</td>
<td>6.23%</td>
<td>5.65%</td>
<td>7.51%</td>
<td>6.21%</td>
<td>1.66%</td>
</tr>
<tr>
<td>Rydex Inverse High Yield Strategy</td>
<td>RYHX</td>
<td>-11.29%</td>
<td>-11.29%</td>
<td>-5.46%</td>
<td>-6.24%</td>
<td>-9.65%</td>
<td>-9.02%</td>
<td>1.64%</td>
</tr>
<tr>
<td>Rydex Strengthening Dollar 2x Strategy</td>
<td>RYSBX</td>
<td>4.99%</td>
<td>4.99%</td>
<td>-1.35%</td>
<td>3.06%</td>
<td>1.82%</td>
<td>-0.17%</td>
<td>1.85%</td>
</tr>
<tr>
<td>Rydex Weakening Dollar 2x Strategy</td>
<td>RWBX</td>
<td>-5.14%</td>
<td>-5.14%</td>
<td>-0.19%</td>
<td>-5.69%</td>
<td>-6.01%</td>
<td>-3.18%</td>
<td>1.84%</td>
</tr>
</tbody>
</table>

**Risk Considerations**

Inverse and leveraged funds are not suitable for all investors. • These funds should be utilized only by investors who (a) understand the risks associated with the use of leverage, (b) understand the consequences of seeking leveraged investment results, (c) understand the risk of shorting, and (d) intend to actively monitor and manage their investments. • The more a fund invests in leveraged instruments, the more the leverage will magnify any gains or losses on those investments. • Inverse funds involve certain risks, which include increased volatility due to the funds’ possible use of short sales of securities and derivatives, such as options and futures. • The funds’ use of derivatives, such as futures, options, and swap agreements, may expose the funds’ shareholders to additional risks that they would not be subject to if they invested directly in the securities underlying those derivatives. • Short-selling involves increased risks and costs. You risk paying more for a security than you received from its sale. • Leveraged and inverse funds seek to provide investment results that match the performance of a specific benchmark, before fees and expenses, on a daily basis. Because the funds seek to track the performance of benchmark on a daily basis, mathematical compounding, especially with respect to those funds that use leverage as part of their investment strategy, may prevent a fund from correlating with the monthly, quarterly, annual, or other period performance of its benchmark.

Due to the compounding of daily returns, leveraged and inverse funds’ returns over periods other than one day will likely differ in amount and possibly direction from the benchmark return for the same period. For those funds that consistently apply leverage, the value of the fund’s shares will tend to increase or decrease more than the value of any increase or decrease in its benchmark index. The funds rebalance their portfolios on a daily basis, increasing exposure in response to that day’s gains or reducing exposure in response to that day’s losses. Daily rebalancing will impair a fund’s performance if the benchmark experiences volatility.

Leveraged and inverse funds seek to track the performance of their benchmark on a daily basis, before fees and expenses, on a daily basis. Because the funds invest directly in the securities underlying those derivatives. • Short-funds’shareholdersto additional risks that they would not be subject to if they invested in the same underlying portfolio. With the exception of the class investsin the same underlying portfolio. With the exception of the class investsin the same underlying portfolio. With the exception of the class investsin the same underlying portfolio. With the exception of the class investsin the same underlying portfolio. With the exception of the class investsin the same underlying portfolio. With the exception of the class investsin the same underlying portfolio. The more a fund investsin

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