Market Review

Continuing with the negative trend we saw at the end of the third quarter, the leveraged loan market entered 4Q19 with a continued sell-off and spread widening, returning -0.45 percent in October alone. This softness in the market however, was bifurcated, with BB-rated credit significantly outperforming lower-rated credit. In October, BB-rated loans returned +3bps, B-rated loans returned -65bps and CCC-rated loans returned -146bps. For much of 2019, investors increased their demand for better-rated credit with managers becoming more and more wary of our position in the credit cycle. Additionally, with CLOs being the dominant buyer of leveraged loans, purchasing 71 percent of primary issuance in 2019, their structural limitations around owning CCC-rated credits limited the market’s overall willingness to purchase B2s and B3s, as those names are more likely to be downgraded to CCC.

Nevertheless, in November and even more so in December, the market’s reluctance to move down in quality shifted on the back of continued positive economic data, relatively anaemic net new issuance, and a build-up of cash managers felt pressure to put to work.

Market Review continued on page 2.
Market Review (Continued)

In December, BBs, Bs and CCCs returned 0.83 percent, 1.95 percent and 3.38 percent respectively - strong return numbers from each segment, but a stark reversal from the 7.62 percent, 6.15 percent and 1.48 percent respectively we witnessed over the first three quarters of 2019.

CLO issuance in 4Q grew again from 3Q, rising from US$25bn to US$28bn. This brought full year CLO issuance US$118bn, down only 8 percent from the record US$129bn of issuance in 2018. Despite outflows from retail funds in 51 of 52 weeks in 2019, totaling US$30bn, the outflows were more than offset by the strong CLO issuance, helping to provide technical support in times of volatility. Providing additional support both in 4Q and for the full year was weaker institutional loan issuance, which fell 2 percent in 4Q and fell 29 percent year-over-year, driven by M&A activity falling 39 percent in 2019 on elevated valuations and global economic uncertainty.

Despite this relative lack of issuance, many lower-rated new issue loans continued to struggle in their syndications due to the aforementioned risk-off sentiment in the market and CLO buyers limiting the volume of low-rated names they were looking to purchase. In the beginning of the fourth quarter, the market continued its trend of rewarding well-rated credits with spread tightening, and rising secondary prices, while penalizing weaker credits with spread widening, lender-friendly flexes, and in some cases pulled deals. The secondary market was especially harsh on lower-rated credits which missed their quarterly numbers, with a number of names gapping down significantly after their earnings release.

The fundamentals of leveraged loan issuers remain mixed but manageable, although weakened slightly recently as the level of stressed credits continues to creep higher. Issuers continue to report growth, albeit at a slower pace as the one-time benefits of the Trump administration’s tax breaks and stimulus run off. While leverage has ticked slightly higher, and interest coverage slightly lower as of late, both remain at manageable levels. The trailing 12-month default rate in the S&P/LSTA Index ticked slightly higher and ended the year at 1.5 percent, although still well below the historical average of 2.9 percent. However, the distressed ratio (percentage of loans in the S&P LSTA Leveraged Loan Index trading below 80) continued to climb higher, reaching its highest level since mid-2016, at 6 percent. While we do not expect the default ratio to increase meaningfully in the near-term, we continue to see weaker credits gap down on underperformance, and elevated levels of distress particularly in the retail and energy sectors.

Credit documentation continues to be weak, and sponsors continue to look for ways to preserve their option in a downside situation. Our legal analysts continue to be highly focused on ensuring documentation protects lender interests throughout the life of a loan; tightening incurrence covenants, limiting add-backs, etc.

Performance Review

Guggenheim Floating Rate Strategies Fund Institutional share class returned 1.55 percent net of fees in the fourth quarter, underperforming the benchmark Credit Suisse Leveraged Loan Index (the Benchmark) which delivered a positive return of 1.68 percent in the fourth quarter.

The Fund’s performance was positively impacted by its credit selection across the majority of sectors, particularly Basic Industry and Capital Goods. Performance was also positively impacted by credit selection in non-rated investments. Broadly speaking, the account was negatively impacted by a small number of idiosyncratic credit issues as well as investments in the Energy space, which is under pressure from soft commodity prices and challenging capital markets dynamics for Energy companies.

Performance Review continued on page 3.
Performance Review (Continued)

Performance was also negatively impacted by the Fund’s allocation to other asset classes which underperformed, as well as cash drag during the quarter.

Market Outlook

As we move into 2020, Guggenheim’s macroeconomics team believes the Fed’s rate cuts may have been enough to stave off a recession in the near term. We do however, keep in mind the economic period in the late 90’s when the Fed successfully prolonged the expansion temporarily, only to see a sharp correction upon the bursting of the dot-com bubble. Numerous unknowns as of the time of writing (trade war, Iranian conflict, Brexit, etc.) combined with limited policy space globally mean we remain in a precarious position, in what we believe are the later stages of a decade-plus long economic expansion. Given that credit spreads remain relatively tight on a historical basis, we continue to believe it is prudent to remain up in quality as we await better opportunities to deploy capital in riskier credits and sectors in the coming downturn.

While we expect the Trump administration will continue to use easier monetary policy as a green light for more aggressive trade policy, the signing of the phase one China trade deal helped to stabilize financial market. The question now becomes whether China will honor their purchase promises, and whether the signing of a phase two trade deal, which is set to address some of the more significant policy issues such as intellectual property theft, becomes a reality. Complicating matters as of the time of writing this letter, is the expansion of the Coronavirus, which has the potential to have a significant impact on both the Chinese and global economies.

2019’s past rate cuts continued to reduce the attractiveness of floating rate loans to retail investors who are largely focused on current income from coupons, which shrink as the Fed cuts interest rates. We would expect these cuts to drive continued weaker demand, but we continue to see retail outflows moderate in recent months, including a week of inflows in early 2020. We also continue to see demand from foreign institutional investors and additional CLO issuance. While we expect CLO new issuance to be down year over year, likely in the US$70bn to US$90bn range, we believe this issuance will still greatly outpace retail fund outflows.

We continue to evaluate each investment from the bottom-up, only lending to companies we feel are best-suited to survive the next recessionary period, which we believe is within the maturities of the investments we make today. We continue to be highly selective, passing on approximately 85 percent of deals we evaluated in 2019, in order to move our portfolios up in credit quality, investing in businesses with attractive free cash flow and liquidity profiles. We seek to avoid heavily-levered industries, highly cyclical names, and companies with large capital expenditure requirements that can restrict cash flow in a downturn. This focus will help us best position the portfolio ahead of the next recession, as loan portfolios cannot be re-positioned overnight.
Risk Considerations This fund may not be suitable for all investors. • Investments in floating rate senior secured syndicated bank loans and other floating rate securities involve special types of risks, including credit risk, interest rate risk, liquidity risk and prepayment risk. • The fund’s market value will change in response to interest rate changes and market conditions among other factors. In general, bond prices rise when interest rates fall and vice versa. • The fund’s exposure to high yield securities may subject the fund to greater volatility. • When market conditions are deemed appropriate, the fund will leverage to the full extent permitted by its investment policies and restrictions and applicable law. Leveraging will exaggerate the effect on net asset value of any increase or decrease in the market value of the fund’s portfolio. • The fund may invest in derivative instruments, which may be more volatile and less liquid, increasing the risk of loss when compared to traditional securities. Certain of the derivative instruments are also subject to the risks of counterparty default and adverse tax treatment. • Instruments and strategies (such as borrowing transactions and reverse repurchase agreements) may provide leveraged exposure to a particular investment, which will magnify any gains or losses on those investments. Investments in reverse repurchase agreements and synthetic instruments (such as synthetic collateralized debt obligations) expose the fund to the many of the same risks as investments in derivatives. • The fund’s investments in real estate securities subject the fund to the same risks as direct investments in real estate, which is particularly sensitive to economic downturns. • The fund’s investments in restricted securities may involve financial and liquidity risk. • The fund is subject to active trading risks that may increase volatility and impact its ability to achieve its investment objective. • You may have a gain or loss when you sell your shares. • It is important to note that the fund is not guaranteed by the U.S. government. • Please read the prospectus for more detailed information regarding these and other risks.

Definitions LIBOR—London Interbank Offered Rate. Basis points (bps)—one basis point is equal to 0.01%. Credit Suisse Leveraged Loan Index which tracks the investable market of the U.S. dollar denominated leveraged loan market. It consists of issues rated “BB” or lower, meaning that the highest rated issues included in this index are Moody’s/S&P ratings of Baa/BB+ or Ba/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries. The Bloomberg Barclays U.S. Corporate High Yield Index measures the market for USD-denominated non-investment grade, fixed rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody’s, Fitch, and S&P is Ba/BB+/BB+ or below. The index excludes emerging market debt.