GUGGENHEIM

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High-Yield and Bank Loan Outlook
Be Wary of Eroding Investor Protections

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We close out a record year of institutional bank loan issuance and a robust year of high-yield corporate bond issuance. Despite heavy volume, pricing power remains firmly in borrowers' hands, resulting in a further relaxation in the investor protections that were prevalent after the financial crisis. This trend is compounded by tight spreads, which in our view offer insufficient compensation for credit and liquidity risk.

Rising leverage ratios and declining coverage ratios as the Federal Reserve (Fed) raises borrowing costs will amplify issuers' vulnerability to adverse shocks. One such shock can be found in the recently signed tax overhaul. We estimate that 40 percent of the high-yield market will be hurt by the new limitation on net interest deductibility. Now more than ever, investors should take a company-by-company approach to credit selection, and avoid making general decisions based on industry preferences.

Report Highlights

- The lowering of bank loan London interbank offered rate (Libor) floors from a range of 0.75–1.25 percent to 0 percent puts loan investors at risk of earning poor returns in a scenario where the Fed returns to the zero bound in the medium term. We believe the market is underestimating this risk.
- Our primary concern for the average high-yield investor is in the limited compensation they are willing to accept for high-yield bonds. We estimate that an average high-yield corporate bond portfolio would earn little more than a current 10-year Treasury on a loss-adjusted basis.
- Given some of the negative repercussions of tax reform, we recommend that investors focus on companies with less than 30 percent of interest expense to earnings before interest, taxes, depreciation, and amortization (EBITDA), positive cash flow generation, and steady capital expenditures.

Leveraged Credit Scorecard
As of 12.31.2017

High-Yield Bonds

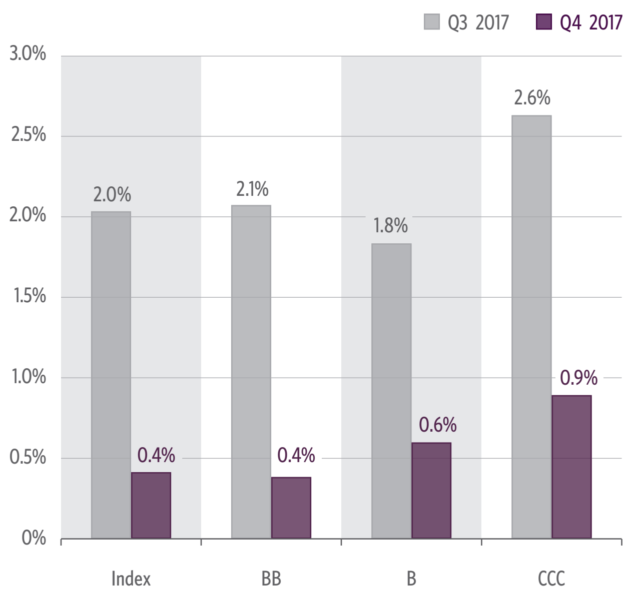
	December 2016		October 2017		November 2017		December 2017	
	Spread	Yield	Spread	Yield	Spread	Yield	Spread	Yield
Bank of America Merrill Lynch High-Yield Index	480	6.57%	364	5.53%	373	5.78%	373	5.84%
BB	311	4.92%	220	4.15%	220	4.29%	228	4.43%
B	475	6.50%	359	5.42%	381	5.82%	381	5.89%
CCC	1,098	12.65%	868	10.50%	877	10.75%	850	10.54%

Bank Loans

	December 2016		October 2017		November 2017		December 2017	
	DMM*	Price	DMM*	Price	DMM*	Price	DMM*	Price
Credit Suisse Leveraged Loan Index	488	96.48	417	97.77	421	97.56	416	97.63
BB	313	99.95	276	100.04	276	99.91	268	99.97
B	509	97.52	422	99.16	431	98.88	428	98.93
CCC/Split CCC	1,333	82.13	1,211	83.46	1,211	83.45	1,208	84.02

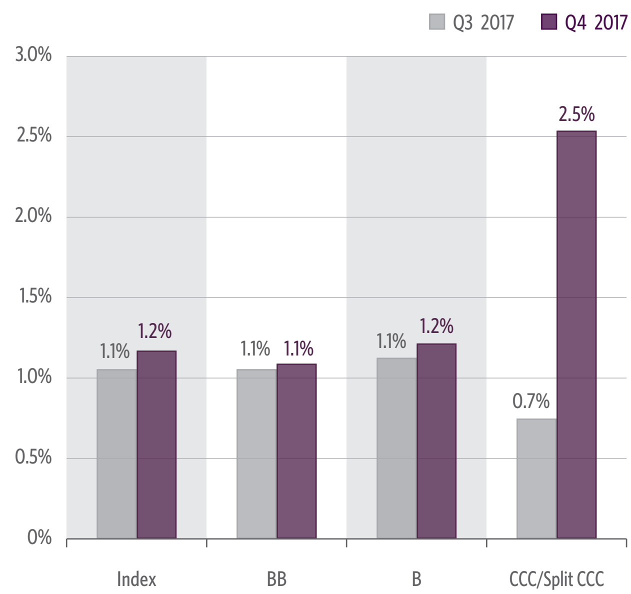
Source: Bank of America Merrill Lynch, Credit Suisse. *Discount Margin to Maturity assumes three-year average life. Past performance is not indicative of future results.

Bank of America Merrill Lynch High-Yield Index Returns



Source: Bank of America Merrill Lynch. Data as of 12.31.2017. Past performance is not indicative of future results.

Credit Suisse Leveraged Loan Index Returns



Source: Credit Suisse. Data as of 12.31.2017. Past performance is not indicative of future results.

Macroeconomic Overview
The Party Continues, But Watch the Punchbowl

"As bond investors chase yield for returns, they are essentially selling default options, which will inevitably be exercised against them."

– Scott Minerd,
Chairman of Investments and Global Chief Investment Officer

We ring in 2018 with the lowest unemployment rate since December 2000, the highest small-business optimism since 1983, strong corporate earnings growth (the average S&P 500 trailing-12-months earnings per share is up 12 percent year over year as of Nov. 30, 2017), and a new tax regime that will likely stimulate growth and business investment. Regulatory relief for banks is also in the offing, alleviating undue burdens on mid-sized lenders. All this positive news prompted the Fed to gradually raise rates toward neutral in 2017—the rate that is neither accommodative nor restrictive to the economy—but we expect that an overheating labor market will force the Fed to continue taking the punchbowl away in 2018.

The fourth quarter of 2017 saw the commencement of the Fed's balance sheet roll-off in October and another rate hike in December, taking the fed funds target to a range of 1.25 percent to 1.50 percent. Soft inflation surprised many market participants in 2017, but we expect core inflation to rise modestly due to base effects, and end 2018 closer to the Fed's 2 percent goal. With the unemployment rate likely headed to 3.5 percent, we think the net result will be a faster pace of Fed hikes in 2018 than policymakers or financial markets currently expect. Tighter monetary policy will, in turn, begin to put the brakes on the economy, bringing us closer to the end of the business cycle.

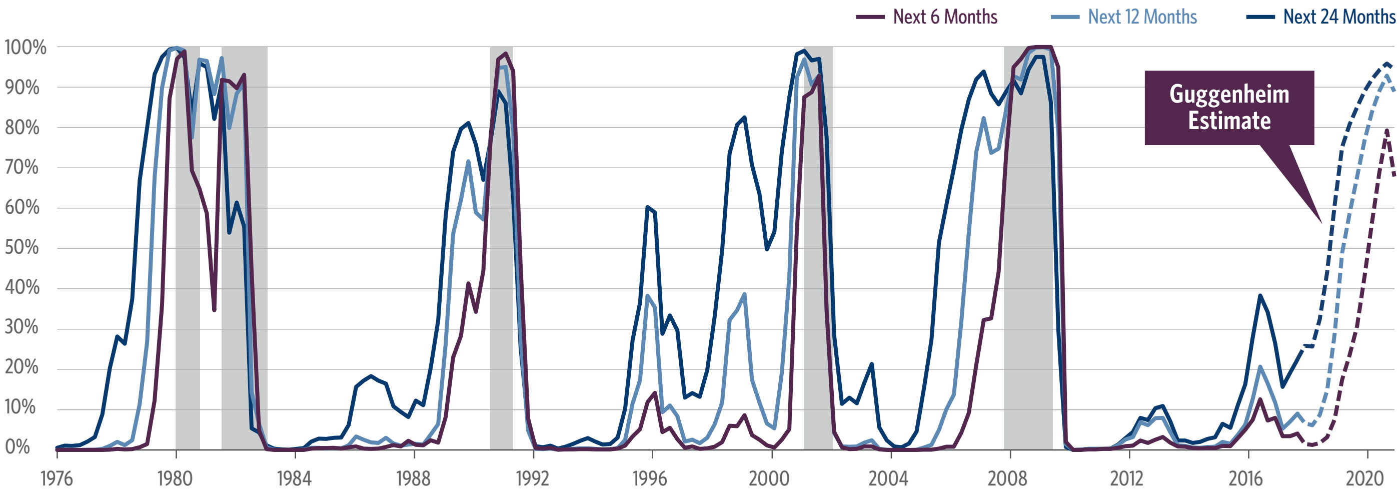
It is hard to identify just one area of weakness that will ultimately be responsible for toppling the U.S. economy into recession, but we have our eye on some fragile segments of the economy. The passage of the Tax Cuts and Jobs Act has been largely viewed as positive for corporate bottom lines, consumer spending, and business investment, but there has been less time spent analyzing the adverse effect of certain provisions within the Act. Among them is the change to net interest deductibility: Under the new bill, companies can no longer deduct all of their net interest expense from earnings before taxes are calculated. Net interest deductions are now capped at 30 percent of EBITDA, and in a few years this will become stricter with the cap calculated on earnings before interest and taxes (EBIT). Our review suggests this will affect 40 percent of borrowers in the high-yield corporate bond market, and could create a tax liability for companies that previously may not have had one.

The change in net interest deductibility is expected to primarily impact the high-yield market, while most of the corporate debt market remains untouched by this provision. In fact, many corporate borrowers stand to benefit from immediate capital expensing and a lower corporate tax rate. Borrowing will likely continue to grow at a time when the ratio of corporate debt to gross domestic product (GDP) is already at historical highs.

This brings us back to the vulnerability of the U.S. economy to a tighter Fed stance on monetary policy. We believe the Fed will eventually inadvertently push the

Near-Term Recession Risk Is Low, but Longer-Term Risks Are Rising

Model-Based Recession Probability



Hypothetical Illustration. The Recession Probability Model is a new model with no prior history of forecasting recessions. Actual results may vary significantly from the results shown. Source: Haver Analytics, Bloomberg, Guggenheim Investments. Data as of 9.30.2017. Shaded areas represent periods of recession.

United States into recession by tightening monetary conditions in an over-levered economy. This will most likely occur in late 2019 or early 2020. Our Macroeconomic and Investment Research team recently published a report, Forecasting the Next Recession, which provides an in-depth look at the many economic indicators that suggest a recession is about two years away.

Late-cycle credit standards in the loan market are also on our radar. For example, weak covenants in the loan market are now accompanied by 0 percent Libor floors. The high-yield corporate bond market has seen some pushback on poor structures that were prevalent in 2006 and 2007, but average high-yield investors have lost their discipline for determining appropriate compensation for both liquidity and credit risk. These trends make us very concerned about what lies in store for credit investors in the next downturn.

Fourth Quarter 2017 Leveraged Credit Performance Recap

High-yield corporate bonds lost steam in the fourth quarter, with the BofA Merrill Lynch High-Yield Index delivering a mere 0.4 percent total return with spreads wider by 5 basis points. Total return for the year was consistent with our expectations of mostly earning coupon income plus some limited price upside. The high-yield corporate bond market returned 7.5 percent in 2017, with mixed returns by rating. BB-rated bonds, B-rated, and CCC-rated bonds delivered 7.3 percent, 6.9 percent and 9.3 percent total returns, respectively. High-yield spreads tightened by an average of 66 basis points over the year.

The Credit Suisse Leveraged Loan Index posted a gain of 1.2 percent in the fourth quarter, bringing 2017 returns to 4.2 percent. CCC-rated loans were the best performers with a 8.0 percent total return, outperforming the high-yield corporate bond index, but not specifically CCC corporates. BB-rated and B-rated loan returns of 3.5 percent and 4.5 percent, respectively, significantly underperformed CCCs.

The leveraged loan market underperformed its high-yield cousin this year primarily as a result of heavy refinancing and repricing activity, which we have discussed in previous reports, and also due to a slow pace of Fed rate hikes, which resulted in an average Libor rate of only 1.25 percent in 2017. Institutional leveraged loans ended the year with record issuance volume of $504 billion, exceeding the previous record of $456 billion in 2013. Excluding refinancing activity, volume was still a healthy $318 billion. Contractual spreads tightened by 6 basis points quarter over quarter, and 34 basis points year over year. Robust issuance of collateralized loan obligations drove demand for loans, totaling $118 billion against analyst expectations of around $80 billion at the start of the year.

High-yield corporate bond issuers raised $276 billion in 2017, up 20 percent year over year but well below record issuance of $344 billion in 2012. Primary yields declined by roughly 0.5 percent, which weighed on secondary yields as well. Refinancing activity represented an overwhelming 65 percent of new-issue activity.

We are deeply concerned over the lack of discipline in primary markets. Limited net supply in both bank loan and high-yield corporate bond markets against strong demand set the stage for investors abandoning Libor floors of 75 basis points or higher in exchange for 0 percent Libor floors. This suggests that investors assign only a low probability of a recession occurring within anticipated holding periods, which is typical late-cycle behavior. The following case study serves as a reminder of the average loan investor's experience during and after the last recession.

Case Study: The Libor Floor in a Zero-Bound World

In early 2007, a borrower repriced an existing covenant-lite loan to Libor + 175 basis points from Libor + 212.5 basis points and extended the maturity to 2013 (six years from the repricing date). The deal contained no Libor floor as Libor floors were not prevalent before the financial crisis. A relatively flat Libor forward curve suggested markets were not expecting rate cuts in the near future. For the first three months after the repricing, the loan paid an annualized yield of 7.1 percent. As it became clear that the problems in the housing market were more far-reaching than initially anticipated, the loan price tumbled and the income earned from the loan declined as the Fed cut the fed funds target by 100 basis points between September and December 2007. (In this case study, we have omitted the name of the borrower to avoid the appearance of making a statement about its creditworthiness.)

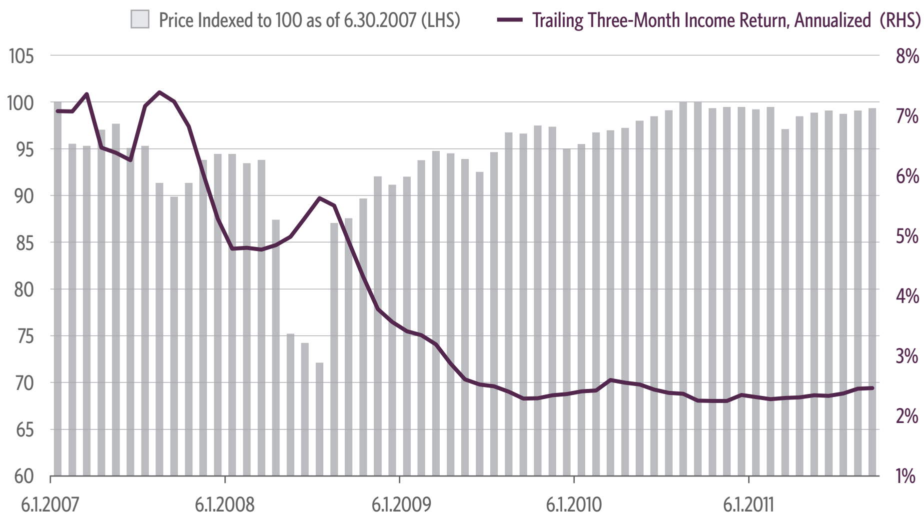
By the end of 2008, the annualized rate of quarterly income declined to 5.6 percent while the loan traded at 72 percent of par. The loan price eventually recovered in 2009 (and the borrower did not default on this debt), but the income was capped by the Fed's decision to hold rates at the zero lower bound for several years.

For the remainder of the loan's life, investors earned an annualized income of less than 2.5 percent, ultimately depressing the total return on the loan to only 3.8 percent from the repricing date until the loan was called early in 2012, shortening the life to five years. Investors earned less on this loan than if they had purchased a five-year Treasury on the day the loan repriced in 2007.

The lack of a Libor floor hurts returns in a zero-bound world. In this case study, the lack of a floor reduced returns to less than that of a five-year Treasury purchased in 2007.

The Cost of 0 Percent Libor Floor

Case Study Loan Price and Income Return, 2007–2013



Source: Credit Suisse, Guggenheim Investments. Data as of 1.31.2013.

The borrower in our case study has issued new loans or amended existing loans eight times since 2007. The issuer's deals contained Libor floors in 2012, 2013, and 2015. In late 2016, however, it was among the first to remove the Libor floor from its original price talk on a new term loan used to help finance acquisitions. The new loan priced at Libor + 275 basis points in 2016, and has already been repriced lower to Libor + 225 basis points in 2017, with a 0 percent Libor floor, no financial covenants, and a maturity of slightly over five-and-a-half years from the date of repricing.

The value of a 0 percent Libor floor today is debatable. It is a function of the probability that the fed funds target rate would be set sufficiently below zero that Libor would fix in negative territory. During the post-crisis period, 0 percent floors would have done nothing to help investors, as the lowest level three-month Libor reached was 0.23 percent. While we see negative Libor fixings as unlikely in the foreseeable future, we assign a fairly high probability to returning to a zero percent fed funds target in the medium term. (The median respondent to the New York Fed's November 2017 survey of market participants saw just a 20 percent probability of returning to the effective lower bound between now and the end of 2020.) Should the Fed return to the zero lower bound during the next recession, investors may be left holding a loan that will pay them almost as little as our case study loan from 2007. More to the point, the particular loan referenced above has paid a coupon return equal to 3.5 percent annualized over the past three months. Investors must either find this rate of return very compelling for a below investment-grade floating rate loan, or they must assign a very high probability that the Fed will raise rates to a level that gets them to an acceptable yield. If the latter is the case, the market is failing to price this in, with only two rate hikes priced for 2018 and one rate hike priced for 2019.

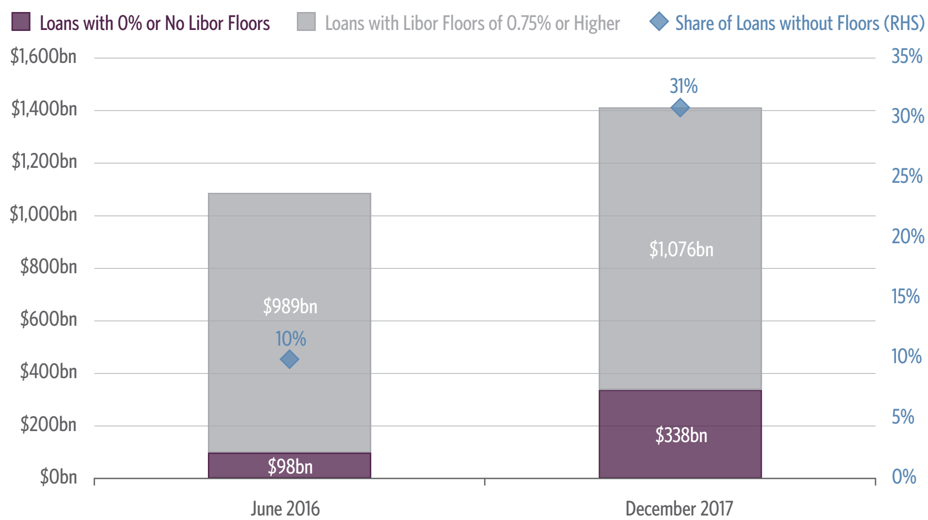
Covenants and Protections Continue to Disappear

Our case study borrower is not the only one with a 0 percent Libor floor on its loans. We observed a rising share of deals priced with 0 percent or no Libor floors in 2017. Over the past three months, 41 percent of first lien loans by volume were priced with 0 percent floors. As of the end of Dec. 2017, 31 percent of the Credit Suisse Leveraged Loan index contained 0 percent or no floors, up from only 10 percent last year.

The lowering of bank loan Libor floors puts loan investors at risk of earning poor returns in a scenario where the Fed returns to the lower bound. The market is underestimating this risk.

Rising Share of Loan Market with 0 Percent or No Libor Floors Poses Risks

Volume and Share of Bank Loans



Source: Credit Suisse, Guggenheim Investments. Data as of 12.15.2017. Based on the Credit Suisse Leveraged Loan index.

A typical BB-rated first lien institutional loan prices at roughly Libor + 237 basis points in the new-issue market. With each repricing and refinancing deal, an average of 64 basis points of spread is taken out of lenders' income and becomes borrower savings. This leaves very little cushion before investors approach 2007 spreads, which left them with little income at a time when they needed it most. The persistence of refinancing activity will continue to depress potential returns for loan investors, while investors simultaneously give up protections.

We cannot discuss dwindling protections in the loan market without spending some time on covenants. Covenants are important creditor protections that have slowly eroded since 2007. There are three common forms of covenants. Financial covenants set maximum and minimum financial ratios designed to catch a slow decline in the issuer's credit quality early. These may include maximum debt-to-EBITDA and minimum EBITDA-to-total interest expense ratios. Negative covenants regulate certain activities such as incurring additional debt, making acquisitions, or selling assets. Affirmative covenants state actions that the issuer must complete during the life of the loan, such as maintaining insurance, monitoring the condition of certain assets, or providing the lender with access to information.

A borrower whose financial situation is deteriorating is more likely to trigger a covenant default before they trigger a payment default. This early default situation means that the borrower and its lenders begin crucial conversations about financial conditions and options before the situation is too dire to correct. Though difficult to ascertain, some believe the existence of multiple financial and negative covenants helped contribute to a strong recovery history in the loan market, where the average defaulted first-lien loan has recovered 84 percent since 1982, compared to the unsecured high-yield corporate bond market long-term average recovery rate of 44 percent.

Covenant-lite loans generally refer to loans that contain no financial covenants. The share of the U.S. leveraged loan market that is considered covenant-lite continues to set new records. By the end of 2017, covenant-lite represented 80 percent of the loan market outstanding compared to roughly 30 percent just five years ago.

The future consequences of weak covenants is unclear. Covenant-lite loans existed prior to the financial crisis, but this leniency was typically extended only to the largest, most creditworthy borrowers. Therefore, covenant-lite loans defaulted at a lower rate during the financial crisis compared to full covenant loans, according to Moody's research. Many covenant-lite borrowers avoided default as a result of fewer covenants, which allowed them to survive long enough to benefit from the economic recovery.

Investors holding a covenant-lite loan that defaulted between 2008 and 2011 received a high recovery rate, averaging about 90 percent compared to a recovery rate of 82 percent for 136 defaulted issuers of full-covenant first-lien loans during the same period. Yet, we are not so confident that the story will be the same in the next downturn. Nearly the entire market is covenant-lite in the current environment; it is not just reserved for the most creditworthy borrower as in the last cycle. At best, we believe covenant-lite loans can help a company avoid defaulting on its debt long enough to perhaps improve its financial position. This may simply be kicking the can down the road, and we are concerned that this trend will result in poor recovery rates in the future.

More Discipline in High-Yield Corporates?

There are many parallels between investors' poor investment decision-making in 2006–2007 and those made today. Trends in the past 12 months suggest investors have forgotten the 2008 experience and are forgoing the protections that were put in place in 2010 to avoid reliving sub-3 percent yields in leveraged loans. Below-average loan defaults since 2011 have given loan issuers pricing power for several years, which might explain the continued deteriorations in this market.

We have not seen similar deterioration in the corporate bond market. The recent corporate bond default experience that we discussed at length in our last High-Yield and Bank Loan Outlook caused investors to require greater protections from bond issuers in the form of higher spreads (for a period of time in 2016) and better structures. Investors appear more disciplined in the high-yield corporate bond market, pushing back when terms become overly aggressive.

The rise in secured bonds and decline in PIK toggle notes reflects more disciplined credit structures in the high-yield market.

High-Yield Market Shows Discipline

Secured and PIK Toggle Notes as a Share of Total Issuance

Source: S&P LCD, Guggenheim Investments. Data as of 12.24.2017.

In December 2017, healthcare technology company MultiPlan caught the attention of news outlets with a $1.3 billion payment-in-kind (PIK) toggle note issuance. It was the largest such offering since the financial crisis. PIK toggle notes allow the borrower to stop cash payments of interest and switch to paying interest with more notes. PIK toggle notes represented less than 2 percent of total issuance between 2010 and 2017, a notable absence in the current cycle compared to the last, but the MultiPlan issuance indicated some investor tolerance for them. On the plus side, while the reemergence of PIK toggle notes demonstrates a worrying level of investor complacency, PIK toggle notes since 2015 have priced at an average yield of 8.9 percent, well above the market average of 6.6 percent for newly issued high-yield bonds across all ratings and structures. Furthermore, McGraw

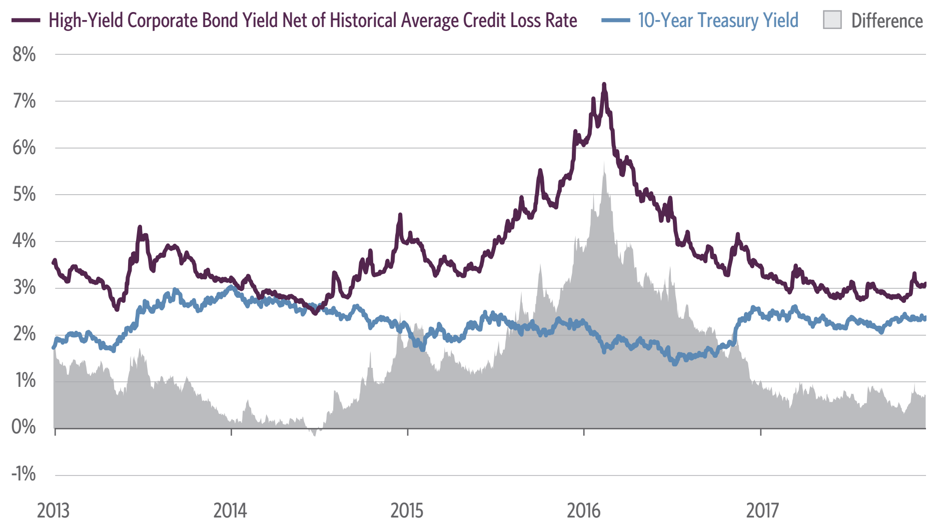
Hill Education's subsequent attempt to raise financing through a similar offering was eventually pulled as it failed to attract enough investors, suggesting some investor pushback.

In some ways, high-yield corporate bond structures are better today than pre-crisis. A greater share of high-yield debt new issuance is secured by assets compared to 2009. In 2017, 22 percent of high-yield debt was secured, compared to less than 20 percent in each year between 2005 and 2008. This is another sign of a more disciplined post-crisis high-yield corporate bond investor, but this does not mean we have not seen some deterioration in this market as well.

Loss-adjusting the average high-yield corporate bond yield reveals a narrow spread to Treasury yields. Investors are not being adequately compensated for the risks they are taking on.

High-Yield Spreads Are Tight on a Loss-Adjusted Basis

Average High-Yield Corporate Bond Yield Net of Historical Credit Loss Rates



Source: Bank of America Merrill Lynch, Moody's, Guggenheim Investments. Data as of 12.15.2017.

Our primary concern for the average high-yield investor is in the limited compensation investors are willing to accept in return for the incremental risk associated with owning a high-yield corporate bond. Our research shows that if we loss-adjust an average market portfolio of high-yield corporate bonds based on the historical average of default and recovery rates by rating, it would earn only 70 basis points more per year than the current 10-year Treasury note. In our view, this incremental return is not adequate compensation for the increased volatility in a high-yield bond versus a Treasury note. (Our analysis also shows that the loss-adjusted expected return of an average high-yield portfolio was slightly below that of a 10-year Treasury note in 2014.)

Loss-adjusting returns based on historical average recovery rates might also be an optimistic assumption given that higher debt-to-asset ratios and weaker covenants point to lower future recovery rates. Moody's tracks covenant quality through a Covenant Quality Index, which shows we are near the worst level since they began tracking it in 2010.

Investment Implications

The lack of protections in leveraged credit at this point in the cycle is our main concern. Rising leverage ratios and declining coverage ratios as the Fed raises borrowing costs will amplify issuers' vulnerability to adverse shocks. One of those shocks lies within the recently signed tax overhaul.

For companies with significant debt burdens, such as those in the oil and gas industry, materials, and media, the impact of a lower corporate tax rate will likely be negated by the inability to deduct interest expense above 30 percent of EBITDA. We reviewed available information on the current universe of non-real estate high-yield borrowers with greater than $50 million EBITDA as of the last quarter. This universe totaled 363 individual issuers, and 957 high-yield bonds, 46 percent of which were rated BB, 44 percent were B, and 8 percent were CCC.

Based on the most recent quarter of reported earnings:

- 42 percent of bonds would have been impacted by the new limit, or 137 individual issuers.
- By issuer count, the most impacted sector is energy, with 33 impacted companies, followed by media, leisure, and materials.
- By industry, the biggest impact is on utilities sector, in which eight companies are affected, representing 80 percent of the utility universe. This is followed by financial services (five companies representing 71 percent of financial services), and media (20 companies representing 56 percent of media companies).

One might argue that these industries would benefit from immediate capital expensing, but we question whether some of these issuers have the capacity for additional debt financing. We believe many of these companies cannot afford to finance new capital expenditures in the first place. Companies with interest expense already representing over 30 percent of EBITDA may also reconsider raising additional debt, since the interest expense on new debt will not be deductible at all.

Many of these same companies are tapping into primary markets to issue debt with fewer protections and at tighter spreads. Altogether, we believe these trends are creating a perfect storm for a significant shakeout in the high-yield universe that will not end well for the average high-yield investor. But there are ways to insulate portfolios from these trends.

The first strategy is to ensure adequate compensation for credit risk. BB-rated bonds are relatively overvalued on a historical basis (current BB spreads represent the 10th percentile of historical spreads compared to 15th percentile for B spreads and 46th percentile for CCC spreads), but they also experience less volatility and lower credit-loss rates than B-rated and CCC-rated bonds. Historical compensation for credit and liquidity risk suggest a yield of 4.8 percent is acceptable for a BB-rated bond, but 40 percent of newly issued BB-rated credits priced inside of this yield in 2017. The acceptable yield for a B-rated bond is 6.4 percent and 13.0 percent for a CCC-rated bonds based on our methodology.

The second strategy is taking a credit-by-credit approach rather than an industry approach when searching for value in leveraged credit. While some companies are expected to be negatively impacted by provisions within the new tax reform package, others stand to gain from lower corporate tax rates and immediate expensing of capital expenditures. Companies with less than 30 percent of interest expense to EBITDA with steady capital expenditures and more modest debt burdens are few, but they can be found in technology, real estate, automotive, and healthcare sectors.

Important Notices and Disclosures

INDEX AND OTHER DEFINITIONS

The referenced indices are unmanaged and not available for direct investment. Index performance does not reflect transaction costs, fees or expenses.

The **Credit Suisse Leveraged Loan Index** tracks the investable market of the U.S. dollar denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/ 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 **Bank of America Merrill Lynch High-Yield Index** is a commonly used benchmark index for high-yield corporate bonds.

The **Credit Suisse High-Yield Index** is designed to mirror the investable universe of the $US-denominated high yield debt market.

The **S&P 500 Index** is a capitalization-weighted index of 500 stocks, actively traded in the U.S., designed to measure the performance of the broad economy, representing all major industries.

A **basis point (bps)** is a unit of measure used to describe the percentage change in the value or rate of an instrument. One basis point is equivalent to 0.01%.

Contractual spread is the fixed spread over Libor agreed to in the loan terms, ignoring trading prices and expected life of the loan expressed in discount margins.

The three-year **discount margin to maturity (dmm)**, also referred to as discount margin, is the yield-to-refunding of a loan facility less the current three-month Libor rate, assuming a three year average life for the loan.

EBITDA stands for earnings before interest, taxes, depreciation, and amortization.

The **ISM Manufacturing Index** is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management.

The **London Interbank Offered Rate (Libor)** is a benchmark rate that a select group of banks charge each other for unsecured short-term funding.

Spread is the difference in yield to a Treasury bond of comparable maturity.

RISK CONSIDERATIONS

Fixed-income investments are subject to credit, liquidity, interest rate and, depending on the instrument, counter-party risk. These risks may be increased to the extent fixed-income investments are concentrated in any one issuer, industry, region or country. The market value of fixed-income investments generally will fluctuate with, among other things, the financial condition of the obligors on the underlying debt obligations or, with respect to synthetic securities, of the obligors on or issuers of the reference obligations, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry. Fixed-income investments are subject to the possibility that interest rates could rise, causing their values to decline.

Bank loans are generally below investment grade and may become nonperforming or impaired for a variety of reasons. Nonperforming or impaired loans may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate and/or a substantial write down of the principal of the loan. In addition, certain bank loans are highly customized and, thus, may not be purchased or sold as easily as publicly-traded securities. Any secondary trading market also may be limited, and there can be no assurance that an adequate degree of liquidity will be maintained. The transferability of certain bank loans may be restricted. Risks associated with bank loans include the fact that prepayments may generally occur at any time without premium or penalty. High-yield debt securities have greater credit and liquidity risk than investment grade obligations.

High-yield debt securities are generally unsecured and may be subordinated to certain other obligations of the issuer thereof. The lower rating of high-yield debt securities and below investment grade loans reflects a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions, or both, may impair the ability of the issuer thereof to make payments of principal or interest. Securities rated below investment grade are commonly referred to as "junk bonds." Risks of high-yield debt securities may include (among others): (i) limited liquidity and secondary market support, (ii) substantial market place volatility resulting from changes in prevailing interest rates, (iii) the possibility that earnings of the high-yield debt security issuer may be insufficient to meet its debt service, and (iv) the declining creditworthiness and potential for insolvency of the issuer of such high-yield debt securities during periods of rising interest rates and/ or economic downturn. An economic downturn or an increase in interest rates could severely disrupt the market for high-yield debt securities and adversely affect the value of outstanding high-yield debt securities and the ability of the issuers thereof to repay principal and interest. Issuers of high-yield debt securities may be highly leveraged and may not have available to them more traditional methods of financing.

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1. Guggenheim Investments total asset figure is as of 9.30.2017. The assets include leverage of $11.6bn for assets under management and $0.4bn for assets for which we provide administrative services. Guggenheim Investments represents the following affiliated investment management businesses: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Real Estate, LLC, GS GAMMA Advisors, LLC, Guggenheim Partners Europe Limited, and Guggenheim Partners India Management.

2. Guggenheim Partners' assets under management are as of 9.30.2017 and include consulting services for clients whose assets are valued at approximately $63bn.

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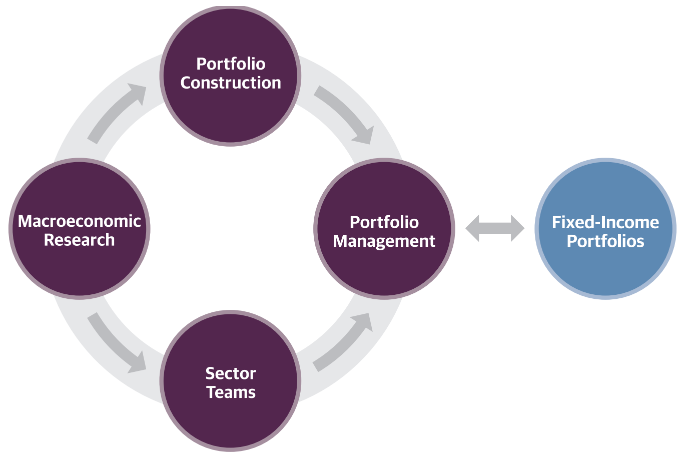
Guggenheim's Investment Process

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



Guggenheim Investments

Guggenheim Investments is the global asset management and investment advisory division of Guggenheim Partners, with more than $243 billion[1] in total assets across fixed income, equity, and alternative strategies. We focus on the return and risk needs of insurance companies, corporate and public pension funds, sovereign wealth funds, endowments and foundations, consultants, wealth managers, and high-net-worth investors. Our 275+ investment professionals perform rigorous research to understand market trends and identify undervalued opportunities in areas that are often complex and underfollowed. This approach to investment management has enabled us to deliver innovative strategies providing diversification opportunities and attractive long-term results.

Guggenheim Partners

Guggenheim Partners is a global investment and advisory firm with more than $295 billion[2] in assets under management. Across our three primary businesses of investment management, investment banking, and insurance services, we have a track record of delivering results through innovative solutions. With 2,300 professionals based in more than 25 offices around the world, our commitment is to advance the strategic interests of our clients and to deliver long-term results with excellence and integrity. We invite you to learn more about our expertise and values by visiting GuggenheimPartners.com and following us on Twitter at twitter.com/guggenheimptnrs.

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