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Ian White for *Barron's*

Talking With Anne Walsh

Co-Manager, Guggenheim Total Return Bond Fund

Winning Teamwork

by Sarah Max

When Anne Walsh met with Scott Minerd, Guggenheim Investments' chief investment officer, for one of their regular lunches about a decade ago, she wasn't planning to walk away with a job. "I was a client," says Walsh, who was the CIO for a global life-reinsurance company at the time. When she mentioned that she would like to work for Guggenheim someday, "Scott said, 'Yes, interview over,' " she says, chuckling. Shortly after that, in 2007, she joined the firm.

Walsh now wears many hats at Guggenheim, including assistant CIO of fixed income and co-manager of the $2.6 billion Guggenheim Total Return Bond fund (ticker: GIBAX). Launched in November 2011, the fund gained 3.1% a year over the past three years, better than 98% of intermediate-term bond funds tracked by Morningstar.

As a client, Walsh saw how other fixed-income teams operated, and felt that Guggenheim's approach made sense. "Most firms have a star system where the portfolio manager is involved in every step of decision making; macro calls, portfolio construction, security selection, oh, and client relationships," says Walsh, 51, who started her investing career at age 19 as an analyst at Alabama's public retirement system. "We want results that are predictable, repeatable, and scalable."

They also aim to minimize the effects of behavioral biases, with an organizational structure designed with the help of Nobel Prize –winning economist Daniel Kahneman; Minerd consulted with him shortly after he launched Guggenheim's fixed-income division in 1999.

To those ends, four autonomous groups collectively manage $145 billion in fixed income. A macroeconomics team makes the big-picture calls; a portfolio-construction team weighs in on duration and yield-curve positioning; sector teams focus on individual securities and security types; and portfolio-management teams synthesize the information.

(over please)

Guggenheim Total Return Bond

	Total Returns*		
	YTD	1-Year	3-Year
GIBAX	0.5%	0.4%	3.1%
Barclays U.S. Aggregate Bond Index	2.0	1.8	2.3

Top 10 Holdings	% of Assets**
Asset-Backed Securities	31.3%
Non-Agency MBS	21.1
U.S. Treasuries & Agencies	11.4
High-Yield Corporate Bonds	6.1
Investment Grade Corporate Bonds	5.5
Bank Loans	5.0
Commercial MBS	4.4
Preferred Securites	3.7
Municipal Bonds	2.1
Military Housing bonds	1.6

*All returns are as of 3/16; three-year returns are annualized.
**As of 1/31/16. Sources: Morningstar and company reports

The Total Return Bond fund, which is based on a 15-year-old institutional strategy, embodies this team approach. Though the fund is designed to be a core holding, it bears little resemblance to the benchmark Barclays U.S. Aggregate bond index – just 11% of its securities overlap. "The U.S. fixed-income market is $37 trillion and growing, but less than half of that is reflected in the index," says Walsh, adding that approximately 70% of the index is in low-yielding government-related bonds whose prices have been distorted by monetary policy. "We think there is a tremendous amount of value in the parts of the market outside the index."

Other total-return managers have turned to derivatives to compensate for low yields, but Walsh and her team use them sparingly, and only to hedge positions. Instead, they delve into segments of the market that aren't as widely covered, including asset-backed securities. "We are all about building, one bond at a time," she says.

While there is a constant flow between the four fixed-income groups, they all come together twice a month for strategy meetings at Guggenheim's Santa Monica, Calif., offices, and via videoconferences in New York and Chicago. Macro teams present their top-down views, and sector teams provide a boots-on-the-ground analysis. The portfolio-construction team then offers a house view on how to position portfolios for optimal risk and reward.

Whereas most firms divide analysts by security type (e.g., investment-grade, high-yield, convertibles), Guggenheim's analysts work on sector teams organized by issuer type. "Analysts who cover technology, for example, cover all credit issuers from investment-grade to high-yield to bank loans," she says. "When you're looking for undervalued securities, the best way to find those is to not be limited by security type."

It can also help spot unforeseen risk. When the fixed-income team lowered its outlook for oil in 2014, they not only exited obvious energy names, but they also looked at oil's secondary impact on other areas, such as municipal bonds and commercial mortgage-backed securities in regions whose economies are closely tied to energy. They are now selectively shopping the battered energy sector.

In 2014, Walsh and her colleagues also concluded that short-term interest rates would increase as the Federal Reserve reined in monetary policy, thus flattening the yield curve. They adopted a barbell strategy of long-duration bonds, such as municipal bonds and long-term Treasuries, paired with floating-rate securities, such as commercial asset-backed securities.

Recently, 31% of the Total Return Bond fund's assets were in these securities, which represent a sliver of the index but are used to finance everything from airplanes and container ships to fast-food franchises. "An example is Domino's Pizza, where they structure a deal based on future expected payments from franchisees and securitize them," she says. "We think we're getting the best part of Domino's, the franchise payments."

Asset-backed securities generally yield more than corporate bonds with similar credit quality. Chalk it up to their added complexity, which is why Guggenheim's fixed-income team includes transactional lawyers who sit on the trading desks and help vet these securities. "This is really important in structured credit," says Walsh, who has a law degree. "At the end of the day, it comes down to what is in the documents and what exactly are you getting as a fixed-income investor."

Late last year, when recession fears rocked the market, the team went shopping for BB and BB- rated securities that were dragged down as investors fled high-yield. They were a little early – and that has put a dent in recent relative performance – but the team thinks it will pay off in the long run. "We think we will look back on the first quarter of 2016 and see that it was a huge buying opportunity," she says. "Investors tend to panic sell and exit markets at exactly the wrong time." ■

Average Annual Total Returns

As of 3.31.2016	Ticker	1-Year	3-Year	Since Inception	Inception Date	Gross/Net Expense
Guggenheim Total Return Bond Fund (No Load)	GIBAX	0.57%	3.23%	5.76%	11.30.2011	1.10%/0.91%
Guggenheim Total Return Bond Fund (Load)		-4.19%	1.57%	4.58%	-	1.10%/0.91%
Barclays U.S. Aggregate Bond Index		1.96%	2.50%	2.93%	-	-

Performance displayed represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than original cost. Current performance may be lower or higher than the performance data quoted. For up-to-date fund performance, including performance current to the most recent month end, please visit our website at GuggenheimInvestments.com. Load performance reflects maximum sales charges or contingent deferred sales charges (CDSC) as applicable. A Class shares have a maximum sales charge of 4.00%. Effective 10.1.2015 the A Class maximum front-end sales charge was changed from 4.75% to 4.00%. For performance periods that begin prior to 10.1.2015, a 4.75% load was used and for performance periods that begin after 10.1.2015, a 4.00% load was used.

The advisor has contractually agreed to waive fees and expenses through 2.1.2017, to limit the ordinary operating expenses of the fund. The fund may have net expenses greater than the expense cap as a result of any acquired fund fees and expenses or other expenses that are excluded from the

Risk Considerations. This fund may not be suitable for all investors. • 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 may 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. • Investors in asset-backed securities, including mortgage-backed securities and structured finance investments, 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. • 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 expose the fund to the many of the same risks as investments in derivatives. • The fund's investments in other investment vehicles subject the fund to those risks and expenses affecting the investment vehicle. • The fund's investments in foreign securities carry additional risks when compared to U.S. securities, due to the impact of diplomatic, political, or economic developments in the country in question (investments in emerging markets securities are generally subject to an even greater level of risks). • Investments in syndicated bank loans generally offer a floating interest rate and involve special types of risks. • The fund's investments in municipal securities can be affected by events that affect the municipal bond market. • 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. • 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.

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