GUGGENHEIM

ETFs Are a Rapidly Growing Investment Vehicle in Today's Global Marketplace

Have You Explored ETFs?

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An exchange traded fund (ETF) is a portfolio of securities that trades like an individual stock on major stock exchanges and can be bought or sold throughout the trading day. ETFs are attractive to investors because they provide an efficient way to gain exposure to a wide variety of securities.

The ETF structure and its unique creation and redemption process can offer several benefits, including tax efficiency, liquidity and transparency. These are attributes that appeal to both individual and institutional investors and help explain the rapid growth in the number of funds and assets invested in ETFs over the past decade. It is important to note that there are several factors, including investment objective, management style and risk tolerance, that may be important to investors in determining the best investment structure to meet their needs. ETFs may not always be the correct vehicle for every investor.

This overview is meant to familiarize you with the exchange traded fund structure. You'll find detailed information on these topics:

ETF Development
Origin and growth over the past decade

Tax and Cost Efficiency
Typically substantially lower capital gains distributions compared to other investment vehicles and lower annual expense ratios due to the unique ETF structure

Liquidity
Intraday trading on major stock exchanges with price reporting every 15 seconds

Transparency and Diversification
Know what securities a fund is holding on a daily basis and gain access to a basket of securities through a single-trade approach to diversification

The Genesis of ETFs

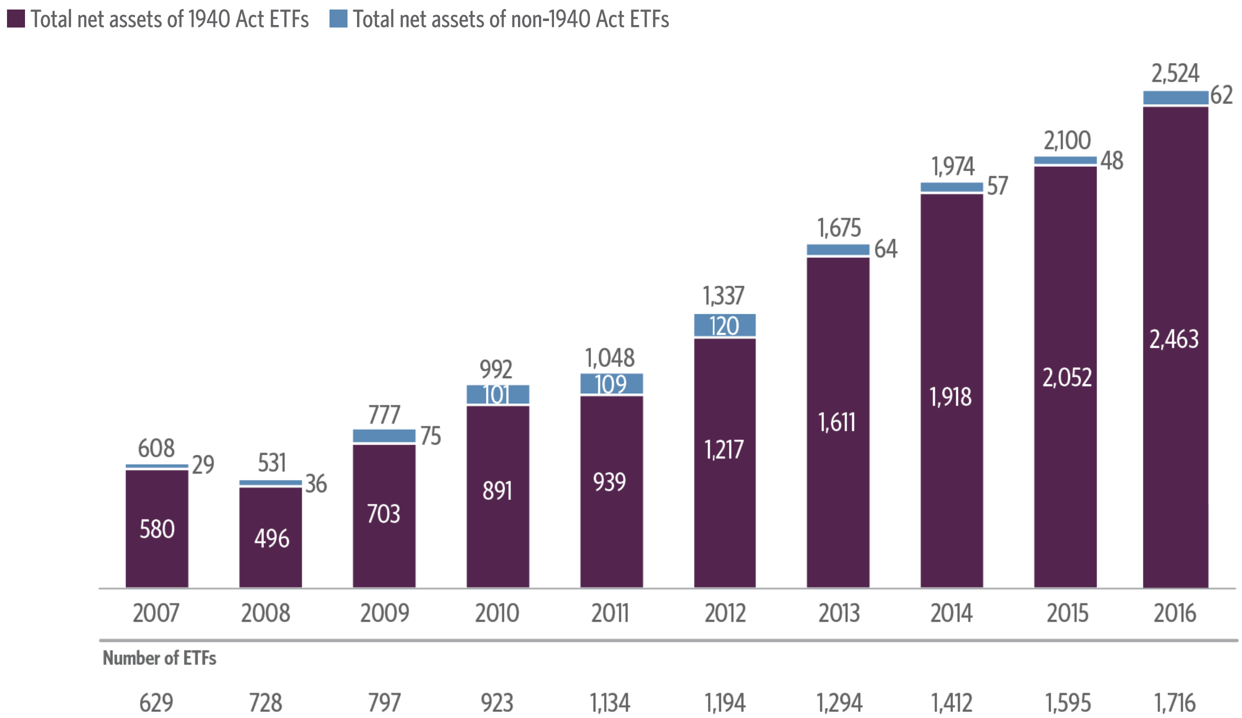
In the early 1990s, innovation at the American Stock Exchange ("AMEX") spawned the ETF market. The AMEX broke new ground with the concept of a tradable basket of securities through its launch of the Standard & Poor's Depositary Receipt ("SPDR"). This new product enabled investors, for the first time, to trade the entire S&P 500® in a single share of stock. Today ETFs are listed on a variety of exchanges and may trade on all major stock exchanges—domestic and globally. There are ETFs representing a wide variety of industries, regions, commodities, bonds, and other asset classes. The U.S. ETF market represented approximately $2.5 trillion in assets with over 1,716 ETFs listed in the U.S. as of December 31, 2016.[1] The benefits of ETFs, as outlined below, have caused many investors to consider making ETFs a part of their investment portfolios.

[1] SOURCE: ICI 2017 Investment Company Factbook.

ETFs Have Experienced Rapid Growth

ETFs, once virtually unheard of by individual retail investors, are rapidly gaining momentum. The chart below shows the explosive growth of ETF assets since 2007.

Total Net Assets (In Billions) and Number of ETFs (2007–2016)



Source: ICI Investment Company Factbook, chapter 3 (ETFs). December 31, 2016.

ETFs as a Tax-Efficient and Low-Cost Investment Solution

An important component of an investor's bottom line is taxes, which can have a direct impact on long-term growth of capital. They can also erode an investment's return if not properly managed. An ETF's tax-efficient structure and generally low expenses are two of its most prominent benefits relative to other investment vehicles. No matter how well your investments perform, the ultimate return is only as valuable as the amount kept after expenses and taxes. The creation and redemption process is one way an ETF's structure may lower market impact costs—by accessing potentially limited secondary market liquidity and generating fewer taxable events, in general.

Creation and Redemption Process

The structure of an ETF can benefit both individual investors and institutional investors alike. Unlike open-end mutual funds, individual investors do not transact directly with ETFs. Larger investors, such as market makers or specialists, who are Authorized Participants ("APs"), can buy and sell directly from the ETF. This process represents an exchange of securities versus cash, as is the case for open-end mutual funds, and is not generally a taxable event for the ETF and its ongoing shareholders. Investors are able to buy and sell ETF shares on a stock exchange throughout the day; however, the transactions may result in brokerage costs and other transactional fees.

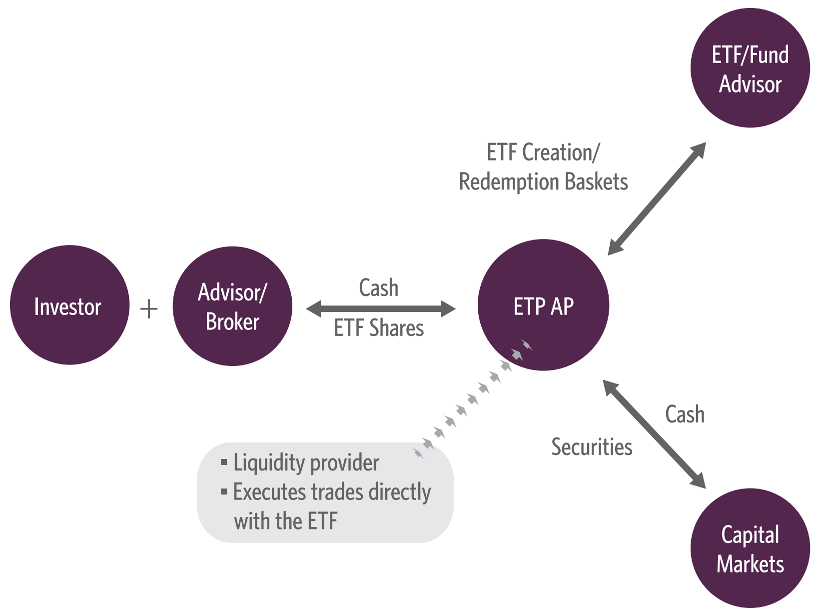
How Much is Your Investment Worth After Taxes?

Taxable capital gains distributions and high expense ratios can erode the gains of even the best investment product. The structure of an exchange traded fund can help limit expenses and taxable gains. While ETF holdings may change frequently, an ETF typically does not trade shares of its underlying portfolio for cash. Therefore, shareholders generally do not realize capital gains until they sell their ETF shares.

How The Process Works

In the creation process, an AP delivers to the ETF a large block of securities, called a "creation unit." The creation unit is a representative basket of constituent securities plus typically a small cash payment in return for shares of the ETF (there is a transaction fee for each creation unit). The APs also generally cover all the trading and transaction costs for the portfolio. To redeem shares, the AP receives a representative basket of the constituent securities and possibly a small amount of cash from the ETF in exchange for shares of the ETF. (The cash is equal to the difference between the net asset value ("NAV") of the shares being redeemed and the value of the ETF securities less the redemption fee and any applicable transfer taxes.) Except when aggregated in creation units, shares are not redeemable securities of the funds.

ETF Structure and the Role of the Authorized Participant



Authorized Participants (APs)	The only entity that transacts directly with an ETF. The AP facilitates trades for market makers and for market specialists. An AP can also function as a market maker or market specialist.
Market Maker (Liquidity Provider)	Generally large investors that transact trades for institutional investors or a large number of smaller investors.
Market Specialist	Provides a bid/ask spread for the ETF and has the responsibility of maintaining an orderly market for an ETF during trading hours.

ETFs—Generally More Tax-Efficient Than Open-End Mutual Funds

ETFs can produce substantially lower capital gains distributions than open-end mutual funds, though there are some mutual funds managed with the goal of achieving tax efficiency and/or low expense ratios.

The exchange of securities versus cash is considered an in-kind transaction and is not generally a taxable event for the ETF and its ongoing shareholders. The comparatively small exchange of cash at redemption is considered a taxable event to the receiving party but does not generally impact the ETF. This in kind creation and redemption process significantly reduces the number of taxable events incurred by an ETF compared with open-end mutual funds.

The table below outlines the treatment of potential taxable events in ETFs and mutual funds.

Like stocks, capital gains and taxes on ETFs are generally recognized only upon the sale of the security, and they apply only to the amount of the proceeds above the investor's personal cost basis. The investor's holding period is used to classify the gain as either short or long term.

It is important to note that investors need to identify the best investment structure to meet their needs. ETFs may not always be the correct vehicle for every investor. For some investors, mutual funds may be the more cost-effective investment vehicle.

Tax Efficiency Comparison—ETF and Mutual Fund Portfolios

Potential Taxable Event	ETFs	Open-End Mutual Funds
Shareholder Redemption	No. Redemptions are generally handled in-kind for large investors and the lowest cost basis stock is transferred out. In-kind transactions are not generally taxable events for the ETF and its shareholders.	Yes. If securities are sold at a gain to cover redemptions, the shareholders will receive capital gains distributions at year end which represent a taxable event.
Portfolio Turnover	Not always. Similar to shareholder redemptions, rebalancing is handled in-kind to the extent possible and those transactions are not generally a taxable event for the ETF and its shareholders. In some cases, the ETF must sell securities no longer in the index for cash and buy other securities which are new to the index for cash. Any cash transaction represents a taxable event for the ETF.	Yes. Open-end funds generally buy and sell holdings in an effort to generate favorable returns for shareholders. If there are gains realized because of this turnover, shareholders will receive capital gains distributions at year end which represent a taxable event.
Corporate Actions (Acquisitions, stock splits, etc.)	Not always. Similar to shareholder redemptions, the sale of securities due to corporate actions is handled in-kind to the extent possible and those transactions are not generally a taxable event for the ETF and its shareholders. In some cases, the ETF must sell securities for cash and buy other securities for cash. Any cash transaction represents a taxable event for the ETF.	Yes. Open-end fund managers may choose to sell part or all of the stock of a company that has merged or been acquired if the new company no longer fits their investment thesis or represents a combined position that is larger than allowed by the fund's prospectus. If the securities are sold at a gain, shareholders receive capital gains distributions at year end which represent a taxable event.

ETFs as a Liquid Investment Solution

ETFs can be bought and sold throughout the trading day, offering a similar level of liquidity as stocks and other securities that trade on exchanges. An ETF's liquidity is also enhanced by its structure. Unlike common stocks or closed-end funds, ETF's do not have a fixed number of shares. The liquidity of an ETF is a reflection of the liquidity of the underlying securities in the constituent index and the ETF's trading volume.

Liquidity is a Primary Benefit of ETFs

1. An ETF's unique structure and creation/redemption process enhances its liquidity

Individual investors and APs buy and sell shares of an ETF through different means. Individual investors take advantage of liquidity by trading ETF shares on stock exchanges.[1] But unlike stocks, ETFs do not have a fixed number of shares—shares may be created and redeemed daily as described in the creation and redemption process above.

Large institutional block trades are conducted through APs which helps maintain an orderly market for an ETF by facilitating the creation of new ETF shares when demand is high or the redemption of ETF shares when demand slows. This process usually helps the bid/ask price to remain close to the NAV, enabling investors to buy and sell at prices that closely track the intraday NAV of the ETF's portfolio of securities.

Please note, a fund's exposure to less liquid and/or thinly traded securities can subject a fund, and its shareholders, to liquidity risk. In certain instances, it may be difficult for a fund to purchase and sell particular investments within a reasonable time, at a fair price.

1 Trading in ETF shares may be halted on a stock exchange due to market and other conditions. There is also no assurance that the necessary requirements of a stock exchange to maintain the listing of an ETF will continue to be met or will remain unchanged.

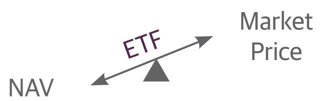
2. Arbitrage is a mechanism of liquidity

The spread between the market price and NAV of an ETF is determined largely by the liquidity of the underlying securities of the ETF's constituent index. An indicative NAV is calculated at least every 15 seconds throughout market hours. The actual NAV of the ETF is determined once daily as of the close of market hours. This frequent approximate valuation makes arbitrage trading more convenient.

Arbitrage trading is a mechanism that helps keep an ETF trading on an exchange at a price close to the NAV of its underlying portfolio. This is the result of arbitrage traders (typically APs or Market Specialists) who see an opportunity to profit from any price discrepancies between an ETF and the portfolio, closing the price gap between the two.

Arbitrage

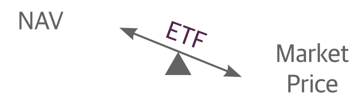
ETF selling at a premium



The AP:

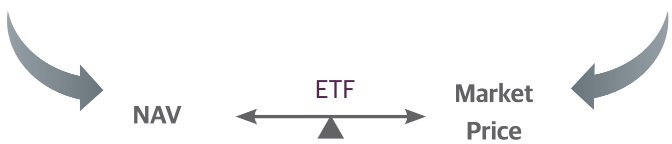
- Sells ETF shares on an exchange
- Buys basket of securities from market and creates new ETF shares
- Sells ETF shares to market in order to take advantage of the price difference and potentially capture a profit

ETF selling at a discount



The AP:

- Buys ETF shares on an exchange
- Redeems ETF shares with ETF sponsor for a basket of securities
- Sells securities to market in order to take advantage of the price difference and potentially capture a profit



Arbitrage helps keep the ETF market price close to the NAV of the securities it's tracking.[1]

3. An ETF trades like a stock, making it more liquid and flexible than a mutual fund[2]

Liquidity Provides Flexibility

Feature	ETFs	Stocks	Open-end Mutual Funds
Can be bought or sold during regular market hours on the secondary exchange	Yes	Yes	No
Can be purchased on margin	Yes	Yes	No
Can be sold short	Yes	Yes	No
Can use stop and limit orders	Yes	Yes	No
Ability to write options	Yes	Yes	No

With short sales, investors risk paying more for a security than they received from its sale and there is no limit to the amount of money an investor can lose.

1 Because of the forces of supply and demand and other market factors, there may be times when shares of an ETF trade at a premium or a discount to its underlying portfolio value.

2 Trading in ETF shares may be halted on a stock exchange due to market and other conditions. There is also no assurance that the necessary requirements of a stock exchange to maintain the listing of an ETF will continue to be met or will remain unchanged.

Transparency Aiding in Portfolio Diversification

One benefit of ETFs is that they fully disclose their holdings on a daily basis (as compared to mutual funds, which typically disclose holdings less frequently). This information is easily accessible, so investors can always understand what they own. In addition, complete transparency of this kind may aid investors as they seek to build a diversified portfolio based on a desired asset allocation or diversification model.

Because owning an ETF is an investment in a basket of securities, it offers more diversification and potentially lower risk than investing in individual securities. ETFs enable investors to purchase a pool of securities with the ease of a single trade—saving the investor additional transactional costs. In addition, ETFs represent a large variety of asset classes and investment themes, which may not be easily accessible through other investment vehicles, including:

- Broad Market
- Commodities
- Country Stocks
- Currencies
- Emerging Market Stocks
- Fixed Income
- Frontier Market Stocks
- Growth Stocks
- International Stocks
- Inverse Investing
- Leveraged Investing
- Long-, Mid- and Short-term Bonds
- Preferred Securities
- Real Estate Investment Trusts
- Sector Stocks
- Small-, Mid- and Large-Cap Stocks
- Value Stocks

The convenience of diversification through an ETF and the vast variety of ETFs make them an effective tool for portfolio construction.

Who Should Consider Investing in ETFs?

ETFs are designed for investors seeking:

- A relatively low-cost investment
- To know what they own
- The flexibility of intraday liquidity
- A tax-efficient investment solution

Key Terms Relation to ETFs

Arbitrage	The practice in trading of taking advantage of a price difference between two or more separate markets by purchasing and selling the same security at the same time in different markets.
Authorized Participant (AP)	An entity, typically an institutional investor, large broker/dealer, specialist, or market maker, who has entered in to an agreement that allows them to create and redeem fund shares directly with an ETF sponsor.
Bid/Ask Spread	The difference between the ask price for an immediate purchase, or the lowest price a seller is willing to sell at, and the bid price for an immediate sale, or the highest price a buyer is willing to pay.
Creation/Redemption Unit	A specified number of fund shares that makes up one unit of an ETF. The creation/redemption unit size varies by fund, with most units containing between 25,000 and 600,000 fund shares. A unit of the fund can be created to receive a specified number of ETF shares or redeemed to receive a specified number of the securities underlying the ETF shares.
Expense Ratio	For a mutual fund or other investment company, the cost of investment management, marketing, custody, administration and other related expenses. The expense ratio, expressed in basis points or as a percentage, represents a fund's operating expenses divided by the average dollar value of its assets under management.
Intraday Indicative Value (IIV)/ Indicative Optimized Portfolio Value (IOPV)	A measure of the intraday net asset value (NAV) of an ETF. The IIV/ IOPV is designed to provide an indication of the relationship between an ETF's market price, (the price at which share transactions are executed) on an intraday basis, and the basket of securities that are representative of those owned by the ETF. Instead of waiting for the end of the trading day calculation of an investment's NAV, the IIV/IOPV gives a theoretical real-time view of the value.
Lead Market Maker (LMM)	A firm that facilitates trading in a security by standing ready to buy and/or sell generally at least 100 shares of a security at a publicly quoted price. The process of receiving and executing an order may take place in just seconds.
Market Depth	The size of a buy or sell order needed to move a stock price in either direction. A large order is needed to change a stock price in a deep market.
Net Asset Value (NAV)	The value of the underlying portfolio per share of a closed-end, exchange-traded, or mutual fund based on the market price of the underlying portfolio. The NAV is calculated daily by dividing the fund's total assets (securities, cash, and accrued earnings), less the fund's liabilities, by the number of shares outstanding. An official NAV is calculated once a day by most U.S. funds at 4:00 p.m. Eastern Time, with some funds calculating an NAV several times a day or, in a few cases, hourly. ETFs shares trade at market value, which can be a dollar value above or below NAV.
Standard Deviation	A statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution.
Tracking Error	A measure of how closely a portfolio tracks its benchmark index. It measures the standard deviation of the difference between the returns of a portfolio and the returns of its benchmark. The difference between the net asset value of the portfolio and the returns of the index on which the portfolio is based is called the net-asset-value tracking error. Price-to-index tracking error is the difference between the portfolio returns and underlying index returns based on closing market.
Rebalancing	The action of realigning the individual weighting of an index's security to the defined allocations as determined by the index's weighting methodology. Oftentimes this prevents individual securities from overwhelming an index once the security has greatly outpaced its peers.
Reconstitution	The process in which an index is adjusted by making additions to and/or deletions from the index's securities. Generally indexes will reconstitute annually, semi-annually, or quarterly.
Underlying Constituents	The securities that together make up the underlying index that an ETF tracks.

Are ETFs Right For You? Your Financial Advisor Can Help.

While ETFs offer specific benefits to certain kinds of investors, they are not right for every situation, and not suitable for every investment objective or strategy. Intra-day trading does not in itself guarantee better or more efficient performance. Low expense ratios can lull investors into a false sense of security about the total cost of their investment program, tempting them to trade more often, where hidden costs can have a dramatic impact on investment performance.

Your financial advisor can help you decide whether ETFs have a place in your portfolio. An investment vehicle like an ETF can provide exposure to an array of asset classes, sectors or regions through a varied basket of securities. Talk with your advisor about the most appropriate investments for you.

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