transparent value

A GUGGENHEIM PARTNERS COMPANY

Picking winners is a losing game

Investing the Transparent Value Way

Applying a disciplined investment process to help stack the odds of equity investing success in your favor.

At Transparent Value, we believe successful equity investing is not about trying to pick winning stocks but to rather actively avoid losers. It is not about identifying macro trends or investment themes. It is not about searching for price momentum or out-of-favor buying opportunities. And it certainly is not about trying to find good stock stories. These approaches are all based on trying to predict what might transpire in the future. By definition, however, the future is completely unknowable and forecasting the unknowable future may only increase the likelihood of being wrong and investing in a loser.

Transparent Value recognizes that an element of luck is present in the world of investing, and when luck is involved we believe that a systematic, disciplined process over time will lead to better outcomes. Applying insurance company risk management lessons, Transparent Value has built an investment management platform that uses the actuarial risk management techniques to build portfolios that we believe are able to deliver more sustainable long-term investment results.

At the heart of this process is a success measure called Required Business Performance® (RBP®) Probability, and it evaluates one simple question: Can management deliver the performance necessary to support the stock price?

RBP® Probability is very similar to the success measure detailed in the book Moneyball, which recounts the story of Billy Beane, who led the Oakland A's, one of the poorest Major League Baseball clubs, to more regular season wins than any other team. Beane analyzed the overlooked statistic of on-base percentage (OBP) and found that evaluating consistency in getting on base proved more effective in determining whether or not a player could help win games than other more popular measures. High OBP players help keep you in the game by avoiding outs, and more players on base naturally lead to more runs, which of course lead to more wins.

Transparent Value applies this same thinking to equity investing with its RBP® Probability measure—determining the on-base percentage for stocks.

About Transparent Value

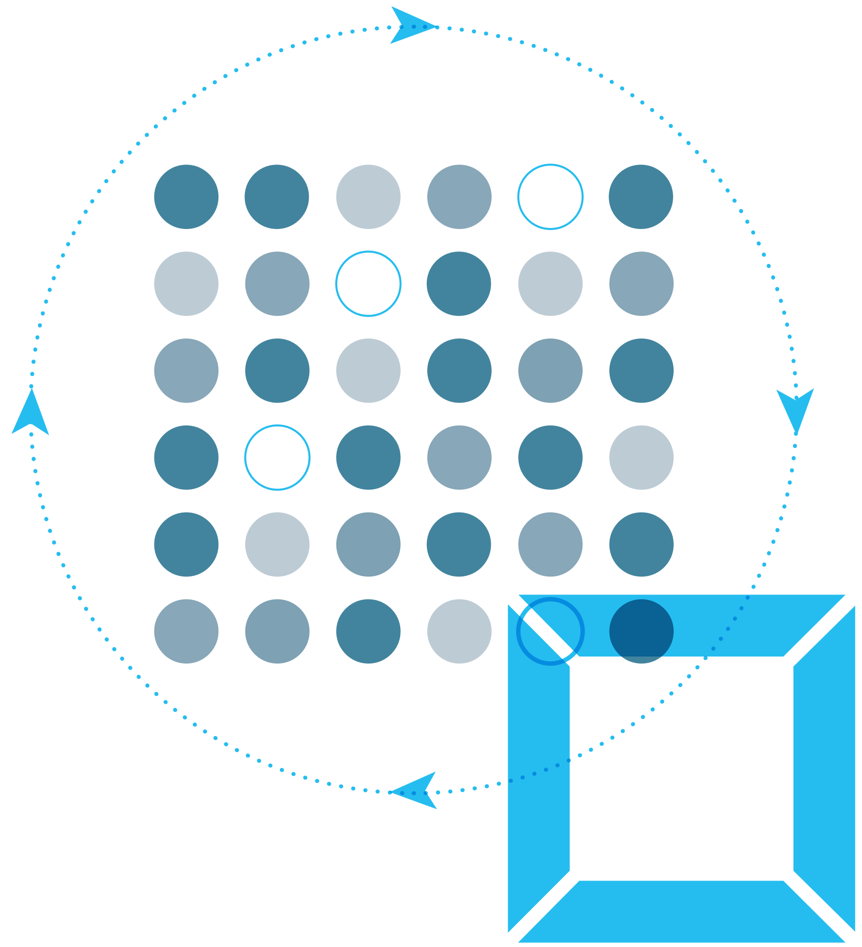
Established in 2003

Deep dedication to a consistent strategic and investment vision

Continued executive and portfolio leadership under cofounders Julian Koski and Armen Arus

Strict adherence to the patented RBP® investment process

Constant RBP® analysis of more than 2,200 stocks, 2,500 mutual funds, 400 exchange-traded funds, 100 closed-end mutual funds and 150 variable annuities



Stock investing should not be a guessing game

Transparent Value's unique RBP® process was developed to address some fundamental problems associated with many equity portfolios. Often investment managers attempt to outperform a benchmark by making educated guesses about a company's future success. Even for the most experienced professionals, however, forecasting the unknown future to make active stock selections can make investment predictions very unreliable. Conversely, traditional index-based investing avoids this subjectivity, but it fails to offer any type of outperformance potential and is completely exposed to broader equity declines.

Transparent Value believes that a systematic, disciplined process over time will have a better outcome.

- **Focusing on what is rather than what might be**
  The RBP® process eliminates the emotion biases from investment decisions that often lead investors astray. Our in-depth fundamental analysis mathematically quantifies management's ability to deliver the performance to support the current stock price, instead of relying on personal judgment and intuition, both of which can be notoriously inaccurate in forecasting investment results with any long-term consistency.

- **Managing equity risk more realistically**
  Attempting to pick winners by trying to predict the unknowable may increase the likelihood of being wrong and investing in losers. We try to avoid losers from the start with a repeatable disciplined process that seeks to establish a clear link between a company's stock price and what its management must do on a daily basis to justify that valuation. This helps identify which companies can support their stock prices and which firms cannot.

- **Combining active research with index transparency**
  Transparent Value's portfolios are managed to track specific RBP® indexes. We believe this offers the most attractive aspects of both active and passive investment management by providing the deeper research insights of fundamental analysis applied through the strict rules-based methodology of an index-based portfolio. This avoids the inconsistency and emotion that can occur in purely qualitative strategies, as well as the "black box" mentality usually associated with a purely quantitative approach.

Backed by a proprietary investment methodology

Transparent Value's RBP® process does not rely on the traditional notion of value or what we think a company is worth. Conventional deductive reasoning about potential growth drivers to forecast a stock's intrinsic value might be exposed to tremendous subjectivity. Because this type of predictive forecasting can be driven by personal biases, it risks subjecting selection portfolio to a random outcome. We think it makes more sense to remove personal judgment and emotion from the research process in an effort to deliver more pragmatic, effective investment results.

Basing decisions on fact, not assumptions

Our research focuses only on what is knowable: a company's stock price and its financial statements. Using these inputs, our RBP® Methodology measures the revenue required to support a current stock valuation. It then calculates, based on past revenue growth, the RBP® Probability that the firm will achieve these results. Our process uses a reverse discounted cash flow valuation model to determine what the stock price implies in terms of current revenue needs and benchmarks this against management's past ability to perform. If management is likely to achieve these goals, we feel the company is worth the investment.

Determining if price and performance are aligned

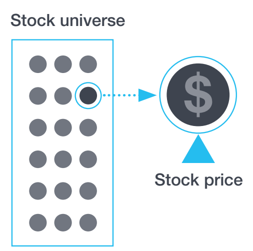
The complement to the RBP® Probability is the Behavioral Risk Indicator (BRI), which provides an indication as to whether a stock price has dislocated from a company's underlying fundamentals. A low RBP®/high BRI suggests that the stock price has risen to a level that makes it difficult for management to deliver the revenue growth to support it. We feel that high behavioral risk stocks should be actively avoided. The fact is that losers are often the greatest determinant to overall performance, and if a company cannot deliver the required revenue growth to support its stock value, it introduces considerable risk that might erode portfolio returns.

RBP® Methodology*

Transparent Value's team of more than 120 research analysts continuously evaluates more than 2,200 stocks using the disciplined RBP® rating system.

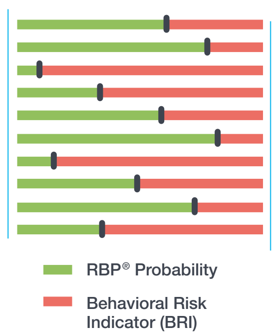
Input:
Current stock price

1: Calculate company's RBP®



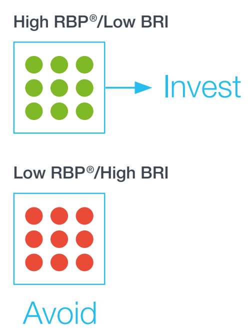
- Calculate required free cash flow and Required Business Performance® (RBP®) over the next 12 months to support the current stock price

2: Calculate RBP® Probability



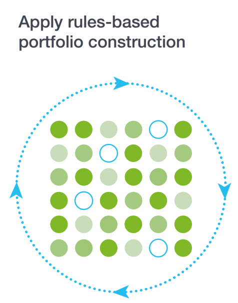
- Count frequency of achieving this RBP® in the past 12 quarters
- Calculate probability that a company can deliver the RBP® over the next 12 months

3: Rank stocks by RBP®



- Sort stock universe by RBP® Probability and BRI

4: Transparent Value creates family of RBP® Indexes



- Filter by relevant index-specific characteristic screens, such as investment style, momentum, beta or market capitalization
- Weight stocks by RBP® Probability
- Rebalance quarterly

Output:
Transparent Value investable portfolios

* The RBP® Methodology is not necessarily the right or only way one should invest, but an option. RBP® and BRI are based on a proprietary investment strategy (or model), and there is no assurance that either the probability score or risk indicator will successfully identify companies based on these measures. The diagram is for illustrative purposes only.

Systematically implementing the RBP® model

The Transparent Value Funds are managed out of our New York headquarters, utilizing granular RBP® research on more than 2,200 stocks conducted by our India-based research team. Our Mumbai and Chennai, India offices were established in 2005 and currently consist of more than 120 research analysts in addition to staff managers and team leaders. Each analyst operates in an industry-specific team and covers approximately 20 companies.

This process applies tailored RBP® templates structured for the industry-nuanced financial reporting standards of the energy/oil & gas, real estate, banking, home builders, broker dealers, insurance and commercial sectors. To ensure tight controls over team quality, consistency and continuity, our recruiting and training is similar to the investment banking model, with strict hiring criteria followed by intense class-room instruction and hands-on immersion into our philosophy and process.

Isolating additive factors to potentially enhance returns

The RBP® analysis is further enhanced by combining the RBP® signal with other fundamental and technical factors.These screens ensure portfolio liquidity and refine application to specific investment objectives.

Refinements drawn from continuous academic research

RBP® Methodology is constantly tested and subject to continuous improvement and enhancements using insights developed from academic research. This process focuses on identifying new statistical distributions that can lead to improved performance.

Disciplined portfolio construction and execution

Strict portfolio construction rules allow portfolio managers to focus on the efficient trading and replication of the index. This concentrates portfolio expertise on core areas that are indeed control-lable and eliminates any individual stock selection or sector weighting biases by a portfolio manager that could elevate investment risk.

RBP® portfolio applications

Transparent Value offers investors a range of strategies and services to apply the disciplined insights of RBP® research.

Transparent Value RBP® Indexes℠

The Transparent Value RBP® process is applied to specific underlying S&P Dow Jones Index benchmarks. Each index also has been further tailored to create portfolios with specific risk and investment style characteristics.

Transparent Value Funds

Transparent Value offers an array of professionally managed mutual funds designed to track certain RBP® indexes. Using different market exposures, investment styles and the ability to dynamically control equity exposure based on changing market risk these indexes are designed to be used as core portfolios.

Institutional portfolios and separate accounts

Transparent Value also offers customized RBP® portfolio management solutions to help institutional investors meet specific investment goals and/or parameters.

The RBP® Institute (www.rbpinstitute.com)

This institute offers an easy way to access RBP® research, allowing users to evaluate RBP® Probabilities for numerous stocks, popular indexes, mutual funds, closed-end funds, exchange-traded funds and variable annuities, as well as input and track individual portfolio holdings.

The RBP® investment philosophy

Guessing if a stock price reflects a company's true value can be risky.	**Stock prices alone are unreliable proxies for company worth since they are largely based on collective market biases about future expectations, which sometimes prove true but sometimes do not.**
Management performance is one of the key factors in supporting a stock's price—and hence more stable returns—over the long term.	**Invest in management teams best positioned to meet or beat market expectations; we believe these are the firms most likely to be rewarded with higher stock prices.**
Steadily avoiding losses can play a much more critical role in investment success than chasing potential gains.	**Any portfolio losses can have a negative compounding effect, meaning investment gains must be even higher just to get back to an even level; avoiding stocks with fundamentals that cannot support their stock prices in the first place may greatly help to reduce this downside risk.**
Select and weight stocks relative to all others.	**Cast a broad net; active market capitalization weighting and managing specific sector allocations only exacerbate investor biases that increase risk.**
Knowing when to sell is as important as knowing when to buy—if not more so.	**Be quick to sell when a company's stock price begin to dislocate from underlying fundamentals.**

See the market clearly

Transparent Value seeks to offer equity investors exposure to better risk-adjusted returns. Our highly intensive Required Business Performance® (RBP®) process quantifies the probability of whether a stock can perform according to market expectations. How many iPhones must Apple* sell to support its current share price? How many packages must FedEx* ship? The answers to these types of basic questions can provide a clearer view of which stocks offer the most compelling risk/reward potential. Our process forms the basis for the family of Transparent Value Indexes℠. Each Transparent Value portfolio is designed to track a specific RBP® Index, providing investors with the research insights of active management combined with the transparency, consistency and disciplined rules-based methodology of an index-based portfolio.

Ask your Financial Advisor for more information about Transparent Value. You can also learn more by contacting 1.888.727.6885 or visiting www.transparentvalue.com

Die cuts for business card

This white panel is a pocket that folds in from the right side and pastes top and bottom

*Apple and FedEx are used as examples only and are not recommendations to buy.

Fund Risks

An investment in the Transparent Value Funds involves risk, including loss of principal. Since the Funds invest in securities comprising indexes created by a proprietary model, the Funds may have a lower return than if the Funds were managed using a fundamental or index-based strategy that did not incorporate quantitative analysis. The Funds are non diversified and, as a result, may have greater exposure to volatility than other funds.

Investors should consider the investment objectives, risks, charges and expenses of the Transparent Value Funds carefully before investing. To obtain a prospectus containing this and other information on Transparent Value Funds, please contact 1.888.727.6885 or visit www.transparentvalue.com. Read the prospectus carefully before investing.

Definitions: Discounted Cash Flow analysis is a method of valuing a company, or asset using the concepts of the time value of money Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. Free cash flow (FCF) represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base.

ALPS Distributors, Inc. is not affiliated with the Transparent Value Institutional portfolios or separate accounts.

Transparent Value Funds are distributed by ALPS Distributors, Inc., Guggenheim Distributors, LLC and Guggenheim Funds Distributors, LLC and are marketing agents for Transparent Value Mutual Funds. Transparent Value, LLC, Guggenheim Distributors, LLC and Guggenheim Funds Distributors, LLC are subsidiaries of Guggenheim Partners, LLC.

transparent value

A GUGGENHEIM PARTNERS COMPANY

Transparent Value, LLC
135 East 57th Street, 15th Floor, New York, NY 10022

TVA000350 12/31/2013