

## Diversified Growth Potential of Frontier Markets

Frequently referred to as “pre-emerging markets,” frontier markets are developing countries with investable equity markets that are generally considered to be in the very early stages of economic development.

### Frontier Markets’ Historical Performance and Diversification

Recently, a number of frontier market countries have been experiencing volatility due to political unrest. For long-term investors that are tolerant of the increased risks associated with investing in frontier markets, the historical correlation and performance of these countries may provide an attractive portfolio allocation.

#### A LOW CORRELATED EQUITY MARKET

Historically, frontier markets have responded differently to market events affecting other more developed countries. With fewer large-cap stocks and companies that tend to be more domestically focused, frontier markets have been impacted more by internal factors rather than global trends. As a result, frontier market equities had the lowest correlation\* relative to developed (includes U.S. and international) and emerging market equities.

**CORRELATION OF FRONTIER MARKETS VS. EMERGING/DEVELOPED/ INTERNATIONAL EQUITIES AND DOMESTIC FIXED INCOME**  
5/31/2002 - 12/31/2010

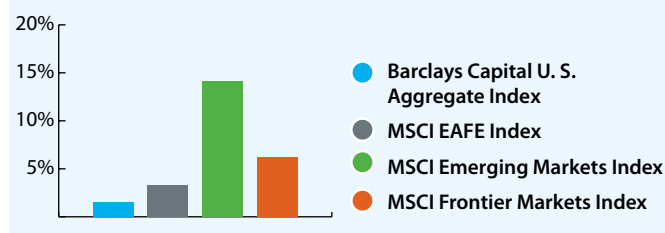
	1	2	3	4	5
1) MSCI Frontier Markets Index	1.00				
2) MSCI Emerging Markets Index	0.54	1.00			
3) MSCI EAFE Index	0.58	0.91	1.00		
4) S&P 500 Index	0.50	0.83	0.91	1.00	
5) Barclays Capital U.S. Aggregate Index	0.05	0.08	0.09	0.00	1.00

\*A correlation of 1.00 means the asset classes have historically moved perfectly in sync with each other, while a correlation of 0.00 means there hasn't been a connection at all between their performance. In general, the lower the correlation, the greater the diversification between asset classes.

#### HISTORICAL SOURCE OF EXCESS RETURN\*\*

Frontier market countries have delivered greater excess return over U.S. equities than both U.S. fixed income and developed international equity markets since May 2002. As countries in the early stages of growth, they have benefited from the trends—urbanization, rising incomes, and increasingly educated populations—that historically have propelled economic growth.

**EXCESS RETURN OVER THE S&P 500 INDEX 5/31/2002-12/31/2010**



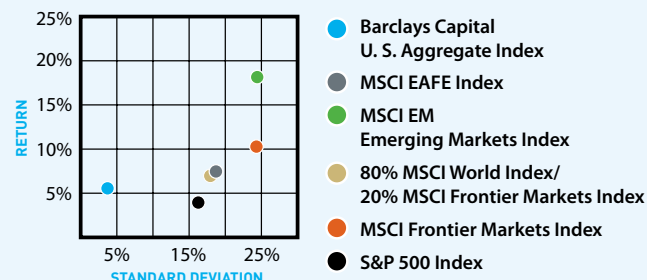
\*\*Excess return is the return of an index over that of another index, which in this chart is the S&P 500 Index.

#### OPPORTUNISTIC RISK/REWARD PERFORMANCE

Facing unique challenges that span from unstable political situations to single commodity-based economies, frontier markets have traditionally been more volatile than more developed markets. However, as shown in the graph, investors who were willing to take on the additional risk may have been rewarded with performance that outpaced domestic and international developed market equity returns on an annualized basis.

In addition, despite their additional risk potential, frontier markets delivered attractive risk-adjusted performance as measured by the Sharpe ratio. By adding a frontier market allocation to a portfolio, the portfolio's Sharpe ratio was greater than a portfolio limited to developed global market equities.

**RISK/RETURN 5/31/2002-12/31/2010**



**SHARPE RATIO\*\*\* 5/31/2002-12/31/2010**

MSCI World Index	0.2182
80% MSCI World Index/20% MSCI Frontier Markets Index	0.2724

\*\*\*Sharpe ratio is a measure of reward per unit of risk. A higher Sharpe ratio indicates outperformance on a historical risk-adjusted performance basis, while a lower Sharpe ratio indicates underperformance on a historical risk-adjusted performance basis.

Source for charts: Morningstar and Zephyr StyleADVISOR, Feb 2011. The start date of 5/31/2002 is the date of inception for the MSCI Frontier Markets Index. **Past performance is no guarantee of future results.** The charts shown above are for illustrative purposes only; they are not meant to forecast, imply or guarantee the future performance of any Guggenheim Funds product. See below for index definitions. Indexes are unmanaged and it is not possible to invest directly in an index.

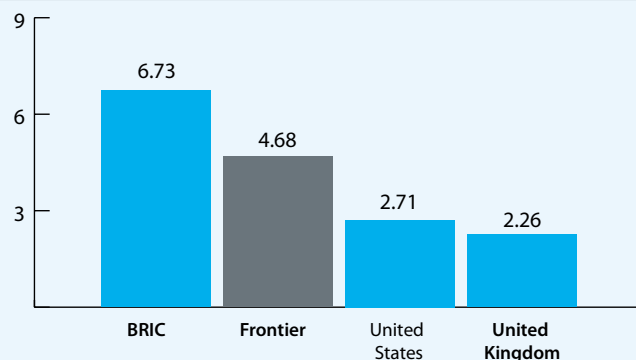
## DEMONSTRATING THE ATTRIBUTES FOR LONG-TERM GROWTH POTENTIAL

As countries in the early stages of economic development that are demonstrating long-term growth potential, frontier markets are frequently compared to emerging markets of the late '90s.

- **Strong Growth Prospects**—For the period 2010 through 2015, the International Monetary Fund projects that economic growth rates, as measured by Gross Domestic Product (GDP), in many frontier market countries\* may outpace those of more developed countries. In turn, these projected levels of growth may lead to increased consumption in these economies. Through increased consumption, the countries may experience rising incomes, savings and greater productivity, all of which ultimately may result in a positive cycle of economic growth.
- **Business-Friendly Environments**—A global project by the World Bank tracks countries for specific indications impacting foreign direct investment. With 24 frontier market countries included in the project, the results show that on average—compared to the leading emerging markets of Brazil, Russia, India and China—these countries offer comparable scores on the ease for foreign companies to establish new businesses.<sup>1</sup>
- **Low-Cost Labor**—As emerging economies (many of which were once the world's low-cost producers) mature, their wages and production costs increase. In addition, some emerging markets are experiencing inflationary pressures.<sup>2</sup> Based on these trends, companies may look beyond emerging markets for a source of low-cost production.
- **Trend for Privatization**—The transfer of property from State to private enterprises promotes the development of functioning market economies. As a result of privatization, increased competition at the enterprise and financial sector level may lead to the improved macroeconomic performance that potentially elevates a frontier market to emerging or developed market status.<sup>3</sup>

Through the combined benefits of increased productivity and consumption, business-friendly environments and privatization efforts, frontier markets are demonstrating the efforts needed to reach emerging market status. In turn, the potential political and economic stability that historically accompanied such growth may help reduce the investment risks associated with frontier market countries and deliver long-term investment opportunity. For long-term investors that can tolerate the increased risks associated with investing in developing countries, frontier markets offer an opportunity for diversified growth.

**FRONTIER MARKET COUNTRIES\* vs BRIC, U.S. AND U.K.**  
Projected Average Annual GDP Rates (2010 - 2015)



Source: International Monetary Fund, World Economic Outlook Database, Oct 2010

\*Includes countries defined by Guggenheim Funds Distributors, Inc. as the "frontier market."

<sup>1</sup>The World Bank Group, *Investing Across Borders Data*, 2010. <sup>2</sup>U.S. News & World Report. U.S. News & World Report. *3 Reasons to Invest in the Frontier Markets*, Doug Lockwood. February 28, 2011.

<sup>3</sup>FDI.net, *Privatization*, Multilateral Investment Guarantee Agency, World Bank Group.

**INDEX KEY AND DEFINITIONS (Continued)** *Emerging markets:* The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of 22 emerging markets. *Developed international equity market:* The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index designed to measure the equity market performance of 21 developed markets, excluding the U.S. and Canada. *Developed global equities:* The MSCI World Index is a free-float adjusted market capitalization weighted index designed to measure the equity performance of developed world markets including the U.S. and Canada.

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**RISK CONSIDERATIONS** Investors should consider the following risk factors and special considerations associated with investing, which may cause you to lose money, including the entire principal amount that you invest. **Equity Risk:** The value of the securities held will fall due to general market and economic conditions, perceptions regarding the industries in which the issuers of securities held participate, or factors relating to specific companies in which the portfolio invests. **Foreign Investment Risk:** Investing in non-U.S. issuers may involve unique risks such as currency, political, and economic risk, as well as less market liquidity, generally greater market volatility and less complete financial information than for U.S. issuers. **Risks of Investing In Frontier Securities:** Investment in securities in emerging market countries involves risks not associated with investments in securities in developed countries, including risks associated with expropriation and/or nationalization, political or social instability, armed conflict, the impact on the economy as a result of civil war, religious or ethnic unrest and the withdrawal or non-renewal of any license enabling the portfolio to trade in securities of a particular country, confiscatory taxation, restrictions

on transfers of assets, lack of uniform accounting, auditing and financial reporting standards, less publicly available financial and other information, diplomatic development which could affect U.S. investments in those countries and potential difficulties in enforcing contractual obligations. Frontier countries generally have smaller economies or less developed capital markets than traditional emerging markets, and, as a result, the risks of investing in emerging market countries are magnified in frontier countries. These securities are less correlated to global economic cycles of more developed counterparts and therefore have low trading volumes and the potential for extreme price volatility and illiquidity.

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