

Managing Interest Rate Exposure in Volatile Markets

Presented by: Kirk Barneby and Glenn Dorsey,
Portfolio Managers, American Independence
Financial Services



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Introduction & Industry Commentary



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Firm Overview

- Multi-product manager with specialized investment teams
- 268 employees with 43 investment professionals
- \$20 billion in assets under management as of 06.30.10¹
- Entrepreneurial team structure with profit sharing
- Mission to be a 'Best-in-class' asset management firm that delivers competitive risk-adjusted returns

Fixed Income Daniel Portanova David Toussaint, CFA, CPA	Value Equity Mark Mitchell, CFA Jim Schier, CFA	Growth Equity Mark Bronzo, CFA Joseph O'Connor	Global Equity Scott Klimo, CFA Mark Kress, CFA Yon Perullo, CFA David Whittall	Quantitative Mike Byrum, CFA Jerome Abernathy, PhD Mike Dellapa, CFA Ryan Harder, CFA Matthew Wu, CFA, PhD
<ul style="list-style-type: none">• Intermediate• High Yield• Cash	<ul style="list-style-type: none">• Large Cap Value• Mid Cap Value• Small Cap Value• All Cap Value	<ul style="list-style-type: none">• Large Cap Growth• Mid Cap Growth• Small Cap Growth	<ul style="list-style-type: none">• Global Equity• Equity Market Neutral	<ul style="list-style-type: none">• Alternatives• Asset Allocation• Target Beta



The Most Alternative Mutual Funds to Date*

- Access alternative sources of return through Rydex | SGI mutual fund formats with:
 - Daily liquidity¹
 - Daily performance in addition to semi-annual and annual reports
 - Convenience of 1099s for tax reporting
 - Availability to all investors², depending on investment minimums and investor suitability (not subject to investor accreditation)
 - SEC registered and regulated³

Alternative Investments

Equity-Related	Fixed Income-Related	Trading Strategies/Commodities	Multi-Strategy
<ul style="list-style-type: none"> LS Equity Strategies Event Driven & Distressed Strategies Equity Market Neutral 	<ul style="list-style-type: none"> US LS Momentum International LS Select 	<ul style="list-style-type: none"> LS Interest Rate Strategy Managed Futures Strategy LS Commodities Strategy 	<ul style="list-style-type: none"> Alternative Strategies Allocation Multi-Hedge Strategies Alternative Strategies

* Source: Fuse Research Network, as of 06/29/2010. Fuse defines the alternative category based on funds that use 'hedge like' investment strategies. Fuse begins with a universe of fund categories labeled "alternative" by Morningstar. From this universe, Fuse excludes pure inverse and leveraged funds, certain currency funds, and long-only precious metals funds. Fuse then identifies funds not categorized by Morningstar as "Alternative" but which employ 'hedge-like' strategies. The Fuse universe of Alternative Strategy mutual funds is reviewed and updated monthly on a best efforts basis.

¹ Subject to 30-day, 1% redemption fee.

² Excluding non-resident aliens.

³ Although registration with the SEC is a requirement for 1940 Act mutual funds, neither the SEC nor any other regulatory organization endorses, indemnifies or guarantees a fund or its performance.



What Do Fixed Income Investors Do Now?

“June saw flows into bond funds more than doubling from the volumes in May, to \$22 billion, as risk-averse and equity-shy investors continued to search for yields higher than the near-zero levels they are earning in money market funds. We expect continued sizeable inflows into the bond fund area as demand for cash substitution is bolstered by interest in flexible bond funds with mandates permitting for defensive approaches in dealing with the prospect of rising interest rates in the coming years.”

Strategic Insight, June 2010

The asset shift to fixed-income is potentially at risk given the odds of interest rate and inflation increases. Investors are now vulnerable.

Today, many credit focused, long only fixed income managers only adjust duration to react to changing interest rates. As a result, these portfolios generate less income and greater credit risk.



Is Traditional Diversification Working?

What it does

- Seeks to maximize total return by taking advantage of price movements in the U.S. Treasury bond market.
- Expands sources of returns in fixed income beyond credit plays to take advantage of rate changes through changes in duration

Process Overview

- The fund uses a model driven process to develop interest rate outlooks that are used to set the duration of a treasury portfolio
- Monthly optimization and rebalance captures general cyclical trend in interest rates while allowing the potential to benefit from short-term deviations in the trend

Why is this fund different?

- Offers potential for appreciation in rising or falling interest rate environments
- Total return is the focus

How to use it

- May diversify¹ a core fixed-income allocation
- May be used to replace bond exposure for those who use fixed income as a diversifier and volatility dampener
- May be funded from equities as a potentially non-correlated source of return for clients who rely on bonds for income

¹Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.



Investor Concerns: Changing Interest Rates

Investor Belief	Standard Solution	Option : L/S Interest Rate Strategy
<ul style="list-style-type: none">▪ Expects interest rates will rise	Long-only portfolio shortens duration (go to cash or near-cash)	<ul style="list-style-type: none">▪ Long/short portfolio can go negative duration to profit if rates rise
<ul style="list-style-type: none">▪ Uncertain about interest rates	Go to neutral duration and “wait & see”	<ul style="list-style-type: none">▪ Dynamically adjust duration based on interest rates forecasts, economic theory and experienced modeling▪ Monthly rebalancing, which seeks to capitalize on short-term outlooks, but maintain awareness of long-term trend
<ul style="list-style-type: none">▪ Expects interest rates to fall	Long-only portfolio lengthens duration	<ul style="list-style-type: none">▪ Can double the average duration of the Barclays U.S. Aggregate Bond Index▪ Dynamically adjust duration monthly, which attempts to capitalize on short-term outlooks, but maintain awareness of long-term trend

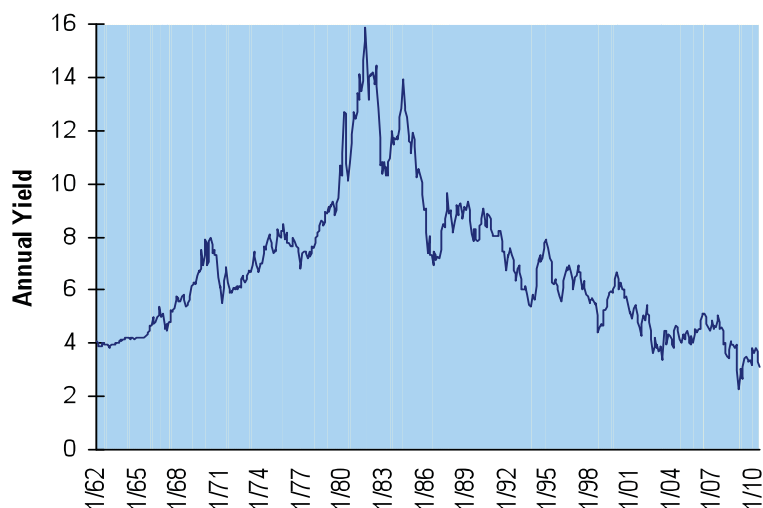


Long-Term Trends and Short-Term Movements

Case for Active Long Short Management

- Long-term trends typically persist for a year or more, but monthly rate movements show more variability.
- 10-Year rates are near historical lows.

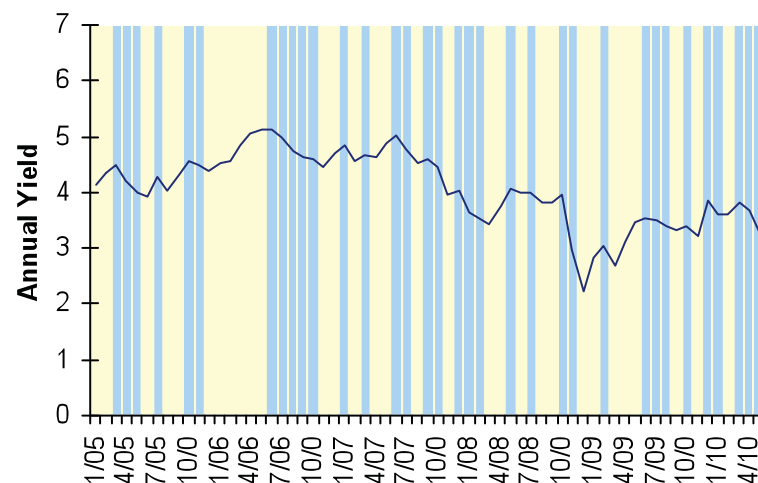
U.S. Ten Year Treasury Bond Yields
January 1, 1962 to June 1, 2010



Rising Rate

Falling Rate

U.S. Ten Year Treasury Bond Yields
January 1, 2005 to June 1, 2010



Source: Bloomberg Performance displayed represents past performance, which is no guarantee of future results.



Investor Concern: Credit Risk

Investor Belief

CREDIT RISK

Worried about credit due to changing conditions that affect individual companies or governments as well as general political and economic developments

Standard Solution

Shift between credit plays, often away from Corporates and into Treasuries or Asset-Backed Securities or vice-versa

Option : Long Short Interest Rate Strategy

- Diversify² position with a strategy that seeks to profit from isolating interest-rate movements, not credit bets
- Attempts to reduce credit exposure by investing in Treasury-linked vehicles

² Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

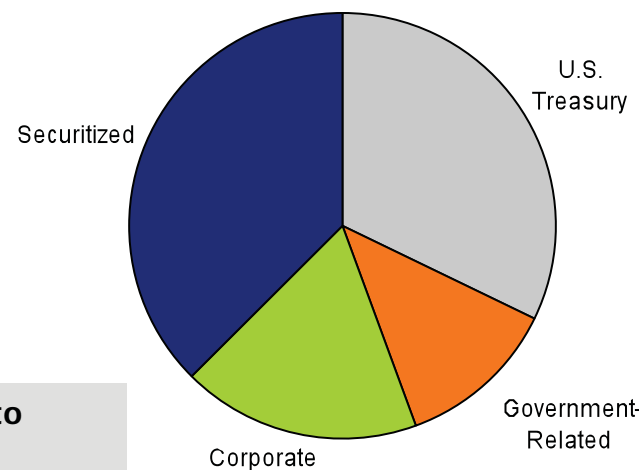


Core Fixed Income Has Substantial Credit Exposure

Barclay's Capital Aggregate Weightings as of 6-30-10

Barclays Capital U.S. Aggregate Index	100.00
U.S. Treasury	32.09
Government-Related	12.27
Corporate	18.18
Securitized	37.46

- Over 50% of risk taken is exposed to credit risk



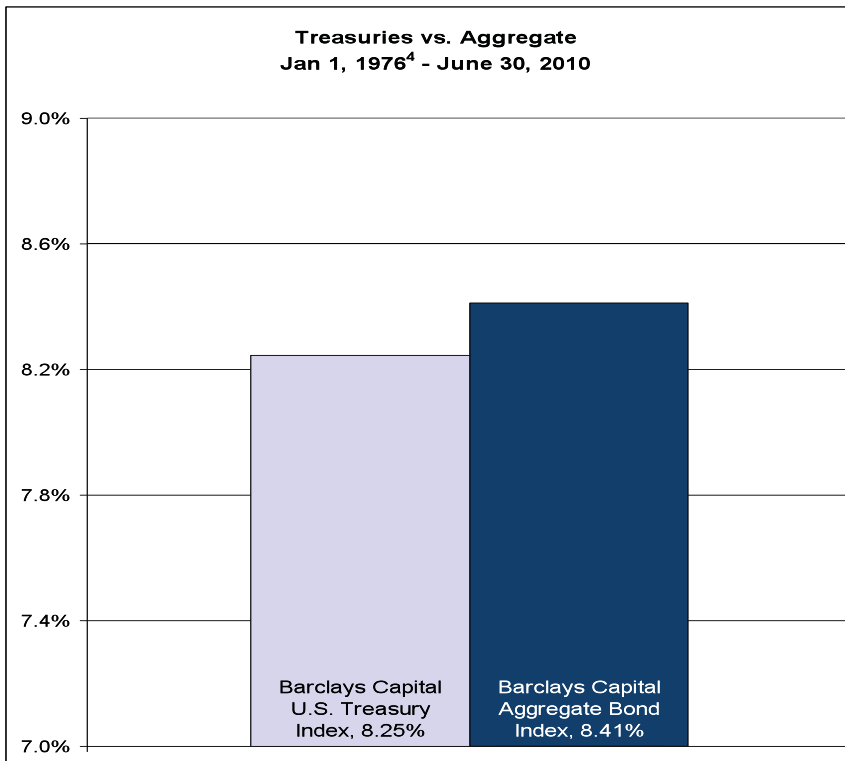
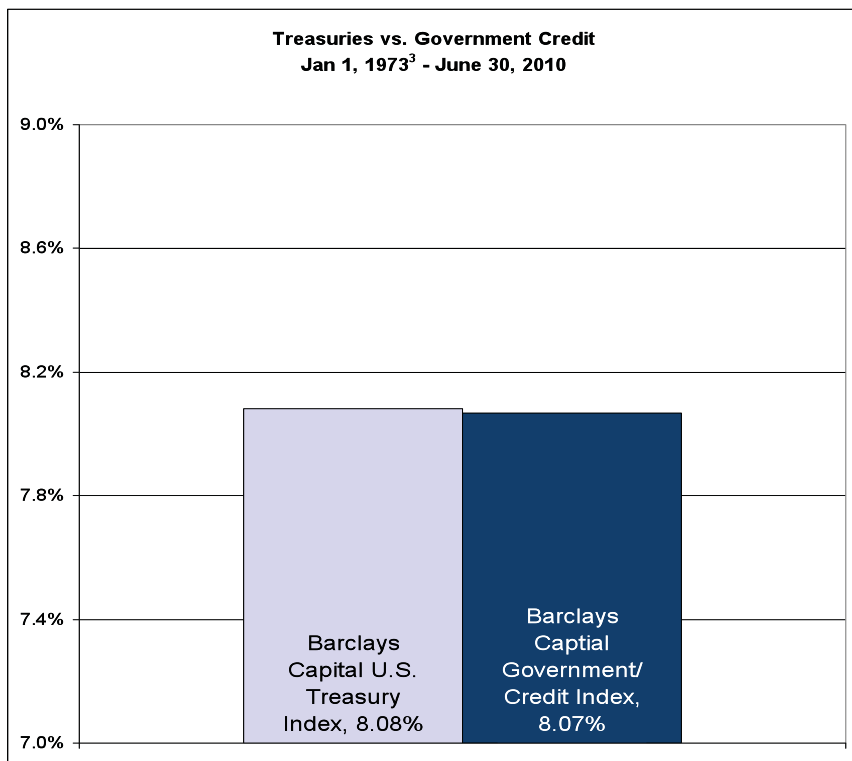
Source: www.barcap.com

Notes: Core fixed income is represented by the Barclays Capital U.S. Aggregate Index. Corporate is represented by Investment Grade Only – High Yield is not included in the Aggregate Index. The index is unmanaged, is not available for direct investment, and is not intended to represent any particular fund.



Treasuries - A Competitive Fixed Income Performance Benchmark

- Investors not justly rewarded for taking the credit risk associated with corporate bonds.



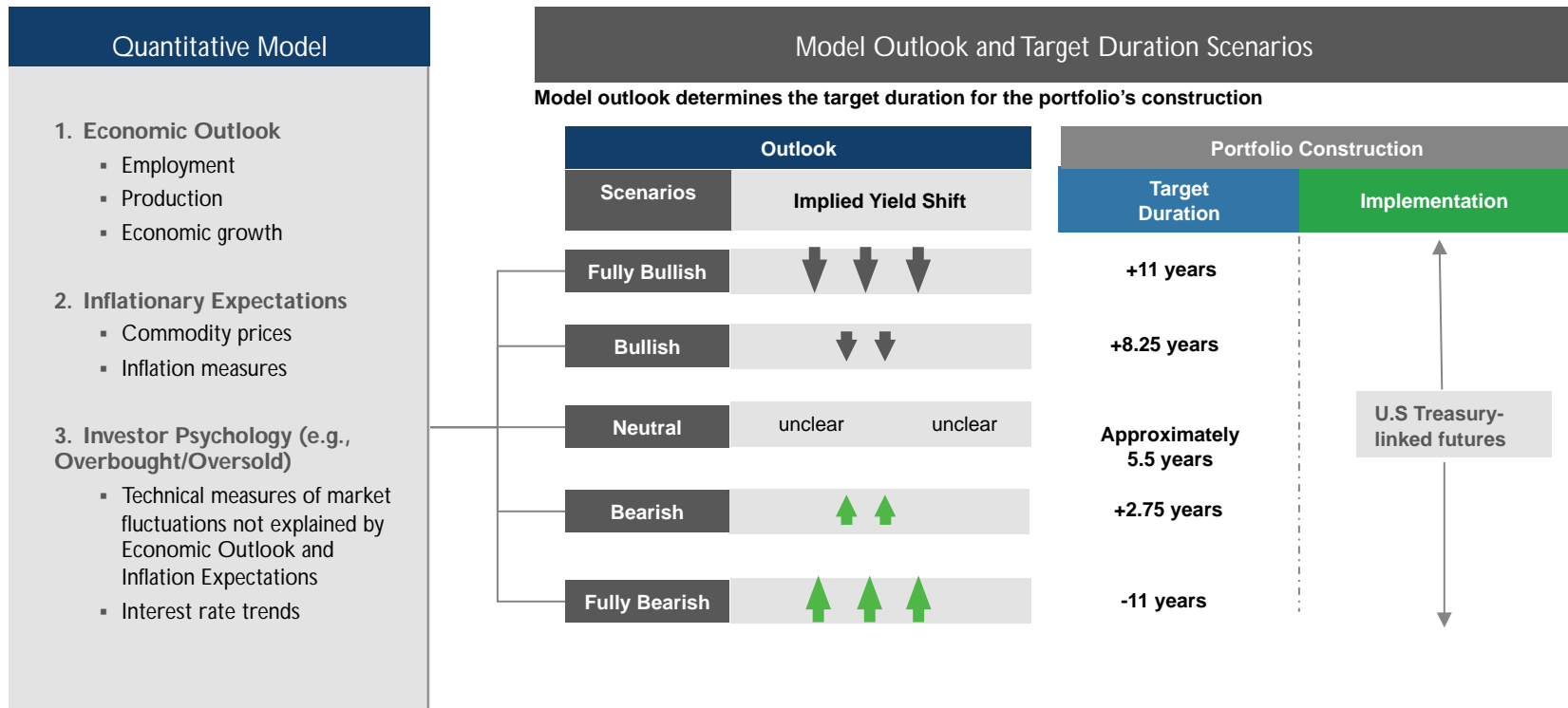
Source: Barclays Capital. **Performance displayed represents past performance, which is no guarantee of future results.** The indices are unmanaged, are not available for direct investment, and are not intended to represent any particular fund.

³Inception date of the Barclays Capital Government/Credit Index ⁴Inception date of the Barclays Capital Aggregate Bond Index



Long Short Interest Rate Strategy Fund Investment Process

- Quantitative factors and technical measures combine to produce an interest rate outlook that ranges from fully bearish to fully bullish
- Monthly forecast and rebalancing captures general cyclical trend in interest rates while allowing the potential to benefit from short-term deviations in the trend





About the Portfolio Manager and Sub-Advisor



T. Kirkham Barneby Portfolio Manager

Mr. Barneby joined American Independence Financial Services in 2008 as Chief Strategist & Portfolio Manager, Taxable Fixed Income. At AIFS he utilizes a proprietary discipline, grounded in the economic theory of interest rate behavior, to manage interest rate exposure or risk. Prior to AIFS Mr. Barneby was a Managing Member of Old Iron Hill Capital Management, LLC employing quantitatively-oriented fixed income and multi-strategy investment approaches. Previously, he headed an investment group at UBS in New York that managed equity and bond portfolios with roughly \$7 billion in assets. Earlier, in the 1980s, Mr. Barneby was part of a team at Continental Can that made asset allocation decisions for the company's pension plan. He began his career in the Economics Department at First National City Bank (Citibank).



Glenn S. Dorsey Portfolio Manager

Mr. Dorsey joined AIFS in January 2009 and is responsible for the day-to-day management and trading of the Active Treasury Management and Active Treasury Management Long/Short strategies, as well as the fixed income portion of the AIFS NestEgg Fund family. He also assists Mr. Barneby with research and the Interest Rate Scorecard. Prior to joining AIFS, Mr. Dorsey was the founder of Reveille Asset Mgt. Prior to starting Reveille, Mr. Dorsey was a portfolio manager with Jamison Prince Asset Mgt, Lyon Stubbs & Tompkins, Mitchell Hutchins and Bankers Trust Company. Mr. Dorsey has been in the financial services industry for 25 years and is a Chartered Financial Analyst.



About the Subadvisor:

American Independence Financial Services

- American Independence Financial Services ("AIFS") is an independent investment manager
- Owned primarily by its managers and employees
- Focused solely on managing investment portfolios for mutual funds, institutions and individuals
- Strategies include Equity (U.S. and international), Fixed Income and Target Date portfolios



Potential Risks to Consider

- **Rydex Long Short Interest Rate Strategy Fund is not suitable for all investors.** The Fund's use of derivatives such as futures, options and swap agreements will expose the Fund to additional risks that it would not be subject to if it invested directly in the securities underlying those derivatives. Certain of the derivative instruments, such as swaps and structured notes, are also subject to the risks of counterparty default. The Fund's market value will change in response to interest rate changes and market conditions among other factors. You may have a gain or loss when you sell your shares. In general, bond prices rise when interest rates fall, and vice versa. The Fund is not guaranteed by the U.S. government. The Fund is also subject to early closing risk, investment technique risk, portfolio turnover risk, trading halt risk, and the risks affecting any underlying investment companies. See the prospectus for more information on these and additional risks.
- *For more complete information regarding the fund, call 800.258.4332 or visit www.rydex-sgi.com for a prospectus and a summary prospectus (if available). Investors should carefully consider the investment objectives, risks, charges and expenses of a fund before investing. The fund's prospectus and its summary prospectus (if available) contains this and other information about the fund. Please read the prospectus and summary prospectus (if available) carefully before you invest or send money.*
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