



CLAYMORE ETFs
A GUGGENHEIM PARTNERS COMPANY

CSD

Claymore Advantaged Short Duration High Income ETF | Commentary

MARKET COMMENTARY

Volatility characterized the high yield markets in 2011. While the Merrill Lynch Master II Constrained Index returned 4.4% for the year, monthly returns fluctuated significantly, ranging from -4.0% to +6.0%. The past year will be remembered as a tale of two distinct halves. The first half of the year was characterized by low volatility and steady returns. By the end of summer, highly unpredictable sharp market swings became the new norm.

Renewed optimism and reaching for yield at the outset of 2011 drove strong performance in the high yield market leading to robust new issue volumes. The first five months of the year began with the high yield market enjoying positive returns in each period. Through July, the new issue market was on an annualized pace of \$300bn, which would have been the highest level of primary issuance on record. As investor demand drove yields lower, structures and pricing became increasingly aggressive.

The choppiness started in June as the markets fell by 1%, but the real volatility kicked in during August. The fallout from the U.S. ratings downgrade drove spread widening for lower-rated bond issuers. High yield spreads widened by nearly 160 basis points in the two week period following the ratings downgrade. The negative 4% return in August 2011 ranked as the 8th worst month in high yield returns in the past 20 years.

As market prices fell and credit spreads widened during the summer months, investors shied away from the new issue market and focused on secondary market opportunities. Issuance totaled \$16bn in July but dropped to under \$1bn in August. The robust start in the primary market fizzled as new issuance in the latter half of the year fell below the prior year's pace. Performance turned in October as the market generated a positive 6% return, which ranks as the 7th best monthly return over the past 20 years. The volatility continued through year-end with a negative November followed by a market rebound in December.

Total issuance for the year came to \$224bn, 15% below the \$263bn issued in 2010, but higher than the \$153bn issued in 2009, \$50bn issued in 2008 and \$139bn issued in 2007. The level of primary issuance in 2011 was the second highest since 2000. More than half of the proceeds from new deals in 2011 were used to refinance existing debt, split relatively evenly between bank loans and bonds.

While high yield was volatile throughout 2011, the year ended on a positive note. Defaults remained low for the year which brought investors back to the sector in autumn once risk premiums reached a level that provided sufficient compensation for the fundamental risk being taken. Volatility drove price fluctuations given the global economic backdrop.

As the market declined, some smaller companies became the target of rumors and speculation that often accompany uncertain markets. The CSD portfolio was not immune as there were three companies in the portfolio that encountered particular challenges during the quarter. The declines associated with these securities were noteworthy contributors to both the lower NAV and the higher yield-to-worst of the portfolio. Guggenheim's credit team remains confident that these names may have suffered from a technical disruption but have not suffered from a fundamental credit perspective.

It is important to recognize the difference between mark-to-market price volatility when compared to permanent loss of principal value. The shorter final maturities contained in CSD help buffer the downside in rocky markets experienced over the past quarter and help make the portfolio resilient as the economic prospects improve.

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PORTFOLIO COMMENTARY

Excluding the currency effect, performance of the underlying securities in the portfolio withstood the volatility of the markets to finish the year with a positive return. At the end of 2011, the portfolio had a yield of 7.4%. The effective duration of 0.78 was below the target of 1.0. There were 64 securities in the portfolio at year end. Approximately 9.5% of the fund was invested in bank loans with the remainder primarily in high yield bonds.

ABOUT THE SUB-ADVISOR

GUGGENHEIM

Guggenheim Investment Management LLC ("Guggenheim") acts as the sub-advisor to the portfolio to which the Claymore Advantaged Short Duration High Income ETF tracks. Guggenheim is a specialist in fixed income management, managing portfolios for institutional and private high net worth clients around the world. As of December 31, 2011 Guggenheim manages approximately \$30 billion in credit assets across investment and non-investment grade securities. Guggenheim is affiliated with Guggenheim Partners, LLC, which has in excess of \$125 billion of assets under supervision, and more than 1,700 employees in offices worldwide.



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