

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN JOSE DIVISION

Civil Action No. CV 10-01171 LHK

JAMES RAFTON, TRUSTEE OF THE JAMES AND  
CYNTHIA RAFTON TRUST, et al.,

Plaintiffs,

v.

RYDEX SERIES FUNDS, et al.,

Defendants.

NOTICE OF PENDENCY AND PROPOSED SETTLEMENT OF CLASS ACTION FOR IDENTIFIED PURCHASERS WITH  
IDENTIFIED TRANSACTIONS

***YOU HAVE BEEN IDENTIFIED AS HAVING PURCHASED OR OTHERWISE ACQUIRED SHARES OF THE RYDEX INVERSE GOVERNMENT LONG BOND STRATEGY FUND (THE "RYDEX FUND"), DURING THE PERIOD FROM AUGUST 1, 2007 THROUGH JULY 31, 2009, INCLUSIVE, AND AS HAVING COMPENSABLE DAMAGES UNDER THE SECURITIES ACT OF 1933. YOU ARE ELIGIBLE TO RECEIVE A PAYMENT FROM THIS CLASS ACTION SETTLEMENT.***

A federal court authorized this Notice. This is not a solicitation from a lawyer. Your legal rights will be affected whether or not you act. Please read this Notice carefully.

The purpose of this Notice is to provide you with notice of a Motion to Approve the Settlement, notice of a Motion to Approve Lead Attorneys' Fees and Expenses, notice of a Motion to Reimburse Lead Plaintiffs' Time and Expenses, notice of the Scheduling of a Final Fairness Hearing on these motions for January 5, 2012 at 1:30 p.m., and information regarding how to access and inspect the motion and settlement documents in advance of the hearing. Each of the documents related to the proposed settlement is available to review at the offices of Class Counsel by appointment during ordinary business hours. The documents are also available to review on and/or download from the settlement website of the Claims Administrator, [www.RydexFundSettlement.com](http://www.RydexFundSettlement.com).

**SUMMARY OF IMPORTANT INFORMATION**

**Covered Securities and Time Period:** Shares of the Rydex Fund purchased or acquired during the period from August 1, 2007 through July 31, 2009, inclusive (the "Class Period").

**Total Settlement Amount:** \$5,500,000 in cash. Your recovery will vary depending on the number of shares acquired during the Class Period through purchase or reinvestment of dividends ("Qualified Shares"), the dates of acquisition and the dates of any sales, along with the amount of any dividends received, and any litigation and settlement expenses authorized by the Court, including reimbursement of Lead Plaintiffs' time and expenses, Class Counsel's attorneys' fees and costs, and the expenses of claims administration. Assuming that all eligible Class Members participate in the settlement, the estimated average recovery will be approximately \$0.036 per Qualified Share that sustained losses.

**Nature of the Case:** The First Amended Complaint in this class action alleged that the Registration Statements and Prospectuses issued by the Rydex Fund during the period from August 1, 2007 through July 31, 2009 ("Registration Statements"): (1) did not adequately disclose a mathematical compounding effect that virtually ensured the Rydex Fund would deviate from its benchmark over time; and (2) did not disclose that because of this compounding effect, the Fund was unsuitable for investors who intended to hold it for longer than one day. The Rydex Fund was supposed to move inversely to the price of the 30-Year U.S. Treasury Bond (the "Long Treasury Bond"), increasing in value as the benchmark Long Treasury Bond price fell. The Registration Statements stated that the Rydex Fund was appropriate for investors who anticipated that the price of the Long Treasury Bond would fall. According to the Complaint, the Registration Statements failed to disclose that because of an inherent mathematical compounding effect, the Rydex Fund would only in rare situations accurately track the inverse of the Long Treasury Bond for periods longer than a single day. This compounding effect could cause investors to lose money over time regardless of whether the price of the Long Treasury Bond fell. The compounding effect formed the primary basis for Plaintiffs' damage claims.

**Reasons for Settlement:** As strongly as Lead Plaintiffs and Class Counsel believe in their case, there were significant risks of pursuing it to trial. Defendants denied having any liability to Lead Plaintiffs or Class Members and asserted a number of defenses, including: (1) the Registration Statements contained no material misrepresentation or omissions; (2) the Registration Statements adequately explained to Class Members the facts and risks regarding compounding; (3) the Rydex Fund was an appropriate investment for periods longer than one day; (4) the compounding effect, which is inherent in all inverse funds that track the daily price movement of a

benchmark, was widely known and discussed in publicly available articles and research reports; (5) the Rydex Fund had no obligation to and did not opine about the types of investors for whom it is suitable; (6) the alleged misstatements in the Registration Statements could not have caused any decline in the Rydex Fund's net asset value ("NAV"); and (7) the SEC and FINRA warnings in Summer 2009 should be a cut off date for all or some Class Members, reducing their potential recovery by over 80%. Defendants also disputed the amount of potentially recoverable damages and argued that much of the decline in the Rydex Fund's NAV was not related to the misrepresentations alleged in the case.

**Potential Outcome of Case:** The settlement must be compared to the risk of no recovery after contested motions, trial and likely appeals. While Class Counsel was prepared to go to trial and was confident that the claims had validity, a trial is a risky proposition and Lead Plaintiffs might not have prevailed. The claims in this case involve numerous complex legal and factual issues that would require expert testimony. Even if Defendants' liability was proven at trial, the two sides did not agree about, among other things, the amount of damages that could be recovered.

The issues on which the settling parties did not agree and would contest at trial included, but were not limited to, the following: (i) whether the Registration Statements were accurate and adequately explained the risk of tracking error due to compounding; (ii) whether an investment in the Rydex Fund was suitable for investors intending to hold it for longer than a single day; (iii) whether or when the existence of compounding error affecting inverse funds became generally known to the investment community, Lead Plaintiffs and/or Class Members; (iv) whether a class could be certified; (v) whether certain claims are barred by the applicable statutes of limitations; and (vi) the proper measure of damages. It is impossible to predict how a jury might have resolved this case. Settlement avoids the uncertainty of a jury trial, the costs and risks associated with continued litigation, including the danger of no recovery, and provides a substantial benefit to the Class now. Based on its own experts' analysis, Class Counsel estimates that the settlement amount represents approximately 40% of the likely recoverable damages from compounding that could be proven at trial.

**Attorneys' Fees and Expenses:** Class Counsel has not received any payment for their work investigating the facts, prosecuting this case and negotiating the settlement on behalf of Lead Plaintiffs and the Class. Court-appointed Class Counsel will ask the Court for attorneys' fees of up to 25 percent of the Gross Settlement Fund (up to \$1,375,000), in addition to reimbursement of counsel's litigation expenses, estimated to be \$90,000 as of this Notice. In addition, Lead Plaintiffs have incurred expenses and devoted substantial effort directly related to the representation of the Class for which they will seek reimbursement, not to exceed \$15,000 each. If the Court approves these fee and expense applications in full, the average amount of attorneys' fees and litigation expenses per Qualified Share of the Rydex Fund will be approximately \$0.012. The only additional expense charged against the Settlement Fund will be the costs of administration of the settlement by the Claims Administrator.

**Your Record of Fund Transactions:** Accompanying this Notice is your personalized Record of Fund Transactions, listing your Qualified Shares by acquisition date, and listing any sales of those shares between August 1, 2007 and April 26, 2010. This Record of Fund Transactions also includes a calculation of your Recognized Loss, pursuant to the proposed method for calculating compensable damages that is described in the Plan of Allocation below. The dates on which your shares were acquired and the dates on which they were sold are part of the method for calculating your Recognized Loss. If you believe the Record of Fund Transactions is incorrect or incomplete, please contact the Claims Administrator as described below.

**YOUR LEGAL RIGHTS AND OPTIONS IN THIS SETTLEMENT:**

<b>DISPUTE THE RECORD OF YOUR FUND TRANSACTIONS BY THE DEADLINE SHOWN ON YOUR DISPUTE FORM</b>	You may correct any error in the data that has been provided or the contact information by submitting the Dispute Form accompanying this Notice and Record of Fund Transactions accompanying it.
<b>REQUEST EXCLUSION BY DECEMBER 15, 2011</b>	You may ask to be excluded from the Class. If you exclude yourself from the Class, you will get no payment from this lawsuit. This is the only option that allows you to participate in or continue with another lawsuit, including an arbitration, seeking a recovery for the claims released by this settlement. The Released Claims are defined in the sample Release at p. 9.
<b>OBJECT BY DECEMBER 15, 2011</b>	You may write to the Court if you do not like this settlement, the Plan of Allocation, Class Counsel's request for attorneys' fees and expenses, or the Lead Plaintiffs' request for reimbursement for time and expenses in representing the Class.
<b>GO TO THE SETTLEMENT HEARING ON JANUARY 5, 2012 AT 1:30 P.M.</b>	You may ask to speak in Court about the fairness of the settlement, the proposed Plan of Allocation, Class Counsel's request for attorneys' fees and reimbursement of expenses, or the Lead Plaintiffs' request for reimbursement.
<b>DO NOTHING</b>	If you take no action, you will receive a check if and when the settlement is approved.

- Your legal rights are affected whether you act or do not act. Read this Notice carefully.
- These rights and options—*and the deadlines to exercise them*—are explained in this Notice.
- The Court in charge of this case must decide whether to approve the settlement. Payments will be made if the Court approves the settlement and, if there are any appeals, after appeals are resolved. Please be patient.

QUESTIONS? CALL TOLL-FREE 1-888-378-0227 OR VISIT [WWW.RYDEXFUNDSSETTLEMENT.COM](http://WWW.RYDEXFUNDSSETTLEMENT.COM)

## More Information:

For more information, please refer to the settlement website at [www.RydexFundSettlement.com](http://www.RydexFundSettlement.com) or contact the Claims Administrator or Plaintiffs' Class Counsel at:

Claims Administrator:

*Rafton v. Rydex Series Funds*  
Claims Administrator  
c/o The Garden City Group, Inc.  
P.O. Box 9769  
Dublin, OH 43017-5669  
1-888-378-0227  
info@RydexFundSettlement.com

Class Counsel:

Alan W. Sparer  
Sparer Law Group  
100 Pine Street, 33<sup>rd</sup> Floor  
San Francisco, California 94111  
[www.sparerlaw.com](http://www.sparerlaw.com)  
1-415-217-7300  
rydexsettlement@sparerlaw.com

## BASIC INFORMATION

### 1. Why Did I Receive This Notice?

You or someone in your family may have acquired Rydex Fund shares during the Class Period through purchase of such shares or a dividend reinvestment in the Rydex Fund.

The Court has certified a class in this case for purposes of the settlement. You received this Notice by order of the Court because you have a right to know about the class action, the proposed settlement, and your options before the Court decides whether to approve the settlement. If the Court approves it, after any objections and appeals are resolved, the Claims Administrator will make the payments that the settlement allows.

The Court in charge of the case is the United States District Court for the Northern District of California, and the case is known as *Rafton, et al. v. Rydex Series Funds, et al.*, Case No. 10-cv-1171 LHK. The persons who sued, James Rafton and James Darst, Jr. are referred to as the Lead Plaintiffs, and the companies and individuals they sued—Rydex Series Funds, Padco Advisors Inc. d/b/a Rydex Investments, Inc., Rydex Distributors, Inc., Richard M. Goldman, Carl G. Verboncoeur, Nick Bonos, Michael P. Byrum, John O. Demaret, Corey A. Colehour, J. Kenneth Dalton, Werner E. Keller, Thomas F. Lydon, Roger Somers and Patrick T. McCarville—are referred to as the Defendants. Sparer Law Group filed this action on behalf of Lead Plaintiffs and was appointed by the Court as Class Counsel.

### 2. What Is This Case About?

This case was brought as a putative class action alleging that the Registration Statements contained false and misleading statements and omissions regarding the Rydex Fund. Lead Plaintiffs alleged that the Fund's Registration Statements misrepresented who was an appropriate investor in the Rydex Fund and did not adequately disclose a mathematical compounding effect that would cause the Fund to deviate from its benchmark over time. In other words, the Registration Statements gave the false impression that the Rydex Fund would track the inverse of price movements of the Long Treasury Bond over periods of time longer than a single day. Lead Plaintiffs alleged that the undisclosed risks of holding the Rydex Fund for longer than a single day materialized, resulting in losses to investors. Defendants deny that they did anything wrong and argue that the Registration Statements did not contain any material misrepresentations or omissions, the Rydex Fund was an appropriate investment for periods longer than one day, the mathematical compounding effect was widely publicized and well known, and that Lead Plaintiffs and the Class are not entitled to recover any alleged damages.

### 3. Why Is This A Class Action?

In a class action, one or more persons sue on behalf of themselves and all others who have similar claims. All these claimants are called the Class or Class Members. One court resolves the issues for all Class Members, except for those who exclude themselves from the Class.

### 4. Why Is There A Settlement?

The Court did not decide in favor of Lead Plaintiffs or Defendants. Instead, both sides agreed to a settlement. The Lead Plaintiffs and Plaintiffs' Class Counsel think that the settlement is in the best interests of the Class.

Class Counsel undertook extensive review of Defendants' documents and, with the aid of well qualified experts, conducted a thorough analysis of the Rydex Fund's trading records showing all transactions in the Fund during the pertinent time period. Class Counsel also engaged in extensive settlement negotiations with Defendants, and in so doing, was able to gauge the strengths of the anticipated defenses to be offered at trial. For example, had damages been cut off as of summer 2009, as Defendants argued they should, that would have reduced the damages sought for the Class by over 80%.

The settlement discussions and Class Counsel's experience indicated that there were substantial risks in continuing the case through trial and that a settlement was in the best interests of all Class Members. The case was settled for \$5,500,000. That sum represents approximately 40% of Lead Plaintiffs' expert estimates of the likely recoverable damages caused by the tracking error associated with the undisclosed mathematical compounding effect.

## WHO WILL PARTICIPATE IN THE SETTLEMENT

### 5. How Do I Know if I Am A Class Member?

To determine if you are entitled to receive money from this settlement, you first must determine if you are a Class Member. Judge Lucy H. Koh of the United States District Court for the Northern District of California, who is presiding over this class action, determined for purposes of settlement only, that everyone who fits the following description is a member of the Class:

All persons and entities who purchased or otherwise acquired shares of the Rydex Fund during the period from August 1, 2007 through July 31, 2009, inclusive, and who were damaged thereby. Excluded from the Class are Defendants; Padco Advisors Inc.'s Officers and Directors; Rydex Distributors, Inc.'s Officers and Directors; members of Defendants' immediate families; Defendants' legal representatives, heirs, successors, or assigns; any entity in which Defendants have or had a controlling interest; and any mutual fund or account managed by Padco Advisors Inc. or its affiliates (including without limitation "funds of funds") that owned shares of Rydex Fund. Also excluded from the Class are any proposed Class Members who properly exclude themselves by filing a valid and timely request for exclusion in accordance with the requirements set forth in this Notice.

If you *sold* Rydex Fund shares during the Class Period, that does not necessarily make you a Class Member. You are a Class Member only if you acquired (including by means of dividend reinvestment) Rydex Fund shares during the Class Period and were damaged thereby. If you received this notice, then the Claims Administrator has already determined, based upon the available transaction records, that you are a Class Member and are entitled to a recovery. The formula used for calculating your Recognized Loss is described in Question 8 below.

### 6. I'm Still Not Sure If I Am Included.

If you are still not sure whether you are included, or have questions about any subject discussed in this Notice, you can ask for free help. You can call the Claims Administrator toll free at 1-888-378-0227 or email the Claims Administrator at [info@RydexFundSettlement.com](mailto:info@RydexFundSettlement.com) or visit [www.RydexFundSettlement.com](http://www.RydexFundSettlement.com) for more information.

## THE SETTLEMENT BENEFITS – WHAT YOU GET.

### 7. What Does The Settlement Provide?

Defendants have agreed to pay \$5,500,000 in cash. The balance of this amount after payment of Court-approved Class Counsel attorneys' fees and expenses, reimbursement for Lead Plaintiffs' time and expenses in representing the Class, and the costs of settlement administration, including the costs of printing and mailing this Notice (the "Net Settlement Fund"), will be divided among all Class Members.

### 8. How Much Will My Payment Be?

Your share of the Net Settlement Fund will depend primarily on the number of Class Members, the total number of Qualified Shares acquired by Class Members, the number of Qualified Shares you acquired personally, and the date(s) on which you bought and sold them. The enclosed Record of Fund Transactions lists the Rydex Fund shares you acquired during the Class Period, and your dates of acquisition and sale. If you believe the Record of Fund Transactions is incorrect or incomplete, you must contact the Claims Administrator as described in Question 14 below.

It is anticipated that the Net Settlement Fund available for distribution will be less than the total losses or damages alleged to be suffered by Class Members. As a result, the Net Settlement Fund will be distributed *pro rata* to Class Members based upon their "Recognized Losses" as that term is defined below. The Claims Administrator will determine each Class Member's *pro rata* share of the Net Settlement Fund. The Plan of Allocation is not intended to estimate the amount a Class Member might have been able to recover after a trial, nor is it intended to estimate the amount that will be paid to Class Members. The Plan is the basis upon which the Net Settlement Fund will be proportionately divided among all the Class Members. The Court will be asked to approve the Plan of Allocation and any challenged determinations of the Claims Administrator before the Net Settlement Fund is distributed to Class Members. The Court may approve the Plan with or without modifications or it may approve modifications or another plan altogether, without further notice to the Class.

## PLAN OF ALLOCATION

### **Summary:**

The "Plan of Allocation" sets out the method for determining each Class Member's share of the settlement. Each Class Member will receive from the Net Settlement Fund his or her *pro rata* share of the sum of: (1) 100% of the Class Member's loss attributable to the compounding tracking error, not to exceed the larger of the Class Member's net out of pocket losses under Section 11 or Section 12 of the Securities Act and (2) 5% of the Class Member's net out of pocket loss under either Section 11 or Section 12, whichever is greater.

### **Method of Calculation:**

The specific calculation of your share of the Net Settlement Fund requires three steps.

**Step 1:** Calculation of Section 11 and Section 12 Trading Losses for Qualified Shares (*i.e.*, those purchased or acquired as dividends from August 1, 2007 through July 31, 2009):

QUESTIONS? CALL TOLL-FREE 1-888-378-0227 OR VISIT [WWW.RYDEXFUNDSSETTLEMENT.COM](http://WWW.RYDEXFUNDSSETTLEMENT.COM)

A. Section 11 Trading Losses.

(1) *Qualified Shares sold on or before March 19, 2010.* A Class Member's Trading Loss will be the Net Asset Value ("NAV") of the shares on the date of purchase minus the NAV on the date of sale.

(2) *Qualified Shares held as of March 19, 2010.* A Class Member's Trading Loss will be the lesser of (a) the NAV of the shares on the date of purchase minus the NAV on the date of sale, or (b) the NAV of the shares on the date of purchase minus \$14.36 (the NAV on March 19, 2010).

B. Section 12 Trading Losses.

(1) *Qualified Shares sold on or before March 19, 2010.* A Class Member's Trading Loss will be: (a) the NAV of the shares on the date of purchase; (b) plus interest that could have been earned from the date of purchase through the date of sale at a rate equal to the weekly average/one year constant maturity Treasury yield, as published by the Board of Governors of the Federal Reserve System for the calendar week preceding the date of such purchase compounded annually ("Interest"); (c) less any dividends received from the date of purchase through the date of sale on those shares; and (d) less the NAV on the date of sale.

(2) *Qualified Shares held as of March 19, 2010.* A Class Member's Trading Loss will be: (a) the NAV on the date of purchase; (b) plus interest that could have been earned from the date of purchase through March 19, 2010 calculated as described in the preceding paragraph; (c) less any dividends received through March 19, 2010 on shares purchased; and (d) less \$14.36 (the NAV on March 19, 2010).

The Trading Loss is the **greater** of an investor's Section 11 Trading Loss and Section 12 Trading Loss, as calculated in Step 1. Investors who have no Trading Losses under either Section 11 or Section 12 have no compensable damages, and for that reason cannot be Class Members or receive a payment from the Net Settlement Fund. If you received this notice, you are an investor whose Record of Fund Transactions indicates that you have Trading Losses, as calculated in Step 1, and qualify for a payout from the settlement.

**Step 2:** The second step in determining Recognized Losses involves calculating Compounding Losses, which are calculated as follows:

(1) For each acquisition of Qualified Shares, the tracking error due to compounding will be the difference between the gain or loss that the Class Member would have experienced if the Rydex Fund had returned exactly the inverse of the price movement of the Long Treasury Bond over the time that those shares were held and the gain or loss that the Class Member would have experienced if *each day* the Rydex Fund returned exactly the inverse of the price movement of the Long Treasury Bond over the time that those shares were held. For purposes of calculating the tracking error due to compounding shares that were held as of March 19, 2010, the shares will be assumed to have been sold on that date.

(2) The Compounding Loss is equal to the amount of the tracking error due to compounding up to a maximum of the Trading Loss, as calculated in Step 1.

For Class Members who made multiple purchases during the Class Period, Trading Losses and Compounding Losses will be calculated as the sum of the gains and/or (losses) for all transactions. The Last-In-First-Out ("LIFO") or First-In-First-Out ("FIFO") method will be applied to match purchases and sales for each Class Member based on whichever results in the larger Recognized Losses. The date of purchase or sale is the "contract" or "trade" date as distinguished from the "settlement" date.

**Step 3:** The third and final step in Calculating Recognized Loss involves adding the Compounding Loss, if any, to the Trading Loss. A Class Member's Recognized Loss will be equal to the sum of:

100% of Compounding Loss calculated in Step 2; and

5% of the Trading Loss calculated in Step 1.

Each Class Member who chooses to participate in the settlement will receive a *pro rata* share of the Net Settlement Fund based on the Class Member's Recognized Loss. The payout will *not* be equal to the Recognized Loss. The payout will be a percentage of the Net Settlement Fund based on the size of the Class Member's Recognized Loss compared to the total recognized losses of all Class Members who participate in the settlement.

Distributions will be made to Class Members who do not exclude themselves from the settlement after all claims have been processed and after the Court has finally approved the settlement. If any funds remain in the Net Settlement Fund by reason of uncashed checks or otherwise, then, after the Claims Administrator has made reasonable and diligent efforts to distribute such funds, any balance remaining shall be contributed to one or more nonsectarian, not for profit, 501(c)(3) organization(s) designated by Class Counsel.

**Examples:**

**Example No. 1:** Investor purchases and sells Rydex shares during the Class Period, and has Section 11 losses of \$1000, Section 12 losses of \$1,100 and Compounding Losses of \$500. The investor's Trading Loss will be \$1,100 (the higher of his Section 11 and Section 12 losses), and the Investor's Compounding Loss will be \$500. The Recognized Loss will be equal to 5% of the Trading Loss plus 100% of the Compounding Loss ((5% x \$1,100) + (100% x \$500)) which is \$555.

**Example No. 2:** Investor purchases and sells Rydex shares during the Class Period and has Section 11 losses of \$150, Section 12 gains of \$50, and Compounding Loss of \$300. The investor's Trading Loss is \$150 (the higher of Section 11 and Section 12 losses); the investor's

Compounding Loss is limited to \$150 because Compounding Loss cannot exceed the Trading Loss. The Recognized Loss is equal to 5% of the Trading Loss plus 100% of the Compounding Loss  $((5\% \times \$150) + (100\% \times \$150))$  which is **\$157.50**.

**Example No. 3:** Investor purchases and sells Rydex shares during the Class Period and has Section 11 gains of \$100, Section 12 gains of \$100, and Compounding Losses of \$350. The Investor has no Trading Losses and therefore is not a member of the Class and cannot recover any amount.

A Class Member's payout will depend on the size of his or her Recognized Loss as a percentage of the total Recognized Losses of the Class and the size of the Net Settlement Fund. Using Example No. 1, assume the Investor's Recognized Loss is \$555, the total of all Recognized Losses is \$18 million and the Net Settlement Fund is \$3.75 million. The Investor's payout will be \$115  $((\$555/\$18,000,000) \times \$3,750,000)$ .

## OBTAINING PAYMENT

### 9. How Will I Obtain My Payment?

Your receipt of this Notice indicates that you are a Class Member and have Recognized Losses that qualify for payment on a *pro rata* basis. *If you wish to receive a payment as a Class Member, you do not need to do anything. The Claims Administrator will mail a check to you when the settlement has received final approval and your pro rata share has been calculated.* If your address changes after you receive this Notice, please notify the Claims Administrator at once to ensure that your payment is properly directed.

### 10. When Will I Receive My Payment?

The Court will hold a hearing on January 5, 2012 at 1:30 p.m. to decide whether to approve the settlement. If the settlement is approved, there may be appeals, and resolving them can take years. In addition, no payment will be made to Class Members until any challenges to the accuracy of the Recognized Loss calculations have been resolved. Please be patient.

## THE LAWYERS REPRESENTING YOU

### 11. Do I Have A Lawyer In This Case?

The Court appointed Sparer Law Group to represent you and other Class Members. These lawyers are called Class Counsel. You will not be charged for these lawyers. If you want to be represented by your own lawyer, you may hire one at your own expense.

### 12. How Will The Lawyers Be Paid?

Class Counsel will ask the Court for attorneys' fees of up to 25% of the Gross Settlement Fund (up to \$1,375,000), which will include any accrued interest, and for reimbursement of litigation expenses advanced on behalf of Lead Plaintiffs and the Class plus accrued interest. Such sums, as may be approved by the Court, will be paid from the Gross Settlement Fund. Class Members are not personally liable for any such fees or expenses.

The attorneys' fees and expenses requested will be the only payment to Class Counsel for their efforts in achieving this settlement and for their risk in undertaking this representation on a wholly contingent basis. To date, Class Counsel has not been paid for their services in conducting this case on behalf of the Lead Plaintiffs and the Class, or for their substantial litigation expenses. The fee requested will compensate Class Counsel for its work in achieving the Settlement Fund and is well within the range of fees awarded to class counsel under similar circumstances in other cases of this type. The Court may award less than the full amount requested. Class Counsel will file papers in support of its fee request on or before December 1, 2011 and post copies of such papers on the claim administration website.

## RELEASE OF CLAIMS

### 13. What Rights Am I Giving Up By Participating In The Settlement?

If you do not exclude yourself from the Settlement, you will be bound by the Court's Final Judgment and the release incorporated in the Stipulation and Agreement of Settlement in this Action ("Stipulation"). A copy of that Stipulation can be found on the claims administration website. In addition, your settlement check will have a release enclosed with it that incorporates the principal terms of the release in the Stipulation. A copy of the release that will arrive with your check appears at pp. 9-10 of this Notice.

In general terms, the releases in this Action mean you cannot continue with or bring a lawsuit or action of any kind, including an arbitration, against the "Released Defendant Parties" (as defined on p. 9 below) about issues that relate to the Lead Plaintiffs' allegations in this case ("Released Claims" as defined on p. 9 below). Please read this release carefully because it affects your legal rights.

## DISPUTING THE RECORD OF FUND TRANSACTIONS

### 14. How Do I Correct An Error In My Record Of Fund Transactions?

Accompanying this Notice is your personalized Record of Fund Transactions, which contains transaction data for your account provided to the Claims Administrator. If you dispute any of the information, fill out Section III of the Record of Fund Transactions and return it with supporting documentation, as directed in the document. If your contact information is incorrect, fill out Section IV and return the form. You may also dispute the transaction data or correct your contact information online at [www.RydexFundSettlement.com](http://www.RydexFundSettlement.com).

The Claims Administrator will have 30 calendar days after the date of mailing of your dispute information to accept or reject it. If the Claims Administrator rejects your position and you wish to contest such rejection, **you must within thirty (30) calendar days after**

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**the date of mailing of the notice of such rejection, respond to the Claims Administrator and include a statement of reasons for contesting the rejection, along with any supporting documentation.** If the dispute cannot be otherwise resolved, you may request review by the Court, and appear in person, if you so choose. Prior to any distribution of the Net Settlement Fund, Class Counsel shall present your request for review to the District Court for a final determination.

## REQUESTING EXCLUSION

### 15. How Do I Request To Be Excluded From The Class?

If you are a member of the Class but you want to retain the right to sue or to continue to sue Defendants on your own about issues that would be released if you participate in this settlement, then you must take steps to exclude yourself from the Class. This is sometimes referred to as “opting out” of the Class. If you request exclusion, you will NOT be affected by any decisions in the case and you will NOT receive any payment under the proposed settlement. You also cannot object to the settlement if you exclude yourself.

In order to be valid, a request for exclusion must: (i) set forth the name, address, and telephone number of the person or entity requesting exclusion; (ii) state that the person or entity “requests exclusion from the Class in *Rafton v. Rydex Series Fund*, Case No. 10-cv-1171 LHK”; (iii) be signed and dated by the person or entity requesting exclusion; and (iv) be postmarked no later than December 15, 2011. Requests for exclusion must be mailed to the Claims Administrator at the following address:

*Rafton v. Rydex Series Funds*  
Claims Administrator  
c/o The Garden City Group, Inc.  
P.O. Box 9769  
Dublin, OH 43017-5669

You may also exclude yourself from the Class online by going to [www.RydexFundSettlement.com](http://www.RydexFundSettlement.com) and following the instructions found on the website.

Please keep a copy of everything you send by mail, in case it is lost or destroyed during shipping. You cannot exclude yourself on the phone or by e-mail. Do not request exclusion if you wish to participate in this lawsuit as a Class Member.

If you have brought or intend to bring your own arbitration or lawsuit against any of the Released Defendant Parties, you should speak to a lawyer **immediately**. You must exclude yourself from *this* Class to continue your own lawsuit or arbitration or bring one in the future.

If you do not request exclusion from this Class, you will be considered a Class Member; you will be bound by the terms of the proposed settlement, and you **will not** be able to pursue your own individual legal action based upon the claims that are being released in the settlement.

## OBJECTING TO THE SETTLEMENT

### 16. Right To Object.

If you are a Class Member who is not requesting to be excluded from the Class, you can object to the settlement if you do not like any part of it, including the Plan of Allocation and the request for attorneys’ fees and expenses.

### 17. How Do I Tell the Court That I Object To The Settlement?

If you choose to object to the settlement, you must timely state the reasons why you think the Court should not approve the settlement or anything related to it. The Court will consider your views. To object, you must send a letter stating that you object to the settlement in “*Rafton v. Rydex Series Funds*, Case No. 10-cv-1171 LHK.” You must include your name, address, telephone number, your signature, the number of Rydex Fund shares purchased during the period from August 1, 2007 through July 31, 2009, inclusive, the reasons you object, and all supporting papers. Any objection must be postmarked no later than December 15, 2011 and mailed to:

*Court:*

Richard W. Wiekling  
Office of the Clerk  
United States District Court  
Northern District of California, San Jose Division  
Robert F. Peckham Federal Building  
280 South 1st Street  
San Jose, CA 95113

*Counsel for Plaintiffs:*

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Sparer Law Group  
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San Francisco, CA 94105

## THE COURT'S FAIRNESS HEARING

After receiving the Motion for Approval of the Settlement and any objections filed within the deadline set above, the Court will hold a hearing to decide whether to approve the settlement. You may attend and you may ask to speak, but you do not have to.

### 18. When And Where Will The Court Decide Whether To Approve The Settlement?

The Court will hold the settlement hearing on January 5, 2012 at 1:30 p.m. at the San Jose Courthouse, in Courtroom 8, 4th Floor, 280 South 1st Street, San Jose, California 95113. At this hearing, the Court will consider whether the settlement is fair, reasonable, and adequate. If there are objections, the Court will consider them. Judge Koh will listen to people who have asked to speak at the hearing. The Court will also consider how much to pay to Class Counsel. The Court may decide these issues at the hearing or take them under consideration. We do not know how long these decisions will take.

You should also be aware that the Court may change the date and time for the hearing without giving another notice to Class Members. If you want to attend, you should check the date and time with Class Counsel.

### 19. Do I Have To Come To The Hearing?

No. Class Counsel will answer any questions Judge Koh may have, but you are welcome to come at your own expense. If you send an objection, you do not have to come to Court to speak in support of it. As long as you mailed your written objection on time, the Court will consider it. If you want to be represented by your own lawyer at the hearing, you may hire one at your own expense.

### 20. May I Speak At The Hearing?

You may ask the Court for permission to speak at the settlement hearing. To do so, you must send a letter stating that it is your intention to appear in *Rafton v. Rydex Series Funds*, Case No. 10-cv-1171 LHK. You must include your name, address, telephone number, and your signature. It will also be helpful to identify the number of Qualified Shares you purchased. If you intend to present evidence at the hearing, you must identify any witness you may call to testify and any exhibits you intend to introduce at the hearing in your notice. Your notice of intention to appear must be postmarked no later than December 29, 2011, and be sent to the Clerk of the Court, Class Counsel, and Defendants' counsel, at the four addresses listed in Question 17. You cannot speak at the hearing if you have excluded yourself from the Class.

## IF YOU DO NOTHING

### 21. What Happens If I Do Nothing At All?

If you do nothing, you remain a member of the Class. If the settlement becomes effective, the Claims Administrator will calculate your *pro rata* share of the settlement and send you a check for that amount if you are eligible. You will not be able to bring a lawsuit or action of any kind, including arbitration, continue with a lawsuit of any kind, including arbitration, or be part of any other lawsuit or arbitration against the Released Defendant Parties about the Released Claims, which are described in the Stipulation and in this Notice at pp. 9-10 below.

## GETTING MORE INFORMATION

### 22. Are There More Details About The Settlement?

This Notice summarizes the proposed settlement. More details are set forth in the Stipulation. You can obtain a copy of the Stipulation by downloading a copy from these websites: [www.RydexFundSettlement.com](http://www.RydexFundSettlement.com) or [www.sparerlaw.com](http://www.sparerlaw.com), or by writing to Alan W. Sparer, c/o Sparer Law Group, 100 Pine Street, 33<sup>rd</sup> Floor, San Francisco, CA 94111.

### 23. How Do I Get More Information?

You may contact the Claims Administrator by phone at 1-888-378-0227 or via email at [info@RydexFundSettlement.com](mailto:info@RydexFundSettlement.com) or visit [www.RydexFundSettlement.com](http://www.RydexFundSettlement.com).

**PLEASE DO NOT TELEPHONE THE COURT REGARDING THIS NOTICE**

Date: San Jose, California  
September 14, 2011

BY ORDER OF THE  
UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF  
CALIFORNIA SAN JOSE DIVISION

**ACKNOWLEDGMENT OF RELEASE TO ACCOMPANY SETTLEMENT CHECK:**  
**ACKNOWLEDGEMENT OF RELEASE**

You have received the enclosed check from the Claims Administrator in *Rafton, et al. v. Rydex Series Funds, et al.*, Case No. 10-cv-1171 LHK, because you have been identified as a member of the Class certified for the purposes of settlement only by the United States District Court for the Northern District of California.

By cashing the enclosed check, you acknowledge and agree to comply with the release provisions of the Stipulation and Agreement of Settlement which has already been approved by the Court in its Judgment in *Rafton, et al. v. Rydex Series Funds, et al.*, entered on \_\_\_\_\_.

As applicable to you, the release terms approved by the Court provide:

**DEFINITIONS**

(a) “Released Claim(s)” means all claims, demands, rights, actions, suits, or causes of action of every nature and description, whether known or unknown (including Unknown Claims, as defined herein), whether the claims arise under federal, state, statutory, regulatory, common, foreign or other law, whether foreseen or unforeseen, and whether asserted individually, directly, representatively, derivatively, or in any other capacity, that the Releasing Plaintiff Parties: (1) asserted in the Complaint or the Action as against the Released Defendant Parties; (2) have asserted, could have asserted, or could assert in the future, in any forum against the Released Defendant Parties that are based upon, arise out of, or relate to the facts, allegations, claims, losses, damages, disclosures, filings, or statements set forth in the Complaint or at issue in the Action; or (3) have asserted, could have asserted, or could assert in the future relating to the prosecution, defense, or settlement of the Action as against the Released Defendant Parties. Released Claim(s) does not include: (1) any claim to enforce the settlement; or (2) any claim that the Releasing Plaintiff Parties may have in connection with any Rydex Series Funds mutual fund other than the Rydex Inverse Government Long Bond Strategy Fund.

(b) “Released Defendant Parties” means any and all of the Defendants and/or their current or former attorneys, auditors, officers, directors, employees, partners, subsidiaries, affiliates, parents, insurers, heirs, executors, representatives, predecessors, successors, assigns, trustees, or other individual or entity in which any Defendant has a controlling interest. For the avoidance of doubt, the Fund is included in the definition of Released Defendant Parties.

(c) “Releasing Plaintiff Parties” means: (i) Lead Plaintiffs; (ii) all Class Members; (iii) the Lead Plaintiffs’ and each Class Member’s present or past heirs, executors, administrators, successors, assigns, and predecessors; and (iv) any person or entity who claims or purports to claim by, through, or on behalf of the Lead Plaintiffs or any Class Member.

(d) “Unknown Claims” means: (i) any and all Released Claims that any of the Releasing Plaintiff Parties does not know or suspect to exist in his, her, or its favor at the time of the release of the Released Defendant Parties which, if known by him, her or it might have affected his, her, or its settlement with and release of the Released Defendant Parties, or might have affected his, her, or its decision(s) with respect to the settlement (including the decision not to object or exclude himself, herself, or itself from the settlement); and (ii) any Released Defendants’ Claims that any Defendant does not know to exist in his, her, or its favor at the time of the release of the Released Plaintiff Parties, which, if known by him, her or it might have affected his, her, or its settlement with and release of the Released Plaintiff Parties, or might have affected his, her, or its decision(s) with respect to the settlement. Moreover, with respect to any and all Released Claims and any and all Released Defendants’ Claims, upon the Effective Date, the Releasing Plaintiff Parties and Defendants, respectively, shall be deemed to have, and by operation of the Final Judgment shall have, fully, finally, and expressly waived any and all provisions, rights, and benefits conferred by any law of any state or territory of the United States, or principle of common law, that is similar, comparable, or equivalent to California Civil Code Section 1542, which provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

The Releasing Plaintiff Parties, or any one of them, may hereafter discover facts other than or different from those which he, she or it knows or believes to be true, but each of the Releasing Plaintiff Parties hereby expressly waives and fully, finally, and forever settles and releases, upon the Effective Date, any known or unknown, suspected or unsuspected, contingent or non-contingent Released Claim. Likewise, the Defendants, or any one of them, may hereafter discover facts other than or different from those which he, she or it knows or believes to be true, but each of the Defendants hereby expressly waives and fully, finally, and forever settles and releases, upon the Effective Date, any known or unknown, suspected or unsuspected, contingent or non-contingent Released Defendants’ Claim. The Parties acknowledge that the inclusion of “Unknown Claims” in the definition of Released Claims and Released Defendants’ Claims was separately bargained for and was a key element of the settlement.

## RELEASE

1. Upon the Effective Date of the settlement, and without any further action, the Releasing Plaintiff Parties, for good and valuable consideration the adequacy of which is hereby acknowledged, shall fully, finally, and forever release, relinquish, and discharge any and all Released Claims against each and every one of the Released Defendant Parties, and shall forever be barred and enjoined, without the necessity of any of the Released Defendant Parties posting a bond, from commencing, instituting, prosecuting, or maintaining any of the Released Claims.

2. Upon the effective date, and without any further action, the Releasing Plaintiff Parties, for good and valuable consideration the adequacy of which is hereby acknowledged, shall fully, finally, and forever release, relinquish, and discharge any right to monetary relief, however styled, that is based upon, arises out of, or relates to the Released Claims, to the extent that such monetary relief would give rise to a claim for indemnification, contribution or the like, however styled (“Indemnification”), against the Released Defendant Parties. In the event any Releasing Plaintiff Party obtains a judgment against any third party based upon a right to monetary relief, however styled, that is based upon, arises out of, or relates to the Released Claims, the judgment shall be reduced by the greater of: (1) the amount of recovery obtained by the Releasing Plaintiff Party in connection with the settlement; or (2) the amount necessary to extinguish any claim for Indemnification that the third party may have against the Released Defendant Parties.

**THE FOREGOING IS A PARTIAL SUMMARY ONLY. TO REVIEW THE FULL RELEASE APPROVED BY THE COURT, GO TO THE [WWW.RYDEXFUNSETTLEMENT.COM](http://WWW.RYDEXFUNSETTLEMENT.COM) WEBSITE AND CLICK ON STIPULATION AND AGREEMENT OF SETTLEMENT.**

If you have any questions, you may contact the Claims Administrator at the following address:

*Rafton v. Rydex Series Funds*  
Claims Administrator  
c/o The Garden City Group, Inc.  
P.O. Box 9769  
Dublin, OH 43017-5669  
1-888-378-0227  
[info@RydexFundSettlement.com](mailto:info@RydexFundSettlement.com)

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN JOSE DIVISION

Civil Action No. CV 10-01171 LHK

JAMES RAFTON, TRUSTEE OF THE JAMES AND  
CYNTHIA RAFTON TRUST,  
et al.,

Plaintiffs,

v.

RYDEX SERIES FUNDS, et al.,

Defendants.

NOTICE OF PENDENCY AND PROPOSED SETTLEMENT OF CLASS ACTION FOR  
UNIDENTIFIED PURCHASERS OR PURCHASERS WITH UNIDENTIFIED TRANSACTIONS

***YOU MAY HAVE PURCHASED OR OTHERWISE ACQUIRED SHARES OF THE RYDEX INVERSE GOVERNMENT LONG BOND STRATEGY FUND (THE "RYDEX FUND"), DURING THE PERIOD FROM AUGUST 1, 2007 THROUGH JULY 31, 2009, INCLUSIVE. YOU COULD RECEIVE A PAYMENT FROM A CLASS ACTION SETTLEMENT.***

A federal court authorized this Notice. This is not a solicitation from a lawyer. Your legal rights will be affected whether or not you act. Please read this Notice carefully.

The purpose of this Notice is to provide you with notice of a Motion to Approve the Settlement, notice of a Motion to Approve Lead Attorneys' Fees and Expenses, notice of a Motion to Reimburse Lead Plaintiffs' Time and Expenses, notice of the Scheduling of a Final Fairness Hearing on these motions for January 5, 2012 at 1:30 p.m., and information regarding how to access and inspect the motion and settlement documents in advance of the hearing. Each of the documents related to the proposed settlement is available to review at the offices of Class Counsel by appointment during ordinary business hours. The documents are also available to review on and/or download from the settlement website of the Claims Administrator, [www.RydexFundSettlement.com](http://www.RydexFundSettlement.com).

**SUMMARY OF IMPORTANT INFORMATION**

**Covered Securities and Time Period:** Shares of the Rydex Fund purchased or acquired during the period from August 1, 2007 through July 31, 2009, inclusive (the "Class Period").

**Total Settlement Amount:** \$5,500,000 in cash. Your recovery will vary depending on the number of shares acquired during the Class Period through purchase or reinvestment of dividends ("Qualified Shares"), the dates of acquisition and the dates of any sales, along with the amount of any dividends received, and any litigation and settlement expenses authorized by the Court, including reimbursement of Lead Plaintiffs' time and expenses, Class Counsel's attorneys' fees and costs, and the expenses of claims administration. Assuming that all eligible Class Members participate in the settlement, the estimated average recovery will be approximately \$0.036 per Qualified Share that sustained losses.

**Nature of the Case:** The First Amended Complaint in this class action alleged that the Registration Statements and Prospectuses issued by the Rydex Fund during the period from August 1, 2007 through July 31, 2009 ("Registration Statements"): (1) did not adequately disclose a mathematical compounding effect that virtually ensured the Rydex Fund would deviate from its benchmark over time; and (2) did not disclose that because of this compounding effect, the Fund was unsuitable for investors who intended to hold it for longer than one day. The Rydex Fund was supposed to move inversely to the price of the 30-Year U.S. Treasury Bond (the "Long Treasury Bond"), increasing in value as the benchmark Long Treasury Bond price fell. The Registration Statements stated that the Rydex Fund was appropriate for investors who anticipated that the price of the Long Treasury Bond would fall. According to the Complaint, the Registration Statements failed to disclose that because of an inherent mathematical compounding effect, the Rydex Fund would only in rare situations accurately track the inverse of the Long Treasury Bond for periods longer than a single day. This compounding effect could cause investors to lose money over time regardless of whether the price of the Long Treasury Bond fell. The compounding effect formed the primary basis for Plaintiffs' damage claims.

**Reasons for Settlement:** As strongly as Lead Plaintiffs and Class Counsel believe in their case, there were significant risks of pursuing it to trial. Defendants denied having any liability to Lead Plaintiffs or Class Members and asserted a number of defenses, including: (1) the Registration Statements contained no material misrepresentation or omissions; (2) the Registration Statements adequately explained to Class Members the facts and risks regarding compounding; (3) the Rydex Fund was an appropriate investment for periods longer than one day; (4) the compounding effect, which is inherent in all inverse funds that track the daily price movement of a benchmark, was widely known and discussed in publicly available articles and research reports; (5) the Rydex Fund had no obligation to and did not opine about the types of investors for whom it is suitable; (6) the alleged misstatements in the Registration Statements could not have

caused any decline in the Rydex Fund’s net asset value (“NAV”); and (7) the SEC and FINRA warnings in Summer 2009 should be a cutoff date for all or some Class Members, reducing their potential recovery by over 80%. Defendants also disputed the amount of potentially recoverable damages and argued that much of the decline in the Rydex Fund’s NAV was not related to the misrepresentations alleged in the case.

**Potential Outcome of Case:** The settlement must be compared to the risk of no recovery after contested motions, trial and likely appeals. While Lead Counsel was prepared to go to trial and was confident that the claims had validity, a trial is a risky proposition and Lead Plaintiffs might not have prevailed. The claims in this case involve numerous complex legal and factual issues that would require expert testimony. Even if Defendants’ liability was proven at trial, the two sides did not agree about, among other things, the amount of damages that could be recovered.

The issues on which the settling parties did not agree and would contest at trial included, but were not limited to, the following: (i) whether the Registration Statements were accurate and adequately explained the risk of tracking error due to compounding; (ii) whether an investment in the Rydex Fund was suitable for investors intending to hold it for longer than a single day; (iii) whether or when the existence of compounding error affecting inverse funds became generally known to the investment community, Lead Plaintiffs and/or Class Members; (iv) whether a class could be certified; (v) whether certain claims are barred by the applicable statutes of limitations; (vi) whether the Rydex Fund’s fee structure, including its up-front loads and penalties for certain early sales, was consistent with its use; and (vii) the proper measure of damages. It is impossible to predict how a jury might have resolved this case. Settlement avoids the uncertainty of a jury trial, the costs and risks associated with continued litigation, including the danger of no recovery, and provides a substantial benefit to the Class now. Based on its own experts’ analysis, Class Counsel estimates that the settlement amount represents approximately 40% of the likely recoverable damages from compounding that could be proven at trial.

**Attorneys’ Fees and Expenses:** Class Counsel has not received any payment for their work investigating the facts, prosecuting this case and negotiating the settlement on behalf of Lead Plaintiffs and the Class. Court-appointed Class Counsel will ask the Court for attorneys’ fees of up to 25 percent of the Gross Settlement Fund (up to \$1,375,000), in addition to reimbursement of counsel’s litigation expenses, estimated to be \$90,000 as of this Notice. In addition, Lead Plaintiffs have incurred expenses and devoted substantial effort directly related to the representation of the Class for which they will seek reimbursement, not to exceed \$15,000 each. If the Court approves these fee and expense applications in full, the average amount of attorneys’ fees and litigation expenses per Qualified Share of the Rydex Fund will be approximately \$0.012. The only additional expense charged against the Settlement Fund will be the costs of administration of the settlement by the Claims Administrator.

**Your Proof of Claim Form:** Accompanying this Notice is a Proof of Claim form. To qualify for payment, you must provide all of the requested information with respect to shares of the Rydex Fund that you acquired during the Class Period, with respect to your sale proceeds and dividend income from those purchases from August 1, 2007 through April 26, 2010, inclusive, whether such transactions resulted in a profit or a loss. Failure to report all such transactions may result in the rejection of your claim. ***Proof of Claim forms must be submitted electronically on the claims administration website or postmarked no later than the date shown on your Proof of Claim form, and mailed to Rafton v. Rydex Series Funds, Claims Administrator at the address on the form.***

**YOUR LEGAL RIGHTS AND OPTIONS IN THIS SETTLEMENT:**

<b>RETURN PROOF OF CLAIM FORM BY THE DEADLINE SHOWN ON YOUR CLAIM FORM</b>	In order to be eligible to participate in the recovery, you must complete and submit a Proof of Claim and supporting documents.
<b>REQUEST EXCLUSION BY DECEMBER 15, 2011</b>	You may ask to be excluded from the Class. If you exclude yourself from the Class, you will get no payment from this lawsuit. This is the only option that allows you to participate in or continue with another lawsuit, including an arbitration, seeking a recovery for the claims released by this settlement. The Released Claims are defined in the sample Release at p. 9.
<b>OBJECT BY DECEMBER 15, 2011</b>	You may write to the Court if you do not like this settlement, the Plan of Allocation, Class Counsel’s request for attorneys’ fees and expenses, or the Lead Plaintiffs’ request for reimbursement for time and expenses in representing the Class.
<b>GO TO THE SETTLEMENT HEARING ON JANUARY 5, 2012 AT 1:30 P.M.</b>	You may ask to speak in Court about the fairness of the settlement, the proposed Plan of Allocation, Class Counsel’s request for attorneys’ fees and reimbursement of expenses, or the Lead Plaintiffs’ request for reimbursement.
<b>DO NOTHING</b>	Receive no payment and lose the ability to pursue the Released Claims against the Released Defendant Parties. <i>See</i> Question 21, below.

- Your legal rights are affected whether you act or do not act. Read this Notice carefully.
- These rights and options—and the deadlines to exercise them—are explained in this Notice.
- The Court in charge of this case must decide whether to approve the settlement. Payments will be made if the Court approves the settlement and, if there are any appeals, after appeals are resolved. Please be patient.

## More Information:

For more information, please refer to the settlement website at [www.RydexFundSettlement.com](http://www.RydexFundSettlement.com) or contact the Claims Administrator or Plaintiffs' Class Counsel at:

Claims Administrator:

*Rafton v. Rydex Series Funds*  
Claims Administrator  
c/o The Garden City Group, Inc.  
P.O. Box 9769  
Dublin, OH 43017-5669  
1-888-378-0227  
[info@RydexFundSettlement.com](mailto:info@RydexFundSettlement.com)

Class Counsel:

Alan W. Sparer  
Sparer Law Group  
100 Pine Street, 33<sup>rd</sup> Floor  
San Francisco, California 94111  
[www.sparerlaw.com](http://www.sparerlaw.com)  
1-415-217-7300  
[rydexsettlement@sparerlaw.com](mailto:rydexsettlement@sparerlaw.com)

## BASIC INFORMATION

### 1. Why Did I Receive This Notice?

You or someone in your family may have acquired Rydex Fund shares during the Class Period through purchase of such shares or a dividend reinvestment in the Rydex Fund.

The Court has certified a class in this case for purposes of the settlement. You received this Notice by order of the Court because you have a right to know about the class action, the proposed settlement, and your options before the Court decides whether to approve the settlement. If the Court approves it, after any objections and appeals are resolved, the Claims Administrator will make the payments that the settlement allows.

The Court in charge of the case is the United States District Court for the Northern District of California, and the case is known as *Rafton, et al. v. Rydex Series Funds, et al.*, Case No. 10-cv-1171 LHK. The persons who sued, James Rafton and James Darst, Jr. are referred to as the Lead Plaintiffs, and the companies and individuals they sued—Rydex Series Funds, Padco Advisors Inc. d/b/a Rydex Investments, Inc., Rydex Distributors, Inc., Richard M. Goldman, Carl G. Verboncoeur, Nick Bonos, Michael P. Byrum, John O. Demaret, Corey A. Colehour, J. Kenneth Dalton, Werner E. Keller, Thomas F. Lydon, Roger Somers and Patrick T. McCarville—are referred to as the Defendants. Sparer Law Group filed this action on behalf of Lead Plaintiffs and was appointed by the Court as Class Counsel.

### 2. What Is This Case About?

This case was brought as a putative class action alleging that the Registration Statements contained false and misleading statements and omissions regarding the Rydex Fund. Lead Plaintiffs alleged that the Fund's Registration Statements misrepresented who was an appropriate investor in the Rydex Fund and did not adequately disclose a mathematical compounding effect that would cause the Fund to deviate from its benchmark over time. In other words, the Registration Statements gave the false impression that the Rydex Fund would track the inverse of price movements of the Long Treasury Bond over periods of time longer than a single day. Lead Plaintiffs alleged that the undisclosed risks of holding the Rydex Fund for longer than a single day materialized, resulting in losses to investors. Defendants deny that they did anything wrong and argue that all risks associated with the Rydex Fund were fully disclosed, that the mathematical compounding effect was widely publicized and well known, and that Lead Plaintiffs and the Class are not entitled to recover any alleged damages.

### 3. Why Is This A Class Action?

In a class action, one or more persons sue on behalf of themselves and all others who have similar claims. All these claimants are called the Class or Class Members. One court resolves the issues for all Class Members, except for those who exclude themselves from the Class.

### 4. Why Is There A Settlement?

The Court did not decide in favor of Lead Plaintiffs or Defendants. Instead, both sides agreed to a settlement. The Lead Plaintiffs and Plaintiffs' Class Counsel think that the settlement is in the best interests of the Class.

Class Counsel undertook extensive review of Defendants' documents and, with the aid of well qualified experts, conducted a thorough analysis of the Rydex Fund's trading records showing all transactions in the Fund during the pertinent time period. Class Counsel also engaged in extensive settlement negotiations with Defendants, and in so doing, was able to gauge the strengths of the anticipated defenses to be offered at trial. For example, had damages been cut off as of summer 2009, as Defendants argued they should, that would have reduced the damages sought for the Class by over 80%.

The settlement discussions and Class Counsel's experience indicated that there were substantial risks in continuing the case through trial and that a settlement was in the best interests of all Class Members. The case was settled for \$5,500,000. That sum represents approximately 40% of Lead Plaintiffs' expert estimates of the likely recoverable damages caused by the tracking error associated with the undisclosed mathematical compounding effect.

## WHO WILL PARTICIPATE IN THE SETTLEMENT

### 5. How Do I Know if I Am A Class Member?

To determine if you are entitled to receive money from this settlement, you first must determine if you are a Class Member. Judge Lucy H. Koh of the United States District Court for the Northern District of California, who is presiding over this class action, determined for purposes of settlement only, that everyone who fits the following description is a member of the Class:

All persons and entities who purchased or otherwise acquired shares of the Rydex Fund during the period from August 1, 2007 through July 31, 2009, inclusive, and who were damaged thereby. Excluded from the Class are Defendants; Padco Advisors Inc.'s Officers and Directors; Rydex Distributors, Inc.'s Officers and Directors; members of Defendants' immediate families; Defendants' legal representatives, heirs, successors, or assigns; any entity in which Defendants have or had a controlling interest; and any mutual fund or account managed by Padco Advisors Inc. or its affiliates (including without limitation "funds of funds") that owned shares of Rydex Fund. Also excluded from the Class are any proposed Class Members who properly exclude themselves by filing a valid and timely request for exclusion in accordance with the requirements set forth in this Notice.

If you *sold* Rydex Fund shares during the Class Period, that does not necessarily make you a Class Member. You are a Class Member only if you acquired (including by means of dividend reinvestment) Rydex Fund shares during the Class Period and were damaged thereby. The formula used for calculating your Recognized Loss is described in Question 8 below.

### 6. I'm Still Not Sure If I Am Included.

If you are still not sure whether you are included, or have questions about any subject discussed in this Notice, you can ask for free help. You can call the Claims Administrator toll free at 1-888-378-0227 or email the Claims Administrator at [info@RydexFundSettlement.com](mailto:info@RydexFundSettlement.com) or visit [www.RydexFundSettlement.com](http://www.RydexFundSettlement.com) for more information.

## THE SETTLEMENT BENEFITS – WHAT YOU GET.

### 7. What Does The Settlement Provide?

Defendants have agreed to pay \$5,500,000 in cash. The balance of this amount after payment of Court-approved Class Counsel attorneys' fees and expenses, reimbursement for Lead Plaintiffs' time and expenses in representing the Class, and the costs of settlement administration, including the costs of printing and mailing this Notice (the "Net Settlement Fund"), will be divided among all Class Members.

### 8. How Much Will My Payment Be?

Your share of the Net Settlement Fund will depend primarily on the number of Class Members, the total number of Qualified Shares acquired by Class Members, the number of Qualified Shares you acquired personally, the date(s) on which you bought and sold them, and whether you submit a valid Proof of Claim and supporting documentation showing eligible Rydex Fund purchases and other Rydex Fund transaction activity during the Class Period (discussed below in Question 9).

It is anticipated that the Net Settlement Fund available for distribution will be less than the total losses or damages alleged to be suffered by Class Members. As a result, the Net Settlement Fund will be distributed *pro rata* to Class Members based upon their "Recognized Losses" as that term is defined below. The Claims Administrator will determine each Class Member's *pro rata* share of the Net Settlement Fund. The Plan of Allocation is not intended to estimate the amount a Class Member might have been able to recover after a trial, nor is it intended to estimate the amount that will be paid to Class Members. The Plan is the basis upon which the Net Settlement Fund will be proportionately divided among all the Class Members. The Court will be asked to approve the Plan of Allocation and any challenged determinations of the Claims Administrator before the Net Settlement Fund is distributed to Class Members. The Court may approve the Plan with or without modifications or it may approve modifications or another plan altogether, without further notice to the Class.

## PLAN OF ALLOCATION

### **Summary:**

If your Proof of Claim is accepted, your share of the settlement will be determined under the "Plan of Allocation," which provides that each Class Member will receive from the Net Settlement Fund his or her *pro rata* share of the sum of: (1) 100% of the Class Member's loss attributable to the compounding tracking error, not to exceed the larger of the Class Member's net out of pocket losses under Section 11 or Section 12 of the Securities Act and (2) 5% of the Class Member's net out of pocket loss under either Section 11 or Section 12, whichever is greater.

### **Method of Calculation:**

The specific calculation of your share of the Net Settlement Fund requires three steps.

**Step 1:** Calculation of Section 11 and Section 12 Trading Losses for Qualified Shares (*i.e.*, those purchased or acquired as dividends from August 1, 2007 through July 31, 2009):

A. Section 11 Trading Losses.

(1) *Qualified Shares sold on or before March 19, 2010.* A Class Member's Trading Loss will be the Net Asset Value ("NAV") of the shares on the date of purchase minus the NAV on the date of sale.

(2) *Qualified Shares held as of March 19, 2010.* A Class Member's Trading Loss will be the lesser of (a) the NAV of the shares on the date of purchase minus the NAV on the date of sale, or (b) the NAV of the shares on the date of purchase minus \$14.36 (the NAV on March 19, 2010).

B. Section 12 Trading Losses.

(1) *Qualified Shares sold on or before March 19, 2010.* A Class Member's Trading Loss will be: (a) the NAV of the shares on the date of purchase; (b) plus interest that could have been earned from the date of purchase through the date of sale at a rate equal to the weekly average/one year constant maturity Treasury yield, as published by the Board of Governors of the Federal Reserve System for the calendar week preceding the date of such purchase compounded annually ("Interest"); (c) less any dividends received from the date of purchase through the date of sale on those shares; and (d) less the NAV on the date of sale.

(2) *Qualified Shares held as of March 19, 2010.* A Class Member's Trading Loss will be: (a) the NAV on the date of purchase; (b) plus Interest that could have been earned from the date of purchase through March 19, 2010 calculated as described in the preceding paragraph; (c) less any dividends received through March 19, 2010 on shares purchased; and (d) less \$14.36 (the NAV on March 19, 2010).

The Trading Loss is the **greater** of an investor's Section 11 Trading Loss and Section 12 Trading Loss, as calculated in Step 1. Investors who have no Trading Losses under either Section 11 or Section 12 have no compensable damages, and for that reason cannot be Class Members or receive a payment from the Net Settlement Fund.

**Step 2:** The second step in determining Recognized Losses involves calculating Compounding Losses, which are calculated as follows:

(1) For each acquisition of Qualified Shares, the tracking error due to compounding will be the difference between the gain or loss that the Class Member would have experienced if the Rydex Fund had returned exactly the inverse of the price movement of the Long Treasury Bond over the time that those shares were held and the gain or loss that the Class Member would have experienced if *each day* the Rydex Fund returned exactly the inverse of the price movement of the Long Treasury Bond over the time that those shares were held. For purposes of calculating the tracking error due to compounding shares that were held as of March 19, 2010, the shares will be assumed to have been sold on that date.

(2) The Compounding Loss is equal to the amount of the tracking error due to compounding up to a maximum of the Trading Loss, as calculated in Step 1.

For Class Members who made multiple purchases during the Class Period, Trading Losses and Compounding Losses will be calculated as the sum of the gains and/or (losses) for all transactions. The Last-In-First-Out ("LIFO") or First-In-First-Out ("FIFO") method will be applied to match purchases and sales for each Class Member based on whichever results in the larger Recognized Losses. The date of purchase or sale is the "contract" or "trade" date as distinguished from the "settlement" date.

**Step 3:** The third and final step in Calculating Recognized Loss involves adding the Compounding Loss, if any, to the Trading Loss. A Class Member's Recognized Loss will be equal to the sum of:

100% of Compounding Loss calculated in Step 2; and

5% of the Trading Loss calculated in Step 1.

Each Class Member who chooses to participate in the settlement will receive a *pro rata* share of the Net Settlement Fund based on the Class Member's Recognized Loss. The payout will *not* be equal to the Recognized Loss. The payout will be a percentage of the Net Settlement Fund based on the size of the Class Member's Recognized Loss compared to the total recognized losses of all Class Members who participate in the settlement.

Distributions will be made to Class Members who do not exclude themselves from the settlement after all claims have been processed and after the Court has finally approved the settlement. If any funds remain in the Net Settlement Fund by reason of uncashed checks or otherwise, then, after the Claims Administrator has made reasonable and diligent efforts to distribute such funds, any balance remaining shall be contributed to one or more nonsectarian, not for profit, 501(c)(3) organization(s) designated by Class Counsel.

**Examples:**

**Example No. 1:** Investor purchases and sells Rydex shares during the Class Period, and has Section 11 losses of \$1000, Section 12 losses of \$1,100 and Compounding Losses of \$500. The investor's Trading Loss will be \$1,100 (the higher of his Section 11 and Section 12 losses), and the Investor's Compounding Loss will be \$500. The Recognized Loss will be equal to 5% of the Trading Loss plus 100% of the Compounding Loss ((5% x \$1,100) + (100% x \$500)) which is **\$555**.

**Example No. 2:** Investor purchases and sells Rydex shares during the Class Period and has Section 11 losses of \$150, Section 12 gains of \$50, and Compounding Loss of \$300. The investor's Trading Loss is \$150 (the higher of Section 11 and Section 12 losses); the investor's Compounding Loss is limited to \$150 because Compounding Loss cannot exceed the Trading Loss. The Recognized Loss is equal to 5% of the Trading Loss plus 100% of the Compounding Loss ((5% x \$150) + (100% x \$150)) which is **\$157.50**.

Example No. 3: Investor purchases and sells Rydex shares during the Class Period and has Section 11 gains of \$100, Section 12 gains of \$100, and Compounding Losses of \$350. The Investor has no Trading Losses and therefore is not a member of the Class and cannot recover any amount.

A Class Member's payout will depend on the size of his or her Recognized Loss as a percentage of the total Recognized Losses of the Class and the size of the Net Settlement Fund. Using Example No. 1, assume the Investor's Recognized Loss is \$555, the total of all Recognized Losses is \$18 million and the Net Settlement Fund is \$3.75 million. The Investor's payout will be \$115  $((\$555/\$18,000,000) \times \$3,750,000)$ .

## OBTAINING PAYMENT

### 9. How Will I Obtain My Payment?

To qualify for payment, you must be a member of the Class. You must submit a valid Proof of Claim listing shares of the Rydex Fund you purchased or acquired during the Class Period, and all of your sale proceeds and dividend income from those purchases during the period from August 1, 2007 through April 26, 2010, whether such transactions resulted in a profit or a loss. You also must supply supporting documentation, such as account statements or trade confirmations from your broker. A Proof of Claim is included with this Notice or available on the claims administration website. If you have any questions about how to complete the Proof of Claim, you may contact the Claims Administrator for assistance by telephone or email. *If your Proof of Claim is accepted, the Claims Administrator will mail a check to you when the settlement has received final approval and your pro rata share has been calculated.* If your address changes after you return your Proof of Claim, please notify the Claims Administrator at once to ensure that any payment is properly directed.

### 10. When Will I Receive My Payment?

The Court will hold a hearing on January 5, 2012 at 1:30 p.m. to decide whether to approve the settlement. If the settlement is approved, there may be appeals, and resolving them can take years. In addition, no payment will be made to Class Members until any challenges to the accuracy of the Recognized Loss calculations have been resolved. Please be patient.

## THE LAWYERS REPRESENTING YOU

### 11. Do I Have A Lawyer In This Case?

The Court appointed Sparer Law Group to represent you and other Class Members. These lawyers are called Class Counsel. You will not be charged for these lawyers. If you want to be represented by your own lawyer, you may hire one at your own expense.

### 12. How Will The Lawyers Be Paid?

Class Counsel will ask the Court for attorneys' fees of up to 25% of the Gross Settlement Fund (up to \$1,375,000), which will include any accrued interest, and for reimbursement of litigation expenses advanced on behalf of Lead Plaintiffs and the Class plus accrued interest. Such sums, as may be approved by the Court, will be paid from the Gross Settlement Fund. Class Members are not personally liable for any such fees or expenses.

The attorneys' fees and expenses requested will be the only payment to Class Counsel for their efforts in achieving this settlement and for their risk in undertaking this representation on a wholly contingent basis. To date, Class Counsel has not been paid for their services in conducting this case on behalf of the Lead Plaintiffs and the Class, or for their substantial litigation expenses. The fee requested will compensate Class Counsel for its work in achieving the Settlement Fund and is well within the range of fees awarded to class counsel under similar circumstances in other cases of this type. The Court may award less than the full amount requested. Class Counsel will file papers in support of its fee request on or before December 1, 2011 and post copies of such papers on the Claim Administration website.

## RELEASE OF CLAIMS

### 13. What Rights Am I Giving Up By Participating In The Settlement?

If you do not exclude yourself from the settlement, you will be bound by the Court's Final Judgment and the release incorporated in the Stipulation and Agreement of Settlement in this Action ("Stipulation"). A copy of that Stipulation can be found on the claims administration website. The principal terms of the release in the Stipulation appear at pp. 9-10 of this Notice.

In general terms, the releases in this Action mean you cannot continue with or bring a lawsuit or action of any kind, including an arbitration, against the "Released Defendant Parties" (as defined on p. 9 below) about issues that relate to the Lead Plaintiffs' allegations in this case ("Released Claims" as defined on p. 9 below). Please read this release carefully because it affects your legal rights.

## DISPUTING THE RECORD OF FUND TRANSACTIONS

### 14. What If My Proof Of Claim Is Rejected?

The Claims Administrator may reject any and all Proofs of Claim that do not meet the filing requirements. If the Claims Administrator rejects your Proof of Claim and you wish to contest such rejection, **you must within thirty (30) calendar days after the date of mailing of the notice of such rejection, respond to the Claims Administrator and include a statement of reasons for contesting the rejection, along with any supporting documentation.** If the dispute cannot be otherwise resolved, you may request

review by the Court, and appear in person if you so choose. Prior to any distribution of the Net Settlement Fund, Class Counsel shall present your request for review to the District Court for a final determination.

## REQUESTING EXCLUSION

### 15. How Do I Request To Be Excluded From The Class?

If you are a member of the Class but you want to retain the right to sue or to continue to sue Defendants on your own about issues that would be released if you participate in this settlement, then you must take steps to exclude yourself from the Class. This is sometimes referred to as “opting out” of the Class. If you request exclusion, you will NOT be affected by any decisions in the case and you will NOT receive any payment under the proposed settlement. You also cannot object to the settlement if you exclude yourself.

In order to be valid, a request for exclusion must: (i) set forth the name, address, and telephone number of the person or entity requesting exclusion; (ii) state that the person or entity “requests exclusion from the Class in *Rafton v. Rydex Series Fund*, Case No. 10-cv-1171 LHK”; (iii) be signed and dated by the person or entity requesting exclusion; and (iv) be postmarked no later than December 15, 2011. Requests for exclusion must be mailed to the Claims Administrator at the following address:

*Rafton v. Rydex Series Funds*  
Claims Administrator  
c/o The Garden City Group, Inc.  
P.O. Box 9769  
Dublin, OH 43017-5669

You may also exclude yourself from the Class online by going to [www.RydexFundSettlement.com](http://www.RydexFundSettlement.com) and following the instructions found on the website.

Please keep a copy of everything you send by mail, in case it is lost or destroyed during shipping. You cannot exclude yourself on the phone or by e-mail. Do not request exclusion if you wish to participate in this lawsuit as a Class Member.

If you have brought or intend to bring your own arbitration or lawsuit against any of the Released Defendant Parties, you should speak to a lawyer **immediately**. You must exclude yourself from *this* Class to continue your own lawsuit or arbitration or bring one in the future.

If you do not request exclusion from this Class, you will be considered a Class Member; you will be bound by the terms of the proposed settlement, and you **will not** be able to pursue your own individual legal action based upon the claims that are being released in the settlement.

## OBJECTING TO THE SETTLEMENT

### 16. Right To Object.

If you are a Class Member who is not requesting to be excluded from the Class, you can object to the settlement if you do not like any part of it, including the Plan of Allocation and the request for attorneys’ fees and expenses.

### 17. How Do I Tell the Court That I Object To The Settlement?

If you choose to object to the settlement, you must timely state the reasons why you think the Court should not approve the settlement or anything related to it. The Court will consider your views. To object, you must send a letter stating that you object to the settlement in “*Rafton v. Rydex Series Funds*, Case No. 10-cv-1171 LHK.” You must include your name, address, telephone number, your signature, the number of Rydex Fund shares purchased during the period from August 1, 2007 through July 31, 2009, inclusive, the reasons you object, and all supporting papers. Any objection must be postmarked no later than December 15, 2011 and mailed to:

*Court:*

Richard W. Wiekling  
Office of the Clerk  
United States District Court  
Northern District of California, San Jose Division  
Robert F. Peckham Federal Building  
280 South 1st Street  
San Jose, CA 95113

*Counsel for Plaintiffs:*

Alan W. Sparer  
Sparer Law Group  
100 Pine Street, 33rd Floor  
San Francisco, CA 94111-5128

*Counsel for Defendants:*

Matthew L. Larrabee  
Dechert LLP  
One Maritime Plaza, Suite 2300  
San Francisco, California 94111-3513

Michael K. Wolensky  
Schiff Hardin LLP  
One Market, Spear Street Tower, 32<sup>nd</sup> Floor  
San Francisco, CA 94105

## THE COURT'S FAIRNESS HEARING

After receiving the Motion for Approval of the Settlement and any objections filed within the deadline set above, the Court will hold a hearing to decide whether to approve the settlement. You may attend and you may ask to speak, but you do not have to.

### 18. When And Where Will The Court Decide Whether To Approve The Settlement?

The Court will hold the settlement hearing on January 5, 2012 at 1:30 p.m. at the San Jose Courthouse, in Courtroom 8, 4th Floor, 280 South 1st Street, San Jose, California 95113. At this hearing, the Court will consider whether the settlement is fair, reasonable, and adequate. If there are objections, the Court will consider them. Judge Koh will listen to people who have asked to speak at the hearing. The Court will also consider how much to pay to Class Counsel. The Court may decide these issues at the hearing or take them under consideration. We do not know how long these decisions will take.

You should also be aware that the Court may change the date and time for the hearing without giving another notice to Class Members. If you want to attend, you should check the date and time with Class Counsel.

### 19. Do I Have To Come To The Hearing?

No. Class Counsel will answer any questions Judge Koh may have, but you are welcome to come at your own expense. If you send an objection, you do not have to come to Court to speak in support of it. As long as you mailed your written objection on time, the Court will consider it. If you want to be represented by your own lawyer at the hearing, you may hire one at your own expense.

### 20. May I Speak At The Hearing?

You may ask the Court for permission to speak at the settlement hearing. To do so, you must send a letter stating that it is your intention to appear in *Rafton v. Rydex Series Funds*, Case No. 10-cv-1171 LHK. You must include your name, address, telephone number, and your signature. It will also be helpful to identify the number of Qualified Shares you purchased. If you intend to present evidence at the hearing, you must identify any witness you may call to testify and any exhibits you intend to introduce at the hearing in your notice. Your notice of intention to appear must be postmarked no later than December 29, 2011, and be sent to the Clerk of the Court, Class Counsel, and Defendants' counsel, at the four addresses listed in Question 17. You cannot speak at the hearing if you have excluded yourself from the Class.

## IF YOU DO NOTHING

### 21. What Happens If I Do Nothing At All?

If you do nothing, and you are a Class Member, you will recover no money. If the settlement becomes effective, you will not be able to bring a lawsuit or action of any kind, including arbitration, continue with a lawsuit of any kind, including arbitration, or be part of any other lawsuit or arbitration against the Released Defendant Parties about the Released Claims, which are described in the Stipulation and in this Notice at pp. 9-10 below.

## GETTING MORE INFORMATION

### 22. Are There More Details About The Settlement?

This Notice summarizes the proposed settlement. More details are set forth in the Stipulation. You can obtain a copy of the Stipulation by downloading a copy from these websites: [www.RydexFundSettlement.com](http://www.RydexFundSettlement.com) or [www.sparerlaw.com](http://www.sparerlaw.com), or by writing to Alan W. Sparer, c/o Sparer Law Group, 100 Pine Street, 33<sup>rd</sup> Floor, San Francisco, CA 94111.

### 23. How Do I Get More Information?

You may contact the Claims Administrator by phone at 1-888-378-0227 or via email at [info@RydexFundSettlement.com](mailto:info@RydexFundSettlement.com) or visit [www.RydexFundSettlement.com](http://www.RydexFundSettlement.com).

***PLEASE DO NOT TELEPHONE THE COURT REGARDING THIS NOTICE***

Date: San Jose, California  
September 14, 2011

BY ORDER OF THE  
UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF  
CALIFORNIA SAN JOSE DIVISION

**ACKNOWLEDGMENT OF RELEASE TO ACCOMPANY SETTLEMENT CHECK:**  
**ACKNOWLEDGEMENT OF RELEASE**

You have received the enclosed check from the Claims Administrator in *Rafton, et al. v. Rydex Series Funds, et al.*, Case No. 10-cv-1171 LHK, because you have been identified as a member of the Class certified for the purposes of settlement only by the United States District Court for the Northern District of California.

By cashing the enclosed check, you acknowledge and agree to comply with the release provisions of the Stipulation and Agreement of Settlement which has already been approved by the Court in its Judgment in *Rafton, et al. v. Rydex Series Funds, et al.*, entered on \_\_\_\_\_.

As applicable to you, the release terms approved by the Court provide:

**DEFINITIONS**

(a) "Released Claim(s)" means all claims, demands, rights, actions, suits, or causes of action of every nature and description, whether known or unknown (including Unknown Claims, as defined herein), whether the claims arise under federal, state, statutory, regulatory, common, foreign or other law, whether foreseen or unforeseen, and whether asserted individually, directly, representatively, derivatively, or in any other capacity, that the Releasing Plaintiff Parties: (1) asserted in the Complaint or the Action as against the Released Defendant Parties; (2) have asserted, could have asserted, or could assert in the future, in any forum against the Released Defendant Parties that are based upon, arise out of, or relate to the facts, allegations, claims, losses, damages, disclosures, filings, or statements set forth in the Complaint or at issue in the Action; or (3) have asserted, could have asserted, or could assert in the future relating to the prosecution, defense, or settlement of the Action as against the Released Defendant Parties. Released Claim(s) does not include: (1) any claim to enforce the settlement; or (2) any claim that the Releasing Plaintiff Parties may have in connection with any Rydex Series Funds mutual fund other than the Rydex Inverse Government Long Bond Strategy Fund.

(b) "Released Defendant Parties" means any and all of the Defendants and/or their current or former attorneys, auditors, officers, directors, employees, partners, subsidiaries, affiliates, parents, insurers, heirs, executors, representatives, predecessors, successors, assigns, trustees, or other individual or entity in which any Defendant has a controlling interest. For the avoidance of doubt, the Fund is included in the definition of Released Defendant Parties.

(c) "Releasing Plaintiff Parties" means: (i) Lead Plaintiffs; (ii) all Class Members; (iii) the Lead Plaintiffs' and each Class Member's present or past heirs, executors, administrators, successors, assigns, and predecessors; and (iv) any person or entity who claims or purports to claim by, through, or on behalf of the Lead Plaintiffs or any Class Member.

(d) "Unknown Claims" means: (i) any and all Released Claims that any of the Releasing Plaintiff Parties does not know or suspect to exist in his, her, or its favor at the time of the release of the Released Defendant Parties which, if known by him, her or it might have affected his, her, or its settlement with and release of the Released Defendant Parties, or might have affected his, her, or its decision(s) with respect to the settlement (including the decision not to object or exclude himself, herself, or itself from the settlement); and (ii) any Released Defendants' Claims that any Defendant does not know to exist in his, her, or its favor at the time of the release of the Released Plaintiff Parties, which, if known by him, her or it might have affected his, her, or its settlement with and release of the Released Plaintiff Parties, or might have affected his, her, or its decision(s) with respect to the settlement. Moreover, with respect to any and all Released Claims and any and all Released Defendants' Claims, upon the Effective Date, the Releasing Plaintiff Parties and Defendants, respectively, shall be deemed to have, and by operation of the Final Judgment shall have, fully, finally, and expressly waived any and all provisions, rights, and benefits conferred by any law of any state or territory of the United States, or principle of common law, that is similar, comparable, or equivalent to California Civil Code Section 1542, which provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

The Releasing Plaintiff Parties, or any one of them, may hereafter discover facts other than or different from those which he, she or it knows or believes to be true, but each of the Releasing Plaintiff Parties hereby expressly waives and fully, finally, and forever settles and releases, upon the Effective Date, any known or unknown, suspected or unsuspected, contingent or non-contingent Released Claim. Likewise, the Defendants, or any one of them, may hereafter discover facts other than or different from those which he, she or it knows or believes to be true, but each of the Defendants hereby expressly waives and fully, finally, and forever settles and releases, upon the Effective Date, any known or unknown, suspected or unsuspected, contingent or non-contingent Released Defendants' Claim. The Parties acknowledge that the inclusion of "Unknown Claims" in the definition of Released Claims and Released Defendants' Claims was separately bargained for and was a key element of the settlement.

## RELEASE

1. Upon the Effective Date of the settlement, and without any further action, the Releasing Plaintiff Parties, for good and valuable consideration the adequacy of which is hereby acknowledged, shall fully, finally, and forever release, relinquish, and discharge any and all Released Claims against each and every one of the Released Defendant Parties, and shall forever be barred and enjoined, without the necessity of any of the Released Defendant Parties posting a bond, from commencing, instituting, prosecuting, or maintaining any of the Released Claims.

2. Upon the effective date, and without any further action, the Releasing Plaintiff Parties, for good and valuable consideration the adequacy of which is hereby acknowledged, shall fully, finally, and forever release, relinquish, and discharge any right to monetary relief, however styled, that is based upon, arises out of, or relates to the Released Claims, to the extent that such monetary relief would give rise to a claim for indemnification, contribution or the like, however styled (“Indemnification”), against the Released Defendant Parties. In the event any Releasing Plaintiff Party obtains a judgment against any third party based upon a right to monetary relief, however styled, that is based upon, arises out of, or relates to the Released Claims, the judgment shall be reduced by the greater of: (1) the amount of recovery obtained by the Releasing Plaintiff Party in connection with the settlement; or (2) the amount necessary to extinguish any claim for Indemnification that the third party may have against the Released Defendant Parties.

**THE FOREGOING IS A PARTIAL SUMMARY ONLY. TO REVIEW THE FULL RELEASE APPROVED BY THE COURT, GO TO THE [WWW.RYDEXFUNDSETTLEMENT.COM](http://WWW.RYDEXFUNDSETTLEMENT.COM) WEBSITE AND CLICK ON STIPULATION AND AGREEMENT OF SETTLEMENT.**

If you have any questions, you may contact the Claims Administrator at the following address:

*Rafton v. Rydex Series Funds*  
Claims Administrator  
c/o The Garden City Group, Inc.  
P.O. Box 9769  
Dublin, OH 43017-5669  
[info@RydexFundSettlement.com](mailto:info@RydexFundSettlement.com)