



Payden & Rygel

Quarterly Portfolio Review

Florida Local Government Investment Trust

3rd Quarter 2011



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Los Angeles | Boston | London | Frankfurt

October 2011

Dear Clients,

When the year began there was widespread optimism regarding the economic recovery. Many investors and analysts expected the US economy to grow between 3% and 4% this year. To date, growth has been disappointing, averaging less than 1% at an annual rate over the first half of the year. This slow growth environment has the market worried about the potential for a "double dip" recession.

How did investors fail to recognize these trends at the start of the year? Much can be explained by the fact that two decades of credit excesses in the US, coupled with the deteriorating balance sheets of some of the other G7 countries, were not going to be corrected in just a year or two. More time is required.

But, is this a permanent situation? Are we Japan? Or, are there areas that will produce reasonable returns over the next 1 to 2 years? We believe that the latter is the case. As many of you know, we believe we will be in a relatively low interest rate environment for some time but that there are sectors that will produce above average income with liquidity and diversification. We have been focusing on areas of the market where above average income has been available, such as global corporate bonds, sovereign debt and high yielding equities. In fact, US corporations have greater cash positions than they have had at any time during the past century.

In all probability, financial market volatility will continue for the next three to four quarters through the US Presidential election. On the European front, a comprehensive solution will take more time. But, it is important to note that the problems we face today are very different from the 2008 financial crisis. At that time, there was widespread panic, large positions were being liquidated, US commercial and investment banks were highly leveraged and as a result serious bankruptcies occurred. Today, the focus is the fear of uncertainty. We are not witnessing any type of wholesale liquidation. However, there is a lack of conviction for buying opportunities, which has resulted in volatile markets on limited volume.

We believe that many of the challenges today are not unlike those which investors have faced in the past decades. Carefully assessing risks for clients continues to be the most important element in building a long-term, successful investment portfolio.

Our very best wishes,

A handwritten signature in black ink, appearing to read "Joan A. Payden". The signature is fluid and cursive, with a large initial "J" and "A".

Joan A. Payden

President & CEO

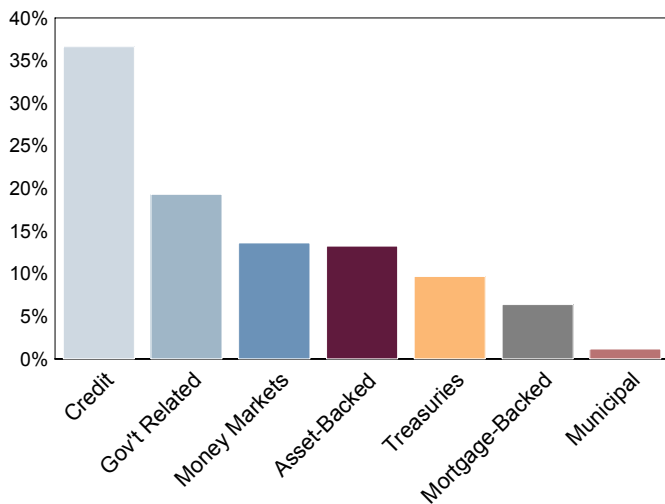
Portfolio Review - 3rd Quarter 2011

Portfolio Characteristics (9/30/2011)

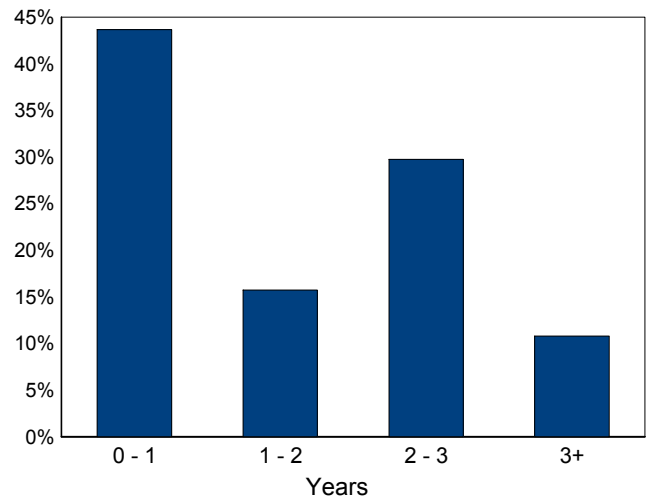
Portfolio Market Value	\$735.7 million
Weighted Average Credit Quality	AAA
Weighted Average Duration	1.7 years
Weighted Average Yield to Maturity	1.0%
SEC Yield*	0.8%

*P&R Yield-to-Maturity is at a point in time and gross of expenses; the SEC Yield is calculated by the Bank of New York over a 30-day period and net of expenses.

Sector Allocation



Duration Distribution



Portfolio Returns - Periods Ending 9/30/2011

	3rd Quarter	Trailing 1 Yr	Trailing 3 Yrs	Since Inception (1/1/92)
FLGIT (gross)	0.17%	1.09%	2.77%	4.68%
FLGIT NAV	0.09%	0.79%	2.47%	4.38%
Benchmark*	0.49%	1.20%	2.40%	4.33%

Periods over one year annualized

*Merrill Lynch 1-3-year Treasury Index 2/2000 to present; Money Market Index prior

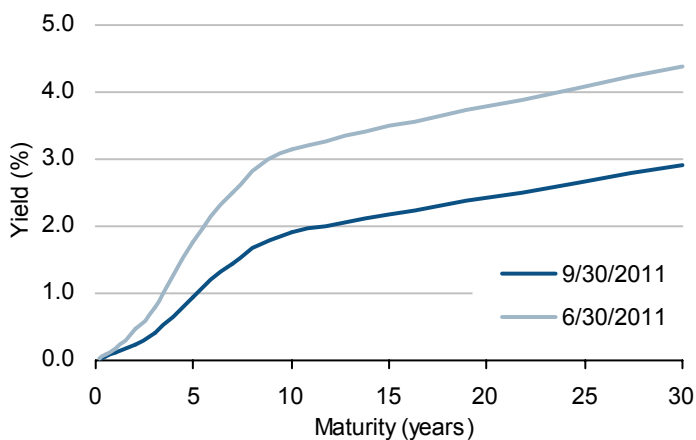


The Treasury market continued to rally during the quarter as Eurozone concerns failed to abate and domestic growth disappointed. The U.S. government passed a bill to raise the debt ceiling, allowing the U.S. to avoid default on its debts, and to reduce the deficit by \$2.4 trillion over the next 10 years. The size of the deficit reduction cuts fell short of S&P's required amount for a sustainable deficit, and consequently the rating agency downgraded the United States to AA+ from AAA. At their August meeting, the Federal Reserve committed to keeping short term rates low until mid-2013, citing continued weakened economic growth prospects. The Fed also announced a program to sell \$400 billion of short-dated Treasuries and to re-invest the proceeds into longer maturities. During the quarter, the Treasury yield curve between 2-years and 10-years flattened by 97 basis points. 2-year Treasury yields declined 21 basis points, while 3-and 5-year yields dropped by 39 and 78 basis points, respectively.

Although corporate profits remain strong, the prospect for margin compression and slower growth was evident in U.S equity markets as the S&P 500 declined by 14% during the quarter. Further concerns over European financials exposure to Greece, as well as Moody's downgrade of Bank of America and Citigroup, caused investment-grade corporate debt maturing between one and three years to underperform Treasuries. High-yield corporate bonds and investment-grade emerging market debt also saw widening spreads.

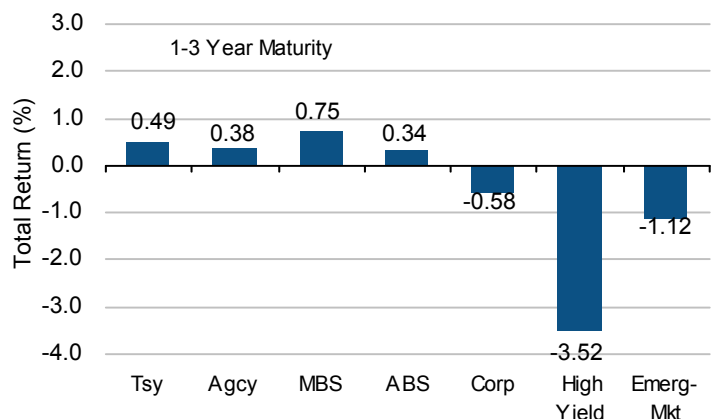
	Payden & Rygel View	Payden & Rygel Action	Portfolio Impact
S&P Downgrade of the United States	Despite an agreement being reached, S&P would likely view the debt ceiling resolution as "too little, too late". S&P would downgrade the US credit rating, which would result in a downgrade of the fund's rating to AA+.	Repositioned the portfolio by increasing the fund's percentage of AAA-rated assets, while still maintaining the required 30% in US government debt.	Negative: S&P affirmed the fund's AA+ credit quality rating, noting that the fund "reduced the impact of the US government being on Credit Watch Negative". However, US Treasuries were among the quarter's best performing sectors.
Economic Environment	Moderate economic growth accompanied by low inflation. The Federal Reserve will remain on hold.	Increased portfolio duration, while increasing longer-dated curve exposure.	Positive: Weaker economic data and a renewed flight to quality bid sent Treasury prices higher across the yield curve. Yield curve flattening added to performance.
Credit	Credit fundamentals continue to be positive, however the European debt crisis could pressure the credit sectors.	Financials remained the emphasis within the credit allocation. Reduced foreign issuer exposure in favor of US issuers.	Negative: All sectors of investment-grade corporate debt underperformed US Treasuries and government-related debt.

U.S. Treasury Yield Curve



Source: Bloomberg

3rd Quarter Sector Total Return



Source: Merrill Lynch and Morgan Stanley



ECONOMIC HIGHLIGHTS

The World Wants US Dollars and Other "Safe" Assets

Concerns about the euro area and the European financial system resurfaced in August and escalated through September as investors realized a "quick fix" to the problems in Europe was not imminent. This is reflected in the decline in the euro/dollar exchange rate from 1.45 to 1.33 since late August (Chart 1). This prompted a shift out of "risk" assets and into "safe" assets by investors on a global basis. In terms of "risk" assets, equity markets fell sharply around the world and commodity prices – especially commodities sensitive to the business cycle, like copper – slumped. Meanwhile, "safe" assets like US government bonds, global government bonds and the US dollar rallied.

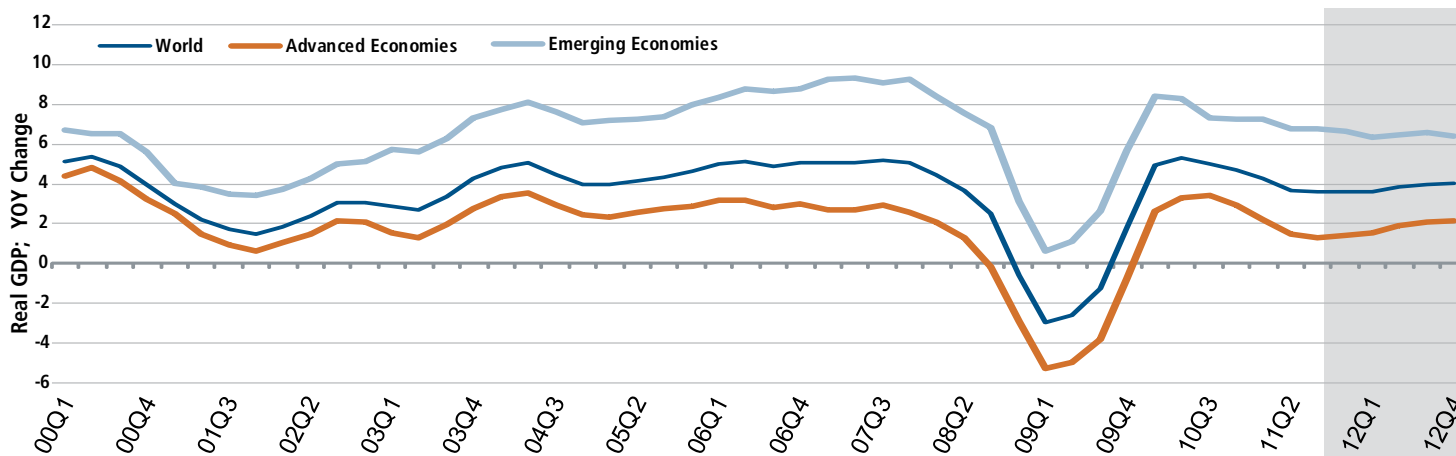
Euro Tumbles as Financial Fears Mount



Source: Reuters

In the words of John Maynard Keynes, "We are suffering just now from a bad attack of economic pessimism." Financial markets often become detached from economic fundamentals, which can then manifest itself through an excess demand for safe assets (resulting in low yields) and a shunning of riskier assets (resulting in spread widening, asset price declines). Is the pessimism warranted? While downside risks outweigh upside risks to the world economic outlook, the fundamentals still show a world with an ongoing, two-speed economic expansion (Chart 2). Real economic growth in the advanced economies is expected to remain in the 1-2% range for the next 6-12 months. Meanwhile, economic activity in emerging economies is expected to decelerate, but still remain in the 4-6% range in 2011 and into 2012. A global slowdown, yes, but not a global recession.

Global Growth Expected to Continue



Note: "Emerging" = China, India, Russia, South Africa, Turkey, Bulgaria, Hungary, Latvia, Lithuania, Poland, Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela, Indonesia, Malaysia, Philippines, and Thailand.

"Advanced" = Australia, Canada, Czech Republic, Denmark, euro area, Hong Kong SAR, Israel, Japan, Korea, New Zealand, Norway, Singapore, Sweden, Switzerland, Taiwan Province of China, United Kingdom, and United States.

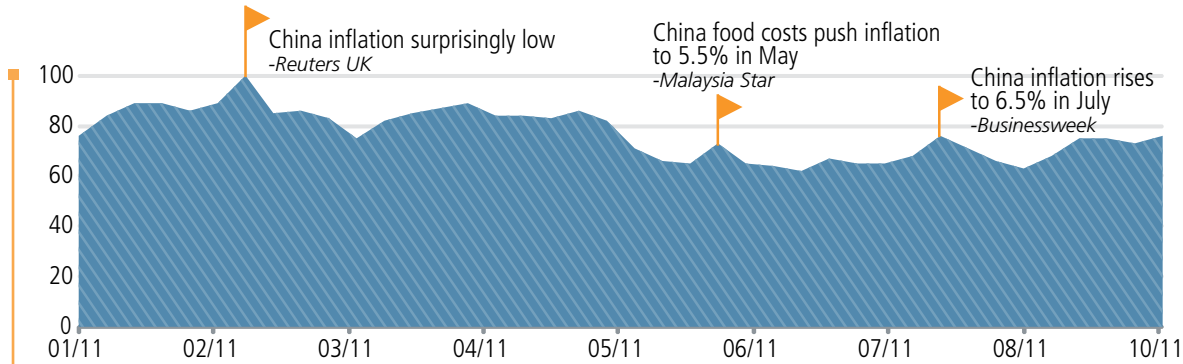
Source: IMF

THE WORLD'S PULSE THROUGH WEB SEARCH TRENDS

Is it possible to peer into the minds of investors and the general public? No, but using Google Insights for Search we can take a peek into search trends this year. The charts below track search volume based on key search terms. Together and separately they tell a story of the market worries in the third quarter.

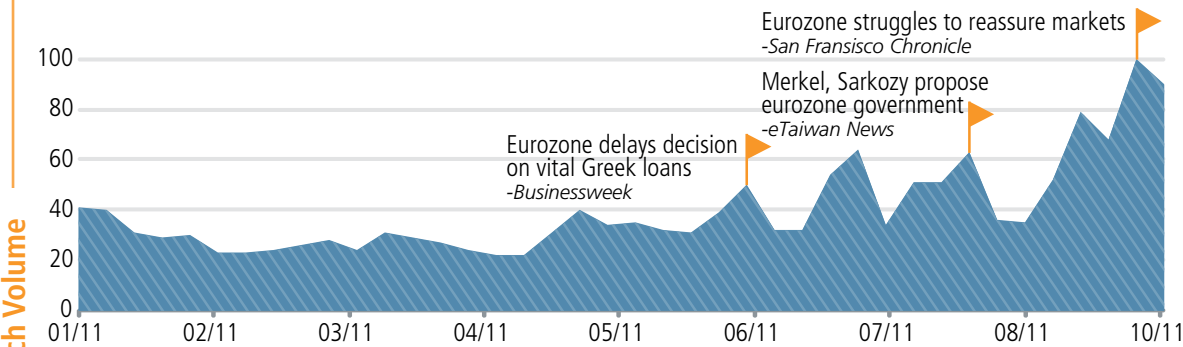
Search Term "INFLATION"

Inflation worries recede



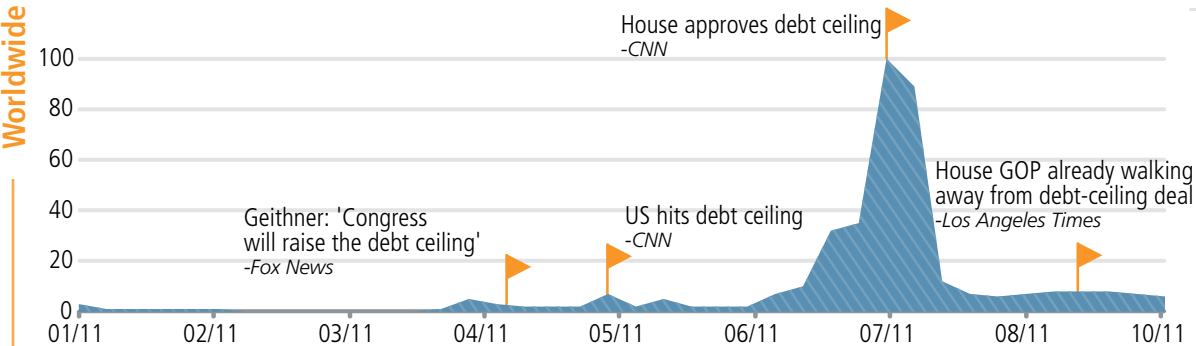
"EUROZONE"

Eurozone financial system woes re-emerge



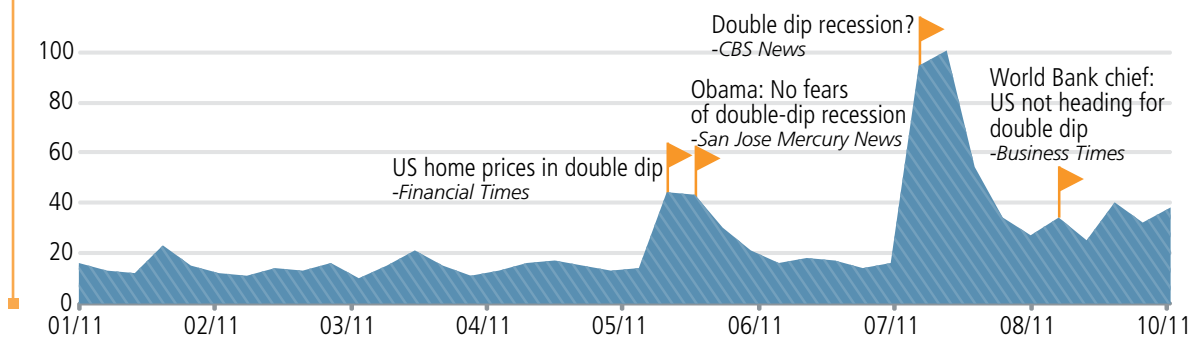
"DEBT CEILING"

Debt ceiling fears spiked in July/August



"DOUBLE DIP"

Double dip recession concerns



Source: Google Trends