

# Payden & Rygel

## QUARTERLY PORTFOLIO REVIEW

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**4<sup>th</sup> Quarter 2018**



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## LETTER FROM THE CEO

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January 2019

Last year marked the 35th year since the founding of Payden & Rygel. During this time financial markets have experienced wide fluctuations reflecting economic, political and financial changes. But, we have all survived.

I'd like first to take a minute and focus on the things we think are most important to our success: our culture, governance structure and client focus. None of these key ingredients have changed during our history. These elements are vitally important to the stability and protection of client funds and investment results.

Second, the global financial markets were volatile this past year, and it is very difficult to identify trends in such an environment. Back to basics then. The U.S. economy remains healthy. We are finishing a year where the consumer has enjoyed real wage growth, near-full employment and balance sheets that are in the best shape since 2008.

However, the global picture is murky. The UK and Europe are contending with Brexit as the March 2019 deadline for an agreement looms. Another big question is whether China's economy faces a more significant slowdown. Risks remain, but we're optimistic the global economy can withstand the varied headwinds and grow in the year ahead.

Turning back to basics. As far as our clients are concerned, we continue to provide a wide array of global, customized solutions with an emphasis on fixed income markets. Over the past five years, our assets have grown by almost 40%, to \$112 billion.

My very best wishes to you and your family for health and happiness in 2019.

Warm regards,

A handwritten signature in black ink that reads "Joan A. Payden". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

Joan A. Payden

President & CEO

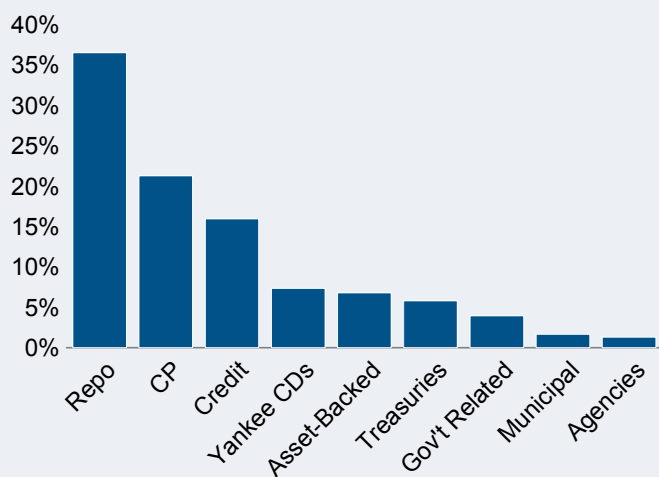
# FLORIDA TRUST DAY TO DAY FUND

## Portfolio Review and Market Update - 4th Quarter 2018

### PORTFOLIO CHARACTERISTICS (As of 12/31/2018)

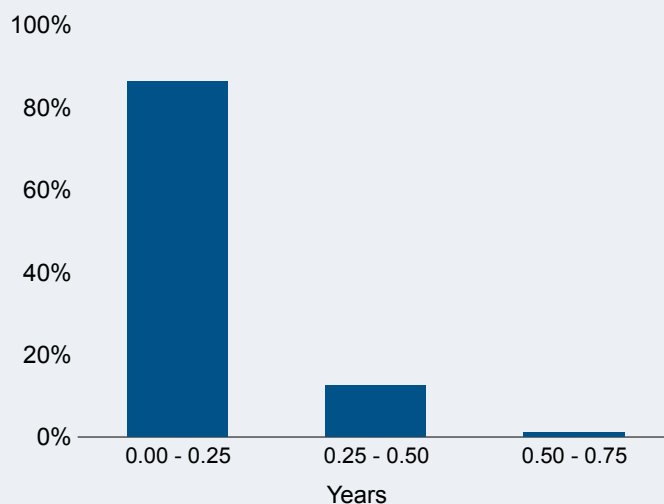
Portfolio Market Value	\$948.5 million
Weighted Average Credit Quality (Fitch)	AAA mmf
Weighted Average Maturity	30 days
SEC 7-Day Yield (net)	2.49%

### SECTOR ALLOCATION



Government/Government-guaranteed: 48%

### DURATION DISTRIBUTION



### PORTFOLIO RETURNS - Periods Ending 12/31/2018

	4th Quarter	2018	Trailing 3 Yr	Trailing 5 Yr	Since Inception (1/13/09)
<b>FLORIDA TRUST DAY TO DAY FUND (gross)</b>	<b>0.60%</b>	<b>2.09%</b>	<b>1.29%</b>	<b>0.85%</b>	<b>0.57%</b>
FLORIDA TRUST DAY TO DAY FUND (net)	0.58%	1.98%	1.17%	0.75%	0.46%
ICE BofAML 3-Month US Treasury Bill Index	0.56%	1.87%	1.02%	0.63%	0.38%

Periods over one year are annualized



## MARKET THEMES

The fourth quarter saw an increase in market volatility as investors reduced risk and looked to safe-haven assets. The FOMC raised its targeted range for the Fed Funds rate to 2.25% - 2.50% in December, the fourth interest rate hike of 2018, and forecast two more 0.25% increases in 2019. While prospects for U.S. growth remained strong, the Fed's message of future interest rate hikes and the balance sheet unwind in the face of volatile markets exacerbated market fluctuations. Geopolitical risks remain as uncertainty over the U.S./China relationship, concerns surrounding emerging markets, populism in Europe and Brexit drove a negative tone across broad risk assets. Treasury yields declined, credit risk premiums increased, and equity prices fell by over 10%. Despite elevated market volatility, the front end of the yield curve was able to provide positive total returns.

## STRATEGY

- The portfolio holds a 48% allocation to government and government-guaranteed securities, as well as a diversified mix of credit sectors for income generation.
- Corporate and securitized bonds underperformed Treasuries over the quarter as yield premiums increased and investors looked to Treasuries for safety. Looking through the recent volatility, we continue to view short-dated credit as attractive given strong fundamentals and all-in yield levels that are their highest since 2009.
- We focused on adding securitized bonds, which serve as a diversifier and source of high quality income.
- We continue to utilize floating-rate coupon bonds across a range of sectors in anticipation of higher front-end rates driven by an active Fed.

## INTEREST RATES

- Front-end interest rates flattened as the three-month U.S. Treasury bill yield moved higher by 0.16% to 2.35% while the two-year note fell by 0.33% to 2.49%.
- Additional carry from longer positions was beneficial from an interest rate perspective.
- One-month LIBOR rose 0.24% to 2.50% and three-month LIBOR rose 0.41% to 2.81%.

## SECTORS

- Corporate securities underperformed Treasuries during the quarter, as spreads moved wider offsetting their yield advantage.
- High-quality asset-backed securities outperformed corporate credit but underperformed Treasuries as spreads in the sector moved wider.
- Commercial paper, Yankee CDs, and repurchase agreements have attractive yields, benefiting from rising rates.

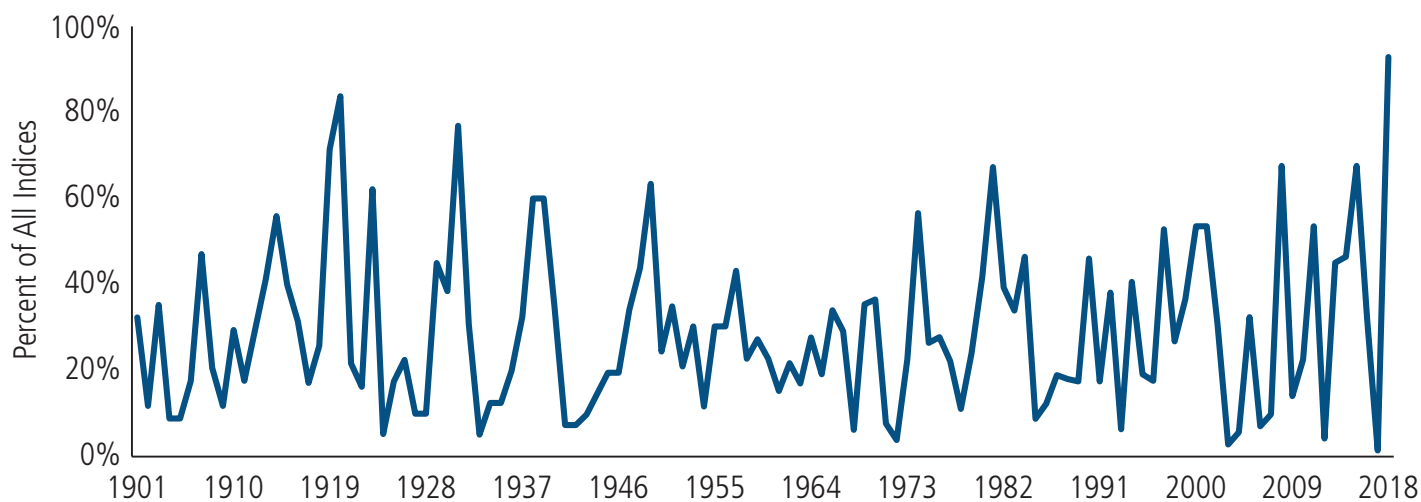


## MARKET PERSPECTIVE

The year 2018 may turn out to be one most investors would soon like to forget. In fact, according to data collected by Deutsche Bank that looks at equity, bond, credit and commodities indices in 30 countries since 1900, last year featured the largest proportion of indices on record ending the year with a negative total return (see Figure 1). However, this paints too pessimistic a picture for the past three years.

First, while 2018 saw many indices in the red, 2017—just one year prior—saw the fewest indices post negative returns on record! That’s right, 2017 was a banner year—no surprise then that many asset classes struggled in 2018.

**Figure 1 : Proportion of Indices With Negative Total Returns, Since 1901**



Source: Deutsche Bank

Second, not every asset class posted a negative return. For example, holding U.S. Treasuries and tax-exempt municipal bonds yielded positive total returns in 2018, and even the U.S. Agg eked out one basis point (see Figure 2). Further, even though the U.S. equity market had a down year, newspaper headlines (e.g., “Worst Year For Stocks In A Decade”) overstate the magnitude of the decline. At -4.4% the annual total return on the S&P 500 is well within normal historical ranges and pales in comparison to the almost -37% total return in 2008.

Third, we believe that while market prices moved significantly as 2018 drew to a close, the U.S. economy remains on solid footing for another year of economic growth. The global economy has slowed, but we still expect global economic activity to remain modestly positive in 2019. Economic cycles do not die of old age and while we do expect volatility to continue around the world, we do not expect a U.S. or global recession in 2019.

For asset class returns, perhaps it’s best not to expect a repeat of 2018.

**Figure 2 : 2018 Index Total Returns**



Source: Bloomberg, JP Morgan, Bloomberg Barclays, Payden Calculations



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## U.S. DOMICILED MUTUAL FUNDS

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### CASH BALANCE

Payden/Kravitz Cash Balance Plan Fund

### EQUITY

Equity Income Fund

### GLOBAL FIXED INCOME

Emerging Markets Bond Fund

Emerging Markets Corporate Bond Fund

Emerging Markets Local Bond Fund

Global Fixed Income Fund

Global Low Duration Fund

### TAX-EXEMPT FIXED INCOME

California Municipal Income Fund

### U.S. FIXED INCOME

Absolute Return Bond Fund

Cash Reserves Money Market Fund

Core Bond Fund

Corporate Bond Fund

Floating Rate Fund

GNMA Fund

High Income Fund

Limited Maturity Fund

Low Duration Fund

Strategic Income Fund

U.S. Government Fund

## DUBLIN DOMICILED UCITS FUNDS

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### EQUITY

Global Equity Income Fund

US Equity Income Fund

### LIQUIDITY FUNDS

Euro Liquidity Fund

Sterling Reserve Fund

U.S. Dollar Liquidity Fund

### FIXED INCOME

Absolute Return Bond Fund

Global Bond Fund

Global Emerging Markets Bond Fund

Global Emerging Markets Corporate Bond Fund

Global Government Bond Index Fund

Global High Yield Bond Fund

Global Inflation-Linked Bond Fund

Global Short Bond Fund

Sterling Corporate Bond Fund

U.S. Core Bond Fund

USD Low Duration Credit Fund

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For more information about Payden & Rygel's funds, contact us at a location listed below.

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