

# Payden & Rygel

## QUARTERLY PORTFOLIO REVIEW

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**(H) Quarter 20%+  
Day to Day Fund**



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## LETTER FROM THE CEO

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January 2018

Here we are once again at the start of a new year. Around the globe, 2017 was an eventful year, with elections to watch and new economic reforms to consider, and all the while markets maintained a positive tone.

Last January, when we wrote to you, we felt 2017 would see the clouds lifting from the global economy. Driven by a strong U.S. consumer, ongoing recovery in the euro area, and resilience in China and the UK, we expected global growth to accelerate from 3.1% in 2016 to nearly 3.5% in 2017. When the final results are tallied, we may well see growth rates above that!

As we look ahead to 2018, we continue to expect much of the same. Faster growth in output combined with higher inflation carries important implications for investors. The global growth backdrop argues for the continued outperformance of credit sectors (high yield and emerging markets), as well as modest increases in government bond yields. We expect more action from central banks as they adjust their monetary policy to the new, stronger global economy. However, before you worry too much about “higher interest rates,” remember that the global pool of savings far exceeds the supply of liquid assets to purchase. We think this supply-demand mismatch will limit the extent of the rise of longer-term interest rates in the year ahead.

While we are optimistic for the year, we also maintain a firm commitment to practical investment management. With so many investors positive in their outlooks, we carefully watch for irrational behavior in the markets. We also monitor liquidity daily and, as always, ensure our clients’ portfolios are well-diversified.

Finally, we hope that 2018 brings you and your family health and happiness.

Sincerely,

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

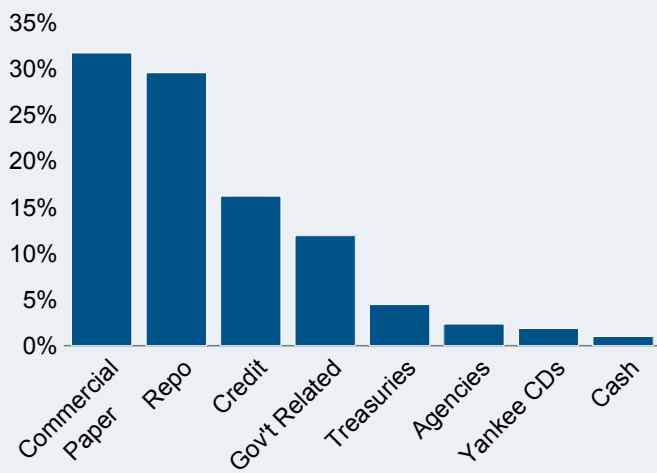
# FLORIDA TRUST DAY TO DAY FUND

## Portfolio Review and Market Update - 4th Quarter 2017

### PORTFOLIO CHARACTERISTICS (As of 12/31/2017)

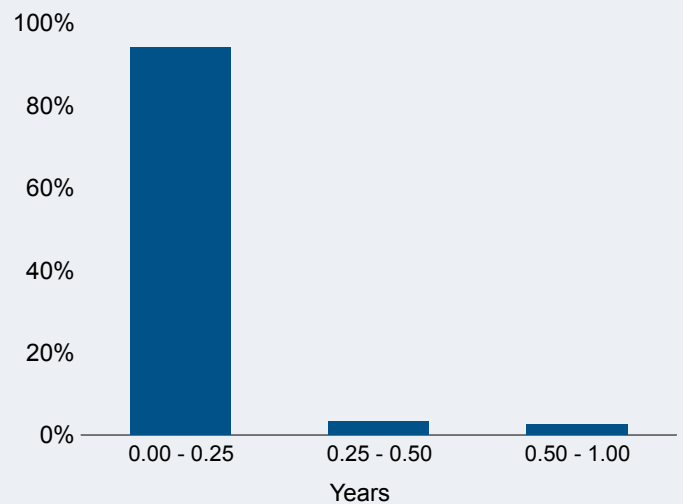
Portfolio Market Value	\$676.6 million
Fund Rating (S&P)	AAAm
Weighted Average Days to Maturity	33 days
SEC 30-Day Yield (net)	1.25%

### SECTOR ALLOCATION



Government/Government-guaranteed: 48%

### DURATION DISTRIBUTION



### PORTFOLIO RETURNS - Periods Ending 12/31/2017

	4th Quarter	2017	Trailing 3 Yr	Trailing 5 Yr	Since Inception (1/13/09)
<b>FLORIDA TRUST DAY TO DAY FUND (gross)</b>	<b>0.31%</b>	<b>1.13%</b>	<b>0.67%</b>	<b>0.48%</b>	<b>0.40%</b>
FLORIDA TRUST DAY TO DAY FUND (net)	0.30%	1.04%	0.56%	0.37%	0.29%
ICE BofAML 3-Month US Treasury Bill Index	0.28%	0.86%	0.41%	0.27%	0.21%

Periods over one year annualized



## MARKET THEMES

Persistent economic tailwinds prevailed in the fourth quarter as the unemployment and growth backdrop continued to improve around the globe. In addition, long awaited fiscal progress was made in the U.S. as the Trump administration and Congress delivered on tax reform legislation. These key ingredients resulted in a positive tone across risk assets, with equities continuing to set record highs and corporate risk premiums narrowing to post-crisis lows. With plenty of economic support, the Federal Reserve raised interest rates for the third time in 2017 driving the two-year Treasury yield to 1.88%, its highest level since 2008, while the 10-year finished the year little changed at 2.41%. Other central banks around the world followed suit, as the Bank of England and People's Bank of China hiked rates and the European Central Bank reiterated its intention to curtail asset purchases. Consequently, interest rates moved higher across the globe, but subdued volatility persisted as investors searched for yield.

## STRATEGY

- The portfolio holds a 48% allocation to government and government-guaranteed securities, in addition to a diversified mix of credit sectors for income generation.
- Corporate bond yield premiums remain attractive, and we expect to maintain our exposure through the purchase of bonds in the new issue and secondary markets.
- We continue to utilize floating-rate coupon bonds for their short duration profile and yield benefit in a rising rate environment.

## INTEREST RATES

- U.S. Treasury yields marched higher across the front-end of the curve as six-month rates rose 0.34% to end the quarter at 1.53%. The one-year Treasury saw the largest move, up 0.44%, as the less than one-year maturity portion of the curve steepened a few basis points.
- Additional carry from longer out-of-index positions was offset by negative price returns from the move higher in Treasury yields.
- The portfolio's floating-rate positions contributed positively to performance as three-month LIBOR rose 0.37% to end the quarter at 1.70%.

## SECTORS

- The allocation to corporate securities was the main driver of performance.
- We hold SSAs (Supranational/Sovereign/Agency) securities as spread product and a diversifier from US government securities.



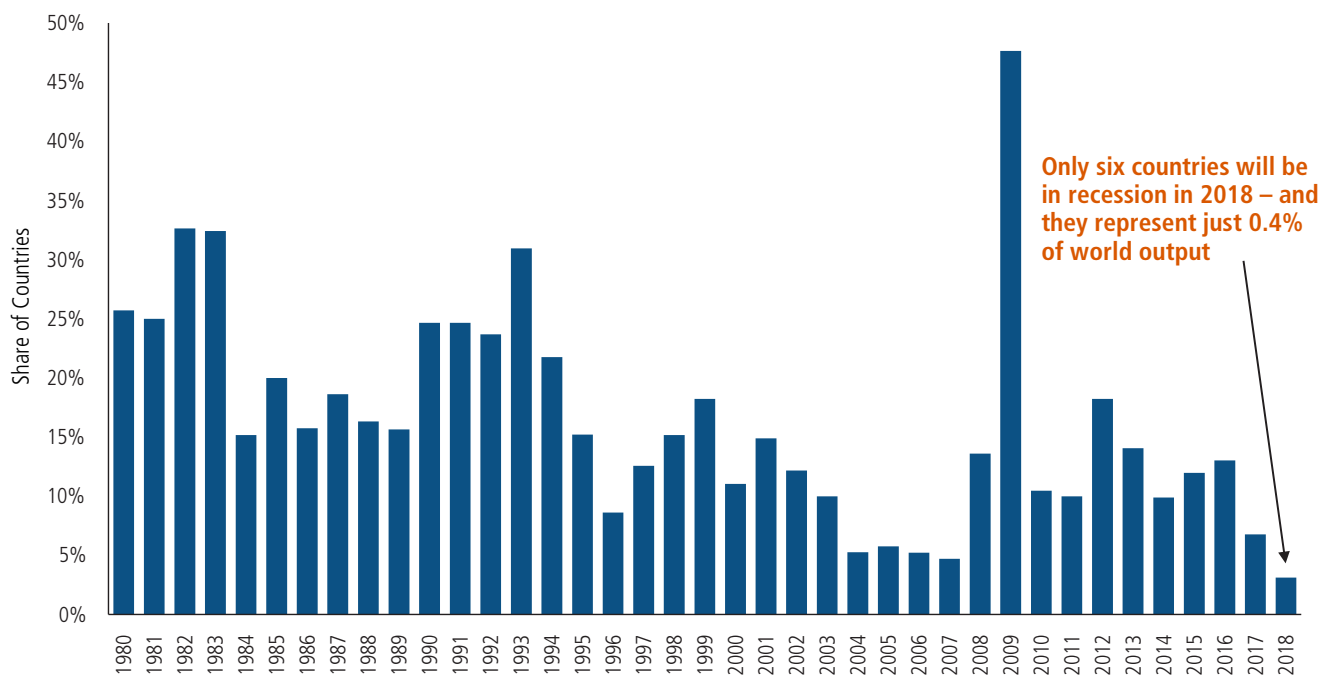
## MARKET PERSPECTIVE

### Get Ready for a Great 2018, the Fewest Countries in Recession on Record

A pick-up in global economic growth in 2017 proved to be the highlight of the year. The U.S., UK, eurozone, Canada and even Japan all surprised investors with accelerating GDP growth during the year. In turn, better growth translated into better earnings for corporations.

Looking into 2018, we think the economic backdrop looks even better. In fact, projections indicate we will see the fewest countries in recession going back to 1980 (see graph below). Global growth is not only picking up, but doing so across the board. As a result, we expect global credit and equity markets to continue to perform well and for global central banks to shift away from their extraordinarily easy monetary policies.

#### Percent of Countries with Negative Growth Rates



Source: IMF, Payden Calculations

What else can we learn from the data?

- » In an average year, 16% of the countries in the world are in recession, compared to only 2% in 2018.
- » China, India, the eurozone, and the U.S. accounted for 58% of global GDP growth in 2017.
- » Despite being headline grabbers last year, the UK and Venezuela had a relatively small impact on growth. The UK added 0.04 percentage points of global GDP growth while Venezuela detracted 0.04 percentage points.
- » The six countries with negative growth expectations are Venezuela and Puerto Rico (the only two with outstanding debt), three African nations – Equatorial Guinea, South Sudan, and Swaziland – and the third smallest country in the world, the Pacific Ocean island nation of Nauru with a population of 11,000.



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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

### FIXED INCOME

Absolute Return 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 Bond Fund

Global Short Bond Fund

Sterling Corporate Bond Fund – Investment Grade

U.S. Core Bond Fund

USD Low Duration Credit Fund

### LIQUIDITY FUNDS

Euro Liquidity Fund

Sterling Reserve Fund

U.S. Dollar Liquidity Fund

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

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