

Payden & Rygel

QUARTERLY PORTFOLIO REVIEW

2nd Quarter 2018



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LETTER FROM THE CEO

July 2018

As we begin the second half of the year it's an opportunity to pause and reflect on what our thoughts were in January. Back then, we were coming off very strong economic numbers both from Europe and the U.S. In fact, on the continent, year-over-year growth showed 2.8%, a high point in the last decade. In the U.S. GDP was roughly 3%, and we were confident that the trend would continue.

Our projections for the U.S. were optimistic and we felt that Europe would also continue to show strength. Now at the mid-point of the year, the U.S. economy has maintained growth at a 3% rate. However, in Europe optimism has given way to concerns about trade wars, tariffs, a strong U.S. dollar and political uncertainty.

At this point, the big question facing the U.S. and global economies is how sensitive the financial markets could be to these possible disruptions. First, we do not see any significant signs that the U.S. is overheating and, on this basis, we are comfortable with the Fed gradually increasing rates 3-4 times annually. Further afield, we are somewhat more cautious, as uncertainties have grown regarding the impact of trade wars, tariffs, etc., which are likely to reflect a slowdown from the outstanding numbers produced in 2017. Given this, we continue to look for mispriced opportunities for investments in the Eurozone. You might like to know that within the past few months we have increased our presence in Europe with the opening of our Milan office to complement our entrance into London twenty years ago.

We'd like to conclude by saying that we are mindful of global liquidity and the unexpected becoming reality. Against this background, in your portfolio, diversification and a constant monitoring of factors that could disrupt global financial markets help guide decisions. We'd like to leave you with this important thought and send you and your family our best wishes for the balance of the year.

Sincerely,

A handwritten signature in black ink, reading "Joan A. Payden". The signature is fluid and cursive, with the first name "Joan" and last name "Payden" clearly legible.

Joan A. Payden
President & CEO

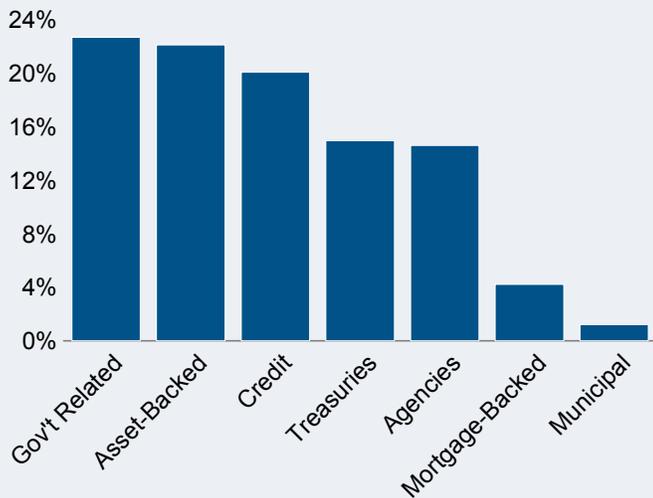
FLORIDA TRUST SHORT-TERM BOND FUND

Portfolio Review and Market Update - 2nd Quarter 2018

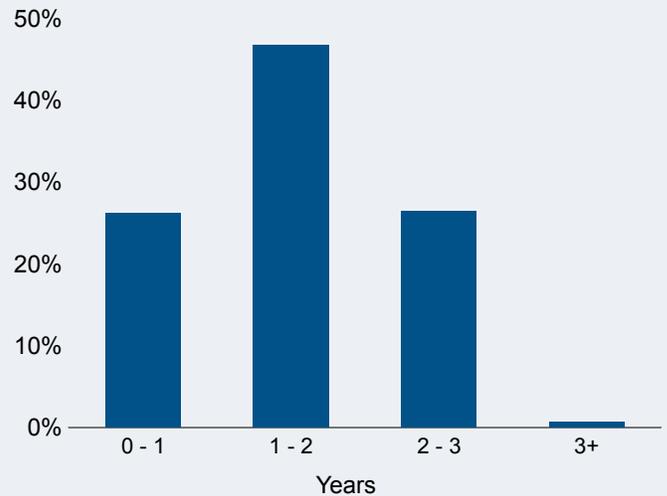
PORTFOLIO CHARACTERISTICS (As of 6/30/2018)

Portfolio Market Value	\$906.5 million
Weighted Average Credit Quality (Fitch)	AAAf/S1
Weighted Average Duration	1.53 years
SEC 30-Day Yield (net)	2.07%

SECTOR ALLOCATION



DURATION DISTRIBUTION



PORTFOLIO RETURNS - Periods Ending 6/30/2018

	2nd Quarter	2018 YTD	Trailing 1 Yr	Trailing 5 Yr	Trailing 10 Yr	Since Inception (1/1/92)
SHORT-TERM BOND FUND (gross)	0.40%	0.34%	0.61%	1.00%	1.55%	3.80%
SHORT-TERM BOND FUND (NAV)	0.33%	0.19%	0.35%	0.75%	1.29%	3.47%
ICE BofAML 1-3 Year US Treasury Index*	0.22%	0.09%	0.08%	0.58%	1.24%	3.35%

Periods over one year annualized

* Taxable money market funds average prior to 02/2000.



MARKET THEMES

Headlines dominated second quarter market sentiment, primarily led by Italian politics, emerging markets and trade war fears. Economic data from the U.S. remained strong, allowing the Fed to raise rates another 25 basis points in June. Jerome Powell maintained his optimistic and hawkish policy tone, forecasting two more 25 basis point hikes in 2018 and three hikes in 2019. Consequently, the front-end of the U.S. yield curve moved higher, causing the curve to flatten. Despite strong Q1 corporate earnings, most assets traded with a weak tone during the quarter. The exception was high yield corporate bonds, which outperformed as spreads compressed even with robust outflows. Technical factors dictated a majority of the movement in spreads, which were roughly flat over the quarter but wider on the year. We believe fundamentals remain intact and outright yields remain attractive at the front end of the yield curve.

STRATEGY

- The portfolio holds a diversified mix of credit sectors for income generation.
- Corporate bond yield premiums are wider on the year but roughly flat for the quarter. We view short credit as attractive given the strong fundamental backdrop and yield levels that we have not seen since 2009.
- We remain active in both secondary and primary markets when pricing is supportive.
- We continue to utilize floating-rate coupon bonds and maintain an underweight duration position in anticipation of higher front-end rates driven by an active Fed.

INTEREST RATES

- Short U.S. Treasury yields moved higher by 15 to 26 basis points, with the two-year maturity rising 0.26% to 2.53%. The slope between two- and five-year maturities continued its flattening trend, falling 0.10% to end the quarter at 19 basis points.
- Our underweight duration position was the main driver of performance, as Treasury yields increased.
- Floating-rate positions contributed positively to performance as one-month LIBOR rose 0.21% to 2.09%; however, 3-month LIBOR remained range-bound over the quarter.

SECTORS

- Corporate securities outperformed Treasuries during the quarter, benefiting from their yield advantage.
- High-quality asset-backed securities outperformed corporates while providing flexible reinvestment opportunities.

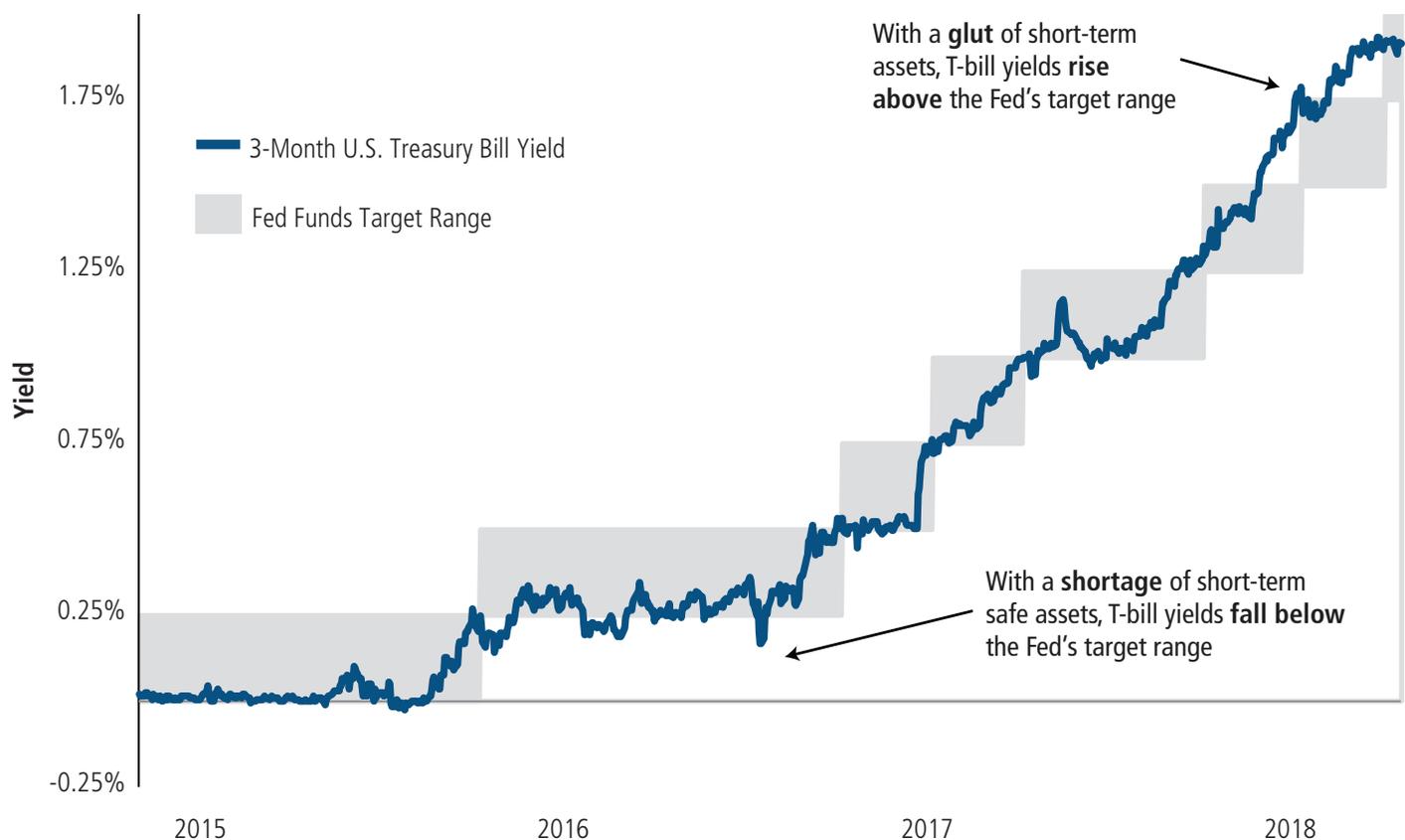


Follow The Leader as the Shortage of Short-Term Assets Becomes a Glut

Textbooks teach us central banks set overnight interest rates. However, in the United States, a different pacesetter has lately emerged for overnight interest rates: the market. Thanks to a global glut of short-dated, safe, liquid assets, the Fed's administered rate is not as attractive to overnight borrowers as it once was. Where once short-maturity investors faced limited options, today these investors can choose from a pile of new U.S. Treasury bills, an overnight repo facility at the Fed, reserves, attractive USD-hedged return on other government bills (thanks to higher interest rate differentials), and more. Why should investors care? Consider that as the Fed began its hiking cycle in late 2015, 3-month Treasury bill yields nearly always hovered at the low end of the Fed's target rate band (then 0%) and sometimes even traded below the lower bound. Today the situation is quite different. With a surplus of options available to overnight borrowers, market pricing has returned to the front end of the yield curve. The Fed is now following, not leading, overnight interest rates. Perhaps the Fed hikes faster? Perhaps market participants will demand more yield for short-dated credit instruments?

A further repricing of short-term interest rates could have ripple effects across a range of other asset classes. After all, if you can get 2.50% on a 2-year Treasury, why wouldn't you demand even higher yields from similar maturity corporates? The global implications of higher U.S. short-term interest rates might also mean greater interest rate differentials that could boost the USD and hurt emerging markets. In fact, we think such a chain of events played out during the second quarter, explaining asset prices movements from Treasuries to U.S. corporates to emerging markets.

3-Month U.S. Treasury Bill Yields vs. the Fed Funds Target Range





**OVER 30 YEARS OF INSPIRING
CONFIDENCE WITH AN
UNWAVERING COMMITMENT
TO OUR CLIENTS' NEEDS.**

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US DOMICILED MUTUAL FUNDS

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

EQUITY

Global Equity Income Fund

U.S. 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

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

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