Payden&Rygel

Quarterly Portfolio Review

FLORIDA LOCAL GOVERNMENT INVESTMENT TRUST

4th Quarter 2018

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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,

Joan A. Payden

President & CEO

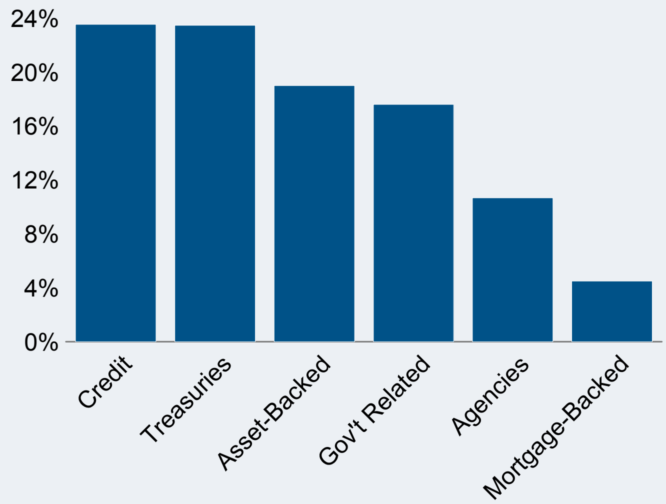
FLORIDA TRUST SHORT-TERM BOND FUND

Portfolio Review and Market Update - 4th Quarter 2018

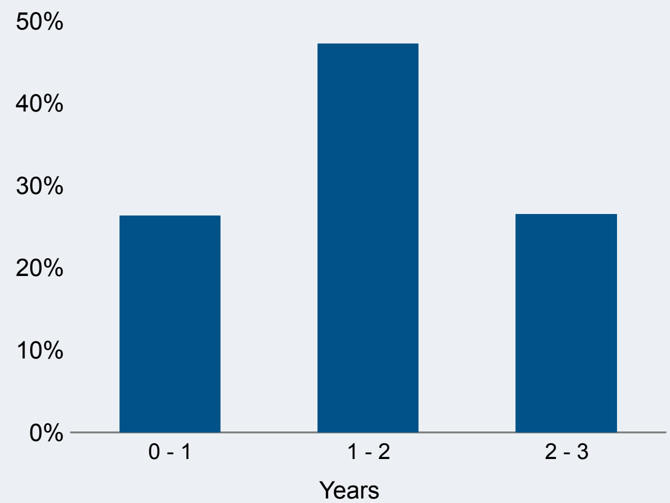
PORTFOLIO CHARACTERISTICS (As of 12/31/2018)

Portfolio Market Value	$866.5 million
Weighted Average Credit Quality (Fitch)	AAAf/S1
Weighted Average Duration	1.50 years
SEC 30-Day Yield (net)	2.59%

SECTOR ALLOCATION



DURATION DISTRIBUTION



PORTFOLIO RETURNS - Periods Ending 12/31/2018

	4th Quarter	2018	Trailing 3 Yr	Trailing 10 Yr	Since Inception (1/1/92)
SHORT-TERM BOND FUND (gross)	**1.04%**	**1.83%**	**1.43%**	**1.73%**	**3.79%**
SHORT-TERM BOND FUND (NAV)	0.97%	1.55%	1.17%	1.42%	3.46%
ICE BofAML 1-3 Year US Treasury Index*	1.29%	1.58%	0.96%	0.95%	3.34%

Periods over one year are annualized

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

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 continued to hold a diversified mix of non-government sectors to increase income.
- We partially neutralized our duration position in early December by closing our Treasury underweights in two-year and longer tenors to capture price returns as yields moved lower.
- We maintained a bias towards a shorter average maturity profile of non-Treasury sectors to limit the portfolio sensitivity to changes in credit risk premiums.
- We focused on adding securitized bonds, which serve as a diversifier and source of high quality income.

INTEREST RATES

- Short U.S. Treasury yields fell with the two-year maturity falling by 0.33% to 2.49%. The slope between two- and five-year maturities continued its flattening trend, falling 11 basis points to end the quarter at 0.02% after spending most of December inverted with the differential as low as -0.04%.
- While our short duration position detracted from performance, our duration extension in December was beneficial to the portfolio as Treasury yields fell.
- One-month LIBOR rose 0.24% to 2.50% and three-month LIBOR rose 0.41% to 2.81%.

SECTORS

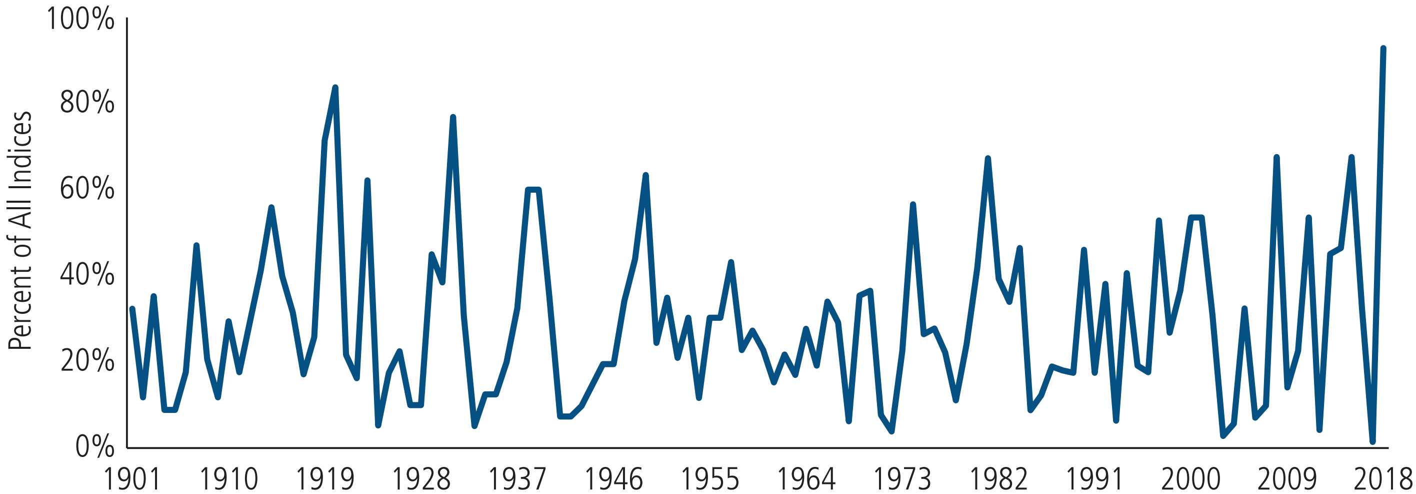
- Corporate securities underperformed Treasuries during the quarter, as spreads moved wider offsetting their yield advantage. However, our reduction in spread duration during the year was beneficial.
- High-quality asset-backed securities outperformed corporate credit but underperformed Treasuries as securitized spreads also widened.
- A modest floating rate mortgage-backed securities allocation benefited from higher LIBOR rates, although wider spreads caused them to underperform higher quality Treasuries.

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

35 YEARS

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U.S 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
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

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

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