

Payden & Rygel

QUARTERLY PORTFOLIO REVIEW

' fX' Quarter 2016 Short Term Bond Fund



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LETTER FROM THE CEO

October 2016

Dear Client,

As we look to the closing quarter of 2016, I am reminded of twelve months ago when we were wondering whether the Federal Reserve would raise rates by the end of the year. As we all know, they increased the Federal Funds rate 0.25% at their December 2015 meeting. In the ensuing months, the U.S. economy has grown, job growth is on the right track and generally there are positive forces at work. On a global basis, there has been little change: sluggish economic growth and low or declining inflation.

What should our focus be at this time? We would like to refer you to the chart on the opposite page, which takes the four major central banks in the world and shows the growth of their balance sheets. Central bank policy used to focus on short-term interest rates, but more recently they have tried to influence economic growth and the direction of inflation by growing their balance sheets. For example, the Bank of Japan's balance sheet is now as large as the Federal Reserve's. Such action has had little effect on growth or inflation. But it has forced the rest of the world to look to the US bond markets for attractive buying opportunities. This has been a beneficial trend for our clients.

We find ourselves today in the same place we were last year at this time: asking when will the Federal Reserve raise rates again? December is a distinct possibility. But our expectation is the next rate hike will only have a minor effect on the short term markets and little effect on inflation, nor is it likely to inhibit the continued economic growth of the US. We believe that inflation will eventually settle in the 2-3% range and that there will be moderate growth over the next twelve months. Our focus on diversification, credit quality and liquidity will provide your portfolio with the tools to weather any unexpected surprises.

Payden & Rygel recently celebrated our 33rd anniversary. During this time of global challenges, we want to assure you that we remain independent, with the same ownership and governance since inception. Our team-oriented culture has one focus and that is to meet the needs and exceed the expectations of our clients.

My very best wishes go out to you and your family for the remainder of the year.

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

Joan A. Payden

President & CEO

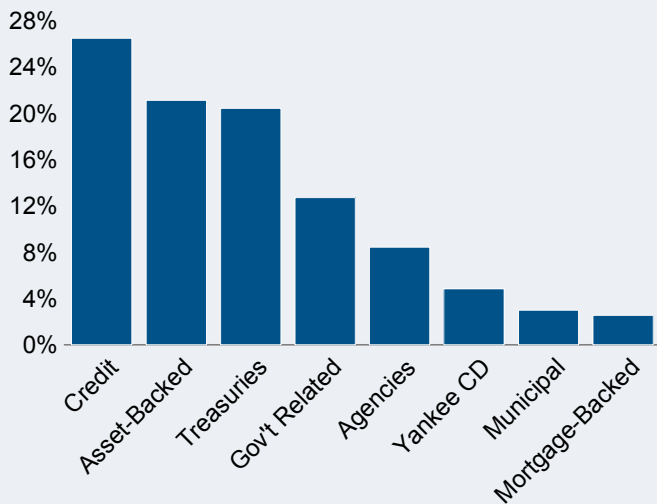
FLORIDA TRUST SHORT-TERM BOND FUND

Portfolio Review and Market Update - 3rd Quarter 2016

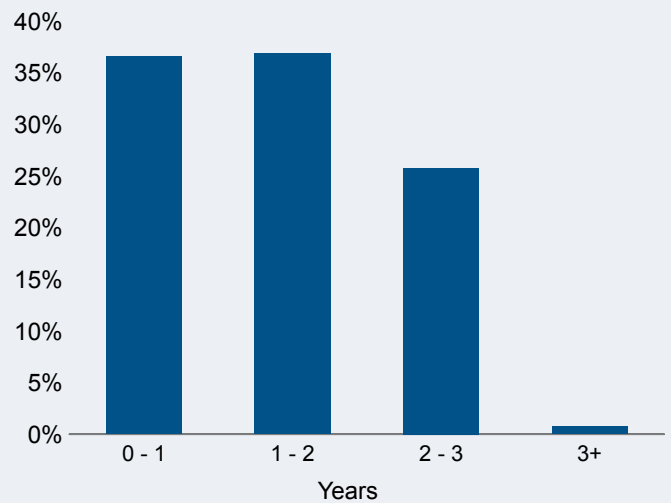
PORTFOLIO CHARACTERISTICS (As of 9/30/2016)

Portfolio Market Value	\$963.9 million
Weighted Average Credit Quality	AAA
Weighted Average Duration	1.43 years
SEC 30-Day Yield (net)	0.91%

SECTOR ALLOCATION



DURATION DISTRIBUTION



PORTFOLIO RETURNS - Periods Ending 9/30/2016

	3rd Quarter	2016 YTD	Trailing 1 Yr	Trailing 3 Yrs	Trailing 5 Yrs	Since Inception (1/1/92)
SHORT-TERM BOND FUND (gross)	0.14%	1.53%	1.32%	1.10%	1.25%	4.02%
SHORT-TERM BOND FUND (NAV)	0.06%	1.31%	1.03%	0.85%	0.99%	3.69%
BAML 1-3 Year US Treasury Index*	-0.11%	1.32%	0.88%	0.85%	0.69%	3.59%

Periods over one year annualized

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



MARKET THEMES

The third quarter was marked by low volatility as investors waited for new central bank action. Post-Brexit fears remained subdued, and investors continued their search for positive yield, especially given negative rates in several developed markets. US Treasury yields migrated higher in anticipation of potential movement by the Federal Reserve. Generally positive domestic employment and economic data suggested a hike could occur, but the Fed seemed focused on inflation and global factors. Continued demand for yield drove spreads tighter in non-government sectors during the period.

STRATEGY

- The portfolio holds 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 market.
- We maintained our allocation to high-quality asset-backed and mortgage-backed securities (ABS/MBS) with short duration profiles for their yield and diversification benefits.

INTEREST RATES

- Treasury yields across the curve were higher. Two- and three-year Treasury maturities increased by 18 basis points and ended the quarter at 0.76% and 0.87%, respectively. The front end of the US Treasury curve steepened with the yield difference between one- and two-year maturities ending at 0.18%.
- The portfolio's defensive duration positioning was beneficial given the move higher in interest rates.
- Longer-maturity corporate holdings contributed to performance as the price pressure from interest rate movement was more than offset by the income generated.

SECTORS

- Credit exposure was beneficial to performance. The yield premium between corporates and treasuries compressed by seven basis points.
- High-quality ABS spreads tightened and contributed positively to performance.
- The MBS allocation was modestly additive to performance as strong demand continues to shrink the yield difference between government securities and MBS.



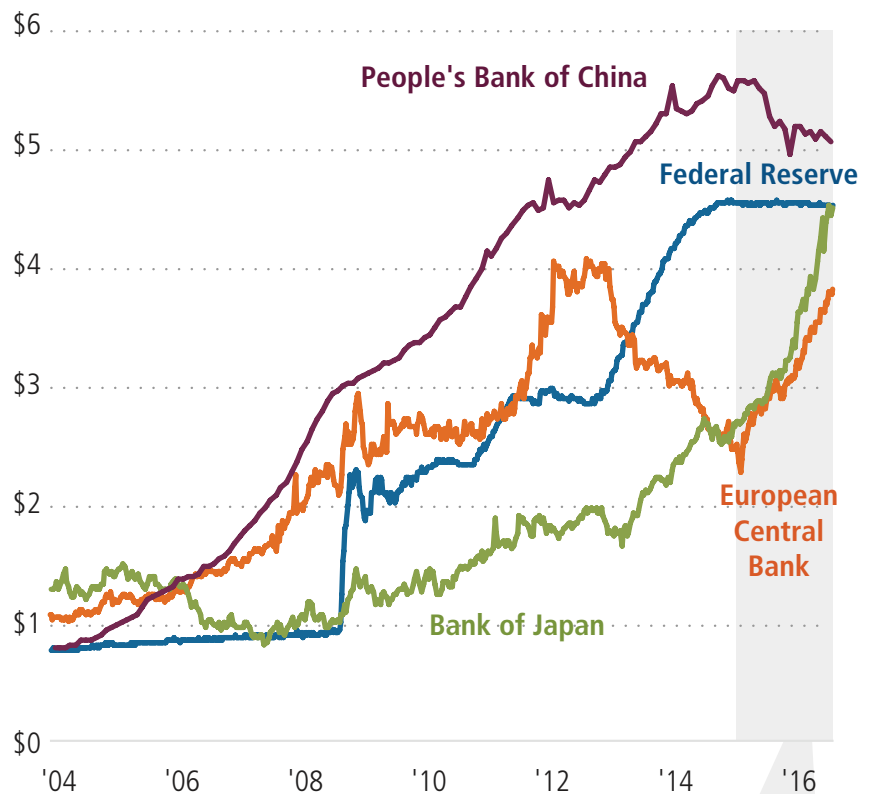
The Ever-Expanding Balance Sheets

Central banks dominate the global financial landscape now more than ever. In the old days, few could name a central banker other than Alan Greenspan. Today, Yellen, Draghi, Kuroda and Xiaochuan roll off the tongues of traders like the names of their favorite quarterbacks or midfielders. And it's not merely due to more talkative central bankers. Ever since the global financial crisis, these monetary mavens control massive balance sheets. The chart to the right shows assets held by the four main central banks: the US Federal Reserve, the European Central Bank (ECB), the Bank of Japan (BoJ) and the People's Bank of China (PBoC). These four behemoths collectively hold \$18.5 trillion in assets.

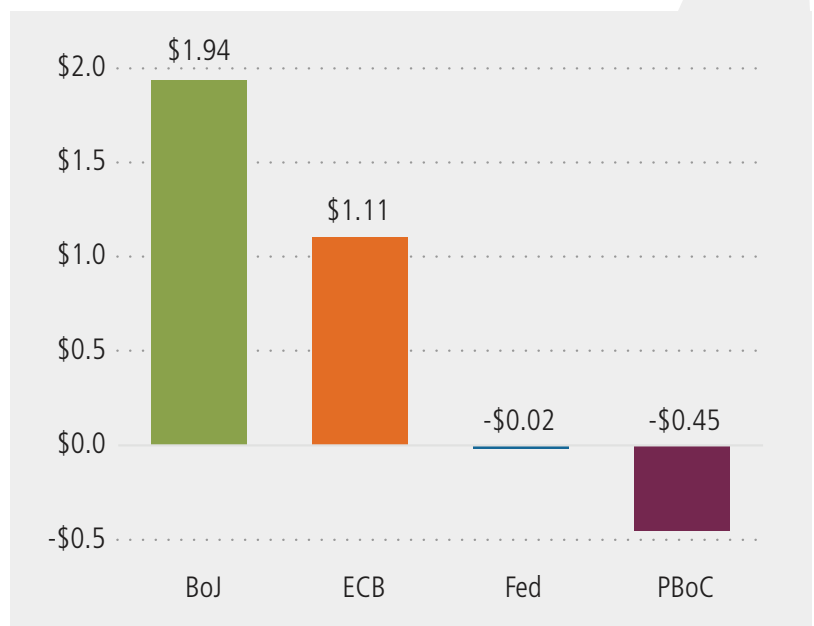
But it's not just the size that matters—increases in two central bank balance sheets in particular have been key drivers of financial markets of late. Since the start of 2015, the BoJ balance sheet has ballooned by nearly \$2 trillion, while the ECB's balance sheet jumped by more than a trillion dollars. The result of central banks employing the world's largest "buy-and-hold" portfolios? Asset prices near all-time highs and government bond yields near record lows, narrow credit spreads and low market volatility (buying assets and never selling or trading those assets reduces volatility, all else equal).

During the third quarter of 2016, the high volume of central bank asset purchases cast a spell of calm over financial markets. In the wake of low volatility, central banks are taking a moment to evaluate their strategies and pause from further increasing their purchases. In our view, both the ECB and BoJ seem likely to do more in the months ahead, since both central banks are failing on their inflation mandates. With this backdrop of monetary accommodation globally, maybe December provides an opportune time for the Fed to move toward slightly tighter money?

Central Bank Holdings Have Increased Over the Past Decade
Balance Sheet Asset Holdings, USD Trillions



The BoJ and ECB Are Increasing Asset Purchases
Change in Asset Holdings Since January 2015, USD Trillions



Source: Federal Reserve, European Central Bank, People's Bank of China, Bank of Japan, Bloomberg



**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

US 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

US Government Fund

DUBLIN DOMICILED UCITS FUNDS

EQUITY

World Equity Fund

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

US Core Bond Fund

USD Low Duration Credit Fund

LIQUIDITY FUNDS

Euro Liquidity Fund

Sterling Reserve Fund

US Dollar Liquidity Fund

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