

# Payden & Rygel

## QUARTERLY PORTFOLIO REVIEW

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**1<sup>st</sup> Quarter 2019**



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## LETTER FROM THE CEO

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April 2019

What a difference one quarter makes! Since our last letter, risk appetite has returned to financial markets. In retrospect, the decline in nearly all market segments in the last quarter of 2018 proved temporary. In part, the reversal was supported by changes in monetary policy and in part by continued robust economic data.

Looking ahead, the U.S. economy remains on decent footing. While we cannot expect to repeat last year's stellar performance, there are still reasons to be optimistic. The services-oriented nature of the U.S. economy and a strong labor market have helped us achieve the longest business cycle expansion in the post-war era.

On a global basis, weaker data in Europe and China dominated headlines in the first quarter. Additionally, coming to terms with the U.K./EU Brexit situation, there is still no conclusion in sight. Investors should stay tuned, however, as there may be scope for acceleration through 2019.

We recognize that risks often arrive unannounced, at times when investors least expect them. On a very practical front, we are managing your portfolio mindful of maintaining liquidity and diversification to ensure changes can be made efficiently.

We are grateful for your continued trust.

Sincerely,

A handwritten signature in black ink, appearing to read "Joan A. Payden". The signature is fluid and cursive, with the first name "Joan" and last name "Payden" clearly distinguishable.

Joan A. Payden

President & CEO

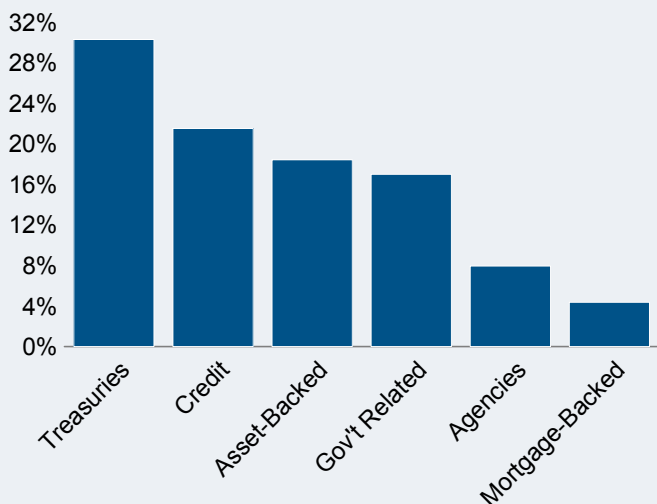
# FLORIDA TRUST SHORT-TERM BOND FUND

## Portfolio Review and Market Update - 1st Quarter 2019

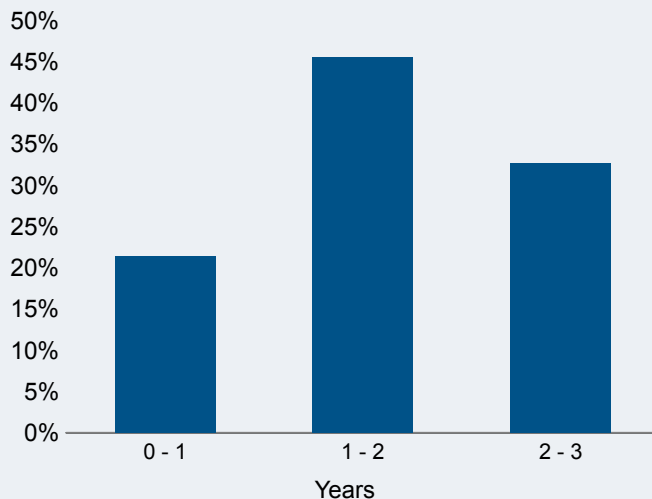
### PORTFOLIO CHARACTERISTICS (As of 3/31/2019)

Portfolio Market Value	\$882.3 million
Weighted Average Credit Quality (Fitch)	AAAf/S1
Weighted Average Duration	1.68 years
SEC 30-Day Yield (net)	2.39%

### SECTOR ALLOCATION



### DURATION DISTRIBUTION



### PORTFOLIO RETURNS - Periods Ending 3/31/2019

	1st Quarter	Trailing 1 Yr	Trailing 5 Yr	Trailing 10 Yr	Since Inception (1/1/92)
<b>SHORT-TERM BOND FUND (gross)</b>	<b>1.22%</b>	<b>3.13%</b>	<b>1.36%</b>	<b>1.72%</b>	<b>3.80%</b>
SHORT-TERM BOND FUND (NAV)	1.15%	2.86%	1.10%	1.48%	3.47%
ICE BofAML 1-3 Year US Treasury Index*	0.98%	2.72%	0.98%	1.04%	3.35%

Periods over one year are annualized

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



## MARKET THEMES

The first quarter began with an abrupt shift in Fed messaging following a volatile 4th quarter easing concerns of a Fed induced slowdown. The FOMC maintained its targeted range for the Fed Funds rate at 2.25% - 2.50% in January and March as well as indicated that they are unlikely to hike until global headwinds and downward pressure on inflation abate. The easier policy stance was supportive for credit as spreads reversed their widening from Q4 while yields continued to fall. The yield curve remains inverted as markets begin to shift from an expectation of future hikes to cuts. Geopolitical risks remain as uncertainty over the U.S./China relationship, concerns surrounding emerging markets, populism in Europe and Brexit remain as headwinds. Treasury yields declined, credit risk premiums shrank, and equity prices rebounded sharply providing an environment for strong returns in the front end of the yield curve.

## STRATEGY

- The portfolio continued to hold a diversified mix of non-government sectors to increase income.
- We extended our duration over the course of Q1 2019 via Treasuries.
- We maintain a bias toward a shorter average maturity profile in credit sectors to limit the portfolio's sensitivity to changes in credit risk premiums while maintaining a yield advantage.
- We continue to add 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 0.23% to 2.26%. The slope between two- and five-year maturities remained range-bound over the quarter, finishing at -0.03%.
- While our short duration position detracted from performance at the margin, longer duration positions benefited the portfolio through price performance over the quarter.
- One-month LIBOR was unchanged at 2.50%, while three-month LIBOR decreased 0.22% to 2.59%.

## SECTORS

- Corporate securities outperformed Treasuries during the quarter, as spreads compressed.
- High-quality asset-backed securities outperformed Treasuries but underperformed corporate bonds as securitized spreads tightened.
- Our floating-rate securitized bond allocations benefited from elevated LIBOR rates and spread compression.



## MARKET PERSPECTIVE

Call us U.S.-centric if you must, but the Fed has been the most important driver of global financial markets in 2019. Global stocks, bonds, oil, and gold, among a host of other assets, have been affected by the shift in the U.S. central bank's policy trajectory to start the year.

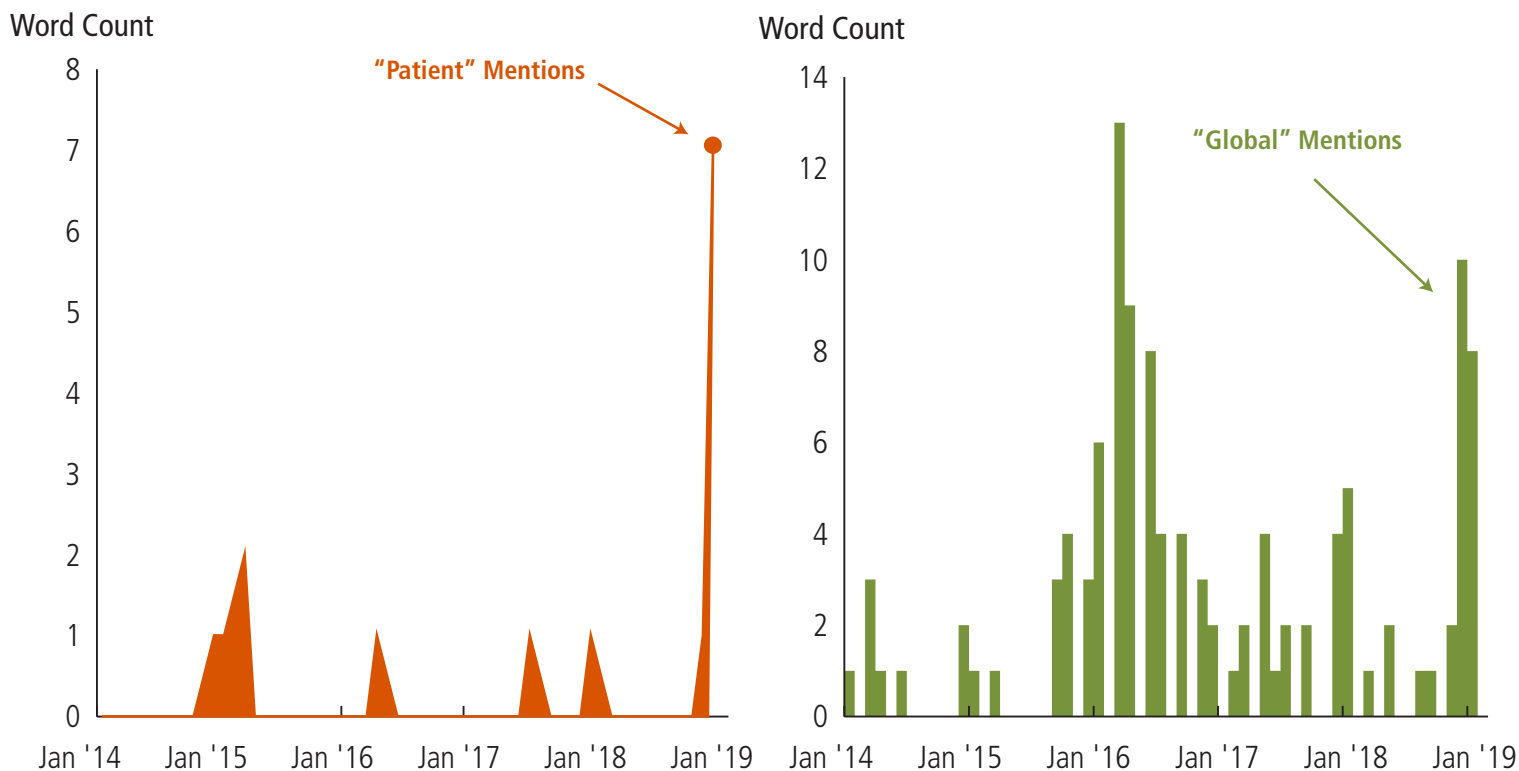
Use of the word "patient" by policymakers spiked at the January FOMC meeting (left chart), based on our text mining of the minutes released in the first quarter. We've seen the word before: "patient" appeared twice in the March 2015 meeting minutes, precipitating a nine-month-long wait for the first rate hike of the cycle. The recent re-emphasis of the word "patient" presages an extended pause from the U.S. central bank. At their March meeting, policymakers maintained a dovish stance and message.

As global economic woes increase, the Fed's mentions of "Global" have increased commensurately (see right chart). Similarly, these woes have led to global central banks going on hold. So far in 2019, not only is the European Central Bank (ECB) on hold, they have also returned with stimulus through long-term refinancing operations (LTROs). The Bank of England is also on hold, dealing with the uncertainty of Brexit. The People's Bank of China is also easing, cutting their required deposit reserve ratio for banks, one of many policy rates in their arsenal, by 1% in Q1. Even the Reserve Bank of India cut its key policy rate at its February meeting!

We think the global central banks' dovish tailwind could continue to fuel markets until the global and U.S. economic data improve later in the year, as we expect. This could prompt another rethink by the monetary wonks of the world.

### Global Central Banks Go On Hold:

Number of Mentions of the Words "Patient" and "Global" in the FOMC Meeting Minutes\*



Source: Federal Reserve, Payden Calculations

\*Only includes text from the "Participants' Views on Current Conditions and the Economic Outlook" section



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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

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

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

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