Payden&Rygel

QUARTERLY PORTFOLIO REVIEW

FLORIDA LOCAL GOVERNMENT INVESTMENT TRUST

2nd Quarter 2019

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LETTER FROM THE CEO

July 2019

At the halfway mark of 2019, I think you will agree it is an interesting time for financial markets. The U.S. stock market is near record highs, credit spreads are somewhat tight, and more than $12 trillion worth of global bonds trade with negative yields.

What does this mean for our clients and portfolios? First and foremost, we are ever vigilant of the unexpected. We manage your portfolios with diversification and liquidity always in mind to protect against significant changes in the direction of these markets.

The most challenging question is the future of global economic activity. Although economic conditions in the U.S. continue to be favorable, this is a challenging question globally. Indicators of global growth slowed in the first half of the year. Trade policy remains unclear. And for bond investors, both the European Central Bank and the U.S. Federal Reserve have opened the door to lower interest rates.

However, we remain optimistic! We are nearing our 36th year as a private corporation, and our culture and ownership structure have not veered from our original objectives set forth in September 1983.

My best wishes,

Joan A. Payden

President & CEO

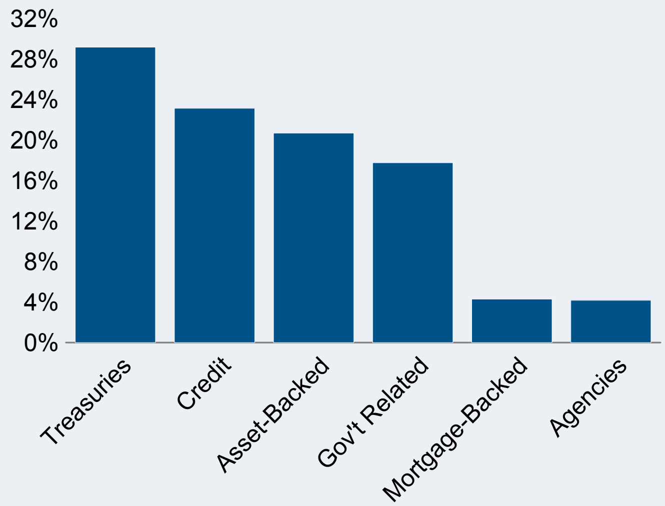
FLORIDA TRUST SHORT-TERM BOND FUND

Portfolio Review and Market Update - 2nd Quarter 2019

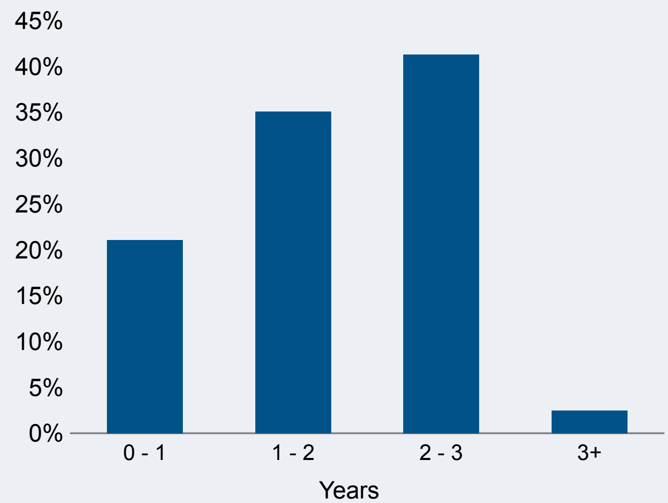
PORTFOLIO CHARACTERISTICS (As of 6/30/2019)

Portfolio Market Value	$863.5 million
Weighted Average Credit Quality (Fitch)	AAAf/S1
Weighted Average Duration	1.82 years
SEC 30-Day Yield (net)	2.07%

SECTOR ALLOCATION



DURATION DISTRIBUTION



PORTFOLIO RETURNS - Periods Ending 6/30/2019

	2nd Quarter	2019 YTD	Trailing 1 Yr	Trailing 5 Yr	Trailing 10 Yr	Since Inception (1/1/92)
SHORT-TERM BOND FUND (gross)	**1.50%**	**2.74%**	**4.27%**	**1.59%**	**1.75%**	**3.82%**
SHORT-TERM BOND FUND (NAV)	1.44%	2.60%	3.99%	1.33%	1.51%	3.49%
ICE BofAML 1-3 Year US Treasury Index*	1.44%	2.44%	3.96%	1.21%	1.20%	3.37%

Periods over one year are annualized

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

MARKET THEMES

It was a strong quarter for fixed income, as yields continued to fall while credit spreads were contained. The Federal Open Market Committee maintained its targeted range for the Fed Funds rate at 2.25% - 2.50%, given solid growth and jobs fundamentals; however, the Fed indicated that the potential for rate cuts has increased given global uncertainties, including unknown trade outcomes, and that they will closely monitor incoming data. The easier policy stance was supportive for credit; spreads moved in a narrow range over the quarter. Despite falling front-end interest rates, the yield curve remains mostly inverted, as market expectations for future rate cuts have increased. Geopolitical risks continue to drive markets, as uncertainty over the United States' relationships with China and Iran, populism in Europe, and Brexit remain as headwinds.

STRATEGY

- The portfolio continued to hold a diversified mix of non-government sectors for income generation.
- We continued to extend our duration over the course of Q2 2019 via Treasuries.
- We maintained a bias toward a shorter average maturity profile in credit sectors to limit the portfolio's sensitivity to changes in credit risk premia 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 0.51% to 1.76%. The slope between two- and five-year maturities remained range-bound over the quarter finishing at -0.04%.
- Our duration position is roughly neutral with a curve flattening bias. Exposure to the 5-year point of the curve benefited, while short exposure to the front end detracted, leaving the portfolio flat to slightly negative relative to the benchmark from a curve and duration perspective.
- One-month LIBOR fell 0.09% to 2.40% and three-month LIBOR decreased 0.28% to 2.32%.

SECTORS

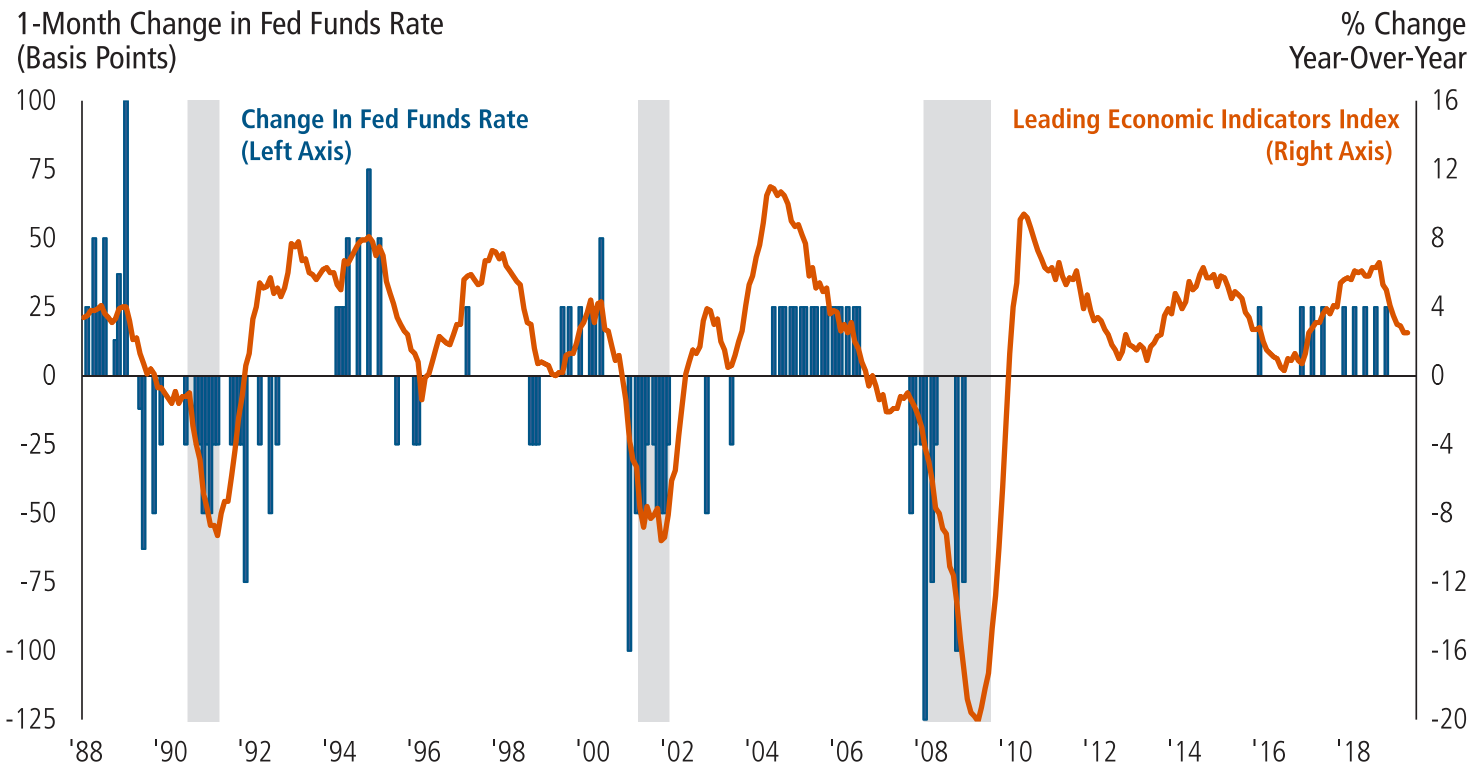
- Corporate securities outperformed Treasuries during the quarter, as spreads were range-bound.
- High-quality asset-backed securities also outperformed Treasuries producing returns in line with corporate bonds.
- A modest floating rate securitized allocation contributed positively to performance as well. These securities benefited from elevated LIBOR rates and attractive all in yields.

In the second quarter of 2019, the Federal Reserve elected to hold their policy rate steady. The big news, though, was that the median Federal Open Market Committee member expects interest rates to be 0.25% lower by the end of 2020 as trade policy "crosscurrents" weighed on the outlook. Was a cut in June warranted? Will cuts inevitably arrive in July? While we can't rule it out, we still don't think the U.S. economic backdrop warrants monetary easing.

If the Fed were setting policy only by their economic forecasts, cuts would not be under discussion. Fed officials forecasted GDP to grow 2.0% in 2020, which was *higher* than their previously forecasted 1.9%. Market participants expecting dovish "shock and awe" signals from the Fed in June were disappointed. The Conference Board's Leading Economic Index (LEI) rose 2.5% year-over-year during June 2019. If history is any guide, such a reading on the LEI would hardly warrant rate cuts. While upcoming trade policy "crosscurrents" could change the macro landscape, for now we believe the U.S. economy can handle the current monetary policy setting.

Globally, central banks are easing. With a weaker global economic backdrop, the Reserve Bank of Australia cut the policy rate by 25 basis points to 1.25%. The Reserve Bank of India also delivered its third rate cut of the year, lowering its key policy rate by 25 basis points to 5.75%. Despite still-sluggish euro area growth, we see signs of stabilization in hard data. Nevertheless, the European Central Bank has also reaffirmed its commitment to accommodative actions as needed.

Cutting Through Crosscurrents:
Leading Economic Index versus Change in Fed Funds Rate



Source: The Conference Board, Federal Reserve, NBER, Payden Calculations

OUR STRATEGIES

Multi-Sector

Short Maturity Bonds

U.S. Core Bond

Absolute Return Fixed Income

Strategic Income

Global Fixed Income

Liability Driven Investing

Sector-Specific

Emerging Markets Debt

Government/Sovereign

High Yield Bonds & Loans

Inflation-Linked/TIPS

Investment Grade Corporate Bonds

Municipal Bonds (U.S.)

Securitized Bonds

Income-Focused Equities

Equity Income

Available in:
Separate Accounts – Mutual Funds (U.S. and UCITS)
Collective Trusts ("CITs") – Customized Solutions

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

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