

Payden & Rygel

QUARTERLY PORTFOLIO REVIEW

Short Term Bond Fund **2nd Quarter 2021**



PAYDEN.COM
LOS ANGELES | BOSTON | LONDON | MILAN



July 2021

Dear Client,

It's hard to believe that we are approaching over a year-and-a-half of living and working through the Covid-19 pandemic. Payden & Rygel celebrated its 37th year in business even while employees worked from home, with the same ownership and culture of collaboration we have always maintained. Our culture is based on the view that competition should be external and not internal, and this led to the most productive year for our clients and associates since the firm began in 1983.

As we assess the challenges that lay ahead for the remainder of 2021, we are entering a unique period in economic history, thus making predictions difficult. While spending on goods (e.g., autos, housing, and appliances) took off during the pandemic, spending on services remains below pre-pandemic levels. As the economy continues to reopen, we expect to see a moderation in spending on goods and increased spending on services.

When it comes to the labor market, the main concern seems to be a shortage of labor supply, not a lack of available jobs—a very different recovery compared to the post-2008 recovery. In addition, we expect to see labor force participation pick up, as more of the population becomes vaccinated, children return to school, and enhanced unemployment benefits expire.

Finally, we anticipate that supply bottlenecks driving inflation will wane toward the end of the year. The Federal Reserve believes that current price pressure will resolve itself as production bottlenecks abate over time. Because this inflation is expected to be transitory, we believe the Federal Reserve will maintain its accommodative stance and not begin to taper asset purchases before 2022. Outright hikes in the Fed policy rate may not occur until 2023. Such a scenario would bode well for bonds and stocks.

Your portfolio reflects a balance of these various factors, and we will continue to be vigilant for any changes that could materially affect the financial markets. We hope you and your family have weathered this period successfully—our very best wishes for continued health and safety. As a reminder, we are always here to answer any questions related to your portfolio should they arise.

Warmest regards,

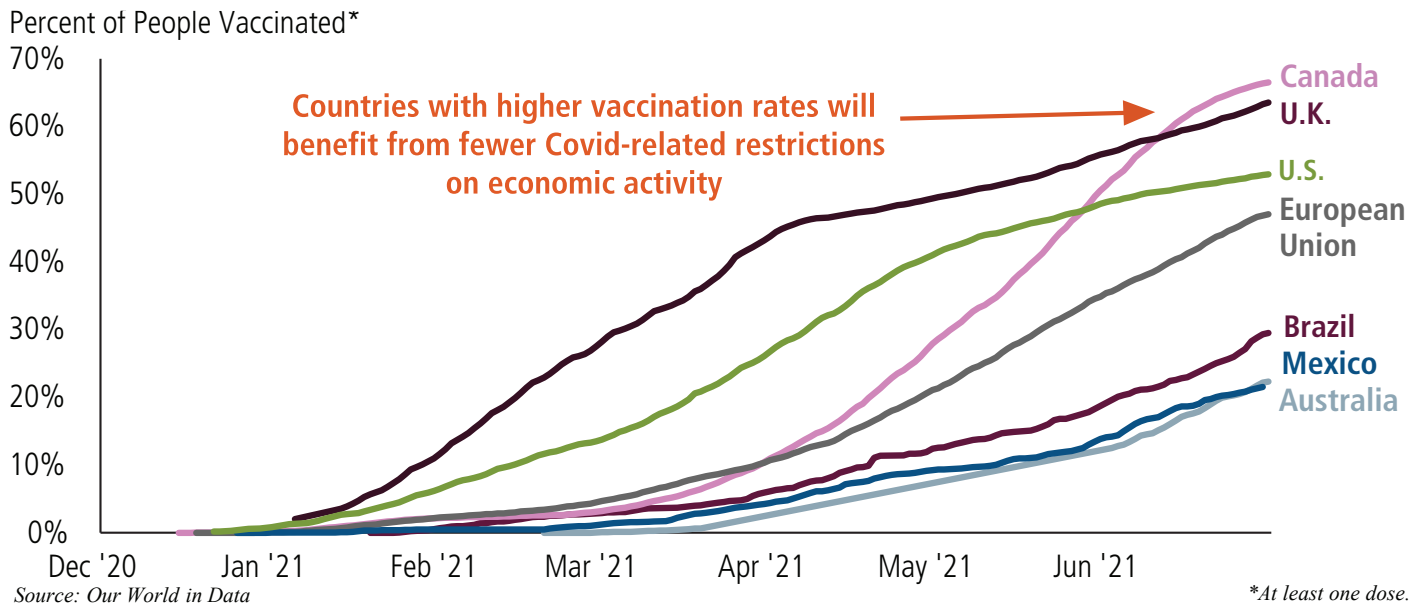
Joan A. Payden

President & CEO



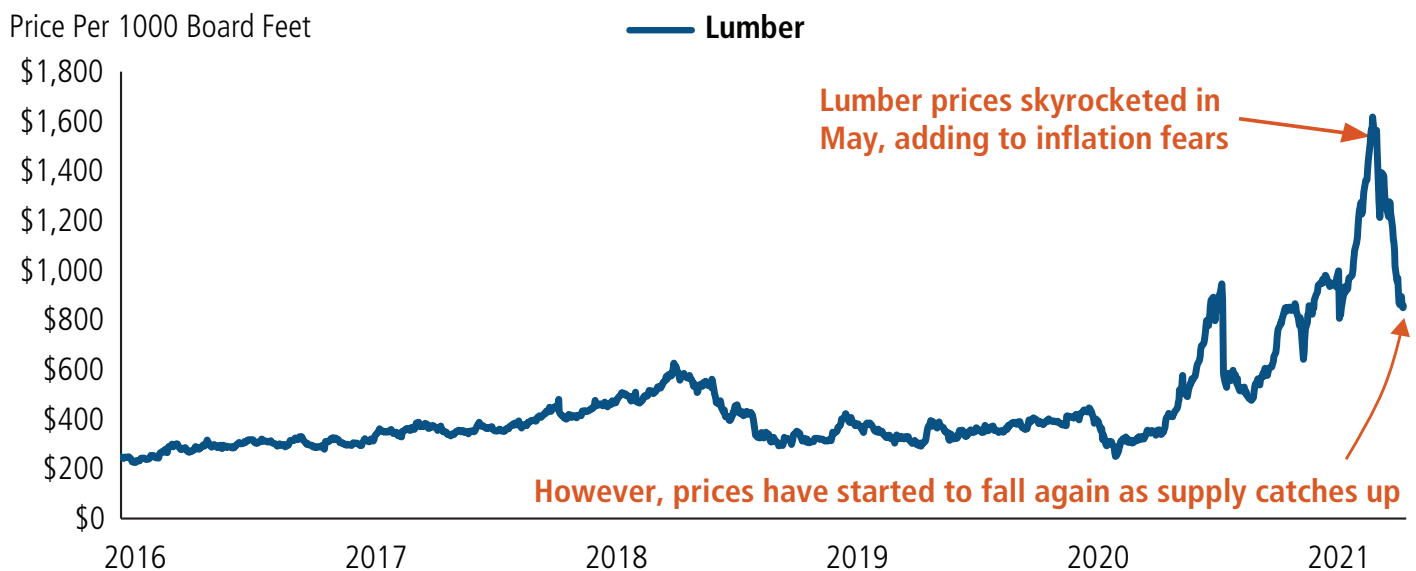
One of the biggest drivers of growth in the second quarter has been the successful rollout of vaccines. While Canada and the European Union got off to a slow start in the first quarter, they have successfully accelerated the pace of inoculations in the last three months. As vaccination rates increase, countries can safely lift restrictions, allowing for a fuller reopening of the economy. We expect to see the positive economic impact of vaccines reflected in the GDP data for Q2, especially in the leisure and hospitality sectors. We also expect to see the pace of inoculations in developing countries pick-up in the second half of the year.

THE GLOBAL VACCINE ROLLOUT IS PICKING UP STEAM WHICH SHOULD DRIVE GROWTH



Inflation remained a concern for investors in the second quarter. Fed Chair Powell addressed market participants' worries after the June Federal Open Market Committee meeting by referring to the case of lumber. Speculators had piled into the commodity recently, trying to take advantage of the short-term imbalance between low supply and booming demand from the housing sector and causing prices to reach all-time highs. Then, as supply began to catch up, those same speculators closed their positions, causing a price decline as dramatic as its increase. In Powell's words, the prices driving high inflation readings are due to "shortages and bottlenecks and the like" and should start to revert to normal, which "we did see in the case of lumber."

HIGHER COMMODITY PRICES, INCLUDING LUMBER, HAVE SPURRED INFLATION FEARS



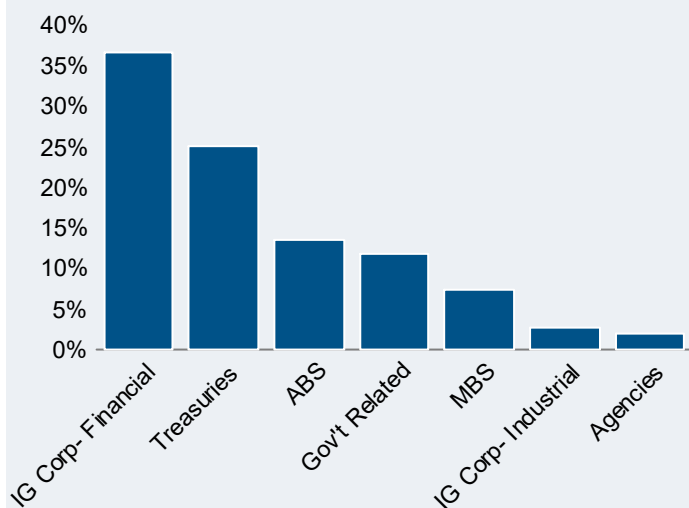
FLORIDA TRUST SHORT-TERM BOND FUND

Portfolio Review and Market Update - 2nd Quarter 2021

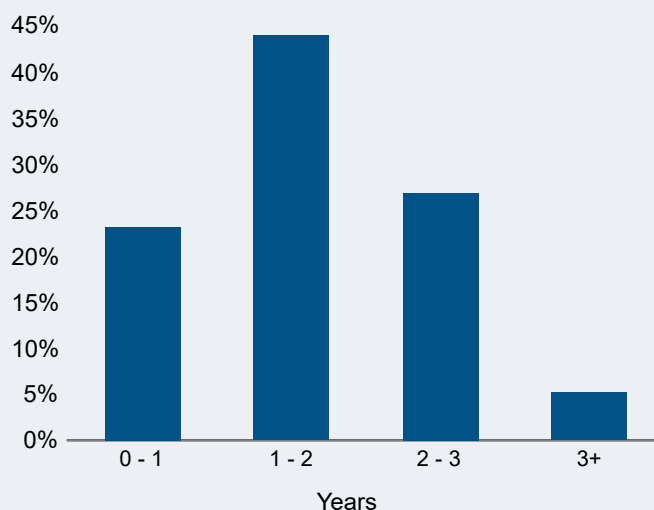
PORTFOLIO CHARACTERISTICS (As of 6/30/2021)

Portfolio Market Value	\$949.0 million
Fitch Rating	AAAf/S1
Weighted Average Duration	1.68 years
SEC 30-Day Yield (net)	0.28%

SECTOR ALLOCATION



DURATION DISTRIBUTION



PORTFOLIO RETURNS - Periods Ending 6/30/2021

	2nd Quarter	2021 YTD	Trailing 1 Yr	Trailing 5 Yr	Trailing 10 Yr	Since Inception (1/1/92)
FLORIDA TRUST SHORT TERM BOND FUND (gross)	0.13%	0.06%	0.69%	2.10%	1.68%	3.73%
FLORIDA TRUST SHORT TERM BOND FUND (NAV)*	0.10%	-0.03%	0.45%	1.84%	1.42%	3.40%
ICE BofA 1-3 Year US Treasury Index**	-0.03%	-0.08%	0.07%	1.59%	1.20%	3.28%

Periods over one year are annualized

*Net Asset Value data provided by custodian UMB.

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



MARKET THEMES

The second quarter saw global growth pick-up spurred by widespread vaccinations, business re-openings, fiscal aid, and increased consumer spending. Economic resilience to the latest Covid-19 outbreaks supported upward revisions to growth forecasts against a backdrop of still-accommodative monetary policy and elevated commodity prices. In the U.S. attention shifted to inflationary pressures after May's record year-over-year core PCE print of 3.4% while the June FOMC meeting revealed the official opening of discussions on the tapering of bond purchases. The U.S. Treasury yield curve flattened with front-end yields higher and longer yields lower. Credit risk premiums declined across most asset classes enhancing positive returns for many fixed income sectors, and equities across the globe moved higher.

STRATEGY

- We continue to emphasize a balance between credit diversification and quality using corporates, asset-backed securities (ABS) and mortgage-backed securities (MBS), to maintain diversified sources of high-quality income.
- We utilized corporate issuance to optimize positioning and modestly increased floating rate securities to generate portfolio income without extending duration.
- We shortened overall portfolio duration to help mitigate the impact of rising rates while maintaining exposure to the long end of respective benchmarks to maximize opportunities for income and curve roll.

INTEREST RATES

At the June FOMC meeting policy makers reiterated their commitment to keeping Fed Funds in the 0.00-0.25% range, opened discussions on the tapering of bond purchases, and moved forward the projection of at least one rate hike by year end 2022. The Fed also increased the interest rate on excess reserves and the overnight reverse repurchase facility by five basis points to alleviate negative-rate pressure in short-term funding markets.

- U.S. Treasury yields three years and shorter increased modestly over the quarter, with the two-year maturity higher 9 basis points to 0.25%. The slope between two- and five-year maturities flattened 14 basis points to finish the quarter at 64 basis points.
- One-month and three-month LIBOR yields declined slightly to 0.10% and 0.14%, respectively.
- A steep front end yield curve provides attractive future total return potential.

SECTORS

We remain overweight credit, which was the largest contributor toward alpha for the quarter. One-year to five-year U.S. corporate spreads tightened 15 basis points, closing at +49 basis points and the tightest on record, reflecting broad and robust corporate earnings and a strong economic outlook. ABS spreads compressed 6 basis points to November 2012 tight.





**OVER 35 YEARS OF INSPIRING
CONFIDENCE WITH AN
UNWAVERING COMMITMENT
TO OUR CLIENTS' NEEDS.**

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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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