PAYDEN GLOBAL INCOME OPPORTUNITIES: QUARTERLY UPDATE

Payden&Rygel Investment Management

March 2019

Performance

As at 31 March 2019

	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception[1] % pa
Fund[2]	0.59	2.20	2.48	3.47	3.52	3.66
Benchmark[3]	0.17	0.52	2.02	1.90	2.13	2.32
Value added	0.42	1.68	0.46	1.57	1.39	1.34

1. Inception Date: 18 September 2012
2. Fund returns are calculated net of management fees
3. Bloomberg AusBond Bank Bill Index

Past performance is not a guide to future performance

Fund characteristics

at 31 March 2019

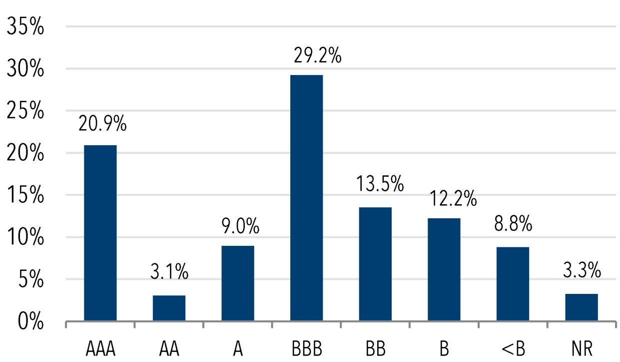
Number of positions	248
Average rating	BAA3
Price	98.39
Current yield	4.30%
Interest Rate Duration	1.91
Spread Duration	3.35
Yield to Maturity	3.11%

Regional allocation at 31 March 2019

Europe	7.6%
Australia	1.9%
North America	80.6%
Latin America	2.3%
Asia/Oceania	4.1%
MidEast/Africa	3.5%

May not total due to rounding

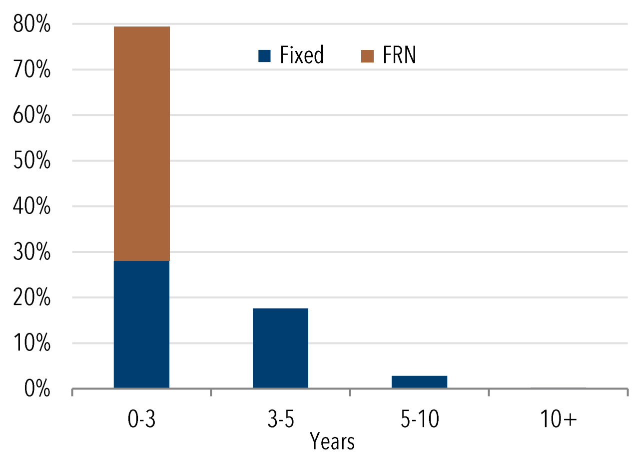
Rating at 31 March 2019



May not total due to rounding

Sector allocation at 31 March 2019

Maturity at 31 March 2019



Manager commentary

Quarter in review

The first quarter of 2019 can be characterized as resilient recovery across financial markets. Investors have not forgotten about the ominous end to 2018, but most saw largely positive returns throughout the first three months of 2019 causing sentiment to temporarily boost. The U.S. Federal Reserve (Fed) took an increasingly dovish stance with respect to rates and the balance sheet as financial conditions deteriorated and global growth continued to slow relative to Q4. With this reduction in growth expectations and a benign inflation backdrop, the market began to price in interest rate cuts, causing Government yields to rally across the globe (U.S. 5-year Treasuries -0.30%, U.K. 5-year Gilts -0.10%, Australia 5-year -0.45%). Ultimately, the rally resulted in portions of the U.S. yield curve to further invert in late March, with the 3-month Treasury Bill trading at a higher yield than the 10-year. Despite the poor global growth tone, risk assets increased in price, as the MSCI World Index returned 12.0%.

Fund review

The first quarter of 2019 produced one of the Fund's strongest quarterly performance since 2012. Considering prices have recovered back toward end of Q3 2018 levels, Payden are maintaining a conservative posture, well-diversified among sub-sectors and skewed toward higher quality bonds. With the Fed's dovish signal to start the quarter, we saw strong investor appetite return to the market. The new issue market came back to life as issuers took advantage of lower spreads and falling all-in yields. Spreads were supported by compelling valuations after the year end sell-off. Meanwhile rates rallied the latter half of the quarter, another positive impact to performance. Specifically, the increase to high-yield corporate exposure in Q4 2018 proved beneficial as high yield bond prices rose over 7% this quarter. Commercial Mortgage backed securities (CMBS) had a rocky start to the new year as the asset class experienced delayed downward pressure from Q4 volatility. However, the sector eventually caught up to the rest of the market, generating strong returns.

Outlook

While we learned in February that U.S. GDP rose 3.1% in 2018—the fastest growth year of the cycle and the fastest pace since 2005—our outlook is that growth will be modest for the coming quarters. The market is currently pricing in interest rate cuts from the Fed by the end of this year, whereby investors consider financial conditions to be too tight and require easing. This was exacerbated by the inversion of the U.S. treasury yield curve in March, paired with the ECB announcing additional monetary easing measures. However, the risk of an imminent global recession (in 2019) remains low as global growth remains stable (strong in the U.S. and relatively benign in China/Europe), global unemployment figures are still improving (declining), and global central banks exhibit continued support for markets.

The base currency and neutral position of the Fund is the Australian dollar (AUD). The Fund will be substantially hedged to this currency unless the Investment Manager expresses a specific market view

Distributions

The Fund aims to pay distributions on a quarterly basis. A distribution of 0.050000 cents per unit will be paid for the quarter ended 31 March 2019.

Fund disclosure

The Fund has certain regular reporting and continuous disclosure obligations pursuant to the Corporations Act. All continuous disclosure notices are available at gsfm.com.au.

See **gsfm.com.au** for more information about the Payden Global Income Opportunities Fund.