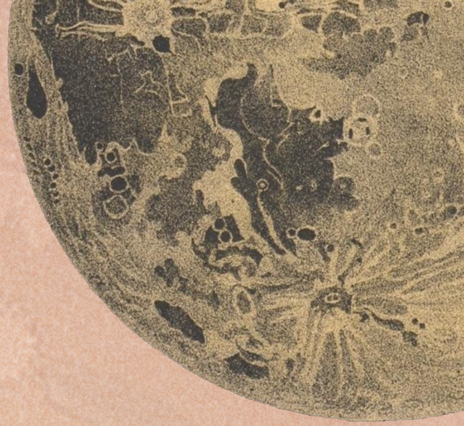
THE WORLD IS FLAT... ISN'T IT?

DEBUNKING CONVENTIONAL WISDOM

SCOTT WEINER
PAYDEN & RYGEL

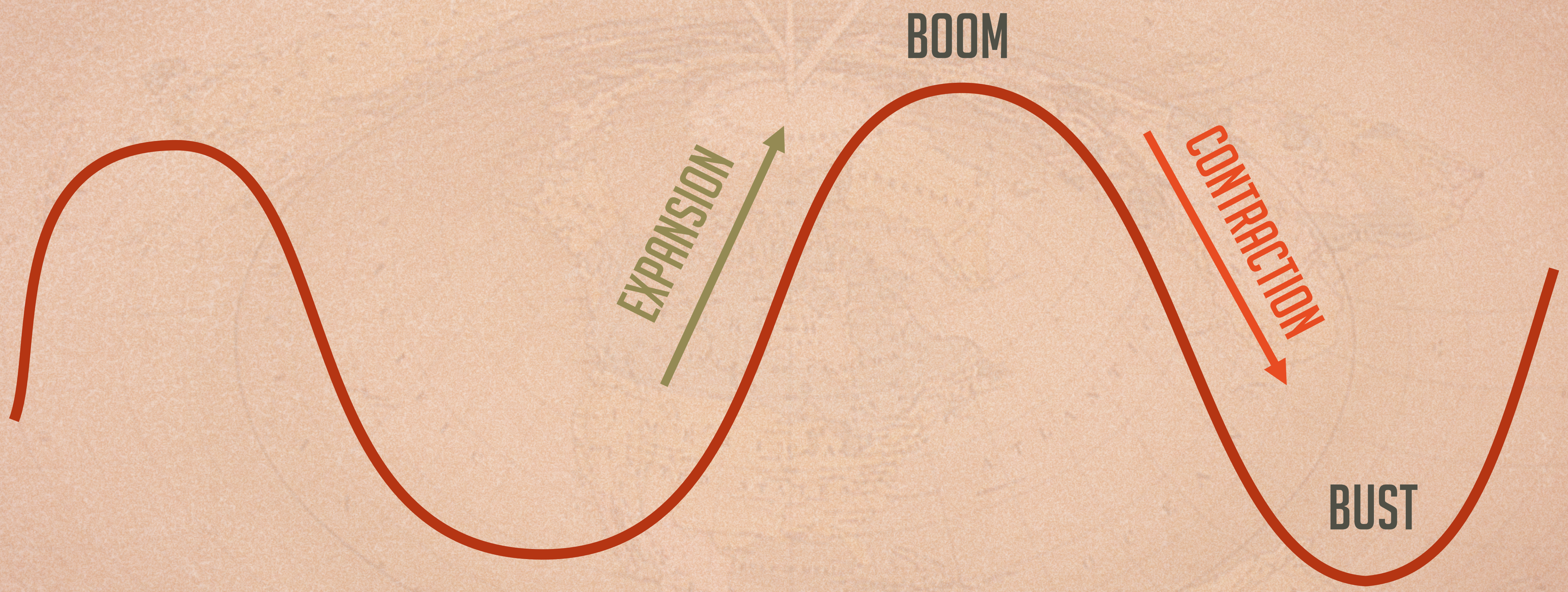
#1 CONVENTIONAL WISDOM SAYS...



"Economic cycles are like trees...
they don't grow to the moon!"

#1 ALL GOOD THINGS MUST COME TO AN END

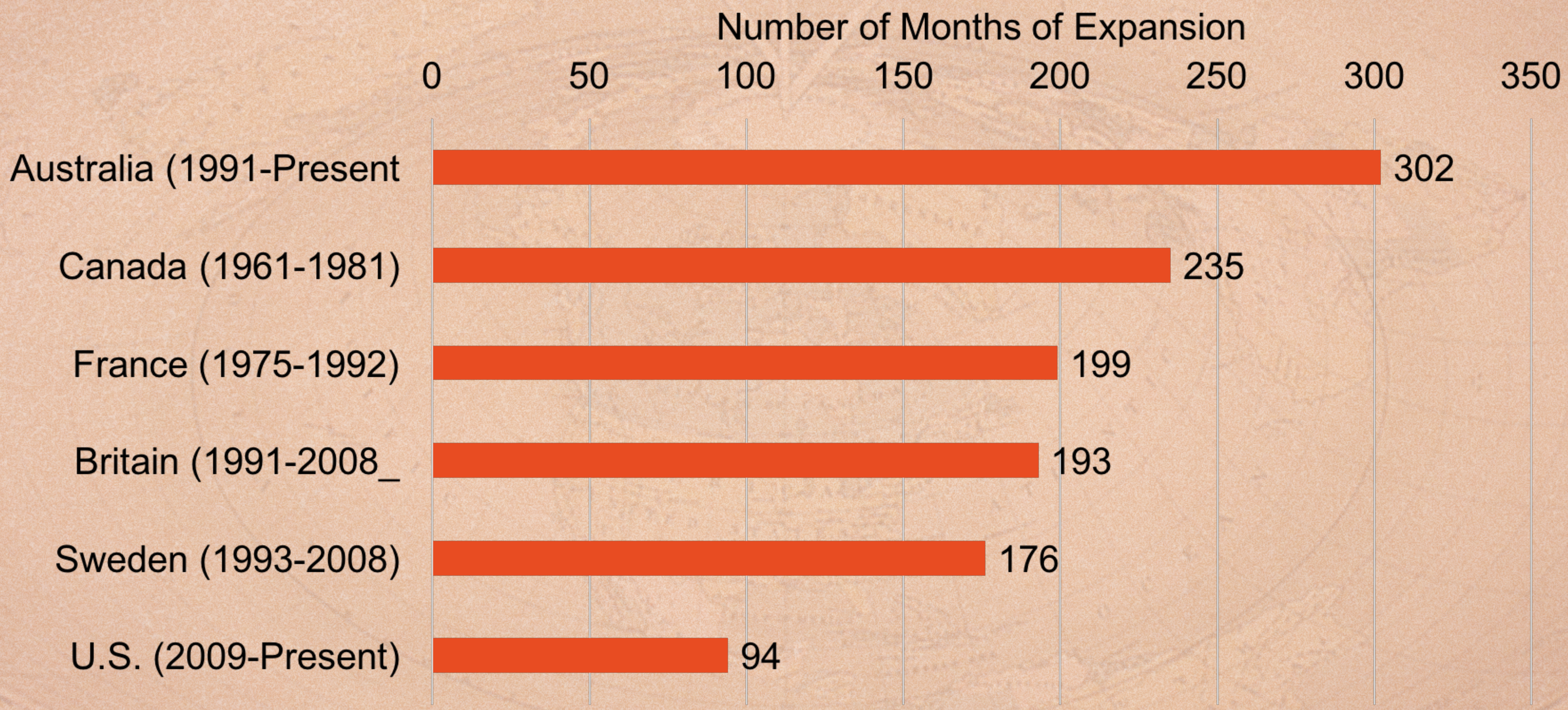
ECONOMIC CYCLES



- Average cycle in U.S. → 6 years (5 years of expansion, plus 1 year of contraction)
- With the current expansion in the U.S. at 94 months… isn't it getting a bit, "long in the tooth"?

#1 DO ECONOMIC EXPANSIONS DIE OF OLD AGE?

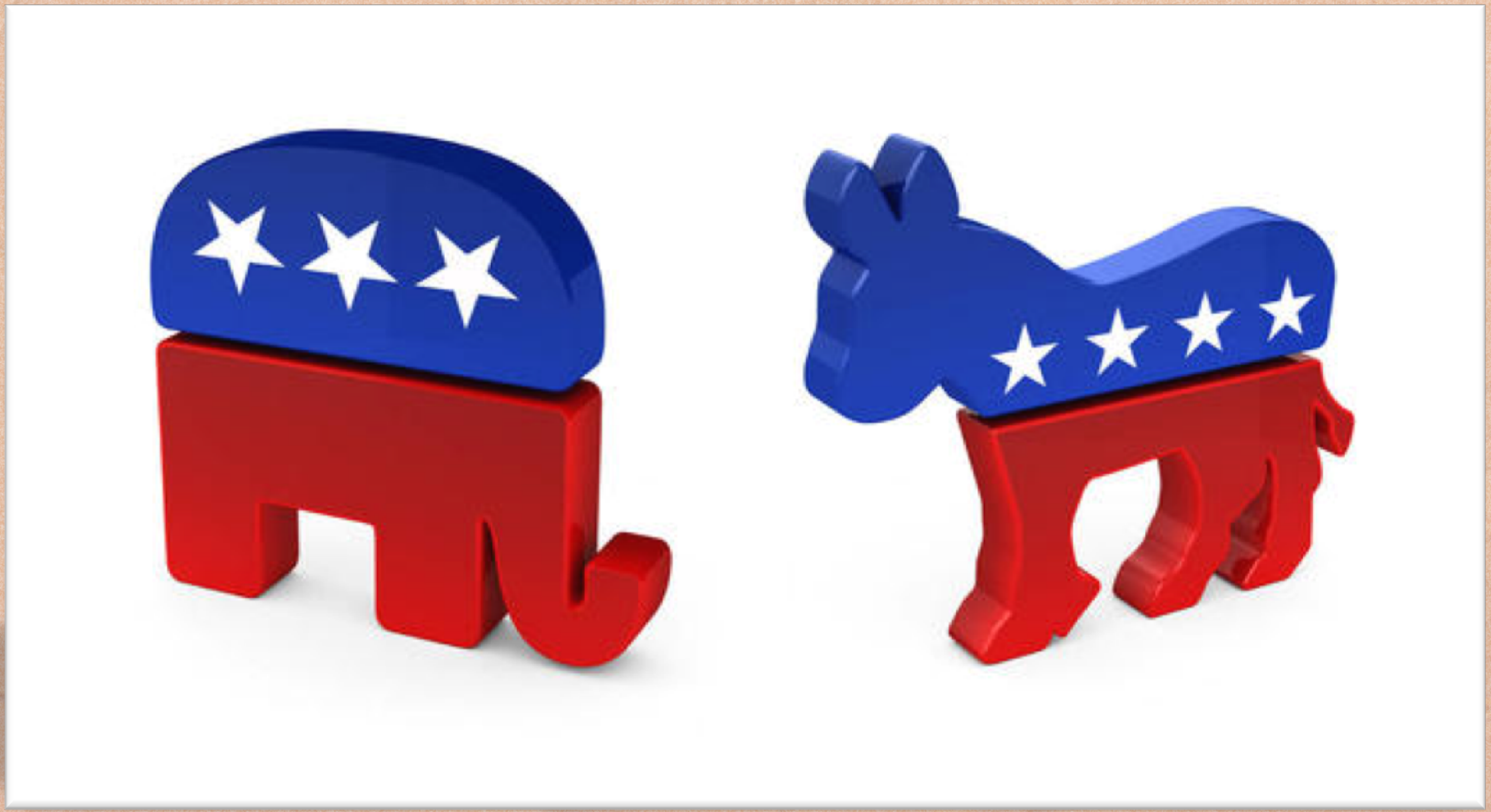
The historical evidence suggests otherwise



Many investors worry with the U.S. now well beyond the average number of months in a post-war expansion that the business cycle will soon end. However, evidence from other countries suggests that there is no natural limit on how long an expansion can last. The Australians haven't seen a recession for 25 years. Perhaps the US economy is just getting started?

#2 Conventional Wisdom Says...

Want a recession? Have an election!
Want to guarantee a recession?
Vote in a Republican!



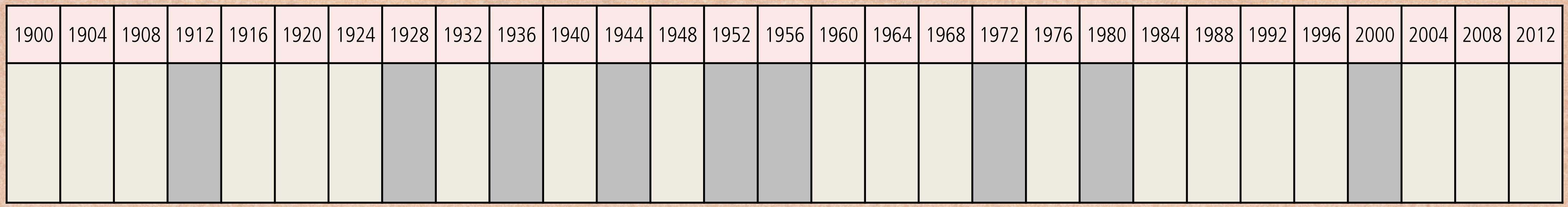
#2 REPUBLICANS CUT! DEMOCRATS SPEND!

- Conventional wisdom points to Republicans being more austere than Democrats. So having a newly elected Republican, coming off the heels of a Democrat, should cause the economy to tank.
- Add the uncertainty associated with the time after a presidential election, and it's easy to imagine conventional wisdom pointing to an *increased likelihood of a recession.*

#2 ELECTION AND RECESSIONS

For Those Worried Investors, It Should Be a November to Forget. Elections and Recessions Seldom Go Hand In Hand, Even When The Party Changes

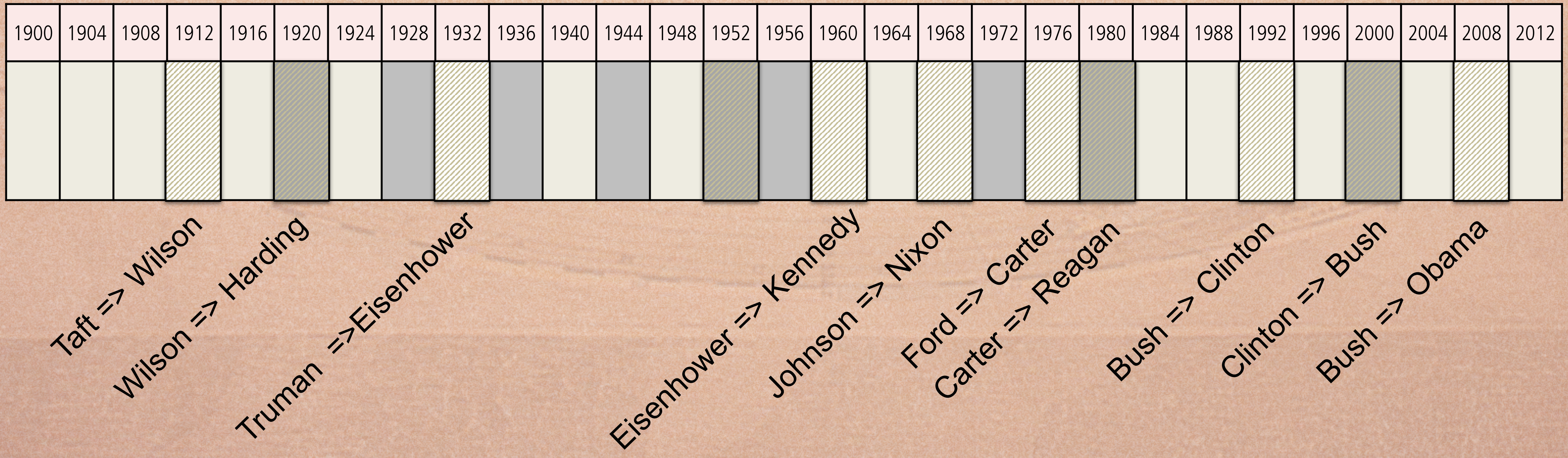
Election Years followed by No Recession or a Recession in the Next 12 Months



A recession occurs one year after a presidential election less than 1/3 of the time.

What about when the party of the President changes? Not Much Different.

Election Years & Party Changes followed by No Recession or a Recession in the Next 12 Months



#3 CONVENTIONAL WISDOM SAYS...

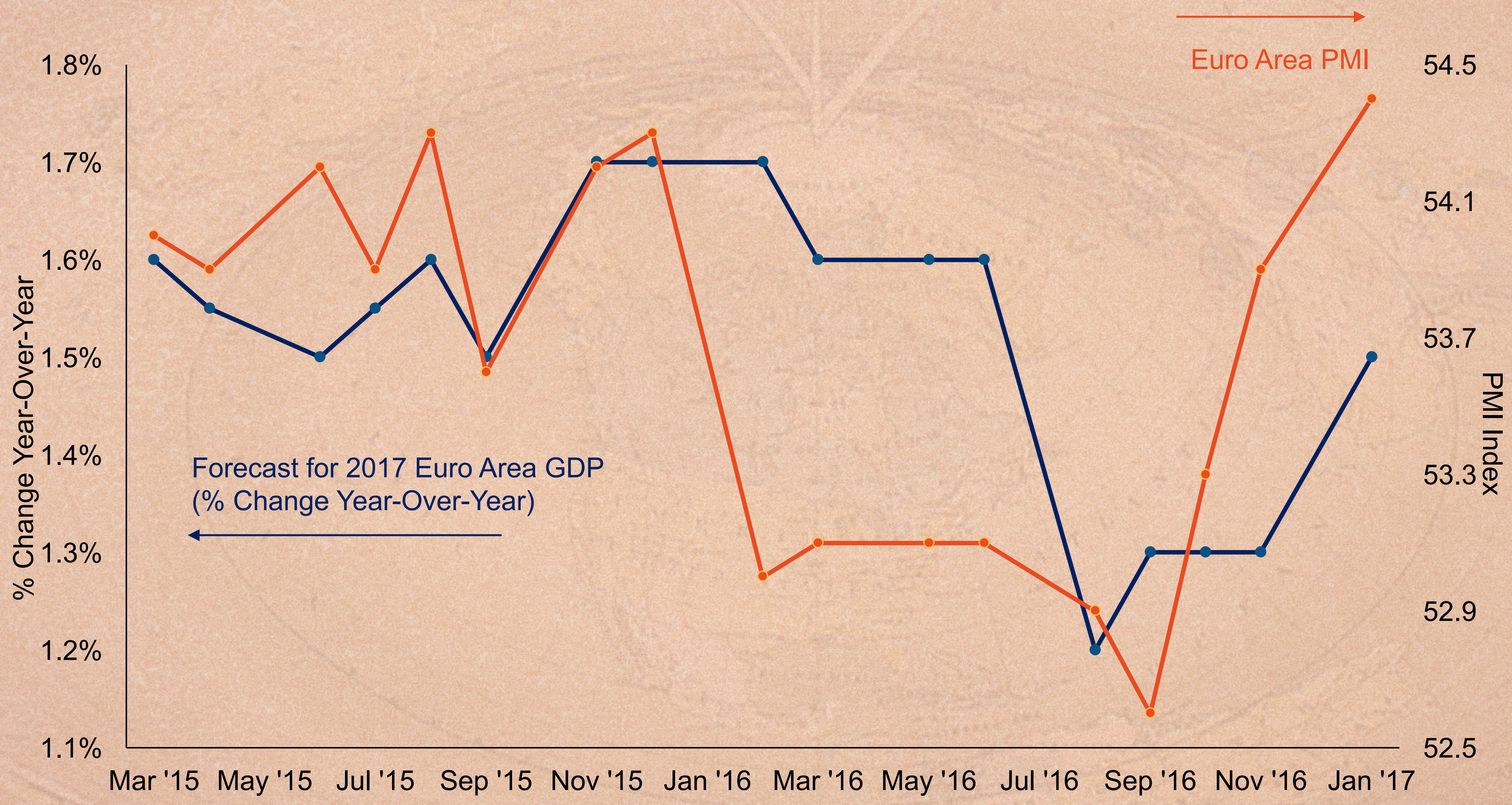
Economic forecasters don't like political uncertainty!

#3 EUROPEAN ELECTIONS - 2017

- Nationalism sweeping through Europe will cause Eurozone GDP to fall.
- Forecasters angst – this gallery of political “nationalists” should cause a downturn in growth forecasts.

#3 FOLLOW THE LEADER...

...So says Euro area GDP forecasters



Source: Markit, Bloomberg

There is plenty to worry about in Europe: banks with loans wilting under the Tuscan sun, the pending economic fallout from Brexit and the risks posed by upcoming elections in the Netherlands, France, and Germany. But what if while all eyes focus on political events, 2017 holds better news on the economic front? Following the marked improvement in monthly measures of economic activity (e.g., PMIs), euro area growth forecasters seem optimistic, politics notwithstanding.

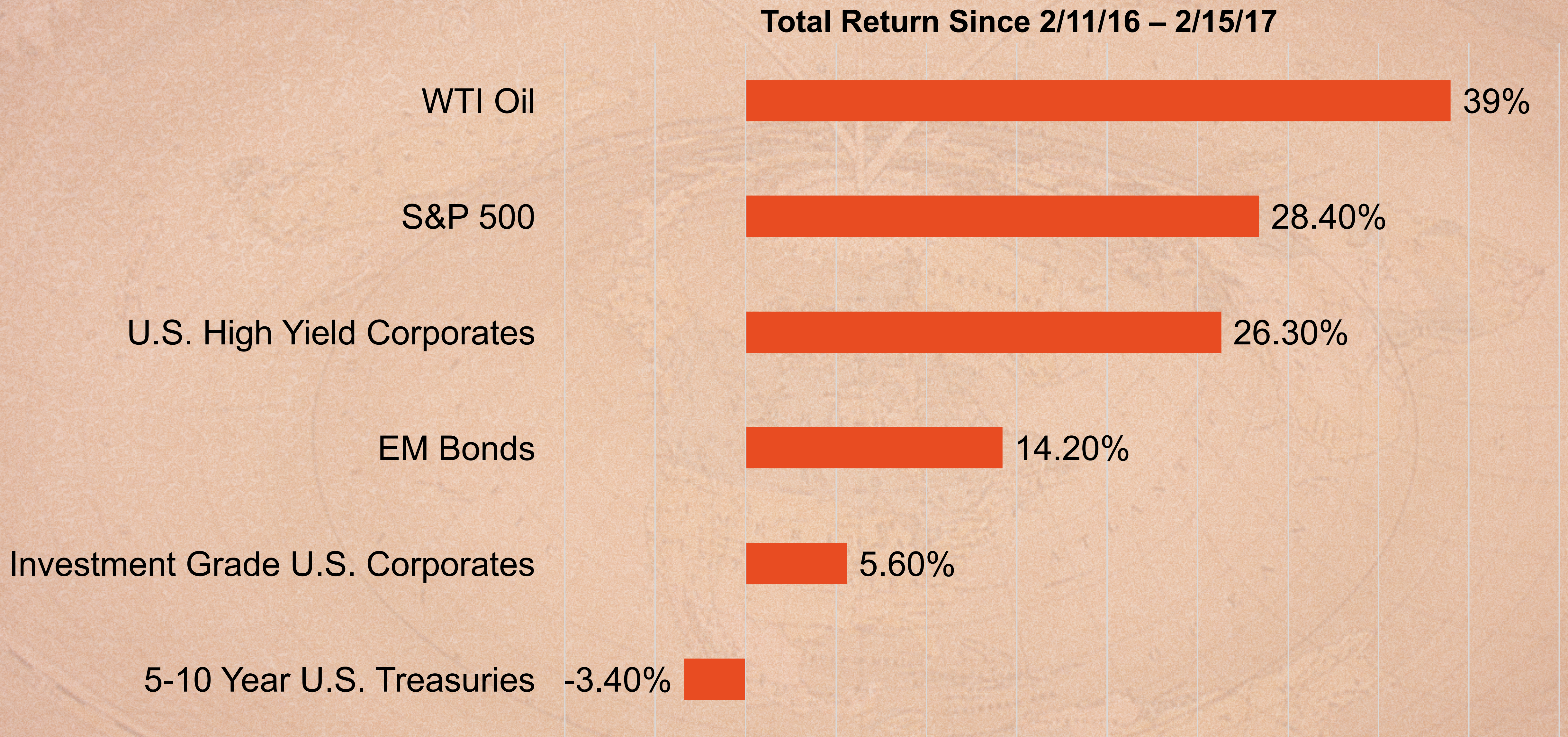
#4 CONVENTIONAL WISDOM SAYS...

The world goes as oil goes...
So when oil prices plummet...sell, sell, sell!

#4 MY, WHAT A DIFFERENCE A YEAR MAKES!

- Backdrop
  - Oil plummeting
  - Chinese slowdown and devaluation of yuan
  - Earnings slashed and bonds defaulting
- Conventional Wisdom
  - Bad time to buy risky assets

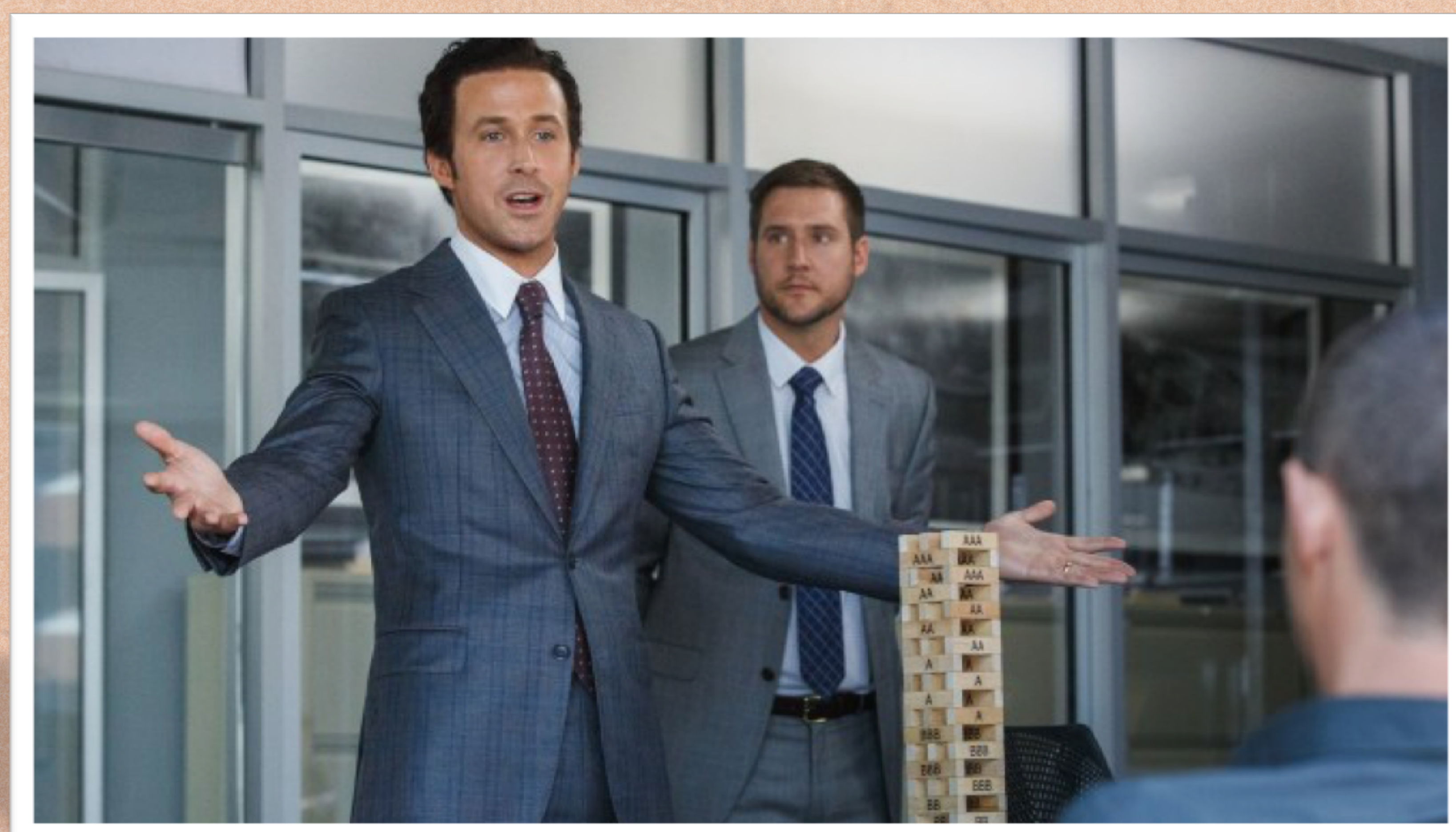
#4 SELLING WOULD PROBABLY NOT HAVE BEEN THE BEST DECISION



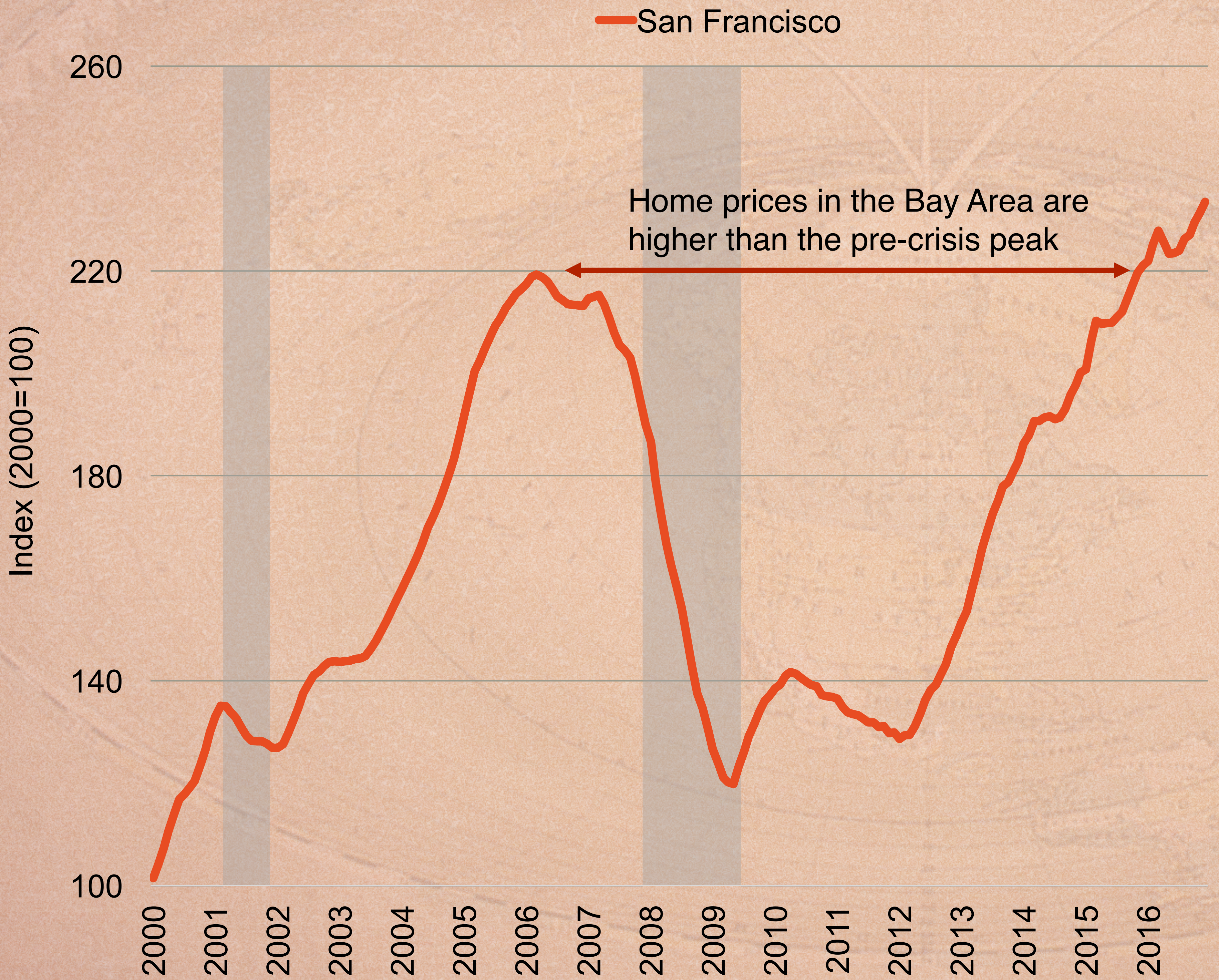
What a difference one year makes! One year ago investors worried over China's devaluation, global deflation and a U.S. recession. One Wall Street strategy team went so far as to recommend clients "sell everything except high quality bonds." This is about return of capital, not return on capital." The vision of those able to see through the early 2016 fog was rewarded. Oil prices are up nearly 40%, U.S. stocks up nearly 30% and high yield corporate bonds have rallied more than 26% since the lows in February last year. High quality bonds? Down 3.4%. This year, while many worry about European elections and elevated valuations, the economic fundamentals continue to impress.

#5 CONVENTIONAL WISDOM SAYS...

We're days away from another "Big Short." The Housing Bubble is back!

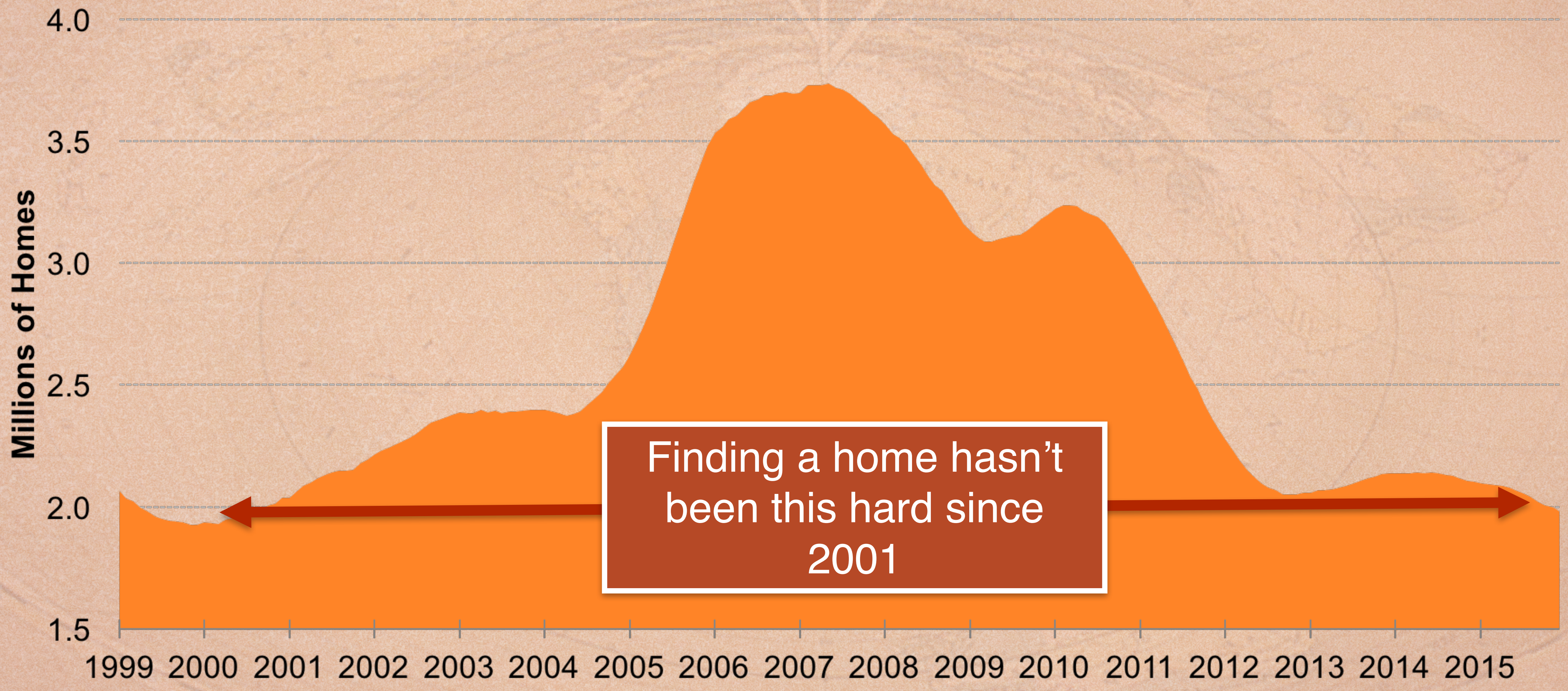


#5 "OH NO... HERE WE GO AGAIN"



#5 IF YOU'RE LISTENING, NO ONE'S LISTING

Inventory of existing homes sales in the U.S. (12 month Average in millions



Despite the many "For Sale" signs you might see posted in front yards in your neighborhood, the inventory of existing homes in the United States is at its lowest level in over 15 years. This measure, which excludes the inventory of newly built homes, suggests two related things. First, after years of sluggish new home construction, would-be buyers today have little choice but to pick through the few existing properties that are on the market. Second, even as new home construction has rebounded from its nadir, the supply/demand imbalance depicted above suggests that the recent price gains in the U.S. single-family housing market may continue for some time.

#6 CONVENTIONAL WISDOM SAYS...

"Let's make America great again by making stuff again."

#6 MAKING STUFF WILL GENERATE JOBS

- Conventional wisdom points to the fact that we have exported so many of our jobs overseas.
- If we can repatriate many of those manufacturing jobs back to the U.S., we can generate jobs and help make America great again.

#6 ROBOTS, 3-D PRINTERS AND PRODUCTIVITY … OH MY

- Since 2000, manufacturing jobs (as a percent of employment) have fallen nearly 50%.
- Over this same time period, manufacturing as a percent of GDP, has fallen only 20%.
- PUNCHLINE: Boosting manufacturing does not necessarily lead to jobs!
- Technology (computers, robots, 3-D printers) have made U.S. manufacturing highly efficient and productive; and thus less labor intensive.

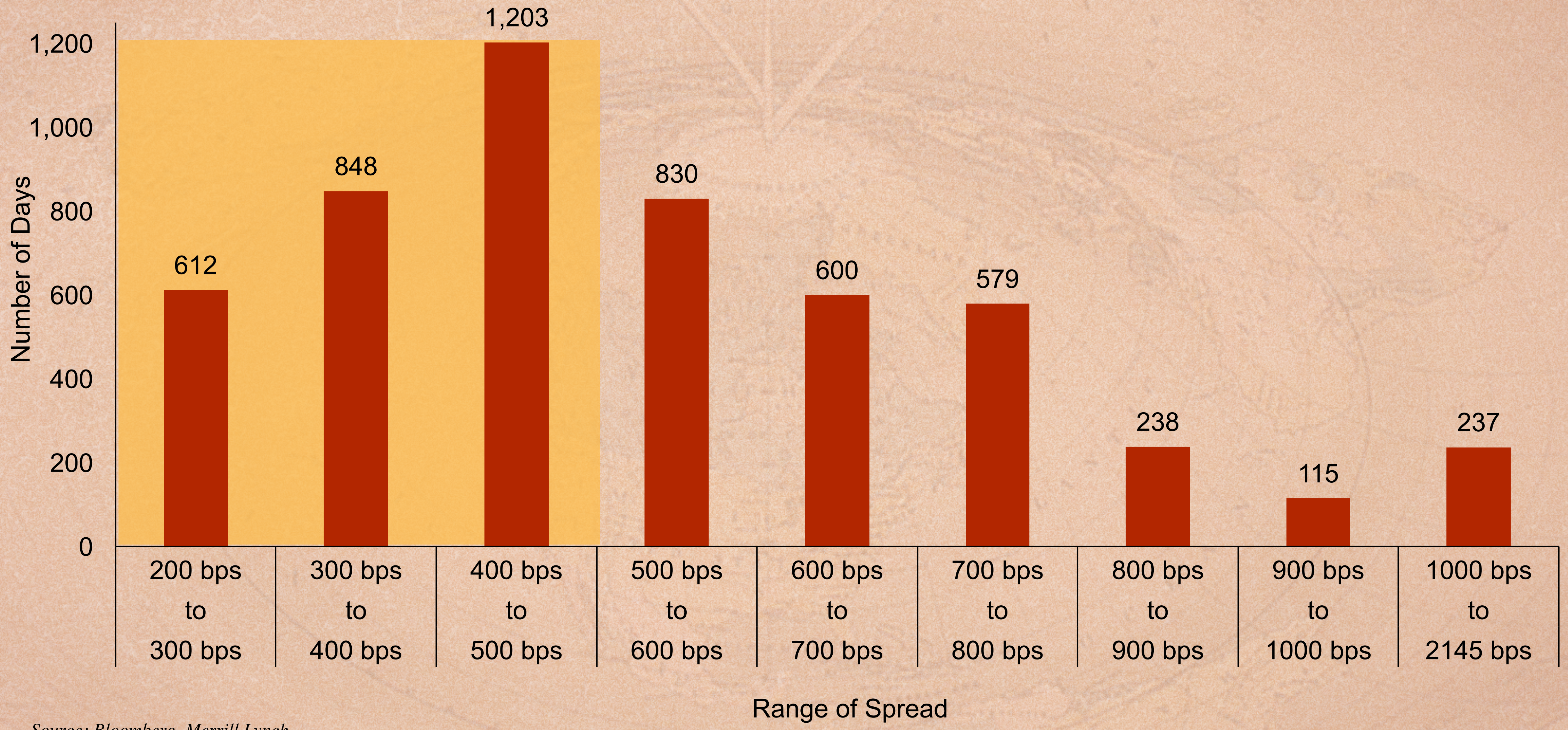
#7 CONVENTIONAL WISDOM SAYS...

High Yield spreads are too tight...
Time to bail!

#7 "You can never be too rich"… Unless you're a high yield spread

- Conventional wisdom says that the absolute level of high yield spreads is a harbinger of deterioration of high yield prices (i.e., credit spread widening).
- This is a variation of the theme "trees don't grow to the moon."

#7 SPREAD THE LOVE FOR HIGH YIELD



Source: Bloomberg, Merrill Lynch

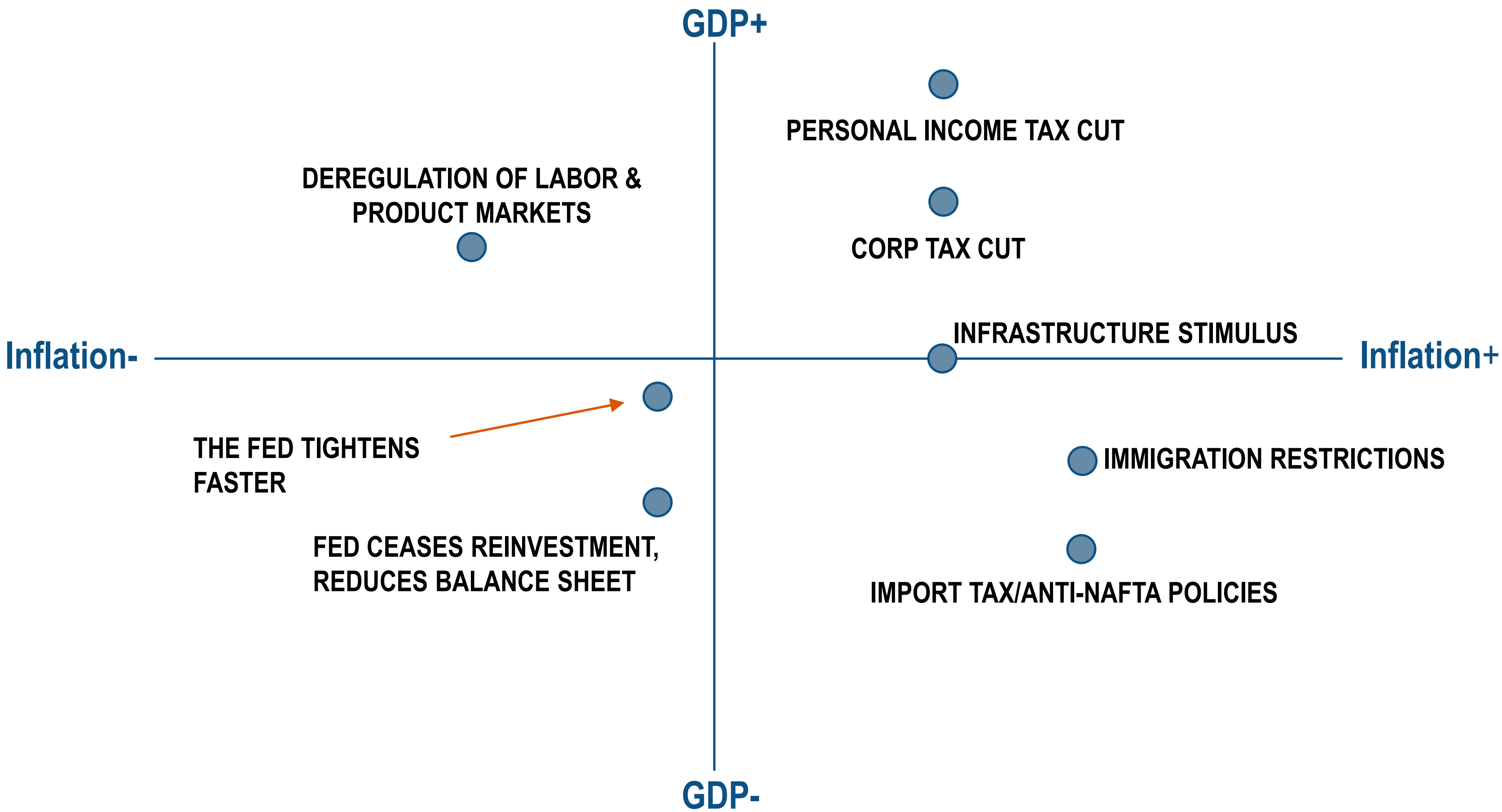
After last week's chart showing the performance of different asset classes over the last year, some people wondered, are high yield spreads abnormally low? Well, it depends on how you define normal. We looked at 20 years of data on the high yield corporate bond market and here's what we found. Most often, spreads are between 400 and 500 basis points, and the events people worry most about (e.g. spreads at +800 basis points) are exceedingly rare. In fact, since 1997, high yield spreads have been above 800 basis points only 7% of all days.

Debunking time over...
Now on to the economy!

Trump: The Good, The Bad, The Ugly

Financial markets responded positively to the election of Donald Trump. Stocks, government bond yields and the US dollar have all risen since November. Why? In general, investors think that the new administration's policy tilt will be pro-growth and pro-business. Our take: it depends on the actual timing, size, composition and magnitude of policy changes enacted. Some policies (e.g., anti-trade policies) would be negative for the economic growth outlook. Others, such as deregulation and income tax cuts, would be a boost to activity. Still others, such as infrastructure spending, may boost inflation but not have as much as the desired impact on GDP growth since the economy is already near full capacity.

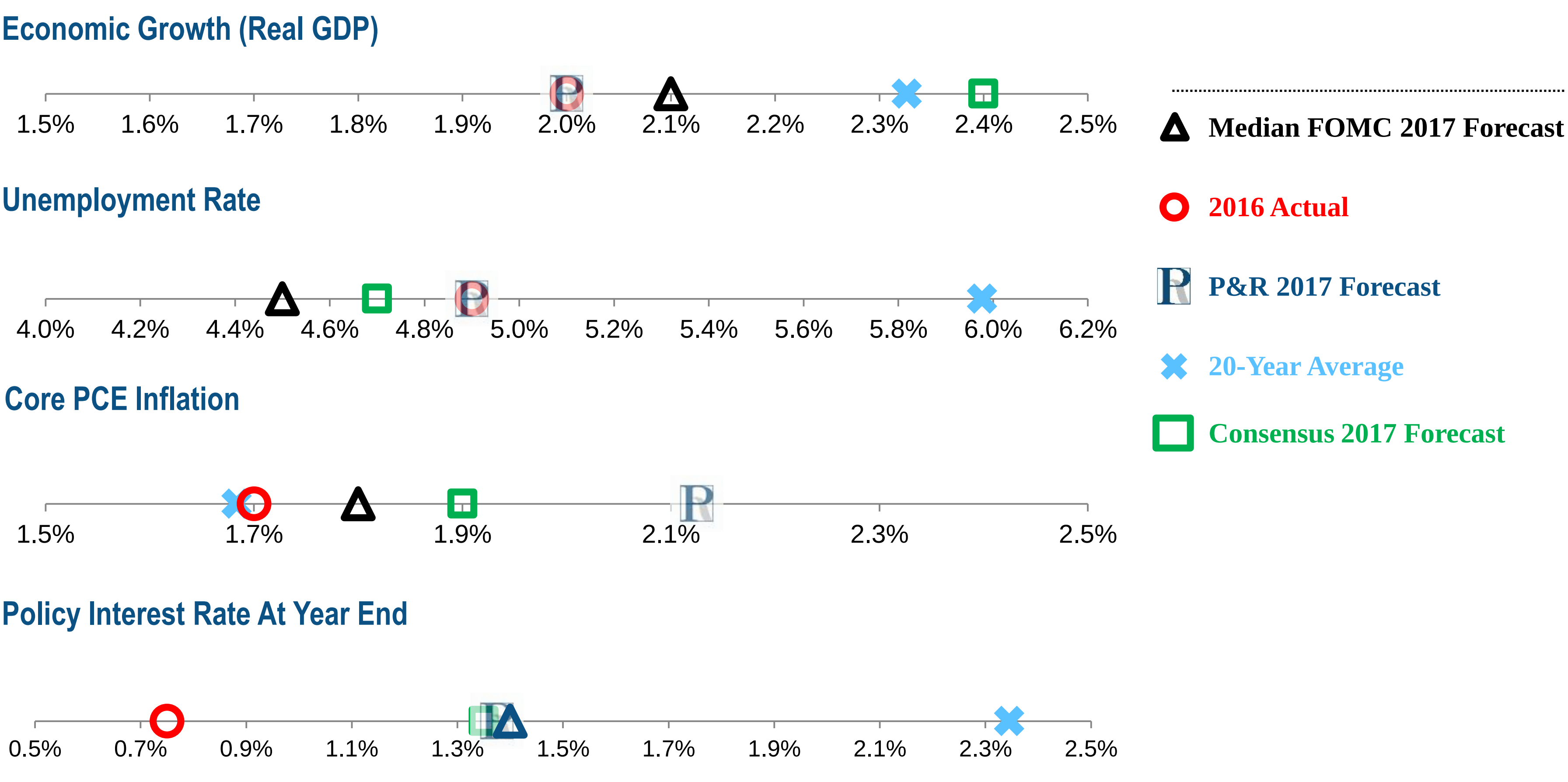
Trump Policies Plotted According to Their Estimated Effect on Inflation and GDP



Source: Payden Economics

Our 2017 Outlook Summary: Continued Growth and Rising Inflation Should Allow The Fed To Continue Raising Rates. We Expect 3-4 Hikes Over the Balance of the Year.

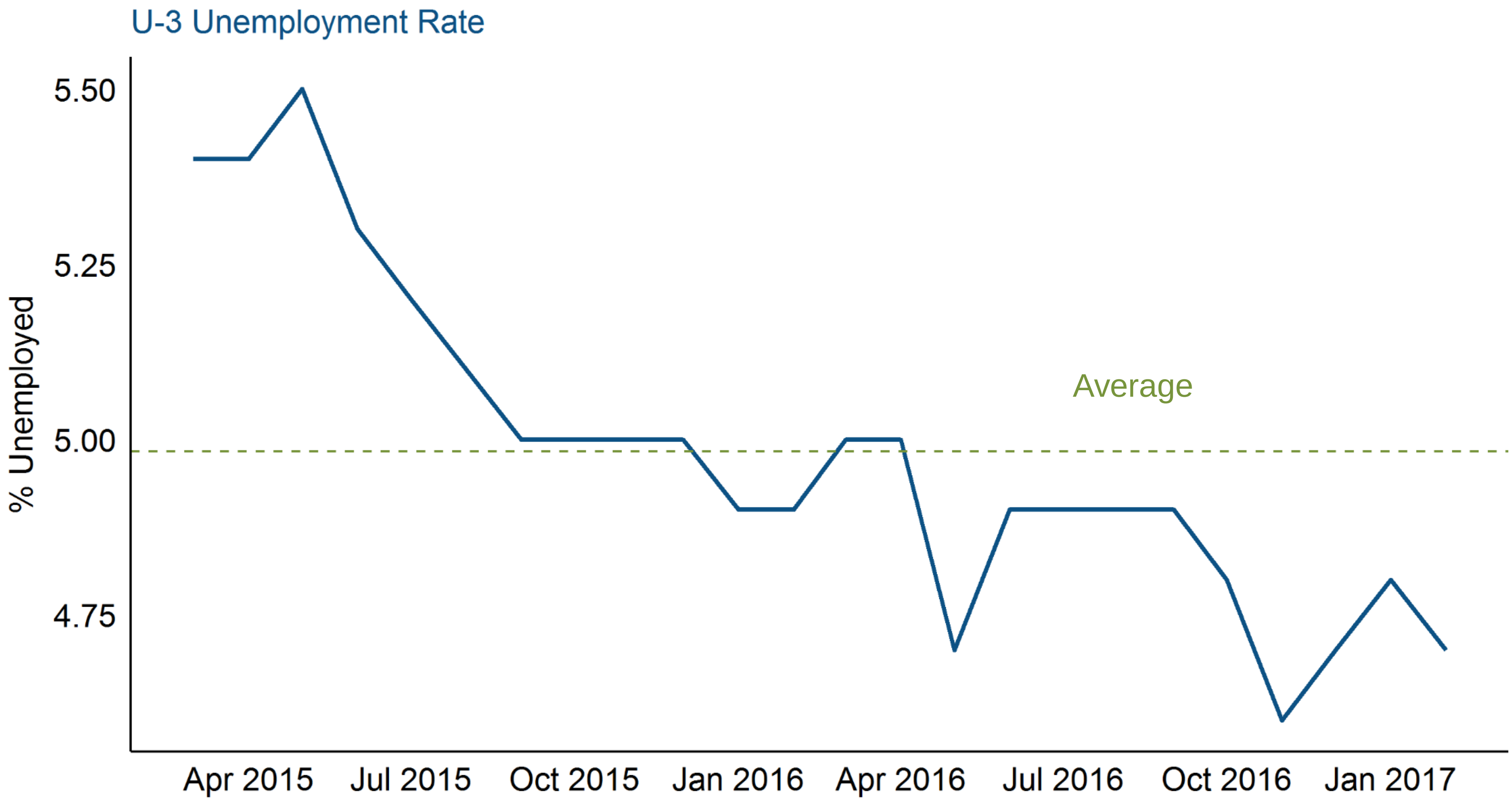
Our 2017 US economic outlook is for annual GDP growth around 2.0%, moderately higher inflation (2.0-2.25% on core PCE), and a stable unemployment rate (4.75-5.0%) as workers re-enter the labor force. We think it is too soon to forecast significantly higher 2017 GDP growth given the limited details on timing, size, and composition of Trump's economic policies. For inflation, as long as oil prices and the US dollar remain relatively stable, we expect consumer prices to continue to trudge back above 2%. We think this economic backdrop is consistent with three or four Fed rate hikes in 2017.



Sources: Bloomberg Consensus, Payden Estimates, Bureau of Labor Statistics and Bureau of Economic Analysis

The Unemployment Rate Will Hover Below 5%

The unemployment rate tumbled back below 5% in 2016. The 5% level is a critical threshold because it is below the long-term average and below most policymakers' estimates of the "natural rate" of unemployment. Below the mythical natural rate, policymakers begin to worry that low employment will stoke inflationary pressures in the economy. We expect the unemployment rate to hover just below 5% in 2017.

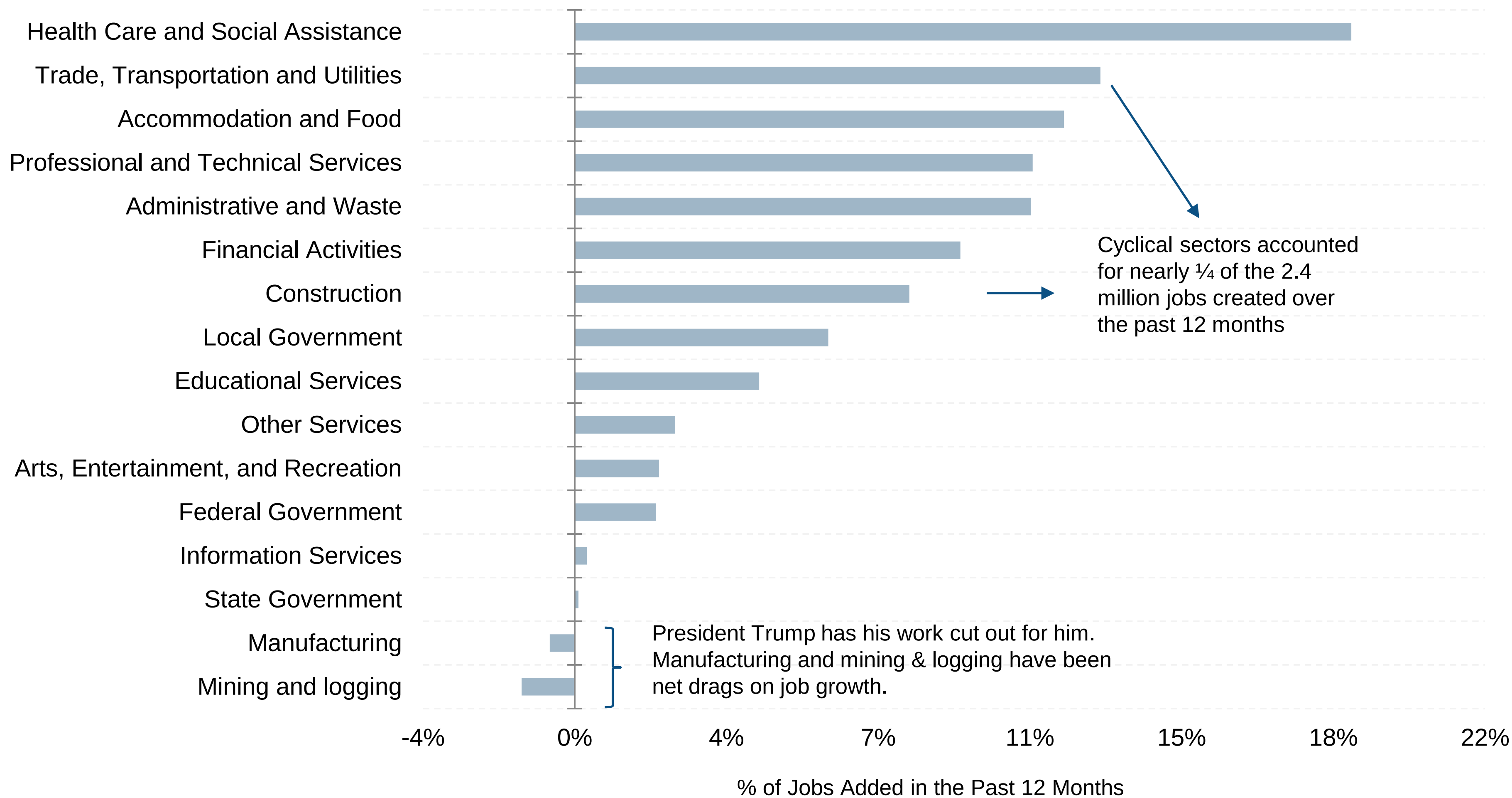


Source: Bureau of Labor Statistics

Don't Look Now, The Labor Market Continues to Boom With Health Care Leading the Way

Job growth has been strong in recent months. The latest 3-month moving average is 209,000—a good sign for economic growth, stocks, and credit. Which sectors are driving job growth? Aside from health care and social assistance, impressive gains in cyclical sectors bolster the view that the cycle still has plenty of room to run and that the Fed can afford to move slowly.

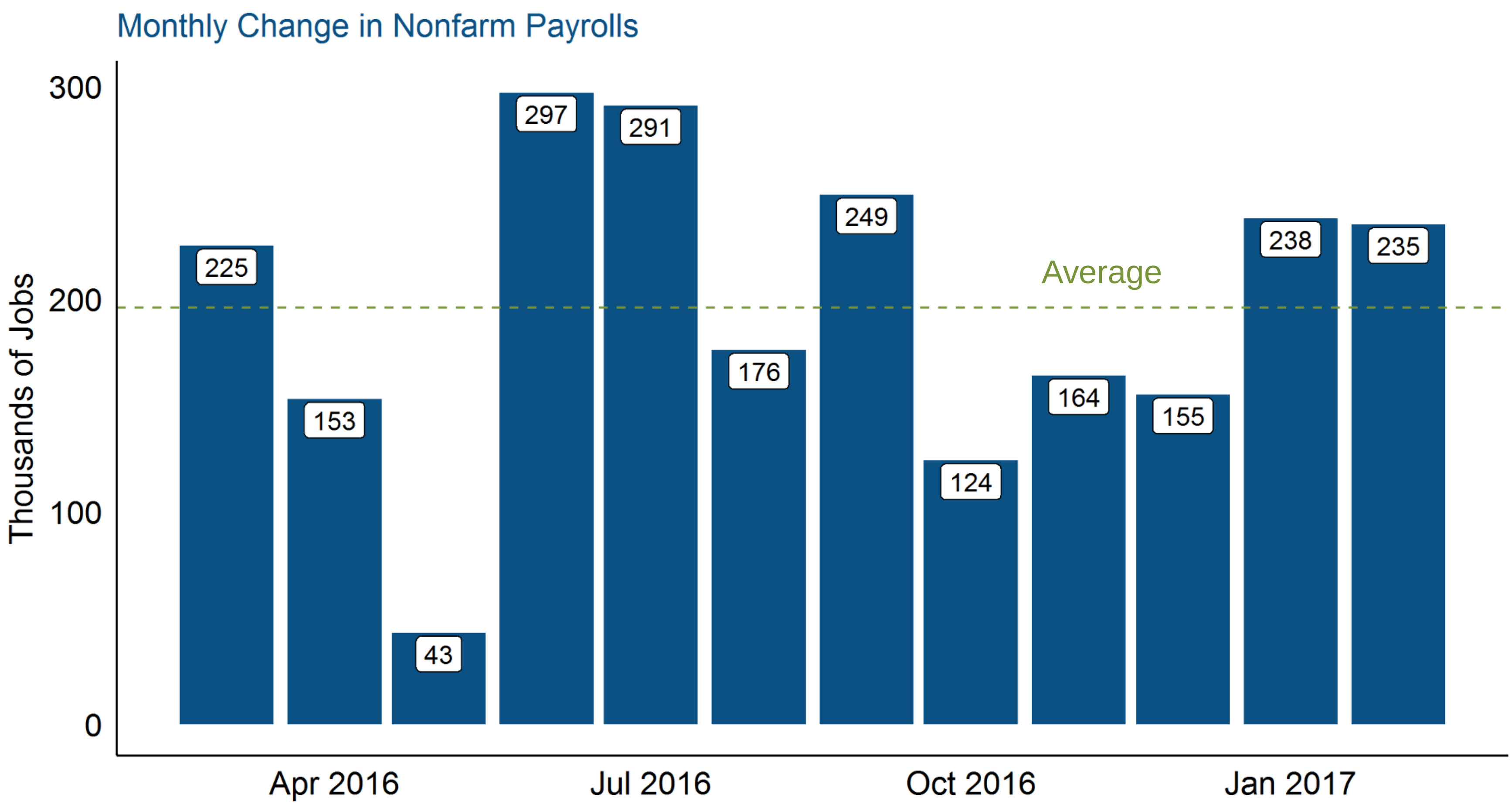
% of Total U.S. Jobs Created in the Last 12 Months by Sector



Source: Bureau of Labor Statistics

Job Growth Will Continue At a Steady Pace

The US economy has added jobs for 75 consecutive months—a record length of time without a negative report. On average the pace of job growth has been just shy of 200,000 jobs per month, more than enough new hiring to keep the unemployment rate below 5%. We expect a slightly slower pace of job growth in 2017 (e.g., 150k per month).

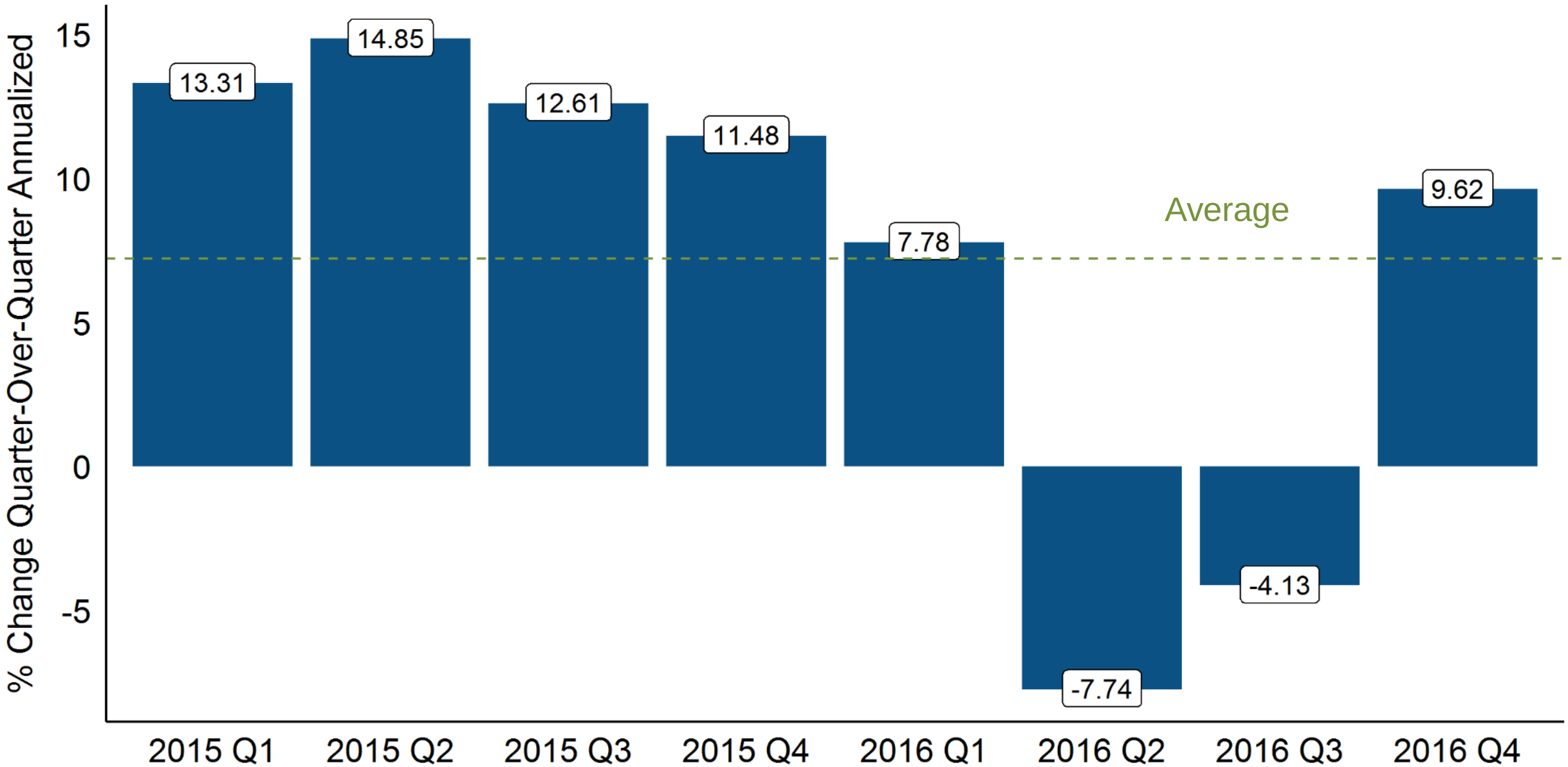


Source: Bureau of Labor Statistics

The Missing Piece to The Economic Cycle: Housing

America has a housing crisis. The crisis is that we don't build enough housing. Housing completions, the Census Bureau's term for nailing the final piece of wood in place, never fell below 1 million in any year dating back to 1967 until 2008. From 2008 until 2015, builders built fewer than a million homes, a completely unprecedented stretch in US economic history. In 2016, residential investment fell for two consecutive quarters. Will builders build in 2017? We expect more contributions to growth from residential investment.

Real Residential Housing Investment % Change Quarter-Over-Quarter Annualized

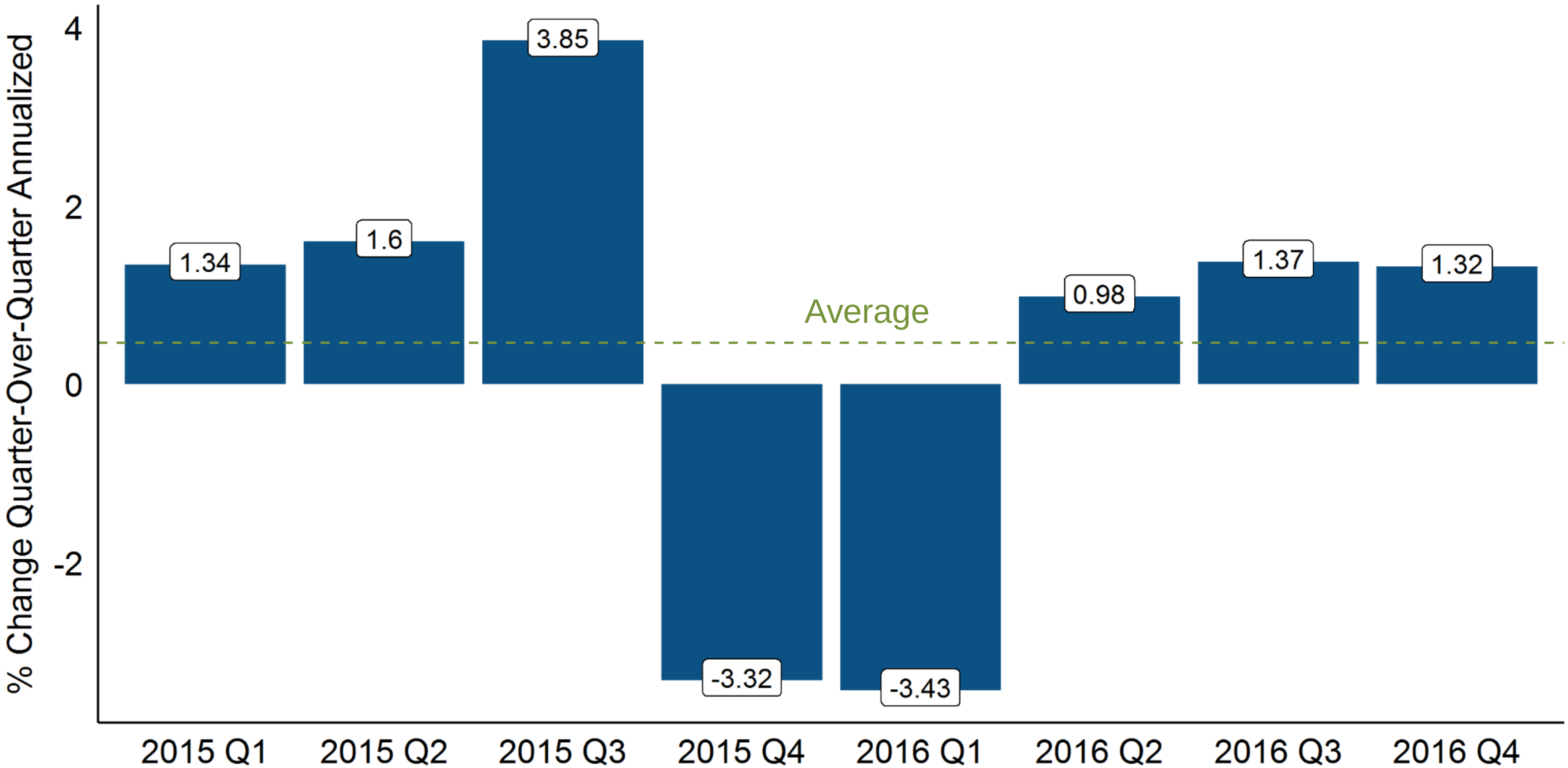


Source: Bureau of Economic Analysis

Business Investment May Surprise To the Upside in 2017

Let's face it: business investment has been a disappointment during the current expansion. Worse, after the oil price plunge, non-residential investment detracted from overall economic growth for 3 of the last 8 quarters—a significant headwind to overall activity. With the oil price decline behind us, we may see an improvement in the pace of business investment activity.

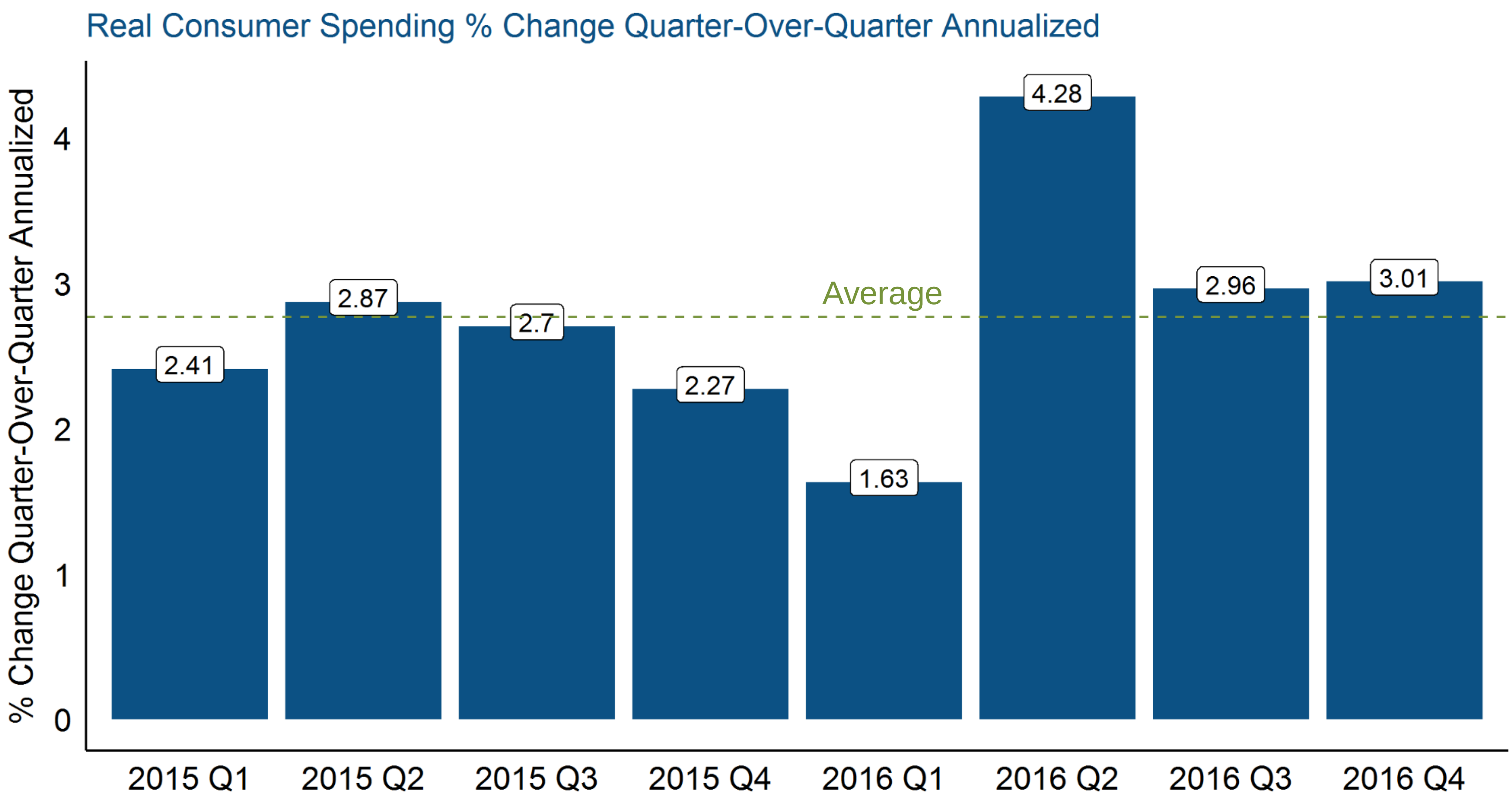
Real Non-residential Investment % Change Quarter-Over-Quarter Annualized



Source: Bureau of Economic Analysis

Don't Bet Against the US Consumer in 2017

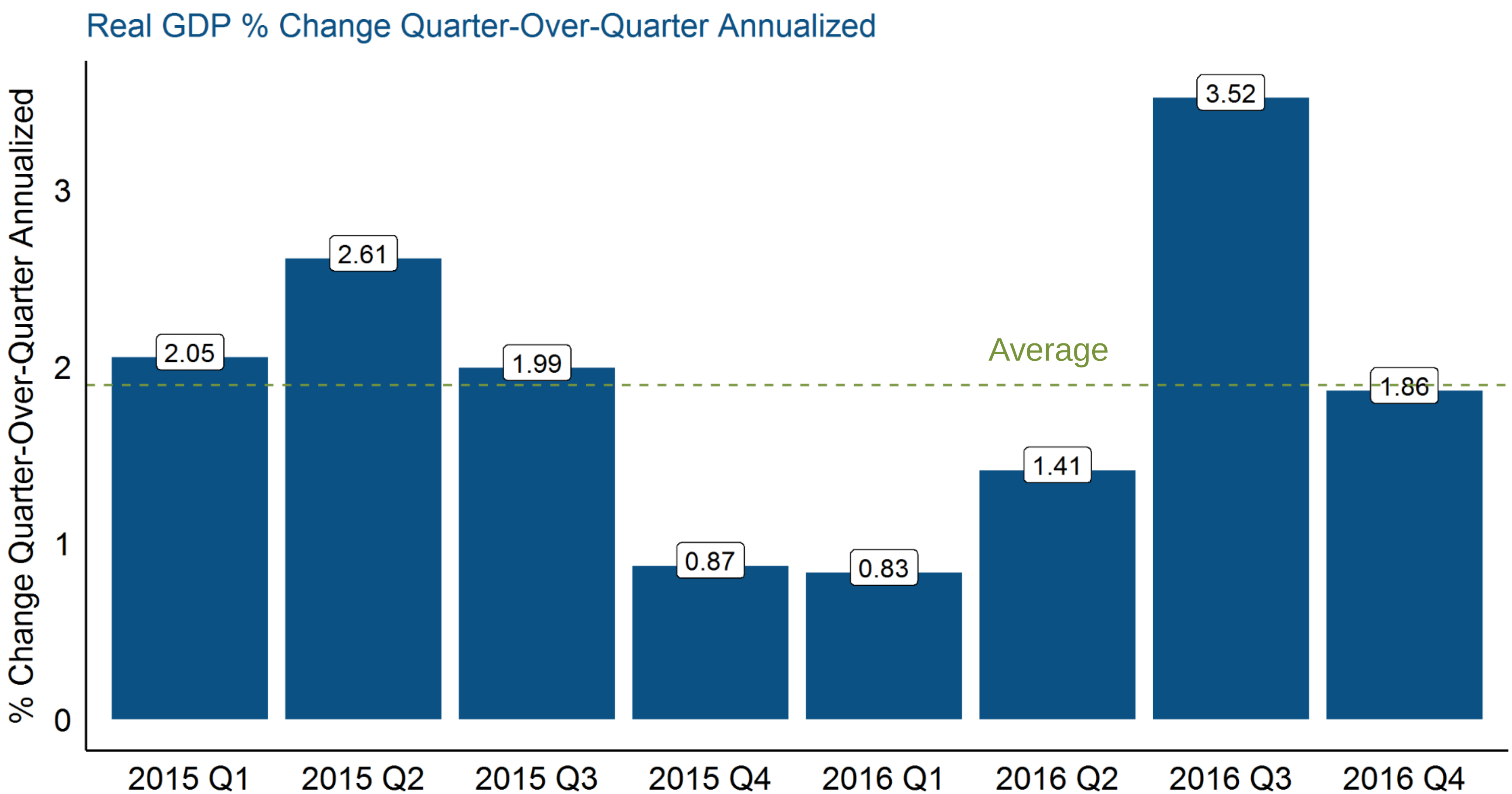
Consumer spending continues to power overall economic growth as measured by GDP. We expect consumer spending to grow at a 2-3% clip in 2017, bolstered by higher consumer confidence, more employment, faster wage growth and record-high household net worth.



Source: Bureau of Economic Analysis

The Weak GDP Growth Patch Is Behind Us

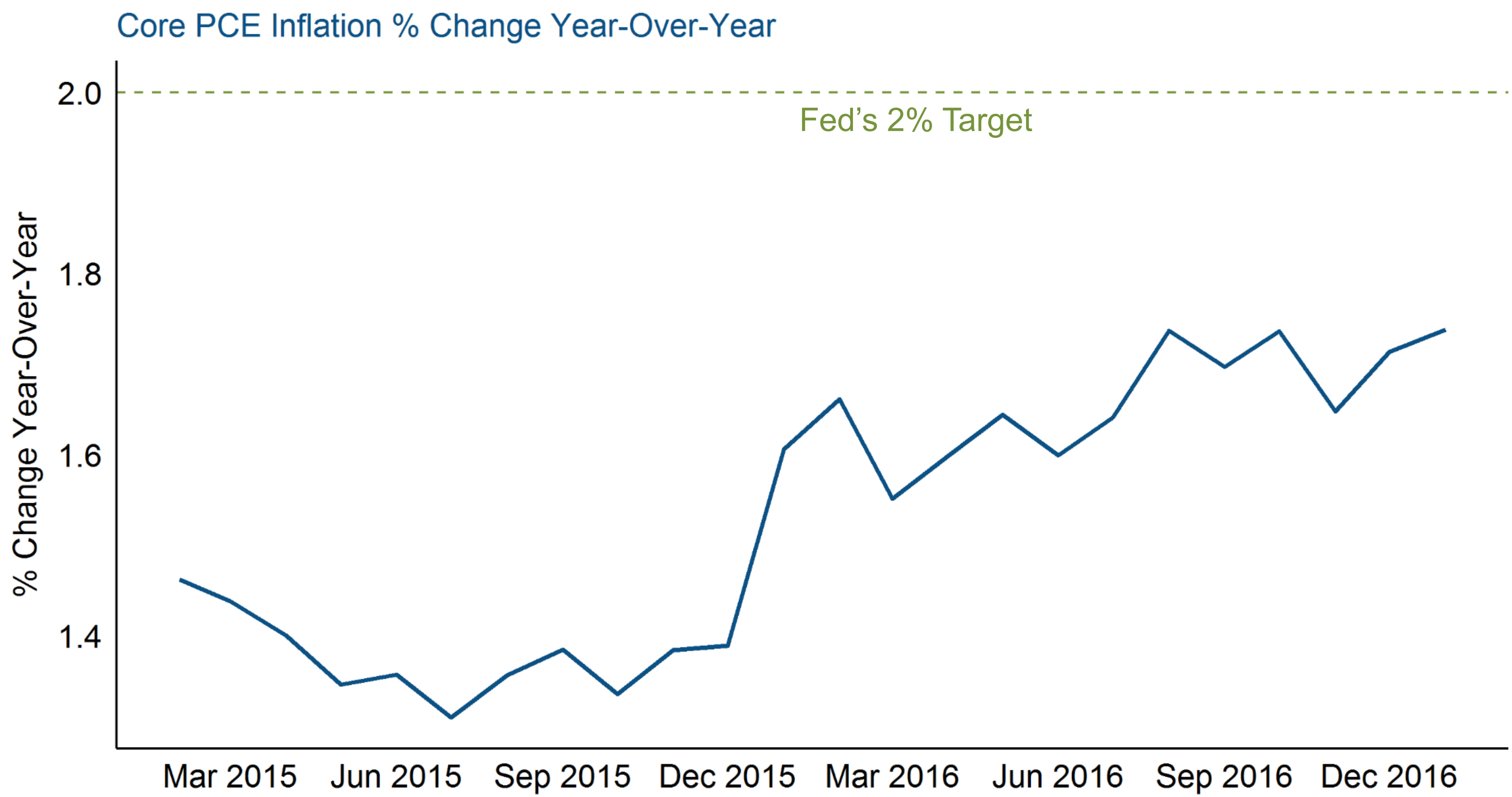
Gross domestic product (GDP) growth stalled in late 2015 and early 2016 due in large part to the downturn in energy prices and oil production investment. With oil prices back above $50/barrel to start 2017, we think the drag on growth is behind us and the positive trend in consumer spending will reassert itself as the key driver of economic activity. We expect GDP to exceed 2% in 2017.



Source: Bureau of Economic Analysis

Inflation Will Breach the Elusive 2% Level in 2017

With solid economic growth, continued job growth, and an unemployment rate below 5%, we expect a continued pick-up in price pressures. The FOMC's preferred metric of prices is the core PCE, which excludes volatile food and energy prices. While core PCE hovered at 1.7% in Q4 2016, we expect prices to rise back above 2% (the Fed's target rate) in 2017.

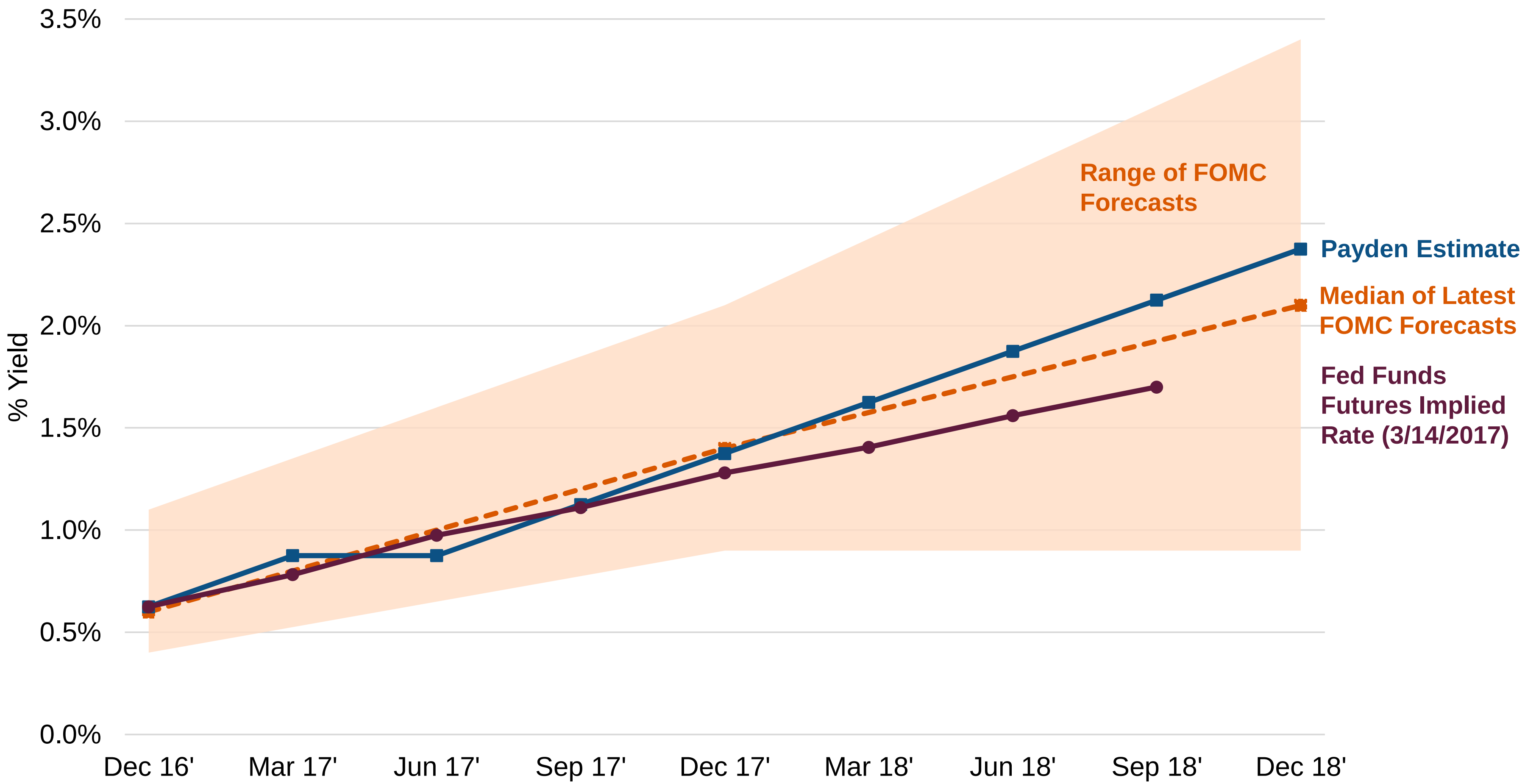


Source: Bureau of Economic Analysis

The FOMC "Dots" Point to 3 Rate Hikes in 2017. We See 3-4 Hikes During the Year.

One of the questions we hear most is "how many times will the Fed hike rates in 2017?" Our best answer: not even the Fed knows the answer to that question. It depends. The infamous "dot plot," from which we created the chart below, indicates that the median FOMC member sees 3 rate hikes in 2017. As of late, the Fed has changed their rhetoric and seems more comfortable with hiking. Thus, even though the data haven't changed much, we foresee 3-4 rate hikes this year.

Path of Federal Funds Rate Under Various Scenarios



Source: FOMC, Bloomberg, Payden Estimates

How Payden views Absolute Return Investing (PARI)

Produce Positive Returns

The PARI strategy aims to produce positive returns with a performance hurdle of BBSW + 3% (before fees) over a rolling 3-year period.

Protect Downside Risk

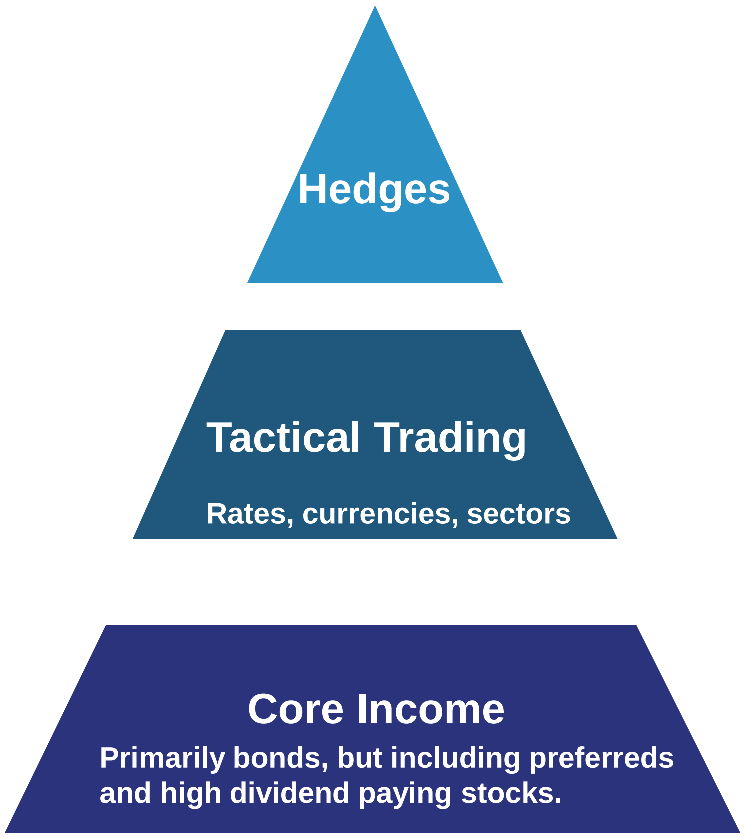
before we consider the direction of markets or the value opportunities that are presented, our first responsibility is to protect an investor's principal against the potential for loss. Risk management is paramount.

Capture "Smart" Yield

benefitting from more than 30 years in fixed income management, the foundation of our strategy is a low duration fixed income portfolio where risk premia from global interest rate curves and credit markets provide dependable and repeatable returns.

Payden Global Income Opportunities Fund Characteristics	
Return Objective	Bloomberg AusBond Bank Bill Index +2.50% (after fees) p.a. over the medium term
Horizon	3+ years
Ave Rating 28 February 2017	BBB
Currency	Substantially hedged to $AUD
Distributions	Quarterly

What are the key tenets of the Payden approach?



1) **Add hedging strategies to protect the portfolio against big downward market movements (portfolio insurance).** Look to keep these costs to less than 50 basis points (0.50%) per year.

2) **Tactically trade the portfolio at the margin to add value; in a very disciplined way** such that no trade jeopardizes the portfolio by more than five basis points (0.05%).

3. **Get the "smartest" yield we can (most yield with the least risk).** Usually through a very diversified portfolio of higher yielding bonds with short/intermediate maturities. This forms our core portfolio.

Global Income Opportunities Fund Current Positioning – As at 28 February 2017

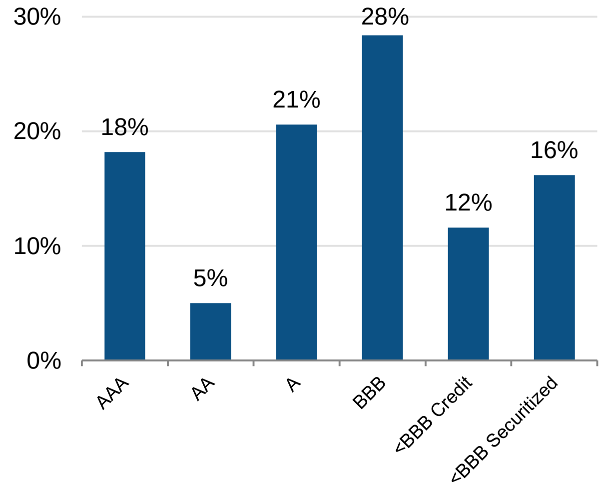
Summary Data

No. of Issuers	190
Rating	BBB
Rating: Ex-Legacy MBS	A
Yield	3.45%

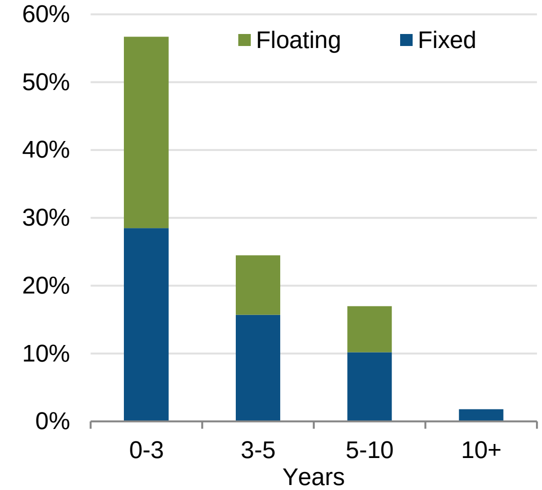
Interest Rate Sensitivity

Credit Spread Duration	2.75
Model Duration (Interest Rate Security)	1.50
Adjusted Duration (Empirical)	0.97
Government Duration	0.52

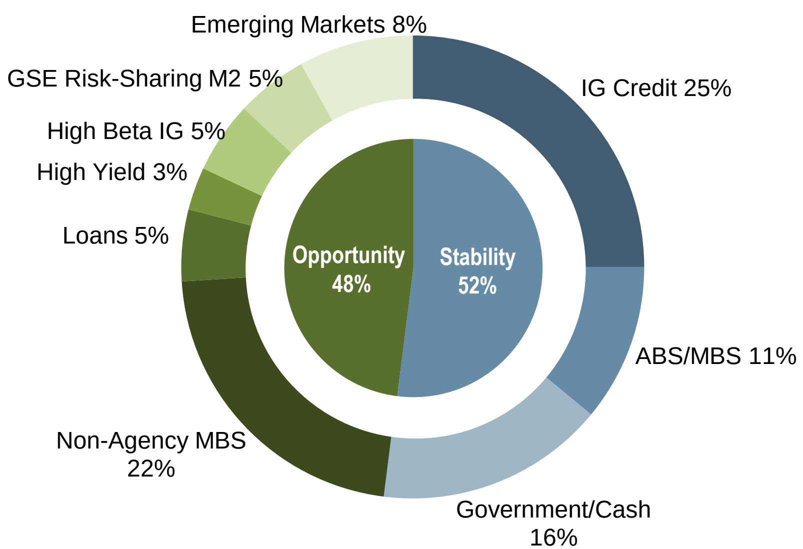
Rating



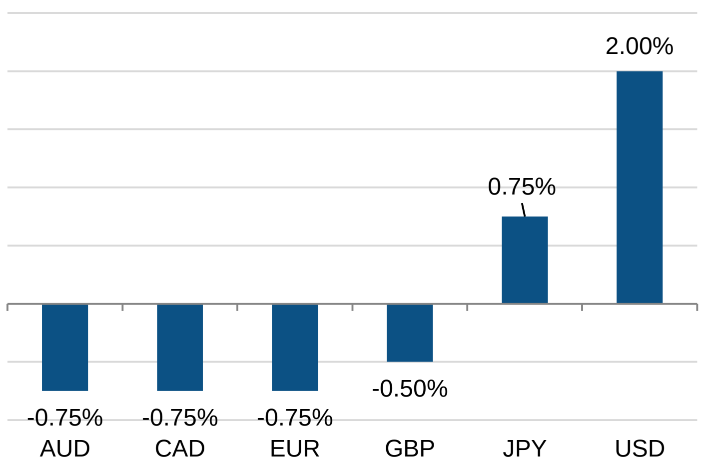
Effective Maturity



Sector



Currency



Performance Results – As at 28 February 2017

Historical Performance

Trailing Periods	PARI*	1M BBSW	Alpha
1 Year	7.26%	1.98%	*5.28%*
3 Year	4.63%	2.33%	*2.30%*
5 Year	5.57%	2.70%	*2.87%*
Inception (10/1/08)	6.85%	3.45%	*3.40%*
Annual Returns			
YTD 2017	1.03%	0.29%	*0.74%*
2016	5.85%	2.07%	*3.78%*
2015	3.75%	2.36%	*1.39%*
2014	4.95%	2.69%	*2.26%*
2013	3.23%	2.87%	*0.36%*
2012	11.86%	3.97%	*7.89%*
2011	6.06%	5.00%	*1.06%*
2010	10.53%	4.66%	*5.87%*
2009	8.09%	3.47%	*4.62%*
Oct – Dec 2008	2.53%	1.69%	*0.84%*

** This series reflects the Payden Absolute Return US Dollar Composite as if historically hedged into the Australian Dollar using 1-month currency forwards. Merrill Lynch index data is used as the source for the currency hedge return adjustment.*

Ex-Post Risk Measurement

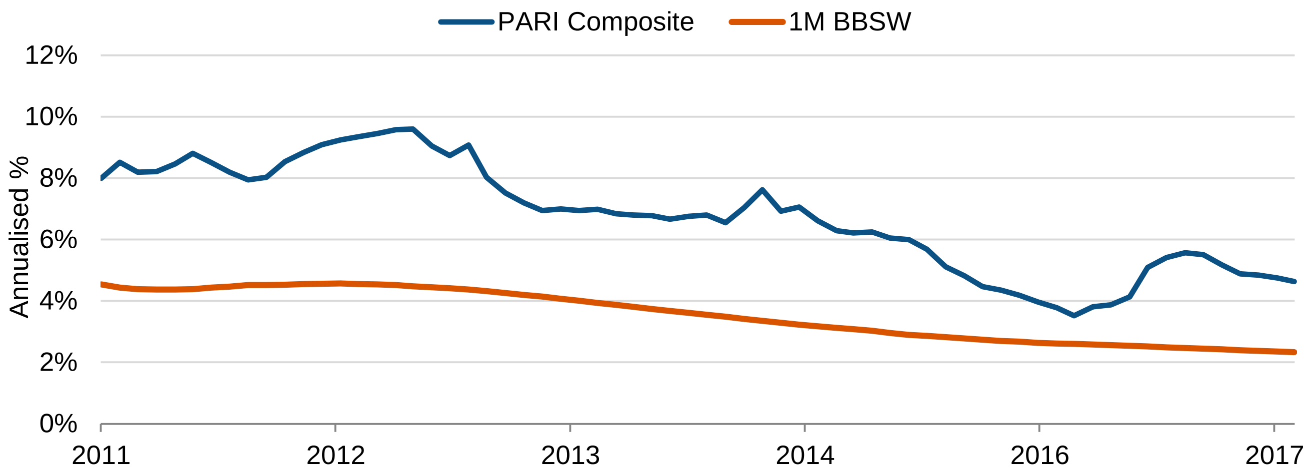
Annualised Return	6.85%
Volatility	2.29%
Best 1-Year	12.94%
Worst 1-Year	2.02%
Best 3-Month	4.18%
Worst 3-Month	-2.07%
Best 1-Month	2.25%
Worst 1-Month	-1.98%
Avg Downside (Month)	-0.57%
Downside Deviation (Month)	0.67%
Downside Deviation (Annualised)	2.32%
Sharpe Ratio	1.51
Sortino Ratio	1.46
% periods up	87%
% periods down	13%
Correlation w/ Global Bond Mkt	0.22

[1]*Sharpe ratio - A ratio developed to measure risk-adjusted performance. The Sharpe ratio is calculated by subtracting the risk-free rate - such as the return on government bills - from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns.*

[2]*Sortino ratio - A variation of the Sharpe ratio, this ratio differentiates harmful volatility from general volatility by replacing standard deviation with downside deviation within the formula.*

Gross Performance History (AUD) Through Time – As at 28 February 2017

PARI Composite vs. 1M BBSW — 3 Year Rolling Return



PARI Composite — 1 Year Rolling Return

Payden Global Income Opportunities Fund

Unit price performance – 28 February 2017

Net Performance[2]	1 Month %	3 Months %	1 Year %	3 Years % p.a.	Since Inception[1] % p.a .
Fund[2]	0.38	1.21	6.68	4.21	4.17
Benchmark	0.13	0.44	1.98	2.32	2.53
Over / (Under)	**0.25**	**0.77**	**4.70**	**1.89**	**1.64**

Benchmark: Bloomberg AusBond Bank Bill Index

1 Inception Date: 18 September 2012
2 Fund performance is calculated net of management fees and assuming all distributions are reinvested.

Past performance is not a reliable indicator of future performance.
Source: Grant Samuel Fund Services Limited

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