

PAYDEN

MUTUAL FUNDS

Strategic Focus: Emerging Markets Debt Time to Diversify?



WHY EMERGING MARKETS?

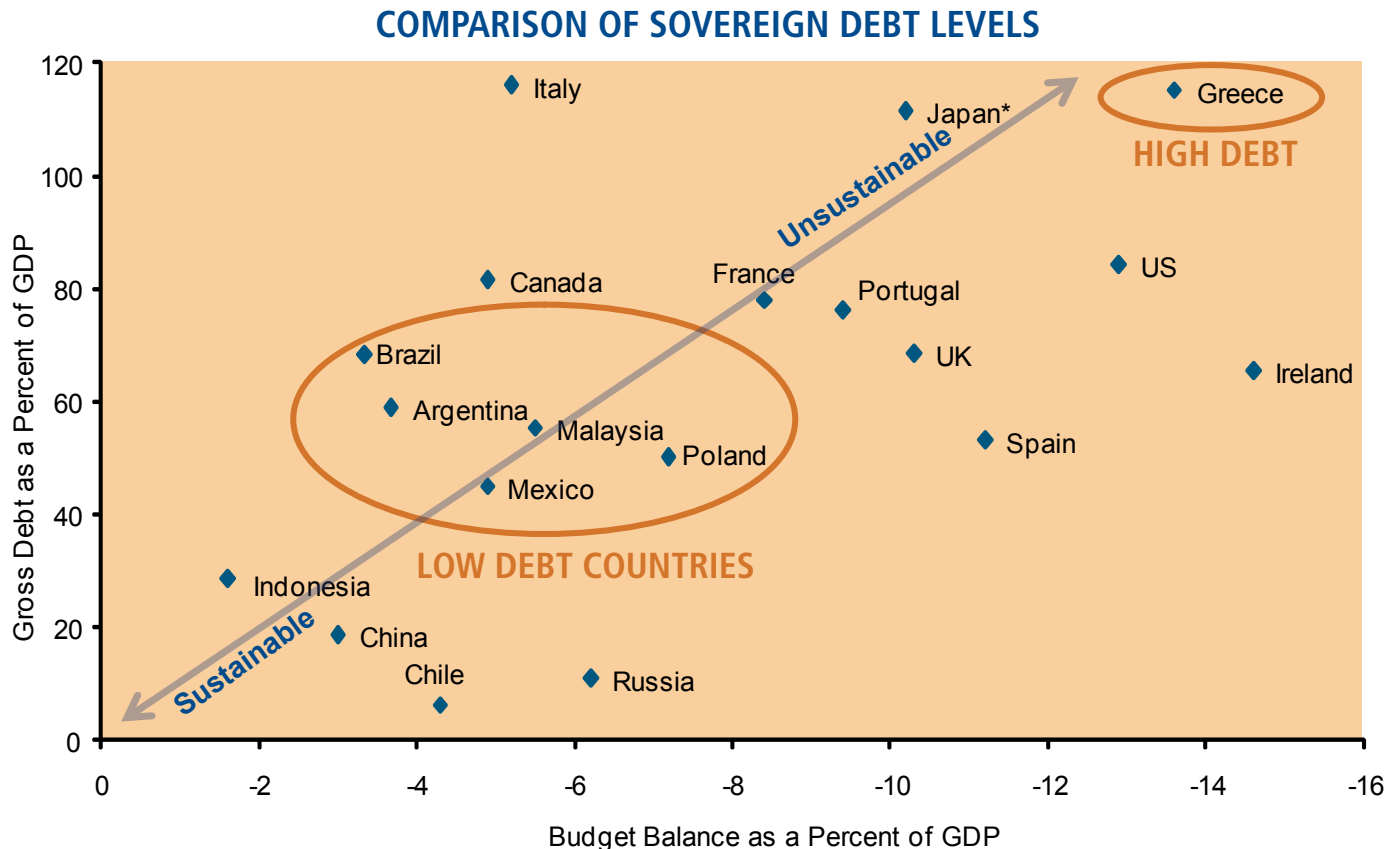
- I **Positive Fundamentals** – Emerging Markets (EM) macroeconomic indicators are stronger than in developed countries.
- II **Improving Credit Quality** – Over 50% of the asset class is rated investment grade.
- III **Sovereign Diversifier** – EM government bonds are a diversifier to corporate risk.

I POSITIVE FUNDAMENTALS

There is an increasing recognition today that emerging markets will experience higher economic growth rates than developed countries.

Why is this?

The growing debt to gross domestic product of **developed countries** has increased sharply since 2007 to where it has crossed the 100% line. In contrast, the fundamentals are much stronger in **emerging economies** where debt and fiscal burdens are lower, there is less systemic leverage and many countries have built up significant foreign exchange reserves.



Source: OECD As of October 2010

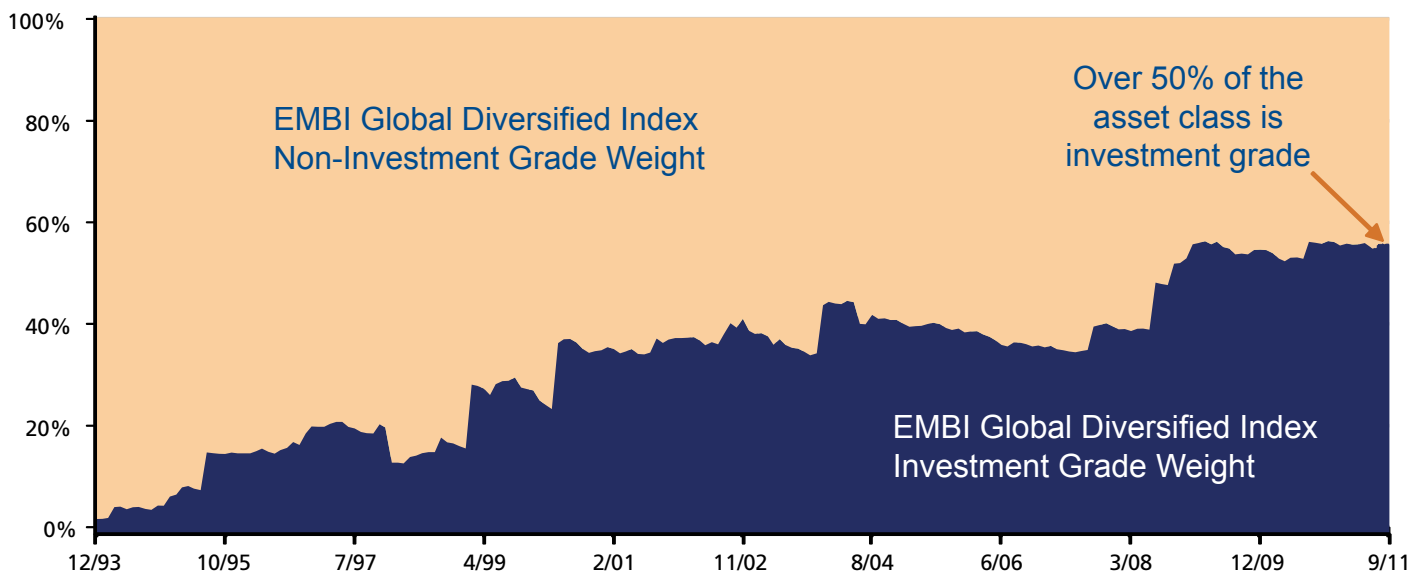
*Japan data is net debt; Gross debt/GDP=218%

II IMPROVING CREDIT QUALITY

Emerging markets credit quality has been improving over the last decade as a result of the process of economic and political transition in emerging market countries around the world. Over 50% of the asset class is rated investment grade.

In contrast to downgrades last year in many developed countries, including Greece, Spain and Portugal, rating agencies upgraded EM countries, such as Turkey, Ukraine, Indonesia, South Korea and the Dominican Republic. In fact, rating upgrades in emerging markets are likely to continue to exceed downgrades in 2011 on the back of fiscal consolidation and continued foreign exchange reserves accumulation in many countries.

RATING UPGRADES OVER THE LAST DECADE



Source: JP Morgan, EMBI Global Diversified Index

III SOVEREIGN DIVERSIFIER

After the broad market sell-off in 2008, most investors added exposure to investment-grade and high-yield corporates in their portfolios. **Investing in a country is different than investing in a corporate bond, offering diversification benefits.**

Many emerging-market countries have undergone structural transformations in their political and economic systems. While corporate bond fundamentals tend to be more cyclical in nature, the transformation that has occurred in many emerging markets is secular and unlikely to reverse in the near term. **As a result, EM sovereign default rates are expected to remain low** (we forecast below 1%).

The main exogenous risks to emerging-market assets in 2011 are continued concerns regarding debt sustainability in peripheral European sovereigns and unrest in the Middle East/North Africa region that would result in a bout of investor risk aversion, as well as further inflationary pressures. The value of a bond portfolio will fall if interest rates rise.

NAVIGATING THROUGH EMERGING MARKET DEBT – WHERE TO INVEST?

Emerging markets offer investment opportunities that include US dollar, Euro and local currency denominated sovereign and corporate bonds. The universe is also well diversified across regions with issuers in Latin America, Eastern Europe, Asia and Middle East/Africa.

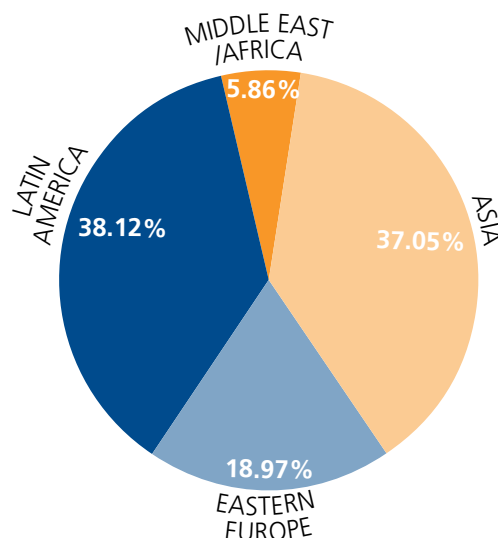
EM DEBT MARKET - HARD CURRENCIES (USD/EUR)

Sovereigns (US \$551 billion outstanding)	Corporates (US \$256 billion outstanding)
There are approximately 50 countries that issue sovereign bonds in USD.	There are approximately 200 corporate issuers in 35 countries that issue bonds in USD.
Creditworthiness is the main driver of performance for US dollar denominated bonds.	

EM DEBT MARKET - LOCAL CURRENCIES

Sovereigns (US \$2,560 billion outstanding)	Corporates (US \$542 billion outstanding)
There are approximately 20 countries that are easily accessible to foreign investors (e.g., Mexico, South Africa, Poland).	The local currency corporate market is less transparent and very difficult to access for foreigners due to taxation and settlement issues. There is very low liquidity in this market.
Interest rates, inflation outlook and currency moves are the main drivers of performance for local currency denominated bonds.	

REGIONAL BREAKDOWN OF EM DEBT



WHY PAYDEN & RYGEL?

COMPREHENSIVE APPROACH THAT INCLUDES ALL EM INVESTMENT OPPORTUNITIES

- » Our investment process follows a top-down macroeconomic approach to select the countries we like from a fundamental perspective.
- » We focus primarily on sovereigns, but we also look for opportunities in the EM corporate market and local currency market.
- » Our firm is well-positioned to take advantage of global opportunities, due to our global integration and synergies with country, currency and industry-analyst teams.

EXPERTISE IN LOCAL CURRENCY MARKETS

- » We recommend taking advantage of this sector on an opportunistic basis as there is significant differentiation among countries due to monetary policy cycle and currency performance.
- » We were one of the first investment managers to invest in local currency markets in 2004 and we have built an expertise in this sector.

PURE BOND STRATEGY

- » We employ a pure strategy and unlike the peer group, we do not add distressed corporates, EM equities, structured product or credit derivatives (CDS).
- » An advantage that we have over much larger competitors is that our average size allows us to be more nimble in these markets that have become less liquid and harder to transact in. Unlike other large funds, who are forced into credit default swaps, we are able to find cash bonds in sufficient size. Fund holdings can be volatile. Investments in the fund could lose value.



HOW TO PARTICIPATE IN EMERGING MARKET DEBT?

Payden & Rygel has a long history of managing global portfolios denominated in various currencies. We work with our clients to meet their objectives, rather than offering a standard product.

Payden & Rygel has been investing in emerging markets securities since 1997. We offer a wide range of emerging market debt products, including separate accounts and mutual funds. We have had a dedicated US-based emerging-market mutual fund since 1998 – Payden Emerging Markets Bond Fund (Ticker: PYEMX). It offers an investor and adviser share class. The fund has a sovereign focus with opportunistic use of corporates and local markets.

PAYDEN EMERGING MARKETS BOND STRATEGY AS OF NOVEMBER 30, 2011

TOP TEN COUNTRIES

BRAZIL	13%	PHILIPPINES	6%
INDONESIA	8%	COLOMBIA	5%
RUSSIA	7%	PERU	5%
MEXICO	7%	KAZAKHSTAN	4%
VENEZUELA	7%	GHANA	4%

PERFORMANCE

Returns*	YTD	11/30/11			09/30/11		
		1 year	5 year	10 year	1 year	5 year	10 year
Payden Emerging Markets Bond Fund (PYEMX)	4.41%	4.70%	7.36%	9.98%	-0.86%	7.25%	10.16%

*Returns are net of fees annualized.

Total Fund Operating Expenses: 0.86%

Quoted performance data represent past performance, which does not guarantee future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. For the most recent month-end performance, which may be higher or lower than that quoted, visit payden.com or call 1 800 572-9336.



Kristin Johnson Ceva, PhD, CFA
Managing Principal

Kristin Ceva, PhD, CFA, is a managing principal at Payden & Rygel. Ceva is a member of the firm’s Investment Policy Committee and is a senior portfolio manager directing the firm’s global sovereign debt strategies. She also is a frequent speaker at industry forums, focusing on topics related to international investing and emerging markets.

Prior to joining Payden & Rygel, Ceva worked with a number of international policy institutes, including the Pacific Council on International Policy, the Center for U.S.-Mexican Studies and the North America Forum at Stanford University.

Kristin Ceva holds the Chartered Financial Analyst designation. She earned a PhD from Stanford University in Political Science with an emphasis on international political economy. She was a Fulbright Scholar based in Mexico City and her dissertation was entitled “Economic Restructuring and Business-Government Relations: Trade and Financial Liberalization in Mexico.” Ceva has completed extensive economic and political research on emerging markets and is fluent in Spanish. She received a BBA in Finance from Texas A&M University.

Key Strengths/Focus of the Emerging Markets Strategy

PRIMARILY SOVEREIGN FOCUS
OPPORTUNISTIC EXPOSURE IN CORPORATES

NO DEFAULTS
IN 13 YEARS OF MANAGING EM PORTFOLIOS

LOCAL MARKETS EXPERTISE
OPPORTUNISTIC EXPOSURE TO LOCAL MARKETS

PURE BOND STRATEGY
NO CREDIT DEFAULT SWAPS, NO DISTRESSED DEBT

PAYDEN EMERGING MARKETS BOND FUND
(TICKER: PYEMX)

MORNINGSTAR™ ^A	Rating	Number of funds
Overall	★★★★	95
3 Year	★★★★	95
5 Year	★★★★★	61
10 Year	★★★★	40

Category: Emerging Markets Bond
Criterion: Risk-adjusted return

As of November 30, 2011

^A An overall rating is based on a weighted average of the fund’s ratings for the three-, five- and ten-year periods, if applicable. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating (based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund’s monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive five stars and the next 22.5% receive four stars. Highly rated funds are defined as those that have a four or five star Morningstar rating. Data provided by Morningstar, Inc. Although gathered from reliable sources, data completeness and accuracy cannot be guaranteed. Morningstar is a registered trademark of Morningstar, Inc. and is not affiliated with Payden Emerging Markets Bond Fund.

A Broad Range of Mutual Funds

>>US BOND FUNDS

Payden Cash Reserves Money Market Fund (PBHXX)
Payden Limited Maturity Fund (PYLMX)
Payden Short Bond Fund (PYSBX)
Payden US Government Fund (PYUSX)
Payden GNMA Fund (PYGNX)
Payden Core Bond Fund (PYCBX)
Payden High Income Fund (PYHRX)
Payden Corporate Bond Fund (PYACX)

>>TAX EXEMPT BOND FUNDS

Payden Tax Exempt Bond Fund (PYTEX)
Payden California Municipal Income Fund (PYCRX)

>>US EQUITY FUNDS

Payden Value Leaders Fund (PYVLX)
Payden US Growth Leaders Fund (PUGLX)

>>INTERNATIONAL EQUITY FUNDS

Payden Global Equity Fund (PYGEX)
Metzler/Payden European Emerging Markets Fund (MPYMX)

>>CASH BALANCE PLAN FUNDS

Payden/Kravitz Cash Balance Plan Fund – Institutional (PKBIX)
Payden/Kravitz Cash Balance Plan Fund – Adviser (PKCBX)
Payden/Kravitz Cash Balance Plan Fund – Retirement (PKCRX)

>>GLOBAL BOND FUNDS

Payden Global Short Bond Fund (PYGSX)
Payden Global Fixed Income Fund (PYGFX)
Payden Emerging Markets Bond Fund (PYEMX)
Payden Emerging Markets Local Bond Fund (PYELX)

For more information and to obtain a prospectus or summary prospectus, visit payden.com or call 800 572-9336. Before investing, investors should carefully read and consider investment objectives, risks, charges, expenses and other important information about the fund, which is contained in these documents.

Investment in foreign securities offers different rewards and challenges from investing in domestic securities, including changes in exchange rates, political changes, differences in reporting standards, and, for emerging-market securities, higher volatility. Investment returns and principal value will fluctuate, so investors' shares when sold, may be worth more or less than their original cost. The Paydenfunds are distributed by Payden & Rygel Distributors, member FINRA.



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