

WHY WE LOVE U.S. MUNICIPAL BONDS

Payden & Rygel
Investment Management

MUNICIPALS ARE A UNIQUE ASSET CLASS WITH GREATER OPPORTUNITIES FOR OUTPERFORMANCE THROUGH ACTIVE MANAGEMENT

» A Time-Tested Market

- » The U.S. municipal market is as old and time-tested as the Erie Canal. In fact, New York City issued the first municipal bond to finance construction of the Erie Canal, back in 1812. The building of the canal was a monumental project that transformed the economy of the state, the Atlantic seaboard, and the country as a whole.
- » Today, the U.S. municipal market is a dynamic and vital concourse of issuers and investors providing essential capital that builds and maintains the majority of the United States' core infrastructure.



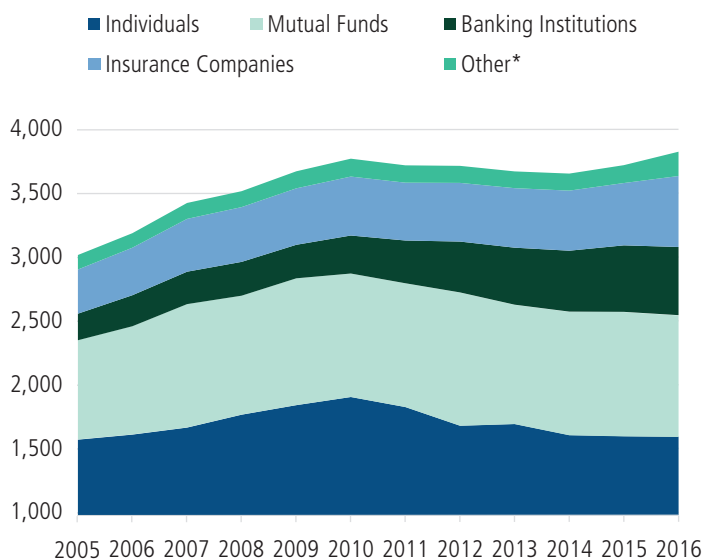
Erie Canal, 1829



New York Thruway Authority Maintains the Erie Canal and its Lock System Today with Regular Issuance of Muni Bonds

» Growing Buyer Base

- » The U.S. municipal market is roughly \$3.8 trillion.
- » The buyer base is dominated by retail investors and mutual funds (42% and 25% respectively) — a dependable investor core.
- » Institutional and foreign holders of debt have gained increasing market share. This share grew in 2016 to a record \$1.3 trillion.
- » **The U.S. municipal market has always been, and remains, the primary financing tool for the building and maintaining of U.S. infrastructure and carrying out key local and state functions. Access to capital markets by all fifty states, territories and local agencies is an absolute necessity and constitutes one of the market's key stabilizing features.**



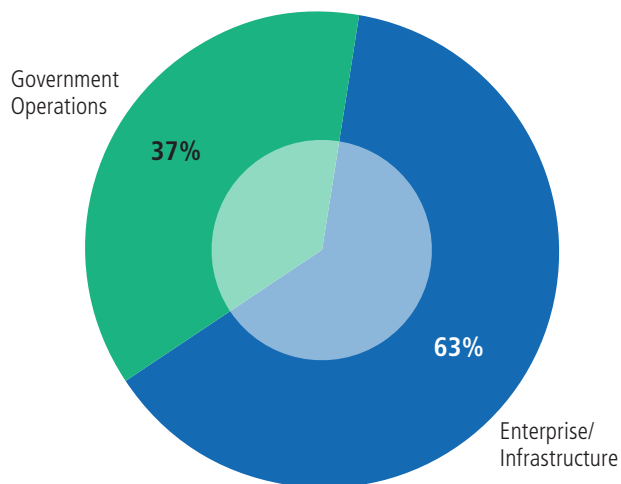
FAVORABLE CHARACTERISTICS

DIVERSE AND HIGH QUALITY ISSUANCE

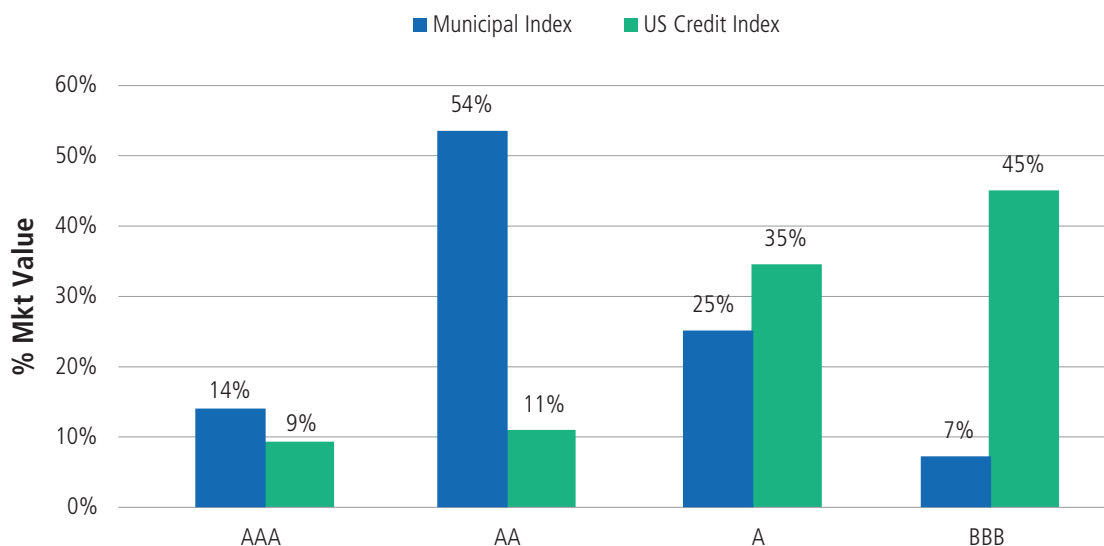
» Diverse Issuance and Sector Composition

- » Infrastructure **issuance dominates the market**, with infrastructure-related debt comprising 65% of index universe.
- » Sector composition is as diverse as the U.S. IG Corporate space, which **gives the investor ample opportunity** for diversification and security selection.
- » Municipal issuance comes in many modes including taxable, tax-exempt and, in some sectors, with a corporate obligor. An increase in issuance of municipal bonds under a corporate cusip has **built synergies between the municipal and corporate markets**.

Enterprise and Infrastructure Related Bonds Dominate Municipal Issuance



Broad Municipal Bonds' Credit Quality Is Much Higher than Corporate Bonds



FAVORABLE CHARACTERISTICS

SAFE HAVEN



Municipals Are Often a Safe Haven From Volatility and Market Disruptions

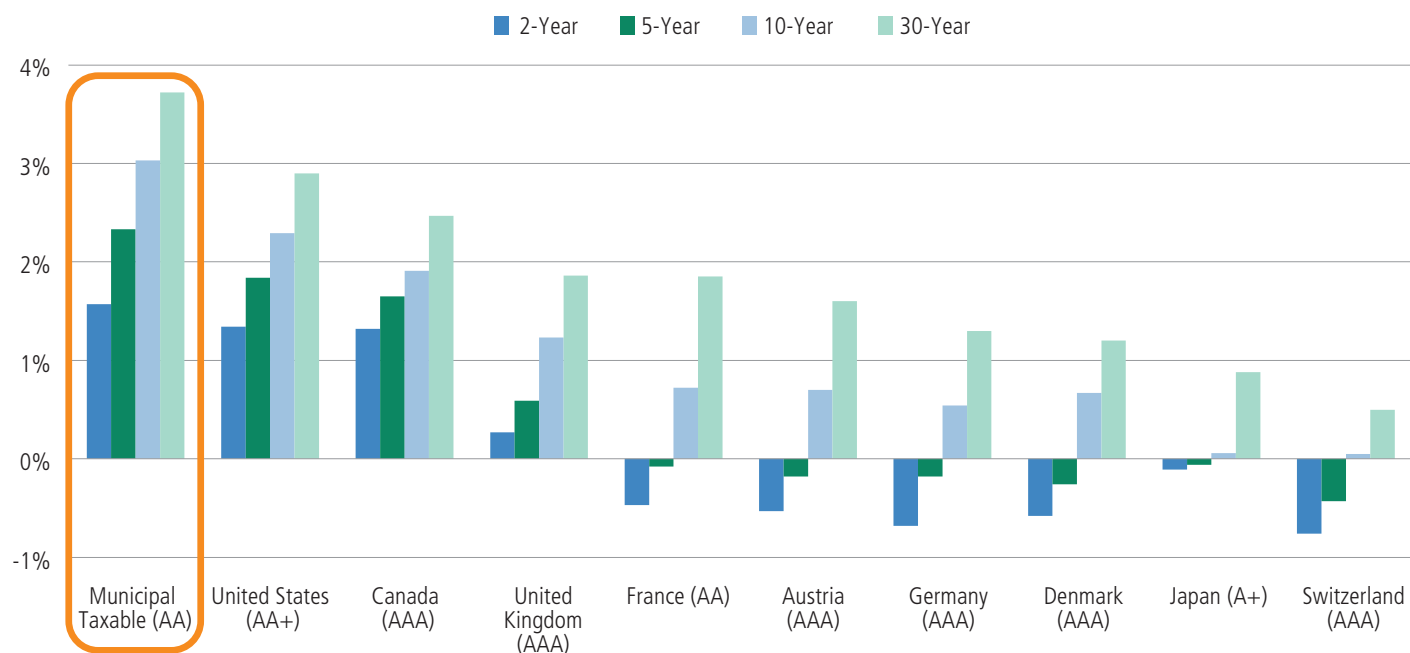
- » Municipal debt is an advantageous fixed income class in that it **exhibits lower correlation** with other asset classes, has a **low volatility profile**, and performs well under market stress scenarios.
- » Though prices of municipal bonds are still subject to broad interest rate directionality, municipal performance diverges from other fixed income instruments based on **unique risk/return drivers**.
- » **Key market drivers for U.S. municipals** are technical in nature: **demand vs. supply** dynamics will determine total return outcomes in normal market conditions.
- » The multitude of issuers and variability of security structures create a lot of opportunity for nimble and experienced managers to **outperform** peers through **security selection** and **identifying undervalued bonds**.



Current Market Environment Signals Possible Attractive Entry Points

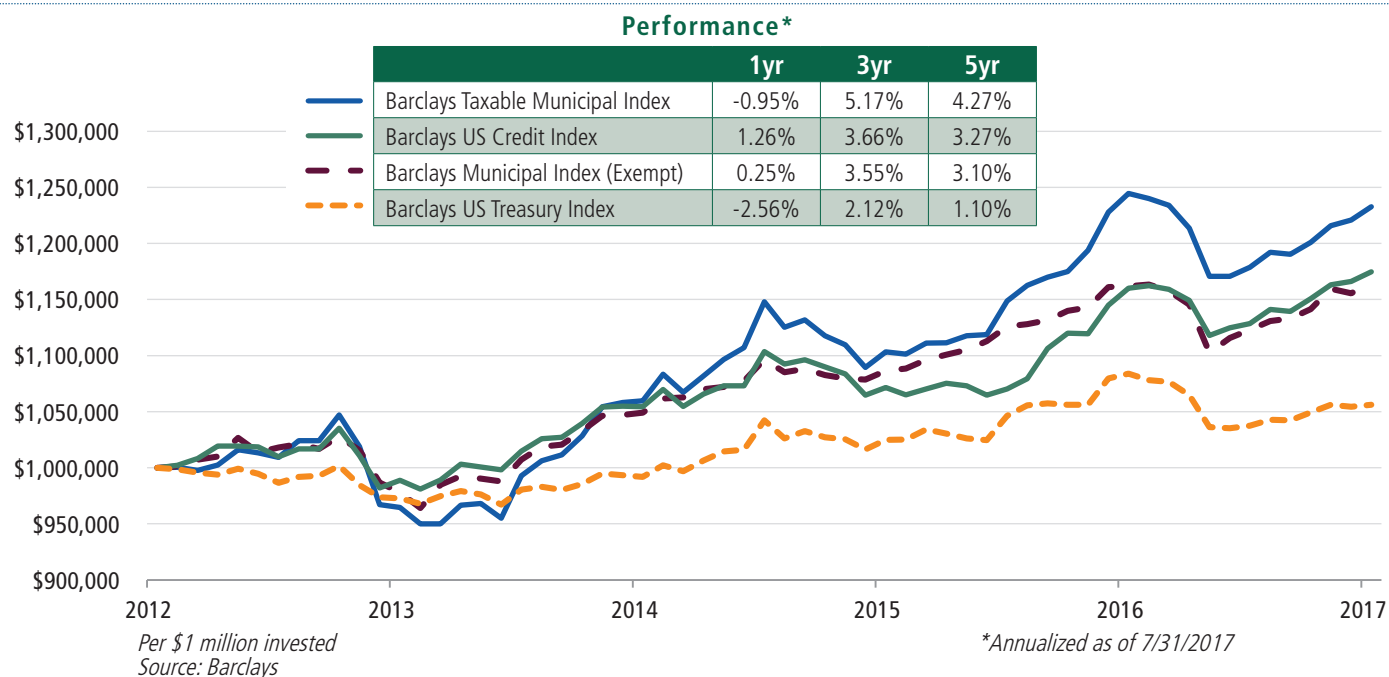
- » Current municipal valuations signal an overbought market, especially in shorter tenors. However, **we believe macro conditions will prevail and municipal yields will follow treasuries higher** when the Fed begins its balance sheet wind-down program.
- » Technical drivers of the supply and demand imbalance **provide a supportive environment** that will allow municipals to absorb the negative price effect of higher rates in a more orderly fashion than other fixed income instruments.
- » Recent positive municipal bond flows and demand fueled by reinvestment needs is **poised to provide favorable liquidity conditions** even in a rising rate environment.

Taxable Municipals – Attractive Yields Compared to Sovereign Debt



Source: Bloomberg L.P. (as of 7/31/2017)

Municipal Bonds Have Delivered Strong, Risk-Adjusted Trailing Performance



» Payden's Long History In Municipal Bonds

- » Payden has been actively involved in municipal bonds since its inception **over 30 years ago**. Due to their high credit quality and attractive yields, both tax-exempt and taxable municipal bonds are a core holding in many of our clients' portfolios.
- » 98% of our municipal assets under management are in customized separately managed accounts (SMAs). We **distinguish ourselves** from the competition with an investment style and approach that allows us to tailor portfolio solutions to incorporate clients' unique needs and objectives.
- » We have a **significant market presence** and are able to command the attention of Wall Street. However, our "just right" size and flat organizational structure keeps us:
 - More nimble than larger competitors
 - More selective in our market exposure
 - More responsive to our clients' demands

34 Years of experience in municipal bonds	91 Number of dedicated municipal bond portfolios	\$3.14bn Assets under management in municipal bonds	Firm strategies that actively utilize municipal bonds <ul style="list-style-type: none"> • Enhanced Cash • Low Duration • Core Bond • Tax-Advantaged • Strategic Income • Absolute Return
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Payden&Rygel

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