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Payden Global Low Duration: Talk w/Syal, Manis, Marshall

This month *Bond Fund Intelligence* “profiles” the Payden Global Low Duration Bond Fund, and interviews Payden & Rygel Managing Principal Mary Beth Syal, Senior VP Larry Manis and VP Amy Marshall. The three discuss “going global” in the short-term space, the benefits of low duration, and a number of other timely bond market topics. Our Q&A follows.

BFI: Tell us a little bit about your history.

Syal: Payden & Rygel has been a pioneer during its 34 year history, and one area in particular is global fixed income investing. Our very first mutual fund was the Payden Global Fixed Income Fund in 1992, as a way to allow our clients to gain exposure to the opportunities we saw outside the US. The firm has always had a global focus. The Global Low Duration Fund launched in 1996. Our mandate is to invest in instruments in the developed and emerging markets seeking to capture alpha from a diverse source of opportuni-



Mary Beth Syal

ties globally, within an average duration of 1.5 to 2.5 years. The idea is to capture the return available from the global opportunity set but in a lower volatility way. I've been at Payden & Rygel for 26 years and it has been exciting to see how global markets have changed over that time. Amy has been on the team at Payden for six years and Larry for three, both coming with New York capital markets experience.

BFI: Tell us more about Global Low Duration and your short-term funds.

Syal: Payden has both a US fund complex as well as Dublin-based UCITs. The options range from very short liquidity oriented portfolios to the Global Low Dura-

tion Fund which is more of a “low duration plus” offering. The UCITs mirror the US fund offerings, and are available in multiple currencies.

Marshall: The Limited Maturity Fund has a 3-month benchmark, and is thought of as a step out from a money market fund in that “enhanced cash” space. The Low Duration

and Global Low Duration Funds both have 1-3 year benchmarks, but the Global Low Duration Fund has a greater risk tolerance and higher expected return that comes from investing in a wider universe of securities globally. The Fund is US-dollar denominated but we use non-US dollar denominated securities either hedged or unhedged depending on our FX view.

Syal: So you can think of the Global Low Duration as more of a ‘plus’ type strategy, and it will have greater exposure to emerging markets that are primarily USD denominated. It will have a greater allocation to high yield corporates, and there is the opportunity to express currency views either by buying non-dollar bonds or through open currency positions..... There is an expectation for higher returns in this fund versus our Low Duration Fund, given its modestly higher risk profile.

BFI: How did these funds come about?

Syal: Our mutual funds really have been developed to provide an extension of what we do on the separate account side. Payden manages \$115 billion in AUM with the mutual fund complex in the US representing \$7.5 billion, and the UCITs \$3.5 billion. The strategies are those that we provide to our separately managed account clients, with the benefit of a comingled vehicle for administrative ease. Many investors desire a greater return on their short-term liquidity and our suite of short term funds provides the ability to tier that liquidity according to their time horizon.

Money fund reform was a catalyst for investors to revisit their liquidity requirements. We've seen an increase in interest in our Limited Maturity Fund as investors move out of VNAV money market funds that might have gates and fees. As

Payden & Rygel

investors evaluated their liquid-

ity post Financial Crisis, they saw that they could invest with a slightly longer maturity and earn an attractive return with a modest amount of interest rate risk. Finally, the Fed has helped a little because they've raised rates three times in the last two years. Now you're rewarded to take those additional risks.

A low duration portfolio provides many benefits. If you think interest rates are going up, the opportunity to roll over maturities at those higher yields is there. If you think inflation is going to pick up, you can have price protection by owning shorter maturities vs. longer maturities. So we think it's quite an attractive way to invest right now.

BFI: What are the big challenges for these funds? Negative or rising rates?

Manis: I would argue the points that you raised are actually positives for Low Duration and Global Low Duration in general. As the opportunities outside of the U.S. diminished with a negative rate environment, we were able to take position our holdings to get pretty attractive yields on our funds....

Most of the issues that would be concerning for a traditional long-term fixed income investor would be solved with a low duration fund.

BFI: What can and can't you buy?

Syal: Because we use the term “global” in the fund name, we must have a mini-



Larry Manis

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mum of 40% invested in non-US domiciled issuers. That does not mean they have to be denominated in a currency other than the dollar. An example of this is US dollar issuance from a German corporation like **Daimler** or a country such as **Sweden**.



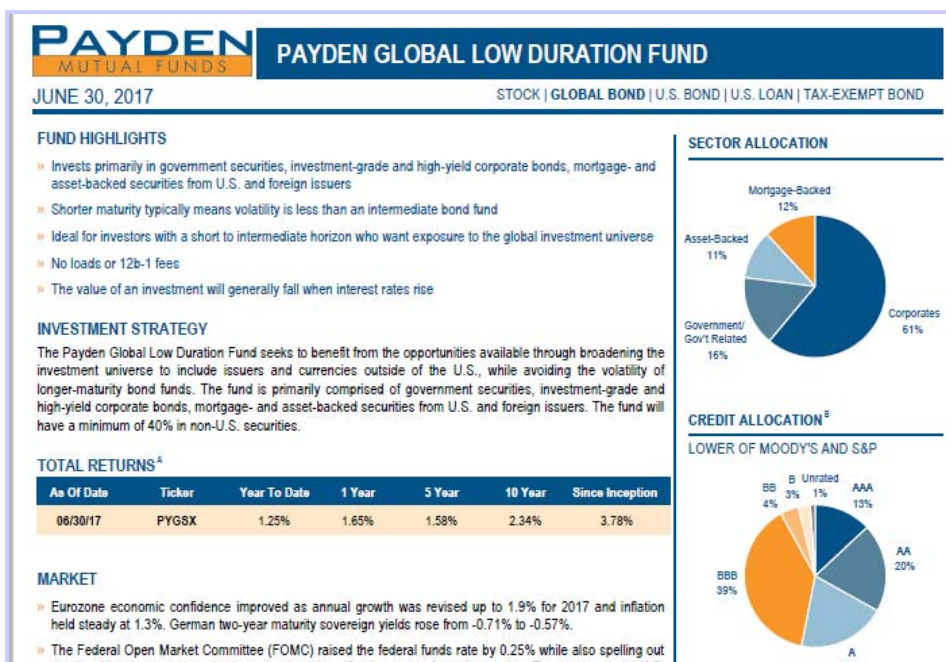
Amy Marshall

Marshall: Our sector allocation is environmentally driven, so it changes over time. Right now, we have a bias towards investment grade corporates.

But really the universe of products that we can invest in includes: **structured products, emerging markets, high yield, municipals, foreign governments & agencies, and money market securities.** The Global Low Duration Fund can have up to 35% in high yield, but we're rarely at that limit. Right now, the fund has about 5%.... **So it depends on relative valuation amongst the sectors whether or not we'll have a larger allocation.** We use derivatives, interest rate futures, and options too, to either hedge the portfolio or generate alpha.

BFI: Any countries you like or don't like?

Manis: The U.S. is definitely safer these days. Our general view, which ties into the overweight to corporates, is that US economy is on solid footing will move along nicely over time. We didn't get overly exuberant after the elections. We kind of held our ground with our growth forecast and stayed there throughout the



year. But we think that's supportive of corporates, and supportive generally of USD fixed income.... **So we are buying mostly USD denominated assets.**

Syal: More recently, our view on Europe has improved and we are beginning to see signs of growth. **Negative interest rates are unsustainable for longer periods of time and we would expect interest rates there to rise to reflect the improving economic picture.** The emerging markets story that we like right now is to identify countries that are internally generating economic growth and are not relying on commodity prices for growth.

BFI: How about your overall outlook?

Syal: The benefit of the Global Low Duration Fund is the ability to take advantage

of a world of market sectors.... We are growth optimists, and think that the additional yield from global credit sectors such as emerging markets and corporate bonds will produce attractive positive returns. It's an ideal place to invest for a balance between income/yield and price volatility. **That's really what we're trying to do, to maximize that return per unit of risk.** ♦

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