

# PAYDEN & RYGEL

## Form ADV Part 2A – Firm Brochure

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**This Form ADV Part 2A brochure provides information about the qualifications and business practices of Payden & Rygel. If you have any questions about the contents of this brochure, please contact us at (213) 625-1900 or [requests@payden.com](mailto:requests@payden.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Payden & Rygel also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Payden & Rygel is an SEC-registered investment adviser. This registration does not imply a certain level of skill or training.**

## **Item 2: Material Changes**

**There have been no material changes to this Form ADV Part 2A brochure since the last annual update on March 31, 2014.**

### **Item 3: Table of Contents**

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## **Item 4: Advisory Business**

Payden & Rygel is an independently owned SEC-registered investment adviser that was founded in 1983. The firm is a California corporation that is headquartered in Los Angeles, California and has a second office in Boston, Massachusetts. Payden & Rygel is a privately held company with twenty shareholders, all of whom are full-time employees, actively involved in the firm's operation. Joan Payden, President and CEO, owns more than 50% but less than 75% of the outstanding shares of the firm and Brian Matthews, James Sarni, Mary Beth Syal and Scott Weiner, all of whom are Managing Principals of the firm, each owns more than 5% but less than 10% of the outstanding shares of the firm.

Payden & Rygel offers global and domestic fixed income strategies, as well as global and domestic equity strategies. To further enhance its capabilities and client service offerings, Payden & Rygel introduced a family of mutual funds in 1992, which now total seventeen in number. The mutual fund mandates replicate the disciplines employed in Payden & Rygel's separate account management.

Payden & Rygel also has an established global presence. In 1998, with the growth of its international client base, it opened a London investment management subsidiary, Payden & Rygel Global Limited. This company is a registered investment advisor with the Financial Services Authority of the United Kingdom and is wholly-owned by Payden & Rygel. That same year, Payden & Rygel established a 50/50 joint venture with a U.S. subsidiary of the Metzler Bank Group, the oldest private bank in Germany. This joint venture operation, Metzler/Payden LLC, provides investment management services to clients of both Metzler Bank and Payden & Rygel, combining expertise in both global fixed income and global equity mandates.

In providing its investment management services to its clients, Payden & Rygel tailors its advisory services to the individual needs of the client based on the investment guidelines agreed upon with each client. These guidelines may include restrictions on investing in certain securities or types of securities.

*Payden & Rygel Asset Allocation Management Service – Wrap Fee Program Element.* The Payden & Rygel Asset Allocation Management Service ("PRAAM") is offered to clients who do not meet the minimum amounts for its separately managed account business. The PRAAM program is primarily based on the use of mutual funds, including in particular one or more PaydenFunds, and may also include individual securities. PRAAM portfolios are managed using a number of investment strategies, including, for example, bond-only (including cash management) and balanced (stocks and bonds) strategies. Portfolios are constructed by a Payden & Rygel portfolio manager who evaluates the client's investment needs and objectives and recommends an allocation structure.

Client assets may be directly invested in the PaydenFunds because those mutual funds have their own custodians. However, in some cases, a broker-dealer or bank custodian may be used to hold client shares in the PaydenFunds and other individual securities held by the client. Payden & Rygel currently has such an arrangement for its clients with Charles Schwab Institutional for which there is a fee. This aspect of the PRAAM program where assets are custodied with Charles Schwab Institutional may be considered similar to a wrap fee program.

*Wrap Fee Programs Sponsored by Others.* Payden & Rygel participates in two wrap fee programs sponsored by other parties.

It has contracted with Lido Advisors and United Capital Financial Advisers to serve as an investment adviser to their respective clients. For the services it provides these clients, Payden & Rygel receives an advisor fee which varies depending on the investment mandate.

In the case of each wrap fee program, Payden & Rygel manages the wrap fee accounts in fundamentally the same fashion it manages other accounts with the same investment strategy.

*Payden & Rygel Assets Under Management.* As of December 31, 2014, Payden & Rygel managed \$83,718,000,000 of client assets, virtually all of which are managed on a discretionary basis.

## **Item 5: Fees and Compensation**

With respect to the fees it charges for its investment management services, Payden & Rygel's standard practice is to charge fees that are based on the market value of the assets under management. Fee schedules are expressed at an annual rate, but fees are billed monthly or quarterly, depending on the client's preference, and are calculated in arrears. Based on the method selected by the client, Payden & Rygel will either bill the client for fees incurred or deduct the fees incurred from the client's custody account.

Clients will incur brokerage and other transaction charges. Please see Item 12 of this brochure on Brokerage Practices.

The fee schedules below are Payden & Rygel's standard fee schedules for various types of accounts. However, fees are negotiable in certain circumstances. For example, certain clients pay fees based on historical fee schedules that are not offered to new clients. Further, since Payden & Rygel manages portfolios to meet specific client needs, fee schedules may be modified to reflect the specific nature of services provided to a particular client, and may include, for example, fixed fee arrangements, performance-based fee arrangements, different valuation dates or different billing arrangements.

The following schedules provide details of the standard fees charged for various accounts:

**Enhanced Cash**

0.150% on the first \$100 million of assets

0.125% thereafter

**Low Duration**

0.200% on the first \$100 million of assets

0.150% thereafter

**Intermediate Bond, Core Bond and Core Plus**

0.250% on the first \$100 million of assets

0.200% thereafter

**Strategic Income**

0.300% on the first \$100 million of assets

0.250% thereafter

**Absolute Return**

0.400% on the first \$100 million of assets

0.350% thereafter

**U.S. High Yield**

0.450% on the first \$100 million of assets

0.350% thereafter

**U.S. and Global Investment Grade Corporate**

0.300% on the first \$100 million of assets

0.250% thereafter

**Emerging Markets Bond**

**USD Benchmark**

0.450% on the first \$100 million of assets

0.350% thereafter

**USD-Local Currency Blended Benchmark**

0.480% on the first \$100 million of assets

0.400% thereafter

**Local Currency Benchmark**

0.500% on the first \$100 million of assets

0.450% thereafter

**Emerging Markets Corporate Bond**

0.550% on the first \$100 million of assets

0.450% thereafter

**Global Bond**

0.250% on the first \$100 million of assets

0.200% thereafter

**Municipal Bond**

0.250% on the first \$100 million of assets

0.200% thereafter

**Domestic Equity Large Cap**

0.500% on the first \$100 million of assets

0.400% thereafter

**Enhanced Equity**

0.250% on the first \$100 million of assets

0.200% thereafter

**Item 6: Performance-Based Fees and Side-By-Side Management**

For performance-based fee accounts, the fee is calculated based on the account's performance that is in excess of the performance of the applicable benchmark for the account. In each case, the persons responsible for managing the account with the performance-based fee also manage accounts with Payden & Rygel's standard asset-based fees. This can present a conflict of interest because, at least at first glance, there exists an incentive for the portfolio manager to favor the account for which Payden & Rygel receives a performance-based fee.

Payden & Rygel addresses this potential conflict in two ways. First, the firm's Compliance Group performs periodic reviews of trading activity for each account with performance-based fees versus trading activity for accounts with asset-based fees that have the same or a similar investment mandate as the account with performance-based fees. This is done to ensure that the accounts are being treated equitably in terms of security selection, trading of securities and the like. Second, the primary component of the compensation for each Payden & Rygel employee, including portfolio managers, is the overall performance of the firm, together with the individual employee's overall contribution to that performance over all the accounts for which the employee has responsibility. This compensation structure is designed to provide portfolio managers the incentive to act in the best interests of all clients, regardless of the type of fee.

## **Item 7: Types of Clients**

Payden & Rygel's client base is overwhelmingly institutional in nature, including corporations and other business entities, educational institutions, charitable organizations, pension and profit sharing plans, investment companies, governmental entities and supranational organizations. However, the firm does have individual and trust or estate clients, although the assets under management for those types of clients are small compared to the assets under management for the firm's institutional clients.

As indicated above under Item 5: Fees and Compensation, Payden & Rygel's fee schedules include minimum account sizes.

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

As discussed in Item 4 of this brochure, Payden & Rygel offers any particular client advisory services based on one or more of four basic strategies: (a) domestic fixed income, (b) global fixed income, (c) domestic equity, or (d) global equity. In each case, however, Payden & Rygel will tailor the strategy to the individual requirements or restrictions of the particular client based on the investment guidelines agreed upon with each client.

Following the discussion of these strategies is a discussion of Payden & Rygel's investment process.

### **Domestic Fixed Income**

*Strategy.* A typical basic domestic fixed income strategy includes a wide variety of debt securities, including (1) securities issued or guaranteed by the U.S. government or its agencies or foreign governments or their agencies, (2) debt securities issued by U.S. or foreign companies, (3) U.S. or foreign mortgage-backed and asset-backed securities, (4) municipal debt securities issued by states or local governmental organizations, (5) dividend-paying convertible stock, and (6) convertible bonds and preferred stock. The typical distinguishing feature of a domestic fixed income strategy, versus a global fixed income strategy is the fact that all of the securities in the portfolio are payable in U.S. dollars.

Certain elements may be variable. For example, in terms of maturity, individual securities may be of any maturity, or they may not exceed a specific maturity, if that is the client's requirement. Similar, there may be no limitation on the average maturity of the account's portfolio, or there may be a maximum average portfolio maturity, again depending on client requirements. Another variable is whether all of the securities must be investment-grade, or whether some proportion may be below investment-grade.



*Risk of Loss.* There are risks in owning debt securities, and thus you could lose money owning these securities. For example, when interest rates rise, the market prices of the debt securities usually decline. When interest rates fall, the prices of the debt securities usually increase. Generally, the longer the average maturity of the portfolio, the greater will be the price fluctuation. Also, below investment-grade securities are more speculative than investment-grade securities and involve a greater risk of default and price fluctuation.

### Global Fixed Income

*Strategy.* A typical basic global fixed income strategy includes the similar wide variety of debt instruments listed above under the Domestic Fixed Income strategy, but in this strategy securities may be issued anywhere in the world, and in this strategy securities may be payable either in U.S. dollars or in one or more foreign currencies. There are similar variable elements here that depend on individual client requirements, *i.e.*, the maturity of individual securities, average portfolio maturity, investment-grade securities and below investment-grade securities. Other client-driven variable elements include whether the currency exposure for securities payable in one or more foreign currencies will be hedged to the U.S. dollar. Similarly, the portfolio could include emerging markets securities.

*Risk of Loss.* There are similar risks in owning debt securities in this strategy as in the Domestic Fixed Income strategy, and thus you could lose money owning these securities. For example, when interest rates rise, the market prices of the debt securities usually decline. When interest rates fall, the prices of the debt securities usually increase. Generally, the longer the average maturity of the portfolio, the greater will be the price fluctuation. Also, below investment-grade securities are more speculative than investment-grade securities and involve a greater risk of default and price fluctuation. In addition, though, there are risks in owning foreign securities. The performance of foreign securities can be adversely affected by the different political, regulatory and economic environments in countries where the securities are issued, and fluctuations in foreign currency exchange rates may also adversely affect the value of foreign securities. Finally, emerging markets tend to be more volatile than the U.S. market or foreign developed markets.

### U.S. Equity – Large Cap Value

*Large Cap Value Strategy.* This strategy invests primarily in large capitalization value stocks, defined as stocks with above average dividend yields and large market capitalizations and other income producing securities, such as exchanged-traded common and preferred stocks, real estate investment trusts and master limited partnerships. Payden & Rygel uses quantitative techniques to identify large cap stocks with above average dividend yields. Fundamental analysis is then performed to identify individual companies capable of maintaining or increasing their dividend. In this strategy, investments are principally in U.S. securities, but may include investments in foreign securities, including emerging markets securities. In addition, Payden & Rygel may also

invest from time-to-time in exchanged-traded funds (“ETFs”), or other broad equity market derivative instruments, as a means to efficiently add specific sector, country or style exposure.

*Risk of Loss.* Investing in equity securities poses certain risks, and thus you could lose money owning these securities. These include a sudden decline in a security’s share price, or an overall decline in the stock market. The value of securities will also fluctuate on a day-to-day basis with movements in the stock market, as well as in response to the activities of the individual companies whose shares you may own. In addition, because of the strategy’s reliance in part on dividend income, there is the risk that the issuer may cut or even eliminate the dividend on its securities. ETFs also present risks because they are designed to track closely the performance of a particular market index, and if the underlying index is subject to increased volatility, the ETF may be subject to that same increased volatility. In addition, there are risks in owning foreign securities. The performance of foreign securities can be adversely affected by the different political, regulatory and economic environments in countries where the securities are issued, and fluctuations in foreign currency exchange rates may also adversely affect the value of foreign securities. Finally, emerging markets tend to be more volatile than the U.S. market or foreign developed markets.

*Payden & Rygel Investment Process.* Payden & Rygel’s Investment Policy Committee, consisting of Kristin Ceva, Nigel Jenkins, Asha Joshi, Brian Matthews, Joan Payden, Michael Salvay, James Sarni, Mary Beth Syal, Scott Weiner and James Wong, is responsible for defining the broad investment parameters applicable to each of the client accounts, including the types of strategies to be employed and the range of securities acceptable for investment.

The investment process is based on a team approach, and as such the Investment Policy Committee relies upon two groups in formulating investment policy. The first group is the investment strategy group. It is comprised of several strategy teams that are responsible for developing portfolio structures that reflect both the macro mandates of the Investment Policy Committee and the securities that are available in the market. Each of the strategy teams, which include investment traders, strategists and systems personnel, analyzes investment opportunities and strategies, makes portfolio management decisions and applies them to the various account portfolios. The strategy teams include the Tax Exempt Group, the Global Group, the Short Maturity Group, the Core/Intermediate Bond Group and the Equity Group.

The second group involved in the investment process is the portfolio management group. It focuses on client-related issues in helping the Investment Policy Committee and the investment strategy group develop portfolio structure. As such, the portfolio managers are the main interface with the client. A portfolio manager’s goal is to identify and communicate a client’s objectives/constraints, risk tolerances and time horizon to the investment strategy group. The portfolio manager is the client’s advocate within Payden & Rygel. Because the firm believes that client issues are as important as market issues, the interchange between portfolio managers and investment strategists is a key part of the

process. The investment strategy and portfolio management groups together comprise the heart of the investment process.

Implementation of investment policy is carried out by a team of analysts and traders. This group, comprised of approximately fifteen individuals, executes transactions with 30 to 40 brokers across the globe. The trading desk is responsible for tracking dealers inventory, competitive pricing and security selection. Most fixed income transactions are placed on a competitive basis to confirm best price execution.

The final step in this investment process is that of review and control. It is at this level that portfolios are routinely checked for adherence to guidelines, consistency of structure and return attribution. Although Payden & Rygel does not move portfolios in lock-step, portfolios with similar mandates will have similar portfolio structures and returns. Exceptions are quickly identified and subsequently reviewed at the Investment Policy Committee level.

## **Item 9: Disciplinary Information**

Neither Payden & Rygel, nor any of its management persons, has had any criminal or civil actions brought against them.

Neither Payden & Rygel nor any of its management persons has had any administrative proceedings before the SEC, any other Federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority.

Finally, neither Payden & Rygel nor any of its employees has had any proceedings before any self-regulatory organization.

## **Item 10: Other Financial Industry Activities and Affiliations**

Payden & Rygel provides its investment management services and other related services directly and through the related persons discussed below. In addition, Payden & Rygel is itself registered with the National Futures Association (“NFA”) as a commodity trading adviser (NFA identification no. 0236066) and is subject to the rules and regulations of the Commodity Futures Trading Commission and of the NFA.

### **Investment Adviser Affiliations**

\* **Payden & Rygel Global Limited** is a wholly-owned subsidiary of Payden & Rygel, organized in the United Kingdom and registered as an investment manager and adviser with the Financial Conduct Authority of the United Kingdom.

\* **Metzler/Payden LLC** is an SEC-registered investment adviser that is a Delaware corporation. Metzler/Payden is a joint venture owned equally by Payden & Rygel and a U.S. subsidiary of the Metzler Bank Group of Frankfurt, Germany.

\* **Payden/Kravitz Investment Advisers LLC** is an SEC-registered investment adviser that is a Delaware corporation. Payden/Kravitz is a joint venture owned equally by Payden & Rygel and Kravitz Investment Services, Inc.

### **U.S. Mutual Funds and Offshore Funds**

\* **U.S. Mutual Funds** – Payden & Rygel is the sponsor of The Payden & Rygel Investment Group, which is registered with the SEC and has nineteen mutual funds (collectively, the “PaydenFunds”).

Payden & Rygel is the investment adviser to eighteen of the PaydenFunds: Payden Cash Reserves Money Market Fund, Payden Limited Maturity Fund, Payden Low Duration Fund, Payden U.S. Government Fund, Payden GNMA Fund, Payden Core Bond Fund, Payden Strategic Income Fund, Payden Absolute Return Bond Fund, Payden Corporate Bond Fund, Payden High Income Fund, Payden Floating Rate Fund, Payden California Municipal Income Fund, Payden Global Low Duration Fund, Payden Global Fixed Income Fund, Payden Emerging Markets Bond Fund, Payden Emerging Markets Local Bond Fund, Payden Emerging Markets Corporate Bond Fund and Payden Equity Income Fund.

Payden & Rygel’s subsidiary, Payden/Kravitz Investment Advisers LLC, is the investment adviser to the Payden/Kravitz Cash Balance Plan Fund.

\* **Offshore Funds** – Payden & Rygel is the sponsor of the Payden Global Funds PLC, a family of sixteen funds that are domiciled in Dublin, Ireland and are offered to Payden & Rygel’s non-U.S. clients principally through Payden & Rygel’s London subsidiary, Payden & Rygel Global Limited. Payden & Rygel is the investment adviser to each of these funds: Payden Euro Liquidity Fund, Payden U.S. Dollar Liquidity Fund, Payden Global Short Bond Fund, Payden Global Bond Fund, Payden Global Corporate Bond Fund, Payden Sterling Corporate Bond Fund - Investment Grade, Payden U.S. Core Bond Fund, Payden USD Low Duration Credit Fund, Payden Global Emerging Markets Bond Fund, Payden Global Emerging Markets Corporate Bond Fund, Payden Global High Yield Bond Fund, Payden Absolute Return Bond Fund, Payden World Equity Fund, Payden Global Government Bond Index Fund, Payden Global Inflation-Linked Bond Fund and Payden Sterling Reserve Fund. Each of these funds is a series of the Payden Global Funds PLC.

### **Broker-Dealer Affiliation**

\* **Payden & Rygel Distributors** is a wholly-owned subsidiary of Payden & Rygel that is registered with the SEC and regulated by the Financial Industry Regulatory Authority, FINRA. Payden & Rygel Distributors is a limited purpose broker/dealer whose sole business is the distribution of shares of the nineteen PaydenFunds of The Payden & Rygel Investment Group. It has no other business activities, no clients and thus no brokerage accounts for clients. In addition, it has no employees of its own. Certain employees of Payden & Rygel who may present one or more of the PaydenFunds as potential investment vehicles for clients or prospective clients of the firm are registered representatives of Payden & Rygel Distributors.

### **Payden & Rygel Asset Allocation Management ("PRAAM") Service Accounts**

Payden & Rygel's PRAAM service offers active management across the stock, bond and cash sectors to construct portfolios customized to each client's return expectation and risk tolerance. Portfolios are designed primarily using fund vehicles such as index funds, exchange-traded funds and mutual funds. Portfolios may include individual securities and also one or more PaydenFunds.

PRAAM portfolios are managed using a number of investment strategies, including, for example, bond-only (including cash management) and balanced (stocks and bonds) strategies. Portfolios are constructed by a Payden & Rygel portfolio manager who evaluates the client's investment needs and objectives and recommends an allocation structure. Client assets may be directly invested in the PaydenFunds because those mutual funds have their own custodians. In some cases, a broker-dealer or bank custodian may be used to hold client shares in the PaydenFunds and other individual securities held by the client. Payden & Rygel currently has such an arrangement for its clients with Charles Schwab Institutional and Payden & Rygel absorbs the cost of that arrangement.

Payden & Rygel may charge investment management fees (shown below) for the PRAAM Service. However, clients who use the PRAAM Service are provided all relevant fee schedules and are advised that the investment management fee Payden & Rygel receives for providing the PRAAM Service, together with the investment management fees that Payden & Rygel receives from the PaydenFunds, may be higher than the investment management fees Payden & Rygel receives on separately managed accounts that consist solely of individual securities.

#### PRAAM Fees for Balanced Accounts:

##### Accounts over \$1 million:

0.60 of 1% on the first \$5 million of assets  
0.45 of 1% on the next \$5 million of assets  
0.25 of 1% on the next \$15 million of assets  
0.10 of 1% thereafter

Minimum annual PRAAM fee: \$6,000

#### PRAAM Fees for Bond-Only Accounts:

0.25 of 1% on all assets

The foregoing fee schedules are Payden & Rygel's current fee rates for standard PRAAM Service accounts. There remain in effect with some clients historical fee schedules that are not offered to new clients. Further, since Payden & Rygel manages portfolios to meet specific client needs, there may be instances where fees are adjusted to reflect the specific nature of services provided to a particular client. For some PRAAM Service clients, Payden & Rygel may negotiate different fee schedules, valuation dates or billing arrangements, including fixed fee arrangements and performance-based fee.

#### **Potential Conflict of Interest – Mutual Funds and Separately Managed Accounts**

Payden & Rygel's use of the PaydenFunds or offshore funds described above in the investment strategies for its clients may result in a conflict of interest in the following circumstances involving its separately managed account clients. In implementing the investment mandate for a client who has a separately managed account, Payden & Rygel may use mutual funds, including in particular one or more of the PaydenFunds, to achieve maximum diversification in the client's portfolios. When a portion of client assets from a separately managed account is invested in one or more of the Paydenfunds, Payden & Rygel does not charge a fee at the separately managed account level on the assets invested in the PaydenFunds, except for certain daily "sweep" account investments in the Payden Cash Reserves Money Market Fund. However, these clients are provided all relevant fee schedules and are advised that the investment management fees that Payden & Rygel receives as an investment adviser to the Paydenfunds may be higher than the investment management fees it receives from separately managed accounts.

#### **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Payden & Rygel's Code of Ethics is designed to set the tone for the conduct and professionalism of our employees, and all employees are subject to the Code. The following principles, which are the foundation of our Code of Ethics, are designed to emphasize Payden & Rygel's overarching fiduciary duty to our clients and the obligation of every employee to uphold that fundamental duty. These principles include: (1) the

duty at all times to place the interest of our clients first; (2) the requirement that all personal securities transactions of every employee shall be conducted in such a manner as (a) to be consistent with the Code of Ethics, and (b) to avoid any actual or potential conflict of interest, or any abuse of an employee's position of trust and responsibility; (3) the principle that no employee shall take inappropriate advantage of his or her position; (4) the fiduciary principle that information concerning the identity of security holdings and financial circumstances of clients is confidential; (5) the principle that independence in the investment decision-making process is paramount; and (6) Payden & Rygel's good reputation is dependent every day upon each employee conducting himself or herself in a manner deserving of the trust each client gives to the firm, and the employee's understanding that any breach of that trust can, and will, irreparably harm that good reputation.

On an annual basis, employees certify that they read, understand and will comply with Payden & Rygel's Code of Ethics and other compliance-related policies. A copy of Payden & Rygel's Code of Ethics will be provided to any client or prospective client upon request.

Neither Payden & Rygel nor any of its employees recommends to clients, or buys or sells for client accounts, securities in which the firm or such employees have a material financial interest. In fact, Payden & Rygel does not buy securities for its own account, and thus no potential conflict of interest exists at the firm level. At the same time, personal trading by employees is allowed. However, Payden & Rygel carefully monitors and regulates that activity to ensure that the first fundamental principle of the firm's Code of Ethics – the duty at all times to place the interest of our clients first – is met. Thus, client accounts always take priority over an employee's personal trading to reduce the conflict of interest. And, even if an actual conflict of interest does not exist, Payden & Rygel's personal trading policy seeks to avoid perceived conflicts, as well.

The basic elements of the personal trading policy are as follows.

First, "personal trading" includes not only trading by the employee but trading by the employee's spouse and children residing in the same household.

Second, it applies to any account over which the employee or such family members have authority to direct trades.

Third, Payden & Rygel maintains a restricted list of companies, the securities of which the firm is trading or considering trading for client accounts. Personal trading of those company's securities is restricted, even if there is no actual conflict of interest and only a potential or perceived conflict of interest.

Fourth, with the exception of certain types of securities identified in the personal trading policy, including for example, U.S. Government securities, certificates of deposit or open-end mutual funds, all personal trades must be pre-approved, and once approval has been obtained, the trade must be completed within two business days. If the trade is

executed without pre-approval or after the approval time has expired, the trade must be reversed, any profits disgorged, and any losses will be assumed by the employee's personal account.

Fifth, employee and family member accounts subject to Payden & Rygel's personal trading policy are required to have their brokers or custodians send duplicate confirmations to Payden & Rygel's Chief Compliance Officer ("CCO"). Confirmations are matched with the pre-approval record.

Sixth, upon joining Payden & Rygel, new employees are required to provide the CCO with an initial list of all reportable securities owned by the employee, the employee's spouse or any family member residing in the household. Annually thereafter, all employees are required to provide the CCO with a list of reportable securities owned by the employee, spouse or family members in the household.

## **Item 12: Brokerage Practices**

Payden & Rygel considers a number of factors in selecting broker-dealers for client transactions and determining the reasonableness of their compensation, *e.g.*, commissions on equity transactions. With respect to the broker-dealers selected to execute fixed income trades on a client's behalf, Payden & Rygel typically seeks competitive bids or offers, generally from up to three broker-dealers, although the number may vary depending on the nature of the security being traded. Payden & Rygel will then execute the trade with the broker-dealer that, in its judgment, will provide the "best execution" on that trade. In assessing "best execution," Payden & Rygel takes into account a number of factors. The choice of the broker-dealer is based not only on the price offered on the specific trade, but also on other considerations, including for example, the timeliness of the execution of the trade, the size of the trade order and the broker-dealer's ability to handle an order of that size, the breadth or thinness of the market in that particular security, the expertise, ability and experience of a particular broker-dealer to handle that particular transaction and the efficiency of post-trade operations.

Most transactions in fixed income securities are effected through broker-dealers on a "net" basis, *i.e.*, without commission. However, some fixed income transactions are effected on an agency basis through a broker-dealer to which a commission is paid. Transactions in equity securities are transacted through broker-dealers on a commission basis, and the selection of such broker-dealers involves basically the same considerations discussed above. Payden & Rygel's Best Execution Committee regularly evaluates commission charges and strives to execute transactions on a low commission basis consistent with "best execution." In addition, as a part of its deliberations, the Best Execution Committee considers all aspects of trading with broker-dealers and meets with all traders over the course of the year to review their trading and understanding of the firm's trading policies and procedures.



Research and Other “Soft Dollar” Benefits. With respect to arrangements for so-called “soft dollar” benefits, Payden & Rygel does not have any arrangement or understanding with any broker-dealer, and there should be no expectation by such broker-dealer, that Payden & Rygel will execute transactions through the broker-dealer in exchange for the broker-dealer providing research publications, internally prepared investment information or other similar “soft dollar” benefits. Payden & Rygel does receive such publications and information, generally on an unsolicited basis, from a number of broker-dealers through which it effects client transactions, as well as from other broker-dealers through which it may never, or only rarely, execute such transactions. To the extent Payden & Rygel uses such broker-dealer supplied information, Payden & Rygel uses it for the benefit of all its clients. Most important, Payden & Rygel’s primary research source is its internal analysis process, which includes face-to-face meetings with officials of the company issuing the securities, reviews of SEC filings and other publications and information by the issuing company and the like. In short, in selecting a broker-dealer for any transaction, Payden & Rygel’s focus is on obtaining “best execution” for its clients under the circumstances of that particular transaction. Any research provided by a broker-dealer executing a particular transaction is purely incidental.

Brokerage for Client Referrals. Payden & Rygel does not seek and does not consider client referrals from broker-dealers when it selects broker-dealers for client transactions.

Directed Brokerage. Payden & Rygel does not recommend, request or require that clients use particular broker-dealers. A client may request that Payden & Rygel direct securities transactions for its account to particular broker-dealers. If so, Payden & Rygel places the client-designated broker-dealer into the competition for such transactions, but the decision on which broker-dealer will be used for any particular transaction is based on “best execution” principles.

Aggregation of Purchases or Sales of Securities. Payden & Rygel routinely aggregates the purchase or sale of securities for various client accounts for the following reasons. First, pricing of securities is better for all accounts in the trade for larger aggregated orders, or “round lot” orders, than for several smaller individual orders, or “odd lot” orders. Second, operationally, larger aggregated “round lot” orders are generally better executed from an operational perspective than several smaller individual “odd lot” orders. Third, clients also benefit from the decrease in potential dispersion of returns amongst accounts that might otherwise occur with several smaller individual “odd lot” orders.

Allocation of Trades. Payden & Rygel may at times determine that certain securities will be suitable for acquisition by more than one account managed by Payden & Rygel. If that occurs, and Payden & Rygel is not able to acquire the desired aggregate amount of such securities on terms and conditions which Payden & Rygel deems advisable, Payden & Rygel will endeavor to allocate in good faith the limited amount of such securities acquired among the various accounts for which Payden & Rygel considers them to be suitable. Payden & Rygel may make such allocations among the accounts in any manner that it considers to be fair under the circumstances, including, but not limited to, allocations based on relative account sizes, the degree of risk involved in the securities

acquired, and the extent to which a position in such securities is consistent with the investment policies and strategies of the various accounts involved.

Cross Trades. A “cross trade” occurs when Payden & Rygel sells a security or other instrument for one of its clients to another of its clients. For example, in some instances a security to be sold by one client account may independently be considered appropriate for purchase by another client account. In such cases, Payden & Rygel may, but is not required, to cause the security to be “crossed” or transferred directly between the relevant accounts at an independently determined market price and without incurring brokerage commissions, although a cross trade may be routed through a broker-dealer to facilitate processing and a customary transfer fee may be incurred in that event. No such cross trades will be effected unless Payden & Rygel determines that the transaction is in the best interest of both the selling account and the buying account, is not prohibited under each client’s investment restrictions and is permitted by applicable law.

It should be noted that cross trades present an inherent conflict of interest because Payden & Rygel represents the interests of both the selling account and the buying account in the same transaction. In addition, there is a risk that the price of a security bought or sold through a cross trade may not be as favorable as it might have been had the trade had been executed in the open market.

To address these and other concerns associated with cross trades, Payden & Rygel’s policy generally requires that cross trades be effected at an independently determined “current market price” of the security, as determined by reference to independent third party sources, and that Payden & Rygel will execute cross trades only when such trades are in the best interests of both the buying account and the selling account. Under Payden & Rygel’s policy, cross trades are not permitted in accounts that are subject to ERISA. Further, where a registered investment company participates in a cross trade, Payden & Rygel will comply with procedures adopted pursuant to Rule 17a-7 under the 1940 Act.

## **Item 13: Review of Accounts**

### **Account Reviews**

Both the Portfolio Management Group, whose function is described above under Item 8, and the Compliance Group periodically review client accounts. The Portfolio Management Group usually assigns a Senior Portfolio Manager, as well as a second Portfolio Manager to each client account. The two individuals work closely together to monitor the client accounts assigned to them. In preparation for the monthly report to be sent to each client, the second Portfolio Manager conducts a review of each of the accounts assigned to that person in terms of portfolio characteristics, such as sector allocation, compliance with ratings and other relevant guidelines and the like. In addition, there may be more frequent periodic, *i.e.*, daily or weekly, reviews for a particular client account that may be the result, for example, of particular investment guideline requirements. Then, on a quarterly basis, the two Portfolio Managers fully

review each client account assigned to them in preparation for sending out the quarterly client reports. In each instance, they are looking for outliers in relation to a variety of measures described above.

Non-periodic reviews of client accounts occur following material deposits or withdrawals, or after purchasing or selling a position across a large number of client accounts. In particular, these reviews focus on assuring that an account's positions are correctly weighted post trade.

In addition, the Compliance Group conducts the following regular reviews with respect to investment guideline restrictions. Payden & Rygel's trading system conducts an automated compliance check at the time of any security transaction. If any warnings are received, the Compliance Group reviews those warnings on a daily basis, investigates as necessary, and if corrective action is necessary, works with the Portfolio Managers to take such action as soon as reasonably possible. Similarly, on a weekly basis, a separate automated compliance review is conducted looking at the account portfolio as a whole. Again, the Compliance Group reviews any warnings that are raised, investigates as necessary, and works with the Portfolio Managers to take any necessary corrective action as soon as reasonably possible.

### **Reporting to Clients**

**Separate Accounts.** Each client receives a monthly report that provides a listing of all asset holdings and of the transactions that occurred during the month. The monthly report also includes data on investment performance measured on a total return basis. The purpose of the monthly report is to provide detailed accounting information on assets held, on changes in the value of the assets held and on changes in the portfolio's asset holdings.

In addition, each client receives a quarterly report providing information on the performance of the portfolio over the quarter. The quarterly report also provides a discussion of market conditions during the quarter, the strategies pursued, Payden & Rygel's investment outlook and other information pertinent to the relationship. The purpose of the quarterly portfolio report is to provide the client with a broader overview of market conditions and the steps that Payden & Rygel took, or is contemplating taking, in fulfilling its investment management obligations. Some clients seek more frequent information. Through a computer link, clients may obtain a daily listing of assets and transactions. Other clients receive this information on a weekly basis, either through a computer link or by facsimile transmission.

**Payden & Rygel Asset Allocation Management Service Accounts.** Clients who use Payden & Rygel's Asset Allocation Management Service ("PRAAM") receive a monthly statement prepared by Payden & Rygel that shows the number of shares owned in any of the mutual funds of The Payden & Rygel Investment Group (the "Paydenfunds"), the net asset value of the shares, the value of any other assets in the account and any additions or withdrawals by the investor. In addition, the client receives a report prepared by Payden

& Rygel that provides information on the allocation of the client's assets across the various Paydenfunds, how this allocation has changed over the course of the month and what the overall return on the client's assets has been on a year-to-date basis. PRAAM clients also receive a quarterly report. This report provides information on the performance of their holdings over that quarter. It contains a discussion of market conditions during the quarter, the general investment themes that were pursued, Payden & Rygel's investment outlook and other information that may be pertinent to the account. The purpose of the quarterly portfolio report is to provide the client with a broader overview of market conditions and the steps that Payden & Rygel took, or is contemplating taking, in trying to meet the client's investment objectives.

#### **Item 14: Client Referrals and Other Compensation**

Neither Payden & Rygel, nor any of its employees, receives any economic benefit, sales awards or other prizes from any outside parties for providing investment advice to its clients.

Payden & Rygel has solicitation agreements with two firms that cover a very small number of Payden & Rygel's clients. Each firm is paid a portion of the investment advisory fee that the particular client pays Payden & Rygel. However, the client incurs no additional cost as a result of this arrangement. In particular, there is no difference between the fee schedule for new clients that retain Payden & Rygel as a result of either of these solicitation agreements and the fee schedule for new clients who come to the firm directly.

#### **Item 15: Custody**

Under no circumstances does Payden & Rygel ever have custody of client funds or securities. Every client retains an independent custodian who has custody of the client's funds or securities. However, Payden & Rygel does have the authority to debit fees directly from certain client accounts, and for this reason only, Payden & Rygel is subject to certain of the custody regulations issued by the United States Securities and Exchange Commission.

Clients do receive separate account statements from their custodians at least quarterly. These statements should be reviewed carefully. In addition, Payden & Rygel sends quarterly reports to clients as described in Item 13, above. Clients should compare the quarterly statements they receive from their custodian to the quarterly reports they receive from Payden & Rygel.

#### **Item 16: Investment Discretion**

Payden & Rygel has full discretionary authority over virtually all the accounts it manages for clients. Prior to assuming discretionary authority, the client is provided Payden & Rygel's current Form ADV Part 2A. In addition, the client and Payden & Rygel execute

an Investment Advisory Agreement, pursuant to which the client grants Payden & Rygel discretionary investment management authority over the client's account. Further, the investment guidelines for the client's account are made a part of the Investment Advisory Agreement. Pursuant to the terms of the investment guidelines for the account, the client may place restrictions on the account. For example, a common restriction relates to the type of securities permitted. The investment guidelines may prohibit below investment grade securities, or may prohibit the use of derivatives, such as futures contracts.

## **Item 17: Voting Client Securities**

Clients routinely provide Payden & Rygel the authority to vote client securities. As a result, Payden & Rygel has adopted a Proxy Voting Policy, which governs how it will generally vote client securities. At the same time, any client may always contact us if the client wishes to direct the vote of a specific proposal for its account. That request, of course, will only apply to that client's account. If Payden & Rygel determines that the client request is in conflict with other clients' best interests, Payden & Rygel will vote the proposal in those clients' best interests.

Any client or prospective client may contact Payden & Rygel to obtain a copy of its proxy voting record and a copy of its Proxy Voting Policy.

The following is a summary of Payden & Rygel's Proxy Voting Policy.

Background. To the extent that a client has delegated to Payden & Rygel the authority to vote proxies relating to securities, Payden & Rygel expects to fulfill its fiduciary obligation to the client by monitoring events concerning the issuer of the security and then voting the proxies in a manner that is consistent with the best interests of that client and that does not subordinate the client's interests to Payden & Rygel's interests. Payden & Rygel carefully considers all aspects of the issues presented by a proxy matter, and depending upon the particular client requirements, Payden & Rygel may vote differently for different clients on the same proxy issue.

General Proxy Voting Policies Followed by Payden & Rygel. Absent special client circumstances or specific client policies or instructions, Payden & Rygel will generally vote as follows on the issues listed below:

- Vote for stock option plans and other incentive compensation plans that give both senior management and other employees an opportunity to share in the success of the issuer. However, consideration may be given to the amount of shareholder dilution.
- Vote for programs that permit an issuer to repurchase its own stock.
- Vote for proposals that support board independence (e.g., declassification of directors, or requiring a majority of outside directors).

- Vote against management proposals to make takeovers more difficult (*e.g.*, “poison pill” provisions, or supermajority votes).
- Vote for management proposals on the retention of outside auditors. However, consideration is given to the level of non-audit fees paid to the outside auditor.
- Vote for management-endorsed director candidates, unless there are specific circumstances that would indicate a “no” vote.

With respect to the wide variety of social and corporate responsibility issues that are presented, Payden & Rygel’s general policy is to take a position in favor of policies that are designed to advance the economic value of the issuing company.

Conflicts of Interest. From time to time, Payden & Rygel may purchase for one client’s portfolio securities that have been issued by another client. Payden & Rygel does not have a policy against such investments because such a prohibition would unnecessarily limit investment opportunities. In that case, however, a conflict of interest may exist between the interests of the client for whose account the security was purchased and the interests of Payden & Rygel.

To ensure that proxy votes are voted in a client’s best interest and unaffected by any conflict of interest that may exist, Payden & Rygel may abstain from voting on a proxy question that presents a material conflict of interest between the interests of a client and the interests of Payden & Rygel. Votes for which there is no conflict of interest, retention of auditors for example, will be voted according to Payden & Rygel’s standard policy.

## **Item 18: Financial Information**

Payden & Rygel does not require prepayment of investment management fees from clients.

Although Payden & Rygel does not require prepayment of investment management fees and does not take custody of client funds or securities, Payden & Rygel does have discretionary authority over client accounts. As a result, the SEC requires us to disclose any condition that is reasonably likely to impair the firm’s ability to meet its contractual commitments to clients. Payden & Rygel does not know of any such condition.

Payden & Rygel has never been the subject of a bankruptcy petition.