

# Quarterly Review

July 2002

## CAN MY PENSION PLAN EARN OVER 8%?

Defined-benefit pension plans are significant players in the U.S. investment arena, with assets equivalent to more than 25% of the \$18 trillion total market value of all stocks listed on U.S. exchanges. Many defined-benefit plans are in a bind, having assumed long-term expected returns ranging between 8% and 10% on plan assets. Other investors, such as global insurance companies, are in a similar predicament, having promised policyholders high dividends. Investment committees at these institutions are wondering how their portfolios will achieve the high returns.

The high expected rate of return projections grew out of the experience of the 1990s, when actual rates of return generated by stocks, bonds, real estate, venture capital and almost every other asset class significantly exceeded each asset's long-term historical average return. High rates of return were primarily responsible for turning perennially underfunded pension plans into overfunded pension plans, thereby raising a company's net income.

[A pension plan is said to be underfunded when the value of assets is less than the projected benefit obligation (PBO) liability. Conversely, a plan is overfunded when the value of the assets is greater than the PBO.]

The level of the expected rate of return on assets is an important measure. Accounting rules in the U.S. allow companies with defined-benefit pension plans to use a long-term expected rate of return on plan assets to offset the pension expense. The advantage of allowing companies to set the expected rate of return is that it allows them to smooth the effect of volatile investment returns on the pension expense, and ultimately on earnings.

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## ONGOING RATES OF RETURN LIKELY TO BE LOWER

Rates of return over the next 10 years are not likely to repeat those of the past decade. More than one-half of the spectacular equity market returns of the 1990s were due to expansion in price-to-earnings ratios. Equity markets will have to generate eye-popping returns to match the gains of the previous decade.

### The 2000s Are Unlikely to Match the 1990s in the U.S. and the U.K.

	S&P 500	Lehman Aggregate	FTSE 100	ML 15+ Gilt Index
Annualized total return 10 years ending 1999	18.2%	7.7%	13.8%	14.4%
Annualized total return needed in next 7.5 years to match the 1990s	30.0%	7.0%	22.8%	18.9%

Source: Payden & Rygel, Standard & Poor's, Lehman Brothers, Financial Times, Merrill Lynch

In the coming 10-year period, returns on stocks are likely to mirror growth in corporate earnings. Equity valuations are already high, and dividend yields are low. Investment-grade bonds are starting at a low level of interest rates that will make it difficult to generate high returns. The table below forecasts returns for the primary asset classes over the next decade.

### Expected Returns for Next 10 Years

	U.S. Large Cap Stocks	Non-U.S. Large Cap Stocks	U.S. Bonds Investment Grade
Earnings growth	4–8%	5–9%	n/a
Dividend yield or bond yield to maturity	1–2%	1–2%	5–6%
Multiple expansion or bond capital gain	(2)–0%	0–2%	(1)–1%
Currency	n/a	(1)–2%	n/a
Total return	3–10%	5–15%	4–7%

Source: Payden & Rygel. See also "Stock Market in the Next Decade," *Quarterly Review*, Jan '99

At some future point, pension plans may recognize that the gap between the accounting-based expected rate of return and the actual earned rate of return has grown too wide. This may result in a substantial adjustment to pension expense and, therefore, to earnings per share. If such a scenario were to occur, it could create a significant dislocation in the market.

## SOLUTIONS

The obvious solution to the problem of high return expectations is to reduce the long-term expected rate of return. However, corporate management will be reluctant to take an action that could negatively impact earnings per share. Adjusting the current calculation may also cast doubt on previous financial statements. Nor will management relish the public relations challenge of explaining to retirees that the rate reduction is just an accounting issue and not a reduction in their benefits. Therefore, lowering the expected rate of return is not a preferred option.

An alternative is to require companies to abandon the concept of long-term expected rate of return and, rather, to report of actual returns on their financial statements. In Great Britain, a new accounting rule forces companies to do just that. And with the rule change came an unanticipated consequence: defined-benefit pension plans sold equities, often in large quantities, in favor of the more predictable returns of bonds. Boots, a major U.K. drugstore chain, sold all of the stocks in its pension plans and moved 100% into fixed income.

Institutional investors, determined to achieve high expected returns, are now assuming more risk via “alternative assets” (private equity, hedge funds), risk-stylized equities (small cap, value), and lower-rated fixed income (high-yield, emerging markets).

## CHANGES ARE NEEDED TO THE CURRENT PARADIGM

Perhaps the institutional asset management industry’s fundamental approach to risk and allocation is due for an update. Pension plan asset allocation is generally the result of a comprehensive study of past returns, volatility, correlation, and expectations of those variables. Investment committees tend to view asset allocation methodology as very quantitative and independent of judgment calls. However, these studies can generate several statistical problems. For example, standard deviation is a representative measure of risk only if the assets in the study have normal distributions. Many assets are not normally distributed and have fat tails, or high kurtosis. The point is that the inputs to the model significantly influence the outcome. And the process rarely takes into account that investing is as much an art as a science.

Investment committees know that something is wrong with the current paradigm when they see an investment manager delighted by performance that returns –15% or worse because it beat the benchmark index. The index is invariably a capitalization-weighted construction that represents the market segment for which the manager was hired to invest. But it is an arbitrary measure and does not address the pension plan’s long-term expected return.

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The pension plan world has become so convoluted that some managers do not adjust portfolios even if they foresee a bear market for fear of being accused of style drift, or high tracking error, or being a market timer. The current paradigm is no longer in the best interest of those investors it was designed to serve.

### **WHAT IS NEW IS OLD**

Decades ago, pension plans hired a couple of managers and directed them to invest balanced accounts. This old-school structure may be part of the solution to earning the expected rate of return that defined benefit pension plans desire. In this paradigm, the pension plan expresses its objective, for example, for an “annualized return over a trailing three-year period of at least 7%, with no calendar year return less than -2%.” On the surface this objective seems simplistic; yet it is quite sophisticated because it explicitly acknowledges both risk and reward. The new, “old” model implies a significant shift from the status quo. For example, there is no index used as a benchmark. Simply achieving or exceeding the long-run expected rate of return defines success.

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The new paradigm reduces the risk burden currently placed on investment committees by shifting the committee’s focus away from asset allocation and onto risk monitoring. The pension consultant’s role would focus less on generating statistics to compare managers to benchmarks and more on monitoring client risk level, pension expense, and selection of management. The search for management would move away from rigid categories, such as small-cap value or duration-neutral sector rotation, and more toward seeking a manager with good overall problem-solving abilities. The manager’s role would focus on client objectives, managing risk and successfully allocating assets. It requires active managers to think and problem-solve.

Any change in the status quo involves risk. The risk in the new paradigm is hindsight. If we return to a period of multi-year, double-digit returns, the new paradigm may return “only” 10%+ for a pension plan, which is above the benchmark expected rate of return. During a decade of more typical returns, the new structure is more likely to meet expected rates of return and maintain the funded status of the pension plan. The active manager of the past may prove to be the model of the future. ■

## DEFICIT SPENDING DEJA VU

In the last 12 months \$4 trillion—on paper—has vanished from the U.S. projected 10-year federal budget surplus. The United States rode to a surplus on a wave of rapid growth in taxable personal income, a sharp rise in capital gains, and an increase in the effective tax rate. Although early budget forecasts assumed that income tax receipts would remain high, the increased tax revenues were the happy by-product of capital gains from the bull market. Falling stock prices have muted that trend. Add to this shortfall the tax rebate, tax cuts and unbudgeted government spending post-September 11, and the result is a budget deficit set to reach \$150 billion this year.

With Republicans controlling the House and Democrats controlling the Senate, one would think that domestic spending programs would be in gridlock. In fact, the war on terrorism has resulted in bipartisan support for government spending. All of this has reopened the question of whether debt is good or bad and whether deficit spending will lead us into the poorhouse.

What is the inflection point at which government spending begins to affect the economy negatively? Essential spending includes what is required to maintain a modern infrastructure, establish law and order, and provide for national defense. Further spending may be detrimental if it engages resources—capital, labor—that are in demand by the private sector. If the private sector is operating below its productive capacity, however, additional government spending can be beneficial.

The traditional Keynesian remedy for recession—deficit spending—was overly relied upon for years to spur economic growth. The result was chronic inflation, unemployment and higher taxes. Keynes's approach has fallen out of favor. The use of monetary policy to influence the direction of an economy is now dominant, especially in the United States, where the Federal Reserve has succeeded in damping down inflation. But monetarism alone cannot carry the entire burden of stabilizing the economy. Fiscal policy and spending still play a vital role in tempering economic cycles, particularly by cushioning the pain of a recession. Amid all these conflicting theories, where can we find relevant models and case studies for solid decision-making?

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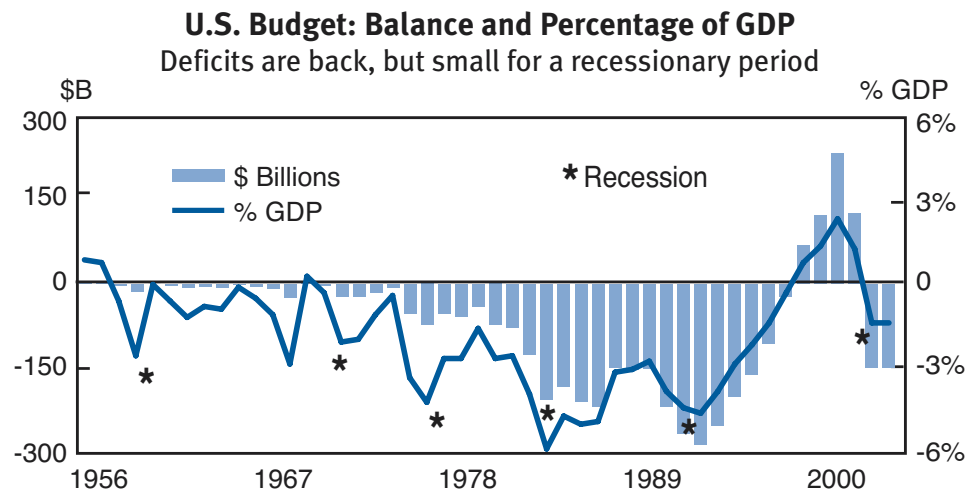
## GLOBAL SPENDING TOUR

Both the United States and the United Kingdom used deficit spending throughout the 1980s to stimulate their economies. Both nations turned the corner in the late 1990s to surplus budgets after a decade of technology-driven economic growth.

**The Maastricht Treaty states that (1) a nation's average deficit cannot exceed 3% of GDP and (2) total public debt cannot exceed 60% of national gross domestic product.**

During the same decade Japan's repeated attempts to jump-start its economy with deficit spending transformed one of the wealthiest nations on earth into one of the most heavily indebted, with \$5.6 trillion of debt. Japan continues to spend, with debt projected to double in less than a decade. There has not been enough structural reform to accompany the monetary stimulus, and spending on inefficient public works projects has failed to generate returns.

In Argentina, debt brought down the house. How did cycles of spending and borrowing bring the booming Argentina of the 1990s to default and devaluation? Argentina's woes began with the government's inability to manage tax evasion as well as deepening economic recession. At the same time expenditures grew as provinces allocated money irresponsibly. The budget deficit has steadily deteriorated, from an average of 2% of GDP during 1995–99 to 5.5% at the end of 2001. In order to finance the deficit, Argentina tapped both domestic and international capital markets, becoming the largest issuer among the emerging markets. As investors' concerns grew over Argentina's ability to service its debt, interest rates rose. The higher interest payments eventually led to default.



Source: UBS Warburg

## EUROPE'S CONTRIBUTION

So what is the right level of debt for a nation? Is there a guideline or a formula? In 1999 European Union planners came as close as anyone has to codifying this at a practical level. Faced with the necessity of building confidence in their untried currency and of coordinating the economic cycles of disparate member nations, they built into the Maastricht Treaty five overarching economic thresholds as European Monetary Union (EMU) membership requirements. Two of Maastricht's five requirements address the issue of government spending. The treaty states that (1) a nation's average deficit cannot exceed 3% of GDP and (2) total public debt cannot exceed 60% of national GDP.

These guidelines form a snapshot of the contemporary view on sound levels of government involvement in the economy. Perhaps the United States—with its GDP, population and debt market comparable in size to those of Euroland—could take these thresholds as guidelines for itself. Under Maastricht’s formula the United States, with a budget deficit of around 1% and public debt at 60% of GDP, is considered to operate in an “efficient” manner. Japan, with a budget deficit of 6% and overall debt of 140% of GDP (and climbing), would not qualify for entry into the EMU. Argentina’s 2002 forecast of public debt of 146% places the former Latin American boomer off the radar screen, despite its “acceptable” budget deficit projection of 2.5%.

But the level of debt alone is a necessary but insufficient condition for fiscal health. The United States had a deficit equivalent to 6.1% of GDP in 1983. Argentina had a deficit equivalent to 5.5% of GDP in 2001. So why did U.S. interest rates actually decline after 1983, while Argentina was forced in 2001 to restructure its debt and devalue its currency? There are clearly other factors at play in the big picture. Global events, the degree, timing and composition of the borrowing, and investor confidence in a country’s ability to repay all influence how much spending is prudent. One of the key determinants of successful deficit spending is how the debt is spent. If spending is channeled into productive investment, it can act as a positive spur to long-term economic growth. If budgets are deployed on unproductive, employment-boosting public works projects that do not provide long-term returns, it can be disastrous to a nation’s fiscal well-being. ■

***Global events, the degree of borrowing, and investor confidence all influence what is a prudent level of spending. But ultimately it depends on how money is spent.***

## NAME THAT ECONOMIST...

Maybe one of these fine fellows can give us some advice! Match the name to the profile:

- Milton Friedman
- John Kenneth Galbraith
- William Stanley Jevons

- John Maynard Keynes
- Thomas Robert Malthus
- Alfred Marshall

- Karl Marx
- John Stuart Mill
- Ludwig von Mises

- David Ricardo
- Adam Smith
- Thorstein Veblen

This Scotsman's *Wealth of Nations* launched the Classical school of economics in 1776. He believed that the ideal economy is a self-regulating market system in which the "invisible hand" of supply and demand regulates individuals as they rationally and harmoniously pursue their own self-interest.

**Trivia tidbit:** His last job was as a customs official.



1723–1790

1766–1834



A Classical economist, he startled early 19th-century English society with his pessimistic view that population growth would exceed food supply, condemning mankind to misery.

**Trivia tidbit:** Exposure to his dire predictions caused Scottish philosopher Thomas Carlyle to label economics as "The Dismal Science."

His theory on comparative advantage undermined Britain's (protectionist) Corn Laws of 1830 by arguing that free trade benefits all nations—the original "win-win" scenario. Under his influence, Britain became a global industrial powerhouse, importing raw materials and exporting finished goods. His inkling that landlords enrich themselves at the expense of society led to his tireless campaigning in Parliament and sowed the early seeds of socialism.

**Trivia tidbit:** Was a member of the British Parliament's House of Commons.



1772–1823

Philosopher/economist expert in logic, ethics, metaphysics, psychology, sociology and women's rights. His *On Liberty* championed individuality, tolerance and freethinking over conformity. His concern with economic growth and development; treatment of the population question; and study of the redistribution of wealth reflected his concern for the working class.

**Trivia tidbit:** His father drilled him in Greek at age three and in Latin at age eight, and he grew to be a chilly man. His belief that if you “ask yourself whether you are happy, then you cease to be so,” underpinned his nervous breakdown at age 20.



1806–1873



1818–1883

This prolific German philosopher/economist predicted that capitalism's inherent contradictions would ultimately destroy the free-market system, leading to a world without private property.

**Trivia tidbit:** Living in a squalid London flat, he scorned the bourgeois niceties of washing and grooming. He was constantly broke, although he worked as a part-time foreign correspondent for the *New York Daily Tribune*.

Englishman who challenged the Classical model that “cost determines value” by positing that “value” depends entirely upon “utility.” He developed the theory of marginal utility that analyzes consumer behavior and holds that the utility (value) of each additional unit of a commodity—its marginal utility—is less and less to the consumer.

**Trivia tidbit:** His brilliant career was cut tragically short when he drowned at the age of 47 in the sea off Hastings.



1835–1882



1842–1924

This dominant figure in English economics originated many analytic tools used today—partial equilibrium analysis, supply/demand curves, elasticity, consumers' and producers' surplus, and equilibrium in the long and short run. Although a firm believer in market economics, he admitted that while the market may be efficient in allocating resources, society may need to intervene in income distribution.

**Trivia tidbit:** His 1890 textbook *Principles of Economics* formalized “The Dismal Science” into the distinct discipline it is today, forever changing its name from “political economy” to “economics.”

1857–1929



Deeply anticapitalist, this uniquely American thinker coined the phrase “conspicuous consumption.” Although a socialist, he countered Marx’s notion of class warfare with his prescient observation that the lower classes try to emulate their upper-class rivals through consumerism.

**Trivia tidbit:** A brilliant eccentric who dressed like a tramp and wore a coonskin cap, he was repeatedly fired from universities (including Stanford and Chicago) for reasons known today as sexual harassment. He died in obscurity, an untenured assistant professor.

This scion of the English upper class hobnobbed with Bloomsbury poets and painters, married a ballerina from the Ballets Russes, and revolutionized the role of government spending in the economy. He promoted the use of public spending and/or taxation as lever(s) to stabilize the economy against too great or too little private spending.

**Trivia tidbit:** While working on overseas finances at Britain’s Treasury, this art-loving economist balanced the French accounts by buying bargain-priced Manets, Corots and Delacroixs for Britain’s National Gallery.



1883–1946


1891–1973



A giant of the Austrian School, this proponent of the free market swam against the tide of 20th-century thought. His major work *Socialism* is now hailed as the classic that anticipated the breakdown of the communist experiment. He argued that socialism does not function in an industrial economy because there is no market for capital goods and therefore no price system to calculate profit and loss. Socialism would result in chaos and stagnation, he predicted in 1920.

**Trivia tidbit:** In 1938 Nazis stormed this Jewish visionary’s apartment in Vienna, confiscating his library and manuscripts. He died believing that his most valuable papers had vanished. Twenty years after his death, 38 cases of his documents were recovered from KGB headquarters in Moscow.

1908—




He used his lifelong Harvard career and his Kennedy administration connections as a base from which to espouse views on unequal distribution of income; the menace of big business; and wage-price controls as the remedy for inflation. The author of several best-sellers, including *The Affluent Society* and *The New Industrial State*.

**Trivia tidbit:** While serving as JFK’s ambassador to India in 1961–63, he issued early warnings against American involvement in Vietnam, pointing to the folly of being on the wrong side of the Vietcong’s nationalist platform.


This Brooklyn native, just over five feet tall, launched the counter-revolution that unseated the “house that Keynes built.” Focused on the unrelenting power of money and using the tools of monetarism—money, credit, interest rates, federal monetary policy—his many policy initiatives included flexible exchange rates, school vouchers, and negative income tax.

**Trivia tidbit:** His immigrant parents worked in sweatshops while he waited tables during university years. In an early job at the Treasury Department, he initiated income tax withholding, which he later excoriated as a hallmark of big government.



1912—

1943—



Knighted just last month, this alumnus of the prestigious London School of Economics went on to a second, more successful career.

**Trivia tidbit:** He promulgated the “You can’t always get what you want; but if you try sometimes, you might find, you get what you need,” school of economic thought.

**Answers:**

(11) John Kenneth Galbraith	(6) William Stanley Jevons	(1) Adam Smith
(12) Milton Friedman	(7) Alfred Marshall	(2) Thomas Robert Malthus
(13) Sir Mick Jagger	(8) Thorstein Veblen	(3) David Ricardo
(Okay... not an economist, but he did attend LSE!)	(9) John Maynard Keynes	(4) John Stuart Mill
	(10) Ludwig von Mises	(5) Karl Marx

## BENCHMARK FALLOUT

Market indices have long been used as benchmarks against which investors evaluate the performance of investment managers. Over the past decade, adherence to benchmarks, the tracking of benchmarks, and deviating from benchmarks have become more prevalent as the time frame for monitoring portfolio performance dwindles from cyclically (three to five years), to annually, quarterly, or even monthly. Today performance against a benchmark is often the most important criterion used in the decision to hire or fire a manager. As a result, managers focus more than ever on the relevant benchmark, often allowing the benchmark to drive investment decisions.

***Indices are ever-changing creatures that, due to their regular re-weighting, may no longer resemble their former selves over years or even months.***

In this article we explore some of the ramifications of strict adherence to a benchmark and the impact on the risk profile of a portfolio. When an investor picks a benchmark and strictly monitors portfolio returns against it, the implicit message is that significant deviation could be injurious to the manager's survival. Good business sense and even natural instinct then drive the manager to create a portfolio that very closely tracks the benchmark's holdings. This may not be a problem, as long as the investor is comfortable with the index's composition and risk profile.

However, indices are ever-changing creatures that, due to their regular re-weighting, may no longer resemble their former selves over years or even months. The following examples demonstrate four outcomes of a seemingly robust process that may in fact be undesirable: deterioration in portfolio quality, inadvertent choice of investment style, allocation to an undesirable sector, and poor diversification of risk.

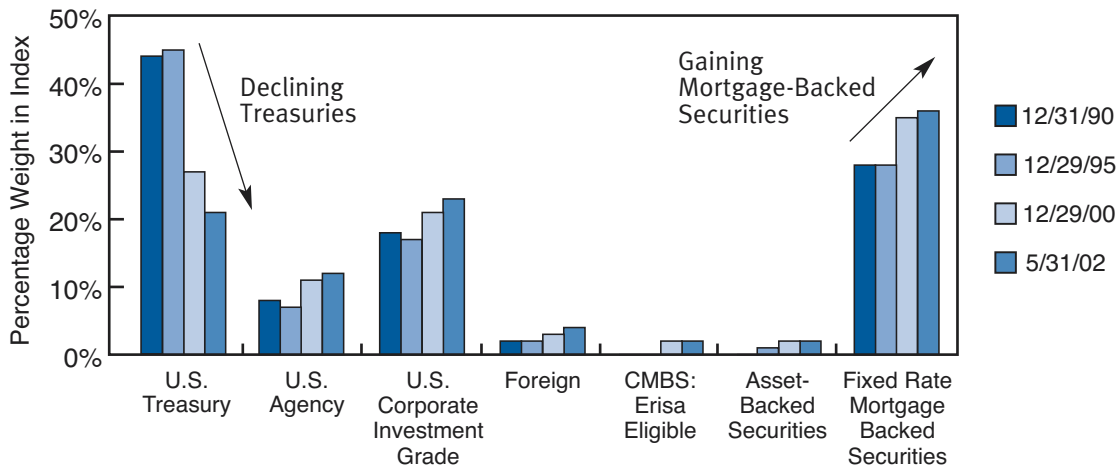
### IMPACT ON PORTFOLIO QUALITY

***An index's subtle shift over time can gnaw at portfolio quality.***

An index's subtle shift into different asset classes or other investment products can gnaw at portfolio quality over time. For example, investors who years ago settled comfortably into the Lehman Aggregate Index need to know that changes to the index's composition may have had a negative impact on the risk exposure and investment quality of their portfolio.

As shown in the following chart, the reduction in U.S. debt issuance, accompanied by the increase in issuance of mortgage-backed and corporate bonds, has dramatically changed the Lehman Aggregate's composition over the past decade. From a risk standpoint, the increase in mortgage-backed bonds comes with additional prepayment risk, ergo, shifting duration.

### Lehman Aggregate – Changing Sector Weights



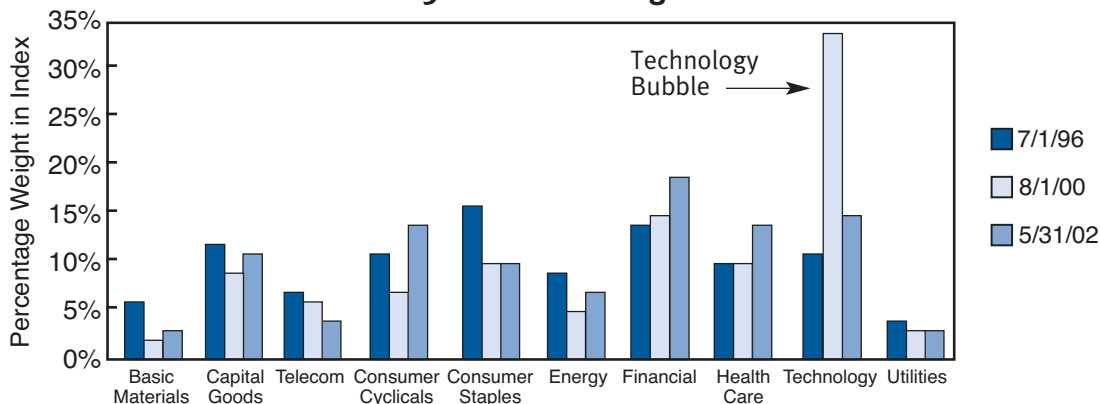
Source: Payden & Rygel

The Lehman’s increasing corporate allocation means greater exposure to a sector with lower credit quality than government bonds, which are rated AAA. Additionally, the credit quality of that sector continues to fall, with increases in BBB-rated issuers and downgrades of previously higher-rated corporate issuers.

### IMPACT ON INVESTMENT STYLE

Just by selecting a benchmark, an investor may inherit that index’s implicit investment strategy. The S&P 500 Index has taken on a universal “catch all” representation of the equity sector. Many mutual funds and separate account mandates are routinely compared to the S&P 500 as a general proxy for the equity market. A deeper look at the changing face of this benchmark, however, tells an interesting story. The S&P 500 Index is a capitalization-weighted index, meaning that large companies, as measured by market capitalization, represent a larger percentage of the index. When a sector is hot, as was technology two years ago, that sector weighs in as a larger portion of the index. When the same sector goes

### S&P 500 – Sector Weights



Source: Payden & Rygel

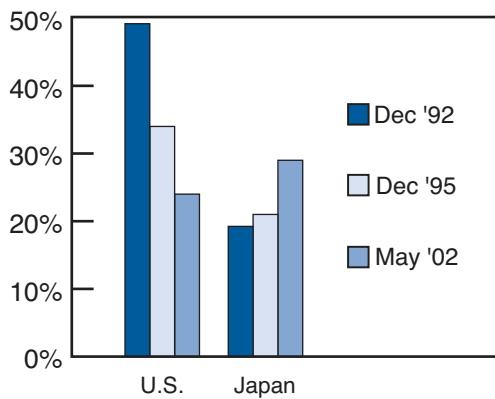
through a downturn, its weight in the index declines, sometimes precipitously. A manager seeking to meet or beat such an index would, in essence, be increasing and decreasing allocations based upon how that particular sector's price fluctuates. This becomes a de facto momentum-style approach, which is designed to follow a market trend, as opposed to an approach that seeks stocks with fundamental value.

### IMPACT ON SECTOR ALLOCATION

While in an equity index strong sectors tend to take on larger weight, bond indices exhibit a curious paradox, doing just the opposite. For example, as a country experiences financial problems, it often responds by increasing its debt issuance, thereby increasing its relative proportion in its index. The impact of this phenomenon is clear in the Salomon Brothers World Government Bond Index (WGBI), an index that tracks developed economies around the world and is the most commonly used benchmark for measuring global bond manager performance.

The chart below shows the WGBI's country allocation over time by its two biggest country weights: the U.S. and Japan. Japan's allocation has increased from just over 19% in 1992 to 29% today. Meanwhile, the U.S. allocation has shrunk from over 49% in 1992 to 24% today. It is not news that Japan is struggling economically and has been for some time, with its debt-to-GDP ratio of 140% and its recent credit downgrade by Moody's to A2. The Japanese government has tried to spend its way out of recession, using fiscal stimulus packages and issuing a tremendous amount of debt. The increase in debt has translated directly to the higher index weight of Japan. Strict adherence to this index means big exposure to Japan. While investors may be keen on going global, they may not be as keen on investing in countries with weak fundamentals.

**Salomon World Government Bond Index**



	U.S.	Japan
Percentage of Index	24%	29%
Debt/GDP	60%	140%
Credit Ratings	AAA/Aaa	AA-/A2
10-Year Yield	5.1%	1.4%

Source: Payden & Rygel

The WGBI example illustrates a gradual shift in a benchmark. But sometimes benchmarks shift suddenly, changing allocations dramatically. In the world of U.S. corporate bonds, for example, WorldCom Inc.'s recent downgrade from investment grade to high-yield status instantly propelled this name to command about 4% of the entire high-yield universe (as measured by the Merrill Lynch High Yield Index). Many investors felt compelled to buy WorldCom, lest they take on tracking error to the benchmark. WorldCom has since been further downgraded.

### **IMPACT ON PORTFOLIO DIVERSIFICATION**

Diversification across countries is a key tool of risk management that few managers would question. But in the emerging markets bond sector, the most commonly used index has historically been heavily concentrated in one region, Latin America. As recently as April 2001, the JP Morgan Emerging Markets Bond Index Plus (EMBI+) had 43% weighting in two countries, Argentina and Brazil, with Argentina representing 20% of the index. When Argentina defaulted on its debt obligation in December 2001, the allocation dropped to 2% where it now stands. Brazil continues to represent almost a quarter of EMBI+, with an allocation of 22%, raising questions about the appropriateness of the EMBI+ as a benchmark.

Benchmarks are here to stay, and they generally provide a reasonable gauge of market performance. But as with many of life's measures, the "bar can shift." Indices are not set in stone, and must be monitored and reassessed on a regular basis to guard against benchmark fallout. The investor, together with his/her manager, must undergo the hard work of developing a unique investment strategy in terms of overall risk and return, and then find a benchmark that best mirrors that profile. Investors who ask, "How is my manager doing?" must also ask, "Is my benchmark still appropriate?" ■

***Indices are not set in stone and must be reassessed on a regular basis to guard against benchmark fallout.***

## Paydenfunds

### Fixed Income Funds

Limited Maturity Fund  
Short Bond Fund  
U.S. Government Fund  
Core Bond Fund  
Opportunity Bond Fund  
High Income Fund  
Emerging Markets Bond Fund  
GNMA Fund

### Tax Exempt Funds

Short Duration Tax Exempt Fund  
Tax Exempt Bond Fund  
California Municipal Income Fund

### Equity Funds

Growth & Income Fund  
Market Return Fund  
Small Cap Leaders Fund  
U.S. Growth Leaders Fund

### Global Funds

Global Short Bond Fund  
Global Fixed Income Fund  
Global Balanced Fund  
EurOpportunity Fund

### Money Market Fund

Bunker Hill Money Market Fund

## Payden & Rygel Offshore Funds (Ireland)

International Bond Fund  
International Short Bond Fund  
Global High Yield Bond Fund  
U.S. Dollar Liquidity Fund  
Euro Dollar Liquidity Fund  
European Bond Fund  
Global Emerging Markets Bond Fund

(Multiple currency subclasses available)



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(213) 625-1900 • [www.payden.com](http://www.payden.com)  
333 South Grand Avenue • Los Angeles, CA 90071



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