Payden Global Funds plc (the “Company”)

Payden Global Multi Asset Credit Fund (the “Fund”)

Due Diligence of underlying portfolio of the Fund in respect of Securitisations: Asset-backed securities (“ABS”) and Mortgage-backed securities (“MBS”) and CoCos.

This document provides a description of the due diligence performed by Payden & Rygel, the sub-investment manager of the Fund (“Payden”) on the following securities to be held in the Fund: ABS and MBS, comprising: Covered Bonds, Consumer ABS, Commercial ABS, Whole Business Securitisations, Collateralised Loan Obligations (“CLOs”), Agency MBS, Credit Risk Transfer securities, Non-Agency Residential MBS, Non-Agency Commercial MBS and CoCos.

Description of the Securities

Covered Bonds	Debt securities issued by a bank or mortgage institution and backed by packages of loans, in which investors have a preferential claim in the event of default.
Agency MBS	Agency Mortgage Backed Securities (“**MBS**”) are Bonds issued by a U.S. Government-Sponsored-Entity (“**GSE**”) and backed by a pool of residential or commercial mortgages that comply with lending standards set out by the GSE. To create an MBS these mortgages are aggregated and sold by the issuer of the mortgage to regulated and authorised financial institutions who in turn package those mortgages and issue the MBS. The cashflows on the loans are passed through to the bond investors. The principal and interest of the bonds are guaranteed by the issuing GSE. The authorised financial institutions issuing MBS in which the Fund will invest are The Government National Mortgage Association (GNMA or Ginnie Mae), the Federal National Mortgage Association (FNMA or Fannie Mae), or the Federal Home Loan Mortgage Corporation (Freddie Mac) (“Agency-Backed ABS (each an “**Agency**”).
Non-Agency MBS (Residential and Commercial)	Non-agency MBS are Bonds issued by financial institutions other than GSEs and backed by a pool of residential or commercial mortgages that typically do not comply with lending standards set out by the GSE. The cashflows on the loans are passed through to the bond investors.
ABS (Consumer and Commercial)	Asset-backed securities (“**ABS**”) are transferable securities being a bond or a note which is collateralised by a pool of assets (such as loans, leases, and other debt not being mortgages). These assets are aggregated and sold by the issuer of the assets to regulated and authorised financial institutions who in turn package those assets and issue the ABS. Principal and interest payments on the bonds are derived by cashflows from the underlying pool of assets. ABS are structured into multiple classes, often referred to as “credit tranches”, with each class bearing its own stated maturity and entitled to a specific schedule for payments of principal and interest, including pre-payments.
CLOs	Collateralised Loan Obligations (“**CLO**”) are securitised securities rated by one or more rating agencies and collateralized by a pool of leveraged loans, with credit tranches allowing for different return profiles according to a specific

	waterfall. The underlying collateral may include senior secured loans, senior unsecured loans, and subordinated loans, including loans that may be rated below investment grade or equivalent unrated loans.
WBS	A whole business securitization (WBS) is a transaction in which an issuance of notes is secured by a pool of income-generating assets (other than “financial assets” like loans or receivables) that make up substantially all the revenues of a business. These transactions are typically collateralized by a pool of royalties from business types such as restaurant franchises.
Credit Risk Transfer securities	Credit Risk Transfer (CRT) transactions involve the transfer of credit risk of all or a tranche of a portfolio of financial assets. The protection buyer will typically own the portfolio of assets, which may be corporate loans, mortgages, or other assets.
CoCos	Contingent Convertible Securities (“**CoCos**”) are subordinated fixed income securities issued by financial institutions that can be used to absorb loses (either by converting into equity or by experiencing principal write-down) upon activation of a trigger point/event. They are a form of hybrid debt security that are intended to either convert into equity or have their principal written down upon the occurrence of certain ‘triggers’ linked to regulatory capital thresholds or where the issuing financial institution’s regulatory authorities question the continued viability of the entity as a going-concern. CoCos will have unique equity conversion or principal write-down features which are tailored to the issuing financial institution and its regulatory regime. The new generation of CoCos, in accordance with the Basel III capital requirements, is also referenced to as Additional Tier 1 (AT1) bonds. At issuance, CoCo debt instruments have a fixed coupon and a 5 or 10 year call option for the issuer. After the call date, the CoCo switches to a floating rate security and has no stated maturity. The coupons are fully discretionary which means the coupons can potentially be cancelled at the financial institution’s discretion or at the request of the relevant regulatory authority.

Why are these securities being used in the Fund?

Covered Bonds	Liquid and high-quality securities providing scalable investment opportunities, investment breadth and higher return potential than local government yields.
Agency MBS	Liquid and high-quality securities providing exposures to the US housing market and offering higher yields than US treasury.
Non-Agency MBS	Liquid securities providing exposures to the US housing market and offering a broader range of risk and return profiles than Agency MBS.
ABS	Provide exposure to a broad range of underlying asset classes with mitigated credit risk due to the structural enhancements of the securitisation. Offer diversification relative to other fixed income asset classes. Their sensitivity to changes in interest rate is limited as they almost always offer floating rate coupon payments.
CLOs	Security providing exposure to the leveraged loan market with greater credit protection and diversification. They also offer diversification relative to other

	fixed income asset classes. Their sensitivity to changes in interest rate is limited as they typically offer floating rate coupon payments.
WBS	WBS offer attractive risk adjusted return potential when compared to similar corporate credit investment opportunities of the same industry exposure.
CRTs	CRTs offer a range of credit investment opportunities. They offer generally reliable primary and secondary supply, and often provide very attractive risk adjusted return potential.
CoCos	Cocos offer higher return potential than senior debt via fixed coupon payments until the call date while staying senior to equity holders.

How do these securities function in normal course of events?

While each of these types of securities will present varying degrees of liquidity, all these securities would offer good level of liquidity in normal markets circumstances.

Covered Bonds	Bond cashflows are repaid by the issuer and secured by a pool of high-quality assets owned by the issuer that serve as a secondary source of repayment in the event of issuer default. The pool of assets servicing as collateral is typically governed by a set of asset-level eligibility criteria and pool-level portfolio concentration limits.
Agency MBS	The bonds are supported by cashflows from the underlying pool of mortgages which include both interest as well as principal payments typically paid on a monthly basis. Since principal prepayments on mortgages can vary, the timing of principal cashflows on MBS are typically uncertain. Unlike most other types of bonds, MBS do not pay a lump sum at maturity. MBS security prices are sensitive to the level of interest rates (which affects the present value of the security as well as the prepayment speed of the principal) and developments in the US housing and commercial real estate market. With both interest and principal payments being either explicitly or implicitly guaranteed by a GSE, Agency MBS carry limited credit risk.
Non-Agency MBS	The bonds are supported by cashflows from the underlying pool of mortgages which include both interest as well as principal payments typically paid on a monthly basis. Since principal prepayments on mortgages can vary, the timing of principal cashflows on non-agency MBS is not static. As with Agency MBS, Non-Agency MBS do not pay a lump sum at maturity. Non-agency MBS securities prices are sensitive to the level of interest rates (which affects the present value of the security as well as the prepayment speed of the principal of the security) and developments in the US housing and commercial real estate market. These bonds are not guaranteed by a GSE or the US government and therefore contain credit risk.
ABS	The bonds are supported by the cashflows from the underlying pool of non-mortgage loans or assets. The pool of underlying assets is often securitized into various tranches with varying risk/return characteristics. The securitization is often achieved via a “bankruptcy-remote” special purpose vehicle. ABS make regular payments on its tranches *which include interest* payments and, in some cases, principal amortization. The level of payments will vary depending on the tranche and the characteristics of the ABS structure. the significant majority of

	ABS have floating rate coupons, making these securities less sensitive to changes in interest rates. ABS prices and returns are sensitive to the performance of the collateral and changes in perception of the credit risk associated with that collateral.
CLOs	A type of ABS whose collateral is a portfolio of leveraged loans. CLOs are supported by the cashflows from the underlying pool of loans. The pool of underlying loans is securitized into tranches with varying risk/return characteristics. The securitization is achieved via a “bankruptcy-remote” special purpose vehicle. A CLO makes regular payments on its tranches which include interest payments as well as principal amortization. The level of payments will vary depending on the tranche and the characteristics of the structure. CLOs have floating rate coupons, making them less sensitive to changes in interest rates. CLO prices and returns are sensitive to the performance of the collateral and changes in perception of the associated credit risk.
WBS	A type of ABS the collateral for which typically consists of intellectual property rights and associated long-term license agreements. The primary example of WBS is a mature, globally scaled restaurant franchisor. The securitization is achieved via a “bankruptcy-remote” special purpose vehicle. The franchisor pledges its intellectual property along with its franchise agreements and other income generating assets. Bonds issued by the special purpose vehicle pay fixed rate interest quarterly and return principal at an expected maturity date. As such, timing of principal cashflows is can generally be viewed as stable and predictable.
CRTs	CRTs transfer both the credit and prepayment risk related to a reference pool of assets, most often mortgage loans. The portion of risk transferred to investors is tranched into various classes, ranging from highly rated and liquid senior classes to lower rated and less liquid subordinate classes. The CRT transaction applies the payments and defaults experienced by the reference pool to the various classes according to a defined priority schedule, with senior classes benefiting from the credit support provided by the subordinate classes.
CoCos	Typically, these are perpetual bonds i.e. issued without a fixed maturity, but the bonds tend to be callable with a minimum call date 5 years after issuance. CoCos typically pay a fixed coupon, but the coupon can be deferred or cancelled. CoCos will be sensitive to changes in interest rates, the creditworthiness of the issuing financial institution as well as to changes in the regulatory landscape.

What happens when the issuer of those securities is in distress? Do any secondary issues arise on those securities?

Generally, when the issuer of these securities (or in the case of securitised products pool of collateral) gets in distress, the credit premium required by investors to hold their securities increases, putting downward pressure on their price. This can be further exacerbated by rising liquidity premium as investors become unwilling to buy the distressed issuers/ securities.

Covered Bonds	From a fundamental perspective Covered Bonds are well protected from issuer distress given these securities are secured by a “cover pool” of high-quality assets owned by the issuer and insulated in the case of issuer insolvency. From a technical perspective, issuer distress can be expected to increase the credit and liquidity premia to a degree, placing downward pressure on security prices.
Agency MBS	GSEs guarantee the timely payment of interest and principal to Agency MBS bondholders. As such Agency MBS bondholders are not exposed to defaults or losses on the underlying mortgages. Bondholders carry some exposure to the credit risk of the GSE which is tightly linked to the US Government. In other words, Agency MBS bondholders carry a limited amount of credit risk. Even in periods of stress these securities maintain a relatively high level of liquidity.
Non-Agency MBS, ABS, and CLO’s	Non-Agency MBS are issued by trusts or special purpose vehicles that are bankruptcy remote from the issuing financial entity. Bondholders, therefore, are exposed to the credit/default risk on the collateral and not exposed to the credit risk of the issuing financial entity. Non-Agency MBS use securitisation techniques to redistribute the cashflows (both interest and principal payments) generated by the collateral to different tranches according to a specific set of rules. Each tranche will offer different return and risk profiles depending on where it sits on the capital structure with the most senior tranches offering the lowest level of risk and a lower return potential while the most subordinated tranches contain greater risk while offering higher return potential. If the collateral goes into distress, the price on all tranches is likely to decline as investors demand a larger credit and liquidity premia. The subordinated tranches will underperform as they are the first in line to absorb losses experienced on the collateral. While prices on the senior tranches will also decline, the likelihood of seeing capital impairment on these senior tranches is much lower given the large buffers provided by their credit protection/enhancement.
WBS	Despite the establishment of a “bankruptcy remote” special purpose vehicle, WBS would be impacted negatively from issuer distress. Issuer distress due to poor operating performance would get directly reflected by lower securitized revenue and hence lower cashflow availability for debt service and to support debt refinancing needs. Secondary issues would most likely see an increase in credit and liquidity premia, and a resulting decline in price for all tranches.
CRTs	Issuer distress would likely have an impact on CRTs, the degree to which depends on the mitigating features existing within the transaction structure. Liquidity features and capital accounts are common structural elements found within transactions meant to reduce issuer risk. Rigorous initial evaluation and ongoing monitoring and due diligence of the counterparty are part of the investment process meant to screen and early detect for this risk. Secondary issues would most likely be greater credit and liquidity premia, and a resulting decline in price for all tranches.
CoCos	CoCo investors are directly exposed to the creditworthiness of the issuing financial institution. If the issuer goes into distress, CoCo bonds will underperform the more senior bonds issued by the same issuer. The magnitude of the decline in prices can be affected by various factors, including the type and

	the level of the trigger that initiates the loss absorption mechanism (with higher trigger points likely to underperform CoCos with lower trigger points, everything else being equal), the loss absorption mechanism itself (i.e. equity conversion or permanent write-down), and the business profile of the financial institution at the time of distress. Secondary market liquidity for distressed CoCos is likely to shrink.

What would the impact of distress in the security be on the Fund?

Payden expects the impact on the portfolio of any one security or security type to be minimal. As part of its investment philosophy, Payden believes diversification is an important risk mitigation technique. Payden's investment style focusses on finding a balance between having diversification and ensuring that security selection can have a meaningful contribution to portfolio returns.

Each security that the Fund invests in is fully vetted by our research team from a bottom up fundamental perspective. This analysis helps our team understand the risks associated with our investments and how their collateral will be valued in a distressed scenario. We initially utilize this information to size the position appropriately and limit the downside risk while still reflecting our level of conviction in the trade. We also rely on this fundamental analysis along with our interpretation of the covenants to make trading decisions that will help to limit the impact that distressed securities have on the overall Fund.

How will Payden manage the impact on the Fund?

In the case of a distressed security, Payden will carefully assess the position, the creditworthiness of the issuer/collateral (including assessing the residual value of the issuer/collateral) the trading conditions of the security and review potential resolutions including the sale of the security or otherwise reduce the exposure of the Fund. Each case will be assessed on an ongoing basis to determine the best potential outcome for the Fund and its investors.

In distressed scenarios, Payden evaluates numerous factors to determine possible outcomes. Those factors include an analysis of the underlying collateral to determine an asset valuation that will provide a floor for the security's price in a liquidation and an evaluation of the covenants to understand what will trigger a bankruptcy and what the issuer is contractually allowed to do with their capital structure. This analysis along with other factors helps Payden understand the likely outcome of the distressed scenario and also helps the Fund to minimize downside risk.

How is the risk balanced with the potential for reward by Payden?

Payden's investment process relies on a coherent and thoughtful combination of top down and bottom up investment decisions within a robust risk management framework. Payden constructs the Fund by investing in what it feels are the most attractive risk adjusted investment opportunities on a forward-looking basis while adhering to its key top-down macroeconomic views and ensuring a strong level of diversification. Payden focuses on investments that it feels offer the best expected return per unit of risk, with each investment decision being assessed based on its contribution to risk and expected return at the overall Fund level, its liquidity profile and Payden's level of conviction.

Payden uses a range of metrics when deciding ultimate position sizing. Those metrics include but are not limited to percentage market value exposure, duration times spread (DTS), and spread duration. The size of position in those metric terms will then be determined based on the investment team's level of conviction, estimated downside potential, relative value, volatility, and liquidity.

What types of issuers are considered for use by Payden and why?

While Payden will consider opportunities across the full universe within each of these asset classes, Payden has preferences and biases as described in the table below:

Covered Bonds	Typical issuers of Covered Bonds include banks and financial institutions. Payden ranks issuers using a number of different factors including the financial strength of the issuer and credit quality of the collateral pool. Liquidity and capital preservation are primary features. As such, Payden's investment focus is typically concentrated on highly rated and financially strong issuers.
Agency MBS	MBS issued by Fannie Mae, Freddy Mac and Ginnie Mae.
Non-Agency MBS	Payden ranks issuers using a number of different factors which include the perceived strength of the collateral pool, the historic track record of the issuer (looking at past deals), the liquidity profile of the manager in the marketplace. Payden's due diligence is further strengthened by talking to the management team of the deal.
ABS	Payden ranks issuers using a number of different factors which include the perceived strength of the collateral pool, the historic track record of the issuer (looking at past deals), and the liquidity profile of the manager in the marketplace. Payden's due diligence is further strengthened by talking to the management team of the deal. Payden invests in issuers that are issuing and managing ABS backed by the following types of collateral: Auto loans, credit cards, consumer loans, equipment leases, cell tower receivables, triple net leases.
CLOs	Payden ranks managers using a number of qualitative factors. Key factors include the strength of the managing team, its philosophy, Payden's assessment of whether the issuer shows preference to debt holders or equity holders, and an analysis of the liquidity profile of that manager in the marketplace. Payden does not limit itself to managers that rank strongly across these factors when investing in higher rated tranches, however, Payden will limit investors in lower rated tranches to managers who rank highly across these factors. Payden mostly invests in tranches of deals that have a size equal to or above the average deal sizes. Payden does consider deals with smaller size provided that Payden feels that the liquidity of the deal will be adequate and that the tranches offers an appropriate concession to larger deals.
WBS	Payden ranks issuers using a number of different factors which include the perceived strength of the collateral pool, the historic track record of the issuer (looking at past deals), the liquidity profile of the manager in the marketplace. Payden's due diligence is further strengthened by talking to the management team of the deal. Typical issuers within WBS considered are nationally scaled, category leading, public issuers due to the strong collateral resiliency exhibited and the healthy secondary liquidity characteristics their bonds maintain.

CRTs	Payden ranks issuers using a number of different factors which include the perceived strength of the collateral pool, the historic track record of the issuer (looking at past deals), the liquidity profile of the manager in the marketplace. Payden's due diligence is further strengthened by talking to the management team of the deal. Typical issuers considered are GSEs or large money center banks due to the strong financial strength of their sponsors which minimizes any related issuer distress risk.
CoCos	Payden's preference is to invest in CoCos of issuers with strong levels of capitalisation, with good asset quality and liquidity position, and who benefit from a favourable regulatory environment, possess a good liquidity profile in the secondary market and have an incentive to call the security at the call date.

What is the selection process used by Payden?

Fundamental research forms the basis for the recommendation to buy (or sell) an individual security. The main factors that Payden considers as it evaluates a possible purchase (or sale) are fundamental evaluation of the opportunity, the market valuation of the bond, assessment of bond liquidity, potential headline risk, forward looking risk profile, and relative value versus alternatives. All securities must demonstrate compliance with the applicable requirements of the EU Securitisation Regulation.

About 80% of Payden's research is generated internally, with 20% sourced externally (but always evaluated in-house). An important part of Payden's research mosaic, external sources are valuable for additional perspective and are subject to on-going evaluation. However, Payden places the highest value on its own internal research. Valuation models and techniques are utilized within each sector team and apply the nuances and key metrics relevant to each class of securities. Below we provide more details on the selection process used for the specific asset classes.

Covered Bonds	Payden considers several factors in selecting Covered Bonds, including the issuer's financial strength, management team strength, and legal/tax/regulatory considerations. collateral quality and related eligibility criteria, cash flow scenario analysis and relative value compared to investment alternatives. Securitized and corporate analysts partner to evaluate the issuer and management team. Ongoing monitoring and due diligence is conducted through management team contact as required and consistent industry coverage as well as regulatory reporting.
Agency MBS	For Agency MBS, Payden's research process screens the investable universe for attractively priced securities with unique collateral qualities (i.e. appreciating housing prices, favourable geographic location, low loan-to-value). To mitigate prepayment risk, Payden monitors the activity of mortgage servicers and its impact on refinancing activity. Payden also limits concentration to pools that have a higher percentage of third-party or wholesale originations.
Non-Agency MBS	For residential mortgage-backed securities (RMBS) from a macro standpoint Payden looks at (i) unemployment rates and home price trends (ii) mortgage rates and household income, and (iii) prepayment and default trends. At the micro level Payden looks look at (i) specific loan-level attributes such as credit score, debt to income, loan type, geography, property valuation (loan-to-value) and (ii) deal structure attributes such as credit enhancement, payment waterfall,

	and deal trigger, and (iii) originator capabilities such as their credit-granting standards, experience in the industry, historic performance, and operations.
ABS	Payden considers several factors in selecting ABS securities including past issuer loan data, management changes, legal/tax/regulatory considerations, deal structure features, cash flow scenario analysis, intra and inter sector relative analysis, and presale documents. Payden starts its securities analysis process by evaluating past issuer loan data; this is the basis of its analysis. The process typically involves analysis of historical delinquency data, default data, and loss data broken down into cohort/vintage segments to account for differences between, or changes to, loan programs. In addition, Payden adjusts for the time in the credit cycle when the loans were originated.
CLOs	Payden considers several factors in selecting CLO securities including the issuers past performance during stressed periods, management changes, legal/tax/regulatory considerations, deal structure features, cash flow scenario analysis, intra and inter sector relative analysis, and presale documents. Payden starts its securities analysis process by analyzing past issuer loan data in Intex; this is the basis of its analysis. The process typically involves analysis of historical delinquency data, default data, and loss data broken down into cohort/vintage segments to account for differences between, or changes to, loan programs. In addition, Payden adjusts for the time in the credit cycle when the loans were originated.
WBS	Payden considers several factors in selecting WBS securities including the issuer's competitive market advantages, relative positioning within its peer set, growth trajectory, past performance through economic cycles, strength of management team, legal/tax/regulatory considerations, deal structure features, cash flow scenario analysis and relative value compared to investment alternatives. Securitized and corporate analysts partner to evaluate the issuer, its market segment and management team. Ongoing monitoring and due diligence is conducted through regular contact with management teams, consistent industry coverage, regulatory reporting and timely review of transaction performance reports.
CRTs	Payden considers several factors in selecting CRT securities, including the issuer's financial strength, management team, legal/tax/regulatory considerations, past issuer loan data, deal structure features, cash flow scenario analysis and relative value compared to investment alternatives. Additionally, the macro and micro considerations listed for Non-Agency MBS is also applied. Securitized and corporate analysts partner to evaluate the issuer and management team. Ongoing monitoring is conducted through management team contact as required, consistent industry coverage, regulatory reporting and timely review of transaction performance reports.
CoCos	Each security is analysed as a stand-alone entity as well as in comparison with similar securities issued by other financial institution globally. Issuer research is primarily fundamental and includes the analysis of financial statements, footnotes, projections, the prospectus of the issuer and the structure of the particular deal. Payden's fundamental research extends to analysing the regulatory framework for the jurisdiction of the issuing entity and for financial institutions more broadly. An emphasis is placed on the creditworthiness and the risk-adjusted return potential of each investment.

Additional important characteristics of the securities and their correlation with other assets.

Covered Bonds	Ample liquidity. Cashflows for securities are well defined, payable by the issuer and secured by a 'cover pool' of high-quality assets owned by the issuer and insulated in the case of issuer insolvency. As a result, Covered Bonds may have a higher rating than the issuer itself.
Agency MBS	Ample liquidity. Securities exposed to refinancing risk and extension risk. Positive but medium level of correlations with higher quality part of the fixed income spectrum and lower correlations with higher yielding lower quality parts of the fixed income universe.
Non-Agency MBS	Good liquidity with conservative securitization techniques. Positive but medium level of correlations with higher quality part of the fixed income spectrum and lower correlations with higher yielding lower quality parts of the fixed income universe.
ABS	Good liquidity. Positive but medium level of correlations with higher quality part of the fixed income spectrum and lower correlations with higher yielding lower quality parts of the fixed income universe.
CLOs	Good liquidity. Low correlations with higher quality part of the fixed income spectrum and higher correlations with higher yielding lower quality parts of the fixed income universe.
WBS	Good liquidity for top tier issuers, marginal less so for smaller scaled, non-public issuers. Largely fixed-rate, quarterly pay securities with expected maturities 10yrs and less at time of issuance. Positive but medium correlation with investment grade corporates.
CRTs	Offer a wide range of credit opportunities, from AAA to unrated securities. Highly rated securities generally offer good liquidity and are positively correlated to other investment grade securities within securitized markets. Lower rated securities offer reasonable liquidity in normal markets and are positively correlated to high yield corporate markets.
CoCos	Good liquidity. Low to negative correlations with higher quality part of the fixed income spectrum and higher and positive correlations with higher yielding lower quality parts of the fixed income universe.

Market demands/expectations of these types of securities

Covered Bonds	The ownership of Covered Bonds is broad and diverse both in terms of investor type and geographical location of the investor base. The investor base is primarily represented by a healthy mix of asset managers, insurance companies and banks.

Agency MBS	The ownership of Agency MBS is broad and diverse both in terms of investor type and geographical location of the investor base. While banks are significant holders of Agency MBS, money managers and insurance companies in the US and globally are also large holders of Agency MBS.
Non-Agency MBS	The investor base especially at the top end of the capital structure is diverse and broad with a large ownership from asset managers, banks, insurance companies and pension funds. Hedged funds tend to be more involved in the lower and more speculative part of the capital structure. Issuance has been declining in this part of the securitised market and that trend is expected to continue in the future. This will lead to a smaller opportunity set going forward.
ABS	The investor base especially at the top end of the capital structure is diverse and broad with a large ownership from asset managers, banks, insurance companies and pension funds. Hedge funds tend to be more involved in the lower and more speculative part of the capital structure.
CLOs	The investor base especially at the top end of the capital structure is diverse and broad with a large ownership from asset managers, banks, insurance companies and pension funds. Hedge funds tend to be more involved in the lower and more speculative part of the capital structure.
WBS	The investor base primarily consists of asset managers and insurance companies, with small selective participation from pension funds and hedge funds.
CRTs	The investor base especially at the top end of the capital structure is diverse and broad with a large ownership from asset managers, banks, insurance companies and pension funds. Hedged funds tend to be more involved in the lower and more speculative part of the capital structure.
CoCos	Broad investor base globally including money managers, insurance companies and hedge funds.

Performance of the securities perform in various interest rate environments including low interest rate environments (how are benefits achieved) and high interest rate environments (how are investors in the Fund protected).

Covered Bonds	Covered Bonds often have floating rate coupons and those that have this feature do not show a direct sensitivity to change in interest rates. Indirectly, interest rate changes and benchmark curve shapes can impact the financial strength of bank and financial institutions, which could translate to price impact for Covered Bonds.
Agency MBS	Agency MBS have multiple factors to evaluate from an interest rate perspective. The coupons are fixed so they naturally have sensitivity to changes in interest rates. In addition, the underlying loans can be refinanced at any time if mortgage rates decrease below the loan's current interest rate. This optionality can result in fast prepayments and a shortening of duration in a decreasing rate environment and an extension of duration during a rising rate environment where loan holders have not incentive to refinance. All these factors create a dynamic

	environment that needs to be constantly evaluated to analyse and understand how specific collateral pools will respond to changing interest rates.
Non-Agency MBS, ABS, CLOs	Non-Agency MBS, ~~ABS~~ and CLOs offer floating rate coupons and therefore would not show a direct sensitivity to change in interest rates. ABS offers mostly floating rate but also fixed rate coupons. The fixed rate subset would exhibit price performance inversely related to the change in interest rates. These asset classes are sensitive to changes in the credit profile of their collateral pool. To the extent that changes in interest rates affect the creditworthiness/default risk of the collateral pool, the price on these asset classes can be indirectly affected. For example, a sharp and significant rise in interest rate might lead to unstable and much tighter financing conditions for companies whose loans are included in the collateral portfolio of a CLOs. This in turn could increase the default risk on some of the leverage loans in the collateral. In such a scenario the price of the CLO tranches would experience downward pressures. There is a scenario in a curve steepening environment, where floating rate product that is priced off short term interest rates would need to see their spreads widen to stay attractive to investors versus longer duration assets that offer much higher all in yields.
WBS	WBS largely pay a fixed-rate coupon, so price performance is inversely related to the change in interest rates. The timing of principal cashflows is stable and predictable regardless of interest rate changes, therefore they do not exhibit the same negative convexity challenges as MBS.
CRTs	CRT securities are issued in both fixed and floating rate coupon formats. The floating rate coupon securities would not show a direct sensitivity to interest rate changes. The fixed rate coupon securities however would, with price performance inversely related to the change in interest rates. As with Non-Agency MBS, ABS, CLOs above, depending on the reference pool composition, interest rate changes can affect the credit profile of the collateral pool. Therefore and in the same manner, the price of CRTs can be indirectly affected by interest rate changes.
CoCos	As with traditional fixed coupon fixed income asset classes, contingent convertible bond prices will decline in a rising rate environment and increase in a declining rate environment. However, it is critical to assess the nature of the changes in interest rate, as contingent convertible bonds offer attractive features in a bond portfolio. In an environment characterised by an improving economy growth outlook leading to modest rise in yields and steeper curves, contingent convertible bonds are likely to outperform given the higher yield cushion offered by these instruments as well as the more supportive environment for banks more generally.

How do these securities perform in extreme market volatility and how are the risks managed?

Extreme market volatility can be caused by multiple factors and can lead to different financial environments. It is important to understand the nature of the increase in volatility and the persistence of these extreme levels of volatility in order to assess the potential behaviour of each of asset classes and securities held in the Fund.

MBS, non-Agency MBS, ABS, CLOs and Contingent Convertible bonds are all exposed to some form of credit risk with varying degrees. To compensate for this credit risk, these securities offer a credit premium in excess of government bonds yields (or cash yields in the case of floating rate notes). Most of the time, extreme market volatility environments are associated with rising credit premia which put downwards pressure on prices. Extreme volatility environments often times lead to deteriorating liquidity dynamics in the broader market which will also affect prices of these securities negatively. In such environments, riskier asset classes or lower rated tranches are expected to underperform higher quality, lower yielding asset classes since the widening in credit premia is proportional to the initial level of credit premia.

Since non-Agency MBS, ABS and CLOs are mostly exposed to credit risk (with limited sensitivity to the level of interest rate due to the floating rate of their coupon), Payden would expect prices on these asset classes to decline under extreme market volatility and liquidity to reduce.

MBS and contingent convertible bonds are sensitive to changes in interest rates. While extreme market environments are often associated with declining interest rates, they can be coupled with higher interest rates (eg Q2 2013). Most of the time, if rates decline, Payden would expect the decline in yields to partially, fully or more than offset the negative impact coming from rising risk premia depending on the security and the asset class. However, a rising interest rate environment would amplify the decline in prices.

Payden's approach to navigating an extreme volatility environment will vary depending on the reasons that led to this environment and our assessment of the environment and of its expected evolution going forward. In any case, Payden structures portfolios to be able to navigate unexpected volatility has demonstrated this ability through multiple past episodes. Payden's robust research platform provides the investment team with a deep understanding of each investment in the portfolio. This understanding allows Payden to quickly assess changing market dynamics and make educated judgements on how Payden's investments will respond to this new market environment. This understanding may lead to selling certain investments or it may lead the team to take advantage of the volatility and add securities that have unjustifiably moved lower in price. In addition, Payden structures portfolios with liquidity, diversification, and other risk metrics in mind. The team runs numerous stress tests and scenario analyses to evaluate how the portfolio will perform in different environments. This evaluation gives the team confidence in knowing how the portfolio will react and what changes need to be made to portfolio structure to respond and take advantage of new market conditions.

Payden's ongoing approach to stress testing and scenario analysis.

At the overall portfolio level, stress testing helps Payden to evaluate how the strategy will react to shifting market factors such as interest rates, credit spreads, inflation expectations, equity markets, commodities, etc. in order to ascertain potential downside. Payden conducts liquidity stress testing in accordance with ESMA Liquidity Stress Testing Guidelines.

Payden uses a series of risk assessment software programs, both proprietary and third-party, which will allow it to stress test portfolios for various levels of credit risk, redemptions, and interest rate changes. The models range from Value-at-Risk (VaR) to rigorous scenario analysis models. For example, Payden frequently performs scenario analysis on the impact to the Fund's portfolio of interest rate shocks. Payden is able to modify the variables/assumptions of the stress test, such as size and time horizon of the interest rate or sector spread move, in addition to shape of the yield curve and asset class beta. Payden's systems also have the capability to calculate the impact of historical stressed periods on the Fund's portfolio – making its stress-testing process both backward and forward-looking.

Additionally, Payden's analysts will typically run stress testing and scenario analysis when looking at a particular investment opportunity. For example, for securitised asset classes (including non-agency MBS, ABS and CLOs), Payden's analysts will stress key factors on the collateral such as constant default rates, loss severity or prepayment rates to assess the assumptions under which certain tranches in the capital structure would start to experience principal losses. Similarly, Payden's analysts run scenario analysis on the collateral of the deal to assess how the value of the collateral might change and the impact that various environment could have on cashflows.

Payden uses all these different stress tests and scenario analysis exercises to evaluate how certain risks can impact the portfolio. The team will analyse the current environment and identify potential risks that could surface in the future. For example, the team may identify a potential catalyst for a trade war and subsequent risk off environment. The risk team would ten run a stress test to evaluate where the portfolio is at risk and then the investment team will use that output to help position the portfolio to protect itself from such a scenario.

Payden team credentials

Payden & Rygel, the Sub-Investment Manager, is an SEC registered investment adviser headquartered in Los Angeles, with offices in Boston and subsidiaries in London (Payden & Rygel Global Limited, the Investment Manager) and Milan (Payden Global SIM SpA). The offices and legal entities constituting Payden operate at both a local and global level to achieve a uniform and consistent approach to investment management.

Founded in 1983, we are a leader in the active management industry, and are one of the largest employee-owned asset managers in the world. The Investment Policy Committee, consisting of eleven of the most senior investment professionals at the firm, maintains oversight over all of the firm's strategies and is an integral part of our decision-making and risk management process. The role/output of the IPC is threefold: (1) formation of our broad-based and long-term view on macroeconomic factors such as interest rates, economic growth, inflation, political risk, etc.; (2) on-going review and determination of the firm's broad risk management parameters; and (3) regular, comprehensive review of investment results for consistency with both the letter and spirit of our fundamental views. Their role is to determine an overarching framework within which the specific strategies are undertaken. Members of the IPC are all shareholders of the firm, involved in the active management of portfolios and communicate daily with strategists, analysts, and traders.

The IPC meets weekly. The investment policy meetings have a structured agenda which includes a detailed review of firm-wide strategies, and includes risk reports, portfolio positioning and characteristics profiles, and a market outlook.

Payden has a centralised Risk Management Team. It is independent of the Portfolio Management Group (and any portfolio management team within that Group), the Compliance Group and the IPC, each of which also have risk management responsibilities. The Risk Management Team members are investment professionals that work in conjunction with the Compliance Group in monitoring firm-wide risk parameters established by the Risk Management Team and the IPC. The head of the Risk Management Team is functionally and hierarchically segregated from the investment teams. The team meets formally twice weekly, and often more frequently as needed.

The core team for the management of the Fund comprises eight members of the Multi Asset Credit team. Biographies for each team member are attached at Appendix 1. This core team draws on the resources of specialist teams from within Payden, namely the Emerging Markets team (thirteen members), the corporate research team (sixteen members) and the securitised team (eleven members), and further biographies for these team members are also attached at Appendix 1. Payden has managed funds and/or portfolios that included the securities described above for at least fifteen years or since the securities type first came to market, if this is more recent.