THE PAYDEN & RYGEL INVESTMENT GROUP

PAYDEN FUNDS
PAYDEN CASH RESERVES MONEY MARKET FUND
PAYDEN LIMITED MATURITY FUND
PAYDEN SHORT BOND FUND
PAYDEN U.S. GOVERNMENT FUND
PAYDEN GNMA FUND
PAYDEN CORE BOND FUND
PAYDEN OPPORTUNITY BOND FUND
PAYDEN HIGH INCOME FUND
PAYDEN TAX EXEMPT BOND FUND
PAYDEN CALIFORNIA MUNICIPAL INCOME FUND
PAYDEN VALUE LEADERS FUND
PAYDEN MARKET RETURN FUND
PAYDEN U.S. GROWTH LEADERS FUND
PAYDEN GLOBAL EQUITY FUND
PAYDEN GLOBAL SHORT BOND FUND
PAYDEN GLOBAL FIXED INCOME FUND
PAYDEN EMERGING MARKETS BOND FUND

PAYDEN/WILSHIRE LONGEVITY FUNDS
PAYDEN/WILSHIRE LONGEVITY FUND 2010+
PAYDEN/WILSHIRE LONGEVITY FUND 2020+
PAYDEN/WILSHIRE LONGEVITY FUND 2030+
PAYDEN/WILSHIRE LONGEVITY FUND 2040+

THE METZLER/PAYDEN INVESTMENT GROUP

METZLER/PAYDEN FUNDS
METZLER/PAYDEN EUROPEAN EMERGING MARKETS FUND
METZLER/PAYDEN EUROPEAN LEADERS FUND
METZLER/PAYDEN INTERNATIONAL EQUITY FUND

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Los Angeles, California 90071
1-800-572-9336

STATEMENT OF ADDITIONAL INFORMATION
February 28, 2008

The Payden & Rygel Investment Group (the “P&R Trust”) is a professionally managed, open-end management investment company with twenty-one funds, listed above, available for investment. The Metzler/Payden Investment Group (the “M/P Trust”) is a professionally managed, open-end management investment company with three funds, also listed above, available for investment. This Statement of Additional Information (“SAI”) contains information about all twenty-four funds. This SAI contains information in addition to that set forth in the combined prospectus for the funds dated February 28, 2008 (the “Prospectus”). The SAI is not a prospectus and should be read in conjunction with the Prospectus. In addition, the P&R Trust’s Annual Reports to Shareholders for the fiscal year ended October 31, 2007 for the Payden Funds and Payden/Wilshire Longevity Funds, respectively, and the M/P Trust’s Annual Report to Shareholders for the fiscal year ended October 31, 2007 for the Metzler/Payden Funds are incorporated by reference into this SAI. You may order copies of the Prospectus and the Annual Reports without charge at the address or telephone number listed above.

TABLE OF CONTENTS

THE P&R TRUST AND THE M/P TRUST

The Payden & Rygel Investment Group (the "P&R Trust") was organized as a Massachusetts business trust on January 22, 1992. The P&R Trust is a professionally managed, open-end management investment company which is registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The P&R Trust currently offers shares of each of the twenty-one funds listed under the heading "The Payden & Rygel Investment Group" on the cover page of this SAI. The Metzler/Payden Investment Group (the "M/P Trust") was organized as a Delaware business trust on March 22, 2002. The M/P Trust is a professionally managed, open-end management investment company which is registered under the 1940 Act. The M/P Trust currently offers shares of each of the three funds listed under the heading "The Metzler/Payden Investment Group" on the cover page of this SAI. Of the P&R Trust funds, seventeen of the funds are grouped together and known (and sometimes referred to in this SAI) as the "Payden Funds." Payden & Rygel ("Payden") is the investment adviser to the Payden Funds. The other four funds of the P&R Trust are grouped together and known (and sometimes referred to in this SAI) as the "Payden/Wilshire Longevity Funds" or "Longevity Funds." Payden is the investment adviser to the Longevity Funds, and Wilshire Associates Incorporated ("Wilshire") is the sub-adviser to the Longevity Funds. The funds of the M/P Trust are known (and sometimes referred to in this SAI) as the "Metzler/Payden Funds." Metzler/Payden LLC ("Metzler/Payden") is the investment adviser to the Metzler/Payden Funds. Throughout this SAI when discussing these twenty-four funds generally, the funds may be referred to individually as a "Fund," and collectively as the "Funds." References to a Fund's investment adviser include Payden, Metzler/Payden and Wilshire, as applicable.

FUNDAMENTAL AND OPERATING POLICIES

Each Fund's investment objective is fundamental and may not be changed without shareholder approval, as described below under "Other Information-Voting." Any policy that is not specified in the Prospectus or in the SAI as being fundamental is a non-fundamental, or operating, policy. If the Board of Trustees for a Fund (the "Fund's Board") determines that a Fund's investment objective may best be achieved by changing a non-fundamental policy, the Fund's Board may make such change without shareholder approval. Any investment restriction which involves a maximum percentage of securities or assets will not be violated unless an excess occurs immediately after, and is caused by, an acquisition of securities or other assets of, or borrowings by, the Fund.

PAYDEN FUNDS - FUNDAMENTAL POLICIES

As a matter of fundamental policy:

(1) BORROWING. Except for the Payden Global Equity Fund, no Payden Fund may borrow money, except as a temporary measure for extraordinary or emergency purposes or for the clearance of transactions, and then only in amounts not exceeding 30% of its total assets valued at market (for this purpose, reverse repurchase agreements and delayed delivery transactions covered by segregated accounts are not considered to be borrowings). The Payden Global Equity Fund may not borrow money, except to the extent permitted under the 1940 Act, including the rules, regulations and interpretations thereunder and any exemptive relief obtained by the Fund.

(2) COMMODITIES. No Payden Fund may purchase or sell commodities or commodity contracts, except that (i) each Payden Fund, other than the Payden Cash Reserves Money Market Fund, may enter into financial and currency futures contracts and options on such futures contracts, (ii) each Global Bond Fund, each U.S. Equity Fund, and each of the Payden Limited Maturity, Payden Short Bond, Payden Core Bond, Payden Opportunity Bond, Payden High Income and Payden Global Equity Funds, may enter into forward foreign currency exchange contracts (the Payden Funds do not consider such contracts to be commodities), and (iii) each Payden Fund, other than the Payden U.S. Government and Payden Cash Reserves Money Market Funds, may invest in instruments which have the characteristics of both futures contracts and securities.

(3) LOANS. No Payden Fund may make loans, except that (i) each Payden Fund may purchase money market securities and enter into repurchase agreements, (ii) each Payden Fund may acquire bonds, debentures, notes and other debt securities, and (iii) each Payden Fund, other than the Payden U.S. Government, Payden California Municipal Income, and Payden Emerging Markets Bond Funds, may lend portfolio securities in an amount not to exceed 30% of its total assets (with the value of all loan collateral being "marked to market" daily at no less than 100% of the loan amount).

(4) MARGIN. Except for the Payden Global Equity Fund, no Payden Fund may purchase securities on margin, except that (i) each Payden Fund may use short-term credit necessary for clearance of purchases of portfolio securities, and (ii) each Payden Fund, other

than the Payden U.S. Government and Payden Cash Reserves Money Market Funds, may make margin deposits in connection with futures contracts and options on futures contracts.

(5) MORTGAGING. No Payden Fund may mortgage, pledge, hypothecate or in any manner transfer any security owned by the Fund as security for indebtedness, except as may be necessary in connection with permissible borrowings and then only in amounts not exceeding 30% of the Fund's total assets valued at market at the time of the borrowing.

(6) ASSETS INVESTED IN ANY ISSUER. No Payden Fund may purchase a security if, as a result, with respect to 50% of the Fund's total assets, more than 5% of its total assets would be invested in the securities of any one issuer (other than obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities).

(7) SHARE OWNERSHIP OF ANY ISSUER. No Payden Fund may purchase a security if, as a result, with respect to 50% of the Fund's total assets, more than 10% of the outstanding voting securities of any issuer would be held by the Fund (other than obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities).

(8) REAL ESTATE. No Payden Fund may purchase or sell real estate (although it may purchase securities secured by real estate partnerships or interests therein, or issued by companies or investment trusts which invest in real estate or interests therein) or real estate limited partnership interests.

(9) SHORT SALES. Except for the Payden Global Equity Fund, no Payden Fund may effect short sales of securities.

(10) UNDERWRITING. No Payden Fund may underwrite securities issued by other persons, except to the extent that the Fund may be deemed to be an underwriter within the meaning of the Securities Act of 1933, as amended (the "Securities Act"), in connection with the purchase and sale of its portfolio securities in the ordinary course of pursuing its investment program.

(11) SENIOR SECURITIES. No Payden Fund may issue "senior securities" (as defined in the 1940 Act) except as permitted by rule, regulation or order of the Securities and Exchange Commission.

(12) GLOBAL DIVERSIFICATION. Under normal market conditions, each of the Payden Global Fixed Income and Payden Global Short Bond Funds invests at least 65% of its total assets in debt securities of issuers located in at least three countries (one of which may be the United States).

(13) TAX EXEMPT SECURITIES. Under normal market conditions, each of the Payden Tax Exempt Bond and Payden California Municipal Income Funds invests at least 80% of the value of its net assets in a non-diversified portfolio of debt obligations issued by state and local governments, territories and possessions of the U.S., regional government authorities, and their agencies and instrumentalities which provide interest income that, in the opinion of bond counsel to the issuer at the time of original issuance, is exempt from federal income taxes ("municipal securities").

(14) INDUSTRY DIVERSIFICATION. Neither the Payden Value Leaders Fund nor the Payden Market Return Fund will purchase any security which would cause 25% or more of its total assets at the time of purchase to be invested in the securities of any one or more issuers conducting their principal business activities in the same industry, provided that (i) there is no limitation with respect to U.S. Government obligations and repurchase obligations secured by such obligations, (ii) wholly owned finance companies are considered to be in the industries of their parents, (iii) SPDRs and other similar derivative instruments are divided according to the industries of their underlying common stocks, and (iv) utilities are divided according to their services (for example, gas, gas transmission, electric and telephone will each be considered a separate industry). Each foreign government and supranational organization is considered to be an industry.

(15) BELOW INVESTMENT GRADE DEBT. The Payden High Income Fund invests at least 80% of its total assets in debt securities rated below investment grade, or those determined by Payden to be of comparable quality.

PAYDEN FUNDS - OPERATING POLICIES

As a matter of non-fundamental operating policy:

(1) CONTROL OF PORTFOLIO COMPANIES. No Payden Fund may invest in companies for the purpose of exercising management or control.

(2) ILLIQUID SECURITIES. No Payden Fund may purchase a security if, as a result of such purchase, more than 15% (in the case of the Payden Cash Reserves Money Market Fund, 10%) of the Fund's net assets would be invested in illiquid securities or other securities that are not readily marketable, including repurchase agreements which do not provide for payment within seven days. For this purpose, restricted securities eligible for resale pursuant to Rule 144A under the Securities Act may be determined to be liquid.

(3) INVESTMENT COMPANIES. No Payden Fund may purchase securities of open-end or closed-end investment companies except in compliance with the 1940 Act and the rules and regulations thereunder.

(4) OIL AND GAS PROGRAMS. No Payden Fund may purchase participations or other direct interests in oil, gas, or other mineral exploration or development programs or leases.

(5) BORROWINGS, The Payden U.S. Government Fund may not borrow amounts exceeding 33% of total assets valued at market (including reverse repurchase agreements and delayed delivery transactions).

(6) TAX EXEMPT SECURITIES. Under normal circumstances, the Payden California Municipal Income Fund invests at least 80% of the value of its net assets in securities of the State of California, local governments and governmental authorities within California and their agencies and instrumentalities which provide interest income that, in the opinion of bond counsel to the issuer at the time of original issuance, is exempt from California personal income taxes.

PAYDEN/WILSHIRE LONGEVITY FUNDS - FUNDAMENTAL POLICIES

As a matter of fundamental policy:

(1) BORROWING. No Longevity Fund may borrow money, except as a temporary measure for extraordinary or emergency purposes or for the clearance of transactions, and then only in amounts not exceeding 30% of its total assets valued at market (for this purpose, reverse repurchase agreements and delayed delivery transactions covered by segregated accounts are not considered to be borrowings).

(2) LOANS. No Longevity Fund may make loans, except that (i) each Longevity Fund may purchase money market securities and enter into repurchase agreements, (ii) each Longevity Fund may acquire bonds, debentures, notes and other debt securities, and (iii) each Longevity Fund may lend portfolio securities in an amount not to exceed 30% of its total assets (with the value of all loan collateral being "marked to market" daily at no less than 100% of the loan amount).

(3) MARGIN. No Longevity Fund may purchase securities on margin, except that (i) each Longevity Fund may use short-term credit necessary for clearance of purchases of portfolio securities, and (ii) each Longevity Fund may make margin deposits in connection with futures contracts and options on futures contracts.

(4) MORTGAGING. No Longevity Fund may mortgage, pledge, hypothecate or in any manner transfer any security owned by the Fund as security for indebtedness, except as may be necessary in connection with permissible borrowings and then only in amounts not exceeding 30% of the Fund's total assets valued at market at the time of the borrowing.

(5) ASSETS INVESTED IN ANY ISSUER. No Longevity Fund may purchase a security if, as a result, with respect to 50% of the Fund's total assets, more than 5% of its total assets would be invested in the securities of any one issuer (other than obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities). For purposes of clarity, each series of a series investment company will be considered a separate issuer.

(6) SHARE OWNERSHIP OF ANY ISSUER. No Longevity Fund may purchase a security if, as a result, with respect to 50% of the Fund's total assets, more than 10% of the outstanding voting securities of any issuer would be held by the Fund (other than obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities). For purposes of clarity, each series of a series investment company will be considered a separate issuer.

(7) REAL ESTATE. No Longevity Fund may purchase or sell real estate (although it may purchase securities secured by real estate partnerships or interests therein, or issued by companies or investment trusts which invest in real estate or interests therein) or real estate limited partnership interests.

(8) UNDERWRITING. No Longevity Fund may underwrite securities issued by other persons, except to the extent that the Fund may be deemed to be an underwriter within the meaning of the Securities Act in connection with the purchase and sale of its portfolio securities in the ordinary course of pursuing its investment program.

(9) SENIOR SECURITIES. No Longevity Fund may issue “senior securities” (as defined in the 1940 Act) except as permitted by rule, regulation or order of the Securities and Exchange Commission.

PAYDEN/WILSHIRE LONGEVITY FUNDS - OPERATING POLICIES

As a matter of non-fundamental operating policy:

(1) CONTROL OF PORTFOLIO COMPANIES. No Longevity Fund may invest in companies for the purpose of exercising management or control.

(2) ILLIQUID SECURITIES. No Longevity Fund may purchase a security if, as a result of such purchase, more than 15% of the Longevity Fund’s net assets would be invested in illiquid securities or other securities that are not readily marketable, including repurchase agreements which do not provide for payment within seven days. For this purpose, restricted securities eligible for resale pursuant to Rule 144A under the Securities Act may be determined to be liquid.

(3) INVESTMENT COMPANIES. No Longevity Fund may purchase securities of open-end or closed-end investment companies except in compliance with the 1940 Act and the rules and regulations thereunder.

(4) OIL AND GAS PROGRAMS. No Longevity Fund may purchase participations or other direct interests in oil, gas, or other mineral exploration or development programs or leases.

(5) COMMODITIES. No Longevity Fund may purchase or sell commodities or commodity contracts, except that (i) each Longevity Fund may enter into financial and currency futures contracts and options on such futures contracts, (ii) each Longevity Fund may enter into forward foreign currency exchange contracts (the Longevity Funds do not consider such contracts to be commodities), and (iii) each Longevity Fund may invest in instruments which have the characteristics of both futures contracts and securities.

METZLER/PAYDEN FUNDS - FUNDAMENTAL POLICIES

As a matter of fundamental policy:

(1) BORROWING. No Metzler/Payden Fund may borrow money, except as a temporary measure for extraordinary or emergency purposes or for the clearance of transactions, and then only in amounts not exceeding 30% of its total assets valued at market (for this purpose, reverse repurchase agreements and delayed delivery transactions covered by segregated accounts are not considered to be borrowings).

(2) COMMODITIES. No Metzler/Payden Fund may purchase or sell commodities or commodity contracts, except that (i) each Metzler/Payden Fund may enter into financial and currency futures contracts and options on such futures contracts, (ii) each Metzler/Payden Fund may enter into forward foreign currency exchange contracts (the Metzler/Payden Funds do not consider such contracts to be commodities), and (iii) each Metzler/Payden Fund may invest in instruments which have the characteristics of both futures contracts and securities.

(3) LOANS. No Metzler/Payden Fund may make loans, except that (i) each Metzler/Payden Fund may purchase money market securities and enter into repurchase agreements, (ii) each Metzler/Payden Fund may acquire bonds, debentures, notes and other debt securities, and (iii) each Metzler/Payden Fund may lend portfolio securities in an amount not to exceed 30% of its total assets (with the value of all loan collateral being “marked to market” daily at no less than 100% of the loan amount).

(4) MARGIN. No Metzler/Payden Fund may purchase securities on margin, except that (i) each Metzler/Payden Fund may use short-term credit necessary for clearance of purchases of portfolio securities, and (ii) each Metzler/Payden Fund may make margin deposits in connection with futures contracts and options on futures contracts.

(5) MORTGAGING. No Metzler/Payden Fund may mortgage, pledge, hypothecate or in any manner transfer any security owned by the Fund as security for indebtedness, except as may be necessary in connection with permissible borrowings and then only in amounts not exceeding 30% of the Fund's total assets valued at market at the time of the borrowing.

(6) ASSETS INVESTED IN ANY ISSUER. No Metzler/Payden Fund may purchase a security if, as a result, with respect to 50% of the Fund's total assets, more than 5% of its total assets would be invested in the securities of any one issuer (other than obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities).

(7) SHARE OWNERSHIP OF ANY ISSUER. No Metzler/Payden Fund may purchase a security if, as a result, with respect to 50% of the Fund's total assets, more than 10% of the outstanding voting securities of any issuer would be held by the Fund (other than obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities).

(8) REAL ESTATE. No Metzler/Payden Fund may purchase or sell real estate (although it may purchase securities secured by real estate partnerships or interests therein, or issued by companies or investment trusts which invest in real estate or interests therein) or real estate limited partnership interests.

(9) SHORT SALES. No Metzler/Payden Fund may effect short sales of securities.

(10) UNDERWRITING. No Metzler/Payden Fund may underwrite securities issued by other persons, except to the extent that the Fund may be deemed to be an underwriter within the meaning of the Securities Act in connection with the purchase and sale of its portfolio securities in the ordinary course of pursuing its investment program.

(11) SENIOR SECURITIES. No Metzler/Payden Fund may issue "senior securities" (as defined in the 1940 Act) except as permitted by rule, regulation or order of the Securities and Exchange Commission.

METZLER/PAYDEN FUNDS - OPERATING POLICIES

As a matter of non-fundamental operating policy:

(1) CONTROL OF PORTFOLIO COMPANIES. No Metzler/Payden Fund may invest in companies for the purpose of exercising management or control.

(2) ILLIQUID SECURITIES. No Metzler/Payden Fund may purchase a security if, as a result of such purchase, more than 15% of the Fund's net assets would be invested in illiquid securities or other securities that are not readily marketable, including repurchase agreements which do not provide for payment within seven days. For this purpose, restricted securities eligible for resale pursuant to Rule 144A under the Securities Act of 1933 may be determined to be liquid.

(3) INVESTMENT COMPANIES. No Metzler/Payden Fund may purchase securities of open-end or closed-end investment companies except in compliance with the 1940 Act and the rules and regulations thereunder.

(4) OIL AND GAS PROGRAMS. No Metzler/Payden Fund may purchase participations or other direct interests in oil, gas, or other mineral exploration or development programs or leases.

INVESTMENT STRATEGIES/TECHNIQUES AND RELATED RISKS

The investment objectives and general investment policies of each of the Funds are described in the Prospectus. Additional information concerning investment strategies/techniques and the characteristics of certain of the Funds' investments, as well as related risks, is set forth below.

FUND DIVERSIFICATION

Each of the Payden High Income Fund and Payden Cash Reserves Money Market Fund is classified as a “diversified” fund. Each of the other Funds is classified as a “non-diversified” fund. As provided in the 1940 Act, a diversified fund has, with respect to at least 75% of its total assets, no more than 5% of its total assets invested in the securities of one issuer, plus cash, Government securities, and securities of other investment companies. Because the investment adviser may from time to time invest a large percentage of a non-diversified Fund’s assets in securities of a limited number of issuers, each non-diversified Fund may be more susceptible to risks associated with a single economic, political or regulatory occurrence than a diversified investment company. However, each Fund intends to qualify as a “regulated investment company” under the Internal Revenue Code of 1986, as amended (the “Code”), and therefore is subject to diversification limits requiring that, as of the close of each fiscal quarter, (i) no more than 25% of its total assets may be invested in the securities of a single issuer (other than U.S. Government securities), and (ii) with respect to 50% of its total assets, no more than 5% of such assets may be invested in the securities of a single issuer (other than U.S. Government securities) or invested in more than 10% of the outstanding voting securities of a single issuer.

INVESTMENTS IN REGISTERED INVESTMENT COMPANIES

Each Longevity Fund invests in shares of Underlying Funds (as defined in the Prospectus), including affiliated funds (i.e., any of the Payden Funds) to the extent permitted by applicable law and subject to certain restrictions set forth in this SAI.

Generally, under the 1940 Act and SEC rules thereunder, each Longevity Fund’s acquisition of the securities of affiliated funds is subject to the following guidelines and restrictions:

(A) The Longevity Fund may own an unlimited amount of any affiliated fund’s voting securities.

(B) The sales load and distribution fees paid by the Longevity Fund with respect to an Underlying Fund, aggregated with any distribution fees of the Longevity Fund, may not be excessive under NASD rules.

(C) Any Underlying Fund must have a policy that prohibits it from acquiring any securities of registered open-end funds or registered unit investment trusts in reliance on certain sections of the 1940 Act.

In addition, each Longevity Fund may acquire shares of unaffiliated funds, including any of the Metzler/Payden Funds. In addition to guidelines (B) and (C) above, under the 1940 Act and SEC rules thereunder, each Longevity Fund’s acquisition of the securities of unaffiliated funds is subject to the following guidelines and restrictions:

(D) The Longevity Fund and its “affiliated persons” may own no more than 3% of an unaffiliated fund’s voting securities.

(E) The Longevity Fund and the Underlying Fund, in the aggregate, may not charge a sales load greater than the limits set forth in Rule 2830(d)(3)of the Conduct Rules of the NASD applicable to funds of funds.

(F) The Underlying Fund is not obligated to redeem its securities held by the Longevity Fund in an amount greater than 1% of the Underlying Fund’s total outstanding securities during any period less than 30 days.

(G) The purchase or acquisition of the Underlying Fund is made pursuant to an arrangement with the Underlying Fund or its principal underwriter whereby the Longevity Fund is obligated either to (i) seek instructions from its shareholders with regard to the voting of all proxies with respect to the Underlying Fund and vote in accordance with such instructions; or (ii) vote the shares of the Underlying Fund held by the Fund in the same proportion as the vote of all other shareholders of the Underlying Fund.

Underlying Funds typically incur fees that are separate from those fees incurred directly by each Longevity Fund. Each Longevity Fund’s purchase of such investment company securities results in the layering of expenses as Longevity Fund shareholders would incur not only a proportionate share of the expenses of the Underlying Funds held by a Longevity Fund, but also expenses of the Longevity Fund.

Under certain circumstances an open-end investment company in which a Longevity Fund invests may determine to make payment of a redemption by the Longevity Fund wholly or in part by a distribution in kind of securities from its portfolio, instead of in cash. As a result, the Longevity Fund may hold such securities until Payden or Wilshire determines it is appropriate to dispose of them. Such disposition will impose additional costs on the Longevity Fund.

Investment decisions by the investment advisers to the Underlying Funds in which each Longevity Fund invests are made independently of the Longevity Fund.

As permitted under the 1940 Act and the rules thereunder, the Payden Funds and the Metzler/Payden Funds may also acquire the shares of affiliated funds and of unaffiliated funds. Such investments would be subject to the same guidelines and restrictions and risks as set forth above.

INVESTMENTS IN EXCHANGE-TRADED FUNDS ("ETFs")

Each Longevity Fund also invests directly in exchange-traded funds, or ETFs, and the Payden Funds and Metzler/Payden Funds may also invest in ETFs. The Underlying Funds in which a Longevity Fund invests may also invest in ETFs. Investments in shares of ETFs by a Fund or an Underlying Fund in which a Longevity Fund invests are subject to the guidelines set forth above under "INVESTMENTS IN REGISTERED INVESTMENT COMPANIES" applicable to unaffiliated funds (i.e., guidelines (D) through (G)).

An ETF is a type of index fund bought and sold on a securities exchange. An ETF trades like common stock and represents a fixed portfolio of securities designed to track a particular market index or basket of securities. A Fund could purchase an ETF to temporarily gain exposure to a portion of the U.S. or a foreign market while awaiting purchase of underlying securities. The risks of owning an ETF generally reflect the risks of owning the underlying securities they are designed to track, although lack of liquidity in an ETF could result in it being more volatile and ETFs have management fees that increase their costs. Because an ETF attempts to exactly replicate the particular stock index or basket of securities to which it is related, any price movement away from the value of the underlying stocks is generally quickly eliminated by professional traders. Thus, each investment adviser believes that the movement of the share prices of the ETFs in which the Funds invest should closely track the movement of the particular stock index or basket of securities to which it is related.

INVESTMENTS BY FUNDS AND BY UNDERLYING FUNDS IN WHICH LONGEVITY FUNDS INVEST

Each Fund may invest in the following types of securities, as specified in the Prospectus. In addition, investments by the Underlying Funds, and consequently by each Longevity Fund investing in the Underlying Funds, may include the following types of securities. References in this section to investments by a Fund include the Fund's "direct" investments, as well as in the case of any Longevity Fund its "indirect" investments (i.e., investments by its Underlying Funds). References to "Funds" in these sections include the Funds and affiliated Underlying Funds and may apply to unaffiliated Underlying Funds. Greater detail about the types of investments and investment guidelines of any Underlying Fund are included in the Underlying Fund's prospectus and statement of additional information.

EQUITY AND EQUITY-BASED SECURITIES

Common Stocks

Common stocks, the most familiar type of equity securities, represent an equity (ownership) interest in a corporation. Although common stocks have a history of long-term growth in value, their prices fluctuate based on changes in the issuer's financial condition and prospects and on overall market and economic conditions. In addition, small companies and new companies often have limited product lines, markets or financial resources, and may be dependent upon one person, or a few key persons, for management. The securities of such companies may be subject to more volatile market movements than securities of larger, more established companies, both because the securities typically are traded in lower volume and because the issuers typically are more subject to changes in earnings and prospects.

Preferred Stocks

Preferred stock, unlike common stock, offers a stated dividend rate payable from a corporation's earnings. Such preferred stock dividends may be cumulative or non-cumulative, participating, or auction rate. If interest rates rise, the fixed dividend on preferred stocks may be less attractive, causing the price of preferred stocks to decline. Preferred stock may have mandatory sinking fund provisions, as well as call/redemption provisions prior to maturity, a negative feature when interest rates decline. Dividends on some preferred stock may be "cumulative," requiring all or a portion of prior unpaid dividends to be paid. Preferred stock also generally has a preference over common stock on the distribution of a corporation's assets in the event of liquidation of the corporation, and may be "participating," which means that it may be entitled to a dividend exceeding the stated dividend in certain cases. The rights of preferred stocks on the distribution of a corporation's assets in the event of a liquidation are generally subordinate to the rights associated with a corporation's debt securities.

Real Estate Investment Trusts

A real estate investment trust ("REIT") is a pooled investment vehicle that is organized as a corporation or business trust which invests primarily in income producing real estate or real estate loans or interests. As indicated in the Prospectus, certain of the Funds may invest in REITs. An investment in REITs is subject to certain risks associated with the direct ownership of real estate and with the real estate industry in general. These risks include, among others: possible declines in the value of real estate; risks related to general and local economic conditions; possible lack of availability of mortgage funds; overbuilding; extended vacancies of properties; increases in competition, property taxes and operating expenses; changes in zoning laws; costs resulting from the clean-up of, and liability to third parties for damages resulting from, environmental problems; casualty or condemnation losses; uninsured damages from floods, earthquakes or other natural disasters; limitations on and variations in rents; and changes in interest rates. To the extent that assets underlying a REIT's investments are concentrated geographically, by property type or in certain other respects, the REIT may be subject to certain of the foregoing risks to a greater extent. Equity REITs invest the majority of their assets directly in real property and derive income primarily from the collection of rents. Equity REITs may be affected by changes in the value of the underlying property owned by the REITs. Mortgage REITs invest the majority of their assets in real estate mortgages and derive income from the collection of interest payments. Mortgage REITs may be affected by the quality of any credit extended. REITs are dependent upon management skills, are not diversified, and are subject to heavy cash flow dependency, default by borrowers and self-liquidation. REITs are also subject to the possibilities of failing to qualify for tax-free pass-through of income under the Code, and failing to maintain their exemptions from registration under the 1940 Act.

REITs (especially mortgage REITs) are also subject to interest rate risks. When interest rates decline, the value of a REIT's investment in fixed rate obligations can be expected to rise. Conversely, when interest rates rise, the value of a REIT's investment in fixed rate obligations can be expected to decline. In contrast, as interest rates on adjustable rate mortgage loans are reset periodically, yields on a REIT's investment in such loans will gradually align themselves to reflect changes in market interest rates, causing the value of such investments to fluctuate less dramatically in response to interest rate fluctuations than would investments in fixed rate obligations.

Investing in REITs involves risks similar to those associated with investing in small capitalization companies. REITs may have limited financial resources, may trade less frequently and in a limited volume and may be subject to more abrupt or erratic price movements than larger company securities.

Depository Receipts

American Depository Receipts ("ADRs"), European Depository Receipts ("EDRs") and Global Depository Receipts ("GDRs") are used to invest in foreign issuers. Generally, an ADR is a dollar-denominated security issued by a U.S. bank or trust company which represents, and may be converted into, the underlying security that is issued by a foreign company. Generally, an EDR represents a similar securities arrangement but is issued by a European bank, while GDRs are issued by a depository. ADRs, EDRs and GDRs may be denominated in a currency different from the underlying securities into which they may be converted. Typically, ADRs, in registered form, are designed for issuance in U.S. securities markets and EDRs, in bearer form, are designed for issuance in European securities markets. ADRs may be sponsored by the foreign issuer or may be unsponsored. Unsponsored ADRs are organized independently and without the cooperation of the foreign issuer of the underlying securities. As a result, available information regarding the issuer may not be as current as for sponsored ADRs, and the prices of unsponsored ADRs may be more volatile than if they were sponsored by the issuers of the underlying securities.

Convertible Securities and Warrants

A convertible security is a fixed income security (a bond or preferred stock) which may be converted at a stated price within a specified period of time into a certain quantity of the common stock of the same or a different issuer. Convertible securities are senior to common stocks in an issuer's capital structure, but are usually subordinated to similar non-convertible securities. While providing a fixed income stream (generally higher in yield than the income derivable from common stock but lower than that afforded by a similar non-convertible security), a convertible security also affords an investor the opportunity, through its conversion feature, to participate in the capital appreciation attendant upon a market price advance in the convertible security's underlying common stock.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The credit standing of the issuer and other factors may also affect the investment value of a convertible security. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security is increasingly influenced by its conversion value.

Like other debt securities, the market value of convertible debt securities tends to vary inversely with the level of interest rates. The value of the security declines as interest rates increase and increases as interest rates decline. Although under normal market conditions longer term securities have greater yields than do shorter term securities of similar quality, they are subject to greater price fluctuations. A convertible security may be subject to redemption at the option of the issuer at a price established in the instrument governing the convertible security. If a convertible security held by a Fund is called for redemption, the Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party.

Warrants give the holder the right to purchase a specified number of shares of the underlying stock at any time at a fixed price, but do not pay a fixed dividend. An investment in warrants involves certain risks, including the possible lack of a liquid market for resale, potential price fluctuations as a result of speculation or other factors, and the possible failure of the price of the underlying security to reach or have reasonable prospects of reaching a level at which the warrant can be prudently exercised (in which event the warrant may expire without being exercised, resulting in a loss of the Fund's entire investment in the warrant). As a matter of operating policy, no Payden Fund or Metzler/Payden Fund will invest more than 5% of its total assets in warrants.

FIXED INCOME SECURITIES

U.S. Treasury Obligations

U.S. Treasury obligations are debt securities issued by the U.S. Treasury. They are direct obligations of the U.S. Government and differ mainly in the lengths of their maturities (e.g., Treasury bills mature in one year or less, and Treasury notes and bonds mature in two to 30 years).

U.S. Government Agency Securities

U.S. Government Agency securities are issued or guaranteed by U.S. Government sponsored enterprises and federal agencies. These include securities issued by the Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Bank, Federal Land Banks, Farmers Home Administration, Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Financing Bank, Farm Credit Bank, and the Tennessee Valley Authority. Some of these securities are supported by the full faith and credit of the U.S. Treasury, and others only by the credit of the instrumentality, which may include the right of the issuer to borrow from the Treasury. These securities may have maturities from one day to 30 years, are generally not callable and normally have interest rates that are fixed for the life of the security.

Inflation-Indexed Securities

Inflation-indexed fixed income securities are structured to provide protection against inflation and are issued by the U.S. and foreign governments, their agencies and instrumentalities and U.S. and foreign corporations. The value of principal or interest payments of an inflation-indexed security is adjusted periodically to track general movements of inflation in the country of issue.

As an example, a Fund, or an Underlying Fund in the case of the Longevity Funds, may invest in U.S. Treasury Inflation Protected Securities (TIPS). Principal amounts of TIPS are adjusted daily based on changes in the rate of inflation (currently represented by the Consumer Price Index for Urban Consumers, non-seasonally adjusted (CPI)). The U.S. Treasury currently issues TIPS only in 10-year maturities, although TIPS have previously been issued with maturities of five, 10 and 30 years. TIPS pay interest on a semi-annual basis, equal to a fixed percentage of the inflation-adjusted principal amount. The interest rate on TIPS is fixed at issuance, but over the life of the bond may be paid on an increasing or decreasing principal value. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed even during a period of deflation. However, because the principal amount of TIPS would be adjusted downward during a period of deflation, the Fund will be subject to deflation risk with respect to its investments in these securities.

The value of inflation-indexed securities such as TIPS generally fluctuates in response to changes in real interest rates, which are in turn tied to the relationship between nominal interest rates and the rate of inflation. Therefore, if inflation were to rise at a faster rate than nominal interest rates, real interest rates might decline, leading to an increase in value of TIPS. In contrast, if nominal interest rates increased at a faster rate than inflation, real interest rates might rise, leading to a decrease in value of TIPS. Although the principal value of TIPS declines in periods of deflation, holders at maturity receive no less than the par value of the bond. However, if the Fund purchases TIPS in the secondary market whose principal values have been adjusted upward due to inflation since issuance, the Fund may experience a loss if there is a subsequent period of deflation. If inflation is lower than expected during the period the Fund holds TIPS, the Fund may earn less on the security than on a conventional bond.

The daily adjustment of the principal value of TIPS is currently tied to the non-seasonally adjusted CPI for Urban Consumers, which the U.S. Bureau of Labor Statistics calculates monthly. The CPI is a measurement of changes in the cost of living, made up of components such as housing, food, transportation and energy. There can be no assurance that such index will accurately measure the real rate of inflation in the prices of goods and services. In addition, calculation of the CPI includes a three-month lag for purposes of determining the principal value of TIPS, which, consequently, could have a negative impact on the value of TIPS under certain market conditions.

Foreign Government Obligations

Foreign government obligations are debt securities issued or guaranteed by a supranational organization, or a foreign sovereign government or one of its agencies, authorities, instrumentalities or political subdivisions, including a foreign state, province or municipality.

Bank Obligations

Bank obligations include certificates of deposit, bankers' acceptances, and other debt obligations. Certificates of deposit are short-term obligations of commercial banks. A bankers' acceptance is a time draft drawn on a commercial bank by a borrower, usually in connection with an international commercial transaction.

Loan Participations and Assignments

Loan participations typically represent direct participation in a loan to a corporate borrower, and generally are offered by banks or other financial institutions or lending syndicates. Such indebtedness may be secured or unsecured. A Fund may participate in such syndications, or can buy part of a loan, becoming a part lender. When purchasing loan participations, a Fund assumes the credit risk associated with the corporate borrower and may assume the credit risk associated with an interposed bank or other financial intermediary. The participation interests in which a Fund intends to invest may not be rated by any nationally recognized rating service.

A loan is often administered by an agent bank acting as agent for all holders. The agent bank administers the terms of the loan, as specified in the loan agreement. In addition, the agent bank is normally responsible for the collection of principal and interest payments from the corporate borrower and the apportionment of these payments to the credit of all institutions that are parties to the loan agreement. Unless, under the terms of the loan or other indebtedness, a Fund has direct recourse against the corporate borrower, the Fund may have to rely on the agent bank or other financial intermediary to apply appropriate credit remedies against a corporate borrower.

A financial institution's employment as agent bank might be terminated in the event that it fails to observe a requisite standard of care or becomes insolvent. A successor agent bank would generally be appointed to replace the terminated agent bank, and assets held by the agent bank under the loan agreement should remain available to holders of such indebtedness. However, if assets held by the agent bank for the benefit of a Fund were determined to be subject to the claims of the agent bank's general creditors, the Fund might incur certain costs and delays in realizing payment on a loan or loan participation and could suffer a loss of principal and/or interest. In situations involving other interposed financial institutions (e.g., an insurance company or governmental agency) similar risks may arise.

Purchasers of loans and other forms of direct indebtedness depend primarily upon the creditworthiness of the corporate borrower for payment of principal and interest. If a Fund does not receive scheduled interest or principal payments on such indebtedness, the Fund's share price and yield could be adversely affected. Loans that are fully secured offer a Fund more protection than an unsecured loan in the event of non-payment of scheduled interest or principal. However, there is no assurance that the liquidation of collateral from a secured loan would satisfy the corporate borrower's obligation, or that the collateral can be liquidated.

A Fund may limit the amount of its total assets that it will invest in any one issuer or in issuers within the same industry. For purposes of such limits, a Fund generally will treat the corporate borrower as the "issuer" of indebtedness held by the Fund. In the case of loan participations where a bank or other lending institution serves as a financial intermediary between a Fund and the corporate borrower, if the participation does not shift to the Fund the direct debtor-creditor relationship with the corporate borrower, Securities and Exchange Commission ("SEC") interpretations require the Fund to treat both the lending bank or other lending institution and the corporate borrower as "issuers" for the purposes of determining whether the Fund has invested more than 5% of its total assets in a single issuer. Treating a financial intermediary as an issuer of indebtedness may restrict a Fund's ability to invest in indebtedness related to a single financial intermediary, or a group of intermediaries engaged in the same industry, even if the underlying borrowers represent many different companies and industries.

Loans and other types of direct indebtedness may not be readily marketable and may be subject to restrictions on resale. In some cases, negotiations involved in disposing of indebtedness may require weeks to complete. Consequently, some indebtedness may be difficult or impossible to dispose of readily at what the relevant Fund's investment adviser believes to be a fair price. In addition, valuation of illiquid indebtedness involves a greater degree of judgment in determining a Fund's net asset value than if that value were based on available market quotations, and could result in significant variation in the Fund's daily share price. At the same time, some loan interests are traded among certain financial institutions and accordingly may be deemed liquid. As the overnight market for different types of indebtedness develops, the liquidity of these instruments is expected to improve. Each of the Funds currently intends to treat indebtedness for which there is no readily available market as illiquid for purposes of the Fund's limitations on illiquid investments. Investments in loan participation are considered to be debt obligations for purposes of investment restrictions relating to the lending of funds or assets by a Fund.

Investments in loans through a direct assignment of the financial institution's interests with respect to the loan may involve additional risks to the Fund. For example, if a loan is foreclosed, a Fund could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is a conceivable that under emerging legal theories of lender liability, a Fund could be held liable as co-lender. It is unclear whether loans and other forms of direct indebtedness offer securities law protections against fraud and misrepresentation. In the absence of definitive regulatory guidance, each of the Funds relies on the research of the Fund's investment adviser in an attempt to avoid situations where fraud or misrepresentation could adversely affect the Fund.

Corporate Debt Securities

Investments in U.S. dollar denominated securities of domestic or foreign issuers are limited to corporate debt securities (corporate bonds, debentures, notes and other similar corporate debt instruments) which meet the minimum rating criteria set forth in the

Prospectus. The rate of return or return of principal on some debt obligations may be linked or indexed to the level of exchange rates between the U.S. dollar and a foreign currency or currencies. Credit ratings evaluate the safety of principal and interest payments of securities, not their market value. The rating of an issuer is also heavily weighted by past developments and does not necessarily reflect probable future conditions. There is frequently a lag between the time a rating is assigned and the time it is updated. As credit rating agencies may fail to timely change credit ratings of securities to reflect subsequent events, the relevant Fund's investment adviser will also monitor issuers of such securities.

High Yield Bonds

Below investment grade debt securities, commonly referred to as "high yield bonds" or "junk bonds" are considered to be speculative and involve a greater risk of default or price changes due to changes in the issuer's creditworthiness than higher rated securities. High yield securities are generally subject to greater credit risk than higher-rated securities because the issuers are more vulnerable to economic downturns, higher interest rates or adverse issuer-specific developments. In addition, the prices of high yield securities are generally subject to greater market risk and therefore react more sharply to changes in interest rates. Their value and liquidity may also be diminished by adverse publicity and investor perceptions. Also, legislative proposals limiting the tax benefits to the issuers or holders of taxable high yield securities or requiring federally insured savings and loan institutions to reduce their holdings of taxable high yield securities have had and may continue to have an adverse effect on the market value of these securities.

Because high yield securities are frequently traded only in markets where the number of potential purchasers and sellers, if any, is limited, the ability of a Fund to sell these securities at their fair value either to meet redemption requests or to respond to changes in the financial markets may be limited. In such an event, such securities could be regarded as illiquid for the purposes of the limitation on the purchase of illiquid securities. Thinly traded high yield securities may be more difficult to value accurately for the purpose of determining a Fund's net asset value. Also, because the market for certain high yield securities is relatively new, that market may be particularly sensitive to an economic downturn or a general increase in interest rates.

Mortgage-Related Securities

Mortgage-related securities are interests in pools of mortgage loans made to U.S. residential home buyers, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Pools of mortgage loans are assembled, and interests in those pools are sold to investors by various governmental, government-related and private organizations. A Fund may also invest in debt securities which are secured with collateral consisting of U.S. mortgage-related securities, and in other types of U.S. mortgage-related securities.

If a Fund purchases mortgage-backed securities that are "subordinated" to other interests in the same mortgage pool, the Fund as a holder of those securities may only receive payments after the pool's obligations to other investors have been satisfied. An unexpectedly high rate of defaults on the mortgages held by a mortgage pool may limit substantially the pool's ability to make payments of principal or interest to the Fund as a holder of such subordinated securities, reducing the values of those securities or in some cases rendering them worthless; the risk of such defaults is generally higher in the case of mortgage pools that include so-called "sub-prime" mortgages. An unexpectedly high or low rate of prepayments on a pool's underlying mortgages may have similar effects on subordinated securities. A mortgage pool may issue securities subject to various levels of subordination; the risk of non-payment affects securities at each level, although the risk is greater in the case of more highly subordinated securities.

U.S. Mortgage Pass-Through Securities. Interests in pools of mortgage-related securities differ from other forms of debt securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or specified call dates.

Instead, these securities provide a monthly payment which consists of both interest and principal payments. In effect, these payments are a "pass-through" of the monthly payments made by the individual borrowers on their residential mortgage loans, net of any fees paid to the issuer or guarantor of such securities. Additional payments are caused by repayments of principal resulting from the sale of the underlying residential property, refinancing or foreclosure, net of fees or costs which may be incurred. Some mortgage-related securities (such as securities issued by the Government National Mortgage Association) are described as "modified pass-through." These securities entitle the holder to receive all interest and principal payments owed on the mortgage pool, net of certain fees, at the scheduled payment dates regardless of whether or not the mortgagor actually makes the payment.

The principal governmental guarantor of U.S. mortgage-related securities is the Government National Mortgage Association ("GNMA"). GNMA is a wholly owned United State Government corporation within the Department of Housing and Urban Development. GNMA is authorized to guarantee, with the full faith and credit of the United States Government, the timely payment of principal and interest on securities issued by institutions approved by GNMA (such as savings and loan institutions, commercial banks and mortgage bankers) and backed by pools of mortgages insured by the Federal Housing Agency or guaranteed by the Veterans Administration.

Government-related guarantors include the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). FNMA is a government-sponsored corporation owned entirely by private stockholders and subject to general regulation by the Secretary of Housing and Urban Development. FNMA purchases conventional residential mortgages not insured or guaranteed by any government agency from a list of approved seller/services which include state and federally chartered savings and loan associations, mutual savings banks, commercial banks and credit unions and mortgage bankers. FHLMC is a government-sponsored corporation created to increase availability of mortgage credit for residential housing and owned entirely by private stockholders. FHLMC issues participation certificates which represent interests in conventional mortgages from FHLMC's national portfolio. Pass-through securities issued by FNMA and participation certificates issued by FHLMC are guaranteed as to timely payment of principal and interest by FNMA and FHLMC, respectively, but are not backed by the full faith and credit of the U.S. Government.

Commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary market issuers also create pass-through pools of conventional residential mortgage loans. Such issuers may, in addition, be the originators or services of the underlying mortgage loans as well as the guarantors of the mortgage-related securities. Pools created by such non-governmental issuers generally offer a higher rate of interest than government and government-related pools because they lack direct or indirect government or agency guarantees of payment. However, timely payment of interest and principal of these pools may be supported by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance and letters of credit, issued by governmental entities, private insurers and mortgage poolers. Such insurance and guarantees and the creditworthiness of the issuers thereof will be considered in determining whether a mortgage-related security meets a Fund's investment quality standards. However, there can be no assurance that private insurers or guarantors will meet their obligations. In addition, a Fund may buy mortgage-related securities without insurance or guarantees if through an examination of the loan experience and practices of the originator/servicers and poolers the Fund's investment adviser determines that the securities meet the Fund's quality standards.

Although the underlying mortgage loans in a pool may have maturities of up to 30 years, the actual average life of the pool certificates typically will be substantially less because the mortgages will be subject to normal principal amortization and may be prepaid prior to maturity. Prepayment rates vary widely and may be affected by changes in market interest rates. In periods of falling interest rates, the rate of prepayment tends to increase, thereby shortening the actual average life of the pool certificates. Conversely, when interest rates are rising, the rate of prepayments tends to decrease, thereby lengthening the actual average life of the certificates. Accordingly, it is not possible to predict accurately the average life of a particular pool.

Although the market for mortgage pass-through securities has become increasingly liquid over time, securities issued by certain private organizations may not be readily marketable, or general market conditions at any point in time may affect the marketability of such securities. As a matter of operating policy, a Fund will not purchase mortgage-related securities which in the investment adviser's opinion are illiquid if, as a result, more than 15% of the value of the Fund's total assets will be illiquid.

Collateralized Mortgage Obligations ("CMOs"). A CMO is a hybrid between a mortgage-backed bond and a mortgage pass-through security. Like a bond, interest and prepaid principal is paid, in most cases, semi-annually. CMOs may be collateralized by whole mortgage loans, but are more typically collateralized by portfolios of mortgage pass-through securities guaranteed by GNMA, FHLMC or FNMA.

CMOs are structured into multiple classes, each bearing a different stated maturity. Actual maturity and average life depend upon the prepayment experience of the collateral. CMOs provide for a modified form of call protection through a de facto breakdown of the underlying pool of mortgages according to how quickly the loans are repaid. Monthly payment of principal received from the pool of underlying mortgages, including prepayments, is first returned to investors holding the shortest maturity class. Investors holding the longer maturity classes receive principal only after the earlier classes have been retired.

Foreign Mortgage-Related Securities. Foreign mortgage-related securities are interests in pools of mortgage loans made to residential home buyers domiciled in a foreign country. These include mortgage loans made by trust and mortgage loan companies, credit unions, chartered banks, and others. Pools of mortgage loans are assembled as securities for sale to investors by various governmental, government-related, and private organizations (e.g., Canada Mortgage and Housing Corporation and First Australian National Mortgage Acceptance Corporation Limited). Interests in pools of mortgage-related securities differ from other forms of debt securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or specified call dates. Instead, these securities provide a monthly payment which consists of both interest and principal payments. In effect, these payments are a "pass-through" of the monthly payments made by the individual borrowers on their residential mortgage loans, net of any fees paid to the issuer or guarantor of such securities. Additional payments are caused by repayments of principal resulting from the sale of the underlying residential property, refinancing or foreclosure, net of fees or costs which may be incurred. Some mortgage-related securities are described as "modified pass-through." These securities entitle the holder to receive all interest and principal payments owed on the mortgage pool, net of certain fees, at the scheduled payment dates regardless of whether or not the mortgagor actually makes the payment

Timely payment of interest and principal of these pools may be supported by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance and letters of credit, issued by governmental entities, private insurers and mortgage poolers. Such insurance and guarantees and the creditworthiness of the issuers thereof will be considered in determining whether a mortgage-related security meets a Fund's investment quality standards. However, there can be no assurance that private insurers or guarantors will meet their obligations. In addition, a Fund may buy mortgage-related securities without insurance or guarantees, if through an examination of the loan experience and practices of the originator/servicers and poolers, the Fund's investment adviser determines that the securities meet the Fund's quality standards.

Although the underlying mortgage loans in a pool may have maturities of up to 30 years, the actual average life of the pool certificates typically will be substantially less because the mortgages will be subject to normal principal amortization and may be prepaid prior to maturity. Prepayment rates vary widely and may be affected by changes in market interest rates. In periods of falling interest rates, the rate of prepayment tends to increase, thereby shortening the actual average life of the pool certificates. Conversely, when interest rates are rising, the rate of prepayments tends to decrease, thereby lengthening the actual average life of the certificates. Accordingly, it is not possible to predict accurately the average life of a particular pool.

Other Mortgage-Related Securities. Other mortgage-related securities include securities of U.S. or foreign issuers that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. These other mortgage-related securities may be equity or debt securities issued by governmental agencies or instrumentalities or by private originators of, or investors in, mortgage loans, including savings and loan associations, homebuilders, mortgage banks, commercial banks, investment banks, partnerships, trusts and special purpose entities.

Other Asset-Backed Receivables

Other asset-backed securities, unrelated to mortgage loans, are now being offered to investors. For example, asset-backed securities include, but are not limited to, Certificates for Automobile Receivables ("CARSsm") and credit card receivable securities. CARSsm represent undivided fractional interests in a trust with assets consisting of a pool of motor vehicle retail installment sales contracts and security interests in the vehicles securing these contracts. In addition to the general risks pertaining to all asset-backed securities, CARSsm are subject to the risks of delayed payments or losses if the full amounts due on underlying sales contracts are not realized by the trust due to unanticipated legal or administrative costs of enforcing the contracts, or due to depreciation, damage or loss of the vehicles securing the contracts. Credit card receivable securities are backed by receivables from revolving credit card accounts. Since balances on revolving credit card accounts are generally paid down more rapidly than CARSsm, issuers often lengthen the maturity of these securities by providing for a fixed period during which interest payments are passed through and principal payments are used to fund the transfer of additional receivables to the underlying pool. In addition, unlike most other asset-backed securities, credit card receivable securities are backed by obligations that are not secured by interests in personal or real property. Other assets often used as collateral include, but are not limited to, home equity loans, student loans and loans on commercial and industrial equipment and manufactured housing.

Consistent with a Fund's investment objectives and policies, the Fund may invest in other types of asset-backed securities.

Floating Rate and Variable Rate Demand Notes

Floating rate and variable rate demand notes and bonds have a stated maturity in excess of one year, but permit a holder to demand payment of principal plus accrued interest upon a specified number of days notice. Frequently, such obligations are secured by letters of credit or other credit support arrangements provided by banks. The issuer has a corresponding right, after a given period, to prepay in its discretion the outstanding principal of the obligation plus accrued interest upon a specific number of days notice to the holders. The interest rate of a floating rate instrument may be based on a known lending rate, such as a bank's prime rate, and is reset whenever such rate is adjusted. The interest rate on a variable rate demand note is reset at specified intervals at a market rate. A Fund's investment adviser monitors the earning power, cash flow and other liquidity ratios of the issuers of such obligations, as well as the creditworthiness of the institution responsible for paying the principal amount of the obligations under the demand feature.

Obligations with Puts Attached

Obligations with puts attached are long-term fixed rate debt obligations that have been coupled with an option granted by a third party financial institution allowing a Fund at specified intervals to tender (or "put") such debt obligations to the institution and receive the face value. These third party puts are available in many different forms, may be represented by custodial receipts or trust certificates and may be combined with other features such as interest rate swaps. The financial institution granting the option does not provide credit enhancement. If there is a default on, or significant downgrading of, the bond or a loss of its tax-exempt status, the put option will terminate automatically. The risk to the Fund will then be that of holding a long-term bond.

These investments may require that a Fund pay a tender fee or other fee for the features provided. In addition, a Fund may acquire "stand-by commitments" from banks or broker dealers with respect to the securities held in its portfolio. Under a stand-by commitment, a bank or broker/dealer agrees to purchase at the Fund's option a specific security at a specific price on a specific date.

The Fund may pay for a stand-by commitment either separately, in cash, or in the form of a higher price paid for the security. The Fund will acquire stand-by commitments solely to facilitate portfolio liquidity.

Money Market Obligations

Money market obligations include U.S. dollar denominated bank certificates of deposit, bankers acceptances, commercial paper and other short-term debt obligations of U.S. and foreign issuers, including U.S. Government and agency obligations. All money market obligations are high quality, meaning that the security is rated in one of the two highest categories for short-term securities by at least two nationally recognized rating services (or by one if only one rating service has rated the security) or, if unrated, is determined by the relevant Fund's investment adviser to be of comparable quality.

COUNTRY FUNDS

Subject to the provisions of the 1940 Act and the restrictions set forth in the Prospectus and elsewhere in this SAI, a Fund may invest in the shares of investment companies that invest in specified foreign markets. Several foreign governments permit investments by non-residents in their markets only through participation in certain investment companies specifically organized to participate in such markets. The Fund may also invest a portion of its assets in unit trusts and country funds that invest in foreign markets that are smaller than those in which the Fund would ordinarily invest directly. Investments in such pooled vehicles should enhance the geographical diversification of the portfolio's assets, thereby reducing the risks associated with investing in certain smaller foreign markets. Investments by the Fund in such vehicles should also provide increased liquidity and lower transaction costs for the Fund than are normally associated with direct investment in such markets. However, an investment in a country fund by a Fund will involve payment by the Fund of its pro rata share of advisory and administrative fees charged by such country fund.

MONEY MARKET FUNDS

To maintain liquidity, each Fund may invest in money market funds. Under normal circumstances, a money market investment made by the Payden Tax Exempt Bond Fund will be in federal tax-free mutual funds. As a matter of operating policy, none of the Funds anticipates investing more than 15% of its total assets in money market funds, except that each Payden Fund may invest more than 15% of its total assets in the Payden Cash Reserves Money Market Fund series. It will do so for cash management purposes or for temporary defensive purposes. An investment in a money market mutual fund by a Fund will involve indirectly payment by the Fund of its pro rata share of advisory and administrative fees of such money market fund.

REPURCHASE AGREEMENTS

To maintain liquidity, each Fund may enter into repurchase agreements (agreements to purchase U.S. Treasury notes and bills, subject to the seller's agreement to repurchase them at a specified time and price) with well-established registered securities dealers or banks.

Repurchase agreements are the economic equivalent of loans by a Fund. In the event of a bankruptcy or default of any registered dealer or bank, a Fund could experience costs and delays in liquidating the underlying securities which are held as collateral, and a Fund might incur a loss if the value of the collateral declines during this period.

REVERSE REPURCHASE AGREEMENTS

Each Fund may enter into reverse repurchase agreements (agreements to sell portfolio securities, subject to such Fund's agreement to repurchase them at a specified time and price) with well-established registered dealers and banks. Each Fund covers its obligations under a reverse repurchase agreement by maintaining a segregated account comprised of cash, U.S. Government securities or high-grade debt obligations, maturing no later than the expiration of the agreement, in an amount (marked-to-market daily) equal to its obligations under the agreement. Reverse repurchase agreements are the economic equivalent of borrowing by a Fund, and are entered into by the Fund to enable it to avoid selling securities to meet redemption requests during market conditions deemed unfavorable by the Fund's investment adviser.

SHORT SALES

The Longevity Funds and the Payden Global Equity Fund may engage in short sales of stocks. A short sale involves a sale by a Fund of a security, which it does not own, in anticipation of a decline in the market value of the security. To complete the sale, the Fund must borrow the security (typically from the broker through which the short sale is made) in order to make delivery to the buyer. The Fund must replace the security borrowed by purchasing it at the market price at the time of replacement. The Fund is said to have a "short position" in the securities sold until it delivers them to the broker. The period during which the Fund has a short position can range from one day to more than a year. Until the Fund replaces the security, the Fund must pay to the broker a negotiated portion of any interest or dividends, which accrue during the period of the loan, and must pledge assets to the broker to secure its obligation to replace the securities. The aggregate value of the assets required to be pledged to secure the Fund's obligation will vary based upon, among other things, the types of assets pledged and the extent to which any cash proceeds from short sales continue to be held by the broker. Until the Fund closes its short position or replaces the borrowed security, the Fund will designate liquid assets it owns (other than the short sales proceeds) as segregated assets in an amount equal to its obligation to purchase the securities sold short, as required by the 1940 Act. The amount segregated may increase or increase daily. The Fund believes that short sale obligations that are covered, either by an offsetting asset or right (acquiring the security sold short or having an option to purchase the security sold short at exercise price that covers the obligation), or by the Fund's segregated asset (or a combination thereof), are not senior securities under the 1940 Act and are not subject to the Fund's borrowing restrictions. This requirement to segregate assets limits the Fund's leveraging of its investments and the related risk of losses from leveraging.

While short sales by the Fund create opportunities to increase the Fund's return, at the same time, they involve specific risk considerations. Since the Fund in effect profits from a decline in the price of the securities sold short without the need to invest the full purchase price of the securities on the date of the short sale, the Fund's net asset value per share tends to increase more when the securities it has sold short decrease in value, and to decrease more when the securities it has sold short increase in value, than would otherwise be the case if it had not engaged in such short sales. The amount of any gain will be decreased, and the amount of any loss increased, by the amount of any premium, dividends or interest the Fund may be required to pay in connection with the short sale. Short sales theoretically involve unlimited loss potential, as the market price of securities sold short may continually increase, although the Fund may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, the Fund might have difficulty purchasing securities to meet its short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

The Fund may not always be able to close out a short position at a particular time or at a desirable price. A lender may request that the borrowed securities be returned to it on short notice, and the Fund may have to buy the borrowed securities at an undesirable price. If this occurs at a time that other short sellers of the same security also want to close out their positions, a "short squeeze" can occur. A short squeeze occurs when demand is greater than supply for the stock sold short. A short squeeze makes it more likely that the Fund will have to cover its short sale at an unfavorable price. If that happens, the Fund will lose some or all of the potential profit from, and may incur a loss as a result of, the short sale.

ILLIQUID SECURITIES

As a matter of operating policy, no Fund may invest more than 15% (or in the case of the Payden Cash Reserves Money Market Fund, more than 10%) of the value of its net assets in securities that at the time of purchase have legal or contractual restrictions on resale or are otherwise illiquid. Each Fund's investment adviser will monitor the amount of illiquid securities in the Fund's portfolio, to ensure compliance with the Fund's investment restrictions.

Historically, illiquid securities have included securities subject to contractual or legal restrictions on resale because they have not been registered under the Securities Act, securities which are otherwise not readily marketable and repurchase agreements having a maturity of longer than seven days. Securities which have not been registered under the Securities Act are referred to as private placement or restricted securities and are purchased directly from the issuer or in the secondary market. Mutual funds do not typically hold a significant amount of these restricted or other illiquid securities because of the potential for delays on resale and uncertainty in valuation. Limitations on resale may have an adverse effect on the marketability of portfolio securities and the Fund might be unable to dispose of restricted or other illiquid securities promptly or at reasonable prices and might thereby experience difficulty satisfying redemption requests within seven days. The Fund might also have to register such restricted securities in order to dispose of them, resulting in additional expense and delay. Adverse market conditions could impede such a public offering of securities.

In recent years, however, a large institutional market has developed for certain securities that are not registered under the Securities Act, including repurchase agreements, commercial paper, securities of foreign issuers ("foreign securities"), municipal securities and corporate bonds and notes. Institutional investors depend on an efficient institutional market in which the unregistered security can be readily resold or on an issuer's ability to honor a demand for repayment. The fact that there are contractual or legal restrictions on resale to the general public or to certain institutions may not be indicative of the liquidity of such investments. In accordance with guidelines established by the Board, the Adviser will determine the liquidity of each investment using various factors such as (1) the frequency of trades and quotations, (2) the number of dealers and prospective purchasers in the marketplace, (3) dealer undertakings to make a market, (4) the nature of the security (including any demand or tender features) and (5) the likelihood of continued marketability and credit quality of the issuer.

PAYDEN CASH RESERVES MONEY MARKET FUND

The operations of the Payden Cash Reserves Money Market Fund are governed by Rule 2a-7 under the 1940 Act. Under the rule, the Fund must maintain a dollar-weighted average portfolio maturity of 90 days or less, purchase instruments having remaining maturities of 397 days or less, and invest only in securities determined by the P&R Trust's Board of Trustees to be of high quality with minimal credit risks.

FOREIGN INVESTMENTS

The Prospectus describes the extent to which each of the Funds may invest in securities of issuers organized or headquartered in foreign countries ("foreign securities").

Risks of Foreign Investing

There are special risks in investing in any foreign securities in addition to those relating to investments in U.S. securities.

Political and Economic Factors. Individual foreign economies of certain countries may differ favorably or unfavorably from the United States' economy in such respects as growth of gross national product, rate of inflation, capital reinvestment, resource self-sufficiency, diversification and balance of payments position. The internal politics of certain foreign countries may not be as stable as those of the United States.

Governments in certain foreign countries continue to participate to a significant degree, through ownership interest or regulation, in their respective economies. Action by these governments could include restrictions on foreign investment, nationalization, expropriation of goods or imposition of taxes, and could have a significant effect on market prices of securities and payment of interest. The economies of many foreign countries are heavily dependent upon international trade and are accordingly affected by the trade policies and economic conditions of their trading partners. Enactment by these trading partners of protectionist trade legislation could have a significant adverse effect upon the securities markets of such countries.

Emerging Markets Investments. Investments by a Fund in securities issued by the governments of emerging or developing countries, and of companies within those countries, involve greater risks than other foreign investments. Investments in emerging or developing markets involve exposure to economic and legal structures that are generally less diverse and mature (and in some cases the absence of developed legal structures governing private and foreign investments and private property), and to political systems which can be expected to have less stability, than those of more developed countries. The risks of investment in such countries may include matters such as relatively unstable governments, higher degrees of government involvement in the economy, the absence until recently of capital market structures or market-oriented economies, economies based on only a few industries, securities markets which trade only a small number of securities, restrictions on foreign investment in stocks, and significant foreign currency devaluations and fluctuations.

Emerging markets can be substantially more volatile than both U.S. and more developed foreign markets. Such volatility may be exacerbated by illiquidity. The average daily trading volume in all of the emerging markets combined is a small fraction of the average daily volume of the U.S. market. Small trading volumes may result in a Fund being forced to purchase securities at a substantially higher priced than the current market, or to sell securities at much lower prices than the current market.

Currency Fluctuations. To the extent that a Fund invests in securities denominated in foreign currencies, a change in the value of any such currency against the U.S. dollar will result in a corresponding change in the U.S. dollar value of the Fund’s assets denominated in that currency. Such changes will also affect the Fund’s income. The value of a Fund’s assets may also be affected significantly by currency restrictions and exchange control regulations enacted from time to time.

Market Characteristics. The Funds investment advisers expect that most foreign securities in which any Fund invests will be purchased in over-the-counter markets or on bond exchanges located in the countries in which the principal offices of the issuers of the various securities are located, if that is the best available market. Foreign bond markets may be more volatile than those in the United States. While growing in volume, they usually have substantially less volume than U.S. markets, and the Fund’s portfolio securities may be less liquid and more volatile than U.S. Government securities. Moreover, settlement practices for transactions in foreign markets may differ from those in United States markets, and may include delays beyond periods customary in the United States.

Transactions in options on securities, futures contracts and futures options may not be regulated as effectively on foreign exchanges as similar transactions in the United States, and may not involve clearing mechanisms and related guarantees. The value of such positions also could be adversely affected by the imposition of different exercise terms and procedures and margin requirements than in the United States. Foreign security trading practices, including those involving securities settlement where Fund assets may be released prior to payment, may expose a Fund to increased risk in the event of a failed trade or the insolvency of a foreign broker-dealer.

The value of a Fund’s portfolio positions may also be adversely impacted by delays in the Fund’s ability to act upon economic events occurring in foreign markets during non-business hours in the United States.

Legal and Regulatory Matters. Certain foreign countries may have less supervision of securities markets, brokers and issuers of securities, and less financial information available to issuers, than is available in the United States.

Taxes. The interest payable on certain of a Fund’s foreign portfolio securities may be subject to foreign withholding taxes, thus reducing the net amount of income available for distribution to the Fund’s shareholders. A shareholder otherwise subject to United States federal income taxes may, subject to certain limitations, be entitled to claim a credit or deduction for U.S. federal income tax purposes for its proportionate share of such foreign taxes paid by a Fund. The Funds intend to sell such bonds prior to the interest payment date in order to avoid withholding.

Costs. The expense ratio of a Fund investing in foreign securities (before reimbursement by the Fund's investment adviser pursuant to any applicable expense limitation described in the Prospectus) is likely to be higher than those of investment companies investing in domestic securities, since the cost of maintaining the custody of foreign securities is higher than that of domestic securities.

MUNICIPAL SECURITIES

Each of the Payden Tax Exempt Bond and Payden California Municipal Income Funds invests primarily in a non-diversified portfolio of debt obligations issued by state and local governments, territories and possessions of the U.S., regional government authorities, and their agencies and instrumentalities which provide interest income that, in the opinion of bond counsel to the issuer at the time of original issuance, is exempt from federal income taxes ("municipal securities"). Municipal securities include both notes (which have maturities of less than one year) and bonds (which have maturities of one year or more) that bear fixed or variable rates of interest.

In general, municipal securities are issued to obtain funds for a variety of public purposes, such as the construction, repair, or improvement of public facilities including airports, bridges, housing, hospitals, mass transportation, schools, streets, and water and sewer works. Municipal securities may be issued to refinance outstanding obligations as well as to raise funds for general operating expenses and lending to other public institutions and facilities.

The two principal classifications of municipal securities are "general obligation" securities and "revenue" securities. General obligation securities are secured by the issuer's pledge of its full faith, credit, and taxing power for the payment of principal and interest. Characteristics and methods of enforcement of general obligation bonds vary according to the law applicable to a particular issuer, and the taxes that can be levied for the payment of debt service may be limited or unlimited as to rates or amounts of special assessments. Revenue securities are payable only from the revenues derived from a particular facility, a class of facilities or, in some cases, from the proceeds of a special excise tax. Revenue bonds are issued to finance a wide variety of capital projects including: electric, gas, water, and sewer systems; highways, bridges, and tunnels; port and airport facilities; colleges and universities; and hospitals. Although the principal security behind these bonds may vary, many provide additional security in the form of a debt service reserve fund the assets of which may be used to make principal and interest payments on the issuer's obligations. Housing finance authorities have a wide range of security, including partially or fully insured mortgages, rent subsidized and collateralized mortgages, and the net revenues from housing or other public projects. Some authorities are provided further security in the form of a state's assurance (although without obligation) to make up deficiencies in the debt service reserve fund.

Each Fund may purchase insured municipal debt in which scheduled payments of interest and principal are guaranteed by a private, non-governmental or governmental insurance company. The insurance does not guarantee the market value of the municipal debt or the value of the shares of the Fund.

The relevant Fund's investment adviser may use interest rate and municipal bond index futures and options on futures contracts, options on securities, and interest rate swaps to effect a change in the Payden California Municipal Income Fund's exposure to interest rate changes.

Securities of issuers of municipal obligations are subject to the provisions of bankruptcy, insolvency and other laws affecting the rights and remedies of creditors, such as the Bankruptcy Reform Act of 1978. In addition, the obligations of such issuers may become subject to laws enacted in the future by Congress, state legislatures of referenda extending the time for payment of principal or interest, or imposing other constraints upon enforcement of such obligations or upon the ability of municipalities to levy taxes. Furthermore, as a result of legislation or other conditions, the power or ability of any issuer to pay, when due, the principal of and interest on its municipal obligations may be materially affected.

Certain of the municipal securities in which each Fund may invest, and certain of the risks of such investments, are described below.

Moral Obligation Securities

Municipal securities may include "moral obligation" securities which are usually issued by special purpose public authorities. If the issuer of moral obligation bonds cannot fulfill its financial responsibilities from current revenues, it may draw upon a reserve fund, the restoration of which is a moral commitment but not a legal obligation of the state or municipality which created the issuer.

Zero Coupon Securities

Zero coupon securities are debt securities issued or sold at a discount from their face value. These securities do not entitle the holder to interest payments prior to maturity or a specified redemption date, when they are redeemed at face value. Zero coupon securities may also take the form of debt securities that have been stripped of their unmatured interest coupons, the coupons themselves, and receipts and certificates representing interests in such stripped obligations and coupons. The market prices of zero coupon securities tend to be more sensitive to interest rate changes, and are more volatile, than interest bearing securities of like maturity. The discount from face value is amortized over the life of the security and such amortization will constitute the income earned on the security for accounting and tax purposes. Even though income is accrued on a current basis, a Fund does not receive the income currently in cash. Therefore, the Fund may have to sell other portfolio investments to obtain cash needed to make income distributions.

Mortgage-Backed Securities

Mortgage-backed securities are municipal debt obligations issued to provide financing for residential housing mortgages to targeted groups. Payments made on the underlying mortgages and passed through to the Fund will represent both regularly scheduled principal and interest payments. The Fund may also receive additional principal payments representing prepayments of the underlying mortgages. Investing in such municipal debt obligations involves special risks and considerations, including the inability to predict accurately the maturity of the Fund’s investments as a result of prepayments of the underlying mortgages (which may require the Fund to reinvest principal at lower yields than would otherwise have been realized), the illiquidity of certain of such securities, and the possible default by insurers or guarantors supporting the timely payment of interest and principal.

Municipal Lease Obligations

Municipal lease obligations are lease obligations or installment purchase contract obligations of municipal authorities. Although lease obligations do not constitute general obligations of the municipality for which its taxing power is pledged, a lease obligation is ordinarily backed by the municipality’s covenant to budget for, appropriate and make the payments due under the lease obligation. A Fund may also purchase “certificates of participation”, which are securities issued by a particular municipality or municipal authority to evidence a proportionate interest in base rental or lease payments relating to a specific project to be made by the municipality, agency or authority. However, certain lease obligations contain “non-appropriation” clauses which provide that the municipality has no obligation to make lease or installment purchase payments in any year unless money is appropriated for such purpose for such year. Although “non-appropriation” lease obligations are secured by the leased property, disposition of the property in the event of default and foreclosure might prove difficult. In addition, these securities represent a relatively new type of financing, and certain lease obligations may therefore be considered to be illiquid securities.

Subject to its ability to invest in below investment grade municipal securities, a Fund will attempt to minimize the special risks inherent in municipal lease obligations and certificates of participation by purchasing only lease obligations which meet the following criteria: (1) rated A or better by at least one national recognized securities rating organization; (2) secured by payments from a governmental lessee which has actively traded debt obligations; (3) determined by the Fund’s investment adviser to be critical to the lessee’s ability to deliver essential services; and (4) contain legal features which the Fund’s investment adviser deems appropriate, such as covenants to make lease payments without the right of offset or counterclaim, requirements for insurance policies, and adequate debt service reserve funds.

Short-Term Obligations

Short-term municipal obligations include the following:

Tax Anticipation Notes are used to finance working capital needs of municipalities and are issued in anticipation of various seasonal tax revenues, to be payable from these specific future taxes. They are usually general obligations of the issuer, secured by the taxing power of the municipality for the payment of principal and interest when due.

Revenue Anticipation Notes are issued in expectation of receipt of other kinds of revenue, such as federal revenues available under the Federal Revenue Sharing Program. They also are usually general obligations of the issuer.

Bond Anticipation Notes normally are issued to provide interim financing until long-term financing can be arranged. The long-term bonds then provide the money for the repayment of the notes.

Short-Term Discount Notes (tax-exempt commercial paper) are short-term (365 days or less) promissory notes issued by municipalities to supplement their cash flow.

Floating Rate and Variable Rate Demand Notes

Floating rate and variable rate demand notes and bonds may have a stated maturity in excess of one year, but permit a holder to demand payment of principal plus accrued interest upon a specified number of days notice. Frequently, such obligations are secured by letters of credit or other credit support arrangements provided by banks. The issuer has a corresponding right, after a given period, to prepay in its discretion the outstanding principal of the obligation plus accrued interest upon a specific number of days notice to the holders. The interest rate of a floating rate instrument may be based on a known lending rate, such as a bank's prime rate, and is reset whenever such rate is adjusted. The interest rate on a variable rate demand note is reset at specified intervals at a market rate.

A Fund will limit its purchase of municipal securities that bear floating rates and variable rates of interest to those meeting the rating quality standards set forth in the Prospectus. Frequently, such obligations are secured by letters of credit or other credit support arrangements provided by banks. The Fund's investment adviser monitors the earning power, cash flow and other liquidity ratios of the issuers of such obligations, as well as the creditworthiness of the institution responsible for paying the principal amount of the obligations under the demand feature.

A Fund may also invest in municipal securities in the form of "participation interests" in variable rate tax-exempt demand obligations held by a financial institution, usually a commercial bank. Municipal participation interests provide the purchaser with an undivided interest in one or more underlying municipal securities and the right to demand payment from the institution upon a specified number of days' notice (no more than seven) of the unpaid principal balance plus accrued interest. In addition, the municipal participation interests are typically enhanced by an irrevocable letter of credit or guarantee from such institution. Since the Fund has an undivided interest in the obligation, it participates equally with the institution with the exception that the institution normally retains a fee out of the interest paid for servicing, providing the letter of credit or guarantee, and issuing the repurchase commitment.

Obligations with Puts Attached

Long-term fixed rate municipal debt obligations may be coupled with an option granted by a third party financial institution allowing a Fund at specified intervals to tender (or "put") such debt obligations to the institution and receive the face value. These third party puts are available in many different forms, and may be represented by custodial receipts or trust certificates and may be combined with other features such as interest rate swaps. The financial institution granting the option does not provide credit enhancement. If there is a default on, or significant downgrading of, the bond or a loss of its tax-exempt status, the put option will terminate automatically. The risk to the Fund will then be that of holding a long-term bond.

These investments may require that the Fund pay a tender fee or other fee for the features provided. In addition, the Fund may acquire "stand-by commitments" from banks or broker dealers with respect to the municipal securities held in its portfolios. Under a stand-by commitment, a bank or broker/dealer agrees to purchase at the Fund's option a specific municipal security at a specific price on a specific date. The Fund may pay for a stand-by commitment either separately, in cash, or in the form of a higher price paid for the security. The Fund will acquire stand-by commitments solely to facilitate portfolio liquidity.

SPECIAL RISKS OF INVESTING PRIMARILY IN CALIFORNIA MUNICIPAL SECURITIES

Because the Payden California Municipal Income Fund invests primarily in California tax-exempt securities, the value of its portfolio investments will be highly sensitive to events affecting the fiscal stability of the State of California (sometimes referred to in this section as the "State") and its municipalities, authorities and other instrumentalities that issue such securities. The following information is based on information available as of the date of this SAI primarily from official statements and prospectuses relating to securities offerings of the State, the latest of which is dated November 29, 2007.

General Economic Conditions

The economy of the State is the largest among the 50 states and one of the largest in the world. The diversified economy of the State has major components in high technology, trade, entertainment, agriculture, tourism, construction and services. Certain of the State's significant industries, such as high technology, are sensitive to economic disruptions in their export markets.

Since early 2001, the State has faced severe financial challenges, which may continue for several years. The State experienced an economic recession in 2001 and a sluggish recovery in 2002 and 2003 (with greatest impacts in the high technology, internet, and telecommunications sectors, especially in Northern California); weakened exports; and most particularly, large stock market declines (with attendant declines in stock option values and capital gains realizations). These adverse fiscal and economic factors resulted in a serious erosion of General Fund tax revenues. In recent years, the State has derived a significant portion of its revenue from personal income and sales taxes. Because the amount collected from these taxes is particularly sensitive to economic conditions, the State's revenues have been volatile.

California's geographic location subjects it to earthquake risks. It is impossible to predict the time, magnitude or location of a major earthquake or its effect on the California economy. In January 1994, a major earthquake struck the Los Angeles area, causing significant damage in a four county area. The possibility exists that another such earthquake could create a major dislocation of the California economy and significantly affect State and local governmental budgets.

State Budgets

2007 Budget Act. The Governor's Budget for the 2007-08 fiscal year, released in January 2007, projected General Fund revenues and transfers of $101.3 billion and expenditures of $103.1 billion, with a $1.9 billion budget operating deficit for such fiscal year. The Governor's Budget proposed closing the operating deficit by applying a portion of the then estimated $3.2 billion General Fund balance from the 2006 Budget, leaving fiscal year 2007-08 with a $2.1 billion reserve, significantly better than earlier estimates by the Governor and the State's Legislative Analyst's Office (the "LAO").

In its January 12, 2007 Overview of the 2007-08 Governor's Budget, the LAO concluded that the 2007-08 budget "contains a significant number of downside risks and is based on a number of optimistic assumptions." Even if the budget were adopted as proposed, the LAO believed that the budgeted savings and new revenues would fall short of levels estimated by the Governor's budget. Further, the LAO projected that the State would continue to face structural deficits in outlying years and recommended that the Legislature develop a more realistic budget.

In February 2007, the LAO released a further analysis of the budget and the Governor's proposals. Based on newer data, the LAO projected that 2007-08 expenditures would exceed revenues by $2.6 billion which would leave the State with a $726 million year-end deficit, compared to the Governor's January estimate of a $2.1 billion positive General Fund reserve. In addition the State would face operating deficits in outlying years through the 2010-11 fiscal year.

The 2007 May Revision to the Governor's Budget projected revenues and transfers that roughly equaled those predicted in January, although it projected additional expenditures of approximately $600 million compared to the January budget release. The 2007 May Revision forecasted General Fund revenues and transfers for the fiscal year ending June 30, 2008 of $101.3 billion and expenditures of $103.8 billion. By applying a then estimated General Fund balance for fiscal year 2006-07 of $4.0 billion, the State projected it would end the 2007-08 fiscal year with a balance of $1.5 billion, a decrease of nearly $2.5 billion compared to 2006-07.

In May 2007, the LAO released its Overview of the 2007-08 May Revision, in which it focused on certain economic uncertainties facing the State. The State faces potential risks associated with the declining housing market and the effects of high crude oil and retail gasoline prices. The LAO concluded that "adverse developments in these areas could significantly impact both overall economic performance and state revenues." The LAO reiterated its earlier warning that one-time solutions in the proposed budget failed to address structural deficits in outlying years.

The Governor signed the 2007 Budget Act on August 24, 2007, using his line item veto authority to reduce General Fund appropriations by $703 million from those approved by the Legislature. The 2007 Budget Act contains substantially similar proposals as contained in the Governor's 2007-08 May Revision. The 2007 Budget Act forecasted $102.3 billion in General Fund revenues and transfers and $102.3 billion in expenditures, an increase of $1.0 billion and a decrease of $1.5 billion, respectively, compared to the

May Revision. The 2007 Budget Act projected that by utilizing the prior fiscal year's $4.1 billion General Fund balance, the General Fund would end the fiscal year with a balance of about $4.1 billion. The 2007 Budget Act assumed that the State would not issue Economic Recovery Bonds or raise taxes.

Significant Deterioration of State Finances. Although the 2007 Budget Act was in operating balance at the time it was adopted, the Governor projected there would be an operating deficit of about $6.1 billion for 2008-09 absent further corrective actions. Subsequent to the adoption of the 2007 Budget Act, fiscal year-to-date revenues were much lower than projected and continuing economic difficulties existed, particularly in the housing market.

On November 14, 2007, the State's Department of Finance issued its "Finance Bulletin" (the "November Finance Bulletin") reporting actual General Fund receipts. The November Finance Bulletin also reported that recent economic data confirmed ongoing effects of the housing slump in the State. The November Finance Bulletin reported that fiscal year-to-date General Fund cash receipts were about $1.1 billion, or 3.8%, below those forecasted in the 2007 Budget Act.

On the same date, the LAO released a report titled "California's Fiscal Outlook - LAO Projections 2007-08 through 2012-13." Among other things, this report projected that the 2007-08 revenues had deteriorated by about $6 billion compared to the projections in the 2007 Budget Act, which exceeded the projected year-end General Fund balance of $4.1 billion. The report also projected that about $10 billion of budget solutions would be needed to balance the 2008-09 Budget.

The 2008 Governor's Budget projected that the 2007-08 fiscal year would end with a $3.3 billion deficit that would grow to $14.5 billion in 2008-2009 if left unchecked.

2008 Governor's Budget. The Governor's Budget for the 2008-09 fiscal year was released in January 2008. Concurrently, the Governor declared a fiscal emergency and a special session of the State legislature to address the $14.5 billion projected deficit for 2008-09. Among other measures, the Governor's Budget proposed a "Budget Stabilization Act", a State Constitutional Amendment to reform the budget process. If approved, the Act would create a Revenue Stabilization Fund into which revenues exceeding budgeted projections would be set aside from the General Fund for use in outlying years. Further, the Act would also require automatic reductions in State appropriations during the course of a fiscal year if mid-year deficits were projected. The budget also proposed strict spending restraint, the suspension of earlier approved accelerated bond repayments, accruing tax revenues received in fiscal year 2009-10 to 2008-09 and the issuance of $3.3 billion in Economic Recovery Bonds.

Assuming that the State adopted such measures, the Governor projected General Fund revenues and transfers for the fiscal year ending June 30, 2009 of $102.9 billion, and expenditures of $101.0 billion, for a projected $1.9 billion budget operating surplus. With the projected $1.8 billion General Fund balance from the 2007-08 fiscal year, the Governor's Budget proposed leaving 2008-09 with a $3.7 billion reserve.

In its January 14, 2008 Overview of the 2008-09 Governor's Budget, the LAO concluded that the 2008-09 budget "uses a mix of both one-time and ongoing solutions to close the 2008-09 budget gap." The LAO concurred with the Governor's revenue forecasts, but expressed concern that there are further downside economic risks that could further diminish revenues. The LAO criticized the Governor's proposal for "across-the-board" spending reductions and suggested the Governor eliminate or significantly reduce low-priority State programs while preserving higher priority programs. The LAO also encouraged the Governor to explore revenue-raising proposals.

Constraints on the Budget Process. Proposition 58, approved in March 2004 with the State's Economic Recovery Bonds, requires the State to enact a balanced budget and establish a special reserve in the General Fund and restricts future borrowing to cover budget deficits. As a result of the provisions requiring the enactment of a balanced budget and restricting borrowing, the State would, in some cases, have to take more immediate actions to correct budgetary shortfalls. Beginning with the budget for fiscal year 2004-05, Proposition 58 requires the Legislature to pass a balanced budget and provides for mid-year adjustments in the event that the budget falls out of balance. The balanced budget determination is made by subtracting expenditures from all available resources, including prior-year balances.

If the Governor determines that the State is facing substantial revenue shortfalls or spending deficiencies, the Governor is authorized to declare a fiscal emergency. He or she would then be required to propose legislation to address the emergency and call the Legislature into special session to consider that legislation. If the Legislature fails to pass and send to the Governor legislation to address the budget fiscal emergency within 45 days, the Legislature would be prohibited from acting on any other bills or adjourning in joint recess until such legislation is passed.

Proposition 58 also requires that a special reserve (the Budget Stabilization Account) be established in the State's General Fund. Beginning with fiscal year 2006-07, a specified portion of estimated annual General Fund revenues would be transferred by the Controller into the Budget Stabilization Account no later than September 30 of each fiscal year. These transfers would continue until the balance in the Budget Stabilization Account reaches $8 billion or 5 percent of the estimated General Fund revenues for that fiscal year, whichever is greater. The annual transfer requirement would be in effect whenever the balance falls below the $8 billion or 5 percent target. The annual transfers could be suspended or reduced for a fiscal year by an executive order issued by the Governor no later than June 1 of the preceding fiscal year.

Proposition 58 also prohibits certain future borrowing to cover budget deficits. This restriction applies to general obligation bonds, revenue bonds, and certain other forms of long-term borrowing. The restriction does not apply to certain other types of borrowing, such as short-term borrowing to cover cash shortfalls in the General Fund (including revenue anticipation notes or revenue anticipation warrants currently used by the State), or inter-fund borrowings.

Future Budgets. It cannot be predicted what actions will be taken in the future by the Legislature and the Governor to deal with changing State revenues and expenditures. The State budget will be affected by national and State economic conditions and other factors.

State Indebtedness

General Obligation Bonds and Revenue Bonds. As of January 1, 2008, the State had approximately $59.9 billion aggregate principal of outstanding long-term general obligation bonds and revenue bonds. Including estimated interest of approximately $36.6 billion, the State's debt service requirements for general obligation bonds and revenue bonds totaled nearly $96.4 billion. As of October 1, 2007, general obligation bond authorizations of approximately $68.0 billion remained unissued.

Ratings. As of January 23, 2008 the State's general obligation bonds were rated A1 by Moody's, A+ by Standard & Poor's, and A+ by Fitch Ratings. It is not possible to determine whether, or the extent to which, Moody's, Standard & Poor's or Fitch Ratings will change such ratings in the future.

Strategic Growth Plan. Coinciding with the release of the Governor's 2006-07 budget, the Governor announced a "Strategic Growth Plan" for the State in which he proposed that the State spend nearly $223 billion over 10 years on State infrastructure programs such as transportation, education, flood control, public safety and courts. The Strategic Growth Plan would be financed in part through the issuance of $68 billion in general obligation bonds. In response to the Governor's proposal, the Legislature in May 2006 approved a $116 million Strategic Growth Plan package, which included $37.3 in new general obligation bonds (approved by the voters on November 7, 2006), $50.1 billion in existing funding, and $28.4 billion in new leveraged funding sources. The Strategic Growth Plan proposes that the new general obligation bonds be placed on the ballot in the 2008 and 2010 elections and additional leveraged funding through the use of public-private partnerships. Assuming these ballot measures are approved, total funding for the Strategic Growth Plan could total $210 billion.

Local Government

The primary units of local government in California are the counties, ranging in population from 1,200 (Alpine) to approximately 10 million (Los Angeles). Counties are responsible for the provision of many basic services, including indigent healthcare, welfare, courts, jails and public safety in unincorporated areas. There are also 478 incorporated cities and thousands of other special districts formed for education, utility and other services. The fiscal condition of local governments has been constrained since the enactment of "Proposition 13" in 1978 and later constitutional amendments, which reduced and limited the future growth of property taxes and limited the ability of local governments to impose "special taxes" (those devoted to a specific purpose) without two-thirds voter approval. Proposition 218, another initiative constitutional amendment enacted in 1996, further limited the ability of local governments to impose or raise various taxes, fees, charges and assessments without voter approval. Counties, in particular, have had fewer options to raise revenues than many other local government entities, and have been required to maintain many services.

Some local governments in California have experienced notable financial difficulties, including Los Angeles County, Orange County and San Diego County, and there is no assurance that any California issuer will make full or timely payments of principal or interest or remain solvent. It should be noted that the creditworthiness of obligations issued by local California issuers may be unrelated to the creditworthiness of obligations issued by the State, and there is no obligation on the part of the State to make payment on such local obligations in the event of default.

According to the State, the 2004 Budget Act, related legislation and the enactment of Senate Constitutional Amendment No. 4 (described below) will dramatically change the State-local fiscal relationship. These constitutional and statutory changes implement an agreement negotiated between the Governor and local government officials (the "State-local agreement") in connection with the 2004 Budget Act. One change relates to the reduction of the Vehicle License Fee ("VLF") rate from 2 percent to 0.65 percent of the market value of the vehicle. In order to protect local governments, the reduction in VLF revenue to cities and counties from this rate change will be replaced by an increase in the amount of property tax they receive.

As part of the State-local agreement, Senate Constitutional Amendment No. 4 was enacted by the Legislature and subsequently approved by the voters at the November 2004 election. Senate Constitutional Amendment No. 4 amends the State Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by placing restrictions on the State's access to local governments' property, sales, and VLF revenues as of November 3, 2004. Beginning with fiscal year 2008-09, the State will be able to borrow up to 8 percent of local property tax revenues, but only if the Governor proclaims such action is necessary due to a severe State fiscal hardship, two-thirds of both houses of the Legislature approves the borrowing and the amount borrowed is required to be paid back within three years. The State also will not be able to borrow from local property tax revenues for more than two fiscal years within a period of 10 fiscal years. In addition, the State cannot reduce the local sales tax rate or restrict the authority of the local governments to impose or change the distribution of the statewide local sales tax.

Senate Constitutional Amendment No. 4 also prohibits the State from mandating activities on cities, counties or special districts without providing for the funding needed to comply with the mandates. If the State does not provide funding for an activity that has been determined to be mandated, the requirement on cities, counties or special districts to abide by the mandate will be suspended. In addition, Senate Constitutional Amendment No. 4 expands the definition of what constitutes a mandate to encompass State action that transfers to cities, counties and special districts financial responsibility for a required program for which the State previously had partial or complete responsibility. The State mandate provisions of Senate Constitutional Amendment No. 4 do not apply to schools or community colleges or to mandates relating to employee rights.

Constitutional, Legislative and Other Factors

The State is subject to an annual appropriations limit imposed by Article XIII B of the State Constitution (the "Appropriations Limit"). The Appropriations Limit does not restrict appropriations to pay debt service on voter-authorized bonds.

Article XIII B prohibits the State from spending "appropriations subject to limitation" in excess of the Appropriations Limit. "Appropriations subject to limitation" are authorizations to spend "proceeds of taxes," which consist of tax revenues and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by that entity in providing the regulation, product or service," but "proceeds of taxes" exclude most State subventions to local governments, tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not "proceeds of taxes," such as reasonable user charges or fees and certain other non-tax funds. Various types of appropriations are excluded from the Appropriations Limit.

The State's Appropriations Limit in each year is based on the Limit for the prior year, adjusted annually for changes in State per capita personal income and changes in population, and adjusted, when applicable, for any transfer of financial responsibility for providing services to or from another unit of government or any transfer of the financial source for the provisions of services from tax proceeds to non-tax proceeds.

The Legislature has enacted legislation to implement Article XIII B which defines certain terms used in Article XIII B and sets forth the methods for determining the Appropriations Limit. California Government code Section 7912 requires an estimate of the Appropriations Limit to be included in the Governor's Budget, and thereafter to be subject to the budget process and established in the Budget Act.

On November 8, 1988, voters of the State approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act." Proposition 98 changed State funding of public education below the university level and the operation of the State appropriations funding, primarily by guaranteeing K-14 schools a minimum share of General Fund revenues. Proposition 98 permits the Legislature by two-thirds vote of both houses, with the Governor's concurrence, to suspend the K-14 schools' minimum funding formula for a one-year period. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the Article XIII B limit to K-14 schools.

Because of the complexities of Article XIII B, the ambiguities and possible inconsistencies in its terms, the applicability of its exceptions and exemptions and the impossibility of predicting future appropriations, it is not possible to predict the impact of this or related legislation on the bonds in the portfolio of the Payden California Municipal Income Fund.

Article XIII B and other Articles of the State Constitution were adopted as measures that qualified for the ballot pursuant to the State's initiative process. Other Constitutional amendments affecting State and local taxes and appropriations have been proposed from time to time. If any such initiatives were adopted, the State could be pressured to provide additional financial assistance to local Governments or appropriate revenues as mandated by such initiatives. Propositions such as Proposition 98 and others that may be adopted in the future may place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIII B spending limit would restrain the State's ability to fund such other programs by raising taxes.

Effect of other State Laws on Bond Obligations. Some of the California Municipal Securities that the Payden California Municipal Income Fund can invest in may be obligations payable solely from the revenues of a specific institution or secured by specific properties. These are subject to provisions of California law that could adversely affect the holders of such obligations. For example, the revenues of California health care institutions may be adversely affected by State laws, and California law limits the remedies of a creditor secured by a mortgage or deed of trust on real property. Debt obligations payable solely from revenues of health care institutions may also be insured by the State but no guarantee exists that adequate reserve funds will be appropriated by the Legislature for such purpose.

Litigation

The State is a party to numerous legal proceedings, many of which normally occur in governmental operations. In addition, the State is involved in certain other legal proceedings that, if decided against the State might require the State to make significant future expenditures or impair future revenue sources. Because of the prospective nature of these proceedings, it is not presently possible to predict the outcome of such litigation or estimate the potential impact on the ability of the State to pay debt service costs on its obligations.

On August 8, 2005, a lawsuit titled California Teachers Association et al. v. Arnold Schwarzenegger et al. was filed. Plaintiffs - California Teachers Association, California Superintendent of Public Instruction Jack O'Connell, and various other individuals - allege that the California Constitution's minimum school funding guarantee was not followed for the 2004-05 fiscal year and the 2005-06 fiscal year in the aggregate amount of approximately $3.1 billion. Plaintiffs seek a writ of mandate requiring the State to recalculate the minimum-funding guarantee in compliance with the California Constitution. In 2006, the parties reached a settlement, which was ratified by the Legislature and approved by the Governor. The settlement calls for payment of the outstanding balance of the minimum funding obligation to school districts and community college districts (approximately $3 billion in the aggregate) through the 2013-14 fiscal year.

On November 15, 2005, a California Superior Court judge entered a decision in a case which sought judicial validation for the issuance by the State of pension obligation bonds. The judge ruled the bonds were not valid. The State appealed, but it will not be able to issue pension obligation bonds until the matter is finally resolved. For the 2005-06 fiscal year, the State made payments of about $525 million for a portion of the fiscal year contribution to the California Public Employees' Retirement System which had been planned to be funded from the bonds. Neither the 2007 Budget Act nor the 2008 Governor's Budget calls for the issuance of any pension obligation bonds.

DERIVATIVE INSTRUMENTS

In pursuing their individual objectives, each of the Funds (except the Payden Cash Reserves Money Market Fund) may purchase and sell (write) put options and call options on securities, securities indexes, commodity indexes and foreign currencies, and may enter into interest rate, foreign currency, index and commodity futures contracts and purchase and sell options on such futures contracts ("futures options"), except that those Funds that may not invest in foreign currency-denominated securities may not enter into transactions involving currency futures or options. These transactions may be for hedging purposes, to seek to replicate the composition and performance of a particular index, or as part of their overall investment strategies. Each of the Funds (except the Payden Cash Reserves Money Market Fund) also may purchase and sell foreign currency options for purposes of increasing exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one country to another.

Each Fund (except the Payden Cash Reserves Money Market Fund) also may enter into swap agreements with respect to interest rates, commodities, indexes of securities or commodities and credit default situations, and to the extent it may invest in foreign currency-denominated securities, may enter into swap agreements with respect to foreign currencies. Such Funds may also invest in structured notes. If other types of financial instruments, including other types of options, futures contracts, or futures options are traded in the future, a Fund may also use those instruments, provided that the Fund's Board of Trustees determines that their use is consistent with the Fund's investment objective.

The value of some derivative instruments in which a Fund invests may be particularly sensitive to many factors, including for example changes in prevailing interest rates, and like the other investments of the Fund, the ability of a Fund to successfully utilize these instruments may depend in part upon the ability of the Fund's investment adviser to forecast interest rates and other economic factors correctly. If the investment adviser incorrectly forecasts such factors and has taken positions in derivative instruments contrary to prevailing market trends, the Fund could be exposed to the risk of loss.

A Fund might not employ any of the strategies described below, and no assurance can be given that any strategy used will succeed. If the Fund's investment adviser incorrectly forecasts interest rates, market values or other economic factors in utilizing a derivatives strategy for a Fund, the Fund might have been in a better position if it had not entered into the transaction at all. Also, suitable derivative transactions may not be available in all circumstances. The use of these strategies involves certain special risks, including a possible imperfect correlation, or even no correlation, between price movements of derivative instruments and price movements of related investments. While some strategies involving derivative instruments can reduce the risk of loss, they can also reduce the opportunity for gain or even result in losses by offsetting favorable price movements in related investments or otherwise, due to the possible inability of a Fund to purchase or sell a portfolio security at a time that otherwise would be favorable or the possible need to sell a portfolio security at a disadvantageous time because the Fund is required to maintain asset coverage or offsetting positions in connection with transactions in derivative instruments, and the possible inability of the Fund to close out or to liquidate its derivatives positions. In addition, a Fund's use of such instruments may cause the Fund to realize higher amounts of short-term capital gains (generally taxed at ordinary income tax rates) than if it had not used such instruments. For a Fund that gains exposure to an asset class using derivative instruments backed by a collateral portfolio of fixed income instruments, changes in the value of the fixed income instruments may result in greater or lesser exposure to that asset class than would have resulted from a direct investment in securities comprising that asset class.

Options on Securities and Indexes.

A Fund may, to the extent specified herein or in the Prospectus, purchase and sell both put and call options on fixed income or other securities or indexes in standardized contracts traded on foreign or domestic securities exchanges, boards of trade, or similar entities, or quoted on NASDAQ or on an over-the-counter market, and agreements, sometimes called cash puts, which may accompany the purchase of a new issue of bonds from a dealer.

An option on a security (or index) is a contract that gives the holder of the option, in return for a premium, the right to buy from (in the case of a call) or sell to (in the case of a put) the writer of the option the security underlying the option (or the cash value of the index) at a specified exercise price at any time during the term of the option. The writer of an option on a security has the obligation upon exercise of the option to deliver the underlying security upon payment of the exercise price or to pay the exercise price upon delivery of the underlying security. Upon exercise, the writer of an option on an index is obligated to pay the difference between the cash value of the index and the exercise price multiplied by the specified multiplier for the index option. (An index is designed to reflect features of a particular financial or securities market, a specific group of financial instruments or securities, or certain economic indicators.)

A Fund will write call options and put options only if they are "covered." In the case of a call option on a security, the option is "covered" if the Fund owns the security underlying the call or has an absolute and immediate right to acquire that security without additional cash consideration (or, if additional cash consideration is required, cash or other assets determined to be liquid by the Fund's investment adviser in accordance with established procedures in such amount are segregated) upon conversion or exchange of other securities held by the Fund. For a call option on an index, the option is covered if the Fund maintains with its custodian assets determined to be liquid by the Fund's investment adviser in accordance with established procedures, in an amount equal to the contract value of the index. A call option is also covered if the Fund holds a call on the same security or index as the call written where the exercise price of the call held is (i) equal to or less than the exercise price of the call written, or (ii) greater than the exercise price of the call written, provided the difference is maintained by the Fund in segregated assets determined to be liquid by the Fund's investment adviser in accordance with established procedures. A put option on a security or an index is "covered" if the Fund segregates assets determined to be liquid by the Fund's investment adviser in accordance with established procedures equal to the exercise price. A put option is also covered if the Fund holds a put on the same security or index as the put written where the exercise price of the put held is (i) equal to or greater than the exercise price of the put written, or (ii) less than the exercise price of the put written, provided the difference is maintained by the Fund in segregated assets determined to be liquid by the Fund's investment adviser in accordance with established procedures.

If an option written by a Fund expires unexercised, the Fund realizes a capital gain equal to the premium received at the time the option was written. If an option purchased by a Fund expires unexercised, the Fund realizes a capital loss equal to the premium paid. Prior to the earlier of exercise or expiration, an exchange traded option may be closed out by an offsetting purchase or sale of an option of the same series (type, exchange, underlying security or index, exercise price, and expiration). There can be no assurance, however, that a closing purchase or sale transaction can be effected when the Fund desires. A Fund may sell put or call options it has previously purchased, which could result in a net gain or loss depending on whether the amount realized on the sale is more or less than the premium and other transaction costs paid on the put or call option which is sold. Prior to exercise or expiration, an option may be closed out by an offsetting purchase or sale of an option of the same series. A Fund will realize a capital gain from a closing purchase transaction if the cost of the closing option is less than the premium received from writing the option, or, if it is more, the Fund will realize a capital loss. If the premium received from a closing sale transaction is more than the premium paid to purchase the option, the Fund will realize a capital gain or, if it is less, the Fund will realize a capital loss. The principal factors affecting the market value of a put or a call option include supply and demand, interest rates, the current market price of the underlying security or index in relation to the exercise price of the option, the volatility of the underlying security or index, and the time remaining until the expiration date.

The premium paid for a put or call option purchased by a Fund is an asset of the Fund. The premium received for an option written by a Fund is recorded as a deferred credit. The value of an option purchased or written is marked to market daily and is valued at the closing price on the exchange on which it is traded or, if not traded on an exchange or no closing price is available, at the mean between the last bid and asked prices.

A Fund may write covered straddles consisting of a combination of a call and a put written on the same underlying security. A straddle will be covered when sufficient assets are deposited to meet the Fund's immediate obligations. The Fund may use the same liquid assets to cover both the call and put options where the exercise price of the call and put are the same, or the exercise price of the call is higher than that of the put. In such cases, the Fund will also segregate liquid assets equivalent to the amount, if any, by which the put is "in the money."

Risks Associated with Options on Securities and Indexes.

There are several risks associated with transactions in options on securities and on indexes. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events.

During the option period, the covered call writer has, in return for the premium on the option, given up the opportunity to profit from a price increase in the underlying security above the exercise price, but, as long as its obligation as a writer continues, has retained the risk of loss should the price of the underlying security decline. The writer of an option has no control over the time when it may be required to fulfill its obligation as a writer of the option. Once an option writer has received an exercise notice, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver the underlying security at the exercise price. If a put or call option purchased by a Fund is not sold when it has remaining value, and if the market price of the underlying security remains equal to or greater than the exercise price (in the case of a put), or remains less than or equal to the exercise price (in the case of a call), the Fund will lose its entire investment in the option. Also, where a put or call option on a particular security is purchased to hedge against price movements in a related security, the price of the put or call option may move more or less than the price of the related security.

There can be no assurance that a liquid market will exist when a Fund seeks to close out an option position. If the Fund were unable to close out an option that it had purchased on a security, it would have to exercise the option in order to realize any profit or the option may expire worthless. If the Fund were unable to close out a covered call option that it had written on a security, it would not be able to sell the underlying security unless the option expired without exercise. As the writer of a covered call option, a Fund forgoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the exercise price of the call.

If trading were suspended in an option purchased by a Fund, the Fund would not be able to close out the option. If restrictions on exercise were imposed, the Fund might be unable to exercise an option it has purchased. Except to the extent that a call option on an index written by the Fund is covered by an option on the same index purchased by the Fund, movements in the index may result in a loss to the Fund; however, such losses may be mitigated by changes in the value of the Fund's securities during the period the option was outstanding.

Foreign Currency Options.

A Fund that invests in foreign currency-denominated securities may buy or sell put and call options on foreign currencies. The Fund may buy or sell put and call options on foreign currencies either on exchanges or in the over-the-counter market. A put option on a foreign currency gives the purchaser of the option the right to sell a foreign currency at the exercise price until the option expires. A call option on a foreign currency gives the purchaser of the option the right to purchase the currency at the exercise price until the option expires. Currency options traded on U.S. or other exchanges may be subject to position limits that may limit the ability of the Fund to reduce foreign currency risk using such options. Over-the-counter options differ from traded options in that they are two-party contracts with price and other terms negotiated between buyer and seller, and generally do not have as much market liquidity as exchange-traded options.

Futures Contracts and Options on Futures Contracts.

A futures contract is an agreement between two parties to buy and sell a security or commodity for a set price on a future date. These contracts are traded on exchanges, so that, in most cases, either party can close out its position on the exchange for cash, without delivering the security or commodity. An option on a futures contract gives the holder of the option the right to buy or sell a position in a futures contract to the writer of the option, at a specified price and on or before a specified expiration date.

Each Fund (except the Payden Cash Reserves Money Market Fund) may invest in futures contracts and options thereon ("futures options") with respect to, but not limited to, interest rates, commodities, and security or commodity indexes. To the extent that a Fund may invest in foreign currency-denominated securities, it may also invest in foreign currency futures contracts and options thereon.

An interest rate, commodity, foreign currency or index futures contract provides for the future sale by one party and purchase by another party of a specified quantity of a financial instrument, commodity, foreign currency or the cash value of an index at a specified price and time. A futures contract on an index is an agreement pursuant to which two parties agree to take or make delivery of an amount of cash equal to the difference between the value of the index at the close of the last trading day of the contract and the price at which the index contract was originally written. Although the value of an index might be a function of the value of certain specified securities, no physical delivery of these securities is made. A public market exists in futures contracts covering a number of indexes as well as financial instruments and foreign currencies, including, for example, the S&P 500; the S&P Midcap 400; the Nikkei 225; the NYSE composite; U.S. Treasury bonds; U.S. Treasury notes; GNMA Certificates; three-month U.S. Treasury bills; 90-day commercial paper; bank certificates of deposit; Eurodollar certificates of deposit; the Australian dollar; the Canadian dollar; the British pound; the Japanese yen; the Swiss franc; the Mexican peso; and certain multinational currencies, such as the euro. It is expected that other futures contracts will be developed and traded in the future. As described in the Prospectus, one or more of the

Funds may also invest in commodity futures contracts and options thereon. A commodity futures contract is an agreement between two parties, in which one party agrees to buy a commodity, such as an energy, agricultural or metal commodity, from the other party at a later date at a price and quantity agreed-upon when the contract is made.

A Fund may purchase and write call and put futures options, as specified for that Fund in the Prospectus. Futures options possess many of the same characteristics as options on securities and indexes (discussed above). A futures option gives the holder the right, in return for the premium paid, to assume a long position (call) or short position (put) in a futures contract at a specified exercise price at any time during the period of the option. Upon exercise of a call option, the holder acquires a long position in the futures contract and the writer is assigned the opposite short position. In the case of a put option, the opposite is true. A call option is "in the money" if the value of the futures contract that is the subject of the option exceeds the exercise price. A put option is "in the money" if the exercise price exceeds the value of the futures contract that is the subject of the option.

Limitations on Use of Futures and Futures Options.

A Fund will only enter into futures contracts and futures options which are standardized and traded on a U.S. or foreign exchange, board of trade, or similar entity, or quoted on an automated quotation system.

When a purchase or sale of a futures contract is made by a Fund, the Fund is required to deposit with its custodian (or broker, if legally permitted) a specified amount of assets determined to be liquid by the Fund's investment adviser in accordance with established procedures ("initial margin"). The margin required for a futures contract is set by the exchange on which the contract is traded and may be modified during the term of the contract. Margin requirements on foreign exchanges may be different than U.S. exchanges. The initial margin is in the nature of a performance bond or good faith deposit on the futures contract that is returned to the Fund upon termination of the contract, assuming all contractual obligations have been satisfied. Each such Fund expects to earn interest income on its initial margin deposits. A futures contract held by the Fund is valued daily at the official settlement price of the exchange on which it is traded. Each day the Fund pays or receives cash, called "variation margin," equal to the daily change in value of the futures contract. This process is known as "marking to market." Variation margin does not represent a borrowing or loan by the Fund, but is instead a settlement between the Fund and the broker of the amount one would owe the other if the futures contract expired. In computing daily net asset value, the Fund will mark to market its open futures positions.

A Fund is also required to deposit and maintain margin with respect to put and call options on futures contracts written by it. Such margin deposits will vary depending on the nature of the underlying futures contract (and the related initial margin requirements), the current market value of the option, and other futures positions held by the Fund.

Although some futures contracts call for making or taking delivery of the underlying securities or commodities, generally these obligations are closed out prior to delivery by offsetting purchases or sales of matching futures contracts (same exchange, underlying security or index, and delivery month). Closing out a futures contract sale is effected by purchasing a futures contract for the same aggregate amount of the specific type of financial instrument or commodity with the same delivery date. If an offsetting purchase price is less than the original sale price, a Fund realizes a capital gain, or if it is more, the Fund realizes a capital loss. Conversely, if an offsetting sale price is more than the original purchase price, the Fund realizes a capital gain, or if it is less, the Fund realizes a capital loss. The transaction costs must also be included in these calculations.

A Fund may write covered straddles consisting of a call and a put written on the same underlying futures contract. A straddle will be covered when sufficient assets are deposited to meet the Fund's immediate obligations. The Fund may use the same liquid assets to cover both the call and put options where the exercise price of the call and put are the same, or the exercise price of the call is higher than that of the put. In such cases, the Fund will also segregate liquid assets equivalent to the amount, if any, by which the put is "in the money."

When purchasing a futures contract, a Fund will maintain with its custodian (and mark-to-market on a daily basis) assets determined to be liquid by the Fund's investment adviser in accordance with established procedures that, when added to the amounts deposited with a futures commission merchant as margin, are equal to the market value of the futures contract.

Alternatively, the Fund may "cover" its position by purchasing a put option on the same futures contract with a strike price as high or higher than the price of the contract held by the Fund.

When selling a futures contract, a Fund will maintain with its custodian (and mark-to-market on a daily basis) assets determined to be liquid by the Fund's investment adviser in accordance with established procedures that are equal to the market value of the instruments underlying the contract. Alternatively, the Fund may "cover" its position by owning the instruments underlying the contract (or, in the case of an index futures contract, a portfolio with a volatility substantially similar to that of the index on which the futures contract is based), or by holding a call option permitting the Fund to purchase the same futures contract at a price no higher than the price of the contract written by the Fund (or at a higher price if the difference is maintained in liquid assets with the Fund's custodian).

When selling a call option on a futures contract, a Fund will maintain with its custodian (and mark-to-market on a daily basis) assets determined to be liquid by the Fund's investment adviser in accordance with established procedures, that, when added to the amounts deposited with a futures commission merchant as margin, equal the total market value of the futures contract underlying the call option. Alternatively, the Fund may cover its position by entering into a long position in the same futures contract at a price no higher than the strike price of the call option, by owning the instruments underlying the futures contract, or by holding a separate call option permitting the Fund to purchase the same futures contract at a price not higher than the strike price of the call option sold by the Fund. When selling a put option on a futures contract, a Fund will maintain with its custodian (and mark-to-market on a daily basis) assets determined to be liquid by the Fund's investment adviser in accordance with established procedures established that equal the purchase price of the futures contract, less any margin on deposit. Alternatively, the Fund may cover the position either by entering into a short position in the same futures contract, or by owning a separate put option permitting it to sell the same futures contract so long as the strike price of the purchased put option is the same or higher than the strike price of the put option sold by the Fund.

To the extent that securities with maturities greater than one year are used to segregate assets to cover a Fund's obligations under futures contracts and related options, such use will not eliminate the risk of a form of leverage, which may tend to exaggerate the effect on net asset value of any increase or decrease in the market value of the Fund's portfolio, and may require liquidation of portfolio positions when it is not advantageous to do so. However, any potential risk of leverage resulting from the use of securities with maturities greater than one year may be mitigated by the overall duration limit on a Fund's portfolio securities. Thus, the use of a longer-term security may require the Fund to hold offsetting short-term securities to balance the Fund's portfolio such that the Fund's duration does not exceed the maximum permitted for the Fund in the Prospectuses.

The requirements for qualification as a regulated investment company also may limit the extent to which a Fund may enter into futures, futures options or forward contracts. See "Taxation."

Risks Associated with Futures and Futures Options.

There are several risks associated with the use of futures contracts and futures options as hedging techniques. A purchase or sale of a futures contract may result in losses in excess of the amount invested in the futures contract. There can be no guarantee that there will be a correlation between price movements in the hedging vehicle and in the Fund securities being hedged. In addition, there are significant differences between the securities and futures markets that could result in an imperfect correlation between the markets, causing a given hedge not to achieve its objectives. The degree of imperfection of correlation depends on circumstances such as variations in speculative market demand for futures and futures options on securities, including technical influences in futures trading and futures options, and differences between the financial instruments being hedged and the instruments underlying the standard contracts available for trading in such respects as interest rate levels, maturities, and creditworthiness of issuers. A decision as to whether, when and how to hedge involves the exercise of skill and judgment, and even a well-conceived hedge may be unsuccessful to some degree because of market behavior or unexpected interest rate trends.

Futures contracts on U.S. Government securities historically have reacted to an increase or decrease in interest rates in a manner similar to the reaction of the underlying U.S. Government securities reacted. To the extent that a municipal bond fund enters into such futures contracts, however, the value of such futures will not vary in direct proportion to the value of the Fund's holdings of municipal securities. Thus, the anticipated spread between the price of the futures contract and the hedged security may be distorted due to differences in the nature of the markets. The spread also may be distorted by differences in initial and variation margin requirements, the liquidity of such markets and the participation of speculators in such markets.

Futures exchanges may limit the amount of fluctuation permitted in certain futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price at the end of the current trading session. Once the daily limit has been reached in a futures contract subject to the limit, no more trades may be made on that day at a price beyond that limit. The daily limit governs only price movements during a particular trading day and therefore does not limit potential losses because the limit may prevent the liquidation of unfavorable positions. For example, futures prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of positions and subjecting some holders of futures contracts to substantial losses.

There can be no assurance that a liquid market will exist at a time when a Fund seeks to close out a futures or a futures option position, and the Fund would remain obligated to meet margin requirements until the position is closed. In addition, many of the contracts discussed above are relatively new instruments without a significant trading history. As a result, there can be no assurance that an active secondary market will develop or continue to exist.

Risks Associated with Commodity Futures Contracts.

There are several additional risks associated with transactions in commodity futures contracts.

Storage. Unlike the financial futures markets, in the commodity futures markets there are costs of physical storage associated with purchasing the underlying commodity. The price of the commodity futures contract will reflect the storage costs of purchasing the physical commodity, including the time value of money invested in the physical commodity. To the extent that the storage costs for an underlying commodity change while a Fund is invested in futures contracts on that commodity, the value of the futures contract may change proportionately.

Reinvestment. In the commodity futures markets, producers of the underlying commodity may decide to hedge the price risk of selling the commodity by selling futures contracts today to lock in the price of the commodity at delivery tomorrow. In order to induce speculators to purchase the other side of the same futures contract, the commodity producer generally must sell the futures contract at a lower price than the expected future spot price. Conversely, if most hedgers in the futures market are purchasing futures contracts to hedge against a rise in prices, then speculators will only sell the other side of the futures contract at a higher futures price than the expected future spot price of the commodity. The changing nature of the hedgers and speculators in the commodity markets will influence whether futures prices are above or below the expected future spot price, which can have significant implications for a Fund. If the nature of hedgers and speculators in futures markets has shifted when it is time for a Fund to reinvest the proceeds of a maturing contract in a new futures contract, the Fund might reinvest at higher or lower futures prices, or choose to pursue other investments.

Other Economic Factors. The commodities that underlie commodity futures contracts may be subject to additional economic and non-economic variables, such as drought, floods, weather, livestock disease, embargoes, tariffs, and international economic, political and regulatory developments. These factors may have a larger impact on commodity prices and commodity-linked instruments, including futures contracts, than on traditional securities. Certain commodities are also subject to limited pricing flexibility because of supply and demand factors. Others are subject to broad price fluctuations as a result of the volatility of the prices for certain raw materials and the instability of supplies of other materials. These additional variables may create additional investment risks which subject a Fund's investments to greater volatility than investments in traditional securities.

Additional Risks of Options on Securities, Futures Contracts, Options on Futures Contracts, and Forward Currency Exchange Contracts and Options Thereon.

Options on securities, futures contracts, and options on currencies may be traded on foreign exchanges. Such transactions may not be regulated as effectively as similar transactions in the United States, may not involve a clearing mechanism and related guarantees, and are subject to the risk of governmental actions affecting trading in, or the prices of, foreign securities. The value of such positions also could be adversely affected by (i) other complex foreign political, legal and economic factors, (ii) lesser availability than in the United States of data on which to make trading decisions, (iii) delays in a Fund's ability to act upon economic events occurring in foreign markets during non-business hours in the United States, (iv) the imposition of different exercise and settlement terms and procedures and margin requirements than in the United States, and (v) lesser trading volume.

Swap Agreements and Options on Swap Agreements.

Each Fund (except the Payden Cash Reserves Money Market Fund) may engage in swap transactions, including, but not limited to, swap agreements on interest rates, security or commodity indexes, specific securities and commodities, total return swaps and credit default and event-linked swaps. To the extent a Fund may invest in foreign currency-denominated securities, it may also invest in currency exchange rate swap agreements. A Fund may also enter into options on swap agreements ("swap options").

A Fund may enter into swap transactions for any legal purpose consistent with its investment objective and policies, such as for the purpose of attempting to obtain or preserve a particular return or spread at a lower cost than obtaining a return or spread through purchases and/or sales of instruments in other markets, to protect against currency fluctuations, as a duration management technique, to protect against any increase in the price of securities the Fund anticipates purchasing at a later date, or to gain exposure to certain markets in the most economical way possible.

Swap agreements are two party contracts entered into primarily by institutional investors for periods ranging from a few weeks to more than one year. In a standard "swap" transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments, which may be adjusted for an interest factor. The gross returns to be exchanged or "swapped" between the parties are generally calculated with respect to a "notional amount," i.e., the return on or increase in value of a particular dollar amount invested at a particular interest rate, in a particular foreign currency, or in a "basket" of securities or commodities representing a particular index. A "quanto" or "differential" swap combines both an interest rate and a currency transaction. Other forms of swap agreements include interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or "cap"; interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or "floor"; and interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels. As a matter of operating policy, the aggregate purchase price of caps and floors held by a Fund may not exceed 5% of its total asset at the time of purchase.

Consistent with a Fund's investment objective and general investment polices, certain of the Funds may invest in commodity swap agreements. For example, an investment in a commodity swap agreement may involve the exchange of floating-rate interest payments for the total return on a commodity index. In a total return commodity swap, a Fund will receive the price appreciation of a commodity index, a portion of the index, or a single commodity in exchange for paying an agreed-upon fee. If the commodity swap is for one period, the Fund may pay a fixed fee, established at the outset of the swap. However, if the term of the commodity swap is more than one period, with interim swap payments, the Fund may pay an adjustable or floating fee. With a "floating" rate, the fee may be pegged to a base rate, such as the London Interbank Offered Rate, and is adjusted each period. Therefore, if interest rates increase over the term of the swap contract, the Fund may be required to pay a higher fee at each swap reset date.

A Fund may enter into credit default swap agreements. While the structure of a credit default swap depends on the particular swap agreement, a typical credit default structure is as follows. The "buyer" in a credit default contract is obligated to pay the "seller" a periodic stream of payments over the term of the contract provided that no event of default on an underlying reference obligation has occurred. If an event of default occurs, the seller must pay the buyer the full notional value, or "par value," of the reference obligation in exchange for the reference obligation. The Fund may be either the buyer or seller in a credit default swap transaction. If the Fund is a buyer and no event of default occurs, the Fund will lose its investment and recover nothing. However, if an event of default occurs, the Fund (if the buyer) will receive the full notional value of the reference obligation that may have little or no value. As a seller, the Fund receives a fixed rate of income throughout the term of the contract, which typically is between six months and three years, provided that there is no default event. If an event of default occurs, the seller must pay the buyer the full notional value of the reference obligation. Credit default swap transactions involve greater risks than if the Fund had invested in the reference obligation directly.

A swap option is a contract that gives a counterparty the right (but not the obligation) in return for payment of a premium, to enter into a new swap agreement or to shorten, extend, cancel or otherwise modify an existing swap agreement, at some designated future time on specified terms. Each Fund (except the Payden Value Leaders and Payden Cash Reserves Money Market Funds) may write (sell) and purchase put and call swap options.

Most swap agreements entered into by a Fund would calculate the obligations of the parties to the agreement on a "net basis." Consequently, the Fund's current obligations (or rights) under a swap agreement will generally be equal only to the net amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement (the "net amount"). The Fund's current obligations under a swap agreement will be accrued daily (offset against any amounts owed to the Fund) and any accrued but unpaid net amounts owed to a swap counterparty will be covered by the segregation of assets determined to be liquid by the Fund's investment adviser in accordance with established procedures, to avoid any potential leveraging of the Fund's portfolio. Generally, the notional amount of any long positions in credit default swaps will be covered by the segregation of assets. However, long and short positions in credit default swaps which reference the same credit, pay/receive the same currency and have the same counter party may be netted for purposes of the calculation of asset segregation. Obligations under swap agreements so covered will not be construed to be "senior securities" for purposes of the Fund's investment restriction concerning senior securities. As a matter of operating policy, a Fund will not enter into a swap agreement with any single party if the net amount owed or to be received under existing contracts with that party would exceed 5% of the Fund's total assets. Also as a matter of operating policy, a Fund will not enter into a swap transaction at any time that the aggregate amount of its net obligations under such transactions exceeds 30% of its total assets (for the Metzler/Payden Funds, 15% of a Fund's total assets). If a Fund enters into a swap transaction on other than a net basis, the Fund maintains a segregated account in the full amount accrued on a daily basis of the Fund's obligations with respect to the transaction. Such segregated accounts are maintained in accordance with applicable regulations of the Securities and Exchange Commission.

Whether a Fund's use of swap agreements or swap options will be successful in furthering its investment objective will depend on the ability of the Fund's investment adviser to predict correctly whether certain types of investments are likely to produce greater returns than other investments. Because they are two party contracts and because they may have terms of greater than seven days, swap agreements may be considered to be illiquid depending on the underlying circumstances. Moreover, the Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. A Fund will enter into swap agreements only with counterparties that meet certain standards of creditworthiness. Certain restrictions imposed on the Funds by the Code may limit the Funds' ability to use swap agreements. The swaps market is a relatively new market and is largely unregulated. It is possible that developments in the swaps market, including potential government regulation, could adversely affect a Fund's ability to terminate existing swap agreements or to realize amounts to be received under such agreements.

Depending on the terms of the particular option agreement, a Fund will generally incur a greater degree of risk when it writes a swap option than it will incur when it purchases a swap option. When the Fund purchases a swap option, it risks losing only the amount of the premium it has paid should it decide to let the option expire unexercised. However, when the Fund writes a swap option, upon exercise of the option the Fund will become obligated according to the terms of the underlying agreement.

Certain swap agreements are exempt from most provisions of the Commodity Exchange Act ("CEA") and, therefore, are not regulated as futures or commodity option transactions under the CEA, pursuant to regulations approved by the Commodity Futures Trading Commission ("CFTC"). To qualify for this exemption, a swap agreement must be entered into by "eligible participants," which includes the following, provided the participants' total assets exceed established levels: a bank or trust company, savings association or credit union, insurance company, investment company subject to regulation under the 1940 Act, commodity pool, corporation, partnership, proprietorship, organization, trust or other entity, employee benefit plan, governmental entity, broker-dealer, futures commission merchant, natural person, or regulated foreign person. To be eligible, natural persons and most other entities must have total assets exceeding $10 million; commodity pools and employee benefit plans must have assets exceeding $5 million. In addition, an eligible swap transaction must meet three conditions. First, the swap agreement may not be part of a fungible class of agreements that are standardized as to their material economic terms. Second, the creditworthiness of parties with actual or potential obligations under the swap agreement must be a material consideration in entering into or determining the terms of the swap agreement, including pricing, cost or credit enhancement terms. Third, swap agreements may not be entered into and traded on or through a multilateral transaction execution facility.

This exemption is not exclusive, and participants may continue to rely on existing exclusions for swaps, such as the Policy Statement issued in July 1989 which recognized a safe harbor for swap transactions from regulation as futures or commodity option transactions under the CEA or its regulations. The Policy Statement applies to swap transactions settled in cash that (1) have individually tailored terms, (2) lack exchange-style offset and the use of a clearing organization or margin system, (3) are undertaken in conjunction with a line of business, and (4) are not marketed to the public.

Structured Notes

Structured notes are derivative debt securities, the interest rate or principal of which is determined by an unrelated indicator. Indexed securities include structured notes as well as securities other than debt securities, the interest rate or principal of which is determined by an unrelated indicator. Indexed securities may include a multiplier that multiplies the indexed element by a specified factor and, therefore, the value of such securities may be very volatile. To the extent a Fund invests in these securities, however, the Fund's investment adviser analyzes these securities in its overall assessment of the effective duration of the Fund's portfolio in an effort to monitor the Fund's interest rate risk.

Hybrid Instruments

A hybrid instrument is a type of potentially high-risk derivative that combines a traditional stock, bond, or commodity with an option or forward contract. Generally, the principal amount, amount payable upon maturity or redemption, or interest rate of a hybrid is tied (positively or negatively) to the price of some commodity, currency or securities index or another interest rate or some other economic factor (each a "benchmark"). The interest rate or (unlike most fixed income securities) the principal amount payable at maturity of a hybrid security may be increased or decreased, depending on changes in the value of the benchmark. An example of a hybrid could be a bond issued by an oil company that pays a small base level of interest with additional interest that accrues in correlation to the extent to which oil prices exceed a certain predetermined level. Such an hybrid instrument would be a combination of a bond and a call option on oil.

Hybrids can be used as an efficient means of pursuing a variety of investment goals, including currency hedging, duration management, and increased total return. Hybrids may not bear interest or pay dividends. The value of a hybrid or its interest rate may be a multiple of a benchmark and, as a result, may be leveraged and move (up or down) more steeply and rapidly than the benchmark. These benchmarks may be sensitive to economic and political events, such as commodity shortages and currency devaluations, which cannot be readily foreseen by the purchaser of a hybrid. Under certain conditions, the redemption value of a hybrid could be zero.

Thus, an investment in a hybrid may entail significant market risks that are not associated with a similar investment in a traditional, U.S. dollar-denominated bond that has a fixed principal amount and pays a fixed rate or floating rate of interest. The purchase of hybrids also exposes a Fund to the credit risk of the issuer of the hybrids. These risks may cause significant fluctuations in the net asset value of the Fund. No Fund will invest more than 5% of its total assets in hybrid instruments.

Certain hybrid instruments may provide exposure to the commodities markets. These are derivative securities with one or more commodity-linked components that have payment features similar to commodity futures contracts, commodity options, or similar instruments. Commodity-linked hybrid instruments may be either equity or debt securities, and are considered hybrid instruments because they have both security and commodity-like characteristics. A portion of the value of these instruments may be derived from the value of a commodity, futures contract, index or other economic variable. A Fund will only invest in commodity-linked hybrid instruments that qualify under applicable rules of the CFTC for an exemption from the provisions of the CEA.

Certain issuers of structured products such as hybrid instruments may be deemed to be investment companies as defined in the 1940 Act. As a result, a Fund's investments in these products may be subject to limits applicable to investments in investment companies and may be subject to restrictions contained in the 1940 Act.

DELAYED FUNDING LOANS AND REVOLVING CREDIT FACILITIES

Each Fund (except the Payden Cash Reserves Money Market Fund, the Payden Tax Exempt Bond and the Payden California Municipal Income Fund) may enter into, or acquire participations in, delayed funding loans and revolving credit facilities. Delayed funding loans and revolving credit facilities are borrowing arrangements in which the lender agrees to make loans up to a maximum amount upon demand by the borrower during a specified term. A revolving credit facility differs from a delayed funding loan in that as the borrower repays the loan, an amount equal to the repayment may be borrowed again during the term of the revolving credit facility. Delayed funding loans and revolving credit facilities usually provide for floating or variable rates of interest. These commitments may have the effect of requiring a Fund to increase its investment in a company at a time when it might not otherwise decide to do so (including at a time when the company's financial condition makes it unlikely that such amounts will be repaid). To the extent that the Fund is committed to advance additional funds, it will at all times segregate assets, determined to be liquid by the Fund's investment adviser in accordance with established procedures in an amount sufficient to meet such commitments.

A Fund may invest in delayed funding loans and revolving credit facilities with credit quality comparable to that of issuers of its securities investments. Delayed funding loans and revolving credit facilities may be subject to restrictions on transfer, and only limited opportunities may exist to resell such instruments. As a result, the Fund may be unable to sell such investments at an opportune time or may have to resell them at less than fair market value. Each Fund currently intends to treat delayed funding loans and revolving credit facilities for which there is no readily available market as illiquid for purposes of the Fund's limitation on illiquid investments.

For a further discussion of the risks involved in investing in loan participations and other forms of direct indebtedness see “Loan Participations and Assignments.” Participation interests in revolving credit facilities will be subject to the limitations discussed in “Loan Participations and Assignments.” Delayed funding loans and revolving credit facilities are considered to be debt obligations for purposes of the Fund’s investment restriction relating to the lending of funds or assets by the Fund.

WHEN-ISSUED, DELAYED DELIVERY AND FORWARD COMMITMENT TRANSACTIONS.

Each of the Funds may purchase or sell securities on a when-issued, delayed delivery, or forward commitment basis. When such purchases are outstanding, the Fund will segregate until the settlement date assets determined to be liquid by the Fund’s investment adviser in accordance with procedures established by the Fund’s Board of Trustees, in an amount sufficient to meet the purchase price. Typically, no income accrues on securities the Fund has committed to purchase prior to the time delivery of the securities is made, although the Fund may earn income on securities it has segregated.

When purchasing a security on a when-issued, delayed delivery, or forward commitment basis, a Fund assumes the rights and risks of ownership of the security, including the risk of price and yield fluctuations, and takes such fluctuations into account when determining its net asset value. Because the Fund is not required to pay for the security until the delivery date, these risks are in addition to the risks associated with the Fund’s other investments. If the Fund remains substantially fully invested at a time when when-issued, delayed delivery, or forward commitment purchases are outstanding, the purchases may result in a form of leverage.

When a Fund has sold a security on a when-issued, delayed delivery, or forward commitment basis, the Fund does not participate in future gains or losses with respect to the security. If the other party to a transaction fails to deliver or pay for the securities, the Fund could miss a favorable price or yield opportunity or could suffer a loss. A Fund may dispose of or renegotiate a transaction after it is entered into, and may sell when-issued, delayed delivery or forward commitment securities before they are delivered, which may result in a capital gain or loss. There is no percentage limitation on the extent to which a Fund may purchase or sell securities on a when-issued, delayed delivery, or forward commitment basis.

FOREIGN CURRENCY TRANSACTIONS

As indicated in the Prospectus, certain Funds may enter into foreign currency transactions. A Fund normally conducts its foreign currency exchange transactions either on a spot (cash) basis at the spot rate prevailing in the foreign currencies or on a forward basis. Under normal circumstances, the Fund will enter into forward currency contracts (contracts to purchase or sell a specified currency at a specified future date and price). The Fund generally will not enter into a forward currency contract with a term of greater than one year. Although forward currency contracts are used primarily to protect the Fund from adverse currency movements, they may also be used to increase exposure to a currency, and involve the risk that anticipated currency movements will not be accurately predicted and the Fund’s total return will be adversely affected as a result. Most forward foreign currency transactions entered into by the Funds calculate the obligations of the parties to the agreement on a “net basis.” Consequently, a Fund’s obligations will be equal to the net amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement (the “net amount”). A Fund’s gain or loss position under the forward transaction will be accrued daily and any net loss positions will be covered by the segregation of assets determined to be liquid by the Fund’s investment adviser in accordance with established procedures.

Precise matching of the amount of forward currency contracts and the value of securities denominated in such currencies of a Fund will not generally be possible, since the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the date the forward currency contract is entered into and the date it matures. Prediction of short-term currency market movements is extremely difficult, and the successful execution of a short-term hedging strategy is highly uncertain. Under certain circumstances, the Fund may commit a substantial portion of its assets to the consummation of these contracts. The Fund generally will not enter into such forward currency contracts or maintain a net exposure to such contracts where the consummation of the contracts would obligate the Fund to deliver an amount of foreign currency in excess of the value of the Fund’s portfolio securities or other assets denominated in that currency. Under normal circumstances, consideration of the prospect for currency parities will be incorporated into the longer term investment decisions made with regard to overall diversification strategies.

At the maturity of a forward currency contract, a Fund may either sell the portfolio security and make delivery of the foreign currency, or it may retain the security and terminate its contractual obligation to deliver the foreign currency by purchasing an "offsetting" contract obligating it to purchase, on the same maturity date, the same amount of the foreign currency.

It may be necessary for a Fund to purchase additional foreign currency on the spot market (and bear the expense of such purchase) if the market value of the security is less than the amount of foreign currency the Fund is obligated to deliver and if a decision is made to sell the security and make delivery of the foreign currency. Conversely, it may be necessary to sell on the spot market some of the foreign currency received upon the sale of the portfolio security if its market value exceeds the amount of foreign currency the Fund is obligated to deliver.

If a Fund retains a portfolio security and engages in an offsetting foreign currency transaction, the Fund will incur a gain or a loss to the extent that there has been movement in forward contract prices. If the Fund engages in an offsetting foreign currency transaction, it may subsequently enter into a new forward contract to sell the foreign currency. Should forward prices decline during the period between the date the Fund enters into a forward contract for the sale of a foreign currency and the date it enters into an offsetting contract for the purchase of the foreign currency, the Fund will realize a gain to the extent the price of the currency it has agreed to sell exceeds the price of the currency it has agreed to purchase. Should forward prices increase, the Fund will suffer a loss to the extent the price of the currency it has agreed to purchase exceeds the price of the currency it has agreed to sell.

A Fund's dealings in forward foreign currency exchange contracts will generally be limited to the transactions described above. However, the Fund reserves the right to enter into forward foreign currency contracts for different purposes and under different circumstances. Use of forward currency contracts to hedge against a decline in the value of a currency does not eliminate fluctuations in the underlying prices of the securities. Additionally, although such contracts tend to minimize the risk of loss due to a decline in the value of the hedged currency, they also tend to limit any potential gain which might result from an increase in the value of that currency.

Although a Fund values its assets daily in terms of U.S. dollars, it does not intend to convert its holdings of foreign currencies into U.S. dollars on a daily basis. Foreign exchange dealers do not charge a fee for conversion, but they do realize a profit based on the difference (the "spread") between the prices at which they are buying and selling various currencies. Thus, a dealer may offer to sell a foreign currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire to resell that currency to the dealer.

LENDING OF PORTFOLIO SECURITIES

To realize additional income, certain of the Funds may lend securities with a value of up to 30% of their respective total assets to broker-dealers, institutional investors or other persons. Each loan will be secured by collateral which is maintained at no less than 100% of the value of the securities loaned by marking to market daily. A Fund will have the right to call each loan and obtain the securities on five business days' notice or, in connection with securities trading on foreign markets, within a longer period of time which coincides with the normal settlement period for purchases and sales of such securities in such foreign markets. Loans will only be made to persons deemed by the Fund's investment adviser to be of good standing in accordance with standards approved by the Fund's Board of Trustees and will not be made unless, in the judgment of the Fund's investment adviser, the consideration to be earned from such loans would justify the risk. The risks in lending portfolio securities, as with other extensions of credit, consist of possible delay in recovery of the securities or possible loss of rights in the collateral should the borrower fail financially. In addition, voting rights or rights to consent with respect to the loaned securities pass to the borrower.

TEMPORARY DEFENSIVE MEASURES

Each Fund may establish and maintain reserves when the Fund's investment adviser determines that such reserves would be desirable for temporary defensive purposes (for example, during periods of substantial volatility in interest rates) or to enable it to take advantage of buying opportunities. A Fund's reserves may be invested in domestic and foreign money market instruments, including government obligations.

BORROWING

Each Fund may borrow for temporary, extraordinary or emergency purposes, or for the clearance of transactions, and then only in amounts not exceeding 30% of its total assets valued at market (for this purpose, reverse repurchase agreements and delayed delivery transactions covered by segregated accounts are not considered to be borrowings). The Payden U.S. Government Fund may not borrow amounts exceeding 33% of total assets valued at market (including reverse repurchase agreements and delayed delivery transactions). In addition, in the case of the Payden Global Equity Fund, the Fund may borrow money to the full extent permitted under the 1940 Act, including the rules, regulations and interpretations thereunder and any exemptive relief obtained by the Fund. The 1940 Act requires each Fund to maintain continuous asset coverage (that is, total assets including borrowings, less liabilities exclusive of borrowings) of 300% of the amount borrowed. If the 300% asset coverage should decline as a result of market fluctuations or other reasons, a Fund may be required to sell some of its portfolio holdings within three days to reduce the debt and restore the 300% asset coverage, even though it may be disadvantageous from an investment standpoint to sell securities at that time. To avoid the potential leveraging effects of a Fund’s borrowings, additional investments will not be made while borrowings are in excess of 5% of the Fund’s total assets. Money borrowed will be subject to interest costs which may or may not be recovered by appreciation of the securities purchased. Each Fund also may be required to maintain minimum average balances in connection with any such borrowings or to pay a commitment or other fee to maintain a line of credit, either of which would increase the cost of borrowing over the stated interest rate.

Borrowing involves special risk considerations. Interest costs on borrowings may fluctuate with changing market rates of interest and may partially offset or exceed the return earned on borrowed funds. To the extent a Fund is leveraged, the value of its assets will tend to increase more when its portfolio securities increase in value, and to decrease more when its portfolio securities decrease in value, than if its assets were not leveraged. The rights of any lender to the Fund to receive payments of interest or repayments of principal will be senior to those of the investors in the Fund. Consequently, the Fund might have to sell portfolio securities to meet interest or principal payments at a time when fundamental investment considerations would not favor such sales. Also, the terms of any borrowings may contain provisions that limit certain activities of the Fund, including the ability to make distributions.

AVERAGE MATURITY AND DURATION CALCULATIONS

Average Maturity

The portfolio average maturity of a Fund will be computed by weighting the maturity of each security in the Fund’s portfolio by the market value of that security. For securities which have put dates, reset dates, or trade based on average life, the put date, reset date or average life will be used instead of the final maturity date for the average maturity calculation. Average life is normally used when trading mortgage backed securities and asset backed securities.

Duration

One common measure of the price volatility of a fixed income security is duration, a weighted average term-to-maturity of the present value of a security’s cash flows. As it is a weighted term-to-maturity, duration is generally measured in years and can vary from zero to the time-to-maturity of the security. Duration is a complex formula that utilizes cash flow and the market yield of the security. Bonds of the same maturity can have different durations if they have different coupon rates or yields.

For securities which pay periodic coupons and have a relatively short maturity, duration tends to approximate the term to maturity. As the maturity of the bond extends, the duration also extends but at a slower rate. For example, the duration of a 2-year security can be about 1.8 years; the duration of a 30-year bond will be roughly 10 to 11 years. However, the duration of any security that pays interest only at maturity is the term to maturity. Thus a 30-year zero coupon bond has a duration of 30 years.

Asset-backed and mortgage-backed securities require a more complex duration calculation. These securities are generally collateralized with loans issued to individuals or businesses and often allow the borrower the discretion to repay the loan prior to maturity. Loan prepayments typically occur when interest rates have fallen sufficiently to allow the borrower to refinance the loan at a lower interest rate. Given that the cash flows for these types of securities are not known with certainty, the standard duration calculation is not accurate. An effective duration is calculated instead, using a process in which cash flows are estimated and duration is computed for a variety of interest rate scenarios. The effective duration of the security is the average of these durations weighted by the probability of each interest rate scenario. The effective duration for a bond with known cash flows is the same as its modified duration.

The effective duration of the portfolio can be determined by weighting the effective duration of each bond by its market value. Effective duration is a much better indicator of price volatility than term to maturity. For example, the term to maturity for both a 30-year bond and a 30-year zero coupon security is 30 years. A portfolio manager using average maturity to judge price volatility would expect to see no difference in portfolio impact from these two securities (given equal yield). However, the 30-year zero coupon bond will experience a percentage price change roughly three times greater than that of the 30-year bond.

DISCLOSURE OF FUND PORTFOLIO HOLDINGS

The Board of Trustees of each of the P&R Trust and the M/P Trust has adopted a policy and related procedures with respect to the disclosure of the portfolio holdings of the Fund. You may obtain a listing of the portfolio holdings of any Fund by sending a written request to the Fund at 333 South Grand Avenue, 32nd Floor, Los Angeles, CA 90071. With the exception of certain third-party providers to the Funds, portfolio holdings of the Fund are made available to any person, including without limitation individual investors, institutional investors, intermediaries that distribute the Fund's shares and rating and ranking organizations, as of a month-end and are released after the following month-end. As an example, Fund portfolio holdings as of January 31 are first made available to any person on March 1.

Employees of the following third-party service providers, whose job responsibilities require them to have access to a Fund's portfolio holdings on a daily basis, are not subject to the delayed availability policy: the Fund's investment adviser, fund administrator, fund accountant, custodian, transfer agent, independent registered public accounting firm, outside counsel, and the financial printer. Each of these third-party providers requires that their employees maintain the confidentiality of this information and prohibits any trading based on this confidential information.

None of the Funds, their investment advisers, or any other party receives any compensation in connection with the disclosure of information about portfolio holdings of a Fund. Further, there are no ongoing arrangements for any Fund to make available to any person information on the Fund's portfolio holdings outside the disclosure policy just described. Finally, the Fund's Chief Compliance Officer must approve any disclosure of the Fund's portfolio holdings that is outside the terms of this disclosure policy.

There can be no guarantee that a Fund's disclosure policy and related procedures will be effective in preventing the misuse of information about portfolio holdings of the Fund by the persons in possession of this information.

MANAGEMENT OF THE P&R TRUST AND THE M/P TRUST

<u>THE P&R TRUST</u>

TRUSTEES AND OFFICERS

The Trustees of the P&R Trust are responsible for the overall management of the Payden Funds and the Payden/Wilshire Longevity Funds, including establishing the Funds' policies, general supervision and review of their investment activities. Massachusetts law requires each Trustee to perform his or her duties as a Trustee, including duties as a member of any Board committee on which he or she serves, in good faith, in a manner he or she reasonably believes to be in the best interests of the P&R Trust, and with the care that an ordinarily prudent person in a like position would use under similar circumstances. The officers of the P&R Trust, who administer the Payden Funds' and the Payden/Wilshire Longevity Funds' daily operations, are appointed by the Board of Trustees.

Board of Trustees

The current members of the Board of Trustees and their affiliations and principal occupations for the past five years are as set forth below. The Trustees listed as “Independent Trustees” are not “interested persons” of the P&R Trust, as defined in the 1940 Act.

NAME, ADDRESS AND AGE	POSITION WITH P&R TRUST	YEAR FIRST ELECTED AS A TRUSTEE OF P&R TRUST	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS	NUMBER OF P&R TRUST SERIES OVERSEEN BY TRUSTEE	OTHER DIRECTORSHIPS HELD BY TRUSTEE
Independent Trustees					
W.D. Hilton, Jr. .... 333 South Grand Avenue Los Angeles, CA 90071 Age: 61	Trustee	1993	President and CEO, Trust Services, Inc.; Executive Director, NGC Bodily Injury Trust; and Managing Trustee, Fuller-Austin Trust	All (21)	Trustee, The Metzler/Payden Investment Group (registered investment company)
James Clayburn La Force......................... 333 South Grand Avenue Los Angeles, CA 90071 Age: 79	Trustee	1992	Dean Emeritus, The John E. Anderson School of Management at the University of California, Los Angeles	All (21)	Trustee, The Metzler/Payden Investment Group (registered investment company); Trustee, Advisors Series Trust (registered investment companies); Director, Arena Pharmaceuticals, Inc. (biopharmaceutical company)
Gerald S. Levey, M.D. .... 333 South Grand Avenue Los Angeles, CA 90071 Age: 71	Trustee	2000	Vice Chancellor, Medical Sciences, and Dean, David Geffen School of Medicine, at t University of California, Los Angeles	All (21) he	Trustee, The Metzler/Payden Investment Group (registered investment company)
Thomas V. McKernan.............................. 333 South Grand Avenue Los Angeles, CA 90071 Age: 63	Trustee	1993	Chief Executive Officer, Automobile Club of Southern California	All (21)	Director, Blue Shield of California (health insurance company); Director, Forest Lawn Memorial Park (mortuary and cemetery)
Dennis C. Poulsen..................................... 333 South Grand Avenue Los Angeles, CA 90071 Age: 65	Trustee	1992	Chairman of the Board, Rose Hills Company	All (21)	Director, Rose Hills Company (mortuary and cemetery); Director, Ameron International Corp. (manufacturing)
Stender E. Sweeney .... 333 South Grand Avenue Los Angeles, CA 90071 Age: 68	Trustee	1992	Private Investor	All (21)	Director, Avis Budget Group, Inc. (car rental company)
Interested Trustees*					
Joan A. Payden .... 333 South Grand Avenue Los Angeles, CA 90071 Age: 76	Chairman, CEO and Trustee	1992	President, Chief Executive Officer and Director, Payden & Rygel	All (21)	
Christopher N. Orndorff .... 333 South Grand Avenue Los Angeles, CA 90071 Age: 43	Trustee	1992	Managing Principal and Director, Payden & Rygel	All (21)	
Mary Beth Syal... 333 South Grand Avenue Los Angeles, CA 90071 Age: 45	Trustee	2000	Managing Principal and Director, Payden & Rygel	All (21)	

* “Interested persons” of the P&R Trust by virtue of their affiliation with Payden.

Board of Trustee Committees.

The Board of Trustees has three standing committees: the Audit Committee, the Pricing Committee and the Nominating Committee. The Audit Committee is responsible for general supervision of and relations with the P&R Trust's independent registered public accounting firm and oversight from the Board perspective of the annual auditing process, including retaining the P&R Trust's independent registered public accounting firm and approval of the annual audit plan. The six Independent Trustees are members of the Committee, and Thomas V. McKernan serves as Chairman of the Committee. The Audit Committee met five times during the fiscal year ended October 31, 2007.

The Pricing Committee is responsible for general oversight of the P&R Trust's pricing policies and procedures for securities in which the Funds invest as applied on a day-to-day basis by the P&R Trust's management and the Funds' investment adviser. It is also responsible for recommending changes in these policies and procedures for adoption by the Board of Trustees. W. D. Hilton, Christopher N. Orndorff and Mary Beth Syal are the members of the Committee, and W.D. Hilton is Chairman of the Committee. The Pricing Committee met four times during the fiscal year ended October 31, 2007.

The Nominating Committee is responsible for the identification and evaluation of possible candidates to serve as Trustees of the P&R Trust. Thomas V. McKernan, James Clayburn La Force and W.D. Hilton, all Independent Trustees, are the members of the Committee, and Thomas V. McKernan is Chairman of the Committee. The Nominating Committee did not meet during the fiscal year ended October 31, 2007. Shareholders may recommend names of Trustee candidates to the Nominating Committee by written submission to: The Payden & Rygel Investment Group, Attention: Edward Garlock, Secretary, 333 South Grand Avenue, 32nd Floor, Los Angeles, CA 90071.

Trustee Compensation.

Each Independent Trustee currently receives an annual retainer of $40,000, plus $3,000 for each regular Board of Trustees meeting and/or committee meeting attended, $2,000 for each special Board of Trustees meeting and/or committee meeting and reimbursement of related expenses. Chairmen of Board committees each receive an annual retainer of $2,000. If more than one Board or committee meeting occurs on the same day, only one fee is paid. The following table sets forth the aggregate compensation paid by the P&R Trust for the fiscal year ended October 31, 2007, to the Trustees who are not affiliated with Payden and the aggregate compensation paid to such Trustees for services on the P&R Trust's Board. The P&R Trust does not maintain a retirement plan for its Trustees.

NAME	AGGREGATE COMPENSATION FROM P&R TRUST	PENSION OR RETIREMENT BENEFITS ACCRUED AS PART OF P&R TRUST EXPENSES	ESTIMATED ANNUAL BENEFITS UPON RETIREMENT	TOTAL COMPENSATION FROM P&R TRUST AND P&R TRUST COMPLEX PAID TO TRUSTEE
Dennis C. Poulsen	$ 67,000	None	N/A	$ 67,000
James Clayburn La Force	$ 67,000	None	N/A	$ 67,000
Gerald S. Levey, M.D.	$ 67,000	None	N/A	$ 67,000
Stender E. Sweeney	$ 67,000	None	N/A	$ 67,000
W.D. Hilton	$ 69,000	None	N/A	$ 69,000
Thomas V. McKernan	$ 67,000	None	N/A	$ 67,000

P&R Trust Fund Shares Owned by Trustees as of December 31, 2007.

NAME	**DOLLAR RANGE OF FUND SHARES OWNED***	**AGGREGATE DOLLAR RANGE OF SHARES OWNED IN ALL P&R TRUST FUNDS***
Independent Trustees		
W. D. Hilton, Jr.		Over $100,000
Payden Cash Reserves Money Market Fund	Over $100,000	
Payden GNMA Fund	Over $100,000	
Payden High Income Fund	$1 - $10,000	
Payden Market Return Fund	Over $100,000	
Payden U.S. Growth Leaders Fund	Over $100,000	
Payden Core Bond Fund	$50,001 - $100,000	
Payden Limited Maturity Fund	Over $100,000	
Payden Value Leaders Bond Fund	Over $100,000	
Payden Emerging Markets Bond Fund	$50,001 - $100,000	
James Clayburn La Force		Over $100,000
Payden California Municipal Income Fund	Over $100,000	
Payden Cash Reserves Money Market Fund	Over $100,000	
Payden Emerging Markets Bond Fund	$10,001 - $50,000	
Gerald S. Levey, M.D.	None	None
Thomas V. McKernan		$50,001 - $100,000
Payden Value Leaders Fund	$10,001 - $50,000	
Payden Market Return Fund	$10,001 - $50,000	
Payden High Income Fund	$50,001 - $100,000	
Dennis C. Poulsen		$10,001 - $50,000
Payden Emerging Markets Bond Fund	$10,001 - $50,000	
Payden Market Return Fund	$1 - $10,000	
Payden U.S. Growth Leaders Fund	$1 - $10,000	
Stender E. Sweeney		Over $100,000
Payden High Income Fund	$50,001 - $100,000	
Payden GNMA Fund	Over $100,000	
Payden Global Short Bond Fund	$50,001 - $100,000	
Payden Limited Maturity Fund	$1 - $10,000	
Payden Emerging Markets Bond Fund	$10,001 - $50,000	
Payden Cash Reserves Money Market Fund	Over $100,000	
Interested Trustees		
Christopher N. Orndorff		Over $100,000
Payden U.S. Growth Leaders Fund	Over $100,000	
Payden Global Fixed Income Fund	Over $100,000	
Payden Market Return Fund	Over $100,000	
Joan A. Payden		Over $100,000
Payden California Municipal Income Fund	Over $100,000	
Payden Limited Maturity Fund	Over $100,000	
Payden Tax Exempt Bond Fund	Over $100,000	
Payden U.S. Growth Leaders Fund	Over $100,000	
Payden Cash Reserves Money Market Fund	Over $100,000	
Payden High Income Fund	Over $100,000	
Payden Emerging Markets Bond Fund	Over $100,000	

NAME	DOLLAR RANGE OF FUND SHARES OWNED*	AGGREGATE DOLLAR RANGE OF SHARES OWNED IN ALL P&R TRUST FUNDS*
Payden/Wilshire Longevity Fund 2010+	Over $100,000	
Payden/Wilshire Longevity Fund 2020+	Over $100,000	
Payden/Wilshire Longevity Fund 2030+	Over $100,000	
Payden/Wilshire Longevity Fund 2040+	Over $100,000	
Mary Beth Syal	None	None

(1) Ownership disclosure is made using the following ranges: None; $1 - $10,000; $10,001 - $50,000; $50,001 - $100,000; and over $100,000.

Officers

The current officers of the P&R Trust who perform policy-making functions and their affiliations and principal occupations for the past five years are as set forth below.

NAME, ADDRESS AND AGE	POSITION WITH P&R TRUST	YEAR FIRST ELECTED AS AN OFFICER OF P&R TRUST	PRINCIAPAL OCCUPATION(S) DURING PAST 5 YEARS
Joan A. Payden 333 South Grand Avenue Los Angeles, CA 90071 Age: 76	Chairman, CEO and Trustee	1992	President, Chief Executive Officer and Director, Payden & Rygel
Brian W. Matthews 333 South Grand Avenue Los Angeles, CA 90071 Age: 47	Vice President and Chief Financial Officer	2003	Managing Principal, CFO and Director, Payden & Rygel
Yot Chattrabhuti 333 South Grand Avenue Los Angeles, CA 90071 Age: 52	Vice President	1997	Principal, Mutual Fund Operations, Payden & Rygel
Bradley F. Hersh 333 South Grand Avenue Los Angeles, CA 90071 Age: 39	Vice President and Treasurer	1998	Vice President and Treasurer, Payden & Rygel
David L. Wagner 333 South Grand Avenue Los Angeles, CA 90071 Age: 57	Vice President and Chief Compliance Officer	1996	Senior Vice President, Risk Management, Payden & Rygel
Edward S. Garlock 333 South Grand Avenue Los Angeles, CA 90071 Age: 57	Secretary	1997	Managing Principal, General Counsel, Chief Compliance Officer and Director, Payden & Rygel

Codes of Ethics

Each of the P&R Trust, Payden, Wilshire and the Distributor has adopted a Code of Ethics pursuant to Rule 17j-1 of the 1940 Act. Each Code of Ethics permits applicable personnel subject to the particular Code of Ethics to invest in securities, including under certain circumstances securities that may be purchased or held by the Funds of the P&R Trust.

Proxy Voting Policies and Procedures

Effective June 9, 2003, the Board of Trustees adopted the P&R Trust's "Proxy Voting Policy and Procedures," pursuant to which it delegated the responsibility for voting proxies relating to portfolio securities held by the Payden Funds and the Payden/Wilshire Longevity Funds to Payden as part of Payden's general investment management responsibilities, subject to the continuing oversight of the Board of Trustees. Under the policy, Payden shall present to the Board at least annually its policies, procedures and other guidelines for voting proxies, and at least annually, Payden shall provide to the Board a record of each proxy voted with respect to portfolio securities of each of the Funds during the year. The delegation by the Board to Payden of the authority to vote proxies may be revoked by the Board, in whole or in part, at any time. Information regarding how the P&R Trust voted proxies relating to portfolio securities of each of the Funds during the most recent 12-month period ended June 30 are available without charge, upon request, by calling 1-800-572-9336, and on the SEC's website at www.sec.gov.

Whenever a Longevity Fund is requested to vote on any matter submitted to shareholders of an Underlying fund, the Longevity Fund will either seek instruction from its shareholders to consider such matters and vote in accordance with such instructions (shares for which the Longevity Fund receives no voting instructions will be voted in the same proporation as the votes received from the other Longevity Fund shareholders) or cast its votes, as a shareholder of the Underlying Fund, in proportion to the votes received by the Underlying Fund from all other shareholders of the Underlying Fund.

Payden's "Proxy Voting Policy" states that it expects to fulfill its fiduciary obligation to the P&R Trust by monitoring events concerning the issuer of the particular security at issue and then by voting the proxies in a manner that is consistent with the best interests of the P&R Trust and that does not subordinate the P&R Trust's interests to its own. With respect to several common issues that are presented, Payden's policy provides that, absent special client circumstances or specific client policies or instructions, Payden will 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.
- 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 its independent registered public accounting firm.
- Vote for management endorsed director candidates, absent any special circumstances.

With respect to the wide variety of social and corporate responsibility issues that are presented, Payden's general policy is to take a position in favor of responsible social policies that are designed to advance the economic value of the issuer. Further, Payden's policy provides that, except in rare instances, abstention is not an acceptable position and votes will be cast either for or against all issues presented. If unusual or controversial issues are presented that are not covered by Payden's general proxy voting policies, Payden's Proxy Voting Committee will determine the manner of voting the proxy in question.

From time to time, Payden may purchase for a Fund's portfolio securities that have been issued by another of its investment advisory clients (other than an Underlying Fund). In that case, however, a conflict of interest may exist between the interests of the Fund and the interests of Payden. To ensure that proxy votes are voted in the Fund's best interest and unaffected by any conflict of interest that may exist, Payden will vote on a proxy question that presents a material conflict of interest between the interests of the Fund and the interests of Payden as follows. If one of Payden's general proxy voting policies described above applies to the proxy issue in question, Payden will vote the proxy in accordance with that policy. This assumes, of course, that the policy in question furthers the interests of the Fund and not of Payden. However, if the general proxy voting policy does not further the interests of the Fund, Payden will then seek specific instructions from the Fund.

THE M/P TRUST

TRUSTEES AND OFFICERS

The Trustees are responsible for the overall management of the Metzler/Payden Funds, including establishing the Metzler/Payden Funds' policies, general supervision and review of their investment activities. Delaware law requires each Trustee to perform his or her duties as a Trustee, including duties as a member of any Board committee on which he or she serves, in good faith, in a manner he or she reasonably believes to be in the best interests of the M/P Trust, and with the care that an ordinarily prudent person in a like position would use under similar circumstances. The M/P Trust officers, who administer the Funds' daily operations, are appointed by the Board of Trustees.

Board of Trustees.

The current members of the Board of Trustees and their affiliations and principal occupations for the past five years are as set forth below. The Trustees listed as "Independent Trustees" are not "interested persons" of the M/P Trust, as defined in the 1940 Act.

NAME, ADDRESS AND AGE	**POSITION WITH M/P TRUST**	**YEAR FIRST ELECTED AS A TRUSTEE OF M/P TRUST**	**PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS**	**NUMBER OF M/P TRUST SERIES OVERSEEN BY TRUSTEE**	**OTHER DIRECTORSHIPS HELD BY TRUSTEE**
Independent Trustees					
W.D. Hilton, Jr. .... 333 South Grand Avenue Los Angeles, CA 90071 Age: 61	Trustee	2002	President and CEO, TrustServices, Inc.; Executive Director, NGC Bodily Injury Trust, and Managing Trustee, Fuller - Austin Trust	All (3)	Trustee, The Payden & Rygel Investment Group (registered investment company)
James Clayburn LaForce .... 333 South Grand Avenue Los Angeles, CA 90071 Age: 79	Trustee	2002	Dean Emeritus, The John E. Anderson School of Management at the University of California, Los Angeles	All (3)	Trustee, The Payden & Rygel Investment Group (registered investment company); Trustee, Advisors Series Trust (registeredinvestment companies); Director, Arena Pharmaceuticals, Inc. (biopharmaceutical company)
Gerald S. Levey, M.D. .... 333 South Grand Avenue Los Angeles, CA 90071 Age: 71	Trustee	2002	Vice Chancellor, MedicalSciences, and Dean, David Geffen School of Medicine, at the University of California, Los Angeles	All (3)	Trustee, The Payden & Rygel Investment Group (registered investment company)
Interested Trustees*					
Scott J. Weiner....................................... 333 South Grand Avenue Los Angeles, CA 90071 Age: 48	Trustee	2002	Managing Principal and Director, Payden & Rygel	All (3)	None
Norbert F.J. Enste .... 333 South Grand Avenue Los Angeles, CA 90071 Age: 56	Trustee	2002	Vice Chairman and Director, Metzler-Payden, LLC; Principal and Director, B. Metzler seel. Sohn & Co. Holdings KGaA; Chairman, Supervisory Board, Metzler Investment GmbH	All (3)	None

* "Interested persons" of the M/P Trust, as defined in the 1940 Act, by virtue of their affiliation with Metzler/Payden.

Board of Trustee Committees.

The Board of Trustees has three standing committees: the Audit Committee, the Pricing Committee and the Nominating Committee. The Audit Committee is responsible for general supervision of and relations with the M/P Trust's independent auditing firm and oversight from the Board perspective of the annual auditing process, including retaining the M/P Trust's independent registered public accounting firm and approval of the annual audit plan. The three Independent Trustees are members of this Committee, and James Clayburn La Force serves as Chairman of the Committee. The Audit Committee met five times during the fiscal year ended October 31, 2007.

The Pricing Committee is responsible for general oversight of the M/P Trust's Pricing Policy as applied on a day-to-day basis by the M/P Trust's management and Metzler/Payden. It is also responsible for recommending changes in the Policy for adoption by the Board of Trustees. W. D. Hilton and Scott J. Weiner are the members of the Committee, and W.D. Hilton is Chairman of the Committee. The Pricing Committee met four times during the fiscal year ended October 31, 2007.

The Nominating Committee is responsible for the identification and evaluation of possible candidates to serve as Trustees of the M/P Trust. W. D. Hilton, Jr., James Clayburn La Force and Gerald S. Levey, M.D., all Independent Trustees, are the members of the Committee. The Nominating Committee did not meet during the fiscal year ended October 31, 2007. Shareholders may recommend names of Trustee candidates to the Nominating Committee by written submission to: The Metzler/Payden Investment Group, Attention: Edward Garlock, Secretary, 333 South Grand Avenue, 32nd Floor, Los Angeles, California 90071.

Trustee Compensation.

Each Independent Trustee currently receives an annual retainer of $12,500, plus $1,250 for each regular Board of Trustees meeting and/or committee meeting attended, $1,000 for each special Board of Trustees meeting and/or committee meeting and reimbursement of related expenses. Chairmen of Board committees each receive an annual retainer of $1,000. If more than one Board or committee meeting occurs on the same day, only one fee is paid. The following table sets forth the aggregate compensation paid by the M/P Trust for the fiscal year ended October 31, 2007, to the Independent Trustees and the aggregate compensation paid to such Trustees for services on the M/P Trust's Board. The M/P Trust does not maintain a retirement plan for its Trustees.

NAME	AGGREGATE COMPENSATION FROM M/P TRUST	PENSION OR RETIREMENT BENEFITS ACCRUED AS PART OF M/P TRUST EXPENSES	ESTIMATED ANNUAL BENEFITS UPON RETIREMENT	TOTAL COMPENSATION FROM M/P TRUST COMPLEX PAID TO TRUSTEE
James Clayburn La Force	$ 25,250	None	N/A	$ 25,250
Gerald S. Levey, M.D.	$ 25,250	None	N/A	$ 25,250
W.D. Hilton	$ 27,250	None	N/A	$ 27,250

Fund Shares Owned by Trustees as of December 31, 2007.

NAME	DOLLAR RANGE OF FUND SHARES OWNED*	AGGREGATE DOLLAR RANGE OF SHARES OWNED IN ALL FUNDS*
Independent Trustees		
W.D. Hilton, Jr		Over $100,000
Metzler/Payden European Emerging Markets Fund	Over $100,000	
Metzler/Payden European Leaders Fund	Over $100,000	
Metzler/Payden International Real Estate Fund	Over $100,000	
James Clayburn LaForce		$50,001 - $100,000
Metzler/Payden European Emerging Markets Fund	$50,001 - $100,000	
Gerald P. Levey, M.D	None	None
Interested Trustees		
Scott J. Weiner		Over $100,000
Metzler/Payden European Leaders Fund	Over $100,000	
Metzler/Payden International Real Estate Fund	$50,001 - $100,000	
Norbert F.J. Enste	None	None

* Ownership disclosure is made using the following ranges: None; $1 - $10,000; $10,001 - $50,000; $50,001 - $100,000; and Over $100,000.

Officers

The current officers of the M/P Trust who perform policy-making functions and their affiliations and principal occupations for the past five years are as set forth below.

NAME, ADDRESS AND AGE	POSITION WITH M/P TRUST	YEAR FIRST ELECTED AS AN OFFICER OF M/P TRUST	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS
Scott J. Weiner 333 South Grand Avenue Los Angeles, CA 90071 Age: 48	Chairman, President and Trustee	2002	Managing Principal, Payden and Rygel;
Frank Peter Martin 333 South Grand Avenue Los Angeles, CA 90071 Age: 46	Executive Vice President	2002	Executive Vice President, Metzler/Payden, LLC Managing Director, Metzler Investment GmbH
Brian W. Matthews 333 South Grand Avenue Los Angeles, CA 90071 Age: 47	Chief Financial Officer	2003	Managing Principal and CFO, Payden & Rygel
Yot Chattrabhuti 333 South Grand Avenue Los Angeles, CA 90071 Age: 52	Vice President	2002	Principal, Mutual Fund Operations, Payden & Rygel

NAME, ADDRESS AND AGE	POSITION WITH M/P TRUST	YEAR FIRST ELECTED AS AN OFFICER OF M/P TRUST	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS
Bradley F. Hersh .... 333 South Grand Avenue Los Angeles, CA 90071 Age: 39	Vice President and Treasurer	2002	Vice President and Treasurer, Payden & Rygel
David L. Wagner.. 333 South Grand Avenue Los Angeles, CA 90071 Age: 57	Vice President and Chief Compliance officer	2002	Senior Vice President Risk Management, Payden & Rygel
Edward S. Garlock .... 333 South Grand Avenue Los Angeles, CA 90071 Age: 57	Secretary	2002	Managing Principal, General Counsel, Chief Compliance Officer and Director, Payden & Rygel

Code of Ethics

Each of the M/P Trust, Metzler/Payden and the Distributor has adopted a Code of Ethics pursuant to Rule 17j-1 of the 1940 Act. Each Code of Ethics permits applicable personnel subject to the particular Code of Ethics to invest in securities, including under certain circumstances securities that may be purchased or held by the Funds of the M/P Trust.

Proxy Voting Policy and Procedures

Effective June 9, 2003, the Board of Trustees adopted the M/P Trust's "Proxy Voting Policy and Procedures," pursuant to which it delegated the responsibility for voting proxies relating to portfolio securities held by the various Metzler/Payden Funds to Metzler/Payden as part of Metzler/Payden's general investment management responsibilities, subject to the continuing oversight of the Board of Trustees. Under the policy, Metzler/Payden shall present to the Board at least annually its policies, procedures and other guidelines for voting proxies, and at least annually, Metzler/Payden shall provide to the Board a record of each proxy voted with respect to portfolio securities of each of the Funds during the year. The delegation by the Board to Metzler/Payden of the authority to vote proxies may be revoked by the Board, in whole or in part, at any time. Information regarding how the M/P Trust voted proxies relating to portfolio securities of each of the Funds during the most 12-month period ended June 30 are available without charge, upon request, by calling 1-800-572-9336, and on the U.S. Securities and Exchange Commission's website at www.sec.gov

Metzler/Payden's "Proxy Voting Policy" states that it expects to fulfill its fiduciary obligation to the M/P Trust by monitoring events concerning the issuer of the particular security at issue and then by voting the proxies in a manner that is consistent with the best interests of the M/P Trust and that does not subordinate the M/P Trust's interests to its own. With respect to several common issues that are presented, Metzler/Payden's policy provides that, absent special client circumstances or specific client policies or instructions, Metzler/Payden will 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.

- 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 its independent registered public accounting firm.

- Vote for management endorsed director candidates, absent any special circumstances.

With respect to the wide variety of social and corporate responsibility issues that are presented, Metzler/Payden's general policy is to take a position in favor of responsible social policies that are designed to advance the economic value of the issuer. Further, Metzler/Payden's policy provides that, except in rare instances, abstention is not an acceptable position and votes will be cast either for or against all issues presented. If unusual or controversial issues are presented that are not covered by Metzler/Payden's general proxy voting policies, Metzler/Payden's Proxy Voting Committee will determine the manner of voting the proxy in question.

From time to time, Metzler/Payden may purchase for a Fund's portfolio securities that have been issued by another of its investment advisory clients. In that case, however, a conflict of interest may exist between the interests of the Fund and the interests of Metzler/Payden. To ensure that proxy votes are voted in the Fund's best interest and unaffected by any conflict of interest that may exist, Metzler/Payden will vote on a proxy question that presents a material conflict of interest between the interests of the Fund and the interests of Metzler/Payden as follows. If one of Metzler/Payden's general proxy voting policies described above applies to the proxy issue in question, Metzler/Payden will vote the proxy in accordance with that policy. This assumes, of course, that the policy in question furthers the interests of the Fund and not of Metzler/Payden. However, if the general proxy voting policy does not further the interests of the Fund, Metzler/Payden will then seek specific instructions from the Fund.

CONTROL PERSONS AND PRINCIPAL HOLDERS OF SECURITIES

THE P&R TRUST

Control Persons

As of January 31, 2008, the following persons held of record 25% or more of the outstanding shares of the P&R Trust's Funds. The P&R Trust has no other information regarding the beneficial ownership of such shares:

Payden High Income Fund: National Financial Services, as Nominee, New York, New York, 36.41%.

Payden U.S. Government Fund: City of Jacksonville, Jacksonville, FL, 33.26%; Valley Medical Center, Renton, WA, 29.76%.

Payden Opportunity Bond Fund: Walt Disney Company Long-Term Disability Plan, Burbank,, CA, 30.46%.

Payden Emerging Markets Bond Fund, Charles Schwab & Co., as Nominee, San Francisco, CA, 35.45%.

Payden Cash Reserves Money Market Fund: Union Bank of California, as Nominee, San Diego, CA, 25.55%.

Payden Market Return Fund: Good Samaritan Hospital Pension Plan, Los Angeles, CA, 34.96%.

Payden/Wilshire Longevity Fund 2010+: J. Payden Trust, Los Angeles, CA, 46.81%.

Payden/Wilshire Longevity Fund 2020+: J. Payden Trust, Los Angeles, CA, 43.03%.

Payden/Wilshire Longevity Fund 2030+: Payden & Rygel 401(k) Plan, Los Angeles, CA, 36.84%; J. Payden Trust, Los Angeles, CA, 27.25%.

Payden/Wilshire Longevity Fund 2040+: Naoma Tate Marital Trust, Salt Lake City, UT, 46.25%; J. Payden Trust, Los Angeles, CA, 35.21%.

If any of the above Funds held an annual or special meeting of shareholders, the effect of other shareholders' voting rights could be diminished by the influence of these controlling shareholders' substantial voting power.

Principal Holders of Securities

As of January 31, 2008, the following persons held of record 5% or more of the outstanding shares of the P&R Trust's Funds. The P&R Trust has no other information regarding the beneficial ownership of such shares.

Payden Cash Reserves Money Market Fund: Union Bank of California, as Nominee, San Diego, CA, 25.55%; MAC & Co., as Nominee, Pittsburgh, PA, 8.48%; Google Foundation, Mountain View, CA, 6.72%; Bank of America, N.A., as Nominee, Dallas, TX, 6.25%; Payden Short Bond Fund, Los Angeles, CA, 5.25%.

Payden Core Bond Fund: Jicarilla Apache Nation, Dulce, NM, 30.92%; L&F Indemnity Limited, Pembroke, Bermuda, 15.32%; Bert Bell/Pete Rozelle NFL Player Retirement Fund, Pittsburgh, PA, 7.48%.

Payden Global Fixed Income Fund: Charles Schwab & Co., San Francisco, CA, as Nominee, 24.77%; Texas Association of School Boards, Austin, TX, 20.05%; National Financial Services, as Nominee, New York, NY, 18.63%; Ameritrade, Inc., as Nominee, Omaha, NE, 12.59%; Sheldon Co., as Nominee, Cleveland, OH, 5.35%.

Payden Short Bond Fund: National Financial Services Corp, New York, NY, 16.27%; North Dakota University, Bismarck, ND, 10.52%; Charles Schwab & Co., San Francisco, CA, 7.53%; National IAM Benefit Trust Fund, Washington, D.C., 7.14%; Harrisvill Enterprises, Pittsburgh, PA, 5.97%; City of Jacksonville, Jacksonville, FL, 5.08%.

Payden Opportunity Bond Fund: Walt Disney Company Long-Term Disability Plan, Burbank,, CA, 30.46%; Dan Murphy Foundation, Los Angeles, CA, 22.09%; Amateur Athletic Foundation, Los Angeles, CA 12.01%; National Financial Services, as Nominee, New York, NY, 11.86%; House Ear Institute, Los Angeles, CA, 6.38%; Boston & Co., as Nominee, Pittsburgh, PA, 5.01%.

Payden High Income Fund: National Financial Services, as Nominee, New York, NY, 36.41%; Jicarilla Apache Nation, Dulce, NM, 14.12%; Charles Schwab & Co., San Francisco, CA, as Nominee, 5.02%.

Payden Limited Maturity Fund: City of Jacksonville, Jacksonville, FL, 23.05%; FTC & Co., as Nominee, Denver, CO, 12.70%; National Financial Services Corp., as Nominee, New York, NY, 11.67%; Pipe Trades Health and Welfare Plan, San Diego, CA, 10.94%; Childrens Hospital of Central California, Madera, CA, 10.70%; Good Samaritan Hospital, Los Angeles, CA, 6.23%.

Payden Global Short Bond Fund: Ameritrade, Inc. as Nominee, Omaha, NE, 20,80%; National Financial Services, as Nominee, New York, NY, 20.52%; Charles Schwab & Co., San Francisco, CA, as Nominee, 10.79%; Owensboro Medical Health System, Westerville, OH, 7.15%; Kaiser Hospitals, Oakland, CA, 6.66%.

Payden Market Return Fund: Good Samaritan Hospital Pension Plan, Los Angeles, CA, 34.96%; Haynes Foundation, San Diego, CA, 14.95%; Lon V. Smith Foundation, Beverly Hills, CA, 6.20%; Payden & Rygel 401(k) Plan, Los Angeles, CA, 5.49%.

Payden U.S. Government Fund: City of Jacksonville, Jacksonville, FL, 33.26%; Valley Medical Center, Renton, WA, 29.76%; Evergreen Healthcare, Kirkland, WA, 6.90%.

Payden GNMA Fund: North Dakota University, Bismarck, ND, 22.21%; National Financial Services, as Nominee, New York, NY, 16.37%; ELW Building Company LLC, Beverly Hills, CA, 8.59%; Charles W. Schwab & Co., as Nominee, San Francisco, CA, 7.92%; Ameritrade Inc., as Nominee, Omaha, NE, 5.52%.

Payden California Municipal Income Fund: Walker Marital Trust, La Canada Flintridge, CA, 14.34%; Wertheimer Family Trust, Santa Monica, CA, 11.33%; Charles W. Schwab & Co., as Nominee, San Francisco, CA, 8.07%; Walker Family Trust, La Canada Flintridge, CA, 7.26%; J. Payden Trust, Los Angeles, CA, 7.00%.

Payden Emerging Markets Bond Fund: Charles Schwab & Co., San Francisco, CA, as Nominee, 35.45%; Jicarilla Apache Nation, Dulce, NM, 17.78%.

Payden Tax Exempt Bond Fund: Charles Schwab & Co., San Francisco, CA, as Nominee, 21.37%; J. Payden Trust, Los Angeles, CA, 19.24%; Naoma Tate Marital Trust, Salt Lake City, UT, 18.90%; Mary Louise Oates & Robert Shrum, Vienna, VA, 16.77%; B. Kipling & Mary Hagopian Trust, Los Angeles, CA, 5.73%.

Payden Value Leaders Fund: Walker Family Trust, La Canada Flintridge, CA, 7.49%; Lon v. Smith Foundation, Beverly Hills, CA, 5.20%.

Payden U.S. Growth Leaders Fund: Charles Schwab & Co., San Francisco, CA, as Nominee, 21.44%; Texas Association of School Boards, Austin, TX, 11.44%; %; J. Payden Trust, Los Angeles, CA, 9.86%; National Financial Services, as Nominee, New York, NY, 6.53%%.

Payden/Wilshire Longevity Fund 2010+: J. Payden Trust, Los Angeles, CA, 46.81%; B Haas, Santa Monica, CA, 18.56%; W. Mirisch, Universal City, CA, 10.83%; M. Landon, Agoura, CA, 8.66%; Payden & Rygel 401(k) Plan, Los Angeles, CA, 5.99%.

Payden/Wilshire Longevity Fund 2020+: J. Payden Trust, Los Angeles, CA, 43.03%; Walker Family Trust 2000, La Canada Flintridge, CA, 13.29%; I. Weingarten, Rancho Mirage, CA, 6.59%; Walker Family Trust, La Canada Flintridge, CA, 6.59%; L. Hilton, Los Angeles, CA, 6.25%; E. A. Freeman Revocable Trust, Kilauea, HI, 5.91%; Brightman Profit Sharing Plan, Los Angeles, CA, 5.11%.

Payden/Wilshire Longevity Fund 2030+: Payden & Rygel 401(k) Plan, Los Angeles, CA, 36.84%; J. Payden Trust, Los Angeles, CA, 27.25%; M. Oates, Vienna, VA, 10.77%.

Payden/Wilshire Longevity Fund 2040+: Naoma Tate Marital Trust, Salt Lake City, UT, 46.25%; J. Payden Trust, Los Angeles, CA, 35.21%; Payden & Rygel 401(k) Plan, Los Angeles, CA, 18.31%.

Management Ownership

As of January 31, 2008, the Trustees and officers of the P&R Trust, collectively, owned less than 1% of the outstanding shares of each of the P&R Trust Funds, except for the Payden Value Leaders Fund, 1.15%; Payden California Municipal Income Fund, 7.66%; Payden Emerging Markets Bond Fund, 2.73%; Payden Tax Exempt Bond Fund, 19.24%; Payden Cash Reserves Money Market Fund, 2.90%; Payden U.S. Growth Leaders Fund, 11.19%; Payden High Income Fund, 2.00%; Payden Limited Maturity Fund, 1.47%; Payden Market Return Fund, 1.28%; Payden/Wilshire Longevity Fund 2010+, 46.81%; Payden/Wilshire Longevity Fund 2020+, 43.03%; Payden/Wilshire Longevity Fund 2030+, 27.25%; and Payden/Wilshire Longevity Fund 2040+, 35.21%.

THE M/P TRUST

Control Persons

As of January 31, 2008, the following persons held of record 25% or more of the outstanding shares of the M/P Trust's Funds. The M/P Trust has no other information regarding the beneficial ownership of such shares.

Metzler/Payden European Emerging Markets Fund: Charles Schwab & Co., as Nominee, San Francisco, CA, 55.11%.

If any of the above Funds held an annual or special meeting of shareholders, the effect of other shareholders' voting rights could be diminished by the influence of these controlling shareholders' substantial voting power.

Principal Holders of Securities

As of January 31, 2008, the following persons held of record 5% or more of the outstanding shares of the M/P Trust's Funds. The M/P Trust has no other information regarding the beneficial ownership of such shares.

Metzler/Payden European Emerging Markets Fund: Charles Schwab & Co., as Nominee, San Francisco, CA, 55.11%.

Metzler/Payden European Leaders Fund: J. Payden Living Trust, Los Angeles, CA 16.65%; Charles Schwab & Co., as Nominee, San Francisco, CA, 15.28%; Metzler North America Corp., Seattle, WA 14.33%.

Metzler/Payden International Real Estate Fund: J. Payden Living Trust, Los Angeles, CA 24.09%; W. D. Hilton, Jr., Greenville, TX, 13.75%; Beechcrest Investments LLC, Stamford CT, 12.04%; Orndorff Family Trust, Pasadena, CA 8.03%; Payden & Rygel 401(k) Plan, Los Angeles, CA, 5.42%; Amateur Athletic Foundation, Los Angeles, CA, 5.04%.

Management Ownership

As of January 31, 2008, the Trustees and officers of the M/P Trust, collectively owned 2.07% of the outstanding shares of the Metzler/Payden European Leaders Funds, 13.75% of the outstanding shares of the Metzler/Payden International Real Estate Fund and less than 1% of the outstanding shares of the Metzler/Payden European Emerging Markets Fund.

INVESTMENT ADVISORY AND OTHER SERVICES

INVESTMENT ADVISERS

THE P&R TRUST

Adviser - Payden Funds and Payden/Wilshire Longevity Funds

Payden & Rygel was founded in 1983 as an independent investment counseling firm specializing in the management of short term fixed income securities. Today, the firm provides a broad array of investment management services involving both fixed income and equity securities and other investment techniques. Payden & Rygel is owned by its President and CEO, Joan Payden, who is the majority shareholder, eight Managing Principals and five Principals, all of whom are active in the firm's operations. As of January 31, 2008, its staff consisted of 157 employees, 51 of whom either have advanced degrees and/or are Chartered Financial Analysts. As of such date, it had over 262 client relationships, including pension funds, endowments, credit unions, foundations, corporate cash accounts and individuals, and managed total assets of approximately $57 billion, with approximately $5 billion invested globally.

Payden provides investment management services to the Funds pursuant to an Investment Management Agreement with the P&R Trust dated as of June 24, 1992, as amended from time to time (the "Payden Agreement"). The Payden Agreement provides that Payden will pay all expenses incurred in connection with managing the ordinary course of a Fund's business, except the following expenses, which are paid by each Fund: (i) the fees and expenses incurred by a Fund in connection with the management of the investment and reinvestment of the Fund's assets; (ii) the fees and expenses of Trustees who are not affiliated persons, as defined in Section 2(a)(3) of the 1940 Act, of Payden; (iii) the fees and expenses of the Trust's custodian, transfer agent, fund accounting agent and administrator; (iv) the charges and expenses of legal counsel and independent accountants for the P&R Trust and legal counsel to the independent Trustees; (v) brokers' commissions and any issue or transfer taxes chargeable to a Fund in connection with its securities and futures transactions; (vi) all taxes and corporate fees payable by a Fund to federal, state or other governmental agencies; (vii) the fees of any trade associations of which the P&R Trust may be a member; (viii) the cost of fidelity bonds and trustees and officers errors and omission insurance; (ix) the fees and expenses involved in registering and maintaining registration of a Fund and of its shares with the SEC, registering the P&R Trust as a broker or dealer and qualifying the shares of a Fund under state securities laws, including the preparation and printing of the P&R Trust's registration statements, prospectuses and statements of additional information for filing under federal and state securities laws for such purposes; (x) communications expenses with respect to investor services and all expenses of shareholders' and trustees' meetings and of preparing, printing and mailing reports to shareholders in the amount necessary for distribution to the shareholders; (xi) litigation and indemnification expenses and other extraordinary expenses not incurred in the ordinary course of the P&R Trust's business, and (xii) any expenses assumed by the P&R Trust pursuant to a plan of distribution adopted in conformity with Rule 12b-1 under the 1940 Act.

The Payden Agreement provides that Payden receives a monthly fee from each Fund at the following annual rates:

FUND	FEE
Payden Cash Reserves Money Market Fund	0.15% of average daily net assets
Payden Limited Maturity Fund Payden Short Bond Fund Payden U.S. Government Fund Payden Core Bond Fund Payden Opportunity Bond Fund Payden Market Return Fund	0.28% for the first $1 billion of average daily net assets 0.25% of average daily net assets above $1 billion
Payden GNMA Fund	0.27% of average daily net assets
Payden High Income Fund	0.35% of average daily net assets
Payden Tax Exempt Bond Fund	0.32% for the first $500 million of average daily net assets 0.28% of average daily net assets for the next $500 million 0.25% of average daily net assets above $1 billion
Payden California Municipal Income Fund	0.32% for the first $1 billion of average daily net assets 0.25% of average daily net assets above $1 billion
Payden Value Leaders Fund	0.50% for the first $2 billion of average daily net assets 0.30% of average daily net assets above $2 billion
Payden U.S. Growth Leaders Fund	0.60% for the first $1 billion of average daily net assets 0.50% of average daily net assets above $1 billion
Payden Global Short Bond Fund Payden Global Fixed Income Fund Payden Emerging Markets Bond Fund	0.30% of the first $2 billion of average daily net assets 0.25% of average daily net assets above $2 billion 0.45% of average daily net assets
Payden Global Equity Fund	
Payden/Wilshire Longevity Fund 2010+ Payden/Wilshire Longevity Fund 2020+ Payden/Wilshire Longevity Fund 2030+ Payden/Wilshire Longevity Fund 2040+	0.10% for passive fixed income strategies 0.30% for active fixed income strategies 0.60% for active U.S. equity strategies 0.75% for active non-U.S. equity strategies 1.00% for alternative (e.g., real estate, commodities, long/short equity) strategies

Gross fees earned by Payden, Fund expenses subsidized by Payden and the net advisory fee or net expense subsidy for the past three fiscal years ended October 31 for all P&R Trust Funds except the Payden Global Equity Fund are shown below. The Payden Global Equity Fund had not commenced operations by October 31, 2007.

	FISCAL YEAR ENDED OCTOBER 31								
	2005 (000S)			2006 (000S)			2007 (000S)		
	FEE	SUBSIDY	NET FEE/SUBSIDY	FEE	SUBSIDY	NET FEE/SUBSIDY	FEE	SUBSIDY	NET FEE/SUBSIDY
Payden Cash Reserves Money Market Fund	$ 542	$ (423)	$ 119	$ 765	$ (743)	$ 22	$ 866	$ (902)	$ (36)
Payden Limited Maturity Fund	880	(183)	697	613	(246)	367	434	(215)	219
Payden Short Bond Fund	1,030	(19)	1,011	875	(157)	718	901	(170)	731
Payden U.S. Government Fund	144	(63)	81	124	(76)	48	147	(95)	52
Payden GNMA Fund	305	—	305	308	(50)	258	417	(67)	350
Payden Core Bond Fund	1,756	—	1,756	2,044	(181)	1,863	2,258	(357)	1,901
Payden Opportunity Bond Fund	385	—	385	334	—	334	229	(24)	205
Payden High Income Fund	1,452	—	1,452	871	(6)	865	951	—	951
Payden Tax Exempt Bond Fund	67	(63)	4	58	(75)	(17)	45	(76)	(31)
Payden California Municipal Income Fund	98	(46)	52	109	(59)	50	140	(69)	71
Payden Market Return Fund	273	(91)	182	254	(42)	212	411	(17)	394
Payden Market Return Fund	273	(91)	182	178	(114)	64	174	(114)	60
Payden U.S. Growth Leaders Fund	132	(16)	116	369	—	369	546	(18)	528
Payden Global Short Bond Fund	530	—	530	626	(36)	590	418	(57)	361
Payden Global Fixed Income Fund	565	—	565	542	(11)	531	372	(9)	363
Payden Emerging Markets Bond Fund	254	—	254	478	(14)	464	597	(7)	590
Payden/Wilshire Longevity Fund 2010+	—	—	—	—	—	—	208	(75,860)	(74,860)
Payden/Wilshire Longevity Fund 2020+	—	—	—	—	—	—	141	(75,073)	(74,932)
Payden/Wilshire Longevity Fund 2030+	—	—	—	—	—	—	105	(77,952)	(77,847)
Payden/Wilshire Longevity Fund 2040+	—	—	—	—	—	—	—	(76,466)	(76,466)

The Funds are responsible for their own operating expenses. Payden has contractually agreed to reduce fees payable to it by each Fund and to pay Fund operating expenses to the extent necessary to limit each Fund's aggregate Total Annual Fund Operating Expenses or Net Annual Fund Operating Expenses (in each case, excluding interest and tax expenses), as applicable, to the limit set forth in the Fees and Expenses Table (each an "expense limitation") of the Prospectus. Any such reductions made by Payden in its fees or payment of expenses which are a Fund's obligation are subject to reimbursement by the respective Fund to Payden, if so requested by Payden, in subsequent fiscal years if the aggregate amount actually paid by such Fund toward the operating expenses for such fiscal year (taking into account the reimbursement) does not exceed the applicable expense limitation on Fund expenses. Payden is permitted to be reimbursed only for fee reductions and expense payments made in the previous three fiscal years. Such reimbursement may not be paid prior to the Fund's payment of current ordinary operating expenses.

In the event the operating expenses of a Fund, including all investment advisory and administration fees, but excluding brokerage commissions and fees, taxes, interest and extraordinary expenses such as litigation, for any fiscal year exceed the Fund's applicable expense limitation, Payden shall reduce its advisory fee to the extent of its share of such excess expenses. The amount of any such reduction to be borne by Payden shall be deducted from the monthly advisory fee otherwise payable with respect to the Fund during such fiscal year; and if such amounts should exceed the monthly fee, Payden shall pay to the Fund its share of such excess expenses no later than the last day of the first month of the next succeeding fiscal year.

The Payden Agreement provides that Payden will not be liable for any error of judgment or mistake of law or for any loss suffered by the Funds in connection with the performance of the Payden Agreement, except a loss resulting from a breach of fiduciary duty with respect to the receipt of compensation for services or a loss resulting from willful misfeasance, bad faith or gross negligence in the performance of Payden's duties or from reckless disregard by Payden of its duties and obligations thereunder. Unless earlier terminated as described below, the Payden Agreement will continue in effect with respect to each Payden Fund and Longevity Fund for two years after the Fund's inclusion in the P&R Trust's Master Trust Agreement (on or around its commencement of operations) and then continue for each such Fund for periods not exceeding one year so long as such continuation is approved annually by the Board of Trustees (or by a majority of the outstanding voting shares of each such Fund as defined in the 1940 Act) and by a majority of the Trustees who are not interested persons of any party to the Payden Agreement by vote cast in person at a meeting called for such purpose. The Payden Agreement terminates upon assignment and may be terminated with respect to a Payden Fund or Longevity Fund Fund without penalty on 60 days' written notice at the option of either party thereto or by the vote of the shareholders of the Fund.

Sub-Adviser - Payden/Wilshire Longevity Funds

Since its founding in 1972, Wilshire Associates has evolved from an investment technology firm into a global advisory company that offers customized, institutionally based solutions to meet the investment needs of its clients. Wilshire Associates is comprised of four business units: Wilshire Analytics, Wilshire Consulting, Wilshire Funds Management, and Wilshire Private Markets. Today, Wilshire serves in excess of 600 organizations in more than 20 countries representing assets exceeding US $12.5 trillion.

Wilshire is 100% owned by key active employees including, Dennis A. Tito, who beneficially owns a majority of the outstanding shares of the company. As of December 31, 2007, the Wilshire Funds Management business unit managed approximately $46 billion in assets.

Wilshire provides investment management services to the Funds as the sub-adviser to the four Longevity Funds pursuant to a Sub-Advisory Agreement with the Payden and the P&R Trust dated as of June 28, 2007, as amended from time to time (the “Sub-Advisory Agreement”). The Sub-Advisory Agreement provides that subject to the control and supervision of Payden and the P&R Trust Board of Trustees, Wilshire will provide an investment program with respect to the assets of each of the four Longevity Funds as may be provided it by Payden. Wilshire will pay for all salaries of personnel and facilities required by it to execute its duties under the Sub-Advisory Agreement and shall pay all expenses incurred by it in connection with its activities under the Sub-Advisory Agreement other than the cost of securities, commodities and other investments (including brokerage commissions and other transactions charges, if any) purchased by a Longevity Fund. For the fiscal year ended October 31, 2007 for each Longevity Fund, Wilshire earned a fee of 0.15% based on each Fund’s average daily net assets, computed daily and payable monthly.

THE M/P TRUST

Adviser - Metzler/Payden Funds

Metzler/Payden, founded in 1998, is a joint venture owned equally by Payden and MP&R Ventures, Inc., an affiliate of B. Metzler seel. Sohn & Co. Holding AG (“Metzler”) of Frankfurt, Germany. It currently has approximately $1.6 billion of assets under management. Payden, founded in 1983, is one of the largest independent investment counseling firms in the United States, with over 157 employees and approximately $57 billion in assets under management for over 262 clients. Metzler is a major German financial institution, and through its various subsidiaries, is one of the leading investment managers in Germany. It manages assets totaling 36.5 billion euro for institutional clients and mutual funds, including European equity and balanced funds.

Metzler/Payden’s focus is the management of equity and fixed income securities in both the domestic and global markets. Portfolios are actively managed according to client approved guidelines and benchmarks. In addition to its own employees, Metzler/Payden’s investment management process utilizes different teams, composed of personnel made available by Payden and Metzler pursuant to a Service Agreement, which are responsible for the day-to-day management of client portfolios, including each of the Metzler/Payden Funds, within the broad investment parameters set by Metzler/Payden’s Co-Chief Investment Officers.

Metzler/Payden provides investment management services to the Metzler/Payden Funds pursuant to an Investment Management Agreement with the M/P Trust dated as of June 21, 2002, as amended from time to time (the “Metzler/Payden Agreement”). The Metzler/Payden Agreement provides that Metzler/Payden will pay all expenses incurred in connection with managing the ordinary course of a Metzler/Payden Fund’s business, except the following expenses, which are paid by each Metzler/Payden Fund: (i) the fees and expenses incurred by a Metzler/Payden Fund in connection with the management of the investment and reinvestment of the Fund’s assets; (ii) the fees and expenses of Trustees who are not affiliated persons, as defined in Section 2(a)(3) of the 1940 Act, of Metzler/Payden; (iii) the fees and expenses of the Trust’s custodian, transfer agent, fund accounting agent and administrator; (iv) the charges and expenses of legal counsel and independent accountants for the M/P Trust; (v) brokers’ commissions and any issue or transfer taxes chargeable to a Metzler/Payden Fund in connection with its securities and futures transactions; (vi) all taxes and corporate fees payable by a Metzler/Payden Fund to federal, state or other governmental agencies; (vii) the fees of any trade associations of which the M/P Trust may be a member; (viii) the cost of fidelity bonds and trustees and officers errors and omission insurance; (ix) the fees and expenses involved in registering and maintaining registration of a Metzler/Payden Fund and of its shares with the SEC, registering the M/P Trust as a broker or dealer and qualifying the shares of a Metzler/Payden Fund under state securities laws, including the preparation and printing of the M/P Trust’s registration statements, prospectuses and statements of additional information for filing under federal and state securities laws for such purposes; (x) communications expenses with respect to investor services and all expenses of shareholders’ and trustees’ meetings and of preparing, printing and mailing reports to shareholders in the amount necessary for distribution to the shareholders; (xi) litigation and indemnification expenses and other extraordinary expenses not incurred in the ordinary course of the M/P Trust's business, and (xii) any expenses assumed by the M/P Trust pursuant to a plan of distribution adopted in conformity with Rule 12b-1 under the 1940 Act.

The Metzler/Payden Agreement provides that Metzler/Payden receives a monthly fee from each Metzler/Payden Fund at the following annual rates:

FUND	FEE
Metzler/Payden European Emerging Markets Fund	0.75% of average daily net assets
Metzler/Payden European Leaders Fund	
Metzler/Payden International Real Estate Fund	0.85% of average daily net assets

Gross fees earned by Metzler/Payden, Metzler/Payden Fund expenses subsidized by Metzler/Payden and the net advisory fee or net expense subsidy for the past three fiscal years ended October 31 for the Metzler/Payden Funds are shown below.

	FISCAL YEAR ENDED OCTOBER 31								
	2005			2006			2007		
	FEE	SUBSIDY	NET FEE/SUBSIDY	FEE	SUBSIDY	NET FEE/SUBSIDY	FEE	SUBSIDY	NET FEE/SUBSIDY
European Emerging Markets Fund	$ 130,686	$ (325,669)	$ (194,983)	$ 602,680	$ (378,093)	$ 224,587	$ 3,122,029	$ —	$ 3,122,029
European Leaders Fund	43,098	(164,255)	(121,157)	84,342	(144,430)	(60,088)	130,956	(85,864)	45,092
International Real Estate Fund	—	—	—	—	—	—	28,814	(107,546)	(78,732)

The Metzler/Payden Funds are responsible for their own operating expenses. Metzler/Payden has contractually agreed to reduce fees payable to it by each Fund and to pay Fund operating expenses to the extent necessary to limit each Metzler/Payden Fund's aggregate Total Annual Fund Operating Expenses or Net Annual Fund Operating Expenses (in each case, excluding interest and tax expenses), as applicable, to the limit set forth in the Fees and Expenses Table (each an "expense limitation") of the Prospectus. Any such reductions made by Metzler/Payden in its fees or payment of expenses which are a Metzler/Payden Fund's obligation are subject to reimbursement by the respective Fund to Metzler/Payden, if so requested by Metzler/Payden, in subsequent fiscal years if the aggregate amount actually paid by such Fund toward the operating expenses for such fiscal year (taking into account the reimbursement) does not exceed the applicable expense limitation on Fund expenses. Metzler/Payden is permitted to be reimbursed only for fee reductions and expense payments made in the previous three fiscal years. Such reimbursement may not be paid prior to the Fund's payment of current ordinary operating expenses.

In the event the operating expenses of a Metzler/Payden Fund, including all investment advisory and administration fees, but excluding brokerage commissions and fees, taxes, interest and extraordinary expenses such as litigation, for any fiscal year exceed the Fund's applicable expense limitation, Metzler/Payden shall reduce its advisory fee to the extent of its share of such excess expenses. The amount of any such reduction to be borne by Metzler/Payden shall be deducted from the monthly advisory fee otherwise payable with respect to the Fund during such fiscal year; and if such amounts should exceed the monthly fee, Metzler/Payden shall pay to the Fund its share of such excess expenses no later than the last day of the first month of the next succeeding fiscal year.

The Metzler/Payden Agreement provides that Metzler/Payden will not be liable for any error of judgment or mistake of law or for any loss suffered by the Funds in connection with the performance of the Metzler/Payden Agreement, except a loss resulting from a breach of fiduciary duty with respect to the receipt of compensation for services or a loss resulting from willful misfeasance, bad faith or gross negligence in the performance of Metzler/Payden's duties or from reckless disregard by Metzler/Payden of its duties and obligations thereunder. Unless earlier terminated as described below, the Metzler/Payden Agreement will continue in effect with respect to each Metzler/Payden Fund for two years after the Fund's inclusion in the M/P Trust's Declaration of Trust (on or around its commencement of operations) and then continue for each such Fund for periods not exceeding one year so long as such continuation is approved annually by the Board of Trustees (or by a majority of the outstanding voting shares of each such Fund as defined in the 1940 Act) and by a majority of the Trustees who are not interested persons of any party to the Metzler/Payden Agreement by vote cast in person at a meeting called for such purpose. The Metzler/Payden Agreement terminates upon assignment and may be terminated with respect to a Metzler/Payden Fund without penalty on 60 days' written notice at the option of either party thereto or by the vote of the shareholders of the Fund.

SHAREHOLDER SERVICING PLAN

Each of the P&R Trust and M/P Trust has adopted Shareholder Servicing Plans with respect to its respective Funds that allows each Fund discussed in the Prospectus (other than the Payden Cash Reserves Money Market Fund) to pay to broker-dealers and other financial intermediaries a fee for shareholder services provided to Fund shareholders who invest in the Fund through the intermediary. With respect to each Payden Fund and Metzler/Payden Fund, the fee is payable at an annual rate not to exceed 0.25% of the Fund's average daily net assets invested through the intermediary. With respect to each Payden/Wilshire Longevity Fund, the fee is payable at an annual rate not to exceed 0.20% of the Fund's average daily net assets invested through the intermediary. In each case, because these fees are paid out of the Fund's assets, over time these fees will also increase the cost of a shareholder's investment in the Fund.

The shareholder services that may be provided under the Shareholder Servicing Plan are non-distribution shareholder services which the intermediary provides with respect to shares of the Fund owned from time to time by customers of the intermediary. Such services include (i) transfer agent and sub-transfer agent type of services for beneficial owners of Fund shares, (ii) aggregating and processing purchase and redemption orders for Fund shareholders, (iii) providing beneficial owners of Fund shares who are not record owners with statements showing their positions in the Fund, (iv) processing dividend payments for Fund shares, (v) providing sub-accounting services for Fund shares held beneficially, (vi) forwarding shareholder communications, such as proxies, shareholder reports, dividend and tax notices, and updated prospectuses to beneficial owners of Institutional Class shares who are not record owners, (vii) receiving, tabulating and transmitting proxies executed by beneficial owners of Fund shares who are not record owners, (viii) responding generally to inquiries these shareholders have about the Fund or Funds, and (ix) providing such other information and assistance to these shareholders as they may reasonably request.

In addition to fees paid under the respective Shareholder Servicing Plans for the Payden Funds and the Metzler/Payden Funds, a Fund's investment adviser may pay service, administrative or other similar fees to broker/dealers or other financial intermediaries. Those fees are generally for sub-accounting, sub-transfer agency and other shareholder services associated with shareholders whose shares are held of record in omnibus or other group accounts. Those payments are sometimes necessary to ensure that the Fund is listed on supermarket and other platforms maintained by certain dealers, agents and financial institutions. The Fund's investment adviser believes that such payments and listings will make shares of the Fund available to a wider distribution network. The rate of those fees paid by the Fund's investment adviser may vary and ranges from 0.10% to 0.15% of the average daily net assets of the Fund attributable to a particular intermediary.

DISTRIBUTION ARRANGEMENTS

Pursuant to separate agreements (each, a "Distribution Agreement") with the P&R Trust and the M/P Trust, Payden & Rygel Distributors (the "Distributor"), 333 South Grand Avenue, Los Angeles, California 90071, acts as distributor for each of the Payden Funds, Payden/Wilshire Longevity Funds and Metzler/Payden Funds. The Distributor has agreed to use its best efforts to effect sales of shares of the Funds, but is not obligated to sell any specified number of shares. The offering of Fund shares is continuous. Each Distribution Agreement contains provisions with respect to renewal and termination similar to those in the respective Investment Management Agreements described above. Pursuant to each Distribution Agreement, each of the P&R Trust and M/P Trust has agreed to indemnify the Distributor to the extent permitted by applicable law against certain liabilities under the Securities Act.

No compensation is payable by the Funds to the Distributor for its distribution services, except pursuant to the Distribution Plan described below. The Distributor pays for the personnel involved in accepting orders for purchase and redemption of Fund shares, expenses incurred in connection with the printing of Prospectuses and SAIs (other than those sent to existing shareholders), sales literature, advertising and other communications used in the public offering of shares of a Fund, and other expenses associated with performing services as distributor of the Funds' shares. Each Fund pays the expenses of issuance, registration and transfer of its shares, including filing fees and legal fees.

RULE 12b-1 DISTRIBUTION PLAN

Payden/Wilshire Longevity Funds

The Board of Trustees of the P&R Trust has adopted a Distribution Plan pursuant to SEC Rule 12b-1 under which each Payden/Wilshire Longevity Fund is allowed to pay asset-based sales charges or distribution and service fees for the distribution, sale or servicing of its shares. These activities include advertising, compensation to the Distributor and other intermediaries for sales and marketing activities and materials and related shareholder servicing. The fee is payable at an annual rate of 0.25% of each Fund's average daily net assets regardless of the actual expenses incurred, which the Distributor may use to compensate other broker-dealers. As indicated in the table in the "Fees and Expenses" section of the Prospectus, this fee is included in the Annual Fund Operating Expenses for each Fund. Because these fees are paid out of the Funds' assets on an ongoing basis, over time these fees will increase the cost of your investment.

The Distribution Plan continues in effect from year to year, provided that each such continuance is approved at least annually by a vote of the Board of Trustees of the P&R Trust, including a majority vote of the Trustees who are not "interested persons" of the P&R Trust (as defined in the 1940 Act) and have no direct or indirect financial interest in the operations of the Plan or in any agreement relating to the Plan (the "Rule 12b-1 Trustees"), cast in person at a meeting called for the purpose of voting on such continuance. The Distribution Plan may be terminated with respect to a Fund at any time, without penalty, by the vote of a majority of the Rule 12b-1 Trustees or by the vote of the holders of a majority of the outstanding shares of the Fund. The Distribution Plan may not be amended to increase materially the amounts to be paid by the shareholders of a Fund for the services described therein without approval by the shareholders of the Fund, and all material amendments are required to be approved by the Board of Trustees in the manner described above. The Distribution Plan will automatically terminate in the event of its assignment.

For the fiscal year ended October 31, 2007, the Longevity Funds paid the following 12b-1 fees to the Funds' distributor: Payden/Wilshire Longevity Fund 2010+, $1,484; Payden/Wilshire Longevity Fund 2020+, $1,501; Payden/Wilshire Longevity Fund 2030+, $1,877; Payden/Wilshire Longevity Fund 2010+, $1,609.

ADMINISTRATOR, TRANSFER AGENT, FUND ACCOUNTANT, CUSTODIAN AND INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Administrator

Treasury Plus, Incorporated ("Treasury Plus"), located at 333 South Grand Avenue, Los Angeles, California 90071, is a wholly owned subsidiary of Payden which serves as administrator to each Fund. Under separate Administration Agreements with each of the P&R Trust and M/P Trust, Treasury Plus has agreed to prepare periodic reports to regulatory authorities, maintain financial accounts and records of each of the Funds, transmit communications by each Fund to shareholders of record, make periodic reports to the respective Boards of Trustees regarding Fund operations, and oversee the work of the fund accountant and transfer agent.

For providing administrative services to each of the P&R Trust and the M/P Trust, Treasury Plus receives in each case a monthly fee at the annual rate of 0.12% of the daily net assets of the Funds of each of the P&R Trust and M/P Trust.

In the case of its Administration Agreement with the P&R Trust with respect to the Payden Funds and the Payden/Wilshire Longevity Funds, Treasury Plus has agreed that, if in any fiscal year the expenses borne by a Fund exceed the applicable expense limitations imposed by the securities regulations of any state in which shares of the Fund are registered or qualified for sale to the public, it will reimburse the Fund for a portion of such excess expenses, which portion is determined by multiplying the excess expenses by the ratio of (i) the fees respecting the Fund otherwise payable to Treasury Plus pursuant to its agreement with the P&R Trust, to (ii) the aggregate fees respecting the Fund otherwise payable to Treasury Plus pursuant to its agreement and to Payden pursuant to its Investment Management Agreement with the P&R Trust.

During the last three fiscal years, Treasury Plus earned the amounts listed below.

	FISCAL YEAR ENDED OCTOBER 31		
	2005 (000S)	2006 (000S)	2007 (000S)
Payden Cash Reserves Money Market Fund	289	612	693
Payden Limited Maturity Fund	251	263	186
Payden Short Bond Fund	295	375	386
Payden U.S. Government Fund	41	53	63
Payden GNMA Fund	90	137	185
Payden Core Bond Fund	502	876	968
Payden Opportunity Bond	110	143	98
Payden High Income Fund	332	299	326
Payden Tax Exempt Bond Fund	17	22	17
Payden California Municipal Income Fund	24	41	52
Payden Value Leaders Fund	42	61	99
Payden Market Return Fund	78	76	75
Payden U.S. Growth Leaders Fund	18	74	109
Payden Global Short Bond Fund	141	251	167
Payden Global Fixed Income Fund	151	217	149
Payden Emerging Markets Bond Fund	45	127	159
Payden/Wilshire Longevity Fund 2010+*	—	—	1
Payden/Wilshire Longevity Fund 2020+*	—	—	1
Payden/Wilshire Longevity Fund 2030+*	—	—	1
Payden/Wilshire Longevity Fund 2040+*	—	—	1
Metzler/Payden European Emerging Markets Fund	14	96	500
Metzler/Payden European Leaders Fund	5	13	21
Metzler/Payden International Equity Fund	—	—	4

(*) The Payden/Wilshire Longevity Funds commenced operations on June 28, 2007.

Transfer Agent

Pursuant to separate agreements with the P&R Trust and M/P Trust, respectively, UMB Fund Services, Inc. (“UMB”), located at 803 W. Michigan Street, Milwaukee, Wisconsin 53233, provides transfer agency services to each of the Payden Funds, Payden/Wilshire Longevity Funds and Metzler/Payden Funds. These services include the issuance and redemption of Fund shares, maintenance of shareholder accounts and preparations of annual investor tax statements. UMB receives from the P&R Trust and M/P Trust, respectively, fees for these transfer agency services, and certain out-of-pocket expenses are also reimbursed at actual cost.

Fund Accountant

Pursuant to separate agreements with the P&R Trust and M/P Trust, respectively, Mellon Trust of New England, N.A. (“Mellon Trust”), located at 135 Santilli Highway, Everett, Massachusetts 02149, provides fund accounting services to each of the Payden Funds, Payden/Wilshire Longevity Funds and Metzler/Payden Funds. These services include the calculation of daily expense accruals and net asset value per share for the Funds. Mellon Trust receives from the P&R Trust and M/P Trust, respectively, fees for these fund accounting services, and certain out-of-pocket expenses are also reimbursed at actual cost.

The liability provisions of the agreements between Treasury Plus, UMB and Mellon Trust with the P&R Trust and M/P Trust, respectively, are similar to those of the Payden Agreement and Metzler/Payden Agreement discussed above. In addition, each of the P&R Trust and M/P Trust, respectively, has agreed to indemnify Treasury Plus, UMB and Mellon Trust against certain liabilities. Each agreement may be terminated by either party to such agreement on 90 days’ notice.

Custodian

Pursuant to separate agreements with the P&R Trust and M/P Trust, respectively, Mellon Trust (the “Custodian”) serves as custodian for the assets of each of the Payden Funds, Payden/Wilshire Longevity Funds and Metzler/Payden Funds. The Custodian’s address is

One Boston Place, Boston, Massachusetts 02109. Under its separate Custodian Agreements with the P&R Trust and M/P Trust, respectively, the Custodian has agreed among other things to maintain a separate account in the name of each Fund; hold and disburse portfolio securities and other assets on behalf of the Funds; collect and make disbursements of money on behalf of the Funds; and receive all income and other payments and distributions on account of each Fund's portfolio securities.

Pursuant to rules adopted under the 1940 Act, the Funds may maintain foreign securities and cash in the custody of certain eligible foreign banks and securities depositories. The Board of Trustees of each of the P&R Trust and M/P Trust has delegated to the Custodian the selection of foreign custodians and to Payden and Metzler/Payden, respectively, the selection of securities depositories. Selection of such foreign custodial institutions and securities depositories is made following a consideration of a number of factors, including (but not limited to) the reliability and financial stability of the institution; the ability of the institution to perform capably custodial services for the Funds; the reputation of the institution in its national market; the political and economic stability of the country in which the institution is located; and risks of nationalization or expropriation of Fund assets. No assurance can be given that the appraisal by the Custodian and by Payden and Metzler/Payden, respectively, of the risks in connection with foreign custodial and securities depository arrangements will always be correct, or that expropriation, nationalization, freezes, or confiscation of assets that would impact assets of a Fund will not occur, and shareholders bear the risk of losses arising from these or other events.

Independent Registered Public Accounting Firm

Deloitte & Touche LLP ("Deloitte") serves as the independent registered public accounting firm for each of the Funds. Deloitte provides audit services to each of the Funds. Its address is 111 S. Wacker Drive, Chicago, Illinois 60606-4301. The Funds' respective financial statements incorporated herein, as described under "Other Information - Financial Statements" below, have been audited by Deloitte, as stated in its respective reports, which are incorporated herein by reference, and have been so incorporated in reliance upon the respective reports of Deloitte, independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

PORTFOLIO MANAGERS

THE P&R TRUST

Adviser Portfolio Manager Conflicts of Interest - Payden

Payden adopted policies and procedures that address conflicts of interest that may arise between a portfolio manager's management of a Payden Fund or Payden/Wilshire Longevity Fund and his or her management of other Funds and accounts. Potential areas of conflict could involve allocation of investment opportunities and trades among Funds and accounts, use of information regarding the timing of Fund trades, personal investing activities, portfolio manager compensation and proxy voting of portfolio securities.

With respect to the Payden/Wilshire Longevity Funds in particular, each Longevity Fund intends to invest a substantial portion of its assets in affiliated funds (i.e., any of the Payden Funds), and a conflict of interest could arise when, under certain circumstances, investment decisions with respect to the Longevity Fund could negatively affect affiliated Underlying Funds. For instance, the Longevity Fund may purchase and redeem shares of an affiliated Underlying Fund at a time which may require the Underlying Fund to sell securities or invest cash when it otherwise would not do so. Such transactions could increase an affiliated Underlying Fund's transaction costs and accelerate the realization of taxable income by its shareholders if sales of securities resulted in gains. As each Longevity Fund invests in affiliated funds, the Trustees and officers of the P&R Trust, each of which serves in the same position with respect to, and has a fiduciary duty to, the Longevity Fund and the affiliated Underlying Funds, may face a conflict of interest if the interests of the Longevity Fund and of the affiliated Underlying Fund were ever to become divergent. The Trustees of the P&R Trust believe they have structured the Longevity Funds to avoid these concerns. However, a situation could occur where proper action for a Longevity Fund could be adverse to the interests of an affiliated Underlying Fund, or the reverse could occur. If such a possibility arises, the Trustees and officers of the P&R Trust and Payden and Wilshire will carefully analyze the situation and take all steps they believe reasonable to minimize, and where possible eliminate, the potential conflict. Moreover, close and continuous monitoring will be exercised to avoid, insofar as is possible, these concerns.

Payden has adopted policies and procedures that it believes are reasonably designed to address these conflicts. However, there is no guarantee that such policies and procedures will be effective or that Payden will anticipate all potential conflicts of interest.

Adviser Portfolio Manager Fund Holdings and Other Managed Accounts - Payden

As described below, portfolio managers may personally own shares of the Fund or Funds for which they act as portfolio manager. In addition, portfolio managers may manage a portion of other mutual funds, pooled investment vehicles or accounts advised by Payden.

The following table reflects information as of October 31, 2007. The Payden Global Equity Fund was not in operation at October 31, 2007. None of these accounts pay performance-based fees.

PORTFOLIO MANAGER	DOLLAR RANGE OF FUND SHARES OWNED (1)	NUMBER OF OTHER REGISTERED INVESTMENT COMPANIES (RICS) THAT PORTFOLIO MANAGER MANAGES (ASSETS OF RIC IN MILLIONS) (2)	NUMBER OF OTHER POOLED INVESTMENT VEHICLES (PIVS) THAT PORTFOLIO MANAGER MANAGES (ASSETS OF PIVS IN MILLIONS) (3)	NUMBER OF OTHER ACCOUNTS THAT PORTFOLIO MANAGER MANAGES (ASSETS OF OTHER ACCOUNTS IN MILLIONS) (4)
MARY BETH SYAL		1 $34	None	156 $2,778
Payden Limited Maturity Fund	None			
Payden Short Bond Fund	None			
Payden U.S. Government Fund	None			
Payden Global Short Bond Fund	None			
DAVID P. BALLANTINE		None	None	3 $158
Payden Limited Maturity Fund	None			
Payden Short Bond Fund	None			
Payden U.S. Government Fund	None			
Payden GNMA Fund	None			
Payden Market Return Fund	$1 - $10,000			
ASHA B. JOSHI		None	None	18 $4,375
Payden Market Return Fund	$1 - $10,000			
GARY S. GREENBERG		1 $6	None	None
Payden GNMA Fund	None			
BRIAN W. MATTHEWS		3 $575	$581	26 $6,854
Payden/Wilshire Longevity Fund 2010+	None			
Payden/Wilshire Longevity Fund 2020+	None			
Payden/Wilshire Longevity Fund 2030+	None			
Payden/Wilshire Longevity Fund 2040+	None			
JAMES P. SARNI		None	None	26 $3,905
Payden Core Bond Fund	None			
Payden Opportunity Bond Fund	None			
RENA PATEL		None	None	None
Payden Tax Exempt Bond Fund	None			
Payden California Municipal Income Fund	None			
CHRISTOPHER N. ORNDORFF		1 $6	4 $221	7 $2,090
Payden Value Leaders Fund	$100,001 - $500,000			
Payden U.S. Growth Leaders Fund	$500,001- $1,000,000			
JAMES T. WONG		1 $255	2 $163	1 $41
Payden Value Leaders Fund	None			
Payden U.S. Growth Leaders Fund	None			
SCOTT J. WEINER		2 $626	4 $255	23 $4,288
Payden Value Leaders Fund	None			
KRISTIN J. CEVA		None	1 $4	None
Payden Global Fixed Income Fund	None			
Payden Emerging Markets Bond Fund	None			
Payden Core Bond Fund	None			
Payden Opportunity Bond Fund	None			
TIMOTHY K. RIDER		None	2 $438	1 $76
Payden Global Fixed Income Fund	None			

PORTFOLIO MANAGER	DOLLAR RANGE OF FUND SHARES OWNED (1)	NUMBER OF OTHER REGISTERED INVESTMENT COMPANIES (RICS) THAT PORTFOLIO MANAGER MANAGES (ASSETS OF RIC IN MILLIONS) (2)	NUMBER OF OTHER POOLED INVESTMENT VEHICLES (PIVS) THAT PORTFOLIO MANAGER MANAGES (ASSETS OF PIVS IN MILLIONS) (3)	NUMBER OF OTHER ACCOUNTS THAT PORTFOLIO MANAGER MANAGES (ASSETS OF OTHER ACCOUNTS IN MILLIONS) (4)
SABUR MOINI		None	2 $223	None
Payden High Income Fund	None			
CRISTINA PANAIT		None	1 $4	None
Payden Emerging Markets Bond Fund	None			

(1) Ownership disclosure is made using the following ranges: None; $1 - $10,000; $10,001 - $50,000; $50,001 - $100,000; $100,001 - $500,000; $500,001 - $1,000,000; over $1,000,000. The amounts listed include shares owned through Payden's 401(k) plan.
(2) Indicates fund(s) where the portfolio manager also has significant responsibilities for the day-to-day management of the fund(s).
(3) Represents offshore funds advised by Payden which are only sold to offshore investors.
(4) Reflects other separately managed accounts in which Payden is the investment adviser.

The following table reflects information as of January 31, 2008.

PORTFOLIO MANAGER	DOLLAR RANGE OF FUND SHARES OWNED (1)	NUMBER OF OTHER REGISTERED INVESTMENT COMPANIES (RICS) THAT PORTFOLIO MANAGER MANAGES (ASSETS OF RIC IN MILLIONS)(2)	NUMBER OF OTHER POOLED INVESTMENT VEHICLES (PIVS) THAT PORTFOLIO MANAGER MANAGES (ASSETS OF PIVS IN MILLIONS)(3)	NUMBER OF OTHER ACCOUNTS THAT PORTFOLIO MANAGER MANAGES (ASSETS OF OTHER ACCOUNTS IN MILLIONS) (4)
GREGORY L. TORNGA		None	None	None
Payden High Income Fund	None			
NIGEL JENKINS		None	None	None
Payden Global Short Bond Fund	None			
Payden Global Fixed Income Fund	None			
FRANK LEE		None	None	None
Payden U.S. Growth Leaders Fund	None			

(1) Ownership disclosure is made using the following ranges: None; $1 - $10,000; $10,001 - $50,000; $50,001 - $100,000; $100,001 - $500,000; $500,001 - $1,000,000; over $1,000,000. The amounts listed include shares owned through Payden's 401(k) plan.
(2) Indicates fund(s) where the portfolio manager also has significant responsibilities for the day-to-day management of the fund(s).
(3) Represents offshore funds advised by Payden which are only sold to offshore investors.
(4) Reflects other separately managed accounts in which Payden is the investment adviser.

Adviser Portfolio Manager Compensation - Payden

Portfolio managers and other investment personnel are paid competitive salaries by Payden. In addition, they may receive bonuses based on the overall profit of the firm and their contribution to the investment team(s) on which they participate. The relative mix of compensation represented by salary and bonus will vary depending on the individual's contribution to the investment team(s), contributions to the firm overall and other factors.

Sub-Adviser Portfolio Manager Conflicts of Interest - Wilshire

Each of the Longevity Funds invests substantially all of its assets in other mutual funds (Underlying Funds) or ETFs through a structure known as "fund of funds." It is the policy of Wilshire that all decisions concerning the selection of funds be based solely on the best interests of each Longevity Fund and its investors, and without regard to any revenue that Wilshire receives, might receive, or has received in the past, directly or indirectly, from portfolio managers or funds for services provided by any Wilshire business unit. Accordingly, Wilshire operates Wilshire Funds Management, Wilshire Analytics, Wilshire Consulting and Wilshire Private Markets as separate business units. Each business unit has its own leadership team and professional and support staff. Moreover, Wilshire has adopted policies and procedures that are designed to provide full disclosure of all potential, actual or perceived conflicts and to prevent staff from having internal access to information that otherwise might appear to compromise their objectivity.

In addition, personal accounts may give rise to potential conflicts of interest and must be maintained and conducted pursuant to Wilshire's Code of Ethics.

Sub-Adviser Portfolio Manager Fund Holdings and Other Managed Accounts - Wilshire

As described below, portfolio managers may personally own shares of the Fund or Funds for which they act as portfolio manager. In addition, portfolio managers may manage a portion of other mutual funds, pooled investment vehicles or accounts advised by Wilshire.

The following table reflects information as of October 31, 2007. None of these accounts pay performance-based fees.

PORTFOLIO MANAGER	**DOLLAR RANGE OF FUND SHARES OWNED**	**NUMBER OF OTHER REGISTERED INVESTMENT COMPANIES (RICS) THAT PORTFOLIO MANAGER MANAGES (ASSETS OF RIC IN MILLIONS) (1)**	**NUMBER OF OTHER POOLED INVESTMENT VEHICLES (PIVS) THAT PORTFOLIO MANAGER MANAGES (ASSETS OF PIVS IN MILLIONS)**	**NUMBER OF OTHER ACCOUNTS THAT PORTFOLIO MANAGER MANAGES (ASSETS OF OTHER ACCOUNTS IN MILLIONS) (1)**
CLEO CHANG		0	0	$ 154,200
Payden/Wilshire Longevity Fund 2010+	None			
Payden/Wilshire Longevity Fund 2020+	None			
Payden/Wilshire Longevity Fund 2030+	None			
Payden/Wilshire Longevity Fund 2040+	None			

(1) Reflects other separately managed accounts of which the Sub-Adviser is the investment adviser.

Sub-Adviser Portfolio Manager Compensation - Wilshire

Wilshire's portfolio managers and other investment personnel receive a competitive salary and bonus. The salary is set each year and is commensurate with the contribution that the portfolio manager makes to his team, the investment process and to the overall success of the firm. The bonus portion of his salary is based on the performance of the portfolio manager, of the funds management division and the company as a whole.

THE M/P TRUST

Portfolio Manager Conflicts of Interest - Metzler/Payden

Metzler/Payden has adopted policies and procedures that address conflicts of interest that may arise between a portfolio manager's management of a Metzler/Payden Fund and his or her management of other Funds and accounts. Potential areas of conflict could involve allocation of investment opportunities and trades among Funds and accounts, use of information regarding the timing of Fund trades, personal investing activities, portfolio manager compensation and proxy voting of portfolio securities. Metzler/Payden has adopted policies and procedures that it believes are reasonably designed to address these conflicts. However, there is no guarantee that such policies and procedures will be effective or that Metzler/Payden will anticipate all potential conflicts of interest.

Portfolio Manager Fund Holdings and Other Managed Accounts - Metzler/Payden

As described below, portfolio managers may personally own shares of the Fund or Funds for which they act as portfolio manager. In addition, portfolio managers may manage a portion of other mutual funds, pooled investment vehicles or accounts advised by Metzler/Payden.

The following table reflects information as of October 31, 2007. None of these accounts pay performance-based fees.

PORTFOLIO MANAGER	DOLLAR RANGE OF FUND SHARES OWNED(1)	NUMBER OF OTHER REGISTERED INVESTMENT COMPANIES (RICS) THAT PORTFOLIO MANAGER MANAGES (ASSETS OF RICS IN MILLIONS)	NUMBER OF OTHER POOLED INVESTMENT VEHICLES (PIVS) THAT PORTFOLIO MANAGER MANAGES (ASSETS OF PIVS IN MILLIONS)(2)	NUMBER OF OTHER ACCOUNTS THAT PORTFOLIO MANAGER MANAGES (ASSETS OF OTHER ACCOUNTS IN MILLIONS)(3)
MARKUS BRUECK		None	3 $188	2 $214
Metzler/Payden European Emerging Markets Fund.................	None			
FRANK HEISE		None	1 $110	2 $124
Metzler/Payden European Leaders Fund	None			
CHRISTOPHER N. ORNDORFF		2 $214	4 $221	8 $2,090
Metzler/Payden International Real Estate Fund	$500,000-$1,000,000			
JAMES NEAL..		None	None	None
Metzler/Payden International Real Estate Fund	None			
GARY GREENBERG		1 $162	None	None
Metzler/Payden International Real Estate Fund	None			

(1) Ownership disclosure is made using the following ranges: None; $1 - $10,000; $10,001 - $50,000; $50,001 - $100,000; $100,001 - $500,000; $500,001 - $1,000,000; over $1,000,000. The amounts listed include shares owned through Metzler/Payden’s 401(k) Plan.
(2) Represents both domestic pooled investment vehicles and off-shore funds advised by Metzler/Payden. The off-shore funds are only sold to off-shore investors.
(3) Reflects other separately managed accounts in which Metzler/Payden is the investment adviser.

The following table reflects information as of January 31, 2008

PORTFOLIO MANAGER	DOLLAR RANGE OF FUND SHARES OWNED(1)	NUMBER OF OTHER REGISTERED INVESTMENT COMPANIES (RICS) THAT PORTFOLIO MANAGER MANAGES (ASSETS OF RICS IN MILLIONS)	NUMBER OF OTHER POOLED INVESTMENT VEHICLES (PIVS) THAT PORTFOLIO MANAGER MANAGES (ASSETS OF PIVS IN MILLIONS)(2)	NUMBER OF OTHER ACCOUNTS THAT PORTFOLIO MANAGER MANAGES (ASSETS OF OTHER ACCOUNTS IN MILLIONS(3)
SIMONE BEER				
Metzler/Payden European Emerging Markets Fund....................	None	None	3 $188	3 $188

(1) Ownership disclosure is made using the following ranges: None; $1 - $10,000; $10,001 - $50,000; $50,001 - $100,000; $100,001 - $500,000; $500,001 - $1,000,000; over $1,000,000. The amounts listed include shares owned through Metzler/Payden’s 401(k) plan.
(2) Represents both domestic pooled investment vehicles and offshore funds advised by Metzler/Payden. The offshore funds are only sold to offshore investors.
(3) Reflects other separately managed accounts in which Metzler/Payden is the investment adviser.

Portfolio Manager Compensation - Metzler/Payden

A portfolio manager’s compensation is split into a fixed and a variable component. The variable component is mainly determined by the performance of the individual accounts managed by the portfolio manager, the overall performance of the firm, in this case the Metzler Bank Group, and the portfolio manager’s interaction within in the team.

PORTFOLIO TRANSACTIONS - BROKERAGE ALLOCATION AND OTHER PRACTICES

The Funds pay commissions to brokers in connection with the purchase and sale of equity securities, options and futures contracts. There is generally no stated commission in the case of fixed-income securities, which are traded in the over-the-counter markets, but the price paid by a Fund usually includes an undisclosed dealer commission or mark-up. In underwritten offerings, the price paid by a Fund includes a disclosed, fixed commission or discount retained by the underwriter or dealer. Agency transactions involve the payment by a Fund of negotiated brokerage commissions. Such commissions vary among different brokers. Also, a particular broker may charge different commissions according to such factors as the difficulty and size of the transaction. Transactions in foreign securities involve commissions which are generally higher than those in the United States.

A Fund's investment adviser places all orders for the purchase and sale of portfolio securities, options and futures contracts for the Funds it manages and buys and sells such securities, options and futures for the Funds through a substantial number of brokers and dealers. In so doing, the Fund's investment adviser seeks the best execution available. In seeking the most favorable execution, the investment adviser considers all factors it deems relevant, including, by way of illustration, price, the size of the transaction, the nature of the market for the security, the amount of the commission, the timing of the transaction taking into account market prices and trends, the reputation, experience and financial stability of the broker-dealer involved and the quality of service rendered by the broker-dealer in other transactions. The Fund's investment adviser periodically evaluates the performance of brokers used for the purchase and sale of portfolio securities to ensure that the Fund is obtaining best execution of these transactions. Neither Payden nor Metzler/Payden has any "soft dollar" arrangements with any broker-dealer.

Some securities considered for investment by a Fund's portfolio may also be appropriate for other clients served by the Fund's investment adviser. If a purchase or sale of securities consistent with the investment policies of a Fund is considered at or about the same time as a similar transaction for one or more other clients served by the Fund's investment adviser, transactions in such securities will be allocated among the Fund and other clients in a manner deemed fair and reasonable by the investment adviser. Although there is no specified formula for allocating such transactions, the various allocation methods used by the Fund's investment adviser, and the results of such allocations, are subject to periodic review by the Fund's Board of Trustees.

The investment adviser manages the Fund without regard generally to restrictions on portfolio turnover, except those imposed on its ability to engage in short-term trading by provisions of the federal tax laws (see "Taxation"). Trading in fixed-income securities does not generally involve the payment of brokerage commissions, but does involve indirect transaction costs. The higher the rate of portfolio turnover, the higher these transaction costs borne by the Fund generally will be. The turnover rate of a Fund is calculated by dividing (a) the lesser of purchases or sales of portfolio securities for a particular fiscal year by (b) the monthly average of the value of the portfolio securities owned by the Fund during the fiscal year. In calculating the rate of portfolio turnover, all securities, including options, whose maturities or expiration dates at the time of acquisition were one year or less, are excluded. Interest rate and currency swap, cap and floor transactions do not affect the calculation of portfolio turnover.

The only Funds which paid brokerage commissions during the last three fiscal years are noted below:

	FISCAL YEAR ENDED OCTOBER 31		
	2005	**2006**	**2007**
Payden Market Return Fund	$ 200	$ 2,167	$ —
Payden Value Leaders Fund	75,374	64,911	49,700
Payden U.S. Growth Leaders Fund	84,331	183,402	242,611
Payden Opportunity Bond Fund	404	0	5,004
Payden/Wilshire Longevity Fund 2010+	—	—	663
Payden/Wilshire Longevity Fund 2010+	—	—	819
Payden/Wilshire Longevity Fund 2010+	—	—	1,138
Payden/Wilshire Longevity Fund 2010+	—	—	1,441
Metzler/Payden European Emerging Market Fund	148,415	751,847	3,388,480
Metzler/Payden European Leaders Fund	60,435	81,673	45,757
Metzler/Payden International Equity Fund	—	—	15,916

Where commissions paid by these Funds have grown, they have done so for two reasons. First, as a part of its efforts to assure best execution for the Funds and its other investment advisory clients, the Funds' investment advisers have reduced the number of "principal" trades in which a market maker charges no commission, but instead profits from the spread between the purchase price and sale price of the shares. Transactions are now usually traded on a commission basis. With respect to the Metzler/Payden European Emerging Markets Fund, the significant increase in commissions is the result of the very significant growth in Fund size over the past three years.

The Board of Trustees of the P&R Trust and the Board of Trustees of the M/P Trust each periodically reviews the performance of Payden and Metzler/Payden, respectively, in connection with the placement of portfolio transactions on behalf of the Funds of which each serves as investment adviser.

PURCHASES AND REDEMPTIONS

Certain managed account clients of the investment adviser for a Fund may purchase shares of that Fund. To avoid the imposition of duplicative fees, the Fund's investment adviser may be required to make adjustments in the management fees charged separately by the investment adviser to these managed account clients to offset the generally higher level of management fees and expenses resulting from a client's investment in the Fund.

Each Fund may, at the sole discretion of the Fund's investment adviser, accept securities in exchange for shares of the Fund. Securities which may be accepted in exchange for shares of the Fund must: (1) meet the investment objectives and policies of the Fund; (2) be acquired for investment and not for resale; (3) be liquid securities which are not restricted as to transfer either by law or liquidity of market, as determined by reference to the liquidity and pricing policies established by the Board of Trustees of the P&R Trust and the Board of Trustees of the M/P Trust, respectively; and (4) have a value which is readily ascertainable as evidenced by, for example, a listing on a recognized stock exchange, or market quotations by third party broker-dealers.

Each Fund reserves the right to suspend or postpone redemptions during any period when: (a) trading on the New York Stock Exchange is restricted, as determined by the Securities and Exchange Commission, or that Exchange is closed for other than customary weekend and holiday closings; (b) the Securities and Exchange Commission has by order permitted such suspension; or (c) an emergency, as determined by the Securities and Exchange Commission, exists, making disposal of portfolio securities or valuation of net assets of the Fund not reasonably practicable.

Each Payden Fund and Longevity Fund will redeem shares solely in cash up to the lesser of $250,000 or 1% of its net assets during any 90-day period for any one shareholder. Each such Fund reserves the right to pay any redemption price exceeding this amount in whole or in part by a distribution in kind of securities held by the Fund in lieu of cash. The Metzler/Payden funds reserve the right to pay any redemption price in whole or in part by a distribution in kind of securities held by a Metzler/Payden Fund in lieu of cash. It is highly unlikely that shares would ever be redeemed in kind. If shares are redeemed in kind, however, the redeeming shareholder would incur transaction costs upon the disposition of the securities received in the distribution.

Due to the relatively high cost of maintaining smaller accounts, each Fund reserves the right to redeem shares in any account for their then-current value (which will be promptly be paid to the investor) if at any time, due to shareholder redemptions, the shares in the Fund account do not have a value of at least $5,000. An investor will be notified that the value of his account is less than the minimum and allowed at least 30 days to bring the value of the account up to at least $5,000 before the redemption is processed. Each of the P&R Trust's Declaration of Trust and the M/P Trust's Declaration of Trust, respectively, also authorizes each Fund to redeem shares under certain other circumstances as may be specified by the Fund's Board of Trustees.

TAXATION

Each Fund intends to qualify annually and has elected to be treated as a regulated investment company under Subchapter M of the Code. To qualify as a regulated investment company, a Fund must, among other things, (a) derive in each taxable year at least 90% of its gross income from dividends, interest, payments with respect to securities loans, and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including gains from options, futures and forward contracts) derived with respect to its business of investing in such stock, securities or currencies ("Qualifying Income Test"); and (b) diversify its holdings so that, at the end of each quarter of the taxable year, (i) at least 50% of the market value of a Fund's assets is represented by cash, U.S. Government securities, the securities of other regulated investment companies and other securities, with such other securities of any one issuer limited for the purposes of this calculation to an amount not greater than 5% of the value of a Fund's total assets and 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of its total assets is invested in the securities of any one issuer (other than U.S. Government securities or the securities of other regulated investment companies) or of two or more issuers which the Fund controls and which are engaged in the same or similar trades or businesses (the "Diversification Test"). The Treasury Department is authorized to promulgate regulations under which gains from foreign currencies (and options, futures, and forward contracts on foreign currency) would constitute qualifying income for purposes of the Qualifying Income Test only if such gains are directly relating to investing in stocks or securities. To date, such regulations have not been issued.

In addition, no definitive guidance currently exists with respect to the classification of interest rate swaps and cross-currency swaps as securities or foreign currencies for purposes of certain of the tests described above. Accordingly, to avoid the possibility of disqualification as a regulated investment company, a Fund will limit its positions in swaps to transactions for the purpose of hedging against either interest rate or currency fluctuation risks, and will treat swaps as excluded assets for purposes of determining compliance with the Diversification Test.

If a Fund qualifies as a regulated investment company, the Fund will not be subject to U.S. federal income tax on its investment company taxable income and net capital gains (any net long-term capital gains in excess of the sum of net short-term capital losses and capital loss carryovers from the prior eight years) designated by the Fund as capital gain dividends, if any, that it distributes to shareholders, if the Fund distributes to its shareholders at least 90% of its investment company taxable income (which includes dividends, interest and net short-term capital gains in excess of any long-term capital losses) and 90% of its net exempt interest income each taxable year. Each Fund intends to distribute to its shareholders substantially all of its investment company taxable income monthly and any net capital gains annually. Investment company taxable income or net capital gains not distributed by a Fund on a timely basis in accordance with a calendar year distribution requirement are subject to a nondeductible 4% excise tax. To avoid the tax, a Fund must distribute during each calendar year an amount at least equal to the sum of (1) 98% of its ordinary income (with adjustments) for the calendar year and foreign currency gains or losses for the calendar year, (2) at least 98% of its capital gains in excess of its capital losses (and adjusted for certain ordinary losses) for the twelve month period ending on October 31 of the calendar year, and (3) all ordinary income and capital gains for previous years that were not distributed during such years. A distribution will be treated as paid on December 31 of the calendar year if it is declared by the Fund in October, November, or December of that year to shareholders of record on a date in such a month and paid by a Fund during January of the following year. Such distributions will be taxable to shareholders (other than those not subject to federal income tax) in the calendar year in which the distributions are declared, rather than the calendar year in which the distributions are received. To avoid application of the excise tax, the Funds intend to make their distributions in accordance with the distribution requirements.

DISTRIBUTIONS

Each of the Payden Tax Exempt Bond Fund and the Payden California Municipal Income Fund intends to qualify to pay "exempt-interest" dividends to its shareholders, who may exclude those dividends from their gross income for federal income tax purposes. In order to be able to pay those dividends, a Fund must satisfy the additional requirement that, at the close of each quarter of its taxable year, at least 50% of the value of its total assets must consist of obligations the interest on which is excludable from gross income under section 103(a) of the Code.

With the exception of the Payden Tax Exempt Bond Fund and the Payden California Municipal Income Fund, dividends paid out of a Fund's investment company taxable income will generally be taxable to a U.S. shareholder as ordinary income. Distributions received by tax-exempt shareholders will not be subject to federal income tax to the extent permitted under the applicable tax exemption.

For individual shareholders, a portion of the distributions paid by a Fund may be qualified dividends eligible for taxation at long-term capital gain rates to the extent the Fund designates the amount distributed as a qualifying dividend. In the case of corporate shareholders, a portion of the distributions may qualify for the inter-corporate dividends-received deduction to the extent a Fund designates the amount distributed as a qualifying dividend. Distributions of net capital gains, and designated as such, if any, are taxable as long-term capital gains, regardless of how long the shareholder has held a Fund's shares and are not eligible for the dividends received deduction. The tax treatment of dividends and distributions will be the same whether a shareholder reinvests them in additional shares or elects to receive them in cash.

HEDGING TRANSACTIONS

Many of the options, futures contracts and forward contracts used by the Funds are "section 1256 contracts." Any gains or losses on section 1256 contracts are generally considered 60% long-term and 40% short-term capital gains or losses ("60/40"). Also, section 1256 contracts held by a Fund at the end of each taxable year (and, for purposes of the 4% excise tax, on certain other dates as prescribed under the Code) are "marked to market" with the result that unrealized gains or losses are treated as though they were realized and the resulting gain or loss is treated as 60/40 gain or loss.

Generally, the hedging transactions and certain other transactions in options, futures and forward contracts undertaken by a Fund, may result in "straddles" for U.S. federal income tax purposes. The straddle rules may affect the character of gains (or losses) realized by a Fund. In addition, losses realized by a Fund on positions that are part of a straddle may be deferred under the straddle rules, rather than being taken into account in calculating the investment company taxable income or net capital gain for the taxable year in which such losses are realized. Because limited regulations implementing the straddle rules have been promulgated, the tax consequences of transactions in options, futures and forward contracts to a Fund are not entirely clear. The transactions may increase the amount of short-term capital gain realized by a Fund which is taxed as ordinary income when distributed to shareholders.

Each Fund may make one or more of the elections available under the Code which are applicable to straddles. If a Fund makes any of the elections, the amount, character and timing of the recognition of gains or losses from the affected straddle positions will be determined under rules that vary according to the election(s) made. The rules applicable under certain of the elections operate to accelerate the recognition of gains or losses from the affected straddle positions.

Because application of the straddle rules may affect the character of gains or losses, defer losses and/or accelerate the recognition of gains or losses from the affected straddle positions, the amount which must be distributed to shareholders, and which will be taxed to shareholders as ordinary income or long-term capital gain, may be increased or decreased substantially as compared to a fund that did not engage in such hedging transactions.

The qualifying income and diversification requirements applicable to the Fund's assets may limit the extent to which a Fund will be able to engage in transactions in options, futures contracts or forward contracts.

SALES OF SHARES

Upon disposition of shares of a Fund (whether by redemption, sale or exchange), a shareholder will realize a gain or loss. Such gain or loss will be capital gain or loss if the shares are capital assets in the shareholder's hands, and will be long-term or short-term generally depending upon the shareholder's holding period for the shares. Any loss realized on a disposition will be disallowed by "wash sale" rules to the extent the shares disposed of are replaced within a period of 61 days beginning 30 days before and ending 30 days after the disposition. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss. Any loss realized by a shareholder on a disposition of shares held by the shareholder for six months or less will be treated as a long-term capital loss to the extent of any distributions of capital gain dividends received by the shareholder with respect to such shares.

BACKUP WITHHOLDING

A Fund may be required to withhold for U.S. federal income taxes 28% of all taxable distributions payable to shareholders who fail to provide the Fund with their correct taxpayer identification numbers or to make required certifications, or who have been notified by the Internal Revenue Service that they are subject to backup withholding. Corporate shareholders and certain other shareholders specified in the Code generally are exempt from such backup withholding. Backup withholding is not an additional tax. Any amounts withheld may be credited against the shareholder's U.S. federal tax liability.

FOREIGN INVESTMENTS

Under the Code, gains or losses attributable to fluctuations in exchange rates which occur between the time a Fund amortizes or accrues premiums or discounts, accrues interest or other receivables or accrues expenses or other liabilities denominated in a foreign currency and the time the Fund actually collects such receivables or pays such liabilities generally are treated as ordinary income or loss. Similarly, on disposition of debt securities denominated in a foreign currency and on disposition of certain futures contracts, forward contracts and options, gains or losses attributable to fluctuations in the value of the foreign currency between the date of acquisition of the security or contract and the date of disposition also are treated as ordinary gain or loss. These gains and losses, referred to under the Code as "Section 988" gains or losses, may increase or decrease the amount of the Fund's investment company taxable income to be distributed to its shareholders as ordinary income.

Income received by a Fund from sources within foreign countries may be subject to withholding and other taxes imposed by such countries. Tax conventions between certain countries and the U.S. may reduce or eliminate such taxes. In addition, the Funds' investment advisers intends to manage the Funds with the intention of minimizing foreign taxation in cases where it is deemed prudent to do so. If more than 50% of the value of a Fund's total assets at the close of its taxable year consists of securities of foreign corporations, the Fund will be eligible to elect to "pass-through" to the Fund's shareholders the amount of foreign income and similar taxes paid by the Fund. If this election is made, a shareholder generally subject to tax will be required to include in gross income (in addition to taxable dividends actually received) his pro rata share of the foreign income taxes paid by the Fund, and may be entitled either to deduct (as an itemized deduction) his or her pro rata share of foreign taxes in computing his or her taxable income or to use such amount (subject to limitations) as a foreign tax credit against his or her U.S. federal income tax liability. No deduction for foreign taxes may be claimed by a shareholder who does not itemize deductions. Each shareholder will be notified in writing within 60 days after the close of a Fund's taxable year whether the foreign taxes paid by the Fund will "pass-through" for that year. Absent the Fund making the election to "pass through" the foreign source income and foreign taxes, none of the distributions may be treated as foreign source income for purposes of the foreign tax credit calculation.

Generally, a credit for foreign taxes is subject to the limitation that it may not exceed the shareholder's U.S. tax attributable to his or her total foreign source taxable income. For this purpose, if the pass-through election is made, the source of a Fund's income will flow through to shareholders of the Fund. With respect to such election, gains from the sale of securities will be treated as derived from U.S. sources. The limitation on the foreign tax credit is applied separately to foreign source passive income, and to certain other types of income. Shareholders may be unable to claim a credit for the full amount of their proportionate share of the foreign taxes paid by the Fund. The foreign tax credit is modified for purposes of the Federal alternative minimum tax, and foreign taxes may not be deductible in computing alternative minimum taxable income.

CERTAIN DEBT SECURITIES

Some of the debt securities (with a fixed maturity date of more than one year from the date of issuance) that may be acquired by a Fund may be treated as debt securities that are issued originally at a discount. Generally, the amount of the original issue discount ("OID") is treated as interest income and is included in income over the term of the debt security, even though payment of that amount is not received until a later time, usually when the debt security matures. A portion of the OID includable in income with respect to certain high-yield corporate debt securities may be treated as a dividend for Federal income tax purposes.

Some of the debt securities (with a fixed maturity date of more than one year from the date of issuance) that may be acquired by a Fund in the secondary market may be treated as having market discount. Generally, any gain recognized on the disposition of, and any partial payment of principal on, a debt security having market discount issued after July 18, 1984 is treated as ordinary income to the extent the gain, or principal payment, does not exceed the "accrued market discount" on such debt security. Market discount generally accrues in equal daily installments. A Fund may make one or more of the elections applicable to debt securities having market discount, which could affect the character and timing of recognition of income.

Some of the debt securities (with a fixed maturity date of one year or less from the date of issuance) that may be acquired by a Fund may be treated as having an acquisition discount, or OID in the case of certain types of debt securities. Generally, the Fund will be required to include the acquisition discount, or OID, in income ratably over the term of the debt security, even though payment of that amount is not received until a later time, usually when the debt security matures. The Fund may make one or more of the elections applicable to debt securities having acquisition discount, or OID, which could affect the character and timing of recognition of income.

A Fund generally will be required to distribute dividends to shareholders representing discount on debt securities that is currently includable in income, even though cash representing such income may not have been received by the Fund. Cash to pay such dividends may be obtained from sales proceeds of securities held by the Fund.

OTHER TAXES

Distributions also may be subject to additional state, local and foreign taxes, depending on each shareholder's particular situation. Under the laws of various states, distributions of investment company taxable income generally are taxable to shareholders even though all or a substantial portion of such distributions may be derived from interest on certain Federal obligations which, if the interest were received directly by a resident of such state, would be exempt from such state's income tax ("qualifying Federal obligations”). However, some states may exempt all or a portion of such distributions from income tax to the extent the shareholder is able to establish that the distribution is derived from qualifying Federal obligations. Moreover, for state income tax purposes, interest on some Federal obligations generally is not exempt from taxation, whether received directly by a shareholder or through distributions of investment company taxable income (for example, interest on Federal National Mortgage Association Certificates and Government National Mortgage Association Certificates). Each Fund will provide information annually to shareholders indicating the amount and percentage of the Fund’s dividend distribution which is attributable to interest on Federal obligations, and will indicate to the extent possible from what types of Federal obligations such dividends are derived.

The U.S. Supreme Court has accepted the appeal of a Kentucky case which could have a significant impact on the tax treatment of municipal bonds issued by the state of California and its political subdivisions. In 2006, the Kentucky Court of Appeals ruled that it was unlawful for a state to exempt from its income tax any interest derived from bonds issued by the state and its political subdivisions, while at the same time subjecting to its tax the interest derived from bonds issued by other states and their political subdivisions. A decision on the appeal is unlikely before mid-2008. If the U.S. Supreme Court sustains the Kentucky decision, all states may be required to provide equal tax treatment for interest derived from in-state and out-of-state municipal bonds. In that event, the California State legislature may determine that interest derived from all municipal bonds, whether held directly or indirectly through the Fund and regardless of their state of origin, will be exempt from the State’s income tax. Alternatively, the legislature may determine that interest derived from bonds issued by the State and its political subdivisions will no longer be exempt from state income tax. Either of these alternatives may have an impact on the value of bonds issued by the State of California and its political subdivisions. The outcome of the case and the nature and timing of any required changes in tax laws are uncertain.

Shareholders are advised to consult their own tax advisers with respect to the particular tax consequences to them of an investment in a Fund. The information above is only a summary of some of the tax considerations generally affecting the Funds and their shareholders. Paul, Hastings, Janofsky & Walker LLP, counsel to the P&R Trust and the M/P Trust, has expressed no opinion in respect thereof.

FUND PERFORMANCE

Each Fund may quote its performance in various ways. All performance information supplied by a Fund in advertising is historical and is not intended to indicate future returns. A Fund’s share price, yield and total returns fluctuate in response to market conditions and other factors, and the value of Fund shares when redeemed may be more or less than their original cost.

YIELD CALCULATIONS

Yields for each class of shares of a Fund (other than the Payden Cash Reserves Money Market Fund) used in advertising are computed by dividing the interest income of the class for a given 30-day or one month period, net of expenses allocable to the class, by the average number of shares of the class entitled to receive dividends during the period, dividing this figure by the class’ net asset value per share at the end of the period and annualizing the result (assuming compounding of income) in order to arrive at an annual percentage rate. Income is calculated for purposes of yield quotations in accordance with standardized methods applicable to bond funds. In general, interest income is reduced with respect to bonds trading at a premium over their par value by subtracting a portion of the premium from income on a daily basis, and is increased with respect to bonds trading at a discount by adding a portion of the discount to daily income. For a Fund’s investments denominated in foreign currencies, income and expenses are calculated first in their respective currencies, and converted to U.S. dollars either when they are actually converted or at the end of the period, whichever is earlier. Capital gains and losses are generally excluded from the calculation, as are gains and losses from currency exchange rate fluctuations.

The Fund may, from time to time, include the current yield or effective yield in advertisements or reports to shareholders or prospective investors. These performance figures are based on historical results calculated under uniform SEC formulas and are not intended to indicate future performance.

Yield refers to the income generated by an investment in the Fund over a seven-day period, expressed as an annual percentage rate. Effective yields are calculated similarly, but assume that the income earned from the Fund is reinvested in the Fund. Because of the effects of compounding, effective yields are slightly higher than yields.

With respect to the Payden Cash Reserves Money Market Fund, yields and effective yields for each class of shares of the Fund used in advertising are based on a seven day base period. A yield quotation is computed by determining the net change, exclusive of capital changes, in the value of a hypothetical pre-existing account having a balance of one share at the beginning of the period, subtracting a hypothetical charge reflecting deductions from shareholder accounts, and dividing the difference by the value of the account at the beginning of the base period to obtain the base period return, and then multiplying the base period return by 365/7 with the resulting yield figure carried to at least the nearest 0.01%. An effective yield quotation, carried to at least the nearest 0.01%, is computed by determining the net change, exclusive of capital changes, in the value of a hypothetical pre-existing account having a balance of one share at the beginning of the period, subtracting a hypothetical charge reflecting deductions from shareholder accounts, and dividing the difference by the value of the account at the beginning of the base period to obtain the base period return, and then compounding the base period return by adding 1, raising the sum to a power equal to 365 divided by 7, and subtracting 1 from the result.

Because yield accounting methods differ from the methods used for other accounting purposes, the Fund's yield may not equal its distribution rate or income reported in the Fund's financial statements. Yields and other performance information may be quoted numerically, or in a table, graph or similar illustration.

TOTAL RETURN CALCULATIONS

Total returns quoted in advertising with respect to shares of a Fund reflect all aspects of the Fund's return, including the effect of reinvesting dividends and capital gain distributions, and any change in the net asset value per share over the period. Average annual total returns are calculated by determining the growth or decline in value of a hypothetical historical investment in shares of the Fund over a stated period, and then calculating the annually compounded percentage rate that would have produced the same result if the rate of growth or decline in value had been constant over the period. For example, a cumulative return of 100% over ten years would result from an average annual total return of 7.18%, which is the steady annual total return that would equal 100% growth on a compounded basis in ten years. While average annual total returns are a convenient means of comparing investment alternatives, investors should realize that a Fund's performance is not constant over time, but changes from year to year, and that average annual total returns represent averaged figures as opposed to the actual year-to-year performance of the Fund.

The one-year, five-year, ten-year and since inception total returns for each of the Funds through October 31, 2007 were as follows:

	1 YEAR5	YEAR	10 YEAR	ANNUALIZED RETURN SINCE INCEPTION*	INCEPTION DATE
Payden Cash Reserves Money Market Fund................................	5.16	2.88		3.71	December 17, 1997
Payden Limited Maturity Fund...	2.76	2.35	3.82		May 1, 1994
Payden Short Bond Fund..	4.94	2.82	4.67		January 1, 1994
Payden U.S. Government Fund..	5.29	2.63	4.81		January 1, 1995
Payden GNMA Fund..	4.94	4.00		5.98	August 27, 1999
Payden Core Bond Fund...	3.44	3.65	5.39		January 1, 1994
Payden Opportunity Bond Fund...	3.97	4.14	5.39		December 9, 1996
Payden High Income Fund...	6.75	9.51		5.60	December 30, 1997
Payden Tax Exempt Bond Fund..	2.76	3.17	4.26		December 21, 1993
Payden California Municipal Income Fund..................................	2.63	3.20		3.95	December 17, 1998
Payden Global Short Bond Fund..	3.97	3.83	4.87		September 18, 1996
Payden Global Fixed Income Fund..	3.85	3.87	5.30		September 1, 1992
Payden Emerging Markets Bond Fund...	8.34	12.50		13.06	December 17, 1998
Payden Value Leaders Fund...	12.19	12.29	5.79		November 1, 1996
Payden Market Return Fund...	12.48	13.54	6.35		December 1, 1995
Payden U.S. Growth Leaders Fund..	26.84	15.65		2.28	June 17, 1999
Payden/Wilshire Longevity Fund 2010+**				6.10	June 28, 2007
Payden/Wilshire Longevity Fund 2020+**				6.10	June 28, 2007
Payden/Wilshire Longevity Fund 2030+**				6.20	June 28, 2007
Payden/Wilshire Longevity Fund 2040+**				7.10	June 28, 2007
Metzler/Payden European Emerging Markets Fund.....................	46.45			44.12	December 30, 2002
Metzler/Payden European Leaders Fund......................................	28.61			24.13	December 30, 2002
Metzler/Payden International Real Estate Fund**				0.61	February 21, 2007

* If less than 10 years since inception.
** Not annualized if less than one year since inception.

In addition to average annual total returns, a Fund may quote unaveraged or cumulative total returns for shares reflecting the simple change in value of an investment over a stated period of time. Average annual and cumulative total returns may be quoted as a percentage or as a dollar amount, and may be calculated for a single investment, a series of investments, and/or a series of redemptions, over any time period. Total returns may be broken down into their components of income, capital (including capital gains and changes in share price) and currency returns in order to illustrate the relationship of these factors and their contributions to total return. Total returns, yields and other performance information maybe quoted numerically, or in a table, graph or similar illustration.

OTHER INFORMATION

CAPITALIZATION

P&R Trust

Each Payden Fund and each Payden/Wilshire Longevity Fund is a series of the P&R Trust, an open-end management investment company organized as a Massachusetts business trust in January 1992. The capitalization of each such Fund consists solely of an unlimited number of shares of beneficial interest. The P&R Trust Board of Trustees has currently authorized twenty-one series of shares: Payden Limited Maturity Fund, Payden Short Bond Fund, Payden U.S. Government Fund, Payden GNMA Fund, Payden Core Bond Fund, Payden Opportunity Bond Fund, Payden High Income Fund, Payden Cash Reserves Money Market Fund, Payden Tax Exempt Bond Fund, Payden California Municipal Income Fund, Payden Value Leaders Fund, Payden Market Return Fund, Payden U.S. Growth Leaders Fund, Payden Global Short Bond Fund, Payden Global Fixed Income Fund, Payden Emerging Markets Bond Fund, Payden Global Equity Fund, Payden/Wilshire Longevity Fund 2010+, Payden/Wilshire Longevity Fund 2020+, Payden/Wilshire Longevity Fund 2030+ and Payden/Wilshire Longevity Fund 2040+. Except for the Payden Global Equity Fund, which commences operations on March 31, 2008, each of the Funds is currently open and operational.

Other than the Payden Cash Reserves Money Market Fund, no Fund has more than one class of shares. The P&R Trust Board of Trustees has established a second class of shares, the Class D Shares, of the Payden Cash Reserves Money Market Fund, although no Class D Shares have been issued to date. Advisory and administrative fees will generally be charged to each class of shares based upon the assets of that class. Expenses attributable to a single class of shares will be charged to that class.

The P&R Trust Board of Trustees may establish additional funds (with different investment objectives and fundamental policies) and additional classes of shares at any time in the future. Advisory and administrative fees will generally be charged to each class of shares based upon the assets of that class. Expenses attributable to a single class of shares will be charged to that class. Establishment and offering of additional portfolios will not alter the rights of the Funds' shareholders. Shares do not have preemptive rights or subscription rights. All shares, when issued, will be fully paid and non-assessable by the P&R Trust. The P&R Trust Board of Trustees may liquidate a Fund at any time without shareholder approval. In liquidation of a Fund, each shareholder is entitled to receive his pro rata share of the assets of the Fund.

Expenses incurred by the P&R Trust in connection with its organization and the initial public offering are being reimbursed to Payden, subject to the expense limitation described in the Prospectus under "Investment Adviser", and amortized on a straight line basis over a period of five years. Expenses incurred in the organization of subsequently offered series of the P&R Trust will be charged to those series and will be amortized on a straight line basis over a period of not less than five years.

M/P Trust

Each of the Metzler/Payden Funds is a series of the M/P Trust, an open-end management investment company organized as a Delaware business trust in March 2002. The capitalization of each Metzler/Payden Fund consists solely of an unlimited number of shares of beneficial interest. The M/P Trust Board of Trustees has currently authorized three series of shares: Metzler/Payden European Emerging Markets Fund, Metzler/Payden European Leaders Fund and Metzler/Payden International Real Estate Fund.

The M/P Trust Board of Trustees may establish additional funds (with different investment objectives and fundamental policies) and additional classes of shares at any time in the future. Advisory and administrative fees will generally be charged to each class of shares based upon the assets of that class. Expenses attributable to a single class of shares will be charged to that class. Establishment and offering of additional portfolios will not alter the rights of the Funds' shareholders. Shares do not have preemptive rights or subscription rights. All shares, when issued, will be fully paid and non-assessable by the M/P Trust. The M/P Trust Board of Trustees may liquidate a Fund at any time without shareholder approval. In liquidation of a Fund, each shareholder is entitled to receive his pro rata share of the assets of the Fund.

Expenses incurred by the M/P Trust in connection with its organization and the initial public offering are being reimbursed to Metzler/Payden, subject to the expense limitation described in the Prospectus under "Investment Adviser", and amortized on a straight line basis over a period of five years. Expenses incurred in the organization of subsequently offered series of the M/P Trust will be charged to those series and will be amortized on a straight line basis over a period of not less than five years.

DECLARATION OF TRUST

P&R Trust

Under Massachusetts law, shareholders of a Payden Fund or Longevity Fund could, under certain circumstances, be held personally liable for the obligations of that Fund. However, the Declaration of Trust disclaims liability of the shareholders of a Payden Fund or Longevity Fund for acts or obligations of the P&R Trust, which are binding only on the assets and property of the Fund, and requires that notice of the disclaimer be given in each contract or obligation entered into or executed by a Payden Fund or Longevity Fund Fund or the P&R Trust Board of Trustees. The P&R Trust Declaration of Trust provides for indemnification out of Payden Fund or Longevity Fund property for all loss and expense of any shareholder held personally liable for the obligations of a Payden Fund or Longevity Fund. The risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which a Payden Fund or Longevity Fund itself would be unable to meet its obligations and thus should be considered remote.

The Declaration of Trust provides further that no officer or Trustee of the P&R Trust will be personally liable for any obligations of the P&R Trust, nor will any officer or Trustee be personally liable to the P&R Trust or its shareholders except by reason of his own bad faith, willful misfeasance, gross negligence in the performance of his duties or reckless disregard of his obligations and duties. With these exceptions, the Declaration of Trust provides that a Trustee or officer of the P&R Trust is entitled to be indemnified against all liabilities and expenses, including reasonable accountants' and counsel fees, incurred by the Trustee or officer in connection with the defense or disposition of any proceeding in which he may be involved or with which he may be threatened by reason of his being or having been a Trustee or officer.

The M/P Trust

Under Delaware law, shareholders of a Metzler/Payden Fund are not personally held liable for the obligation of that Fund. The M/P Trust's Declaration of Trust, dated as of May 1, 2002, provides for indemnification out of Metzler/Payden Fund property for all loss and expense of any shareholder held personally liable for the obligations of the Metzler/Payden Fund.

The M/P Trust Declaration of Trust provides further that no officer or Trustee of the M/P Trust will be personally liable for any obligations of the M/P Trust, nor will any officer or Trustee be personally liable to the M/P Trust or its shareholders except by reason of his own bad faith, willful misfeasance, gross negligence in the performance of his duties or reckless disregard of his obligations and duties. With these exceptions, the M/P Trust Declaration of Trust provides that a Trustee or officer of the M/P Trust is entitled to be indemnified against all liabilities and expenses, including reasonable accountants' and counsel fees, incurred by the Trustee or officer in connection with the defense or disposition of any proceeding in which he may be involved or with which he may be threatened by reason of his being or having been a Trustee or officer

VOTING

The P&R Trust

Shareholders of the Payden Funds and Longevity Funds and any other series of the P&R Trust will vote in the aggregate and not by series or class except as otherwise required by law or when the P&R Trust Board of Trustees determines that the matter to be voted upon affects only the interests of the shareholders of a particular series or class of shares. Pursuant to Rule 18f-2 under the 1940 Act, the approval of an investment advisory agreement or any change in a fundamental policy would be acted upon separately by the series affected. Matters such as ratification of the independent registered public accounting firm and election of Trustees are not subject to separate voting requirements and may be acted upon by shareholders of the P&R Trust voting without regard to series or class.

The M/P Trust

Shareholders of the Metzler/Payden Funds and any other series of the M/P Trust will vote in the aggregate and not by series or class except as otherwise required by law or when the M/P Trust Board of Trustees determines that the matter to be voted upon affects only the interests of the shareholders of a particular series or class of shares. Pursuant to Rule 18f-2 under the 1940 Act, the approval of an investment advisory agreement or any change in a fundamental policy would be acted upon separately by the series affected. Matters such as ratification of the independent registered public accounting firm and election of Trustees are not subject to separate voting requirements and may be acted upon by shareholders of the M/P Trust voting without regard to series or class.

MARKET PRICING ERRORS

Each of the P&R Trust Board of Trustees and the M/P Trust Board of Trustees has adopted "Guidelines Concerning Correction of Market Pricing Errors," which set forth the procedures used in handling market pricing errors and their impact on a Fund's net asset value ("NAV") and its shareholders. Depending on the size of the error, corrective action may involve a prospective correction of the NAV only, correction of any erroneous NAV and compensation to the Fund, or correction of any erroneous NAV, compensation to the Fund and reprocessing of individual shareholder transactions. Under the Guidelines, exceptions to the policy may be granted as facts or circumstances warrant.

COUNSEL

Paul, Hastings, Janofsky & Walker LLP ("Paul Hastings") passes upon certain legal matters in connection with the shares offered by either the P&R Trust or the M/P Trust, and also acts as counsel to each of the P&R Trust and M/P Trust and to the Independent Trustees of the P&R Trust and the Independent Trustees of the M/P. Paul Hastings' address is 515 South Flower Street, Los Angeles, California 90071.

LICENSE AGREEMENT AND MARKS

Payden has entered into a non-exclusive License Agreement with the P&R Trust which permits the P&R Trust to use the name "Payden & Rygel". Payden has the right to require the P&R Trust to cease using the name at such time as Payden is no longer employed as investment manager to the P&R Trust.

"Payden" is the service mark of Payden & Rygel.

Metzler/Payden has entered into a non-exclusive License Agreement with the M/P Trust which permits the M/P Trust to use the name "Metzler/Payden". Metzler/Payden has the right to require the M/P Trust to cease using the name at such time as Metzler/Payden is no longer employed as investment manager to the M/P Trust.

"Wilshire" is a registered service mark of Wilshire Associates Incorporated, Santa Monica, California.

FINANCIAL STATEMENTS

Each of the audited financial statements of the Payden Funds, the Payden/Wilshire Longevity Funds and the Metzler/Payden Funds are incorporated in this SAI by reference to its respective 2007 Annual Report to Shareholders on Form N-CSR. The financial statements in such Annual Reports have been audited by the Funds' independent registered public accounting firm, Deloitte & Touche LLP, whose reports thereon also appears in such Annual Reports and are incorporated herein by reference.

Additional copies of each of the Funds' 2007 Annual Reports to Shareholders may be obtained at no charge by calling 1-800-572-9336.

REGISTRATION STATEMENT

This SAI and the Prospectus do not contain all the information included in the P&R Trust's registration statement or the M/P Trust's registration statement, each filed with the Securities and Exchange Commission under the Securities Act with respect to the securities offered hereby, certain portions of which have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. Each registration statement, including the exhibits filed therewith, may be examined at the offices of the Securities and Exchange Commission in Washington, D.C.

Statements contained herein and in the Prospectus as to the contents of any contract or other documents referred to herein are not necessarily complete, and, in each instance, reference is made to the copy of such contract or other documents filed as an exhibit to the relevant registration statement, each such statement being qualified in all respects by such reference.