The Street

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Payden Fund Scours Emerging Markets

By Stan Luxenberg

Kristin Ceva: buying big in Brazil and Russia

NEW YORK (TheStreet) -- Worried that rising interest rates could punish bonds, investors have been dumping some fixed-income funds in recent months. During the first quarter of this year, intermediate-term bond funds had outflows of $4.8 billion, while intermediate-term government funds lost $5.9 billion.

But not all bond funds have lost assets. Among the gainers are emerging market bond funds, which have attracted $2.5 billion. Solid returns have been attracting investors. During the past three years, emerging bond funds have gained 7.7% annually, compared to a return of 5.8% for the Barclays Capital Aggregate Bond Index.

To participate in emerging markets, consider **Payden Emerging Markets Bond**(PYEMX). In the three years through Dec. 31, the fund returned 9.3% annually. Taking into account lower-than-average risks, the fund won **TheStreet's 2011 Best Mutual Fund** award in the *fixed-income emerging markets* category. This year, Payden Emerging Markets Bond is up 1.1%. The runner-up is **TCW Emerging Markets Income Fund**(TGEIX).

Payden portfolio manager Kristin Ceva says part of what is drawing investors has been the growing reputation of emerging economies for delivering solid growth. At a time when the U.S. and other developed countries struggle with budget deficits, many countries in Asia and Latin America are on sound financial footing.

The strength of the emerging markets represents a big change from the 1990s, when financial meltdowns plagued Asia and Latin America. "Emerging market debt has matured as an asset class, and that is attracting pensions and other long-term investors who prefer higher-quality investments," says Ceva.

Make no mistake, emerging bonds can still be volatile, lagging the developed world in downturns. To protect shareholders, the Payden manager keeps a close eye on the outlook for the global economy. If clouds appear on the horizon, the fund can take a defensive stance.

Worried about the credit crisis in 2008, Ceva sold shakier bonds, including issues from Argentina, Venezuela and Ukraine. The move limited losses as markets sank. She also shorted emerging market currencies, betting that they would fall against the dollar. The move produced profits when panicked investors dumped emerging currencies and fled to the security of dollar investments. Helped by the successful strategies, Payden outperformed competitors by a wide margin during the downturn.

As the credit markets began steadying in 2009, Payden started buying lower-quality bonds from Ghana and the Dominican Republic. Ceva figured that the second-tier credits had fallen too sharply and were bound to recover as the global economy revived.

Many emerging markets funds focus on sovereign bonds that are dominated in dollars because those are seen as safest. But Payden takes a broader approach, holding a mix of government and corporate issues, including bonds that are denominated in dollars as well as local currencies. The corporate issues can come with more risk, but they deliver extra yields. Payden currently yields 6%, compared to an average yield of 4.5% for peers.

Ceva favors bonds from countries with solid finances. The fund is currently overweight Brazil, a country with a booming economy and strong balance sheet. Local-currency bonds in the country yield more than 10%. Favorite holdings include bonds from **Vale**(VALE), a dominant mining company that produces iron ore and coal. The fund is also overweight Russia, including issues from energy companies. "Oil prices are going to remain high," says Ceva. "The situation in the Middle East is not going to be resolved any time soon."

Payden sometimes buys shakier bonds when steep yields compensate for extra risks. Ceva holds government bonds from Venezuela. With the government of Hugo Chavez increasing its control of the economy, the outlook for the oil-producing country is troubled. But some sovereign bonds yield more than 12%. "The bonds are priced as if there is a real risk of default, and the country has no history of defaulting," says Ceva.

Sometimes Payden owns a country's currency but not the bonds. The fund currently has currencies from Singapore, Malaysia and the Philippines. Because those countries are growing, Ceva figures that the currencies will appreciate against the dollar. But the fund is staying away from the bonds of most Asian countries because she worries that interest rates will rise, a process that will hurt bond prices.

TheStreet awarded "Best Mutual Funds and ETFs 2011" to 111 funds, half of which were winners in their investment category and half runners-up. The criteria are as follows: Mutual funds must have had a three-year history as of Dec. 31 and been open to new client investments, with the minimum not exceeding $100,000. Closed-end funds and ETFs must have had a one-year track record. The rating is based equally on performance and risk. Emphasis is given to longer-term performance, based on total returns minus expenses. Risk measures include standard deviation, size of peak-to-trough (drawdown factor) and duration.

Through March 31, 2011, total return for the fund was 8.16%, 10.12%, 7.80% and 10.50% for the one-, three-, five- and 10-year periods, respectively. The fund's 30-day SEC Yield was 6.08%. Total fund operating expenses are: 0.86%. Quoted performance data represent past performance, which does not guarantee future results. Investment returns and principal value will fluctuate, so investors' shares when sold, may be worth more or less than their original cost. For the most recent month-end performance, which may be lower or higher than that quoted, visit ***payden.com*** *or call 800 572-9336.*

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