



# PROSPECTUS

**FEBRUARY 26, 2010**

**» U.S. BOND FUNDS**

Payden U.S. Government Fund  
(Adviser Class — Ticker Symbol PYUWX)  
Payden GNMA Fund  
(Adviser Class — Ticker Symbol PYGWX)  
Payden Core Bond Fund  
(Adviser Class — Ticker Symbol PYCWX)  
Payden High Income Fund  
(Adviser Class — Ticker Symbol PYHWX)

**» GLOBAL BOND FUND**

Payden Emerging Markets Bond Fund  
(Adviser Class — Ticker Symbol PYEWX)

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The U.S. Securities and Exchange Commission has not approved or disapproved these securities or passed upon the adequacy of this Prospectus. Any representation to the contrary is a criminal offense.



## table of contents

|  |    |
|--|----|
| » <b>Fund Summaries</b>  |    |
| › <b>U.S. Bond Funds</b>   |    |
| Payden U.S. Government Fund  | 4  |
| Payden GNMA Fund   | 6  |
| Payden Core Bond Fund  | 8  |
| Payden High Income Fund  | 10 |
| › <b>Global Bond Fund</b>  |    |
| Payden Emerging Markets Bond Fund  | 12 |
| › <b>Additional Information</b>  | 14 |
| » <b>More Fund Information</b>   |    |
| › <b>U.S. Bond Funds</b>   | 15 |
| › <b>Global Bond Fund</b>  | 18 |
| › <b>More About Strategies, Risks<br/>and Disclosure of Portfolio Holdings</b> | 20 |
| › <b>Management of the Funds</b>   | 24 |
| › <b>Shareholder Information</b>   |    |
| Pricing of Fund Shares: Net Asset Value  | 25 |
| How to Purchase Shares   | 25 |
| How to Redeem Shares   | 29 |
| Market Timing Activities and Redemption Fees                                   | 29 |
| Dividends and Distributions  | 30 |
| Tax Information  | 30 |
| General Information  | 30 |
| Financial Highlights   | 30 |
| Appendix A: Description of Ratings   | 31 |
| Appendix B: Privacy Notice   | 34 |

## PAYDEN U.S. GOVERNMENT FUND

### INVESTMENT OBJECTIVE:

The Fund seeks a high level of total return that is consistent with preservation of capital.

### FEES AND EXPENSES:

The following table shows the fees and expenses you may pay if you buy and hold shares of the Fund.

|   |              |
|---|--------------|
| <b>Shareholder Fees</b> (fees paid directly from your investment)   | None         |
| <b>Annual Fund Operating Expenses</b> (expenses that you pay each year as a percentage of the value of your investment) |              |
| Management Fee  | 0.28%        |
| Other Expenses  | 0.32%        |
| Distribution (12b-1) Fees   | 0.25%        |
| Acquired Fund Fees and Expenses   | 0.01%        |
| <b>Total Annual Fund Operating Expenses<sup>1</sup></b>   | <b>0.86%</b> |

<sup>1</sup> Payden & Rygel ("Payden") has contractually agreed that for so long as it is the investment adviser to the Fund, the Total Annual Fund Operating Expenses (excluding 12b-1 Distribution Fees, Acquired Fund Fees and Expenses, interest and taxes) will not exceed 0.60%.  
Please Note: The Total Annual Fund Operating Expenses in this fee table do not correlate to the ratio of expenses to average net assets given in the Financial Highlights in this Prospectus (and in the Fund's financial statements), which reflects the Fund's operating expenses but not Acquired Fund Fees and Expenses.

*Example of Fund Expenses:* This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The example also assumes that your investment has a 5% return each year and that the Fund's operating expenses (inclusive of Acquired Fund Fees and Expenses) remain the same. Although your actual expenses may be higher or lower, based on these assumptions your expenses would be:

|                       |                         |                         |                            |
|-----------------------|-------------------------|-------------------------|----------------------------|
| <u>1 Year</u><br>\$88 | <u>3 Years</u><br>\$274 | <u>5 Years</u><br>\$477 | <u>10 Years</u><br>\$1,061 |
|-----------------------|-------------------------|-------------------------|----------------------------|

*Portfolio Turnover.* The Fund pays transaction costs when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in Annual Fund Operating Expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 104% of the average value of its long-term holdings.

### PRINCIPAL INVESTMENT STRATEGIES:

- The Fund invests at least 80% of its total assets in short to intermediate maturity "U.S. Government Obligations," which are defined as U.S. Treasury bills, notes and bonds and other bonds and obligations issued or guaranteed by the U.S. Government, or Government sponsored enterprises (such as the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA)).
- The Fund may invest up to 20% of its total assets in a wide variety of investment grade debt securities payable primarily in U.S. dollars. These include (1) debt securities issued or guaranteed by the U.S. Government, foreign governments and supranational organizations (such as the World Bank); (2) debt securities issued by U.S. and foreign companies; (3) U.S. and foreign mortgage-backed and asset-backed debt securities; (4) municipal debt securities issued by states or by a variety of local governmental organizations; and (5) dividend-paying convertible stock. Investment grade debt securities are rated within the four highest grades by at least one of the major rating agencies, such as Standard & Poor's (at least BBB-), Moody's (at least Baa3) or Fitch (at least BBB-), or are securities that the Fund's adviser, Payden, determines to be of comparable quality.
- Except for mortgage-backed U.S. Government Obligations, the Fund invests in debt securities with a maximum maturity of ten years. Under normal market conditions, the Fund's average portfolio maturity (on a dollar-weighted basis) is generally less than five years. The Fund invests in mortgage-backed U.S. Government Obligations with a maximum effective duration of five years.
- The Fund is "non-diversified," which means that Payden may from time to time invest a larger percentage of the Fund's assets in securities of a limited number of issuers.

### PRINCIPAL INVESTMENT RISKS:

Depending on the circumstances, there is always the risk that you could lose all or a portion of your investment in the Fund. The following risks could also affect the value of your investment in the Fund.

- As with most bond funds, the income on and value of your shares in the Fund will fluctuate along with interest rates. When interest rates rise, the market prices of the debt securities the Fund owns decline. When interest rates fall, the prices of these securities usually increase. Generally, the longer the Fund's average portfolio maturity, the greater the price fluctuation.

**PAYDEN U.S. GOVERNMENT FUND (continued)**

- ♦ Debt obligations issued by the U.S. Treasury, which include U.S. Treasury bills, notes and bonds, are backed by the full faith and credit of the U.S. Government. Debt obligations issued by agencies chartered by the U.S. Government, which are classified as Government sponsored enterprises, may or may not be backed by the full faith and credit of the U.S. Government. For example, GNMA mortgage-backed securities are backed by the full faith and credit of the U.S. Government. On the other hand, FNMA and FHLMC mortgage-backed securities are not. However, each of the FNMA and FHLMC benefits from the Preferred Stock Purchase Agreement it has with the U.S. Treasury which is expected to provide them with the necessary cash resources to meet their obligations through 2012.
- ♦ The Fund is “non-diversified,” which means that compared with diversified funds, the Fund may invest a greater percentage of its assets in a particular issuer. Accordingly, events that affect a few — or even one — of the Fund’s investments may have a greater impact on the value of the Fund’s shares than they would if the Fund were diversified.

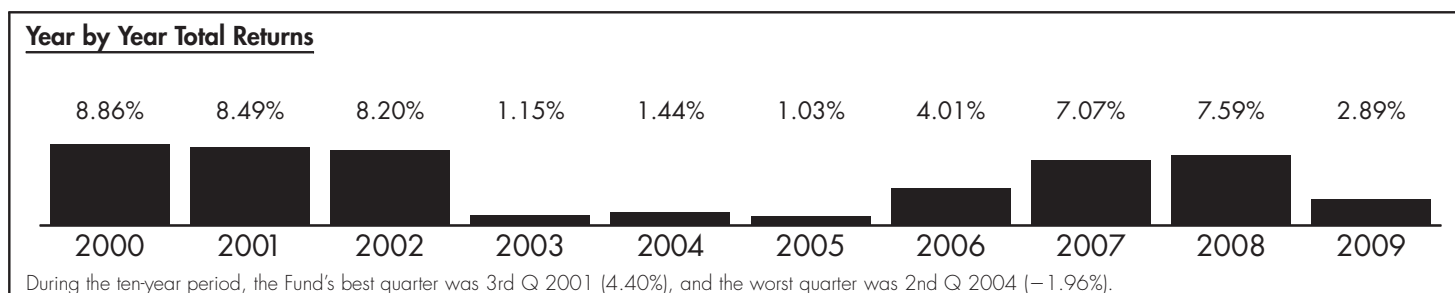
**PAST FUND PERFORMANCE:**

The information in the bar chart and table below provides some indication of the risks of investing in the Fund by showing changes in the Fund’s performance from year to year and by showing how the Fund’s average annual returns over time compare with those of a broad measure of market performance, the Merrill Lynch 1-5 Year Treasury Index.

After-tax returns for the Fund are calculated using the highest individual Federal marginal income tax rates for each year and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor’s tax situation and may differ from those shown. They also may not be relevant to investors who hold Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

The Adviser Class of the Fund, which is offered in this Prospectus, began offering its shares on November 2, 2009. The Investor Class of the Fund, which is not offered in this Prospectus, began offering its shares on January 1, 1995. In the bar chart and table below, performance results are for the Investor Class of the Fund. The Adviser Class would have similar annual returns because the shares are invested in the same portfolio of securities. However, because the Investor Class had lower expenses, its performance was better than the performance the Adviser Class of the Fund would have realized had it existed during the same time period.

Updated performance information for the Fund may be found on the Fund’s Internet site at [payden.com](http://payden.com). Past performance (before and after taxes) is no guarantee of future results.



| <u>Average Annual Returns Through 12/31/09</u>       | 1 Year | 5 Years | 10 Years |
|--|--------|---------|----------|
| <b>Payden U.S. Government Fund</b>                   |        |         |          |
| Before Taxes   | 2.89%  | 4.49%   | 5.02%    |
| After Taxes on Distributions                         | 1.65%  | 3.14%   | 3.48%    |
| After Taxes on Distributions and Sale of Fund Shares | 1.97%  | 3.06%   | 3.40%    |
| Merrill Lynch 1-5 Year Treasury Index                | 0.23%  | 4.40%   | 4.98%    |

(The returns for the index are before any deduction for taxes, fees or expenses.)

**MANAGEMENT:**

*Investment Adviser.* Payden & Rygel is the Fund’s investment adviser.

*Portfolio Manager.* Mary Beth Syal, Chartered Financial Analyst (“CFA”), is a Managing Principal and portfolio manager. She has been with Payden since 1991. David Ballantine, CFA, is a Principal and portfolio manager. He has been with Payden since 1991.

## PAYDEN GNMA FUND

### INVESTMENT OBJECTIVE:

The Fund seeks a high level of total return that is consistent with preservation of capital.

### FEES AND EXPENSES:

The following table shows the fees and expenses you may pay if you buy and hold shares of the Fund.

|   |              |
|---|--------------|
| <b>Shareholder Fees</b> (fees paid directly from your investment)   | None         |
| <b>Annual Fund Operating Expenses</b> (expenses that you pay each year as a percentage of the value of your investment) |              |
| Management Fee  | 0.27%        |
| Other Expenses  | 0.23%        |
| Distribution (12b-1) Fees   | 0.25%        |
| Acquired Fund Fees and Expenses   | 0.02%        |
| <b>Total Annual Fund Operating Expenses</b> <sup>1</sup>  | <b>0.77%</b> |

<sup>1</sup> Payden & Rygel ("Payden") has contractually agreed that for so long as it is the investment adviser to the Fund, the Total Annual Fund Operating Expenses (excluding 12b-1 Distribution Fees, Acquired Fund Fees and Expenses, interest and taxes) will not exceed 0.50%.  
Please Note: The Total Annual Fund Operating Expenses in this fee table do not correlate to the ratio of expenses to average net assets given in the Financial Highlights in this Prospectus (and in the Fund's financial statements), which reflects the Fund's operating expenses but not Acquired Fund Fees and Expenses.

*Example of Fund Expenses:* This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The example also assumes that your investment has a 5% return each year and that the Fund's operating expenses (inclusive of Acquired Fund Fees and Expenses) remain the same. Although your actual expenses may be higher or lower, based on these assumptions your expenses would be:

| <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>10 Years</u> |
|---------------|----------------|----------------|-----------------|
| \$79          | \$246          | \$428          | \$954           |

*Portfolio Turnover.* The Fund pays transaction costs when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in Annual Fund Operating Expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 32% of the average value of its long-term holdings.

### PRINCIPAL INVESTMENT STRATEGIES:

- ♦ The Fund invests at least 80% of its total assets in Government National Mortgage Association mortgage-backed securities (GNMA Securities), which are debt securities representing part ownership in a pool of mortgage loans backed by the full faith and credit of the U.S. Government. The Fund invests the balance of its assets primarily in other "U.S. Government Obligations," which are defined as U.S. Treasury bills, notes and bonds, and other bonds and obligations issued or guaranteed by the U.S. Government, or by Government sponsored enterprises (such as the Federal Home Loan Mortgage Corporation (FHLMC) or Federal National Mortgage Association (FNMA)). However, the Fund may also invest in collateralized mortgage obligations and repurchase agreements collateralized by U.S. Government Obligations or GNMA Securities.
- ♦ The Fund invests in debt securities of any maturity, and there is no limit on the Fund's maximum average portfolio maturity.
- ♦ The Fund is "non-diversified," which means that the Fund's adviser, Payden, may from time to time invest a larger percentage of the Fund's assets in securities of a limited number of issuers.

### PRINCIPAL INVESTMENT RISKS:

Depending on the circumstances, there is always the risk that you could lose all or a portion of your investment in the Fund. The following risks could also affect the value of your investment in the Fund.

- ♦ As with most bond funds, the income on and value of your shares in the Fund will fluctuate along with interest rates. When interest rates rise, the market prices of the debt securities the Fund owns decline. When interest rates fall, the prices of these securities usually increase. However, falling interest rates typically will not affect the prices of GNMA Securities as much as the prices of comparable debt securities because the markets tend to discount GNMA Security prices for prepayment risk when interest rates fall. Further, the longer the Fund's average portfolio maturity, the greater the price fluctuation.
- ♦ The Fund is subject to the prepayment risk applicable to mortgages underlying the GNMA Securities and other mortgage-backed U.S. Government Obligations. Prepayment risk is the chance that the mortgage-backed bonds will be paid off early due to homeowners refinancing their mortgages during periods of falling interest rates. In addition, the Fund is subject to the credit risk associated with

**PAYDEN GNMA FUND (continued)**

these securities, including the market's perception of the creditworthiness of the issuing Federal agency, as well as the credit quality of the underlying assets.

- ♦ Debt obligations issued by the U.S. Treasury, which include U.S. Treasury bills, notes and bonds, are backed by the full faith and credit of the U.S. Government. Debt obligations issued by agencies chartered by the U.S. Government, which are classified as Government sponsored enterprises, may or may not be backed by the full faith and credit of the U.S. Government. For example, GNMA mortgage-backed securities are backed by the full faith and credit of the U.S. Government. On the other hand, FNMA and FHLMC mortgage-backed securities are not. However, each of the FNMA and FHLMC benefits from the Preferred Stock Purchase Agreement it has with the U.S. Treasury which is expected to provide them with the necessary cash resources to meet their obligations through 2012.
- ♦ The Fund is "non-diversified," which means that compared with diversified funds, the Fund may invest a greater percentage of its assets in a particular issuer. Accordingly, events that affect a few — or even one — of the Fund's investments may have a greater impact on the value of the Fund's shares than they would if the Fund were diversified.

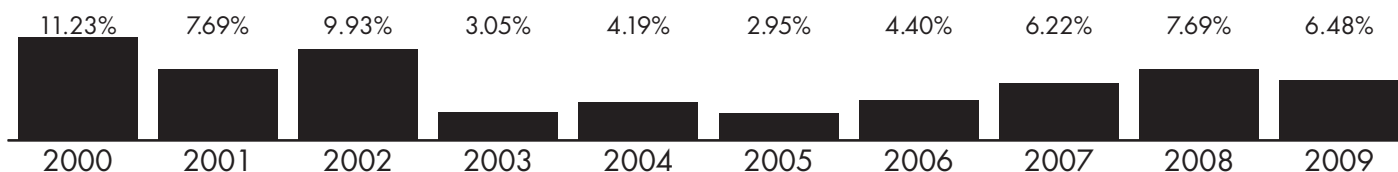
**PAST FUND PERFORMANCE:**

The information in the bar chart and table below provides some indication of the risks of investing in the Fund by showing changes in the Fund's performance from year to year and by showing how the Fund's average annual returns over time compare with those of a broad measure of market performance, the Merrill Lynch GNMA Master Index

After-tax returns for the Fund are calculated using the highest individual Federal marginal income tax rates for each year and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. They also may not be relevant to investors who hold Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

The Adviser Class of the Fund, which is offered in this Prospectus, began offering its shares on November 2, 2009. The Investor Class of the Fund, which is not offered in this Prospectus, began offering its shares on August 27, 1999. In the bar chart and table below, performance results are for the Investor Class of the Fund. The Adviser Class would have similar annual returns because the shares are invested in the same portfolio of securities. However, because the Investor Class had lower expenses, its performance was better than the performance the Adviser Class of the Fund would have realized had it existed during the same time period.

Updated performance information for the Fund may be found on the Fund's Internet site at [payden.com](http://payden.com). Past performance (before and after taxes) is no guarantee of future results.

**Year by Year Total Returns**

During the ten-year period, the Fund's best quarter was 2nd Q 2002 (3.97%), and the worst quarter was 2nd Q 2004 (-1.27%).

**Average Annual Returns Through 12/31/09**

| Payden GNMA Fund                                     | 1 Year | 5 Years | 10 Years |
|--|--------|---------|----------|
| Before Taxes   | 6.48%  | 5.53%   | 6.35%    |
| After Taxes on Distributions                         | 4.67%  | 3.67%   | 4.10%    |
| After Taxes on Distributions and Sale of Fund Shares | 4.18%  | 3.61%   | 4.07%    |
| Merrill Lynch GNMA Master Index                      | 5.37%  | 5.57%   | 6.38%    |

(The returns for the index are before any deduction for taxes, fees or expenses.)

**MANAGEMENT:**

*Investment Adviser.* Payden & Rygel is the Fund's investment adviser.

*Portfolio Manager.* David Ballantine, Chartered Financial Analyst ("CFA"), is a Principal and portfolio manager. Mr. Ballantine has been with Payden since 1991. Gary Greenberg, CFA, is a Senior Vice President and portfolio manager. Mr. Greenberg has been with Payden since 1995.

## PAYDEN CORE BOND FUND

### INVESTMENT OBJECTIVE:

The Fund seeks a high level of total return that is consistent with preservation of capital.

### FEES AND EXPENSES:

The following table shows the fees and expenses you may pay if you buy and hold shares of the Fund.

|   |              |
|---|--------------|
| <b>Shareholder Fees</b> (fees paid directly from your investment)   | None         |
| <b>Annual Fund Operating Expenses</b> (expenses that you pay each year as a percentage of the value of your investment) |              |
| Management Fee  | 0.28%        |
| Other Expenses  | 0.32%        |
| Distribution (12b-1) Fees   | 0.25%        |
| Acquired Fund Fees and Expenses   | 0.01%        |
| <b>Total Annual Fund Operating Expenses<sup>1</sup></b>   | <b>0.86%</b> |

<sup>1</sup> Please Note: The Total Annual Fund Operating Expenses in this fee table do not correlate to the ratio of expenses to average net assets given in the Financial Highlights in this Prospectus (and in the Fund's financial statements), which reflects the Fund's operating expenses but not Acquired Fund Fees and Expenses.

*Example of Fund Expenses:* This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The example also assumes that your investment has a 5% return each year and that the Fund's operating expenses (inclusive of Acquired Fund Fees and Expenses) remain the same. Although your actual expenses may be higher or lower, based on these assumptions your expenses would be:

|                       |                         |                         |                            |
|-----------------------|-------------------------|-------------------------|----------------------------|
| <u>1 Year</u><br>\$88 | <u>3 Years</u><br>\$274 | <u>5 Years</u><br>\$477 | <u>10 Years</u><br>\$1,061 |
|-----------------------|-------------------------|-------------------------|----------------------------|

*Portfolio Turnover.* The Fund pays transaction costs when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in Annual Fund Operating Expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 79% of the average value of its long-term holdings.

### PRINCIPAL INVESTMENT STRATEGIES:

- ♦ The Fund invests in a wide variety of investment grade debt securities payable primarily in U.S. dollars. These include (1) debt securities issued or guaranteed by the U.S. Government, foreign governments and supranational organizations (such as the World Bank); (2) debt securities issued by U.S. and foreign companies; (3) U.S. and foreign mortgage-backed and asset-backed debt securities; (4) municipal debt securities issued by states or by a variety of local governmental organizations; (5) dividend-paying convertible stock; and (6) convertible bonds and preferred stock. Investment grade debt securities are rated within the four highest grades by at least one of the major rating agencies, such as Standard & Poor's (at least BBB-), Moody's (at least Baa3) or Fitch (at least BBB-), or are securities that the Fund's adviser, Payden & Rygel ("Payden"), determines to be of comparable quality.
- ♦ The Fund invests in debt securities of any maturity, and there is no limit on the Fund's maximum average portfolio maturity.
- ♦ The Fund is "non-diversified," which means that Payden may from time to time invest a larger percentage of the Fund's assets in securities of a limited number of issuers.

### PRINCIPAL INVESTMENT RISKS:

Depending on the circumstances, there is always the risk that you could lose all or a portion of your investment in the Fund. The following risks could also affect the value of your investment in the Fund.

- ♦ As with most bond funds, the income on and value of your shares in the Fund will fluctuate along with interest rates. When interest rates rise, the market prices of the debt securities the Fund owns decline. When interest rates fall, the prices of these securities usually increase. Generally, the longer the Fund's average portfolio maturity, the greater the price fluctuation.
- ♦ To the extent the Fund invests in corporate debt securities, the Fund is subject to credit risk, that is, the risk that the corporate issuer of a debt security will be unable to make interest or principal payments on time. A debt security's credit rating reflects the credit risk associated with the debt obligation. Higher-rated debt securities involve lower credit risk than lower-rated debt securities. Generally, credit risk is higher for corporate and foreign government debt securities than for U.S. Government securities.
- ♦ Investing in mortgage-backed and asset-backed securities poses additional risks, principally with respect to increased credit risk and prepayment risk.

**PAYDEN CORE BOND FUND (continued)**

- ♦ The performance of foreign securities can be adversely affected by the different political, regulatory and economic environments in countries where the Fund invests, and fluctuations in foreign currency exchange rates may also adversely affect the value of foreign securities.
- ♦ The Fund is “non-diversified,” which means that compared with diversified funds, the Fund may invest a greater percentage of its assets in a particular issuer. Accordingly, events that affect a few — or even one — of the Fund’s investments may have a greater impact on the value of the Fund’s shares than they would if the Fund were diversified.

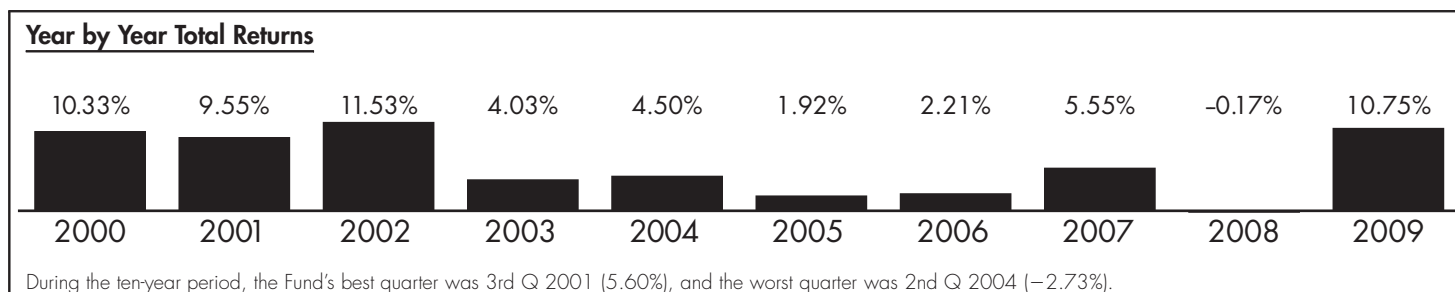
**PAST FUND PERFORMANCE:**

The information in the bar chart and table below provides some indication of the risks of investing in the Fund by showing changes in the Fund’s performance from year to year and by showing how the Fund’s average annual returns over time compare with those of a broad measure of market performance, the Barclays Capital Aggregate Bond Index.

After-tax returns for the Fund are calculated using the highest individual Federal marginal income tax rates for each year and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor’s tax situation and may differ from those shown. They also may not be relevant to investors who hold Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

The Adviser Class of the Fund, which is offered in this Prospectus, began offering its shares on November 2, 2009. The Investor Class of the Fund, which is not offered in this Prospectus, began offering its shares on January 1, 1994. In the bar chart and table below, performance results are for the Investor Class of the Fund. The Adviser Class would have similar annual returns because the shares are invested in the same portfolio of securities. However, because the Investor Class had lower expenses, its performance was better than the performance the Adviser Class of the Fund would have realized had it existed during the same time period.

Updated performance information for the Fund may be found on the Fund’s Internet site at [payden.com](http://payden.com). Past performance (before and after taxes) is no guarantee of future results.



| <b>Average Annual Returns Through 12/31/08</b>       | <b>1 Year</b> | <b>5 Years</b> | <b>10 Years</b> |
|--|---------------|----------------|-----------------|
| <b>Payden Core Bond Fund</b>                         |               |                |                 |
| Before Taxes   | 10.75%        | 3.98%          | 5.94%           |
| After Taxes on Distributions                         | 8.87%         | 2.30%          | 4.13%           |
| After Taxes on Distributions and Sale of Fund Shares | 6.93%         | 2.40%          | 4.01%           |
| Barclays Capital Aggregate Bond Index                | 5.93%         | 4.97%          | 6.32%           |

(The returns for the index are before any deduction for taxes, fees or expenses.)

**MANAGEMENT:**

*Investment Adviser.* Payden & Rygel is the Fund’s investment adviser.

*Portfolio Manager.* Michael Salvay, Chartered Financial Analyst (“CFA”), is a Managing Principal and portfolio manager. Mr. Salvay has been with Payden since 1997. Kristin Ceva, CFA, is a Managing Principal and portfolio manager. Ms. Ceva has been with Payden since 1998.

## PAYDEN HIGH INCOME FUND

### INVESTMENT OBJECTIVE:

The Fund seeks high current income while providing for capital appreciation by investing primarily in a diversified portfolio of below investment grade bonds.

### FEES AND EXPENSES:

The following table shows the fees and expenses you may pay if you buy and hold shares of the Fund.

|  |              |
|--|--------------|
| <b>Shareholder Fees</b> (fees paid directly from your investment)  |              |
| Redemption Fee (as a percentage of amount redeemed, if you redeem or exchange shares within 30 days of purchase of the shares) | 2.00%        |
| <b>Annual Fund Operating Expenses</b> (expenses that you pay each year as a percentage of the value of your investment)        |              |
| Management Fee   | 0.35%        |
| Other Expenses   | 0.30%        |
| Distribution (12b-1) Fees  | 0.25%        |
| Acquired Fund Fees and Expenses  | 0.02%        |
| <b>Total Annual Fund Operating Expenses<sup>1</sup></b>  | <b>0.92%</b> |

<sup>1</sup> Please Note: The Total Annual Fund Operating Expenses in this fee table do not correlate to the ratio of expenses to average net assets given in the Financial Highlights in this Prospectus (and in the Fund's financial statements), which reflects the Fund's operating expenses but not Acquired Fund Fees and Expenses.

*Example of Fund Expenses:* This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The example also assumes that your investment has a 5% return each year and that the Fund's operating expenses (inclusive of Acquired Fund Fees and Expenses) remain the same. Although your actual expenses may be higher or lower, based on these assumptions your expenses would be:

| <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>10 Years</u> |
|---------------|----------------|----------------|-----------------|
| \$94          | \$293          | \$509          | \$1,131         |

*Portfolio Turnover.* The Fund pays transaction costs when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in Annual Fund Operating Expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 50% of the average value of its long-term holdings.

### PRINCIPAL INVESTMENT STRATEGIES:

- The Fund invests in a wide variety of debt securities and other similar debt instruments. These include (1) debt securities issued by U.S. and foreign companies; (2) debt securities issued or guaranteed by the U.S. Government, foreign governments and supranational organizations (such as the World Bank); (3) municipal debt securities issued by states or by a variety of local governmental organizations; (4) dividend-paying convertible stock; and (5) convertible bonds and preferred stock.
- Under normal market conditions, the Fund invests at least 80% of its total assets in corporate debt securities rated below investment grade (commonly called "junk bonds"). Investment grade debt securities are rated within the four highest grades by at least one of the major rating agencies, such as Standard & Poor's (at least BBB-), Moody's (at least Baa3) or Fitch (at least BBB-), or are securities that the Fund's adviser, Payden & Rygel ("Payden"), determines to be of comparable quality.
- The Fund emphasizes investments in debt securities of (1) issuers with credit ratings at the lower-risk end of the high yield bond spectrum, which Payden believes have stable to improving business prospectus, and (2) issuers Payden believes are in the growth stage of development and have reasonable prospects for improved operating results and credit ratings.
- The Fund's total investment in securities of issuers organized or headquartered in emerging market countries will not exceed 30% of its total assets.
- The Fund invests up to 20% of its total assets in equity securities of U.S. or foreign issuers.
- The Fund invests in debt securities payable in U.S. dollars and in foreign currencies. The Fund may hedge this foreign currency exposure to the U.S. dollar.
- The Fund invests in debt securities of any maturity and there is no limit on the Fund's maximum average portfolio maturity.

### PRINCIPAL INVESTMENT RISKS:

Depending on the circumstances, there is always the risk that you could lose all or a portion of your investment in the Fund. The following risks could also affect the value of your investment in the Fund.

**PAYDEN HIGH INCOME FUND (continued)**

- ♦ As with most bond funds, the income on and value of your shares in the Fund will fluctuate along with interest rates. When interest rates rise, the market prices of the debt securities the Fund owns decline. When interest rates fall, the prices of these securities usually increase. Generally, the longer the Fund's average portfolio maturity, the greater the price fluctuation.
- ♦ Below investment grade securities (commonly called "junk bonds") are speculative and involve a greater risk of default and price change due to changes in the issuer's creditworthiness, and the market prices of these debt securities may be more volatile and may decline more significantly in periods of general economic difficulty.
- ♦ The performance of foreign securities can be adversely affected by the different political, regulatory and economic environments in countries where the Fund invests, and fluctuations in foreign currency exchange rates may also adversely affect the value of foreign securities. In addition, emerging markets tend to be more volatile than the U.S. market or developed foreign markets.
- ♦ Investing in equity securities poses certain risks, including a sudden decline in a holding's share price, or an overall decline in the stock market. The value of the Fund's investment in any such securities will fluctuate on a day-to-day basis with movements in the stock market, as well as in response to the activities of individual companies whose equity securities the Fund owns.

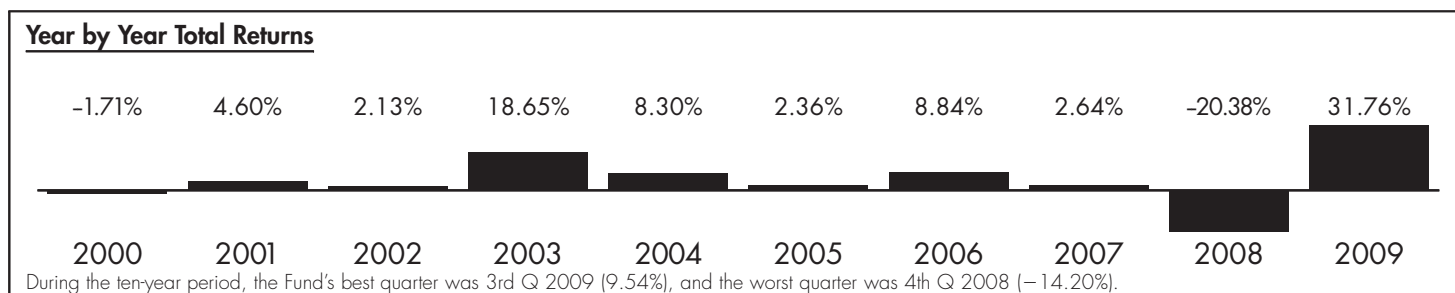
**PAST FUND PERFORMANCE:**

The information in the bar chart and table below provides some indication of the risks of investing in the Fund by showing changes in the Fund's performance from year to year and by showing how the Fund's average annual returns over time compare with those of two broad measures of market performance, the Merrill Lynch High Yield Cash Pay Constrained Index and the Merrill Lynch BB-B High Yield Cash Pay Constrained Index.

After-tax returns for the Fund are calculated using the highest individual Federal marginal income tax rates for each year and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. They also may not be relevant to investors who hold Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

The Adviser Class of the Fund, which is offered in this Prospectus, began offering its shares on November 2, 2009. The Investor Class of the Fund, which is not offered in this Prospectus, began offering its shares on December 30, 1997. In the bar chart and table below, performance results are for the Investor Class of the Fund. The Adviser Class would have similar annual returns because the shares are invested in the same portfolio of securities. However, because the Investor Class had lower expenses, its performance was better than the performance the Adviser Class of the Fund would have realized had it existed during the same time period.

Updated performance information for the Fund may be found on the Fund's Internet site at [payden.com](http://payden.com). Past performance (before and after taxes) is no guarantee of future results.



| <b>Average Annual Returns Through 12/31/09</b>  | <b>1 Year</b> | <b>5 Years</b> | <b>10 Years</b> |
|---|---------------|----------------|-----------------|
| <b>Payden High Income Fund</b>  |               |                |                 |
| Before Taxes  | 31.76%        | 3.70%          | 4.93%           |
| After Taxes on Distributions  | 28.22%        | 1.04%          | 2.04%           |
| After Taxes on Distributions and Sale of Fund Shares  | 20.64%        | 1.63%          | 2.44%           |
| Merrill Lynch High Yield Cash Pay Constrained Index<br>(The returns for the index are before any deduction for taxes, fees or expenses.)      | 56.78%        | 6.24%          | 6.89%           |
| Merrill Lynch BB-B High Yield Cash Pay Constrained Index<br>(The returns for the index are before any deduction for taxes, fees or expenses.) | 45.98%        | 5.49%          | 6.37%           |

**MANAGEMENT:**

*Investment Adviser.* Payden & Rygel is the Fund's investment adviser.

*Portfolio Manager.* Sabur Moini, a Senior Vice President and portfolio manager, has been with Payden since 2000. Gregory Tornga, a Vice President and portfolio manager, has been with Payden since 2004.

## PAYDEN EMERGING MARKETS BOND FUND

### INVESTMENT OBJECTIVE:

The Fund seeks a high level of total return.

### FEES AND EXPENSES:

The following table shows the fees and expenses you may pay if you buy and hold shares of this Fund.

|  |              |
|--|--------------|
| <b>Shareholder Fees</b> (fees paid directly from your investment)  |              |
| Redemption Fee (as a percentage of amount redeemed, if you redeem or exchange shares within 30 days of purchase of the shares) | 2.00%        |
| <b>Annual Fund Operating Expenses</b> (expenses that you pay each year as a percentage of the value of your investment)        |              |
| Management Fee   | 0.45%        |
| Other Expenses   | 0.38%        |
| Distribution (12b-1) Fees  | 0.25%        |
| Acquired Fund Fees and Expenses  | 0.02%        |
| <b>Total Annual Fund Operating Expenses<sup>1</sup></b>  | <b>1.10%</b> |

<sup>1</sup> Please Note: The Total Annual Fund Operating Expenses in this fee table do not correlate to the ratio of expenses to average net assets given in the Financial Highlights in this Prospectus (and in the Fund's financial statements), which reflects the Fund's operating expenses but not Acquired Fund Fees and Expenses.

*Example of Fund Expenses:* This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The example also assumes that your investment has a 5% return each year and that the Fund's operating expenses (inclusive of Acquired Fund Fees and Expenses) remain the same. Although your actual expenses may be higher or lower, based on these assumptions your expenses would be:

| <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>10 Years</u> |
|---------------|----------------|----------------|-----------------|
| \$112         | \$350          | \$606          | \$1,340         |

*Portfolio Turnover.* The Fund pays transaction costs when it buys and sells securities (or “turns over” its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in Annual Fund Operating Expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 103% of the average value of its long-term holdings.

### PRINCIPAL INVESTMENT STRATEGIES:

- ♦ The Fund invests in a wide variety of debt securities and similar debt instruments. These include (1) debt securities issued or guaranteed by the U.S. Government, foreign governments and supranational organizations (such as the World Bank); (2) debt securities issued by U.S. and foreign companies; (3) dividend-paying convertible stock; and (4) convertible bonds and preferred stock.
- ♦ Under normal market conditions, the Fund invests at least 80% of its total assets in debt securities and similar debt instruments issued by governments, agencies and instrumentalities of emerging market countries (or economically linked with such securities), and other issuers organized or headquartered in emerging market countries. Generally, an “emerging market country” is any country which the World Bank, the International Finance Corporation or the United Nations defines as having an emerging or developing economy.
- ♦ The Fund may invest up to 20% of its total assets in other debt securities and similar debt instruments, including those of issuers located in countries with developed securities markets.
- ♦ Under normal market conditions, the Fund invests a substantial portion of its total assets in debt securities of issuers whose securities are rated below investment grade (commonly called “junk bonds”). Investment grade debt securities are rated within the four highest grades by at least one of the major rating agencies, such as Standard & Poor's (at least BBB-), Moody's (at least Baa3) or Fitch (at least BBB-), or are securities that the Fund's adviser, Payden & Rygel (“Payden”), determines to be of comparable quality.
- ♦ The Fund invests in debt securities payable in U.S. dollars and in foreign currencies. The Fund may hedge this foreign currency exposure to the U.S. dollar.
- ♦ The Fund invests in debt securities of any maturity, and there is no limit on the Fund's maximum average portfolio maturity.
- ♦ The Fund may invest up to 20% of its total assets in equity securities of U.S. or foreign issuers.
- ♦ The Fund is “non-diversified,” which means that Payden may from time to time invest a larger percentage of the Fund's assets in securities of a limited number of issuers.

### PRINCIPAL INVESTMENT RISKS:

Depending on the circumstances, there is always the risk that you could lose all or a portion of your investment in the Fund. The following risks could also affect the value of your investment in the Fund.

**PAYDEN EMERGING MARKETS BOND FUND (continued)**

- ♦ As with most bond funds, the income on and value of your shares in the Fund will fluctuate along with interest rates. When interest rates rise, the market prices of the debt securities the Fund owns decline. When interest rates fall, the prices of these securities usually increase. Generally, the longer the Fund's average portfolio maturity, the greater the price fluctuation.
- ♦ The performance of foreign securities can be adversely affected by the different political, regulatory and economic environments in countries where the Fund invests, and fluctuations in foreign currency exchange rates may also adversely affect the value of foreign securities. In addition, emerging markets tend to be more volatile than the U.S. market or developed foreign markets.
- ♦ Below investment grade securities (commonly called "junk bonds") are speculative and involve a greater risk of default and price change due to changes in the issuer's creditworthiness, and the market prices of these debt securities may be more volatile and may decline more significantly in periods of general economic difficulty.
- ♦ Investing in equity securities poses certain risks, including a sudden decline in a holding's share price, or an overall decline in the stock market. The value of the Fund's investment in any such securities will fluctuate on a day-to-day basis with movements in the stock market, as well as in response to the activities of individual companies whose equity securities the Fund owns.
- ♦ The Fund is "non-diversified," which means that compared with diversified funds, the Fund may invest a greater percentage of its assets in a particular issuer. Accordingly, events that affect a few — or even one — of the Fund's investments may have a greater impact on the value of the Fund's shares than they would if the Fund were diversified.

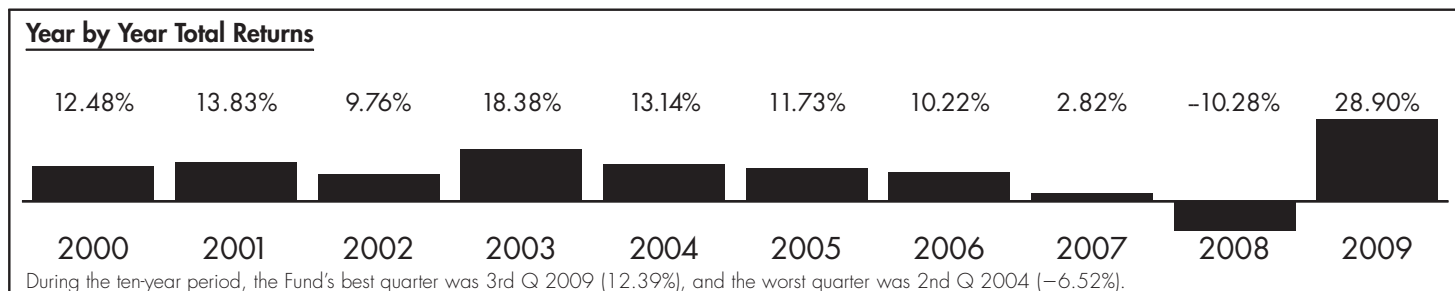
**PAST FUND PERFORMANCE:**

The information in the bar chart and table below provides some indication of the risks of investing in the Fund by showing changes in the Fund's performance from year to year and by showing how the Fund's average annual returns over time compare with those of two broad measures of market performance, the J.P. Morgan EMBI Global Diversified Index and the J.P. Morgan EMBI Global Index.

After-tax returns for the Fund are calculated using the highest individual Federal marginal income tax rates for each year and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. They also may not be relevant to investors who hold Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

The Adviser Class of the Fund, which is offered in this Prospectus, began offering its shares on November 2, 2009. The Investor Class of the Fund, which is not offered in this Prospectus, began offering its shares on December 17, 1998. In the bar chart and table below, performance results are for the Investor Class of the Fund. The Adviser Class would have similar annual returns because the shares are invested in the same portfolio of securities. However, because the Investor Class had lower expenses, its performance was better than the performance the Adviser Class of the Fund would have realized had it existed during the same time period.

Updated performance information for the Fund may be found on the Fund's Internet site at [payden.com](http://payden.com). Past performance (before and after taxes) is no guarantee of future results.



| Average Annual Returns Through 12/31/09   | 1 Year | 5 Years | 10 Years |
|---|--------|---------|----------|
| <b>Payden Emerging Markets Bond Fund</b>  |        |         |          |
| Before Taxes  | 28.90% | 7.89%   | 10.64%   |
| After Taxes on Distributions  | 26.34% | 6.10%   | 7.59%    |
| After Taxes on Distributions and Sale of Fund Shares  | 18.61% | 5.83%   | 7.35%    |
| J.P. Morgan EMBI Global Diversified Index<br><small>(The returns for the index are before any deduction for taxes, fees or expenses.)</small> | 29.82% | 7.98%   | 10.89%   |
| J.P. Morgan EMBI Global Index<br><small>(The returns for the index are before any deduction for taxes, fees or expenses.)</small>             | 28.18% | 8.10%   | 10.51%   |

**MANAGEMENT:**

*Investment Adviser.* Payden & Rygel is the Fund's investment adviser.

*Portfolio Manager.* Kristin Ceva, Chartered Financial Analyst ("CFA"), a Managing Principal and portfolio manager, has been with Payden since 1998. Cristina Panait, CFA, a Vice President and portfolio manager, has been with Payden since 2000.

**PURCHASE AND SALE OF FUND SHARES:**

The minimum initial and subsequent investment amounts for each type of account are as follows:

| <b>ACCOUNT TYPE</b>   | <b>INITIAL<br/>INVESTMENT</b> | <b>ADDITIONAL<br/>INVESTMENT</b> |
|-----------------------|-------------------------------|----------------------------------|
| Regular               | \$5,000                       | \$250                            |
| Tax-Sheltered         | \$2,000                       | \$250                            |
| Electronic Investment |                               |                                  |
| Set schedule          | \$2,000                       | \$250                            |
| No set schedule       | \$5,000                       | \$250                            |
| Automatic Exchange    | NA                            | \$250                            |

You may redeem shares by contacting the Funds in writing, at Payden Mutual Funds, P.O. Box 1611, Milwaukee, WI 53201-1611, by calling 1-800-572-9336, via the Funds' Internet site at *payden.com* or through a financial intermediary. Purchases and redemptions by telephone are only permitted if you previously established these options on your account.

**TAX INFORMATION:**

The Funds' distributions are taxable, and will be taxed as ordinary income or capital gains, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

**PAYMENTS TO BROKER-DEALERS AND OTHER FINANCIAL INTERMEDIARIES:**

If you purchase any of the Funds through a broker-dealer or other financial intermediary (such as a bank), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your salesperson or visit your financial intermediary's Web site for more information.

**PAYDEN U.S. GOVERNMENT FUND Ticker Symbol PYUWX****INVESTMENT OBJECTIVE:**

The Fund seeks a high level of total return that is consistent with preservation of capital.

**PRINCIPAL INVESTMENT STRATEGIES:**

- ♦ The Fund invests at least 80% of its total assets in short to intermediate maturity “U.S. Government Obligations,” which are defined as U.S. Treasury bills, notes and bonds and other bonds and obligations issued or guaranteed by the U.S. Government, or by Government sponsored enterprises (such as the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA)). Under normal market conditions, the Fund invests at least 80% of its total assets in U.S. Government Obligations.
- ♦ The Fund may invest up to 20% of its total assets in a wide variety of investment grade debt securities payable primarily in U.S. dollars. These include (1) debt securities issued or guaranteed by the U.S. Government, foreign governments and supranational organizations (such as the World Bank); (2) debt securities issued by U.S. and foreign companies; (3) U.S. and foreign mortgage-backed and asset-backed debt securities; (4) municipal debt securities issued by states or by a variety of local governmental organizations; and (5) dividend-paying convertible stock. Investment grade debt securities are rated within the four highest grades by at least one of the major rating agencies, such as Standard & Poor’s (at least BBB-), Moody’s (at least Baa3) or Fitch (at least BBB-), or are securities that Payden determines to be of comparable quality.
- ♦ Except for mortgage-backed U.S. Government Obligations, the Fund invests in debt securities with a maximum maturity of ten years. Under normal market conditions, the average portfolio maturity (on a dollar-weighted basis) is generally less than five years. The Fund invests in mortgage-backed U.S. Government Obligations with a maximum effective duration of five years. Duration is a mathematical concept which uses anticipated cash flows to measure the price volatility of a security and is calculated in terms of years. For example, when interest rates move up or down, the price of a security with a duration of four years will move roughly twice as much as a security with a duration of two years.
- ♦ The Fund invests in debt securities that Payden believes offer attractive yields and are undervalued relative to securities of similar credit quality and interest rate sensitivity. Payden reviews historical interest rate spread relationships, as well as economic and issuer scenario analyses, in making investment decisions.
- ♦ The Fund is “non-diversified,” which means that Payden may from time to time invest a larger percentage of the Fund’s assets in securities of a limited number of issuers.

**PRINCIPAL INVESTMENT RISKS:**

- ♦ As with most bond funds, the income on and value of your shares in the Fund will fluctuate along with interest rates. When interest rates rise, the market prices of the debt securities the Fund owns usually decline. When interest rates fall, the prices of these securities usually increase. Generally, the longer the Fund’s average portfolio maturity, the greater the price fluctuation. The price of any security owned by the Fund may also fall in response to events affecting the issuer of the security, such as its ability to continue to make principal and interest payments, or its credit ratings. By investing in the Fund, therefore, you could lose money.
- ♦ Debt obligations issued by the U.S. Treasury, which include U.S. Treasury bills, notes and bonds, are backed by the full faith and credit of the U.S. Government. Debt obligations issued by agencies chartered by the U.S. Government, which are classified as Government sponsored enterprises, may or may not be backed by the full faith and credit of the U.S. Government. For example, mortgage-backed securities issued by GNMA are backed by the full faith and credit of the U.S. Government. On the other hand, mortgage-backed securities issued by FNMA and FHLMC are not. However, each of the FNMA and FHLMC benefits from the Preferred Stock Purchase Agreement it has with the U.S. Treasury which is expected to provide them with the necessary cash resources to meet their obligations through 2012. For further information, please see the “U.S. Government and Agency Securities” discussion in the “More About Strategies, Risks and Disclosure of Portfolio Holdings” section in this Prospectus.
- ♦ The Fund is “non-diversified.” As a result, events that affect a few — or even one — of the Fund’s investments may have a greater impact on the value of the Fund’s shares than they would if the Fund were diversified.

**PAYDEN GNMA FUND Ticker Symbol PYGWX****INVESTMENT OBJECTIVE:**

The Fund seeks a high level of total return that is consistent with preservation of capital.

**PRINCIPAL INVESTMENT STRATEGIES:**

- ♦ Under normal market conditions, the Fund invests at least 80% of its total assets in Government National Mortgage Association mortgage-backed securities (“GNMA Securities”), which are debt securities representing part ownership in a pool of mortgage loans backed by the full faith and credit of the U.S. Government. The Fund invests the balance of its assets primarily in other “U.S. Government Obligations,” which are defined as U.S. Treasury bills, notes and bonds, and other bonds and obligations issued or guaranteed by the U.S. Government, or by Government sponsored enterprises (such as the Federal Home Loan Mortgage Corporation

**PAYDEN GNMA FUND Ticker Symbol PYGWX (continued)**

(FHLMC) or Federal National Mortgage Association (FNMA)). However, the Fund may also invest in collateralized mortgage obligations and repurchase agreements collateralized by U.S. Government Obligations or GNMA Securities.

- ♦ The Fund invests in debt securities of any maturity, and there is no limit on the Fund's maximum average portfolio maturity.
- ♦ The Fund invests in debt securities that Payden believes offer attractive yields and are undervalued relative to securities of similar credit quality and interest rate sensitivity. Payden reviews historical interest rate spread relationships, as well as economic and issuer scenario analyses, in making investment decisions.
- ♦ The Fund is "non-diversified," which means that Payden may from time to time invest a larger percentage of the Fund's assets in securities of a limited number of issuers.

**PRINCIPAL INVESTMENT RISKS:**

- ♦ As with most bond funds, the income on and value of your shares in the Fund will fluctuate along with interest rates. When interest rates rise, the market prices of the debt securities the Fund owns usually decline. When interest rates fall, the prices of these securities usually increase. However, falling interest rates typically will not affect the prices of GNMA Securities as much as the prices of comparable debt securities. This is because the markets tend to discount GNMA Security prices for prepayment risk when interest rates fall. Further, the longer the Fund's average portfolio maturity, generally the greater the price fluctuation. Finally, the price of any security owned by the Fund may also fall in response to events affecting the issuer of the security, such as its ability to continue to make principal and interest payments, or its credit ratings. By investing in the Fund, therefore, you could lose money.
- ♦ The Fund is subject to the prepayment risk applicable to the mortgages underlying the GNMA Securities and other mortgage-backed U.S. Government Obligations. Prepayment risk is the chance that the mortgage-backed bonds will be paid off early due to homeowners refinancing their mortgages during periods of falling interest rates. Forced to reinvest the unanticipated proceeds at lower rates, the Fund would experience a decline in income and lose the opportunity for additional price appreciation associated with falling rates. Prepayment risk is high for the Fund. In addition, the Fund is subject to the credit risk associated with these securities, including the market's perception of the creditworthiness of the issuing Federal agency or private entity, as well as the credit quality of the underlying assets. For further information, please see the "Mortgage-Backed Securities" discussion in the "More About Strategies, Risks and Disclosure of Portfolio Holdings" section in this Prospectus.
- ♦ Debt obligations issued by the U.S. Treasury, which include U.S. Treasury bills, notes and bonds, are backed by the full faith and credit of the U.S. Government. Debt obligations issued by agencies chartered by the U.S. Government, which are classified as Government sponsored enterprises, may or may not be backed by the full faith and credit of the U.S. Government. For example, GNMA securities are backed by the full faith and credit of the U.S. Government. On the other hand, mortgage-backed securities issued by FNMA and FHLMC are not. However, each of the FNMA and FHLMC benefits from the Preferred Stock Purchase Agreement it has with the U.S. Treasury which is expected to provide them with the necessary cash resources to meet their obligations through 2012. For further information, please see the "U.S. Government and Agency Securities" discussion in the "More About Strategies, Risks and Disclosure of Portfolio Holdings" section in this Prospectus.
- ♦ The Fund is "non-diversified." As a result, events that affect a few — or even one — of the Fund's investments may have a greater impact on the value of the Fund's shares than they would if the Fund were diversified.

**PAYDEN CORE BOND FUND Ticker Symbol PYCWX****INVESTMENT OBJECTIVE:**

The Fund seeks a high level of total return that is consistent with preservation of capital.

**PRINCIPAL INVESTMENT STRATEGIES:**

- ♦ The Fund invests in a wide variety of investment grade debt securities payable primarily in U.S. dollars. These include (1) debt securities issued or guaranteed by the U.S. Government and foreign governments and their agencies and instrumentalities, political subdivisions of foreign governments (such as provinces and municipalities), and supranational organizations (such as the World Bank); (2) debt securities, loans and commercial paper issued by U.S. and foreign companies; (3) U.S. and foreign mortgage-backed and asset-backed debt securities; (4) municipal securities, which are debt obligations issued by state and local governments, territories and possessions of the United States, regional governmental authorities, and their agencies and instrumentalities, the interest on which may, or may not, be exempt from Federal income tax; (5) dividend-paying convertible stock; and (6) convertible bonds and preferred stock. Investment grade debt securities are rated within the four highest grades by at least one of the major rating agencies, such as Standard & Poor's (at least BBB-), Moody's (at least Baa3) or Fitch (at least BBB-), or are securities that Payden determines to be of comparable quality. Further information regarding credit ratings is in Appendix A.
- ♦ The Fund invests in debt securities of any maturity, and there is no limit on the Fund's maximum average portfolio maturity.
- ♦ The Fund invests in debt securities that Payden believes offer attractive yields and are undervalued relative to securities of similar credit quality and interest rate sensitivity. Payden reviews historical interest rate spread relationships, as well as economic and company scenario analyses, in making investment decisions.

**PAYDEN CORE BOND FUND Ticker Symbol PYCWX (continued)**

- ♦ The Fund is “non-diversified,” which means that Payden may from time to time invest a larger percentage of the Fund’s assets in securities of a limited number of issuers.

**PRINCIPAL INVESTMENT RISKS:**

- ♦ As with most bond funds, the income on and value of your shares in the Fund will fluctuate along with interest rates. When interest rates rise, the market prices of the debt securities the Fund owns usually decline. When interest rates fall, the prices of these securities usually increase. Generally, the longer the Fund’s average portfolio maturity, the greater the price fluctuation. The price of any security owned by the Fund may also fall in response to events affecting the issuer of the security, such as its ability to continue to make principal and interest payments, or its credit ratings. By investing in the Fund, therefore, you could lose money.
- ♦ To the extent the Fund invests in corporate debt securities, the Fund is subject to credit risk, that is, the risk that the corporate issuer of a debt security will be unable to make interest or principal payments on time. A debt security’s credit rating reflects the credit risk associated with the debt obligation. Higher-rated debt securities involve lower credit risk than lower-rated debt securities. Generally, credit risk is higher for corporate and foreign government debt securities than for U.S. Government securities.
- ♦ Investing in mortgage-backed and asset-backed securities poses additional risks, principally with respect to increased credit risk and prepayment risk. For more detailed information, please see the “Mortgage-Backed Securities” and “Asset-Backed Receivables” discussions in the “More About Strategies, Risks and Disclosure of Portfolio Holdings” section in this Prospectus.
- ♦ Investing in foreign securities poses additional risks. The performance of foreign securities can be adversely affected by the different political, regulatory and economic environments in countries where the Fund invests. Fluctuations in foreign currency exchange rates may also adversely affect the value of foreign debt securities in which the Fund has invested.
- ♦ The Fund is “non-diversified.” As a result, events that affect a few — or even one — of the Fund’s investments may have a greater impact on the value of the Fund’s shares than they would if the Fund were diversified.

**PAYDEN HIGH INCOME FUND Ticker Symbol PYHWX****INVESTMENT OBJECTIVE:**

The Fund seeks high current income while providing for capital appreciation by investing primarily in a diversified portfolio of below investment grade bonds.

**PRINCIPAL INVESTMENT STRATEGIES:**

- ♦ The Fund invests in a wide variety of debt securities and other similar debt instruments. These include (1) debt securities, loans and commercial paper issued by U.S. and foreign companies; (2) debt obligations issued or guaranteed by the U.S. Government and foreign governments and their agencies and instrumentalities, political subdivisions of foreign governments (such as provinces and municipalities), and supranational organizations (such as the World Bank); (3) municipal securities, which are debt obligations issued by state and local governments, territories and possessions of the United States, regional governmental authorities, and their agencies and instrumentalities, the interest on which may, or may not, be exempt from Federal income tax; (4) dividend-paying convertible stock; and (5) convertible bonds and preferred stock.
- ♦ Under normal market conditions, the Fund invests at least 80% of its total assets in debt securities rated below investment grade, or securities that Payden determines to be of comparable quality. Investment grade debt securities are rated within the four highest grades by at least one of the major ratings agencies, such as Standard & Poor’s (at least BBB-), Moody’s (at least Baa3) or Fitch (at least BBB-), or are securities Payden determines to be of comparable quality. Further information regarding credit ratings is in Appendix A.
- ♦ The Fund emphasizes investments in debt securities of:
  - Issuers with credit ratings at the lower-risk end of the high yield bond spectrum which Payden believes have stable to improving business prospects.
  - Issuers Payden believes are in the growth stage of development and have reasonable prospects for improved operating results and credit ratings.
  - Issuers that have undergone leveraged buyouts or recapitalizations.
- ♦ The Fund’s total investment in securities of issuers organized or headquartered in emerging market countries will not exceed 30% of its total assets.
- ♦ The Fund may invest up to 20% of its total assets in equity securities of U.S. or foreign issuers.
- ♦ The Fund invests in debt securities payable in U.S. dollars and in foreign currencies. The Fund may hedge this foreign currency exposure to the U.S. dollar.
- ♦ The Fund invests in debt securities of any maturity and there is no limit on the Fund’s maximum average portfolio maturity.

**PRINCIPAL INVESTMENT RISKS:**

- ♦ As with most bond funds, the income on and value of your shares in the Fund will fluctuate along with interest rates. When interest rates rise, the market prices of the debt securities the Fund owns usually decline. When interest rates fall, the prices of these securities usually increase. Generally, the longer the Fund’s average portfolio maturity, the greater the price fluctuation. The price of any security

**PAYDEN HIGH INCOME FUND Ticker Symbol PYHWX (continued)**

owned by the Fund may also fall in response to events affecting the issuer of the security, such as its ability to continue to make principal and interest payments, or its credit ratings. By investing in the Fund, therefore, you could lose money.

- ♦ Below investment grade debt securities are speculative and involve a greater risk of default and price change due to changes in the issuer's creditworthiness. The market prices of these debt securities may fluctuate more than the market prices of investment grade debt securities and may decline significantly in periods of general economic difficulty.
- ♦ Investing in foreign securities poses additional risks. The performance of foreign securities can be adversely affected by the different political, regulatory and economic environments in countries where the Fund invests. In addition, emerging markets tend to be more volatile than the U.S. market or developed foreign markets. Fluctuations in foreign currency exchange rates may also adversely affect the value of foreign debt securities in which the Fund has invested.
- ♦ Investing in equity securities poses certain risks, including a sudden decline in a holding's share price, or an overall decline in the stock market. The value of the Fund's investment in any such securities will fluctuate on a day-to-day basis with movements in the stock market, as well as in response to the activities of the individual companies whose equity securities the Fund owns.

**MORE FUND INFORMATION – GLOBAL BOND FUND****PAYDEN EMERGING MARKETS BOND FUND Ticker Symbol PYEWX****INVESTMENT OBJECTIVE:**

The Fund seeks a high level of total return.

**PRINCIPAL INVESTMENT STRATEGIES:**

- ♦ The Fund invests in a wide variety of debt securities and similar debt instruments. These include (1) debt obligations issued or guaranteed by the U.S. Government and foreign governments and their agencies and instrumentalities, political subdivisions of foreign governments (such as provinces and municipalities), and supranational organizations (such as the World Bank); (2) debt securities, loans and commercial paper issued by foreign companies; (3) dividend-paying convertible stock; and (4) convertible bonds and preferred stock.
- ♦ Under normal market conditions, the Fund invests at least 80% of its total assets in debt securities and similar debt instruments issued by governments, agencies and instrumentalities of emerging market countries (or economically linked with such securities), and other issuers organized or headquartered in emerging market countries.
- ♦ Generally, an "emerging market country" is any country which the World Bank (the International Bank for Reconstruction and Development), the International Finance Corporation or the United Nations defines as having an emerging or developing economy.
- ♦ The Fund may invest up to 20% of its total assets in other debt securities and similar debt instruments, including those of issuers located in countries with developed securities markets.
- ♦ Under normal market conditions, the Fund invests a substantial portion of its total assets in debt securities of issuers whose securities are rated below investment grade. Investment grade debt securities are rated within the four highest grades by at least one of the major ratings agencies, such as Standard & Poor's (at least BBB-), Moody's (at least Baa3) or Fitch (at least BBB-), or are securities Payden determines to be of comparable quality. Further information regarding credit ratings is in Appendix A.
- ♦ The Fund invests in debt securities payable in U.S. dollars and in foreign currencies. The Fund may hedge this foreign currency exposure to the U.S. dollar.
- ♦ The Fund invests in debt securities of any maturity, and there is no limit on the Fund's maximum average portfolio maturity.
- ♦ The Fund invests in debt securities that Payden believes offer attractive yields and are undervalued relative to securities of similar credit quality and interest rate sensitivity. Payden reviews historical spread relationships, as well as economic and company scenario analyses, in making investment decisions.
- ♦ The Fund may invest up to 20% of its total assets in equity securities of U.S. or foreign companies.
- ♦ The Fund is "non-diversified," which means that Payden may from time to time invest a larger percentage of the Fund's assets in securities of a limited number of issuers.

**PRINCIPAL INVESTMENT RISKS:**

- ♦ As with most bond funds, the income on and value of your shares in the Fund will fluctuate along with interest rates. When interest rates rise, the market prices of the debt securities the Fund owns usually decline. When interest rates fall, the prices of these securities usually increase. Generally, the longer the Fund's average portfolio maturity, the greater the price fluctuation. The value of any security owned by the Fund may also fall in response to events affecting the issuer of the security, such as its ability to continue to make principal and interest payments, or its credit ratings. Investment in any such securities will fluctuate on a day-to-day basis with movements in the stock market, as well as in response to the activities of the individual companies whose equity securities the Fund owns. By investing in the Fund, therefore, you could lose money.

**PAYDEN EMERGING MARKETS BOND FUND Ticker Symbol PYEWX (continued)**

- ♦ Investing in foreign securities poses additional risks. The performance of foreign securities can be adversely affected by the different political, regulatory and economic environments in countries where the Fund invests. In addition, emerging markets tend to be more volatile than the U.S. market or developed foreign markets. Fluctuations in foreign currency exchange rates may also adversely affect the value of foreign debt securities in which the Fund has invested.
- ♦ Below investment grade debt securities are speculative and involve a greater risk of default and price change due to changes in the issuer's creditworthiness. The market prices of these debt securities may fluctuate more than the market prices of investment grade debt securities and may decline significantly in periods of general economic difficulty.
- ♦ The Fund is "non-diversified." As a result, events that affect a few — or even one — of the Fund's investments may have a greater impact on the value of the Fund's shares than they would if the Fund were diversified.

This section of this Prospectus discusses investment strategies, types of securities and investment techniques applicable to some or all of the Funds, as well as the policies on the disclosure of each Fund's portfolio holdings.

### **INFLATION-INDEXED SECURITIES**

Each Fund may invest in inflation-indexed securities. Unlike a conventional bond, on which the issuer makes regular fixed interest payments and repays the face value of the bond at maturity, an inflation-indexed security provides principal and interest payments that are adjusted over time to reflect inflation — a rise in the general price level. Inflation-indexed securities are designed to provide a “real rate of return” — a return after adjusting for the impact of inflation, which erodes the purchasing power of an investor's portfolio. This adjustment is a key feature, although during a period of deflation principal and interest payments on inflation-indexed securities will be adjusted downward, and an investing Fund will be subject to deflation risk with respect to these investments. The price of inflation-indexed securities is affected by fluctuations in “real” interest rates (the component of interest rates not tied to investor expectations of future inflation). A rise in real interest rates will generally cause the price of an inflation-indexed security to fall, while a decline in real interest rates will generally increase the price of an inflation-indexed security.

### **MORTGAGE-BACKED SECURITIES**

Each Fund may invest in obligations issued to provide financing for U.S. residential housing and commercial mortgages. Each U.S. Bond Fund (except the Payden U.S. Government and Payden GNMA Funds) and the Global Bond Fund may also invest in foreign mortgage-related securities. On the credit side, the market's perception of the creditworthiness of the Federal agency or private entity issuing the obligation, or of the credit quality of the underlying assets, for example the sub-prime segment of the mortgage-backed securities market, may have a negative impact on the value of the obligation. Further, certain commercial mortgage-backed securities are issued in several classes with different levels of yield and credit protection. An investment in the lower classes of a commercial mortgage-backed security with several classes will have greater risks than an investment in the higher classes, including greater interest rate, credit and prepayment risks. With respect to prepayment risk, payments made on the underlying mortgages and passed through to an investing Fund represent both regularly scheduled principal and interest payments, as well as prepayments of principal. Mortgage-backed securities may be prepaid prior to maturity, and hence the actual life of the security cannot be accurately predicted. During periods of falling interest rates, prepayments may accelerate, which would require an investing Fund to reinvest the proceeds at a lower interest rate. Although generally rated investment grade, the securities could become illiquid or experience losses if the mortgages default or if guarantors or insurers default.

### **ASSET-BACKED RECEIVABLES**

Each Fund may invest in U.S. asset-backed receivables, which represent undivided fractional interests in trusts with assets consisting of a pool of loans such as motor vehicle retail installment sales contracts or credit card receivables. Each U.S. Bond Fund (except the Payden U.S. Government and Payden GNMA Funds) and the Global Bond Fund may also invest in foreign asset-backed receivables. On the credit side, the credit quality of most asset-backed securities depends primarily on the credit quality of the assets underlying such securities, how well the entity issuing the security is insulated from the credit risk of the originator of the debt obligations or any other affiliated entities and the amount and quality of any credit support provided to the securities. In addition, certain asset-backed securities are based on loans that are unsecured, which means that there is no collateral to seize if the underlying borrower defaults. With respect to prepayment risk, payments by these securities are typically made monthly, consisting of both principal and interest payments. Asset-backed securities may be prepaid prior to maturity, and hence the actual life of the security cannot be accurately predicted. During periods of falling interest rates, prepayments may accelerate, which would require an investing Fund to reinvest the proceeds at a lower interest rate. Although generally rated investment grade, the securities could become illiquid or experience losses if the loans default or if guarantors or insurers default.

### **U.S. GOVERNMENT AND AGENCY SECURITIES**

Most of the Funds purchase debt obligations issued by the U.S. Treasury, which are backed by the full faith and credit of the U.S. Government. These securities include U.S. Treasury bills, notes and bonds. In addition, many of the Funds purchase debt obligations, commonly called U.S. Government agency securities, which are issued by agencies chartered by the U.S. Government. These issuers are generally classified as government-sponsored enterprises and are often referred to as “GSEs.” The Funds primarily invest in securities issued by one or more of the following GSEs:

- ♦ The Government National Mortgage Association (GNMA) issues mortgage-backed securities that are collateralized by home loans. GNMA securities are backed by the full faith and credit of the U.S. Government.
- ♦ Each of the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) issue debt obligations in order to purchase home mortgages. Both agencies package a portion of these mortgages into mortgage-backed securities that are sold to investors such as the Funds. These securities are not backed by the full faith and credit of the U.S. Government. However, both FNMA and FHLMC benefit from a contractual agreement with the U.S. Treasury (the Preferred Stock Purchase Agreement), which provides them with the necessary cash resources to maintain a positive net worth through year-end 2012.

As of September 7, 2008, the Federal Housing Finance Agency (FHFA) has been appointed as the conservator of FHLMC and FNMA for an indefinite period. In accordance with the Federal Housing Finance Regulatory Reform Act of 2008 and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as conservator, the FHFA will control and oversee

these entities until the FHFA deems them financially sound and solvent. During the conservatorship, each entity's obligations are expected to be paid in the normal course of business.

Although no express guarantee exists for the debt or mortgage-backed securities issued by these entities, the U.S. Treasury, through its Preferred Stock Purchase Agreement, has attempted to enhance the ability of these entities to meet their obligations. On December 24, 2009, the U.S. Treasury amended its Preferred Stock Purchase Agreement to remove its \$200 billion per institution limit for funding under these agreements to accommodate any cumulative reduction in net worth over the next three years. The Federal Government is currently in the process of reviewing issues around longer term reform of the GSEs role in the U.S. housing market.

- ♦ The Federal Home Loan Bank System (FHLB) is comprised of twelve regional banks that provide liquidity and credit to thrift institutions, credit unions and commercial banks. FHLB issues debt obligations to fund its operations. These debt obligations are not backed by the full faith and credit of the U.S. Government.
- ♦ The Federal Farm Credit Bank System (FFCB) is comprised of cooperatively owned lending institutions that provide credit to farmers and farm-affiliated businesses. FFCB issues debt obligations to fund its operations. These debt obligations are not backed by the full faith and credit of the U.S. Government, nor can FFCB borrow from the U.S. Treasury.

## **LOAN PARTICIPATIONS AND ASSIGNMENTS**

Each U.S. Bond Fund (except the Payden U.S. Government and Payden GNMA Funds) and the Global Bond Fund may invest in fixed-rate and floating-rate loans, which investments generally will be in the form of loan participations and assignments of portions of such loans. Participations and assignments involve special types of risk, including credit risk, interest rate risk, liquidity risk and risks of being a lender. If an investing Fund purchases a participation, it may only be able to enforce its rights through the lender, and may assume the credit risk of the lender in addition to the borrower.

## **EXCHANGE-TRADED FUNDS**

Each Fund may invest in exchange-traded funds ("ETFs") and other broad market derivative instruments, subject to limitations in amount set forth in regulations under the Investment Company Act of 1940, as amended. These limitations are described under "Investments in Exchange-Traded Funds" in the section on "Investment Strategies/Techniques and Related Risks" in the Statement of Additional Information, a copy of which is available, free of charge, on the Funds' Internet site at [payden.com](http://payden.com).

ETFs are shares of a portfolio designed to track closely the performance of any one or an array of market indexes. Examples include the S&P 500 Index, the Barclays corporate bond market index, and the MSCI Europe Index. ETFs trade on the American Stock Exchange, the Chicago Board Options Exchange and the New York Stock Exchange in the same way shares of publicly held companies trade on such exchanges. They may be traded any time during normal trading hours, using all of the portfolio management approaches associated with stocks, e.g., market orders, limit orders, or stop orders. They are also subject to the risks of trading halts due to market conditions or other reasons. In addition, investment in an ETF by a Fund will involve duplication of expenses, as it will require payment by the Fund of its pro rata share of advisory and administrative fees charged by the ETF.

## **BELOW INVESTMENT GRADE DEBT OBLIGATIONS**

Each of the Payden High Income Fund and the Global Bond Fund may invest in below investment grade debt obligations (commonly called "junk bonds"). Investment grade debt securities are rated within the four highest grades by at least one of the major rating agencies, such as Standard & Poor's (at least BBB-), Moody's (at least Baa3) or Fitch (at least BBB-), or are securities determined by the Fund's investment adviser to be of comparable quality. Lower quality debt securities are more speculative, less liquid and involve a greater risk of default or price change due to changes in the issuer's creditworthiness. The market prices of these securities may fluctuate more than the market prices of investment grade securities and may decline significantly in periods of general economic difficulty. Further information regarding investment ratings is in Appendix A.

## **FOREIGN INVESTMENTS**

Each U.S. Bond Fund (except the Payden U.S. Government and Payden GNMA Funds) and the Global Bond Fund may invest in securities of foreign issuers ("foreign securities"). Investing in foreign securities involves certain risks and considerations not typically associated with investing in U.S. securities, including less publicly available information and less governmental regulation and supervision of foreign stock exchanges, brokers and issuers. Foreign issuers are not usually subject to uniform accounting, auditing and financial reporting standards, practices and requirements. Foreign issuers are subject to the possibility of expropriation, nationalization, confiscatory taxation, adverse changes in investment or exchange control regulation, political instability and restrictions in the flow of international capital. Some foreign securities are less liquid and have more volatile prices than U.S. securities. In addition, settling transactions in foreign securities may take longer than U.S. securities. Obtaining and enforcing judgments against foreign entities may be more difficult than obtaining and enforcing judgments against domestic entities.

Changes in foreign exchange rates may adversely affect the value of a Fund's securities. Fluctuations in foreign currency exchange rates will also affect the value of dividends and interest earned, gains and losses realized on the sale of securities and any net investment income and gains distributed to shareholders. Some foreign fixed income markets offering attractive returns may be denominated in currencies which are relatively weak or potentially volatile compared to the U.S. dollar.

## FOREIGN CURRENCY TRANSACTIONS

Each U.S. Bond Fund (except the Payden U.S. Government and Payden GNMA Funds) and the Global Bond 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 (contracts to purchase or sell a specified currency at a specified future date and price). None of these Funds will generally enter into a forward contract with a term of greater than one year. Although forward contracts are used primarily to protect a 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 a Fund's total return will be adversely affected as a result. Open positions in forward contracts are covered by the segregation with the Fund's custodian of cash, U.S. Government securities or other debt obligations and are marked-to-market daily.

## EMERGING MARKETS

Each U.S. Bond Fund (except the Payden U.S. Government and Payden GNMA Funds) and the Global Bond Fund may invest in securities of issuers organized or headquartered in emerging market countries. Foreign investment risks are generally greater for securities of such companies. These countries may have relatively unstable governments, economies based on only a few industries, and securities markets that trade a small number of securities, making trades difficult. Brokerage commissions, custodial services and other similar investment costs are generally more expensive than in the United States. In addition, securities of issuers located in these countries tend to have volatile prices and may offer significant potential for loss as well as gain.

## DELAYED DELIVERY TRANSACTIONS

Each Fund may engage in delayed delivery transactions. These transactions involve a Fund's commitment to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place more than seven days in the future, or after a period longer than the customary settlement period for that type of security. When delayed delivery purchases are outstanding, a Fund will set aside and maintain until the settlement date in a segregated account cash U.S. Government securities or high grade debt obligations in an amount sufficient to meet the purchase price. When purchasing a security on a delayed delivery 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, but does not accrue income on the security until delivery. When a Fund sells a security on a delayed delivery basis, it does not participate in future gains or losses with respect to the security. If the other party to a delayed delivery transaction fails to deliver or pay for the securities, a Fund could miss a favorable price or yield opportunity or could suffer a loss. As a matter of operating policy, a Fund will not invest more than 50% of its total assets in when-issued and delayed delivery transactions.

## DERIVATIVE INSTRUMENTS

Each Fund may use derivative instruments for risk management purposes or otherwise as part of its investment strategies. Generally, derivatives are financial contracts whose values depend on, or are derived from, the value of an underlying asset, reference rate or index, and may relate to stocks, bonds, interest rates, currencies or currency exchange rates, commodities, and related indexes. Examples of derivative instruments include options contracts, futures contracts, options on futures contracts and swap agreements (including, but not limited to, interest rate, total return and credit default swaps). Each such Fund may invest some or all of its assets in derivative instruments. Such Funds typically use derivatives as a substitute for taking a position in the underlying asset or as part of a strategy designed to reduce exposure to other risks, such as interest rate risk or currency risk. Such Funds may also use derivatives for leverage, in which case their use would involve leverage risk. A portfolio manager may decide not to employ any of these strategies and there is no assurance that any derivatives strategy used by such a Fund will succeed. A description of these and other derivative instruments that the Funds may use are described under "Derivative Instruments" in the section on "Investment Strategies/Techniques and Related Risks" in the Statement of Additional Information, a copy of which is available, free of charge, on the Funds' Internet site at [payden.com](http://payden.com).

A Fund's use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other more traditional investments. A description of various risks associated with particular derivative instruments is included in the Statement of Additional Information. The following provides a more general discussion of important risk factors relating to all derivative instruments that may be used by the Funds.

**Management Risk.** Derivative products are highly specialized instruments that require investment techniques and risk analyses different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument, but also of the derivative itself, without the benefit of observing the performance of the derivative under all possible market conditions.

**Credit Risk.** The use of a derivative instrument involves the risk that a loss may be sustained as a result of the failure of another party to the contract (usually referred to as a "counterparty") to make required payments or otherwise comply with the contract's terms. In addition, credit default swaps could result in losses if a Fund does not correctly evaluate the creditworthiness of the company on which the credit default swap is based.

**Liquidity Risk.** Liquidity risk exists when a particular derivative instrument is difficult to purchase or sell. If a derivative transaction is particularly large or if the relevant market is illiquid (as is the case with many privately negotiated derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous time or price.

**Leverage Risk.** Because many derivatives have a leverage component, adverse changes in the value or level of the underlying asset, reference rate or index can result in a loss substantially greater than the amount invested in the derivative itself. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment. When a Fund uses derivatives for leverage, investments in that Fund will tend to be more volatile, resulting in larger gains or losses in response to market changes. To limit leverage

risk, each Fund will segregate assets determined to be liquid by its investment adviser in accordance with established procedures, or as permitted by applicable regulation enter into certain offsetting positions, to cover its obligations under derivative instruments.

*Lack of Availability.* Because the markets for certain derivative instruments (including markets located in foreign countries) are relatively new and still developing, suitable derivatives transactions may not be available in all circumstances for risk management or other purposes. Upon the expiration of a particular contract, the portfolio manager may wish to retain the Fund's position in the derivative instrument by entering into a similar contract, but may be unable to do so if the counterparty to the original contract is unwilling to enter into the new contract and no other suitable counterparty can be found. A Fund's ability to use derivatives may also be limited by certain regulatory and tax considerations.

*Market and Other Risks.* Like most other investments, derivative instruments are subject to the risk that the market value of the instrument will change in a way detrimental to a Fund's interest. If a portfolio manager incorrectly forecasts the values of securities, currencies or interest rates or other economic factors in using derivatives for a Fund, the Fund might have been in a better position if it had not entered into the transaction at all. 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 other Fund investments. A Fund may also have to buy or sell a security at a disadvantageous time or price because the Fund is legally required to maintain offsetting positions or asset coverage in connection with certain derivatives transactions.

Other risks in using derivatives include the risk of mispricing or improper valuation of derivatives and the inability of derivatives to correlate perfectly with underlying assets, rates and indexes. Many derivatives, in particular privately negotiated derivatives, are complex and often valued subjectively. Improper valuations can result in increased cash payment requirements to counterparties or a loss of value to a Fund. Also, the value of derivatives may not correlate perfectly, or at all, with the value of the assets, reference rates or indexes they are designed to closely track. In addition, a Fund's use of derivatives may cause the Fund to realize higher amounts of short-term capital gains (taxed at ordinary income tax rates) than if the Fund had not used such instruments.

## **TEMPORARY DEFENSIVE MEASURES**

During times when Payden believes that a temporary defensive posture is warranted, each Fund may hold part or all of its assets in cash, U.S. Government and Government agency securities, money market obligations, short-term corporate debt securities and money market funds, or may use futures to hedge the entire portfolio. This may help a Fund minimize or avoid losses during adverse market, economic or political conditions. However, during such a period, a Fund may not achieve its investment objective.

## **PORTFOLIO TURNOVER**

A Fund's annual turnover rate indicates changes in its portfolio investments. Payden will sell a security when appropriate and consistent with a Fund's investment objective and policies, regardless of the effect on the Fund's portfolio turnover rate. Buying and selling securities generally involves some expense to the Funds, such as broker commissions and other transaction costs, and a high turnover rate in any year will result in payment by a Fund of above-average transaction costs and could result in the payment by shareholders of above-average amounts of taxes on realized investment gains. No Fund can accurately predict its future annual portfolio turnover rate. It can vary substantially from year to year since portfolio adjustments are made when conditions affecting relevant markets, particular industries or individual issues warrant such action. In addition, portfolio turnover may also be affected by sales of portfolio securities necessary to meet cash requirements for redemptions of shares.

## **DISCLOSURE OF FUND PORTFOLIO HOLDINGS**

Each Fund makes available listings of its portfolio holdings pursuant to policies and procedures set forth under the heading "Disclosure of Fund Portfolio Holdings" in the Statement of Additional Information for the Funds, a copy of which is available, free of charge, on the Funds' Internet site at [payden.com](http://payden.com).

## **OTHER INVESTMENTS AND TECHNIQUES**

The Funds may invest in other types of securities and use a variety of investment techniques and strategies that are not described in this Prospectus. These securities and techniques may subject the Funds to additional risks. Please see the Statement of Additional Information for more information about the securities and investment techniques described in this Prospectus and about additional securities and techniques that may be used by the Funds.

## INVESTMENT ADVISER

Payden & Rygel (“Payden”) located at 333 South Grand Avenue, Los Angeles, California 90071, serves as investment adviser to each of the Funds pursuant to an Investment Advisory Agreement. Payden is an investment counseling firm founded in 1983, and currently has approximately \$50 billion of assets under management.

*Investment Policy Committee.* Payden’s Investment Policy Committee is responsible for defining the broad investment parameters of the Funds, including for example the types of strategies to be employed and the range of securities acceptable for investment by the Funds. The Committee is comprised of Kristin Ceva, Asha Joshi, Brian Matthews, Joan Payden, Michael Salvay, James Sarni, Mary Beth Syal, Scott Weiner and James Wong.

Kristin Ceva is a Principal who joined Payden in 1998 and has 18 years experience in the investment management business. Asha Joshi is a Managing Principal; she joined Payden in 1994 and has 25 years experience in the investment management business. Brian Matthews is a Managing Principal who joined Payden in 1986 and has 28 years experience in the investment management business. Joan Payden is President and founder of Payden and has 39 years experience in the investment management business. Michael Salvay is a Managing Principal who joined Payden in 1997 and has 25 years experience in the investment management business. James Sarni is a Managing Principal who joined Payden in 1991 and has 27 years experience in the investment management business. Mary Beth Syal is a Managing Principal; she joined Payden in 1991 and has 25 years experience in the investment management business. Scott Weiner is a Managing Principal who joined Payden in 1993 and has 26 years experience in the investment management business. James Wong is a Principal; he joined Payden in 1995 and has 18 years experience in the investment management business.

*Fund Portfolio Managers.* Payden typically follows a team approach in the management of the Funds, in which different teams of Payden personnel are responsible for the day-to-day management of the Funds within the broad investment parameters established by the Investment Policy Committee. Each team meets regularly to review portfolio holdings and discuss purchase and sales activity of all accounts in the strategy, including a particular Fund or group of Funds. The portfolio managers, who are generally team leaders or senior investment personnel on the team, are supported by other members of the team. These include research analysts and other investment professionals who provide research support, make securities recommendations and generally support the portfolio managers in all activities. Members of a team may change from time to time, and the team leaders and senior investment personnel who are identified as the portfolio manager or managers for a Fund may also change from time to time. The current portfolio managers for each of the Funds are as follows:

*U.S. Government Fund.* Mary Beth Syal, Chartered Financial Analyst (“CFA”), is a Managing Principal and portfolio manager. She has overall responsibility over the broad aspects of the Funds’ investments, and she and David Ballantine, CFA, a Principal and portfolio manager, deal with portfolio construction, broad security selection and risk assessment. Mr. Ballantine has been with Payden since 1991 and in the investment management business for 21 years.

*GNMA Fund.* David Ballantine and Gary Greenberg, CFA, a Senior Vice President and portfolio manager, have overall responsibility for the Fund’s investments, including portfolio construction, security selection and risk assessment. Mr. Greenberg has been with Payden and in the investment management business since 1995.

*Core Bond Fund.* Michael Salvay, CFA, a Managing Principal and portfolio manager, and Kristin Ceva, CFA, a Managing Principal and portfolio manager, have overall responsibility for the Fund’s investments, including portfolio construction, security selection and risk assessment. Mr. Salvay has been with Payden since 1997 and in the investment business for 25 years.

*High Income Fund.* Sabur Moini, a Senior Vice President and portfolio manager, has been with Payden since 2000 and in the investment management business for 17 years. Mr. Moini, together with Gregory Tornga, a Vice President and portfolio manager, have overall responsibility for the Fund’s investments, including portfolio construction, security selection and risk assessment. Mr. Tornga has been with Payden and in the investment management business since 2004.

*Emerging Markets Bond Fund.* Kristin Ceva has overall responsibility over the broad aspects of the Fund’s investments, and she and Cristina Panait, CFA, a Vice President and portfolio manager, deal with portfolio construction, broad security selection and risk assessment. Ms. Panait has been with Payden and in the investment management business since 2000.

With respect to the portfolio managers listed, the Statement of Additional Information under the section entitled “Portfolio Managers” provides additional information about the portfolio managers’ compensation structure, other accounts managed by the portfolio managers, and the ownership by the portfolio managers of shares in the Funds.

As indicated under the “Fees and Expenses” section of certain Fund presentations above, Payden has contractually agreed that, for so long as it acts as investment adviser to those particular Funds, the Total Annual Fund Operating Expenses (exclusive of Rule 12b-1 Distribution Fees, Acquired Fund Fees and Expenses, interest and taxes) of each of those Funds will not exceed the percentage indicated of the particular Fund’s average daily net assets on an annualized basis. Each Fund remains liable to Payden for expenses subsidized in any fiscal year up to a maximum of three years from the end of the period in which the expenses were subsidized. However, for any Fund in any given year, the level of reimbursement cannot cause the Fund’s annual expense ratio to exceed the contractual expense limits discussed above.

For the fiscal year ended October 31, 2009, Payden earned a fee as a percentage of each Fund’s average net assets, net of expense reimbursements or fee waivers, from each Fund as follows: Payden U.S. Government Fund, 0.23%; Payden GNMA Fund, 0.15%; Payden Core Bond Fund, 0.28%; Payden High Income Fund, 0.35%; and Payden Emerging Markets Bond Fund, 0.45%.

A discussion regarding the basis for the approval by the P&R Trust Board of Trustees of the Investment Advisory Agreement for each Fund is available in the Funds’ Annual Report for the fiscal year ended October 31, 2009, under the heading “Approval of Investment Advisory Agreement.” The Annual Report is available, free of charge, on the Funds’ Internet site at [payden.com](http://payden.com).

## PRICING OF FUND SHARES: NET ASSET VALUE

The net asset value per share of each Fund is determined each day the New York Stock Exchange is open for trading as of the close of regular trading (normally 4:00 p.m. Eastern Time) by dividing the difference between the value of assets and liabilities of the Fund by the number of shares outstanding and rounding to the nearest penny.

**Fixed Income Securities.** Domestic and foreign fixed income securities and other assets for which market quotations are readily available (other than obligations with original maturities of 60 days or less) are valued at market on the basis of quotes obtained from brokers and dealers or pricing services. Such quotations take into account appropriate factors such as institutional-sized trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, trading characteristics and other market data. Debt securities with original maturities of 60 days or less are valued at amortized cost, which approximates fair value.

**Equity Securities.** Publicly traded equity securities, whether in the United States or outside the United States, for which market quotations are readily available generally will be valued at the official closing price or the last sale price on the exchange or market where they are principally traded, or if there have been no sales during the day, at the last bid price. Securities traded only on the over-the-counter market are valued at the latest bid price.

**Investment Company Securities.** In valuing a Fund's investment in an Acquired Fund, the Fund uses the net asset value per share of the Acquired Fund.

**Derivatives.** Options, futures, swaps and other similar assets are valued at the official closing price in the case of exchange traded derivatives or on the basis of information provided by the institution with which the Fund entered into the transaction in the case of other securities.

**Fair Value Pricing.** Fixed income or equity securities for which market quotations are not readily available will be priced at their fair value as determined in good faith using procedures established pursuant to the Valuation and Liquidity Guidelines adopted by the Board of Trustees of the P&R Trust that are applicable to each of the Funds. In considering the fair value of a security, one or more factors are taken into consideration depending on the circumstances at the time, including for example: the cost of the security or the last reported sales price of the security as a starting point; changes in interest rates; changes in yield spreads of similarly rated or structured securities; fundamental analytical information relating to the security (such as price to earnings ratios for equity securities or yield to maturity for fixed income securities); the value of other similar securities traded on other markets or among dealers; the general financial condition of the issuer; recent developments affecting the issuer; information, including price quotations, from other financial institutions or analysts; or government actions or pronouncements and other significant events affecting the economy, the markets, the fundamental value of the issuer or of the issuer's industry.

Fair value pricing may occur when (1) developments occur that will affect the value of a Fund's holdings ("significant events"), and (2) those significant events occur after the close of the markets on which the securities trade, but before the time when the net asset value is computed for the Fund. A significant event may relate to a single issuer or an entire market. Examples include: inter-day market halts when no further trading in the securities occurs that day; other developments related to a particular issuer; or significant market fluctuations, natural disasters, armed conflicts or significant governmental actions.

With respect to events affecting individual issuers, the Valuation and Liquidity Guidelines provide that the analysts and portfolio managers for the Funds monitor the news for significant events on issuers whose securities exceed a certain weight in the Fund in question. If an issuer-specific event occurs that the analysts and portfolio managers believe will affect the Fund's net asset value by more than a prescribed threshold, designated members of the Pricing Committee of the Board of Trustees of the P&R Trust determine based on the facts available (1) if the issuer's securities will be subject to fair value pricing, and (2) if so, the fair value price of the securities based on one or more of the factors described above.

With respect to events affecting securities markets as a whole, the Valuation and Liquidity Guidelines provide that the analysts and portfolio managers for the Funds monitor the news for significant events related to U.S. securities markets that may generally affect foreign securities markets. If the broad-based U.S. benchmark moves by more than the designated amount between its close on the previous day and the day in question, then the designated members of the Pricing Committee of the Board of Trustees of the P&R Trust determine based on the facts available (1) whether or not the movement in the U.S. market was likely to have been taken into account by the foreign market, i.e., whether or not it occurred before or after the close of the applicable foreign market, (2) whether based on that determination the Fund should be subject to fair value pricing, and (3) if so, the fair value price of each of the securities in the Fund based on one or more of the factors described above.

## HOW TO PURCHASE SHARES

You may purchase shares of each Fund based on the net asset value per share without a sales charge. You may open an account by completing a New Account Application and mailing it to the appropriate address below under "Initial Investment." You cannot purchase shares until the Fund has received a properly completed application in which all required information has been provided. The Fund's transfer agent (the "Transfer Agent") is required by law to obtain certain personal information from you (or a person authorized to act on your behalf) in order to verify your (or such person's) identity. If this information is not provided, the Transfer Agent may not be able to open your account. If the Transfer Agent is unable to verify your identity (or that of another person authorized to act on your behalf), or believes it has identified potentially criminal activity, the Fund and the Transfer Agent each reserves the right to decline to open your account, to close any existing account you may have, or to take such other action as they deem reasonable or required by law. Finally, the Fund does not accept cash, money orders, third party checks, traveler's checks, credit card checks, checks drawn on banks outside the United States, or other checks deemed to be high risk.

To open a tax-sheltered retirement plan, such as an individual retirement account (“IRA”), you must complete special application forms. Please be sure to ask for an IRA information kit.

### Minimum Investments

The minimum initial and additional investment amounts for the Adviser Class of each of the Funds for each type of account are as follows:

| ACCOUNT TYPE          | INITIAL INVESTMENT | ADDITIONAL INVESTMENT |
|-----------------------|--------------------|-----------------------|
| Regular               | \$5,000            | \$250                 |
| Tax-Sheltered         | \$2,000            | \$250                 |
| Electronic Investment |                    |                       |
| Set schedule          | \$2,000            | \$250                 |
| No set schedule       | \$5,000            | \$250                 |
| Automatic Exchange    | NA                 | \$250                 |

### By Check

1. Complete the appropriate New Account Application that is applicable to the Funds.
2. Make the check payable, as appropriate, to the “Payden Funds” and mail the check or checks, along with the appropriate application, to:

Payden Mutual Funds  
P.O. Box 1611  
Milwaukee, WI 53201-1611

### By Federal Funds Wire

1. Complete the appropriate New Account Application that is applicable to the Payden Funds and mail it to:

Payden Mutual Funds  
P.O. Box 1611  
Milwaukee, WI 53201-1611

2. Wire funds to the Transfer Agent as follows when the application has been processed:

#### Payden Funds:

UMB Bank, N.A.  
1010 Grand Blvd.  
Kansas City, MO 64106  
ABA 101000695  
DDA 9871063062  
Credit to: Payden Funds

For further credit to: Investor Mutual Fund Account Number  
Name or Account Registration  
Social Security Number or Tax Identification Number  
Identify which Payden Fund or Funds to Purchase

3. Please call 1-800-572-9336, to advise of any purchases by wire.

Your purchase will be based on the net asset value per share next determined after the Fund receives your order in proper form. It will accept purchase orders only on days on which the Fund is open for business.

All Funds are “open for business” on each day the New York Stock Exchange is open for trading. The New York Stock Exchange is closed on the following holidays: New Year’s Day, Martin Luther King, Jr. Day, Presidents’ Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. The net asset value of shares of a Fund with portfolio securities primarily listed on foreign exchanges may change on days when you cannot purchase or redeem such shares if the foreign exchange trades on weekends or other days when the Fund is not open for business.

**Additional Investments.** You may make additional investments at any time (a) by check, (b) by use of the Automated Clearing House System (“ACH”) (by calling 1-800-572-9336 or via the Funds’ Internet site at *payden.com* using the Account Access function (user registration required)), or (c) by calling 1-800-572-9336, and wiring Federal funds to the Transfer Agent as described above.

**Purchases Through Brokers.** The Funds have authorized one or more brokers to accept purchase orders on behalf of the Funds, and such brokers are authorized to designate intermediaries to accept purchase orders on behalf of the Funds. A Fund will be deemed to have received a purchase order when an authorized broker or broker-authorized designee accepts the order. A shareholder’s purchase order will

be priced based on the Fund's net asset value per share next computed after the order is accepted by an authorized broker or broker-authorized designee. The authorized broker or broker-authorized designee may charge the customer a transaction-based or other fee for handling the purchase or sale of shares, and additional conditions may apply.

**Shareholder Servicing Plan.** The P&R Trust has adopted a Shareholder Servicing Plan with respect to each Fund, which provides for a fee payable to broker-dealers and other financial intermediaries for shareholder services provided to Fund shareholders who invest in that particular Fund through the intermediary. 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. Because these fees are paid out of the particular Fund's assets, over time these fees will increase the cost of your investment in that Fund.

**Rule 12b-1 Distribution Plan.** The P&R Trust has adopted a Distribution Plan pursuant to Rule 12b-1 under the Investment Company Act of 1940 that allows the Adviser Class of each of the Funds to pay asset-based sales charges or distribution and services fees for the distribution, sale or servicing of its shares. These activities include advertising, compensation to the Funds' distributor and others for sales and marketing activities and materials and related shareholder servicing. The fee is payable at an annual rate of 0.25% of the average daily net assets of the Adviser Class of each of the Funds. As indicated in the table in the "Fees and Expenses" discussion for each of the Funds, this fee is included in the Total Annual Fund operating Expenses for each Fund. Because these fees are paid out of a Fund's assets on an ongoing basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges.

**Tax-sheltered Retirement Plans.** Each of the Funds accepts purchases of shares by tax-sheltered retirement plans, such as IRAs, rollover IRAs, Roth IRAs, Keogh or corporate profit sharing plans, Simplified Employee Pension plans, 403(b) and 401(k) plans and Coverdell Education Savings Plans. Please call 1-800-572-9336 to receive a retirement package which includes a special application for tax-sheltered accounts. The Funds do not provide fiduciary administration or custody for such plans. The Funds charge an Annual IRA Maintenance Fee of \$12.50 per Fund. The fee is capped at \$25.00 per social security number, per account type. A maintenance fee of \$12.50 will be charged on all Fund accounts where a full liquidation is made, unless you have already paid the Annual IRA Maintenance Fee for the year.

**Exchange Privilege.** Adviser Class shares of any Fund may only be exchanged for Adviser Class shares of any other Fund. The minimum amount for any exchange is \$250. Because an exchange is considered a redemption and purchase of shares, you may realize a gain or loss for Federal income tax purposes.

In general, a Fund must receive written exchange instructions signed by all account owners. If you complete the telephone privilege authorization portion of the applicable New Account Application or applicable Account Privileges Change Form, you may make exchanges by calling 1-800-572-9336. You may also make exchanges via the Funds' Internet site at [payden.com](http://payden.com) using the Account Access function (user registration required). Finally, you may participate in the Automatic Exchange Program to automatically redeem a fixed amount of Adviser Class shares from one Fund for investment in Adviser Class shares or another Fund on a regular basis. Each Fund may modify or discontinue this exchange privilege at any time on 60 days notice. Each Fund also reserves the right to limit the number of exchanges you may make in any year to avoid excessive Fund expense.

**Telephone Privilege.** You may exchange or redeem shares by calling 1-800-572-9336, if you have elected this option on the applicable New Account Application, or if you complete the applicable Account Privileges Change Form. If you call on a business day before the close of regular trading on the New York Stock Exchange (normally 4:00 p.m. Eastern Time), the exchange or redemption will be based on the net asset value per share determined that day; if you call on a business day after the close of regular trading on the New York Stock Exchange, the exchange or redemption will be based on the net asset value per share determined on the next business day. During periods of drastic economic or market changes, it may be hard to reach the Funds by telephone. If so, you should follow the other exchange and redemption Procedures discussed in this Prospectus.

By electing the telephone privilege, you may be giving up some security. However, the Funds employ procedures designed to provide reasonable assurance that instructions communicated by telephone are genuine. Each Fund reserves the right to refuse a telephone exchange or redemption request if the Fund or its agents believes that the person making the request is not properly authorized. Neither the Funds nor their agents will be liable for any loss, liability or cost which results from acting upon instructions of a person reasonably believed to be a shareholder.

**Checkwriting.** Checkwriting is available for investors of the Payden GNMA Fund. Each check you write on your Payden GNMA Fund account must be at least \$500. To obtain checks, call 1-800-572-9336 for a Check Writing Signature Verification Form and Agreement, which you should then complete and return it to the Fund. To pay the check, the Fund redeems shares from your Fund account based on the net asset value per share computed on the day the check is presented to the Fund for payment. You may incur a taxable capital gain or loss on the shares redeemed each time a check is paid. The Fund may charge a transaction fee of \$2.00 per check to your account, if you have total assets with the P&R Trust of less than \$25,000. The Fund reserves the right to modify or terminate the checkwriting privilege on 30 days' notice.

The Fund credits checks received to your account on the day received by the Fund. The Fund may charge a \$20.00 fee on the account if a check is returned because it fails to meet the Fund's checkwriting criteria or if there are insufficient funds in the account.

**Automated Investment Programs.** You may use two programs for automated investments in the Funds.

*Electronic Investment Program.* You may elect to make additional investments in any Fund using the ACH, which transfers money directly from your account at your financial institution to the Fund for investment.

You have two investment options. First, you may elect to make investments on a set schedule, either monthly or quarterly. Under this option, your financial institution will deduct a set amount that you authorize, which will normally be credited to the Fund on your choice of either the 1st or 15th day of the month (or next business day if the day you chose falls on a holiday or weekend day). Your financial institution will typically debit your account the prior business day. The minimum initial investment, which may be made by check or wire, is \$2,000, with additional investments through the ACH of at least \$250.

Under the second option, you may also elect to authorize transfers through the ACH by calling 1-800-572-9336, or via the Funds' Internet site at *payden.com* using the Account Access function (user registration required). Money will be withdrawn from your account at your financial institution only when you authorize it. Under this option, the minimum initial investment is \$5,000, with additional investments through the ACH of at least \$250. If the Fund receives your telephone request or internet request before the close of regular trading on the New York Stock Exchange (normally 4:00 p.m. Eastern Time), the investment will be based on the net asset value per share determined that day. For telephonic requests or internet requests received after the close of regular trading on the New York Stock Exchange, the investment will be based on the net asset value per share determined on the next business day.

Please note the following guidelines:

- ♦ Your financial institution must be a member of the ACH.
- ♦ You must complete and return an Account Privileges Change Form along with a voided check or deposit slip, and it must be received by the Fund at least 15 days before the initial transaction.
- ♦ You must establish an account with the Fund before the Electronic Investment Plan goes into effect.
- ♦ The Electronic Investment Plan will automatically terminate if all your shares are redeemed, or if your financial institution rejects the transfer for any reason, e.g., insufficient funds.
- ♦ You can terminate your participation in the Electronic Investment Plan by writing to Payden Mutual Funds, P.O. Box 1611, Milwaukee, WI 53201-1611, or by phone, at 1-800-572-9336, and it will become effective the month following receipt.

*Automatic Exchange Program.* With respect to the Funds offered in this Prospectus, you may participate in the Automatic Exchange Plan to automatically redeem a fixed amount from one Fund for investment in another Fund on a regular basis. You can elect this option by completing the appropriate Automated Investment Programs form to determine the periodic schedule (monthly or quarterly) and exchange amount (minimum amount of \$1,000) and to identify the Funds. The automatic transfer is effected on your choice of either the 1st or 15th day of the month (or the next business day if the day you chose falls on a holiday or on a weekend).

**Other Purchase Information.** Each of the Funds issues full and fractional shares, but does not issue certificates. Some Funds may not be available in all jurisdictions. Each Fund reserves the right, in its sole discretion, to suspend the offering of its shares; to reject purchase orders when, in the judgment of its management, such suspension or rejection is in the best interest of the Fund; and to redeem shares if information provided in the New Account Application proves to be incorrect in any material manner.

**Medallion Signature Guarantee — Account Changes and Redemptions.** A Medallion Signature Guarantee assures a Fund that a signature is genuine. It is intended to protect shareholders and the Fund against fraudulent transactions by unauthorized persons. Medallion Signature Guarantees are required by each of the Funds in the following cases:

*Account Changes (You must use the Account Privileges Change Form).*

- ♦ To add bank information to an existing account.
- ♦ To change your existing bank account of record.
- ♦ To add telephone privileges.
- ♦ To change account name due to marriage or divorce (you can also provide a copy of the certified legal documents).
- ♦ To change registered account holders.

*Account Redemptions.*

- ♦ To request a redemption in excess of \$100,000, which must be in writing.
- ♦ To request a wire transfer of redemption proceeds to a bank account other than the bank account of record.
- ♦ To request redemption proceeds to be mailed to an address other than the address of record.
- ♦ To request redemption proceeds to be mailed to a person other than the record owner of the shares.
- ♦ To request a redemption within 30 days of an address change.
- ♦ On the IRA Transfer Form, if you are transferring your Payden Mutual Funds IRA to another fund family.
- ♦ Certain transactions on accounts involving executors, administrators, trustees or guardians.

Each of the Funds reserves the right to require a Medallion Signature Guarantee under other circumstances.

*How to Obtain a Medallion Signature Guarantee.* Medallion Signature Guarantees must be obtained from a participant in a Medallion program endorsed by the Securities Transfer Association. Participants are typically commercial banks or trust companies in the United States, brokerage firms that are members of Financial Industry Regulatory Authority or members of the New York Stock Exchange. The Fund may reject a signature guarantee if it believes it is not genuine or if it believes the transaction is improper.

## HOW TO REDEEM SHARES

Each Fund will redeem your shares based on the net asset value per share next determined following receipt of your request in proper form. You can redeem shares by contacting the Fund in writing, by calling 1-800-572-9336, or via the Funds' Internet site at [payden.com](http://payden.com). Redemption requests by telephone or via the Internet may not exceed \$100,000. Except as indicated under the "Redemption Fees" discussion in the "Market Timing Activities and Redemption Fees" section in this Prospectus, the Funds generally do not charge for redemptions. Fund shares you redeem may be worth more or less than your purchase price, depending on the market value of the investment securities held by the Fund at the time of redemption.

Send your redemption requests (a) in writing to Payden Mutual Funds, P.O. Box 1611, Milwaukee, WI 53201-1611, or if you have selected either of these options on your New Account Application (b) by calling 1-800-572-9336, or (c) via the Funds' Internet site at [payden.com](http://payden.com). The Fund will delay payment for redemption of recently purchased shares until the purchase check has been honored, which may take up to 15 days after receipt of the check. The redemption price will ordinarily be wired to your financial institution or mailed to your address of record one business day after we receive the request. The Fund may charge a \$13.00 fee for any wire transfer, and payment by mail may take up to seven to ten days. During periods of drastic economic or market changes, it may be hard to reach the Fund by telephone. If so, you should follow the other exchange and redemption procedures discussed in this Prospectus.

One or more brokers have been authorized to accept redemption orders on behalf of the Funds, and such brokers are authorized to designate intermediaries to accept redemption orders on behalf of the Funds. A Fund will be deemed to have received a redemption order when an authorized broker or broker-authorized designee accepts the order. A shareholder's redemption order will be priced based on the Fund's net asset value per share next computed after the order is accepted by an authorized broker or broker-authorized designee. The authorized broker or broker-authorized designee may charge the customer a fee for handling the redemption order.

Each Fund reserves the right to pay any redemption price in whole or in part by a distribution in kind of securities held by the Fund in lieu of cash. While it is unlikely that shares would ever be redeemed in kind, if that does occur, the redeeming shareholder would incur transaction costs upon the disposition of the securities that the shareholder received in the distribution. In addition, under certain circumstances set forth in the Statement of Additional Information, each Fund reserves the right to fully redeem shares in any account, the value of which falls below \$5,000 due to shareholder redemptions.

A Fund may suspend the right of redemption or postpone the payment date at times when the New York Stock Exchange is closed or during certain other periods as permitted under the Federal securities laws.

## MARKET TIMING ACTIVITIES AND REDEMPTION FEES

**Market Timing Activities.** Frequent purchases and redemptions of shares of any Fund by one or more Fund shareholders present various risks for other shareholders of the Fund, including dilution in the value of Fund shares held by long-term shareholders, disruption of the long-term focus of the Fund's investment program and increased operating expenses, particularly brokerage and other administrative costs. In addition, there are risks specific to particular Funds. For those Funds that invest in overseas markets, there may be risks associated with time-zone arbitrage. For the equity Fund or certain fixed income Funds, such as the Payden High Income Fund or Payden Emerging Markets Bond Fund, with greater volatility, there may be risks associated with short-term trading designed to capitalize on significant changes in the Fund's net asset value over short periods of time.

As a result, the Board of Trustees for the P&R Trust has adopted policies and procedures designed to discourage frequent trading of shares of any of the Funds by Fund shareholders, including with respect to two of the Funds a redemption fee as discussed below. For each Fund, the Fund's administrator (the "Administrator") identifies frequent trading by examining the number of "round trips," *i.e.*, purchases and redemptions, which occur within a specific time period. The number of round trips and the length of the time period to be scanned to identify such frequent trading may differ by Fund based on Fund experience and expectations based on Fund investment guidelines. If a pattern of frequent trading is thus identified in your account, the Administrator then determines if the value of the trades is of a size sufficient to affect the level of the Fund's operating expenses. If that is the case, you will then be sent a notice that future trading in your account may be restricted if the pattern of frequent trading persists. If the frequent trading pattern persists in your account without explanation or justification, the Fund will refuse any further purchase or exchange requests by you and will so notify you. It should be noted, however, that in certain circumstances it may not be practicable for the Fund to identify such market timing activities, such as redemptions of shares held in certain omnibus accounts or retirement plans since the Fund does not have the information on the individual transactions within the omnibus account or retirement plan.

None of the Funds has any arrangement with any Fund shareholder to accommodate frequent purchases and redemptions of the Fund's shares. Finally, because it is not possible to identify and list all market timing abuses that may arise, you should know that each Fund reserves the right to reject a purchase or exchange request for any reason.

**Redemption Fees.** The P&R Trust Board of Trustees has determined that, with respect to the Payden High Income and Payden Emerging Markets Bond Funds, there is a greater possibility of frequent trading, and thus the Board of Trustees has adopted a redemption fee for each of these Funds. In each case, you will be charged a redemption fee equal to 2% of the value of the shares being redeemed if you redeem or exchange shares of any of these Funds within thirty (30) days of purchase of the shares. This fee will be retained by the Fund to help offset the expenses incurred due to short-term trading and to benefit the Fund's long-term shareholders.

Shares you have held the longest will always be redeemed first. Although each Fund has a goal of applying this redemption fee to most such redemptions, the redemption fee may not apply in certain circumstances where it is not currently practicable for the Fund to impose the fee, such as redemptions of shares held in certain omnibus accounts or retirement plans that cannot implement the fee. Further, the Fund may not apply the redemption fee to certain types of redemptions that do not indicate market timing strategies, such as

redemptions of shares through automatic non-discretionary rebalancing programs or systematic withdrawal plans, redemptions requested within thirty (30) days following the death or disability of the shareholder (or, if a trust, its beneficiary) or redemptions initiated by the Fund. The redemption fee does not apply to shares purchased through reinvested dividends or capital gains.

## DIVIDENDS AND DISTRIBUTIONS

The Funds declare and distribute dividends to shareholders as follows: (1) monthly, for each of the Payden Core Bond, Payden High Income, and Payden Emerging Markets Bond Funds, and (2) each of the Payden U.S. Government and Payden GNMA Funds accrues and declares dividends daily and distributes them to shareholders monthly.

Each Fund distributes any net realized capital gains from the sale of portfolio securities at least once yearly. Each Fund pays dividend and capital gain distributions in the form of additional shares of the Fund at the net asset value per share on the ex-dividend date, unless you elect to receive them in cash by so indicating on the applicable New Account Application, or in writing to the Payden Mutual Funds, P.O. Box 1611, Milwaukee, WI 53201-1611, or by calling 1-800-572-9336.

## TAX INFORMATION

Dividends paid by all Funds, and distributions paid by all Funds from long-term capital gains, are taxable to you. Any short-term capital gains or taxable interest income, therefore, will be taxable to you as ordinary income. The Funds may incur foreign income taxes in connection with some of their foreign investments, and may credit certain of these taxes to you. Your exchange or sale of any Fund's shares is a taxable event and may result in a capital gain or loss.

Before purchasing shares of a Fund, you should carefully consider the impact of the dividends or capital gains distributions which the Fund expects to announce, or has announced. If you purchase shares shortly before the record date for a dividend or distribution, you will receive some portion of your purchase price back as a taxable dividend or distribution.

Distributions may be subject to additional state and local taxes, depending on your particular situation. Consult your tax adviser with respect to the tax consequences to you of an investment in a Fund.

## GENERAL INFORMATION

**Household Delivery of Prospectus and Annual and Semi-Annual Reports.** To reduce expenses, we may mail only one copy of the Prospectus and of each Annual and Semi-Annual Report to the address shared by two or more accounts. If you wish to receive individual copies of these documents, please call 1-800-572-9336, or write to Payden Mutual Funds, P.O. Box 1611, Milwaukee, WI 53201-1611. We will begin sending you individual copies 30 days after receiving your request.

**Privacy Notice.** Each of the Funds respects the right of privacy of each of their shareholders. The Funds also believe that each shareholder expects the Funds to conduct and process shareholder business in an accurate and efficient manner, and at all times in compliance with applicable legal and regulatory requirements concerning the privacy of shareholder information. Please see Appendix B for the Funds' Privacy Notice directed to their shareholders.

**Shareholder Inquiries.** For information, call 1-800-572-9336, visit the Funds' Internet site at [payden.com](http://payden.com), or write to Payden Mutual Funds, P.O. Box 1611, Milwaukee, WI 53201-1611.

## FINANCIAL HIGHLIGHTS

Financial performance information is not presented for any of the Funds as the Adviser Class shares have no operating history.

## Description of Ratings

The following summarizes the descriptions for some of the general ratings referred to in the Prospectus and Statement of Additional Information. Ratings represent only the opinions of the rating organizations about the safety of principal and interest payments, not market value. The rating of an issuer is heavily influenced by past developments and does not necessarily reflect probable future conditions. A lag frequently occurs between the time a rating is assigned and the time it is updated. Ratings are therefore general and are not absolute standards of quality.

### CREDIT RATINGS — BONDS

#### Moody's Investors Service, Inc.

The purpose of Moody's ratings is to provide investors with a single system of gradation by which the relative investment qualities of bonds may be rated.

*Aaa:* Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

*Aa:* Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group, they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.

*A:* Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.

*Baa:* Bonds which are rated Baa are considered as medium grade obligations. They are neither highly protected nor poorly secured. Interest payments and security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

*Ba:* Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often, the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this asset class.

*B:* Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

*Caa:* Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

*Ca:* Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked short-comings.

*C:* Bonds which are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

*Rating Refinements:* Moody's may apply numerical modifiers, 1, 2, and 3 in each generic rating classification from Aa through B in its bond rating system. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

#### Standard & Poor's Corporation

A Standard & Poor's debt rating is a current assessment of the creditworthiness of an obligor with respect to a specific obligation. This assessment may take into consideration obligors such as guarantors, insurers, or lessees. The ratings are based on current information furnished by the issuer or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform any audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings are based, in varying degrees, on the following considerations: (a) likelihood of default-capacity and willingness (a) of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation; (b) nature of and provisions of the obligation; and (c) protection afforded by, and relative position of, the obligation in the event of bankruptcy and other laws affecting creditors' rights.

*AAA:* Bonds rated AAA have the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation (i.e., pay interest and repay principal) is extremely strong.

*AA:* Bonds rated AA differ from the highest-rated obligations only in a small degree. The obligor's capacity to meet its financial commitment on the obligation (i.e., pay interest and repay principal) is very strong.

*A:* Bonds rated A are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligation (i.e., pay interest and repay principal) is still strong.

## Description of Ratings (continued)

**BBB:** Bonds rated BBB exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation (i.e., pay interest and repay principal).

**BB:** Bonds rated BB are less vulnerable to nonpayment than other speculative issues. However, they face major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation (i.e., pay interest and repay principal).

**B:** Bonds rated B are more vulnerable to nonpayment than obligations rated BB, but the obligor currently has the capacity to meet its financial commitment on the obligation (i.e., pay interest and repay principal). Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

**CCC:** An obligation rated CCC is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

**CC:** An obligation rated CC is currently highly vulnerable to nonpayment.

**C:** The C rating may be used to cover a situation where a bankruptcy petition has been filed or similar action has been taken, but payments on this obligation are being continued.

**D:** An obligation rated D is in payment default. The D rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

The Standard & Poor's ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

**r:** This symbol is attached to the ratings of instruments with significant noncredit risks. It highlights risks to principal or volatility of expected returns which are not addressed in the credit rating. Examples include: obligations linked or indexed to equities, currencies, or commodities; obligations exposed to severe prepayment risk-such as interest-only or principal-only mortgage securities; and obligations with unusually risky interest terms, such as inverse floaters.

## Fitch Ratings

Fitch investment grade bond ratings provide a guide to investors in determining the credit risk associated with a particular security. The ratings represent Fitch's assessment of the issuer's ability to meet the obligations of a specific debt issue or class of debt in a timely manner. The rating takes into consideration special features of the issue, its relationship to other obligations of the issuer, the current and prospective financial condition and operating performance of the issuer and any guarantor, as well as the economic and political environment that might affect the issuer's future financial strength and credit quality. Fitch ratings do not reflect any credit enhancement that may be provided by insurance policies or financial guarantees unless otherwise indicated.

**AAA:** Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

**AA:** Bonds considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated "AAA." Because bonds rated in the "AAA" and "AA" categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally rated "F-1+".

**A:** Bonds considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

**BBB:** Bonds are considered to be of satisfactory credit quality. Ability to pay interest and principal is adequate. Adverse changes in economic conditions and circumstances are more likely to impair timely payment than higher rated bonds.

**BB:** Bonds are considered speculative. The obligor's ability to pay interest and repay principal may be affected over time by adverse economic changes. However, business and financial alternatives can be identified, which could assist in the obligor satisfying its debt service requirements.

**B:** Bonds are considered highly speculative. While bonds in this class are currently meeting debt service requirements, the probability of continued timely payment of principal and interest reflects the obligor's limited margin of safety and the need for reasonable business and economic activity throughout the life of the issue.

**CCC:** Bonds have certain identifiable characteristics that, if not remedied, may lead to default. The ability to meet obligations requires an advantageous business and economic environment.

**CC:** Bonds are minimally protected. Default in payment of interest and/or principal seems probable over time.

**C:** Bonds are in imminent default in payment of interest or principal.

**DDD, DD, and D:** Bonds are in default on interest and/or principal payments. Such bonds are extremely speculative and should be valued on the basis of their ultimate recovery value in liquidation or reorganization of the obligor. "DDD" represents the highest potential for recovery on these bonds, and "D" represents the lowest potential for recovery. Plus (+) and minus (-) signs are used with a rating symbol to indicate the relative position of a credit within the rating category. Plus and minus signs, however, are not used in the "DDD," "DD," or "D" categories.

## Description of Ratings (continued)

### CREDIT RATINGS — MUNICIPAL SECURITIES AND COMMERCIAL PAPER

#### Moody's Investors Service, Inc.

The purpose of Moody's ratings is to provide investors with a single system of gradation by which the relative investment qualities of bonds may be rated.

#### U.S. TAX-EXEMPT MUNICIPALS

Moody's ratings for U.S. Tax-Exempt Municipals range from Aaa to B and utilize the same definitional elements as are set forth in the Prospectus under the "Bonds" section of the Moody's descriptions.

*Advance refunded issues:* Advance refunded issues that are secured by escrowed funds held in cash, held in trust, reinvested in direct non-callable U.S. Government obligations or non-callable obligations unconditionally guaranteed by the U.S. Government are identified with a # (hatchmark) symbol, e.g., # Aaa.

#### MUNICIPAL NOTE RATINGS

Moody's ratings for state and municipal notes and other short-term loans are designated Moody's Investment Grade (MIG), and for variable rate demand obligations are designated Variable Moody's Investment Grade (VMIG). This distinction recognizes the differences between short-term credit risk and long-term risk. Loans bearing the designation MIG 1/VMIG 1 are of the best quality, enjoying strong protection from established cash flows for their servicing or from established and broad-based access to the market for refinancing, or both. Loans bearing the designation MIG2/VMIG 2 are of high quality, with ample margins of protection, although not as large as the preceding group.

#### COMMERCIAL PAPER

Moody's short-term debt ratings are opinions of the ability of issuers to repay punctually senior debt obligations. These obligations have an original maturity not exceeding one year, unless explicitly noted. Moody's employs the following three designations, all judged to be investment grade, to indicate the relative repayment ability of rated issuers:

*Prime-1:* Issuers rated Prime-1 (or related supporting institutions) have a superior ability for repayment of short-term promissory obligations. Prime-1 repayment capacity will normally be evidenced by the following characteristics: (a) leading market positions in well established industries; (b) high rates of return on funds employed; (c) conservative capitalization structures with moderate reliance on debt and ample asset protection; (d) broad margins in earnings coverage of fixed financial charges and high internal cash generation; and (e) well-established access to a range of financial markets and assured sources of alternate liquidity.

*Prime-2:* Issuers rated Prime-2 (or supporting institutions) have a strong ability for repayment of senior short-term debt obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

*Prime-3:* Issuers rated Prime-3 (or supporting institutions) have an acceptable ability for repayment of senior short-term obligations. The effect of industry characteristics and market compositions may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and may require relatively high financial leverage. Adequate alternate liquidity is maintained.

#### Standard & Poor's Corporation

A Standard & Poor's debt rating is a current assessment of the creditworthiness of an obligor with respect to a specific obligation. This assessment may take into consideration obligors such as guarantors, insurers, or lessees. The ratings are based on current information furnished by the issuer or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform any audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings are based, in varying degrees, on the following considerations: (a) likelihood of default-capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation; (b) nature of and provisions of the obligation; and (c) protection afforded by, and relative position of, the obligation in the event of bankruptcy and other laws affecting creditors' rights.

#### MUNICIPAL BOND RATINGS

*AAA — Prime Grade:* These are obligations of the highest quality. They have the strongest capacity for timely payment of debt service.

*General Obligations Bonds:* In a period of economic stress, the issuers will suffer the smallest declines in income and will be least susceptible to autonomous decline. Debt burden is moderate. A strong revenue structure appears more than adequate to meet future expenditure requirements. Quality of management appears superior.

*Revenue Bonds:* Debt service coverage has been, and is expected to remain, substantial, stability of the pledged revenues is also exceptionally strong due to the competitive position of the municipal enterprise or to the nature of the revenues. Basic security provisions (including rate covenant, earnings test for issuance of additional bonds and debt service reserve requirements) are rigorous. There is evidence of superior management.

## Description of Ratings (continued)

**AA — High Grade:** The investment characteristics of bonds in this group are only slightly less marked than those of the prime quality issues. Bonds rated AA have the second strongest capacity for payment of debt service.

**A — Good Grade:** Principal and interest payments on bonds in this category are regarded as safe although the bonds are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than bonds in higher rated categories. This rating describes the third strongest capacity for payment of debt service. Regarding municipal bonds, the rating differs from the two higher ratings because:

**General Obligation Bonds:** There is some weakness, either in the local economic base, in debt burden, in the balance between revenues and expenditures, or in quality of management. Under certain adverse circumstances, any one such weakness might impair the ability of the issuer to meet debt obligations at some future date.

**Revenue Bonds:** Debt service coverage is good, but not exceptional. Stability of the pledged revenues could show some variations because of increased competition or economic influences on revenues. Basic security provisions, while satisfactory, are less stringent. Management performance appearance appears adequate.

**Rating Refinements:** Standard & Poor's letter ratings may be modified by the addition of a plus (+) or a minus (-) sign, which is used to show relative standing within the major rating categories, except in the AAA rating category.

### MUNICIPAL NOTE RATINGS

Municipal notes with maturities of three years or less are usually given note ratings (designated SP-1, or SP-2) to distinguish more clearly the credit quality of notes as compared to bonds. Notes rated SP-1 have a very strong or strong capacity to pay principal and interest. Those issues determined to possess overwhelming safety characteristics are given the designation of SP-1. Notes rated SP-2 have a satisfactory capacity to pay principal and interest.

### COMMERCIAL PAPER

**A-1:** A short-term obligation rated A-1 is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

**A-2:** A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

### Fitch Ratings

Fitch investment grade bond ratings provide a guide to investors in determining the credit risk associated with a particular security. The ratings represent Fitch's assessment of the issuer's ability to meet the obligations of a specific debt issue or class of debt in a timely manner. The rating takes into consideration special features of the issue, its relationship to other obligations of the issuer, the current and prospective financial condition and operating performance of the issuer and any guarantor, as well as the economic and political environment that might affect the issuer's future financial strength and credit quality. Fitch ratings do not reflect any credit enhancement that may be provided by insurance policies or financial guarantees unless otherwise indicated.

### COMMERCIAL PAPER

**F-1:** Very Strong Credit Quality. Issues assigned this rating reflect an assurance of timely payment. Those issues regarded as having the strongest degree of assurance of repayment are denoted with a plus (+) sign designation.

## Payden Funds Privacy Notice

The Payden Funds respect your right to privacy. We also know that you expect us to conduct and process your business in an accurate and efficient manner and in compliance with applicable legal and regulatory requirements.

### Collection of Information

To meet those expectations, we must collect and maintain certain personal information about you. We may collect or capture nonpublic information about you from the following sources:

- ♦ The Fund application, or other forms;
- ♦ Oral conversations or written correspondence between you and our representatives;
- ♦ Your transactions with us; and
- ♦ Electronic sources, such as our Internet site, or E-Mails.

### Internal Access to Information and Safeguards

We limit access to your personal and account information to those employees who need to know that information so that we can provide products and services to you. We also maintain physical, electronic and procedural safeguards to protect your nonpublic personal and account information. Finally, when we dispose of such information, we have in place policies and procedures to assure that such information is properly stored and shredded in the case of documentary material and erased in the case of electronic media so that in either case the information cannot be practicably read or reconstructed.

### Disclosure of Information to Third Parties

We do not disclose any nonpublic personal and account information about our customers, or former customers, to anyone, except as permitted by law.

In this regard, we may disclose such information to our affiliates, including the Funds' investment adviser, Payden & Rygel; administrator, Treasury Plus, Inc.; and distributor, Payden & Rygel Distributors. We also may disclose such information to unaffiliated third parties who are service providers to you or to the Funds, such as broker-dealers, transfer agents, custodians, or our mail processing firm. In each case, such disclosure is permitted by law, and the recipients are permitted to use it only as needed for us to provide agreed services to you. Further, we review the confidentiality policies and procedures of these third parties to satisfy ourselves that they are effective in protecting your confidential information. Finally, we may also disclose information to appropriate government agencies, and to others, as required by law or to prevent fraud.

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**FOR MORE INFORMATION ABOUT THE FUNDS, THE FOLLOWING DOCUMENTS ARE AVAILABLE FREE UPON REQUEST:**

**ANNUAL/SEMI-ANNUAL REPORTS:**

Annual and Semi-Annual Reports to shareholders for the Funds contain detailed information on each Fund's investments. The Annual Report includes a discussion of the market conditions and investment strategies that significantly affected each Fund's performance during its last fiscal year.

**STATEMENT OF ADDITIONAL INFORMATION (SAI):**

The SAI provides more detailed information about each of the Funds, including operations and investment policies. It is incorporated by reference in this Prospectus and is legally considered a part of the Prospectus.

You may obtain copies, free of charge, of each of the Annual and Semi-Annual Reports for the Funds, and the SAI, or request other information and discuss your questions about any of the Funds, by calling toll-free (800) 572-9336, or by writing:

Payden Mutual Funds  
P.O. Box 1611  
Milwaukee, WI 53201-1611

The SAI and Annual and Semi-Annual Reports are available, free of charge, on the Funds' Internet site at [payden.com](http://payden.com).

Information about the Funds, including the SAI, can be reviewed and copied at the Public Reference Room of the Securities and Exchange Commission ("SEC") in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the SEC at (202) 551-8090. Reports and other information about the Funds are available on the EDGAR Database on the SEC's Internet site at <http://www.sec.gov>. Copies of this information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address, [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Section, Washington, D.C. 20549-1520.

The Payden & Rygel Investment Group: Investment Company Act File 811-6625