PIA HIGH YIELD FUND

INVESTMENT COMMENTARY & REVIEW

by Bob Sydow, Kevin Buckle and Jim Lisko

First Quarter 2015

The high yield market, as measured by the Barclays U.S. Corporate High Yield Index, returned 2.52% in the first quarter ending March 31, 2015. Interest rates were volatile throughout the quarter, due to the uncertainty surrounding the implementation of restrictive monetary policy by the Federal Reserve Bank (FED), as well as questions regarding the relative strength of the US economy. Despite the volatility in interest rates during the quarter, the benchmark 10-Year Treasury yield declined, ending 25 basis points (bps) lower for the quarter and marking the fifth consecutive quarter of positive returns for US government debt.

For the first two months of the quarter, the high yield market returned 3.07% before surrendering 139bps of this performance prior to the March 18th Federal Open Market Committee (FOMC) meeting. Anxiety regarding the FED's statement, combined with a series of poor economic reports (declines in Personal Spending, Durable Goods, and Business Investment), weighed on the high yield market in the first three weeks of March. The high yield market rebounded in the latter stages of March recapturing 84bps of the 139bps that was ceded earlier in the month. Despite the volatility in the quarter, the major financial markets trended sideways. High Yield did outperform other fixed income markets with a 2.52% return for the quarter compared to returns of 2.32% for Investment Grade Corporates[1], 1.64% for Treasuries[2], and 2.30% for Emerging Markets[3]. Small-cap equity, as measured by the Russell 2000 index[4], was one of the best performing asset class for the quarter, returning 4.32%. The S&P[5] posted a 0.95% return, while commodities[6] were down 4.36% for the quarter. For the month of February, the high yield market benefited from a "risk on" mentality fueled in part by favorable events such as; the pending commencement of unprecedented monetary easing by the European Central Bank (ECB), the short term aid extension granted to Greece, a cease fire agreement in the Ukraine, and perhaps most importantly, a stabilization in oil prices. The high yield market in February marked a diversion from a recent trend of higher rating categories outperforming the lower rating categories. For the first time in 8 months, lower rated bonds outperformed higher rated bonds with the Caa sub-index posting a 3.33% return, the B sub-index returning 2.70%, followed by the Ba sub-index returning 1.85%. Notably, the High Yield market return for February (2.41%) was the highest monthly return since October 2013. For the first quarter, Ba's returned 2.69%, B's returned 2.64%, and Caa's returned 2.01%. A strong demand for long-dated Treasuries, fueled in part by the strengthening US dollar and the ECB quantitative easing, has created a tailwind for higher rated, longer duration bonds. In addition, the recent weak economic data has investors seeking potential safety in higher rated bonds.

The average high yield spread compressed by 18bps in the quarter to 501bps, and the average price closed the quarter just slightly above $100 (100.09). Retail flows from high yield mutual funds were mixed in the quarter. January and March experienced modest outflows, but combined with a solid $8.5 billion in February high yield retail fund flows produced a net positive of roughly $7 billion for the quarter. The new issue market was fairly robust in the quarter with $86.3 billion US$ denominated bonds pricing. From a proceeds perspective, refinancing represented 45% of new issuance proceeds, compared to 54% in 2014. Acquisition related financing increased from 26% in 2014 to 33% of the total quarterly volume (JP Morgan). This was to be expected given the significant amount of refinancing activity over the past few years. As recently as two years ago, 67% of the market was trading at yield-to-call levels, whereas only 48% of the market is trading at such levels as of March 31, 2015 (Credit Suisse).

Against the backdrop of a relatively stable, although tepid economy, defaults remained rather subdued in the quarter. Five high yield companies defaulted in the quarter, which increased the trailing twelve-month default rate to 3.09% in March (Credit Suisse). Recall last April the High Yield market suffered a large default when Energy Future Holdings defaulted on more than $16 billion in debt obligations, thereby resulting in a meaningful uptick in the default rate. In January 2015 Caesars Entertainment defaulted on $13 billion

in debt obligations, another large default. Excluding these two large defaults, the trailing twelve month default is only 1.10% (Credit Suisse).

We continue to believe that the economy will continue to grind along in 2015, allowing high yield credit fundamentals to remain sound, despite the headwinds created by the strong US$, lower oil prices, and geopolitical risk around the world. We expect that when the FED eventually embarks on raising interest rates, the pace will be moderate and the magnitude of the increases will be modest. Given the aforementioned headwinds, it is reasonable to expect that the market will experience heightened volatility for the remainder of the year.

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Mutual fund investing involves risk. Principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. The Fund may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks may increase for emerging markets. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. The Fund may invest in derivatives, which may involve risks greater than the risks presented by more traditional investments. The risk of owning an exchange-traded fund ("ETF") or mutual fund generally reflects the risks of owning the underlying securities that the ETF or mutual fund holds. It will also bear additional expenses, including operating expenses, brokerage costs and the potential duplication of management fees. These risks are fully disclosed in the Prospectus.

Index performance is not indicative of Fund performance. It is not possible to invest directly in an index. For current standardized performance of the Fund, please visit www.piamutualfunds.com or call 310-393-1424.

Barclays U.S. Corporate High Yield Index - covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The Yankee sector has been discontinued as of 7/1/00. The bonds in the former Yankee sector have not been removed from the index, but have been reclassified into other sectors.

[1]Barclays U.S. Treasury Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double-counting. Securities in the Index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices.

[2]Barclays U.S. Corporate Bond Index covers USD-denominated, investment-grade, fixed-rate, taxable securities sold by industrial, utility, and financial issuers. It includes publicly issued U.S. corporate debentures and secured notes that meet specific maturity, liquidity, and quality requirements. Securities in the index roll up to the U.S. Credit and U.S. Aggregate indices. The U.S. Corporate Index was launched on January 1, 1973.

[3]Barclays Global Emerging Markets Index consists of the fixed and floating-rate USD-denominated U.S. Emerging Markets Index and the primarily EUR and GBP-denominated fixed-rate Pan-European Emerging Markets Index and includes emerging markets debt from the following regions: Americas, Europe, Asia, Middle East, and Africa. For the index, an emerging market is defined as any country that has a long term foreign currency debt sovereign rating of Baa1/BBB+/BBB+ or below using the middle rating of Moody's, S&P, and Fitch. The index does not overlap with the U.S. Corporate High-Yield Index or the Pan Euro Corporate High-Yield Index, but may overlap with other investment-grade Aggregate Indices if the securities meet their index eligibility rules.

[4]Russell 2000 Index - An index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small-cap stocks in the United States.

[5]S&P 500 Index – The S&P 500 index includes 500 leading companies in leading industries of the U.S. economy. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. You can not invest directly in an index.

[6]Barclays Commodity Index - a broad, representative, and diversified measure of the performance of the global commodity markets and is designed to offer a new benchmark option for commodity investors. The BCI uses liquidity as the primary criterion for commodity selection and index weighting with diversification rules that limit excess concentration in specific commodities or sectors.

Bond ratings provide the probability of an issuer defaulting based on the analysis of the issuer's financial condition and profit potential. Bond rating services are provided by Standard & Poor's, Moody's Investors Service, and Fitch Investors Service. Bond ratings start at AAA (denoting the highest investment quality) and usually end at D. (meaning payment is in default)

Basis point - A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.
Volatility - A statistical measure of the dispersion of returns for a given security or market index. Commonly, the higher the volatility, the riskier the security.
Quantitative Easing- A monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply.
European Central Bank - The central bank responsible for the monetary system of the European Union (EU) and the euro currency.
New Issue - A reference to a security that has been registered, issued and is being sold on a market to the public for the first time.
cost, its current market value or its face value.
Duration - A commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration.
Yield to Call - The yield of a bond or note if you were to buy and hold the security until the call date.
Default Rate - The rate of borrowers who fail to remain current on their loans. It is a critical piece of information used by lenders to determine their risk exposure and economists to evaluate the health of the overall economy.

The PIA High Yield Fund has never held a position in Caesars Entertainment nor Energy Future Holdings.

Opinions expressed are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.
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