PIA SHORT TERM SECURITIES FUND THIRD QUARTER 2015

INVESTMENT COMMENTARY

The beginning of the quarter saw the Greek drama come to a resolution, with an agreement between Greece and the rest of the European Union members that provided financial assistance to Greece, in exchange for a package of reforms and taxes. And while it appeared that calm would be restored in the markets, investors promptly shifted their concerns to the slowing Chinese economy and the "imminent" rate hike by the Federal Reserve.

The Chinese economy continued to impact oil and commodity prices, which in turn affected all risky assets from equities to high yield bonds. This caused several investors to reassess the likelihood that the Federal Reserve would raise rates during their September meeting. The diminishing September rate hike probabilities, along with the flight to quality from the volatile equity and risky bond markets to US treasuries caused the yield curve to flatten and spread sectors to underperform in the third quarter.

And then September came, and the Federal Reserve true to form did not raise rates, but left the door ajar for a later hike. All this has us wondering whether we will ever have the global nirvana moment, with all the stars aligned, which seems to be what the Federal reserve is looking to even do a measly 25 basis points rate hike. For the past three years, always something was not right and the Fed could not raise rates, which now looks more like excuses than economics. Meanwhile, some of the global market distortions that were created by the Fed and other central banks appear to be correcting themselves with or without a Fed rate hike.

All this uncertainty is likely to provide support for US assets in general, and interest rates specifically. And with all the volatility, opportunities in several high quality corporate names have been created, which we have and will continue to capitalize upon. Investing in, or continuing to hold several of these names that have recently underperform should provide value added in the quarters to come, as markets normalize, and investors become more selective and risk-reward sensitive. Even the eventual rate hike by the Fed, should cause some of the recent spread widening experienced in selected high quality names to reverse course, as more investors will be confident in the US economy, and to potentially provide investors with significant excess returns.

For the fourth quarter of 2015 our strategy remains more defensive, electing to add value to our portfolios by remaining invested in high quality corporate bonds, and selected energy sector names, while maintaining the risk of our portfolios at acceptable levels.

The duration of our portfolios remains close to their respective benchmark, and our yield curve positioning has a more barbelled structure. Uncertainties about global economic growth will continue to provide support to the long end of the yield curve. On a risk-adjusted basis, valuations continue to favor longer maturity US treasuries relative to other foreign government bonds.

Very selective credit overweight continues to be the primary theme of adding value during the 4th quarter. We maintain our overweight in industrial bonds, which provide our portfolios with additional yield, and our allocation to financials, as we believe that the spreads offered by the sector still fairly compensate for the sector volatility. We maintain our allocation to agency MBS, as sector valuations remain in a fairly valued range, while our allocation to non-agency, high quality floating rate MBS provides the portfolio with additional yield, with small interest rate sensitivity.

Evangelos Karagiannis
Managing Director,
Senior Portfolio Manager

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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. Investments in Asset Backed and Mortgage Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund may invest in derivatives, which may involve risks greater than the risks presented by more traditional investments. The risk of owning an 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.

Yield Curve - A line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt.

Spread Sectors - The difference in yields between two fixed-income securities with the same maturity, but originating from different investment sectors.

Basis point - A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

Barbell - An investment strategy primarily applicable to fixed-income investing, in which half the portfolio is made up of long-term bonds and the other half comprises very short-term bonds.

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.

Past performance is not a guarantee of future results.

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