PIA SHORT TERM SECURITIES FUND FIRST QUARTER 2017

INVESTMENT COMMENTARY

The inability of this new administration to successfully pass major legislation in these turbulent first few months has dampened the public enthusiasm about the prospects for tax cuts and infrastructure spending. While the equity markets maintained some optimism, long term treasury yields did not appreciably move, as the prospects of future inflation remain uncertain. Yields at the short end of the curve continued to climb higher on expectations of additional Federal Reserve (Fed) rate hikes, as the Fed delivered another 0.25% rate hike in March, raising fed fund rates to the 0.75%-1% range. Against this backdrop the treasury yield curve flattened by 11 basis points; as the 2-year treasury yield rose 7 basis points, while the yield on the 10-year declined 6 basis points. The reported unemployment rate dropped below the Fed's 5% target, fueling market expectations for the Federal Reserve to either continue or even accelerate their pace of rate hikes. However, we remain skeptical about the efficacy of fiscal policy to stimulate economic growth, given the fragility of the financial system and the massive mounting debt caused by years of zero interest rate policy and multiple quantitative easings. Therefore we anticipate a measured approach toward fed tightening, which should balance modest rate increases with a gradual draw down of the fed balance sheet over the next 12-24 months.

We believe the heightened political and economic uncertainty will continue to create opportunities in several corporate bond sectors. We expect to add value investing in undervalued credits that should produce risk-adjusted value added as market valuations normalize. We believe continued Fed tightening in the absence of sustainable economic development should portend a near-term lower demand for "risk" assets, rather than reinforce a bullish market sentiment underpinned by growth prospects. Thus our strategy remains more defensive, electing to add value to our portfolios by investing in high quality corporate bonds, while maintaining the risk of our portfolios at acceptable levels. Because our process emphasizes risk-adjusted yields, we believe our portfolios will tend to have more yield than their respective benchmarks, which should also benefit returns.

Following the post-election rise in interest rates, we had shifted our portfolio duration from short to roughly neutral relative to our respective benchmark. We continue to place emphasis on 2-3 year corporate bonds. Over the next few quarters, we anticipate a continued flattening of the credit curve and expect that these maturity corporate bonds will continue to outperform their shorter maturity counterparts.

We maintain our overweight in industrial bonds, which provide our portfolios with additional yield. We've selectively invested in financial credits with yields that fairly compensate for their risk; however we still believe the overall financial sector spreads do not fairly compensate for their volatility, specifically those institutions with exposure to the Euro. Additionally, we're overweight agency mortgage backed securities, as sector valuations improved following the recent rise in interest rates that made their prepayment profile more predictable.

Evangelos Karagiannis
Managing Director,
Senior Portfolio Manager

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Yield - The income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost.

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

Fiscal Policy - s the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy.

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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