PIA SHORT TERM SECURITIES FUND FIRST QUARTER 2018

INVESTMENT COMMENTARY

Following the passing of the Tax Cuts and Jobs Act in late December, investors focused on the anticipated stimulus and economic benefits from the comprehensive tax reduction plan and positive economic data including the lowest level of jobless claims since 1973, signs of modest growth in wages (+2.9% for 12 months ending in January) and Gross Domestic Product (GDP) (+2.88% in 4Q17), and the highest level of consumer sentiment measured since 2004. We believe the monetary benefit from the Tax Cuts and Jobs Act could add approximately 75 basis points to U.S. GDP over the next few years and caused the considerable spike in interest rates in the first half of the quarter with the 10-Year Treasury yield peaking near 3%. Late in the quarter, the market shifted its attention to threats of trade tariffs and concerns of a global trade war, which we estimate could negatively impact U.S. GDP by as much as 50 basis points. Nonetheless, the Federal Reserve (Fed) continued their measured pace of incremental rate hikes raising the Fed Funds Rate by a quarter point to a target of 1.5 to 1.75%.

Against this backdrop, the 2-year Treasury yield climbed 39 basis points during the quarter to 2.27% and the yield curve continued to flatten, although not as dramatically as in the previous quarter. The 10-year Treasury yield increased by 33 basis points to 2.74%, producing a negative return for the quarter (-2.39%). In fact, there was no place to hide in the investment grade bond market as all sectors posted negative returns for the quarter. Corporate bonds also generated a negative first quarter return (-2.32%) as spreads widened by 18 bps to 113 bps. Mortgage-backed securities returned -1.19%, but underperformed Treasuries on a duration-adjusted basis due to their extension risk caused by higher interest rates. U.S. Agencies outperformed Treasuries slightly on a duration adjusted basis but still produced a negative return of -0.72%.

Looking forward, PIA remains fairly cautious when reviewing the macro underpinnings of the bond market. We are increasingly concerned about the elevated long-term risks to our socio-economic structure. The recent tax cuts and an aging demographic will shrink the tax base and likely add to the more than $1 trillion U.S. deficit at a time when the Federal Reserve is raising rates and increasing the cost to service our national debt. Additionally, if the increased antagonism between the US and China results in a trade war, this will likely be inflationary and detrimental to the U.S. economy. Lastly, we continue to monitor potential geo-political risks that include, but are not limited to, the Mueller investigation, fiscal attacks on some bellwether companies like Facebook and Amazon, a potential correlation between the dot.com-like meltdown of Bitcoin and investor appetite for risk assets, news out of the Korean peninsula and a potential shift in investor sentiment related to mid-term elections.

Currently, the market projections for short-term interest rates are based on a consensus of three additional Fed Fund rate hikes in 2018. Despite continual improvement in the labor market and recent signs of wage growth, we presently do not anticipate a meaningful pick up in inflation or GDP and continue to believe that exceptionally low global yields will continue to translate into a supply-demand imbalance and a ceiling on U.S. intermediate and long-term treasury yields in the near future. Therefore, we believe the Fed may be more cautious than anticipated and more than two rate hikes could advance the risks of an economic contraction. Historically, the yield curve has inverted in nearly 80% of past occurrences in which the yield differential between the 2- and 10-year Treasuries was less than 50 basis points. The spread between 2- and 10-year yields at the end of the first quarter was 47 basis points. This is meaningful because all of the past six recessions were preceded by an inverted yield curve. We believe there is causality for this correlation between inverted yield curves and recessions, as access to capital is the lifeblood of the U.S. economy. When the yield curve inverts and short-term rates are higher than long-term rates, it creates a significant disincentive for banks to lend money. Lending institutions pay short term rates for deposits and earn long term rates on their loans, and constricted capital to businesses and households typically pushes the economy closer to recession. Since we don't expect the Fed to induce an economic slowdown, we anticipate the yield curve to remain modestly flat with the spread between 2- and 10-year

yields staying near or above 50 bps and interest rates remaining in a trading range for the foreseeable future. Given our outlook, we maintain a slightly short portfolio duration relative to our respective benchmark. We also maintain a modest maturity barbell, as we expect the credit curve to flatten from current levels with longer maturity corporate bonds outperforming their shorter maturity counterparts.

We expect market volatility and uncertainty to continue, which may create interim opportunities in high quality corporate names, despite the relatively tight spread environment, as corporate issuance remains strong and increased Mergers and Acquisitions (M&A) activity could add a layer of unpredictability. We believe the rise in overall corporate leverage is manageable for high quality investment grade borrowers with strong revenue/ EBITDA (earnings before interest, taxes, depreciation and amortization) growth, debt service improvement from low rate issuance and lowered corporate tax rates and, thus, maintain a corporate overweight. We continue to invest in credits that we believe are undervalued on a risk-adjusted basis and that should continue to provide value-added as investors become more selective and risk-reward sensitive but are consistently monitoring any changes in near-term economic outlook. We maintain an overweight in Industrial bonds providing our portfolios with additional risk-adjusted yield and continue to selectively invest in primarily high-quality Senior Unsecured Financial credits, as we believe the spreads offered by the overall sector still only fairly compensate for the sector volatility. Lastly, we remain modestly overweight agency mortgage-backed securities, as sector valuations remain at fair value on a risk-adjusted basis.

PIA Macro Strategy Group

Pacific Income Advisers, Inc. (PIA) is an autonomous investment management firm registered under the Investment Advisers Act of 1940. PIA manages a variety of fixed income, equity, and balanced assets for primarily United States clients. The information contained herein is based on internal research derived from various sources and does not purport to be statements of all material facts relating to the securities mentioned. Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security.

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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.

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

Monetary - consists of the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

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

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.

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.

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.

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

Inverted Yield Curve - is the interest rate environment in which long-term debt instruments have a lower yield than short-term debt instruments.

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.

Benchmark - The ICE BofAML 1-Year US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury note that matures closest to, but not beyond, one year from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date. You cannot invest directly in an index.

New Issue (issuance)- A reference to a security that has been registered, issued and is being sold on a market to the public for the first time.

Mergers and Acquisitions (M&A) - type of restructuring in that they result in some entity reorganization with the aim to provide growth or positive value.

Unsecured debt - is not backed by an asset pledged as collateral. If a business becomes insolvent, unsecured debt holders file claims against the company's general assets.

Past performance is not a guarantee of future results.

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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