PIA SHORT TERM SECURITIES FUND FIRST QUARTER 2016

INVESTMENT COMMENTARY

Following the December Federal Reserve rate hike, financial market volatility increased as supply and demand concerns drove energy prices up and down. Globally, countries like Japan started experimenting with negative interest rates, and even some Federal Reserve officials acknowledged this consideration. We see this as a desperate attempt from central banks to induce growth, while also invalidating most traditional valuation models and thus creating undue market uncertainty as investors attempt to discount security cash flows by negative rates.

On the positive side, the U.S. economy appears to be stabilizing, led by a reported unemployment rate at or below 5% and a lower likelihood of a return to a zero rate policy. Conversely, elevated market volatility, global geopolitical events an unusual presidential election should force the Federal Reserve to remain very cautious toward near-term interest rate changes. Hence, uncertainty over rate trajectory along with heightened market volatility should persist for the near-term. Constructively this volatility has created opportunities in several high quality corporate names that we believe will deliver risk-adjusted value-added as investors become more selective and risk-reward sensitive.

We remain modestly defensive, seeking to add value to our portfolios with our overweight in high quality corporate bonds that offer very attractive yields. The duration of our portfolios is modestly shorter than their respective benchmark, and our yield curve positioning has a more barbelled structure. We structured our current barbell to emphasis longer corporate bonds and shorter US Governments. We believe over the next few quarters, longer maturity corporate bonds that lagged in 2015 will outperform shorter maturities, as the market will eventually share the Fed's view that the economy is not in need of a zero rate policy. This was the case in March, when long investment grade corporates produced excess returns of more than 350 basis points over intermediate maturity corporates. As such, the credit barbell in our portfolios, and the expected flattening of the credit curve should continue to add value as the year progresses. We maintain our overweight in industrial bonds, which have the potential to provide our portfolios with additional yield, and which we expect that they will continue to add value to our portfolios, as their valuations return to their fair values. We maintain our allocation to agency Mortgage Backed Securities, as sector valuations remain in a fairly valued range.

Evangelos Karagiannis
Managing Director,
Senior Portfolio Manager

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.

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contains this and other important information about the investment company, and it may be obtained by calling 800-251-1970 or visiting www.PIAMutualFunds.com. Read it carefully before investing.

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 - 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.

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.

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

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

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.

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.

Cash flow - The net amount of cash and cash-equivalents moving into and out of a business.

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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