INVESTMENT COMMENTARY

Following the "British Exit" Vote (Brexit), market volatility quickly shifted to the upside while investors refocused on the commodity markets and the Federal Reserve (Fed). Subsequently the reported unemployment rate below the 5% Fed target led to growing concerns that the Fed could once again start to raise interest rates and essentially constrict capital fueling the markets. However, the tepid economic recovery, the elevated market volatility (a symptom itself of the long-term zero-rate policy), an increase in global geopolitical concerns such as Brexit and the upcoming presidential election, collectively should likely keep a lid on near-term Fed rate increases. At present, it is difficult to guesstimate the potential impact either presidential candidate may ultimately make on the direction of monetary policy, but the election should at least set aside the market speculation regarding Fed politics.

The yield curve flattened modestly during the third quarter as the yield spread between 2- and 10-year treasuries narrowed by roughly 19 basis points (bps) driven largely by the 32bp decline in the 10-year yield. We believe the heightened volatility in the equity and commodity markets will continue to enhance the opportunities in several corporate bond sectors. We expect to add value investing in several undervalued credits that should produce risk-adjusted value added as market valuations normalize. Several recent large hedge fund outflows potentially represent an indication that market valuations are already in the process of normalization. Additionally, any subsequent Fed tightening in the current "risk-on risk-off" environment would portent a lower demand for "risk" assets rather than reinforce a bullish market sentiment underpinned by a growing economy, which in turn should also lead to greater valuation normalization.

Our investment process emphasizes risk-adjusted yields, and our current investment strategy remains modestly defensive, as we continue to seek to add value with high quality corporate bonds. The duration of our portfolios is modestly shorter than the respective benchmark. Our yield curve positioning is slightly more barbelled, with emphasis on longer corporate securities and shorter US Treasuries and agencies. We believe that over the course of the next few quarters, the longer maturity corporate bonds will continue to outperform their shorter maturity counterparts. As such, the credit barbell in our portfolios, and the expected flattening of the credit curve should continue to add value into the next year. We continue to overweight industrial credits, which have provided our portfolios with additional yield. We have an almost neutral allocation to financials, as we believe that the spreads offered by the sector still only fairly compensate for the sector volatility. 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

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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.

Brexit - an abbreviation of "British exit", which refers to the June 23, 2016 referendum by British voters to exit the European Union.

Zero Rate Policy - a method used, by the United States Federal Reserve, Japan and several EU memeber nations, for stimulating growth while keeping interest rates close to zero.

European Union (EU) is a group of 28 countries that operates as a cohesive economic and political block.

Monetary policy - 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.

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

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

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.

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.

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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