INVESTMENT COMMENTARY

The US economic expansion continues, albeit at a moderating pace, and now is the longest in U.S. history having grown for 121 consecutive months. However, the magnitude of the expansion continues to be less than some other economic expansions, measuring at 25% cumulative GDP growth since starting in June 2009. Geopolitical concerns surrounding Iran's nuclear capabilities and economic concerns focused on trade tensions with China dominated much of the quarter. However, market sentiment once more turned bullish given yet another temporary trade truce with China as well as the potential for Fed Rate cuts. The Federal Reserve stayed on hold during the quarter and did not change the Fed Funds rate target of 2.25-2.50%. The Fed's pause mode during the first half of the year may be short lived as the market is expecting cuts this year starting as early as July 31st.

The decline in interest rates accelerated this quarter as the yield on the 2-year Treasury declined 50 basis points to 1.76%, while the yield on the 10-year Treasury decreased by 40 basis points to 2.01%. The drop in interest rates led to a 3.01% Treasury sector quarterly return. During the quarter investment grade Corporate bonds returned (+4.48%), which outpaced shorter duration High Yield bonds (+2.50%). In the investment grade market, Agency Securities (+2.17%), Mortgage-backed Securities (+1.96%), Commercial MBS (+3.28%) and Asset-backed Securities (+1.67%) all posted positive returns during the quarter.

The PIA long-term economic outlook continued to trend negative through the second quarter. However, on balance, our 2019 calendar outlook remains unchanged as the market consensus for at least one Fed Fund rate cut prior to year-end elevated to 100%. PIA's outlook, in spite of the post-tax cut economic sugar rush, has been a sustainable slow growth, low inflation economy, regardless of global economic weakness, with the one major caveat being the potential disruption risk of U.S. fiscal and/or monetary policy mistakes. We now believe the self-inflicted wounds from ongoing trade tariffs will not be easily rectified and may have put us on a downward glide path toward economic contraction. Additionally, we see no successful U.S. – China trade resolution on the horizon. While we fully expect the markets to respond positively to any rate cuts, we don't believe the current cost of capital is inhibiting economic activity or growth. Core CPI is approaching 16 months of approximately 2%, which means real rates are roughly 25-50 bps. Fundamentally, we believe Fed Fund futures should be pricing a rate cut at roughly 50% and the market is way out over its sentimental skis with expectations of future rate cuts. We continue to monitor several key economic indicators as many are currently trending downward including housing, consumer confidence, corporate profitability, economic growth, inflation and new business start-ups. Monthly New Home Sales declined 7.8% in May and were 3.7% lower than May 2018. Coincidentally, there is a strong historical correlation between peaks in the housing and business cycles. The Conference Board's June Consumer Confidence Index plunged to 121.5 versus an expected 131.3, while GDP and inflation appear to be trending below 2%.

The global economy now faces growing political, geopolitical, and economic headwinds, most notably in China, Iran and the Euro region. The ongoing U.S. – China trade war continues to negatively impact U.S. consumers and corporate profits, while slowing global growth and a strong dollar continue to weigh on U.S. exports. We believe global economic weakness will sustain downward pressure on interest rates and keep rates relatively low, even while the U.S. economy achieves compartmental growth. Additionally, there is roughly $11 trillion of foreign sovereign debt yielding negative interest rates, which produces strong demand for U.S. Treasuries worldwide. However, if a flat or inverted yield curve persists, it would likely portend greater U.S. economic weakness, which should also lead to greater credit risk and commensurate spread widening. We believe there is little relative value on the long-end of the yield curve, therefore, in spite of downward pressures on interest rates we remain cautiously short in overall portfolio duration. Additionally, we've utilized the strong current demand for corporate bonds to selectively de-risk our credit holdings.

Despite the market pricing in multiple rate cuts this year as uncertainty surrounding trade and global economic growth take center stage, we continue to maintain our modestly short duration position relative to our respective benchmarks given relative value and consistent with our outlook for robust Treasury issuance and moderating economic growth. As the trade war rhetoric escalated in May, we saw risk assets widen materially after the market questioned the effect on economic growth, only to turn around in June and tighten back to levels seen earlier this year following increased rate cut speculation. We utilized the strong rebound in credit to reduce our BBB credit exposure. As corporate spreads have become less attractive, we maintain a modest corporate overweight focusing on high quality balance sheets, while we measure the risks of escalating economic weakness. Our credit sector selection focuses on Industrials that provide incremental risk-adjusted yield and high-quality, domestic, senior Financial credits that we believe offer attractive compensation for the sector volatility. For Core Plus clients, after reducing our exposure to high yield credit last quarter, we maintained our modest overweight during the second quarter. Lastly, despite modest underperformance of the Fixed Rate MBS sector during the quarter due to increased Treasury volatility, we maintain a modest overweight to Agency Mortgage-backed Securities, as the MBS sector offers value on a risk-adjusted basis over the long term.

PIA Investment Strategy Group

KEY **RATES**

	6/30/19	3/31/19	12/31/18
Fed Funds Target Rate	**2.25 - 2.5%**	**2.25-2.5%**	**2.25-2.5%**
3 Month LIBOR	**2.32**	**2.60**	**2.81**
On-the-run Treasuries:			
3 Months	**2.09**	**2.38**	**2.36**
6 Months	**2.09**	**2.42**	**2.48**
2 Years	**1.76**	**2.26**	**2.49**
5 Years	**1.77**	**2.23**	**2.51**
10 Years	**2.01**	**2.41**	**2.68**
30 Years	**2.53**	**2.81**	**3.02**

Source: Bloomberg

KEY **ECONOMIC INDICATORS**

as of	6/30/19	6/30/18
U.S. $ (DXY)	**96.13**	**94.47**
Oil	**58.47**	**74.15**
Gold	**1,409.45**	**1,253.17**
CRB	**181.04**	**200.39**
GDP	**3.1**	**2.0**
CPI	**1.8**	**2.8**
Core (Ex - Food & Energy)	**1.6**	**2.0**
Unemployment Rate	**3.6**	**3.8**
Consumer Confidence	**121.50**	**126.40**
S&P/Case-Shiller – Comp-20	**2.54**	**6.56**

Source: Bloomberg

INDEX **RETURNS**

	2Q'19	YTD	1-Year
Bloomberg Barclays –			
Universal	**3.11%**	**6.54%**	**8.07%**
Aggregate	**3.08**	**6.11**	**7.87**
Aggregate ex-credit	**2.58**	**4.79**	**6.85**
Gov-Credit	**3.53**	**6.90**	**8.52**
Int. Gov-Credit	**2.59**	**4.97**	**6.93**
Corporate	**4.48**	**9.85**	**10.72**
Treasury only	**3.01**	**5.18**	**7.24**
1-3 year Gov	**1.46**	**2.47**	**4.02**
BofA Merrill – 1-yr T-Note	**0.94**	**1.76**	**2.98**
High Yield	**2.50**	**9.94**	**7.48**
International Debt	**3.42**	**4.99**	**4.10**
Emerging Markets Debt	**3.75**	**9.39**	**10.95**
S&P 500	**4.30**	**18.54**	**10.41**
DJIA	**3.21**	**15.40**	**12.20**
NASDAQ 100	**4.25**	**21.85**	**10.16**
MSCI EAFE	**0.65**	**14.53**	**1.70**

Source: Bloomberg Barclays

SECTOR **RETURNS**

2Q'19	Total Return	Excess Return
U.S. Treasuries	**3.01%**	**0.00%**
Government-related U.S. Agency	**2.97**	**0.19**
Government-related Credit	**3.16**	**0.24**
Corporate	**4.48**	**1.04**
Corporate Financials	**3.92**	**0.99**
Corporate Industrials	**4.75**	**1.13**
Corporate Utilities	**4.67**	**0.46**
Corporate AAA-rated	**5.04**	**0.62**
Corporate AA-rated	**3.43**	**0.35**
Corporate A-rated	**4.18**	**0.77**
Corporate BBB-rated	**4.86**	**1.38**
Corporate High-Yield	**2.50**	**0.39**
Securitized	**2.04**	**-0.33**
Mortgage-backed Securities-FR	**1.96**	**-0.39**
CMBS	**3.28**	**0.31**
ABS	**1.67**	**0.11**

Source: Bloomberg Barclays

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 and equity assets for primarily United States clients.

BENCHMARK DESCRIPTION

Bloomberg Barclays U.S. Universal Index represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield Index, Investment-Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment-grade or below investment-grade. Some U.S. Universal Index constituents may be eligible for one or more of its contributing subcomponents that are not mutually exclusive. These securities are not double-counted in the index. You can not invest directly in an index.

Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index that covers the investment grade fixed rate bond market with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The issues must be rated investment grade, be publicly traded, and meet certain maturity and issue size requirements. You can not invest directly in an index.

Bloomberg Barclays U.S. Aggregate Ex-Credit Index (LB Agg (Ex-Credit)) The index covers the U.S. investment grade fixed rate bond market, with index components for government, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. You can not invest directly in an index.

Bloomberg Barclays U.S. Government/Credit Bond Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. You can not invest directly in an index.

Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index is the Intermediate component of the U.S. Government/Credit index. The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. You can not invest directly in an index.

Bloomberg Barclays U.S. 1-3 Year Government Bond Index consist of securities in the U.S. Government Index with a maturity from 1 up to (but not including) 3 years. Securities issued by the U.S. Government (i.e., securities in the Treasury and Agency Indices). Inclusions: Public obligations of the U.S. Treasury with a remaining maturity of one year or more. Publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government. You can not invest directly in an index.

Bloomberg Barclays U.S. Treasury Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double-counting. Securities in the Index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices. You can not invest directly in an index.

Bloomberg Barclays U.S. Corporate Bond Index covers USD-denominated, investment-grade, fixed-rate, taxable securities sold by industrial, utility, and financial issuers. It includes publicly issued U.S. corporate debentures and secured notes that meet specific maturity, liquidity, and quality requirements. Securities in the index roll up to the U.S. Credit and U.S. Aggregate indices. The U.S. Corporate Index was launched on January 1, 1973. You can not invest directly in an index.

BofA Merrill Lynch 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 can not invest directly in an index.

Bloomberg Barclays Corporate U.S. High Yield Index - covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The Yankee sector has been discontinued as of 7/1/00. The bonds in the former Yankee sector have not been removed from the index, but have been reclassified into other sectors. You cannot invest directly in an index.

Bloomberg Barclays Global Aggregate Index provides a broad-based measure of the global investment-grade fixed-rate debt markets. The Global Aggregate Index contains three major components: the U.S. Aggregate Index (USD 300 million), the Pan-European Aggregate Index (EUR 300 million), and the Asian-Pacific Aggregate Index (JPY 35 billion). In addition to securities from these three benchmarks (94.4% of the overall Global Aggregate market value), the Global Aggregate Index includes Global Treasury, Eurodollar (USD 300 million), Euro-Yen (JPY 35 billion), Canadian (CAD 300 million), and Investment-Grade 144A (USD 300 million) index-eligible securities not already in the three regional aggregate indices. The Global Aggregate Index family includes a wide range of standard and customized subindices by liquidity constraint, sector, quality, and maturity. The Global Aggregate Index is a component of the Multiverse Index. You can not invest directly in an index.

Bloomberg Barclays Global Emerging Markets Index consists of the fixed and floating-rate USD-denominated U.S. Emerging Markets Index and the primarily EUR and GBP-denominated fixed-rate Pan-European Emerging Markets Index and includes emerging markets debt from the following regions: Americas, Europe, Asia, Middle East, and Africa. For the index, an emerging market is defined as any country that has a long term foreign currency debt sovereign rating of Baa1/BBB+/BBB+ or below using the middle rating of Moody's, S&P, and Fitch. The index does not overlap with the U.S. Corporate High-Yield Index or the Pan Euro Corporate High-Yield Index, but may overlap with other investment-grade Aggregate Indices if the securities meet their index eligibility rules. You can not invest directly in an index.

S&P 500 Index – The S&P 500 index includes 500 leading companies in leading industries of the U.S. economy. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. You can not invest directly in an index.

The NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No security can have more than a 24% weighting. The index was developed with a base value of 125 as of February1, 1985. Prior to December 21, 1998 the Nasdaq 100 was a cap-weighted index. You can not invest directly in an index.

The Dow Jones Industrial Average (DJIA) is an index used to measure the performance of the U.S. financial markets. Introduced on May 26, 1896 by Charles H. Dow, it is the oldest stock price measure in continuous use. Over the past century "the Dow" has become the most widely recognized stock market indication in the U.S. and probably in the entire world. Most of the stocks included in the index are listed on the New York Stock Exchange, and are all large blue-chip companies that reflect the health of the U.S. economy. All but a handful of these have major business operations throughout the world, thus providing some insight into the economic well-being of the global economy. You can not invest directly in an index.

MSCI EAFE Index is a capitalization weighted index that monitors the performance of stocks from Europe, Australiasia, and the Far East. You can not invest directly in an index.

P I A

Pacific Income Advisers

1299 Ocean Avenue Second Floor Santa Monica California 90401

telephone 310.255.4488 facsimile 310.434. 0100

www.pacificincome.com