INVESTMENT COMMENTARY

The longest economic expansion in U.S. history continued through the third quarter, as the U.S. economy has now expanded for 124 consecutive months, despite geopolitical concerns and global trade tensions. Japan initiated a trade war with South Korea that could have global ramifications on the back of the U.S. - China trade war. Britain continued their muddled exit from the European Union and Brexiting is now defined in the Urban Dictionary as, "saying goodbye to everyone at a party and then proceeding to stick around." However, global central bank easing provided the impetus for markets to continue to post positive returns. MarketWatch reported on JP Morgan research that developed central banks are expected to see the biggest synchronized easing since 2000. The Federal Reserve joined in on the party and cut the Fed Funds Rate twice during the third quarter lowering the target rate to 1.75% - 2.00%, while signaling a willingness for further rate cuts should the US economy show additional signs of weakening.

The decline in interest rates continued this quarter as the yield on the 1-year Treasury declined 18 basis points to 1.75%, while the yield on the 3-year Treasury decreased by 15 basis points to 1.56%.

The PIA long-term economic outlook continued to trend negative through the third quarter, following growing global demand for monetary stimulus and increasing uncertainty regarding U.S. fiscal policy. Following two third quarter rate cuts by our Federal Reserve, market consensus for additional monetary stimulus remains elevated through year-end largely due to growing global repercussions from U.S. trade tariffs. Consistent with our previously stated concerns, PIA's "sustainable, slow growth, low inflation" economic outlook looks to be in jeopardy, principally due to U.S. trade policies. We believe the self-inflicted wounds from the ongoing trade wars will not be easily rectifiable, and in spite of what has been a very resilient U.S. consumer, the U.S. economy may now be on a downward glidepath toward contraction. We continue to see no successful U.S. – China trade resolution on the horizon and anticipate the markets to respond less positively to future rate cuts, as we don't believe the current cost of capital is inhibiting economic activity or growth. Core CPI is approaching 19 months of approximately 2%, which means real rates are now roughly zero. We continue to monitor several key economic indicators, as several are currently trending downward. However, two key economic indicators recently turned positive, as we saw a rebound in Consumer Confidence (University of Michigan survey at 93.2 – up from 92), and an interest rate sensitive bump in housing data, which has a strong historical correlation between peaks in the housing and business cycles.

The global economy 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, in spite of compartmental U.S. economic growth. Additionally, there is now roughly $17 trillion of foreign sovereign debt yielding negative interest rates, which produces strong demand for U.S. Treasuries worldwide. Additionally, 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 credit spread widening.

We maintain a slightly short portfolio duration relative to our benchmark and a barbelled yield curve positioning given our outlook for strong Treasury issuance, modest U.S. economic growth and benign inflation expectations. We continue to maintain a corporate overweight focusing on high quality balance sheets, while we monitor the risks of potential economic weakness. Our credit focus is on Industrials that provide incremental risk-adjusted yield, high-quality, senior Financial credits that we believe offer attractive compensation for the sector volatility and a small exposure to large capitalization Utility credits located outside of the state of California. We continue to monitor the asset-backed and commercial mortgage backed security sectors for relative value opportunities.

PIA Investment 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 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.

Basis point (bp)- 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.

Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling.

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.

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.

Correlation - a mutual relationship or connection between two or more things.

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.

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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