INVESTMENT COMMENTARY

The Covid-19 Coronavirus hit American shores and impacted all facets of life. From an economic standpoint, there was a severe contraction with the length and depth yet to be determined. There was also a rapid reversal from risk-on to risk-off in the financial markets. Equity markets declined from their peaks to a bear market in only 16 days, the most violent downward correction on record. The main beneficiary was the U.S. Treasury bond market, as longer maturities hit all-time lows during the quarter. In order to support the economy and the markets, Monetary and Fiscal policy were swift and built upon the lessons learned during the Global Financial Recession (GFR). The Federal Reserve aggressively lowered the Fed Funds rate by 150 bps to a range of 0% to 0.25%. The Fed also initiated quantitative easing, corporate bond purchases and implemented lending facilities in an effort to provide liquidity and support to market participants. At the March 15 FOMC meeting, the Federal Reserve did not release economic projections, and Fed Chair Powell noted that given how rapidly events are unfolding, a forecast is "…just not something that's knowable…" and that "…writing down a forecast...didn't seem to be useful." The U.S. government passed over a $2 trillion relief package focused on unemployment benefits, direct taxpayer payments, aid for large corporations and forgivable loans for businesses with less than 500 employees. Importantly, the Fed and the U.S. government have indicated they are prepared to do more.

Investors shed risk assets for the safe haven of U.S. Treasuries at a pace not seen since the GFR. Consistent with risk-off positioning and supportive monetary policy, the yield curve dropped steeply across all maturities while steepening slightly. The yield on the 2-year Treasury declined 132 basis points to 0.25%, while 10-year Treasury yields declined by 125 basis points to 0.67%. The decline in interest rates led to an 8.20% Treasury sector quarterly return. However, all spread sectors underperformed. Investment Grade Corporate bonds returned -3.63% for the quarter, while High Yield bonds returned -12.68%. In the investment grade market, U.S. Agency Securities (-0.07%), Mortgage-backed Securities (+2.82%), Commercial MBS (+1.19%) and Asset-backed Securities (-0.21%) outperformed the Corporate bond sector but all greatly lagged the Treasury sector.

We typically launch this segment of our quarterly commentary with a statement of our long-term economic outlook. However, given the first quarter of 2020, we've shifted gears to turn our attention to the unprecedented challenges of the COVID-19 worldwide pandemic. The U.S. economy has most likely entered into a recession in March 2020, following the largest and most abrupt economic decline in modern history and marking the end of a record 11-year expansion. Now uncharacteristically, our long-term economic outlook is driven predominantly by near-term circumstances, specifically the duration and effectiveness of the "shelter in place" order and the implementation efficacy of much-needed fiscal relief. We believe the state of the U.S. healthcare system and Fiscal relief programs over the next 4-6 weeks will largely determine the duration and magnitude of the current economic recession. We should also point out that throughout the past eight quarters we've asserted that the greatest risk to the resilient low inflation, moderate growth U.S. economy was potentially poor fiscal and/or monetary policy. However, U.S. policymakers acted swiftly in 1Q20 to provide unprecedented fiscal and monetary relief and stimulus.

History does not provide a reasonable blueprint to navigate a pandemic-driven social and economic shutdown. However, we know that geopolitical events like 9/11 or the 1970's OPEC oil embargo produced lasting socioeconomic changes. U.S. socioeconomic activity is currently enduring an unprecedented shutdown, particularly in "nonessential" retail, restaurants, leisure and travel industries, which alone represent more than 12% of GDP and nearly 18% of employment. We're also seeing dramatic contraction in consumer-driven durable goods and business-driven investment in structures and equipment. Separately, we have somewhat mixed emotions regarding the massive collapse in the energy complex exacerbated by an all-out oil price war between Saudi Arabia and Russia. While cheaper oil leads to lower prices at the pump, few consumers are pulling their cars out of the garage these days. Additionally, the U.S. is now the largest oil producer worldwide and, while energy capex is down

and represents less than 4% of total U.S. business investment, the energy industry supports nearly 500,000 highly regionalized jobs. Finally, pandemics are a global phenomenon and global growth outside the U.S. is shrinking at a dramatic rate.

We are concurrently constructing our long-term economic and market outlook based on an assessment of three distinct phases: (1) the impact of the healthcare crisis; (2) the magnitude and duration of the economic contraction; and (3) the changes (positive and negative) of a new normal. We are certainly not expert in pandemics; however, we were relatively early in our recognition of the potential severity of this crisis and will continue to evaluate the data/information available. When assessing the duration and magnitude of an economic downturn and estimating the impact on capital markets, we typically consider prior recessions and recoveries to estimate employment and balance sheet impairment. And looking out beyond this recession (albeit 12-24 months), we're curious about how, what and why things will look different. What will the world look like if COVID-19 alters the trajectory and global status of China or the geopolitical negotiations between China and the U.S.? Will universal healthcare dominate the discourse in an election year? How will this change the trajectory and attitudes toward Big Pharma? Will this spawn widespread tele-industry? How will GDP and inflation ultimately be impacted? There seems to be virtually zero resistance to the U.S. government issuing massive amounts of dollar-denominated debt at historically low interest rates – even when the total U.S. debt/GDP ratio is already above 200%. We believe we have structured our portfolios defensively for the current environment. We are consistently reevaluating the socioeconomic environment with the goal to effectively reposition our portfolios for the next economic boom.

Throughout most of the first quarter, PIA's portfolios remained duration neutral relative to our respective benchmarks; however, we shifted to a short duration position when 10-year yields moved substantially below 1.00%. Prior to dramatic spread widening that occurred in March, we utilized the strength in the credit market to continue de-risking by further reducing the BBB credit weighting across most strategies. We currently maintain a modest overweight in corporate credit, with a focus on liquid, short duration, high quality credits with strong balance sheets. Our Industrial credits provide incremental risk-adjusted yield and our Financials are senior domestic debt we believe offer attractive compensation for their sector volatility. In our Core Plus strategies, we reduced our high yield exposure to underweight early in the quarter following a strong 2019. After unprecedented rate volatility during the 1st quarter, the Fixed Rate MBS sector posted negative excess returns despite the Fed's MBS purchase announcement. We maintain a modest overweight to Agency Mortgage-backed Securities, as we believe the MBS sector offers long-term value on a risk-adjusted basis.

PIA Investment Strategy Group

KEY **RATES**

	3/31/20	12/31/19	3/31/19
Fed Funds Target Rate	**0.0-0.25%**	**1.5-1.75%**	**2.25-2.5%**
3 Month LIBOR	**1.45**	**1.91**	**2.60**
On-the-run Treasuries:			
3 Months	**0.04**	**1.54**	**2.38**
6 Months	**0.14**	**1.58**	**2.42**
2 Years	**0.25**	**1.57**	**2.26**
5 Years	**0.38**	**1.69**	**2.23**
10 Years	**0.67**	**1.92**	**2.41**
30 Years	**1.32**	**2.39**	**2.81**

Source: Bloomberg

KEY **ECONOMIC INDICATORS**

as of	3/31/20	3/31/19
U.S. $ (DXY)	**99.05**	**97.28**
Oil	**20.48**	**60.14**
Gold	**1,577.18**	**1,292.30**
CRB	**121.79**	**183.75**
GDP	**2.1**	**2.2**
CPI	**2.3**	**1.5**
Core (Ex - Food & Energy)	**1.8**	**1.8**
Unemployment Rate	**3.5**	**3.8**
Consumer Confidence	**120.00**	**124.10**
S&P/Case-Shiller – Comp-20	**3.08**	**3.58**

Source: Bloomberg

INDEX **RETURNS**

	1Q'20	YTD	1-Year
Bloomberg Barclays –			
Universal	**1.30%**	**1.30%**	**7.15%**
Aggregate	**3.15**	**3.15**	**8.93**
Aggregate ex-credit	**5.18**	**5.18**	**10.48**
Gov-Credit	**3.37**	**3.37**	**9.82**
Int. Gov-Credit	**2.40**	**2.40**	**6.88**
Corporate	**-3.63**	**-3.63**	**4.98**
Treasury only	**8.20**	**8.20**	**13.23**
1-3 year Gov	**2.73**	**2.73**	**5.37**
BofA Merrill – 1-yr T-Note	**1.72**	**1.72**	**3.85**
High Yield	**-12.68**	**-12.68**	**-6.94**
International Debt	**-2.68**	**-2.68**	**0.74**
Emerging Markets Debt	**-9.48**	**-9.48**	**-2.89**
S&P 500	**-19.60**	**-19.60**	**-6.99**
DJIA	**-22.73**	**-22.73**	**-13.38**
NASDAQ 100	**-10.29**	**-10.29**	**7.03**
MSCI EAFE	**-22.72**	**-22.72**	**-13.90**

Source: Bloomberg Barclays

SECTOR **RETURNS**

1Q'20	Total Return	Excess Return
U.S. Treasuries	**8.20%**	**0.00%**
Government-related U.S. Agency	**0.47**	**-6.99**
Government-related Credit	**-0.52**	**-8.58**
Corporate	**-3.63**	**-13.50**
Corporate Financials	**-2.69**	**-10.46**
Corporate Industrials	**-4.28**	**-14.84**
Corporate Utilities	**-2.36**	**-15.40**
Corporate AAA-rated	**4.74**	**-9.33**
Corporate AA-rated	**1.38**	**-8.00**
Corporate A-rated	**-0.67**	**-10.50**
Corporate BBB-rated	**-7.10**	**-16.92**
Corporate High-Yield	**-12.68**	**-17.03**
Securitized	**2.65**	**-1.24**
Mortgage-backed Securities-FR	**2.82**	**-0.83**
CMBS	**1.19**	**-5.86**
ABS	**-0.21**	**-3.22**

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.

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