INVESTMENT COMMENTARY

The second quarter saw wider spread vaccination, continued monetary and fiscal stimulus and a further re-opening of the economy. Concerns about the Delta variant of the Covid-19 coronavirus have not slowed down overall sentiment, as the Consumer Confidence Index increased to 127.3. From an economic standpoint, real gross domestic product (GDP) accelerated and grew at an annual rate of 6.4% for the prior quarter. The unemployment rate continued to decline to 5.8%, according to the Bureau of Labor Statistics (BLS). However, concerns about inflation continue as the Consumer Price Index (CPI) increased to 5.0% and the Core PCE Deflator rose to 3.4%. Against this backdrop, the S&P 500 returned 8.55% during the quarter and the tech-heavy NASDAQ 100 bounced back and returned 11.38%.

The Federal Reserve signaled higher expectations for "transitory" inflation and an earlier timeline for interest rate hikes. According to Bloomberg, "The Federal Reserve's so-called dot plot, which the U.S. central bank uses to signal its outlook for the path of interest rates, shows that officials expect no change in policy this year, while leaning toward two rate increases by the end of 2023, based on median estimates." Federal Reserve Chair Jerome Powell also said in June that "You can think of this meeting that we had as the 'talking about talking about' meeting", which was in reference to whether the Fed will begin talking about tapering its bond-buying program. The yields on the 1-year, 2-year and 3-year Treasuries rose 1 basis point, 9 basis points and 12 basis points, respectively.

The PIA Investment Strategy Group (ISG), using the 10-year Treasury as a proxy for market interest rates, adjusted our 2021 estimated yield range upward to 1.40% – 2.10%. On the surface bond market investors are growing more accepting of the Fed's outlook for growth and inflation, including the transitory nature of the current post-pandemic hyper-inflation. However, investor concerns may be shifting toward the Fed's monetary policies, specifically current quantitative easing (QE), i.e., bond purchases with newly minted money. JP Morgan projects the balance sheets of developed nation's central banks will have grown by more than $11 trillion during the 2020-21 period to roughly $28 trillion. In spite of strong market returns, meaningful increases in job creation and GDP growth, a substantial pick-up in all measures of inflation and an unusually strong housing market, the Fed continues its $40 billion monthly Mortgage-backed Securities purchases and remains the largest buyer of Treasuries with no projected near-term end in sight. With the lingering painful memories of the 2013 Bernanke "taper tantrum", we can appreciate Chairman Powell's temperance and prudence toward QE removal. After all, it was Ben Bernanke who estimated that for every $500 billion of QE, 10-year Treasury yields were reduced by 0.2%. There is good reason to believe the Fed has embraced the key tenets of Modern Monetary Theory (MMT), which, in short, believes that borrowing in your own national currency at very low interest rates is an intelligent use of deficit spending to produce aggregate demand without meaningful inflation risk. However, we believe U.S. asset prices in the stock market, housing and bond markets are hovering near all-time highs, largely as a result of highly accommodative QE policy and near zero interest rates. We agree with the Fed that much of the current elevated levels of growth and inflation are transitory. Payroll employment is still roughly 7.5 million jobs below pre-pandemic levels, but it's unclear that there's a path to return to the previous levels of "full employment" using standardized measurement. However, we're confident that productivity growth will continue, while the global economy reopens at an uneven pace. With that said, we remain vigilant regarding an upward creep in interest rates and/or widening of historically tight credit spreads.

The fund is currently positioned with a neutral duration relative to the benchmark. We maintained the overweight in corporate credit and commercial mortgage-backed securities. The industrial and financial credits in the fund provide incremental risk-adjusted yield and offer attractive compensation for their sector volatility and the utility credits provide additional portfolio diversification with low sector volatility. The fund is also overweight in agency mortgage-backed securities and senior tranches of select asset-backed and commercial mortgage-backed securities, as we believe these sectors offer long-term value on a risk-adjusted basis.

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.

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of the country's economic health.

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. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

Consumer Confidence Index (CCI) is a survey, administered by The Conference Board, that measures how optimistic or pessimistic consumers are regarding their expected financial situation.

The personal consumption expenditure (PCE) measure is the component statistic for consumption in gross domestic product (GDP) collected by the United States Bureau of Economic Analysis (BEA).

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.

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.

Interest rate is the amount a lender charges for the use of assets expressed as a percentage of the principal.

Quantitative easing (QE) is a monetary policy whereby a central bank purchases at scale government bonds or other financial assets in order to inject money into the economy to expand economic activity

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.

Tranches are segments created from a pool of securities—usually debt instruments such as bonds or mortgages—that are divvied up by risk, time to maturity, or other characteristics in order to be marketable to different investors.

Benchmark - The ICE BofAML 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 cannot 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.

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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