HIGH YIELD MARKET

INVESTMENT COMMENTARY & REVIEW

Third Quarter 2022

The Bloomberg U.S. High Yield Corporate Index (Index) returned -0.65% during the third quarter, bringing total returns for the first nine months of 2022 to -14.74%. While the quarterly return was nearly flat overall, the high yield market exhibited significant volatility intra-quarter. A strong early summer rally in credit quickly turned decidedly negative in September as the Fed continued to raise rates unabashedly and recessionary concerns remained in the forefront for investors.

The BB-rated, B-rated, and CCC-rated categories recorded losses of -0.71%, -0.66%, and -0.42%, respectively. The Index option-adjusted spread (OAS) tightened 17 bps in the quarter to +552 bps, while the yield-to-worst (YTW) rose to 9.68% from 8.89%. By ratings cohorts, BB-rated credits now trade at an OAS of +354 bps and offer a YTW of 7.77%, B-rated credits at an OAS of +619 bps and 10.23% YTW, and CCC-rated credits at an OAS of +1111 bps and 15.22% YTW. The average dollar price of the Index declined to $83.86 at quarter end.

As noted in prior commentary, current valuations have historically been compelling entry points in the high yield market. Given the 3Q quarter-end yield of 9.68%, yields would need to increase by more than another 2% before returns become negative over a twelve-month period (assuming a 3% default rate and historical averages for recovery values). If treasury yields remained unchanged while high yield climbed another 2%+, high yield spreads would grow wider than +750bps.

In addition, low average bond prices, a better rating mix, and the highest concentration of secured bonds on record for the Index provides relative downside protection. These characteristics imply that the aggregate probability of default and potential default-related losses for the high yield market are likely to be less severe than compared to past recessions.

We believe the high market can provide compelling long-term returns, and we believe investing in PIA High Yield will provide relative outperformance through the cycle.

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Index performance is not indicative of Fund performance. It is not possible to invest directly in an index. For current standardized performance of the Fund, please visit www.piamutualfunds.com or call 310-393-1424.

Bloomberg U.S. Corporate 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.

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.

Bond ratings provide the probability of an issuer defaulting based on the analysis of the issuer's financial condition and profit potential. Bond rating services are provided by credit rating agencies currently registered as Nationally Recognized Statistical Rating Organizations ("NRSROs"). Bond ratings start at AAA (denoting the highest investment quality) and usually end at D (meaning payment is in default). Securities not covered by any agency will receive a non-rated (NR) rating.

Option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option. Typically, an analyst uses the Treasury securities yield for the risk-free rate.

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

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

Yield to worst - the lowest potential yield that can be received on a bond without the issuer actually defaulting.

Default is the failure to repay a debt including interest or principal on a loan or security.

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Past performance does not guarantee future results.

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