



HIGH YIELD MARKET

INVESTMENT COMMENTARY & REVIEW

Third Quarter 2023

The Bloomberg U.S. High Yield Corporate Index (Index) returned 0.46% during the third quarter, bringing 2023 year-to-date total returns to 5.86%.

BB-rated bonds lost -0.39%, while the B-rated and CCC-rated categories recorded gains of 0.84% and 2.51%, respectively. The Index option-adjusted spread (OAS) widened slightly by 4 bps in the third quarter to +394 bps, while the yield-to-worst (YTW) rose from 8.50% to 8.88%. By ratings, BB-rated credits now trade at an OAS of +264 bps and offer a YTW of 7.61%, B-rated credits at an OAS of +399 bps and 9.00% YTW, and CCC-rated credits at an OAS of +848 bps and 13.28% YTW. The average dollar price of the Index declined to \$88.12 by quarter-end.

The summer rally came to an abrupt end in September, as resilient domestic economic data and the market's recognition of the Federal Reserve's (Fed's) "higher-for-longer" outlook resulted in a "bear steepening" of the Treasury curve, driven by a 73 bps increase in the 10-year Treasury yield. The Fed finally achieved a level of tightening in U.S. financial conditions commensurate with the rate hike cycle that began more than 18 months and 500 bps ago. We believe the significant third quarter increase in interest rates across the yield curve was a reflexive market acknowledgement that the Fed intends to make good on their anti-inflation fight, thus drastically reducing hopes for rate cut relief, while increasing the risks of a deeper economic contraction. As the bond market digested higher-for-longer yields and considered whether the delayed economic reckoning will eventually be brought to the forefront, high yield

investors reassessed the future impact on credit profiles, as issuers refinance at higher coupons, while questioning whether certain segments of the high yield market will have the ability to refinance at all.

The PIA high yield investment thesis emphasizes investing in businesses that can weather a full economic cycle, including difficult economic times. We believe good businesses can attract capital, markets don't truly shut for extended periods, and there are more financing alternatives to public capital markets than ever before. We do not anticipate a meaningful spike in defaults and continue to focus on businesses with tangible assets that tend to retain their value in bankruptcy, which we believe is critical in seeking to mitigate portfolio risk during a market drawdown.

That said, while we recognize the concerns of the impact on the US economy and corporate credit profiles from higher-for-longer interest rates, the current market yield of 9.2% supports continued investment in high yield. History informs us that when entry points are above 9% yield, the average total returns for the forward 3-month and 12-month periods are greater than 3% and 10%, respectively (Bloomberg). With attractive all-in yields, the Federal Reserve nearing the end of its hiking cycle, and data supporting the ongoing resiliency of domestic economic activity, the high yield market should continue to provide positive returns.

PIA Investment Strategy Group

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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. The Fund may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks may increase for emerging markets. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. The Fund may invest in derivatives, which may involve risks greater than the risks presented by more traditional investments. The risk of owning an exchange-traded fund ("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.

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.

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Past performance does not guarantee future results.

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