



INVESTMENT COMMENTARY

IN REVIEW, the U.S. capital markets posted a strong fourth quarter rally to deliver positive returns in 2011, driven largely by optimistic interpretations of recent housing and employment data. Despite modest growth projections for 2012, a lack of job creation, continued housing foreclosures and highly tenuous situations in both the Eurozone and Iran, virtually all spread sectors outperformed government debt, while housing stocks staged big rallies in what is likely to be yet another attempt to pick the bottom in this economically critical sector. Unemployment surprisingly declined to 8.6%, largely driven by a 315,000 drop in the labor force as the labor participation rate fell to 64%. Oil prices finished the year strong (WTI: \$98.83) as Iran repeatedly threatened to close the Strait of Hormuz, where roughly one-third of the World's seaborne oil trade passes, in response to U.S. sanctions. In early December Standard & Poor's Rating Services placed fifteen Eurozone nations on credit watch negative, signaling a 50% probability of a downgrade within the following 90 days. As many feared, congress's special deficit-cutting committee agreed to failure rather than compromise, triggering \$1.2 trillion in automatic spending cuts that will likely be repealed prior to taking effect in 2013. The spread between 2- and 10-year Treasuries tightened by just 4 bps to 1.64%, while the yield curve remained virtually unchanged as the Fed continued to reinforce their outlook for exceptionally low levels for the federal funds rate at least through mid-2013. The FOMC convened and held press conferences twice during the quarter, leaving the fed funds target rate unchanged at 0-0.25%, while also stating that "strains in global financial markets continue to pose

significant downside risks to the economic outlook".

LOOKING FORWARD, the PIA Investment Strategy Group estimate for Core CPI is 1.6% in the first half of 2012 and only modestly higher for the year. Our Group's 2012 outlook for GDP is 1.5%. We estimate the probability for a recession in 2012 at 25%, and we remain concerned about the current moderate level of stagflation (elevated top line inflation relative to stagnant/declining growth). We believe that prolonged highly accommodative monetary policy must ultimately portend currency depreciation and higher interest rates. However, given the heightened event risk in the Eurozone and the perceived high quality and economic strength of the U.S. relative to other developed nations, we believe 10-year Treasury yields will remain in a 1.75% – 2.30% trading range for at least the next three months.

It appears that we are nearing the end of the post-WWII era described as the "Debt Supercycle", a multi-decade deterioration of the U.S. balance sheet and dramatic rise in indebtedness. Specifically how and when the Debt Supercycle will end is still unclear, but it seems highly unlikely that it will end well. Our two biggest concerns for 2012 are (1) the European debt crisis and the systemic risks to the global economy and (2) U.S. political instability and social unrest that is evident in the "occupy movement" on the left and the "tea party" on the right. Like the Debt Supercycle, these two concerns are structural in nature rather than cyclical, which means they require structural solutions rather than simple monetary intervention. The concern in the European Union (EU) is contagion – does the EU have the tools and capacity

IMF ECONOMIC FORECASTS (Table 1)

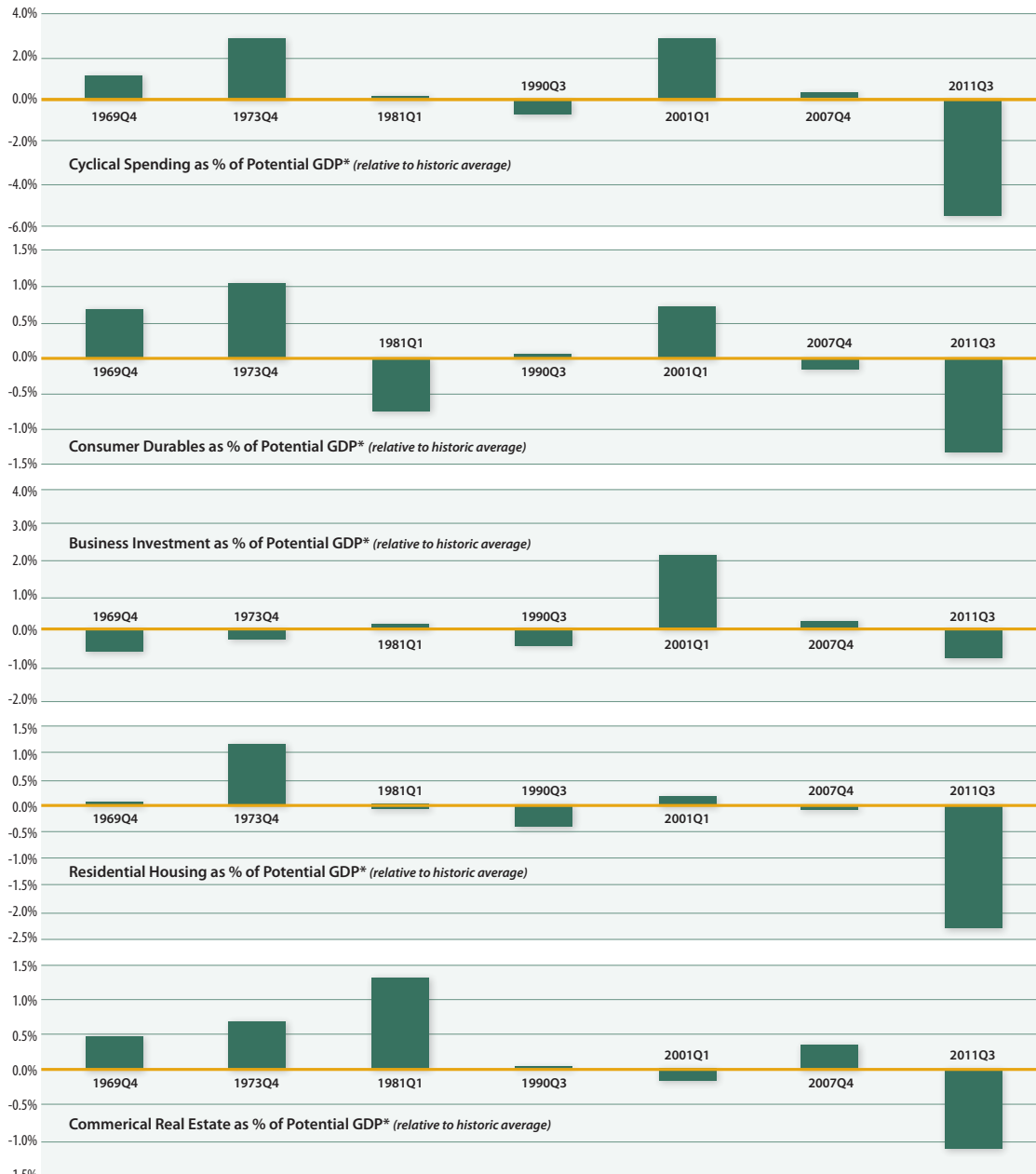
	1990-08	ANNUAL % OUTPUT GROWTH				OLD FORECASTS	
		2009	2010	2011*	2012*	2011**	2012**
Advanced Economies	2.4	-3.7	3.1	1.6	1.9	2.2	2.4
Emerging Economies	4.8	2.8	7.3	6.4	6.1	6.4	6.5
World	3.4	-0.7	5.1	4.0	4.0	4.2	4.5

* IMF World Economic Outlook, September 2011

** IMF World Economic Outlook, October 2010



NO MODERN-DAY PRECEDENT FOR RECESSION (Chart1)
when cyclical spending is so depressed



*Quarter before the recession started relative to average from 1970.

to limit their debt problems to a liquidity crisis or will the default of Greece prove to be a precursor to widespread banking and sovereign insolvencies? The European Central Bank (ECB) balance sheet has already ballooned to more than \$3.5 trillion – larger than the Fed’s balance sheet. We remain skeptical about the EU’s ability to effectively resolve their debt crisis, largely because the EU is a monetary union

without a political union. On balance, the current level of U.S. interest rates and credit spreads seem to reflect a risk level somewhere in between an EU liquidity crisis and a sovereign crisis of solvency. While it still remains difficult to fully measure the potential risks to our banking system, we believe an EU driven decline in global GDP represents a modestly negative impact on the U.S. economy.



Chart 1 shows that, through the third quarter of 2011, all major measures of U.S. consumption indicate significant declines relative to historic averages. We believe this contraction in U.S. consumption is evidence of our unique structural socio-economic challenges, but also suggests limited downside risk from a global economic slowdown. However, we believe the IMF economic forecast for global growth overestimates the contribution from emerging economies (see Table 1). The recent decline in economic output from China caused by a slowdown in orders coupled with rising labor and raw production costs, offers an indication of the meaningful dependency of emerging economies on the consumption of debt-laden developed economies such as those within the EU. Our second major concern is the efficacy of U.S. policy making and, thus, we remain very skeptical regarding the prospects for stimulative policy-making in 2012 despite being in an election year. As such, the risk of economic constraint continues to outweigh the possibility for growth, which should continue to depress employment. The Urban Institute stated "housing foreclosure backlog should take decades to complete at the current pace" – and without effective policy making to stimulate growth, we see no near term solution to our structural employment or housing problems. We strongly believe that economically stimulative policy, rather than short-term non-recurring financial band-aids is essential to stimulate economic growth and put our economy on a path to recovery. Our preference is for a revision of the tax code to remove tax loopholes that incent and reward special interest groups – this should drive manufacturing onshore and help rebuild the middle class. Additionally, we are strongly in favor of a wholesale home purchase program designed to reduce excess shadow inventory, increase availability of rental properties and, thus, lower rental costs and stabilize the housing market.

PIA PORTFOLIO structure remains modestly bulleted, and while we have tactically adjusted the portfolio duration to capitalize on market opportunities as interest rates shift within their trading range, we maintain a shorter duration bias for the long term. We still believe the long term direction for interest rates is higher due to the current negative real rates of return for government bonds, coupled with the ultimate

temptation for the U.S. to reflate their way out of a worsening debt crisis. However, we still believe that monetary policy makers will maintain their decision to keep short-term interest rates at or near current levels throughout 2012. Early in the second half of 2011, we reduced our credit overweight that we established in the first half of 2009, and while we currently favor more liquid, higher quality credits, we anticipate attractive opportunities to overweight the credit sector in 2012. We anticipate spread volatility will continue into the first half of 2012, driven largely by overseas events; however, we continue to favor the industrial corporate sector due to attractive valuations and solid balance sheets. We remain substantially underweight the financial sector, which produced -628 basis points of negative excess return and was the worst performing sector in the U.S. investment grade bond market in 2011. We sold selected major banks in 2011 due to escalating domestic risks related to the housing market and government re-regulation as well as international exposure to the Eurozone. However, we believe the continuing volatility in the financial sector will ultimately provide us with opportunities to selectively invest in quality financials that trade at significant discounts to their fair values. We continue to utilize the PIA BBB Fund to invest in this higher yielding sector, while offering sufficient diversification to manage the issuer specific idiosyncratic risks. As mortgage spreads widened during 2011, driven by low interest rates and increased rate volatility, we continued to increase our MBS weighting with an overweight in premium agency MBS. We believe the MBS sector offers attractive relative risk-adjusted spreads despite elevated refinance activity levels, due to tighter underwriting standards and diminishing economic incentives by creditworthy borrowers. Additionally, mortgage dollar rolls once again became attractive in selected coupons, and we continue to utilize the PIA MBS fund to explore this and additional opportunities in Mortgage-backed securities. CMBS produced modest positive excess returns for 2011; however, we continue to avoid the sector due to its unattractive risk-reward profile and lack of liquidity.

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KEY RATES

	12/31/11	9/30/11	12/31/10
Fed Funds Target Rate	0-0.25%	0-0.25%	0-0.25%
3 Month LIBOR	0.58	0.37	0.30
On-the-run Treasuries:			
3 Months	0.01	0.02	0.12
6 Months	0.06	0.05	0.18
2 Years	0.24	0.24	0.59
5 Years	0.83	0.95	2.01
10 Years	1.88	1.92	3.29
30 Years	2.89	2.91	4.33

Source: Bloomberg

INDEX RETURNS

	4Q'11	YTD	1-Year
Barclays Capital –			
Universal	1.45%	7.40%	7.40%
Aggregate	1.12	7.84	7.84
Aggregate ex-credit	0.92	7.69	7.69
Gov-Credit	1.18	8.74	8.74
Int. Gov-Credit	0.84	5.80	5.80
Corporate	1.93	8.15	8.15
Treasury only	0.89	9.81	9.81
1-3 year Gov	0.21	1.56	1.56
BofA Merrill – 1-yr T-Note	0.09	0.57	0.57
Int. High Yield	6.57	4.79	4.79
International Debt	-0.36	4.36	4.36
Emerging Markets Debt	4.93	6.97	6.97
S&P 500	11.82	2.11	2.11
DJIA	12.77	8.38	8.38
NASDAQ	6.83	3.68	3.68
EAFE AWI	3.40	-11.67	-11.67

Source: Bloomberg & Barclays Capital

KEY ECONOMIC INDICATORS

	as of	12/31/11	12/31/10
U.S. \$ (DXY)		80.18	79.03
Oil		98.83	91.38
Gold		1563.70	1420.78
CRB		305.30	332.80
GDP		1.8	2.3
CPI		3.4	1.5
Core (Ex - Food & Energy)		1.7	0.9
Unemployment Rate		8.6	9.4
Consumer Confidence		64.50	63.40
S&P/Case-Shiller – Comp-20		-3.40	-2.40

Source: Bloomberg

SECTOR RETURNS

4Q'11	Total Return	Excess Return
U.S. Treasuries	0.89%	n/a
Government-related U.S. Agency	0.69	-0.05
Government-related Credit	0.84	-0.17
Corporate	1.93	0.82
Corporate Financials	1.22	0.29
Corporate Industrials	2.28	1.12
Corporate Utilities	2.24	0.95
Corporate AAA-rated	1.12	-0.01
Corporate AA-rated	1.73	0.76
Corporate A-rated	1.63	0.55
Corporate BBB-rated	2.40	1.22
Corporate High-Yield	6.46	5.69
Mortgage-backed Securities-FR	0.89	0.24
Mortgage-backed Securities-Hybrid	0.64	0.36
CMBS	3.11	2.49
ABS	0.23	-0.28

Source: Barclays Capital



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BENCHMARK DESCRIPTION

Barclays Capital 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.

Barclays Capital 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.

Barclays Capital 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.

Barclays Capital 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.

Barclays Capital 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.

Barclays Capital 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.

Barclays Capital 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.

Barclays Capital 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.

Barclays Capital Corporate Intermediate U.S. High Yield Index - is the Intermediate component of the U.S. Corporate High Yield index. The Barclays Capital U.S. High Yield Index covers the universe of fixed rate, non-investment grade debt. Pay-in-kind (PIK) bonds, 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, and 144-As are also included. You can not invest directly in an index.

Barclays Capital 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.

Barclays Capital 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 February 1, 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, Australasia, and the Far East. You can not invest directly in an index.



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