Monthly Fund Commentary

Muzinich & Co

Institutional: MZFIX October 2018

Fund

Muzinich High Income Floating Rate Fund

Portfolio Commentary

US markets experienced significant volatility with all of US credit, with the exception of loans, declining for the month. The European loan market demonstrated its relative stability for the third time this year (after periods of volatility in February and May/June). October's sell-off (both equities and high yield) began with concerns regarding rates. The US 10-year yield[1] rose almost 20 bps[2] to start the month, worrying investors and causing higher quality, longer bonds to lag. Higher rates tends to mean higher borrowing costs, a potential economic headwind and historically a cause of concern for investors. As the month progressed and corporate earnings came into focus, the sell-off became more risk-off than rates related as investors worried about future growth prospects and cash flows. Loans benefitted from the voslatility dampening effect of the carry as well as other technical factors. There have been significant inflows into the asset class from collateralized loan obligation (CLO) investors offset by some exchange-traded fund (ETF) outflows. Moreover, the new issue market has been described as slowing down into year end, so we expect secondary prices to continue to be robust. Looking forward, we expect loan returns to continue to be supported by coupons earned and a buyer base which is dominated by long term institutional investors. It is likely that the new issue market will also remain subdued for the next month at least, though anecdotally we hear that the pipeline is building again for the beginning of 2019. Private equity, whose activity drives loan new issuance volume, has significant dry powder to deploy, which we believe will be supportive for continued loan market growth.

Strategy and Outlook

In this environment, the fund generated a positive return. From a sector perspective, the fund benefitted from allocations to technology, housing, and cable/satellite TV. On the other hand, exposure to select industrials and gaming loans detracted from performance. The fund benefitted from B rated loans, while select BB rated loans detracted from performance.

While Emerging Market (EM) and European markets experienced summer volatility, investors were caught off guard by a US-led correction across both equity and fixed-income markets in October. The yield on the broad US high yield and loan markets is just shy of 7%[3] after spreads[4] widened in October. The question remains – has anything fundamentally changed within the US corporate credit market to indicate increasing defaults that justify a higher risk premium? While we do see more headwinds to growth (trade war, inflationary pressures, late stages of the economic cycle), US economic fundamentals remain strong. Corporates have done much in the last few years to right their balance sheets and push out their maturities. We typically see an uptick in defaults when there is an impending wave of maturities coming due. We do not see this now as companies aggressively took advantage of low interest rates and refinanced themselves, pushing their maturities to 2022 and beyond. JP Morgan just recently lowered their default outlook to sub 2% for 2018 and 2019 for both loans and bonds[5]. What does this mean for investors? At current yields, investors seem well compensated for taking on minimal default risk.

All references to market performance are sourced from Bloomberg. [1] Yield on a security is the amount of cash (as a percentage) that returns to the owners of the security in the form of interest or dividends received from it. [2]A basis point (bps) equals 0.01%. [3]Source: ICE BofA ML US Cash Pay High Yield Constrained Index (JUC0) contains all securities in The ICE BofA ML US Cash Pay High Yield Index (J0A0) but caps issuer exposure at 2%. As of 10/31/2018. [4]Spread is the difference in yield between a U.S. Treasury bond and a debt security with the same maturity but of lesser quality. [5]J.P. Morgan High Yield Bond and Leveraged Loan Market Monitor, October 1, 2018

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. 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. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for emerging markets. Derivatives involve risks different from, and in certain cases, greater than the risks presented by more traditional investments. These risks are fully disclosed in the prospectus. Floating rate loans may not be fully collateralized and therefore may decline significantly in value. The fund will bear its share of the fees and expenses of investments in underlying funds or ETFs. Shareholders will pay higher expenses than would be the case if making direct investments in underlying funds or ETFs. Because the fund invests in ETFs, it is subject to additional risks that do not apply to conventional mutual funds, including the risks that the market price of an ETF's shares may trade at a discount to its net asset value ("NAV"), an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact a fund's ability to sell its shares. The Fund may make short sales of securities, which involves the risk that losses may exceed the original amount invested. Please note that while the fund's prospectus states that the fund may use leverage, and that it may make short sales of securities, which involves the risk that losses may exceed the original amount invested, the Fund's portfolio managers do not anticipate engaging in either practice. The Fund invests in high yield debt instruments which tend to be less liquid than higher quality debt instruments

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The Summary Prospectus and Statutory Prospectus contains this and other important information about the investment company, and it may be obtained by calling 1-855-Muzinich, or visiting www.MuzinichUSfunds.com. Read it carefully before investing.

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Past performance does not guarantee future results. Index performance is not indicative of Fund performance. To obtain Fund performance call 1-855-Muzinich (689-4642). One cannot invest directly in an index.

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Fund holdings and allocations are subject to change and should not be considered a recommendation to buy or sell any security.

Credit Quality weights by ratings were derived from the most recent data available as determined by Standard and Poor's. Grades are assigned to bonds by private independent rating services such as Standard & Poor's and these grades represent their credit quality. The issues are evaluated based on the bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade. In situations where Standard & Poor's has not issued a formal rating, the security is classified as not rated (NR). Ratings shown reflect a blend of Moody's, Fitch and S&P or, where such is unavailable, Muzinich assigned rating but may not reflect the ratings regime used for the account's official guideline compliance calculations.