Monthly Fund Commentary

Muzinich & Co

Supra Institutional: MZLSX

October 2018

Fund

Muzinich Low Duration Bond Fund

Portfolio Commentary

In what was a difficult month for capital markets, global credit proved much more resilient than equities. European and Emerging Market (EM) corporates outperformed their US counterparts during October, with investment grade[1] outperforming high yield. October's sell-off (both equities and high yield) began with concerns regarding US rates. The US 10-year yield[2] rose almost 20 bps[3] to start the month, worrying investors and causing higher quality, longer bonds to lag. Higher rates 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. As a result, riskier US CCCs, which had been the outperformer for the year, experienced the sharpest declines towards month-end. The economic situation in Italy continued to dominate European news flow for much of the month as the coalition government's budgetary proposals remained under the spotlight after being rejected by the European Commission. Rating agency Moody's downgraded the country's credit rating while S&P changed their outlook to negative following a similar decision by Fitch in September. The political situation in Germany also moved to the fore in October as regional elections resulted in a significant loss by the Christian Democratic Union party ("CDU"). As a result, following 13 years as Chancellor, Angela Merkel announced she would step down at the next election and, as early as December, resign from her post as head of the CDU. Against a backdrop of slowing growth across most of Europe, the European Central Bank left rates on hold, but reconfirmed that quantitative easing would come to an end in December. Brazilian corporates put in a positive performance during a month dominated by presidential elections. Right-wing candidate, Jair Bolsonaro, was elected president, winning the second round by a large margin, while the incumbent party lost significant influence in the government. Bolsonaro is expected to form a business-friendly government that will initiate reform in public security, utilities and fiscal management. Conversely, China was one of the poorer performers as a slowdown in economic activity and trade wars weakened sentiment.

Strategy and Outlook

In this risk-off environment, the fund declined. From a regional perspective, allocations to Asia ex. Japan contributed to fund performance and slightly mitigated the detractions from allocations to the US, Western Europe, and the European periphery. On a sector basis, we saw positive contributions from banking, telecom, and healthcare, while super retail and utilities acted as a drag on performance. From a ratings perspective, the off benchmark exposure to BB rated bonds bolstered fund performance, while exposure to select BBB rated bonds was the greatest detractor. In terms of positioning, the fund continued to reduce its risk exposure both in terms of credit risk and interest rate risk, amid expectations of ongoing volatility.

While 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 market is just shy of 7%[4] after spreads[5] widened considerably in October. In fact, the US high yield market (JUC0) hit its cycle tights on October 3rd and then widened considerably to a level last seen in 2017. 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[6]. What does this mean for investors? At a yield of close to 7%, investors are being well compensated for taking on minimal default risk. While hedging costs certainly impact Euro investors, higher absolute yields resulting from wider spreads are certainly helping off-set higher hedging costs.

All references to market performance are sourced from Bloomberg. [1] Investment Grade is a rating that indicates that a municipal or corporate bond has a relatively low risk of default. [2] 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. [3]A basis point (bps) equals 0.01%. [4]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. [5]Spread is the difference in yield between a U.S. Treasury bond and a debt security with the same maturity but of lesser quality. [6]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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