Monthly Fund Commentary

Muzinich & Co

Supra Institutional: MZLSX November 2018

Fund

Muzinich Low Duration Bond Fund

Portfolio Commentary

It was a month of increasing volatility for global risk assets as concerns about the global economic outlook, trade wars, falling oil prices, Brexit and ongoing issues surrounding the Italian budget weighed on credit market performance. Developed market high yield and loans declined and US Treasuries, Gilts and Bunds generated a strong, positive returns. Emerging market (EM) corporate returns, while negative, held up relatively well compared to their developed market counterparts. While Treasury yields[1] increased at the start of the month, this trend reversed itself as the month wore on. Dovish statements made by Federal Reserve (Fed) Chairman, Jay Powell, (November 28) that interest rates were close to neutral, led the 10 year US Treasury yield to decline below 3% for the first time in weeks. With economic pacing slowing down, markets are forecasting only one future US rate increase – likely in December – compared with 3 rate hikes suggested by the Federal Reserve Dot plots. The dot plots are the projections of the rate-setting body (Federal Open Market Committee - FOMC) within the Fed. Each dot represents a participant's view on where the fed funds rate should be. In Europe, while the Italian budgetary situation remained unresolved, as the month drew to a close there were positive signs that the Italian government was starting to take a more conciliatory approach in resolving its differences with the EU, and BTP (Italian Treasury) spreads[2] rallied. The UK meanwhile continued to be dominated by Brexit, where the government faces ongoing opposition on its proposed deal, despite it being agreed by the European Union. Within EM, Asian corporates produced some of the strongest returns while those in Latin America lagged, brought lower by Mexico.

Strategy and Outlook

In this risk-off environment, the fund declined. On a sector basis, we saw positive contributions from healthcare and metals/mining, while banking and diversified financial services acted as a drag on performance. In what was a particularly difficult month for the banking sector, the fund's position detracted from returns, however we believe that our superior credit selection helped offset some of the negative impact. Idiosyncratic event risk detracted this month as well. This included a French steel company where concerns over the company's working capital use to fund top-line growth overshadowed the company's improved earnings. However, these holdings now appear to be recovering and we maintain our conviction in the firm. On a ratings basis, while we have been trimming B rated credits in the fund over the last 12 months, the fund's exposure to B rated credits was most impacted by recent market volatility and was the greatest detractor this month. We continue to reduce risk exposure both in terms of credit risk and interest rate risk, amid expectations of ongoing volatility.

Macro uncertainty abounds with the upcoming OPEC meeting, Brexit, Federal Reserve and European Central Bank meetings, trade discussions, and the Italian budget each presenting uncertain outcomes. We believe the outcome of these events will set the tone for risk assets going forward. While the pacing of global economic growth may be slowing, growth remains robust in many regions. Importantly, we believe the global default outlook remains benign for 2019. Any defaults in the coming year should largely be idiosyncratic and well telegraphed. Yields, particularly in the US, are their highest in years (since 2016). We believe carefully selected credits represent real value at today's more attractive yields. As we are late cycle, we believe investors are well served by an investment manager rooted in bottom-up fundamental credit research analysis to help identify positions likely to be more price resilient during broader bouts of market volatility, including those induced from outside the credit markets. As credit analysts, we must be able to determine whether a company is creditworthy – that is, will a company make its contractually stated coupon payment and pay back principal at maturity—and think about how we best preserve value and liquidity in potentially choppier investment waters.

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]Spread is the difference in yield between a U.S. Treasury bond and a debt security with the same maturity but of lesser quality.

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.

The fund itself has not been rated by an independent rating agency. Credit quality ratings exclude cash and derivatives and are based on the underlying securities of the fund. Credit quality ratings may differ materially from the ratings outlined in accordance with the fund's Prospectus for official fund guideline calculations. Credit quality ratings reflect the first publicly-available rating from surveying, in order, Moody's, Standard & Poor's, and Fitch, converted to the equivalent Moody's major rating category. If none of these agencies rate an asset "Non-Rated" is assigned. Non-Rated securities do not necessarily indicate low quality.

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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.