

Fund

Muzinich US High Yield Corporate Bond Fund

Portfolio Commentary

US markets experienced significant volatility with all of US credit, with the exception of loans, declining for the month. October's sell-off (both equities and high yield) began with concerns regarding rates. The US 10-year yield¹ rose almost 20 bps² to start the month, worrying investors and causing higher quality, longer bonds to lag. Higher rates tend 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. As a result, riskier CCCs, which had been the outperformer for the year, experienced the sharpest declines towards month-end. US industrial corporate reports of rising prices and costs led to renewed concerns about tariffs and inflationary pressures. Uncertainty surrounding the outcome of the elections and potential escalation of the China trade war has made many investors question future growth prospects.

Strategy and Outlook

In this risk-off environment, the fund declined. On a duration³ basis, shortest duration (0-1 year) bonds contributed most significantly to fund performance, while select mid duration (3-5 years) bonds detracted from returns. On a sector basis, the fund benefitted from exposure to entertainment/film bonds, while energy bonds detracted from returns.

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 spreads⁵ widened considerably in October. In fact, the US high yield market (JUC0) hit its cycle tight 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 2019⁶. 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. ¹Yield 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. ²A basis point (bps) equals 0.01%. ³Duration is a measure of the sensitivity of the price -- the value of principal -- of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. ⁴Source: 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 (JOAO) but caps issuer exposure at 2%. As of 10/31/2018. ⁵Spread is the difference in yield between a U.S. Treasury bond and a debt security with the same maturity but of lesser quality. ⁶J.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.