Monthly Fund Commentary

Muzinich & Co

Supra Institutional: MZHSX December 2018

Fund

Muzinich US High Yield Corporate Bond Fund

Portfolio Commentary

Risk assets experienced significant declines this December on Federal Reserve (Fed) tightening, political uncertainty and weaker economic data. It is worth noting that while US high yield (BofA ML US HY Cash Pay Constrained – JUC0)[1] and loans (Credit Suisse Institutional Leveraged Loan Index)[2] posted their worst monthly returns of the year, equities (S&P 500)[3] declined 4 times as much for the month, dropping more than 9%. In this risk-off environment, fixed income performed as expected with Treasuries attracting assets (and rallying in price) in a flight to quality and outperforming all other segments of the bond market. While the Federal Reserve had clearly telegraphed that it would raise rates at the December meeting, an equity market swoon in early December and public remarks from President Trump pressing the Fed not to raise rates gave some investors the (false) impression the Fed might pause. While the Fed did raise rates in December, markets (as per Bloomberg data) are now forecasting a 0% probability that the Fed raises rates in March. Political uncertainty in the US (border wall, government shutdown, trade tensions with China) as well as abroad (Brexit and Italy) also pushed investors out of risk assets. Finally, weaker economic data has some investors questioning whether an economic slowdown will turn into a recession. While it is difficult to forecast a recession, we believe valuations have certainly become more attractive as investors question economic strength. Whether valuations become even more attractive, stabilize, or tighten depends largely on whether the markets see some resolutions to political issues, Federal Reserve direction, and the strength of the economy.

Strategy and Outlook

In this risk-off environment, the fund declined. On an absolute basis, the Fund benefitted from superior credit selection of shortest duration[4] (0-1 year) bonds, while exposure to select mid duration (3-5 years) bonds detracted from returns. On a sector basis, energy bonds were the most significant detractor from returns, while the Fund's minority allocations to entertainment/film bonds contributed to performance. The world is at an interesting place with multiple outcomes available. Unfortunately many of these outcomes are difficult for financial analysts to model thereby leading us toward a bias to sell the rallies. We will try to take advantage of the recent repricing, but expect the portfolios to move up in credit quality by the end of 2019.

Here is a trivia question to start the New Year. In how many years since 1994 was the US high yield market[1] down absent a default wave? Answer: none, until now. 2018 was an anomaly in that the US high yield market posted a negative return but the default rate remained exceptionally low at 1.75% for high yield and 1.66% for loans (both par weighted and including distressed exchanges) [Source: JP Morgan, *Credit Strategy Weekly Update*, 14 December 2018]. We believe 2018's challenges were driven by global central bank tightening (the European Central Bank and the Federal Reserve), geopolitical uncertainty and concerns about economic growth. So what about 2019? Historically, negative years in high yield have been followed by positive years – however – in those years spreads[4] were wider than current spread levels. We believe valuations are at their most attractive in years but is this a screaming buy? We believe that if some of the political uncertainty is lifted (easing of trade tensions, soft Brexit), markets could snap back very quickly given significant levels of cash sitting on the sidelines and limited dealer inventories. In our view, the snapback will be quick and likely dramatic, and the most attractive gains will be made in the inflection. Risks remain though. We are late cycle and spreads could certainly widen from here. We believe managers focused on

All references to market performance are sourced from Bloomberg. [1]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 12/31/2018. [2]Source: Credit Suisse Institutional Leveraged Loan Index – The CS Institutional Leveraged Loan Index is a subset of the CS Leveraged Loan Index, which is designed to more closely reflect the investment criteria of institutional investors by sampling a lower volatility component of the market. The index exclude facilities that are TL or TL A type, priced 90 or lower at the beginning of each measurement period and rated CC, C or Default. As of 12/31/2018. [3]S&P 500 - The Standard & Poor's 500 Index (S&P 500) is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists. As of 12/31/2018. [4]Duration 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.

credit analysis should do well for investors looking to opportunistically take advantage of more attractive valuations even in a period of more mixed economic data.

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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