Monthly Fund Commentary

Muzinich & Co

Supra Institutional: MZHSX | June 2018

Fund

Muzinich U.S. High Yield Corporate Bond Fund

Portfolio Commentary

US credit performance was mixed for the month with high yield and loans generating positive returns and investment grade[1] declining. The first half of the month was generally positive for both high yield and investment grade but sentiment began to deteriorate on the back of escalating trade war rhetoric. Risk assets, like high yield, experienced outflows and Treasuries saw inflows in a flight to quality in reaction to mounting trade war concerns. We believe loans remain popular with investors concerned about rising rates and so experienced net inflows for the month. On the supply side, we see a limited pipeline of high yield bonds coming to market, suggesting the supply-side technical picture remains supportive. It is a different story in investment grade, however, as a positive Mergers & Acquisitions[2] (M&A) outlook post government approval of the AT&T deal has led to a heavy investment grade new issue pipeline. The Federal Reserve raised rates this month and announced its continued commitment to rate policy normalization assuming economic data remains supportive.

Strategy and Outlook

In this environment, fund performance improved, but did not generate positive returns in this risk-off month. On a duration[3] basis, mid duration (3-5 years) bonds contributed to fund performance, while longest duration (10+ years) bonds acted as a drag. By ratings, B+ rated bonds contributed most meaningfully to the fund's absolute performance, while BB+ rated bonds detracted from returns. On a sector basis, the fund benefitted from exposure to energy, chemicals, and cable/satellite TV bonds, while exposure to banking and metals/mining detracted from absolute performance.

Given the increase in short term rates, we have begun to see a flattening of the US yield curve, particularly as rates remain anchored at the long-end. With the benefit of hindsight, an inversion of the yield curve has been predictive of recession in the next 12 to 18 months. We can't, however, forecast what rates and, by extension, the curve will do in the coming months. We believe actual economic, market and company-specific data provide a better approximation for the current state of the economy and the market. We consider corporate fundamentals to be generally strong with high yield leverage declining but investment grade corporate leverage modestly increasing. US economic data remains robust. Macro concerns, however, such as escalating trade war tension, quantitative tightening in the US, rising oil prices, and decelerating global growth represent real headwinds. Beyond the US, apparently local issues, such as Italian populism, no longer have only local impact. Given this backdrop, we believe credit remains a compelling option given its carry. Investors, however, should be mindful of the clouds accumulating on the horizon. In short, we believe investors are well served allocating capital to managers mindful of risk as the credit cycle matures and becomes more challenging to navigate.

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]Mergers and Acquisitions (M&A) is a general term that refers to the consolidation of companies or assets through various types of financial transactions. [3]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. [4]A basis point (bps) equals 0.01%.

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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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. 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.

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

Opinions expressed are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

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.