Monthly Fund Commentary

Muzinich & Co

Supra Institutional: MZHSX September 2018

Fund

Muzinich US High Yield Corporate Bond Fund

Portfolio Commentary

Risk-on was the sentiment of the month in September as high yield, loans and equities outperformed Treasuries and investment grade[1] corporates. US Treasuries declined (yields increased) as global macro threats de-escalated (China trade tariffs at 10% not 25%, NAFTA agreement reached). On the technical side, high yield benefitted from lighter than expected new issuance as modest outflows were offset by coupon income. The Federal Reserve (Fed) increased the Federal Funds rate as expected in September. The market (Bloomberg data) is assigning a 72% probability that the Fed will increase rates at its December meeting. The market anticipates two further rate increases for 2019 while the Fed dot plots seem to indicate the potential for three increases. While the short end of the curve moved higher this month, so did the long end – a parallel shift upwards. As the yield curve has historically been predicative of an impending recession, a parallel shift – as opposed to an inversion – is noteworthy as it would indicate no recession yet. While the Fed appears committed to increasing the short-end, what will happen on the long-end? Movements in the long-end are more difficult to anticipate. Do investors want to hold Treasuries? The largest owner of Treasuries, the Fed, is expected to continue to reduce its balance sheet as more bonds roll-off without their proceeds being reinvested. This could potentially put upward pressure on the long-end of the curve. What other Treasury investors do - and by extension - what happens to long-term rates, remains to be seen.

Strategy and Outlook

In this environment, fund performance was positive. On a duration[2] basis, mid duration (3-5 years) bonds contributed most to fund performance followed closely by shorter duration (1-3 years) bonds. From a ratings perspective, B bucket credits bolstered fund performance most significantly, while BB+ rated bonds detracted from returns. On a sector basis, the fund benefitted from exposure to energy and healthcare bonds, while select banking and utilities bonds detracted from returns.

US risk has significantly outperformed both its European and emerging markets (EM) counterparts. Is the outperformance a function of strong US economic data or a flight to quality into the perceived safety of the US? US economic data has been strong (jobs, Purchasing Managers' Index) and tax reform has added a further boost to corporate profitability. While corporate fundamentals in Europe remain strong, concerns about Brexit and the Italian budget have weighed on investors. In Emerging Markets, trade disputes with China and idiosyncratic crises in Brazil, Turkey and Argentina have led to risk-off sentiment. Are investors favoring the US as a safe haven? We believe that US valuations certainly reflect a strong technical bid while EM valuations are at their most attractive in years. The question remains, where can an investor find the best reward per unit of risk?

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]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.

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.

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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.