Monthly Fund Commentary

Muzinich & Co

Supra Institutional: MZCSX   Institutional: MZCIX

April 2023

Fund

Muzinich Credit Opportunities Fund

Portfolio Commentary

Global credit[1] delivered mostly positive returns. In the US, while April's economic numbers painted a mixed picture for policy makers ahead of the Federal Reserve's (Fed's) rate decision in early May, the market's expectations that the Fed would increase by 25 basis points[2] (bps) remained unchanged (and accurate). First quarter corporate earnings season started, with most reported earnings beating estimates as of the end of April. The general view is that this earnings season is moving forward at a better-than-expected pace, and if this holds, high yield[3] credit metrics (e.g., leverage, interest coverage, etc.) will stay near historic best levels. European market,[4] volatility—driven by interest rates—continued to be elevated this month. In our view, the European market felt more confident through the first half of the month, turning more cautious later, as fears around the US regional banks returned. At the end of the month, the market anticipated (correctly) just 25 basis points (bps) of immediate hiking from the European Central Bank (ECB), however with expectations that rates may further increase, reaching a peak of 3.75% in the second half of the year (Source: Financial Times, 4th May 2023). In Emerging Markets (EM), China's reopening momentum continued and the Politburo (China's top decision-making body that focuses on the economy and sets the tone for policy in the coming months) presented a pro-growth stance, saying the country's economic recovery requires continued forceful fiscal and monetary support, and reiterating support both for the private sector and for a high-level "opening up" to further attract foreign investment.

Strategy and Outlook

In this environment, the fund generated positive returns and performed in-line with its benchmark target of LIBOR[5] + 300. The fund underperformed the global credit market[1]. In April, we increased our cash and Treasury position and reduced exposure to EU investment grade[6] (IG) via a reduction in European banks. We also reduced some EM banks (in some cases quasi-sovereign entities). The fund has no exposure to US banking, including US regional banks. During the month, we added a ~10% credit hedge. This month we continued to increase portfolio duration[7], ending the month at 5.6 years duration (including cash), as compared to the longer-term average of around 3.7 years. We have worked to move portfolio quality up as we reduce lower rated issues and add to higher quality as well as lengthening the duration of the portfolio. With increased economic uncertainty, we expect additional spread[8] volatility and will potentially look to deploy some of the portfolio cash and Treasury position into credit as spread valuations improve.

While we believe the recent banking headlines are largely related to issues facing the specific banks involved, global market concerns remain regarding potential systemic risks stemming from aggressive central bank tightening over the last year. More restrictive policies and higher interest rates have dampened the outlook for economic growth with debate still centered on the likelihood of near-term recessions in the US and Europe. While we do see signs of resiliency in the underlying economies and corporate balance sheets are generally on solid footing entering any potential downturn, we are working broadly to position portfolios for a slowdown. Markets will begin the month of May receiving a slew of economic releases starting with manufacturing, services, and jobs data. The market is anticipating that the Fed's May 3rd rate hike was likely the last increase, and any future indication that additional hikes are being considered could cause an increase in volatility. We believe diligence and discipline is warranted as we navigate this challenging period of quantitative tightening[9], higher rates, credit tightening, and competition for capital.

All references to market performance are sourced from Bloomberg as of April 30, 2023. [1]GI00 – The ICE BofA Global Corporate & High Yield Index tracks the performance of investment grade and below investment grade corporate debt publicly issued in the major domestic and eurobond markets. [2]The term basis points (BPS) refers to a common unit of measure for interest rates and other percentages in finance. [3] High-yield bonds are bonds that pay higher interest rates because they have lower credit ratings than investment-grade bonds. [4]ER00 – The ICE BofA Euro Corporate Index tracks the performance of EUR denominated investment grade corporate debt publicly issued in the eurobond or Euro member domestic markets. HE00 - The ICE BofA Euro High Yield Index tracks the performance of EUR dominated below investment grade corporate debt publicly issued in the euro domestic or eurobond markets. [5]LIBOR (London Interbank Offered Rate) is a benchmark interest rate at which major global banks lend to one another in the international interbank market for short-term loans. [6]An Investment grade credit rating signals that a corporate or municipal bond presents a relatively low risk of default. [7]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, expressed as a number of years. [8]Spread is the difference between yields on differing debt instruments of varying maturities, credit ratings, issuer, or risk level, calculated by deducting the yield of one instrument from the other. [9]Quantitative tightening (QT) refers to monetary policies that contract, or reduce, the Federal Reserve System (Fed) balance sheet.

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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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