Global credit1 delivered mixed returns. US credit2 delivered negative returns in September, driven by a large increase in Treasury yields3. In the first half of the month, the rise in rates was viewed as benign and a reflection of the strong US economy. Interest rate volatility declined, equity prices remained resilient, and investment grade4 spreads5 tightened. However, towards the end of the month, the FOMC (Federal Open Market Committee) signaled that the Federal Reserve viewed rates as insufficiently restrictive, prompting a further jump in Treasury yields which led to higher implied interest rate volatility, lower stock prices, and, eventually, wider spreads. European credit markets6 generated mixed returns with high yield7 eking out a positive return despite the recent trend of higher rates and the pervasive “higher for longer” central bank narrative. While we believe that rates may continue to go slightly higher in Europe, inflation has started to trend lower, and PMI8 (Purchasing Managers’ Index) data show some signs of stabilization this month. Emerging Market9 debt delivered negative returns this month on the back of rising US yields. China’s PMI (Purchasing Managers’ Index) showed a pickup heading into October, indicating a shift from recent weakness in global tech spending and reflecting the constructive impact of China’s targeted policy supports.

Strategy and Outlook

In this environment, the fund generated positive returns and outperformed its benchmark10. From an industry perspective, strong credit selection of homebuilders/real estate, banking, and diversified financial services bonds bolstered performance, while exposure to select healthcare bonds detracted from relative returns. This month, we maintained our positioning regarding USD and EUR denominated credit as we continue to see similar opportunities for performance in both markets. Our positioning shows our preference for the banking sector (particularly European banks), issuers in sectors that continue to be resilient (e.g., automotive & auto parts), and opportunities in the primary market where we are seeing short-dated new issues coming with what we believe to be decent concessions, despite strong demand. We also prefer to avoid longer duration11 credit; we continue to see a better risk reward at the short-end where we believe higher front-end rates could remain static while longer-end rates move higher.

While parts of the underlying US economy have shown resilience in the face of the Federal Reserve’s tightening cycle, certain headwinds to growth are beginning to surface. US economic growth forecasts for the next 6-9 months are beginning to weaken on the restart of student loan payments, on some signs that the US consumer has drawn down its excess pandemic savings, and on the cumulative tightening effects of higher interest rates. While backward looking data on the US job market suggest employment remains strong, some more real time indicators (i.e., job openings) are beginning to weaken. Despite potential acceleration of these headwinds in the US and weakening European growth, credit spreads have generally remained at relatively tight levels. Although default activity is increasing, the pace has been methodical and remains below the long-term market average. Corporate credit balance sheets entered this cycle in good shape fundamentally, featuring low leverage and high interest coverage, as well as a relatively benign maturity profile. Default activity has largely been focused in certain sectors (e.g., healthcare, technology), where leverage was high and in others (e.g., telecommunications) with secular concerns. In our view, large sectors in credit, such as energy, are performing well. While maturities will begin to pick up in 2025, financing markets remain open to good credits. We continue to maintain diversification within our portfolios and increase our allocations to more liquid parts of global credit.
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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The fund itself has not been rated by an independent rating agency. Credit quality ratings exclude cash and derivatives, if held, and are based on the underlying securities of the fund. Credit quality ratings may differ materially from the ratings outlined in accordance with the fund’s Prospectus for official fund guideline calculations. Credit quality ratings reflect the first publicly-available rating from surveying, in order, Moody’s, Standard & Poor’s, and Fitch, converted to the equivalent Moody’s major rating category. If none of these agencies rate an asset “Non-Rated” is assigned. Non-Rated securities do not necessarily indicate low quality.

Diversification does not guarantee a profit or protect from loss.

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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