Monthly Fund Commentary

Muzinich & Co

Supra Institutional: MZLSX | May 2022

Fund

Muzinich Low Duration Bond Fund

Portfolio Commentary

Global credit markets[1] delivered mixed returns in May. In the US, we saw positive returns in high yield (HY)[2], investment grade (IG)[3], and Treasuries. Loans[4] declined, reflecting reduced demand for floating rate[5] product as rates moved lower. Following a sharp rally during the last week of the month, US HY locked in its first positive week of the last seven weeks, and more importantly unwound all of the month's prior losses to deliver its first positive month of the year. Interest rates declined modestly (primarily in the 2-10 year duration[6] timeframe) given the expectation that the Federal Reserve (Fed) might not be able to meaningfully raise interest rates due to a potential slowdown in growth. This stabilization/rally in rates also contributed to positive credit performance. In Europe it was a month of two narratives; HY[7] and IG[8] spreads[9] widened for the first three weeks of the month only to rapidly rally in the final week of May. Returns for the month were slightly negative across European HY and IG, with government bonds also declining. Spreads tightened at the end of the month driven by rate stabilization, despite some weak economic data that we believe the market ignored. However, continued concerns about rising inflation and hawkish communication by the European Central Bank (ECB) demonstrated an intent to play catch-up on interest rate normalization. Emerging Markets (EM)[10] experienced the same spread tightening in the last week of the month delivering slightly negative returns for May. In China, signs of economic weakness have led to a loosening of policy aimed at countering the negative effects of the region's COVID lockdowns and inflationary bottlenecks. Shanghai re-opened at the end of the month after some of the most extensive lockdown measures in China were loosened.

Strategy and Outlook

In this challenging environment, the fund ended the month down and underperformed its benchmark[11]. Hedges remain a critical part of our tool kit in 2022, as European rate hedges once again contributed to fund performance. We retain our conviction that European rates will continue to be a drag on euro-denominated credit performance versus other markets, especially the US. In May, we continued moving out of euro-denominated investment grade into US dollar denominated investment grade. On a sector basis, idiosyncratic performers in telecommunications and airlines led to positive contributions from these sectors, while homebuilders/real estate acted as a drag driven by continued weak sentiment in that sector. The constant flow of cash into the fund from coupons and maturities remains a key feature of this strategy, giving us flexibility to reposition or meet liquidity needs without selling bonds. We believe this is particularly relevant in turbulent or illiquid market conditions.

In our view, the Fed is in wait and see mode, the ECB is playing catch up as inflation concerns remain at the forefront, and The People's Bank of China (PBOC) is loosening policy as we see signs of weakness in the Chinese economy. For credit investors, this is leading to some strong dislocation opportunities in both global and emerging markets as we see central banks at different points in their policy cycles. We believe that staying high up in the capital structure and being globally diversified makes sense in the current environment. Following the dramatic US rally at month-end, we remain cautious about a near-term pullback. The ferocity of the recent spread tightening is reminiscent of the rally we saw in late March, which was quickly retraced in April. Similar to then, we would not be surprised to see higher quality names attempt to print new deals. Many of the factors that drove us to recent wides—namely slowing growth, recession concerns, inflation, and geopolitical uncertainty—remain legitimate challenges. We still believe HY in both the US and Europe still has the potential to absorb spread widening while delivering positive forward returns. We believe that there is a compelling pool of opportunities as demonstrated by spreads and yields[12], with active management as key to balancing the shifting risks in the current market environment.

All references to market performance are sourced from Bloomberg as of May 31, 2022. [1]GI00 – The ICE BofA ML 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]J0A0 – The ICE BofA ML US Cash Pay High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt. [3]C0A0 - The ICE BofA ML US Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. [4]CS Leveraged Loan Index – The CS Leveraged Loan Index is designed to mirror the investable universe of US dollar denominated leveraged loan market. [5]A floating interest rate is an interest rate that moves up and down with the market or index. [6]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. [7]HE00 - The ICE BofA ML Euro High Yield Index tracks the performance of EUR dominated below investment grade corporate debt publicly issued in the euro domestic or eurobond markets. [8]ER00 – The ICE BofA ML Euro Corporate Index tracks the performance of EUR denominated investment grade corporate debt publicly issued in the eurobond or Euro member domestic markets. [9]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. [10]EMCL - The ICE BofA ML US Emerging Markets Liquid Corporate Plus Index tracks the performance of the U.S. dollar denominated emerging markets non-sovereign debt publicly issued in the major domestic and eurobond markets. [11]B1A0 – The ICE BofA ML 1-3 Yr US Corporate and Government Index is a subset of ICE BofA ML US Corporate & Government Index (B0A0) including all securities with a remaining term to final maturity less than 3 years. [12]Yield refers to the earnings generated and realized on an investment over a particular period of time.

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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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