Monthly Fund Commentary

Muzinich & Co

Supra Institutional: MZHSX February 2023

Fund

Muzinich US High Yield Credit Fund

Portfolio Commentary

US high yield (HY)[1] posted negative returns in February, driven entirely by rising rates as the Federal Reserve (Fed) hiked interest rates again. Despite the market's initial dovish reaction to the Fed's meeting, communication since then has confirmed the "higher-for-longer" narrative and the market now seems to expect at least three additional 25 basis point (bps)[2] rate hikes through June. Higher than expected inflation numbers have continued to support that message, as has better-than-expected economic data, which points to a more resilient global economy. US HY spreads[3] tightened in February against a backdrop of resurgent rates, resulting in overall higher yields[4]. Earnings season is mostly behind the market at this point, and we have seen a slowdown from the torrid post-COVID recovery period. In our view, credit improvement likely peaked during Q3 2022, but overall credits metrics still remain near 10-year best levels, indicating that HY credit is still in strong, resilient shape. We continue to believe that today's high yields provide a reasonable cushion around expectations for the economy and rates over a 12-month time horizon. We maintain that short duration[5] paper remains in a historically interesting position with a dollar price below par[6] in a strong economy where we expect "pull-to-par" scenarios to accelerate through the year. In our view, short duration HY credit is poised to deliver strong risk adjusted returns as markets gyrate around economic expectations.

Strategy and Outlook

In this environment, the fund declined but outperformed its benchmark[7]. Outperformance was primarily a function of strong credit selection of diversified financial services bonds. On a rating basis, an underweight and strong credit selection of BB+ rated credit bolstered returns, while exposure to select B- bonds detracted. By duration, the fund benefitted from an underweight of 5-7 years duration bonds.

For now, we remain in a 'good news is bad news' market. Good news emboldens the hawks, supporting fears of higher rates and tighter financial conditions. While we believe yields and dollar price discounts remain attractive, spread levels are mixed around 10-year averages as markets forecast continued economic expansion with less credit stress. Given the prospect for continued restrictive central bank policy in the US and Europe as the inflation fight continues, we expect 2023 to bring more dispersion across credit as idiosyncratic credit risk increases. We favor idiosyncratic themes in HY as we expect defaults to increase over the next 12 months, although most defaults are already recognized in market prices and thus should have minimal impact on performance. Importantly, we expect the overall credit cycle default peak to remain well below prior cycle peaks given the current strength of many balance sheet fundamentals and the market's benign maturity profiles. We expect this relatively mild default cycle to be supportive of credit spreads and we expect to see HY opportunities emerge on spread widening. We continue to believe that the lack of a strong consensus around interest rates and future recessionary risks will cause the market to swing both ways through 2023, driving intermittent periods of strength and weakness. With yields close to multi-year highs, we believe dips could present opportunities for investors who see value in credit, but perhaps weren't positioned for the rally at the start of the year.

All references to market performance are sourced from Bloomberg as of February 28, 2023. One cannot invest directly in an Index. Index returns do not reflect any fees, expenses, or sales charges. See next page for Important Information and index descriptions. [1]J0A0 – The ICE BofA US Cash Pay High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt. [2]The term basis point (BPS) refers to a common unit of measure for interest rates and other percentages in finance. [3]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. [4]Yield refers to the earnings generated and realized on an investment over a particular period of time. [5]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. [6]Par value, also known as nominal or original value, is the face value of a bond or the value of a stock certificate, as stated in the corporate charter. [7]JUC4 - The ICE BofA BB B US Cash Pay High Yield Constrained Index contains all securities in the ICE BofA US Cash Pay High Yield Index (J0A0) rated BB1 through B3, based on an average of Moody's, S&P and Fitch, but caps issuer exposure at 2%.

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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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