Monthly Fund Commentary

Muzinich & Co

Supra Institutional: MZHSX March 2022

Fund

Muzinich US High Yield Credit Fund

Portfolio Commentary

It was another challenging month for US fixed income[1] as rates moved higher, impacting duration[2] sensitive credit like investment grade[3] bonds and Treasuries most directly. March economic data was strong and inflation prints were higher. The Federal Reserve (Fed) announced their hawkish rate plan which consists of several rate hikes and a wind down of quantitative easing. During the month, the belly of the curve flattened (3 year to 7 years flatter) and the 7 to 10 year segment inverted, with 10 year rates lower than 7 year rates. While high yield[4] new issuance was muted, BB and B rated issuers were still able to come to market. CCC rated issuers, however, appeared to have found the market challenging as market participants reassessed their risk appetites. We find in general that high yield issuers have not needed to come to the new issue market and issue in today's higher rate environment, as they have already locked in historically low rates with long dated maturities. In our view, this limited new issuance has dampened spread[5] widening. This is not the case in the investment grade[6] market where issuers typically have a variety of maturities outstanding (e.g., 5, 10, and 30 year bonds) and are used to regularly access the market. Investment grade spreads have been wider given this technical impact.

Strategy and Outlook

In this environment, the fund declined but outperformed its benchmark[7]. Outperformance was primarily a function of strong credit selection of B rated bonds. On a sector basis, the fund benefitted from strong credit selection of cable/satellite TV and utilities bonds, while an overweight of airlines bonds acted as a drag. By duration, strong credit selection of 1-3 years duration bonds bolstered performance. We expected volatility in 2022 around headline events, but ultimately fundamentals and default expectations should drive spreads and returns. We believe that US high yield remains better insulated to absorb the macro and geopolitical risks we see relative to many other asset classes and geographies. In our view, US high yield remains attractive today due to its limited duration and relatively attractive spreads compared to default expectations.

The anticipated Fed rate hikes have had a particularly pronounced impact on the shorter end of the curve which responded to the hawkishness of the Fed by moving significantly higher, more so than the longer part of the Treasury curve. While much of this has been anticipated, from here we need to establish if the market has correctly priced in by how much the Fed will actually be able to raise rates. Historically, Fed tightening cycles have led to recessions. In anticipation of a recession, investors forecast lower longer term (10 years and beyond) rates given a weak growth outlook and potentially, a flight to safety. As the Fed attempts to fight inflation, it has much to consider – as do we. We are closely examining the question of who will absorb higher energy and commodity prices. Can companies pass these price increases on to consumers instead of absorbing them? What does this mean for corporate earnings? Much depends on the strength of corporate backlogs. We believe companies that have consistently backlogged orders can more easily pass on price increases to weather the storm. We see wide variation between industries and even within them. For example, input costs in both the auto and home building sectors are increasing, but given demand outpacing supply, we believe some of these costs can be passed on. This is not the case in other industries. As the market becomes more differentiated, we believe that credit underwriting is key.

All references to market performance are sourced from Bloomberg as of March 31, 2022. 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]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. J0A0 – The ICE BofA ML US Cash Pay High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt. [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, expressed as a number of years. [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]High-yield bonds are bonds that pay higher interest rates because they have lower credit ratings than investment-grade bonds. [5]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. [6]Investment grade is a rating that signifies that a municipal or corporate bond presents a relatively low risk of default. [7]JUC4 - The ICE BofA ML BB B US Cash Pay High Yield Constrained Index contains all securities in the ICE BofA ML 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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