Portfolio Commentary

US credit delivered negative returns in September, driven by a large increase in Treasury yields. 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 grade spreads 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. We believe volatility around rates, the US economy, and global situations will continue over the next 6-12 months.

Strategy and Outlook

In this challenging environment, the fund declined, but outperformed its benchmark. Outperformance was primarily a function of exposure to select BB- and B+ rated bonds. On a sector basis, strong credit selection of telecommunications and leisure bonds bolstered returns, while exposure to select services bonds detracted. Fund performance benefited from the fund’s shorter duration bias.

In our view, the underlying US economy has shown resilience in the face of the Fed’s tightening cycle. The US GDP (Gross Domestic Product) is in-line with longer term average growth rates (albeit below the robust 2021 post-COVID recovery period). In our opinion, US jobs data also continues along at a strong—but slowing—pace. There are longer term questions regarding the resiliency of the consumer, but to-date, the main driver of the US economy remains employed and in consumption mode. We believe the rise in the Federal funds rate, along with long-term Treasury rates, should slow economic growth over the coming quarters, according to comments from Fed officials. Credit spreads remain rangebound in this economic climate. Corporate balance sheets entered this cycle in good shape fundamentally, featuring low leverage and high interest coverage, as well as a relatively benign maturity profile. While maturities increase in 2025, the high yield (HY) market remains open to BB and B-rated issuers; we expect this maturity wall to decline over the next six months. Default activity is increasing, but in our view, the pace has been methodical and remains below the long-term market average. Defaults have largely been focused in certain sectors (e.g., broadcasting, industrials, retail, and healthcare) with secular issues or high leverage. In our view, a number of sectors in HY credit, such as energy and travel/leisure, continue to perform well. The portfolio continues to maintain diversification across several factors, and we believe that the current yield is appropriate for the economic and default risk in the near-term.

All references to market performance are sourced from Bloomberg as of September 30, 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. 1J0A0 – The ICE BofA US Cash Pay High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt. C0AO – The ICE BofA US Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. 2Yield refers to the earnings generated and realized on an investment over a particular period of time. 3C0AO - The ICE BofA US Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. 4Spread 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. 5JUC4 - The ICE BofA BB 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%. 6Duration 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. 7Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country’s borders in a specific time period. 8High-yield bonds are bonds that pay higher interest rates because they have lower credit ratings than investment-grade bonds.
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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