Monthly Fund Commentary

Muzinich & Co

Institutional: MZFIX July 2020

Fund

Muzinich High Income Floating Rate Fund

Portfolio Commentary

Global fixed income returns[1] were positive for the month, as June's themes carried over. US high yield markets[2] led the way because of their yields and strong technical support which encouraged price appreciation. US investment grade markets[3] trailed closely behind, followed by government bonds. Against a backdrop of record new COVID-19 infections in the US, US high yield[2] posted its best month since October 2011 as CCC rated credits experienced the most spread[4] compression in any month ever. Market sentiment in July was largely driven by ongoing technical support offered to risk assets by central banks – the Federal Reserve (Fed) in the US and the European Central Bank (ECB) in Europe. This month we saw continued low defaults on the high yield[5] side of the market, mostly confined to sectors directly impacted by COVID-19 (i.e. leisure, transportation, retail) and energy. We also continue to see strong appetite for credit as bond prices remain supported by central banks and investors still believe corporate credit offers value relative to the low absolute level of sovereign yields. Emerging Markets (EM)[6] benefitted from the unprecedented increase in USD liquidity (driven by the Fed) and a weaker Dollar. July was another strong month in the loan market[7]. While wider credit markets also had strong returns, we saw loan returns driven by a supply demand imbalance which looks set to continue at least over the summer months.

Strategy and Outlook

In this environment, the fund generated positive returns but slightly underperformed its benchmark[7]. From an industry point of view, the fund benefitted from strong credit selection in healthcare and industrials, but was impacted by an underweight in technology. The allocation to the lower rated portion of the market was a positive contributor, while even a small cash allocation was a drag in this strong return month.

With earnings season now upon us the market is focused on the news from Q2, but more importantly the outlook. Financial performance has so far exceeded very low expectations in most cases, albeit with some misses, particularly in the more directly impacted sectors. The default rate continues to creep up, at 4.36% now according to JP Morgan[8], but Fed and governmental actions have meant companies have by and large been able to access the liquidity they require, preventing a large spike in defaults.

Looking forward, we expect August to be quiet, as is normally the case; and absent any macro shocks, for the loan market to grind gradually tighter. Longer term, the market direction should be driven by developments related to the virus, but we believe technicals in loans are likely to remain supportive to prices while M&A (Mergers & Acquisitions)[9] activity remains subdued.

All references to market performance are sourced from Bloomberg as of June 31, 2020. [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, currently in a coupon paying period that is publicly issued in the US domestic market. [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]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. [5]High-yield bonds are bonds that pay higher interest rates because they have lower credit ratings than investment-grade bonds. [6]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. [7]The Credit Suisse Leveraged Loan Index (CSLL) represents tradable, senior-secured, U.S.-dollar-denominated non-investment-grade loans. It is designed to mirror the investable universe of US dollar denominated leveraged loan market. [8]J.P. Morgan Default Monitor, High Yield and Leveraged Loan Research, August 1, 2020. [9]Mergers and acquisitions (M&A) is a general term used to describe the consolidation of companies or assets through various types of financial transactions, including mergers, acquisitions, consolidations, tender offers, purchase of assets and management acquisitions.

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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.

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. Benchmark/index reflects its own methodology for the characteristics shown and may not be consistent with Muzinich's methodology.
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