Monthly Fund Commentary

Muzinich & Co

Supra Institutional: MZCSX Institutional: MZCIX

November 2024

Fund

Muzinich Credit Opportunities Fund

Portfolio Commentary

Global credit[1] generated positive returns across the board in November. In the US, corporate credit[2] gained after the highly anticipated presidential election. US Treasury yields[3] fell more at the longer end than at the front end; a trend typically observed when markets perceive that near term central bank rate cuts are already fully priced in. Following the US elections and the likely focus of the incoming administration on pro-growth policies, fiscal expansion, and protective trade measures, US and European risk appetites diverged with spreads[4] grinding notably tighter in the US—particularly in high yield[5]—while moving wider in Europe. We also saw divergence in the rates market, with the yield on the German 10-year falling about 30 basis points[6] as the market moved to price more rate cuts from the European Central Bank in response to a weaker economic outlook. In the US, Treasury yields fell by a much smaller margin. Q3 earnings, largely completed in November, also showed notably weaker earnings in Europe (particularly in the underperforming automotive sector) than in the US. Emerging Market (EM)[7] debt gained on tightening spreads driven by positive sentiment surrounding the US presidential election. Government bond yields moved lower globally, creating a favorable environment for EM assets as investors sought higher yields in a declining rate environment.

Strategy and Outlook

In this environment, the fund delivered positive returns but underperformed the global credit market[1]. All sub-asset classes delivered positive total returns this month with particularly strong performance from the fund's investment grade (IG)[8] holdings. Within the IG sleeve, European assets were the top performers, offering a robust positive contribution to the fund's relative performance. Within the high yield (HY)[9] sleeve, US assets outperformed due to strong security selection. Meanwhile, this month the fund's relative overweight in EM detracted from performance vs. global market. On an absolute sector basis, all sectors delivered positive total returns, with the largest contributions from energy and banking. From a relative sector perspective, the fund's underweight in banking, paired with an overweight and strong credit selection in transportation and technology, proved to be an effective allocation decision. By rating, the top-performing assets came from the BBB rated cohort. Furthermore, the fund's overweight position in BBB rated assets vs. single A rated securities bolstered relative performance. This month, the fund's small overweight in euro denominated securities benefitted returns on the back of outperformance of European government bonds. As of month-end, the fund's duration[10] is slightly shorter than the reference index due to an underweight position at the long end of the credit curve (20+ years duration).

As the world watches and waits for what will happen in the US when president-elect Trump assumes office in January, it is worth noting that the administration will inherit a significantly different US economy than when it was last in power. Unemployment is low, and we believe sticky inflation poses a greater concern than deflation. In our view, economic growth is losing momentum, and global trade activity remains relatively weak. With debt levels significantly higher and savings rates lower, there seems little room for major tax cuts. Additionally, valuations in both equity and credit markets look stretched, but we expect continued strong demand for risk assets to support those valuations. It is possible that executing policy will prove far more challenging than discussing it, potentially exposing the world to greater tail risks.

All data from Bloomberg unless otherwise stated.

All references to market performance are sourced from Bloomberg as of November 30th, 2024. [1]GI00 – The ICE BofA 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 US Cash Pay High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt. C0A0 - The ICE BofA US Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. [3]Yield refers to the earnings generated and realized on an investment over a particular period of time. [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]J0A0 – The ICE BofA US Cash Pay High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt. [6]The term basis point (BPS) refers to a common unit of measure for interest rates and other percentages in finance. [7]EMCL - The ICE BofA 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. [8]An investment grade credit rating signals that a corporate or municipal bond presents a relatively low risk of default. [9]High-yield bonds are bonds that pay higher interest rates because they have lower credit ratings than investment grade bonds. [10]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.

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. Please note that while the Fund has the ability to make short sales of securities, which involves the risk that losses may exceed the original amount invested, and is able to use leverage, 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.

The Muzinich Mutual Funds are distributed by Quasar Distributors, LLC.

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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.

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