

## Fund

### Muzinich Flexible US High Yield Income Fund

## Portfolio Commentary

US risk assets<sup>1</sup> gained across the board in September. Following the Federal Reserve's (Fed's) September 18<sup>th</sup> 50 basis points<sup>2</sup> (bps) cut to US policy rates, economic data seems to confirm that disinflation trends have rooted in advanced economies. We believe this could pave the way for a continued period of monetary policy normalization. US markets received confirmation that the Fed was justified in its "supersized" 50bps rate cut. The central bank's preferred inflation gauge, the core Personal Consumption Expenditures (PCE) deflator, dropped month-on-month, slightly below market expectations. Meanwhile, Fed Chair Jerome Powell's favored measure of "super core" PCE inflation – which excludes housing from core services – fell month-on-month, demonstrating that the US economy is cooling.

## Strategy and Outlook

In this environment, the fund generated positive returns and outperformed its benchmark<sup>3</sup>. Outperformance was primarily a function of strong credit selection across the core 1-5 years duration<sup>4</sup> range. On a sector basis, strong credit selection of building materials, technology, and homebuilders/real estate bonds bolstered returns. Conversely, exposure to select energy bonds acted as a drag this month; we note that we have trimmed our exposure to the energy sector given caution around OPEC's (Organization of the Petroleum Exporting Countries) strategy and oil prices. From a rating perspective, an overweight of CCC+ and CCC rated credit and strong credit selection of B- rated bonds most significantly benefited performance.

At the end of the reporting period, the US Treasury markets are pricing in 8 additional rate cuts by early 2026, with three in 4Q24, and a terminal rate<sup>5</sup> of 2.75%. We are finding high yield<sup>6</sup> spreads<sup>7</sup> that are below average, but that we believe are justified by the improved quality of the high yield universe, a very modest default outlook, and what we view as compelling all-in yields<sup>8</sup>. Heavy supply is mostly refinancing oriented and therefore not adding to high yield supply. In our view, issuance is not a problem in this market for BB and B-rated issuers. We think that following the first large Fed rates cut, the Fed—and markets—could recalibrate rate cut expectations, especially given Chinese stimulus and rising Middle Eastern tensions that could increase oil prices.

All data from Bloomberg unless otherwise stated.

*All references to market performance are sourced from Bloomberg as of September 30<sup>th</sup>, 2024. 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. <sup>1</sup>COAO - The ICE BofA US Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. JOAO - The ICE BofA US Cash Pay High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt. <sup>2</sup>The term basis point (BPS) refers to a common unit of measure for interest rates and other percentages in finance. <sup>3</sup>JVC4 - The ICE BofA 1-5 Year BB-B US Cash Pay High Yield Constrained Index contains all securities in the ICE BofA US Cash Pay High Yield Index that are rated BB1 through B3, based on an average of Moody's, S&P and Fitch, with a maturity less than five years, but caps issuer exposure at 2%. <sup>4</sup>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. <sup>5</sup>The terminal federal funds rate is the final interest rate that the Federal Reserve sets as its target rate for overnight interbank lending. <sup>6</sup>High-yield bonds are bonds that pay higher interest rates because they have lower credit ratings than investment grade bonds. <sup>7</sup>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. <sup>8</sup>All-in yield is the yield on a debt, which is the total return to lenders.*

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](http://www.MuzinichUSfunds.com). Read it carefully before investing.*

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

**Past performance does not guarantee future results. Index performance is not indicative of Fund performance. To obtain Fund performance call 1-855-Muzinich (689-4642). One cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. The volatility of indices may be materially different from the volatility performance of a fund.**

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.

**This document and the views included herein are for informational purposes only and do not constitute an offer or solicitation of an offer, or any advice or recommendation, to purchase any securities or other financial instruments, and may not be construed as such.**

Opinions expressed are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

This document contains forward looking statements. Such statements are based on the beliefs and assumptions of our team and on the information currently available to our team at the time of such statements. Although we believe the expectations reflected in these statements to be reasonable, we can give no assurance that these expectations will prove to be correct. Certain information contained herein is based on data obtained from third parties and, although believed to be reliable, has not been independently verified by anyone at or affiliated with Muzinich & Co., Inc.; its accuracy or completeness cannot be guaranteed. Investment processes and aims described herein are subject to change and there is no guarantee they will be met. Issuers of bonds, loans and other fixed income investments ("Investments") held in the portfolio may default on their obligations or have their credit rating downgraded, possibly resulting in a temporary or permanent decrease in the value of those Investments. Investments in the portfolio may be below investment grade, meaning that they may produce a higher level of income but also carry greater risk of default than higher-rated Investments.