Monthly Fund Commentary
Muzinich Americayield Fund
September 2018

For Professional Client Use - Not for Retail Distribution

Fund

Muzinich Americayield Fund

Market Review

Risk-on was the sentiment of the month in September as high yield, loans and equities outperformed Treasuries and investment grade corporates. US Treasuries declined (yields increased) as global macro threats de-escalated (China trade tariffs at 10% not 25%, NAFTA agreement reached). On the technical side, high yield benefitted from lighter than expected new issuance as modest outflows were offset by coupon income. The Federal Reserve (Fed) increased the Federal Funds rate as expected in September. The market (Bloomberg data) is assigning a 72% probability that the Fed will increase rates at its December meeting. The market anticipates two further rate increases for 2019 while the Fed dot plots seem to indicate the potential for three increases. While the short end of the curve moved higher this month, so did the long end – a parallel shift upwards. As the yield curve has historically been predicative of an impending recession, a parallel shift – as opposed to an inversion – is noteworthy as it would indicate no recession yet. While the Fed appears committed to increasing the short-end, what will happen on the long-end? Movements in the long-end are more difficult to anticipate. Do investors want to hold Treasuries? The largest owner of Treasuries, the Fed, will continue to reduce its balance sheet as more bonds roll-off without their proceeds being reinvested. This could potentially put upward pressure on the long-end of the curve. What other Treasury investors do - and by extension - what happens to long-term rates, remains to be seen.

Fund Review

In this environment the fund generated a positive return but underperformed its BofA ML BB/B US non-financial cash pay high yield constrained index. On a sector basis, the fund benefitted from both an underweight and superior credit selection of food/beverage and energy while an underweight of an outperforming telecom name detracted from relative performance. On a ratings basis, an underweight of BB+ rated bonds bolstered relative performance while exposure to select B- rated credits detracted from performance. Shorter duration bonds outperformed in September. Fundamentals remain constructive for US HY as defaults in 2018 are running below ~2%. The outlook for the US economy is for deceleration in 2019, however, we continue to expect positive growth which should support ongoing low default rates. Spreads look fair value to default outlook, however, there is little margin for error. Rates continue to migrate higher as Fed normalization continues. This will provide investors with an alternative investment for cash (for US based investors) and pose an increasingly difficult headwind for foreign investors due to heightened fx hedging costs. Lack of supply into yearend should support spreads in the medium term absent an exogenous macro event.

Outlook

US risk has significantly outperformed both its European and emerging markets (EM) counterparts. Is the outperformance a function of strong US economic data or a flight to quality into the perceived safety of the US? US economic data has been strong (jobs, PMI) and tax reform has added a further boost to corporate profitability. While corporate fundamentals in Europe remain strong, concerns about Brexit and the Italian budget have weighed on investors. In Emerging Markets, trade disputes with China and idiosyncratic crises in Brazil, Turkey and Argentina have led to risk-off sentiment. Are investors favoring the US as a safe haven? US valuations certainly reflect a strong technical bid while EM valuations are at their most attractive in years. The question remains, where can an investor find the best reward per unit of risk?

Important Information

Past performance is not a guide to future performance. The value of investments and the income from them may fall as well as rise and is not guaranteed and investors may not get back the full amount invested. Any research in this document has been obtained and may have been acted on by Muzinich for its own purpose. The results of such research are being made available for information purposes and no assurances are made as to their accuracy. Opinions and statements of financial market trends that are based on market conditions constitute our judgment and this judgment may prove to be wrong. The views and opinions expressed should not be construed as an offer to buy or sell or invitation to engage in any investment activity, they are for information purposes only.

Please note that investment is subject to documentation, including but not limited to the Prospectus and Key Investor Information Document ('KIID') which contain a comprehensive disclosure of applicable risks. Investors in the UK should also access the Muzinich Supplemental Information Document ('SID'). Each of these documents is available in English at www.Muzinich.com, together with the Fund's annual and semi-annual reports. KIIDs are available by share class in each language required in the countries in which the share classes are registered. A complete listing of these KIIDs and the KIIDs themselves are also available at www.Muzinich.com. Investors should confer with their independent financial, legal or tax advisors. Issued in Europe by Muzinich & Co. Ltd, which is authorised and regulated by the Financial Conduct Authority. Registered in England and Wales No. 3852444. Registered address: 8 Hanover Street, London W1S 1YQ.

For Switzerland –

The prospectus (edition for Switzerland), the Key Investor Information Documents, the Trust Deed, the annual and semi-annual report, in French and further information can be obtained free of charge from the representative in Switzerland: Carnegie Fund Services S.A., 11, rue du Général-Dufour, CH-1204 Geneva, Switzerland, tel.: + 41 22 7051177, fax: + 41 22 7051179, web: www.carnegie-fund-services.ch. The Swiss paying agent is: Banque Cantonale de Genève, 17, quai de l'Ile, CH-1204 Geneva, Switzerland. The last unit prices can be found on www.fundinfo.com.

For Singapore –

The fund is a restricted scheme under the Sixth Schedule to the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations of Singapore. No offer of the units in the fund for subscription or purchase (or invitation to subscribe for or purchase the units) may be made, and no document or other material relating to the offer of units may be circulated or distributed, whether directly or indirectly, to any person in Singapore other than to: (i) "institutional investors" pursuant to Section 304 of the Securities and Futures Act of Singapore (the "Act"), (ii) "relevant persons" pursuant to section 305(1) of the Act, (iii) persons who meet the requirements of an offer made pursuant to Section 305(2) of the Act, or (iv) pursuant to, and in accordance with the conditions of, other applicable provisions of the Act. The offer, holding and subsequent transfer of units are subject to restrictions and conditions under the Act.