

# Monthly Fund Commentary

## Muzinich ShortDurationHighYield Fund

September 2018

For Professional Client Use - Not for Retail Distribution

Fund

Muzinich  
ShortDurationHigh  
Yield 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 the broader US high yield market in this risk-on month. The gross return represents coupon plus some capital appreciation. On an absolute sector basis, energy and healthcare were the greatest contributors to performance while building materials detracted. Exposure to B+ and B rated credits bolstered returns. No single ratings cohort detracted from returns. We increased our exposure to aerospace/defense. Calls and tenders were less than 1% this month, but we expect activity to pick up. We remain positioned for a benign credit environment (low default rate, strong economy), supportive technicals (low supply, neutral flows), and gradually rising rates. We continue to try to limit exposure to low coupon, very high quality names with somewhat longer maturities that may behave as proxies for Treasuries in a rate rising environment. Instead, we prefer higher coupon, somewhat lower quality bonds that are call constrained even if rates rise a bit.

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## Outlook

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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?

*The opinions above are those held by Muzinich, as of September 30<sup>th</sup>, 2018, and are subject to change. The Fund is an actively managed portfolio; holdings, sector weightings and leverage, (as applicable) are subject to change at the discretion of the Investment Manager without notice. Any holdings included above are for illustrative purposes only, not to be construed as investment advice. It cannot be assumed that these types of investments will be available to, selected by, or continue to be held by the Fund in future. All references to market performance are sourced from Bloomberg.*

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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](http://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](http://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](http://www.carnegie-fund-services.ch). The Swiss paying agent is: Banque Cantonale de Genève, 17, quai de l'Île, CH-1204 Geneva, Switzerland. The last unit prices can be found on [www.fundinfo.com](http://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.