Monthly Fund Commentary
Muzinich Europeyield Fund
September 2018

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Fund

Muzinich Europeyield Fund

Market Review

There was a bifurcation within the performance of the European credit market during September with high yield bonds producing strong returns, boosted by increased activity in the primary market, while investment grade credit felt the impact of rates pressures. Following a quiet summer, issuance picked up steam in September with notable high yield deals from Akzo Nobel and Thomson Reuters, which saw strong demand. Other, smaller deals came to the market priced at relatively tight levels, supported by investors who were keen to participate after several months of much lighter supply. The European Central Bank reaffirmed its commitment to end its bond-buying program, reducing its monthly purchases to €15bn from €30bn until the end of the year, although emphasized the continuation of loose monetary policy. Eurozone economic data prints continued to show a weakening of the economy, as the impact of the US/China trade war began to bite. The Italian budget dominated news flow towards the end of the month. While the final budget is not expected until later in October, the preliminary numbers emphasized a higher than expected deficit. This sent yields on Italian government debt higher amid fears of contagion into Italian financials and thus more broadly into the wider European financials landscape.

Fund Review

The fund produced a positive return and outperformed the ICE BofA Merrill Lynch BB-B European Currency Non-Financial High Yield Constrained Index. From a single-name issuer perspective, the overweight position in a real estate company and underweight positions in a commodity firm and a construction company contributed to returns. By sector, the overweight position in real estate and underweights in telecommunications and metals and mining proved positive for performance on a relative basis. Conversely, issuers hampering performance over the period included overweights in two clothing retailers and an underweight stance in a French supermarket. By sector, the underweight position in retail and the overweight position in food/drug detracted from returns. We are starting to see much more attractive deals coming to the primary market, both in terms of coupon/duration and also covenants (where investors are pushing back). So we are actively participating. From a valuation standpoint, it is interesting to note that current credit spreads are now very close to the levels of June 2016 when the ECB's corporate sector purchase programme (CSPP) started, and yields are close to the 5-year average. Therefore, it seems that the normalisation process of credit spread valuations is already very advanced, despite the fact that the CSPP has not yet ended. We have kept our exposure to Italian corporates at a low level and are very underweight the benchmark, as we expect the volatility in Italy to continue and there is no clear source of certainty. We have also sold down exposure to sterling denominated bonds and UK centric businesses and underweight spread duration. It is difficult to anticipate the Brexit outcome and we also believe the risk premium is too low.

Outlook

In our view, the combination of macro and credit events that have occurred so far this year have increased the odds of the global credit cycle nearing its final phase. Divergence in fiscal and monetary policies and the changing international trade landscape are increasing downside risk. In Europe, the macro picture looks to be weaker than the US and economic growth appears to be decelerating. Uncertainty around Italy's budget and debt path is a concern and EU/US trade relations also remain a risk. European yields are low and, in our view, the spread widening witnessed during the first half of 2018 does not fully compensate investors for the risks we see developing in the Euro area. The unknown impact of the end of quantitative easing is also adding to the general uncertainty. Overall, from a credit perspective, we do not anticipate negative credit-specific event risk. Defaults remain historically very low and leverage ratios are also at or below cycle levels. However, we believe end-of-cycle psychology is likely to create increasing bouts of volatility as well as liquidity concerns.

Important Information

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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, 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 –

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