Short Maturity Sustainable High Yield Bond Fund

January 31, 2020

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

The High Yield market started 2020 where 2019 ended, with strength in low-rated credit and speculative risk. The rally reversed itself late in the month and the market ended the month flat. Markets were able to shrug off the outburst of tension between the US and Iran with the situation de-escalating quickly. Investor concern regarding trade was further reduced by the signing of a "phase one" trade agreement between the US and China. But risk assets then turned sharply lower late in the month upon more details regarding the extent of the outbreak of the coronavirus and speculation around the impact to global GDP as quarantines increased and businesses remained closed in affected areas. After rallying at the end of last year oil reversed course with WTI Crude closing January down $9.50/bbl (or -15.56%) to $51.56/bbl, dragging the Energy sector down with it after a multi-week rally that saw several energy companies successfully refinance near-term maturities with new high yield debt. The US dollar was up 1.04% on the month, and the US Treasury curve flattened as the 2-yr Treasury decreased 23 basis points (bps) to 1.35% and the 10-yr Treasury yield decreased 39 bps to 1.52%.

Technicals were negative in January with supply of new paper the heaviest we have seen in a number of years. High yield mutual funds/ETFs saw inflows of $144mn, while loan funds experienced outflows of $979mn, as tracked by Lipper. High yield new issuance was $38.5bn, as tracked by Barclays, while $14.6bn in bonds were redeemed or upgraded, leaving net supply at $23.9bn. The loan primary market picked up as a record $122.9bn priced during January, according to JP Morgan. The percentage of the high yield bond market trading at distressed levels (below 70% of par) increased to 4.8%; the comparable figure for the loan market (below 80% of par) increased to 4.5%. The par-weighted twelve-month high yield bond default rate was 3.6% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate increased to 1.73%, per JP Morgan.

The ICE BofA US High Yield Index returned 0.00% in January while the Credit Suisse Leveraged Loan Index returned 0.53%. The yield-to-worst (YTW) for the high yield index increased 19 basis point to 5.56% and spreads increased 40 bps to 399 bps. By rating, the BB, B and CCC bond sub-indices returned 0.35%, -0.30% and -0.44%, respectively. Sector returns were mixed for the month with Banking the top performer, returning 2.35%, while Energy was the bottom performer, posting -1.66%. Across risk types (defined by duration and yield to worst) the longer duration part of the market outperformed the most speculative part of the market. High yield underperformed investment grade corporate bonds, represented by the ICE BofA US Corporate Index's 2.38% return but outperformed large cap equities, represented by the S&P 500's -0.04% return, as well as small cap equities, represented by the Russell 2000's -3.21% return.

Strategy

SKY Harbor Global Funds–Short Maturity Sustainable High Yield Bond Fund was essentially flat in January on a gross-of-fee basis and excluding currency impact. It was a tale of two markets for high yield during the month. The first half marked a "risk-on" period with the fund slightly lagging the comparative index (as measured by the ICE BofA 1-5 Year BB-B US Cash Pay High Yield Constrained Index). The second half of the month was "risk-off" and saw a reversal of prior gains, with the fund outperforming the comparative index – not capturing as much of the down market – to close the month flat. By sector, lack of exposure to bottom-performing Energy was a positive contributor to relative performance but was offset by weaker security selection in Services and Media. By rating, higher quality led, with Double Bs outperforming Single-Bs and Triple-Cs.

The largest positive contributor to returns was Quad Graphics (QUAD) 7% notes due 2022 for the second consecutive month. The largest bottom contributor to monthly returns was First Quantum Minerals (FMCN), which traded down amidst growing fears around the impact of the coronavirus on global copper demand. Last month's

Investment Objective

This is an active strategy that seeks to generate favorable risk-adjusted returns over a full market cycle through investing primarily in US dollar denominated, below-investment-grade corporate bonds. The diversified portfolio will be primarily constructed with a focus on current income, preservation of principal and low volatility while giving special consideration to environmental, social and/or governance ("ESG") factors with attention to sustainability leadership, transparency and disclosure of ESG criteria.

Comparison Index

ICE BofA 1-5 Year BB-B US Cash Pay High Yield Constrained Index (JVC4)

Not an index replication strategy. Can materially deviate by including out-of-Index debt securities.

Portfolio Management

Lead PM: David Kinsley, CFA
Anne Yobage, CFA

Fund Detail

Fund Inception	Dec 27, 2018
Fund AUM	$62.5mn
Order Cut-off	12:00 CET
Settlement	T+3
Dealing Frequency	Daily
Valuation Frequency	Daily

Statistics on performance, risk measures and portfolio characteristics are presented in share class Fund Factsheets available online at: http://skyharborglobalfunds.com/funds/shortmaturitysustainablehighyieldbond.shtml

ESG LUXFLAG Label

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Strategy (cont.)

bottom contributor, Diamond Sports Group (DSPORT) 5.375% notes due 2026, was liquidated in December.

At month-end, the YTW on the Fund rose 38 bps to 4.25%, compared to the index's YTW of 4.49%. Duration-to-worst increased to 1.75 below the index duration of 1.80. The average coupon of 6.29% was up modestly from last month and was 19 bps above the average coupon for the index. By rating, the Fund is modestly lower credit quality with 10.0% of the portfolio currently CCC rated securities. The Fund remains well diversified with 317 issues, representing 215 issuers.

Outlook

Investor concerns appear to be most focused on the ramifications of the coronavirus. Economists are ratcheting down China and global growth which feeds into commodity supply and demand models, leading to weakness in oil and other global commodity markets. Concerns are somewhat mitigated by an assessment that the Chinese government will be aggressive in its countervailing fiscal and monetary policy efforts. Key risks around geopolitical threats and trade discussions appear to be on the wane. Overall high yield issuer fundamentals and technicals remain generally supportive, in our view. We acknowledge increased concerns around the timing of the next cyclical downturn. With the market's recent adjustment to lower Treasury rates and somewhat weakening US manufacturing and other indicators of economic activity, we view high yield spreads as fairly valued and expect credit selection to drive returns on a go-forward basis. Overall, we continue to believe the high yield market can provide attractive full-year returns with some elevated volatility.

From a risk perspective, the Short Maturity Sustainable High Yield Bond Fund portfolio remains well positioned, in our view, with a high proportion of the portfolio trading to near-term expected refinancings, which will provide strong natural cash flow to reinvest in moments of volatility. We continue to focus on companies that have a stronger sustainability narrative and that we believe will show improving fundamentals, are generally more US consumer centric, have less international exposure and are less tied to global growth. The Fund remains underweight the most speculative part of the short duration universe. Based on our view of risks and valuations across the market, we continue to believe the short duration portion of the market is attractive given its above-average yield capture relative to the overall high yield market (~70%), lower relative duration and typically more defensive nature in volatile market periods.

About SKY Harbor Capital Management

SKY Harbor Capital Management, LLC ("SKY Harbor"), an independent investment manager registered with the US Securities and Exchange Commission, is the appointed Investment Manager for SKY Harbor Global Funds. SKY Harbor offers a range of US high yield and leveraged loan strategies for global institutional investors and private wealth advisors. Senior leadership and co-founders Hannah Strasser and Anne Yobage have managed high yield investments as a team through multiple market cycles for nearly 30 years. SKY Harbor's process is grounded in fundamental analysis, then refined by quantitative and technical assessment, to identify income potential while effectively managing risk. SKY Harbor is based in Greenwich, CT USA. Visit www.skyhcm.com.

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