US High Yield 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–US High Yield Fund performed in line with the benchmark in January on a gross-of-fee basis and excluding currency impact. By risk type, security selection was a source of outperformance while allocation was a source of relative underperformance. The primary drivers of relative performance were an underweight to and strong selection within the most speculative part of the market (yielding >9%). Outperformance was offset by an underweight to the top-performing, long duration (over 9) part of the market. By sector, an underweight to bottom-performing Energy and strong selection within Media were sources of outperformance, somewhat offset by weaker selection in Energy and Retail.

The largest positive contributor to returns was Beazer Homes (BZH) 7.25% notes due 2029, which traded up in January in concert with positive sentiment around US homebuilders. Last month's top contributor, Quad Graphics Inc. (QUAD) 7% notes due 2022, was among top contributors again this month. The largest bottom contributor to monthly returns was Bombardier Inc. (BBDBCN) 7.875% notes due 2027, which traded down on weak preliminary Q4 sales combined with lower profitably and free cash flow. Last month's bottom contributor, Vizient Inc. (VIZIEN) 6.25% notes due 2027, was up modestly in January.

Investment Objective

This is an active strategy that seeks to out-perform the broad US high yield market over a full market cycle with less volatility through investing across the full maturity spectrum of the US below-investment-grade debt market. The Fund principally invests in a diversified portfolio of high yield debt securities issued by companies domiciled or listed in the US.

Benchmark

ICE BofA US High Yield Index (H0A0)

At least 2/3 of the fund's debt security holdings will be components of the H0A0 Index, but the Investment Manager may use its discretion to invest in companies or sectors with different weights than the Index or are not included in the Index in order to take advantage of specific investment opportunities.

Portfolio Management

Lead PM: Hannah H. Strasser, CFA
Trevor Kaufman, CFA

Fund Detail

Fund Inception	Apr 05, 2012
Fund AUM	$72.7mn
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/ushighyield.shtml

Outlook

Our Broad High Yield Market (BHYM) portfolios are modestly underweight the better-quality, lower-yielding segment of the market in favor of credit picking among the higher-yielding part of the market and an overweight to the defensive short duration parts of the market. We continue to focus on those industry groups that are best positioned for sustainable growth in an aging economic cycle. We remain underweight the Energy sector and industries that have a high degree of sensitivity to Chinese growth, and are generally biased towards US consumer driven industries and companies with a high degree of US revenue. Our BHYM portfolios remain more concentrated in high conviction holdings. Based on our view of risks and valuations across the market, we continue to believe Single-B rated credit and short duration risk offers the best opportunity for attractive returns through credit picking.

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.

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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www.skyharborglobalfunds.com

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