US Short Duration 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 Short Duration High Yield Fund was essentially flat in January on a gross-of-fee basis and excluding currency impact. It was a tale of two markets during the month. The first half marked a “risk-on” period with short duration unable to keep up with the full upward price move of the broader high yield market (as measured by the ICE BofA US High Yield Index). The second half of the month was “risk-off” and saw a reversal of prior gains, with short duration outperforming the broader high yield market – not capturing as much of the down market – to close the month flat. By sector, Utility and Banking led with modestly positive returns while Insurance and Capital Goods lagged with negative returns. By rating, higher quality led, with Double-Bs outperforming Single-Bs and Triple-Cs.

The YTW on the Fund rose 48 bps to 3.99% and represented 72% of the broad market yield at month-end. The Fund’s duration-to-worst increased to 1.4, or 47% of the broad market duration. The average coupon of 6.20% was up modestly from the prior month and was 13 bps below the average coupon in the broad market. Exclusive of cash, Fund holdings (325 issues, representing 217 issuers) comprised 38% bonds with maturities of less than three years and 62% in longer maturities but trading to expected early take-outs inside this three-year period. This overweight to

Investment Objective

To generate a high level of current income while also experiencing lower volatility than the broader high yield market. The Fund principally invests in US below-investment-grade corporate debt securities that are expected to be redeemed through maturity, call or other corporate action within three years. The strategy seeks to capture the current income of the high yield market with substantially less volatility through the consistency of monthly returns and reinvestment.

Benchmark

Active strategy not managed in reference to a benchmark index

Portfolio Management

Lead PM: Anne C. Yobage, CFA
David Kinsley, CFA

Fund Detail

Fund Inception	Apr 05, 2012
Fund AUM	$2,964.4mn
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/usshortdurationhighyield.shtml

Strategy (cont.)

the latter group continues to show that we find greater value in the yield-to-call opportunities. Nevertheless, we do value the relative price stability the short maturity group can offer in volatile periods in the market. At month-end Double-B rated holdings represented 41.7% of the portfolio, Single-Bs were 46.9% and Triple-Cs were 7.4%. While this was a slight dip in credit quality versus the prior month, we continue to gradually raise overall credit quality in the fund, acknowledging that we are in the late stage of economic recovery.

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

In our view, our Short Duration High Yield portfolios remain well positioned for the current market environment as they are capturing over 70% of the market yield with about 45% of the market duration. We think the high current income combined with the typically defensive nature of the portfolio results in an attractive asset class better insulated from potential market volatility, pending resolution of geopolitical events. Natural turnover, created by calls, tender and maturities, will continue to allow us to optimize the portfolio as the market environment evolves.

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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