

# US Short Duration High Yield Fund

February 28, 2017

Class C Distribution

**SKY HARBOR**  
GLOBAL FUNDS

## Portfolio Commentary

### Market

The positive “risk-on” momentum continued in February with US High Yield posting positive returns for the third straight month (and twelfth time over the last 13 months). High yield benefited from the ongoing rally in stocks, solid economic data, strong earnings, continued optimism around the new Trump administration and lower-than-usual new issuance. All sectors saw positive returns as macro-economic trends remained supportive. Despite the fact that WTI Crude Oil prices were higher at month-end, with oil up \$1.20 ( or 2.27%) to \$54.01/bbl, Energy was the lowest returning sector (at 0.31%) as natural gas prices fell 12% in the month. The US Dollar Index strengthened 1.62%, and the US yield curve flattened with 2-yr Treasuries 2 basis points (bps) higher at 1.21% and the 10-yr lower by 9 bps to 2.36%.

High yield technicals were again supportive in February as inflows continued and net supply remained negative. HY funds saw net inflows of \$2.1bn and loan funds had inflows of \$4.2bn, as tracked by Lipper. New issuance increased slightly to \$18.9bn, offset by \$27.0bn in redemptions, leaving net supply at -\$8.0bn, according to Barclays. The percentage of the market trading at distressed levels (below 70% of par) ended the month at 2.1%, per JP Morgan. The par-weighted twelve-month default rate ticked lower to 4.5% at month-end, per BofA Merrill Lynch. Excluding commodities, the default rate was 1.4%.

The BofA Merrill Lynch US High Yield Index returned 1.56% in February. The yield-to-worst (YTW) dropped 0.34% to 5.58%, as spreads tightened 29 bps to 371 bps. The BB, B and CCC sub-indices posted 1.12%, 1.51% and 3.19%, respectively. By sector, Healthcare was the top performer while Energy lagged. Returns were positive across all risk types, led by the more speculative long duration segment, while defensive short duration lagged. High Yield outperformed investment grade corporate bonds, represented by the BofA ML US Corporate Index’s 1.13% return, but underperformed large and small cap equities, represented by the S&P 500’s 3.97% return and Russell 2000 at 1.93%.

### Strategy

SKY Harbor Global Funds–US Short Duration High Yield Fund generated a return approximating current income in February and captured nearly half of the broader US High Yield market return (gross of fees). A duration shorter than the broad market limited our ability to capture the full upward price move. Triple-Cs continued to be the best-performing ratings group for a third consecutive month, followed by Single-Bs and then Double-Bs. Again this month, all sectors were positive contributors to returns, with Healthcare the strongest and Energy the laggard amidst a decline in natural gas prices.

The YTW on the Fund fell 5 bps to 4.32% and represented 77% of the broad market yield at month-end. The duration-to-worst of 1.6 was 42% of the broad market duration. The average coupon was 6.74%, almost 25 bps above the average coupon in the broad market. Exclusive of cash, Fund holdings (415 issues, representing 288 issuers) comprised 31% bonds with maturities of less than three years and 69% in longer maturities but trading to expected early take-outs inside this three-year period. This is nearly unchanged from last month. We continue to believe that companies will proactively refinance debt ahead of stated maturities to capture the favorable interest rate environment that the new issue market still offers. Overall credit quality in the Fund was down slightly: at month-end Double-B rated holdings represented 37.5% of the portfolio, Single-Bs were 46.5% and Triple-Cs were 13.4%.

### Outlook

While the macro environment remains largely the same, valuations continue to come into focus with less cushion available as investors integrate a more hawkish Federal Reserve. Away from rates, geopolitical risks continue to dominate given the rise of populism in developed economies and the upcoming European election cycles. The steady stream of headlines from the US administration continues, but increasingly the market seems to accept some level of uncertainty and detail in exchange for a more conciliatory and productive tone. We expect these themes to dominate discussion, but have not changed our view that fundamentals will continue to improve as we anniversary weak commodity prices and that HY defaults will peak and recede over the course of 2017. We still expect high yield issuance to remain tilted towards better quality and refinancing, but importantly be generally demand driven and sensitive to fund flows, which we expect to be more volatile. Based on our view of risks and valuations across the market, we think lower-rated credit offers the best opportunity for attractive returns through credit picking.

We continue to believe the portfolio is well positioned to take advantage of potential volatility associated with changing geopolitical risks and rising interest rates considering the large amount of front-end maturities and expected near-term calls held in the portfolio. This not only helps to dampen duration-driven weakness, but also provides immediate cash available to be reinvested at the prevailing market rates. We expect to continue to benefit from security selection and portfolio diversification, using market volatility to opportunistically add attractively priced positions to the Fund.

## Top 10 Holdings by Issuer Weight

Name	Ratings	Sector	Weight (%)
SPRINT NEXTEL	B2	Telecommunications	1.85
CIT GROUP INC	BB2	Financial Services	1.58
TENET HEALTHCARE	BB3	Healthcare	1.41
ALLY FINANCIAL	BB2	Banking	1.35
AERCAP IRELAND	BBB3	Financial Services	1.29
HCA INC	BB1	Healthcare	1.16
CABLEVISION SYS	B3	Media	1.16
FRONTIER COMM	BB3	Telecommunications	1.15
T-MOBILE USA INC	BB3	Telecommunications	1.09
NAVIENT CORP	BB3	Financial Services	1.04

## 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

Not a benchmarked strategy

## Launch Date

April 5, 2012

## Lead Portfolio Manager

**Anne C. Yobage, CFA**

- A founder and Director of SKY Harbor Capital Management, LLC.
- 29 years of investment experience.
- Has managed Short Duration High Yield strategies since 1992.
- Previously Co-Head of US Fixed Income, AXA Investment Managers.

## Fund Information\*

Fund NAV (mn)	\$2,230
Average Credit Rating	B1
Average Coupon (%)	6.7
Yield to Worst (%)	4.3
Yield to Maturity (%)	5.3
Current Yield (%)	6.5
Average Maturity (yrs)	3.6
Avg Mod. Dur. to Wst	1.6
Average Price	104.3
No of Issuers/Issues	288 / 415
% of Top 10 Issuers	13.1

\*securities portfolio only, excludes cash

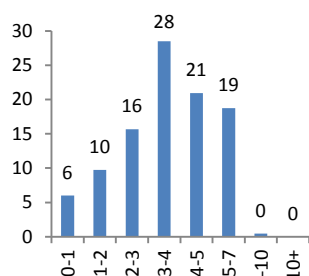
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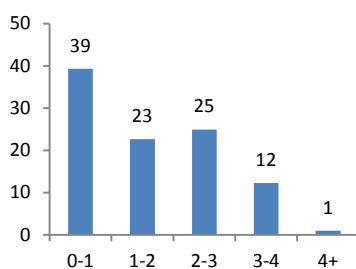
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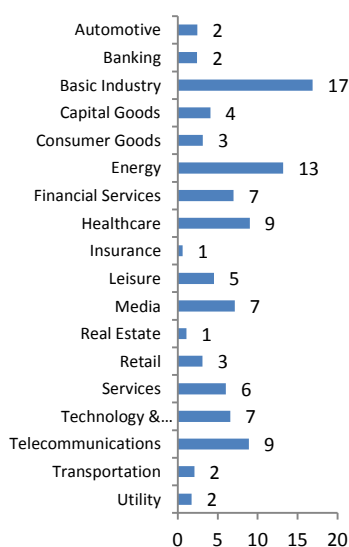
## Maturity (%)



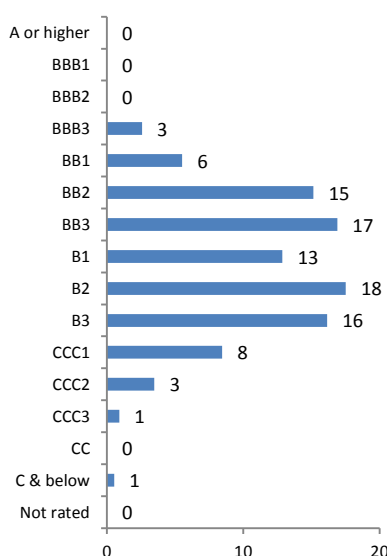
## Modified Duration to Worst (%)



## Sector (%)



## Average Rating (%)



## Fund Facts

Fund Type	Open-end
Legal Form	SICAV
Domicile	LUX
Countries of	AT, BE, CH, DE
Registration	DK, ES, FI, FR GB, LU, NL, NO SE
Min. Initial Inv	500 USD
Management Fee p.a.	50 bps
Order Cut-off	12:00 CET
Settlement	T+3
Custodian	JP Morgan Luxembourg
Fiscal Year End	31-Dec
Dealing Frequency	Daily
Valuation Frequency	Daily
Swing pricing	None

## Contact

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Find all fund documents at:

[www.skyharborglobalfunds.com](http://www.skyharborglobalfunds.com)

## Net Performance and Yield

Currency	ISIN	Cumulative			Ann. Since Inception	Ann. Div. Yield†	Currency	ISIN	Cumulative			Ann. Since Inception	Ann. Div. Yield†
		1M	3M	YTD					1M	3M	YTD		
USD	LU1134536561	NA	NA	NA	NA	NA	SEK						
EUR	LU1134536728	0.63	2.19	1.21	2.89	4.96	NOK						
GBP	LU1134537023	NA	NA	NA	NA	NA	DKK						
CHF													

† Annualized Dividend Yield = Most Recent Dividend / NAV as of Ex Date × Annual Frequency. Historical data provided and does not imply prospective returns or yields.

Net Performance is calculated as of the last NAV date of the reporting period.

## About SKY Harbor Capital Management

SKY Harbor Capital Management, LLC, an independent investment manager registered with the US Securities and Exchange Commission ("SKY Harbor"), is the appointed Investment Manager for SKY Harbor Global Funds. SKY Harbor offers Broad High Yield and Short Duration High Yield strategies for institutional investors and global 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. Our 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](http://www.skyhcm.com).

## A Message to Investors

This disclaimer is intended to be read and understood by prospective investors because investing in high yield below-investment-grade corporate debt securities entails risk of loss; may be unsuitable to your circumstances; and cannot rely on past performance as a guarantor of future results. This two-page summary document is designed to be read by institutional investors for marketing and summary information purposes. While the information herein is derived from reliable sources and expresses our good faith beliefs, be aware that the Portfolio Commentary comprises "forward-looking statements," which means that there is no guarantee or warranty as to the accuracy of our current assumptions, market views, data or future expectations – all of which are subject to change at any time without notice to you and for which we are not to be held liable if future developments depart from our expectations. Accordingly, this document cannot and does not replace, revise or reinterpret the information and risk factors set forth in the Prospectus, KIID, Annual and Semi-annual reports, which along with other disclosures are available without charge from SKY Harbor Global Funds or from JPMorgan Bank Luxembourg, the Fund's transfer agent, fund accountant and custodian at: 6, route de Trèves, L-2633 Senningerberg, Luxembourg (also available on [www.skyharborglobalfunds.com](http://www.skyharborglobalfunds.com)) or from the Swiss Representative. Because this summary is not intended to solicit or offer securities for purchase or sale, nor does it take into account your investment objectives, risk tolerances, tax or legal situation, it is your responsibility and duty to read with care the fund Prospectus and other disclosures before investing. SKY Harbor Global Funds is established under Luxembourg law and is not registered under the US Securities Act of 1933 nor the US Investment Company Act of 1940 and may not be offered or sold in the United States (or to a US person) absent registration or an applicable exemption from the registration requirements. The net performance shown does not take account of any commissions and costs charged when subscribing to and redeeming units, which if charged, would have a negative impact on performance. The BofAML Index data referenced herein is the property of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("BofAML") and/or its licensors and has been licensed for use by SKY Harbor. BofAML PERMITS USE OF THE BofAML INDICES AND RELATED DATA ON AN "AS IS" BASIS, MAKES NO WARRANTIES REGARDING SAME, DOES NOT GUARANTEE THE SUITABILITY, QUALITY, ACCURACY, TIMELINESS, AND/OR COMPLETENESS OF THE BofAML INDICES OR ANY DATA INCLUDED IN, RELATED TO, OR DERIVED THEREFROM, ASSUMES NO LIABILITY IN CONNECTION WITH THE USE OF THE FOREGOING, AND DOES NOT SPONSOR, ENDORSE, OR RECOMMEND SKY Harbor or ANY OF ITS PRODUCTS OR SERVICES.

## Supplementary Information for Swiss Investors

The representative in Switzerland is ACOLIN Fund Services AG, Affolternstrasse 56, CH-8050 Zurich. The paying agent in Switzerland is Banque Cantonale Vaudoise, Place Saint-François 14, 1001 Lausanne, Switzerland. The relevant Fund documents such as the prospectus, the key investor information document (KIIDs), the articles of association, and the annual and semi-annual reports may be obtained free of charge from the representative in Switzerland.