Global Sustainable High Yield Fund

February 28, 2021

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

February began with a rally in risk assets and High Yield posted another month of positive returns despite some weakness towards the end of the month. Markets initially moved higher as the Biden administration moved quickly to try and gain control over the COVID-19 pandemic as well as get another stimulus package passed. Optimism of large-scale reopening bolstered by dropping infection rates and the growing vaccine rollout brought markets higher with a slight sell-off towards the end of the month as treasury yields moved higher. The rally in Oil continued through February thanks to expectations of a return to normalcy with WTI Crude closing the month up $9.30/bbl (or 17.82%) to $61.50/bbl. The US dollar was up 0.33% on the month, and the US Treasury curve steepened as the 2-yr Treasury increased to 0.13% and the 10-yr Treasury yield increased to 1.41%.

Technicals were a headwind in February with investor outflows and positive net supply for the month. High Yield mutual funds/ETFs saw outflows of $981mm, while loan funds experienced inflows of $3.8bn, as tracked by Lipper and reported by Barclays. High yield new issuance slowed slightly in February to $35.3, as tracked by Barclays, while $28.5bn in bonds were redeemed or upgraded, leaving net supply at $6.8bn for the month. The percentage of the high yield bond market trading at distressed levels (below 70% of par) decreased to 0.9%; the comparable figure for the loan market (below 80% of par) remained 2.2% for the month. The par-weighted twelve-month high yield bond default rate was down slightly to 6.6% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate ended February at 3.98%, per JP Morgan.

The ICE BofA Global High Yield Index returned 0.44% in February while the Credit Suisse Leveraged Loan Index returned 0.67%. The yield-to-worst (YTW) for the global high yield was unchanged at 4.28% and spreads decreased 26 bps to 378. By rating, the BB, B and CCC bond sub-indices returned 0.08%, 0.62% and 2.07%, respectively. Returns were mixed across sectors for the month with Energy the top performer, returning 1.41%, while Media was the bottom performer, posting -0.61%. Across risk types (defined by duration and yield to worst), longer duration securities outperformed shorter duration more defensive securities. Global high yield outperformed investment grade corporate bonds, represented by the ICE BofA US Corporate Index's -1.96% but underperformed large cap equities, represented by the S&P 500's 2.61% return, as well as small cap equities, represented by the Russell 2000's 6.14% return.

Strategy

SKY Harbor Global Funds – Global Sustainable High Yield Fund posted a solid return in February, outperforming its benchmark. By risk type, both security selection and allocation were sources of outperformance. The primary drivers of relative performance were strong selection within the shortest duration part of the market and an underweight to the lower performing, most rate sensitive part of the market (yielding 0-5%). Outperformance was somewhat reduced by an overweight to lower performing short duration. By sector, the primary drivers were strong selection in Media and Capital Goods. This was partially offset by lack of Energy exposure. By rating, strong selection in Single-Bs and an underweight to lower performing Double-Bs were the primary drivers of relative performance, partially offset by slightly weaker selection in top performing Triple-Cs.

The largest positive contributor to returns was Quad Graphics (QUAD) 7% notes due 2022, one of our highest conviction names which traded up again in February on strong technicals. The largest bottom contributor was Inmarsat (ISATLN) 6.75% notes due 2026 which traded down on a CEO transition that was unexpected combined with weak technicals. Last month's bottom contributor, Park-Ohio Industries (PKOH) 6.625% notes due 2027, gained back last month's trading losses and was among the top contributors in February.

Investment Objective

Global ESG socially responsible active investment strategy seeking to outperform the global high yield market with lower volatility by diversified investments in US and non-US dollar high yield corporate bonds of all available maturities and below-investment grade ratings.

Benchmark

ICE BofA Global High Yield Index (HW00) with discretion to derogate from index attributes.

Portfolio Management

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

Fund Detail

Fund Inception	Apr 05, 2012
Fund AUM	$91.6 mn
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

Risk assets have benefited from resolution of the dominant identified risk – the US election – and positive news regarding key vaccine developments and enhanced treatment protocols to reduce the ongoing risks associated with the second most identified risk – COVID-19. Control of the US Senate has now also been settled, providing more clarity around the path forward for the upcoming Biden/Harris administration and additional near-term fiscal stimulus. The sharp rise in interest rates in recent trading sessions suggests investors have shifted towards focusing on the potential for less supportive monetary policy and potentially at path to higher rates.

While rising COVID-19 cases are likely to create some headwinds for a recovering economy, we believe this third wave will result in a less negative economic impact than earlier in the year. Investor sentiment will continue to focus on the risks and opportunities associated with both additional fiscal stimulus and the availability of various monetary policy tools should economic conditions warrant.

Investor perception of risks around fundamentals has benefited from widespread positive earnings surprises in the most recent quarter. We expect default rates to peak at 9% to 10% but normalize to 5% by 2021. We believe the opportunity is that default rates will be below our initial forecasts which, along with recovering earnings should provide support for further high yield market spread compression.

We believe the market has excess return opportunity associated with sector allocation and credit picking and are mindful of tighter valuations across better quality segments of the market. Unlike last year where picking bonds with recovering results and attractive valuations was a key driver of returns, this year we expect returns will be a function of missing companies that stumble and are rerated to higher yields. Our valuation work suggests a bias towards cyclicals versus defensive issuers and smaller issue sizes over larger issues that have been pushed tighter by ETF buying.

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.

Contact

info@skyhcm.com
+49 69 75938622
+1 203 769 8800
Find all fund documents at:
www.skyharborglobalfunds.com

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