US Short Duration High Yield Fund

December 31, 2018

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

Risk assets sold off sharply in December as investors focused on the potential for slower economic growth should the Federal Reserve prove to be unresponsive to increasing financial instability. At its December meeting, the Federal Open Market Committee (FOMC) implemented its fourth rate hike for 2018 but did reduce its 2019 forecast from three rate hikes to two. OPEC agreed to curtail production, but the impact did not lift prices as WTI Crude finished the month down $5.52/bbl (or 10.84%) to $45.41/bbl. The US dollar was lower, down 1.13% on the month, while Treasuries rallied sharply. The slope of the US Treasury curve was relatively unchanged as the 2-yr Treasury was lower by 32 bps to 2.51% and the 10-yr Treasury yield decreased 32 bps to 2.69%.

Market technicals were cushioned by negative net supply in the face of substantial investor withdrawals. Loan and high yield funds saw outflows of $12.0bn and $8.9bn, respectively, as tracked by Lipper and reported by Barclays. On the positive, net supply remained negative with no High Yield bond new issuance – a rare occurrence – while $13.1bn in bonds were redeemed or upgraded, per Barclays. The loan primary market slowed as $8.3bn priced during December, according to JP Morgan. The percentage of the high yield bond market trading at distressed levels (below 70% of par) increased to 4.9%; the comparable figure for the loan market (below 80% of par) was 3.3%. The par-weighted twelve-month high yield bond default rate was 0.88% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate increased to 1.63%, per JP Morgan.

The ICE BofAML US High Yield Index returned -2.19% for December while the Credit Suisse Leveraged Loan Index returned -2.29%. The YTW for the HY index increased 78 bps to 7.93% and spreads increased 111 bps to 533 bps. By rating, the BB, B and CCC bond sub-indices returned -1.39%, -2.47% and -4.43%, respectively. All sectors were negative for the month with Banking being the top performer, returning -0.21%, while Energy was once again the bottom performer, posting -3.94%. Across risk types (defined by duration and yield to worst), generally shorter duration, more defensive segments outperformed more speculative risk though all risk segments were negative. High Yield outperformed large cap equities, represented by the S&P 500's -9.03% return, as well as small cap equities, represented by the Russell 2000's -11.88% return, but underperformed investment grade corporate bonds, represented by the ICE BofAML US Corporate Index's 1.50% return.

Strategy

SKY Harbor Global Funds–US Short Duration High Yield Fund was not immune to the selloff in December, posting a negative return but outperforming the broader US high yield market (as defined by the ICE BofAML US High Yield Index) on a gross-of-fee basis and excluding currency impact. A duration shorter than the broader market helped to reduce some of the volatility experienced during the month. By risk type, generally shorter duration, more defensive securities outperformed longer duration and most speculative, which were the most penalized during the selloff. In a month where all sectors posted negative returns, Consumer Goods was the top-performer while Energy was the bottom-performer. By rating, Double-Bs outperformed Single-Bs and Triple-Cs although all segments were negative again this month.

The YTW on the Fund increased 94 bps to 7.08% and represented 89% of the broad market yield at month-end. The duration-to-worst rose to 2.5, or 59% of the broad market duration. The average coupon of 6.51% was nearly unchanged from last month's figure and was 15 bps above the average coupon in the broad market. Exclusive of cash, Fund holdings (299 issues, representing 214 issuers) comprised 43% bonds with maturities of less than three years and 57% in longer maturities but trading to expected early take-outs inside this three-year period. This overweight

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

Portfolio Management

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

Fund Detail

Fund Inception	Apr 05, 2012
Fund AUM	$2,189.8mn
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

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Strategy (cont.)

to 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. Overall credit quality decreased slightly in the Fund: at month-end Double-B rated holdings represented 37.4% of the portfolio, Single-Bs were 51.9% and Triple-Cs were 9.5%.

Outlook

We recognize that the risk of decelerating global growth has increased, however, we continue to believe that markets are over-discounting the risk that the US business cycle turns negative. We remain positive on corporate fundamentals and believe defaults will remain near cyclical lows. Importantly, valuations are significantly more supportive of high yield risk taking given the December selloff and the market has repriced to a point where the carry provides a compelling relative return even if spreads do not tighten. Strong technicals associated with lower issuance on the bond side and a potential move from loans back to bonds should also continue to provide support for the market. Taken in whole, we have not substantially altered our risk positioning, although we are mindful of the market's reflection of a peaking profit cycle and the associated shift higher in risk premiums.

We continue to believe our Short Duration High Yield portfolios are well positioned for the current market environment as they are capturing roughly 89% of the market yield with just over half of the market duration. The typically defensive nature of the portfolio allows us to take advantage of any potential volatility or curve repricing associated with episodic volatility. Natural turnover, created by calls, tender and maturities, should be high considering the large amount of front-end maturities and expected near-term calls held in the portfolio, which will allow us to continue 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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A Message to Investors

Supplementary Information for Swiss Investors