US Short Duration High Yield Fund

February 29, 2020

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

During the first few weeks of February, the High Yield market was able to shrug off concerns about the COVID-19 outbreak. Markets were initially held up by better-than-expected Q4 earnings and a belief that any negative effect of the coronavirus would be localized and only a temporary disturbance. Risk assets turned sharply lower as the month progressed and more details on the extent of the outbreak came out. Initial hopes that the virus would be contained were dashed by the rapid increase in the number of cases outside China. The selloff in risk assets led to HY having its first negative monthly return since May 2019. Oil continued its downturn in February with concerns about a decline in global demand causing WTI Crude to close the month down $6.80/bbl (or -13.19%) to $44.76/bbl, dragging the Energy sector down with it. The US dollar was up 0.76% on the month, and the US Treasury curve steepened as the 2-yr Treasury decreased 45 basis points (bps) to 0.90% and the 10-yr Treasury yield decreased 39 bps to 1.13%.

Technicals were mixed in February with supply of new paper slowing down after a record January and funds seeing outflows. High yield mutual funds/ETFs saw outflows of $2.4bn, while loan funds experienced outflows of $1.7bn, as tracked by Lipper. High yield new issuance was $27.9bn, as tracked by Barclays, while $24.4bn in bonds were redeemed or upgraded, leaving net supply at $3.5bn. The loan primary market slowed down in February after a record January as $71.8bn priced during the month, according to JP Morgan. The percentage of the high yield bond market trading at distressed levels (below 70% of par) increased to 5.9%; the comparable figure for the loan market (below 80% of par) increased to 5.5%. The par-weighted twelve-month high yield bond default rate was 3.4% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate decreased to 1.70%, per JP Morgan.

The ICE BofA US High Yield Index returned -1.55% in February while the Credit Suisse Leveraged Loan Index returned -1.35%. The yield-to-worst (YTW) for the high yield index increased 64 basis point to 6.19% and spreads increased 104 bps to 503 bps. By rating, the BB, B and CCC bond sub-indices returned -1.41%, -1.47% and -2.37%, respectively. Sector returns were mixed for the month with Telecom the top performer, returning 1.90%, while Energy was the bottom performer, posting -7.40%. Across risk types (defined by duration and yield to worst) shorter duration more defensive securities outperformed longer duration and more speculative securities. High yield underperformed investment grade corporate bonds, represented by the ICE BofA US Corporate Index's 1.29% return, but outperformed large cap equities, represented by the S&P 500's -8.23% return, as well as small cap equities, represented by the Russell 2000's -11.13% return.

Strategy

SKY Harbor Global Funds–US Short Duration High Yield Fund was not immune to the selloff in February, posting a modestly negative return for the month but capturing approximately 40% of the negative return of the broader US high yield market (as measured by the ICE BofA US High Yield Index) on a gross-of-fee basis and excluding currency impact. A duration shorter than the broad high yield market helped to dampen some of the volatility experienced by the overall high yield market during the month. By risk type, generally shorter duration, more defensive securities outperformed longer duration (within the context of short duration) and more speculative securities. By sector, Telecom and Banking led with modestly positive returns, while Energy and Insurance lagged with negative returns. By rating, Triple-Cs and Double-Bs outperformed Single-Bs though the dispersion among groups was minimal.

The YTW on the Fund rose 56 bps to 4.55% and represented 73% of the broad market yield at month-end. The Fund's duration-to-worst increased to 1.9, or 55% of the broad market duration. The average coupon of 6.16% was down slightly from the prior month and was 16 bps below the average coupon in the broad market. Exclusive of cash, Fund holdings (313 issues, representing 216 issuers) comprised 36% bonds with maturities of less than three years and 64% in longer maturities but

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	$2,921.6mn
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.)

trading to expected early take-outs inside this three-year period. This overweight 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 increased modestly in the Fund: at month-end Double-B rated holdings represented 42.6% of the portfolio, Single-Bs were 46.6% and Triple-Cs were 8.0%.

Outlook

As we have tried to broadcast in our weekly briefings, we are not calling a bottom, but we are increasingly optimistic about high yield valuations at this point. In addition, we believe the Federal Reserve's most recent actions and Congress eventually passing a large fiscal stimulus bill will help to stabilize markets.

The Fund continues to exhibit a capture rate versus the broad high yield market that is in line with its historical average while maintaining the favorable income-to-duration ratio relative to the High Yield Index. Our central scenario has not changed. We expect rising default risk in the energy, leisure and potentially the transportation sectors despite an eventual stabilization of coronavirus-related impact to demand in the second half of the year. US fiscal stimulus appears to be increasingly targeted and is well received although the reality of "shelter in place" orders and homeschooling for kindergarten through college is starting to be deeply felt across the globe. We also see the risk of fallen angels entering the high yield market in sectors that have protracted earnings headwinds. The offset to this potential supply is that we believe higher-rated companies are likely to be aggressive buyers of their near-term maturities in the open market, repeating behavior we saw during the global financial crisis. While we acknowledge strong relative performance during this period of volatility, we are mindful that "pensioners cannot eat relative returns" when those relative returns are negative. As a result, we are highly focused on preservation of principal and creating a sustainable income stream that rewards our investors for their risk-taking.

We believe in the resilience of the people that are behind markets and economies and we are ourselves optimistic by nature. That said, the reality of the moment is without precedent and we will continue to be as transparent around risks and opportunities as possible as we move deliberately forward investing on behalf of our clients around the globe.

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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