US Short Duration High Yield Fund

January 31, 2019

SKY HARBOR
GLOBAL FUNDS

Monthly Commentary

Market

Sentiment reversed and risk assets rallied sharply in January, leading High Yield to its highest returning month in almost three years. Despite continuing political uncertainty, markets were able to shrug off the longest partial US government shutdown in history and recover almost all the losses from 2018's fourth quarter. Markets reacted positively to the more dovish tone set by the Federal Reserve, as Fed Chairman Powell indicated on multiple occasions that they would be more patient with further rate hikes. The recovery was also boosted by better-than-expected corporate earnings, ongoing US-China trade discussions and rising commodity prices, specifically oil. The sharp rise in oil prices was a large contributor to the positive month with WTI Crude finishing January up $8.38/bbl (or 18.45%) to $53.79/bbl, leading Energy to be the top-performing sector. The US dollar was lower, down 0.62% on the month, and the slope of the US Treasury curve was relatively unchanged as the 2-yr Treasury was lower by 3 basis points (bps) to 2.47% and the 10-yr Treasury yield decreased 6 bps to 2.64%.

Counter to the trend in 2018, High Yield mutual funds and ETFs saw inflows of $2.2bn while loan funds experienced outflows of $9.2bn in January. Despite stronger inflows, net supply shifted back to positive in the month, as tracked by Lipper and reported by Barclays, with 16.6bn of new issuance pricing while $4.4bn in bonds were redeemed or upgraded, for net supply of $12.2bn. The loan primary market picked up slightly as $14bn priced during January, according to JP Morgan. The percentage of the high yield bond market trading at distressed levels (below 70% of par) decreased to 3.9%; the comparable figure for the loan market (below 80% of par) was 3.0%. The par-weighted twelve-month high yield bond default rate was 0.86% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate decreased to 1.38%, per JP Morgan.

The ICE BofAML US High Yield Index returned 4.59% for January while the Credit Suisse Leveraged Loan Index returned 2.30%. The yield-to-worst (YTW) for the High Yield index decreased 107 bps to 6.86% and spreads decreased 103 bps to 430 bps. By rating, the BB, B and CCC bond sub-indices returned 4.30%, 4.59% and 5.83%, respectively. All sectors were positive for the month with Energy the top performer, returning 6.28%, while Transportation was the bottom performer, posting 2.18%. Across risk types (defined by duration and yield to worst), more speculative and longer duration securities outperformed shorter duration, more defensive securities during the rally in January. High Yield underperformed large cap equities, represented by the S&P 500's 8.01% return, as well as small cap equities, represented by the Russell 2000's 11.25% return, but outperformed investment grade corporate bonds, represented by the ICE BofAML US Corporate Index's 2.09% return.

Strategy

SKY Harbor Global Funds–US Short Duration High Yield Fund posted a strong return in January, capturing almost two-thirds of 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. Generally, risk and duration were rewarded in January. By risk type, longer duration and most speculative outperformed short duration, more defensive securities. In a month where all sectors posted positive returns, Energy and Financial Services led while Transportation and Utility lagged. By rating, the dispersion among groups was minimal with Triple-Cs and Single-Bs narrowly outperforming Double-Bs.

The YTW on the Fund decreased 137 bps to 5.71% and represented 83% of the broad market yield at month-end. The duration-to-worst dropped to 1.9, or 49% of the broad market duration. The average coupon of 6.48% was down slightly from last month's figure and was 13 bps above the average coupon in the broad market. Exclusive of cash, Fund holdings (297 issues, representing 214 issuers) comprised 45% bonds with maturities of less than three years and 55% 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	$2,233.9mn
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.)

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 was largely unchanged in the Fund: at month-end Double-B rated holdings represented 38.0% of the portfolio, Single-Bs were 51.4% and Triple-Cs were 8.8%.

Outlook

The risk of decelerating global growth led by distress in Europe and slowing in China presents ongoing challenges to investors. Investors will also need to look past weak first quarter earnings for US companies. However, the Fed pivot has alleviated investor concerns that an aggressive tightening cycle would lead to a recession in the US. Investor sentiment continues to focus on trade discussions in the near term and ever-present geopolitical risks. Taken in whole, we expect investors to weigh signs of economic activity and corporate profitability versus interest rate risk. We remain cautiously positive on corporate fundamentals, but recognize that global uncertainty, margin pressures and trade resolution all have important ramifications on earnings quarter to quarter. Post the Q4 selloff, valuations were extremely attractive, which triggered inflows and some retracement of losses. That being said, we believe yields across the high yield market can provide attractive full-year returns with some elevated volatility.

We continue to believe our Short Duration High Yield portfolios are well positioned for the current market environment as they are capturing over 80% of the market yield with less than half 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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www.skyharborglobalfunds.com

SKY HARBOR GLOBAL FUNDS

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Supplementary Information for Swiss Investors

The state of the origin of the fund is Luxembourg. In Switzerland, the Swiss Representative is ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich, whilst the paying agent is Banque Cantonale Vaudoise, Place Saint-François 14, 1001 Lausanne, Switzerland. The Prospectus, the Key Investor Information Documents, the articles of incorporation as well as the annual and semi-annual reports may be obtained free of charge from the Swiss Representative. In respect of the units distributed in or from Switzerland, the place of performance and jurisdiction is at the registered office of the Swiss Representative. Past performance is no indication of current or future performance. The performance data do not take account of the commissions and costs incurred on the issue and redemption of units.