US Short Duration High Yield Fund

July 31, 2019

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

A better-than-expected start to the Q2'19 earnings season, continued mutual fund inflows and dovish central banks around the globe were supportive of somewhat tighter credit spreads for the month. Investors had to wait until the last day of July for the main headline, when the Fed cut rates by 0.25% and Chairman Powell provided comment in his press conference. The market showed some disappointment as expectation for more aggressive easing had worked its way into the market. Despite Energy being the weakest performing sector in the month, Oil was relatively unchanged, with WTI Crude finishing up $0.11/bbl (or 0.19%) to $58.58/bbl. The US dollar was up 0.19% on the month, and the slope of the US Treasury curve flattened slightly as the 2-yr Treasury increased 16 basis points (bps) to 1.92% and the 10-yr Treasury yield increased 2 bps to 2.02%.

Technicals were mixed as inflows contributed to stronger demand, but a robust primary market kept investors from aggressively chasing secondary market risk. High yield mutual funds/ETFs saw inflows of $3.4bn in July, and loan funds experienced continued outflows of $3.3bn, as tracked by Lipper. Net supply on the bond side was positive in the month, as tracked by Barclays, with $24.6bn of new issuance pricing while only $15.3bn in bonds were redeemed or upgraded, for net supply of $9.3bn. The loan primary market decreased as $28.1bn priced during July, according to JP Morgan. The percentage of the high yield bond market trading at distressed levels (below 70% of par) decreased to 4.0%; the comparable figure for the loan market (below 80% of par) remained 3.2%. The par-weighted twelve-month high yield bond default rate was 1.38% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate increased to 1.50%, per JP Morgan.

The ICE BofAML US High Yield Index returned 0.51% in July while the Credit Suisse Leveraged Loan Index returned 0.78%. The yield-to-worst (YTW) for the high yield index decreased 4 bps to 6.00% and spreads decreased 13 bps to 393 bps. By rating, the BB, B and CCC bond sub-indices returned 0.60%, 0.58% and -0.07%, respectively. Most sector returns were positive for the month with Insurance the top performer, returning 2.58%, while Energy was the bottom performer, posting -1.26%. Across risk types (defined by duration and yield to worst) the intermediate-quality part of the market (yielding 6-7%) outperformed the most speculative securities as well as shorter duration, more defensive securities. High yield underperformed large cap equities, represented by the S&P 500's 1.44% return, as well as investment grade corporate bonds, represented by the ICE BofAML US Corporate Index's 0.66% return and small cap equities, represented by the Russell 2000's 0.57% return.

Strategy

SKY Harbor Global Funds–US Short Duration High Yield Fund posted a positive return in July, capturing over 80% of the broad high yield market return (as defined by the ICE BofAML US High Yield Index) on a gross-of-fee basis and excluding currency impact. Risk and duration were rewarded in July, with more speculative securities and longer duration securities outperforming shorter duration, more defensive securities. All sectors posted positive returns in the portfolio with the exception of Energy, which was modestly negative. By rating, lower quality led, with Triple-Cs outperforming Single-Bs and Double-Bs though the dispersion among rating groups was once again minimal.

The YTW on the Fund decreased 11 bps to 4.32% and represented 72% of the broad market yield at month-end. The duration-to-worst was unchanged at 1.5, or 45% of the broad market duration. The average coupon of 6.23% was down slightly from last month's figure and was 14 bps below the average coupon in the broad market. Exclusive of cash, Fund holdings (327 issues, representing 221 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 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 46.8% of the portfolio, Single-Bs were 44.6% and Triple-Cs were 6.3%.

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	$2,679.6mn
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

Outlook

While trade discussions, geopolitical risks and China are likely to continue to impact risk premiums, overall high yield fundamentals and technicals remain generally supportive, in our view. We see growing concern around second half of the year earnings and some increased concerns around the timing of the next cyclical downturn. With the market's recent adjustment to lower Treasury rates and somewhat weakening US manufacturing and other indicators of economic activity, we view high yield spreads as fairly valued and expect credit selection to drive returns on a go-forward basis. Overall, we continue to believe the high yield market can provide attractive full-year returns with some elevated volatility.

In our view, our Short Duration High Yield portfolios remain well positioned for the current market environment as they are capturing over 70% 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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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.