US Short Duration High Yield Fund

November 30, 2018

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

Investors focused on the risks associated with tariffs, the pace and extent of additional US interest rate increases and global oil supplies to rerate companies with cyclical business models or end markets. Selling pressure paused momentarily when Fed Chairman Powell suggested a more dovish outlook and the meeting between China's President Xi and President Trump at the G20 summit resulted in a temporary "ceasefire." Oil, which has larger ramifications for the high yield market, was hit particularly hard with WTI Crude down $14.38/bbl (or 22.02%) to $50.93/bbl. The US dollar was higher, up 0.15% on the month, while risk-free Treasuries rallied to bring rates lower. The slope of the US Treasury curve flattened as the 2-yr Treasury was lower by 4 bps to 2.83% and the 10-yr Treasury yield decreased 15 bps to 3.01%.

Market technicals remained mixed as funds saw continued outflows though new issuance remained low, leading to negative net supply. Loan and high yield funds saw substantial outflows of $2.5bn and $3.7bn, respectively, as tracked by Lipper and reported by Barclays. HY bond new issuance at $6.0bn was offset by $21.7bn in redemptions, for net supply of -$15.7bn, per Barclays. The loan primary market slowed as $36.1bn priced during November, according to JP Morgan. The percentage of the HY bond market trading at distressed levels (below 70% of par) increased to 3.4%; the comparable figure for the loan market (below 80% of par) was 2.6%. The par-weighted twelve-month HY bond default rate was 1.09% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate decreased to 1.56%, per JP Morgan.

The ICE BofAML US High Yield Index returned -0.91% for November while the Credit Suisse Leveraged Loan Index returned -0.82%. The YTW for the HY index increased 35 bps to 7.15% and spreads increased 46 bps to 422 bps. By rating, the BB, B and CCC bond sub-indices returned -0.27%, -0.87% and -3.49%, respectively. Despite a negative month some sectors were positive with Media being the top performer, returning 0.42%, while Energy was the bottom again, posting -3.57%. Across risk types (defined by duration and yield to worst), generally shorter duration, more defensive segments led to the upside while longer-duration, more speculative risk lagged. High Yield underperformed large cap equities, represented by the S&P 500's 2.04% return, as well as small cap equities, represented by the Russell 2000's 1.58% return, and investment grade corporate bonds, represented by the ICE BofAML US Corporate Index's -0.19% return.

Strategy

SKY Harbor Global Funds–US Short Duration High Yield Fund was not immune to the selloff in November, posting a modestly 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. By sector, Retail and Media and Healthcare led with modestly positive returns, while Energy and Automotive lagged. By rating, Double-Bs outperformed Triple-Cs and Single-Bs although all segments were negative.

The YTW on the Fund increased 28 bps to 6.14% and represented 86% of the broad market yield at month-end. The duration-to-worst rose to 2.3, or 56% of the broad market duration. The average coupon of 6.50% was nearly unchanged from last month's figure and was 16 bps above the average coupon in the broad market. Exclusive of cash, Fund holdings (301 issues, representing 216 issuers) comprised 38% bonds with maturities of less than three years and 62% 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	$2,256.3mn
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 was essentially unchanged in the Fund: at month-end Double-B rated holdings represented 37.0% of the portfolio, Single-Bs were 53.3% and Triple-Cs were 8.5%.

Outlook

We recognize that sentiment is poor and liquidity is thin, however, we continue to believe that markets are over-discounting the risk that the US business cycle turns negative. Our greatest conviction remains around strong fundamentals, and despite reduced forward guidance, we expect US corporate profitability to be supportive of improving credit metrics for high yield bond issuers and default rates to remain low. Strong technicals associated with lower issuance on the bond side and strong investor demand on the loan side should also continue to provide support for the market. The market has repriced to a point where the carry provides a compelling relative return even if spreads do not tighten. 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 to take advantage of any potential volatility or curve repricing associated with more aggressive rate assumptions. 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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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, Affolternstrasse 56, 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.