

Monthly Commentary

Market

Major risk factors were largely unchanged over the month. On the trade front, there was significant progress on a unified North American trade agreement with a rebranded NAFTA (USMCA) while tensions regarding trade policy with China remain. As expected, the Federal Open Market Committee (FOMC) implemented its third rate hike for 2018, affirming its positive view of economic growth and labor market conditions. Oil continued moving higher with WTI Crude up \$3.45/bbl (or 4.94%) to \$73.25/bbl, while the US dollar was largely steady on the month. Interest rates rose and the slope of the US Treasury curve was relatively unchanged as the 2-yr Treasury was higher by 19 bps to 2.82% and the 10-yr Treasury yield increased 20 bps to 3.06%.

Technicals were less supportive on the bond side than in recent months, which had benefited from negative net supply to offset bond mutual fund outflows. Loan funds received inflows of \$1.2bn, while high yield mutual funds saw outflows of \$2.3bn. However, net supply shifted from negative to positive, as tracked by Lipper and reported by Barclays, with HY bond new issuance at \$36.4bn in September, offset by only \$1.0bn in redemptions, for net supply of \$25.4bn, per Barclays. The loan primary market slowed slightly, as \$35.0bn priced during September, according to JP Morgan. The percentage of the HY bond market trading at distressed levels (below 70% of par) stayed low at 1.7%; the comparable figure for the loan market (below 80% of par) was also low at 2.0%. The par-weighted twelve-month HY bond default rate was 1.08% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate decreased to 1.77%, per JP Morgan.

The ICE BofAML US High Yield Index returned 0.58% for September while the Credit Suisse Leveraged Loan Index returned 0.68%. The YTW for the HY index decreased 4 bps to 6.22% and spreads decreased 23 bps to 323 bps. By rating, the BB, B and CCC bond sub-indices returned 0.31%, 0.72% and 1.10%, respectively. By sector, Media and Telecommunications were the top performers, both returning 0.88%, while Automotive lagged, returning -0.27%. Across risk types (defined by duration and yield to worst), the highest-yielding, most speculative part of the market led while the better quality, most rate sensitive part of the market lagged. High Yield outperformed large cap equities, represented by the S&P 500's 0.57% return, as well as small cap equities, represented by the Russell 2000's -2.41% return, and investment grade corporate bonds, represented by the ICE BofAML US Corporate Index's -0.33% return.

Strategy

SKY Harbor Global Funds–US Short Duration High Yield Fund posted a positive return in September, capturing over 90% of the broader US high yield market return (as defined by the ICE BofAML US High Yield Index) on a gross-of-fee basis and excluding currency impact. By risk type, the most speculative (yielding in excess of 9%) and longer duration securities led while shorter duration securities lagged. All sectors posted positive returns for the month, led by Retail and Services while Leisure and Utility lagged. By rating, all segments posted positive returns and the dispersion among them was again minimal, with Triple-Cs modestly outperforming Single-Bs and Double-Bs.

The YTW on the Fund decreased 10 bps to 5.13%, representing 82% of the broad market yield at month-end. The duration-to-worst remained unchanged at 1.9, or 47% of the broad market duration. The average coupon of 6.53% decreased modestly from last month's figure and was 18 bps above the average coupon in the broad market. Exclusive of cash, Fund holdings (319 issues, representing 229 issuers) comprised 35% bonds with maturities of less than three years and 65% 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 slightly in the Fund: at month-end Double-B rated holdings represented 35.2% of the portfolio, Single-Bs were 55.5% and Triple-Cs were 9.3%.

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	\$2,398.9mn
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>

Outlook

Our view of high yield market risks and opportunities is largely unchanged from last month-end. Our greatest conviction remains around strong corporate fundamentals with additional support from the strong technicals associated with lower issuance on the bond side and strong investor demand on the loan side. We have acknowledged that valuations are only fair by historical standards and rising rates present potential risks but believe high yield could have further spread compression as investors focus on the strength of the US economy and positive corporate profitability. We expect returns to benefit from the market income opportunity and below-average default losses and expect investors' perception of risk to remain generally unchanged (e.g., recession risks do not rise, etc.). As a result, our positioning has not substantially changed over the last month.

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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Find all fund documents at:
www.skyharborglobalfunds.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.