Short Maturity Sustainable High Yield Bond Fund

April 30, 2020

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

The COVID-19 crisis is not behind us but after the historic selloff in March, markets rebounded in April and High Yield posted its strongest month in over a year. Despite the considerable uncertainty that remains, volatility declined and markets were encouraged by the drastic measures central banks and governments took to reduce the damage created by the economic shutdown. Investors are forward looking and appear to now want to invest for the recovery as we see areas planning to gradually reopen their economies. Despite some big daily rallies in April, and despite Energy being the top-performing sector for the month, Oil continued to be lower as WTI Crude closed the month down $1.64/bbl (or -8.01%) to $18.84/bbl. The US dollar was down 0.03% on the month, and the US Treasury curve was relatively unchanged as the 2-yr Treasury decreased 5 basis points (bps) to 0.20% and the 10-yr Treasury yield decreased 3 bps to 0.64%.

Technicals were mixed in April as big inflows were met with supply as new issuance ramped up. High yield mutual funds/ETFs saw inflows of $15.2bn, while loan funds experienced outflows of $18.9bn, as tracked by Lipper and reported by Barclays. High yield new issuance was $37.3bn, as tracked by Barclays, while $22.6bn in bonds were redeemed or upgraded, leaving net supply at $14.7bn. The percentage of the high yield bond market trading at distressed levels (below 70% of par) decreased to 11.5%; the comparable figure for the loan market (below 80% of par) decreased to 18.7%. The par-weighted twelve-month high yield bond default rate was 5.1% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate increased to a five-year-high of 2.63%, per JP Morgan.

The ICE BofA US High Yield Index returned 3.80% in April while the Credit Suisse Leveraged Loan Index returned 4.29%. The yield-to-worst (YTW) for the high yield index decreased 96 basis point to 8.06% and spreads decreased 96 bps to 763 bps. By rating, the BB, B and CCC bond sub-indices returned 4.78%, 3.31% and 0.54%, respectively. Returns by sector were mixed for the month with Energy the top performer, returning 15.07%, while Transportation was the bottom performer, posting -1.71%. Across risk types (defined by duration and yield to worst) longer duration and more speculative securities outperformed shorter duration, more defensive securities. High yield underperformed investment grade corporate bonds, represented by the ICE BofA US Corporate Index's 5.27% return, as well as large cap equities, represented by the S&P 500's 12.68% return, and small cap equities, represented by the Russell 2000's 13.66% return.

Strategy

SKY Harbor Global Funds–Short Maturity Sustainable High Yield Bond Fund posted a positive return during the rally in April but underperformed the comparative index for the month. The primary driver of underperformance was the Fund's lack of exposure to the Energy sector. Despite oil prices being lower than before the OPEC+ meeting, Energy still lifted the comparative index. Some US producers are also calling for participation, although this remains highly speculative. Global storage around the world appears to be reaching nameplate capacity which would not be resolved despite production cuts. Away from Energy, the Fund's Automotive exposure was also a drag on relative performance. By rating, BB rated credit continues to significantly outperform lower-rated credit, with the YTD return differential between BB and CCC only wider during the 2000-2002 recession and the global financial crisis. Our lack of exposure on Energy is a drag in capture rates though our more speculative CCC issues have picked up some ground. Our goal remains to increase BB and reduce CCC holdings when supported by fundamentals and valuations. By risk type (defined by yield and duration to worst), our more speculative issuers (yielding >9%), excluding energy, have recovered but not to the extent including energy. We believe our higher duration (securities with durations >3) gives us a greater opportunity to potentially participate in a recovering market over time with less negative convexity. Energy may give the more speculative part of the market a near-term advantage, helping to account for the difference in returns month to date, but we do not believe that is a long-term sustainable move. Given the interest rate outlook, we expect to maintain a duration advantage on a relative basis.

Investment Objective

This is an active strategy that seeks to generate favorable risk-adjusted returns over a full market cycle through investing primarily in US dollar denominated, below-investment-grade corporate bonds. The diversified portfolio will be primarily constructed with a focus on current income, preservation of principal and low volatility while giving special consideration to environmental, social and/or governance ("ESG") factors with attention to sustainability leadership, transparency and disclosure of ESG criteria.

Comparison Index

ICE BofA 1-5 Year BB-B US Cash Pay High Yield Constrained Index (JVC4)

Not an index replication strategy. Can materially deviate by including out-of-Index debt securities.

Portfolio Management

Lead PM: David Kinsley, CFA
Anne Yobage, CFA

Fund Detail

Fund Inception	Dec 27, 2018
Fund AUM	$51.3mn
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/shortmaturitysustainablehighyieldbond.shtml

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Strategy (cont.)

The largest positive contributor to returns was Surgery Center Holdings (SURCEN) 10% notes due 2027, which rallied in April on expectations of a phased reopening of the country including elective surgeries combined with additional liquidity from the CARES Act. The largest bottom contributor to monthly returns, Tenneco Inc. 5% notes due 2026, traded down sharply during the month on COVID-19 related shutdowns and the associated negative impact on demand.

At month-end, the YTW on the Fund tightened 100 bps to 6.89%, compared to the index's YTW of 8.26%. Duration-to-worst came down to 2.8, above the index duration of 2.4. The average coupon of 6.26% decreased slightly from the prior month but was 24 bps above the average coupon for the index. By rating, the Fund is modestly lower credit quality with 11.3% of the portfolio currently CCC rated securities. The Fund remains well diversified with 261 issues, representing 184 issuers.

Outlook

We believe that investors have progressively shifted their focus from initially tracking the pace of global COVID-19 metrics, to monitoring fiscal and monetary stimulus measures, to then assessing the impact of shelter-in-place orders on economic activity, to now a vision for what reopening entails for different sectors and regions of the global economy and what new treatment efforts or vaccines are in the pipeline that might mitigate reopening risks.

To support our risk-taking, we are focused on consumer and business behavior as restrictions are lifted around the globe. We believe current positioning suggests good potential market capture to the upside so long as Energy is not the driver of the upside but are mindful that low dollar bonds are likely to gap higher in the absence of further selling pressure. Given the large overhang of investment grade energy downgrades, secular and cyclical demand destruction, and historically low oil prices, we do not see speculative Energy being a driver of sustained upside returns. The bonds of higher-quality leisure-related issuers have the potential to be the driver of returns in a recovering market and we are focused on prudently adding these opportunities.

Our central scenario has not changed. We expect rising default risk in the energy, retail, leisure and potentially transportation sectors despite an eventual stabilization of coronavirus-related impact to demand in the second half of the year. Fiscal and monetary stimulus around the globe appears ready to resize and evolve on an as-needed basis.

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 funds 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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