Short Maturity Sustainable High Yield Bond Fund

August 31, 2020

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

Risk assets continued to be strong in August as investors remained focused on less negative fundamental trends despite persistently high infection rates and a worsening political dialogue in the US. US employment data continued to moderate after a rapid uptick at the start of the coronavirus-induced lockdown. With most of the S&P 500 constituents having reported second quarter earnings, aggregate earnings were 23.1% above expectations and analysts have increased their expectations for third quarter results by 2.6%, the first positive revision since Q1'18. Oil continued to rise in August with WTI Crude closing the month up $2.34/bbl (or 5.81%) to $42.61/bbl. The US dollar was down 1.21% on the month, and the US Treasury curve steepened slightly as the 2-yr Treasury increased 2 basis points (bps) to 0.13% and the 10-yr Treasury yield increased 18 bps to 0.71%.

Technicals were mixed in the month. High Yield mutual funds/ETFs registered their 5th consecutive month of inflows ($8.0bn), while loan funds experienced their 23rd consecutive month of outflows ($1.3bn), as tracked by Lipper and reported by Barclays. High yield new issuance was $51.3bn, as tracked by Barclays, while $27.5bn in bonds were redeemed or upgraded, leaving net supply at $23.8n. Net issuance is up 94% vs the first eight months of 2019 although issuance has been largely focused on refinancing existing high yield debt and generally higher rated. The percentage of the high yield bond market trading at distressed levels (below 70% of par) decreased to 4.5%; the comparable figure for the loan market (below 80% of par) decreased to 7.6%. The par-weighted twelve-month high yield bond default rate was 7.2% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate ended May at a ten-year-high of 4.38%, per JP Morgan.

The ICE BofA US High Yield Index returned 0.98% in August while the Credit Suisse Leveraged Loan Index returned 1.50%. The yield-to-worst (YTW) for the high yield index decreased 2 basis point to 5.35% and spreads decreased 7 bps to 501bps. By rating, the BB, B and CCC bond sub-indices returned 0.63%, 0.94% and 2.85%, respectively. Returns were positive across all sectors for the month with Transportation the top performer, returning 3.90%, while Consumer Goods was the bottom performer, posting 0.20%. Across risk types (defined by duration and yield to worst) longer duration and more speculative securities outperformed shorter duration, more defensive securities. High yield outperformed investment grade corporate bonds, represented by the ICE BofA US Corporate Index's -1.15% return, but underperformed small cap equities, represented by the Russell 2000's 5.50% return, as well as large cap equities, represented by the S&P 500's 7.01% return.

Strategy

SKY Harbor Global Funds–Short Maturity Sustainable High Yield Bond Fund posted a positive return in August but underperformed the comparative index for the month. By risk segment, allocation was a source of underperformance, primarily within the most speculative securities, while security selection was in line with the comparative index. The primary driver of underperformance was the Fund's lack of exposure to the Energy sector. While Energy may give the more speculative part of the market a near-term advantage, we do not believe that is a long-term sustainable move. Away from Energy, security selection within Basic Industry and Media were positive sources of relative performance. By rating, lower quality led, with Triple-Cs outperforming Single-Bs and Double-Bs. Looking forward, we continue to focus on the best risk-adjusted opportunities, which given today's themes is trying to take advantage of smaller issue liquidity premium, bonds trading in the 2-4 portion of the duration curve and incrementally increasing cyclical exposures.

The largest positive contributor to returns was FXI Holdings 7.875% notes due 2024, which traded up during the month on strong Q4 results. The largest bottom contributor to monthly returns, Triumph Group 6.25% notes due 2024, traded lower on negative sentiment around future aircraft demand and pressure from new issuance to the capital structure.

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	$59.8 mn
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

Strategy (cont.)

At month-end, the YTW on the Fund rose 10 bps to 4.69%, compared to the index's YTW of 4.56%. Duration-to-worst remained unchanged at 2.0, in line with the index duration. The average coupon of 6.44% increased slightly from the prior month and was 46 bps above the average coupon for the index. By rating, the Fund is modestly lower credit quality with 14.3% of the portfolio currently CCC rated securities. The Fund remains well diversified with 250 issues, representing 178 issuers.

Outlook

Investors have been focused on the timing and pace of an economic recovery and have been willing to ignore potential risks around trade relations with China, large US deficits, and the potential for a changing political landscape. Current investor surveys suggest that investor concerns regarding the US election have increased and now are the leading identified source of concern. Market volatility around election outcome probabilities will increase and risks are likely to reprice themselves according to how well they are expected to fare with different election outcomes. Our positioning is evolving towards those sectors where those risks are either over-discounted or under-discounted.

Our central scenario has not changed. We expect elevated default risk in the Energy, Retail, Leisure, and potentially the Transportation sectors despite an eventual stabilization of coronavirus-related impact to demand in the second half of the year. Defaults away from these key sectors appears to be rapidly declining as markets are willing to bridge many stressed capital structures to the time when end market demand is sufficiently robust. Fiscal and monetary stimulus around the globe appears ready to resize and evolve on an as-need basis and development of both a treatment protocol and a vaccine appears to be likely. Importantly, high yield debt issuers have managed an unprecedented decline in economic activity more aptly than expected, leading to widespread upside earnings surprise for the second quarter and increased visibility around second half of the year fundamentals. The search for yield and moderating hedge costs for non-USD investors has been supportive of demand for high yield credit which has supported technicals despite historically high new issuance.

We expect further spread compression although the path to tighter spreads will likely be less of a grind tighter and more episodic in nature. Credit picking remains a key driver of excess returns given the high level of dispersion in the market. Where possible, we are biased towards positions in smaller sized issues versus large ETF driven issues that have tightened beyond fair value based upon our assessment. Cyclicals also in general appear to offer attractive relative value over defensive sectors and secured versus unsecured suggest outperformance for secured bonds moving forward. 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 secular and cyclical demand destruction, and historically low oil prices, we do not see speculative Energy being a driver of sustained upside returns.

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

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