

## Monthly Commentary

### Market

The drivers behind the January rally in risk assets continued to move risk assets higher in February. The release of the minutes from the January Federal Open Market Committee (FOMC) meeting reconfirmed a dovish and highly data-dependent Fed. Q4 earnings were largely better than low expectations, and markets took comfort in the end of the partial government shutdown and further positive rhetoric concerning the US/China trade agreement. Like the prior month, commodities continued to move higher with WTI Crude finishing up \$3.43/bbl (or 6.38%) to \$57.22/bbl. The US dollar was up 0.61% on the month, and the slope of the US Treasury curve was relatively unchanged as the 2-yr Treasury was higher by 6 basis points (bps) to 2.53% and the 10-yr Treasury yield increased 8 bps to 2.72%.

Also continuing the trend from January, high yield mutual funds and ETFs saw inflows of \$6.2bn while loan funds experienced outflows of \$2.7bn in February. Despite steady inflows, net supply was positive in the month, as tracked by Lipper and reported by Barclays, with \$20.1bn of new issuance pricing while \$11.8bn in bonds were redeemed or upgraded, for net supply of \$8.3bn. The loan primary market picked up in the month as \$24.9bn priced during February, according to JP Morgan. The percentage of the high yield bond market trading at distressed levels (below 70% of par) decreased to 3.6%; the comparable figure for the loan market (below 80% of par) was 2.8%. The par-weighted twelve-month high yield bond default rate was 0.88% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate decreased to 0.95%, per JP Morgan.

The ICE BofAML US High Yield Index returned 1.69% for February and the ICE BofAML 1-5 Year BB-B US Cash Pay High Yield Constrained Index returned 1.30%. The yield-to-worst (YTW) for the broad high yield index decreased 34 bps to 6.52% and spreads decreased 41 bps to 389 bps. By rating, the BB, B and CCC bond sub-indices returned 1.63%, 1.67% and 1.99%, respectively. By sector, returns were mostly positive for the month with Utility the top performer, returning 2.60%, while Transportation was the bottom performer and only negative sector, posting -0.36%. Across risk types (defined by duration and yield to worst), longer duration securities outperformed shorter duration, more defensive securities in February. High yield underperformed large cap equities, represented by the S&P 500's 3.21% return, as well as small cap equities, represented by the Russell 2000's 5.19% return, but outperformed investment grade corporate bonds, represented by the ICE BofAML US Corporate Index's 0.36% return.

### Strategy

Since launch at year-end, SKY Harbor Global Funds–Short Maturity Sustainable High Yield Bond Fund has emphasized investing in companies that reflect sustainable business models and future-focused initiatives, while underweighting or avoiding those that have negative externalities or poor adaptation prospects. We have targeted companies that score more highly in our internal ESG value rubric, which allowed us to achieve higher relative ESG scores than the benchmark while still constructing a portfolio to appropriately balance risk and return on both an absolute and relative to the benchmark basis.

In February the Fund performed in line with the benchmark on a gross-of-fee basis and excluding currency impact. By risk type, security selection was a source of outperformance while allocation was a source of underperformance. The primary drivers of underperformance were cash drag and transaction costs resulting from large inflows at the beginning of the month. Absent those factors, selection across risk factors contributed to strong absolute and relative performance. By sector, selection in Media and Basic Materials were sources of outperformance, partially offset by weaker selection in Healthcare and the exclusion of the Energy sector, which outperformed the Index.

### Investment Objective

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.

### Benchmark

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

### Portfolio Management

Lead PM: David Kinsley, CFA  
Kateryna Kukuruza

### Fund Detail

Fund Inception	Dec 27, 2018
Fund AUM	\$18.0mn
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.)

The largest positive contributor to returns was Clearwater Paper (CLW) 4.375% notes due 2023, which traded higher in concert with the BB rally. The largest bottom contributor Northwest Acquisitions (NORACQ) 7.125% due 2022, which traded down on concerns of a challenging operating environment impacting earnings.

The YTW on the Fund at month-end was 5.13% compared to the benchmark's YTW of 5.40%. The duration-to-worst was 2.0 versus 2.1 for the benchmark. The average coupon of 6.20% was slightly higher compared to the benchmark's 6.11%. Despite the investment restrictions, the Fund remains well diversified with 265 issues, representing 187 issuers. By rating, the Fund is modestly lower credit quality with 4.8% of the portfolio comprised of out-of-benchmark CCC rated securities.

## Outlook

Central risks we have identified have not materially changed despite the market rally. We remain concerned about the risk of decelerating global growth led by distress in Europe and slowing in China. Investors will also need to look past weak first quarter earnings for US companies. However, the Fed pivot has alleviated investor concerns that an aggressive tightening cycle would lead to a recession in the US. Investor sentiment continues to focus on trade discussions in the near term and ever-present geopolitical risks. Taken in whole, we expect investors to weigh signs of economic activity and corporate profitability versus overall valuations. We remain cautiously positive on corporate fundamentals but recognize that first quarter earnings are likely to be weak due to margin pressures in a number of sectors and tough prior-year comparisons. Post the Q4'18 selloff, valuations were extremely attractive, which triggered inflows and retracement of losses such that this has been one of the strongest starts to the market in history. Today, valuations are less attractive, although still better than the tight spreads we saw in late Q3 last year and appropriate for this point in the economic cycle. Overall, we continue to believe the high yield market can provide attractive full-year returns with some elevated volatility.

From a risk perspective, the Short Maturity Sustainable High Yield portfolio is most overweight securities that we believe will fundamentally improve over the next 2-4 quarters such that those securities will be either called or trading to near-term calls in that time frame. Even though strong market technicals have tightened yields to near October tightness, we remain significantly underweight the most speculative part of the market. We believe we are well positioned to use volatility to continue to add attractive companies and industry groups that are best positioned for sustainable growth in an aging economic cycle. Based on our view of risks and valuations across the market, we continue to believe the short duration portion of the market is attractive given its above-average yield capture relative to the overall high yield market (~80%), lower relative duration and typically more defensive nature in volatile market periods.

## 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](http://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.