Short Maturity Sustainable High Yield Bond Fund

July 31, 2019

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

A better-than-expected start to the Q2'19 earnings season, continued mutual fund inflows and dovish central banks around the globe were supportive of somewhat tighter credit spreads for the month. Investors had to wait until the last day of July for the main headline, when the Fed cut rates by 0.25% and Chairman Powell provided comment in his press conference. The market showed some disappointment as expectation for more aggressive easing had worked its way into the market. Despite Energy being the weakest performing sector in the month, Oil was relatively unchanged, with WTI Crude finishing up $0.11/bbl (or 0.19%) to $58.58/bbl. The US dollar was up 0.19% on the month, and the slope of the US Treasury curve flattened slightly as the 2-yr Treasury increased 16 basis points (bps) to 1.92% and the 10-yr Treasury yield increased 2 bps to 2.02%.

Technicals were mixed as inflows contributed to stronger demand, but a robust primary market kept investors from aggressively chasing secondary market risk. High yield mutual funds/ETFs saw inflows of $3.4bn in July, and loan funds experienced continued outflows of $3.3bn, as tracked by Lipper. Net supply on the bond side was positive in the month, as tracked by Barclays, with $24.6bn of new issuance pricing while only $15.3bn in bonds were redeemed or upgraded, for net supply of $9.3bn. The loan primary market decreased as $28.1bn priced during July, according to JP Morgan. The percentage of the high yield bond market trading at distressed levels (below 70% of par) decreased to 4.0%; the comparable figure for the loan market (below 80% of par) remained 3.2%. The par-weighted twelve-month high yield bond default rate was 1.38% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate increased to 1.50%, per JP Morgan.

The ICE BofAML US High Yield Index returned 0.51% in July while the Credit Suisse Leveraged Loan Index returned 0.78%. The yield-to-worst (YTW) for the high yield index decreased 4 bps to 6.00% and spreads decreased 13 bps to 393 bps. By rating, the BB, B and CCC bond sub-indices returned 0.60%, 0.58% and -0.07%, respectively. Most sector returns were positive for the month with Insurance the top performer, returning 2.58%, while Energy was the bottom performer, posting -1.26%. Across risk types (defined by duration and yield to worst) the intermediate-quality part of the market (yielding 6-7%) outperformed the most speculative securities as well as shorter duration, more defensive securities. High yield underperformed large cap equities, represented by the S&P 500's 1.44% return, as well as investment grade corporate bonds, represented by the ICE BofAML US Corporate Index's 0.66% return and small cap equities, represented by the Russell 2000's 0.57% return.

Strategy

SKY Harbor Global Funds–Short Maturity Sustainable High Yield Bond Fund posted a solid return in July, outperforming the ICE BofAML 1-5 Year BB-B US Cash Pay High Yield Constrained Index (the comparison index), including currency hedged share classes. By risk type, both security selection and allocation were positive contributors to relative performance. The primary drivers of performance were an underweight to the most speculative part of the market (yielding > 9%) as well as strong selection in the longer duration securities and more speculative securities. By sector, lack of exposure to bottom-performing Energy was a driver of outperformance but was partially offset by an underweight to higher-performing Insurance.

The largest positive contributor to returns was Weight Watchers Intl (WTW) 8.625% notes due 2025, which traded up in July on stabilized subscriber trends and improved investor sentiment. The largest bottom contributor was CommScope Inc. (COMM) 5.5% notes due 2024, which traded down on lowered expectations for cable operator capital spending, which could delay the company's plans to reduce leverage.

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.

Comparison Index

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

Not an index replication strategy

Portfolio Management

Lead PM: David Kinsley, CFA
Kateryna Kukuruza

Fund Detail

Fund Inception	Dec 27, 2018
Fund AUM	$35.8mn
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

ESG
LUXFLAG Label

Strategy (cont.)

At month-end, the YTW on the Fund had decreased 16 bps to 4.35%, compared to the index's YTW of 4.88%. Duration-to-worst was unchanged at 1.8, slightly below the index duration of 1.9. The average coupon of 6.18% was down modestly from last month but was 14 bps above the average coupon for the index. Despite investment restrictions, the Fund remains well diversified with 303 issues, representing 194 issuers. By rating, the Fund is modestly lower credit quality with 6.4% of the portfolio currently CCC rated securities.

Outlook

While trade discussions, geopolitical risks and China are likely to continue to impact risk premiums, overall high yield fundamentals and technicals remain generally supportive, in our view. We see growing concern around second half of the year earnings and some increased concerns around the timing of the next cyclical downturn. With the market's recent adjustment to lower Treasury rates and somewhat weakening US manufacturing and other indicators of economic activity, we view high yield spreads as fairly valued and expect credit selection to drive returns on a go-forward basis. 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 Bond Fund portfolio remains overweight securities that we believe will fundamentally improve over the next 2-4 quarters and will likely be either called or trading to near-term calls in that time frame. Given the change in monetary policy expectations, we continue to target higher duration securities (within the context of short duration) when valuations are supportive of the increase in duration. 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 (>70%), 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.

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A Message to Investors

Supplementary Information for Swiss Investors