Short Maturity Sustainable High Yield Bond Fund

September 30, 2020

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

After five straight months of positive returns, risk assets hit a speedbump and High Yield turned negative in the month of September. Markets reacted negatively with increased concerns around the global economy as virus cases increased throughout the world. Also weighing heavily on the markets is the contention around the upcoming US elections as well as the decreasing likelihood for the US to pass a second stimulus package. After rising for 4 straight months, Oil took a hit in September with WTI Crude closing the month down $2.39/bbl (or 5.61%) to $40.22/bbl bringing the Energy sector down with it. The US dollar was up 1.89% on the month, and the US Treasury curve was relatively unchanged as the 2-yr Treasury remained at .13% and the 10-yr Treasury yield decreased 2 bps to 0.69%.

Technicals were a headwind in September with funds seeing outflows and we continued to have a heavy supply of new issuance. High Yield mutual funds/ETFs saw outflows of $7.7bn, while loan funds experienced outflows of $1.8bn, as tracked by Lipper and reported by Barclays. High yield new issuance was $45.5bn, as tracked by Barclays, while $27.9bn in bonds were redeemed or upgraded, leaving net supply at $17.6bn. The percentage of the high yield bond market trading at distressed levels (below 70% of par) remained at 4.5%; the comparable figure for the loan market (below 80% of par) decreased to 6.6%. The par-weighted twelve-month high yield bond default rate was unchanged at 7.2% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate ended May at a five-year-high of 4.26%, per JP Morgan.

The ICE BofA US High Yield Index returned -1.04% in September while the Credit Suisse Leveraged Loan Index returned 0.69%. The yield-to-worst (YTW) for the high yield index increased 35 bps to 5.70% and spreads increased 34 bps to 535 bps. By rating, the BB, B and CCC bond sub-indices returned -1.42%, -0.90% and 0.43%, respectively. Returns were mixed across sectors for the month with Transportation the top performer, returning 0.37%, while Energy was the bottom performer, posting -4.2%. Across risk types (defined by duration and yield to worst), more speculative securities outperformed while longer duration securities lagged. High yield underperformed investment grade corporate bonds, represented by the ICE BofA US Corporate Index's -0.26% return, but outperformed small cap equities, represented by the Russell 2000's -3.47% return, as well as large cap equities, represented by the S&P 500's -3.92% return.

Strategy

SKY Harbor Global Funds–Short Maturity Sustainable High Yield Bond Fund posted a slightly negative return for September but significantly outperformed the comparative index. By risk segment, security selection and to a lesser extent, allocation were positive sources of relative performance. The primary driver of outperformance was strong security selection within the longest duration (within the context of short duration) securities. By sector, the primary driver of outperformance was the Fund's lack of exposure to the Energy sector. Outperformance was slightly reduced by our exposure to the bottom-performing Leisure sector which was hurt by concerns of a "second wave" of infections. By rating, the fund benefitted from its lower quality exposure, 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 Tenet Healthcare (THC) 8.125% notes due 2022 which traded up during the month on solid Q3 results. The largest bottom contributor to monthly returns, Meredith Corp. (MDP) 6.875% notes due 2026, traded off in September as a higher beta name in a weak market.

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	$59.6 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

ESG
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Strategy (cont.)

At month-end, the YTW on the Fund rose 59 bps to 5.28%, compared to the index's YTW of 5.00%. Duration-to-worst remained increased to 2.3, slightly above the index duration of 2.2. The average coupon of 6.56% increased 12 bps from the prior month and was 54 bps above the average coupon for the index. By rating, the Fund is modestly lower credit quality with 15.1% of the portfolio currently CCC rated securities. The Fund remains well diversified with 238 issues, representing 173 issuers.

Outlook

Investor surveys suggest that credit investors have been most focused on the upcoming election, having shifted from a focus on the timing and pace of an economic recovery. 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 evolved towards sectors where those risks are either over- or under-discounted.

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 over time. Defaults away from these key sectors appear 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 appear ready to resize and evolve on an as-needed basis and development of both a coronavirus treatment protocol and a vaccine appear likely. Spread compression is likely to continue as a result. We believe the market has excess return opportunity associated with credit picking given the high level of dispersion in the market and are managing our portfolios with the expectations of improving earnings over the next 12 months.

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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