US High Yield Fund

April 30, 2019

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

Positive economic data and a better-than-expected start to Q1 earnings propelled markets higher for a fourth consecutive month. Stronger ISM PMI, non-farm payrolls and Q1 GDP provided further evidence of a relatively stable US economy. US-China trade discussions continued although a mutually acceptable trade deal needs to resolve many complex issues and is not without risks, as we are seeing this month. Minutes released by the Federal Reserve did not alter the market's view of limited near-term interest rate risk. The highly anticipated Mueller report was released at month-end but was not viewed as a source of market risk. For the fourth month in a row, commodities moved higher with WTI Crude finishing up $3.77/bbl (or 6.27%) to $63.91/bbl. The US dollar was up 0.20% on the month, and the slope of the US Treasury curve steepened slightly as the 2-yr Treasury remained the same at 2.29% and the 10-yr Treasury yield increased 9 bps to 2.51%.

Continuing this year's trend, high yield mutual funds and ETFs saw inflows of $2.8bn while loan funds experienced outflows of $2.6bn in April, as tracked by Lipper. Net supply on the bond side turned negative in the month, as tracked by Barclays, with $17.6bn of new issuance pricing while $19.9bn in bonds were redeemed or upgraded, for net supply of -$2.3bn. The loan primary market slowed slightly as $24.2bn priced during April, according to JP Morgan. The percentage of the high yield bond market trading at distressed levels (below 70% of par) decreased to 3.2%; the comparable figure for the loan market (below 80% of par) was at 3.0%. The par-weighted twelve-month high yield bond default rate was 0.69% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate increased to 1.29%, per JP Morgan.

The ICE BofAML US High Yield Index returned 1.40% in April while the Credit Suisse Leveraged Loan Index returned 1.59%. The yield-to-worst (YTW) for the high yield index decreased 22 bps to 6.16% and spreads decreased 26 bps to 372 bps. By rating, the BB, B and CCC bond sub-indices returned 1.08%, 1.51% and 2.27%, respectively. Returns were positive for all sectors this month with Retail the top performer, returning 2.62%, while Utility was the bottom performer, posting 0.59%. Across risk types (defined by duration and yield to worst) more speculative and longer duration securities outperformed shorter duration, more defensive securities. High yield underperformed large cap equities, represented by the S&P 500's 4.05% return, as well as small cap equities, represented by the Russell 2000's 3.40% return, but outperformed investment grade corporate bonds, represented by the ICE BofAML US Corporate Index's 0.56% return.

Strategy

SKY Harbor Global Funds–US High Yield Fund modestly outperformed the benchmark in April on a gross-of-fee basis and excluding currency impact. By risk type, both security selection and allocation were sources of outperformance. The primary drivers of relative performance were strong selection within the shortest duration parts of the market and intermediate risk part of the market (yielding 7-8%). These were partially offset by weaker selection within the most speculative risk segment and the better-quality, more rate-sensitive part of the market. By sector, strong selection in Basic Industry and Capital Goods were sources of outperformance, partially offset by weaker selection in Energy and Retail.

The largest positive contributor to returns was Brand Industrial Services (BRANDI) 8.5% notes due 2025, which traded up during the month on positive Q4'18 results. Last month's largest contributor, Townsquare Media Inc. (TSQ) 6.5% notes due 2023, was again a top contributor. The largest bottom contributor was Ahern Rentals (AHEREN) 7.375% notes due 2023, which traded down on concerns surrounding the company's capital allocation plans. Last month's bottom contributor, Cleaver-Brooks Inc. (CLEAVB) 7.875% notes due 2023 rebounded sharply and was a top contributor in April.

Investment Objective

To outperform the broad US high yield market over a full market cycle with less volatility through investing across the full maturity spectrum of the US below-investment-grade debt market. The Fund principally invests in a diversified portfolio of high yield debt securities issued by companies domiciled or listed in the US.

Benchmark

ICE BofAML US High Yield Index (H0A0)

Portfolio Management

Lead PM: Hannah H. Strasser, CFA
Trevor Kaufman, CFA

Fund Detail

Fund Inception	Apr 05, 2012
Fund AUM	$68.6mn
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/ushighyield.shtml

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Outlook

Near-term economic risks remain muted, while trade discussions and geopolitical risks continue to lead headlines. The risk of a failed deal with China, which has strong implications for growth both domestically and internationally, dominates investors' perception of risk drivers. Thus far, Q1 earnings are coming in better than weak expectations, although companies that miss expectations are being punished more harshly on average. While trade discussions and geopolitical risks are likely to continue to impact risk premiums, overall high yield fundamentals and technicals remain supportive, in our view. Given the balance of risks and opportunities, we see 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.

Our Broad High Yield Market portfolios remain underweight the better-quality, more rate-sensitive segment of the market in favor of credit picking among the higher-yielding part of the market and an overweight to the defensive short duration parts of the market. We continue to use volatility and the primary market to reduce our current underweight to higher-rated longer duration bonds with a focus on those industry groups that are best positioned for sustainable growth in an aging economic cycle. We have substantially reduced our exposure to US housing, the Energy sector and industries that have a high degree of sensitivity to Chinese growth. Our BHYM portfolios remain more concentrated in high conviction holdings than has been the case in recent years and are benefiting from outperformance by this part of the portfolio generally. Based on our view of risks and valuations across the market, we continue to believe Single-B rated credit offers the best opportunity for attractive returns through credit picking.

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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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.