US High Yield Fund

April 30, 2020

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

The COVID-19 crisis is not behind us but after the historic selloff in March, markets rebounded in April and High Yield posted its strongest month in over a year. Despite the considerable uncertainty that remains, volatility declined and markets were encouraged by the drastic measures central banks and governments took to reduce the damage created by the economic shutdown. Investors are forward looking and appear to now want to invest for the recovery as we see areas planning to gradually reopen their economies. Despite some big daily rallies in April, and despite Energy being the top-performing sector for the month, Oil continued to be lower as WTI Crude closed the month down $1.64/bbl (or -8.01%) to $18.84/bbl. The US dollar was down 0.03% on the month, and the US Treasury curve was relatively unchanged as the 2-yr Treasury decreased 5 basis points (bps) to 0.20% and the 10-yr Treasury yield decreased 3 bps to 0.64%.

Technicals were mixed in April as big inflows were met with supply as new issuance ramped up. High yield mutual funds/ETFs saw inflows of $15.2bn, while loan funds experienced outflows of $18.9bn, as tracked by Lipper and reported by Barclays. High yield new issuance was $37.3bn, as tracked by Barclays, while $22.6bn in bonds were redeemed or upgraded, leaving net supply at $14.7bn. The percentage of the high yield bond market trading at distressed levels (below 70% of par) decreased to 11.5%; the comparable figure for the loan market (below 80% of par) decreased to 18.7%. The par-weighted twelve-month high yield bond default rate was 5.1% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate increased to a five-year-high of 2.63%, per JP Morgan.

The ICE BofA US High Yield Index returned 3.80% in April while the Credit Suisse Leveraged Loan Index returned 4.29%. The yield-to-worst (YTW) for the high yield index decreased 96 basis point to 8.06% and spreads decreased 96 bps to 763 bps. By rating, the BB, B and CCC bond sub-indices returned 4.78%, 3.31% and 0.54%, respectively. Returns by sector were mixed for the month with Energy the top performer, returning 15.07%, while Transportation was the bottom performer, posting -1.71%. Across risk types (defined by duration and yield to worst) longer duration and more speculative securities outperformed shorter duration, more defensive securities. High yield underperformed investment grade corporate bonds, represented by the ICE BofA US Corporate Index's 5.27% return, as well as large cap equities, represented by the S&P 500's 12.68% return, and small cap equities, represented by the Russell 2000's 13.66% return.

Strategy

SKY Harbor Global Funds–US High Yield Fund underperformed the benchmark during the month of April. Performance for the month was most impacted by the underweight to the Energy sector, although some small benefit was associated with strong security selection in the sector. The Fund benefited on the positive side by its overweight position and strong security selection within the Healthcare sector. The Fund's underweight to the Telecom sector and strong security selection in that sector was also a significant source of positive relative performance. Security selection within Services was also a positive for relative performance although the net positive was reduced by our significant overweight as this sector lagged the market. By rating, bifurcation in the market was a dominant theme throughout the month and BB rated credit significantly outperformed lower-rated credit. We were poorly positioned relative to ratings although our CCC rated holdings outperformed the overall market. The Fund's BB weight is steadily moving higher although we are disciplined with respect to valuation as investors crowd into higher-rated risk. By risk segment, the Fund's more speculative holdings outperformed for the month and have been a significant contributor to overall returns, offset by the lack of speculative energy-related holdings. Our short duration holdings have lagged their market cohort. Cash was a positive contributor although transaction costs associated with investing in a market with wide bid-ask spreads generally offset the value of cash inflows.

Investment Objective

This is an active strategy that seeks 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)

At least 2/3 of the Fund's debt security holdings will be components of the H0A0 Index, but the Investment Manager may use its discretion to invest in companies or sectors with different weights than the Index or are included in the Index in order to take advantage of specific investment opportunities.

Portfolio Management

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

Fund Detail

Fund Inception	Apr 05, 2012
Fund AUM	$108.6mn
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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Strategy (cont.)

The largest positive contributor to returns was Weight Watchers Intl (WW) 8.625% notes due 2025, which traded up during the month on strong Q1 2020 earnings driven by the successful launch of the company's new myWW program. Last month's top contributor, CSC Holdings (CSCHLD) 6.5% notes due 2029 was up modestly again in April. The largest bottom contributor to monthly returns was auto manufacturer Tenneco Inc. 5% notes due 2026, which traded down sharply on COVID19 related shutdowns and the associated negative impact on demand. Last month's bottom contributor, Hertz Corp (HTZ) 7.125% notes due 2026, was liquidated during the month.

Outlook

We believe that investors have progressively shifted their focus from initially tracking the pace of global COVID-19 metrics, to monitoring fiscal and monetary stimulus measures, to then assessing the impact of shelter-in-place orders on economic activity, to now a vision for what reopening entails for different sectors and regions of the global economy and what new treatment efforts or vaccines are in the pipeline that might mitigate reopening risks.

To support our risk-taking, we are focused on consumer and business behavior as restrictions are lifted around the globe. 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 large overhang of investment grade energy downgrades, secular and cyclical demand destruction, and historically low oil prices, we do not see speculative Energy being a driver of sustained upside returns. The bonds of higher-quality leisure-related issuers have the potential to be the driver of returns in a recovering market and we are focused on prudently adding these opportunities.

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 in the second half of the year. Fiscal and monetary stimulus around the globe appears ready to resize and evolve on an as-needed basis.

While we acknowledge strong relative performance during this period of volatility, we are mindful that "pensioners cannot eat relative returns" when those relative returns are negative. As a result, we are highly focused on preservation of principal and creating a sustainable income stream that rewards our investors for their risk-taking.

We believe in the resilience of the people that are behind markets and economies and we are ourselves optimistic by nature. That said, the reality of the moment is without precedent and we will continue to be as transparent around risks and opportunities as possible as we move deliberately forward investing funds on behalf of our clients around the globe.

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.

Contact

info@skyhcm.com
+49 69 75938622
+1 203 769 8800
Find all fund documents at:
www.skyharborglobalfunds.com

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