US High Yield Fund

December 31, 2019

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

Investors generally shrugged off US political drama and focused on the US/China phase-one trade deal, and, to a lesser degree, the approval of a US Budget which avoided a replay of last year's disastrous government shutdown. The High Yield market participated in the year-end rally in risk assets and was, in fact, led higher by the Energy sector. The Energy sector had spent most of the year in the red but reversed course with WTI Crude Oil closing December up $5.89/bbl (or 10.68%) to $61.06/bbl and investors starting to be lured in by discounted valuations. The US dollar was down 1.92% on the month, and the US Treasury curve steepened as the 2-yr Treasury decreased 5 basis points (bps) to 1.58% and the 10-yr Treasury yield increased 12 bps to 1.91%.

Technicals were positive in December on the basis of negative net supply for the month. High yield mutual funds/ETFs saw inflows of $1.3bn, while loan funds experienced outflows of $1.8bn, as tracked by Lipper. High yield new issuance was $19.6bn, as tracked by Barclays, while $21.0bn in bonds were redeemed or upgraded, leaving net supply at -$1.4bn. The loan primary market slowed as $38.0bn priced during December, according to JP Morgan. The percentage of the high yield bond market trading at distressed levels (below 70% of par) decreased to 4.6%; the comparable figure for the loan market (below 80% of par) decreased to 4.4%. The par-weighted twelve-month high yield bond default rate was 2.04% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate increased to 1.64%, per JP Morgan.

The ICE BofA US High Yield Index returned 2.09% in December while the Credit Suisse Leveraged Loan Index returned 1.61%. The yield-to-worst (YTW) for the high yield index decreased 42 basis point to 5.37% and spreads decreased 40 bps to 359 bps. By rating, the BB, B and CCC bond sub-indices returned 1.25%, 2.10% and 5.65%, respectively. Returns were positive for all sectors in December with Energy the top performer, returning 5.60%, while Real Estate was the bottom performer, posting 0.73%. Across risk types (defined by duration and yield to worst) the most speculative part of the market outperformed the shorter duration, more defensive part of the market. High yield underperformed large cap equities, represented by the S&P 500's 3.01% return, as well as small cap equities, represented by the Russell 2000's 2.88% return, but outperformed investment grade corporate bonds, represented by the ICE BofA US Corporate Index's 0.32% return.

Strategy

SKY Harbor Global Funds–US High Yield Fund underperformed the benchmark in December. By risk type, security selection was a source of outperformance while allocation was a source of underperformance. The primary driver of relative performance was an underweight to the most speculative part of the market (yielding >9%) and to a lesser extent, an overweight to the lower-performing, short duration part of the market. Underperformance was partially offset by an underweight to the most rate sensitive, better-quality part of the market as well as strong security selection within the short duration part of the market. By sector, strong security selection in Media and Consumer Goods were sources of outperformance but were offset by an underweight to top-performing Energy and weaker selection in Healthcare.

The largest positive contributor to returns was Quad Graphics Inc. (QUAD) 7% notes due 2022, which rallied in December after trading down sharply in October and November following Q2 earnings. Last month's top contributor, Weight Watchers Inc. (WW) 8.625% notes due 2025, was among top contributors again. The largest bottom contributor to monthly returns was Vizient Inc. (VIZIEN) 6.25% notes due 2027, which normalized during the month after peaking at the end of November following solid Q3 earnings. Last month's bottom contributor, Party City Holdings Inc. (PRTY) 6.625% notes due 2026, was liquidated during the month.

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 BofA 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	$77.8mn
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/ushighyield.shtml

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Outlook

Our Broad High Yield Market (BHYM) portfolios are modestly underweight the better-quality, lower-yielding 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 focus on those industry groups that are best positioned for sustainable growth in an aging economic cycle. We remain underweight the Energy sector and industries that have a high degree of sensitivity to Chinese growth, and are generally biased towards US consumer driven industries and companies with a high degree of US revenue. Our BHYM portfolios remain more concentrated in high conviction holdings. Based on our view of risks and valuations across the market, we continue to believe Single-B rated credit and short duration risk offers the best opportunity for attractive returns through credit picking.

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 acknowledge 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.

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.