US High Yield Fund

January 31, 2019

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

Sentiment reversed and risk assets rallied sharply in January, leading High Yield to its highest returning month in almost three years. Despite continuing political uncertainty, markets were able to shrug off the longest partial US government shutdown in history and recover almost all the losses from 2018's fourth quarter. Markets reacted positively to the more dovish tone set by the Federal Reserve, as Fed Chairman Powell indicated on multiple occasions that they would be more patient with further rate hikes. The recovery was also boosted by better-than-expected corporate earnings, ongoing US-China trade discussions and rising commodity prices, specifically oil. The sharp rise in oil prices was a large contributor to the positive month with WTI Crude finishing January up $8.38/bbl (or 18.45%) to $53.79/bbl, leading Energy to be the top-performing sector. The US dollar was lower, down 0.62% on the month, and the slope of the US Treasury curve was relatively unchanged as the 2-yr Treasury was lower by 3 basis points (bps) to 2.47% and the 10-yr Treasury yield decreased 6 bps to 2.64%.

Counter to the trend in 2018, High Yield mutual funds and ETFs saw inflows of $2.2bn while loan funds experienced outflows of $9.2bn in January. Despite stronger inflows, net supply shifted back to positive in the month, as tracked by Lipper and reported by Barclays, with 16.6bn of new issuance pricing while $4.4bn in bonds were redeemed or upgraded, for net supply of $12.2bn. The loan primary market picked up slightly as $14bn priced during January, according to JP Morgan. The percentage of the high yield bond market trading at distressed levels (below 70% of par) decreased to 3.9%; the comparable figure for the loan market (below 80% of par) was 3.0%. The par-weighted twelve-month high yield bond default rate was 0.86% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate decreased to 1.38%, per JP Morgan.

The ICE BofAML US High Yield Index returned 4.59% for January while the Credit Suisse Leveraged Loan Index returned 2.30%. The yield-to-worst (YTW) for the High Yield index decreased 107 bps to 6.86% and spreads decreased 103 bps to 430 bps. By rating, the BB, B and CCC bond sub-indices returned 4.30%, 4.59% and 5.83%, respectively. All sectors were positive for the month with Energy the top performer, returning 6.28%, while Transportation was the bottom performer, posting 2.18%. Across risk types (defined by duration and yield to worst), more speculative and longer duration securities outperformed shorter duration, more defensive securities during the January rally. High Yield underperformed large cap equities, represented by the S&P 500's 8.01% return, as well as small cap equities, represented by the Russell 2000's 11.25% return, but outperformed investment grade corporate bonds, represented by the ICE BofAML US Corporate Index's 2.09% return.

Strategy

SKY Harbor Global Funds–US High Yield Fund modestly underperformed the benchmark in January on a gross-of-fee basis and excluding currency impact. By risk type, security selection and to a lesser extent, allocation, were sources of underperformance. The primary drivers of relative performance were weaker selection in the most speculative and intermediate risk parts of the market. Cash was also a drag in one of the historically strongest single months in the high yield market. Underperformance was partially offset by an overweight to the top-performing, most speculative part of the market. By sector, strong selection in Services and Energy were sources of outperformance but were offset by weaker selection in Technology and an underweight to top-performing Energy.

The largest positive contributor to returns was Ahern Rentals (AHEREN) 7.375% notes due 2023, last month's largest bottom contributor, which rallied significantly in January as the outlook for non-residential construction and continued economic activity was reinforced. Last month's top contributor, Kraton Polymers (KRA) 7% notes due 2025 was among top contributors again in January. The largest bottom contributor was Weight Watchers Inc. (WTW) 8.625% notes due 2025, trading down during the month on a weak technical.

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	$103.9mn
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

Outlook

The risk of decelerating global growth led by distress in Europe and slowing in China presents ongoing challenges to investors. Investors will also need to look past weak first quarter earnings for US companies. However, the Fed pivot has alleviated investor concerns that an aggressive tightening cycle would lead to a recession in the US. Investor sentiment continues to focus on trade discussions in the near term and ever-present geopolitical risks. Taken in whole, we expect investors to weigh signs of economic activity and corporate profitability versus interest rate risk. We remain cautiously positive on corporate fundamentals, but recognize that global uncertainty, margin pressures and trade resolution all have important ramifications on earnings quarter to quarter. Post the Q4 selloff, valuations were extremely attractive, which triggered inflows and some retracement of losses. That being said, we believe yields across 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 higher allocations to defensive short duration parts of the market and credit picking among the higher yielding part 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 the US housing 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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Find all fund documents at:
www.skyharborglobalfunds.com

SKY HARBOR GLOBAL FUNDS

A Message to Investors

Supplementary Information for Swiss Investors