US High Yield Fund

July 31, 2019

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

A better-than-expected start to the Q2'19 earnings season, continued mutual fund inflows and dovish central banks around the globe were supportive of somewhat tighter credit spreads for the month. Investors had to wait until the last day of July for the main headline, when the Fed cut rates by 0.25% and Chairman Powell provided comment in his press conference. The market showed some disappointment as expectation for more aggressive easing had worked its way into the market. Despite Energy being the weakest performing sector in the month, Oil was relatively unchanged, with WTI Crude finishing up $0.11/bbl (or 0.19%) to $58.58/bbl. The US dollar was up 0.19% on the month, and the slope of the US Treasury curve flattened slightly as the 2-yr Treasury increased 16 basis points (bps) to 1.92% and the 10-yr Treasury yield increased 2 bps to 2.02%.

Technicals were mixed as inflows contributed to stronger demand, but a robust primary market kept investors from aggressively chasing secondary market risk. High yield mutual funds/ETFs saw inflows of $3.4bn in July, and loan funds experienced continued outflows of $3.3bn, as tracked by Lipper. Net supply on the bond side was positive in the month, as tracked by Barclays, with $24.6bn of new issuance pricing while only $15.3bn in bonds were redeemed or upgraded, for net supply of $9.3bn. The loan primary market decreased as $28.1bn priced during July, according to JP Morgan. The percentage of the high yield bond market trading at distressed levels (below 70% of par) decreased to 4.0%; the comparable figure for the loan market (below 80% of par) remained 3.2%. The par-weighted twelve-month high yield bond default rate was 1.38% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate increased to 1.50%, per JP Morgan.

The ICE BofAML US High Yield Index returned 0.51% in July while the Credit Suisse Leveraged Loan Index returned 0.78%. The yield-to-worst (YTW) for the high yield index decreased 4 bps to 6.00% and spreads decreased 13 bps to 393 bps. By rating, the BB, B and CCC bond sub-indices returned 0.60%, 0.58% and -0.07%, respectively. Most sector returns were positive for the month with Insurance the top performer, returning 2.58%, while Energy was the bottom performer, posting -1.26%. Across risk types (defined by duration and yield to worst) the intermediate-quality part of the market (yielding 6-7%) outperformed the most speculative securities as well as shorter duration, more defensive securities. High yield underperformed large cap equities, represented by the S&P 500's 1.44% return, as well as investment grade corporate bonds, represented by the ICE BofAML US Corporate Index's 0.66% return and small cap equities, represented by the Russell 2000's 0.57% return.

Strategy

SKY Harbor Global Funds–US High Yield Fund outperformed the benchmark in July on a gross-of-fees basis and excluding currency impact. By risk type, both security selection and allocation were positive contributors to relative performance. Primary drivers of outperformance were an underweight to the bottom-performing, most speculative part of the market and overweight to the higher-performing, intermediate quality part of the market (yielding 6-7%). Underperformance was partially offset by weaker selection in the intermediate risk segment (yielding 8-9%). By sector, an underweight to bottom-performing Energy and strong selection in Retail were drivers of outperformance, partially offset by weaker selection in Energy and an underweight to higher-performing Telecom.

The largest positive contributor to returns was Weight Watchers Intl (WTW) 8.625% notes due 2025, which traded up in July on stabilized subscriber trends and improved investor sentiment. Last month's top contributor, Hertz Corp (HTZ) 5.5% notes due 2024, was among the top contributors again in July. The largest bottom contributor to monthly returns was Southwestern Energy (SWN) 7.75% notes due 2027, which traded down with falling natural gas prices. We have since pared our exposure to SWN despite our belief that it is generally an improving credit story as

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	$79.1mn
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

Strategy (cont.)

the market does not appear to want to revalue natural gas risk to the positive any time soon. Last month's bottom contributor, Northwest Acquisitions (NORACQ) 7.125% notes due 2022, was near flat for the month.

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 had substantially reduced our exposure to US housing, the Energy sector and industries that have a high degree of sensitivity to Chinese growth although we added back some housing-related risk as lower rates improved near-term affordability in a number of markets. 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.

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 see growing concern around second half of the year earnings and some 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.