US High Yield Fund

November 30, 2018

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

Investors focused on the risks associated with tariffs, the pace and extent of additional US interest rate increases and global oil supplies to rerate companies with cyclical business models or end markets. Selling pressure paused momentarily when Fed Chairman Powell suggested a more dovish outlook and the meeting between China's President Xi and President Trump at the G20 summit resulted in a temporary "ceasefire." Oil, which has larger ramifications for the high yield market, was hit particularly hard with WTI Crude down $14.38/bbl (or 22.02%) to $50.93/bbl. The US dollar was higher, up 0.15% on the month, while risk-free Treasuries rallied to bring rates lower. The slope of the US Treasury curve flattened as the 2-yr Treasury was lower by 4 bps to 2.83% and the 10-yr Treasury yield decreased 15 bps to 3.01%.

Market technicals remained mixed as funds saw continued outflows though new issuance remained low, leading to negative net supply. Loan and high yield funds saw substantial outflows of $2.5bn and $3.7bn, respectively, as tracked by Lipper and reported by Barclays. HY bond new issuance at $6.0bn was offset by $21.7bn in redemptions, for net supply of -$15.7bn, per Barclays. The loan primary market slowed as $36.1bn priced during November, according to JP Morgan. The percentage of the HY bond market trading at distressed levels (below 70% of par) increased to 3.4%; the comparable figure for the loan market (below 80% of par) was 2.6%. The par-weighted twelve-month HY bond default rate was 1.09% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate decreased to 1.56%, per JP Morgan.

The ICE BofAML US High Yield Index returned -0.91% for November while the Credit Suisse Leveraged Loan Index returned -0.82%. The YTW for the HY index increased 35 bps to 7.15% and spreads increased 46 bps to 422 bps. By rating, the BB, B and CCC bond sub-indices returned -0.27%, -0.87% and -3.49%, respectively. Despite a negative month some sectors were positive with Media being the top performer, returning 0.42%, while Energy was the bottom again, posting -3.57%. Across risk types (defined by duration and yield to worst), generally shorter duration, more defensive segments led to the upside while longer-duration, more speculative risk lagged. High Yield underperformed large cap equities, represented by the S&P 500's 2.04% return, as well as small cap equities, represented by the Russell 2000's 1.58% return, and investment grade corporate bonds, represented by the ICE BofAML US Corporate Index's -0.19% return.

Strategy

SKY Harbor Global Funds–US High Yield Fund modestly underperformed the benchmark in November on a gross-of-fee basis and excluding currency impact. By risk type, security selection was a source of underperformance while allocation had a muted impact. The primary drivers of underperformance were security selection in the intermediate risk portion of the market as well as an underweight to the higher-performing, better-quality part of the market. This was partially offset by an underweight to the bottom-performing longer-duration and most speculative equity-like parts of the market. By sector, weaker selection in Energy and Services were again sources of underperformance, partially offset by strong selection in Healthcare and an underweight to bottom-performing Energy.

The largest positive contributor to returns was Consolidated Communications (CNSL) 6.5% notes due 2022, which traded up during the month on solid Q3 earnings. Last month's largest contributor, Automation Tooling Systems (ATACN) 6.5% notes due 2023 was modestly negative for the month along with most of the market. The largest bottom contributor, Brand Industrial Services (BRANDI) 8.5% notes due 2025 had neutral Q3 results but traded down in concert with all rental equipment companies, reflecting investor concerns regarding a slowing economy. Last month's largest bottom contributor, Approach Resources (AREX) was among the largest bottom contributors again during the continued selloff in November and we continue to reduce the position due to our concern around investor support for small cap leveraged energy credits.

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	$171.8mn
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

Outlook

We recognize that sentiment is poor and liquidity is thin, however, we continue to believe that markets are over-discounting the risk that the US business cycle turns negative. Our greatest conviction remains around strong fundamentals, and despite reduced forward guidance, we expect US corporate profitability to be supportive of improving credit metrics for high yield bond issuers and default rates to remain low. Strong technicals associated with lower issuance on the bond side and strong investor demand on the loan side should also continue to provide support for the market. The market has repriced to a point where the carry provides a compelling relative return even if spreads do not tighten. Taken in whole, we have not substantially altered our risk positioning, although we are mindful of the market's reflection of a peaking profit cycle and the associated shift higher in risk premiums.

Our Broad High Yield Market portfolios remain underweight the better-quality, more rate-sensitive segment of the market. We continue to use volatility 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. The market repricing has also given us the opportunity to add income through credit picking among companies with improving earnings. 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. While corporate fundamentals are strong, we believe we are generally not being paid to take "equity-like" risk at current market levels due to the underlying secular and/or cyclical changes that much of the remaining higher-yielding part of the market faces. 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, Affolternstrasse 56, 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.