SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

High Yield market returns for October were in line with income generation. Risk assets responded to progress on vaccine development in light of a third wave of COVID-19 cases both in the US and around the globe. Markets also looked for progress on another round of stimulus but were increasingly disappointed as the gap between Republicans and Democrats failed to result in a compromise. Investors also increasingly priced in a Biden presidency but tension around election day remained. Oil prices also weighed on the markets as the fall in prices accelerated through October with WTI Crude closing the month down $4.43/bbl (or 11.01%) to $35.79/bbl causing the Energy sector to be down -0.23% for the month. The US dollar was up 0.16% on the month, and the US Treasury curve steepened slightly as the 2-yr Treasury increased to 0.16% and the 10-yr Treasury yield increased to 0.88%.

Technicals were positive in October with a return to investor inflows and a negative net supply for the month. High Yield mutual funds/ETFs saw inflows of $4.7bn, while loan funds experienced outflows of $381mm, as tracked by Lipper and reported by Barclays. High yield new issuance was $34.2bn, as tracked by Barclays, while $37.2bn in bonds were redeemed or upgraded, leaving net supply at -$3.0bn. The percentage of the high yield bond market trading at distressed levels (below 70% of par) remained at 4.5%; the comparable figure for the loan market (below 80% of par) decreased to 6.3%. The par-weighted twelve-month high yield bond default rate was unchanged at 7.2% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate ended May at a five-year-high of 3.99%, per JP Morgan.

The ICE BofA US High Yield Index returned 0.47% in October while the Credit Suisse Leveraged Loan Index returned 0.17%. The yield-to-worst (YTW) for the high yield index decreased 4 basis points (bps) to 5.66% and spreads decreased 11 bps to 524. By rating, the BB, B and CCC bond sub-indices returned 0.50%, 0.48% and 0.28%, respectively. Returns were mixed across sectors for the month with Automotive the top performer, returning 1.60%, while Leisure was the bottom performer, posting -0.79%. Across risk types (defined by duration and yield to worst), longer duration securities outperformed while more speculative securities lagged. High yield outperformed investment grade corporate bonds, represented by the ICE BofA US Corporate Index's -0.17% return as well as large cap equities, represented by the S&P 500's -2.77% return, but underperformed small cap equities, represented by the Russell 2000's 2.04% return.

Strategy

SKY Harbor Global Funds–US High Yield Fund outperformed its benchmark in October. By risk segment, security selection was a positive source of relative performance while allocation was essential neutral on the month. Relative performance was primarily driven by strong selection within the most speculative part of the market and the Intermediate risk part of the market. Outperformance was slightly reduced by weaker selection within the better-quality part of the market. By sector, an underweight to bottom-performing Energy and strong selection in Capital Goods were the drivers of outperformance slightly offset by weaker selection and an underweight to Healthcare. By rating, strong selection in Single-Bs and Double-Bs drove outperformance partially offset by an overweight to Triple-Cs which lagged the market.

The largest positive contributor to return was Townsquare Media (TSQ) 6.5% notes due 2023. These bonds had lagged the earlier market rally despite results that showed stabilization. Last month's top contributor, Triumph Group 7.75% notes due 2025, was among the top contributors again this month. The largest bottom contributor was Quad Graphics, which traded down during the month on weak market technicals though we have seen this reverse in November. Last month's bottom contributor, Cinemark USA Inc. (CNK) 5.125% notes due 2022, was among the bottom contributors again in October.

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 BofA 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	$117.2 mn
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

Risk assets have benefited from resolution of the dominant identified risk – the US election – and positive news regarding key vaccine developments and enhanced treatment protocols to reduce the ongoing risks associated with the second most identified risk – COVID-19. Although control of the US Senate will not be decided until the January 5th Georgia run-off, the market's surveyed worst-case fears of a Democratic sweep are likely off the table. Importantly, while rising COVID-19 cases are likely to create some headwinds for a recovering economy, we believe this third wave will result in a less negative economic impact than earlier in the year. Investor sentiment will continue to focus on the risks and opportunities associated with both additional fiscal stimulus and the availability of various monetary policy tools.

Investor perception of risks around fundamentals has benefited from widespread positive earnings surprises in the most recent quarter. We expect default rates to peak at 9% to 10% but normalize to 5% by 2021. Earnings should recover strongly next year which, along with declining default rates, is a key support for high yield market spread compression.

We believe the market has excess return opportunity associated with credit picking given the high level of dispersion in the market and are mindful of tighter valuations across better quality segments of the market. Our valuation work suggests lower rated credit has the most return potential over the next year and we are continuing to look for attractively priced more speculative risk where appropriate.

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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SKY HARBOR GLOBAL FUNDS

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