US High Yield Fund

September 30, 2018

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

Major risk factors were largely unchanged over the month. On the trade front, there was significant progress on a unified North American trade agreement with a rebranded NAFTA (USMCA) while tensions regarding trade policy with China remain. As expected, the Federal Open Market Committee (FOMC) implemented its third rate hike for 2018, affirming its positive view of economic growth and labor market conditions. Oil continued moving higher with WTI Crude up $3.45/bbl (or 4.94%) to $73.25/bbl, while the US dollar was largely steady on the month. Interest rates rose and the slope of the US Treasury curve was relatively unchanged as the 2-yr Treasury was higher by 19 bps to 2.82% and the 10-yr Treasury yield increased 20 bps to 3.06%.

Technicals were less supportive on the bond side than in recent months, which had benefited from negative net supply to offset bond mutual fund outflows. Loan funds received inflows of $1.2bn, while high yield mutual funds saw outflows of $2.3bn. However, net supply shifted from negative to positive, as tracked by Lipper and reported by Barclays, with HY bond new issuance at $36.4bn in September, offset by only $1.0bn in redemptions, for net supply of $25.4bn, per Barclays. The loan primary market slowed slightly, as $35.0bn priced during September, according to JP Morgan. The percentage of the HY bond market trading at distressed levels (below 70% of par) stayed low at 1.7%; the comparable figure for the loan market (below 80% of par) was also low at 2.0%. The par-weighted twelve-month HY bond default rate was 1.08% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate decreased to 1.77%, per JP Morgan.

The ICE BofAML US High Yield Index returned 0.58% for September while the Credit Suisse Leveraged Loan Index returned 0.68%. The YTW for the HY index decreased 4 bps to 6.22% and spreads decreased 23 bps to 323 bps. By rating, the BB, B and CCC bond sub-indices returned 0.31%, 0.72% and 1.10%, respectively. By sector, Media and Telecommunications were the top performers, both returning 0.88%, while Automotive lagged, returning -0.27%. Across risk types (defined by duration and yield to worst), the highest-yielding, most speculative part of the market led while the better quality, most rate sensitive part of the market lagged. High Yield outperformed large cap equities, represented by the S&P 500's 0.57% return, as well as small cap equities, represented by the Russell 2000's -2.41% return, and investment grade corporate bonds, represented by the ICE BofAML US Corporate Index's -0.33% return.

Strategy

SKY Harbor Global Funds–US High Yield Fund performed in line with the benchmark in September on a gross-of-fee basis and excluding currency impact. By risk type, security selection was a source of modest outperformance while allocation had a muted impact. The primary drivers of relative performance were both strong security selection and an underweight to the bottom-performing, better quality, more rate sensitive part of the market. This was partially offset by an underweight to the top-performing most speculative part of the market. By sector, strong selection in Services was a source of outperformance, partially offset by an underweight to the higher-performing Energy sector.

The largest positive contributor to returns was Ahern Rentals (AHEREN) 7.375% notes due 2023, one of the Fund's largest positions, which traded up this month after reporting 2Q18 earnings that highlighted positive growth and a solid outlook. Last month's top contributor, American Axle & Manufacturing Inc. (AXL) 6.5% notes due 2027 was up modestly again in September. The largest bottom contributor, SandRidge Energy (SD) traded down after completing a strategic review that will result in the company continuing to operate as a standalone entity. Last month's largest bottom contributor, Alta Mesa Holdings (ALTMES) 7.875% notes due 2024 was among the bottom contributors again this 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 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	$242.0mn
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

Our view of high yield market risks and opportunities is largely unchanged from last month-end. Our greatest conviction remains around strong corporate fundamentals with additional support from the strong technicals associated with lower issuance on the bond side and strong investor demand on the loan side. We have acknowledged that valuations are only fair by historical standards and rising rates present potential risks but believe high yield could have further spread compression as investors focus on the strength of the US economy and positive corporate profitability. We expect returns to benefit from the market income opportunity and below-average default losses and expect investors' perception of risk to remain generally unchanged (e.g., recession risks do not rise, etc.). As a result, our positioning has not substantially changed over the last month.

Our Broad High Yield Market portfolios remain underweight the better quality, more rate sensitive segment of the market. We are continuing to gradually move our positioning to a less aggressive underweight to interest-rate related risks as volatility allows attractive entry points. We continue to look for opportunities 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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www.skyharborglobalfunds.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.