US High Yield Fund

September 30, 2019

SKY HARBOR GLOBAL FUNDS

Monthly Commentary

Market

The high yield market powered through the heaviest new issue calendar in years and continuing negative headlines concerning trade and slowing global growth to register a modestly positive return for the month. Investor concern around slower global growth was offset by further monetary easing as the Federal Reserve lowered the fed funds rate a quarter point in September. The Energy sector remained volatile, first spiking in price after an attack on Saudi Arabia's energy production, but quickly falling once supply was restored, causing WTI Crude Oil to close the month down $1.03/bbl (or 1.87%) to $54.07/bbl. The US dollar was up 0.47% on the month, and the slope of the US Treasury curve was relatively unchanged as the 2-yr Treasury increased 14 basis points (bps) to 1.67% and the 10-yr Treasury yield increased 17 bps to 1.68%.

Technicals were mixed in September with heavy new issuance somewhat offset by investor inflows and positive net supply for the month. High yield mutual funds/ ETFs saw inflows of $4.2bn, while loan funds experienced continued outflows of $2.1bn, as tracked by Lipper. High yield new issuance picked up significantly with $30.7bn coming to market, as tracked by Barclays, while $11.8bn in bonds were redeemed or upgraded, for a lift in net supply to $18.9bn. The loan primary market ticked up as $35.5bn priced during September, according to JP Morgan. The percentage of the high yield bond market trading at distressed levels (below 70% of par) increased to 5.2%; the comparable figure for the loan market (below 80% of par) increased to 4.9%. The par-weighted twelve-month high yield bond default rate was 1.67% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate decreased to 1.42%, per JP Morgan.

The ICE BofAML US High Yield Index returned 0.32% in September while the Credit Suisse Leveraged Loan Index returned 0.42%. The yield-to-worst (YTW) for the high yield index increased 2 bps to 5.82% and spreads decreased 10 bps to 398 bps. By rating, the BB, B and CCC bond sub-indices returned 0.28%, 0.44% and 0.06%, respectively. Most sector returns were positive for the month with Automotive the top performer, returning 1.82%, while Energy was the bottom performer, posting -0.77%. Across risk types (defined by duration and yield to worst) the intermediate risk part of the market outperformed the most speculative part of the market. High yield underperformed large cap equities, represented by the S&P 500's 1.87% return, as well as small cap equities, represented by the Russell 2000's 2.08% return, but outperformed investment grade corporate bonds, represented by the ICE BofAML US Corporate Index's -0.62% return.

Strategy

SKY Harbor Global Funds–US High Yield Fund outperformed the benchmark in September. By risk type, both security selection and allocation were positive contributors to relative performance. The primary drivers of outperformance were an underweight to the bottom-performing, most speculative part of the market, and positive security selection within this part of the market and the short duration part of the market. Positive relative performance was reduced somewhat by weaker selection within the intermediate risk part of the market (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 Services.

The largest positive contributor to monthly returns was Weight Watchers Inc. (WW) 8.625% notes due 2025, which traded up on expectations that Q3 results should improve on recruitment stabilization and a significant shareholder/strategic partner's announcement of a national tour. Last month's top contributor, Charter Communications (CHTR) 5.125% notes due 2049 was among bottom contributors to returns this month. The largest bottom contributor to returns was TMS International (TMS) 7.25% notes due 2025, which traded down in sympathy with steel producers who provided mixed steel demand and pricing outlooks for the end of 2019. Last month's bottom contributor, Park-Ohio Industries (PKOH) 6.625% notes due 2027, was among bottom contributors to returns 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	$77.8mn
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

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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.