

# US High Yield Fund

November 30, 2017

Class B Capitalization

**SKY HARBOR**  
GLOBAL FUNDS

## Portfolio Commentary

### Market

The High Yield market sold off sharply during the first half of November, driven largely by ETF selling to reduce risk as equities also faltered. The second half of the month saw improvement as optimism grew around progress in the US tax reform proposal and the resurgence of the equity rally. High yield also benefited from higher oil prices, as WTI Crude Oil rallied, ending November up \$3.02 (or 5.25%) to \$57.40/bbl, helping the Energy sector return 0.31% for the month. On the negative side, Telecom remained under pressure from wireline weakness and negative M&A headlines. All of these factors led to a slightly negative November for HY. During the month, the US Dollar Index was down 1.59%, and the US Treasury curve flattened with the 2-yr Treasury higher by 18 bps to 1.78% and the 10-yr Treasury yield higher by 3 bps to 2.41%.

Technicals were mixed in November. HY mutual funds saw net outflows of \$7.1bn while loan funds had outflows of \$1.8bn, as tracked by Lipper and provided by Barclays. Bond new issuance increased to \$26.4bn, offset by \$15.2bn in redemptions, leaving net supply at \$11.2bn, per Barclays. The loan market was similarly active, pricing \$103bn during the month (\$15bn net), according to JP Morgan. The percentage of the HY bond market trading at distressed levels (below 70% of par) ended November at 3.2%, the comparable figure for the loan market (below 80% of par) was 3.3% and the par-weighted trailing default rate was 1.84%, per JP Morgan. The par-weighted twelve-month bond default rate moved higher to 1.73% at month-end, per BofA Merrill Lynch. Excluding commodities, the default rate was 1.59%.

The ICE BofAML US High Yield Index returned -0.27% in November, and the Credit Suisse Leveraged Loan Index returned 0.12%. The YTW for the HY index increased 27 bps to 5.71% and spreads increased 12 bps to 357 bps. The BB, B and CCC bond sub-indices posted returns of -0.07%, -0.53% and -0.25%, respectively. By sector, Utilities was the top performer, returning 0.59%, while Telecom was the bottom performer, returning -2.23%. Across risk types (defined by duration and yield to worst), the longer duration part of the market led with a modestly positive return but was offset by the highest yielding, most speculative segment which was sharply negative. High yield underperformed large cap equities, represented by the S&P 500's 3.07% return, as well as small caps, represented by the Russell 2000's 2.88% return, and investment grade corporate bonds, represented by the ICE BofAML US Corporate Index's -0.14% return.

### Strategy

SKY Harbor Global Funds—US High Yield Fund outperformed the benchmark in November. Due to interest rate differentials on the currency hedges, some non-USD share classes did however underperform for the month. By risk type, both allocation and security selection were sources of outperformance again this month. The primary drivers of outperformance were security selection across nearly all risk segments and an underweight to the bottom-performing, more speculative, equity-like part of the market. By sector, an overweight and selection in Basic Industry as well as an underweight to the bottom-performing Telecom sector were sources of outperformance, partially offset by weaker selection in Telecom.

The largest positive contributor to returns was Ahern Rentals (AHEREN) 7.375% notes due 2023, which traded up on solid Q3 earnings, particularly in the core rental segment, and a positive outlook. Last month's largest contributor, Light Tower Group Holdings, Inc (LHTTWR) was unchanged for the month. The largest negative contributor was Bonanza Creek Energy Inc. (BCEI), which traded down after reporting weaker earnings and reduced 4Q17 guidance. Bottom contributor last month, Rex Energy Corp (REXX) 8% notes due 2020 was a modestly positive contributor this month, trading up slightly on earnings in line with expectations.

### Outlook

We have maintained a consistent view of market risks and opportunities for the last several months and, as a result, held our risk positioning constant. While various geopolitical risks remain, markets are benefiting from the strongest corporate earnings growth in the last five years and the default rate has fallen from the peak reached early in 2017. However, while the high yield market has not hit cycle tight spreads, parts of the market have or are approaching cycle tightness. We believe further spread compression is possible absent a general spike in risk premiums from a risk that is currently underappreciated in the market. Interest rate expectations seem to be rising, although in our view not meaningfully enough to derail the most rate and spread sensitive parts of the market. We expect HY issuance to remain tilted towards better quality and refinancing, but generally be demand driven and sensitive to fund flows. Our conviction that fundamentals will continue to improve and HY defaults have peaked remains high and the strongest driver of portfolio positioning. However, 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. We continue to look for opportunities to benefit from credit picking among the higher-yielding segments of the market although remain underweight this segment.

We believe our Broad High Yield Market portfolios continue to be well positioned for the current market environment. We have moderated our underweight to the better-quality, more spread sensitive segment of the market such that we have reached our target positioning. We continue to look for opportunities to benefit from credit picking among the higher-yielding segments of the market although remain underweight this segment.

### Top 10 Holdings by Issuer Weight

Name	Ratings	Sector	Weight (%)
SPRINT CAPITAL CORP.	B2	Telecommunications	2.08
VALEANT PHARMACEUTICALS	BB3	Healthcare	1.44
HCA INC.	BB3	Healthcare	1.25
ALLY FINANCIAL INC.	BB2	Banking	1.05
CCO HOLDINGS LLC	BB2	Media	1.04
XPO LOGISTICS INC.	B1	Transportation	1.02
DISH DBS CORPORATION	BB3	Media	1.01
CALUMET SPECIALTY PRODUCTS	CCC2	Energy	1.01
AHERN RENTALS INC.	B3	Services	0.96
INFOR (US) INC.	CCC2	Technology & Electronics	0.96

## 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 (HOAO)

## Launch Date

April 5, 2012

## Lead Portfolio Manager

**Hannah H. Strasser, CFA**

- A founder and Managing Director of SKY Harbor Capital Management, LLC.
- 35 years of investment experience.
- Has managed Broad High Yield Market strategies since 1988.
- Previously Head of US Fixed Income, AXA Investment Managers.

Fund Information	SHGF*	Benchmark
Market Value (mn/bn)	\$366.5	\$1,292.6
Average Credit Rating	B2	B1
Average Coupon (%)	6.9	6.4
Yield to Worst (%)	5.8	5.7
Yield to Maturity (%)	6.3	6.1
Current Yield (%)	6.7	6.4
Average Maturity (yrs)	6.4	6.2
Avg Mod. Dur. to Wst	3.5	3.6
Average Price	102.8	100.8
No of Issuers/Issues	283 / 364	856 / 1870
% of Top 10 Issuers	11.8	12.9

\*securities portfolio only, excludes cash

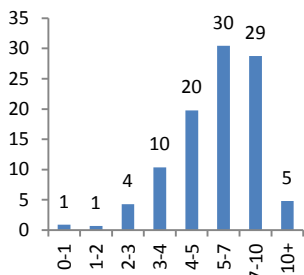
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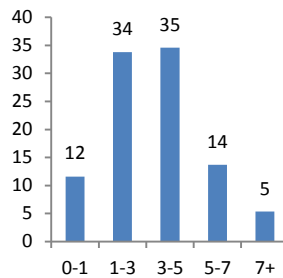
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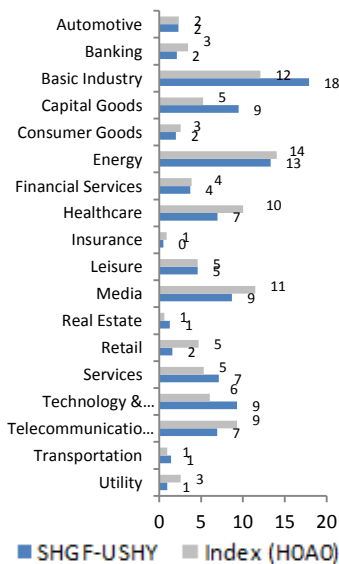
## Maturity (%)



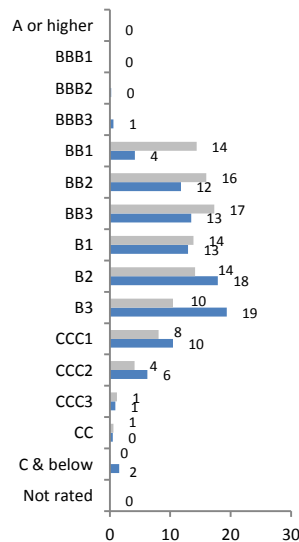
## Modified Duration to Worst (%)



## Sector (%)



## Average Rating (%)



## Fund Facts

Fund Type	Open-end
Legal Form	SICAV
Domicile	LUX
Countries of Registration	AT, BE, CH, DE, DK, ES, FI, FR, GB, IT, LU, NL, NO, PT, SE
Min. Initial Inv	1M USD
Management Fee p.a.	75 bps
Order Cut-off	12:00 CET
Settlement	T+3
Custodian	JP Morgan Luxembourg
Fiscal Year End	31-Dec
Dealing Frequency	Daily
Valuation Frequency	Daily
Swing pricing	None

## Contact

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Find all fund documents at:

[www.skyharborglobalfunds.com](http://www.skyharborglobalfunds.com)

## Net Performance

Currency	ISIN	Cumulative			Ann. Since Inception	Currency	ISIN	Cumulative			Ann. Since Inception
		1M	3M	YTD				1M	3M	YTD	
USD	LU0765422448	-0.23	0.90	6.19	5.58	SEK	LU0765423339	NA	NA	NA	NA
EUR	LU0765422794	-0.37	0.42	4.36	4.77	NOK	LU0765423503	-0.29	0.73	5.56	5.54
GBP	LU0765422950	NA	NA	NA	NA	DKK	LU0765423768	NA	NA	NA	NA
CHF	LU0765423172	NA	NA	NA	NA	ICE BofAML US High Yield Index (HOAO)†		-0.27	1.02	7.17	6.83

Net Performance is calculated as of the last NAV date of the reporting period.

† Index performance inception date is the first share class launch date - April 5, 2012

## About SKY Harbor Capital Management

SKY Harbor Capital Management, LLC, an independent investment manager registered with the US Securities and Exchange Commission ("SKY Harbor"), is the appointed Investment Manager for SKY Harbor Global Funds. SKY Harbor offers Broad High Yield and Short Duration High Yield strategies for institutional investors and global 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. Our 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](http://www.skyhcm.com).

## A Message to Investors

This disclaimer is intended to be read and understood by prospective investors because investing in high yield below-investment-grade corporate debt securities entails risk of loss; may be unsuitable to your circumstances; and cannot rely on past performance as a guarantor of future results. This two-page summary document is designed to be read by institutional investors for marketing and summary information purposes. While the information herein is derived from reliable sources and expresses our good faith beliefs, be aware that the Portfolio Commentary comprises "forward-looking statements," which means that there is no guarantee or warranty as to the accuracy of our current assumptions, market views, data or future expectations – all of which are subject to change at any time without notice to you and for which we are not to be held liable if future developments depart from our expectations. Accordingly, this document cannot and does not replace, revise or reinterpret the information and risk factors set forth in the Prospectus, KIID, Annual and Semi-annual reports, which along with other disclosures are available without charge from SKY Harbor Global Funds or from JPMorgan Bank Luxembourg, the Fund's transfer agent, fund accountant and custodian at: 6, route de Trèves, L-2633 Senningerberg, Luxembourg (also available on [www.skyharborglobalfunds.com](http://www.skyharborglobalfunds.com)) or from the Swiss Representative. Because this summary is not intended to solicit or offer securities for purchase or sale, nor does it take into account your investment objectives, risk tolerances, tax or legal situation, it is your responsibility and duty to read with care the fund Prospectus and other disclosures before investing. SKY Harbor Global Funds is established under Luxembourg law and is not registered under the US Securities Act of 1933 nor the US Investment Company Act of 1940 and may not be offered or sold in the United States (or to a US person) absent registration or an applicable exemption from the registration requirements. The net performance shown does not take account of any commissions and costs charged when subscribing to and redeeming units, which if charged, would have a negative impact on performance. The ICE BofAML Index data referenced herein is the property of ICE Data Indices, LLC ("ICE BofAML") and/or its licensors and has been licensed for use by SKY Harbor. ICE BofAML PERMITS USE OF THE BofAML INDICES AND RELATED DATA ON AN "AS IS" BASIS, MAKES NO WARRANTIES REGARDING SAME, DOES NOT GUARANTEE THE SUITABILITY, QUALITY, ACCURACY, TIMELINESS, AND/OR COMPLETENESS OF THE BofAML INDICES OR ANY DATA INCLUDED IN, RELATED TO, OR DERIVED THEREFROM, ASSUMES NO LIABILITY IN CONNECTION WITH THE USE OF THE FOREGOING, AND DOES NOT SPONSOR, ENDORSE, OR RECOMMEND SKY Harbor or ANY OF ITS PRODUCTS OR SERVICES.

## Supplementary Information for Swiss Investors

The representative in Switzerland is ACOLIN Fund Services AG, Affolternstrasse 56, CH-8050 Zurich. The paying agent in Switzerland is Banque Cantonale Vaudoise, Place Saint-François 14, 1001 Lausanne, Switzerland. The relevant Fund documents such as the prospectus, the key investor information document (KIIDs), the articles of association, and the annual and semi-annual reports may be obtained free of charge from the representative in Switzerland.