SKY HARBOR
GLOBAL FUNDS

Period ending June 30, 2020

Performance (%)	1 Week	MTD	Q2	YTD
SHGF-SDHY USD A Cap (net)	-0.88	0.57	4.40	-3.22
ICE BofA US HY Index	-1.63	0.97	9.61	-4.78
Relative Capture	*54%*	*59%*	*46%*	*67%*

Key Characteristics	YTW	MTD Δ	YTD Δ	DTW	MTD Δ	YTD Δ	OAS	MTD Δ	YTD Δ
SHGF-SDHY	5.52	-0.06	2.01	2.33	0.13	1.12	525	-9	341
ICE BofA US HY Index	6.90	-0.22	1.53	4.02	0.17	1.08	650	-23	291

Month ending June 30, 2020

The IMF downgraded its expectation for US and global growth and highlighted risks associated with an unprecedented synchronized global downturn. High yield market returns turned sharply negative in the second half of the month, led lower by those sectors most impacted by concerns that economic activity would be slower to recover as US virus cases continue to escalate away from the northeast. Valuations after a strong recovery from the market wides also served as a drag on further spread tightening as the month wore on. Technicals also became more challenging as mutual fund inflows weakened – in line with tighter spreads – while new issue volume broke seasonal record. Our broad high yield portfolios and funds lagged somewhat early in the month and recovered relative performance during market volatility to close the month generally in line with the market. We were active participants in the new issue market although valuation discipline often resulted in us being sellers in the secondary market. Valuation discipline also left us sellers of some higher rated debt that had generally returned to pre-COVID-19 levels. Buys away from the new issue calendar were weighted towards add-ons to high conviction holdings as well as smaller new exposures to the bonds of companies that have near-term challenges associated with operating restrictions but have sufficient financial flexibility to weather low utilization rates through the balance of this year and low levels of activity through 2021. Our overall risk positioning was largely unchanged for the month as we generally are weighted towards the higher yielding part of the market and somewhat underweight short duration risk in the broad high yield portfolios. We are integrating risks that are better positioned for a US election that is biased towards a Democratic win, remain willing to add to smaller issues that continue to offer excess income all else being equal versus larger issues, and are willing to take more cyclical risk generally on the basis of valuation versus defensive sectors.

SHGF-SDHY: Sector				US High Yield Index: Sector			
MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)	MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Energy	0.1	4.24	0.01	**Real Estate**	1.9	3.33	0.06
Real Estate	3.2	3.03	0.09	**Automotive**	5.3	3.02	0.16
Automotive	4.6	1.76	0.06	**Energy**	12.8	2.59	0.31
Insurance	0.4	-1.69	-0.01	**Utility**	2.5	-0.88	-0.02
Utility	1.2	-0.82	-0.01	**Healthcare**	9.7	-0.84	-0.08
Healthcare	9.9	-0.31	-0.02	**Leisure**	5.3	-0.64	-0.03

Returns by sector were not always consistent from week to week and in the end, were often about individual constituents rather than broad based moves. Energy was the single strongest sector for the Fund and second strongest for the HY market but we have minimal exposure and do not expect this to change due to our longer term concerns about the sustainability of the sector. We benefitted from exposure to the bounce back in the hard-hit Real Estate sector, with the largest price gains from Brookfield Properties, Istar and Kennedy Wilson, as the “reopening theme” continued, particularly in the Northeast. On the negative side, our Insurance exposure which is predominately

insurance brokers Hub and Amwins, cost a bp as did Utilities, with Nexterra the most notable name in the group. And while Insurance and Utilities are both small sectors for the Fund and the HY market overall, the same can not be said for Healthcare. We are essentially market weight and did outperform relative to the broader index but concerns about rising COVID cases in the South and West resulted in pressure on hospital operators, with Select Medical and Tenet Healthcare the largest price decliners.

SHGF-SDHY: Rating

MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
BBB	1.7	2.84	0.05
BB	40.2	0.85	0.35
B	44.3	0.24	0.11
CCC	10.2	1.28	0.13
Non Rated	0.6	2.85	0.01
Cash	2.9	0.01	0.00
Factset Return USD - Gross of Fees	**100.0**	**0.66**	**0.66**

US High Yield Index: Rating

MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
BBB	0.0	1.4	0.0
BB	55.1	1.0	0.6
B	32.6	0.2	0.1
CCC	12.3	2.7	0.3
Total	**100.0**	**0.97**	**0.97**

The lowest rated part of the portfolio continued to show some of the strongest returns, as has been the case with the overall market. Our CCC-rated holdings are biased towards the bonds of companies that we believe do not have near-term default or restructuring risk. And, our underweight to the recovering Energy sector has negatively impacted our relative security selection with the BB and B-rated part of the portfolio.

SHGF-SDHY: Risk

MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Maturities within 3 years	26.8	0.44	0.14
Shortest duration (<1)	10.9	-0.20	-0.02
Intermediate duration (1-2)	8.5	-0.02	0.00
Longer duration (2-3)	15.1	-0.01	0.00
Extended duration (>3)	28.5	0.70	0.19
Speculative (9+ YTW)	6.2	5.92	0.33
New Issue & Exchanged	1.2	3.23	0.02
Cash	2.9	0.01	0.00
Factset Return USD - Gross of Fees	**100.00**	**0.66**	**0.66**

US High Yield Index: Risk

MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
More Speculative (ex-energy)	13.7	3.86	0.53
Speculative Energy	5.0	6.14	0.31
Intermediate Risk	11.6	1.48	0.17
Interest Rate Sensitive	37.1	-0.13	-0.05
Short Duration	32.4	0.03	0.01
Total	**100.00**	**0.97**	**0.97**

The rally that began in May and continued thru June meant our longer duration securities saw the best recovery and the more call-constrained shortest duration group, was negative as investors sought to extend duration in their portfolios. Our more speculative holdings, a small group and defined as those yielding above 9%, were strong absolute performers as well. Looking forward, we are most focused on the best risk-adjusted opportunities, which are typically in bonds maturing in 5 years or less and trading with durations of between 2.0 and 3.0.

Forward Outlook

We have believed that investors have been focused on the timing and pace of an economic recovery and have been willing to ignore potential risks around trade relations with China, large US deficits, and the potential for a changing political landscape. Investor surveys now suggest that investor concerns regarding the US election are increasing. Market volatility around election outcome probabilities will increase and risks are likely to reprice themselves according to how well they are expected to fair with different election outcomes. Our positioning is evolving towards those sectors where those risks are either over-discounted or under-discounted.

Our central scenario has not changed. We expect rising default risk in the Energy, Retail, Leisure, and potentially the Transportation sectors despite an eventual stabilization of coronavirus-related impact to demand in the second half of the year. Defaults away from these key sectors appears to be rapidly declining as markets are willing to bridge many stressed capital structures to the time when end market demand is sufficiently robust. Fiscal and monetary stimulus around the globe appears ready to resize and evolve on an as-need basis and development of both a treatment protocol and a vaccine appears to be likely. Spread compression is likely to continue as a result. We are managing our portfolios to rebuild returns back into the positive territory and believe the market has excess return opportunity associated with credit picking given the high level of dispersion in the market.

To support our risk-taking, we are focused on consumer and business behavior as restrictions are lifted around the globe. We believe current positioning suggests good potential market capture to the upside so long as Energy is not the driver of the upside but are mindful that low-dollar bonds are likely to gap higher in the absence of further selling pressure. Given the secular and cyclical demand destruction, and historically low oil prices, we do not see speculative Energy being a driver of sustained upside returns.

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