SKY HARBOR
CAPITAL MANAGEMENT

Period ending March 31, 2020

Performance (%)	1 Week	MTD	YTD
SHGF-SDHY USD A Cap (net)	5.99	-6.57	-7.30
ICE BofA US HY Index	8.23	-11.76	-13.12
Relative Capture	*73%*	*56%*	*56%*

Key Characteristics	YTW	MTD Δ	YTD Δ	DTW	MTD Δ	YTD Δ	OAS	MTD Δ	YTD Δ
SHGF-SDHY	7.92	3.37	4.41	2.80	0.88	1.59	760	428	576
ICE BofA US HY Index	9.11	2.92	3.74	4.24	0.78	1.30	865	362	506

Performance Commentary MTD

It was a month for the record books. The last five days of the month, the market was up 8.2%, the best return in nearly 20 years, topping the five-day stretch in January '09. And let's not forget the historic selloff we had prior to those five days. Thursday's test of the high yield primary market was followed by the kick-off marketing of IG-rated Carnival Corp who engaged the market with a package of debt and equity which included a 3-year secured deal at a 12%+ yield. Credit curves continued to steepen and bid-ask spreads narrow on improved technicals despite the onslaught of record Fallen Angels.

On the SDHY side, we have been assessing our exposure to car rental and commercial real estate related companies where we believe there will be longer-term ramifications to the COVID-19 shutdown. Our continued analytical focus has also been on auto and auto-related exposures as we assess the impact of Ford into the HY market.

Prior Commentary (Note we eliminated the prior week of daily commentary. Please refer to prior versions for daily recap since the inception of this report.)

Since February 19, we had the market's worst 13 days of performance, followed by a historic three-day rebound. Last week, mutual fund flows shifted from negative to positive, credit curves that had flattened began to steepen, and bid-ask spreads began to tighten, all while the human and economic consequences of COVID-19 continued to be increasingly negative. The more positive investor sentiment appears to be grounded in a belief that extraordinary monetary and fiscal policy around the globe will serve to limit the duration of the associated economic weakness and an improved medical and social response will serve to "flatten the curve" of new COVID-19 cases worldwide. Investor focus appear to be shifting to the idiosyncratic short-term issuer risks and longer-term consequences to consumer and business behaviors and markets are now willing to price the bonds of less negatively impacted issuers closer to long-term average return expectations for their ratings and maturities. We believe our portfolios are positioned to benefit from a more nuanced view of credit risk moving forward as we were sellers early on of risks that we believed had meaningfully higher default risk on the basis of current risks.

We remain content with our positioning and did not move the portfolio meaningfully in either direction.

SHGF-SDHY: Sector				US High Yield Index: Sector			
MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)	MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Telecom	8.4	-2.16	-0.11	**Utility**	2.6	-3.96	-0.09
Banking	0.5	-2.18	-0.01	**Technology**	5.4	-4.79	-0.23
Utility	0.7	-2.97	-0.02	**Media**	10.7	-5.60	-0.54
Energy	1.0	-20.80	-0.22	**Energy**	9.8	-33.67	-3.87
Leisure	5.0	-13.24	-0.68	**Leisure**	4.9	-17.48	-0.91
Real Estate	3.5	-12.78	-0.48	**Real Estate**	1.7	-14.88	-0.27

For the month, the Fund continues to outperform the overall high yield market, with minimal weight going into the crisis in the worst-performing Energy sector. We took risk elsewhere trying to take advantage of the previously strong US economy, which led to a market weight in Leisure, though our shorter duration and credit selection has led to less negative returns. Transportation has been impacted by small weights in airlines, which we believe have sufficient liquidity and could be recipients of government loans to help alleviate pressure from a significant fallout of business. Our weight is also supported by a significant holding being largely related to a marine infrastructure service provider that we believe is unimpaired by the current shutdown of economic activity, which helps to explain why it remains one of our least negative-performing sectors.

SHGF-SDHY: Rating			
MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
BBB	1.7	-4.18	-0.07
BB	38.7	-6.20	-2.37
B	44.8	-6.37	-2.71
CCC	8.5	-17.44	-1.47
Non Rated	0.9	-13.00	-0.13
Cash	5.4	0.03	0.00
FactSet Return USD – Gross of Fees	**100.0**	**-6.75**	**-6.75**

US High Yield Index: Rating			
MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
BBB	0.0	-13.3	0.0
BB	51.1	-9.0	-4.5
B	36.4	-11.7	-4.2
CCC	12.5	-24.5	-3.1
Total	**100.0**	**-11.75**	**-11.75**

Our purchases were originally biased towards up-in-quality but are gradually shifting to more opportunistic purchases of higher-yielding bonds of issuers that we have stress-tested liquidity for weak near-term operating results and any longer-term consequences of the contagion. We are also assessing opportunities in the IG market given the potential for QE and the generally greater liquidity of larger investment grade rated issuers.

SHGF-SDHY: Risk			
MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Maturities within 3 years	32.4	-5.79	-1.84
Shortest duration (<1)	8.3	-4.89	-0.37
Intermediate duration (1-2)	15.5	-6.38	-0.96
Longer duration (2-3)	17.4	-8.40	-1.44
Extended duration (>3)	19.3	-9.59	-1.90
Speculative (9+ YTW)	1.2	-16.37	-0.21
New Issue & Exchanged	0.4	-7.84	-0.03
Cash	5.4	0.03	0.00
FactSet Return USD - Gross of Fees	**100.00**	**-6.75**	**-6.75**

US High Yield Index: Risk			
MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
More Speculative (ex-energy)	10.3	-20.13	-2.07
Speculative Energy	3.9	-52.81	-2.05
Intermediate Risk	6.7	-20.39	-1.36
Interest Rate Sensitive	42.4	-8.93	-3.78
Short Duration	36.8	-6.76	-2.49
Total	**100.00**	**-11.75**	**-11.75**

Within short duration, market returns have been generally well-ordered as a somewhat longer duration has led to more outsized negative returns, though still less negative than the high yield market. We entered this period defensively positioned, and while we have experienced duration extension, 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 less than 3.0.

Forward Outlook

As we have tried to broadcast in our weekly briefings, we are not calling a bottom, but we are increasingly optimistic about high yield valuations at this point. In addition, we believe the Federal Reserve's most recent actions and the recently passed fiscal stimulus bill will help to stabilize markets.

The Fund continues to exhibit a capture rate versus the broad high yield market that is in line with its historical average while maintaining the favorable income-to-duration ratio relative to the High Yield Index. Our central scenario has not changed. We expect rising default risk in the energy, leisure and potentially the transportation sectors despite an eventual stabilization of coronavirus-related impact to demand in the second half of the year. US fiscal stimulus appears to be increasingly targeted and is well received although the reality of "shelter in place" orders and homeschooling for kindergarten through college is starting to be deeply felt across the globe. We also see the risk of fallen angels entering the high yield market in sectors that have protracted earnings headwinds. The offset to this potential supply is that we believe higher-rated companies are likely to be aggressive buyers of their near-term maturities in the open market, repeating behavior we saw during the global financial crisis. While we acknowledge strong relative performance during this period of volatility, we are mindful that "pensioners cannot eat relative returns" when those relative returns are negative. As a result, we are highly focused on preservation of principal and creating a sustainable income stream that rewards our investors for their risk-taking.

We believe in the resilience of the people that are behind markets and economies and we are ourselves optimistic by nature. That said, the reality of the moment is without precedent and we will continue to be as transparent around risks and opportunities as possible as we move deliberately forward investing on behalf of our clients around the globe.