SKY HARBOR
GLOBAL FUNDS

LUXFLAG Label ESG

Period ending June 30, 2020

Performance (%)	1 Week	MTD	Q2	YTD
SHGF Short Maturity Sustainable HY Bond Fund A Cap USD (net)	-1.03	0.52	5.20	-3.22
ICE BofA US HY 1-5 Yr BB-B Constrained Index	-1.13	0.88	8.41	-4.55
Relative Capture	*0.10*	*-0.35*	*-3.22*	*1.33*

Key Characteristics	YTW	MTD Δ	YTD Δ	DTW	MTD Δ	YTD Δ	OAS	MTD Δ	YTD Δ
SMSHY-SDHY	5.99	0.17	2.17	2.60	0.15	1.08	578	20	366
Comparative Index	5.97	-0.25	1.67	2.42	0.09	0.71	575	-25	308

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-SMSHY: Sector				Index: Sector			
MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)	MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Real Estate	1.9	4.07	0.08	**Financial Services**	5.2	2.63	0.13
Banking	0.3	2.25	0.01	**Real Estate**	2.7	2.55	0.07
Automotive	5.8	2.19	0.08	**Transportation**	2.7	2.14	0.06
Utility	0.8	-0.62	0.00	**Healthcare**	9.4	-0.78	-0.07
Leisure	2.9	-0.31	-0.02	**Leisure**	5.5	-0.58	-0.03
Healthcare	10.0	-0.17	-0.01	**Utility**	1.7	-0.33	-0.01

Fund relative performance was most impacted by allocation, specifically the lack of exposure to the Energy sector (-). Somewhat offsetting that was security selection within the Capital Goods and Healthcare sectors (+) vs Financial Services

(-) and Media (-). Sectors most tied to the "reopening" led the market higher early in the month until those sector gains reversed with growing threats to the pace of reopening across the US and elsewhere. Our long-standing positive bias towards the Capital Goods sector is predicated on business models that typically lend themselves to leverage over time and the Fund has benefited from strong security selection with a number of previously beaten up name gapping higher while packaging names also were strong performers. A number of our smaller, off-the-run issues have gapped higher in a market looking for valuation opportunities as well. Our lack of ownership in some higher moving financials was a drag on performance, while some of our media exposure gave back some gains.

SHGF-SMSHY: Rating

MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
BBB	0.0	0.85	0.00
BB	37.0	0.71	0.27
B	49.6	0.64	0.29
CCC	11.0	1.46	0.16
Non Rated	0.2	2.61	0.00
Cash	2.2	0.01	0.00
FactSet Return USD – Gross of Fees	**100.0**	**0.73**	**0.73**

Index: Rating

MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
BBB	0.1	1.4	0.0
BB	59.2	0.9	0.5
B	40.1	0.8	0.3
CCC	0.6	0.0	0.0
Total	**100.0**	**0.88**	**0.88**

Our allocation to lower quality was positive, but security selection across BB and B was a drag on relative returns. Our exposure to CCC-rated credit continues to contribute nicely with the highest returning part of the portfolio. Our CCC-rated holdings are biased towards the bonds of companies that we believe do not have near-term default or restructuring risk. Our underweight to the recovering Energy sector negatively impacted our relative security selection with the BB and B-rated part of the portfolio.

SHGF-SMSHY: Risk

MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Maturities within 3 years	21.7	0.41	0.11
Shortest duration (<1)	10.3	-0.29	-0.02
Intermediate duration (1-2)	8.0	-0.44	-0.03
Longer duration (2-3)	14.8	0.18	0.04
Extended duration (>3)	32.6	0.97	0.29
Speculative (9+ YTW)	9.2	4.70	0.36
New Issue & Exchanged	1.2	2.48	-0.01
Cash	2.2	0.01	0.00
FactSet Return USD - Gross of Fees	**100.00**	**0.73**	**0.73**

Index: Risk

MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Maturities within 3 years	32.6	0.59	0.20
Shortest duration (<1)	7.2	0.10	0.01
Intermediate duration (1-2)	7.0	-0.27	-0.02
Longer duration (2-3)	11.3	0.31	0.04
Extended duration (>3)	30.4	0.46	0.14
Speculative (9+ YTW)	11.6	4.67	0.51
Total	**100.00**	**0.88**	**0.88**

When viewed using SKY Harbor's custom risk segmentation (which does not rely on ratings), it's evident that our underweight to the most speculative part of the market, which has a heavy energy component was the biggest drag on relative returns. Our more speculative holdings away from the Energy sector were strong performers and our intentional overweight to longer duration securities continue to help as well. We will continue to reduce our shortest duration securities in favor of those with longer durations given a low interest rate outlook.

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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