SKY HARBOR
CAPITAL MANAGEMENT

Period ending March 31, 2020

Performance (%)	1 Week	MTD	YTD
SHGF-SMSHY A Cap USD (net)	6.75	-7.30	-8.00
ICE BofA US HY 1-5 Yr BB-B Constrained Index	6.72	-10.75	-11.96
Alpha	*0.03*	*3.45*	*3.96*

Key Characteristics	YTW	MTD Δ	YTD Δ	DTW	MTD Δ	YTD Δ	OAS	MTD Δ	YTD Δ
SHGF-SMSHY	7.89	3.16	4.07	3.13	0.98	1.61	754	403	542
Comparative Index	9.37	4.07	5.07	2.54	0.47	0.83	909	486	642

Performance Commentary MTD

The market continued to tighten for the fifth day, moving from spreads of 1087 at the wides, to last week's close of 899, 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 SMSHY 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 did not trade on Friday.

SHGF-SMSHY: Sector				Index: Sector			
MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)	MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Utility	0.8	-2.35	-0.01	**Telecom**	7.6	-2.47	-0.12
Banking	1.0	-3.27	-0.03	**Utility**	1.9	-4.16	-0.07
Telecommunications	7.7	-3.52	-0.20	**Technology**	5.4	-4.29	-0.20
Real Estate	3.0	-14.54	-0.47	**Energy**	11.8	-31.89	-4.37
Automotive	3.0	-13.68	-0.45	**Leisure**	4.0	-14.63	-0.62
Leisure	2.6	-12.98	-0.37	**Real Estate**	2.1	-13.18	-0.30

Our sustainable objectives and constraints have insulated the Fund from the two worst-performing sectors in the comparative index. We have chosen to take risk elsewhere, like automotive, which we believe "self-help" measures associated with synergies from recent M&A and asset sales are supportive of continued exposure. 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.

SHGF-SMSHY: Rating				Index: Rating			
MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)	MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
BBB	0.2	-5.32	0.00	BBB	0.0	0.0	0.0
BB	39.1	-6.06	-2.44	BB	56.8	-7.7	-4.2
B	49.5	-7.54	-3.66	B	40.4	-12.8	-5.2
CCC	9.8	-16.71	-1.64	CCC	2.8	0.0	-1.3
Non Rated	0.3	-23.59	-0.09				
Cash	1.0	0.03	0.00				
FactSet Return – USD Gross of Fees	**100.0**	**-7.84**	**-7.84**	**Total Return**	**100.0**	**-10.75**	**-10.75**

Performance has been generally well-ordered with respect to ratings. We continue to outperform across ratings. The latest repricing is allowing us to enter into BB credit at the high-end of long-term targets, which we find attractive. Our purchases were originally biased towards up-in-quality and is now 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 assessing opportunities in the IG market given the potential for QE and the generally greater liquidity of larger investment grade rated issuers.

SHGF-SMSHY: Risk				Index: Risk			
MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)	MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Maturities within 3 years	24.7	-6.55	-1.53	Maturities within 3 years	35.6	-6.89	-2.41
Shortest duration (<1)	8.9	-3.58	-0.29	Shortest duration (<1)	7.5	-4.16	-0.29
Intermediate duration (1-2)	16.5	-7.75	-1.26	Intermediate duration (1-2)	7.9	-6.62	-0.51
Longer duration (2-3)	20.0	-8.27	-1.78	Longer duration (2-3)	16.3	-9.73	-1.58
Extended duration (>3)	26.6	-9.54	-2.71	Extended duration (>3)	24.0	-11.12	-2.68
Speculative (9+ YTW)	2.2	-11.01	-0.26	Speculative (9+ YTW)	8.7	-32.31	-3.29
New Issue & Exchanged	0.0	0.00	0.00				
Cash	1.0	0.03	0.00				
FactSet Return Gross of Fees	**100.00**	**-7.84**	**-7.84**	**Total**	**100.00**	**-10.75**	**-10.75**

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 portfolio continues to weather market volatility with less negative performance than the market on down days for significant outperformance YTD. 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 being 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.