

Monthly Commentary

Market

US High Yield generated less than coupon income returns in May. Earnings beats and relaxation of pandemic restrictions boosted sentiment for lower-quality credit and sectors levered to a re-opening outperformed for the month. Fed commentary about tapering and general concern surrounding inflationary pressures weighed on the more rate-sensitive portions of the market. The rally in Oil continued in May with WTI Crude closing the month up \$2.74/bbl (or 4.31%) to \$66.32/bbl causing the Energy sector to be one of the top performers for the month, returning 0.84%. The US dollar was down 1.59% on the month, and the US Treasury curve was relatively unchanged as the 2-yr Treasury decreased to 0.15% and the 10-yr Treasury yield decreased to 1.60%.

Technicals were a headwind in May with a return of investor outflows and continued positive net supply for the month. High Yield mutual funds/ETFs saw outflows of \$4.0bn, while loan funds experienced inflows of \$4.2bn, as tracked by Lipper and reported by Barclays. High yield new issuance remained elevated in May at \$48.8bn, as tracked by Barclays, while \$25.0bn in bonds were redeemed or upgraded, leaving net supply at \$23.8bn for the month. The percentage of the high yield bond market trading at distressed levels (below 70% of par) increased to 0.6%; the comparable figure for the loan market (below 80% of par) decreased to 1.8% for the month. The par-weighted twelve-month high yield bond default rate was down to 3.1% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate ended May at 1.96%, per JP Morgan.

The ICE BofA Global High Yield Index returned 0.42% in May while the Credit Suisse Leveraged Loan Index returned 0.52%. The yield-to-worst (YTW) for the global high yield was unchanged at 4.08% and spreads increased 3 bps to 357. By rating, the BB, B and CCC bond sub-indices returned 0.35%, 0.34% and 0.99%, respectively. Returns were mixed across sectors for the month with Transportation the top performer, returning 1.39%, while Healthcare was the bottom performer, posting 0.00%. Across risk types (defined by duration and yield to worst), the most speculative securities (yielding 9%+) outperformed the better quality, more rate sensitive part of the market. Global High yield underperformed investment grade corporate bonds, represented by the ICE BofA US Corporate Index's 0.70% as well as large cap equities, represented by the S&P 500's 0.55% return, but outperformed small cap equities, represented by the Russell 2000's 0.11% return.

Strategy

SKY Harbor Global Funds – Global Sustainable High Yield Fund posted a positive return in May but slightly underperformed the index. By risk type, both security selection and allocation were sources of underperformance. The primary drivers of relative performance were weaker in the most rate sensitive part of the market (yielding 0-5%) and the better quality, intermediate part of the market (yielding 6-7%). This was partially offset by strong selection in the intermediate risk part of the market yielding 8-9%. By sector, a lack of exposure to the top performing Energy sector as well as weaker selection in Basic Industry were sources of underperformance while strong selection in Capital Goods was a source of outperformance. By rating, weaker selection in Single-Bs was the primary source of relative returns but was partially offset by an overweight to higher performing Triple-Cs.

The largest positive contributor to returns was Triumph Group Inc. (TGI) 7.75% notes due 2025, which traded up in May on signs that the company continues to make progress with its multi-year business realignment. Last month's largest contributor, American Airlines (AAL) 11.75% notes due 2025, was among the top contributors again in May. The largest bottom contributor was Bausch Health Companies (BHCCN) 5.25% notes due 2031, which traded down on news that the company was changing its previously announced eye health business spin-off plans to be less creditor friendly. Last month's bottom contributor, BWAY Holding Co. (BWAY) 7.25% notes due 2025, was up modestly this month.

Investment Objective

Global ESG socially responsible active investment strategy seeking to outperform the global high yield market with lower volatility by diversified investments in US and non-US dollar high yield corporate bonds of all available maturities and below-investment grade ratings.

Benchmark

ICE BofA Global High Yield Index (HW00) with discretion to derogate from index attributes.

Portfolio Management

Lead PM: Hannah H. Strasser, CFA

Fund Detail

Fund Inception	Apr 05, 2012
Fund AUM	\$94.4 mn
Order Cut-off	12:00 CET
Settlement	T+3
Dealing Frequency	Daily
Valuation Frequency	Daily

Statistics on performance, risk measures and portfolio characteristics are presented in share class Fund Factsheets available online at:

<http://skyharborglobalfunds.com/funds/ushighyield.shtml>

Outlook

Risk assets have benefited from resolution of various key identified risks – the US election, vaccine roll-out, and COVID-19. The sharp rise in interest rates suggests investors have shifted towards focusing on rising inflationary pressures and the path to higher rates. Valuations across risk assets are also top of mind for credit investors.

Investor perception of risks around fundamentals has benefited from a strong recovery in earnings and generally strong aggregate economic data that is supportive of tighter credit spreads over time. Default risk is rapidly normalizing, and the credit ratings cycle is swinging to the positive after a pandemic-induced downgrade cycle. We continue to believe that there remains an opportunity around spread compression based upon lower defaults and strong economic and market conditions.

We believe the market has excess return opportunity associated with sector allocation and credit picking and are mindful of tighter valuations across better quality segments of the market. Unlike last year where picking bonds with recovering results and attractive valuations was a key driver of returns, this year we expect returns will be a function of missing companies that stumble and are rerated to higher yields. Our valuation work suggests a bias towards cyclicals versus defensive issuers and smaller issue sizes over larger issues that have been pushed tighter by ETF buying. We are also biased towards the sectors that are better positioned for somewhat higher corporate taxes.

About SKY Harbor Capital Management

SKY Harbor Capital Management, LLC (“SKY Harbor”), an independent investment manager registered with the US Securities and Exchange Commission, is the appointed Investment Manager for SKY Harbor Global Funds. SKY Harbor offers a range of US high yield and leveraged loan strategies for global institutional investors and private 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. SKY Harbor’s 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.

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