

# SKY HARBOR

CAPITAL MANAGEMENT

*Responsible Investing for a Sustainable Future*



## European SRI Transparency Code

SKY Harbor Capital Management, LLC, revised, June 2021

**SKY HARBOR**  
GLOBAL FUNDS

SKY Harbor Global Funds – Global Sustainable High Yield Fund

SKY Harbor Global Funds – US Short Duration Sustainable High Yield Fund

SKY Harbor Global Funds – Global Short Maturity Sustainable High Yield Fund

The European SRI Transparency Code (the Code) focuses on SRI funds distributed publicly in Europe and is designed to cover a range of assets classes, such as equity and fixed income.

All information pertaining to the European SRI Transparency Code can be found at the following website: [www.eurosif.org](http://www.eurosif.org). The Code comes with a Guidance Manual for fund managers on how to best use and respond to the Code. The present version of the Code was approved by the Board of Eurosif in February 2018.

## **REVISION OF THE CODE**

In 2017 the Code was updated to better reflect the continuing evolution of the European SRI market. A Working Group was set up to facilitate revision of the Code in line with the latest developments in the industry and in view of the latest work carried out by experts at the European and global level.

Applications to sign up to the Code will now be in line with key elements of the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD), Article 173 of the French TECV Act and the latest recommendations made by the High-Level Group of Experts on Sustainable Finance (HLEG) in its final report published in January 2018. Questions that are specifically designed to reflect those recommendations/legislation are indicated in the Code with footnotes.

## **TWO KEY MOTIVATIONS UNDERPIN THIS CODE**

1. The opportunity for retail SRI funds to provide clarification to investors and other stakeholders about their SRI approach in an easily accessible and comparable format.
2. Proactive strengthening of self-regulation to contribute to the development and promotion of SRI funds by setting up a common framework for transparency best practices.

## **GUIDING PRINCIPLE**

Signatories to the Code should be open and honest and should disclose accurate, adequate, and timely information to enable stakeholders, especially consumers, to understand the ESG policies and practices of the fund.

## **COMMITMENTS BY SIGNATORIES**

- The order and exact wording of the questions should be followed;
- Responses should be informative and clear, and the resources and methodologies used should be described in as much detail and as precisely as possible;
- Funds should report data in the currency that they use for other reporting purposes;

- Reasons preventing the fund from providing all or part of the information to a given question should be clearly stated and, in such cases, signatories should state when they will be able to answer the question;
- Responses should be updated at least on an annual basis and should have a precise publication date;
- Responses to the Code should be easily accessible from the website of the fund and/or of the fund manager. In any case, signatories should make it clear where to find the information required by the Code;
- Signatories are solely responsible for the answers to the questions, and should state this in their response.

## **Statement of Commitment**

Sustainable and Responsible Investing is an essential part of the strategic positioning and behavior of SKY Harbor Capital Management, LLC. We have been involved in SRI since 2015 and welcome the European SRI Transparency Code.

This is our first statement of commitment and covers the period January to December 2021. Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our website, at: [www.skyharborglobalfunds.com](http://www.skyharborglobalfunds.com).

## **Compliance with the Transparency Code**

SKY Harbor Capital Management is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate. SKY Harbor Capital Management meets the full recommendations of the European SRI Transparency Code.

January 2021 (revised June 2021)

## Eurosif classification of Sustainable and Responsible Investment<sup>1</sup> strategies

**Sustainability Themed Investment:** investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG. Sustainability Themed Investments inherently contribute to addressing social and/or environmental challenges, such as climate change, eco-efficiency and health. Funds are required to perform an ESG analysis or screening of investments in order to come under this category.

**Best-in-Class Investment Selection:** approach according to which leading or best-performing investments within a universe, category or class are selected or weighted based on ESG criteria. This approach involves the selection or weighting of the best-performing or most improved companies or assets as identified by ESG analysis within a defined investment universe. This approach includes best-in-class, best-in-universe and best-effort.

**Norms-Based Screening:** screening of investments according to their compliance with international standards and norms. This approach involves the screening of investments based on international norms or combinations of norms covering ESG factors. International norms on ESG are those defined by international bodies, such as the United Nations (UN).

**Exclusion of Holdings from Investment Universe:** an approach that excludes specific investments or classes of investment from the investible universe, such as companies, sectors or countries. This approach systematically excludes companies, sectors or countries from the permissible investment universe if they are involved in certain activities based on specific criteria. Common criteria include weapons, pornography, tobacco and animal testing. Exclusions can be imposed at the individual fund or mandate level, but also increasingly at the asset manager or asset owner level, across the entire product range of assets. This approach is also referred to as ethical or values-based exclusion, as exclusion criteria are typically based on the choices made by asset managers or asset owners.

**Integration of ESG Factors into Financial Analysis:** the explicit inclusion by asset managers of ESG risks and opportunities in traditional financial analysis and investment decisions based on a systematic process and appropriate research sources. This category covers explicit consideration of ESG factors alongside financial factors in the mainstream analysis of investments. The integration process focuses on the potential impact of ESG issues on company financials (positive and negative), which in turn may affect the investment decision.

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<sup>1</sup> Sustainable and responsible investment ("SRI") is a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long-term returns for investors and to benefit society by influencing the behaviour of companies. Ref. Eurosif 2016.

**Engagement and Voting on Sustainability Matters:** engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process that seeks to influence behavior or increase disclosure. Engagement and voting on corporate governance are necessary, but are not sufficient in themselves for inclusion in this category.

**Impact Investing:** impact Investments are investments in companies, organisations and funds with the intention of generating a social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below market-to-market rate, depending upon the circumstances<sup>2</sup>. Investments are often project-specific and distinct from philanthropy, as the investor retains ownership of the asset and expects a positive financial return. Impact investing includes microfinance, community investing, social business/entrepreneurship funds and French *fonds solidaires*.

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<sup>2</sup> Global Impact Investing Network (GIIN), “What is Impact Investing?”, <http://www.thegiin.org/cgi-bin/iowa/investing/index.html>, 2012

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## 1. List of Funds covered by the Code

Name of the fund(s): SKY Harbor Global Funds – U.S. Short Duration Sustainable High Yield Fund					
Dominant/preferred SRI strategy (Please choose a maximum of 2 strategies)	Asset class	Exclusions standards and norms	Fund capital as of 31 December	Other labels	Links to relevant documents
<input type="checkbox"/> Best-in-Class Investment Section <input type="checkbox"/> Engagement & Voting <input checked="" type="checkbox"/> ESG Integration <input checked="" type="checkbox"/> Exclusions <input type="checkbox"/> Impact Investing  <input type="checkbox"/> Norms-Based Screening <input checked="" type="checkbox"/> Leading to exclusions <input checked="" type="checkbox"/> Leading to risk management analysis/engagement <input type="checkbox"/> Sustainability Themed	<p><b>Passively managed</b></p> <input type="checkbox"/> Passive investing - core benchmark: specify the index tracking <input type="checkbox"/> Passive investing-ESG/SRI benchmark: specify the index tracking	<input checked="" type="checkbox"/> Controversial weapons <input checked="" type="checkbox"/> Alcohol <input checked="" type="checkbox"/> Tobacco <input checked="" type="checkbox"/> Arms <input type="checkbox"/> Nuclear power <input type="checkbox"/> Human rights <input type="checkbox"/> Labour rights <input checked="" type="checkbox"/> Gambling <input checked="" type="checkbox"/> Pornography <input type="checkbox"/> Animal testing <input type="checkbox"/> Conflict minerals <input type="checkbox"/> Biodiversity <input type="checkbox"/> Deforestation <input checked="" type="checkbox"/> CO2 intensive (including coal) <input type="checkbox"/> Genetic engineering <input checked="" type="checkbox"/> Other (private prisons) <input checked="" type="checkbox"/> Global Compact <input checked="" type="checkbox"/> OECD Guidelines for MNCs <input type="checkbox"/> ILO Conventions <input checked="" type="checkbox"/> Other (UN-backed PRI)	USD 2.5 billion	<input checked="" type="checkbox"/> French SRI label <input type="checkbox"/> French TEEC label <input type="checkbox"/> French CIES label <input checked="" type="checkbox"/> Luxflag Label <input type="checkbox"/> FNG Label <input type="checkbox"/> Austrian Ecolabel <input type="checkbox"/> Other (please specify)	<a href="http://skyharborglobalfunds.com/">http://skyharborglobalfunds.com/</a>

Name of the fund(s): SKY Harbor Global Funds – Global Sustainable High Yield Fund					
Dominant/preferred SRI strategy (Please choose a maximum of 2 strategies)	Asset class	Exclusions standards and norms	Fund capital as of 31 December	Other labels	Links to relevant documents
<input type="checkbox"/> Best-in-Class Investment Section <input type="checkbox"/> Engagement & Voting <input checked="" type="checkbox"/> ESG Integration <input checked="" type="checkbox"/> Exclusions <input type="checkbox"/> Impact Investing  <input type="checkbox"/> Norms-Based Screening ✓ Leading to exclusions ✓ Leading to risk management analysis/engagement <input type="checkbox"/> Sustainability Themed	<p><b>Passively managed</b></p> <input type="checkbox"/> Passive investing - core benchmark: specify the index tracking <input type="checkbox"/> Passive investing-ESG/SRI benchmark: specify the index tracking	<input checked="" type="checkbox"/> Controversial weapons <input checked="" type="checkbox"/> Alcohol <input checked="" type="checkbox"/> Tobacco <input checked="" type="checkbox"/> Arms <input type="checkbox"/> Nuclear power <input type="checkbox"/> Human rights <input type="checkbox"/> Labour rights <input checked="" type="checkbox"/> Gambling <input checked="" type="checkbox"/> Pornography <input type="checkbox"/> Animal testing <input type="checkbox"/> Conflict minerals <input type="checkbox"/> Biodiversity <input type="checkbox"/> Deforestation <input checked="" type="checkbox"/> CO2 intensive (including coal) <input type="checkbox"/> Genetic engineering <input checked="" type="checkbox"/> Other (private prisons) <input checked="" type="checkbox"/> Global Compact <input checked="" type="checkbox"/> OECD Guidelines for MNCs <input type="checkbox"/> ILO Conventions <input checked="" type="checkbox"/> Other (UN-backed PRI)	USD 130 million	<input checked="" type="checkbox"/> French SRI label <input type="checkbox"/> French TEEC label <input type="checkbox"/> French CIES label <input checked="" type="checkbox"/> Luxflag Label <input type="checkbox"/> FNG Label <input type="checkbox"/> Austrian Ecolabel <input type="checkbox"/> Other (please specify)	<a href="http://skyharborglobalfunds.com/">http://skyharborglobalfunds.com/</a>



Name of the fund(s): SKY Harbor Global Funds – Global Short Maturity Sustainable High Yield Fund					
Dominant/preferred SRI strategy (Please choose a maximum of 2 strategies)	Asset class	Exclusions standards and norms	Fund capital as of 31 December	Other labels	Links to relevant documents
<input type="checkbox"/> Best-in-Class Investment Section <input type="checkbox"/> Engagement & Voting <input checked="" type="checkbox"/> ESG Integration <input checked="" type="checkbox"/> Exclusions <input type="checkbox"/> Impact Investing  <input type="checkbox"/> Norms-Based Screening ✓ Leading to exclusions ✓ Leading to risk management analysis/engagement <input type="checkbox"/> Sustainability Themed	<p><b>Passively managed</b></p> <input type="checkbox"/> Passive investing - core benchmark: specify the index tracking <input type="checkbox"/> Passive investing-ESG/SRI benchmark: specify the index tracking  <p><b>Actively Managed</b></p> <input type="checkbox"/> Shares in a euro area country <input type="checkbox"/> Shares in an EU country <input type="checkbox"/> International shares <input checked="" type="checkbox"/> Bonds and other debt securities denominated in US dollars, euro and other OECD currencies <input type="checkbox"/> International bonds and other debt securities <input type="checkbox"/> Monetary assets <input type="checkbox"/> Short-term monetary assets <input type="checkbox"/> Structured funds	<input checked="" type="checkbox"/> Controversial weapons <input checked="" type="checkbox"/> Alcohol <input checked="" type="checkbox"/> Tobacco <input checked="" type="checkbox"/> Arms <input type="checkbox"/> Nuclear power <input type="checkbox"/> Human rights <input type="checkbox"/> Labour rights <input checked="" type="checkbox"/> Gambling <input type="checkbox"/> Pornography <input type="checkbox"/> Animal testing <input type="checkbox"/> Conflict minerals <input type="checkbox"/> Biodiversity <input type="checkbox"/> Deforestation <input checked="" type="checkbox"/> CO2 intensive (including coal) <input type="checkbox"/> Genetic engineering <input checked="" type="checkbox"/> Other (private prisons) <input checked="" type="checkbox"/> Global Compact <input checked="" type="checkbox"/> OECD Guidelines for MNCs <input type="checkbox"/> ILO Conventions <input checked="" type="checkbox"/> Other (UN-backed PRI)	USD 68.5 million	<input checked="" type="checkbox"/> French SRI label <input type="checkbox"/> French TEEC label <input type="checkbox"/> French CIES label <input checked="" type="checkbox"/> Luxflag Label <input type="checkbox"/> FNG Label <input type="checkbox"/> Austrian Ecolabel <input type="checkbox"/> Other (please specify)	<a href="http://skyharborglobalfunds.com/">http://skyharborglobalfunds.com/</a>

## 2. General information about the fund management company

### 2.1 Name of the fund management company that manages the applicant funds

SKY Harbor Capital Management, LLC  
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Greenwich, CT 06830 USA  
[www.skyhcm.com](http://www.skyhcm.com)

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Gordon Eng  
Email: [geng@skyhcm.com](mailto:geng@skyhcm.com)

SKY Harbor Capital Management, LLC (“**SKY Harbor**”) is the designated exclusive investment manager to SKY Harbor Global Funds, an open end UCITS umbrella fund (the “**Fund**”) established under the laws of Luxembourg and regulated by the *Commission de Surveillance du Secteur Financier* (the “**CSSF**”).

### 2.2 What are the company’s track record and principles when it comes to integrating SRI into its processes?

The DNA of SKY Harbor’s leadership and investment process in corporate high yield investment management traces back to the earliest days of the high yield market and has long internalized the notion of stewardship in managing our clients’ assets. Over more than three decades of investing in the corporate high yield market we have come to firmly believe that the companies most likely to make the successful transition to financial stability are companies that look beyond their walls, publicly articulate their corporate purpose and internalize the belief that lasting profitability follows from purposeful actions to support the people, planet, and communities in which they belong — in short, discharging their ethical obligations to their primary stakeholders. We believe that the extra-financial analysis of Sustainability Factors<sup>3</sup> in the investment process can realize benefits beyond the high yield asset class and even beyond financial markets. As prudential regulators the world over increasingly acknowledge, the

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<sup>3</sup> Throughout this Transparency Code, “**Sustainability Factors**” and “**ESG (Environmental, Social, Governance and Human Rights) Factors**” are interchangeable terms with equivalent meaning, and the term “**extra-financial**” shall refer, in the context which it is used, to Sustainability/ESG Factors (e.g., extra-financial analysis means the systematic assessment of Sustainability/ESG Factors).

benefits of corporate sustainability can increase the resilience of the real economy and the stability of the global financial system, which in turn benefits society as a whole.<sup>4</sup>

SKY Harbor has been signatory to the Principles for Responsible Investment (“PRI”) since 2015 and the United Nations Global Compact (the “Compact”) since 2017. As a global financial investment manager, we are aligned with the Compact’s perspective that “**Corporate Sustainability**” is defined as a company’s delivery of long-term value in financial, environmental, social, governance and ethical terms. Corporate Sustainability can also be thought of as business resiliency. This holistic view of corporate sustainability and the Compact’s Ten Principles form the foundation upon which SKY Harbor’s socially responsible investment strategies are built.

This Transparency Code covers all three sub-Funds of the Fund, which comprise the majority of the assets managed by SKY Harbor Capital Management and is representative of SKY Harbor’s strategic commitment to developing and managing SRI strategies. All three sub-Funds systematically consider Environmental, Social, Governance and Human Rights factors and indicators as part of their investment objectives and policies. Hereinafter, “**ESG (Environmental, Social, Governance and Human Rights) Factors**” shall be used interchangeably with “**Sustainability Factors**.”

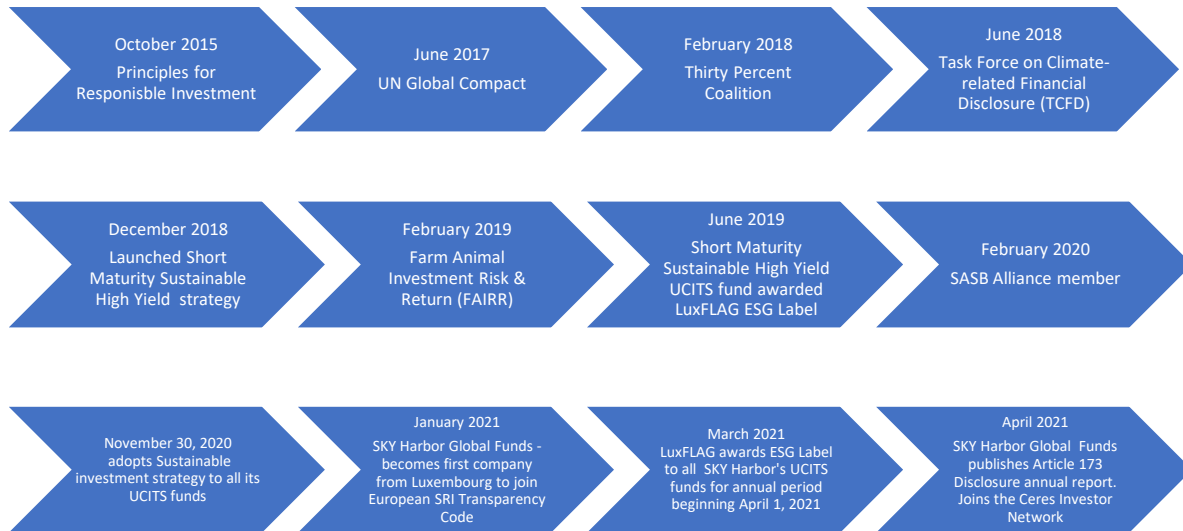
As a global financial investment manager, and as a steward of our clients’ assets, the delivery of long-term financial value is first and foremost top of mind. Delivering financial value goes to the heart of SKY Harbor’s long-held investment philosophy that seeks superior risk-adjusted returns built through the compounding of current income over time and avoidance of principal losses. The definition of Corporate Sustainability also reminds us that, although the delivery of financial value is necessary, it is not sufficient without integrating materially relevant “**Sustainability Risks**,” which are defined as ESG events or conditions that, if they occur, could cause an actual or potential material negative impact on the value of the investment. Thus, Sustainability Risks are expressly considered in the due diligence and deliberative process that characterizes SKY Harbor’s investment process.

The following graphic highlights SKY Harbor’s continuing commitment to incorporating and integrating consideration of Sustainability Risks in its investment process beginning with SKY Harbor’s subscription to the Principles for Responsible Investment in 2015 and continuing to present-day initiatives.

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<sup>4</sup> Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. Hereinafter referred to as the “SFDR.” Recital 19 (Concluding that, “[t]he consideration of sustainability factors in the investment decision-making and advisory processes can realise benefits beyond financial markets. It can increase the resilience of the real economy and the stability of the financial system. In so doing, it can ultimately impact on the risk-return of financial products. It is therefore essential that financial market participants and financial advisers provide the information necessary to enable end investors to make informed investment decisions.”)

### SKY Harbor’s Track record of incorporating SRI processes:

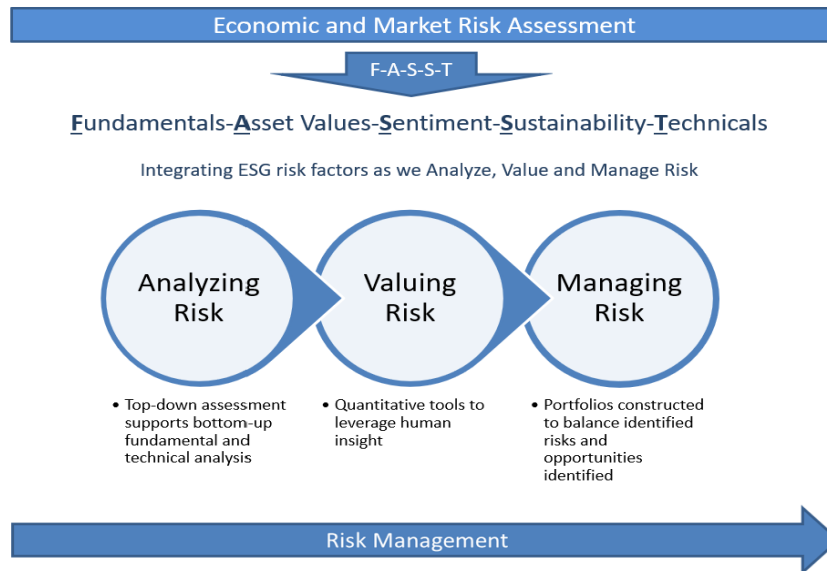


### 2.3 How does the company formalize its sustainable investment process?

SKY Harbor’s sustainable investment process is formalized through the integration of Sustainability Factors into our top-down and bottom-up assessment of investment risks and opportunities. Our top-down assessment of risks and opportunities formalizes the integration of sustainability through the firm’s *FASST* process, which is an acronym that stands for Fundamentals, Asset values, Sentiment, Sustainability, and Technical factors. This top-down analysis further supports our bottom-up fundamental process. Our bottom-up analysis embeds Sustainability Factors into our assessment of issuer-based fundamental risk. Our investment process is further detailed in question 3.5 below.

Our sustainable investment process is centered on assessing, valuing and managing risk. It has been formalized through the experience gained managing high yield debt portfolios through numerous market and economic cycles over more than three decades. We utilize an investment process based on fundamental analysis of issuers and markets, ESG integration, and technical analysis of security characteristics, supported by quantitative valuation and risk monitoring tools. Portfolios are constructed using a quantitative framework that balances the risk and return opportunities embedded in sector positioning and security selection.

## Investment Process Built Around the Unique Risks of the High Yield Market



### a. Fundamental and asset value analysis

Our individual company credit research is guided by our view of the economy and markets, which begins with an initial screening for companies that we believe have a high probability of paying their interest and principal on a timely basis. Over time, we have seen that these companies share certain common characteristics. They generally have:

- In-place and sustainable business models that are not undergoing secular change to the detriment of profitability. This initial assessment includes the examination of the Sustainability Factors of a business to identify the presence of Sustainability Risks and opportunities that might materially impact the financial outcome of an investment.
- Stable to improving cash flows
- Cash generation in excess of fixed financial obligations
- Management teams and owners that have a demonstrated bias towards improving creditworthiness
- Improving Sustainability Factors demonstrating stakeholder primacy, transparency and disclosure, governance and momentum in transitioning to a more sustainable business model

Companies that meet this initial screen undergo a more detailed, multi-step analysis of an issuer's risk through fundamental credit and sustainability-related analysis. The analysis of the risks associated with an issuer's operating potential takes the form of a full Business Due Diligence designed to uncover the key drivers of an issuer's business model, the soundness of

its execution strategy and its sensitivity to various internal and external factors. Employing a robust, proprietary Financial Model, risks relating to a company's Industry Outlook, Operating Potential, Financial Flexibility, and Sustainability Factors are carefully evaluated to assess an issuer's financial flexibility and its long-term ability to operate within its existing capital structure.

Our analysis also evaluates external forces in place or looming that may impact the outlook for an issuer and its peer group, which may include cyclical and secular sector and industry trends, the efficacy of industry sustainability, and the regulatory environment.

#### **b. Sustainability analysis**

Sustainability Factors and fundamental credit analysis are performed concurrently to evaluate an issuer's impact and relationship with its primary stakeholders, including the environment, its workforce, customers, suppliers (including capital suppliers) and society overall. Because no one size or indicator fits all, not all Sustainability Risks or Sustainability Factors are relevant or applicable and not all apply at the same time or the same magnitude. Each company or industry can be expected to have its own unique Sustainability Risks and Sustainability Factors. The goal of our ESG-integrated investment process is to identify, assess and manage the most relevant and financially material risks that may impact an issuer. To the extent possible and practical given the reality of widely disparate and often incomparable or inconsistent data, sources and disclosure, externalities that have yet to be captured in financial reporting are also assessed to further align with our SRI non-financial objectives.

To formalize this assessment into the investment process, SKY Harbor has designed a proprietary sustainability scoring methodology (the "Value Rubric"), which seeks to capture in a quantifiable and deliberative fashion the Sustainability Factors that we believe are most relevant in identifying high yield companies that are best positioned to benefit from the transition to a sustainable and inclusive economy — or not.

The Sustainability Factors captured in the Value Rubric include those identified below as well as the degree to which a company has made express or implied *de facto* commitments to one or more of the UN Sustainable Development Goals (SDGs).

The Value Rubric scores the following Sustainability Factors:

Value Rubric's Sustainability Factors					
	Environmental	Social	Governance	Human Rights	
<b>Factors</b>	Direct and Indirect GHG Emissions (Scope 1&2)	Safety & Wellness Focus	Chief Sustainability Officer or Committee	CSR HR <sup>ts</sup> Governance, Due Diligence & Remedy	
	TCFD elements	Community Engagement / Commitments	Diversity Officer or Committee	Sustainability Report	
			Sustainable Product Highlight	Board Diversity	Norms-Based
				Board Independence	
<b>Principal Adverse Impacts:</b>	High Transition Risk	Exploitive Business Models	Specified Unlawful Acts	Endangering Human Rights	
<b>Positive Impacts:</b>	Positive Environmental Impact	Positive Social Impact	Positive Governance Impact		
<b>Post Engagement Response Factor</b>			Engagement		
<b>Total Score for each Dimension</b>	E Score	S Score	G Score	HR <sup>ts</sup> Score	
<b>Final Rubric Score</b>	Total Score				

ESG (Impact) Indicator selected by SKY Harbor

Internal Score
External Score (source: ISS-ESG)

The focus on ESG integration should not, however, be viewed as predominating over or diminishing the equally critical importance of traditional financial analysis, which remains the bedrock of credit-picking across the below investment grade corporate debt issuer universe. Rather, in performing extra-financial analysis of a company's business model, SKY Harbor's in-house investment analysts seek to uncover Sustainability Risks and externalities, risk mitigation measures, or business opportunities that might not otherwise surface by traditional fundamental financial metrics alone.

**c. Sources and use of research (internal and external)**

Our research effort is predominantly generated internally and customized for our specific needs. We use a variety of primary and secondary sources to produce our research product. A large portion of the information embedded in our research is publicly available and generally provided by issuing companies (SEC public filings, equivalent private filings, company websites, company-provided presentations, conference calls and transcripts). Secondary sources of information that may be additive can include public information provided by issuer competitors, economic and market data typically accessed on Bloomberg, financial press, general news sources, government agency and industry association publications, rating agency reports and commentary, in-person store/channel checks, and discussions with other buy-side analysts.

Additionally, ISS-ESG, an independent data provider, has been retained to provide GHG emission data, climate scenarios on a portfolio-wide basis and norms-based controversy screening. Finally, as a member of the SASB Alliance, our analysts benefit from resources and networking available to SASB Alliance members, which assists our research regarding the relative weighting of different ESG factors across companies and sectors.

**d. Technicals/sentiment**

We incorporate technical analysis into both our top-down *FASST* process and our bottom-up analysis. The top-down technical analysis focuses on overall trends of the market on credit rating migration levels (fallen angels vs rising stars), new issue volumes and use of proceeds and overall flows into the market. These trends help to develop a sense of supply and demand in the high yield market and feed into sentiment, which is continually shifting as prevailing market conditions evolve over time.

#### 2.4 How are ESG risks and opportunities — including those linked to climate change — understood/taken into account by company?

SKY Harbor believes that its core investment philosophy of protecting invested principal and compounding current income over time to drive returns is best achieved by investing in companies that are successful in transitioning to financial stability and managing the risk of negative outcomes for all their stakeholders. Implementing this investment philosophy involves a deep understanding of an issuer's Sustainability Factors — including climate change — and its fundamental business and financial risks in light of both financial and extra-financial investment objectives.

As previously indicated in section 2.3, SKY Harbor's analysis of the risks and opportunities associated with an issuer's industry incorporates cyclical and secular trends, the efficacy of industry sustainability, and the regulatory environment. The aim is to assess the external forces — including climate change - that may impact the outlook for an issuer and its peer group. Those external forces and their associated risks correspond to a company's industry outlook,



operating potential, its financial flexibility and the risks and opportunities embedded in its Sustainability Factors.

SKY Harbor considers a broad range of ESG risks and opportunities as part of our investment analysis of high yield issuers, which includes the extra-financial analysis of a company's business:

**E: A company's environmental footprint and issues.** A company's business model cannot be deemed sustainable if it is not mindful of the environment in which it operates, and even more so if its activities are detrimental to the environment. For that reason, it is essential to factor in how a company's activities, services, products and objectives may harm (or conversely benefit) the environment. We use key metrics and indicators to assess how the issuer understands and acknowledges its Environmental risks and is willing to remediate any negative impact and externalities. We take into consideration the physical and transition risks as part of our assessment of a company's Environmental footprint.

**S: A company's social practices and impact.** A company's success is intrinsically tied to its People. In other words, understanding how a company fosters and manages its Human Capital is just as vital as assessing how it deploys financial capital. To that end, we are using indicators and factors to assess not only how well a company protects and develops its Human Capital, but also its impact — whether positive or negative — on the communities in which it operates and on society as a whole.

**G: Governance-related issues.** Sound governance — including Board independence, diversity and oversight — is the key to ensuring durable success of a company, both financially and from an extra-financial standpoint. It is critical to mitigating risks, addressing externalities, and safeguarding the interests of the company's principal stakeholders.

**HR<sup>ts</sup>: Human Rights.** The first two of the Ten Principles of the UN Global Compact provide that "Businesses should support and respect the protection of internationally proclaimed human rights; and make sure they are not complicit in human rights abuses." As a natural extension to understanding a company's social behavior, we monitor businesses' conduct with international norms pertaining to Human Rights and whether they are remediating any issues in that regard.

While recognizing that certain ESG Factors and indicators may have greater relevancy in one sector or industry versus another, a priority of the Fund's sustainable investment strategies involves climate action. Climate action is prioritized by the Negative Exclusions relating to Metals and Mining, Energy and Utilities and in our Value Rubric scoring of activities that have principal adverse impacts. SKY Harbor has retained ISS-ESG, an independent third-party vendor to provide a Climate Impact Assessment on each of the Fund's sub-Fund portfolios.

The Climate Impact Assessment reports on each portfolio's CO<sub>2</sub>e (CO<sub>2</sub> equivalent) emissions exposure both on an absolute basis, which includes emissions from direct energy use, energy use from purchased electricity, and indirect energy use (a/k/a scope 1, 2, and 3 emissions

respectively), and a relative basis consisting of relative carbon footprint and carbon intensity. The report further analyzes CO<sub>2</sub>e emissions exposure by sector contributions, identifying those sectors in the portfolio with the greatest contribution to CO<sub>2</sub>e emissions. These metrics are compared to a general high yield index such as the ICE BofA US High Yield Index (ticker: HOA0) benchmark. The analysis evaluates the top 10 companies in the portfolio that are the largest contributors of portfolio emissions and also provides an emission attribution analysis that highlights the top sectors to emission attribution exposure as compared to the benchmark. The highest emission-intensive issuers in the combined portfolio and high yield universe (as represented in the benchmark) are also identified along with corresponding scope 1 & 2 emissions and carbon risk rating. A section of the Climate Impact Assessment estimates the GHG emission intensity (a ratio of tCO<sub>2</sub> scope 1 & 2 emissions to revenue) of the top 10 companies in the portfolio.

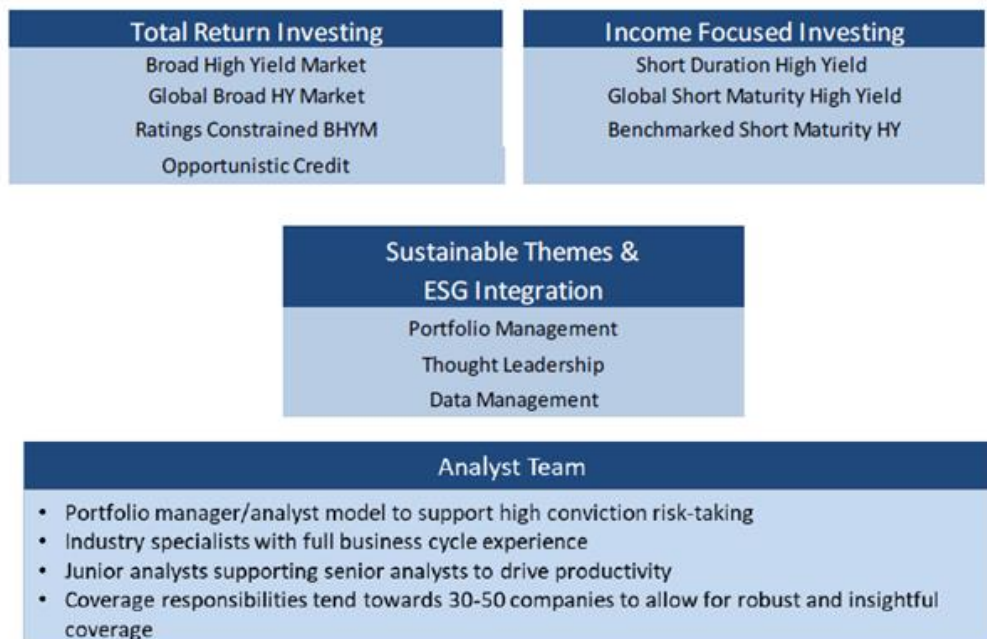
The Climate Impact Assessment, among other things, also analyzes each portfolio's compliance with a carbon budget scenario based on below 2 degrees Celsius as well as warming scenarios of 4 degrees and 6 degrees Celsius extending out to 2050. We strive to integrate the goals of the Paris Accord in the Fund's portfolios despite the fact that high yield issuers generally lag in disclosing metrics and targets.

## 2.5 How many employees are directly involved in the company's sustainable investment activity?

The entire SKY Harbor organization – our Board, investment team, and operations and client service teams – is engaged in our ESG integration and sustainability efforts.

Co-founder and Managing Director Hannah Strasser leads the firm's multi-year effort in support of the 2030 Agenda for Sustainable Development Goals ("SDGs") not only in terms of the company's personal conduct but as a steward of our investors' capital.

## Portfolio Management Working Groups by Investment Strategy



SKY Harbor’s Sustainable Themes and ESG Integration Working Group (the “ESG Working Group”) is organizationally positioned along-side our Short Duration and Broad High Yield investment strategy working groups. Our Co-founder and Managing Director, Hannah Strasser and our Head of Investing, David Kinsley provide investment process integration and portfolio management expertise within this working group. General Counsel & CCO Gordon Eng oversees sustainability-focused thought leadership, leveraging his expertise in regulatory and compliance matters and his legal perspective on board governance and public policy issues. The five-person Sustainable Themes and ESG Integration Working Group is further supported by an ESG data management specialist, who provides quantitative support for our proprietary assessment of the high yield issuer universe, and an ESG-dedicated associate, who provides special topic research and support.

We believe this organizational structure allows for the efficient development of best practices without isolating information away from the full investment team.

The ESG Working Group spearheads SKY Harbor’s sustainability initiatives, projects and developments. Some of these activities include:

- Defining and overseeing the implementation of the ESG and sustainable investment policy
- Drafting and validating the sustainability disclosures pursuant to the EC Sustainable Finance Disclosure Directive as contained in the Fund’s Sustainability Policy and

Procedures as well as drafting other documents such as the Eurosif SRI Transparency Code, or the Article 173 Disclosures.

- Updating and enhancing the firm’s capabilities (tools, procedures, etc.) and contributing to the updates and enhancements to the proprietary “Value Rubric.”
- Keeping abreast of new developments, initiatives, regulations pertaining to Sustainability and ensuring that such insight is shared with everyone at SKY Harbor.
- Ensuring that SKY Harbor’s commitment to Sustainability is inculcated in personal objectives and remuneration of the firm’s staff.
- Providing ongoing training, education and compliance in ESG and sustainability.
- Assessing participation in collective engagements.
- Monitoring the availability of Sustainability Factors in the high yield market with the hopeful expectation that the asset class increasingly transitions to a more sustainable economic model.

The ESG Working Group has consistent internal discussions and has a regular dialogue with the investment team of portfolio managers and research analysts as well as with marketing and client-facing managers to ensure a consistent and common purpose with respect to SKY Harbor’s Sustainable goals and objectives.

As of April 30, 2021, there are 16 people directly involved in the Sustainable investment activity. 5 Portfolio Managers/analysts, 5 analysts and 2 traders supported by one dedicated ESG associate, 1 Compliance, 1 Technology, and 1 Relationship Management.

## 2.6 Is the company involved in any RI initiatives?

Yes, as indicated above, SKY Harbor is signatory to the UN-backed Principles for Responsible Investment, the UN Global Compact, TCFD, 30 percent coalition, FAIRR, Ceres Investor Network and is a SASB Alliance Member.

Furthermore, the SKY Harbor Global Funds’ 2020 annual report includes Article 173 Disclosures pursuant to the French law on energy transition and green growth.

## 2.7 What is the total number of SRI assets under the company’s management?

SRI Assets represent approximately \$2.8 billion as of April 30, 2021, which corresponds to approximately 60% of SKY Harbor Capital Management’s total Assets Under Management

### 3. General information about the SRI fund(s) that come under the scope of the Code

#### 3.1 What are the funds aiming to achieve by integrating ESG factors?

SKY Harbor believes that investing responsibly is investing for a sustainable future. Safeguarding investors' assets and helping them achieve consistent superior risk-adjusted returns are paramount considerations for the Fund and Fund's Investment Manager. To that end, incorporating extra-financial analysis in the investment process is viewed as part of our fiduciary duty.

The financial objective of our socially responsible investment strategies is to enhance returns through ESG risk mitigation and identification of issuers whose credit trends benefit from well-conceived sustainability strategies and positive ESG positioning and momentum.

The financial objective of these strategies is inextricably linked to the goal of encouraging issuers of below investment grade debt to embrace Corporate Sustainability, as defined by the UN Global Compact, and contribute to Sustainable Development through business activity that increasingly aligns with one or more of the 17 UN Sustainable Development Goals.

Over time, with increasing data and robust trend analysis, the Fund's sub-Funds are expected to increasingly favor a diversified portfolio with generally heavier weighting for issuers with more positive E, S, G and HR<sup>ts</sup> metrics and momentum.

SKY Harbor will be transparent about the progress made across this issuer universe and specific regarding our direct and collaborative engagement efforts in support of this ambition. We intend to monitor such progress according to each of the E, S, G and HR<sup>ts</sup> dimensions and will assign a specific criterion ("**Impact Indicators**") to capture the essence of each of the following principles:

**Environment:** responsible business models mindful of the environment, and acknowledging the physical and transition challenges of Climate Change

**Social:** demonstrating sound management of Human Capital as well as its impact on its principal stakeholders and society as a whole

**Governance:** implementation of sound governance principles and structures

**Human Rights:** protecting and respecting these most fundamental of rights

The four Impact Indicators that we have selected are set forth in more detail below in section 3.3.

We expect that the result of adhering to SRI goals and objectives will result in comparatively favorable risk-adjusted returns through lower volatility and less principal losses through lower default and distressed-related sales, and relatively higher weighted investment in companies contributing to or in transition toward achieving UN SDGs. Our socially responsible investment principles and initiatives reflect our belief, and experience, that issuers with positive Sustainability Factors and/or momentum thereof are better positioned to achieve long-term financial value; have less propensity to default; and can expect to continue attracting capital well into the future; all of which should translate into better risk-adjusted returns over time. Moreover, the Fund's negative exclusion of fossil fuels and our focus on climate change and decarbonization are expected to manifest a consistently lower carbon footprint both absolute and relative terms compared to the high yield universe as measured by the ICE BofA US High Yield Index (ticker: HOAO).

Studies that have examined the impact of ESG considerations on investor returns have generally reported a statistically significant correlation between positive investment performance and positive ESG risk attributes. These studies highlight "the growing body of evidence that investors do not have to sacrifice risk or returns to invest in ESG investment vehicles."<sup>5</sup> Some studies have gone further finding that, "sustainable funds delivered higher returns than equivalent conventional funds over the past decade."<sup>6</sup>

In our view, companies which embark on sustainable and responsible business practices that abide by the international norms in terms of Human & Labor Rights, promote diversity and inclusion, good governance principles, responsible use of natural resources and moderate carbon emissions are companies well-positioned for the transition to a more sustainable and inclusive economic future. Over time, stakeholder-oriented companies that operate with higher standards are expected to have lower financial risks while generating excess returns.

### 3.2 What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the funds?

The ESG data we incorporate into our investment decision-making is primarily generated from in-house research carried out by the analysts and PMs/analysts. Our proprietary Value Rubric tracks KPIs and scores related to positive, and, to a lesser extent negative, ESG attributes/sustainability for 1000+ high yield companies. We look at ESG attributes and data, primarily based on company-reported information, and relevant industry-specific ESG factors to make issuer-specific assessments of ESG risks, opportunities and momentum.

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<sup>5</sup> Madison Sargis, Patrick Wang, *How Does Investing in ESG Companies Affect Returns?*, Feb. 19, 2020 Morningstar, available at: <https://www.morningstar.com/insights/2020/02/19/esg-companies>. See also: Siobhan Riding, *Majority of ESG funds outperform wider market over 10 years*, June 13, 2020, FT Online (subs. req'd) (reporting that "study of sustainable funds counters claims that ESG investment comes at the expense of performance."), available at: <https://www.ft.com/content/733ee6ff-446e-4f8b-86b2-19ef42da3824>.

<sup>6</sup> Id. See cited article at FT Online (subs. req'd).

Our internal research is supplemented with industry reports and research from third-party data providers, institutional financial institutions, ESG-related organizations, financial press and other public reports (NGOs, public agencies etc.).

In addition, SKY Harbor has retained ISS-ESG for a number of services to supplement the firm's in-house capabilities. ISS-ESG serves as a data provider for GHG emissions and Climate Impact on portfolio-wide basis. ISS-ESG also provides SKY Harbor with a Norms-Based Research screen to help in monitoring and identifying possible violations of Global Compact principles and other internationally proclaimed norms or other controversial activities. SKY Harbor also subscribes to the SDG Solutions Assessment tool in which ISS-ESG attempts to measure the alignment of the Fund's issuers with the Compact's SDGs.

### 3.3 What ESG criteria are taken into account by the funds?

The integration of the four components of the Sustainability Factors forms the foundation that further supports the Fund's extra-financial objectives.

As previously mentioned, four Impact Indicators (one for each of the E, S, G and HR<sup>ts</sup> dimensions) have been designed to monitor the performance of the sub-Funds and to compare them to the high yield universe. These Impact Indicators will be part of the quarterly Sustainable Reports of the three sub-Funds, which will contribute to the evolution of a track record over time. These reports will notably provide details on the respective coverage of that indicator (for the sub-Funds and for the high yield universe), as well as the scores (for the sub-Funds and for the high yield universe). The total Value Rubric score of the portfolio and of the underlying universe will also be presented in these reports.

#### **Environment:**

The Environmental Impact Indicator we have selected for all three sub-Funds is the **Direct and Indirect GHG emissions (Scope 1 & 2)**.

Unit of measure: Score based on Tons of CO<sub>2</sub> equivalents per unit of revenue (in USD millions) using an equivalence table.

Source: ISS-ESG

Goal: to achieve at least 70% coverage of the sub-Funds that can be consistently measured by this indicator.

#### **Social:**

The Social Impact Indicator we have selected for all three sub-Funds is the **Safety & Wellness Factor**.

Unit of measure: Percentage based on Boolean indicator (disclosure of specific measures, protocols and/or principles to ensure the Safety and Wellness of the company's workforce).

Source: This indicator is proprietary to SKY Harbor.

Goal: to achieve at least 90% coverage of the sub-Funds that can be consistently measurable according to this indicator.

### **Governance:**

The Governance Impact Indicator we have selected for all three sub-Funds is the presence of a **Chief Sustainability Officer or Committee**.

Unit of measure: Percentage based on Boolean indicator (existence of a Chief Sustainability Officer or committee).

Source: This indicator is proprietary to SKY Harbor.

Goal: to achieve at least 90% coverage of the sub-Funds that can be consistently measurable according to this indicator.

### **Human Rights:**

The Human Rights Impact Indicator we have selected for all three sub-Funds is the company's governance, due diligence and remedial action policies specifically pertaining to human rights contained in its corporate social/sustainability report (**CSR HR<sup>ts</sup>**) or other publicly available manifestations of its commitment to implementing the United Nations "Protect, respect and Remedy" Framework as set forth in the *Guiding Principles on Business and Human Rights* © 2011 United Nations.

Unit of measure: ordinal number value in the proprietary Value Rubric scoring methodology.

Source: Proprietary scoring system modeled after the assessment methodology of the Corporate Human Rights Benchmark Ltd. © April 2019.

Goal: to achieve at least 90% coverage of the sub-Funds that can be consistently measurable according to this indicator.

A comprehensive description of the Sustainability Factors and criteria is provided in question 3.5.

Where feasible based on available information or data, scrutiny of responsible business conduct will also be considered in recognition that severe externalities associated with a company can suddenly convert into near-term Sustainability Risks.



The Value Rubric also provides data and trends on which to inform our engagement efforts. The lack of progress toward sustainability over time may also be a debilitating factor leading to divestment as set forth in more detail below in section 6.2.

### 3.4 What principles and criteria linked to climate change are taken into account in the funds?

With respect to the portfolios, the general principle of decreasing GHG emissions to achieve the goals of the Paris Accord informs the sub-Funds' sustainability strategy with respect to the environmental component of ESG.

The Climate Impact Assessment reports on each portfolio's CO<sub>2</sub>e (CO<sub>2</sub> equivalent) emissions exposure on an absolute basis, which includes emissions from direct energy use, energy use from purchased electricity, and indirect energy use (a/k/a scope 1, 2, and 3 emissions respectively), and on a relative basis consisting of relative carbon footprint and carbon intensity. The report further analyzes CO<sub>2</sub>e emissions exposure by sector contributions, identifying those sectors in the portfolio with the greatest contribution to CO<sub>2</sub>e emissions. These metrics are compared to a general high yield index such as the ICE BofA US High Yield Index (ticker: HOAO) benchmark.

The analysis evaluates the top 10 companies in the portfolio that are the largest contributors of portfolio emissions and also provides an emission attribution analysis that highlights the top sectors to emission attribution exposure as compared to the benchmark. The highest emission-intensive issuers in the combined portfolio and high yield universe (as represented in the benchmark) are also identified along with corresponding scope 1 & 2 emissions and carbon risk rating. A section of the Climate Impact Assessment estimates the GHG emission intensity (a ratio of tCO<sub>2</sub> scope 1 & 2 emissions to revenue) of the top 10 companies in the portfolio.

The Climate Impact Assessment, among other things, also analyzes each portfolio's compliance with carbon budget scenarios based on below 2 degrees Celsius as well as warming scenarios of 4 degrees and 6 degrees Celsius extending out to 2050.

We prioritize the avoidance of businesses with the highest transition risk as we believe high transition risk in combination with high financial leverage creates unsustainability and pressures a company's ability to meet its financial obligations on a timely basis, thereby creating default risk. We further exclude those companies that are deemed to have the most adverse impact on climate change. More specifically, the sub-Funds shall exclude:

- Metals and Mining: issuers that derive more than 5% of reported revenue from thermal coal used in energy production (excluding metallurgical coal used in steel production).
- Utilities: issuers that derive more than 5% of reported revenue from coal used in energy production (excluding metallurgical coal used in steel production).

- Energy: issuers that derive more than 5% of reported revenue from coal, oil or natural gas used in energy production (i.e., fossil fuels).

### 3.5 What is the ESG analysis and evaluation methodology of the fund manager/fund management company (how is the investment universe built, what rating scale is used etc.)?

As a preliminary note, references and/or comparisons to the “investable universe” or “investment universe” of the high yield market refers to the securities (and their issuers) comprising the ICE BofA US High Yield Index (ticker HOAO), which is widely recognized as representative of the High Yield market. The Sub-Funds, however, are permitted to also invest in securities not included in the HOAO index, such as for example, securities of less than the minimum size or tenor that qualify for inclusion in the HOAO Index or securities issued outside the US domestic market not denominated in US dollars (collectively “out-of-index” securities). The presence of out-of-index securities in Sub-Fund portfolios, however, does not detract from the HOAO index serving as a suitable representative proxy for the High Yield market, because with few if any exceptions, High Yield companies that have issued out-of-index securities (including non-US Dollar denominated securities) purchased for the Sub-Funds are likely also in the HOAO Index due to other securities they have issued that qualify for inclusion that index.

Negative exclusions are one of the three pillars of socially responsible investing that characterize SKY Harbor Global Funds and all its sub-fund strategies — ESG Integration and Engagement comprise the other two pillars. The Fund’s responsible investment strategy consists of negative exclusions based on the environment (climate and GHG emissions) and on exploitive business models such as harmful products (tobacco and alcohol) and addictive or exploitive behavior (gambling and adult entertainment and for-profit prisons).

ESG integration: Negative Exclusions are supplemented by discretionary exclusions based on failure to meet the minimum threshold score in SKY Harbor’s proprietary Value Rubric.

Broadly, our extra-financial analysis considers both positive and negative sustainability attributes rooted in transparency and disclosure, sustainability in their business model, climate awareness, attention to international norms, governance and employee and community engagement. The Value Rubric’s KPIs comprise both qualitative and quantitative indicators and metrics.

Because we believe that companies that accelerate their transformation to a more sustainable business will be rewarded with lower cost of capital and as investors we will be rewarded with better risk-adjusted returns, *ceteris paribus*, we consciously prioritize companies that score better across our Sustainability Factors. We expect this should manifest itself in higher relative KPIs and a higher overall ESG value score than the comparative high yield market.

The Value Rubric scores the following Sustainability Factors:

Value Rubric's Sustainability Factors				
	Environmental	Social	Governance	Human Rights
<b>Factors</b>	Direct and Indirect GHG Emissions (Scope 1&2)	Safety & Wellness Focus	Chief Sustainability Officer or Committee	CSR HR <sup>ts</sup> Governance, Due Diligence & Remedy
	TCFD elements	Community Engagement / Commitments	Diversity Officer or Committee	Sustainability Report
		Sustainable Product Highlight	Board Diversity	Norms-Based
			Board Independence	
<b>Principal Adverse Impacts:</b>	High Transition Risk	Exploitive Business Models	Specified Unlawful Acts	Endangering Human Rights
<b>Positive Impacts:</b>	Positive Environmental Impact	Positive Social Impact	Positive Governance Impact	
<b>Post Engagement Response Factor</b>			Engagement	
<b>Total Score for each Dimension</b>	E Score	S Score	G Score	HR <sup>ts</sup> Score
<b>Final Rubric Score</b>	Total Score			

ESG (Impact) Indicator selected by SKY Harbor

Internal Score

External Score (source: ISS-ESG)

The Principal Adverse Impacts are more specifically categorized and described as follows:

E = High Transition Risk

S = Exploitive Business Models

G = Specified Unlawful Acts (e.g., bribery, corruption, tax evasion, product liability, failure of Board oversight).

HR<sup>ts</sup> = Endangers Human Rights (i.e., verified and unredeemed material violations of internationally proclaimed norms and conventions regarding human rights).

If an issuer has more than one Principal Adverse Impact, the analyst will assign the Principal Adverse Impact score to the category that is most severe.

Conversely, SKY Harbor uses a positive impact score to reward particularly commendable behaviors, initiatives or efforts. Analysts will assign a score to one of E, S, or G based on the dimension that is most aligned with the positive impact. In addition, SKY Harbor’s analysts monitor companies’ response to engagement efforts. An engagement score is included in the calculation of the total G score.

This Final score is computed as the sum of the E, S, G and HR<sup>ts</sup> underlying scores. Issuers with a Rubric score below SKY Harbor’s minimum threshold are excluded from the investible universe of the Fund.

**At least 20% of the issuers in the underlying universe of the sub-Funds** (as defined by the ICE BofA US High Yield Index, H0A0) shall **be excluded at all times as a result of the combination of negative exclusions and the failure to meet SKY Harbor’s minimum Value Rubric score criterion.**

For illustrative purposes: Percentages of the representative investment universe of the SKY Harbor Global Funds sub-Funds from an ESG standpoint (i.e. the ICE BofA US High Yield Index, Ticker H0A0) excluded by SKY Harbor’s ESG methodology:

	Market weighted (in %)	Issuer weighted (in %)
(1) Negative screening exclusions (as listed in question 4.1)	19.13	18.63
Country exclusions (as detailed in this question)	1.99	1.44
ESG Scores in the Value Rubric below minimum eligibility threshold	20.00	21.06
(2) Countries excluded (but not negatively screened and not below eligibility threshold)	1.60	1.00
(3) ESG scores below eligibility threshold but not negatively screened and not a country exclusion	1.57	3.88
(1+2+3) Total Exclusions	22.30	23.50
These exclusions comprise no overlaps		
These exclusions comprise some overlaps		

Data as of May 31, 2021. Sources: ICE, SKY Harbor. This table will be updated at least annually

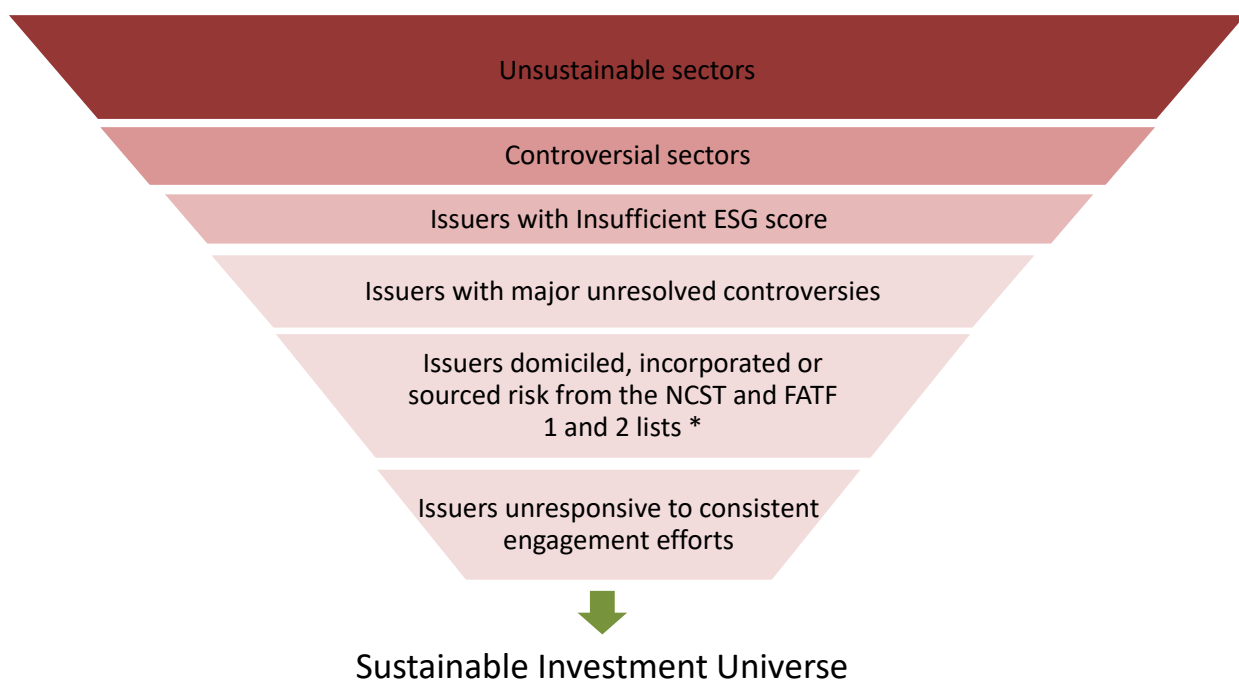
SKY Harbor’s ESG methodology shall be reviewed at least annually but also throughout the year as developments in sustainability continue to evolve.

Also relevant in defining the scope of the investment universe, SKY Harbor Global Funds is committed to global efforts to single out jurisdictions deemed lacking in cooperation or promulgating unacceptable standards with regard to money laundering and counterterrorist financing (“AML-CTF”). In this regard we respect country sanction restrictions by the United States, EU, and the Financial Action Task Force (“FATF”). The Fund’s policy is to scrutinize both so-called black and gray lists, and other recognized authorities including but not limited to the Lists of Non-cooperative States and Territories (the “NCST”) maintained by France and the EU. On subscriptions and redemptions into and out of the Fund, compliance with sanctioned country lists is governed by the Fund’s Risk Based Approach to AML and CTF. With respect to the investment universe the Fund currently implements a strict approach by excluding any

security associated with any of the aforementioned countries as identified by country of domicile, country of incorporation or by country of risk (according to Bloomberg).

The negative exclusions as well as the minimum Value Rubric score's binding eligibility criterion are monitored for compliance through our pre- and post-compliance automated straight-through processing applications and by periodic examinations by the Compliance function.

## Below Investment Grade Debt Issuer Universe



\* Exclusion implemented as of April 2021  
Source: SKY Harbor

### 3.6 How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?

The Sustainability Factors of each issuer shall be reviewed by the analysts at least annually. ESG evaluation, however, is conducted on a continuous and regular basis often, but not exclusively, in conjunction with debt issuers' release of financial and management discussion and analysis as part of required securities filings. ESG evaluation is also supplemented with additional scrutiny based on information made available through news outlets, investor conferences, press reports, social media, government enforcement actions, general industry and sector developments or by the aforementioned services from ISS-ESG. Changes to the Value Rubric scores are immediately reflected throughout SKY Harbor's investment databases including in the pre- and post-trade automated compliance applications. These changes, which may also

involve analyst imposition of negative penalty or positive momentum (bonus) points, are accessible to every member of the investment team.

Even though the high yield asset class generally continues to lag in sustainability-related transparency and disclosure compared to other asset classes, the momentum for such disclosures is gaining some strength, and we believe that progress will motivate periodic reevaluations of the Value Rubric, but in any case no less frequently than annually. New factors are expected to be added as transparency and disclosures improve, and as a result, the minimum Value Rubric total score for an issuer to be eligible is expected to evolve over time, as are the ranges of scores. Material changes, however, will be disclosed on timely basis through revisions to this and other publicly available documents concerning the Fund and SKY Harbor.

Controversies, if any, are envisaged to be managed first within and among the investment team in conjunction with the Sustainable Themes & ESG Integration working group, which is a separate working group that operates alongside the investment management working groups and comprises, among others, the firm's managing director, head of investments, and the general counsel/chief compliance officer who serves in a thought leadership capacity within the working group. If appropriate and feasible, controversies will inform direct engagement or indirect collaborative communications. Depending on facts and circumstances, controversies will be assigned an appropriate penalty score, which could lead to underweighting or ultimately, to divestment.

## 4. Investment Process

### 4.1 How are the results of the ESG research integrated into portfolio construction?

As detailed above in Section 2.3, our sustainable investment process is a holistic financial and extra-financial approach and seeks to identify those companies that are suitable for inclusion in the portfolios we manage for the benefit of our clients and investors. The E, S, G and HR<sup>ts</sup> criteria are in our view essential to understanding the full range of risks and opportunities in evaluating an issuer's creditworthiness over the long term as well as its relationship with its stakeholders.

ESG information is captured and analyzed in the course of conducting our credit research: Our value rubric and ancillary ESG data is stored in our proprietary SKYView research database to allow analysts to highlight pertinent ESG factors as an element of their current assessment of issuer-based risks and opportunities and eventually to enable longitudinal and time series analysis of such factors. This information is intended to better inform our analysis of Sustainability Factors that could signal risks for the issuer and/or its industry. The SKYView database offers real-time accessibility and transparency to the entire investment team.

The Value Rubric is a crucial resource, which allows our investment team to screen the universe of high yield bonds' issuers. The use of the Value Rubric by the investment team is fourfold:

- ✓ Relying on the Value Rubric's scores, the investment team can exclude issuers that have a score below the minimum eligibility threshold;
- ✓ The portfolio managers of the sub-Funds leverage the Value Rubric to optimize their positioning and enhance the portfolios' ESG score and the selected criteria;
- ✓ The portfolio managers of the sub-Funds leverage the Value Rubric to further enrich relative value comparisons by allowing industry comparisons across sustainability KPIs; and
- ✓ The Value Rubric's scores shall inform the firm's engagement efforts.

Ongoing monitoring of the evolution of the Value Rubric's scores will create an ESG baseline, which is intended to serve as a progress measure as targeted companies over time transition to a sustainable business model.

**SKY Harbor's research process is fully integrated to include sustainability in all steps.**

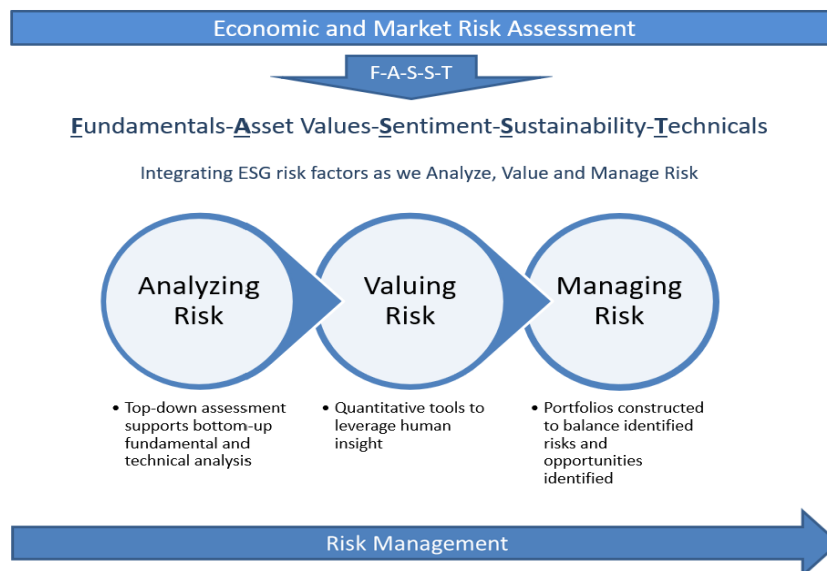
SKY Harbor's analyst team is organized by sectors. Research analysts produce and issue full financial models, earnings updates, new issue write-ups, score companies across our Value Rubric, engage with companies in their sector and produce other materials all relevant to assessing the creditworthiness of an issuer.

**The three sub-Funds commit to having at least 90% of their holdings scored from an E, S, G and HR<sup>ts</sup> standpoint by our Value Rubric at all times.**

Our individual company financial and extra-financial research is guided by our view of the economy and markets and begins with an initial screening for companies that we believe have a high probability of paying their interest and principal on a timely basis and have business models evidencing a transition to a more sustainable economy.

ESG integration occurs at various steps of the investment process:

### Investment Process Built Around the Unique Risks of the High Yield Market



➤ **Step 1** of the bottom-up process (“Valuing Risk”): The assessment of issuers implicates both financial and extra-financial considerations. **At least 20% of the universe of high yield bonds’ issuers are excluded at this stage through negative exclusions or because they fail to meet the minimum threshold in our Value Rubric.**

The Negative Exclusions are based on the environment (fossil fuels) and exploitive business models involving harmful products (tobacco and alcohol), addictive or exploitive behavior (gambling, adult entertainment, and for-profit prisons). These exclusions are hard-coded in the Investment Manager’s automated pre- and post-compliance application with respect to all portfolios in SKY Harbor Global Funds.

Specifically, SKY Harbor Global Funds shall exclude the following high yield debt issuers:

- **Metals and Mining:** issuers that derive more than 5% of reported revenue from thermal coal used in energy production (excluding metallurgical coal used in steel production).
- **Utilities:** issuers that derive more than 5% of reported revenue from coal used in energy production (excluding metallurgical coal used in steel production).
- **Energy:** issuers that derive more than 5% of reported revenue from coal, oil or natural gas used in energy production (i.e., fossil fuels).



- Alcohol and Tobacco: issuers that derive more than 5% of reported revenue from the production of alcohol or tobacco products.
- Gaming and Adult Entertainment: issuers that derive more than 5% of reported revenue from gaming and/or adult entertainment.
- Defense: issuers that derive more than 5% of reported revenue from the manufacture of controversial weapons, such as land mines and cluster bombs.
- Private Prisons: issuers that operate private or for-profit prisons.

At the securities' level, bonds that have a country (of domicile, of risk or of incorporation) which is a member of the Non Cooperative States and Territories list (of either France or the EU) or of the FATF black or grey list.

The discretionary exclusions are made on the basis of reported, verifiable but unredeemed material violations of internationally proclaimed norms and conventions regarding human rights, labor practices, the environment, and corporate governance infirmities.

SKY Harbor believes that certain negative behaviors inevitably lead to heightened risk and should be avoided or substantially underweighted in SRI portfolios, particularly in portfolios with longer investment time horizons. Complementing negative exclusions, our value rubric penalizes those activities that, in our judgment, are exposed to high transition risk ("E"), Exploitive Business Models ("S"), Specified Unlawful Acts ("G") and affirmative or complicit violation of internationally proclaimed Human Rights ("HR<sup>ts</sup>").

- **Step 2:** we evaluate both the financial condition and Sustainability Factors on the basis of the detailed analysis to determine whether we are comfortable with the valuation of the overall risk of each issuer.
- **Step 3:** the output of our top-down assessment of the economy and market (which covers the full spectrum of Fundamentals-Asset valuations-Sentiment-Sustainability-Technicals, i.e., FASST) feeds into our "Management of Risk." Financial and extra-financial information of particular issuers or sectors can be extrapolated to inform our understanding of the economy and market. At this third stage, Portfolio Managers can optimize the positioning of their portfolios according to the financial and ESG objectives of the sub-Funds,

Because the ownership of debt securities does not carry the same proxy voting rights associated with equity securities, the Fund neither proposes nor votes on proxy resolutions presented at shareholder annual general meetings of the companies whose debt securities are held in its portfolios. Nevertheless, for completeness, the Fund shall maintain a log of voting history on its website (see 6.4 below). SKY Harbor shall engage with the investee companies through direct dialogue and in collaborative efforts with other organizations.

Engagement with portfolio companies is an important pillar of being an active investment manager and a responsible steward of capital. Our Engagement Policy is designed to help the investment team achieve a comprehensive understanding of the often-complex issues influencing a company's journey to Corporate Sustainability. Progress can be monitored in absolute terms or in relative terms by comparison to a high yield issuer's peer group. Because below-investment-grade companies are at different stages of progress toward sustainability, our investment research team customizes our dialogue and expectations accordingly, but common purposes of our engagement efforts are not only to deepen our understanding of how corporations are managing the transition but also to advocate for improving the pace of change as well as by advocating for companies to join SKY Harbor in support of PRI and the UN Global Compact.

SKY Harbor engages directly with senior management of corporate bond issuers with the aim of performing due diligence, better understanding the ESG risks and opportunities of an issuer, and promoting investee companies to start, improve or bolster ESG transparency and disclosure. Engagement topics are generally focused on transparency and disclosure, governance, community involvement both local and globally, and the management of financially material ESG risks. Engagement practices apply to all SKY Harbor portfolios and investment strategies. SKY Harbor conducted 46 discrete engagements with company managements in 2020. We aim to match or exceed that number in 2021.

To expand our reach and impact, SKY Harbor also participates in collective engagements through coalitions and network organizations such as the PRI, Thirty Percent Coalition (which advocates for Board diversity social justice), FAIRR (Farm Animal Investment Risk & Return), and Ceres Investor Network. Our decision to participate is directed by, but not limited to, materiality to high yield issuers and the potential for achieving positive impact. We also participate in collective efforts to supplement our engagement efforts particularly where we find a company has shown reluctance to engage with us on a one-to-one basis.

As set forth below in section 6.2, we intend to monitor the progress of our engagements over a period of time and take appropriate action — including divestment — where sufficient progress with respect to our sustainability engagements has not occurred.

#### 4.2 How are criteria specific to climate change integrated into portfolio construction?<sup>7</sup>

SKY Harbor concurs with the overwhelming evidence and conclusions of climate scientists the world over that GHG emissions, the vast majority which comes from anthropogenic sources, are the cause of global warming. The single largest contributor to GHG emissions is from the energy sector, specifically from the fossil fuel sector.

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<sup>7</sup> Reference to Article 173 of the French TECV Act and HLEG recommendations on DISCLOSURE

The Environmental indicator selected by the sub-Funds and disclosed in question 3.3 reflects the Fund's primary focus on climate change.

As previously mentioned, the sub-Funds shall exclude investments with more than a *de minimis* revenue stream from fossil fuel-based energy sectors including companies that mine coal or utilize thermal coal in producing electricity. Moreover, and in recognition of climate science and in response to uncontrolled GHG emissions, SKY Harbor's socially responsible investment sub-Funds shall expressly seek to identify and, where appropriate and proportional, penalize (in the Value Rubric scoring) activities that have substantial and non-remediated negative impacts specific to climate change. We expect that the culmination of this effort should result in a carbon footprint that is significantly lower on both an absolute and relative basis compared to the initial investment universe, which is the US high yield market.

#### 4.3 How are the issuers that are present in the portfolio, but not subject to ESG analysis evaluated (not including mutual funds)?<sup>8</sup>

As stated in the Fund's prospectus, the Fund "shall seek to bindingly apply its ESG integrated investment process and its proprietary Value Rubric to at least 90% of the holdings in its Sub-Funds." To the extent possible, ideally, all issuers in the portfolio will be subject to some degree of extra-financial analysis, but in the absence of available data, the extra-financial analysis will be based on qualitative assessments of other components of the FASST process; that is, fundamental research, asset values, sentiment, and technical factors.

#### 4.4 Has the ESG evaluation or investment process changed in the last 12 months?

Upon becoming a member of the SASB Alliance, the firm's ESG evaluation has begun to incorporate, where such data is available, SASB metrics specific to particular industries and sectors in a more focused manner as part of our ESG-integration.

As of November 30, 2020, all three UCITS sub-Funds under the SKY Harbor Global Funds umbrella are now implementing SKY Harbor's sustainable investment process.

As the high yield market matures and issuers transition to more sustainable business models, we look forward to the enhanced transparency around ESG data and information that should develop over time. As a result, we expect that our proprietary Value Rubric will continue to be enhanced, that new factors will be added and that the ESG screening of the universe will keep getting more robust and more demanding.

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<sup>8</sup> Reference to Article 173 of the French TECV Act and the TCFD recommendations (delivering on investor and stakeholder demands for climate-related information)

In this respect, SKY Harbor’s ESG methodology (i.e. the Value Rubric and its Factors, criteria, scoring system) shall be reviewed at least annually.

4.5 Is a part of the funds invested in entities pursuing strong social goals/social enterprises?

No.

4.6 Do the funds engage in securities lending activities?

No.

4.7 Do the funds use derivative instruments?

The sub-Funds do not employ derivative instruments for efficient portfolio management (i.e., to enhance performance or for hedging investment risk), but foreign exchange (“FX”) derivatives (i.e., short term forward foreign exchange contracts) are executed at the share classes’ level to hedge these against currency fluctuations. The FX transactions are performed solely on a passive basis to hedge share classes denominated in various currencies.

4.8 Do the funds invest in mutual funds?

Generally no, with the exception of a \$10 million investment by the US Short Duration Sustainable High Yield Fund into the Global Short Maturity Sustainable High Yield Bond fund.

## 5. ESG controls

5.1 What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the funds as defined in section 4?<sup>9</sup>

Such control mechanisms exist at various level:

a. First level of control:

- ✓ SKY Harbor Capital Management’s pre-trade compliance engine ensures that portfolio level constraints are adhered to as portfolio managers enter trades for execution. From an ESG standpoint, this notably means that a portfolio manager is unable to purchase a bond which has a Rubric score below the minimum eligibility threshold of 1, or which belongs to a sector or country listed in the negative exclusions.

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<sup>9</sup> Reference to Article 173 of the French TECV Act

- ✓ ESG Working Group and Compliance monitors adherence to ESG Integration principles and procedures, negative exclusions and engagements.
- ✓ Scores in the Value Rubric are maintained by the Investment team.
- ✓ UN-backed PRI annual assessment framework is completed each year by the ESG Working Group and filed with PRI and freely available to interested parties.
- ✓ Sustainability reports for all sub-Funds will be produced on a quarterly basis and the compliance with all ESG guidelines and objectives, along with the monitoring of the E, S, G, and HR<sup>ts</sup> indicators selected by the sub-Funds (and a variety of additional metrics and indicators) are highlighted in these reports.
- b. Second level of controls:
  - ✓ An automated compliance report generated by SKY Harbor's Chief Risk Officer is verified on a daily basis ensures:
    - i. Active or passive breaches are highlighted by the Post-trade compliance tool;
    - ii. At least 90% of all the holdings in the sub-Funds have scores in the Value Rubric and all holdings in the sub-Funds must have a Value Rubric score no less than positive 1;
    - iii. Negative exclusions and ESG screening (i.e. idiosyncratic exclusions of issuers based on the Rubric's scores) must lead to the exclusion of at least 20% of the high yield universe as measured against the ICE BofA US High Yield Index;
    - iv. That the total ESG score of the fund (based on the Rubric) is above that of the underlying universe;
    - v. At least 90% of the sub-Funds have a coverage for the Safety and Wellness indicator used for the Social dimension, and that the sub-Funds score better than the underlying universe according to that indicator;
    - vi. At least 70% of the sub-Funds have a coverage for the CSR Commentary indicator used for the Human Rights dimension, and that the sub-Funds score better than the underlying universe according to that indicator;
  - ✓ Compliance reviews the compliance of portfolios with the ESG rules and objectives of the sub-Funds using the reports generated by the Chief Risk Officer;
  - ✓ Compliance determines the controls that have to be implemented by Risk. The ORCC reviews and approves these controls and meets at least three times a year, although ad hoc meetings can be held at any time; and
  - ✓ These controls and any specific issue pertaining therewith are escalated to the ORCC.

c. Third level of controls:

- ✓ Compliance and Risk Management monitors compliance with investment guidelines incorporating ESG constraints;
- ✓ Annual assessment of compliance with ESG policies and procedures performed by external compliance consultant intended to supplement the internal level 2 assessment of compliance and controls; and
- ✓ External audit assurance, if required by a recognized labeling authority, be performed to verify compliance with agreed upon procedures pertaining to ESG rules, policies, criteria and objectives.

## 6. Impact measures and ESG reporting

### 6.1 How is the ESG quality of the fund(s) assessed?

The ESG quality of the sub-Funds can be assessed at all times by Portfolio Managers using the 4 indicators (one for each of the E, S, G and HR<sup>ts</sup> dimensions) described in question 3.3.

Additionally, the total ESG scores (based on the Value Rubric) of the sub-Funds can also be compared at any point in time to the underlying universe. Portfolio Managers can also assess their portfolios based on more comprehensive measures such as the relative performance of a sub-Fund versus the high yield universe according to any one or more dimensions.

Assessments can also be performed with ad hoc analyses by the investment team using the resources provided by ISS-ESG (using the three databases that SKY Harbor has selected).

Last but not least, the ESG quality can be assessed through the review of the Quarterly Sustainability reports that are publicly available on the Fund's website:

<http://skyharborglobalfunds.com/sustainability/>.

### 6.2 What ESG indicators are used by the funds?<sup>10</sup>

The ESG indicators used by the sub-Funds have been described in question 3.3 and aim to illustrate our underlying philosophy and the principles that guide us in our integration of Environmental, Social, Governance and Human Rights considerations.

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<sup>10</sup> Reference to Article 173 of the French TECV Act

**Environment:**

The Environmental Impact Indicator we have selected for all three sub-Funds is the **Direct and Indirect GHG emissions (Scope 1 & 2)**.

Unit of measure: Score based on Tons of CO<sub>2</sub> equivalents per unit of revenue (in USD millions) using an equivalence table.

Source: ISS-ESG

Goa: to achieve at least 70% coverage of the sub-Funds that can be consistently measured by this indicator.

**Social:**

The Social Impact Indicator we have selected for all three sub-Funds is the **Safety & Wellness Factor**.

Unit of measure: Percentage based on Boolean indicator (disclosure of specific measures, protocols and/or principles to ensure the Safety and Wellness of the company's workforce).

Source: This indicator is proprietary to SKY Harbor.

Goal: to achieve at least 90% coverage of the sub-Funds that can be consistently measurable according to this indicator.

**Governance:**

The Governance Impact Indicator we have selected for all three sub-Funds is the presence of a **Chief Sustainability Officer or Committee**.

Unit of measure: Percentage based on Boolean indicator (existence of a Chief Sustainability Officer or committee).

Source: This indicator is proprietary to SKY Harbor.

Goal: to achieve at least 90% coverage of the sub-Funds that can be consistently measurable according to this indicator.

**Human Rights:**

The Human Rights Impact Indicator we have selected for all three sub-Funds is the company's governance, due diligence and remedial action policies specifically pertaining to human rights contained in its corporate social/sustainability report (**CSR HR<sup>ts</sup>**) or other publicly available manifestations of its commitment to implementing the United Nations "Protect, Respect and

Remedy” Framework as set forth in the *Guiding Principles on Business and Human Rights* © 2011 United Nations.

Unit of measure: ordinal number value in the proprietary Value Rubric scoring methodology.

Source: Proprietary scoring system modeled after the assessment methodology of the Corporate Human Rights Benchmark Ltd. © April 2019.

Goal: to achieve at least 90% coverage of the sub-Funds that can be consistently measurable according to this indicator.

We recognize the importance of designating certain factors for stability to track over time. Among these 4 indicators, we have selected in 2020, the **Safety and Wellness** indicator, with a coverage rate (for all three sub-Funds) of at least 90% and the **CSR HR<sup>ts</sup>** as a second indicator with a coverage rate of at least 70%.

Our socially-responsible investment strategies aim at encouraging issuers of below investment grade debt to embrace Corporate Sustainability, as defined by the UN Global Compact, and contribute to Sustainable Development through business activity that increasingly aligns with the 17 UN Sustainable Development Goals.

As explained in question 3.1, SKY Harbor will be transparent about the progress made across this issuer universe and specific regarding our direct and collaborative efforts in support of this ambition.

The Value Rubric seeks to create a baseline ESG score that is intended to serve as a progress measure as targeted companies over time transition to a sustainable business model. The Value Rubric is also expected to provide data and trends on which to conduct engagement efforts.

In addition, we are monitoring issuers we have been engaging with to assess their response. If need be and after a phase of dialogue with issuers over a period of time not exceeding 3 years, the Fund intends to consider the following reinforcement measures:

- a) making public the action taken by the asset management company vis-à-vis the issuer, or
- b) placing the issuer under surveillance with, in particular, the absence of new investments or a reduction of the Fund’s exposure to the issuer.

Ultimately, in the absence of improvement after 3 years and if we deem this to be in the best interest of the Fund’s shareholders, the Fund shall consider divesting of all securities of the issuer.



### 6.3 What communication resources are used to provide investors with information about the SRI management of the funds?

The following standard information is accessible on the Fund's website at [www.skyharborglobalfunds.com](http://www.skyharborglobalfunds.com):

- Factsheets (monthly)
- Fund Manager's Monthly Commentary
- Eurosif European SRI Transparency Code
- Quarterly Portfolio Sustainability Reports
- Audited Annual Report (incl. holdings), Prospectus and KIIDs
- Semi-annual Report unaudited
- Sustainability-related disclosures (the Fund's Sustainability Policies and Procedures)
- Voting proxies of the Fund
- Fund Manager's Sustainability Reports and Thought Leadership

### 6.4 Does the management company publish the results of its voting and engagement policies?<sup>11</sup>

The Fund invests in corporate high yield fixed income securities that, unlike common stocks, do not have proxy voting rights. Votes concerning restructuring plans, if any, are generally treated as corporate actions rather than proxy votes. The Fund's voting policy and log is available at: [http://skyharborglobalfunds.com/documents/sustainability/SKY\\_Harbor - Proxy Voting Log.pdf](http://skyharborglobalfunds.com/documents/sustainability/SKY_Harbor_-_Proxy_Voting_Log.pdf).

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<sup>11</sup> Reference to Article 173 of the French TECV Act and the HLEG recommendations on GOVERNANCE

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