Global Responsible High Yield Fund

December 31, 2022

SKY HARBOR GLOBAL FUNDS
Responsible Investing for a Sustainable Future

Monthly Commentary

Market

Market sentiment was bifurcated in December, as enthusiasm brought on by cooler than expected CPI data was met with hawkish commentary out of the Fed during the mid-month post-FOMC conference. 5-Year Treasury yields increased 17 bps on the month (+33 bps in the final two weeks), as fears of a higher terminal rate prompted the penalization of duration in December. Several negative revisions to earnings guidance and weaker than expected November retail sales (released December 15) sparked recession concerns, resulting in negative total returns in the second half of the month. Oil prices continued to decline in December, with WTI Crude closing down $0.29/bbl (-0.36%) to $80.26/bbl. The US dollar was down 2.29% on the month, and US Treasury curve steepened slightly with the 2-yr Treasury increasing to 4.43 and the 10-yr Treasury yield increasing to 3.88%.

High yield market technicals were mixed in December with mutual fund outflows and a modestly negative net supply for the month. High Yield mutual funds/ETFs saw outflows of $4.1bn, while loan funds experienced outflows of $4.3bn, as tracked by Lipper and reported by Barclays. High yield new issuance was near record lows in December at $2.2bn, as tracked by Barclays, with $2.5bn in bonds redeemed or upgraded, leaving net supply at -0.2bn for the month. The percentage of the market trading at distressed levels (below 70% of par) ended the month at 8.7%; the comparable figure for the loan market (below 80% of par) was 9.2%, per JP Morgan. The par-weighted twelve-month high yield bond default rate remained the same at 1.47% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate ended December at 1.59%, per JP Morgan.

The ICE BofA Global High Yield Index returned -0.10% in December while the Credit Suisse Leveraged Loan Index returned 0.36%. The yield-to-worst (YTW) for the global high yield was higher at 8.97% and spreads decreased 3 bps to 513. By rating, the BB, B and CCC bond sub-indices returned 0.10%, -0.57% and 0.17%, respectively. Returns were mixed across the sectors for the month with Real Estate the top performer, returning 2.89%, while Media was the bottom performer, posting a -2.64% return. Across risk types (defined by duration and yield to worst), the longer duration and more speculative part of the market (yielding >9%) outperformed the better quality, more rate sensitive part of the market. Global High yield outperformed investment grade corporate bonds, represented by the ICE BofA US Corporate Index's -0.12% return, and large cap equities, represented by the S&P 500's -5.90% return, as well as small cap equities, represented by the Russell 2000's -6.64% return.

Strategy

SKY Harbor Global Funds Global Responsible High Yield Fund underperformed the index in December. By risk type, both security selection and allocation were sources of underperformance. The primary driver of relative returns was weaker security selection within the most speculative segment of the market and the intermediate risk segment of the market (yielding 7-8%, low BB/high B-rated generally). This was partially offset by strong selection within the lower performing, better quality part of the market (yielding 6-7%). By sector, the primary drivers were weaker selection within Real Estate and Media, moderated by strong selection in Capital Goods and Services. By ratings, higher quality led and weaker selection in Double-Bs drove relative returns.

The largest positive contributor to returns was New Home Inc (NWHM) 7.25% notes due 2025, which traded up in concert with the homebuilder sector as the market began to price in trough home sales while appreciating fortified balance sheets. Last month's top contributor, Iron Mountain (IRM) 5.25% notes due 2030, was among the bottom contributors in December. The largest bottom contributor was CSC Holdings (CSCHLD) 5.375% notes due 2028, which sold off in December on news the company was not moving forward with the previously announced sale of their Suddenlink subsidiary. Last month's bottom contributor, Mastec Inc. (MTZ) 6.625% notes due 2029 (formerly knowns as IEA Corp), remained amongst the bottom contributors 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	$80.0 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/globalsustainablehighyield.shtml

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Outlook

Recently released FOMC minutes and commentary from Fed officials served to warn investors against assuming the fight against inflation was nearing an end. Notably, minutes from the December FOMC meeting highlighted participant concerns over prematurely loosening monetary policy conditions. Rather than signaling a near-term pause, officials continue to remind investors that market-implied terminal rate expectations appear too low, and hopes of rate cuts in the back half of 2023 remain, thus far, unwarranted. In response, Fed Funds Futures implied rates crept marginally above 5.0% on Thursday (Jan 5), though they remain below the median forecast from last month's dot plot (5.1%). Additionally, markets continue to price in rate cuts in the back half of this year, despite zero FOMC participants signaling such a move as of mid-December.

We remain cautiously optimistic about high yield in 2023, with our view that spreads may need to widen offset by attractive starting yield-to-worst levels. We do, however, expect market volatility and issuer return dispersion to pick up in the coming months. In our view, consensus expectations need to fall in the coming months and anticipate EBITDA growth for high yield constituents will likely turn negative in 2023. With that said, rapid balance sheet repair in the post-COVID era has provided some cushion for issuers, which we think will translate into worsening – albeit manageable – credit metric migration in the coming quarters. Absent greater conviction that a soft landing can be achieved, we think it appropriate to stay up in quality, with greater exposure to more defensive credits with limited susceptibility to margin compression via wage inflation.

We continue to believe that consumer focused industries, particularly retail, will remain under pressure as companies work through excess inventory. We expect current trends in consumer spending will deepen as the cost of heating for the winter season and the unwind of excess savings further pressures discretionary spending. The sectors where pricing power remains are also likely to ultimately be forced to roll back prices, although the negative impact on margins may be less severe if costs have been adequately managed. We expect some sectors to remain resilient, like those that are tied to government funded programs, such as semiconductor chip manufacturing on-shoring, EV battery production, and infrastructure build-out. Our focus is less on sector and industry-based risk taking and more on identifying those companies that have demonstrated solid execution in the face of what is now well-known headwinds and who have positioned their business for market share gains in a more constrained economy.

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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www.skyharborglobalfunds.com

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Investor rights to file complaints regarding the operation of the Fund is set forth in the Fund's prospectus, which is available free of charge in English and French at www.skyharborglobalfunds.com, where the Fund's Key Investor Information Documents may also be accessed free of charge in English, French, German (including Swiss German), Spanish, Italian, Portuguese, Swedish, Danish, Norwegian, and Dutch.

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