Global Responsible High Yield Fund

December 31, 2023

SKY HARBOR GLOBAL FUNDS
Responsible Investing for a Sustainable Future

Monthly Commentary

Market

Commentary following the December FOMC meeting increased investor conviction that interest rates had peaked, leading to another rally in 5-year Treasury yields (47 bps in December, which followed a 51 bps move in November). This prolonged the ICE BofA US High Yield Index (H0A0) rally, which added 3.7% of total return in December, on top of November's 4.5% run. Unlike November, however, enthusiasm for a "soft landing" against the backdrop of a more accommodative Fed allowed CCC-rated bonds to outperform, particularly as index yield moderation makes upcoming refinancings more palatable. Oil prices continued to decline in December, with WTI Crude closing down $4.31/bbl (5.67%) to $71.65/bbl. The US dollar was down 2.09% on the month, and US Treasury curve flattened slightly in December with the 2-yr Treasury decreasing to 4.25% and the 10-yr Treasury yield decreasing to 3.88%.

High yield market technicals were supportive in December with mutual fund inflows and a decrease in new issuance leading to a small negative net supply for the month. High Yield mutual funds/ETFs saw inflows of $3.7bn, while loan funds experienced outflows of $1.2bn, as tracked by Lipper and reported by Barclays. High yield new issuance slowed slightly in December, pricing 12.6bn, as tracked by Barclays, with $12.9bn in bonds redeemed or upgraded, leaving net supply at -$0.3bn for the month. The percentage of the market trading below 70% of par ended the month at 5.1%; the comparable figure for the loan market (below 80% of par) was 7.1%, per JP Morgan. The par-weighted twelve-month high yield bond default rate was unchanged at 2.4% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate ended December higher at 4.04%, per JP Morgan.

The ICE BofA Global High Yield Index returned 3.45% in December while the Credit Suisse Leveraged Loan Index returned 1.61%. The yield-to-worst (YTW) for the global high yield was lower at 7.67% and spreads decreased 34 bps to 382. By rating, the BB, B and CCC bond sub-indices returned 3.17%, 3.40% and 5.31%, respectively. Returns were positive across all sectors for the month with Telecom the top performer, returning 4.74%, while Transportation was the bottom performer, posting a 2.60% return. Across risk types (defined by duration and yield to worst), the longer duration and most speculative parts of the market outperformed the shorter duration, more defensive part of the market. Global High yield underperformed investment grade corporate bonds, represented by the ICE BofA US Corporate Index's 4.04% return, as well as small cap equities, represented by the Russell 2000's 12.05% return and large cap equities, represented by the S&P 500's 4.42% return.

Strategy

SKY Harbor Global Funds Global Responsible High Yield Fund modestly lagged its benchmark although generated attractive absolute returns for the month. The largest drag on performance was weaker selection within the higher yielding part of the market (securities with yields above 9% as of the beginning of the month) which was a reversal from last month. As noted, CCC- rated debt led the market higher with many low-dollar priced securities – many of which have longer term default risk in our view – gapped higher. By sector, an underweight to bottom performing Energy was a source of outperformance but was offset by weaker selection in Healthcare – a sector with large distressed cap structures that were notably higher on the month – and Services.

The largest positive contributor to returns was Wabash National Corp. (WNC) 4.5% notes due 2028, which traded up in December on positive sentiment as the company was recognized by both Forbes and Newsweek. Last month's top contributor, Club Car, LLC (CLUCAR) 6.375% notes due 2029, was up again during the rally in December. The largest bottom contributor to returns was Univision Communications (UVN) 6.625% notes due 2026, which was sold early in the month after rallying significantly in November. Last month's bottom contributor, Avis Budget Car Rentals (CAR) 8% notes due 2031, was up in December, reversing last month's trading losses.

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	$80.8 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

Though investor concerns over a “higher for longer” rate outlook have subsided, we remain mindful that markets are pricing in far more cuts in 2024 (approximately six) than what is implied by the most recent dot plot (three), which could lead to some volatility to start the year. In general, however, recession avoidance remains the base case outlook. Additionally, FOMC expectations of moderate but steady real GDP growth through 2026 should be supportive of limited defaults and possibly flows into the asset class. We continue to shift risk opportunistically away from the shortest, now call constrained part of the broad high yield market to increase portfolio yield and further benefit from declining risk premiums as investors downgrade the risks associated with a worse-case recessionary driven spike in high yield defaults. That said, financial flexibility remains restrictive for companies with CCC ratings and near-term maturities. We remain biased away from those risks and biased towards the bonds of companies that have demonstrated strong execution skills throughout the various headwinds and tailwinds associated with COVID and the post-COVID 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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