

Monthly Commentary

Market

Rates sold off aggressively in May, as hawkish sentiment among several Fed officials sparked concerns that the Fed rate hiking cycle was not yet over. In fact, Fed Funds Futures now imply a greater than 70% likelihood of a hike in either June or July, up from nearly no chance at the start of the month. On the positive side, drama around the debt ceiling was resolved and several encouraging economic datapoints (the Atlanta Fed's GDPNow estimate for Q2 is tracking at +2.0%) have breathed new life into the "soft landing" narrative. Along the way, high yield primary markets showed some signs of normalization, with May issuance reaching \$22+bn, the highest volume in 17 months. For now, markets await the May CPI number (June 13), which may be the most meaningful economic release ahead of the June FOMC, with the potential to sway Fed voters. Oil prices declined in the month of May, with WTI Crude closing down \$8.69/bbl (11.32%) to \$68.09/bbl. The US dollar was up 2.62% on the month, and US Treasury curve flattened in May with the 2-yr Treasury increasing to 4.41% and the 10-yr Treasury yield increasing to 3.65%.

High yield market technicals were a headwind in May with mutual fund outflows and an increase in new issuance leading to positive net supply for the month. High Yield mutual funds/ETFs saw outflows of \$2.2bn, while loan funds experienced outflows of \$3.6bn, as tracked by Lipper and reported by Barclays. High yield new issuance ticked higher in May, pricing \$22.6bn, as tracked by Barclays, with \$16.9bn in bonds redeemed or upgraded, leaving net supply at \$5.7bn for the month. The percentage of the market trading at distressed levels (below 70% of par) ended the month at 8.8%; 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 ticked up to 2.30% at month-end, per BofA Merrill Lynch, and the loan market par-weighted trailing default rate ended May at 2.82%, per JP Morgan.

The ICE BofA Global High Yield Index returned -0.58% in May while the Credit Suisse Leveraged Loan Index returned -0.09%. The yield-to-worst (YTW) for the global high yield was higher at 8.88% and spreads increased 10 bps to 506. By rating, the BB, B and CCC bond sub-indices returned -0.62%, -0.60% and -0.77%, respectively. Returns were mixed across sectors for the month with Retail the top performer, returning 1.69%, while Real Estate was the bottom performer, posting a -3.54% return. Global High yield outperformed investment grade corporate bonds, represented by the ICE BofA US Corporate Index's -1.33% return, as well small cap equities, represented by the Russell 2000's -1.09% return but underperformed large cap equities, represented by the S&P 500's 0.25% return.

Strategy

SKY Harbor Global Funds Global Responsible High Yield Fund posted a negative return in May, underperforming its index. Weaker security selection within the most speculative securities (yielding 9%+) was the primary driver of relative returns. By sector, strong selection in Real Estate and Leisure helped relative returns but were offset by weaker selection in Retail and Basic Industry. By rating, higher quality led and weaker selection in strong security selection within Single-Bs helped relative returns somewhat reduced by weaker selection in Double-Bs and Triple-Cs drove underperformance partially offset by strong selection in Single Bs. The largest positive contributor to returns was Royal Caribbean Cruises (RCL) 5.5% notes due 2026 which traded up on strong Q1 earnings and positive guidance. Last month's top contributor, (CLUCAR) 6.375% notes due 2029, was among the bottom contributors to returns in May. The largest bottom contributor to monthly returns was Community Health Systems (CYH) 8% notes due 2023, which traded down on weak Q1 earnings. Last month's bottom contributor, Clubcorp Holdings (MYCC) 8.5% notes due 2025, was up slightly 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	\$91.4 mn
Order Cut-off	12:00 CET
Settlement	T+3
Dealing Frequency	Daily
Valuation Frequency	Daily

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

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

Global Responsible High Yield Fund

May 31, 2023

Outlook

Better than expected Q1'23 earnings growth, an uptick in primary issuance, and resolution to the debt ceiling showdown are all positive market developments in recent weeks. In our view, lofty yields and elevated breakevens provide the most support for our improved view of high yield market opportunities. Acknowledging known risk factors on the horizon, we believe investors are well compensated to increase exposure to high yield.

We continue to believe default and downgrade avoidance will be paramount this year, and thus maintain our more defensive portfolio construction. We remain overweight to the shorter duration part of the broad high yield market and underweight the higher yielding, more speculative part of the market. We are taking credit risk generally where we have comfort in management's execution skills and the resiliency of the issuer's business model in the face of unprecedented pandemic-induced changes to consumer behavior and macro-related business challenges. Given that we are likely close to the end of the current rate hiking cycle, we are targeting a reduction in our underweight to longer duration HY risk, funded by an eventual work-down of our short duration over-weight.

SKY HARBOR

GLOBAL FUNDS

Responsible Investing for a Sustainable Future

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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Find all fund documents at:
www.skyharborglobalfunds.com

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