US Short Duration 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 US High Yield Index returned 3.69% in December while the Credit Suisse Leveraged Loan Index returned 1.61%. The yield-to-worst (YTW) for high yield was 75 basis points (bps) lower at 7.64% and spreads decreased 42bps to 334. By rating, the BB, B and CCC bond sub-indices returned 3.25%, 3.61% and 5.83% respectively. Returns were positive across all sectors in December with Telecom the top performer, returning 6.08%, while Energy was the bottom performer, returning 2.34% for the month. US 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 US Short Duration Responsible High Yield Fund posted a strong absolute return again in December, capturing nearly two-thirds of the broader US high yield market return (as measured by the ICE BofA US High Yield Index). By risk type (defined by yield and duration to worst), the more speculative (yielding 9%+) and longer duration securities (within the context of short duration) continue to outperform the shorter duration, more defensive part of the market. By sector, Telecom and Media led while Retail and Insurance lagged though all sectors posted positive returns for a second consecutive month. By rating, lower quality led with Triple-Cs outperforming Single-Bs and Double-Bs.

The YTW on the Fund tightened another 69 bps to 6.63%; still capturing 87% of the broader US high yield market yield at month-end. The duration-to-worst came down to 2.4 or 66% of the broad market duration. The average coupon was essentially unchanged at 6.12% and 6 bps above the average coupon in the broad market. Exclusive of cash, Fund holdings (187 issues, representing 151 issuers) comprised 39% bonds with maturities of less than three years and 61% in longer maturities but trading to expected early take-outs inside this three-year period. Overall credit quality decreased slightly in the Fund: at month-end Triple-B rated holdings represented 4.6% of the portfolio, Double-Bs were 44.6%, Single-Bs were 48.4% and Triple-Cs were 2.4%.

Investment Objective

ESG socially responsible active investment strategy seeking to generate a high level of current income with lover volatility by diversified investments in US dollar-denominated high yield corporate bonds expected to mature, be called or otherwise be redeemed within three years.

Benchmark

Active strategy not managed in reference to a benchmark index.

Portfolio Management Group

Anne C. Yobage, CFA
David Kinsley, CFA
Ryan Carrington, CFA
Mike Salice, CFA

Fund Detail

Fund Inception	Apr 05, 2012
Fund AUM	$1,545.1 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/usshortdurationresponsiblehighyield.shtml

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

SKY HARBOR GLOBAL FUNDS

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