

## 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 Short Maturity Responsible High Yield Fund posted a slightly negative return in December, underperforming the broader global high yield market (as measured by the ICE BofA Global High Yield index). By risk type, the most defensive securities (maturing within 3 years) and more speculative securities (yielding 9%+) outperformed other shorter duration segments. By sector, Basic Industry and Capital Goods led while Media and Technology lagged. By rating, higher quality outperformed and the Fund's Double-B and Triple-B securities had a positive return for the month which helps support the positive emphasis we have been placing on this cohort over the second half of the year.

At month-end, the YTW on the Fund rose 25 bps to 8.40% and captured 88% of the broader global high yield market yield at month-end. The duration-to-worst was tightened slightly to 2.7, about 69% of the broad market duration. The average coupon was essentially unchanged at 6.02% and was 67 bps above the average coupon in the broad market. Overall credit quality was unchanged in the Fund: at month-end Double-B rated holdings represented 46.0% of the portfolio, Single-Bs were 47.6% and Triple-Cs were 3.9%. The Fund remains well diversified with 187 issues, representing 150 issuers.

### Investment Objective

Global ESG socially responsible active investment strategy seeking to generate favorable risk-adjusted returns through current income by diversified investment in US and non-US dollar high yield corporate bonds with average expected maturity of five years or less.

### Benchmark

Active strategy not managed in reference to a benchmark index.

### Portfolio Management

Lead PM: David Kinsley, CFA  
Ryan Carrington, CFA

### Fund Detail

Fund Inception	Dec 27, 2018
Fund AUM	\$80.6 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/globalshortmaturitysustainablehighyield.shtml>

## 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](http://www.skyhcm.com).

## Contact

[info@skyhcm.com](mailto:info@skyhcm.com)

+49 69 75938622

+1 203 769 8800

Find all fund documents at:  
[www.skyharborglobalfunds.com](http://www.skyharborglobalfunds.com)

#### A Message to Investors

This performance discussion and outlook (“Commentary”) of SKY Harbor Global Funds (the “Fund”) is provided by SKY Harbor Capital Management GmbH, the Fund’s authorized principal distributor, and is designed to be read by institutional investors for marketing and summary information purposes only. This material is not intended as an offer or solicitation for the purchase or sale of any security. This Commentary does not consider the circumstances, investment objectives, risk tolerances, tax or legal situation of any investor. Investing in high yield below-investment-grade corporate debt securities entails risk of loss and may be unsuitable to your circumstances. Past performance is not indicative of future results. The information herein is subject to change without notice and is derived or obtained from sources believed to be reliable, but SKY Harbor Capital Management GmbH or its affiliates and their respective directors, officers, employees, and agents (collectively SKY Harbor) do not warrant its completeness or accuracy except with respect to any disclosures relative to SKY Harbor. Forward-looking statements such as our outlook for interest rates, Fed policy, the economy, high yield markets and the like, or our intended adjustments to the portfolios within our strategies are subject to inherent risks, biases, and uncertainties that are beyond the control of SKY Harbor and may cause actual results to differ materially from the expectations expressed herein. This document does not replace, revise or reinterpret the information, risk factors, and other important disclosures set forth in the Fund Prospectus, KIID, Annual and Semi-annual reports, which along with other disclosures (collectively, “Offering Materials”) are available without charge from the following sources: (i) SKY Harbor Capital Management GmbH, located at: 4 an der Welle, 60322 Frankfurt, Germany; (ii) JPMorgan Bank Luxembourg S.A., the Fund’s transfer agent, fund accountant and custodian located at: 6, route de Trèves, L-2633 Senningerberg, Luxembourg; (iii) online at the Fund’s website at [www.skyharborglobalfunds.com](http://www.skyharborglobalfunds.com); or (iv) from the Swiss Representative (see below). It is every investor’s responsibility to read with care the Fund Offering Materials before investing. SKY Harbor Global Funds is established and registered for public distribution in Luxembourg. The Fund is also registered for public distribution in a number of jurisdictions in Europe. Refer to Fund’s website for a more complete listing of registered jurisdictions. The Fund may not be sold in jurisdictions where the Fund is not registered unless an applicable exemption from registration exists such as under a private placement regime. The Fund is not registered under the US Securities Act of 1933 nor the US Investment Company Act of 1940 and may not be offered or sold in the United States (or to a US person) absent registration or an applicable exemption from the registration requirements. SKY Harbor disclaims any liability or responsibility for any transaction in the Fund’s shares by investors or sub-distributors not in compliance with law. Further information is available on request from your SKY Harbor relationship contact or by email at [skyharborgmbh@skyhcm.com](mailto:skyharborgmbh@skyhcm.com).

This document constitutes marketing communications concerning SKY Harbor Global Funds, a Luxembourg UCITS authorized in accordance with Article 5 of Directive 2009/65/EC, as amended. Lemanik Asset Management S.A. (the “manco”) is the appointed management company of the Fund and is responsible on a day-to-day basis under the supervision of the Board of Directors, for providing administration, marketing, distribution, investment management and advisory services in respect of all the Sub-Funds and has delegated part or all of such functions to third parties including but not limited to SKY Harbor Capital Management, LLC as investment manager and SKY Harbor Capital Management GmbH as Principal Distributor. The manco has the right to terminate arrangements made for the marketing of the shares of this UCITS in accordance with Article 93 of Directive 2009/65/EC, as amended.

Social responsible investing does not guarantee optimal asset allocation and may not necessarily comport with an investor’s subjective, moral or ethical standards and aspirations.

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](http://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.

The ICE BofA Index data referenced herein is the property of ICE Data Indices, LLC (“ICE BofA”) and/or its licensors and has been licensed for use by SKY Harbor. ICE BofA PERMITS USE OF THE ICE BofA INDICES AND RELATED DATA ON AN “AS IS” BASIS, MAKES NO WARRANTIES REGARDING SAME, DOES NOT GUARANTEE THE SUITABILITY, QUALITY, ACCURACY, TIMELINESS, AND/OR COMPLETENESS OF THE BofA INDICES OR ANY DATA INCLUDED IN, RELATED TO, OR DERIVED THEREFROM, ASSUMES NO LIABILITY IN CONNECTION WITH THE USE OF THE FOREGOING, AND DOES NOT SPONSOR, ENDORSE, OR RECOMMEND SKY HARBOR OR ANY OF ITS PRODUCTS OR SERVICES.

#### Supplementary Information for Swiss Investors

This document is designed primarily for institutional investors for marketing, advertising, and information purposes only and is not intended as an offer or solicitation for the purchase or sale of any security. The foregoing additional disclaimers shall also apply to Swiss investors. The state of the origin of the fund is Luxembourg. In Switzerland, the Swiss Representative is ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich, whilst the paying agent is Banque Cantonale Vaudoise, Place Saint-François 14, 1001 Lausanne, Switzerland. The Prospectus, the Key Investor Information Documents, the articles of incorporation as well as the annual and semi-annual reports may be obtained free of charge from the Swiss Representative. Past performance is no indication of current or future performance. The performance data do not take account of the commissions and costs incurred on the issue and redemption of units.

#### Supplementary Information for UK Investors

This communication is only directed at persons in the UK reasonably believed to be persons who (1) have professional experience in matters relating to investments, falling within Article 19(5) of the UK Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the “Financial Promotion Order”) or (2) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations, etc.”) of the Financial Promotion Order or (3) are persons to whom such a document may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons or will be engaged in only with relevant persons.