SKY HARBOR GLOBAL FUNDS

Period ending June 30, 2020

Performance (%)	1 Week	MTD	Q2	YTD
SHGF-USHY USD A Cap (net)	-1.25	0.98	7.37	-4.16
ICE BofA US HY Index	-1.63	0.97	9.61	-4.78
Alpha	*0.38*	*0.01*	*-2.23*	*0.61*

Key Characteristics	YTW	MTD Δ	YTD Δ	DTW	MTD Δ	YTD Δ	OAS	MTD Δ	YTD Δ
SHGF-USHY	7.09	0.28	2.22	3.96	0.11	1.61	695	55	390
ICE BofA US HY Index	6.90	-0.22	1.53	4.02	0.17	1.08	650	-23	291

Month ending June 30, 2020

The IMF downgraded its expectation for US and global growth and highlighted risks associated with an unprecedented synchronized global downturn. High yield market returns turned sharply negative in the second half of the month, led lower by those sectors most impacted by concerns that economic activity would be slower to recover as US virus cases continue to escalate away from the northeast. Valuations after a strong recovery from the market wides also served as a drag on further spread tightening as the month wore on. Technicals also became more challenging as mutual fund inflows weakened – in line with tighter spreads – while new issue volume broke seasonal record. Our broad high yield portfolios and funds lagged somewhat early in the month and recovered relative performance during market volatility to close the month generally in line with the market. We were active participants in the new issue market although valuation discipline often resulted in us being sellers in the secondary market. Valuation discipline also left us sellers of some higher rated debt that had generally returned to pre-COVID-19 levels. Buys away from the new issue calendar were weighted towards add-ons to high conviction holdings as well as smaller new exposures to the bonds of companies that have near-term challenges associated with operating restrictions but have sufficient financial flexibility to weather low utilization rates through the balance of this year and low levels of activity through 2021. Our overall risk positioning was largely unchanged for the month as we generally are weighted towards the higher yielding part of the market and somewhat underweight short duration risk in the broad high yield portfolios. We are integrating risks that are better positioned for a US election that is biased towards a Democratic win, remain willing to add to smaller issues that continue to offer excess income all else being equal versus larger issues, and are willing to take more cyclical risk generally on the basis of valuation versus defensive sectors.

SHGF-USHY: Sector				Index: Sector			
MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)	MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
Automotive	5.9	4.61	0.21	**Real Estate**	1.9	3.33	0.06
Capital Goods	9.1	4.00	0.32	**Automotive**	5.3	3.02	0.16
Real Estate	1.9	3.68	0.05	**Energy**	12.8	2.59	0.31
Healthcare	9.7	-0.21	0.01	**Utility**	2.5	-0.88	-0.02
Leisure	3.6	-0.12	-0.01	**Healthcare**	9.7	-0.84	-0.08
Financial Services	0.6	-0.12	0.00	**Leisure**	5.3	-0.64	-0.03

Sectors most tied to the “reopening” theme led the market higher until the last week when those sector gains faded with growing threats to the pace of reopening across the US and elsewhere. Energy sector returns remained volatile with risks tied to global GDP, the November US elections and ongoing decarbonization trends. Fund relative performance was most impacted by positive security selection and a large overweight to the Capital Goods sector, offset by the Fund’s limited exposure to the Energy sector. Our long-standing positive bias towards the Capital Goods sector is predicated on business models that typically lend themselves to leverage over time. Within Capital Goods, our high conviction weight to aerospace related Triumph Group was more than enough to offset the Fund's lack of exposure to the recovering but still stressed Bombardier capital structure. Our key packaging names were also contributors to positive security section within the sector as were a number of other off-the-run issues that had lagged earlier in the market's recovery but legged forward as the breadth of the market recovery expanded beyond the flow-driven large market capital structures. The Fund's Automotive sector security selection has been a source of positive relative return after being a drag last month.

SHGF-USHY: Rating

MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
BBB	2.2	1.85	0.03
BB	25.9	0.84	0.23
B	44.6	1.66	0.70
CCC	23.2	1.63	0.38
Non Rated	0.4	-2.76	-0.03
Cash	3.5	0.01	0.00
Total	**100.0**	**1.31**	**1.31**

Index: Rating

MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
BBB	0.0	1.36	0.00
BB	55.1	1.02	0.56
B	32.6	0.22	0.08
CCC	12.3	2.63	0.33
Total	**100.0**	**0.97**	**0.97**

Our overweight to lower-rated credit was a source of positive relative return, offset by weaker security selection within the CCC-rated part of the market. Our CCC-rated holdings are biased towards the bonds of companies that we believe do not have near-term default or restructuring risk and would typically lag in a low dollar price driven market. Security selection within the B-rated part of the Fund accelerated as the month progressed and a number of our high conviction holdings outperformed.

SHGF-USHY: Risk

MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
More Speculative (ex-energy)	21.1	3.81	0.80
Speculative Energy	1.0	-1.29	-0.01
Intermediate Risk	19.8	1.72	0.34
Interest Rate Sensitive	28.4	0.40	0.11
Short Duration	23.9	0.54	0.13
Cash	3.5	0.01	0.00
New Issue & Exchanged	2.3	0.65	-0.06
Total	**100.0**	**1.31**	**1.31**

Index: Risk

MTD	Average Weight (%)	Total Return (%)	Contribution to Return (%)
More Speculative (ex-energy)	13.7	3.86	0.53
Speculative Energy	5.0	6.14	0.31
Intermediate Risk	11.6	1.48	0.17
Interest Rate Sensitive	37.1	-0.13	-0.05
Short Duration	32.4	0.03	0.01
Total	**100.0**	**0.97**	**0.97**

Investor perception that valuations were ahead of current risks and opportunities led to underperformance for both longer duration better quality risk and short duration risk for the month. When viewed using SKY Harbor's custom risk segmentation (which does not rely on ratings), it's evident that our lack of exposure to Speculative Energy (Energy that began the period with a yield over 9%) was the largest drag on relative performance, offset by an overweight to non-Energy speculative risk. Excess cash from subscriptions and transaction costs associated with investing in a rising market were also a drag on relative returns.

Forward Outlook

We have believed that investors have been focused on the timing and pace of an economic recovery and have been willing to ignore potential risks around trade relations with China, large US deficits, and the potential for a changing political landscape. Investor surveys now suggest that investor concerns regarding the US election are increasing. Market volatility around election outcome probabilities will increase and risks are likely to reprice themselves according to how well they are expected to fair with different election outcomes. Our positioning is evolving towards those sectors where those risks are either over-discounted or under-discounted.

Our central scenario has not changed. We expect rising default risk in the Energy, Retail, Leisure, and potentially the Transportation sectors despite an eventual stabilization of coronavirus-related impact to demand in the second half of the year. Defaults away from these key sectors appears to be rapidly declining as markets are willing to bridge many stressed capital structures to the time when end market demand is sufficiently robust. Fiscal and monetary stimulus around the globe appears ready to resize and evolve on an as-need basis and development of both a treatment protocol and a vaccine appears to be likely. Spread compression is likely to continue as a result. We are managing our portfolios to rebuild returns back into the positive territory and believe the market has excess return opportunity associated with credit picking given the high level of dispersion in the market.

To support our risk-taking, we are focused on consumer and business behavior as restrictions are lifted around the globe. We believe current positioning suggests good potential market capture to the upside so long as Energy is not the driver of the upside but are mindful that low-dollar bonds are likely to gap higher in the absence of further selling pressure. Given the secular and cyclical demand destruction, and historically low oil prices, we do not see speculative Energy being a driver of sustained upside returns.