

High Yield Market Update

The first quarter of 2019 saw a reversal of the weakness that plagued the market at the end of 2018, leading to the strongest quarterly return since 2009. Early in the quarter, dovish comments from the Fed and a better-than-expected jobs report triggered a shift from the “risk-off” market sentiment of the fourth quarter to a “risk-on” market sentiment. Risk appetite built through the quarter, supported by positive rhetoric around an agreement in the trade war between the US and China and better-than-expected corporate earnings. Commodity prices also provided a lift to the market during the first quarter, specifically the ever-impactful price of oil, with WTI Crude up \$14.73 (or 32.44%) to \$60.14/bbl, resulting in the Energy sector leading the high yield market higher. The US Dollar Index rose 1.19% and Treasuries ended the quarter with the 2-year down 22 bps to 2.29% and the 10-year lower by 27 bps to 2.42% as the yield curve slightly flattened.

Technicals were mixed in Q1 as high yield funds and ETFs had inflows of \$10.4bn while loan funds saw outflows of \$15.6bn, as tracked by Lipper and reported by Barclays. Net supply was positive for the quarter as bond new issuance picked up significantly, pricing \$60.0bn in the quarter, offset by \$36.0bn of bond redemptions, leaving net supply at \$24.0bn for the period,

per Barclays. The percentage of the market trading at distressed (below 70% of par) ended the first quarter at 3.4%; the comparable figure for the loan market (below 80% of par) was also 3.4%, per JP Morgan. The par-weighted twelve-month high yield bond default rate lowered to 0.58% at quarter-end, per BofA Merrill Lynch. Excluding commodities, the default rate was 0.67%.

The ICE BofAML US High Yield Index returned 7.40% in Q1, ending the period with an average price of 97.72, a 5.44 point increase from the prior quarter. Credit spreads tightened by 135 bps to 398 bps and the yield-to-worst (YTW) was lower by 1.55% to 6.38%. High yield outperformed investment grade corporates, as represented by the ICE BofAML US Corporate Index’s 5.01% quarterly return, but underperformed small cap equities, represented by the Russell 2000’s 14.57% return, and large cap equities, as represented by the S&P 500’s 13.65% return. In high yield, the Double-B, Single-B and Triple-C sub-indices returned 7.38%, 7.27% and 7.90%, respectively. All sectors generated positive returns for the quarter: the top performer was Energy, which saw an 8.44% return, while Transportation was the bottom-performing sector, posting a 4.06% return.

Portfolio Performance

Portfolios managed according to our Unconstrained **Broad High Yield Market Strategy** (BHYM) posted strong returns during Q1 but underperformed the benchmark. By risk type, both security selection and allocation were sources of underperformance. The primary driver of relative returns was weaker selection within the intermediate risk part of the market (yielding 8-9%) although this underperformance was partially offset by an overweight to this segment as it was one of the highest performers. Cash was also a drag during a strong up market. By sector, strong selection in Services and Energy were sources of outperformance but were offset by weaker selection in Technology and Basic Industry.

On a representative basis, the top contributor to BHYM returns was Ahern Rentals (AHEREN) 7.375% notes due 2023, last quarter’s largest bottom contributor, which rallied significantly in Q1 as the outlook for non-residential construction and continued economic activity was reinforced. Last quarter’s top contributor, Agiliti Health (UHOS) 7.625% notes due 2020 were refinanced following the company’s acquisition in Q4. The largest bottom

contributor was Weight Watchers International (WTW) 8.625% notes due 2025, trading down during the quarter on disappointing Q4’18 earnings and a negative outlook.

Broad High Yield Market Strategy: Performance

	SKY Harbor BHYM Strategy Performance			
	Gross of Fees	ICE BofAML US HY Index	Alpha	Net of Fees
January 2019	3.97	4.59	-0.62	3.94
February 2019	1.66	1.69	-0.03	1.63
March 2019	0.83	0.98	-0.15	0.80
Q1 2019	6.56	7.40	-0.84	6.48
Last 12 Months	5.09	5.94	-0.85	4.76
Three Years (annl)	8.13	8.69	-0.56	7.80
Five Years (annl)	4.32	4.70	-0.37	4.00
SI Return (annl)	7.37	7.40	-0.03	7.03

Performance includes reinvestment of dividends and other earnings. Gross performance does not reflect the deduction of management fees. Fees disclosed in SKY Harbor’s Form ADV, Part 2A or applicable offering documents. Past performance is not indicative of future results.

SI=Since Inception. Broad High Yield Market Composite inception date: 9/30/11.

SKY Harbor's Unconstrained **Short Duration High Yield Strategy** (SDHY) portfolios posted strong positive returns during the first quarter, capturing more than 60% of the broader US high yield market return (as measured by the ICE BofAML US High Yield Index). Generally, risk and duration were rewarded in Q1, with longer duration and more speculative securities outperforming shorter duration, more defensive securities. All sectors posted positive returns for the quarter led by Retail and Capital Goods while Banking and Transportation lagged. By rating, lower quality led, with Triple-Cs outperforming Single-Bs and Double-Bs.

On a representative basis, at quarter-end our SDHY portfolios had a YTW of 4.87% (76% of the broad market yield). Exclusive of cash, the average coupon was 6.38% vs. the market average of 6.35% and the duration-to-worst was 1.6 (or 45% of the broad market). Holdings (316 issues, representing 229 issuers) comprised 45% bonds with maturities of less than three years and 55% in longer maturities that are trading to expected early take-outs inside this three-year period. This overweight to the latter group continues to show that we find greater value in the yield-to-call opportunities. Nevertheless, we do value the relative price stability the short maturity group can offer in volatile periods in the market.

Short Duration High Yield Strategy: Performance

	SKY Harbor SDHY Strategy Performance (%)				Annualized Daily Volatility		
	Gross of Fees	High Yield Market ¹	Market Capture	Net of Fees	SKY SDHY Strategy	High Yield Market ¹	Relative Volatility
January 2019	2.84	4.59	62%	2.81	2.7	5.0	54%
February 2019	1.30	1.69	77%	1.28	1.1	2.3	46%
March 2019	0.46	0.98	47%	0.43	1.0	2.1	45%
Q1 2019	4.66	7.40	63%	4.57	1.9	3.6	53%
Last 12 Months	5.15	5.94	87%	4.80	1.7	3.2	54%
Three Years (annl)	5.74	8.69	66%	5.38	1.6	3.1	52%
Five Years (annl)	3.31	4.70	71%	2.96	2.0	3.8	54%
Since Inception (annl)	4.54	6.65	68%	4.17	1.9	3.5	54%

1. The Short Duration High Yield strategy is not a benchmarked strategy. The HY Market index shown (ICE BofAML US HY Index) is used solely as a relative market indicator. Short Duration High Yield Composite Inception date: 10/31/11
Performance includes reinvestment of dividends and other earnings. Gross performance does not reflect the deduction of management fees. Fees disclosed in SKY Harbor's Form ADV, Part 2A or applicable offering documents. Past performance is not indicative of future results.

Outlook

A number of key risks moderated in Q1'19 and the aggregate level of investor concerns fell, dragging risk premiums lower. Concern shifted from the impact of rising rates back to the pace of slowing global growth, expected weak Q1 earnings and trade agreements (Europe is now in the crosshairs). While trade discussions and geopolitical risks are likely to continue to dominate headlines, high yield overall fundamentals and technicals remain supportive. We expect investors to weigh signs of economic activity and corporate profitability versus overall valuations. We remain cautiously positive on future corporate fundamentals but recognize that Q1 earnings are likely to be weak due to margin pressures in a number of sectors and tough prior-year comparisons. Given the balance of risks and opportunities, we see spreads as fairly valued and expect credit selection to drive returns on a go-forward basis. Overall, we continue to believe the high yield market can provide attractive full-year returns with some elevated volatility.

Our Broad High Yield Market portfolios remain underweight the better-quality, more rate-sensitive segment of the market in favor of higher allocations to credit picking among the higher-yielding part of the market and an overweight to the defensive short duration parts of the market. We continue to use volatility and the primary market to reduce our current underweight to higher-rated longer duration bonds with a focus on those industry groups that are best positioned for sustainable growth in an aging economic cycle. We have substantially reduced our exposure to US housing, the Energy sector and industries that have a high degree of sensitivity to Chinese growth. Our BHYM portfolios remain more concentrated in high conviction holdings than has been the case in recent years and are benefiting from outperformance by this part of the portfolio generally. Based on our view of risks and valuations across the market, we continue to believe Single-B rated credit offers the best opportunity for attractive returns through credit picking.

(cont. on page 4)

SKY HARBOR CAPITAL MANAGEMENT

Portfolio Characteristics

Representative Broad High Yield Market Portfolio

Characteristics	Portfolio ¹	HY Market	Distribution by Sector	Portfolio ¹	HY Market	SKY as % of HY Market	
Avg Years to Maturity	5.4	5.7	Technology & Electronics	12.0%	5.7%	210%	
Yield to Worst	6.02%	6.38%	Services	11.7%	5.4%	217%	
Current Yield	6.76%	6.50%	Basic Industry	11.7%	10.9%	107%	
Duration to Worst	3.2	3.6	Healthcare	11.4%	9.9%	115%	
OAS	355	398	Capital Goods	11.3%	5.9%	191%	
Avg Coupon	6.82%	6.35%	Media	10.8%	11.4%	95%	
Number of Issuers	194	856	Energy	7.5%	15.2%	49%	
Number of Issues	224	1811	Leisure	4.8%	4.8%	99%	
Average ML Rating	B2	B1	Telecommunications	3.3%	9.2%	35%	
Average Price	100.9	97.7	Retail	3.2%	4.4%	73%	
			Consumer Goods	2.7%	3.0%	89%	
			Automotive	2.6%	1.7%	153%	
			Financial Services	2.6%	4.7%	56%	
			Real Estate	1.7%	1.2%	144%	
			Insurance	1.1%	1.2%	93%	
			Transportation	1.0%	0.8%	125%	
			Banking	0.4%	2.4%	17%	
			Utility	0.2%	2.2%	10%	
Distribution by ML Rating	Portfolio ¹	HY Market					
A Holdings	0.0%	0.0%					
BBB Holdings	0.0%	0.0%					
BB Holdings	33.1%	48.4%					
B Holdings	51.7%	40.0%					
CCC or Under	15.3%	11.6%					
Distribution by Issue Size	Portfolio ¹	HY Market					
0 - 250M	7.8%	1.3%					
250 - 500M	34.2%	28.6%					
500 - 750M	21.0%	21.0%					
750 - 1000M	14.5%	15.9%					
1000+M	22.5%	33.2%					
Top 5 Holdings by Weight	BofA ML Rating	Issue Size (\$mil)	Current Price	BofA ML Industry	Duration to Worst	Yield to Worst (%)	% of Portfolio
QUAD/GRAPHICS 7.000% 01-May-2022	--	243.5	100.00	Media	2.66	6.98	1.62
Townsquare Media Inc. 6.500% 01-Apr-2023	B3	280.1	95.25	Media	3.44	7.76	1.60
Ahern Rentals Inc. 7.375% 15-May-2023	B3	550.0	92.25	Services	3.34	9.73	1.53
CPG Merger Sub LLC 8.000% 01-Oct-2021	CCC2	315.0	99.50	Basic Industry	2.22	8.23	1.49
Valeant Pharmaceuticals Int'l 9.250% 01-Apr-2026	B3	1,500.0	109.00	Healthcare	4.02	6.98	1.48

Representative Short Duration High Yield Portfolio

Characteristics	Portfolio ¹	HY Market ²	SD Universe ³	Distribution by Sector	Portfolio ¹	HY Market ²	SD Universe ³
Avg Years to Maturity	3.2	5.7	3.2	Media	12.6%	11.4%	10.6%
Yield to Worst	4.87%	6.38%	5.28%	Basic Industry	11.3%	10.9%	11.3%
Current Yield	6.25%	6.50%	6.06%	Healthcare	10.2%	9.9%	9.3%
Duration to Worst	1.6	3.6	2.0	Energy	9.7%	15.2%	15.5%
OAS	245	398	291	Capital Goods	8.0%	5.9%	6.7%
Avg Coupon	6.38%	6.35%	6.09%	Telecommunications	7.7%	9.2%	8.5%
Number of Issuers	229	856	416	Services	6.8%	5.4%	5.1%
Number of Issues	316	1811	676	Financial Services	6.8%	4.7%	7.5%
Average Rating	B1	B1	BB3	Technology & Electronics	6.7%	5.7%	6.2%
Average Price	102.11	97.72	100.48	Leisure	6.6%	4.8%	3.8%
				Transportation	3.0%	0.8%	1.6%
				Automotive	2.7%	1.7%	1.9%
				Real Estate	1.9%	1.2%	1.2%
				Consumer Goods	1.9%	3.0%	2.3%
				Retail	1.8%	4.4%	3.4%
				Utility	1.1%	2.2%	1.6%
				Banking	0.7%	2.4%	2.1%
				Insurance	0.0%	1.2%	1.2%
				Other	0.4%	0.0%	0.0%
Distribution by Rating	Portfolio ¹	HY Market ²	SD Universe ³				
A Holdings	0.0%	0.0%	0.0%				
BBB Holdings	2.4%	0.0%	0.0%				
BB Holdings	43.2%	48.4%	52.7%				
B Holdings	47.0%	40.0%	47.3%				
CCC or Under	7.4%	11.6%	0.0%				
Distribution by Issue Size	Portfolio ¹	HY Market ²	SD Universe ³				
0 - 250M	5.0%	1.3%	0.0%				
250 - 500M	32.5%	28.4%	23.3%				
500 - 750M	21.9%	20.9%	27.5%				
750 - 1000M	13.2%	15.8%	11.9%				
1000+M	27.4%	33.6%	37.2%				
Top 5 Holdings by Weight	Average Rating	Issue Size (\$mil)	Current Price	BofA ML Industry	Duration to Worst	Yield to Worst (%)	% of Portfolio
Reynolds Group Issuer LLC. 5.750% 15-Oct-2020	B1	3,236.8	100.00	Capital Goods	0.08	4.18	0.97
Sprint Corporation 7.250% 15-Sep-2021	B2	2,250.0	104.75	Telecommunications	2.23	5.06	0.89
Bombardier Inc. 8.750% 01-Dec-2021	B3	1,017.9	110.50	Capital Goods	2.34	4.52	0.77
HCA Healthcare Inc 6.250% 15-Feb-2021	BB3	1,000.0	105.00	Healthcare	1.76	3.42	0.75
DISH DBS Corporation 6.750% 01-Jun-2021	B1	2,000.0	102.63	Media	1.96	5.21	0.73

1 Exclusive of Cash. 2,3 The Short Duration High Yield strategy is not a benchmarked product; the HY Indices shown are provided solely as a relative market indicators.

This comparison of selected characteristics of representative SKY Harbor portfolios on or about March 31, 2019 is provided for illustrative purposes only and is subject to change without notice in accordance with the strategies' stated objectives and the sole discretion of SKY Harbor's portfolio management team.

Source: SKY Harbor, FactSet, ICE BofAML US High Yield indexes H0A0 (HY Market) and JVC4 (SD Universe).

Outlook *(cont.)*

Turning to our Short Duration High Yield strategy, we continue to believe our SDHY portfolios are well positioned for the current environment as they are capturing over 70% of the market yield with less than half of the market duration. We think the high current income combined with the typically

defensive nature of the portfolio results in an attractive asset class better insulated from potential market volatility, pending resolution of geopolitical events. Natural turnover, created by calls, tender and maturities, will continue to allow us to optimize the portfolio as the market environment evolves.

2

Disclaimers and Additional Disclosures

SKY Harbor Capital Management, LLC ("SKY Harbor") provides this document for informational purposes only. The information herein is intended solely for the person to whom it has been delivered. This document may not be reproduced or transmitted, in whole or in part, by any means, to third parties without the prior written consent of SKY Harbor. Nothing contained in this document is or should be construed as an advertisement, or an offer to enter any contract, investment advisory agreement, a recommendation to buy or sell securities of any kind, a solicitation of clients, or an offer to invest in any particular fund, product, investment vehicle, or derivative. This document contains forward-looking statements that are based on SKY Harbor's current views and assumptions. Forward-looking statements such as the findings of our analytical research, 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 SKY Harbor's control and may cause actual results to differ materially from the expectations expressed herein.

The information contained herein is subject to change, and SKY Harbor is under no obligation to update any information contained herein. Certain information contained in this document has been obtained from third-party sources and, although believed to be reliable, has not been independently verified, and its accuracy or completeness cannot be guaranteed.

Broad High Yield Market Strategy portfolios may include 6%-12% of USD-denominated below-investment-grade corporate debt securities that are not included in the ICE BofAML US High Yield Index ("Index"). These securities may have variable coupon schedules, scheduled maturity of less than one year, USD-listed issuers domiciled outside the US, issues with less than \$250 million in debt outstanding and new-issue securities not yet in the Index due to routine timing lag. The Index reflects no deductions for fees, expenses or taxes.

Investing in securities involves risk of loss and past performance is not necessarily indicative of future results. Fixed income securities, especially high yield debt securities, are subject to loss of income and principal arising from credit risk, which is the risk that the issuer will be unable to make interest and principal payments when due. Material risks in investing in high yield debt securities also include, but are not limited to, opportunity cost (the risk that an issuer's credit trends deteriorate resulting in a higher level of compensation demanded by the market relative to the initial investment), interest rate risk, liquidity risk, selection risk, and overall market risk. In general, issuers of high yield debt securities have a greater likelihood of defaulting on the payment of interest or principal than issuers of investment grade bonds. There can be no assurance that the investment objectives described herein will be achieved or that substantial losses can be avoided.

Gross performance results herein do not reflect the deduction of investment management fees, which would reduce an investor's actual return. For example, assume that \$1 million is invested in an account with the Firm, and this account achieves a 6% compounded annualized return, gross of fees, for five years. At the end of five years that account would grow to \$1,338,226 before the deduction of management fees. Assuming management fees of 0.55% per year are deducted annually from the average annual AUM, the value of the account at the end of five years would be \$1,302,846, which is the equivalent of an annual compounded rate of 5.43%. For a ten-year period, the ending dollar values before and after fees would be \$1,790,848 and \$1,697,408, respectively. These calculations do not include custodial fees or transaction costs. SKY Harbor's asset-based fees are generally billed monthly or quarterly in arrears. Please refer to SKY Harbor's ADV Part 2A or applicable Offering Documents for more information on fees. Consultants supplied with gross results are to use this data in accordance with SEC, CFTC, NFA or the applicable jurisdiction's guidelines.

The ICE BofAML Index data referenced herein is the property of ICE Data Indices, LLC ("ICE BofAML") and/or its licensors and has been licensed for use by SKY Harbor. ICE BofAML PERMITS USE OF THE ICE BofAML 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 ICE BofAML 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. SKY Harbor is not a tax or legal advisor. Prospective investors should consult their tax or legal advisors before making tax-related investment decisions.

© 2019 SKY Harbor. This document may not be reproduced or transmitted, in whole or in part, by any means, to third parties without prior written consent of SKY Harbor. For more information, contact SKY Harbor Capital Management, LLC at +1 203 769 8800 or email info@skyhcm.com