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SKY'S THE LIMIT IN ESG

SKY Harbor's **Hannah Strasser** and **Anne Yobage** are making their mark in ESG-oriented high yield after more than 30 years in the industry

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It may only have launched in 2011, but the $5.8 billion boutique SKY Harbor Capital Management has plenty of experience behind it. It comes in the form of Hannah Strasser and Anne Yobage, the firm's founders, who go *way* back.

They're best-known for having led the high yield team at AXA Investment Managers, but Strasser (above left) and Yobage first met in 1987, when they were working together in the high yield research group at Kidder Peabody.

When Strasser left the following year to begin her investing career at Deltec Asset Management, Yobage soon followed. 'I was her first call,' Yobage said. The rest is high yield history.

The pair's investing partnership has lasted 30 years. In 1995, they launched Cardinal Capital Management, one of the first women-led investment firms, working alongside their former Deltec colleague Amy Minella. Strasser and Yobage also served as portfolio managers and co-led the high yield team, before moving to AXA Investment Managers in 2001 to build out the firm's fixed income expertise.

When they resigned from AXA in 2011 (along with Tom Kelleher, who would also become a SKY Harbor co-founder, remaining at the firm until 2016), the firm had grown to be a top player in asset management, with a focus on global fixed income. 'It was the right moment to exit and go back to a dedicated high yield investment process,' Strasser explained.

A FRESH START

Strasser, Yobage and Kelleher were by no means starting from scratch though. The bottom-up, fundamental cash flow model that they first developed while on the sell side still serves as an anchor for the firm's Broad High Yield Market and Short Duration High Yield strategies. Strasser is the portfolio manager for the Broad High Yield Market strategy alongside Trevor Kaufman and Ryan Carrington, and Yobage runs the Short Duration High Yield strategies with David Kinsley.

While the investment process has remained largely consistent, with a focus on companies with sustainable business models, Strasser explained that risk positioning has evolved over time. 'Twenty five years ago we would build portfolios that were generally equally weighted and less diversified because the risk in the high yield market was less concentrated,' she said. 'The model went from being purely bottom-up and security selection driven to having more of a top-down process that is repeatable, transparent and embedded into portfolio construction.'

In addition to the two main strategies, SKY Harbor offers three more: Credit Opportunities, Senior Floating Rate and Structured Solutions. Today, two thirds of the firm's assets come from non-US investors, through separately managed accounts (SMAs) and Ucits vehicles. In the US, SKY Harbor subadvises the Westwood Short Duration High Yield fund and the Westwood Opportunistic High Yield fund, in addition to a range of SMAs.

DOING SOME GOOD

Central to SKY Harbor's identity is its dedication to sustainability. In 2015, it became a signatory to the UN-backed Principles for Responsible Investment to formalize its commitment to environmental, social and governance concerns. Although there is far more formal language and guidance on ESG investing today than when Strasser and Yobage first started out, they have been incorporating many of these themes all along.

'Our entire investment process is focused on the sustainability of a business model in the context of its industry. It's about questions such as: What environmental-based legacy issues does a company have? How does it engage with its workforce and their communities? How does it manage itself?' Strasser said.

Because of the firm's substantial European asset base, particularly in Scandinavia, SKY Harbor has been ahead of the curve, Yobage said. The strategies offer variations on the core investment thesis, allowing for the integration of themes that are increasingly important to investors, such as carbon restrictions and fossil fuel free portfolios.

In their effort to do some good, though, Yobage and Strasser aren't asking for special treatment. 'We are willing to benchmark those portfolios against unconstrained benchmarks. We are willing to say that we aim to deliver the same returns as portfolios that do not have ESG constraints. At the end of the day, investors want their ESG themes integrated but they don't want to sacrifice returns,' Strasser said. 'We think that on the basis of the data that's being created and our own experience we will not have to sacrifice returns over time to do what's right.'

The Short Duration High Yield strategy is available to US investors in a 40 Act vehicle through the Westwood Short Duration High Yield fund, which SKY Harbor subadvises. The fund aims to provide income with a focus on lower volatility and has returned 2.65% over the past three years. Although the fund lags the Morningstar High Yield category average return of 3.46%, it captures significantly less of the market beta in a downturn, with a three-year downside capture of 9.7% versus its average peer at 53.6%.

SKY HARBOR'S BROAD HIGH YIELD MARKET STRATEGY HAS LARGELY STAYED AHEAD OF ITS UNCONSTRAINED BENCHMARK

DATA TO MAY 31, 2018 / SOURCE: SKY HARBOR CAPITAL MANAGEMENT