



# SKY Harbor Capital Management, LLC

20 Horseneck Lane  
Greenwich, Connecticut 06830

Telephone (203) 769-8800

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

March 26, 2014

Item 1      Cover Page

This brochure (the "Brochure") provides information about the qualifications and business practices of SKY Harbor Capital Management, LLC ("SKY Harbor" or the "Firm"). If you have any questions about the contents of this Brochure, please contact us directly at (203) 769-8800 or by email at [compliance@skyhcm.com](mailto:compliance@skyhcm.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

SKY Harbor is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

Additional information about SKY Harbor also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2      Material Changes

This Brochure dated March 26, 2014 is intended to provide prospective and current clients with an overview of SKY Harbor. It also contains important disclosures such as certain practices of SKY Harbor, potential material conflicts that may arise and key investment risk factors.

The following summarizes material changes to this Brochure since the last annual update filed on March 25, 2013.

- The amount of assets under management has increased from approximately \$3,976,000,000 to approximately \$8,075,000,000.

ITEM	DESCRIPTION OF MATERIAL CHANGE
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss	Revised description of Broad High Yield Market Strategy concerning capability to include leveraged loans in separately managed accounts
Item 10: Other Financial Industry Activities and Affiliations	Revised description to include relationship with unaffiliated broker-dealer
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	Conflicts of Interest Created by Side by Side Management
Item 12: Brokerage Practices	Revised description of Allocation Policy, Cross Trades, Soft Dollar Benefits, and additional Trade Errors Policy
Item 15: Custody	Additional Custody Rule Disclosure

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#### Item 4      Advisory Business

SKY Harbor is a Delaware limited liability company organized in August 2011 and registered as an investment adviser with the SEC under the Advisers Act. The Firm is a wholly-owned subsidiary of SKY Harbor Capital Holdings LLC, a Delaware limited liability company. As of the March 25, 2014, the Firm has client assets under management (“AUM”) totaling approximately \$8,075,000,000.

SKY Harbor provides discretionary portfolio management services in broad high yield and short duration high yield securities portfolios. The broad high yield market strategy<sup>1</sup> is typically managed against the Bank of America Merrill Lynch US High Yield Master II Index, a commonly used benchmark for high yield corporate bonds and a measure of the broad U.S. high yield market. Alternatively, the broad high yield market strategy may also be managed against a similar high yield benchmark to accommodate particular client needs. The short duration high yield strategy is an absolute return strategy and is therefore not managed against a benchmark.

The Firm has full power and authority to supervise and direct the investment of assets of its separate accounts and pooled investment vehicles and manages those assets for U.S. and non-U.S. institutional clients and will tailor its advisory services to clients’ particular needs. Clients may impose reasonable restrictions on investing in certain types of securities or to impose other constraints on the way in which they want the Firm to manage their accounts. These restrictions or constraints to each client’s investment guidelines are set forth or incorporated by reference in the client’s Investment Advisory/Management Agreement or in the applicable Prospectus or Confidential Private Offering Memorandum.

SKY Harbor serves as subadviser to an open-end diversified management investment company (a mutual fund), the Westwood Short Duration High Yield Fund, ticker symbols: WHGHX and WSDAX for the Institutional and “A” Shares respectively. The Westwood Short Duration High Yield Fund is registered under the Investment Company Act of 1940. The management fee paid to SKY Harbor is described in the fund’s current prospectus and Statement of Additional Information. Anne Yobage, Director, serves as the lead portfolio manager of the fund.

SKY Harbor also serves as sponsor and investment manager to SKY Harbor Global Funds, an open-end management investment company incorporated in Luxembourg and registered with the *Commission de Surveillance du Secteur Financier* (“CSSF”), the securities regulator in Luxembourg pursuant to the European UCITS IV Directive (Undertakings for Collective Investment in Transferable Securities). UCITS IV is a regulatory regime governing the marketing and distribution of securities within the European Union. Messrs. Thomas Kelleher, Director of the Firm, Gordon Eng, the Firm’s General Counsel & Chief Compliance Officer, and Bernhard Klocke, Principal employed by the Firm and Managing Director of SKY Harbor Capital Management GmbH, (a wholly owned subsidiary of SKY Harbor) serve as directors of SKY

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<sup>1</sup> The broad high yield market strategy was formerly referred to as the core high yield strategy in the initial Brochure dated September 1, 2011. Despite the change in name, there is no change in the underlying investment strategy.

Harbor Global Funds. The management fee paid to SKY Harbor varies by each share class and fund as described in the prospectus. Such management fees range up to 1.1% of aggregate net assets on an annual basis. The shares of SKY Harbor Global Funds have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and SKY Harbor Global Funds has not been and will not be registered under the U.S. Investment Company Act of 1940, as amended, and accordingly, its shares may not be offered, sold, transferred, or delivered, directly or indirectly, in the United States or to any United States persons, except in compliance with the securities laws of the United States and any state thereof in which such offer or sale is made.

SKY Harbor is the sole General Partner and Investment Manager to SKY Harbor Short Duration High Yield Partners, LP and SKY Harbor Broad High Yield Market Partners, LP (together the "Private Funds"). Both entities are private funds established as Delaware limited partnerships. The limited partnership interests offered have not been and will not be registered under the Securities Act of 1933 ("Act"), as amended, nor the Investment Company Act of 1940 (the "1940 Act"), as amended, and such interests are to be offered in reliance upon exemptions under the Act to Accredited Investors as defined in Rule 501 of the Act and Qualified Purchasers as defined in the 1940 Act. SKY Harbor Short Duration High Yield Partners, LP began business on or about February 1, 2013, and SKY Harbor Broad High Yield Market Partners, LP began business on or about April 1, 2013.

SKY Harbor's senior investment team, Hannah Strasser, Anne Yobage and Tom Kelleher (the "Senior Investment Team"), have worked together since 1992. From 1992 until 1995, they comprised the High Yield Bond Group of Deltec Asset Management LLC in New York City. In 1995, they — together with the Deltec Small Cap Equity Team — formed Cardinal Capital Management, L.L.C., an independent investment manager based in Greenwich, CT. In 2001, the Senior Investment Team joined AXA Investment Managers, Inc., a subsidiary of the AXA Group. In June 2011, they resigned their positions with AXA Investment Managers, Inc. and joined SKY Harbor in late-September 2011. See Item 10 below for information regarding entities affiliated with the Firm.

## Item 5 Fees and Compensation

Clients are charged an annual management fee based upon the portfolio management strategy selected by the client. The Firm's standard fee schedules for each strategy are set forth below:

### Broad High Yield Market

- 55 basis points ("bps") per annum on assets up to and including \$50 million
- 50 bps per annum on assets greater than \$50 million up to and including \$100 million
- 45 bps on assets greater than \$100 million up to and including \$300 million
- 40 bps on assets greater than \$300 million

### Short Duration High Yield

55 bps on assets up to and including \$50 million

50 bps on assets greater than \$50 million up to and including \$100 million

45 bps on assets greater than \$100 million

The Firm's management fees are negotiable based upon several factors, including but not limited to the size of the account, nature of the investments to be made, servicing requirements applicable to the account, and other factors that may be deemed significant by the Firm in any particular instance. Accordingly, separately negotiated management fees paid by a particular client may vary from the otherwise standard fees set forth in the schedule above.

In addition to, or in place of, the above asset-based fees, and as further described in Item 6 below, SKY Harbor may enter into arrangements that provide for compensation based upon the gains generated in a client's account. Such arrangements will be individually negotiated with the particular client. As of the date of this Brochure SKY Harbor has not entered into any performance fee arrangements but reserves the right to do so.

SKY Harbor's management fees are typically charged monthly or quarterly in arrears, based on the net asset value of the account as of the last day of the preceding applicable period. Typically, the Firm itself performs the valuation of each client's portfolio and calculates management fees in accordance with each client's Investment Management Agreement. Valuations generally are the sum of the cash and market value of the securities in the account as determined by an independent pricing service. Such market values may not precisely match valuations calculated by a client's custodian for reasons more fully set forth in Item 15 below. Clients are generally invoiced for the management fees on a monthly or quarterly basis and pay such fees by check or wire transfer. Some clients may prefer the Firm to submit an invoice directly to their custodian who will pay the fees directly.

With respect to the domestic and foreign registered open-end investment management companies and the two Private Funds managed by the Firm, valuations are performed by the respective fund administrators in accordance with the respective Prospectus or Offering Memorandum. The Firm's management fees are paid monthly in arrears, based on the accrued daily net asset value or the net asset value as of the last day of the preceding month of the respective Private Fund as the case may be after taking account of contributions or withdrawals during the billing period.

Because management fees will be paid in arrears, there will be no unearned prepaid fees that need to be refunded upon termination of a client account during a calendar quarter. A prorated management fee will be charged on accounts opened or terminated during an interim period.

### Additional Fees and Expenses

In addition to the Firm's management fees described above, clients are responsible for the payment of other charges and fees that may be assessed by the custodians maintaining their accounts, the broker-dealers transacting for their accounts and/or by other third parties. These may

include "bid-ask spreads" charged by broker-dealers on fixed income transactions (i.e., the difference between the prices for which a broker-dealer is willing to buy or sell a particular security), brokerage commissions on any equity trades that are effected (which are expected to be limited or non-existent, given the Firm's focus on high yield fixed income securities), custodial fees, foreign currency hedging costs, where applicable, wire transfer and electronic fund transfer processing fees, and other fees charged by third parties. Additional information about SKY Harbor's brokerage practices is set forth in Item 12 below. SKY Harbor does not receive any part of the third-party fees or charges described above, and none of the persons associated with SKY Harbor receive, directly or indirectly, any compensation for the purchase or sale of any securities or other investments in a client account.

#### Item 6      Performance-Based Fees and Side-By-Side Management

Under appropriate circumstances, the Firm may enter into arrangements that provide for the payment of performance-based compensation based on the income generated, capital gains or capital appreciation generated in the client's account or some other measure of the account's performance. Such performance-based fees may be paid in lieu of, or in addition to, the Firm's usual asset-based management fee. All performance-based compensation arrangements are separately negotiated, and in all cases comply with Rule 205-3 of the Advisers Act.

Clients are advised that a performance-based fee may create a conflict of interest for an investment adviser, as there may be an incentive for the adviser to make investments that are riskier or more speculative than would be the case in the absence of a performance-based fee. In addition, if some of the Firm's clients pay a performance-based fee while others do not, or if clients pay different levels of asset- or performance-based fees, this may also give rise to potential conflicts of interest. For example, the Firm may have an incentive to favor those accounts for which it receives a performance-based fee because the Firm would receive a higher fee if their performance exceeds the applicable benchmark. Similarly, the Firm may have an incentive to favor those accounts that pay a higher management fee over those accounts that pay a lower management fee because the Firm would receive greater compensation if it did so. Under SKY Harbor's Code of Ethics, the Firm and all its employees, officers and directors are required to treat all clients equitably and fairly and not to favor any one client or type of client over any other client in allocating investment opportunities. SKY Harbor's compliance and supervisory personnel monitor client accounts on a continuous and regular basis to assure that all client accounts are treated fairly in all respects.

#### Item 7      Types of Clients

SKY Harbor provides investment advisory services on a global basis to institutional investors, such as public or private pension plans, trusts, non-profit institutions, global wealth advisers and private investment funds. A minimum initial investment of \$20 million is generally required to open a separately managed account, but accounts with less than \$20 million may be accepted at the Firm's sole discretion and only when appropriate for the client.

## Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

### Methods of Analysis

For more than two decades, the Senior Investment Team has professionally managed high yield debt portfolios through numerous market and economic cycles. In doing so, they have employed an investment process that is based upon fundamental analysis of issuers and markets coupled with robust quantitative valuation and risk monitoring tools. The Firm's investment process is guided by an investment philosophy that seeks superior long term returns built through the compounding of income over time and the avoidance of principal losses. The goal of SKY Harbor's investment process is to identify attractively priced income streams across the full range of ratings and maturities of the high yield market and build portfolios around those income streams to meet the unique risk and return characteristics targeted by our clients. The Firm's three-step investment process focuses on assessing, valuing and managing high yield fixed income risk.

Step 1: Assessment of risk through fundamental credit analysis. In the first step of the investment process, we perform in-depth financial analysis to identify the micro and macroeconomic risks to assess the credit profile of each issuer of potential portfolio securities. This is designed to uncover the key drivers of an issuer's business, its sensitivity to various internal and external factors, and the issuer's long-term ability to operate within its existing capital structure under realistic assumptions.

Step 2: Valuation of risk through market segmentation. In the second step of our investment process, we seek to identify relative and absolute value opportunities by evaluating the fundamental characteristics and risk/return profile of each issuer against those of the market. In this analysis, we use a quantitative evaluation tool that relies upon data from FactSet®, a third party analytics platform. FactSet® is used to analyze a number of different criteria, such as internal credit assessment, credit rating, industry classification, credit curve position and capital structure. The application facilitates comparison of credit risks and market yields in order to segment the market into "buckets" or pools of securities with similar return and risk characteristics.

Step 3: Management of risk through portfolio positioning. In the third step of our investment process, we seek to balance bottom-up (i.e., idiosyncratic and issuer-specific) and top-down (i.e., systemic and market-related) risks against the various return opportunities we have identified. Our integrated investment process utilizes both quantitative and qualitative processes in constructing our client portfolios.



## Investment Strategies

### Broad High Yield Market Strategy

The Broad High Yield Market Strategy invests in U.S. dollar-denominated debt securities, primarily below-investment grade and issued by U.S. companies. The strategy's investment objective is to achieve a long-term total return in excess of the Bank of America Merrill Lynch U.S. High Yield Master II Index or a mutually agreeable similar high yield benchmark selected by our clients. Generally, below-investment grade corporate debt securities are rated below BBB- (i.e. BBB minus) by Standard & Poor's or below Baa3 by Moody's or an equivalent rating by another Nationally Recognized Statistical Rating Organization.

In 2013 the Broad High Yield Market Strategy added the capability to include leveraged loans in some of its separately managed client accounts. Similar capability may be added to separately managed accounts in the Short Duration High Yield Strategy in response to client demand.

### Short Duration High Yield Strategy

The objective of the Short Duration High Yield Strategy is to generate a relatively high level of current income while experiencing lower volatility than the broader high yield market. This is an absolute return strategy and is not managed against any particular benchmark.

The investment objective for the Short Duration High Yield Strategy is achieved by investing in U.S. dollar-denominated debt securities, primarily rated below-investment grade and predominantly issued by U.S. companies. The securities in this strategy are expected to be retired in three years or less as a result of either the maturity of the security or some anticipated corporate action such as a tender or a call. Shorter maturity bonds, which have correspondingly shorter duration, are generally less sensitive to interest rate movements than bonds with longer average maturities and duration. Accordingly, the Firm expects less volatility resulting from interest rate changes in this strategy than in a strategy that utilizes longer maturity or duration bonds.

### Material Risks

The principal risks of SKY Harbor's investment strategies include, but are not limited to, the following:

- **Loss of Income and Principal:** Debt securities, especially high yield debt securities, are subject to credit risk, which is the risk that the issuer of the security will be unable to make interest and principal payments when due. The risk of such a default is the central risk of investing in securities rated below-investment grade. Issuers of high yield securities are also particularly subject to real or perceived economic changes (such as an economic downturn or a prolonged period of rising interest rates), political changes or adverse developments specific to an issuer (i.e., idiosyncratic risk), all of which could

negatively affect the market value of such securities.

- **Opportunity Cost:** The risk that an issuer's credit trends deteriorate and that investors demand a higher level of compensation to support ongoing investment in the issuer's credit relative to the initial investment level, creates an investment opportunity cost associated with being undercompensated for ongoing risks. In addition, changes in the credit rating of a debt security held in client accounts could also reduce the market value of those securities, resulting in a realized loss of principal if the security were to be sold.
- **Interest Rate Risk:** This is the risk of a change in capital market and/or economic conditions that causes interest rates or credit spreads to shift, resulting in changing market values for fixed income securities that are not driven by the underlying fundamentals relating to a specific security in a portfolio. As a general rule, market values of debt securities decrease when interest rates increase, although the effect on the market values of high yield debt securities may not be directly correlated with changes in general levels of interest rates. However, any such increase in overall interest rates or in the interest rates that the market demands of high-yield bonds in particular, may negatively affect the value of securities in a client's portfolio.
- **Liquidity Risk:** At any time there may be a lack, or a limited number, of willing buyers for the lower-rated securities in which the Firm will invest. In such event, we may have to sell such securities at lower prices or may not be able to sell them at all, both of which would negatively affect the performance of client accounts.
- **Selection Risk:** This is the risk that the particular securities selected by the Firm will underperform the relevant benchmark for high yield bonds or other securities that may have been selected as alternatives.

In general, issuers of high yield debt securities and syndicated loans have a greater likelihood of defaulting on the payment of interest and/or principal than issuers of investment grade rated bonds. High yield bonds may be more volatile than bonds with higher credit ratings. SKY Harbor's investment managers adhere to an investment process that focuses on fully analyzing investment risks, whether peculiar to the particular securities or systemic to the entire market. Moreover, SKY Harbor's investment managers continuously and regularly monitor their portfolios and adhere to a disciplined sell strategy to reduce the risk of a negative credit event.

There can be no assurance that the Firm will be able to achieve its investment objectives or avoid substantial losses. Investing in securities involves risk of loss that clients should be prepared to bear.

## Item 9 Disciplinary Information

In this Item, registered investment advisers are required to disclose certain legal or disciplinary matters regarding the adviser or its management personnel that may be material to a client's or prospective client's evaluation of its business or the integrity of its management. Neither SKY

Harbor nor any of its management personnel has been the subject of any such legal or disciplinary matters and, therefore, there is nothing to disclose in this section.

#### Item 10      Other Financial Industry Activities and Affiliations

Except for our one of our senior employees as described below, neither the Firm nor any of its management personnel are registered or are seeking registration as a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor or associated person of a futures commission merchant, commodity pool operator or commodity trading advisor.

The Firm's Head of Relationship Management-USA is a registered representative of SDDCO Brokerage Advisers LLC ("SDDCO-BA"), a registered broker-dealer and member of FINRA and SIPC with principal offices at 485 Madison Avenue - 15th FL, New York, NY 10022. SDDCO-BA and its affiliates are independent and not affiliated with SKY Harbor. Private placements by the Firm's Head of Relationship Management-USA into the Firm's Private Funds are offered through SDDCO-BA. Neither the registered representative nor SDDCO-BA is compensated on a transaction-basis for any private placements into the Firm's Private Funds. SKY Harbor's management believes this affiliation with SDDCO-BA is not material to the business of the Firm nor does it create a conflict of interest with the Firm's activities on behalf of its clients.

One of the Firm's part-time employees is a registered representative of an unaffiliated broker-dealer but no business is conducted on behalf of the Firm in reliance upon that other registration. In addition, neither SKY Harbor nor any of its management personnel has a relationship or an arrangement material to the Firm's advisory business with any broker-dealer, other investment adviser (except for Stone Point Capital as set forth below), or any other securities or financial industry entity.

SKY Harbor is 100% owned by SKY Harbor Capital Holdings LLC, which is controlled by Trident SKY PL Holdings LLC. Trident SKY PL Holdings LLC is indirectly controlled by Trident V Parallel Fund, L.P. and Trident V, L.P. (together, the "Trident V Funds"). Stone Point Capital LLC, a registered investment adviser, is the investment manager of the Trident V Funds. Stone Point Capital LLC manages private equity funds (including the Trident V Funds) that invest in companies operating in the financial services industry. SKY Harbor's management believes that none of the indirect relationships that the Firm may have with any such companies through its indirect relationship with Stone Point Capital LLC are material to the business of the Firm nor cause a conflict of interest with the Firm's activities on behalf of its clients.

Item 11      Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

SKY Harbor has adopted a Code of Ethics pursuant to Rule 204A-1 under the Advisers Act, which sets forth the high ethical standards of business conduct that the Firm requires of all its employees, including compliance with applicable federal securities laws. The Firm's employees owe a duty of loyalty, fairness, and good faith when acting on behalf of its clients, and have an obligation to adhere not only to the letter of our Code of Ethics but also to the spirit of the general principles that underlie its requirements. The Code of Ethics is designed to ensure that the Firm's employees comply with applicable law and employees' personal securities transactions, activities and interests do not interfere with their ability to make decisions in the best interest of clients.

The Code of Ethics contains provisions that cover the following matters:

- Personal trading by employees
- Prevention of trading on inside information
- Equitable and fair allocation of trades among clients
- Reporting of actual or apparent conflicts of interest
- Approval of outside business activities
- Political contributions
- Confidentiality of client information
- Gifts and entertainment
- Reporting of violations

All of the Firm's employees must acknowledge annually their compliance with the terms of the Code of Ethics, and a violation of the Code of Ethics can result in the discipline of the employee, up to and including termination of employment. A copy of the Code of Ethics will be provided to clients or prospective clients upon request by email to [compliance@skyhcm.com](mailto:compliance@skyhcm.com) or by telephone at (203) 769-8800.

Set forth below is a summary of certain of the provisions of our Code of Ethics.

### Personal Trading

SKY Harbor's employees are generally prohibited from buying or selling any securities, whether debt, equity or any other securities class, issued by the same issuers of the debt securities that the Firm transacts for its advisory portfolios. Any exception must be approved by the Chief Compliance Officer. The Code of Ethics also requires periodic reporting of personal transactions by Firm personnel, through duplicate copies of account statements or by other means to enable surveillance by Compliance and prevent any violations of the Code of Ethics or other conflicts of interest which could result from employee personal trading activities.

### Allocation of Investment Opportunities

As more fully described in Item 12 below, SKY Harbor has adopted a policy for the allocation of trades among clients that requires all clients to be treated fairly and equitably. Fair and equitable treatment does not mean identical treatment of all clients. Rather, it means the Firm does not discriminate on an impermissible basis against one client or group of clients. When the Firm transacts in securities for more than one account, the investment opportunities and trades must be allocated in a manner consistent with our fiduciary duty.

### Gifts

The Firm's Code of Ethics limits the types and value of business-related gifts and entertainment that employees may give or receive, including those to and from broker-dealers, vendors, or current or prospective clients. The receipt of any improper gifts or entertainment must be reported to the Chief Compliance Officer, and any gift or entertainment that would exceed the limitations established by our Code of Ethics require the prior approval of a Manager of the Firm. The Code of Ethics prohibits employees from, among other things, receiving extravagant business-related gifts or entertainment.

### Conflicts of Interest Created by Side by Side Management

Although the professional staff of the Firm expects to devote as much time to the management of cclients' portfolios as the Firm deems appropriate to perform its duties in accordance with its fiduciary duties and its responsibilities under the management agreements, Firm professionals may have conflicts in allocating time and services among cclients.

SKY Harbor acts as a general partner, sponsor or investment adviser to partnerships, investment companies, or other entities for which SKY Harbor solicits investors. These practices create a conflict of interest because SKY Harbor or a related person has an incentive to recommend its products to clients or investors based on its own financial interests rather than solely the interests of a client or investor.

With respect to Private Funds, the Firm requires investors to complete subscription documents, which determine not only if investors are eligible to invest in such funds under the federal

securities laws, but also whether the decision to do so was made on an independent basis.

## Item 12      Brokerage Practices

### Allocation Policy

SKY Harbor has adopted a trade allocation policy that applies in situations in which an investment opportunity cannot be fully implemented for all accounts for which the transaction would be appropriate because of the limited supply of the security that may be available. The guiding principle of this policy is that the allocation of such investments must be made among our clients fairly and equitably to the extent practicable. To avoid the incentive to allocate such trades to accounts that may pay a performance-based fee or accounts paying relatively larger fees than other accounts, the Firm generally seeks to allocate such opportunities among participating accounts on a fair and equitable basis and where feasible on a *pro rata* basis.

While a *pro rata* allocation is generally one of our guiding principles, for a number of considerations as further explained below, a strict *pro rata* allocation of combined or block trades is not always practical or in our judgment under some circumstances even in the best interest of a particular account. The different size of the various accounts under management — which may be quite significant — the amount or lack of cash in an account, the amount of bonds that may become available for purchase or sale at any given point in time during the trading day, the availability or unavailability of follow-up trades in cases of partial fills, and timing differences in filling whole or partial fills are just some examples of the confounding factors that make a strict *pro rata* allocation impractical on any given day or moment in time. Moreover, to the extent accounts have chosen their own custodians, the transactions fees charged by these custodians (for which the Firm has no control or influence) may vary significantly. As a result, in some instances, the transactions cost may be disproportionately expensive relative to the size of an allocation amount when a relatively small trade is involved.

For all the reasons stated here, we do not exercise our *pro rata* allocation principle in a mechanical and inflexible manner. Rather, our portfolio managers weigh these and other factors and make timely judgments as to the how best to allocate particular trades while discharging our fiduciary duty to treat all our accounts/clients fairly and equitably over time. Accordingly, it is not uncommon that on any particular block trade or any particular trading day a trade is not allocated on a strictly *pro rata* basis. We view the success of our endeavors to treat all our clients fairly and equitably by the fact that over a period of time the performance and portfolio characteristics of the accounts with the same or reasonably similar strategy do not manifest material divergences.

SKY Harbor will have no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to any other client solely because SKY Harbor purchase or sells the same security for, enters into a transaction on behalf of, or provides an opportunity to any client if, in its reasonable judgment, such security, transaction or investment opportunity does not appear to be suitable, practical, or desirable for the client.

All trade allocations are documented at the time an order is placed in the market.

## Block Trades

Transactions for each client generally will be effected in a combined or block order so that all clients who participate in such order will pay or receive the same prices and transaction costs for that transaction. Under this procedure, transactions will generally be averaged as to price and allocated among the participating clients in accordance with the Firm's Allocation Policy. Block trades are executed only when such transactions are beneficial to clients. The advantages of block trading include: the ability to execute trades in a more timely and equitable manner; reduction in overall transaction costs thereby benefiting clients; and the assurance that all clients who participate in a particular investment opportunity will pay or receive the average price obtained in any multiple executions of the transaction. As described below under "Directed Brokerage," the Firm may not be able to include in a block trade a particular client who directs the use of a particular broker-dealer to execute its trades. Because of the associated cost and expense in having to place separate, non-simultaneous transactions in the same security for multiple clients, a client may ultimately pay more or experience poorer trade execution where the Firm is unable to aggregate trades due to client-imposed constraints.

## Selection of Broker-Dealers

In selecting broker-dealers for the execution of client transactions, the Firm has a duty to obtain "best execution" for such transactions. Best execution, however, does not necessarily mean that the transaction will be executed at the lowest possible commission or commission-equivalent or at the narrowest bid-asked spread. The Firm's investment managers consider many factors in selecting executing broker-dealers, including but not limited to the following: (1) the broker's ability to efficiently and economically execute the transaction; (2) the breadth of a broker's market access; (3) knowledge of prevailing bid-ask spreads; (4) our valuation of the security to be bought or sold; (5) the nature of the market for the security to be bought or sold; (6) a broker's capital position; (7) the broker's operational capabilities; and (8) the reasonableness of the commission or bid-ask spread on the transaction. After the Firm's investment managers weigh these or other factors, a client may pay a higher brokerage commission or wider bid-ask spread in a particular transaction than the same transaction executed by another broker at the same point in time and under the same or similar market conditions. The Firm's Operations, Risk and Control Committee (the "ORCC"), periodically and regularly reviews the performance of the broker-dealers selected in light of our duty to obtain best execution.

## Cross-Trades

Cross transactions are those in which one Client account purchases or sells securities against another Client account. Because of potential conflicts of interest, as well as the restrictions placed by either (i) the Employee Retirement Income Security Act of 1974 ("ERISA") Prohibited Transactions rules that bar investment managers from engaging in cross-trades absent an exemption where client accounts are subject to ERISA; or (ii) Rule 17a-7 of the Investment Company Act of 1940 when we act as a sub-adviser to a registered investment company, SKY

Harbor generally does not engage on behalf of any of its clients in cross-trades, whether through an external broker-dealer or internally, even where reduced transaction costs for client accounts could be achieved.

#### Soft Dollar Benefits

SKY Harbor has not entered into any so-called “soft dollar” agreement or understanding by which we receive research or other services from a broker-dealer in addition to transaction execution in exchange for the brokerage commissions from transactions in managing discretionary clients’ accounts. If SKY Harbor decides to enter into any soft dollar arrangement in the future, we would only use those services that comply with the safe harbor under Section 28(e) of the Securities Exchange Act of 1934, as amended.

SKY Harbor may, however, receive, without cost, proprietary research and brokerage services, within the meaning of Section 28(e) of the Securities Exchange Act, from certain broker-dealers that execute trades for SKY Harbor’s clients. Proprietary research generally includes access to company executives, conferences, analysis, forecasts, in-house research, including information on the economy, industries or specific companies, market and other statistical data and other information that may affect our view of the economy or security prices or both. This type of proprietary research does not have an identifiable value and is provided based on SKY Harbor’s total client trading activity or by simply opening an account. SKY Harbor does not view such services and research as soft dollar benefits.

#### Directed Brokerage

Clients are permitted to direct the exclusive use of a particular broker or dealer to execute transactions for their accounts. However, clients should understand that they may pay higher commissions on some transactions and/or may receive less favorable execution of some transactions, than they would have had they given the Firm discretion in selecting the executing broker-dealer. Also, clients that direct brokerage may not be able to participate in block trades. A client's absence in block trades because of a directed brokerage constraint may result in lost opportunities to purchase securities at more favorable prices or size than securities that were purchased for other clients participating in the Firm’s block trades.

#### Transition Managers

From time to time, a new client may utilize a transition manager for purposes of transitioning authority to SKY Harbor from an account previously managed by a different investment manager or according to a different benchmark or strategy. In those instances where a client chooses to use a transition manager, the Firm expects to provide the transition manager with a target portfolio, which is to be implemented by the transition manager in advance of the Firm’s acceptance of discretionary authority over the account. During this transition period, the transition manager will assume trading authority for the account, including investment in the target portfolio provided by SKY Harbor. As a result of possible limitations on liquidity in the fixed income or high yield markets, the transition manager’s implementation of the target



portfolio may require transacting in the same securities being transacted by the Firm for other client accounts at close to the same instant in time and consequently may adversely affect the liquidity or pricing of those securities.

### Trade Errors

In the course of managing accounts or funds it is possible from time to time that trade errors will occur. SKY Harbor believes it has established adequate procedures to reasonably minimize the risk of trade errors and to resolve them expeditiously as soon as they are discovered. There is, however, no assurance that trade errors will not occur.

No standard industry definition exists as to what is a “trade error,” but some examples of trade errors in our view would include: (i) buying securities not legally permitted for an account or fund, or not within an account’s or fund’s investment guidelines; (ii) buying or selling the wrong securities for an account or fund, or selling a security when it should have been bought or vice versa; or (iii) buying or selling securities for the wrong account or fund. We do not view errors that do not result in actual transactions (such as missed opportunities to buy or sell at desired prices or desired amounts, or missed corporate actions for early tenders, or “passive breaches” of investment guidelines) as trade errors. We also do not view errors caused by brokers or third parties as SKY Harbor trade errors.

SKY Harbor believes that every trade error is based on its own unique facts and circumstances and accordingly not susceptible to a standard one-size-fits-all treatment. If a trade error occurs, SKY Harbor will determine the overall impact of the error taking into account relevant facts and circumstances such as prevailing market conditions, volume of transactions, investment guidelines, the nature of the activity giving rise to the error, the degree of departure, if any, from established standards of care imposed on us by our Investment Management Agreements (“IMA”) or Fund Prospectus/Confidential Offering Memorandum, and any Limitation of Liability or Indemnity provisions in the governing agreements. In the context of above considerations and based on our judgment, SKY Harbor would determine whether a full, partial or no reimbursement to a client account or fund is warranted. In determining whether SKY Harbor has satisfied the standard of care such that we are responsible for a loss resulting from a trade error, SKY Harbor will have a conflict of interest between its economic interest and the economic interest of the account or fund. The standard of care set forth in the IMA or Fund Prospectuses/Confidential Offering Memoranda does not constitute a waiver of any right that a client or fund may have, or a limitation by SKY Harbor of any responsibility or liability, under the U.S. federal securities laws. Moreover, SKY Harbor generally expects to reimburse clients and funds for losses from errors by reason of willful misconduct, bad faith, or gross negligence in the performance of our obligations.

Where a client loss arises from conduct of third parties, SKY Harbor will seek to recover the amount of the loss from the third-party, although SKY Harbor is not responsible for ensuring that third-parties compensate clients in such cases. SKY Harbor will take reasonable steps, short of instituting litigation or an arbitration proceeding, to recover the amount of losses resulting from a third party trade error.

While we will attempt to correct a trade error promptly, correction of trade errors may be delayed in certain cases where investigation of the error is necessary or where further consultation with a particular client is sought.

#### Item 13      Review of Accounts

Securities in client accounts are normally priced by an independent pricing service on a daily basis, and such pricing is monitored by the Firm's team of portfolio managers for changes that could significantly affect client accounts. Our senior portfolio managers also review client accounts on a regular and periodic basis to monitor performance. In addition, client accounts may also be reviewed as a result of (a) client requests, (b) interest rate changes, (c) the occurrence of economic, market or political events that may impact clients, or (d) material events that affect issuers of securities contained in client portfolios.

SKY Harbor will provide quarterly commentaries on its Broad High Yield Market and Short Duration High Yield Strategies to clients invested in those strategies. In addition, reports on separately managed accounts, including performance reviews, will be provided to clients as mutually agreed.

#### Item 14      Client Referrals and Other Compensation

SKY Harbor or a related person may enter into referral fee arrangements to compensate solicitors for recommending to potential clients the Firm's investment advisory services or comingled investment vehicles sponsored by the Firm. To the extent required, such arrangements would be entered into in accordance with Rule 206(4)-3 under the Advisers Act or the rules promulgated by respective jurisdictions or both.

#### Item 15      Custody

All client assets in Separately Managed Accounts are held at custodians chosen by the client with the exception of comingled investment vehicles (e.g. the Private Funds, SKY Harbor Global Funds) sponsored by the Firm, in which case the custodians are chosen by the Firm for the purpose of providing independent administration, depository, custodial and other related services to those vehicles. The Firm does not intend to have actual custody of any client assets. Clients are expected to receive periodic statements from their own custodians in keeping with general market custom and practice. Clients should carefully review those statements and compare the account statements that they receive from their custodians with those that are provided by SKY Harbor. It is possible that differences arising from varying pricing methodologies, accrued interest in bonds, timing of the settlement dates of trades or differences in the dates themselves may result in some variance between account statements issued by client custodians and those issued by SKY Harbor. In those instances, the Firm welcomes the opportunity to discuss these variations with our clients upon request.

Because SKY Harbor serves as a general partner to our Private Funds, we are deemed to have custody of each Private Fund's assets pursuant to Rule 206(4)-2(d)(2) promulgated under the

Advisers Act (the “Custody Rule”). SKY Harbor complies with the requirements of the Custody Rule because the assets of each Private Fund are maintained with The Northern Trust Company, a Qualified Custodian that sends an account statement to each limited partner monthly; each Private Fund is audited annually by Rothstein Kass, an independent public accountant that is registered with, and subject to regular inspection by the Public Company Accounting Oversight Board; and the audited financial statements for each Private Fund will be distributed to all investors within 120 days of the end of each Private Fund’s fiscal year.

With respect to the Separately Managed Accounts, SKY Harbor does not have possession of client funds or securities in its Separately Managed Accounts or the ability to deduct fees. Therefore, it is not deemed to have custody with respect to such accounts for the purposes of the Custody Rule.

#### Item 16      Investment Discretion

SKY Harbor manages all its client accounts with full power and authority to supervise and direct the investment assets including discretion to make purchases and sales of securities for such accounts without obtaining prior consent from the client. The power of attorney that grants this discretionary authority is contained in the Investment Management Agreement that each client must execute upon the opening of his, her or its account with the Firm. The client's Investment Management Agreement and any investment guidelines that are agreed to with a particular client will specify the limits, if any, placed on the Firm’s discretionary authority. Investment guidelines may, for example, set forth limits on the amount of high yield securities of particular issuers or industries that may be purchased for the account. In addition the Firm complies with applicable securities or tax laws and regulations that may impose certain additional restrictions on an account’s investment guidelines. In all instances, however, investment guidelines must be appropriate and in context with the nature of the high yield strategies associated with the Firm. Clients generally establish their own custodial arrangements and provide the custodian with a letter granting us the authority to manage their accounts. See Item 4 for additional information concerning the Firm’s investment discretion.

#### Item 17      Voting Client Securities

On behalf of its advisory clients, SKY Harbor primarily invests in debt securities issued by U.S. corporations and, as a general rule, does not invest in equity securities that would require SKY Harbor to have voting power. Accordingly, the Firm does not expect to receive proxy proposals with respect to any portfolio securities. It is possible that, on rare occasions, the Firm may receive a proxy for a corporate restructuring of a debt issuer or some other unusual situation in which holders of debt securities are permitted to vote. SKY Harbor will vote any proxies received in a timely manner unless a client specifically reserves the right, in writing, to vote its own proxies.

SKY Harbor’s general policy is to vote proxies in a manner that is in the best interest of the client, as determined by the Firm, taking into account factors described in the Firm’s proxy policy. Whenever the Firm becomes aware of a conflict of interest that may affect its ability to vote

any proxy, the Firm will disclose the conflict to the client and obtain the consent of the client before voting the proxy or, if that is not possible for any reason, the Firm will delegate the voting authority to an independent third party. Clients who wish to obtain either a copy of SKY Harbor's voting policies and procedures or information as to the manner the Firm has voted securities in their account should contact Gordon Eng, General Counsel and Chief Compliance Officer, by email at [geng@skyhcm.com](mailto:geng@skyhcm.com) or telephone at (203) 769-8812.

Item 18      Financial Information

In this section of the Brochure, investment advisers are required to provide clients with certain financial information or disclosures about their financial condition which are reasonably likely to impair their ability to meet contractual commitments to clients. We have no such information to disclose.