



# CLIMATE TRANSPARENCY REPORT 2020

SKY Harbor Capital Management

# About the Climate-related Disclosure Indicators

Climate has been identified as a top priority for PRI signatories, with over 70% of asset owners reporting this as the most important long-term trend they are acting on.

The FSB Task Force's guidance on climate-related financial disclosure aim to create a single framework for disclosure on assessment and management of climate-related risk. The recommendations, supported by investors representing US\$22 trillion, identify four main disclosures, Governance, Strategy, Risk Management, Metrics and Targets, and include specific guidance for asset owners and managers.

As a result, the PRI introduced climate-related disclosure indicators that can be used to align with the TCFD recommendations in the 2020 PRI Reporting Framework.

## About this report

This report is an export of only the climate-related indicators from the 2020 Reporting Framework response. The full Public Transparency Report is available here (<https://reporting.unpri.org/surveys/PRI-reporting-framework-2020/-1CA28BA4-1B77-4023-A96A-48A3715C390D/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1>). It shows the responses to all the completed climate indicators, even those you chose to keep private. It is designed for your internal review or – if you wish - to share with your stakeholders.

The PRI will not publish this report on its website if you have designated your 2020 climate reporting as “private”. Otherwise, you will be able to access the Climate Transparency Report of your organisation and that of other signatories on the [PRI website](#) and on the [Data Portal](#).

To easily locate information, there is a **Recommendation index** which summarises the indicators that signatories complete and disclose. The report presents information exactly as it was reported as per signatory preference. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory are presented in this report.

# TCFD Recommendations Index

Strategy and Governance - CC			TCFD Recommendation			
Indicator	Reported	Disclosure	Governance	Strategy	Risk Management	Metrics & Targets
SG 01.6 CC	✓	Public				
SG 01.7 CC	✓	Public				
SG 01.8 CC	✓	Public				
SG 01.9 CC	✓	Public				
SG 01.10 CC	✓	Public				
SG 07.5 CC	✓	Private				
SG 07.6 CC	✓	Private				
SG 07.7 CC	✓	Private				
SG 07.8 CC	-	Private				
SG 13.1	✓	Public				
SG 13.2	✓	Public				
SG 13.4 CC	✓	Private				
SG 13.5 CC	✓	Private				
SG 13.6 CC	✓	Private				
SG 13.7 CC	✓	Private				
SG 13.8 CC	✓	Private				
SG 14.1	✓	Private				
SG 14.2	✓	Private				
SG 14.3	✓	Private				
SG 14.6 CC	✓	Private				
SG 14.7 CC	-	Private				
SG 14.8 CC	✓	Private				
SG 14.9 CC	✓	Private				
SG 15.1	✓	Private				
SG 15.2	-	Private				
SG 15.3	-	Private				

Symbol	Status
✓	The signatory has completed this sub-indicator
-	The signatory did not complete this sub-indicator.
	This indicator is relevant to the named TCFD recommendation
Within the first column "Indicator", indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.	

# ORGANISATIONAL OVERVIEW

This section provides an overview of your organisation. These characteristics are used to define your peer groups.

MAIN CHARACTERISTICS	
<b>Name</b>	SKY Harbor Capital Management
<b>Signatory Category</b>	Fund Management - Majority
<b>Signatory Type</b>	Investment Manager
<b>Size</b>	US\$ 5 - 9.99 billion AUM
<b>Main Asset Class</b>	>50% Fixed Income CNF Internally Managed
<b>Signed PRI Initiative</b>	2015
<b>Region</b>	North America
<b>Country</b>	United States
<b>Disclosure of Voluntary Indicators</b>	29% from 38 Voluntary indicators

# SKY Harbor Capital Management

## Reported Information

### Public version

### Strategy and Governance

## PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

## Investment policy

SG 01	Mandatory	Public	Core Assessed	General
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**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

**SG 01.1** Indicate if you have an investment policy that covers your responsible investment approach.

SG 01 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General
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**SG 01.6 CC** Indicate whether your organisation has identified transition and physical climate-related risks and opportunities and factored this into the investment strategies and products, within the organisation's investment time horizon.

Yes

Describe the identified transition and physical climate-related risks and opportunities and how they have been factored into the investment strategies/products.

As a boutique firm specializing solely in corporate high yield bond portfolios, SKY Harbor Capital is keenly attuned to identifying risks and opportunities in pursuit of our mission to provide superior risk-adjusted returns and world-class investment information to our clients and investors. Our investment teams and product working groups employ a variety of traditional techniques as well as proprietary quantitative investment models. Together these methods, sometimes referred to as the "mosaic" approach to investment analysis, attempt to capture what we believe are all the relevant public, non-public, material and non-material information about a high yield issuer to determine the long term value of the securities that we include in our clients' investment portfolios.

We explicitly recognize that environmental and climate-related risks and opportunities (as well as social, governance and other environmental factors) are an important part of the mosaic in evaluating high yield issuers. For example, in 2015, we divested our client portfolios of securities in the business of coal mining after concluding that the damage to the climate from these activities were no longer sustainable within the investment time horizon of our flagship strategies and products (which generally range from 1 to 5 years). Beginning in late 2016 we also began to underweight investment in the fossil fuel industry and in December 2018 launched a product that, among other things, explicitly excludes companies in the coal and fossil fuel sectors.

Our research framework integrates macro economic and market themes into a dynamically weighted fundamental analysis, the key pillars of which are: Industry Outlook, Business Due Diligence, Financial Analysis, and ESG Risk Factors. Our in-house research analysts utilize this framework to present the key risks and opportunities of the credits we analyze. A key component of that analysis is the ESG pillar, which is specific climate-related transition and physical risk analysis.

While not every Issuer has the same degree of exposure to climate-related physical and transition risk, but where relevant we specifically evaluate physical risk factors such as extreme weather, environmental degradation or remediation, GHG emissions, water usage and waste. Transitioning to a lower-carbon economy needs to be a top management priority, which is often manifested by such data points as: public sustainability reporting, periodic sustainability commentary, emissions disclosure, and the presence or absence of products that contribute to a lower-carbon economy. Each of the foregoing items are factor inputs to our analysis that we apply to each company that our analysts cover.

We have embarked on a project, an enhanced framework, that will incorporate a more detailed rubric that is intended to take the analysis further by incorporating principles and concepts set forth by the TCFD and SASB. We expect to be working on this enhancement throughout the remainder of 2020.

No

**SG 01.7  
CC**

Indicate whether the organisation has assessed the likelihood and impact of these climate risks?

Yes

Describe the associated timescales linked to these risks and opportunities.

2014: inherit client portfolio with exposure to coal

2015: coal mining exclusion

2016: preliminary assessment of fossil fuel exclusion

2017: underweight fossil fuel, metals and mining, and energy sectors

2018: launched a ESG UCITS fund specifically excluding companies with significant revenue from coal or fossil fuels

2019: retained vendor to perform emissions analysis of the flagship strategies

2020: enhancing the sustainability factors in the firm's proprietary rubric; becoming a member of the SASB Alliance

No

**SG 01.8  
CC**

Indicate whether the organisation publicly supports the TCFD?

Yes

No

**SG 01.9  
CC**

Indicate whether there is an organisation-wide strategy in place to identify and manage material climate-related risks and opportunities.

Yes

Describe

SKY Harbor abides by the principles of each organization to which we are a signatory. With respect to the more climate-related coalitions, we became a signatory to UNPRI in 2015 and joined the PRI Fixed Income engagement in 2016. In 2017 the firm became a signatory to the UN Global Compact and committed to the SDGs. In 2018 we joined the PRI engagement on climate change transition for oil and gas companies, and in that same year we subscribed to the TCFD. The Investment Committee and investment strategy working groups have specific climate-related investment risk & opportunities data points that must be addressed in producing a complete issuer analysis. As part of each employee's job performance senior management expressly evaluates the extent to which employees have incorporated these standards in their performance. In addition SKY Harbor has also established a specific Sustainability Working Group that works alongside the Investment Working Groups to promote and assist in the systematic identification of material climate-related and other sustainability risks and opportunities.

No

**SG 1.10  
CC**

Indicate the documents and/or communications the organisation uses to publish TCFD disclosures.

- Public PRI Climate Transparency Report
- Annual financial filings
- Regular client reporting
- Member communications
- Other
- We currently do not publish TCFD disclosures

## Governance and human resources

## ESG issues in asset allocation

**SG 13**

**Mandatory**

**Public**

**Descriptive**

**PRI 1**

**SG 13.1**

Indicate whether the organisation carries out scenario analysis and/or modelling, and if it does, provide a description of the scenario analysis (by asset class, sector, strategic asset allocation, etc.).

- Yes, in order to assess future ESG factors
- Yes, in order to assess future climate-related risks and opportunities

Describe

In 2019, our flagship high yield portfolios were analyzed for carbon equivalent emissions at the sector and issuer levels. Climate scenario analysis based on alignment with 2, 4 and 6 degrees Celsius over a time horizon up to 2050. Physical and transition climate risk were also specifically assessed.

- No, our organisation does not currently carry out scenario analysis and/or modelling

**SG 13.2**

Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between sectors or geographic markets.

We do the following

- Allocation between asset classes
- Determining fixed income duration
- Allocation of assets between geographic markets
- Sector weightings
- Other, specify
- We do not consider ESG issues in strategic asset allocation



ESG and sustainability issues are considered in our risk-based analysis at the sector and industry level and can impact allocation decisions. For example, SKY Harbor continues to avoid investment in companies whose primary business is thermal coal and is increasingly divesting from the energy sector. The decision to avoid this type of risk was largely based upon our view that financial flexibility and future profitability for the US coal sector and now the high yield energy sector is increasingly pressured by global investment restrictions and costs associated with environmental-based regulatory and compliance measures.