Angel Oak
CAPITAL ADVISORS

Angel Oak Capital Advisors, LLC

Angel Oak Flexible Income Fund
Quarterly Review

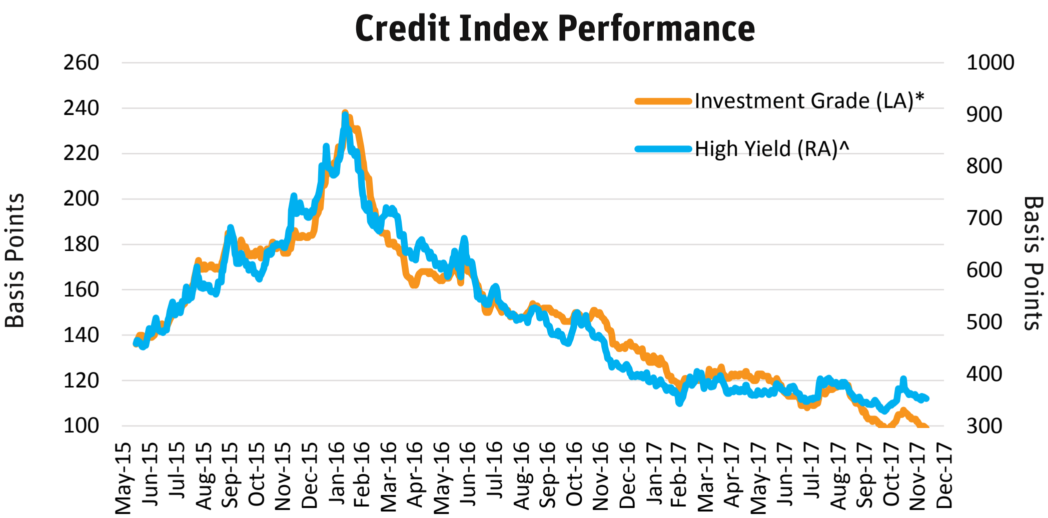
December 31, 2017

Quarter in Review

- Risk assets continued their outperformance in December, capping a strong end to the fourth quarter. The S&P 500 Index was up 1.1% in December and 6.6% for the quarter. For 2017, stocks reached approximately 70 record closes throughout the year; the S&P 500 was up almost 22% last year (up 376% since March 2009, or +19% per annum), defying most strategists who thought 2017 would be a sideways year as the Federal Reserve (Fed) increased its pace of tightening. Across corporate credit, investment grade (IG) and high yield (HY) spreads moved tighter on the month by 6 and 3 basis points, respectively.
- For the U.S. rate markets, December was a continuation of 2017. U.S. Treasury yields moved higher in December as the curve bear flattened into year-end. The 10-year Treasury yield finished up 2 basis points to 2.41%, while the 2-year Treasury yield rose 12 basis points to 1.88%. LIBOR rates moved up sharply given the 3 hikes by the Federal Open Market Committee (FOMC). 1-month and 3-month LIBOR rose 79 and 70 basis points, respectively.
- Nonfarm payrolls increased by 148,000 in December, lower than economists' expectations of +190,000. Two-month net revisions were down 9,000 for the October/November time period. For 2017, approximately 2 million net new jobs were created in the U.S., according to the establishment survey. The unemployment rate was unchanged in December at 4.1%, while the underemployment rate rose 0.1% to 8.1% in December. The labor force participation rate held at 62.7% and has looked to stabilize in the 62-63% range after falling steadily since the crisis.
- On the housing front, home prices continue to outpace inflation, up 6.38% year-over-year through October (up 0.70% month-over-month) according to the S&P CoreLogic CS Indices. New home sales rose 17.5% month-over-month to a 733k annualized pace. Housing starts were up 3.3% month-over-month in November while existing home sales rose 5.6% month-over-month to a 5.81 million annualized pace.
- The National Association of Homebuilders (NAHB) Housing Market Index rose to an all-time record of 74 in December, up from 69 in November, reflecting rising builder sentiment and a positive leading indicator for future housing starts and new home sales. Homebuilder confidence continues to remain near all-time highs given the minimal supply and rising home prices across the U.S.
- The release of the FOMC's December meeting minutes illustrated a stronger focus on inflation surprises affecting monetary policy in 2018. Most participants reiterated support for "continuing a gradual approach to raising the target range" for the benchmark policy rate. Fed officials discussed several risks that could result in a faster pace of increases. "These risks included the possibility that inflation pressures could build unduly if output expanded well beyond its maximum sustainable level," owing to fiscal stimulus or "accommodative" financial conditions, the minutes said.

Benchmark Performance	12/31/2017	9/30/2017	Quarterly Change (bps)
1-Month LIBOR	1.56	1.23	+33
3-Month LIBOR	1.69	1.33	+36
2-Year Treasury	1.88	1.48	+40
5-Year Treasury	2.21	1.94	+27
10-Year Treasury	2.41	2.33	+8
30-Year Treasury	2.74	2.89	-15
2s/10s Curve	0.52	0.85	-33
2s/30s Curve	0.86	1.38	-52
S&P 500 Total Return Index	5,213	4,888	+664
Citi IG Bond Index Bond OAS	95	105	-10
Citi HY Bond Index Bond OAS	380	386	-6

Sources: Bloomberg and Yieldbook as of 12/31/17.



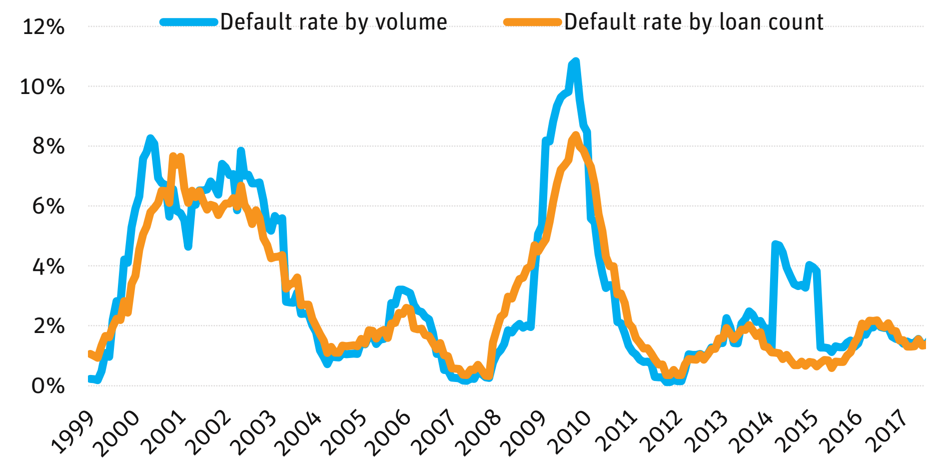
Source: Citigroup as of 12/31/17.
*Investment Grade Index Name: Citi U.S. Broad Investment Grade Bond Index.
^High Yield Index Name: Citi High Yield Market Index.

Fundamental Backdrop

S&P Leveraged Loan 100 Index

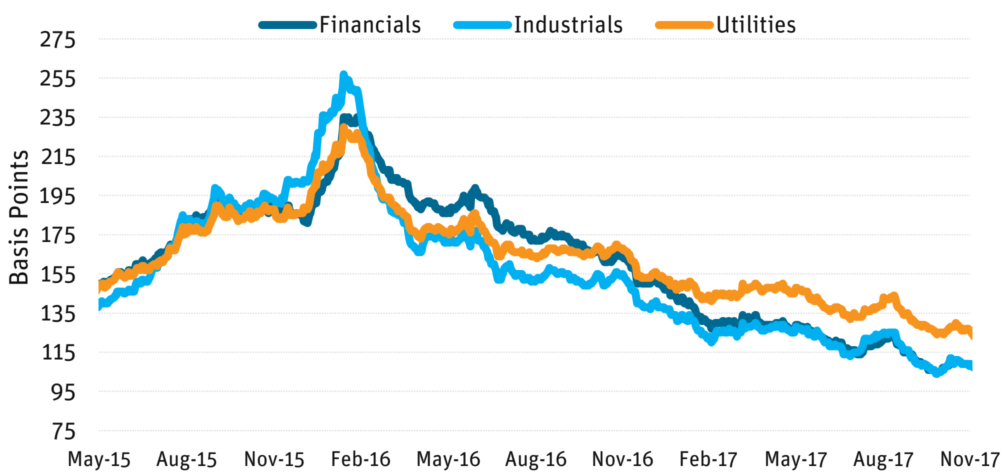
Source: Bloomberg as of 12/31/17.

Leveraged Loan Default Rates



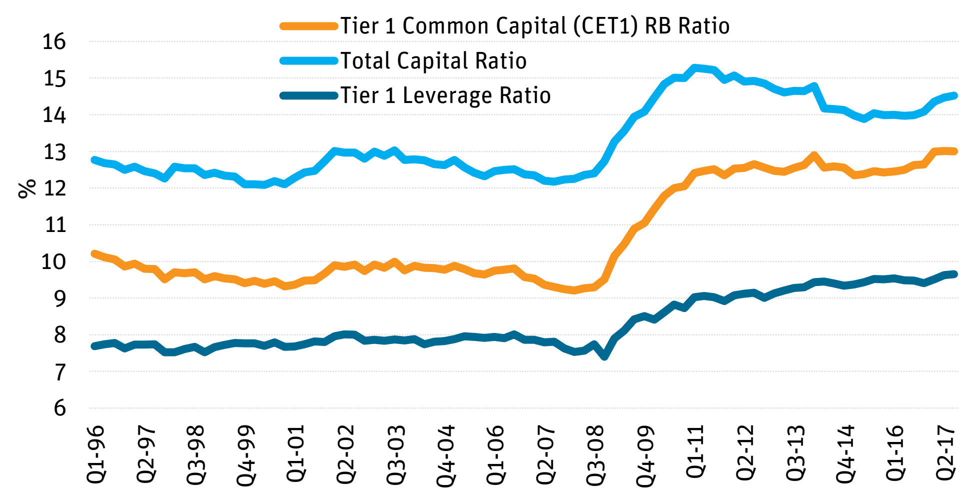
Source: Deutsche Bank as of 12/31/17.

Investment Grade Sector Performance



Source: RCA, Morgan Stanley as of 11/30/17.

Bank Subordinated Debt



Source: SNL of 9/30/17.

Portfolio Performance

Summary

- The Fund was up 1.58% in the fourth quarter of 2017, outperforming the benchmark by 1.19%. Year-to-date, the Fund returned 5.88%, outperforming the benchmark by approximately 2.34%, as the Bloomberg Barclays U.S. Aggregate Bond Index was up 3.54% year-to-date.
- Credit strategies were a positive contributor to Fund performance relative to the benchmark, as the banking sector continues to outperform within IG corporates. Generic IG corporates tightened by approximately 10 basis points for the quarter as compared to 24 basis points of tightening in community bank debt.
- Duration strategies were positive contributors to performance relative to the benchmark, as U.S. Treasury yields rose in the fourth quarter. The shorter-duration positioning relative to the benchmark has been positive for 2017 given the rise in rates.

					Annualized	
Net Total Returns as of 12/31/2017	1 Mo.	3 Mo.	YTD	1 Yr.	3 Yr.	SI[1]
Class I	0.36%	1.58%	5.88%	5.88%	3.00%	3.03%
Class A at NAV	0.45%	1.52%	5.70%	5.70%	2.79%	2.82%
Class A at MOP[2]	-1.83%	-0.79%	3.27%	3.27%	2.01%	2.08%
Bloomberg Barclays U.S. Agg. Bond Index	0.46%	0.39%	3.54%	3.54%	2.24%	2.41%

Current performance may be lower or higher than performance data quoted. Performance quoted is past performance and is no guarantee of future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance to the most recent month-end can be obtained by calling 855-751-4324.

[1]The inception date of both the Angel Oak Flexible Income Fund A and I Class (ANFLX and ANFIX) was November 3, 2014. [2]Maximum Offering Price takes into account the 2.25% maximum initial sales charge. ^The Adviser has contractually agreed to waive fees through May 31, 2018. Effective December 1, 2016, the Adviser also has voluntarily agreed to waive fees and/or reimburse certain expenses. This voluntary waiver is in addition to the contractual fee waiver/expense limitation agreement discussed above and may be discontinued at any time.

FUND INFORMATION AS OF 12/31/17

	Class A	Class I
Gross Expense Ratio	1.48%	1.20%
Net Expense Ratio^	0.94%	0.69%
SEC Yield (Subsidized)	3.34%	3.65%
SEC Yield (Unsubsidized)	2.89%	3.19%

FUND CHARACTERISTICS

Fund Assets (All Classes)	$136.4 mm
Number of Securities	55
Distribution	Monthly
Effective Duration	3.9
Average Price (Portfolio)	$102.1

FUND STATISTICS

(Since Inception)	Fund[3]	Index
Standard Deviation	4.3	3.9
Sharpe Ratio	0.9	0.7
Correlation to Index	0.0	1.0
Positive Months (%)	75.7	59.5
Negative Months (%)	24.3	40.5

[3]ANFIX.

Sector Attribution

	% of Market Value	Q4 2017* Attribution (%)	YTD 2017* Attribution (%)
Corporates	77.4	1.58	6.35
CLOs	6.0	0.13	1.35
CMBS	0.0	0.00	-1.19
RMBS	0.0	0.00	0.05
Cash	16.6	0.03	0.10
Credit Hedges	-	0.00	0.00
Fund Expenses	-	-0.16	-0.78
Total	100.0	1.58	5.88

*Estimated returns, net of hedges, and unaudited.

Corporates

- The corporate allocation was up approximately 181 basis points, contributing 158 basis points to Fund performance in the fourth quarter.
- Credit spreads were mixed for the quarter, with the BAML Investment Grade Bond Index tightening by 10 basis points and the BAML High yield Bond Index widening by 10 basis points. Community bank subordinated debt continued to rally, and outperformed the broader market, with spreads tightening by 24 basis points during the quarter.
- Approximately $820 million in community bank debt was issued during the quarter across 11 different deals, with a total issuance in 2017 of $3.09 billion. New issue supply was approximately $1 billion, behind levels in 2016 due to the favorable conditions for equity funding in 2017. Limited supply, investor-friendly bond structures, and more favorable returns compared with high yield and investment grade corporate bonds, brought more investors into the space and led to tighter credit spreads. The average pricing spread for new issue deals in the fourth quarter was approximately 50 basis points tighter than the third quarter and was the tightest for the year.

CLOs

- CLOs had a total return of 219 basis points in the fourth quarter, contributing 13 basis points to the Fund. The focus remained on primary market activity between standard new issue, refinancings, and resets. The entire capital structure tightened to post-crisis levels. The Fund has looked to replenish exposure with high-quality BBs from Tier 1 managers.

Sector Exposure

	Weighted Avg. Price*	% of Market Value		Change	Spread Duration in Years		Change	Rate Duration in Years		Change
		12/31/2017	9/30/2017		12/31/2017	9/30/2017		12/31/2017	9/30/2017	
Corporates	102.7	77.4	78.4	-1.0	4.2	4.6	-0.4	4.2	4.3	-0.1
CLOs	100.6	6.0	7.3	-1.3	2.6	4.4	-1.8	0.5	0.1	0.4
Cash & Other	100.0	16.6	14.3	2.3	-	-	-	-	-	-
Total	102.1	100.0	100.0	0.0	3.4	4.6	-1.2	3.3	3.9	-0.6

*Weighted Avg. Price excludes interest-only (I/O) positions.

Corporates

- The Fund's allocation to corporates decreased slightly to 77.4% during the fourth quarter, while the overall duration was strategically shortened in anticipation of rates moving higher during the quarter.
- The Fund continues to be overweight in community and regional bank subordinated debt given the attractive relative value compared with that of high yield and investment grade corporate bonds. As the potential for deregulation increases, the prospect of lower compliance expenses leading to enhanced profitability in the banking industry also increases. This would potentially improve debt-service coverage ratios and drive lower credit risk premiums.

CLOs

- The Fund organically decreased its CLO exposure as bonds rolled off due to resets, refinancings, and calls and kept its preference for higher-quality manager tiers and defensive bond profiles.
- The demand for floating rate investment grade paper persisted as market participants continued to support the new issue market. Secondary market activity picked up, as market participants sold into strength with AAA-rated through BB-rated tranches tightening. AAAs rallied throughout the quarter, with expectations of tightening into 2018. We believe CLOs remain an attractive investment due to stable credit quality, high demand, and a rise in short-end rates.

Definitions

CLO: Collateralized loan obligation.
CMBS: Commercial mortgage-backed security.
RMBS: Residential mortgage-backed security.
Basis Point (bps): One hundredth of one percent and is used to denote the percentage change in a financial instrument.
Bank of America Merrill Lynch U.S. High Yield Index: Tracks the performance of below investment grade, but not in default, U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.
Bank of America Merrill Lynch U.S. IG Bond Index: Tracks the performance of U.S. dollar denominated investment-grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have an investment-grade rating (based on an average of Moody's, S&P, and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule, and a minimum amount outstanding of $250 million
Bloomberg Barclays U.S. Aggregate Bond Index: An unmanaged index that measures the performance of the investment-grade universe of bonds issued in the United States. The index includes institutionally traded U.S. Treasury, government sponsored, mortgage and corporate securities.
Citi IG Bond Index Bond: An index that tracks the performance of U.S. Dollar-denominated bonds issued in the U.S. investment-grade bond market.
Citi HY Bond Index Bond: A U.S. dollar-denominated index which measures the performance of high-yield debt issued by corporations domiciled in the U.S. or Canada.
Correlation: A statistical measure of how two securities move in relation to another. Index used for comparison is the Bloomberg Barclays U.S. Aggregate Bond Index.
Credit Spread: The difference in yield between two bonds of similar maturity but different credit quality.
Debt- Service Coverage Ratio: The relationship of a property's annual net operating income to its annual mortgage debt service (principal and interest payments).
Effective Duration: Measures a portfolio's sensitivity to changes in interest rates. Generally, the longer the effective duration, the greater the price change relative to interest rate movements.
LIBOR: A benchmark rate that some of the world's leading banks charge each other for short-term loans. It stands for Intercontinental Exchange London Interbank Offered Rate and serves as the first step to calculating interest rates on various loans throughout the world.
National Association of Home Builders (NAHB) Housing Market Index: A gauge of builder opinion on the relative level of current and future single-family home sales.
S&P CoreLogic Case-Shiller 20-City Composite Home Price Index: The Index seeks to measure the value of residential real estate in 20 major U.S. metropolitan areas.
S&P Leveraged Loan 100 Index: A capitalization-weighted syndicated loan index based upon market weightings, spreads and interest payments.
S&P 500 Total Return Index: An American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.
Sharpe Ratio: A statistical measure that uses standard deviation and excess return to determine reward per unit of risk. A higher Sharpe ratio implies a better historical risk-adjusted performance. The Sharpe ratio has been calculated since inception using the 3-month Treasury bill for the risk-free rate of return.
Spread: The difference in yield between LIBOR and a debt security with the same maturity but of lesser quality.
Standard Deviation: A statistical measure of portfolio risk used to measure variability of total return around an average, over a specified period of time. The greater the standard deviation over the period, the wider the variability or range of returns and hence, the greater the fund's volatility. The standard deviation has been calculated since inception.
Tier 1 Common Capital (CET1) RB Ratio: Measurement of a bank's core equity capital compared with its total risk-weighted asset that signifies a bank's financial strength.
Total Capital Ratio: The percentage of a bank's capital to its risk-weighted assets.
Tier 1 Leverage Ratio: The relationship between a banking organization's core capital and its total assets.

Disclaimers

Mutual fund inveting involves risk. Principal loss is possible. The Fund can make short sales of securities, which involves the risk that losses in securities may exceed the original amount invested. The Fund may use leverage, which may exaggerate the effect of any increase or decrease in the value of securities in the Fund's portfolio on the Fund's Net Asset Value and therefore may increase the volatility of the Fund. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are increased for emerging markets. Investments in fixed income instruments typically decrease in value when interest rates rise. Derivatives involve risks different from and, in certain cases, greater than the risks presented by more traditional investments. Investments in asset-backed and mortgage-backed securities include additional risks that investors should be aware of, such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. The Fund is non-diversified, so it may be more susceptible to being adversely affected by a single corporate, economic, political or regulatory occurrence than a diversified fund. The Fund will incur higher and duplicative costs when it invests in mutual funds, ETFs and other investment companies. There is also the risk that the Fund may suffer losses due to the investment practices of the underlying funds.

Bond ratings are grades given to bonds that indicate their credit quality as determined by a private independent rating service such as Standard & Poor's. The firm evaluates a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA,' which is the highest grade, to 'D,' which is the lowest grade. In limited situations when the rating agency has not issued a formal rating, the Advisor will classify the security as non-rated.

Must be preceded or accompanied by a prospectus. To obtain an electronic copy of the prospectus, please visit www.angeloakcapital.com.

It is not possible to directly invest in an index.

Opinions expressed are as of 12/31/17 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

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