Angel Oak
CAPITAL ADVISORS

Angel Oak Capital Advisors, LLC

Angel Oak High Yield Opportunities Fund
Quarterly Review

December 31, 2017

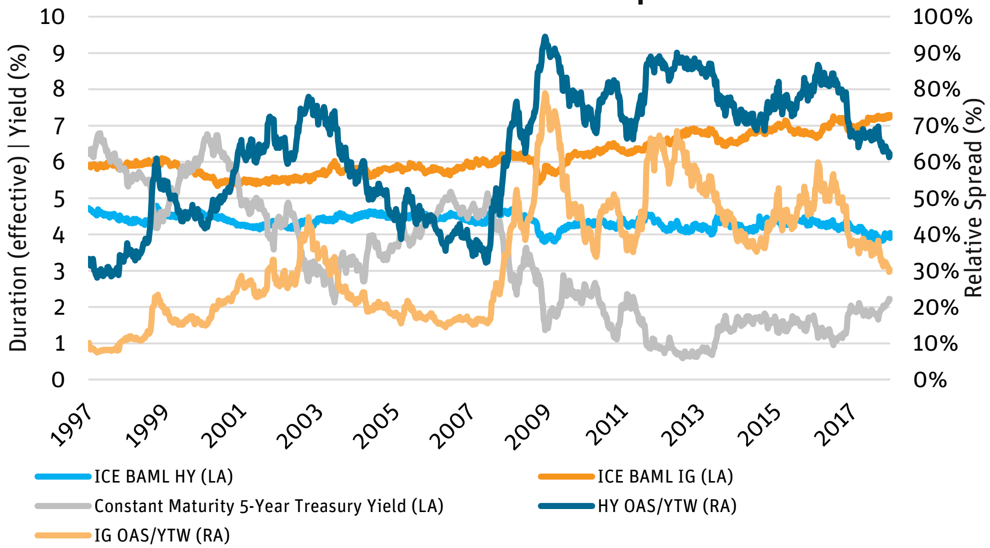
Quarter in Review

- The Angel Oak High Yield Opportunities Fund (ANHIX) had a strong finish to the year. The continued steady improvement in domestic and global economies, another quarter of solid corporate revenue and earnings gains, supported by continued accommodative and patient global central banks, provided the backdrop for attractive high yield corporate bond performance.
- Although the pace of improvement year-over-year decelerated as the comps got more difficult, corporate earnings reports were generally positive across most industries. The outlook continues to be positive, especially considering the potential benefit from the corporate tax cuts enacted at the beginning of 2018.
- Despite the pickup in economic growth, inflation remains low and global central banks reiterated their commitment to continued accommodation, and in the case of the Federal Reserve, expected to be patient in tightening monetary policy. The Federal Reserve initiated its balance sheet reduction program beginning in October, which was communicated well in advance and essentially was a non-event for the markets.
- Financial conditions are easier than when the Federal Reserve initiated the current cycle of rate increases, and the Citi Economic Surprise Index is at the highest level since 2006.
- Despite the $14.9B of net high yield mutual fund outflows reported by Lipper for 2017, the demand for yield continues and the technicals of the high yield asset class were supportive, with net issuance at its lowest since 2011 according to JP Morgan.
- Default rates continued to decline throughout the year, finishing at 3% or 2.3% excluding energy and natural resources, according to S&P. S&P expects the default rate to continue to decline in 2018.

Benchmark Performance	9/30/2017	12/31/2017	Quarterly Change (bps)
2-Year Treasury	1.48	1.89	40
5-Year Treasury	1.94	2.21	27
10-Year Treasury	2.33	2.41	7
Oil	51.67	60.42	1693
Iron Ore	63.20	70.78	1199
VIX	9.51	11.04	1609
S&P 500 Total Return Index	4,888	5,213	664
BAML U.S. IG Bond Index OAS	107	99	-8
ICE BAML U.S. HY Bond Index OAS	356	363	7

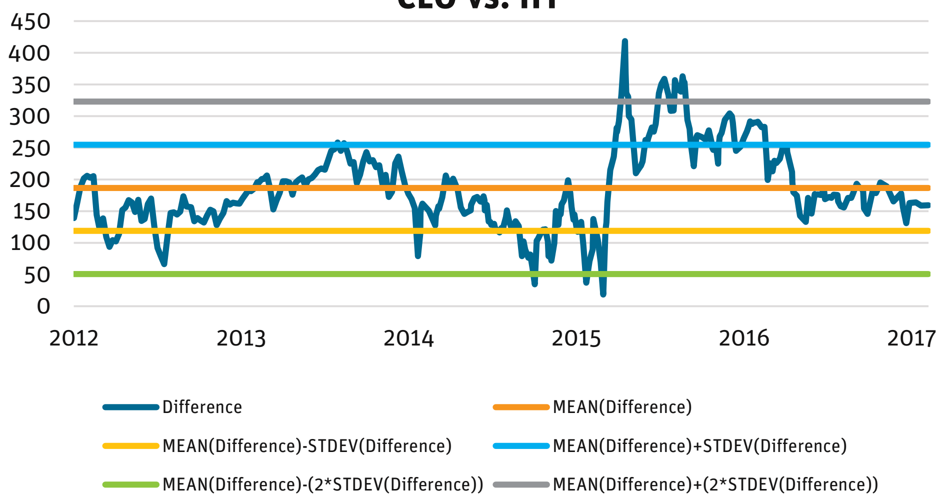
Source: Bloomberg, Yieldbook.

Duration vs. Relative Spread



Source: Bloomberg and ICE BofAML as of 12/31/17.

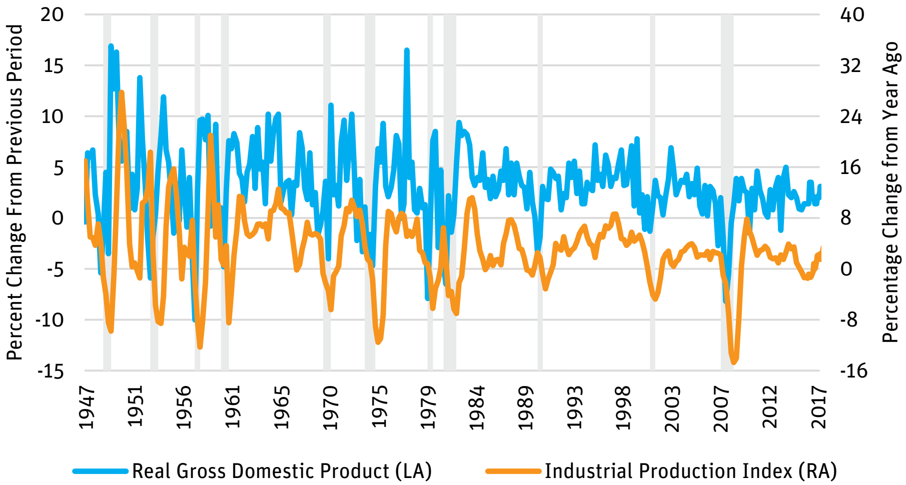
CLO vs. HY



Source: Citigroup as of 12/31/17.

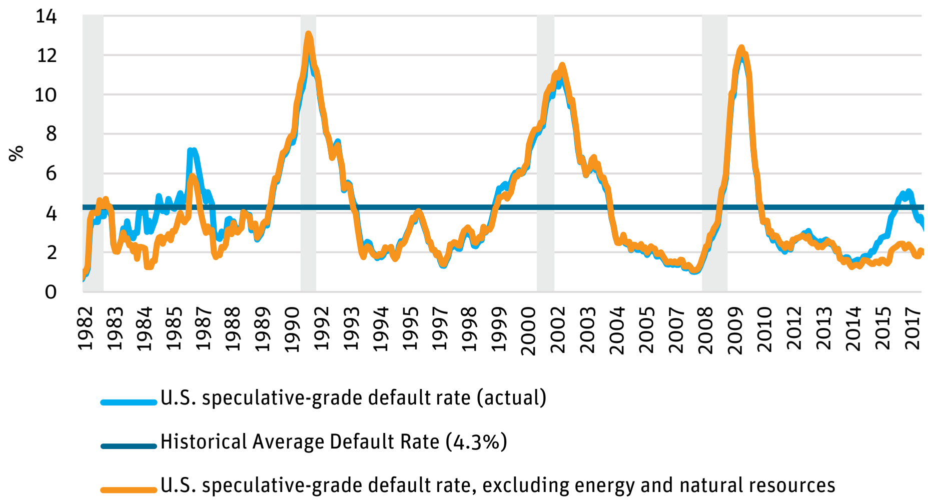
Fundamental Backdrop

Industrial Production and GDP



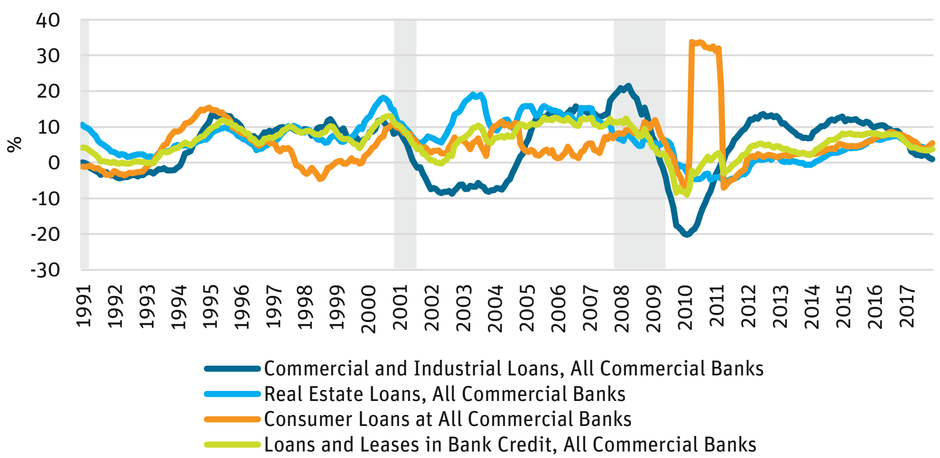
Source: FRED as of 12/31/17.

U.S. Trailing 12-Month Speculative-Grade Default Rate



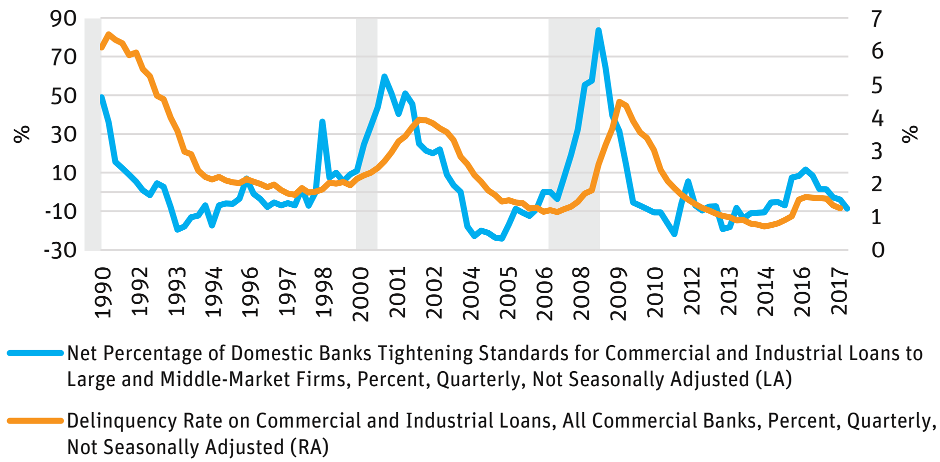
Source: S&P 500 as of 12/31/17.

Bank Loan Growth



Source: FRED as of 12/31/17.

Banks Tightening Standards C&I and Delinquency C&I



Source: FRED as of 12/31/17.

Portfolio Performance

Summary:

- For the quarter ending December 31, 2017, the Angel Oak High Yield Opportunities Fund returned 1.40%, outperforming the benchmark ICE BofAML U.S. High Yield Index's return of 0.41%. For the full year, the Fund returned 7.78%, outperforming the Index's return of 7.48%.
- The fourth quarter was the first quarter since the first quarter of 2015 to experience widening high yield credit spreads. The quarter started off strong with high yield credit spreads rallying to their year-to-date low of 338 basis points in late October, but then quickly widened to 397 basis points in early November. However, with the lack of any change in the underlying fundamentals or the outlook for the economy or corporate earnings performance, the widening was short-lived, and the market quickly took advantage of the opportunity and retraced almost two-thirds of the credit spread widening. Although the Federal Reserve is being patient in its pace of raising interest rates, periods of increased volatility should be expected as the Federal Reserve continues to raise interest rates.
- High yield credit spreads widened 7 basis points to finish the quarter at 363 basis points, 25 basis points off the year-to-date lows. For the quarter, spread widening was concentrated in the BBs and Bs, which widened 12 and 11 basis points, respectively. CCCs, meanwhile, tightened 10 basis points. On a total return basis CCCs were the outperformer, returning 0.73% in the quarter, benefiting from tightening credit spreads and their higher absolute yields. Despite the spread widening, BBs and Bs returned a positive 0.34% and 0.37%, respectively, but underperformed the benchmark return of 0.41%.
- For the full year, CCCs significantly outperformed, tightening 130 basis points and returning 10.59%. Similar to their performance for the quarter, BBs and Bs underperformed on both a credit spread tightening and total return basis. BBs and Bs tightened 41 and 44 basis points and returned 6.76% and 6.98%, respectively, compared with the benchmark, which tightened 59 basis points and returned 7.48%. The strength of the lowest quality issuers reflects the sustained improvement in economic fundamentals and corporate earnings performance relative to the prior year.
- During the quarter, the 10% allocation to collateralized loan obligations (CLOs) significantly outperformed high yield corporate bonds, returning 3.03% compared with the Index's return of only 0.41%. The CLO allocation also outperformed for the year, returning 11.89% compared with the Index which returned 7.48%. With the Federal Reserve expected to continue to raise interest rates and now actively reducing the size of its balance sheet, the allocation to CLOs, which are floating rate, remains attractive given their yields compared with high yield corporates and lack of interest rate duration.

					Annualized		
Net Total Returns as of 12/31/17	1 Mo.	3 Mo.	YTD	1 Yr.	3 Yr.	5 Yr.	SI[1]
Class I	0.35%	1.40%	7.78%	7.78%	7.40%	6.03%	9.88%
Class A at NAV	0.38%	1.41%	7.66%	7.66%	7.15%	5.79%	9.64%
Class A at MOP[2]	-1.91%	-0.91%	5.24%	5.24%	6.33%	5.32%	9.35%
ICE BofAML U.S. High Yield Index	0.29%	0.41%	7.48%	7.48%	6.39%	5.80%	12.32%

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 the Angel High Yield Opportunities Fund I Class (ANHIX) was March 31, 2009, while the inception date of the A Class (ANHAX) was July 31, 2012. The returns of ANHAX shown for periods prior to the inception date include the returns of ANHIX and are adjusted to reflect any applicable sales charges and the higher annual operating expense of Class A. [2]Maximum Offering Price takes into account the 2.25% maximum initial sales charge.

FUND INFORMATION AS OF 12/31/17

	Class A	Class I
Gross Expense Ratio	1.34%	1.08%
Net Expense Ratio^	0.90%	0.65%
SEC Yield (Subsidized)	5.68%	6.08%
SEC Yield (Unsubsidized)	5.28%	5.68%

FUND CHARACTERISTICS

Fund Assets (All Classes)	$54.0 M
Number of Securities	106
Distribution	Monthly
Effective Duration	2.9
Average Coupon (%)	6.70
Average Yield-to-Worst (%)	5.93

FUND STATISTICS

(Since Inception)	Fund[3]	Index
Standard Deviation	5.7	7.7
Sharpe Ratio	1.7	1.6
Correlation to Index	0.9	1.0
Positive Months (%)	73.3	74.3
Negative Months (%)	26.7	25.7

[3]ANHIX

^The Adviser has contractually agreed to waive fees through May 31, 2018.

Sector Attribution

		Q4 2017*	YTD 2017*
	% of Market Value	Attribution (%)	Attribution (%)
Corporates	81.1	1.24	7.36
CLOs	12.9	0.30	1.08
Cash	6.0	0.01	0.04
Equities & ETFs	-	-	-
Fund Expenses	-	-0.17	-0.37
Total	100.0	1.38	8.11

*Net and unaudited. Attribution is calculated using an internal model, thus, returns may vary from the Fund's total return.

Corporates:

- For the fourth quarter, the high yield corporate bond allocation returned 1.51% and contributed 124 basis points to the total return of the Fund. For the full year, the high yield corporate bond allocation returned 8.65% and contributed 736 basis points to the total return of the Fund. The combination of continued relatively easy monetary policies, low interest rates, positive trends in economic growth fundamentals and corporate earnings is supportive for high yield corporates.
- Basic industry was the largest positive contributor to performance in the quarter. The Fund's basic industry sector holdings returned 1.51% compared with the benchmark which returned 1.28%. Two-thirds of the positive attribution was derived from our sector overweight, with the other third coming from issuer selection, which was evenly distributed. From an attribution perspective, telecommunications was a close second in terms of outperformance despite the negative return. The Fund's significant underweight relative to the benchmark, 1.62% allocation in the Fund compared with 9.38% in the benchmark, outweighed the Fund's holdings return of -3.44% compared with the benchmark return of -2.18%, resulting in a positive attribution compared with the benchmark.
- Cash was the most significant detractor from performance in the quarter, accounting for a negative attribution of 4 basis points. After that, the only other sectors that had a negative attribution in the quarter were banking and insurance. In both cases the negative attribution was from having a zero allocation to the sectors.

CLOs:

- CLO performance was positive in Q4 as the market rallied across the capital structure into the year end. BB spreads were 50-100 DM (discount margin) tighter depending on manager tier, collateral composition and maturity profile as investors remained well bid for current income.

Sector Exposure

	Weighted Avg. Price	% of Market Value		% Change	Option Adjusted Spread		Bps Change	Yield-to-Worst		Bps Change
		9/30/2017	12/31/2017		9/30/2017	12/31/2017		9/30/2017	12/31/2017	
Corporates	103.0	85.8	81.1	-4.8	392	367	-25	5.9	5.9	3
CLOs	100.8	10.1	12.9	2.9	711	666	-45	9.1	9.0	-10
Cash	100.0	4.1	6.0	1.9	-	-	-	-	-	-
Equities & ETFs	-	-	-	-	-	-	-	-	-	-
Total	102.6	100.0	100.0	-	408	383	-25	5.9	5.9	-1

Corporates:

- Our outlook is positive when it comes to the domestic and global economic backdrop. The synchronized global economic expansion continues to garner a lot of attention. GDP expectations for the U.S. are in the low 2% area, with additional benefits expected from the tax cut package. With inflation continuing to disappoint versus global central bank targets, we expect monetary policies to remain accommodative and supportive of risk asset valuations.
- After a decade of weaker than expected inflation, the expectation is that inflation will continue to remain low. However, as a consequence of sustained economic growth, commodity supply/demand fundamentals are improving, unemployment is declining, purchasing manager indices are accelerating and, surprisingly, financial conditions are easier now than when the Federal Reserve began raising interest rates. The cumulative effect of the actions over the last decade could finally begin to lead to a pickup in inflation, potentially catching many off guard.
- High yield credit spreads have tightened and look fair in the context of other risk assets. In this environment we expect returns in 2018 to approximate coupon carry, through modest credit spread tightening mitigating any negative impact from slightly higher interest rates. With high yield corporate credit spreads nearer their tights versus their wides, the importance of credit research and selection takes on even more significance with the goal of attractive risk-adjusted returns.
- We are maintaining our overweight to the basic industry, capital goods and energy sectors, which we expect to benefit given our outlook.

CLOs:

- We expect the market to continue to grind tighter into 2018 with a robust new issue pipeline. The Fund remains well positioned with a mix of high coupon bonds from all manager tiers and will continue to look for replacements as in-the-money coupons are refinanced.

Definitions

CLOs: Collateralized loan obligation.
Average Coupon: Equal to the total interest payments of an issue divided by bond year dollars.
Average Yield-to-Worst: The lowest potential yield that can be received on a bond without the issuer actually defaulting.
Basis Points (bps): One hundredth of one percent and is used to denote the percentage change in a financial instrument.
CBOE Volatility Index (VIX): A key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.
Citigroup Economic Surprise Index: An objective and quantitative measure of economic news that is defined as a weighted historical standard deviation of data surprises (actual releases versus Bloomberg survey median).
Citi U.S. Broad Investment Grade Bond Index: An index that tracks the performance of U.S. Dollar-denominated bonds issued in the U.S. investment-grade bond market.
Citi High Yield Market Index: 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 BAML Merrill Lynch U.S. High Yield Index.
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.
ICE Bank of America Merrill Lynch (BAML) U.S. IG Bond Index: The BofA Merrill Lynch U.S. Corporate 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.
ICE Bank of America Merill Lynch U.S. High Yield Index: Tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market, and includes securities rated below BBB and not in default, with at least 18 months to maturity, a fixed coupon, and at least $250 million outstanding.
Industrial Production Index: An economic indicator that measures real output for all facilities located in the United States manufacturing, mining, and electric, and gas utilities (excluding those in U.S. territories).
Option-Adjusted Spread (OAS): The yield spread which has to be added to a benchmark yield curve to discount a security's payments to match its market price, using a dynamic pricing model that accounts for embedded options.
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 a U.S. Treasury bond 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—calculated since inception.

Disclosures

Mutual fund investing involves risk. Principal loss is possible. Investments in debt securities typically decrease when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in asset-backed and mortgage-backed securities include additional risks that investors should be aware of, including credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Derivatives involve risks different from and, in certain cases, greater than the risks presented by more traditional investments. Derivatives may involve certain costs and risks such as illiquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could result in losing more than the amount invested. The Fund may make short sales of securities, which involves the risk that losses may exceed the original amount invested.

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 current prospectus. To obtain an electronic copy of the prospectus, please visit www.angeloakcapital.com.

It is not possible to invest directly 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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