Angel Oak
CAPITAL ADVISORS

Angel Oak Capital Advisors, LLC

Angel Oak Multi-Strategy Income Fund
Quarterly Review

March 31, 2018

Quarter in Review

- Risk assets were weaker in the first quarter driven primarily by rising rates, expectations of a more hawkish Federal Open Market Committee (FOMC), and fears of a global trade war. Credit spreads were broadly wider for the quarter; however, structured credit outperformed traditional credit products. The S&P 500 Index was down 2.54% in March and down 0.76% for the quarter, fueled by investors repricing FOMC expectations and geopolitical news. Across corporate credit, investment grade (IG) and high yield (HY) spreads moved wider on the quarter by 17 and 21 basis points, respectively.

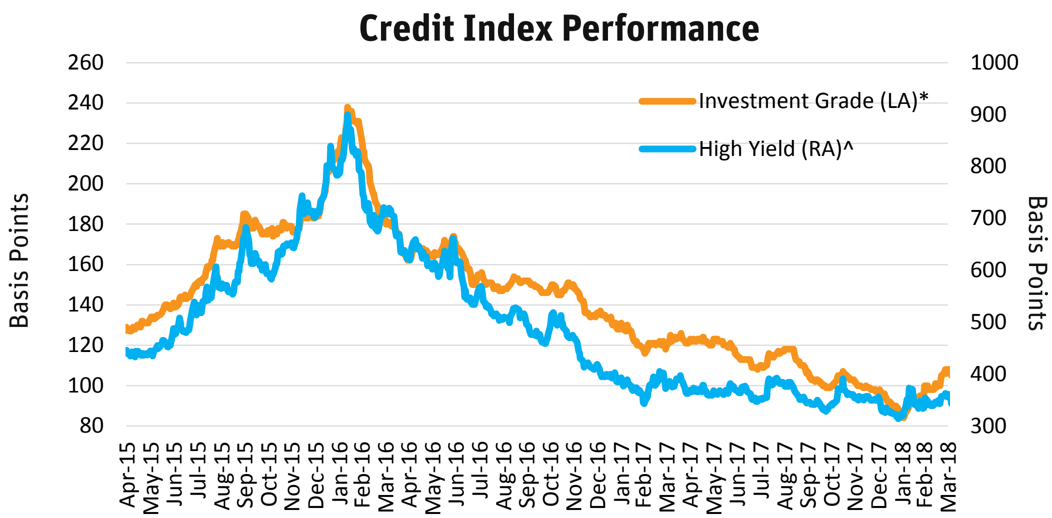
- The FOMC raised the Fed Funds target rate range by 25 basis points to a range of 1.50% to 1.75% (Fed Funds sits at 1.67%). The rise in Fed Funds continues to put upward pressure on LIBOR rates. 1M LIBOR rose 21 basis points month-over-month to 1.88% while 3M rose 29 basis points month-over-month to 2.31%.

- Nonfarm payrolls increased by 103,000 in March, lower than economists' expectations of +185,000. Two-month net revisions were down 50,000 for the January/February time period. Overall, this jobs report only increased the total number of jobs in the U.S. by approximately +53,000 including the revisions. The unemployment rate was unchanged at 4.1%; consensus expected a drop to 4.0%, but the labor force participation fell 0.1% to 62.9%. Underemployment fell, nearing the pre-crisis low of 7.9%, to 8.0% (down 0.2% month-over-month). Average hourly earnings rose 0.3% month-over-month as expected to 2.7% year-over-year.

- On the housing front, home prices continue to outpace inflation, up 6.40% year-over-year through January (up 1.43% month-over-month) according to the S&P CoreLogic CS Indices. The National Association of Homebuilders (NAHB) Housing Market Index decreased to 70 in March, down from 74 in December, yet still hovering near all-time highs. Homebuilder confidence continues to remain near all-time highs given the minimal supply and rising home prices across the U.S.

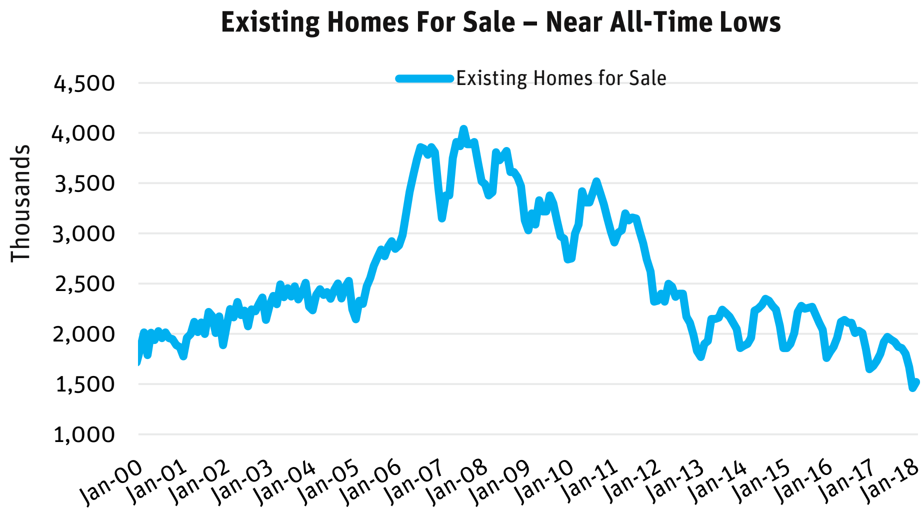
Benchmark Performance	3/31/2018	12/31/2017	Quarterly Change (bps)
1-Month LIBOR	1.88	1.56	+32
3-Month LIBOR	2.31	1.69	+62
2-Year Treasury	2.27	1.88	+39
5-Year Treasury	2.56	2.21	+35
10-Year Treasury	2.74	2.41	+33
30-Year Treasury	2.97	2.74	+23
2s/10s Curve	0.47	0.52	-5
2s/30s Curve	0.71	0.86	-15
S&P 500 Total Return Index	5,173	5,213	-76
Citi IG Bond Index Bond OAS	112	95	+17
Citi HY Bond Index Bond OAS	401	380	+21

Sources: Bloomberg and Yieldbook as of 3/31/18.

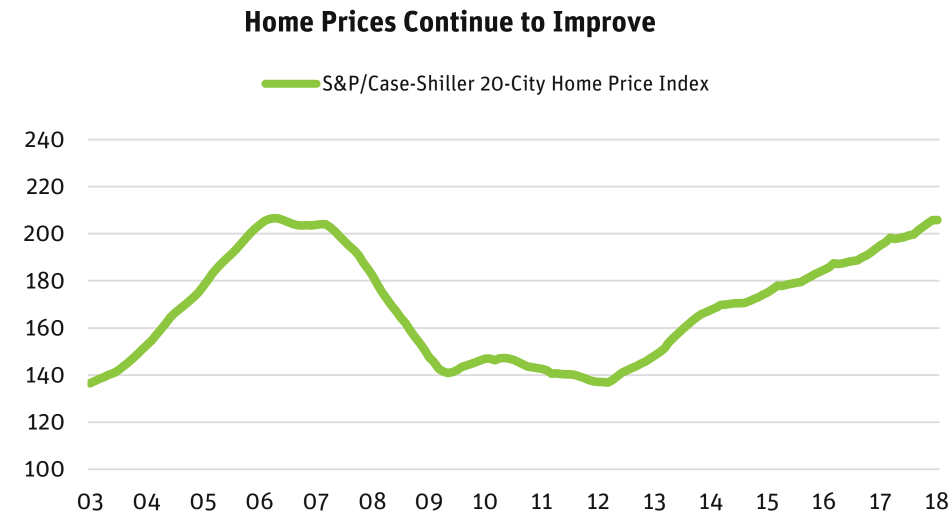


Source: Citigroup as of 3/31/18.
*Investment Grade Index Name: Citi U.S. Broad Investment Grade Bond Index.
^High Yield Index Name: Citi High Yield Market Index.

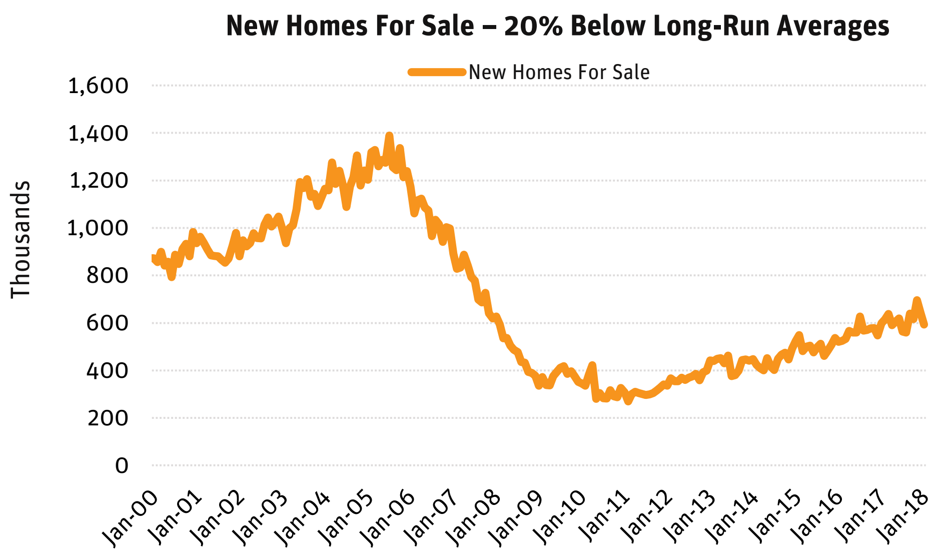
Fundamentals = Scenario Improvement



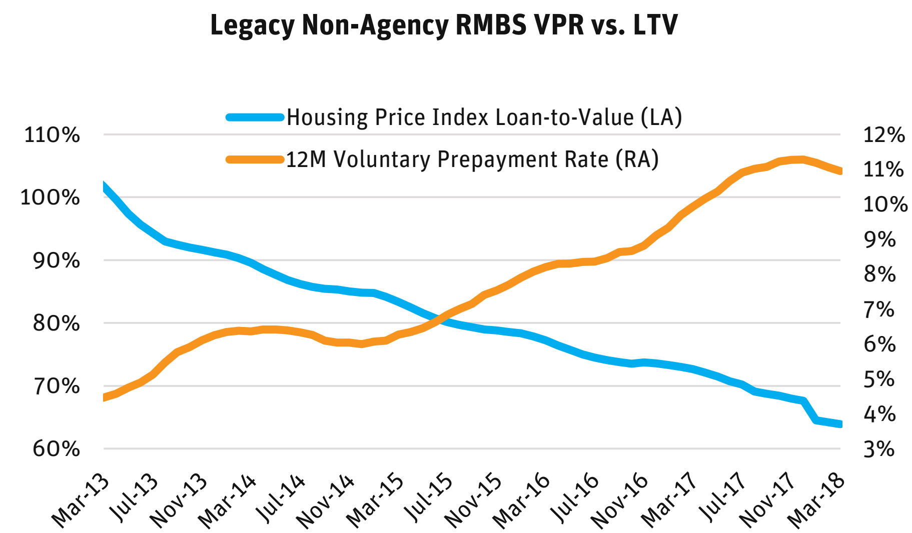
Source: Bloomberg as of 1/31/18.



Source: Bloomberg as of 1/31/18.



Source: Bloomberg as of 1/31/18.



Source: Bloomberg as of 3/31/18.

Portfolio Performance

Summary

- The Fund was up 0.86% in the first quarter of 2018, outperforming the benchmark by 233 basis points as the Bloomberg Barclays U.S. Aggregate Index was down 1.46% year-to-date. For the Fund, structured credit outpaced benchmark assets as higher current income than the index drove total return outperformance for the quarter. Duration strategies were positive contributors to performance relative to the benchmark given the rise in the U.S. yield curve and in 1M and 3M LIBOR rates.
- On the asset class level, NA RMBS strategies were the best performance on an absolute basis, up 1.18% in total return, contributing 0.83% to Fund performance in the first quarter of 2018. CMBS and CLO strategies were also positive contributors to Fund performance, contributing 0.12% and 0.09%, respectively.

				Annualized			
Net Total Returns as of 3/31/18	1 Mo.	3 Mo.	YTD	1 Yr.	3 Yr.	5 Yr.	SI[1]
Class I	0.84%	0.86%	0.86%	4.77%	3.67%	3.98%	7.57%
Class A at NAV	0.82%	0.80%	0.80%	4.50%	3.38%	3.72%	7.35%
Class A at MOP[2]	-1.47%	-1.47%	-1.47%	2.14%	2.60%	3.26%	6.99%
Bloomberg Barclays U.S. Agg. Bond Index	0.64%	-1.46%	-1.46%	1.20%	1.20%	1.82%	2.65%

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 Oak Multi-Strategy Income Fund A Class (ANGLX) was June 28, 2011, while the inception date of the Institutional Class (ANGIX) was August 16, 2012. The returns of ANGIX shown for periods prior to the inception date include the returns of ANGLX and are adjusted to reflect the operating expenses of ANGIX. [2]Maximum Offering Price takes into account the 2.25% maximum initial sales charge.

FUND INFORMATION AS OF 3/31/18

	Class A	Class I
Gross Expense Ratio	1.35%	1.10%
Net Expense Ratio^	1.24%	0.99%
SEC Yield (Subsidized)	4.34%	4.70%
SEC Yield (Unsubsidized)	4.38%	4.76%

FUND CHARACTERISTICS

Fund Assets (All Classes)	$6.7 bn
Number of Securities	1314
Distribution	Monthly
Effective Duration	2.2
Average Price (Portfolio)	$90.3
Average Price (NA RMBS)	$85.9
Floating Rate (%)	65.9

FUND STATISTICS

(Since Inception)	Fund[3]	Index
Standard Deviation	3.4	3.8
Sharpe Ratio	3.2	0.9
Correlation to Index	0.1	1.0
Positive Months (%)	82.7	63.0
Negative Months (%)	17.3	37.0

[3]ANGIX.

^The Adviser has contractually agreed to waive fees through May 31, 2019.

Sector Attribution

		Q1 2018*	YTD 2018*
	% of Market Value	Attribution (%)	Attribution (%)
RMBS	61.4	0.83	0.83
CMBS	14.2	0.12	0.12
CLOs	12.2	0.09	0.09
Corporates	6.5	0.07	0.07
ABS	4.9	-0.01	-0.01
Cash	0.8	0.01	0.01
Credit Hedges	-	0.00	0.00
Fund Expenses	-	-0.25	-0.25
Total	100.0	0.86	0.86

*Estimated returns, net of hedges, and unaudited.

RMBS

- Non-agency RMBS had a total return of 118 basis points in the first quarter of 2018, contributing 83 basis points of total return to the Fund. Legacy RMBS spreads tightened approximately 20 basis points this year, driven by strong fundamental performance. RMBS 2.0 spreads were mixed with non-QM deals tighter across the capital structure by 5 to 10 basis points whereas CRT M2 spreads widened 10 basis points year-to-date while B1 spreads widened 20 basis points in the first quarter.
- This year has been busy in new issue RMBS markets, with $17.9 billion pricing. The 2018 expected new issue volume is approximately $61.0 billion. While the Fund is still overweight legacy RMBS, the allocation continues to take advantage of pockets of opportunity in new issue, primarily in non-QM and CRT.

CMBS

- CMBS produced a total return of 85 basis points for the quarter, net of hedges, contributing approximately 12 basis points to Fund performance. Generic credit spreads were mixed throughout the stack for the quarter; AAA widened 4 basis points to 77, and BBB- tightened 25 basis points to 455. The new issue market was robust through the quarter, with approximately $23.1 billion coming to market, up 79% compared with the first quarter of 2017. Credit tiering remains pronounced within the CMBS market with select opportunities within the sector.

CLOs

- CLO total return for the first quarter was 100 basis points, contributing 9 basis points to Fund performance. The focus remained on primary market activity between standard new issue, refinancings, and resets. The entire capital structure tightened to post-crisis tights into February before trading sideways through the end of the quarter. The Fund has looked to add a combination of AAAs and BBs at relatively wide spreads given that these are the most attractive tranches on a risk-adjusted basis.

ABS

- The ABS allocation produced a total return of 16 basis points in March, contributing 1 basis point to the Fund. For the first quarter, the ABS allocation is down 13 basis points, contributing -1 basis point to Fund performance.
- Headwinds from a rising rate environment were offset slightly by spread tightening and current income. The new issue pipeline remains robust, ahead of its 2017 pace, and dealers continue to support the market. The Fund has looked to add relatively attractive AAA ABS with respect to liquidity needs within the 1- to 2-year weighted average life profile.

Sector Exposure

	Weighted Avg. Price	% of Market Value		Change	Spread Duration in Years		Change	Rate Duration in Years		Change
		3/31/2018	12/31/2017		3/31/2018	12/31/2017		3/31/2018	12/31/2017	
RMBS*	85.9	61.4	62.5	-1.1	4.5	4.7	-0.2	2.7	2.9	-0.2
CMBS	95.0	14.2	16.5	-2.3	4.7	5.1	-0.4	0.8	1.0	-0.2
CLOs	100.3	12.2	9.1	3.1	4.7	4.6	0.1	0.3	0.2	0.1
Corporates	94.7	6.5	5.8	0.6	4.0	4.3	-0.3	3.4	3.9	-0.5
ABS	99.7	4.9	5.3	-0.4	1.6	2.6	-1.0	3.3	1.7	1.6
Cash	100.0	0.8	0.7	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total	90.3	100.0	100.0	0.0	4.3	4.6	-0.3	2.2	2.3	-0.1

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

RMBS

- The average dollar price of the non-agency RMBS allocation in the Fund increased to $85.9 from $85.3 over the quarter as a result of some higher dollar price positions and new issue purchases.
- The Fund focused on adding positions with higher potential for scenario improvement with a specific focus on near term increases in voluntary prepayment speeds. The Fund favored selling new issue positions that were added during the spike in volatility in February and continues to add high-quality, floating rate positions.

CMBS

- The Fund's allocation to CMBS decreased by 2.3% for the quarter to 14.2%. The decrease in the Fund's allocation was driven primarily by a reduction of AAA CMBS securities and opportunistic selling within agency mezz. Within the credit portion of the asset class, the Fund continues to underweight its exposure to deals with elevated retail and suburban office concentrations, and focus on agency mezz tranches backed by multifamily properties and select opportunities within single-asset/single-borrower deals.
- Opportunities in the secondary market to acquire cleaner seasoned collateral are limited; however, we continue to remain active in new issue.

CLOs

- The Fund increased its CLO exposure with purchases of new issue AAA and BB bonds, 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 was less of a focus as many issuers took advantage of increased demand for CLO bonds of varying structures. Market participants sold into strength with AAA-rated through BB-rated tranches, tightening for the first half of the quarter before trading sideways into quarter end at the top of the capital structure and wider for non-IG rated tranches. We believe CLOs remain an attractive investment due to stable credit quality, high demand, and a rise in short-end rates.

ABS

- The Fund decreased its ABS allocation from 5.3% to 4.9%. The market started the year off predictably slow, leaking slightly wider as short-term rates rose. New issuance remained active. Together, this created buying opportunities for the cash-rich hands. Dealers that had loaded up at the end of 2017 were hurt, and liquidity bids widened 4 to 8 basis points. Toward the end of the quarter, the market found its footing after a few slower weeks from the new issuance calendar. The Fund continues to focus on shorter spread duration assets to limit price volatility. The Fund maintains its preference for newer-issue, short-duration assets of 1- to 3-year maturities to focus on recent underperformance across the short end of the credit and yield curves.
- The Fund has been rotating out of seasoned fixed rate ABS, as the spread differential continues to be significant between the primary and secondary markets. The Fund is currently looking to exploit this disconnect in the short term by being active in the primary market while selling at tighter spreads as bonds season and increase credit enhancement. The ABS allocation continues to focus on AAA-rated assets and is utilized as an "enhanced cash" position to drive total return and maximize the efficiency and liquidity of the entire portfolio. The primary focus within the ABS allocation is high quality and short maturity, utilizing primarily AAA-rated prime auto and card receivables.

Definitions

ABS: Asset-backed securities.
CLO: Collateralized loan obligation.
CMBS: Commercial mortgage-backed security.
CRT: Credit risk transfer.
Non-QM: Non-qualified mortgage.
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.
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.
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 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.
Tranche: A portion of debt or structured financing. Each portion, or tranche, is one of several related securities offered at the same time but with different risks, rewards, and maturities.

Disclosures

Mutual fund investing involves risk; Principal loss is possible. Investments in debt securities typically decreases 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 lose 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 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 3/31/18 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

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