



Angel Oak
CAPITAL ADVISORS

Angel Oak Capital Advisors, LLC

Angel Oak Flexible Income Fund
Quarterly Review

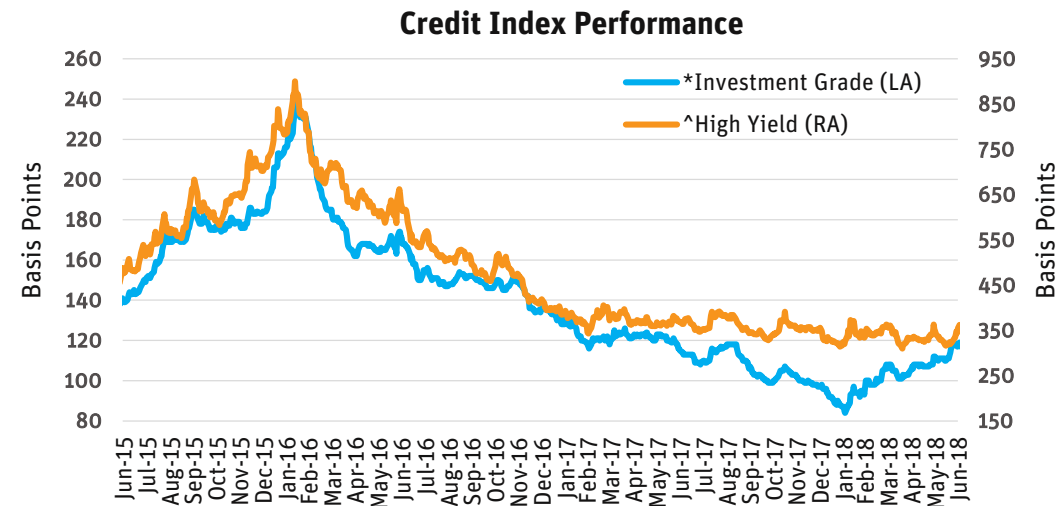
June 30, 2018

Quarter in Review

- Risk asset returns were mixed in the second quarter of 2018 as market participants digested an evolving macro environment, tightening monetary policy in the U.S., and increased global trade tensions. U.S. equities were higher, while corporate credit spreads moved wider on the quarter. The S&P 500 was up 3.43%, as investors shifted from U.S. bonds to U.S. stocks. The U.S. yield curve bear flattened as the Federal Open Market Committee increased the federal funds target rate range to 1.75%-2.00% during its June meeting. The 2s10s spread tightened by 14 basis points to +33 basis points. The 10-year Treasury yield rose 12 basis points to 2.86%.
- Fixed income returns have struggled this year, given wider spreads and rising Treasury yields. For the first half of 2018, global bond markets have struggled to create positive total returns. The Bloomberg Barclays U.S. Aggregate Bond Index is down 1.62% year-to-date, while the Investment Grade and High Yield equivalent indices are -3.27% and +0.16%, respectively.
- Legacy non-agency residential mortgage-backed securities (RMBS) were the best performer according to Bank of America Merrill Lynch Research. Various sectors combined to be up approximately 2% year-to-date, while commercial mortgage-backed securities (CMBS) were mixed as rising interest rates put pressure on the longer-duration asset class, down approximately 1% for the sector. Collateralized loan obligations (CLOs) performed well in the face of heavy supply. Their floating rate nature was a benefit as AAA through BBB tranches were up approximately 1-2% for the cohort. Asset-backed securities (ABS) were mixed but was net positive, up approximately 0.5-1% for 2018 year-to-date.
- The BLS released its June labor market report, which provided mixed results. The establishment survey reported net +213k jobs created in June – better than the market consensus of +195k. Additionally, the prior 2-month net revisions rose +37k. The headline unemployment rate rose 0.2%, to 4.0%, as the labor force participation rate rose 0.2%, to 62.9%. Average hourly earnings came up marginally short of expectations, rising 0.2% month-over-month (versus 0.3%) and +2.7% year-over-year (versus 2.8%).
- On the housing front, the S&P CoreLogic CS 20-City Index rose 6.56% year-over-year through April, up 0.20% month-over-month (slightly below expectations). New home sales rose 6.7% month-over-month in May to a 689k annualized pace. Notably, rising lumber costs are putting pressure on homebuilder margins. Since the beginning of 2016, futures on lumber prices are up over 120% through Friday. For a median-sized home in the U.S., the rise in lumber costs just in 2018 has increased costs by an average of \$9,000 per home.
- Government-sponsored enterprises (GSE) Fannie Mae and Freddie Mac are expected to go through significant changes over the next few years as Congress rewrites rules and regulations with respect to housing and the amount of taxpayer backing required by lawmakers. Initial plan blueprints discuss the two GSEs exiting conservatorship as shareholder-owned corporations. This would relieve much of the risk to the U.S. taxpayer; however, many headwinds exist, including raising additional public capital (which is estimated to be over \$100 billion) and determining which other companies will be allowed to directly compete with Fannie and Freddie.

Benchmark Performance	6/30/18	3/31/18	Monthly Change (bps)
1-Month LIBOR	2.09	1.88	+21
3-Month LIBOR	2.34	2.31	+3
2-Year Treasury	2.53	2.27	+26
5-Year Treasury	2.74	2.56	+18
10-Year Treasury	2.86	2.74	+12
30-Year Treasury	2.99	2.97	+2
2s/10s Curve	0.33	0.47	-14
2s/30s Curve	0.46	0.71	-25
S&P 500 Total Return Index	5,351	5,173	+343
IG Corporate OAS*	123	109	+14
HY Corporate OAS^	363	354	+9

Sources: Bloomberg and Yieldbook as of 6/30/18.



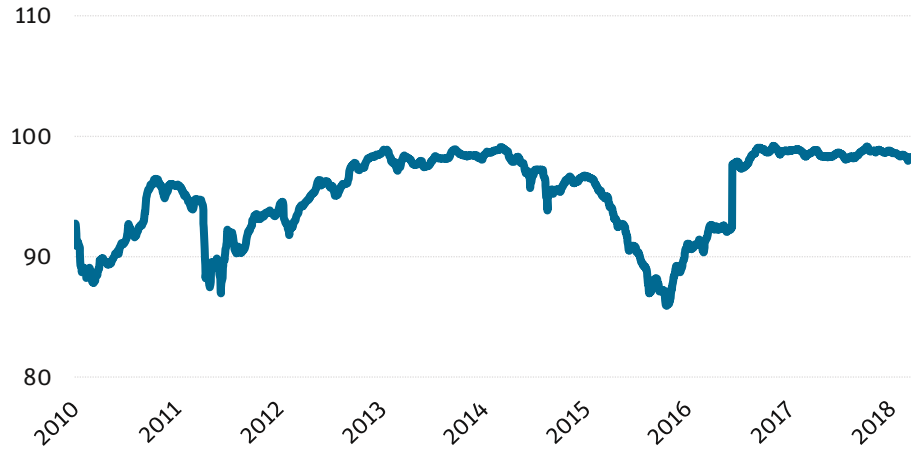
Source: Bloomberg as of 6/30/18.

*Bloomberg Barclays U.S. Corporate Total Return Value Unhedged

^Bloomberg Barclays U.S. Corporate High Yield Total Return Index Value Unhedged

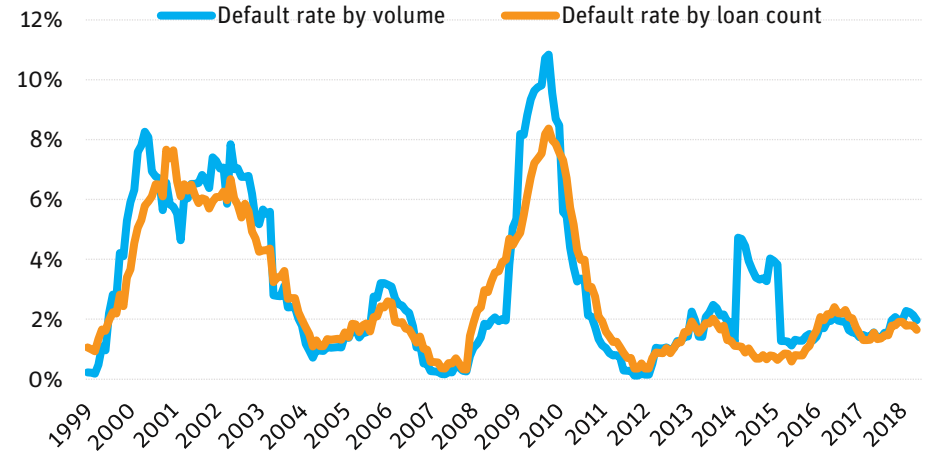
Fundamental Backdrop

S&P Leveraged Loan 100 Index



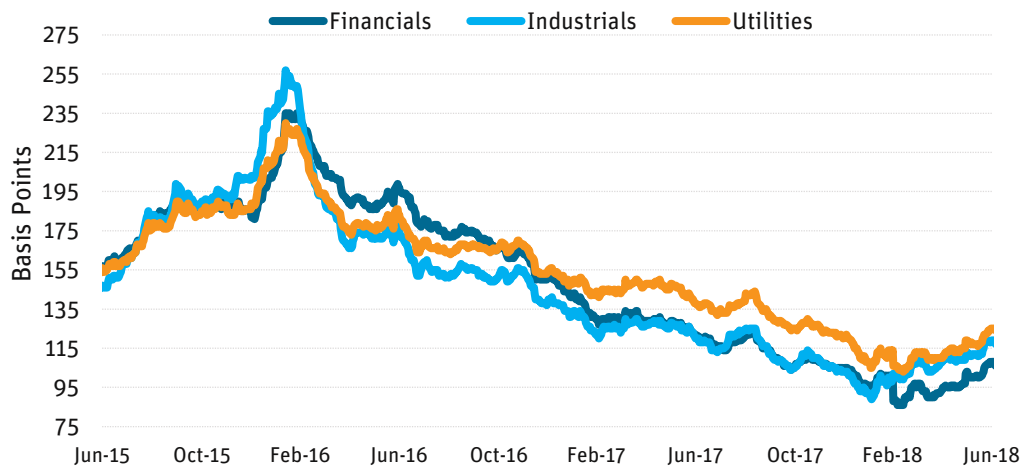
Source: Bloomberg as of 6/30/18.

Leveraged Loan Default Rates



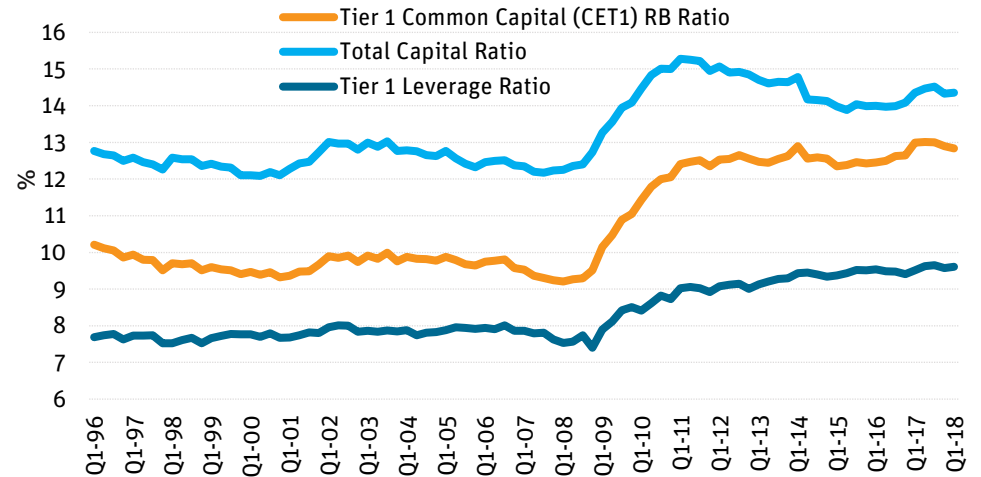
Source: Deutsche Bank as of 6/30/18.

Investment Grade Sector Performance



Source: RCA, Morgan Stanley as of 6/30/18.

Bank Subordinated Debt



Source: SNL of 3/31/18.

Portfolio Performance

Summary

- The Class I Share was up 0.61% for the quarter, outperforming the benchmark by approximately 77 basis points, as the Bloomberg Barclays U.S. Aggregate Bond Index was down 0.16% over the same period. The focus on bank and financial credits outperformed investment grade indices on a spread basis in the quarter. The shorter-duration positioning versus the benchmark was also a positive contributor to Fund performance for the quarter.
- The CLO allocation was the best performer for the quarter, up 1.62% in total return, but the corporate allocation also performed well with a total return of 0.85%, both providing positive excess return versus the Bloomberg Barclays U.S. Corporate Bond Index, which was down 0.98%.

Net Total Returns as of 6/30/2018	Annualized					
	1 Mo.	3 Mo.	YTD	1 Yr.	3 Yr.	SI ¹
Class I	-0.03%	0.61%	1.25%	4.34%	1.91%	2.96%
Class A at NAV	-0.05%	0.68%	1.14%	4.11%	1.69%	2.75%
Class A at MOP ²	-2.33%	-1.61%	-1.15%	1.74%	0.91%	2.11%
Bloomberg Barclays U.S. Agg. Bond Index	-0.12%	-0.16%	-1.62%	-0.40%	1.72%	1.62%

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.

¹The inception date of both the Angel Oak Flexible Income Fund A and I Class (ANFLX and ANFIX) was 11/3/14. ²Maximum Offering Price takes into account the 2.25% maximum initial sales charge. [^]The Adviser has contractually agreed to waive fees through 5/31/19.

FUND INFORMATION AS OF 6/30/18

	Class A	Class I
Gross Expense Ratio	1.38%	1.12%
Net Expense Ratio [^]	0.94%	0.69%
SEC Yield (Subsidized)	4.41%	4.76%
SEC Yield (Unsubsidized)	4.00%	4.34%

FUND CHARACTERISTICS

Fund Assets (All Classes)	\$123.4 mm
Number of Securities	59
Distribution	Monthly
Effective Duration	3.6
Average Price (Portfolio)	\$101.4

FUND STATISTICS

(Since Inception)	Fund ³	Index
Standard Deviation	4.1	3.9
Sharpe Ratio	0.8	0.4
Correlation to Index	0.1	1.0
Positive Months (%)	72.1	55.8
Negative Months (%)	27.9	44.2

³ANFIX

Sector Attribution

		Q2 2018*	YTD 2018*
	% of Market Value	Attribution (%)	Attribution (%)
Corporates	90.2	0.69	1.36
CLOs	5.1	0.08	0.20
ABS	0.0	0.00	0.00
Cash	4.7	0.02	0.03
Credit Hedges	-	0.00	0.00
Fund Expenses	-	-0.17	-0.34
Total	100.0	0.61	1.25

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

Corporates

- Corporates total return was up 85 basis points, contributing 69 basis points to Fund performance in the quarter. Year-to-date total return is 155 basis points, contributing 136 basis points to the Fund.
- Banking sector trends remain strongly positive, as evidenced by the FDIC's recent quarter-in-review analysis. The sector saw a 17.7% year-over-year increase in net income, driven by lower corporate taxes and higher net interest income. Net interest income increased 9.7% year-over-year, and was higher for 86% of community banks. Net interest margins expanded by 10 basis points to 3.64%, highlighting the asset-sensitive nature of bank balance sheets as increases in asset yields outpaced increases in funding costs. Fee income also increased modestly relative to the year-ago quarter (+2.9%). Noninterest expense increased 6.9% year-over-year, as banks reinvest some of the tax savings in additional headcount and infrastructure/technology. Credit remains pristine and near the lows since the financial crisis, with noncurrent loans down 1 basis point to 85 basis points. Interestingly, the quarter saw three new bank charters and 58 mergers and acquisitions.
- The forward issuance calendar remains strong, though we are seeing signs of the expected summer slowdown. We expect third-quarter issuance will skew toward September. The pipeline remains well-diversified across broker/dealers as well as geographies and rated/unrated opportunities.

CLOs

- CLOs had a total return of 162 basis points in the second quarter, contributing 8 basis points to the Fund. Year-to-date total return is 322 basis points, contributing 20 basis points to the Fund. CLOs have been the best-performing allocation in the Fund in 2018 and have benefited the duration profile by lowering the portfolio's overall sensitivity to interest rates. Year-to-date, spreads are modestly wider for the CLO allocation, yet high current income has offset the modest negative price return.
- The focus remained on primary market activity between standard new issue, refinancings, and resets, as a pickup in activity led to slight widening. The Fund has looked to maintain its CLO exposure by selectively adding high-coupon BBs at relatively wide spreads, given our belief that these are the most attractive tranches on a risk-adjusted basis.

Definitions

ABS: Asset-backed security.

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. 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.

Bloomberg Barclays U.S. Corporate High Yield Bond Index: An unmanaged market value-weighted index that covers the universe of fixed rate, non-investment grade debt.

Bloomberg Barclays U.S. Corporate Investment Grade Index: An index that measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

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 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—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.

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.

Disclaimers

Mutual fund investing 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.

Diversification does not guarantee a profit or protect against a loss in declining markets.

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 Adviser 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.

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