Angel Oak
CAPITAL ADVISORS

Angel Oak Capital Advisors, LLC

Angel Oak High Yield Opportunities Fund Quarterly Review

June 30, 2018

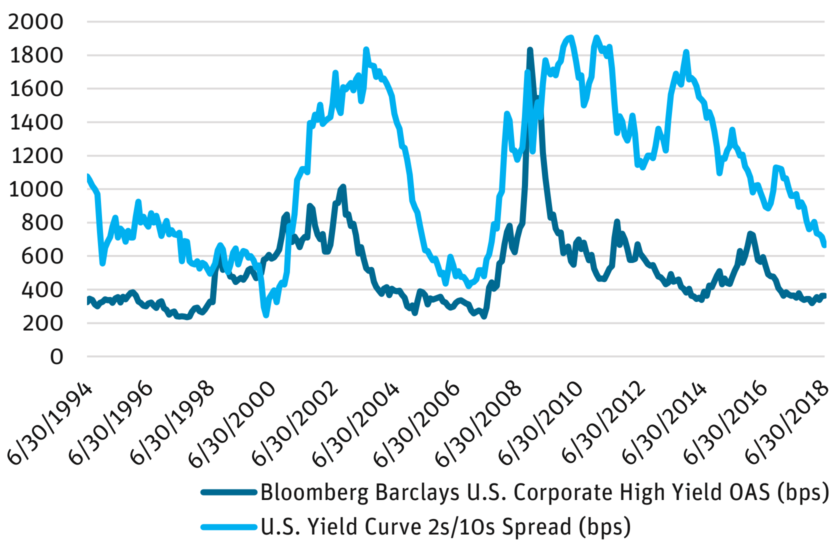
Quarter in Review

- With the lowest-rated, highest-yielding segment of the high yield market significantly outperforming in the second quarter, performance was driven by the combination of confidence in the economic outlook, reach for yield, and shunning of duration. In this environment, the Angel Oak High Yield Opportunities Fund lagged its benchmark by 48 basis points, returning 0.55% compared to the Bloomberg Barclays U.S. Corporate High Yield Index, which returned 1.03%. Year-to-date, the Fund returned 0.09% compared to the Bloomberg Barclays U.S. Corporate High Yield Index, which returned 0.16%.
- The confidence to reach for yield was underpinned by the strongest quarterly earnings seasons since 2012. Top and bottom line strength was widespread, reflecting the continued improvement in the labor market and increase in aggregated consumer spending and consumer confidence. The primary areas of concern were around rising input inflation for raw materials and labor shortages in certain areas of the economy.
- 1Q18 GDP was 2%, and the outlook for 2Q18 GDP and the balance of the year is positive with a consensus estimate for 2Q18 GDP of 2.9%, and the Atlanta GDPNow forecast at just over 4%.
- Capital expenditures, as represented by non-residential fixed investment is strong, up 10.4% in 1Q18; however, the equipment component was up only 5.8%, the weakest since 1Q17. Capital spending is viewed as a precursor to improved productivity, which has been absent in the current expansion.
- Financial conditions remain supportive of continued relatively positive economic growth as measured by the Chicago Federal Reserve Bank's Adjusted National Financial Conditions Index.
- The Federal Reserve has essentially achieved its mandate of full employment and stable inflation with the unemployment rate at 3.8% and the PCE Core year-over-year at 2%. The Fed has raised rates twice this year, and despite the severe flattening of the yield curve, is expected to continue to raise rates patiently and methodically toward the neutral rate, assuming no material disruption in the expected path of the data.

Benchmark Performance	3/31/18	6/30/18	Quarterly Change (bps)
2-Year Treasury	2.27	2.53	+26
5-Year Treasury	2.56	2.74	+18
10-Year Treasury	2.74	2.86	+12
UST 2s/10s Spread	47	33	-14
Oil	64.94	74.15	+1,418
Iron Ore	61.49	60.44	-171
VIX	19.97	16.09	-1,943
S&P 500 Total Return Index	5,173	5,351	+343
Bloomberg Barc U.S. Corp IG Index	109	123	+14
Bloomberg Barc U.S. Corp HY Index	354	363	+9

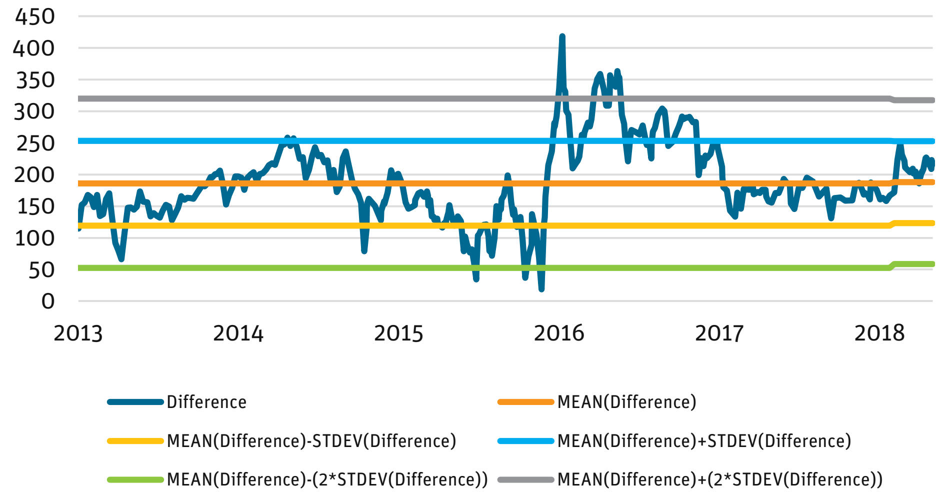
Source: Bloomberg, Yieldbook.

High Yield OAS vs. U.S. Yield Curve 2s/10s Spread



Source: Bloomberg and ICE BofAML as of 6/30/18.

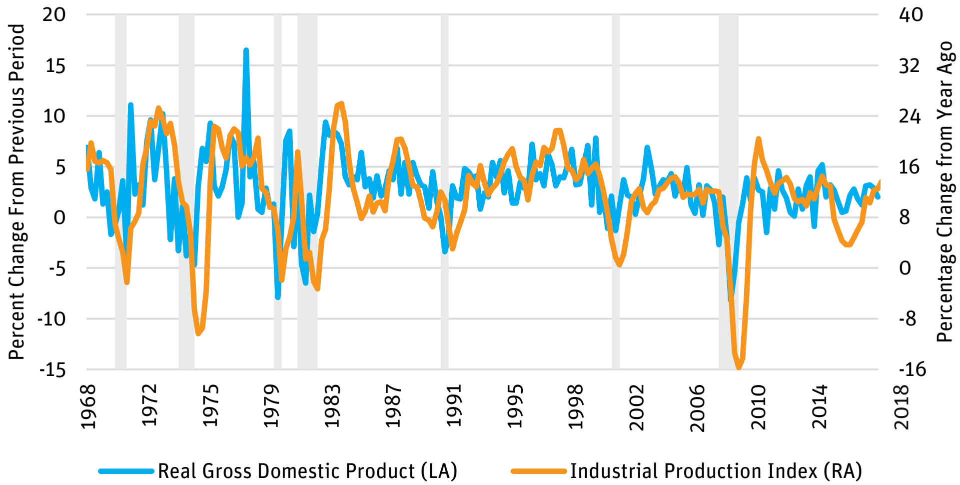
CLO vs. HY



Source: Citigroup as of 6/30/18.

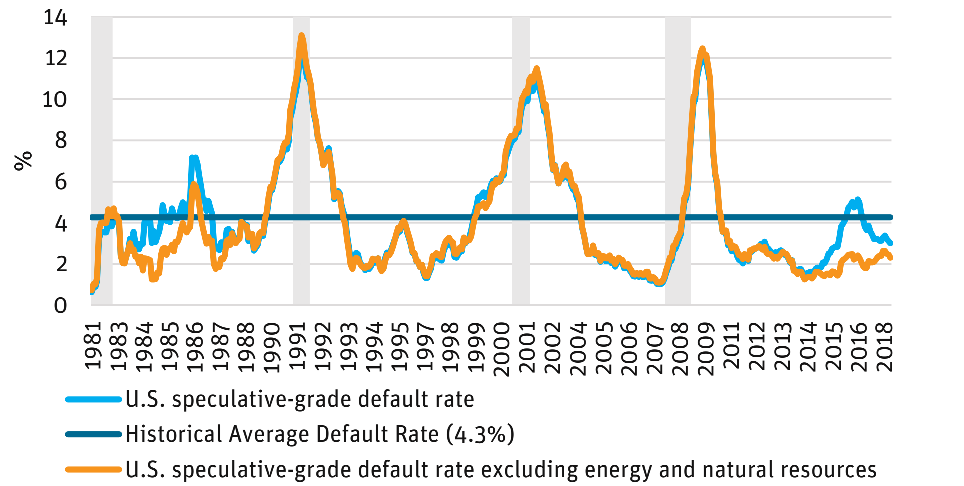
Fundamental Backdrop

Industrial Production and GDP



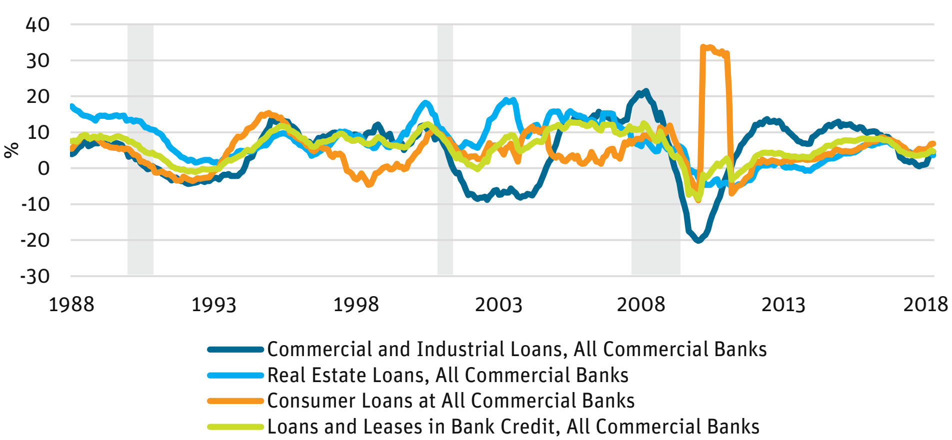
Source: FRED as of 6/30/18.

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



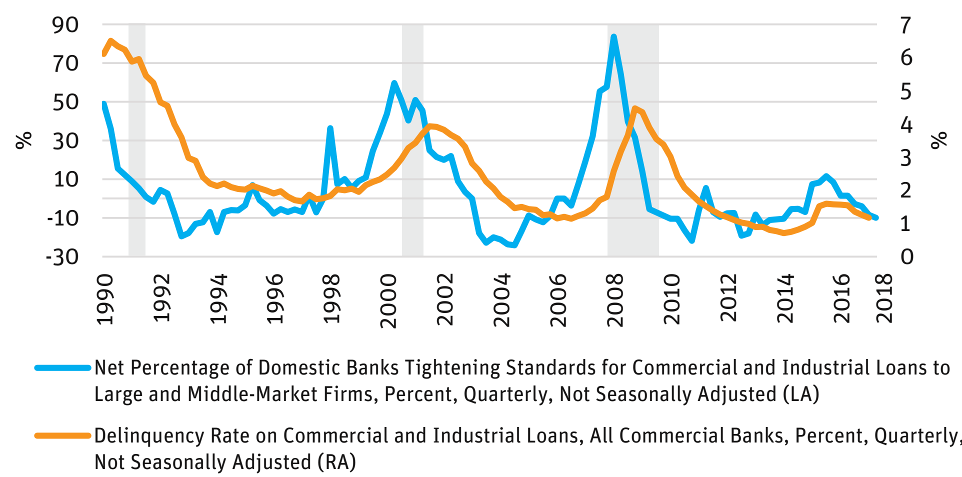
Source: S&P 500 as of 6/30/18.

Bank Loan Growth



Source: FRED as of 6/30/18. Shaded gray bars represent periods of recession.

Banks Tightening Standards C&I and Delinquency C&I



Source: FRED as of 6/30/18.

Portfolio Performance

Summary:

- For the quarter ending June 30, 2018, the Angel Oak High Yield Opportunities Fund returned 0.55%, underperforming the Bloomberg Barclays U.S. Corporate High Yield Index's return of 1.03%. For the year-to-date period ending June 30, 2018, the Fund returned 0.09% compared to the Bloomberg Barclays U.S. Corporate High Yield Index's return of 0.16%.
- Performance within the quarter was volatile, reflecting the back and forth between strong earnings and economic data offset by escalating tariff threats. For April, May, and June, the OAS on the Bloomberg Barclays U.S. Corporate High Yield Index had a range of 46, 42, and 34 basis points, respectively, though the index only widened by 9 basis points for the quarter in total.
- The continued flattening of the yield curve has had little impact on the risk appetite of investors when it comes to corporate credit, potentially reflecting loose financial conditions, fiscal stimulus, and seven consecutive quarters of improvement in the credit profile of high yield corporates in aggregate. The higher-risk, CCC-rated segment of the market was the strongest performer on both credit spread tightening and total return. The CCC-rated segment tightened 45 basis points and returned 2.87% for the quarter.
- The worst-performing segment of the high yield market was the higher-quality BB-rated issuers. Reflecting their higher credit quality, the BB segment of the market offers less credit spread than B- and CCC-rated segments and has a slightly longer duration, making it more sensitive to changes in interest rates. Despite the flattening of the yield curve, BB issues with low coupons and longer maturities continued to suffer. The BB-rated segment widened 16 basis points and returned -0.17% for the quarter.
- With interest rates expected to continue to rise, the ~10% allocation to collateralized loan obligations (CLOs) continued to significantly outperform high yield corporate bonds, returning 1.85% compared to the Bloomberg Barclays U.S. Corporate High Yield Index's return of 1.03%. For the year-to-date period, the CLO allocation has returned 4.12% compared to the Bloomberg Barclays U.S. Corporate High Yield Index return of 0.16%. We will maintain the allocation to BB-rated CLOs, which are floating rate, reflecting their valuation versus fixed-rate high yield corporate bonds and lack of interest rate duration.

					Annualized		
Net Total Returns as of 6/30/18	1 Mo.	3 Mo.	YTD	1 Yr.	3 Yr.	5 Yr.	SI[1]
Class I	0.20%	0.55%	0.09%	3.39%	6.21%	5.87%	9.34%
Class A at NAV	0.18%	0.48%	-0.12%	3.12%	5.93%	5.63%	9.08%
Class A at MOP[2]	-2.08%	-1.78%	-2.40%	0.83%	5.12%	5.15%	8.82%
BBgBarc U.S. Corporate High Yield TR USD	0.40%	1.03%	0.16%	2.62%	5.53%	5.51%	11.65%
ICE BofAML High Yield Index	0.35%	1.00%	0.08%	2.53%	5.55%	5.51%	11.63%

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 3/31/09, while the inception date of the A Class (ANHAX) was 7/31/12. 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 6/30/18

	Class A	Class I
Gross Expense Ratio	1.28%	1.03%
Net Expense Ratio^	0.90%	0.65%
SEC Yield (Subsidized)	5.76%	6.14%
SEC Yield (Unsubsidized)	5.46%	5.84%

FUND CHARACTERISTICS

Fund Assets (All Classes)	$49.4 M
Number of Securities	114
Distribution	Monthly
Effective Duration	3.6
Average Coupon (%)	6.93
Average Yield-to-Worst (%)	6.86

FUND STATISTICS

(Since Inception)	Fund[3]	Index
Standard Deviation	5.6	7.6
Sharpe Ratio	1.6	1.5
Correlation to Index	0.9	1.0
Positive Months (%)	73.0	73.0
Negative Months (%)	27.0	27.0

[3]ANHIX

^The Adviser has contractually agreed to waive fees through 5/31/19.

Sector Attribution

	% of Market Value	Q2 2018* Attribution (%)	YTD 2018* Attribution (%)
Corporates	88.7	0.54	0.12
CLOs	9.3	0.18	0.46
Cash	2.0	0.01	0.02
Equities & ETFs	-	-	-
Fund Expenses	-	-0.16	-0.32
Total	100.0	0.57	0.28

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

Corporates:

- For the second quarter, the high yield corporate bond allocation returned 0.62% and contributed 54 basis points to the total return of the Fund. The high yield corporate bond allocation underperformed the benchmark return of 1.03%, reflecting the low-quality rally, current valuations, potential threats to economic activity, and our emphasis on risk versus reward.
- Capital goods and consumer cyclical sectors were the largest positive contributors to quarterly performance. The capital goods allocation returned 0.83% compared to the benchmark, which returned -0.16%. The outperformance from the capital goods sector allocation was entirely from issuer selection and primarily attributable to the Fund's holdings in a Canadian aerospace company that has turned the corner in terms of operating performance and is prioritizing debt reduction. From an attribution perspective, the consumer cyclical sector allocation was also a positive contributor to performance, returning 0.31% compared to the benchmark, which returned -0.23%. Again, outperformance was entirely from issuer selection but was broader-based than capital goods.
- Similar to the first quarter, the allocation to the communications sector was the largest negative contributor to performance. The Fund's communications holdings returned 0.16% compared to the benchmark, which returned 1.93%. The performance was a combination of allocation and issuer selection.

CLOs:

- In the second quarter, CLO spreads were range-bound as spreads drifted wider into quarter end. BB-rated CLOs held within the Fund outperformed given the defensive nature of their higher coupons and shorter duration. Bonds priced at a premium fell slightly as they moved closer to the end of their reinvestment period.

Sector Exposure

	Weighted Avg. Price	% of Market Value		% Change	Option Adjusted Spread		Bps Change	Yield-to-Worst		Bps Change
		3/31/18	6/30/18		3/31/18	6/30/18		3/31/18	6/30/18	
Corporates	99.86	87.3	88.7	1.4	373	390	17	6.32	6.69	37
CLOs	100.16	12.1	9.3	-2.8	678	713	35	9.41	9.92	51
Cash	100.0	0.6	2	1.4	N/A	N/A	N/A	N/A	N/A	N/A
Equities & ETFs	-	-	-	-	-	-	-	-	-	-
Total	99.89	100.0	100.0		408	413	5	6.66	6.86	20

Corporates:

- Passing a $1.5T tax cut package, boosting federal spending $300 billion over the next two years, and then aggressively attacking the trade deficit with tariffs and risking retaliatory tariffs could be part of the administration's grand plan, but it's adding to the uncertainty with regard to the outlook for domestic as well as global economic growth. First quarter earnings was the strongest single quarter since 2012, and the second quarter and rest of the year are expected to be strong as well. However, the benefit to returns and valuations is possibly being diluted by the potential risks associated with the actions taken on the trade front.
- Also, in contrast to late 2017 and early 2018, there has been a desynchronization of global growth. The European Union, China, and emerging markets have not entered into recession, but indicators of economic growth are slowing relative to the U.S. Additionally, the Federal Reserve is the only central bank tightening monetary policy and unwinding quantitative easing. The European Central Bank recently announced it will end its quantitative easing, joining the U.S., Bank of Canada, and Bank of England in incrementally tightening monetary policy. It's early in the process, but eventually tightening leads to a slowdown of economic activity.
- The fundamental profile of domestic high yield corporate credit looks very positive. Issuers are benefiting from the recently passed fiscal stimulus, demand is strong, and aggregate credit profiles continued their seven consecutive quarters of improvement, supporting tighter valuations. The near-term outlook is for continued improvement in the second quarter and full year 2018. Consumer confidence is near the highest level since 2000, the National Federation of Independent Businesses Small-Business Confidence Index is at an all-time high, U.S. Institute of Supply Management surveys are near their highest levels since the early 2000s, and financial conditions remain loose, all of which is supportive of a continuation of recent economic strength. In addition to signs of inflationary pressures, second quarter earnings commentary will be scrutinized for any changes to capital expenditure budgets and/or hiring plans as a result of the implementation of tariffs.
- Reflecting the optimistic outlook, valuation metrics are approaching the tightest levels post-crisis, especially the lowest-quality CCC segment of the market, relative to the B- and BB-rated categories, reflecting the low quality rally year-to-date. In combination with the increased uncertainty surrounding the potential outcome over trade and desynchronization of global growth, the Fund's emphasis is on risk versus reward, issuer selection, downside protection, and interest rate sensitivity while continuing to deliver attractive risk-adjusted returns.

CLOs:

- Demand for CLOs remains strong given their floating rate nature coupled with an increasing forward LIBOR curve. Supply has been robust through the first half of the year, keeping spreads range-bound. The BB tranche has seen an uptick in trading volume given its relative cheapness compared to the rest of the capital structure. Investors should expect little price appreciation as spreads continue to remain range-bound going forward.

Definitions

CLO: 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.
Bloomberg Barclays U.S. Corporate High Yield Index: An unmanaged market value-weighted index that covers the universe of fixed-rate, non-investment grade debt.
Bloomberg Barclays U.S. Investment Grade Corporate Index: An index that covers the publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.
The Chicago Fed's National Financial Conditions Index (NFCI): An index that provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets and the traditional and "shadow" banking systems.
CBOE SPX Volatility Index (VIX): A key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.
Core PCE Price Index: an index that is defined as personal consumption expenditures (PCE) prices excluding food and energy prices. The core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.
Correlation: A statistical measure of how two securities move in relation to another. Index used for comparison is the Bloomberg Barclays U.S. Corporate 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 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).
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.
NFIB Small Business Optimism Index: A composite of ten seasonally adjusted components that provides an indication of the health of small businesses in the U.S.
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.
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 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. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. For more information on these risks and other risks of the Fund, please see the Prospectus.

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 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 6/30/18 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

The Angel Oak Funds are distributed by Quasar Distributors, LLC.