



Angel Oak Flexible Income Fund

Quarterly Review



Angel Oak
CAPITAL ADVISORS

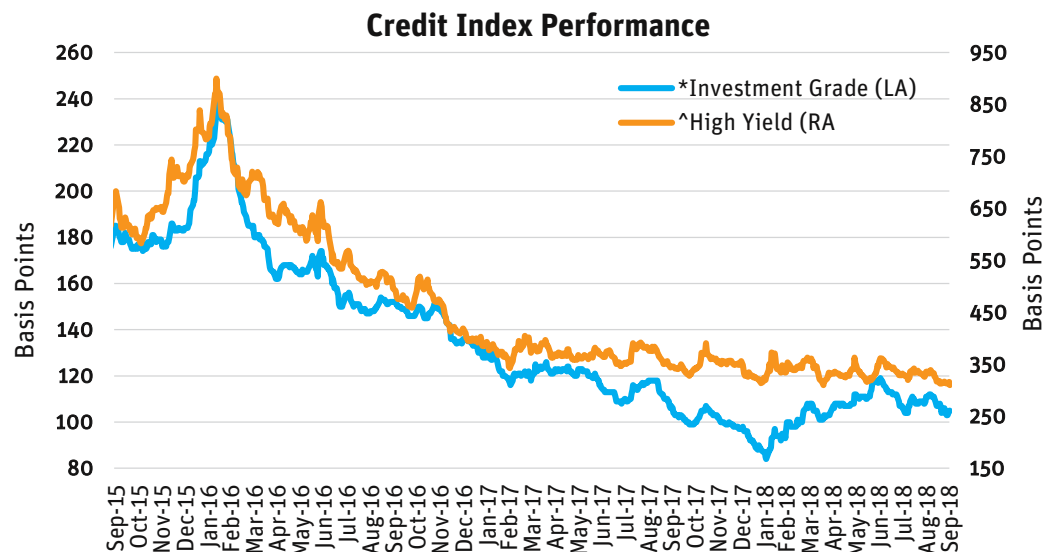
September 30, 2018

Quarter in Review

- Risk assets moved higher for the quarter amid geopolitical tensions and trade rhetoric. The S&P 500 was up 7.71% during the quarter. Excess returns for U.S. corporates were positive, as both IG and HY credit were tighter. The Bloomberg Barclays Investment Grade Index was tighter by 17 basis points to +106 option-adjusted spread (OAS), while the High Yield Index was tighter by 47 basis points to +316 OAS. Total returns for the IG and HY indices were +0.97% and +2.40%, respectively. U.S. Treasury yields moved higher as the curve bear flattened on the quarter. The U.S. 10-year yield increased by 20 basis points to 3.06%; 2s10s flattened by 9 basis points to 0.24%.
- The labor market report for September continued its momentum from the previous month. Average hourly earnings rose 0.3% month-over-month and 2.8% year-over-year. Nonfarm payrolls came in at +134k in September, a slight decline from +201k in the previous month, predominately due to Hurricane Florence. Surveys illustrated the number of workers who reported reduced hours due to bad weather was approximately 6x larger than the typical figure for September. Absenteeism from work due to bad weather was approximately 7x higher than the average number for the trailing 10-yr period (299k vs. 44k). Prior 2-month net revisions were 87k more than previously reported. After revisions, job gains have averaged 190+ per month over the last 3 months. The headline unemployment rate declined to 3.7%, reaching the lowest rate since 1969, while the labor force participation rate remained at 62.7%.
- U.S. home price increases eased on the margin, with the S&P 500 Core Logic CS 20-City Home Price Index up 5.92% year-over-year through July 2018, coming in below expectations of 6.20%; the trailing 12-month period through June was revised up to 6.36% from 6.31%.
- The Federal Open Market Committee increased its target rate range by 25 basis points to 2.00-2.25%, which was the third hike this year and the eighth hike of this tightening campaign. The FOMC statement dropped the reference to policy being “accommodative.” Powell said that dropping “accommodative does not signal any change in the likely path of policy – they still expect further gradual increases in the target range for the Fed funds rate.” The Fed’s dot plot of member expectations for interest rates was effectively unchanged, and signals for one more 25 basis point hike in 2018 and three more hikes in 2019.
- Consumer confidence remains high as the University of Michigan Consumer Sentiment Index came in at 100.1 for the month of September. This is the highest reading since March 2018, which came in at 101.4. The ISM Index came in at 59.8 in September, a decrease of 1.2 from 61 in August.

Benchmark Performance	9/30/18	6/30/18	Monthly Change (bps)
1-Month LIBOR	2.26	2.09	+17
3-Month LIBOR	2.40	2.34	+6
2-Year Treasury	2.82	2.53	+29
5-Year Treasury	2.95	2.74	+21
10-Year Treasury	3.06	2.86	+20
30-Year Treasury	3.21	2.99	+22
2s/10s Curve	0.24	0.33	-9
2s/30s Curve	0.39	0.46	-7
S&P 500 Total Return Index	5,763	5,351	+771
IG Corporate OAS*	106	123	-17
HY Corporate OAS^	316	363	-47

Sources: Bloomberg and Yieldbook as of 9/30/18.



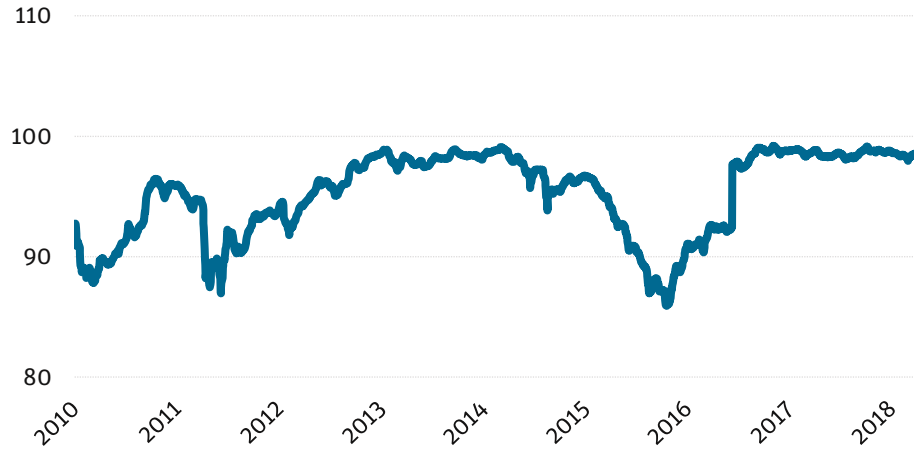
Source: Bloomberg as of 9/30/18.

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

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

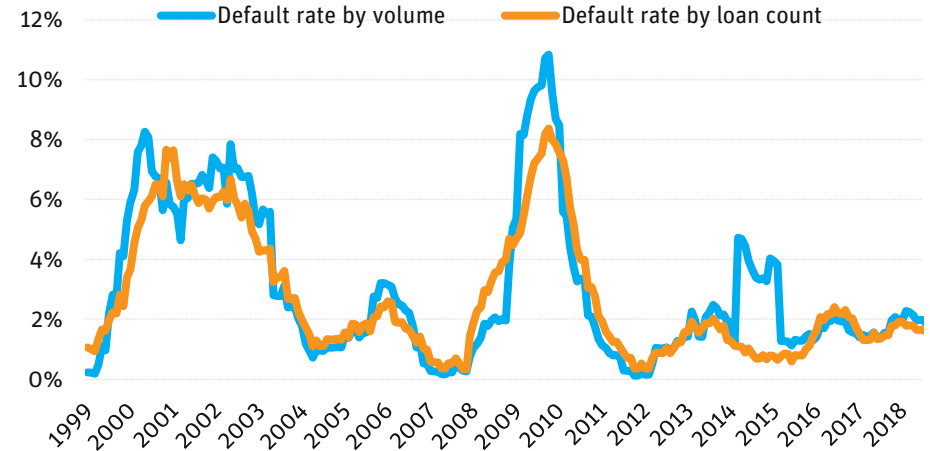
Fundamental Backdrop

S&P Leveraged Loan 100 Index



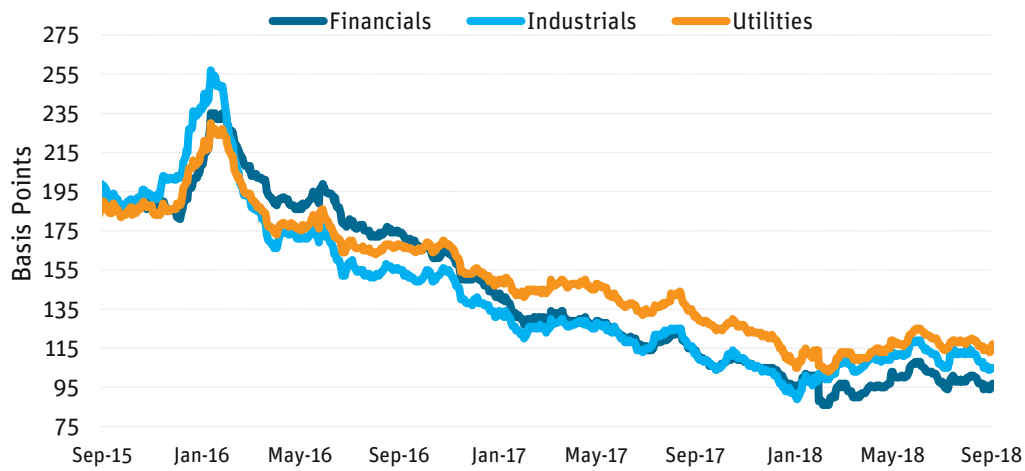
Source: Bloomberg as of 9/30/18.

Leveraged Loan Default Rates



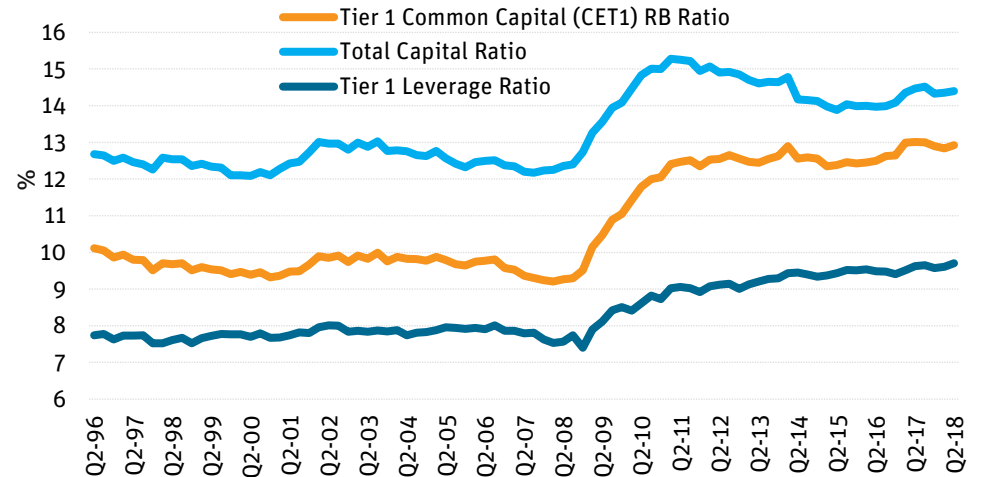
Source: Deutsche Bank as of 9/30/18.

Investment Grade Sector Performance



Source: RCA, Morgan Stanley as of 9/30/18.

Bank Subordinated Debt



Source: SNL of 6/30/18.

Portfolio Performance

Summary

- The Class I Share was up 0.50% for the third quarter of 2018 and 0.10% for the month, outperforming the benchmark by approximately 48 basis points for the third quarter and 74 basis points for the month, as the Bloomberg Barclays U.S. Aggregate Bond Index was up 0.02% and down 0.64% over the same respective periods. The shorter-duration positioning versus the benchmark drove the outperformance of the Fund relative to the index.
- Both the collateralized loan obligation (CLO) allocation and the corporate allocation performed well for the quarter and the month. CLOs were up 1.60% and 0.56%, respectively, in total return while corporates were up 0.65% and 0.13% for the quarter and month. The equity allocation lagged, with a total return of -2.45% for the quarter and -1.94% for the month.

Net Total Returns as of 9/30/18	Annualized					
	1 Mo.	3 Mo.	YTD	1 Yr.	3 Yr.	SI ¹
Class I	0.10%	0.50%	1.76%	3.36%	2.28%	2.90%
Class A at NAV	-0.03%	0.33%	1.47%	3.01%	2.06%	2.65%
Class A at MOP ²	-2.32%	-1.96%	-0.82%	0.67%	1.29%	2.06%
Bloomberg Barclays U.S. Agg. Bond Index	-0.64%	0.02%	-1.60%	-1.22%	1.31%	1.52%

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. ³The Adviser has contractually agreed to waive fees through 5/31/19.

FUND INFORMATION AS OF 9/30/18

	Class A	Class I
Gross Expense Ratio	1.38%	1.12%
Net Expense Ratio [^]	0.94%	0.69%
SEC Yield (Subsidized)	4.58%	4.93%
SEC Yield (Unsubsidized)	4.14%	4.49%

FUND CHARACTERISTICS

Fund Assets (All Classes)	\$124.0 mm
Number of Securities	76
Distribution	Monthly
Effective Duration	3.3
Average Price (Portfolio)	\$100.3

FUND STATISTICS

(Since Inception)	Fund ³	Index
Standard Deviation	4.0	3.8
Sharpe Ratio	0.8	0.3
Correlation to Index	0.1	1.0
Positive Months (%)	73.9	56.5
Negative Months (%)	26.1	43.5

³ANFIX

Sector Attribution

		Q3 2018*	YTD 2018*
	% of Market Value	Attribution (%)	Attribution (%)
Corporates	92.4	0.68	2.04
CLOs	3.3	0.06	0.26
ABS	0.0	0.00	0.00
Cash	1.9	0.01	0.04
Equity	2.4	-0.07	-0.06
Credit Hedges	-	0.00	0.00
Fund Expenses	-	-0.18	-0.52
Total	100.0	0.50	1.76

*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

- Second-quarter earnings trends support our positive outlook on the banking sector. Regional and community banks in particular delivered results that exceeded analysts' expectations, with a majority of banks delivering better-than-expected net interest margins (NIM), better credit-related costs, and lower income tax expense. Roughly two thirds of SMID-cap banks experienced sequential quarter NIM expansion, highlighting the benefit to banks from higher interest rates.
- Net asset betas (asset beta less deposit beta) have become more quantified, given the outlook for rates and the shape of the yield curve. Banks with greater short-end loan exposures (LIBOR/Prime-based), lower loan/deposit ratios, and a higher degree of noninterest-bearing and retail-focused deposits, exhibited the highest asset sensitivity. Deposit betas have continued to increase as expected, though the increase has been measured and is in line with expectations.
- Industry loan growth in the mid-to-high single digits sequentially was slightly lower than analyst forecasts; however, smaller banks have continued to deliver stronger growth relative to larger institutions (low double digits to mid-teens), driven by a combination of organic and inorganic growth.
- We continue to see an acceleration in bank consolidation, another key driver of our positive outlook on the banking sector, with approximately 135 deals in the first half of 2018.

CLOs

- CLOs had a total return of 160 basis points in the third quarter, contributing 6 basis points to the Fund. The year-to-date total return is 487 basis points, contributing 26 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.

Beta: A measure of a stock's risk of volatility compared to the overall market.

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.

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.

ISM Manufacturing Index: An index that is based on surveys of more than 300 manufacturing firms by the Institute for Supply Management (ISM).

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.

Michigan Consumer Sentiment Index (MCSI): A monthly survey of U.S. consumer confidence levels conducted by the University of Michigan.

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 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—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.

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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