Angel Oak
CAPITAL ADVISORS

Angel Oak Capital Advisors, LLC

Angel Oak Flexible 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.

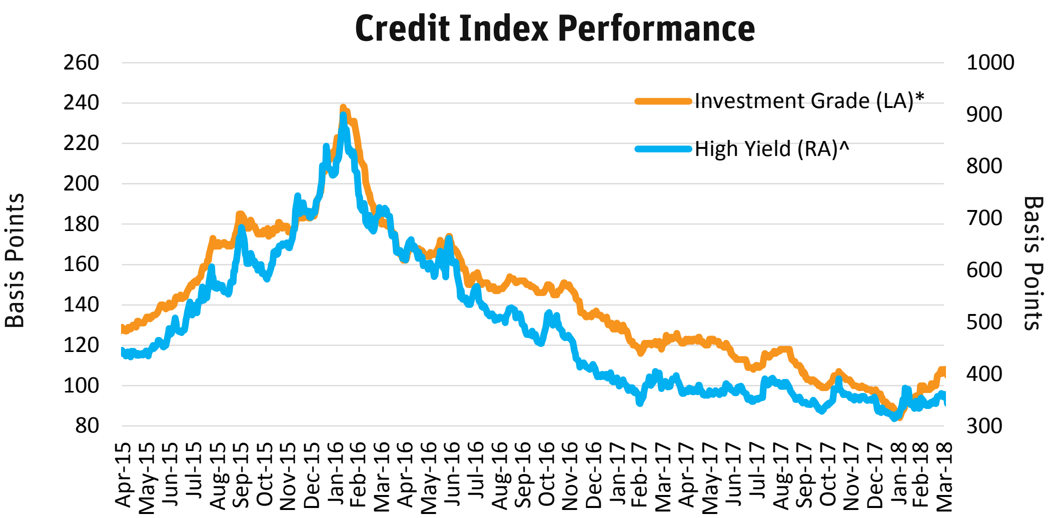
- The FOMC raised the Fed Funds target rate range by 25 basis points to a range of 1.50% to 1.75% (Fed Funds sits at 1.67%). The rise in Fed Funds continues to put upward pressure on LIBOR rates. 1M LIBOR rose 21 basis points month-over-month to 1.88% while 3M rose 29 basis points month-over-month to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

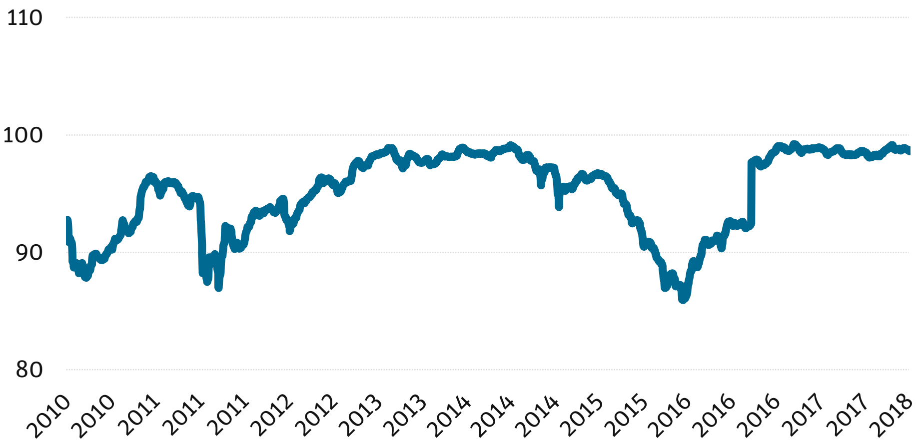
Sources: Bloomberg and Yieldbook as of 3/31/18.



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.

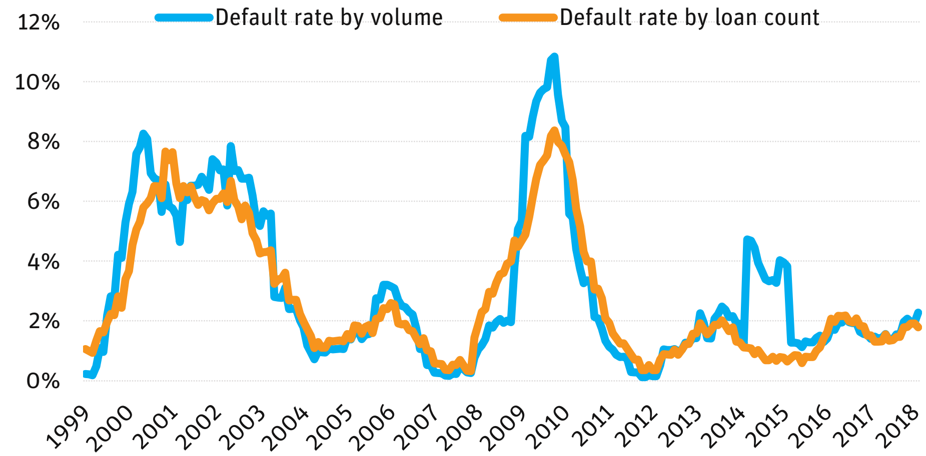
Fundamental Backdrop

S&P Leveraged Loan 100 Index



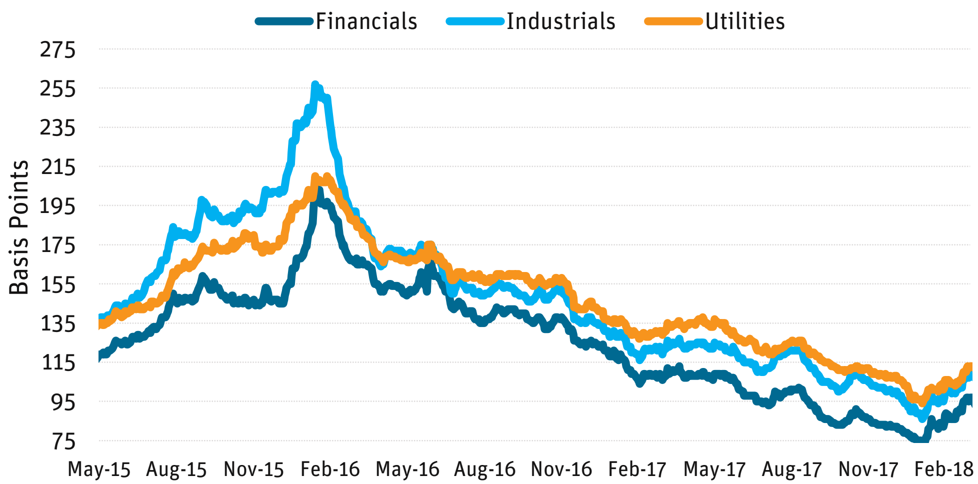
Source: Bloomberg as of 3/31/18.

Leveraged Loan Default Rates



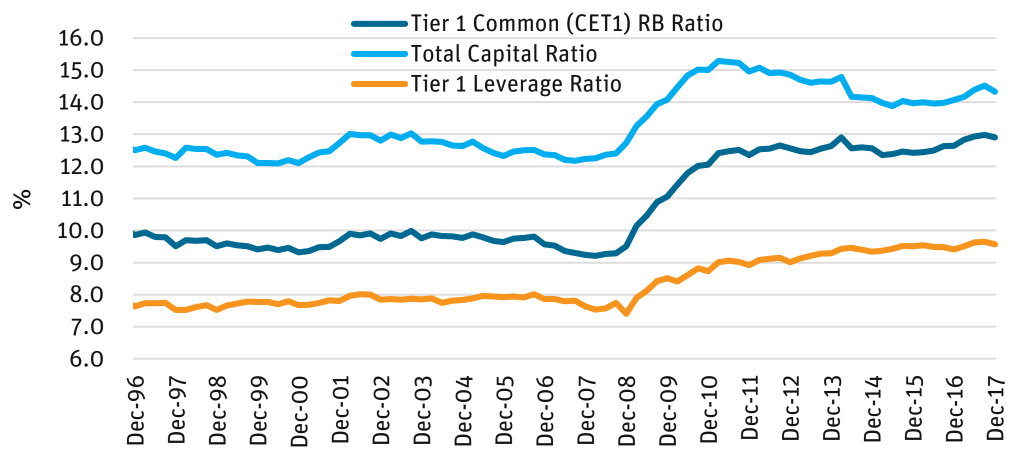
Source: Deutsche Bank as of 3/31/18.

Investment Grade Sector Performance



Source: ICE BofAML U.S. IG Bond Index as of 3/31/18.

Bank Subordinated Debt



Source: SNL of 12/31/17.

Portfolio Performance

Summary

- The Fund was up 0.63% in the first quarter of 2018, outperforming the benchmark by 209 basis points as the Bloomberg Barclays U.S. Aggregate Index was down 1.46% year-to-date.
- Credit strategies were a positive contributor to Fund performance, relative to the benchmark, as the banking sector continues to outperform within investment grade (IG) corporates. Generic IG corporates widened by approximately 16 basis points for the quarter, as compared to 10 basis points of tightening in community bank debt.
- Duration strategies were positive contributors to performance relative to the benchmark, as U.S. Treasury yields rose in the first quarter. The shorter-duration positioning relative to the benchmark has been positive for 2018, given the rise in rates.

					Annualized	
Net Total Returns as of 3/31/2018	1 Mo.	3 Mo.	YTD	1 Yr.	3 Yr.	SI[1]
Class I	0.26%	0.63%	0.63%	4.95%	2.25%	2.99%
Class A at NAV	0.24%	0.46%	0.46%	4.70%	2.00%	2.75%
Class A at MOP[2]	-2.04%	-1.81%	-1.81%	2.30%	1.21%	2.06%
Bloomberg Barclays U.S. Agg. Bond Index	0.64%	-1.46%	-1.46%	1.20%	1.20%	1.79%

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 both the Angel Oak Flexible Income Fund A and I Class (ANFLX and ANFIX) was November 3, 2014. [2]Maximum Offering Price takes into account the 2.25% maximum initial sales charge. ^The Adviser has contractually agreed to waive fees through May 31, 2019.

FUND INFORMATION AS OF 3/31/18

	Class A	Class I
Gross Expense Ratio	1.48%	1.20%
Net Expense Ratio^	0.94%	0.69%
SEC Yield (Subsidized)	4.18%	4.53%
SEC Yield (Unsubsidized)	3.74%	4.08%

FUND CHARACTERISTICS

Fund Assets (All Classes)	$121.8 mm
Number of Securities	59
Distribution	Monthly
Effective Duration	3.7
Average Price (Portfolio)	$102.0

FUND STATISTICS

(Since Inception)	Fund[3]	Index
Standard Deviation	4.2	3.9
Sharpe Ratio	0.9	0.5
Correlation to Index	0.1	1.0
Positive Months (%)	75.0	57.5
Negative Months (%)	25.0	42.5

[3]ANFIX.

Sector Attribution

	% of Market Value	Q1 2018* Attribution (%)	YTD 2018* Attribution (%)
Corporates	87.5	0.66	0.66
CLOs	7.1	0.13	0.13
ABS	1.7	0.00	0.00
Cash	3.7	0.01	0.01
Credit Hedges	-	0.00	0.00
Fund Expenses	-	-0.17	-0.17
Total	100.0	0.63	0.63

*Estimated returns, net of hedges, and unaudited.

Corporates

- The Fund was up 0.63% in the first quarter of 2018, outperforming the benchmark by 209 basis points. Year-to-date, the Fund's performance is in the top 3% of its category.
- Credit still remains strong in the community banking sector. Even though the credit spreads in the financial sector as a whole underperformed the broader market by about 6 basis points, the community banking spreads continue to outperform the broader sector.
- The duration profile of the Fund was also a positive contributor to performance relative to the benchmark, as U.S. Treasury yields rose in the first quarter. The shorter-duration positioning relative to the benchmark has been positive for 2018, given the rise in rates.

CLOs

- CLO total return for the first quarter was 157 basis points, contributing 13 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 maintain a defensive exposure through high-coupon, short-dated bonds.

ABS

- The ABS allocation produced a total return of 24 basis points in March, contributing under 1 basis point to the Fund. For the first quater, the ABS allocation is up 1 basis point, contributing under 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-rated credit card 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	
Corporates	102.2	87.5	77.4	10.1	4.1	4.2	-0.1	4.2	4.2	0.0
CLOs	101.3	7.1	6.0	1.1	3.8	2.6	1.2	0.0	0.5	-0.5
ABS	99.8	1.7	0.0	1.7	2.4	0.0	2.4	1.1	0.0	1.1
Cash & Other	100.0	3.7	16.6	-12.9	0.0	0.0	0.0	0.0	0.0	0.0
Total	102.0	100.0	100.0	0.0	3.9	3.4	0.5	3.7	3.3	0.4

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

Corporates

- The Fund increased the exposure to financial corporates by approximately 10% to 87.5% during the first quarter of 2018. The recent rise in the LIBOR/Overnight Indexed Swap spread – caused by tax repatriation and limited demand from short-end money managers – has created opportunities in large bank bonds as spreads increased for the sector. The Fund looked to take advantage of the recent spread volatility and added large bank financials on the softness. The average rate duration of the exposure was unchanged while the spread duration decreased marginally to 4.1 quarter-over-quarter.
- Primary market activity was slow in the first quarter as bankers focused on completing annual reports and required year-end filings. Issuance was further disrupted by changes in tax laws that further complicated financial filings. Approximately $678 million in community bank debt was issued during the quarter across seven different deals. Spreads continue to tighten in the sector. As an example, ConnectOne^ issued sub-debt in the first quarter at 266-basis-point spread; comparatively , it issued debt in June 2015 at 410-basis-point spread.

CLOs

- The Fund increased its CLO exposure by maintaining its BBB/BB exposure and kept its preference for higher-quality manager tiers and defensive bond profiles. The average spread duration increased to 3.8; however, this still represents a much shorter duration profile than new issue BBB/BB tranches, which should have much less price volatility than recently issued bonds.
- 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 increased its ABS allocation from 0.0% to 1.7% to optimize its cash holdings. 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 directly held ConnectOne (3.8%) as of 3/31/18.

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.
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.
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. The standard deviation has been 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.

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.

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.

Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security.

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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