Angel Oak
CAPITAL ADVISORS

Angel Oak Capital Advisors, LLC

Angel Oak High Yield Opportunities Fund
Quarterly Review

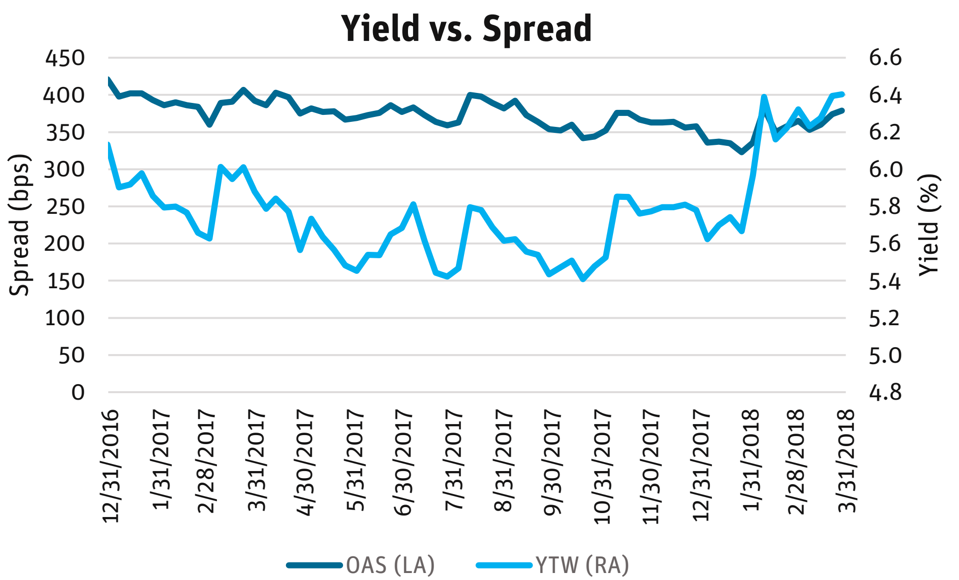
March 31, 2018

Quarter in Review

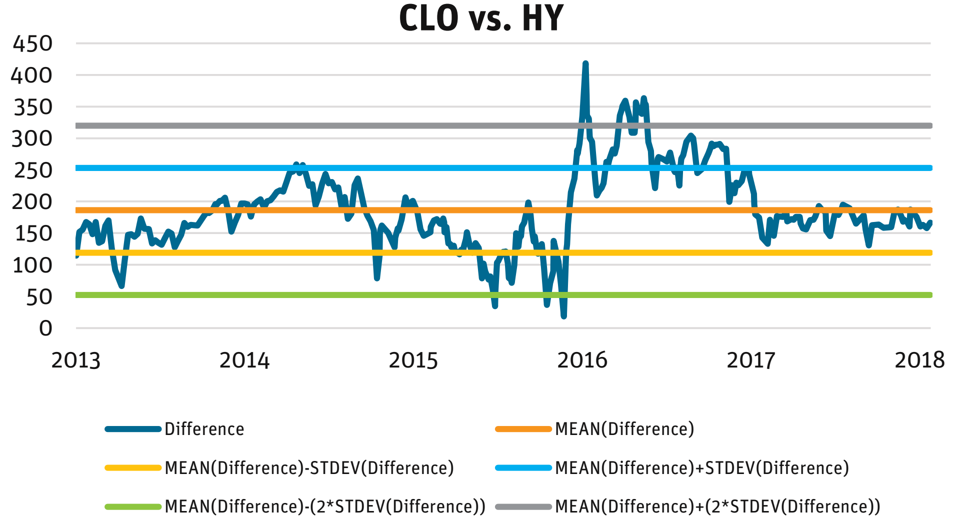
- Despite the increase in volatility and weak finish to the first quarter, the Angel Oak High Yield Opportunities Fund outperformed its benchmark by 41 basis points, returning -0.45% compared to the Bloomberg Barclays U.S. Corporate High Yield Index which returned -0.86%. The driver behind the negative return for the quarter was predominantly the backup in interest rates, with the 10-year U.S. Treasury moving up 33 basis points.
- Corporate earnings were strong, with most companies reporting gains in revenue and earnings in line with forecasts or better. The outlook for 2018 is for continued gains and continued economic growth domestically as well as globally.
- The transition of the Federal Reserve chairman went smoothly, and the Federal Reserve raised rates another 0.25% in March, as expected. The fundamentals are positive, with the increase in fiscal stimulus expected to boost GDP; unemployment is low; and inflation as measured by the Core Personal Consumption Expenditures (PCE) Index was up 1.6% year-over-year, ticking up toward the Federal Reserve's 2% target. Expectations are for at least two more rate hikes this year, depending on the data.
- Uncertainty has generally increased, with turnover in Trump's cabinet raising questions with regard to his approach to addressing international relationships with North Korea, Iran, and Russia, among others, as well as trade relations with China, NAFTA countries, and the rest of the world. Volatility as measured by the CBOE SPX Volatility Index jumped in the first quarter to as high as 37 and averaged 17, compared with a high of 16 and an average of 11 during 2017.
- Investors continued to pull money out of high yield in the first quarter, withdrawing $15.5B on top of the $14.9B withdrawn in 2017.

Benchmark Performance	12/31/2017	3/31/2018	Quarterly Change (bps)
2-Year Treasury	1.89	2.27	+38
5-Year Treasury	2.21	2.56	+35
10-Year Treasury	2.41	2.74	+33
Oil	60.42	64.94	+748
Iron Ore	70.78	61.49	-1,313
VIX	11.04	19.97	+8,089
S&P 500 Total Return Index	5,213	5,173	-76
Bloomberg Barc U.S. Corp IG Index	93	109	+16
Bloomberg Barc U.S. Corp HY Index	343	354	+11

Source: Bloomberg, Yieldbook.



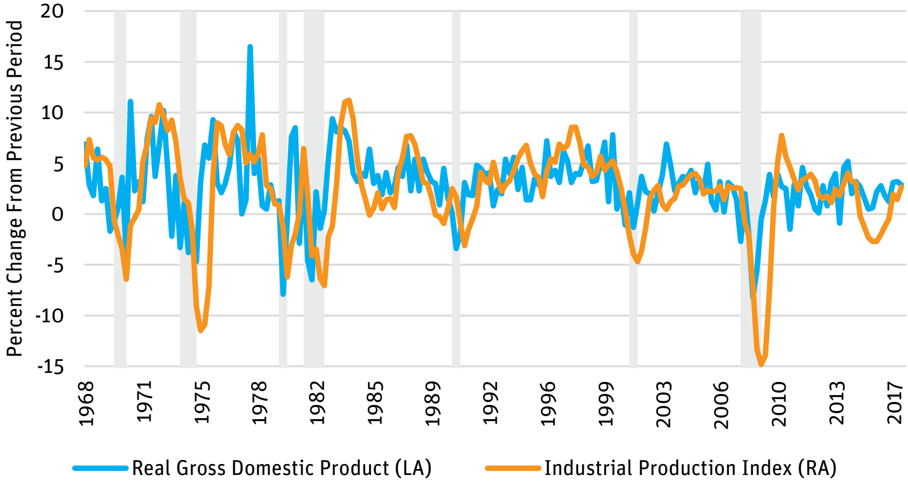
Source: Bloomberg and ICE BofAML as of 3/31/18.



Source: Citigroup as of 3/31/18.

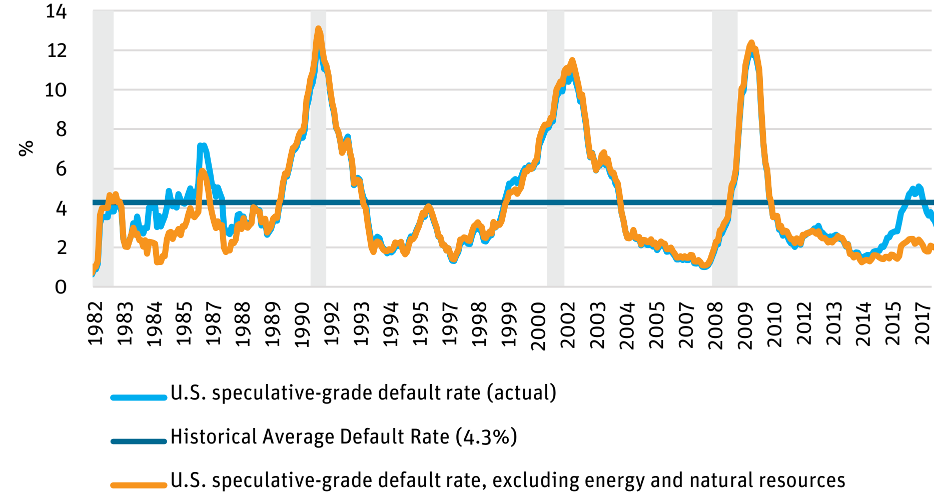
Fundamental Backdrop

Industrial Production and GDP



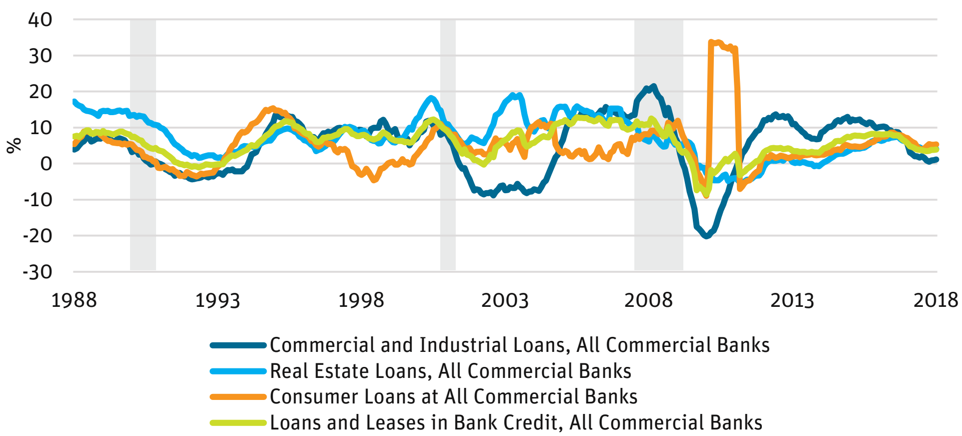
Source: FRED as of 12/31/17.

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



Source: S&P 500 as of 12/31/17.

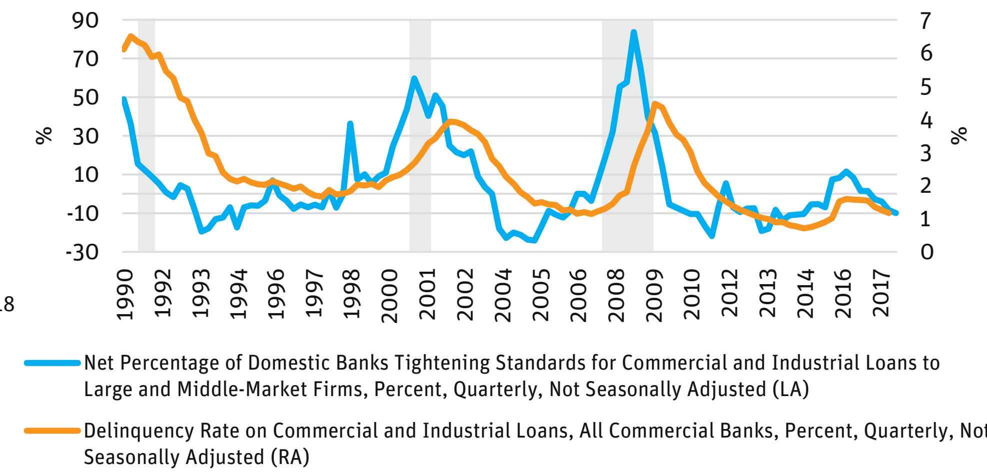
Bank Loan Growth



Source: FRED as of 3/31/18.

Shaded gray bars represent periods of recession.

Banks Tightening Standards C&I and Delinquency C&I



Source: FRED as of 3/31/18.

Portfolio Performance

Summary:

- For the quarter ending March 31, 2018, the Angel Oak High Yield Opportunities Fund returned -0.45%, outperforming the benchmark Bloomberg Barclays U.S. Corporate High Yield Index's return of -0.86%.
- The quarter started off strong, rallying to the tightest credit spread valuations since before the financial crisis, reflecting the optimism ignited by the $1.5T Tax Cuts and Jobs Act passed in late December, the passage in early February of a $300B increase in federal spending over the next two years, and a hike in the debt ceiling. Corporate earnings were strong, and more than 76% and 77% of the S&P 500 reported better-than-expected revenue and earnings, respectively.
- Reacting to the positive fundamental tone in the market, interest rates rose and the yield curve steepened, with 2/10s rising from 52 basis points at year-end to a peak of 78 basis points in mid-February, before falling back to 47 basis points on the flight to safety after equities gave back their year-to-date gains.
- The move higher in interest rates took its worst toll on the BB segment of the high yield market. Reflecting their higher credit quality, some BB-rated companies have issues structured more like investment grade, and the duration for the BB category is 13% longer than the Bloomberg Barclays U.S. Corporate High Yield Index. Additionally, BB credit spreads widened 26 basis points as investors avoided higher-duration issuers. As a result, BBs underperformed the index, returning -1.60% for the quarter. The higher risk, CCC-rated issuers were the big outperformers. The CCC-rated category benefited from its duration, 19% shorter than the benchmark, as well as 29 basis points of credit spread tightening, returning 0.30% for the quarter. The B-rated category also outperformed, returning -0.55% for the quarter.
- With interest rates continuing their move higher, the 12% allocation to collateralized loan obligations (CLOs) significantly outperformed high yield corporate bonds, returning 2.22% compared to the Bloomberg Barclays U.S. Corporate High Yield Index return of -0.86%. With the Federal Reserve reiterating its plan to normalize interest rates and reduce the size of its balance sheet, maintaining our allocation to CLOs, which are floating rate, continues to be attractive given their yields compared with high yield corporates and lack of interest rate duration.

					Annualized		
Net Total Returns as of 3/31/18	1 Mo.	3 Mo.	YTD	1 Yr.	3 Yr.	5 Yr.	SI[1]
Class I	-0.29%	-0.45%	-0.45%	4.57%	6.15%	5.46%	9.55%
Class A at NAV	-0.30%	-0.60%	-0.60%	4.38%	5.89%	5.22%	9.29%
Class A at MOP[2]	-2.53%	-2.87%	-2.87%	2.06%	5.09%	4.74%	9.01%
BBgBarc US Corporate High Yield TR USD	-0.60%	-0.86%	-0.86%	3.78%	5.17%	4.99%	11.86%
ICE BofAML High Yield Index	-0.62%	-0.91%	-0.91%	3.69%	5.18%	5.01%	11.84%

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 March 31, 2009, while the inception date of the A Class (ANHAX) was July 31, 2012. 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 3/31/18

	Class A	Class I
Gross Expense Ratio	1.34%	1.08%
Net Expense Ratio^	0.90%	0.65%
SEC Yield (Subsidized)	6.00%	5.94%
SEC Yield (Unsubsidized)	5.64%	5.58%

FUND CHARACTERISTICS

Fund Assets (All Classes)	$50.0 M
Number of Securities	113
Distribution	Monthly
Effective Duration	3.3
Average Coupon (%)	7.04
Average Yield-to-Worst (%)	6.66

FUND STATISTICS

(Since Inception)	Fund[3]	Index
Standard Deviation	5.7	7.6
Sharpe Ratio	1.6	1.5
Correlation to Index	0.9	1.0
Positive Months (%)	72.2	73.2
Negative Months (%)	27.8	26.9

[3]ANHIX

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

Sector Attribution

	% of Market Value	Q1 2018* Attribution (%)	YTD 2018* Attribution (%)
Corporates	87.2	-0.46	-0.46
CLOs	12.2	0.27	0.27
Cash	0.6	0.01	0.01
Equities & ETFs	-	-	-
Fund Expenses	-	-0.16	-0.16
Total	100.0	-0.34	-0.34

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

Corporates:

- For the first quarter, the high yield corporate bond allocation returned -0.49% and contributed negative 46 basis points to the total return of the Fund. The high yield corporate bond allocation significantly outperformed the benchmark return of -0.86%, but wasn't able to fully overcome the sharp move up in interest rates that occurred in the short time frame.
- Capital goods and basic industry were the largest positive contributors to quarterly performance. The capital goods allocation returned 1.58% compared to the benchmark, which returned -0.64%. 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 basic industry allocation was also a significant positive contributor to performance, returning 0.40% compared to the benchmark, which returned -0.84%. Again, outperformance was entirely from issuer selection but was more broad-based than it was for capital goods.
- The allocation to the communications sector was the largest negative contributor to performance. The Fund's communications holdings returned -6.01% compared to the benchmark, which returned -1.05%. The performance was predominantly due to issuer selection, specifically a printing company that materially missed guidance.

CLOs:

- According to Credit Suisse, bank loans had their best start to the year compared to high corporate bonds since 2005. Correspondingly, the CLO allocation had a strong quarter, returning not only an absolute positive return of 2.22% but also outperforming the benchmark by 308 basis points. The CLO allocation performed well in the first quarter as the entire capital structure rallied to start the year, driven by increased demand for floating-rate bonds and an optimistic CLO buyer base. BBs saw tightening through January and February before slowing down in March. The portfolio's defensive positioning between high-coupon bonds and short-duration bonds fared well in this trading environment.

Sector Exposure

	Weighted Avg. Price	% of Market Value		% Change	Option Adjusted Spread		Bps Change	Yield-to-Worst		Bps Change
		12/31/2017	3/31/2018		12/31/2017	3/31/2018		12/31/2017	3/31/2018	
Corporates	100.9	81.8	87.2	5.4	367	373	6	5.88	6.32	44
CLOs	100.6	12.1	12.2	0.1	666	678	12	9.03	9.41	38
Cash	100.0	6.1	0.6	-5.5	N/A	N/A	N/A	N/A	N/A	N/A
Equities & ETFs	-	-	-	-	-	-	-	-	-	-
Total	100.8	100.0	100.0		383	408	25	5.93	6.66	73

Corporates:

- With regard to the fundamentals, our outlook for high yield corporate bond performance remains positive. The recent earnings season was strong, and guidance was for continued improvement in revenue, margins, and earnings. Measures of CEO confidence are near the highest level since prior to the financial crisis, and the NFIB Small Business Optimism Index is at the highest level since 1983. The outlook for GDP looks supportive, boosted by the $1.5T Tax Cuts and Jobs Act as well as the $300B increase in federal spending over the next two years. Unemployment is only 4.1% and expected to fall below 4% this year, and wages continue to steadily, albeit slowly, grind higher, with the 12-month moving average increase of 2.6% year-over-year. Reflecting the low unemployment rate, positive wage gains, and strong residential real estate market, consumer confidence is at levels not seen since the tech bubble in 2000.
- Reflecting the positive fundamentals and optimistic outlook, interest rates have moved up since year-end, contributing to the recent correction in risk asset valuations. Inflation continues to be benign but is steadily moving toward the Federal Reserve's 2% target. Considering inflation, the increased federal spending and rapidly expanding budget deficits, the Treasury and the White House alluding to favoring a weak U.S. Dollar, the Federal Reserve reducing the size of its balance sheet, and the looming end of European Central Bank quantitative easing, the trend toward rising interest rates could continue.
- Short-term interest rates continue to move higher, with the 3-month LIBOR just over 2.30% and up more than 60 basis points year-to-date. The new Federal Reserve chairman picked up where his predecessor left off, continuing with gradual interest rate increases supported by economic fundamentals. Eventually, tighter monetary policy will slow economic growth. After having gotten easier since the Federal Reserve first raised interest rates in 2015, financial conditions have tightened significantly since year-end. Economic surprise indices, after reaching multiyear highs at the end of 2017, have deteriorated during the quarter.
- Yields on high yield are the highest they've been since late 2016, but spreads are near the tights, reflecting the backup in rates but a generally positive outlook for high yield corporate credit, with fundamentals strong and defaults rates low and expected to decline further. Given the many conflicting sources of data and the increased political uncertainty about tariffs and the approach to geopolitical risks, we are being cautious in our asset allocation and, as always, emphasizing issuer selection in an effort to deliver attractive risk-adjusted returns.

CLOs:

- Looking ahead, the CLO market has remained well bid, as the demand for floating rate bonds continued and 3-month LIBOR continued to increase. The market will have a large supply to digest in April, which could lead to short-term spread widening. However, the basis between BBs and AAAs appears relatively cheap, and we believe buyers should step in to take advantage of buying opportunities.

Definitions

CLOs: 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**.**
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.
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.
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.

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 Advisor 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 3/31/18 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.