

FLRT /NYSE Arca

Manager's Review

May 2018

The following commentary provides a monthly review of the ETF's performance and investment approach as well as other timely insights and observations from the portfolio manager.

Fund Performance

In May, the AdvisorShares Pacific Asset Enhanced Floating Rate ETF (NYSE Arca: FLRT) returned 0.12% (NAV), versus the S&P/LSTA U.S. Leveraged Loan 100 Index ("benchmark") return of 0.01%.

Market Review

In May the S&P/LSTA U.S. Leveraged Loan 100 Index (which tracks the 100 largest loans in the broader Index) returned 0.01%. The loan asset class remains compelling given its insulation to broader market volatility and a strong fundamental picture. Additionally, the asset class continues to receive support via high rates, as demonstrated by an elevated 3-month LIBOR rate which at month end at 2.32%. For broader context, the 3-month LIBOR began the year at 1.69%. The supportive technical environment resulted in loans narrowly outperforming the broader high yield asset class. For context, the Bloomberg Barclays US Corporate High Yield Index and Bloomberg Barclays US Aggregate Index returned -0.03% and 0.71%, respectively. From a credit quality perspective, lower credit quality outperformed high-quality credits with BB-rated credits returning 0.02%, B-rated credits returning 0.16%, and CCC-rated credits returning 1.14%.

According to JP Morgan, institutional loan volume totaled \$101.5 billion (bn) for May (\$29.7bn net). May represented the heaviest month for gross volume on the past year, and the heaviest net new-issue production since June 2017. On a year-to-date basis, net issuance is approximately \$121.9bn (excluding refinancing/re-pricings) which is approximately 15% ahead of last year's pace. According to Credit Suisse, CLO primary activity added \$11.2bn of volume in May, resulting in year-to-date volumes of approximately \$54bn. This represents a post-crisis record. According to the most recently available data, loan flows have recorded \$9.7bn of inflows thus far in 2018. Conversely, high-yield (HY) mutual fund flows have been negative year-to-date resulting in -\$19.9bn. The strong results of corporate earnings, global growth, positive downstream effects of tax reform, and consumer sentiment look to paint a favorable view of overall corporate health. This favorable fundamental environment is evidenced through low default expectations despite the activity in retail defaults.

Portfolio Review

Economic growth continues steadily positive, monetary policy remains accommodative (although gradually less so) and overall leverage amongst high yield companies remains reasonable. Despite the tenure of this credit cycle, fundamentals remain notably good as experienced by corporate earnings and a low default rate. With the continuation of volatility in the equity markets, high yield spreads have widened out from very tight levels and market opportunities have improved. During May, the portfolio experienced a significant round bound in a couple of loans that had been under pressure – resulting in a positive impact to performance. Balancing risks in the portfolio remains important in looking ahead. We anticipate the portfolio moving on pockets of opportunity as they present themselves within the market.

Respectfully,

Pacific Asset Management

FLRT Performance History (%) as of 03.31.2018

	NAV	Market Price Return
1 Month	0.01	0.04
3 Months	0.88	0.75
YTD	0.88	0.75
1 Year	2.42	2.46
3 Years	2.96	2.95
Since Inception (02.18.2015)	2.85	2.87

Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. Returns less than one year are not annualized. For the fund's most recent month end performance, please visit www.advisorshares.com.

As stated in the Prospectus, the total annual operating expenses are 1.41%. The net expense ratio is 1.12%. The Advisor has contractually agreed to keep net expenses from exceeding 1.10% of the Fund's average daily net assets for at least a year from the date of the Prospectus and for an indefinite period thereafter subject to annual reapproval of the agreement by the Board of Trustees.

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Top 10 Most Positions	Portfolio Weight
Chesapeake Energy Corporation	1.78%
Caesars Resort Collection, LLC	1.69%
ProAmpac PG Borrower LLC	1.69%
Nexo Solutions LLC	1.69%
Vistra Operations Company LLC	1.68%
Uber Technologies, Inc.	1.67%
DTZ U.S. Borrower, LLC	1.67%
Quikrete Holdings, Inc	1.67%
ClubCorp Holdings, Inc.	1.67%
Spin Holdco Inc	1.66%

As of 5/31/2018. Holdings subject to change

Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by visiting www.advisorshares.com. Please read the prospectus carefully before you invest. Foreside Fund Services, LLC, distributor.

There is no guarantee that the Fund will achieve its investment objective. An investment in the Fund is subject to risk, including the possible loss of principal amount invested. Investing in derivatives may be riskier than other types of investments because they are more sensitive to change in economic or marketing conditions that could result in losses that significantly exceed the Fund's original investment. The Fund primarily invests in floating rate loans and floating rate debt securities. The market for floating rate loans may be subject to irregular trading activity, wide bid/ask spreads, and extended trade settlement periods. The floating rate feature of loans means that floating rate loans will not generally experience capital appreciation in a declining interest rate environment. Declines in interest rates may also increase prepayments of debt obligations and require the Fund to invest assets at lower yields. Other Fund risks include market risk, leverage risk, foreign investment risk, liquidity risk, income and interest rate risk, liquidity risk, management risk, high yield securities risk, loan participation risk, prepayment risk, and trading risk. Please see the prospectus for details regarding risk.

Shares are bought and sold at market price (closing price) not NAV and are not individually redeemed from the Fund. Market price returns are based on the midpoint of the bid/ask spread at 4:00 pm Eastern Time (when NAV is normally determined), and do not represent the return you would receive if you traded at other times. Holdings and allocations are subject to risks and to change.

The credit ratings referenced in this commentary are published rankings by Moody's and are based on detailed financial analyses by a credit bureau specifically as it relates the bond issue's ability to meet debt obligations. The highest rating is AAA, and the lowest is D. Securities with credit ratings of BBB and above are considered investment grade.

The views in this material were those of the Portfolio Manager and may not reflect his views on the date this material is distributed or anytime thereafter. These views are intended to assist shareholders in understanding their investments and do not constitute investment advice.

Definitions:

A basis point (bps) is a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. A **collateralized loan obligation (CLO)** is a security backed by a pool of debt, often low-rated corporate loans. **Downside risk** is the likelihood that a security will decline in price, or the amount of loss that could result from that potential decline. **Liquidity** is the degree to which an asset or security can be bought or sold in the market without affecting the asset's price. **Leverage** is the amount of debt used to finance a firm's assets. **The S&P/LSTA U.S. Leveraged Loan 100 Index** is designed to track the market-weighted performance of the largest institutional leveraged loans based on market weightings, spreads and interest payments. One cannot invest directly in an index. **The Bloomberg Barclays Capital Aggregate Bond Index** measures the performance of the U.S. investment grade bond market. One cannot invest directly in an index.

LIBOR stands for London interbank offered rate. The interest rate at which banks offer to lend funds (wholesale money) to one another in the international interbank market. **Libor** is a key benchmark rate that reflects how much it costs banks to borrow from each other.

For more information, call AdvisorShares at 1.877.843.3831 or visit www.advisorshares.com.