Newfleet ASSET MANAGEMENT
A Virtus Investment Partner

ADVISORSHARES®
Actively Managed ETFs

MINC/NYSE Arca

Manager's Review
Q1 2018

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

Market Overview

The overall positive tone for fixed income spread sectors was challenged in the first quarter with bouts of elevated volatility. Investors were forced to interpret the potential market implications of the emerging risks of a trade war among major economic powers; the changing composition of the Federal Open Market Committee (FOMC), including a new chair; as well as the ongoing evolution of the quantitative easing (QE) programs initiated by the key global central banks in the aftermath of the financial crisis. During the quarter oil prices moved higher, U.S. economic data modestly improved, and interest rate volatility remained elevated. VIX, a measure of equity market volatility, soared 80% over the first quarter.

As expected, the Federal Reserve increased its target rate during the quarter to a range of 1.5%-1.75% at the March FOMC meeting. The European Central Bank and Bank of Japan are expected to continue with QE until late 2018 and early 2019, respectively.

Contributors

- Issue selection within the Corporate High Quality Sector, specifically the fund's allocation to BBB rated securities, contributed to the positive performance of the fund.
- **Non-Agency Residential Mortgage Securities (RMBS)** benefited from the ongoing improvement in the housing market and investor demand for mortgage credit.
- Allocation and issue selection within the **Asset-Backed Securities (ABS)** sector had a positive impact on performance. The sector remains attractive as it generally offers lower volatility, a diversified collateral base and attractive valuations relative to many other areas of the fixed income markets. Expectations are for range bound spreads with modest room for tightening. Our thesis on the U.S. consumer's ability to lift the economy remains intact.

Detractors

- There were no significant detractors to performance during the first quarter.

CURRENT FUND STRATEGY

Sector Changes: The AdvisorShares Newfleet Multi-Sector Income ETF (NYSE Arca: MINC) reduced exposure to corporate high quality and corporate high yield bonds. We redeployed the sale proceeds primarily into U.S. Treasuries, non-agency residential mortgage backed securities, and bank loans.

Securitized Product: We continue to like our allocation to the Securitized Finance Sectors (Non-Agency Residential Mortgage-Backed Securities, and Asset-Backed Securities). These sectors of the market offer a diversified collateral base and attractive valuations relative to many other areas of the fixed income markets. In addition they offer diversification to the corporate credit allocation within the portfolio. Our consumer focus within the Asset-Backed sector has been beneficial as the U.S. consumer continues to show the ability to lift the U.S. economy. Non-Agency Residential Mortgage-Backed Securities benefit from the continuing improvement in the housing market and investor demand for mortgage credit.

MINC Performance History (%) as of 03.31.2018

	NAV	Market Price Return
1 Month	0.10	0.07
3 Months	-0.15	-0.11
YTD	-0.15	-0.11
1 Year	1.46	1.37
3 Years	1.84	1.78
5 Years	1.92	1.86
Since Inception (03.19.2013)	1.89	1.86

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 0.81% and the Fund's net expense ratio is 0.76%. *The Advisor has contractually agreed to keep net expenses from exceeding 0.75% of the Fund's 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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Outlook

We continue to see value in spread sectors and expect them to benefit from the projected improvement in global growth this year. Sound and improving fundamentals, strong technicals, and still-accommodative central banks remain supportive. Recognizing that valuations are fair to rich in many areas of the fixed income market, selection and positioning within sectors is critical.

There are, of course, potential risks to our outlook and the global economy. Bouts of volatility are likely to persist with the ebb and flow of inflation fears, the assessment of future rate hikes by the Fed, and the unprecedented retreat from quantitative easing by the most influential central banks. Other risks remain including oil price volatility, geopolitical tensions, economic developments in China, the course of the U.S. dollar, and the more recent threat of trade wars.

As always, we believe it is important to stay diversified, have granular positions, and emphasize liquid investments. We continue to look for opportunities in all sectors of the bond market, striving to uncover any out-of-favor or undervalued sectors and securities. With strong demand for fixed income by investors and a supportive environment, spread sectors continue to offer attractive investment opportunities to investors searching for total return and yield.

Respectfully,

Newfleet Asset Management

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Volatility is a statistical measure of the dispersion of returns for a given security or market index. Volatility can either be measured by using the standard deviation or variance between returns from that same security or market index. Commonly, the higher the volatility, the riskier the security.
Yield is the income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.
A **10-Year Treasury Note** is a debt obligation issued by the United States government that matures in 10 years. A 10-year Treasury note pays interest at a fixed rate once every six months and pays the face value to the holder at maturity. An advantage of investing in 10-year Treasury notes, and other federal government securities, is that the interest payments are exempt from state and local income tax. However, they are still taxable at the federal level.
The **Barclays Capital Aggregate Bond Index** measures the performance of the U.S. investment grade bond market. One cannot invest directly in an index.
Fundamentals are the qualitative and quantitative information that contributes to the economic well-being and the subsequent financial valuation of a company, security or currency. Analysts and investors analyze these fundamentals to develop an estimate as to whether the underlying asset is considered a worthwhile investment.
A **Residential Mortgage-Backed Security** is a type of mortgage-backed debt obligation whose cash flows come from residential debt, such as mortgages, home-equity loans and subprime mortgages. A residential mortgage-backed security is comprised of a pool of mortgage loans created by banks and other financial institutions. The cash flows from each of the pooled mortgages is packaged by a special purpose entity into classes and tranches, which then issues securities and can be purchased by investors.
A **Commercial Mortgage Backed Security** is a type of mortgage-backed security that is secured by the loan on a commercial property. A CMBS can provide liquidity to real estate investors and to commercial lenders. As with other types of MBS, the increased use of CMBS can be attributable to the rapid rise in real estate prices over the years.
An **Asset Backed Security** is a financial security backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities. For investors, asset-backed securities are an alternative to investing in corporate debt.
Correlation is a statistical measure of how two securities move in relation to each other.
Coupon is the interest rate stated on a bond when it's issued. The coupon is typically paid semi-annually.
Spread sectors include all non-Treasury investment grade sectors including federal agency securities, corporate bonds, asset-backed securities, mortgage-backed securities and commercial mortgage-backed securities.
Spread is the difference between the bid and the ask price of a security or asset.