Community Bank Regulation Rollback

The Senate Banking Committee advanced legislation in December that would ease financial rules for banks for the first time since the financial crisis. Senate bill S.2155 would provide relief from regulatory requirements imposed by the 2010 Dodd-Frank Act ("DFA"). The relief is aimed primarily at smaller banks and credit unions with under $10 billion in assets. The bill also raises the asset threshold for designation as a Systemically Important Financial Institution which subjects banks to heightened regulatory scrutiny and capital requirements from $50 billion to $250 billion. Additionally, the bill is supported by nearly every Republican in the Senate and at least 12 Democrats, making its passage extremely likely. Federal Reserve Chairman Jerome Powell also endorsed the bill in his first appearance before the Senate Banking Committee on March 1st. Senate Majority Leader Mitch McConnell announced that the proposal would be discussed in session during the week of March 5th. Some of the components of the proposal specifically targeting community banks with less than $10 billion in assets include:

• Exemption from the Volcker Rule prohibitions on proprietary trading and investments in hedge funds and private equity funds

• Granting all residential mortgages held on balance sheet a Qualified Mortgage designation, significantly reducing capital requirements

• An "off-ramp" eliminating the requirement to comply with complex risk-based capital rules if a minimum leverage ratio of between 8%-10% is maintained

The proposal would also raise the asset threshold requirement to conduct annual stress tests to $250 billion. The current $10 billion threshold has been blamed for discouraging many community banks from growing organically, or through acquisition, given the substantial compliance costs associated with these stress tests.

If passed into law, this proposal will significantly reduce the compliance costs associated with traditional banking activities, allowing for more robust profit generation. The proposal generally provides banks with incentives to maintain or enhance their capital position, which in turn will discourage banks from re-levering their balance sheets. Angel Oak believes this a positive development for the community banking sector. The Angel Oak Flexible Income Fund (ANFIX) could potentially benefit from these developments as it currently has an 80% allocation to financial corporate debt with an overweight to community banks between $1 and $10 billion in assets.

The Angel Oak financial services team has a deep and varied skill set spanning bank management, structuring, fundamental research, regulation, treasury and asset/liability management, as well as vast industry experience in community banking and capital markets.

Johannes Palsson - Senior Portfolio Manager
Johannes is a Managing Director and Portfolio Manager at Angel Oak Capital. Johannes' primary focus is on investment research and management of community and regional bank debt across the firm's strategies.

Cheryl Pate, CFA® - Senior Portfolio Analyst
Cheryl is a Senior Portfolio Analyst at Angel Oak Capital and a Portfolio Manager of the firm's private strategy focused on community bank sub-debt. Cheryl has more than 15 years' experience in financial services and primarily focuses on investment research in the financial services space, including bank debt.

Navid Abghari - Senior Portfolio Manager
Navid is a Senior Portfolio Manager at Angel Oak Capital and a Portfolio Manager of the Flexible Income Fund. He has over 10 years of experience in fixed income markets, focusing on corporate credit trading, risk management, credit derivatives and structured products.

Rob McDonough - Senior Research Manager
Rob is the Senior Research Manager at Angel Oak and leads the Advisory practice which serves the investment, risk management, and capital markets needs of financial institution clients. He coordinates Angel Oak's research and publication activities on a variety of financial and risk management topics.

Angel Oak
CAPITAL ADVISORS

ABOUT ANGEL OAK CAPITAL ADVISORS:

Angel Oak Capital Advisors is an investment management firm focused on providing compelling fixed income investment solutions for its clients. Backed by a value-driven approach, Angel Oak Capital seeks to deliver attractive risk-adjusted returns through a combination of stable current income and price appreciation. Its experienced investment team seeks the best opportunities in fixed income with a specialization in mortgage-backed securities and other areas of structured credit.

As of 12/31/17, Angel Oak Capital had approximately $8 billion in assets under management through a combination of mutual funds, private funds and separately managed accounts.

Must be preceded or accompanied by a prospectus. To obtain an electronic copy of the prospectus, please visit www.angeloakcapital.com.

Mutual fund investing involves risk; Principal loss is possible. Investments in debt securities typically decreases 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 lose more than the amount invested. The Fund can make short sales of securities, which involves the risk that losses in securities may exceed the original amount invested. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. 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. For more information on these risks and other risks of the Fund, please see the Prospectus.

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