Millennials in the Housing Market

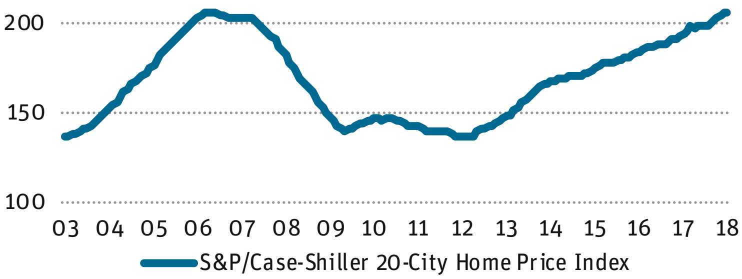
Sam Dunlap, portfolio manager for the Angel Oak Multi-Strategy Income Fund, discusses Angel Oak's views on the U.S. housing market, why we feel millennials will continue to support it, and whether or not rising interest rates will slow down housing in the U.S.

Q: Home prices have been on a steady upward trend over the last few years based on Case-Shiller data. What is your current view on the U.S. housing market, and do you think there is more room to run?

A: Home prices in the U.S. have been on a tear over the last five years. For example, year-over-year, the Case-Shiller 20-City Index rose approximately 6.3% in February. This marked the 70th consecutive month for year-over-year home price appreciation in the U.S., and we believe home prices have a lot more room to run from here, due to a significant supply-and-demand imbalance growing in the single-family housing market.

Sam Dunlap
Senior Portfolio Manager
Angel Oak Capital Advisors

HOME PRICES CONTINUE TO IMPROVE

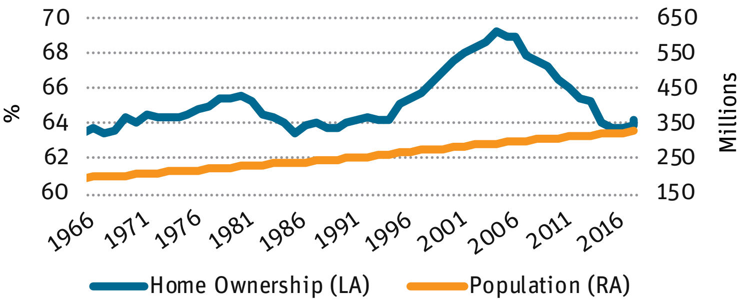


Source: Bloomberg as of 1/31/18.

Q: There have been many articles written in the last few years stating that millennials are putting off purchasing, or not purchasing homes at all. Explain why this generation is so important to the housing market?

A: According to Morgan Stanley, there are approximately 88 million Americans between the ages of 15 and 34 today in the U.S. This is the largest generation in U.S. history, and historically, the stated range has typically been characterized as the age group with the most rapid household formations. We expect the millennials will continue to drive approximately 1.5 million in annual household formations over the next five years, twice the demand of the post-crisis period. However, robust demand is expected amid historically tight supply. For example, single-family inventory as a percentage of total households has actually never been this low.

HOME OWNERSHIP RATE VS. POPULATION GROWTH

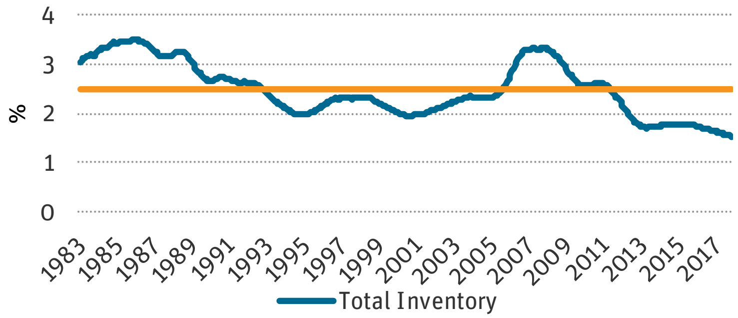


Source: Bloomberg as of 12/31/17.

Q: With the Fed raising rates again in March, do you think higher mortgage rates will slow down the housing market and/or cause the millennials to rethink purchasing a home?

A: Despite the Fed raising rates in March and market expectations for two more increases in 2018, long-term mortgage rates are still historically quite low, and in fact, the weighted average effective mortgage rate of interest in the U.S. is at an all-time low. Moreover, the average monthly payment as a percentage of income is still well below the long-run average in the U.S. Finally, home prices remain affordable at the national level, as certain areas are still well below their pre-crisis peak.

SINGLE-FAMILY INVENTORY AS % OF TOTAL HOUSEHOLDS



Source: NAR, U.S. Census Bureau, Morgan Stanley Research as of 12/31/17.

Q: Mortgage credit has been ultra-restrictive since the financial crisis. Are you beginning to see signs of that loosening? If so, is this a positive or negative development for the housing market in the U.S.?

A: Mortgage credit has been ultra-restrictive in the post-crisis period, and yes, we are beginning to see encouraging signs that it is starting to loosen, albeit slowly. For example, I think the best way to describe

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this is the Mortgage Bankers Association's Mortgage Credit Availability Index. This is simply a numerical survey where the Mortgage Bankers Association gauges the availability of mortgage credit by having their lenders submit a numerical score for credit availability in the marketplace. The higher the score, the looser the credit is, and vice versa. Today, the index sits at approximately 179 which is off of its all-time low of approximately 86 in 2013. While this may seem like a large increase, it is far from the pre-crisis peak of nearly 900. We view this as a prudent residential credit expansion, and very supportive for U.S. housing and U.S. growth as we look ahead, especially for the millennials as they face a unique housing supply-and-demand dynamic in the coming years.

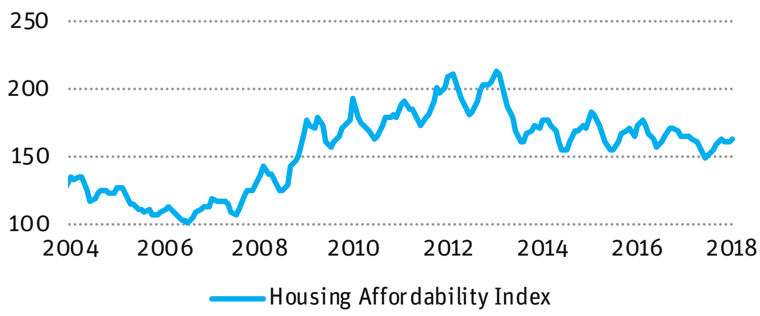
About Angel Oak Capital Advisors, LLC

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 Advisors 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 and corporate credit.

As of March 31, 2018, Angel Oak Capital Advisors had approximately $8.7 billion in assets under management across its mutual funds, private funds and separately managed accounts.

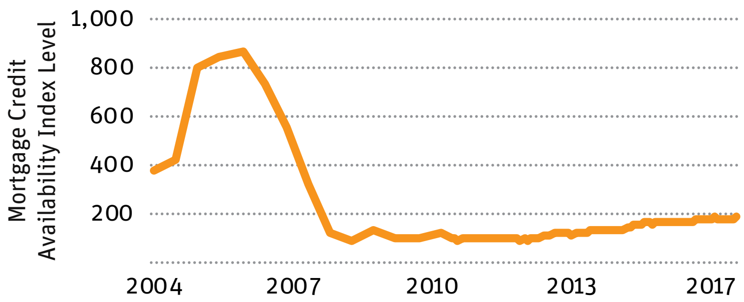
For more information, please visit www.angeloakcapital.com.

HOUSING AFFORDABILITY INDEX



Source: Bloomberg as of 12/31/17.

MORTGAGE CREDIT AVAILABILITY INDEX



Source: MBA as of 9/30/17.
Higher Index=More Credit Available.
Lower Index=Less Credit Available.

DEFINITIONS AND DISCLOSURES

Housing Affordability Index (HAI): Measures median household income relative to the income needed to purchase a median-priced house.

Mortgage Credit Availability Index (MCAI): The MCAI is a barometer on the availability of mortgage credit using guidelines from institutional investors who purchase loans through the broker and/or correspondent channels. Higher index values signal that credit is more available, while lower index values indicate that mortgage credit standards are tighter.

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.

Mutual fund investing involves risk; principal loss is possible.

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 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.

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