Angel Oak
CAPITAL ADVISORS

Angel Oak Capital Advisors, LLC

Angel Oak UltraShort Income Fund
Quarterly Review

June 30, 2018

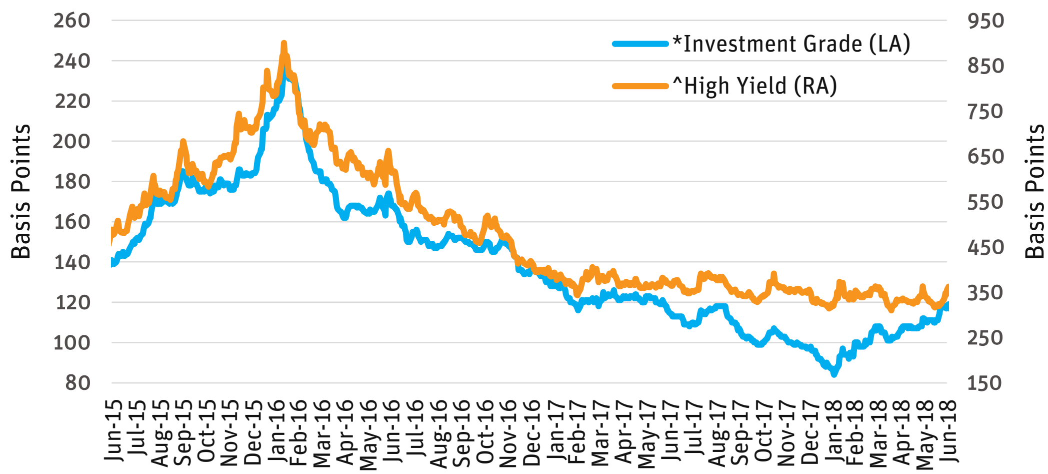
Quarter in Review

- Risk asset returns were mixed in the second quarter of 2018 as market participants digested an evolving macro environment, tightening monetary policy in the U.S., and increased global trade tensions. U.S. equities were higher, while corporate credit spreads moved wider on the quarter. The S&P 500 was up 3.43%, as investors shifted from U.S. bonds to U.S. stocks. The U.S. yield curve bear flattened as the Federal Open Market Committee increased the federal funds target rate range to 1.75%-2.00% during its June meeting. The 2s10s spread tightened by 14 basis points to +33 basis points. The 10-year Treasury yield rose 12 basis points to 2.86%.
- Fixed income returns have struggled this year, given wider spreads and rising Treasury yields. For the first half of 2018, global bond markets have struggled to create positive total returns. The Bloomberg Barclays U.S. Aggregate Bond Index is down 1.62% year-to-date, while the Investment Grade and High Yield equivalent indices are -3.27% and +0.16%, respectively.
- Legacy non-agency residential mortgage-backed securities (RMBS) were the best performer according to Bank of America Merrill Lynch Research. Various sectors combined to be up approximately 2% year-to-date, while commercial mortgage-backed securities (CMBS) were mixed as rising interest rates put pressure on the longer-duration asset class, down approximately 1% for the sector. Collateralized loan obligations (CLOs) performed well in the face of heavy supply. Their floating rate nature was a benefit as AAA through BBB tranches were up approximately 1-2% for the cohort. Asset-backed securities (ABS) were mixed but was net positive, up approximately 0.5-1% for 2018 year-to-date.
- The BLS released its June labor market report, which provided mixed results. The establishment survey reported net +213k jobs created in June – better than the market consensus of +195k. Additionally, the prior 2-month net revisions rose +37k. The headline unemployment rate rose 0.2%, to 4.0%, as the labor force participation rate rose 0.2%, to 62.9%. Average hourly earnings came up marginally short of expectations, rising 0.2% month-over-month (versus 0.3%) and +2.7% year-over-year (versus 2.8%).
- On the housing front, the S&P CoreLogic CS 20-City Index rose 6.56% year-over-year through April, up 0.20% month-over-month (slightly below expectations). New home sales rose 6.7% month-over-month in May to a 689k annualized pace. Notably, rising lumber costs are putting pressure on homebuilder margins. Since the beginning of 2016, futures on lumber prices are up over 120% through Friday. For a median-sized home in the U.S., the rise in lumber costs just in 2018 has increased costs by an average of $9,000 per home.
- Government- sponsored enterprises (GSE) Fannie Mae and Freddie Mac are expected to go through significant changes over the next few years as Congress rewrites rules and regulations with respect to housing and the amount of taxpayer backing required by lawmakers. Initial plan blueprints discuss the two GSEs exiting conservatorship as shareholder-owned corporations. This would relieve much of the risk to the U.S. taxpayer; however, many headwinds exist, including raising additional public capital (which is estimated to be over $100 billion) and determining which other companies will be allowed to directly compete with Fannie and Freddie.

Benchmark Performance	6/30/18	3/31/18	Monthly Change (bps)
1-Month LIBOR	2.09	1.88	+21
3-Month LIBOR	2.34	2.31	+3
2-Year Treasury	2.53	2.27	+26
5-Year Treasury	2.74	2.56	+18
10-Year Treasury	2.86	2.74	+12
30-Year Treasury	2.99	2.97	+2
2s/10s Curve	0.33	0.47	-14
2s/30s Curve	0.46	0.71	-25
S&P 500 Total Return Index	5,351	5,173	+343
IG Corporate OAS*	123	109	+14
HY Corporate OAS^	363	354	+9

Sources: Bloomberg and Yieldbook as of 6/30/18.

Credit Index Performance



Source: Bloomberg as of 6/30/18.
*Bloomberg Barclays U.S. Corporate Total Return Value Unhedged
^Bloomberg Barclays U.S. Corporate High Yield Total Return Index Value Unhedged

Portfolio Performance

Summary

- Since the Fund's inception on April 3rd, 2018, the Fund was up 0.70% through June 2018, outperforming the benchmark by 0.29%, as the Bloomberg Barclays U.S. Treasury Bill 9-12 Month TR Index is up 0.41% over the same time period.
- For June, the Class I Share (AOUIX) was up 0.01%, underperforming the benchmark by 0.13%, which was up 0.14% last month. The Class A Share (AOUAX) was up 0.10%, as rounding showed a difference in performance for the month. Income return (+0.23%) was the primary driver of total return for the month, while price return was -0.11%. Total return for the Fund was approximately 0.10% before the rounding effect.
- Spreads moved marginally wider for RMBS, CLOs, and ABS while spreads were tighter for CMBS floaters. The spread moves were modest and portfolio managers found attractive opportunities heading into quarter end as demand decreased from the dealer community.
- Rate strategies were a marginal detractor to Fund performance. Rate duration was decreased to below benchmark weight in mid June to decrease relative rate volatility.

Net Total Returns as of 6/30/18	1 Mo.	3 Mo.	YTD	SI[1]
Class I	0.01%	n/a	n/a	0.70%
Class A	0.10%	n/a	n/a	0.75%
Bloomberg Barclays U.S. Treasury Bill 9-12 Month TR Index	0.14%	n/a	n/a	0.41%

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 Oak UltraShort Income Fund I Class (AOUIX) was 4/2/18, while the inception date of the A Class (AOUAX) was 4/30/18. ^The Adviser has contractually agreed to waive fees through 5/31/19.

FUND INFORMATION AS OF 6/30/18

	Class A	Class I
Gross Expense Ratio	0.86%	0.61%
Net Expense Ratio^	0.50%	0.25%
SEC Yield (Subsidized)	2.35%	1.82%
SEC Yield (Unsubsidized)	2.68%	2.11%

FUND CHARACTERISTICS

Fund Assets (All Classes)	$69.7 mm
Number of Securities	62
Distribution	Monthly
Effective Duration	0.7
Average Price (Portfolio)	$100.0
Floating Rate (%)	47.4

FUND STATISTICS

(Since Inception)	Fund[2]	Index
Standard Deviation	0.6	0.2
Sharpe Ratio	2.4	-1.5
Correlation to Index	0.4	1.0
Positive Months (%)	100.0	100.0
Negative Months (%)	0.0	0.00

[2]AOUIX

Sector Attribution

	% of Market Value	Since Inception*
ABS	54.4	0.41
CLO	13.0	0.02
Corporates	1.0	0.01
CMBS	16.4	0.10
RMBS	15.2	0.15
Cash	0.0	0.06
Credit Hedges	-	0.00
Fund Expenses	-	-0.04
Total	100.0	0.70

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

RMBS

- The NA RMBS allocation produced a total return of 22 basis points in June, contributing 3 basis points to Fund performance. The strategy focused on a combination of nonperforming loan (NPL) seniors and investment grade non-QM securities. Spreads were wider for both non-QM and NPL sectors driven by heavy supply into quarter end. The Fund continues to favor new issue NPL seniors which yield approximately 3.75%-4.25%, depending on issuer and underlying credit quality.
- This year has been busy in the new issue RMBS markets, with $39.2 billion pricing. The 2018 expected new issue volume is approximately $75.0 billion, putting the market almost 15% ahead of pace. The Fund will continue to look to fixed-rate NPL seniors and non-QM, which represent the longer-duration positions within the strategy.

CMBS

- CMBS produced a total return of 25 basis points for the month and 52 basis points year-to-date, contributing 1 and 10 basis points, respectively. Within CMBS, the majority of the allocation is agency CMBS backed by multifamily properties. Generic credit spreads for agency CMBS have widened by approximately 3 to 7 basis points over the quarter. We continue to focus on short-duration strategies and are opportunistically adding AAA in select conduit, SASB, and CRE-CLO deals that may provide attractive returns.

CLOs

- CLOs had a total return of 2 basis points in June, contributing less than a basis point to the Fund. Year-to-date total return is 38 basis points, contributing 2 basis points to the Fund. The allocation underperformed, given that one CLO 1.0 bond was wider on the month. The allocation to CLOs is focused on seasoned investment-grade tranches with <3 weighted average life (WAL) (to worst) and short-duration X tranches in the new issue market.

ABS

- The ABS allocation produced a total return of 7 basis points in June, contributing 4 basis points to the Fund, bringing year-to-date total return to 63 basis points, contributing 41 basis points to the Fund. Auto ABS outperformed credit card ABS for the quarter, which was a benefit to performance given the overweight to auto ABS. The primary allocation within ABS auto is AAA/AA-rated tranches within 2017/2018 vintage deals. The average duration and WAL of the ABS allocation was relatively unchanged month-over-month at 0.86 by month-end.
- $21 billion of new issue ABS priced in June, bringing the 2018 total to $133 billion. As expected, auto and credit card ABS continue to make up the majority of issuance thus far in 2018, with approximately 70% of new issue supply. The credit curve continued to flatten for ABS. Spreads were marginally wider at the top of the capital structure and for autos and credit cards, while subordinate spreads tightened in the second quarter by approximately 15 basis points for BBB-rated autos and marginally tighter for credit cards.

Definitions

ABS: Asset-backed securities.
CLO: Collateralized loan obligation.
CMBS: Commercial mortgage-backed security.
CRE: Commercial real estate.
CRT: Credit risk transfer.
Non-QM: Non-qualified mortgage.
RMBS: Residential mortgage-backed security.
SASB: Sustainability Accounting Standards Board.
Basis Point (bps): One hundredth of one percent and is used to denote the percentage change in a financial instrument.
Bloomberg Barclays 9-12 Month U.S. Treasury Bill Index: Measures the performance of U.S. Treasury bills, notes, and bonds with a remaining maturity between 9-12 months. The index does not include trading and management costs.
Bloomberg Barclays U.S. Aggregate Bond Index: An unmanaged index that measures the performance of the investment-grade universe of bonds issued in the United States. The index includes institutionally traded U.S. Treasury, government sponsored, mortgage and corporate securities.
Bloomberg Barclays U.S. Corporate High Yield Bond Index: An unmanaged market value-weighted index that covers the universe of fixed rate, non-investment grade debt.
Bloomberg Barclays U.S. Corporate Investment Grade Index: An index that measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.
Correlation: A statistical measure of how two securities move in relation to another. Index used for comparison is the Bloomberg Barclays 9-12 Month U.S. Treasury Bill Index.
Credit Spread: The difference in yield between two bonds of similar maturity but different credit quality.
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.
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.
National Association of Home Builders (NAHB) Housing Market Index: A gauge of builder opinion on the relative level of current and future single-family home sales.
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.
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.
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 LIBOR 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.
Tranche: A portion of debt or structured financing. Each portion, or tranche, is one of several related securities offered at the same time but with different risks, rewards, and maturities.

Disclosures

Investing involves risk. Principal loss is possible. The Fund's derivative investments have risks, including the imperfect correlation between the value of such instruments and the underlying asset, rate or index, which creates the possibility that the loss on such instruments may be greater than the gain in the value of the underlying asset, rate or index; the loss of principal; the possible default of the other party to the transaction; and illiquidity of the derivative investments. The Fund may invest in illiquid securities and restricted securities. Investments in restricted securities could have the effect of increasing the amount of the Fund's assets invested in illiquid securities if qualified institutional buyers are unwilling to purchase these securities. Changes in interest rates generally will cause the value of fixed-income instruments held by the Fund to vary inversely to such changes. Below investment grade instruments are commonly referred to as "junk" or high-yield instruments and are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. Lower grade instruments may be particularly susceptible to economic downturns. The price paid by the Fund for asset-backed securities, including CLOs, the yield the Fund expects to receive from such securities and the average life of such securities are based on a number of factors, including the anticipated rate of prepayment of the underlying assets. Mortgage-backed securities are subject to the general risks associated with investing in real estate securities; that is, they may lose value if the value of the underlying real estate to which a pool of mortgages relates declines. See the prospectus for a more detailed description of Fund risks.

Diversification does not guarantee a profit or protect against a loss in declining markets.

Index performance is not indicative of a fund's performance. Past performance does not guarantee future results.

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

Opinions expressed are as of 6/30/18 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

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