Angel Oak FUNDS

3Q 2014: A Return to Normalcy?

Positive fundamentals continue to support U.S. economic and housing growth

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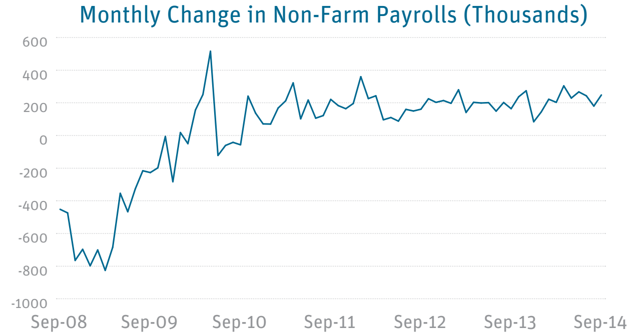
As we predicted, the financial markets had an uptick in volatility during the quarter. We believe this volatility stems from uncertainty around the global economy and other market technicals; however, our view is that long-term fundamental trends will prevail. Concerns over a slowdown in global growth and the risk of deflation have helped wipe away some of the 2014 equity market gains and push the yield on the 10-year Treasury back to around 2.2%. Yet we remain positive, and even in this environment, the Angel Oak Multi-Strategy Fund has continued to perform well, benefiting from its exposure to credit assets.

Divergent Thought on Growth and Rates

While forecasts for global growth have come down slightly, we still see strength in the U.S. In fact, the IMF recently increased its forecast for U.S. growth and only slightly reduced expectations for global growth, lowering 2015 forecast from 4% to a still strong 3.8%. It is important to also note that employment has been improving significantly in the U.S., with a trend of adding 200,000 jobs per month and recent unemployment dropping to 5.9%. Some of the recent volatility may be overblown as the fundamental backdrop continues to improve—improving data has offered quick jolts of "smelling salts" to market participants but has been largely ignored in recent months.

Monthly Change in Non-Farm Payrolls (Thousands)



Source: United States Bureau of Labor Statistics

Another divergence in market perceptions is in the interpretation of "Fedspeak" relating to interest rate forecasts. Dovish comments have been inconsistent even within their own median rate predictions, potentially causing the Fed to lose some credibility. Currently, the market is pricing in about 135 basis points less tightening than Fed officials are projecting by the end of 2016. In this environment, while many investors have continued their emotional flight to quality, we still feel it's prudent to look for value in credits and manage duration to lessen the impact of interest rate movements in either direction.

A Supportive Housing Environment

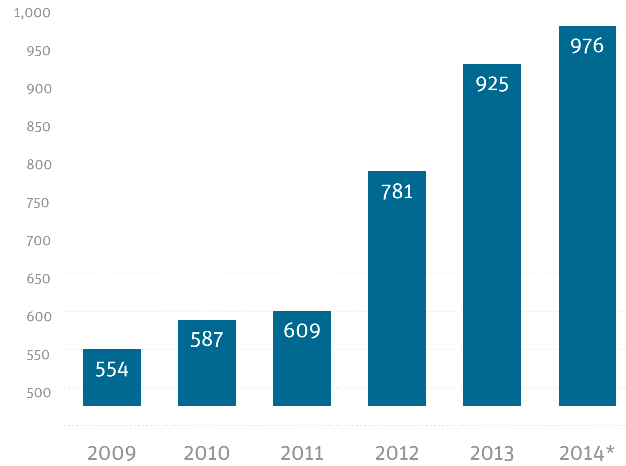
Although recent numbers have softened slightly, we think any exaggeration around housing challenges is a bit overstated. We think there is too much focus on choppy month-over-month reports when the long-term trend is still very positive. This stage of the market represents a maturation in housing—a smoothing of the edges as we move from a distressed to a mature market. In fact, with less distressed activity and investment sales, we believe today's housing market is actually representative of a return to normalcy. While this may mean an end to double-digit price appreciation, it could prolong the cycle even further. Significant tailwinds in housing include two key factors:

1. The easing of credit standards: Lending is still too tight, as Ben Bernanke would attest, but we are seeing some easing. According to the Fed's senior loan survey, 18% of commercial banks eased lending standards for prime mortgage credit in August, the highest reading on record. Credit is certainly still tight for nontraditional mortgages, but we are also seeing improving buyer balance sheets and better employment situations.

2. Household formation: There remains quite a bit of upside in the untapped potential of household formation as the new generation of millennials in their twenties start to purchase their first homes.

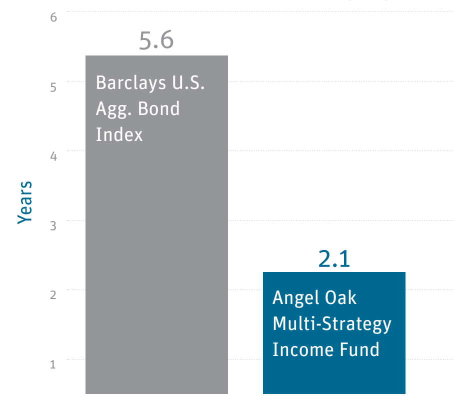
Overall, the forward-looking housing data remains strong. Homebuilder confidence and homebuyer traffic have been on the rise, and a limited supply of inventory will put a floor on home prices. We do not think the real estate market will be solely driven by the direction of rates, and while we do have a positive outlook for housing, we are not reliant on overexuberance or housing dominance. We continue to be focused on the credits market as the primary driver of relative value.

Annual Housing Starts (Thousands)



*Reflects average of January through September of 2014.
Source: National Association of Homebuilders.

Fund Duration vs. Index[3] as of 9/30/2014



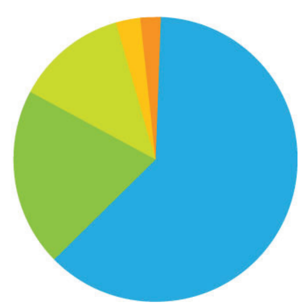
Source: Barclays. Measured by effective duration.

Benefiting from a Healing of Credits

Our conviction about non-agency residential mortgage-backed securities (RMBS) remains strong based on our view that housing fundamentals are outpacing valuations. The allocation of non-agency RMBS continues to dominate the Fund at just over 60%. Supply has been a bit muted in recent months, but our size has greatly benefited our ability to source smaller trades that are more attractively priced. For the third quarter, the non-agency RMBS allocation was the main driver of performance, contributing over 80% of the Fund's total return. We still think the credit curve is pretty flat in non-agencies and do not see the benefit of dropping down in quality for the yield that is available. We have also been able to rotate out of some fully valued prime and POA (pay option ARMs) assets into Alt-A where we are finding value. Delinquencies and defaults continue to drop significantly across the board as credits are healing and delivering value to the Fund.

Angel Oak Multi-Strategy Income Fund Allocation as of 9/30/2014

Non-agency RMBS:	61.1%
CMBS:	20.7%
CLO:	12.9%
ABS:	2.3%
Preferred & Corp:	2.3%
Cash:	0.7%



Our commercial mortgage-backed securities (CMBS) allocation has been one of our bigger winners year-to-date. We built up what was a very small position last year to around 20% of the Fund and took advantage of a steep yield and credit curve. We have found a sweet

The portfolio is actively managed. Holdings and weightings are subject to change daily and are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities mentioned. Fund composition is based on net assets.

spot in new issuance (post-crisis bonds) that has provided very strong value in the A and BBB area. Spreads were mixed across CMBS throughout the third quarter, providing opportunity for total return potential heading into the final quarter of 2014. On average, CMBS underperformed non-agency RMBS in Q3, validating our strategic view that legacy non-agencies remain undervalued across the structured credit space, one of the main reasons we maintain our focused overweight to the sector.

We still see concerns in legacy CMBS with the refinancing wall, but that will be more of a 2015-2016 story that we continue to monitor. The legacy CMBS sector witnessed the largest spread widening within the portfolio, which validates our strategic underweight to the legacy CMBS space and provides a potential opportunity to increase allocation further if we see continued price softness. This ability to quickly and nimbly capitalize on a relative value opportunity is a key component of our investment strategy. We are also looking closely at collateralized loan obligations (CLOs) and see them as a potential 2015 opportunity as wide spreads, strong yields and the potential for a supply slowdown could make that market segment attractive.

Outlook

At this point in the recovery, we are not reliant on continued double-digit growth in housing for our strategy to thrive, as gradual improvements from credit healing are more important to our relative strategies. We will continue to take advantage of volatility for dislocation and opportunistic valuation shifts across credit as long-term trends in the U.S. economy and housing move in the right direction.

The Fund continues to be positioned with a low duration, about half that of the Barclays Aggregate Index. The low-duration positioning comes intrinsically from the 60% floating rate allocation as well as the use of interest rate hedges. We still believe there is an over-arching theme here that structured credit is cheaper than traditional credits and better guarded than corporates and other traditional fixed income against higher rates, as areas such as high yield and floating rate bank loans have become pretty richly valued.

→ Learn about the Fund: AngelOakCapital.com/ANGLX

Total Returns as of 9/30/2014	3Q 2014	YTD	1 Year	3 Years	Since Inception[1]
Multi-Strategy Income Fund I	0.99%	5.21%	7.62%	10.54%	11.74%
Multi-Strategy Income Fund A	0.91%	4.99%	7.40%	10.34%	11.55%
Class A with Load[2]	-1.35%	2.60%	5.03%	8.18%	9.54%
Multi-Strategy Income Fund C	0.76%	4.39%	6.62%	9.49%	10.70%
Barclays U.S. Aggregate Bond Index[3]	0.17%	4.10%	3.96%	2.43%	3.36%

	Class A	Class C	Class I
Prospectus Gross Expense Ratio[4]	1.92%	2.67%	1.67%
Annual Report Net Expense Ratio[5]	1.24%	1.99%	0.99%

[1] The A Class of the Angel Oak Multi-Strategy Income Fund incepted on June 28,2011, while the Institutional Class (ANGIX) and C Class (ANGCX) incepted on August 16, 2012, and March 13, 2012, respectively. The returns of ANGIX and ANGCX shown for periods prior to their inception dates (including returns since inception, which are since the investor class's inception) include the returns of the fund's older investor share class. These returns are adjusted to reflect the operating expenses of ANGIX and ANGCX. 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. Performance data current to the most recent month end may be obtained by calling 1-888-685-2915.

[2] Reflects the maximum sales charge of 2.25% for Class A.

[3] The benchmark for the Angel Oak Multi-Strategy Income Fund is the Barclays Aggregate Bond Index as listed in the Fund's prospectus.

[4] Gross expense ratios for the A Class, C Class and Institutional Class are reported as of the May 30, 2014 prospectus. The Advisor has committed contractually to waive fees and/or reimburse expenses so that net annual fund operating expenses do not exceed certain levels through May 30, 2015.

[5] The Annual Report net expense ratios for the A Class, C Class and Institutional Class are reported as of the January 1, 2014 Annual Report and are referenced in the May 30, 2014 prospectus. The Advisor has contractually agreed to waive or limit its fees and to assume other expenses of the Fund until May 31, 2015, so that Total Annual Fund Operating Expenses do not exceed 0.99%. This operating expense limitation does not apply to brokerage fees and commissions, borrowing costs (such as interest and dividend expenses on securities sold short), taxes, 12b-1 fees, extraordinary expenses, and indirect expenses (such as "acquired funds fees and expenses"). The Advisor may be entitled to the reimbursement of any fees waived or expenses reimbursed pursuant to the agreement, provided overall expenses fall below the limitations set forth above. The Advisor may recoup the sum of all fees previously waived or expenses reimbursed during any of the previous three years, less any reimbursement previously paid, provided total expenses do not exceed the limitation set forth above. This contractual arrangement may be terminated only by mutual consent of the Advisor and the Board of Trustees of the Fund, and it will automatically terminate upon the termination of the investment advisory agreement between the Fund and the Advisor.

Performance data quoted represents past performance; past performance does not guarantee future results.

Barclays U.S. Aggregate Bond Index: Barclays U.S. Aggregate Bond Index is 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. Please note that an investor cannot invest directly in the index; therefore its performance does not reflect a reduction for fees or expenses incurred in managing a portfolio.

Credit ratings: Forward-looking opinions about credit risk. An individual bond's credit quality is determined by private independent rating agencies such as Standard & Poor's, Moody's and Fitch. Their credit quality designations range from high ('AAA' to 'AA') to medium ('A' to 'BBB') to low ('BB', 'B', 'CCC', 'CC' to 'C').

You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses of the Fund before investing. The Fund's prospectus contains this and other information about the Fund and should be read carefully before investing. You may obtain a current copy of the Fund's prospectus by calling 1-888-685-2915.

The value of some mortgage-backed securities may be particularly sensitive to changes in prevailing interest rates, and although the securities are generally supported by some form of government or private insurance, there is no assurance that private guarantors or insurers will meet their obligations. Diversification does not ensure a profit or guarantee against loss.

The Fund may invest in high-yield securities or unrated securities of similar credit quality (commonly known as junk bonds), as well as derivatives of such securities, and therefore is likely to be subject to greater levels of interest rate, credit and liquidity risk than funds that do not invest in such securities. These securities are considered predominately speculative with respect to the issuers' continuing ability to make principal and interest payments. An economic downturn or period of rising interest rates could adversely affect the market for these securities and reduce the Fund's ability to sell these securities (liquidity risk). If the issuer of a security is in default with respect to interest or principal payments, the Fund may lose its entire investment.

There is no guarantee that this or any investment strategy will succeed; the strategy is not an indicator of future performance; and investment results may vary.

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