



Angel Oak
CAPITAL ADVISORS

Angel Oak Capital Advisors, LLC

Angel Oak Multi-Strategy Income Fund
Quarterly Commentary & Performance Review

September 30, 2016

Quarter in Review

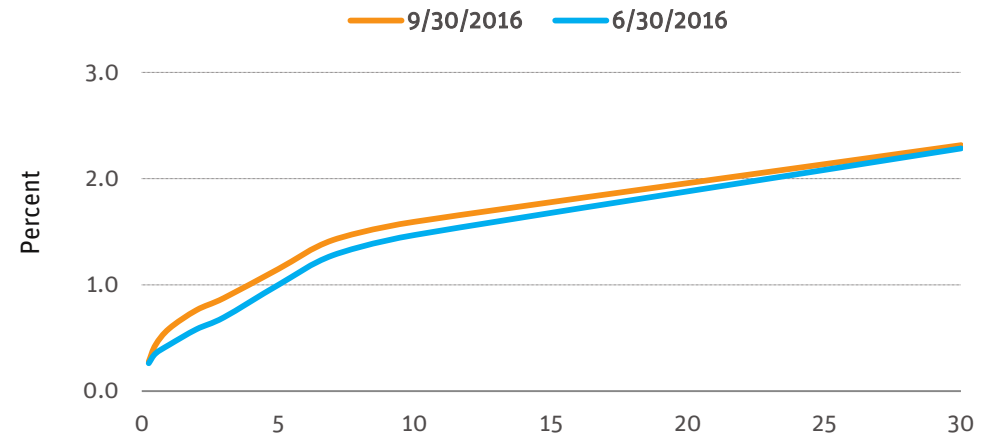
As Summer Ends, Risk Assets Are Back in Favor

- After a rally in the second quarter, Treasury yields increased during the third quarter in a bear-flattening move as Brexit concerns began to subside and risk assets recovered. The 2-year Treasury yield increased by 17 basis points over the quarter, while the 30-year Treasury yield increased by only 4 basis points.
- As many expected, the Fed remained on hold during September's meeting. Chairwoman Yellen directly approached the lack of a raise by noting that the Fed's inaction did not reflect a lack of U.S. economic confidence, but a cautious stance given recent slowing of job growth and inflation still below target. Notably, three FOMC members did dissent, and the dot plot was again shifted lower, down 25 basis points (thus indicating only two rate increases) in 2017 and down to 2.875% for the long run.
- Due to the low rate environment and a global hunt for yield, risk assets performed well in the third quarter. U.S. IG corporate credit tightened by approximately 20 bps and U.S. HY corporate credit tightened by approximately 117 bps while stocks rallied, with the S&P up 3.9%.

Benchmark Performance	9/30/2016	6/30/2016	Quarterly Change (bps)
2-Year Treasury	0.76	0.59	17
5-Year Treasury	1.15	1.01	14
10-Year Treasury	1.60	1.49	11
30-Year Treasury	2.34	2.30	4
2s/10s Curve	0.85	0.90	-5
2s/30s Curve	1.58	1.71	-13
S&P 500 Total Return Index	4,121.06	3,968.21	385
Citi IG Bond Index	137	157	-20
Citi HY Bond Index	520	637	-117

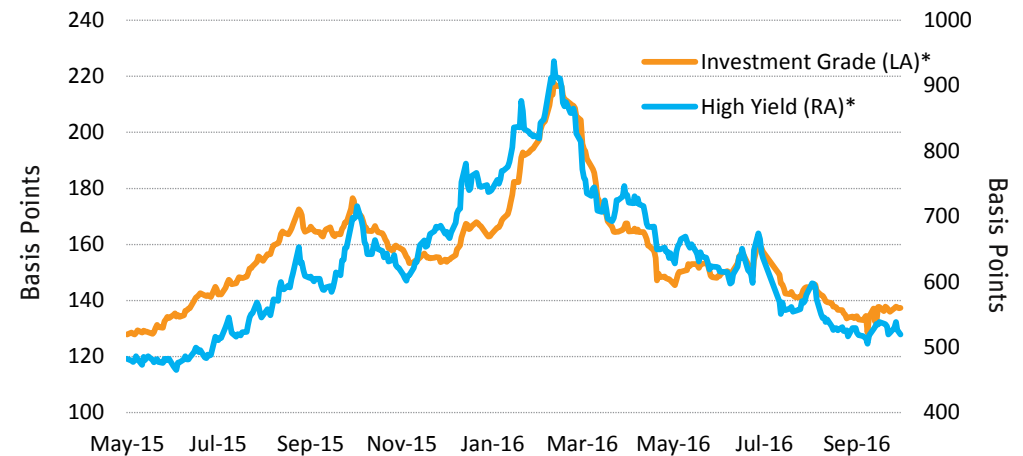
Source: Bloomberg, Yieldbook

TERM STRUCTURE



Source: Yieldbook as of 9/30/16

CREDIT INDEX PERFORMANCE

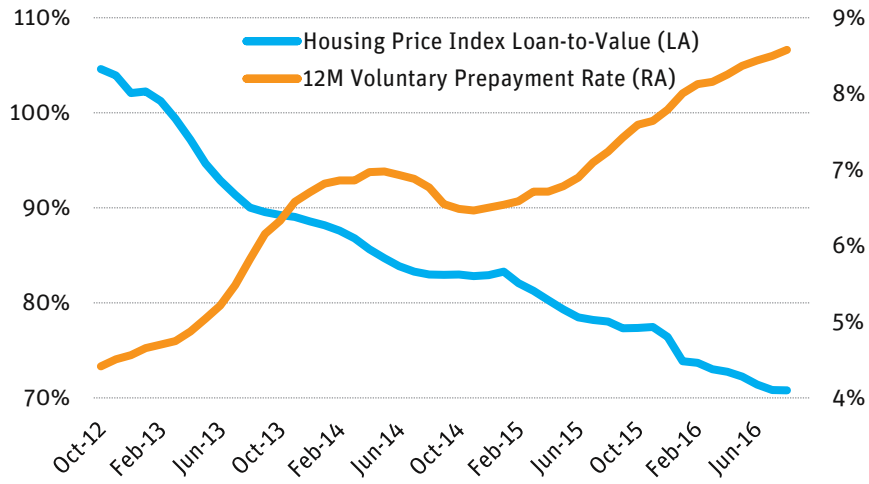


Source: Citigroup as of 9/30/16

*Investment Grade Index Name: Citi U.S. Broad Investment-Grade Bond Index. High Yield Index Name: Citi High Yield Market Index

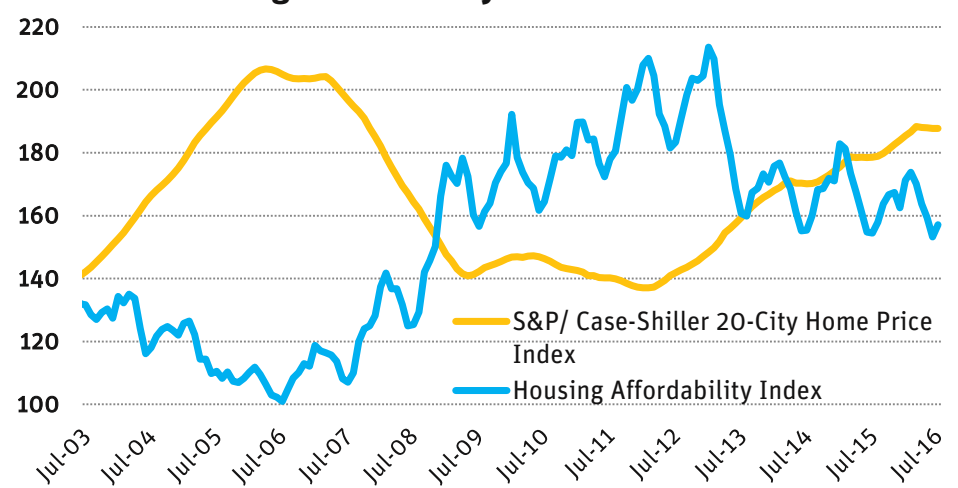
Fundamental Backdrop

HPI vs. LTV



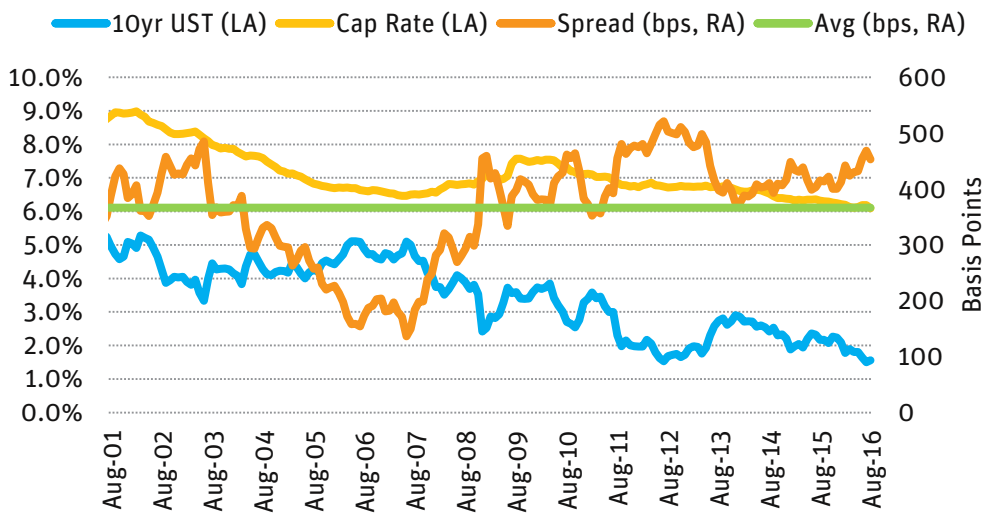
Source: Bloomberg as of 9/30/16

Housing Affordability & Home Price Index



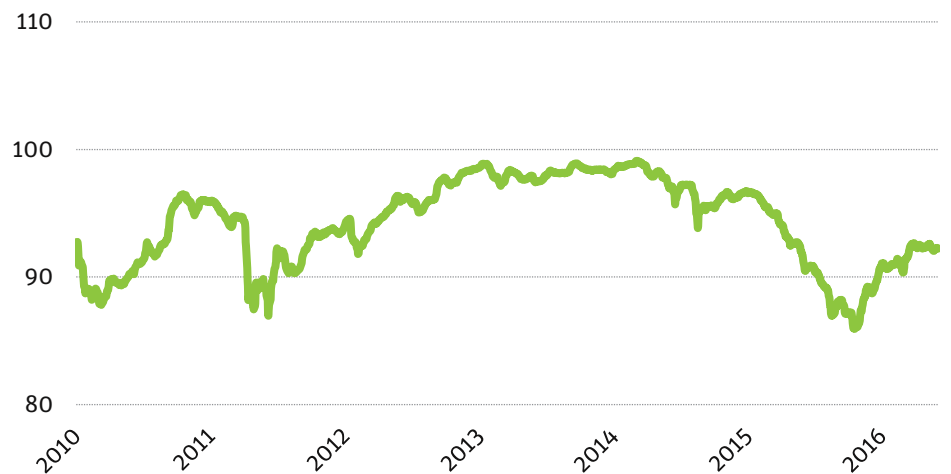
Source: Bloomberg as of 7/31/16

U.S. Cap Rates, All Property Types



Source: Morgan Stanley as of 8/31/16

S&P Leveraged Loan 100 Index



Source: Bloomberg as of 9/30/16

Portfolio Performance

Summary

- The Fund outperformed the Barclays Agg throughout the third quarter, up 3.30% vs. 0.46% over the trailing three-month period, as structured credit outpaced duration strategies in the face of new uncertainty from UK's Brexit.
- Credit strategies benefited the Fund relative to the benchmark, as NA RMBS, CLO and CMBS were up by 2.8%, 7.6% and 4.7% respectively.
- Duration strategies benefited the Fund relative to the benchmark. Positioning the Fund's duration shorter than the index was a positive contributor to relative performance in Q3 2016.

Total Returns as of 9/30/16	Annualized						
	1 mo.	3 mo.	YTD	1 yr.	3 yr.	5 yr.	SI ¹
Class I	0.81	3.30	2.31	2.05	4.15	7.22	8.10
Class A at NAV	0.89	3.33	2.22	1.80	3.92	7.02	7.91
Class A at MOP*	-1.40	1.04	-0.04	-0.47	3.14	6.54	7.44
Barclays U.S. Aggregate Bond Index	-0.06	0.46	5.80	5.19	4.03	3.08	3.62

Current performance may be lower or higher 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. ¹The inception date of the Angel Oak Multi-Strategy Income Fund A Class (ANGLX) was June 28, 2011, while the inception date of the Institutional Class (ANGIX) was August 16, 2012. The returns of ANGIX shown for periods prior to the inception date include the returns of ANGLX and are adjusted to reflect the operating expenses of ANGIX. *Maximum Offering Price takes into account the 2.25% maximum initial sales charge. ^The Adviser has contractually agreed to waive fees through May 31, 2017.

FUND INFORMATION AS OF 9/30/16

	Class A	Class I
Gross Expense Ratio	1.41%	1.19%
Net Expense Ratio [^]	1.24%	0.99%
SEC Yield (Subsidized)	5.59%	5.97%
SEC Yield (Unsubsidized)	5.64%	6.02%

FUND CHARACTERISTICS

Fund Assets (All Classes)	\$4.3 bn
Number of Securities	805
Distribution	Monthly
Effective Duration	1.9
Average Price (Portfolio)	\$85.6
Average Price (Non-Agency)	\$79.5
Floating Rate (%)	68.5

FUND STATISTICS

(Since Inception)	Fund ²	Index
Standard Deviation	3.7	3.9
Sharpe Ratio	3.2	1.3
Correlation to Index	0.1	1.0
Positive Months (%)	79.4	65.1
Negative Months (%)	20.6	34.9

²ANGIX

Sector Attribution

		Q3 2016*	YTD*
	% of Market Value	Attribution (%)	Attribution (%)
RMBS	60.1	1.94	3.30
CMBS	14.5	0.77	0.81
CLOs	9.6	0.82	0.01
Corporates	6.7	0.22	0.47
ABS	1.1	0.02	0.17
Cash	8.0	0.00	0.02
Other	-	-0.20	-1.75
Total	100.0	3.57	3.03

*Gross and unaudited

RMBS

- NA CMOs extended their gains throughout the quarter. Heavy demand continues to be met with inconsistent BWIC supply, resulting in spreads grinding tighter following any larger opportunity. Total return for Q3 was 2.80%, contributing 1.94% to Fund performance.
- Total return for the year for non-agencies is now just over 5%. Fundamental tailwinds from housing improvement, consumer strength and mortgage credit expansion continue to bode well for the asset class.

CMBS

- The new issue engine ramped back up in the third quarter, bringing YTD volume to approximately \$43 billion, which is 57% of 2015 YTD volume at the same point last year. The uptick in supply weighed on new issue spreads and slowed down the rally experienced over the summer months. For the quarter, CMBS had a total return of 4.69%, attributing 0.77% to the Fund.

CLOs

- CLO spreads tightened throughout the quarter. Investment-grade tranches saw very healthy two-way flow, and spreads remained close to or at their post-crisis tights. For the quarter, CLOs had a total return of 7.63%, attributing 0.82% to the Fund.
- The new issue market was robust during the third quarter, bringing YTD volume to \$46 billion, which is 58% of 2015 YTD volume at the same point last year. There has also been a pickup in refi and reset activity, which is not adding new supply but is keeping market participants focused on the primary market.

Sector Exposure

	Weighted Avg. Price	% of Market Value		% Change	Spread Duration in Years		% Change	Rate Duration in Years		% Change
		9/30/2016	6/30/2016		9/30/2016	6/30/2016		9/30/2016	6/30/2016	
RMBS*	79.5	60.1	60.8	-0.7	4.2	4.6	-0.4	2.6	4.0	-1.4
CMBS	94.0	14.5	15.2	-0.7	4.0	4.9	-0.9	0.7	0.8	-0.1
CLOs	97.4	9.6	9.5	0.1	4.2	4.6	-0.4	0.0	0.4	-0.4
Corporates	102.3	6.7	5.5	1.2	1.2	5.5	-4.3	4.5	2.3	2.2
ABS	96.7	1.1	0.8	0.3	4.1	2.9	1.2	1.8	1.8	0.0
Cash & Other	-	8.0	8.2	-0.2	-	-	-	-	-	-
Total	83.6	100.0	100.0	-	4.0	4.4	-0.4	1.9	2.6	-0.7

*Weighted Avg. Price excludes interest-only (I/O) positions.

RMBS

- The Fund's allocation to non-agency CMO declined by 0.7% during the third quarter driven by an uptick in CPR and limited supply opportunities. Spread duration shortened by 0.4 and the rate duration shortened by 1.4 given the focus on higher-quality, floating-rate bonds.
- Discount margins (DMs) tightened approximately 10-20 basis points per month throughout the quarter.

CMBS

- The Fund's allocation to CMBS decreased by 0.70% in the third quarter. As spreads tightened over the summer, outperforming positions were trimmed into strength. As a result, both spread duration and rate duration decreased slightly over the quarter.
- The Fund continues to remain overweight conduit CMBS 2.0 and underweight legacy CMBS deals.

CLOs

- The Fund's allocation to CLOs was mostly flat quarter-over-quarter. Spread duration decreased by 0.4 as the Fund remains biased toward shorter deals for lower price volatility.
- The Fund continues to favor earlier vintage BBB-rated 2.0 CLOs with reinvestment periods ending in 2016 and 2017 as deal deleveraging should keep valuations stable in the event credit spreads widen.
- BBB CLO spreads remain anchored at approximately 400 bps, an attractive yield when compared with investment-grade corporate bonds, especially considering the floating rate nature of CLOs and the recent increase in LIBOR. Despite an FOMC on hold this year, three-month LIBOR has increased approximately 25 bps this year and reached 85 bps by month-end September.

Disclaimers

DEFINITIONS & DISCLOSURES

ABS: Asset-backed securities.

BWIC: Bid wanted in competition.

CLO: Collateralized Loan Obligation

CMBS: Commercial mortgage-backed security.

FOMC: Federal Open Market Committee.

OAS: Option-adjusted spread.

RMBS: Residential mortgage-backed security.

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.

Basis Point: One hundredth of one percent and is used to denote the percentage change in a financial instrument.

Capitalization Rate (cap rate): The ratio of Net Operating Income (NOI) to property asset value.

Citi IG Bond Index: An index that tracks the performance of U.S. Dollar-denominated bonds issued in the U.S. investment-grade bond market.

Citi HY Bond Index: A U.S. dollar-denominated index which measures the performance of high-yield debt issued by corporations domiciled in the U.S. or Canada.

Correlation: A statistical measure of how two securities move in relation to another. Index used for comparison is the Barclays Aggregate Bond Index.

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.

Floating Rate: Refers to any type of debt instrument, such as a loan, bond, mortgage, or credit, that does not have a fixed rate of interest over the life of the instrument.

Housing Affordability Index: An index that measures median household income relative to the income needed to purchase a median-priced house.

Housing Price Index: A broad measure of the movement of single-family house prices in the U.S. Apart from serving as an indicator of house price trends, the House Price Index (HPI) provides an analytical tool for estimating changes in the rates of mortgage defaults, prepayments and housing affordability.

Rate Duration: Measures the duration of a security or portfolio at a specific maturity point along the entirety of the yield curve.

S&P 500 Index: An American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.

Disclaimers

S&P/Case-Shiller 20-City Home Price Index: The leading measures of U.S. residential real prices, tracking changes in the value of residential real estate both nationally as well as in 20 metropolitan regions.

S&P Leveraged Loan 100 Index: A daily tradable index for the U.S. market that seeks to mirror the market-weighted performance of the largest institutional leveraged loans, as determined by criteria.

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.

Spread Duration: A bond's price sensitivity to spread changes.

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. The standard deviation has been calculated since inception.

Mutual fund investing involves risk. Principal loss is possible. Investments in debt securities typically decrease 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 result in losing more than the amount invested. The Fund may make short sales of securities, which involves the risk that losses may exceed the original amount invested.

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory prospectus and summary prospectus contain this and other important information about the investment company, and may be obtained by calling 855-751-4324 or visiting www.angeloakcapital.com. Read them carefully before investing.

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It is not possible to invest directly in an index.