Structured Credit Q&A from Angel Oak Capital Advisors

EXECUTIVE SUMMARY

1. Despite our view that the US will avoid recession, many areas of structured credit are already pricing in a US recession, illustrating significant upside returns even if the US economy only muddles along.

2. We find non-agency residential mortgage-backed securities (RMBS), collateralized loan obligations (CLOs) and commercial mortgage-backed securities (CMBS) extremely attractive because many valuations have reached levels not seen since 2011.

3. At current valuations, BBB and BB CLO loss-adjusted yields are approximately 6-9% and 10-14%, respectively, and in some cases can withstand default scenarios that exceed the 2009 default cycle, which peaked at 10%.

4. Non-agency CMBS has continued to benefit from credit curing and, relative to other areas of investment grade credit, offers very attractive loss-adjusted yields.

5. In our funds, we have been opportunistically rotating out of lower total return assets to create additional liquidity as we target potentially higher total return assets that may offer compelling relative value.

Question 1:
What are your views on the current market environment?

The global growth picture has been called into question over the past couple of months. China's slowdown, the collapse in oil prices, and weakening data in the US have market participants nervous the reflationary recovery will slip into another deflationary recession. Although the US recovery is long in the tooth, we do not believe the growth outlook has materially changed, and the recent repricing of risk assets, particularly spread products, is overdone.

Despite our view that the US will avoid recession, many areas of structured credit are already pricing in a US recession. For some assets like CLOs, current prices now assume the US is nearing a 2009-style default cycle. We are not in the camp leveraged loan default rates will reach 10% per annum, which was the peak in 2009. However, we are in the camp economic growth will be slow and modest. The current slow growth environment may feel like a recession, but technically the US is still reeling from the deflationary downdrafts of the prior credit crisis. Major deflationary demographic shifts, including retiring boomers, high student debt for millennials, and an increasingly burdensome regulatory environment, particularly for financials, are headwinds for the reflationary recovery. In our view, this post-crisis storm is reminiscent of 2011, which was nearly a recession year (and certainly felt like one). First-quarter gross domestic product (GDP) in 2011 was -1.5% but rebounded to a modest 1.6% for the year. 2011 was also a tumultuous year for risk assets, particularly spread product, but ironically offered some of the greatest investment opportunities of the post-crisis period, particularly for structured credit. The current environment in the US is conducive to growth, even if it's modest, which should eventually dispel concerns over a recession. Generationally low energy prices, modest wage growth, and solid employment growth should corroborate further expansion and stabilize risk assets.

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Question 2:
What is your outlook on interest rates and the global economy?

We believe rates will remain low, particularly on the front end, for many years to come. The Federal Open Market Committee (FOMC) continues to fail at 50% of their dual-mandate. They have met expectations on sustaining maximum employment, but have fallen short of their 2.0% inflation target as measured by core personal consumption expenditures (PCE). Core PCE is running at approximately 1.7% and has been below 2.0% for most of the post-crisis period, and with the collapse in commodities, inflation expectations have collapsed as well.

Unfortunately, the FOMC moved too soon in December based on recent market action, and they appear to be backpeddling on their plans for continued tightening in 2016. Market participants are now pricing in a 50% approximate chance of more tightening this year. Moreover, the recent slowdown in China has raised concerns over their country's dollar-pegged currency and the impact of US monetary policy on Chinese growth. Due to the dollar peg, the Chinese have been importing a well-telegraphed tightening campaign in the US, which began in 2015. US dollar strength began in earnest in 2015 as market participants were sure the FOMC would begin tightening. Unfortunately, importing tighter policy in China is not the answer to slowing growth and a growing debt burden. There is swirling speculation that the Chinese will continue to devalue the yuan to combat the imported tightening of their existing dollar-pegged system, but we are not in that camp either.

The FOMC should remain extraordinarily accommodative to corroborate expansion in the US economy as the outlook for 1-2% GDP growth remains consensus and soften the landing in China. Unfortunately, the post-crisis deflationary downdrafts continue to prevail, but the global central banks remain committed to reflation because the stakes are too high. An outcome similar to 1990s Japan, which kicked off a 20 year deflationary spiral, is to be avoided at all costs.

Question 3:
Please describe the opportunity set within RMBS, CLOs and CMBS. What do you find most attractive and why?

We find all three asset classes extremely attractive due to their high current yield and their ability to withstand significant economic stress. Non-agency RMBS continues to exhibit stability and credit curing, which corroborated its 2015 performance. The fundamentals within the legacy non-agency RMBS market remain constructive: housing prices continue to increase, prepayment speeds are rising and delinquencies are decreasing. But as with all risk market assets since the summer of 2015, spreads widened in sympathy with the broader market as concerns about recession and the collapse in commodities emerged. Ironically, lower crude prices actually improve the profile for most legacy non-agency RMBS borrowers. The savings at the pump, improving wage growth, home price appreciation, generationally low interest rates, loosening credit standards, and solid employment data are all contributing to falling delinquencies and rising voluntary prepayment rates. While non-agency RMBS may not be immune to broader weakness in the short term, we believe the legacy non-agency RMBS market has the potential to perform in 2016.

CLOs have been the hardest hit of all structured credit assets during this recent repricing of credit risk. BBB and lower tranches underperformed as the credit curve steepened on concerns of a higher default cycle in corporate loans. The catalyst for rising defaults arose amidst the commodity collapse. Market participants are now assuming a full liquidation of the oil and gas exposure and an increase in defaults across the remaining non-energy-related sectors. At current valuations, BBB and BB CLO loss-adjusted yields are approximately 6-9% and 10-14%, respectively, and in some cases can withstand default scenarios that exceed the 2009 default cycle, peaking at 10%.

Currently, the US leveraged loan default rate by principal stands at 1.33%. Defaults are expected to reach 3.20% by 2017, basically a reverse to the average historical default rate of 3.10%. Moreover, loan issuers continue to push out their maturities, with approximately 12.7% of loans maturing between 2016 and 2018, 14.7% maturing in 2019, and 72.6% now maturing in or beyond 2020.* In our view, the fundamental credit picture for CLOs is sound, providing a landscape where the relative total return opportunities in CLO structured credit far outweigh similarly rated corporate credit. For example, the average yields in the BBB and BB corporate bond market are only 4.35% and 6.12%, respectively. This recent sell-off implies default scenarios in corporate credit that are too onerous for the CLO sector, and we believe the current environment provides the most attractive relative entry point since 2011.

Behind CLOs, non-agency CMBS has also been one of the hardest hit areas of structured credit. Like non-agency RMBS and CLOs, CMBS spreads began to widen in the second half of last year in sympathy with high-yield and investment-grade corporates. Supply and demand technicals are a headwind for the CMBS market in the face of significant new-issue supply. Elevated issuance has resulted in lower prices on new-issue bonds, exacerbating the spread widening in secondary CMBS. Although there have been some concerns over higher leverage resulting from a more aggressive lending environment, these worsening credit trends in CMBS have been mitigated with favorable fundamental credit characteristics. Similar to non-agency RMBS, non-agency CMBS has continued to benefit from credit

*Source: Morgan Stanley

curing. Rising property valuations, relatively low new construction supply, solid employment growth, and a modest growth picture in the US economy are all pointing to improved price performance in 2016. Moreover, relative to other areas of investment grade credit, CMBS offers extremely attractive loss-adjusted yields.

New-issue BBB-CMBS conduit deals are nearing 10% yields (for 2015-originated deals) with 7.89% credit support to help protect against potential future principal losses. 2007 was the largest CMBS issuance year on record, with over $227 billion on balance. The current cumulative losses for 2007-originated deals have reached approximately 6.9%.* The new-issue supply technical is not expected to wane over the next couple of years, as the 2006 and 2007 loan maturity wall is upon us; thus, we expect spreads to remain wide over the near term. Nevertheless, this repricing in CMBS credit presents a compelling opportunity for those seeking high current carry and spread tightening potential over the medium term. The case becomes even more compelling considering the current entry point has reached levels not seen since 2011.

Question 4:
What are the biggest risks associated with non-agency RMBS, CMBS and CLOs, and what steps are being taken to mitigate any downside risks?

While the long-term underwriting assumptions we use at pre-purchase enables our exposure to weather economic downturns for the life of the cash flows, our structured credit exposure is certainly not immune to mark-to-market risks associated with spread widening in risk-off environments like the current environment. For long-term investors, the structured credit exposure we target can withstand onerous default cycles, recessionary environments and slow growth. Bouts of weakness, concerns about recession, default cycles, deflation and risk-off environments, however, are not conducive to spread tightening or stability. While we are not insulated from short-term market risks, the long term underwriting fundamentals we adhere to in our pre-purchase and post-purchase process should prevail in the long term and benefit our investors.

Question 5:
In what ways is liquidity viewed, measured and controlled across the funds?

Angel Oak Capital views liquidity as the capacity to meet a mutual fund's cash and collateral obligations without incurring unacceptable losses. Adequate liquidity depends on the mutual fund's ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting daily operations and the investment process.

The primary purposes of liquidity risk management are to:
1. Prospectively assess the need for funds to meet obligations.
2. Ensure the availability of cash or collateral to fulfill those needs at the appropriate time by coordinating the various sources of funds available under normal and stressed conditions.

To achieve these goals, Angel Oak Capital has developed a robust proprietary liquidity analysis model ("LAM") to assess our fund's liquidity status. LAM measures the portfolio holding's liquidity value under both normal and stressed market conditions. Based on the amount of time required to convert a security to cash, each asset class is assigned a liquidation schedule of 1, 3, 7, 10, 30 or 60 days. This categorization serves a different purpose from and does not correspond to the regulatory maximum 15% illiquid test.

Factors considered in deciding the categories include but are not limited to:
- Existence of an active market for the asset
- Volatility of the trading prices for the asset
- Bid-ask spreads for the asset
- Restrictions on trading and limitations on transfer of the asset
- The size of a fund's position in the asset relative to the asset's average daily trading volume
- Correlation of the asset to another portfolio asset
- Subjective evaluation of the foregoing and other factors

A fund's liquidity status is summarized by dividing the total liquidity sources by total liquidity usages. Since the inception of LAM, all Angel Oak funds have consistently exhibited adequate liquidity coverage.

Notably, LAM is not designed to dictate the day-to-day liquidity management of the funds. Rather, the system provides an additional layer of risk management that informs portfolio construction and adjustment. This methodology enables the firm to evaluate portfolio liquidity risk in a consistent and systematic manner.

*Source: Morgan Stanley

Question 6:

How are the Multi-Strategy Income Fund (ANGIX) and the Flexible Income Fund (ANFIX) being positioned to take advantage of the environment ahead?

In ANGIX we have been opportunistically rotating out of lower total return assets to create additional liquidity and target higher total return potential assets that may offer compelling relative value. We remain focused on taking advantage of this attractive buying opportunity. Our existing exposure also remains well positioned when spreads do stabilize and potentially tighten in the latter half of 2016 as recession and default concerns begin to wane, the FOMC remains accommodative, and the search for high-quality, high-yielding assets resumes. The Fund will continue to target dislocations in mortgage credit.

For the Flexible Income Fund, portfolio managers utilized the recent market volatility to strategically target Fund assets in securities that have overshot. Increased volatility has reset the relative value landscape, providing the most attractive unlevered total return opportunities since 2011 for US corporate credit.

Angel Oak Multi-Strategy Income Fund Performance:

Total Returns (as of 12/31/15)	4Q 2015	YTD	1 Year	3 Year	Inception[1]
Class I	-0.25%	2.01%	2.01%	3.98%	8.95%
Class A at NAV	-0.40%	1.67%	1.67%	3.69%	8.75%
Class A at MOP[2]	-2.63%	-0.64%	-0.64%	2.90%	8.20%
Barclays U.S. Agg Bond TR	-0.57%	0.55%	0.55%	1.44%	2.94%

TR: Total Return

[1]The 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.

[2]Maximum offering price takes into account the 2.25% maximum initial sales charge.

Angel Oak Multi-Strategy Income Fund Expense Ratios by Share Class*

	Class A	Class I
Gross	1.45%	1.20%
Net	1.24%	0.99%

*Gross expense ratios for the A Class and the Institutional Class are reported as of the 5/31/15 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 5/31/17 and may be discontinued at any time by the Fund's Advisor after 5/31/17.

Please note that an investor cannot invest directly in an index; therefore its performance does not reflect a reduction for fees or expenses incurred in managing a portfolio.

Current performance may be lower or higher than the 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. Returns shown for A Shares at NAV do not reflect the maximum sales load of 2.25%; if reflected, performance would be lower than shown. Current performance to the most recent month-end can be obtained by calling 855-751-4324.

Definitions:

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.
Correlation: A statistical measure of how two securities move in relation to one another.
Cash Flow: Money that is regularly received from investments, such as dividends and interest.
Spread: The difference between the bid and the ask price of a security or asset.

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

Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security.

Mutual fund investing involves risk. Principal loss is possible. The Fund may make short sales of securities, which involve the risk that losses in securities may exceed the original amount invested. The Fund may use leverage, which may exaggerate the effect of any increase or decrease in the value of securities in the Fund's portfolio or the Fund's Net Asset Value and therefore may increase the volatility of the Fund. Derivatives involve risks different from, and in certain cases, greater than the risks presented by more traditional investments. 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. The Fund will incur higher and duplicative expenses when it invests in mutual funds, ETFs and other investment companies. For more information on these risks and other risks inherent in the Fund, please see the Prospectus.

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