Angel Oak Multi-Strategy Income Fund
Quarterly Review

Angel Oak
CAPITAL ADVISORS

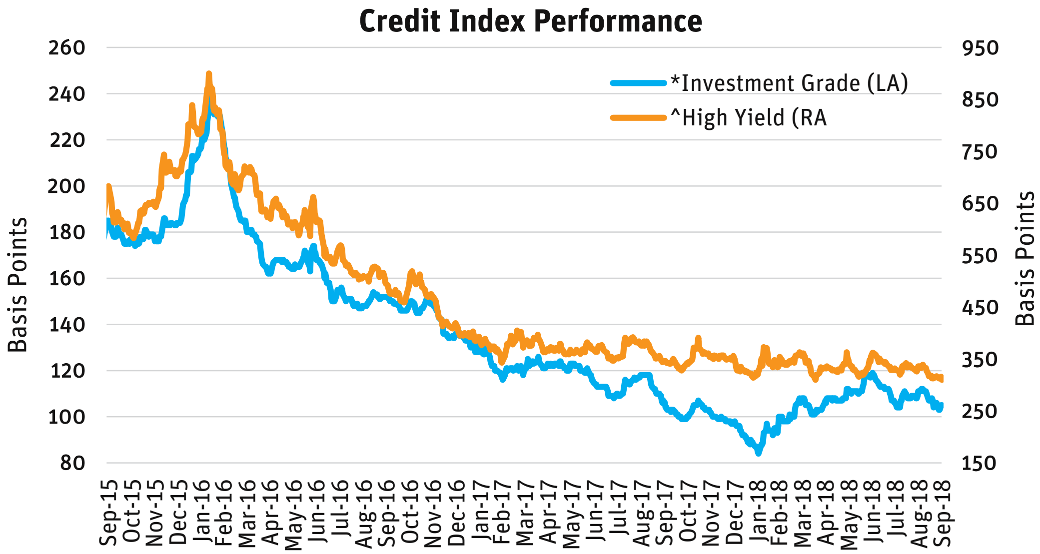
September 30, 2018

Quarter in Review

- Risk assets moved higher for the quarter amid geopolitical tensions and trade rhetoric. The S&P 500 was up 7.71% during the quarter. Excess returns for U.S. corporates were positive, as both IG and HY credit were tighter. The Bloomberg Barclays Investment Grade Index was tighter by 17 basis points to +106 option-adjusted spread (OAS), while the High Yield Index was tighter by 47 basis points to +316 OAS. Total returns for the IG and HY indices were +0.97% and +2.40%, respectively. U.S. Treasury yields moved higher as the curve bear flattened on the quarter. The U.S. 10-year yield increased by 20 basis points to 3.06%; 2s10s flattened by 9 basis points to 0.24%.
- The labor market report for September continued its momentum from the previous month. Average hourly earnings rose 0.3% month-over-month and 2.8% year-over-year. Nonfarm payrolls came in at +134k in September, a slight decline from +201k in the previous month, predominately due to Hurricane Florence. Surveys illustrated the number of workers who reported reduced hours due to bad weather was approximately 6x larger than the typical figure for September. Absenteeism from work due to bad weather was approximately 7x higher than the average number for the trailing 10-yr period (299k vs. 44k). Prior 2-month net revisions were 87k more than previously reported. After revisions, job gains have averaged 190+ per month over the last 3 months. The headline unemployment rate declined to 3.7%, reaching the lowest rate since 1969, while the labor force participation rate remained at 62.7%.
- U.S. home price increases eased on the margin, with the S&P 500 Core Logic CS 20-City Home Price Index up 5.92% year-over-year through July 2018, coming in below expectations of 6.20%; the trailing 12-month period through June was revised up to 6.36% from 6.31%.
- The Federal Open Market Committee increased its target rate range by 25 basis points to 2.00-2.25%, which was the third hike this year and the eighth hike of this tightening campaign. The FOMC statement dropped the reference to policy being "accommodative." Powell said that dropping "accommodative does not signal any change in the likely path of policy – they still expect further gradual increases in the target range for the Fed funds rate." The Fed's dot plot of member expectations for interest rates was effectively unchanged, and signals for one more 25 basis point hike in 2018 and three more hikes in 2019.
- Consumer confidence remains high as the University of Michigan Consumer Sentiment Index came in at 100.1 for the month of September. This is the highest reading since March 2018, which came in at 101.4. The ISM Index came in at 59.8 in September, a decrease of 1.2 from 61 in August.

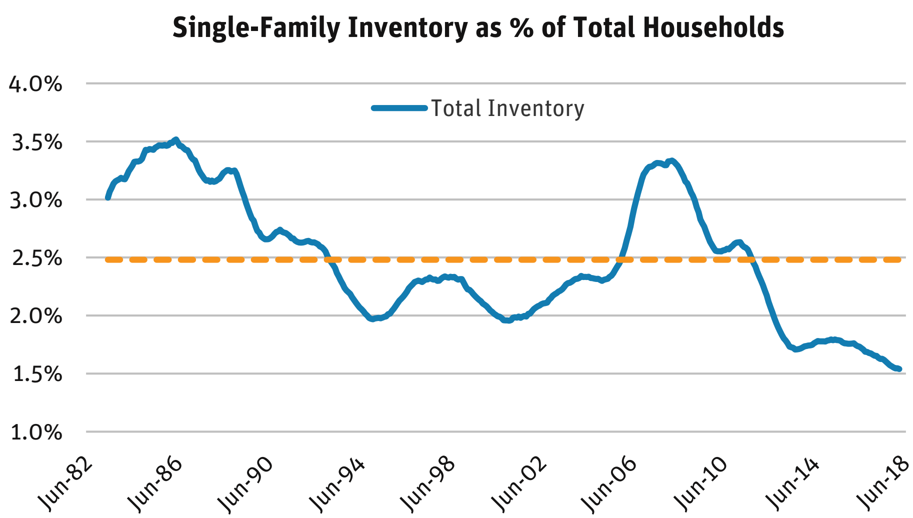
Benchmark Performance	9/30/18	6/30/18	Monthly Change (bps)
1-Month LIBOR	2.26	2.09	+17
3-Month LIBOR	2.40	2.34	+6
2-Year Treasury	2.82	2.53	+29
5-Year Treasury	2.95	2.74	+21
10-Year Treasury	3.06	2.86	+20
30-Year Treasury	3.21	2.99	+22
2s/10s Curve	0.24	0.33	-9
2s/30s Curve	0.39	0.46	-7
S&P 500 Total Return Index	5,763	5,351	+771
IG Corporate OAS*	106	123	-17
HY Corporate OAS^	316	363	-47

Sources: Bloomberg and Yieldbook as of 9/30/18.

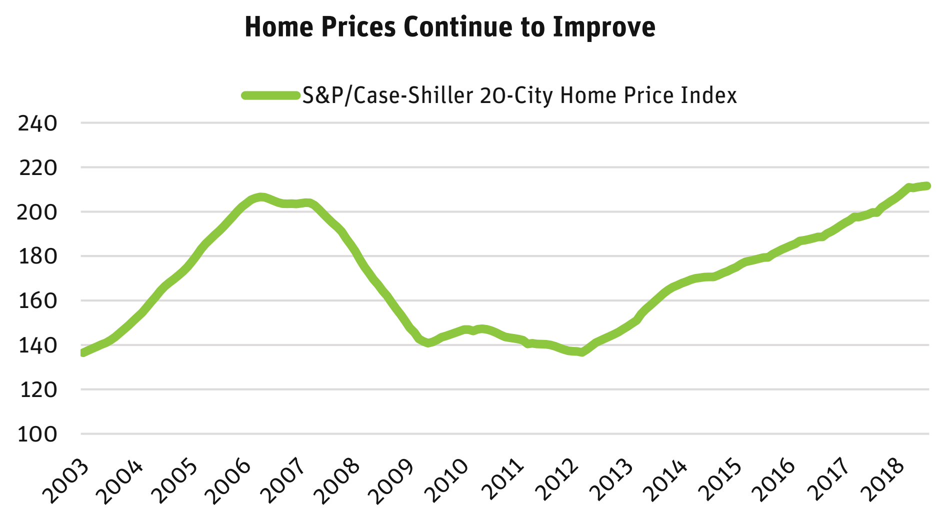


Source: Bloomberg as of 9/30/18.
*Bloomberg Barclays U.S. Corporate Total Return Value Unhedged
^Bloomberg Barclays U.S. Corporate High Yield Total Return Index Value Unhedged

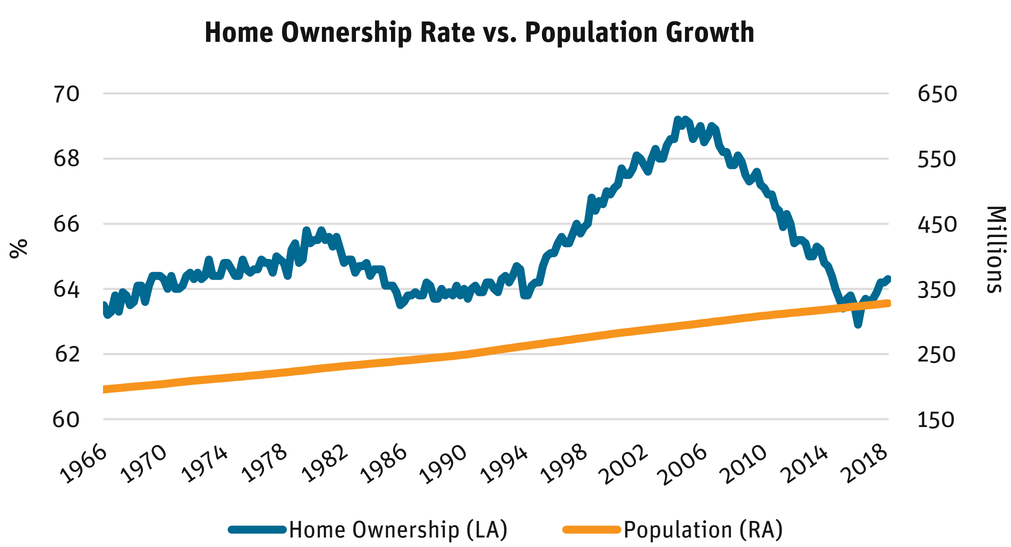
Fundamentals = Scenario Improvement



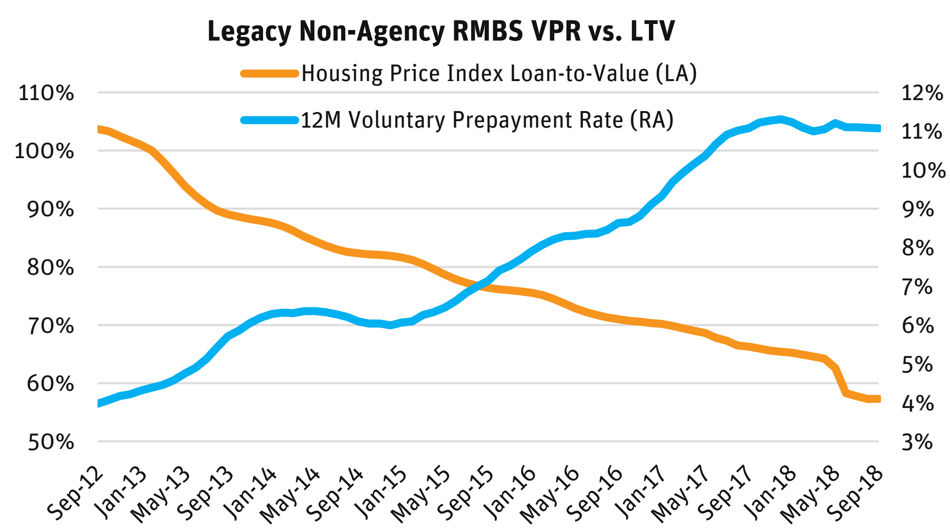
Source: Morgan Stanley as of 6/30/18.



Source: Bloomberg as of 7/31/18.



Source: Bloomberg as of 6/30/18.



Source: Bloomberg as of 9/30/18.

Portfolio Performance

Summary

- The Fund was up 0.13% in September 2018 and 0.89% for the third quarter of 2018, outperforming the benchmark by 77 basis points on the month and 87 basis points on the quarter. The Bloomberg Barclays U.S. Aggregate Bond Index was up 0.02% in the third quarter. Rising U.S. interest rates quarter-over-quarter provided a headwind to longer-duration fixed income assets, particularly traditional U.S. agency and corporate bonds. For year-to-date 2018, the Fund is up 2.74%, outperforming the benchmark, which is down 1.60%. Excess returns for U.S. structured credit (versus swaps/LIBOR) were mixed in the third quarter as residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and asset-backed securities (ABS) tightened while collateralized loan obligations (CLOs) widened.
- Duration strategies were a positive contributor to Fund performance, as the Fund maintained its duration short of the benchmark and U.S. Treasury yields rose. The effective duration position in the third quarter was decreased to 1.7. Spread strategies were mixed. RMBS were the best-performing sector, followed by CLOs, and then CMBS.
- All structured credit allocations produced positive results to Fund performance during the quarter. Non-agency (NA) RMBS was the best contributor to Fund performance, with a total return of 1.14%, contributing 83 basis points to Fund performance.

				Annualized			
Net Total Returns as of 9/30/18	1 Mo.	3 Mo.	YTD	1 Yr.	3 Yr.	5 Yr.	SI[1]
Class I	0.13%	0.89%	2.74%	3.60%	4.16%	4.58%	7.30%
Class A at NAV	0.10%	0.83%	2.56%	3.26%	3.88%	4.32%	7.08%
Class A at MOP[2]	-2.17%	-1.46%	0.25%	0.94%	3.10%	3.86%	6.75%
Bloomberg Barclays U.S. Agg. Bond Index	-0.64%	0.02%	-1.60%	-1.22%	1.31%	2.16%	2.45%

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 Multi-Strategy Income Fund A Class (ANGLX) was 6/28/11, while the inception date of the Institutional Class (ANGIX) was 8/16/12. 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.

FUND INFORMATION AS OF 9/30/18

	Class A	Class I
Gross Expense Ratio	1.37%	1.12%
Net Expense Ratio^	1.24%	0.99%
SEC Yield (Subsidized)	4.34%	4.70%
SEC Yield (Unsubsidized)	4.34%	4.70%

FUND CHARACTERISTICS

Fund Assets (All Classes)	$7.4 bn
Number of Securities	1436
Distribution	Monthly
Effective Duration	1.7
Average Price (Portfolio)	$89.6
Average Price (NA RMBS)	$86.2
Floating Rate (%)	67.2

FUND STATISTICS

(Since Inception)	Fund[3]	Index
Standard Deviation	3.3	3.8
Sharpe Ratio	3.1	0.8
Correlation to Index	0.1	1.0
Positive Months (%)	83.9	62.1
Negative Months (%)	16.1	37.9

[3]ANGIX

^The Adviser has contractually agreed to waive fees through 5/31/19.

Sector Attribution

		Q3 2018*	YTD 2018*
	% of Market Value	Attribution (%)	Attribution (%)
RMBS	67.2	0.83	2.56
CMBS	12.2	0.14	0.42
CLOs	11.8	0.13	0.34
Corporates	5.8	0.05	0.22
ABS	2.6	0.02	0.03
Cash	0.4	0.01	0.03
Credit Hedges	-	0.00	0.00
Fund Expenses	-	-0.28	-0.86
Total	100.0	0.89	2.74

*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

- NA RMBS had a total return of 114 basis points in the third quarter, contributing 83 basis points to Fund performance. Legacy RMBS spreads tightened 5 to 10 basis points quarter-over-quarter. Legacy RMBS total returns have outperformed other sectors in structured credit this year. This outperformance has been driven by fundamental improvement in the collateral characteristics, which continue to translate into better cash flows than the market has modeled. Credit risk transfer (CRT) last cash flow spreads tightened 20 basis points in the third quarter, while B1 spreads tightened 10 basis points. The Fund continues to focus on adding positions with higher scenario improvement potential, with a specific focus on near-term increases in voluntary prepayment speeds.
- This year has been busy in the new issue RMBS markets, with $84.7 billion pricing. The 2018 expected new issue volume is approximately $107.0 billion. While the Fund is still overweight legacy RMBS, the allocation continues to take advantage of pockets of opportunity in new issue, primarily in reperforming loans, non-QM, and CRT.

CMBS

- CMBS returned 89 basis points in the third quarter, contributing 14 basis points to Fund performance net of hedges. Generic spreads for the quarter were tighter across the credit structure. For example, AAA tightened by approximately 12 basis points to 73, while BBB- tightened by 105 basis points to 315. In new issue, $19.6 billion priced for the quarter, split between $8.3 billion of conduit, $8.6 billion of single asset/single borrower (SASB), and $2.7 billion of commercial real estate CLO. Year-to-date, $68.0 billion of new issue priced, outpacing 2017 volume by $5.5 billion.

CLOs

- CLOs had a total return of 103 basis points in the third quarter, contributing 13 basis points to the Fund. The year-to-date total return is 291 basis points, contributing 34 basis points to the Fund. The focus remained on primary market activity between standard new issue, refinancings, and resets, as activity remained consistent. The Fund has looked to add bonds with a shorter reinvestment period than the standard 5-year reinvest/2-year non-call structure since the curve has become flat, offering relative value in deals with 2 to 3 year reinvestment periods.

ABS

- The ABS allocation produced a total return of 59 basis points in September, contributing 2 basis points to the Fund. The year-to-date total return is 107 basis points, contributing 3 basis points to the Fund. The repricing of short-term rates continued to be a headwind to performance in the third quarter. Spreads were 8 to 10 basis points tighter for AAA-rated prime auto and credit card ABS.

Definitions

ABS: Asset-backed securities.
CLO: Collateralized loan obligation.
CMBS: Commercial mortgage-backed security.
CRT: Credit risk transfer.
Non-QM: Non-qualified mortgage.
RMBS: Residential mortgage-backed security.
Basis Point (bps): One hundredth of one percent and is used to denote the percentage change in a financial instrument.
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.
Cash Flow: The net amount of cash and cash-equivalents being transferred into and out of a business, especially as affecting liquidity.
Correlation: A statistical measure of how two securities move in relation to another. Index used for comparison is the Bloomberg Barclays U.S. Aggregate Bond 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.
ISM Manufacturing Index: An index that is based on surveys of more than 300 manufacturing firms by the Institute for Supply Management (ISM).
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.
Michigan Consumer Sentiment Index (MCSI): A monthly survey of U.S. consumer confidence levels conducted by the University of Michigan.
Option-Adjusted Spread (OAS): The yield spread which has to be added to a benchmark yield curve to discount a security's payments to match its market price, using a dynamic pricing model that accounts for embedded options.
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.

Disclosures

Mutual fund investing involves risk; Principal loss is possible. Investments in debt securities typically decreases 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 lose 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.

Bond ratings are grades given to bonds that indicate their credit quality as determined by a private independent rating service such as Standard & Poor's. The firm evaluates a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA,' which is the highest grade, to 'D,' which is the lowest grade. In limited situations when the rating agency has not issued a formal rating, the Adviser will classify the security as non-rated.

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 9/30/18 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

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