AOUIX | AOUAX | AOUCX

Angel Oak UltraShort Income Fund
Quarterly Review

December 31, 2018

Angel Oak
CAPITAL ADVISORS

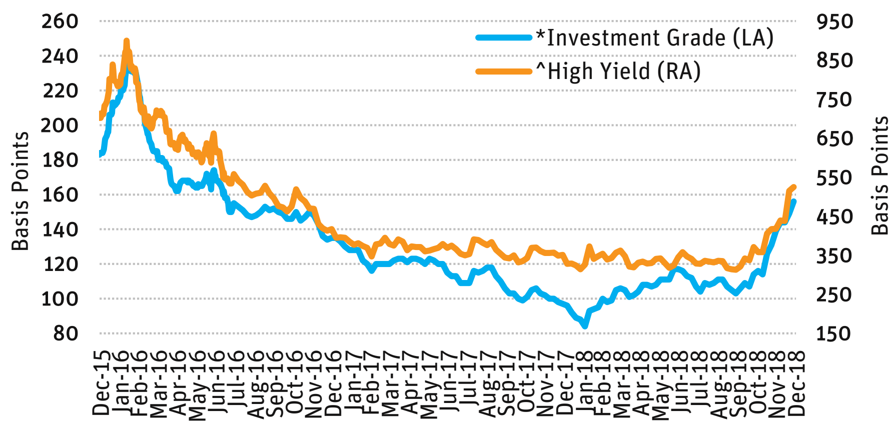
Quarter in Review

- U.S. risk asset volatility rose sharply throughout the fourth quarter as the S&P 500 Index fell 13.52%, erasing the initial gains of 2018 and putting the broad U.S. equity index down 4.39% for the year. The initial spark to downside volatility has been attributed to Powell's miscommunication during his PBS NewsHour interview in which he noted that the current federal funds target rate was far from neutral. This rhetoric created fears of a Fed that will potentially overtighten monetary policy into a recession. Alongside falling equity valuations, U.S. IG and HY corporate spreads increased toward their widest levels of the year (see the Benchmark Performance table), pushing their total returns down 0.18% and 4.53%, respectively, for the quarter. The U.S. yield curve bull flattened as the 2-year and 10-year yields fell 33 and 38 basis points, respectively.
- Structured credit spreads moved wider on the quarter alongside rising risk premiums across U.S. credit. According to BAML, legacy (prime and Alt-A) non-agency mortgage-backed security (MBS) spreads were the most immune to broadly wider credit spreads within BBB-rated and lower tranches across U.S. fixed income. For the legacy residential mortgage-backed securities (RMBS) asset class, spreads widened by 15-30 basis points across sectors, while BB/B-rated bank loans widened by approximately 100-120 basis points, BB/B-rated HY corporates widened by 165-250 basis points, and BBB/BB-rated U.S. collateralized loan obligations (CLOs) widened 95-185 basis points. Within IG credit, commercial mortgage-backed securities (CMBS) bonds were the largest underperformers, widening by approximately 175 basis points on the quarter. BBB-rated consumer asset-backed securities (ABS) also performed quite similar to legacy RMBS, widening by approximately 10-30 basis points on the quarter.
- On the back of higher capital market volatility, U.S. economic data remained quite strong. The December jobs report came in far above market consensus. The headline number was a +312k net jobs created, better than the 184k expected. Two-month net revisions were a positive 58k. The headline unemployment rate rose 0.2% as the labor force participation rate increased 0.2% to 63.1%. Average hourly earnings rose 0.4% month-over-month, boosting the year-over-year figure to 3.2%, better than the 3.0% expectation. The Federal Reserve released its updated report on the U.S. consumer. Consumer credit increased by 4.31% year-over-year through November. Non-revolving debt grew at a faster pace than revolving debt (5.08% versus 2.19%, respectively, year-over-year).
- The ISM Non-Manufacturing Index declined 0.9 to 57.6 in December, a modest move lower but still north of the crucial level of 50. The Consumer Price Index (CPI) fell to an annualized rate of 1.9% year-over-year, as falling gas prices put pressure on the headline number. Core CPI remained at 2.2% year-over-year through December as markets expected.
- Looking into 2019, a more pragmatic and cautious Federal Open Market Committee (FOMC) has appeared. As Federal Reserve Chairman Jerome Powell said at the Atlanta Fed's economic conference on January 4, 2019, the FOMC will continue to reduce the size of its balance sheet in the form of quantitative tightening but be more data-dependent with respect to increases in the target rate. Most enlightening from the conference, he reiterated, "[The Fed] will be prepared to adjust policy quickly and flexibly and to use all of our tools to support the economy, should that be appropriate to keep the expansion on track, to keep the labor market strong and to keep inflation near 2%." The bottom line is the FOMC is not looking to overtighten in 2019 but to support robust growth over the medium term.

Benchmark Performance	12/31/18	9/30/18	Quarterly Change (bps)
1-Month LIBOR	2.50	2.26	+24
3-Month LIBOR	2.81	2.40	+41
2-Year Treasury	2.49	2.82	-33
5-Year Treasury	2.51	2.95	-44
10-Year Treasury	2.68	3.06	-38
30-Year Treasury	3.01	3.21	-20
2s/10s Curve	0.20	0.24	-4
2s/30s Curve	0.53	0.39	+14
S&P 500 Total Return Index	4,984	5,763	-1352
IG Corporate OAS*	153	106	+47
HY Corporate OAS^	526	316	+210

Sources: Bloomberg and Yieldbook as of 12/31/18.

Credit Index Performance



Source: Bloomberg as of 12/31/18.
*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 2, 2018, the Fund is up 2.26% through December 2018, outperforming the benchmark by 0.67%, as the Bloomberg Barclays U.S. Treasury Bill 9-12 Month TR Index is up 1.59% over the same time period.
  - Primary contributors were positive income return and higher quality structured credit allocation
  - Primary detractors were duration short of the benchmark and interest rate hedge positioning given the flattening yield curve.
- For the fourth quarter, the Class I Share was up 0.73%, outperforming the benchmark by 0.02%, which was up 0.71%. Income return (+0.91%) was the primary driver of total return for the quarter, while price return was -0.12% net of hedges. Duration strategies were negative in the fourth quarter relative to the benchmark as interest rates fell while the duration positioning remaining short of the benchmark. Spreads were wider across all sector allocations for the fourth quarter; however, the average price effect was approximately -10 basis points. Income return more than offset the limited price volatility of the underlying assets.
- ABS were the primary contributor to Fund performance, up 0.87% and contributing 0.48% to the Fund. RMBS also had a positive excess return during the month, up 0.63% and contributing 0.15% to Fund performance.

Net Total Returns as of 12/31/18	3 Mo.	YTD	SI[1]
Class I	0.73%	n/a	2.26%
Class A	0.55%	n/a	2.08%
Bloomberg Barclays U.S. Treasury Bill 9-12 Month TR Index	0.71%	n/a	1.59%

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 12/31/18

	Class A	Class I
Gross Expense Ratio	0.86%	0.61%
Net Expense Ratio^	0.50%	0.25%
SEC Yield (Subsidized)	2.53%	3.11%
SEC Yield (Unsubsidized)	2.08%	2.62%

FUND CHARACTERISTICS

Fund Assets (All Classes)	$115.1 mm
Number of Securities	102
Distribution	Monthly
Effective Duration	0.4
Average Price (Portfolio)	$100.1
Floating Rate (%)	43.7

FUND STATISTICS

(Since Inception)	Fund[2]	Index
Standard Deviation	0.7	0.2
Sharpe Ratio	1.8	-0.2
Correlation to Index	0.2	1.0
Positive Months (%)	100.0	100.0
Negative Months (%)	0.0	0.0

[2]AOUIX

Sector Attribution

	% of Market Value	Since Inception*
ABS	44.1	1.32
CLO	8.9	0.19
Corporates	0.2	0.01
CMBS	6.5	0.26
RMBS	21.1	0.52
Cash	19.1	0.11
Credit Hedges	-	0.00
Fund Expenses	-	-0.17
Total	100.0	2.26

*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 98 basis points in the fourth quarter, contributing 15 basis points to Fund performance. This brings inception-to-date returns for NA RMBS to 289 basis points, contributing 52 basis points to Fund performance. Expanded Prime and Non-QM bonds were the highest-performing subsectors in the Fund for the quarter, driven by a combination of price appreciation and current income. Other subsectors within NA RMBS were mixed. The Fund continues to favor unrated new issuance NPL seniors, which yield 4.75%-5.00%, coupled within investment grade-rated non-QM.

CMBS

- CMBS produced a total return of 55 basis points for the quarter and approximately 172 basis points for the full year, contributing 5 and 26 basis points, respectively. Within CMBS, the majority of the allocation is floating-rate agency CMBS backed by multi-family properties. The focus of the allocation is liquidity and stability produced by government-backed bonds with minimal interest rate sensitivity. We continue to focus most of the allocation on these short-duration strategies and are seeking elective opportunities in conduit, single asset/single borrower, and commercial real estate CLO deals that may provide attractive returns.

ABS

- The ABS allocation produced a total return of 94 basis points in Q4, contributing 48 basis points to the Fund, bringing the inception-to-date total return to 247 basis points, contributing 132 basis points to the Fund. Auto ABS and credit card ABS both widened for the year, but total returns were offset by an increase in rates. The defensive nature of the Fund's positioning led to positive performance, given its short, de-levering focus. The primary allocation within ABS auto is AAA/AA-rated tranches within 2017/2018 vintage deals. The average duration of the ABS allocation decreased month-over-month to 1.02 while WAL fell to 1.13, as the Fund continued to focus on quality assets at the top of the capital structure.
- Issuance volumes reached $245 billion, eclipsing 2017, and are expected to do the same in 2019. As expected, auto and credit card ABS made up the majority of issuance in 2018, with approximately 70% of new issue supply. Spreads were a few basis points wider (5-20) throughout the capital structure and for autos and credit cards.

CLOs

- CLOs had a total return of 67 basis points in Q4, contributing 8 basis points to the Fund. The inception-to-date total return is 191 basis points, contributing 19 basis points to the Fund. 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.

Definitions

Non-QM: Non-qualified mortgage.
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. 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.
Consumer Price Index (CPI): An index that measures the changes in the price of a certain collection of goods and services bought by consumers in an effort to measure inflation.
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.
ISM Non-Manufacturing Index: An index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives by the Institute of 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.
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 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.
Weighted Average Life (WAL): Average length of time that each dollar of unpaid principal on a loan, a mortgage or an amortizing bond remains outstanding.

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.

It is not possible to invest directly in an index.

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 12/31/18 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

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