



Angel Oak Financials Income Fund Quarterly Review

December 31, 2018

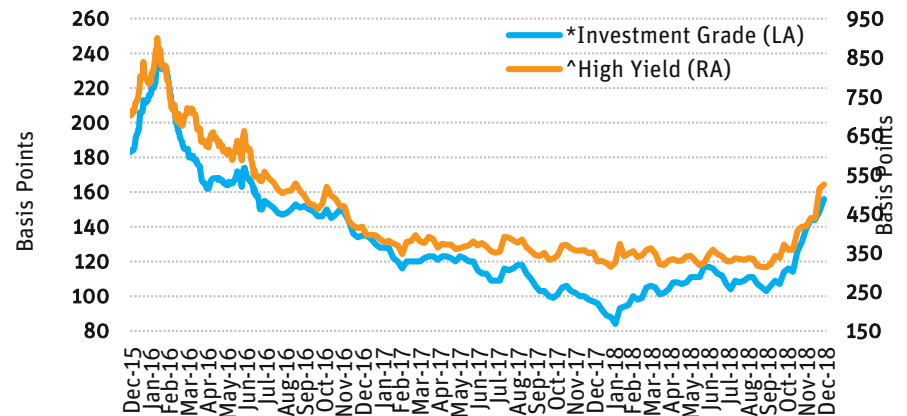
Quarter in Review

- 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 11/30/18.

Credit Index Performance



Source: Bloomberg as of 12/31/18.

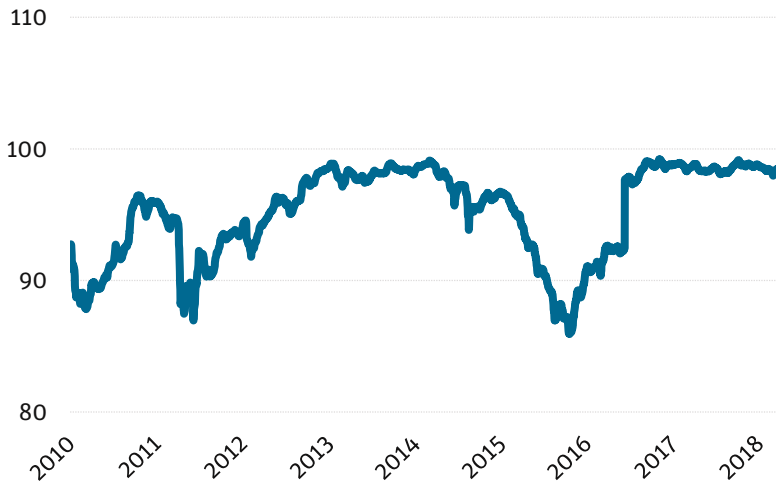
*Bloomberg Barclays U.S. Corporate Total Return Value Unhedged

^Bloomberg Barclays U.S. Corporate High Yield Total Return Index Value Unhedged



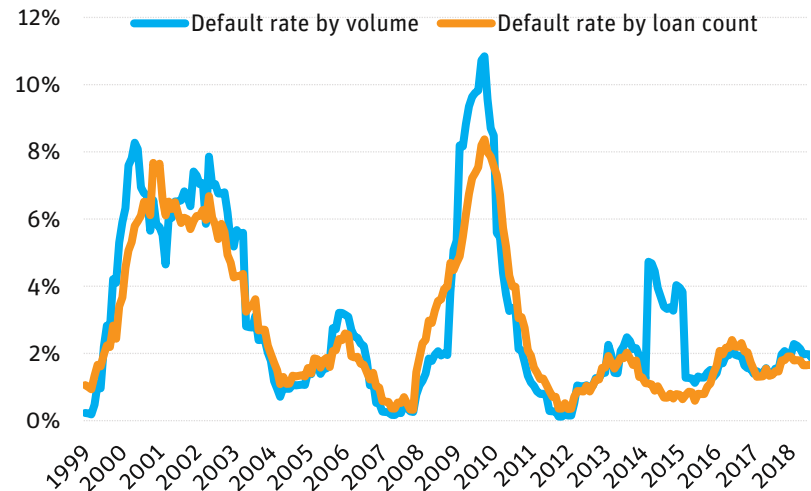
Fundamental Backdrop

S&P Leveraged Loan 100 Index



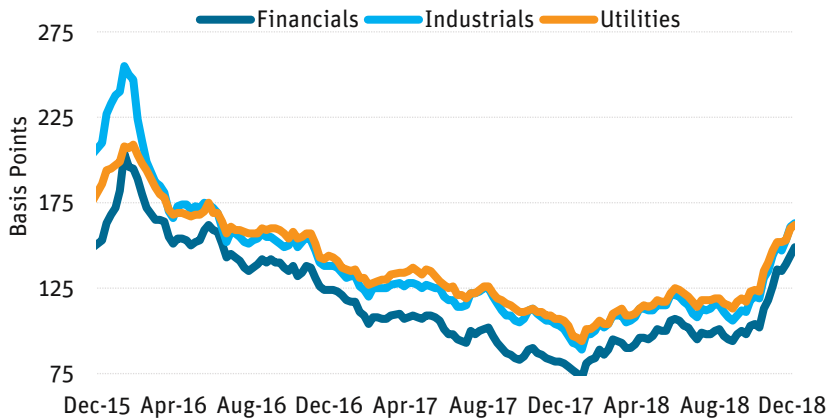
Source: Bloomberg as of 12/31/18.

Leveraged Loan Default Rates



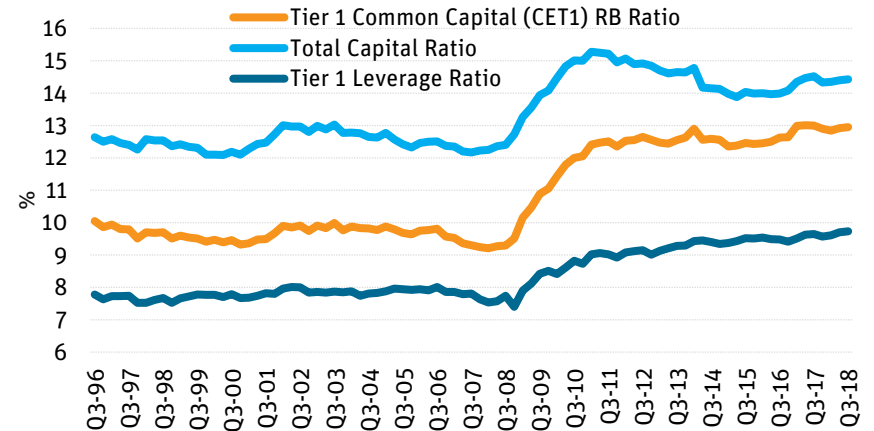
Source: Deutsche Bank as of 12/31/18.

Investment Grade Sector Performance



Source: RCA, Morgan Stanley as of 12/31/18.

Bank Subordinated Debt



Source: S&P Global Market Intelligence of 9/30/18.



Portfolio Performance

Summary

- The Class I Share was up 1.33% for the quarter, underperforming the benchmark by approximately 31 basis points, as the Bloomberg Barclays U.S. Aggregate Bond Index was up 1.64% over the same period. The Fund's underperformance was led by the shorter duration positioning versus the benchmark as rates rallied over the quarter.
- The corporate debt allocation was the top performer for the quarter, up 2.22% in total return. Both the CLO and Equity allocations lagged, with total returns of -3.29% and -13.87%, respectively. However, it should be noted that the allocations to these sectors remains low with less than 3% allocated to each sector.

Net Total Returns as of 12/31/18	Annualized				
	3 Mo.	YTD	1 Yr.	3 Yr.	SI ¹
Class I	1.33%	3.11%	3.11%	2.85%	3.05%
Class A at NAV	1.37%	2.87%	2.87%	2.63%	2.83%
Class A at MOP ²	-0.86%	0.54%	0.54%	1.85%	2.27%
Bloomberg Barclays U.S. Agg. Bond Index	1.64%	0.01%	0.01%	2.06%	1.83%

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.

¹The inception date of both the Angel Oak Financials Income Fund A and I Class (ANFLX and ANFIX) was 11/3/14. ²Maximum Offering Price takes into account the 2.25% maximum initial sales charge. [^]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	1.38%	1.12%
Net Expense Ratio [^]	0.94%	0.69%
SEC Yield (Subsidized)	4.58%	4.94%
SEC Yield (Unsubsidized)	4.04%	4.39%

FUND CHARACTERISTICS

Fund Assets (All Classes)	\$129.7 mm
Number of Securities	81
Distribution	Monthly
Effective Duration	3.3
Average Price (Portfolio)	\$97.5

FUND STATISTICS

(Since Inception)	Fund ³	Index
Standard Deviation	3.9	3.8
Sharpe Ratio	0.9	0.4
Correlation to Index	0.1	1.0
Positive Months (%)	75.5	57.1
Negative Months (%)	24.5	42.9

³ANFIX



Sector Attribution

		Q4 2018*	YTD 2018*
	% of Market Value	Attribution (%)	Attribution (%)
Corporates	88.9	1.97	4.06
CLOs	2.9	-0.10	0.16
ABS	0.0	0.00	0.00
Cash	5.6	0.02	0.06
Equity	2.7	-0.38	-0.46
Credit Hedges	-	0.00	0.00
Fund Expenses	-	-0.18	-0.70
Total	100.0	1.33	3.11

*Estimated returns, net of hedges, and unaudited. Attribution is calculated using an internal model, thus, returns may vary from the Fund's total return.

Corporates

- While markets have seen increasing volatility and downward pressure through the fourth quarter of 2018 related to global concerns (Brexit, trade tariffs, etc.), banking sector fundamentals remain positive. We note that 1) bank debt performance is highly correlated to asset quality whereas bank equities are typically more influenced by the rate of change of future earnings growth, and 2) the bank debt market exhibits low correlation to the broader corporate credit market. We are closely monitoring asset quality trends for banks, including real-time data points amassed through our diligence process in a particularly robust primary issue market. We remain disciplined in our credit underwriting, with particular emphasis on interest rate risk, given increased lending and deposit competition, and on credit risk as we move into the later innings of the economic cycle.

2019 M&A Outlook

- We believe consolidation, a cornerstone of our positive outlook on the bank debt sector and a catalyst for price appreciation, will continue to accelerate in 2019. Through November 30, 2018, we have seen a 9% increase in the number of transactions and a 17% increase in total deal value relative to 2017, and we believe 2019 will be higher. There is a need for scale in the banking sector; regulatory costs are still high, and we expect the pace of earnings growth to slow as the benefit of the corporate tax cut fades and cost of funds continues to rise. The lifting of regulatory asset thresholds should be an added boost to deals at the smaller end of the spectrum.
- Despite stock market volatility, M&A has been robust in the fourth quarter. A lot of the market volatility is related to global concerns, and the fundamentals of the banking sector, asset quality in particular, remain strong. Interestingly, when we have seen downturns in bank stocks over the past 30 years, they have been followed by sharp rebounds in price. While we may have some banks on the margin hit pause on their inorganic growth plans due to market conditions, we believe this is likely a temporary phenomenon.
- We believe that consolidation will likely be most active in the community bank space (which we define as up to \$30 billion in assets), and we continue to believe that there is little regulatory appetite for M&A at the large cap/money-center bank level. At the very small end of the spectrum, regulatory changes to small bank holding company asset thresholds, namely increasing the threshold from \$1 billion to \$3 billion, may spur increased consolidation, using sub-debt as a financing tool. We also believe we will see deals at the larger end of the community bank spectrum and into the regional bank space.
- From a geographic perspective, the bulk of announced deals in 2018 have come from the eastern half of the country. This closely mirrors what we have seen in terms of sub-debt issuance. We believe consolidation will likely remain pronounced in the more over-banked/competitive markets as well as those markets with more attractive demographics, including the Midwest and the Southeast. We also would not be surprised to see a pickup in activity on the West Coast in 2019.



Definitions

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

Bank of America Merrill Lynch U.S. IG Bond Index: Tracks the performance of U.S. dollar denominated investment-grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have an investment-grade rating (based on an average of Moody's, S&P, and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule, and a minimum amount outstanding of \$250 million.

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.

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 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 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 Leveraged Loan 100 Index: A capitalization-weighted syndicated loan index based upon market weightings, spreads and interest payments.

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.

Tier 1 Common Capital (CET1) RB Ratio: Measurement of a bank's core equity capital compared with its total risk-weighted asset that signifies a bank's financial strength.

Total Capital Ratio: The percentage of a bank's capital to its risk-weighted assets.

Tier 1 Leverage Ratio: The relationship between a banking organization's core capital and its total assets.

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.



Disclosures

Mutual fund investing involves risk. Principal loss is possible. The Fund can make short sales of securities, which involves 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 on the Fund's Net Asset Value and therefore may increase the volatility of the Fund. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are increased for emerging markets. Investments in fixed income instruments typically decrease in value when interest rates rise. Derivatives involve risks different from and, in certain cases, greater than the risks presented by more traditional investments. Investments in asset-backed and mortgage-backed securities include additional risks that investors should be aware of, such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. The Fund is non-diversified, so it may be more susceptible to being adversely affected by a single corporate, economic, political or regulatory occurrence than a diversified fund. The Fund will incur higher and duplicative costs when it invests in mutual funds, ETFs and other investment companies. There is also the risk that the Fund may suffer losses due to the investment practices of the underlying funds.

Effective 12/16/18, the Angel Oak Flexible Income Fund changed its name to the Angel Oak Financials Income Fund.

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.

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