Angel Oak Financials Income Fund Quarterly Review

March 31, 2019

Angel Oak
CAPITAL ADVISORS

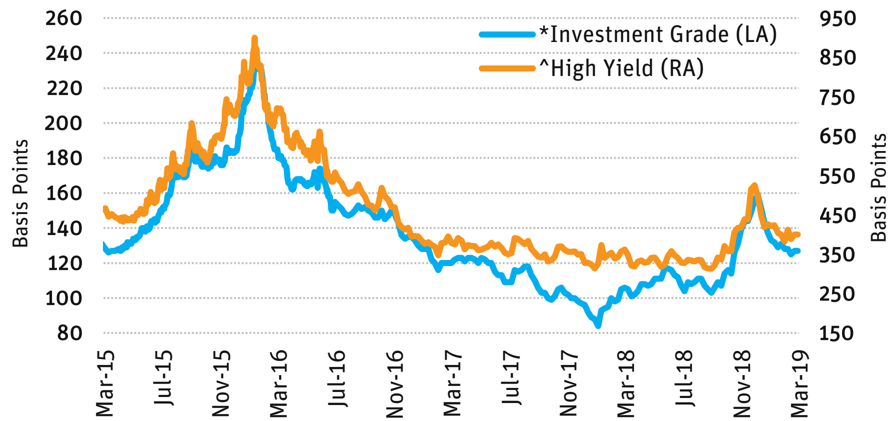
Quarter in Review

- U.S. risk assets moved sharply higher in the first quarter of 2019, retracing most of the downside deviation from the fourth quarter of 2018. The S&P 500 had its best quarter since 2009, finishing up 13.65%. Technology stocks led the move, with the NASDAQ Composite Index up 16.81% in the first quarter of 2019. Rising stock prices also benefited corporate credit. Spreads tightened rapidly throughout the first quarter. The Bloomberg Barclays IG Corporate Index tightened 34 basis points to 119 OAS, while the HY equivalent tightened by 135 basis points to 391 OAS. U.S. Treasury yields fell across the curve, flattening the 2s10s spread by 5 basis points to 0.14%. The 10-year Treasury yield decreased 28 basis points to 2.41%. Interestingly, 3M LIBOR decreased throughout the first quarter, down by 21 basis points to 2.60% as market participants lowered their expectations to zero hikes from the Federal Open Market Committee (FOMC) in 2019. At the end of the quarter, there was a 0% probability of a hike (and a 32% probability of a cut) this year according to Fed Funds futures.
- Structured credit spreads' excess returns were positive in the first quarter as risk premiums decreased across stocks and U.S. credit. The broad spread tightening across U.S. credit was a benefit to U.S. securitized assets, and the credit curve flattened for most Structured Product sectors. Legacy non-agency residential mortgage-backed securities (RMBS) posted positive returns of approximately 1.2% across most sectors in the first quarter, with positive excess returns of 0.5%–0.9%. U.S. collateralized loan obligations (CLOs) were up 1.9% on average across the capital stack in the first quarter. The credit curve flattened, with positive excess returns of 0.6%–3.4% for A and higher tranches and 3.4%/4.6% for BBB/BB-rated tranches. Commercial mortgage-backed securities (CMBS) benefited from the tightening spread environment, posting positive excess returns of 1.3% for AA-BBB-rated tranches. Asset-backed securities (ABS) sectors were an underperformer in the first quarter compared with other U.S. structured credit, posting positive returns of 1.2% for both auto and cards ABS but excess returns of only 0.1% for the quarter.
- As expected following numerous public appearances and speeches during the first quarter, the FOMC turned much more dovish within their March meeting minutes. The discussion led to implications of no rate hikes for the rest of 2019 and only one hike in 2020. Additionally, the Fed announced the tapering of the balance sheet runoff, which is now expected to end in 2019 and will shift the total asset mix toward more Treasury holdings relative to agency mortgage-backed securities by reinvesting more within U.S. Treasuries. Core PCE rose 1.8% year-over-year through January, 0.1% below market expectations of 1.9%, giving further room for the FOMC to remain on hold at the current Fed Funds Target Rate range. The third release of Q4 GDP came in at +2.2%, 0.1% below market consensus.
- The U.S. labor market continues to remain extraordinarily healthy. Nonfarm payrolls rose 196k in March and have averaged +180k during the first quarter. The unemployment rate is currently running at 3.8%, with average hourly earnings continuing to rise at approximately 3.0%–3.5%.
- On the housing front, the S&P CoreLogic CS headline index rose 0.11% month-over-month (versus 0.30%) and +3.58% year-over-year (versus 3.80%) through January. Housing starts fell 8.7% month-over-month in February to an annualized pace of 1.16MM; however, new home sales rose 4.9% month-over-month to an annualized pace of 667k. Also, January was revised higher to 636k, up from the initial estimate of 607k.

Benchmark Performance	3/31/19	12/31/18	Quarterly Change (bps)
1-Month LIBOR	2.49	2.50	-1
3-Month LIBOR	2.60	2.81	-21
2-Year Treasury	2.26	2.49	-23
5-Year Treasury	2.23	2.51	-28
10-Year Treasury	2.41	2.69	-28
30-Year Treasury	2.81	3.01	-20
2s/10s Curve	0.15	0.20	-5
2s/30s Curve	0.55	0.53	+2
S&P 500 Total Return Index	5,665	4,984	+1,366
IG Corporate OAS*	119	153	-34
HY Corporate OAS^	391	526	-135

Sources: Bloomberg and Yieldbook as of 3/31/19.

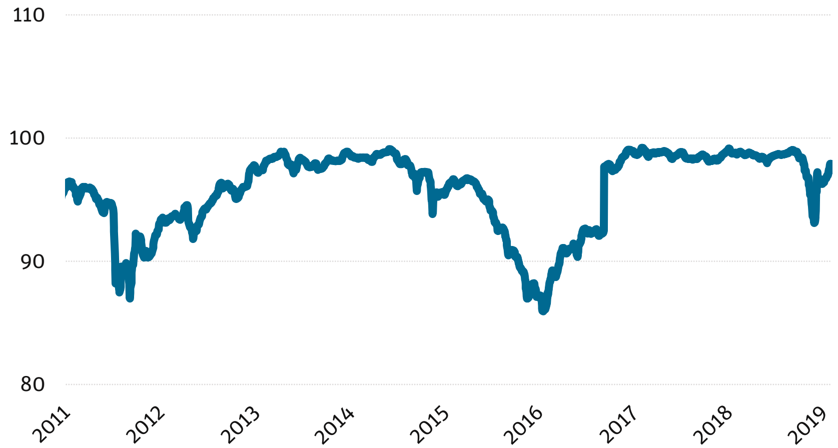
Credit Index Performance



Source: Bloomberg as of 3/31/19.
*Bloomberg Barclays U.S. Corporate Total Return Value Unhedged
^Bloomberg Barclays U.S. Corporate High Yield Total Return Index Value Unhedged

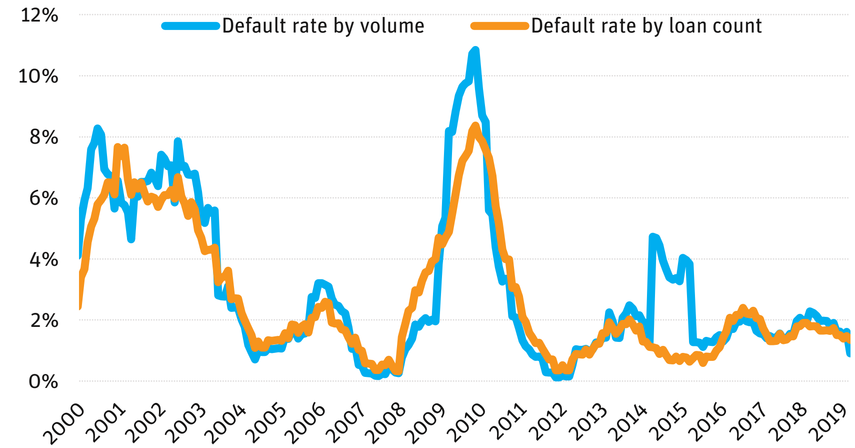
Fundamental Backdrop

S&P Leveraged Loan 100 Index



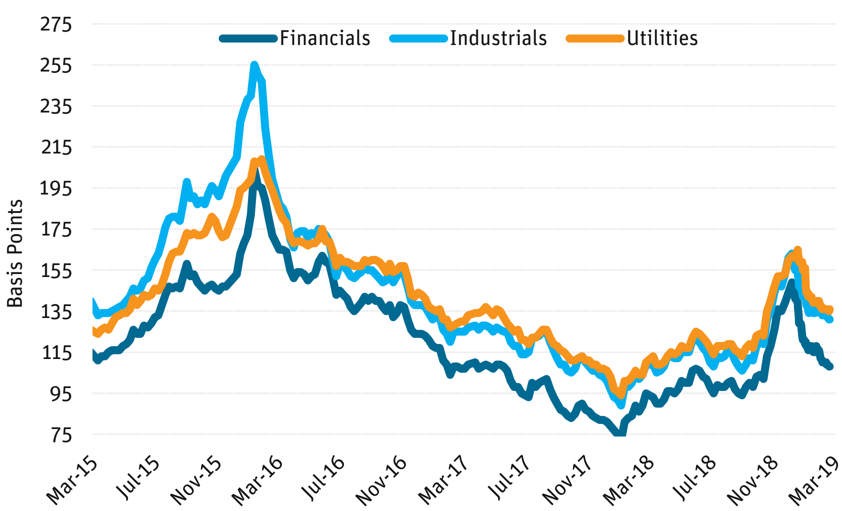
Source: Bloomberg as of 3/31/19.

Leveraged Loan Default Rates



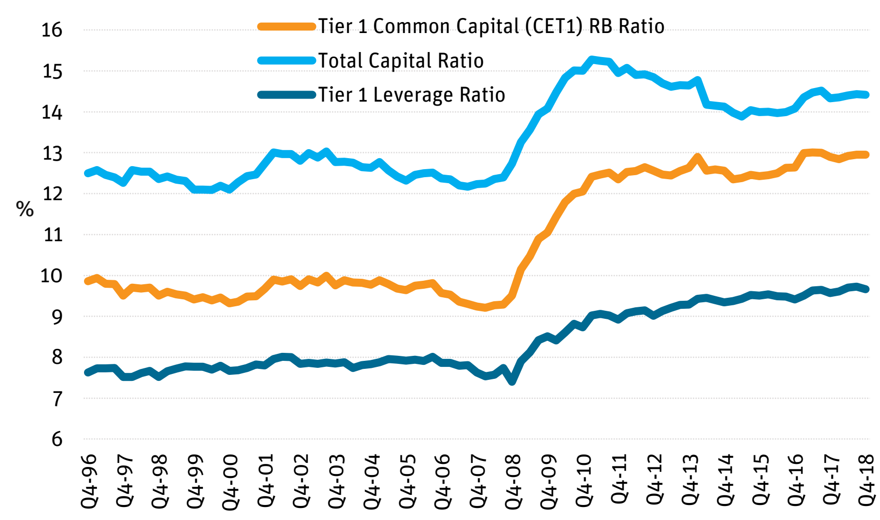
Source: Deutsche Bank as of 3/31/19.

Investment Grade Sector Performance



Source: RCA, Morgan Stanley as of 3/31/19.

Bank Subordinated Debt



Source: S&P Global Market Intelligence as of 12/31/18.

Portfolio Performance

Summary

- The Class I share was up 1.46% for the quarter, underperforming the benchmark by approximately 148 basis points, as the Bloomberg Barclays U.S. Aggregate Bond Index was up 2.94% over the same time period. The Fund's underperformance was a function of both the shorter duration positioning versus the benchmark as rates rallied over the quarter, as well as credit spreads, as the benchmark recovered much of the widening experienced in the fourth quarter of 2018.
- The CLO and Equity allocations were the top performers for the quarter, as they were up with a total return of 3.83% and 5.31%, respectively. The corporate allocation continued its consistent performance, with a total return of 1.55% for the quarter.

				Annualized	
Net Total Returns as of 3/31/19	**3 Mo.**	**YTD**	**1 Yr.**	**3 Yr.**	**SI[1]**
Class I	1.46%	1.46%	3.96%	5.92%	3.21%
Class A at NAV	1.39%	1.39%	3.82%	5.67%	2.99%
Class A at MOP[2]	-0.84%	-0.84%	1.46%	4.86%	2.46%
Bloomberg Barclays U.S. Agg. Bond Index	2.94%	2.94%	4.48%	2.03%	2.39%

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 both the Angel Oak Financials Income Fund A and I Class (ANFLX and ANFIX) was 11/3/14. [2]Maximum Offering Price takes into account the 2.25% maximum initial sales charge. ^The Adviser has contractually agreed to waive fees through 5/31/20.

FUND INFORMATION AS OF 3/31/19

	Class A	Class I
Gross Expense Ratio	1.38%	1.12%
Net Expense Ratio^	0.94%	0.69%
SEC Yield (Subsidized)	4.53%	4.88%
SEC Yield (Unsubsidized)	4.10%	4.44%

FUND CHARACTERISTICS

Fund Assets (All Classes)	$146.5 mm
Number of Securities	86
Distribution	Monthly
Effective Duration	3.0
Average Price (Portfolio)	$94.9

FUND STATISTICS

(Since Inception)	Fund[3]	Index
Standard Deviation	3.8	3.8
Sharpe Ratio	0.9	0.6
Correlation to Index	0.1	1.0
Positive Months (%)	76.9	57.7
Negative Months (%)	23.1	42.3

[3]ANFIX

Sector Attribution

		Q1 2019*	YTD 2019*
	% of Market Value	Attribution (%)	Attribution (%)
Corporates	88.8	1.34	1.34
CLOs	2.7	0.11	0.11
ABS	0.0	0.00	0.00
Equity	3.2	0.16	0.16
Cash	5.4	0.03	0.03
Credit Hedges	-	0.00	0.00
Fund Expenses	-	-0.17	-0.17
Total	100.0	1.46	1.46

Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security. Totals may not equal 100% due to rounding.
*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

- On the heels of a strong fourth quarter in 2018, analysts are projecting higher loan growth and lower loan loss provisions for the sector in the first quarter of 2019, partially offset by thinner net interest margins (NIM) and, for the large banks, lower capital-markets-related revenues.
- **Loan growth:** Commercial and industrial (C&I) loan growth is tracking ~10% year-over-year growth, partly due to easy comps. C&I growth was near zero a year ago due to the tax law changes, which lowered financing needs, particularly for companies with international operations. Additionally, high yield markets shut down in the fourth quarter of 2018, causing some borrowers to reconsider the value of banking relationships. The Fed H.8 data for the week ending 3/20/19 saw the highest level of lending thus far in 2019 (+$32 billion, with core C&I accounting for $20.5 billion). As of 3/20/19, small banks loan portfolios were +6.9% relative to 3/21/18 (large banks +3.6% year-over-year).
- **Credit:** Underlying trends remain positive, and analysts are generally looking for lower loan loss provisioning. Though the first quarter of 2019 is a seasonally worse period for consumer credit, the U.S. consumer is benefiting from faster wage growth, lower taxes, and slowing debt burdens, and better seasonality comes through in the second and third quarters, helped by tax refund season.
- **NIM:** The outlook for net interest margins is generally flat with current levels, given a Fed that is likely on pause in 2019 and the recent decline in the yield curve. On a positive note, deposit betas seem to be moderating somewhat, based on bank management commentary.

CLOs

- CLOs had a total return of 50 basis points in March, contributing 1 basis point to the Fund, bringing year-to-date total return to 383 basis points, contributing 11 basis points to the Fund. The Fund continues to maintain its CLO exposure by selectively adding high-coupon BBs at relatively wide spreads, given our belief that these are the most attractive tranches on a risk-adjusted basis.

Definitions

Basis Point (bps): One hundredth of one percent and is used to denote the percentage change in a financial instrument.
Beta: A measure of a stock's risk of volatility compared to the overall market.
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.
Core PCE Price Index: An index that is defined as personal consumption expenditures (PCE) prices excluding food and energy prices. The core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.
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.
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.
NASDAQ Composite Index: A broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market.
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 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.

Opinions expressed are as of 3/31/19 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

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