AOUIX | AOUAX | AOUCX

Angel Oak UltraShort Income Fund Quarterly Review

March 31, 2019

Angel Oak
CAPITAL ADVISORS

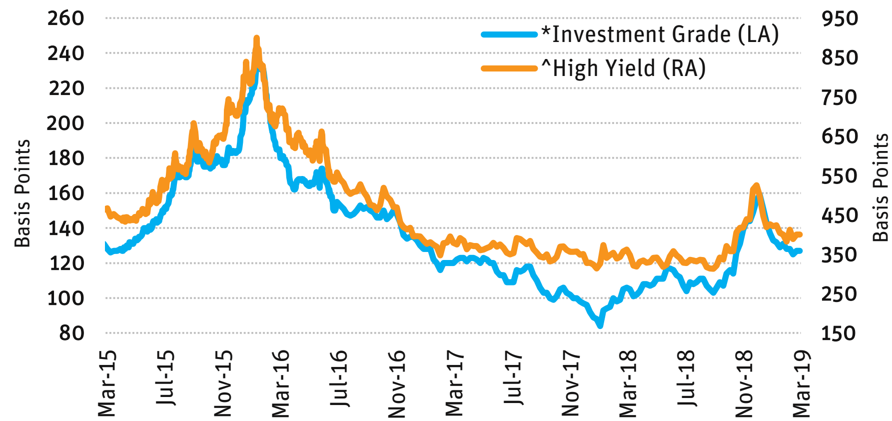
Quarter in Review

- 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

Portfolio Performance

Summary

- The Fund was up 1.07% in the first quarter of 2019, outperforming the benchmark by 0.26%. Since the Fund's inception on April 2, 2018, the Fund is up 3.35% through March 2019, outperforming the benchmark by 0.93%, as the Bloomberg Barclays U.S. Treasury Bill 9–12 Month TR Index is up 2.42% over the same time period.
    - Primary contributors were positive income return and the higher-quality structured credit allocation with recent outperformance within the RMBS allocation.
    - Primary detractors were duration short of the benchmark and interest rate hedge positioning, given the flattening yield curve.

Net Total Returns as of 3/31/19	3 Mo.	YTD	SI[1]
Class I	1.07%	1.07%	3.35%
Class A	1.11%	1.11%	3.21%
Bloomberg Barclays U.S. Treasury Bill 9-12 Month TR Index	0.81%	0.81%	2.42%

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 3/31/19

	Class A	Class I
Gross Expense Ratio	0.86%	0.61%
Net Expense Ratio^	0.50%	0.25%
SEC Yield (Subsidized)	2.99%	3.31%
SEC Yield (Unsubsidized)	2.61%	2.92%

FUND CHARACTERISTICS

Fund Assets (All Classes)	$140.8 mm
Number of Securities	126
Distribution	Monthly
Effective Duration	0.5
Average Price (Portfolio)	$100.4
Floating Rate (%)	63.2

FUND STATISTICS

(Since Inception)	Fund[2]	Index
Standard Deviation	0.7	0.2
Sharpe Ratio	2.4	1.3
Correlation to Index	0.2	1.0
Positive Months (%)	100.0	100.0
Negative Months (%)	0.0	0.0

[2]AOUIX

Sector Attribution

		Q1 2019*	YTD 2019*
	% of Market Value	Attribution (%)	Attribution (%)
ABS	36.4	0.56	0.56
CLOs	13.2	0.09	0.09
Corporates	1.2	0.01	0.01
CMBS	5.7	0.05	0.05
RMBS	41.3	0.37	0.37
Cash	2.2	0.04	0.04
Credit Hedges	-	0.00	0.00
Fund Expenses	-	-0.07	-0.07
Total	100.0	1.07	1.07

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.

RMBS

- The NA RMBS allocation produced a total return of 106 basis points in the first quarter, contributing 37 basis points to Fund performance. Nonperforming (NPL) RMBS seniors were the highest-performing subsectors within the allocation for the quarter, up approximately 1.60% through a combination of price appreciation and current income. Spreads widened in the fourth quarter for NPL seniors to their widest level in three years, providing an attractive opportunity to increase the allocation. The non-QM allocation was the best contributor within the RMBS allocation, contributing 25 basis points in the first quarter. All other subsectors within NA RMBS were positive as well. The Fund continues to favor a diversified mix of new-issue sectors; primarily unrated new issuance NPL seniors; non-QM AAA/AA-rated tranches; and a mix of reperforming loans, prime, and expanded prime sectors.

ABS

- The ABS allocation produced a total return of 144 basis points in the first quarter, contributing 56 basis points to the Fund. Auto and credit card ABS both continued to grind tighter. New issuance continued to outpace last year's volumes, up from a slow start in January. The defensive nature of the Fund's positioning led to positive performance, but some underperformance relative to below IG ABS in Q1. The average duration of the ABS allocation increased slightly month over month to 1.09, while the weighted-average life (WAL) also increased slightly to 1.49, as the Fund continued to focus on quality assets with stable yield profiles.
- Issuance volumes for 2019 are expected to reach $255 billion, eclipsing $245 billion in 2018. As expected, auto and credit card ABS made up the majority of issuance in 2018, with approximately 70% of new-issue supply.

CMBS

- CMBS produced a total return of 115 basis points for the quarter, contributing 5 basis points to Fund performance. Within CMBS, the portfolio has shifted from primarily floating-rate agency CMBS (backed by multifamily properties) and into floating rate non-agency CMBS trading at a discount. Floating-rate NA CMBS has lagged the recent rally in U.S. IG risk premiums and exhibits positively convex characteristics at current valuations. The Fund continues to focus most of the allocation within a diversified mix of floating-rate SASB AAA/AA-rated tranches.

CLOs

- CLOs had a total return of 91 basis points in the first quarter, contributing 9 basis points to the Fund. The allocation to CLOs is focused on seasoned AAA-rated tranches with < 3 WAL (to worst) and short-duration X tranches in the new-issue market. The Fund continues to target wide, short X notes, along with seasoned AAAs nearing the end of the reinvestment period or already paying down.

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. 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.
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 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 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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