AOUIX | AOUAX | AOUCX

Angel Oak UltraShort Income Fund Quarterly Review

June 30, 2019

Angel Oak
CAPITAL ADVISORS

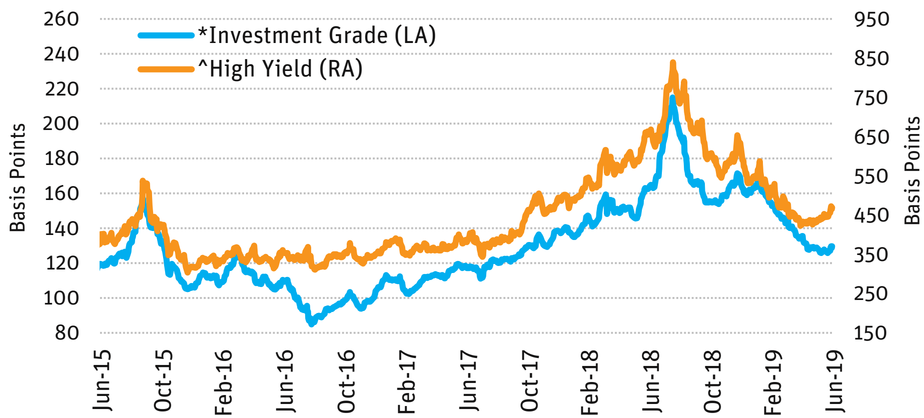
Quarter in Review

- U.S. risk assets were volatile in the second quarter as trade tensions with China and Mexico dominated the headlines; however, a more dovish Federal Open Market Committee (FOMC) sparked a rally in equities and credit in the last month of the quarter. The S&P 500 was up 4.30% while the NASDAQ Composite Index increased 3.88% in the second quarter. Corporate spreads benefited with the broader rally in risk assets.
- Following the sharp credit softness in the fourth quarter of 2018, FOMC Chairman Powell took a step back from his more hawkish sentiment, which created four rate hikes in 2018. The Fed reversal ignited a sharp rally in global assets for the first half of 2019. According to Bank of America Merrill Lynch Research, global stocks were up 15.5%, commodities rose 16.2%, HY corporates increased 9.3%, and IG corporates were up 7.7%. Falling interest rates throughout the first half of 2019 benefited both equities and U.S. fixed income. For Q2, the Bloomberg Barclays IG Corporate Index tightened 4 basis points to 115 OAS, while the HY equivalent tightened by 15 basis points to 371 OAS. U.S. Treasury yields fell across the curve, bull steepening the 2s10s spread by 11 basis points to 0.25%. The 10-year Treasury yield decreased 41 basis points to finish the quarter at 2.00%. 1M LIBOR fell 9 basis points to 2.40% while 3M LIBOR decreased 28 basis points to 2.32%.
- Structured credit returns were positive in the second quarter, especially for lower-rated tranches as long-duration assets benefited from the rate rally. Legacy non-agency residential mortgage-backed securities (RMBS) posted positive returns of approximately 2.7% in the second quarter, with positive excess returns for Alt-A and Option Arm of 2.0% and 2.2%, respectively. U.S. collateralized loan obligations (CLOs) were up 1.5% across the capital stack in the second quarter. CLOs generated positive excess returns of 0.7% to 1.1% for A and higher-rated tranches and 1.7%/2.3% for BBB/BB-rated tranches. Commercial mortgage-backed securities (CMBS) benefited from tighter spreads, posting positive excess returns of 0.5% for AA- through BBB-rated tranches. The asset-backed securities (ABS) sector posted a positive return of 1.6% for the quarter driven primarily by rates as the sector posted a 0.0% excess return. While most structured spread sectors posted positive returns year-to-date, Credit risk transfer (CRT) B1 and CLO BB generated the highest positive excess returns year to date at 7.4% and 7.1%, respectively.
- The FOMC looks to be following the rates market as the leadership is now signaling a potential rate cut in the third quarter, citing "global growth concerns" as the reason to "sustain" the expansion. The bond market is now pricing in 75 basis points of cuts by year-end and Fed Funds futures are implying an 80% probability of one cut and a 20% probability of two cuts in the July meeting. Inflation is currently running below the FOMC's long-term target, creating more room to cut rates. CORE PCE registered 1.6% year-over-year through June, 0.1% above market expectations of 1.5%.
- The U.S. labor market continues to remain healthy. Nonfarm payrolls rose 224k in June and have averaged +166k during the second quarter. The unemployment rate is currently running at 3.7%, with average hourly earnings continuing to rise at approximately 3.1% year-over-year.
- On the housing front, the S&P CoreLogic 20 City Index rose 2.54% through April. Housing starts fell 0.9% month-over-month in May to an annualized pace of 1.269MM. While new home sales declined 7.8% month-over-month, existing home sales increased 2.5% month-over-month.

Benchmark Performance	6/30/19	3/31/19	Quarterly Change (bps)
1-Month LIBOR	2.40	2.49	-0.09
3-Month LIBOR	2.32	2.60	-0.28
2-Year Treasury	1.75	2.26	-0.51
5-Year Treasury	1.77	2.23	-0.46
10-Year Treasury	2.00	2.41	-0.41
30-Year Treasury	2.53	2.81	-0.28
2s/10s Curve	0.25	0.14	0.11
2s/30s Curve	0.77	0.55	0.22
S&P 500 Total Return Index	5,908	5,665	+430
IG Corporate OAS*	115	119	-4
HY Corporate OAS^	376	391	-15

Sources: Bloomberg and Yieldbook as of 6/30/19.

Credit Index Performance



Source: Bloomberg as of 6/30/19.
*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 1.21% in the second quarter, outperforming the benchmark by 0.34%, which was up 0.87%. Since the Fund's inception on April 2, 2018, the Fund is up 3.69% (annualized) through June 2019, outperforming the benchmark by 1.04% (annualized), as the Bloomberg Barclays U.S. Treasury Bill 9–12 Month TR Index is up 2.65% (annualized) over the same period.

Primary contributors were:

- Positive total returns in RMBS, ABS, CMBS, and CLOs
- Overweight to RMBS and ABS relative to CMBS and CLOs given outperformance of the RMBS/ABS during the month
- Positive income returns north of the benchmark

Primary detractors were:

- Duration short of the benchmark and interest rate hedge positioning
- Elevated cash allocation

Net Total Returns as of 6/30/19	3 Mo.	YTD	1 Yr.	SI[1]
Class I	1.21%	2.29%	3.88%	3.69%
Class A	1.05%	2.18%	3.52%	3.44%
Bloomberg Barclays U.S. Treasury Bill 9-12 Month TR Index	0.87%	1.69%	2.88%	2.65%

Performance quoted is past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data shown. Current performance for the most recent month-end can be obtained by calling 855-751-4324 or by visiting www.angeloakcapital.com. [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 5/31/20.

FUND INFORMATION AS OF 6/30/19

	Class A	Class I
Gross Expense Ratio	0.95%	0.78%
Net Expense Ratio^	0.50%	0.25%
SEC Yield (Subsidized)	2.86%	3.18%
SEC Yield (Unsubsidized)	2.50%	2.81%

FUND CHARACTERISTICS

Fund Assets (All Classes)	$204.3 mm
Number of Securities	156
Distribution	Monthly
Effective Duration	0.6
Average Price (Portfolio)	$100.7

FUND STATISTICS

(Since Inception)	Fund[2]	Index
Standard Deviation	0.7	0.3
Sharpe Ratio	3.2	2.1
Correlation to Index	0.2	1.0
Positive Months (%)	100.0	100.0
Negative Months (%)	0.0	0.0

[2]AOUIX

Sector Attribution

		Q2 2019*	YTD 2019*
	% of Market Value	Attribution (%)	Attribution (%)
ABS	40.5	0.45	1.02
CLOs	8.7	0.11	0.21
Corporates	1.1	0.02	0.03
CMBS	7.3	0.05	0.10
RMBS	41.4	0.59	0.96
Cash	1.0	0.05	0.09
Credit Hedges	-	0.00	0.00
Fund Expenses	-	-0.06	-0.13
Total	100.0	1.21	2.29

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 37 basis points in June, contributing 15 basis points to Fund performance and bringing the year-to-date total return to 295 basis points, contributing 96 basis points to the Fund. Non-QM bonds was the highest-contributing subsector in the Fund for the month, driven by a combination of price appreciation and current income, as rate hike expectations remained muted and the curve continued to fall. All other subsectors within NA RMBS were positive except for Expanded Prime. The Fund continues to favor unrated new-issuance non-performing loan seniors in the 4% yield area, coupled with investment grade-rated non-QM.

ABS

- The ABS allocation produced a total return of 31 basis points in June, contributing 10 basis points to the Fund, bringing the year-to-date total return to 298 basis points, contributing 102 basis points to the Fund. Auto and credit card ABS spreads were wider but were up in price given the rally for short-dated fixed-rate paper. New issuance continues to outpace last year's volumes, up from a slow start. The defensive nature of the Fund's positioning led to positive performance, given its short, de-levering focus. The average duration of the ABS allocation decreased slightly month over month to 1.17, while the weighted average life (WAL) increased slightly to 1.56, 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. Spreads were 10 to 20 basis points wider across the capital structure for autos and credit cards during June.

CMBS

- CMBS produced a total return of 109 basis points for the quarter, contributing 1 basis point to Fund performance and bringing the year-to-date total return to 225 basis points, contributing 10 basis points to the Fund. Within CMBS, the portfolio is predominantly comprised of floating rate agency CMBS bonds backed by multifamily properties and single asset/single borrower (SASB) tranches. The Fund continues to look for short-duration floating SASB and Agency CMBS bonds.

CLOs

- CLOs had a total return of 30 basis points in June, contributing 2 basis points to the Fund, bringing the year-to-date total return to 193 basis points, contributing 21 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 front-pay bonds that have passed the end of the reinvestment period.

Definitions

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.
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.
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

Mutual fund 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. For more information on these risks and other risks of the Fund, please see the Prospectus.

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 6/30/19 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

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