



Angel Oak UltraShort Income Fund Quarterly Review

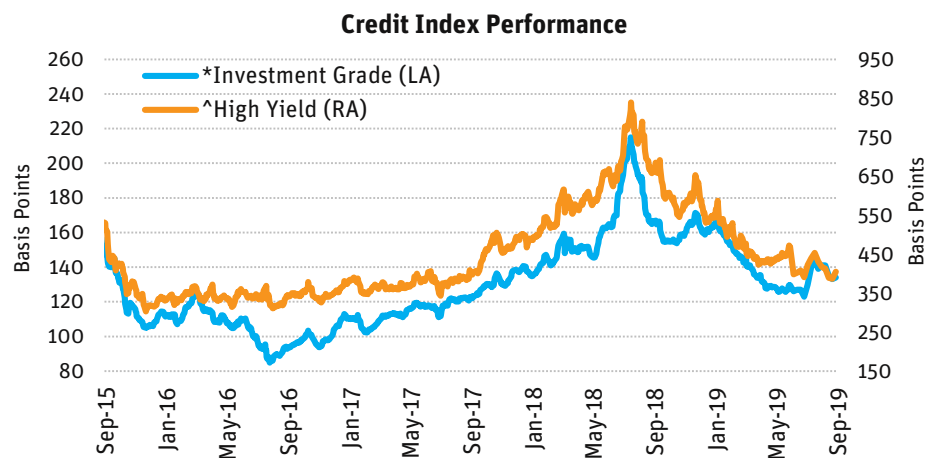
September 30, 2019

Quarter in Review

- U.S. risk assets were volatile in the third quarter as trade tensions with China continued to dominate headlines as both countries announced new rounds of tariffs. Despite geopolitical headwinds, the S&P 500 increased 1.70% while the Nasdaq Composite Index increased 0.18% in the third quarter.
- For the first time since 2007, the Federal Open Market Committee (FOMC) cut the fed funds target rate by 25 basis points, to a range of 2.0%-2.25% in July. The FOMC cut the target range again in September by 25 basis points on concerns of weakening growth in both the U.S. and global markets. The target range currently stands at 1.75%-2.00% at quarter end. Despite two cuts in 2019, investors still expect 1 or 2 additional cuts in the target range by the end of 2019. U.S. Treasury yields fell sharply in 2019, benefiting both equities and U.S. fixed income. Year-to-date, the S&P 500 returned 20.56%, the Bloomberg Barclays IG Corporate returned 12.9%, and the Bloomberg Barclays High Yield returned 11.5%. For Q3, the Bloomberg Barclays IG Corporate Index remained unchanged at 115 OAS, while the HY equivalent tightened by 3 basis points to 373 OAS. U.S. Treasury yields fell across the curve, bull flattening the 2s10s spread by 21 basis points to 0.04%. The 10-year Treasury yield decreased 34 basis points to finish the quarter at 1.66%. 1M LIBOR fell 38 basis points to 2.02%, while 3M LIBOR decreased 23 basis points to 2.09%. The secured overnight financing rate decreased 15 basis points to 2.35% at quarter end.
- Structured credit returns were positive in the third 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 1.5%, with positive excess returns for both Alt-A and Option ARM sectors of 1.2%. U.S. collateralized loan obligations (CLOs) were up 0.9%. CLOs generated positive excess returns of 0.5% for AAA- through A-rated tranches and 0.2% for BBB-rated tranches. CLO BB-rated tranches produced negative excess returns of 0.4% due to weakness in leveraged loan markets. Commercial mortgage-backed securities (CMBS) benefited from tighter spreads, posting positive excess returns of 0.7% for AA- through BBB-rated tranches. The asset-backed securities (ABS) sector posted a positive return of 0.8%, driven by spread tightening in floating rate ABS. While most structured spread sectors posted positive returns year-to-date, credit risk transfer (CRT) B1 and CLO BB tranches generated the highest positive excess returns of 12.8% and 6.7%, respectively.
- The ISM Manufacturing Index fell below 50, the demarcation line between expansion and contraction, for both August and September. The September reading of 47.8 was the lowest level since June 2009. New orders and new export components of the survey are at the lowest levels since 2009. While manufacturing data was weak, the U.S. labor market continues to remain healthy. Nonfarm payrolls rose +136k in September, marginally below expectations of +145k. The headline unemployment rate fell to a 50-year low, to 3.5%, as the labor force participation rate increased 0.3% to 63.2% from the previous quarter.
- On the housing front, the S&P CoreLogic 20 City Home Price Index rose 2.0% through July. Housing starts increased 12.2% month-over-month in August to an annualized pace of 1.36 million, the fastest pace since mid-2007. Existing home sales rose 1.29% month-over-month to a 5.49 million annualized pace. Falling financing costs and rates have contributed to an overall increase in affordability.

Benchmark Performance	9/30/19	6/30/19	Quarterly Change (bps)
1-Month LIBOR	2.02	2.40	-0.38
3-Month LIBOR	2.09	2.32	-0.23
2-Year Treasury	1.62	1.75	-0.13
5-Year Treasury	1.54	1.77	-0.23
10-Year Treasury	1.66	2.00	-0.34
30-Year Treasury	2.11	2.53	-0.42
2s/10s Curve	0.04	0.25	-0.21
2s/30s Curve	0.49	0.77	-0.28
S&P 500 Total Return Index	6,009	5,908	+170
IG Corporate OAS*	115	115	0
HY Corporate OAS^	373	376	-3

Sources: Bloomberg and Yieldbook as of 9/30/19.



Source: Bloomberg as of 9/30/19.

*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 1.07% in the third quarter, outperforming the benchmark by 0.49%, which was up 0.58%. The Fund is up 3.39% year-to-date through September, outperforming the benchmark by 1.11% as the Bloomberg Barclays U.S. Treasury Bill 9–12 Month TR Index was up 2.28% 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 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
- Overweight to floating rate bonds

Net Total Returns as of 9/30/19	3 Mo.	YTD	1 Yr.	Annualized
				SI ¹
Class I	1.07%	3.39%	4.15%	3.79%
Class A	0.91%	3.11%	3.68%	3.48%
Bloomberg Barclays U.S. Treasury Bill 9-12 Month TR Index	0.58%	2.28%	3.00%	2.59%

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. ¹The inception date of the Angel Oak UltraShort Income Fund I Class (AQUIX) was 4/2/18, while the inception date of the A Class (AQUAX) was 4/30/18. [^]The Adviser has contractually agreed to waive fees through 5/31/20.

FUND INFORMATION AS OF 9/30/19

	Class A	Class I
Gross Expense Ratio	0.95%	0.78%
Net Expense Ratio [^]	0.50%	0.25%
SEC Yield (Subsidized)	2.69%	3.01%
SEC Yield (Unsubsidized)	2.39%	2.69%

FUND CHARACTERISTICS

Fund Assets (All Classes)	\$301.5 mm
Number of Securities	183
Distribution	Monthly
Effective Duration	0.7
Average Price (Portfolio)	\$100.9

FUND STATISTICS

(Since Inception)	Fund ²	Index
Standard Deviation	0.7	0.3
Sharpe Ratio	3.2	1.6
Correlation to Index	0.3	1.0
Positive Months (%)	100.0	100.0
Negative Months (%)	0.0	0.0

²AQUIX



Sector Attribution

		Q3 2019*	YTD 2019*
	% of Market Value	Attribution (%)	Attribution (%)
ABS	42.5	0.49	1.53
RMBS	36.8	0.49	1.50
CMBS	9.5	0.06	0.15
CLOs	7.0	0.06	0.26
Cash	3.4	0.03	0.12
Corporates	0.8	0.01	0.03
Credit Hedges	-	0.00	0.00
Fund Expenses	-	-0.07	-0.20
Total	100.0	1.07	3.39

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 121 basis points in the third quarter, contributing 49 basis points to Fund performance and bringing the year-to-date total return to 443 basis points, contributing 150 basis points to the Fund. Reperforming loan bonds led outperformance in the Fund, driven by a combination of price appreciation and current income, as the rate rally helped drive bond prices higher. All other subsectors within NA RMBS fixed-rate bonds saw prices fall, but income offset losses, making total return positive. The Fund continues to favor unrated new-issuance non-performing loan seniors in the mid-3% yield area, coupled with investment grade-rated non-QM.

ABS

- The ABS allocation produced a total return of 118 basis points in the third quarter, contributing 49 basis points to the Fund, bringing the year-to-date total return to 412 basis points, contributing 153 basis points to the Fund. Generic spreads were modestly tighter by approximately 2 to 5 basis points across the capital stack for both prime and subprime autos; however, floating rate cards widened by 5 basis points. The average duration of the ABS allocation increased slightly quarter-over-month to 1.33 from 1.17, while the weighted average life (WAL) remained steady at 1.56. Issuance volume year-to-date stands at \$190 billion; auto and credit card ABS made up the majority of issuance, with approximately 65% of new-issue supply.

CMBS

- CMBS produced a total return of 58 basis points for the quarter, contributing 6 basis points to Fund performance and bringing the year-to-date total return to 307 basis points, contributing 15 basis points to the Fund. Within CMBS, the portfolio is predominantly composed 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 88 basis points in Q3, contributing 6 basis points to the Fund, bringing the year-to-date total return to 284 basis points, contributing 26 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

ARM: Adjustable-rate mortgage.

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.

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.

ISM Manufacturing Index: An index that is based on surveys of more than 300 manufacturing firms by the Institute for 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.

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.

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