



Angel Oak Financials Income Fund Quarterly Review

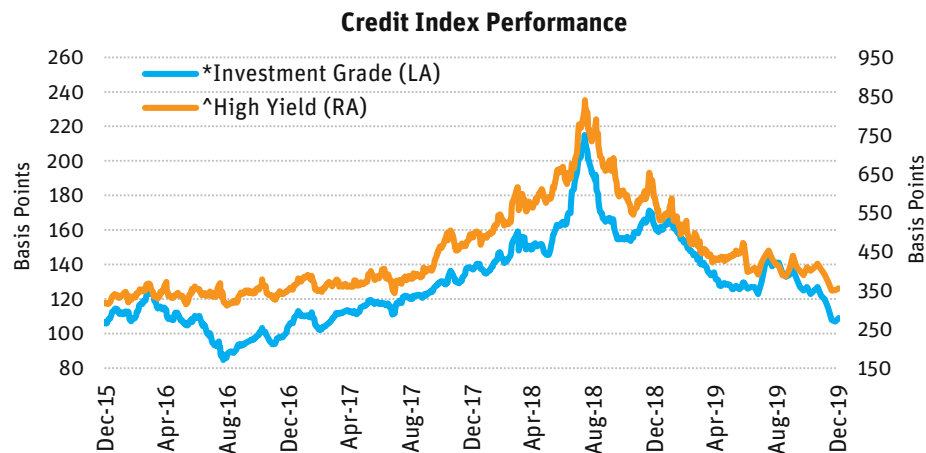
December 31, 2019

Quarter in Review

- Returns for the fourth quarter were driven by the prospect for a phase-one, partial trade agreement and comments from Federal Reserve Chairman Jerome Powell that after completion of the midcycle easing they are essentially on hold, not to mention the recent expansion of the balance sheet.
- After escalation of the trade war entering the fourth quarter, with threats of restrictions on capital flows and blacklisting of technology companies, the U.S. and China were able to agree to a phase-one, partial trade agreement. The details of the agreement have yet to be released, but in exchange for canceling announced but not-yet-implemented tariffs and cutting tariffs from 15% to 7.5% on \$120 billion of imports, China has agreed to increase purchases of agricultural products, not to devalue the yuan, and take steps to open its financial sector and better protect U.S. intellectual property.
- The Federal Reserve completed their 75 basis points midcycle easing in the fourth quarter, reducing the Federal Funds rate to 1.50%, and indicated interest rates are appropriate to sustain the expansion. Chairman Powell further said that the economy and monetary policy were in a good place and it would take a significant sustained move up in inflation before he would consider raising interest rates. In addition to lower interest rates, returns were supported by the additional \$410 billion of liquidity supplied by the Federal Reserve since the end of August, and that ballooned the Federal Reserve's balance sheet to \$4.2 trillion, the highest since September 2018.
- Despite the progress toward a phase-one, partial trade agreement, manufacturing conditions continue to deteriorate, with the ISM Manufacturing PMI falling to 47.2 at the end of December, the lowest reading since June 2009. Industrial production measured on a year-over-year basis also deteriorated in the quarter, falling into negative territory, which almost never happens without a recession ensuing.
- In the context of progress toward a phase-one, partial trade agreement, easy monetary policy from the Federal Reserve, and low inflation, investors' optimism in the outlook for the economy and returns was reflected in their demand for high-yield fixed-rate assets, with inflows into high-yield mutual funds totaling approximately \$3.3 billion in the quarter and approximately \$18.5 billion for the year.

| Benchmark Performance | 12/31/19 | 9/30/19 | Quarterly Change (bps) |
|----------------------------|----------|---------|------------------------|
| 1-Month LIBOR | 1.78 | 2.02 | -24 |
| 3-Month LIBOR | 1.91 | 2.09 | -18 |
| 2-Year Treasury | 1.57 | 1.62 | -5 |
| 5-Year Treasury | 1.69 | 1.54 | +15 |
| 10-Year Treasury | 1.92 | 1.66 | +26 |
| 30-Year Treasury | 2.39 | 2.11 | +28 |
| 2s/10s Curve | 0.35 | 0.04 | +31 |
| 2s/30s Curve | 0.82 | 0.49 | +33 |
| S&P 500 Total Return Index | 6,554 | 6,009 | +907 |
| IG Corporate OAS* | 93 | 115 | -22 |
| HY Corporate OAS^ | 336 | 373 | -37 |

Sources: Bloomberg and Yieldbook as of 12/31/19.



Source: Bloomberg as of 12/31/19.

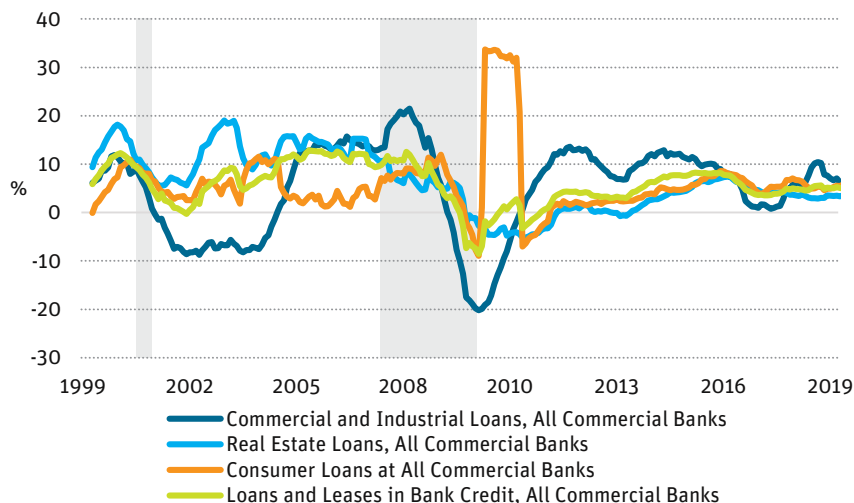
*Bloomberg Barclays U.S. Corporate Total Return Value Unhedged

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



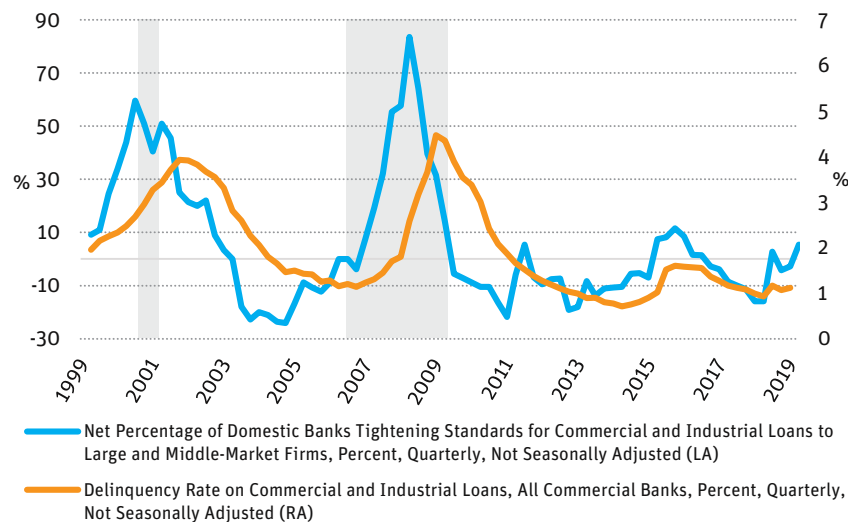
Fundamental Backdrop

Bank Loan Growth



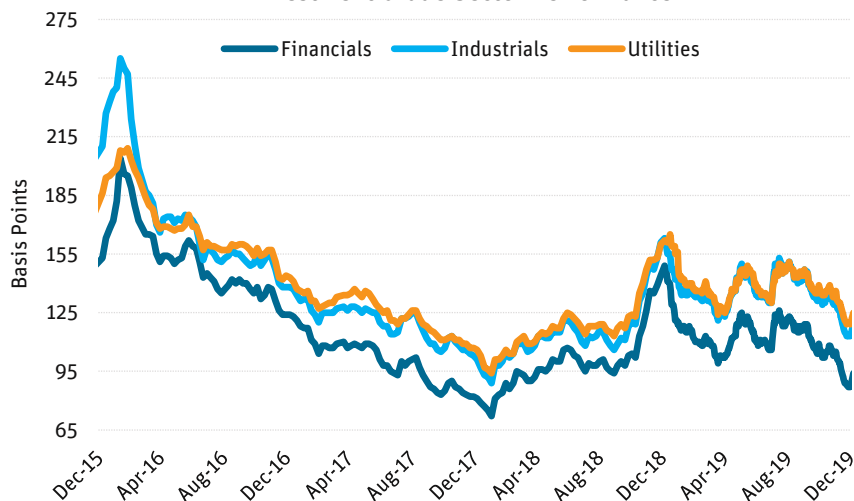
Source: FRED as of 10/31/19. Shaded gray bars represent periods of recession.

Banks Tightening Standards C&I And Delinquency C&I



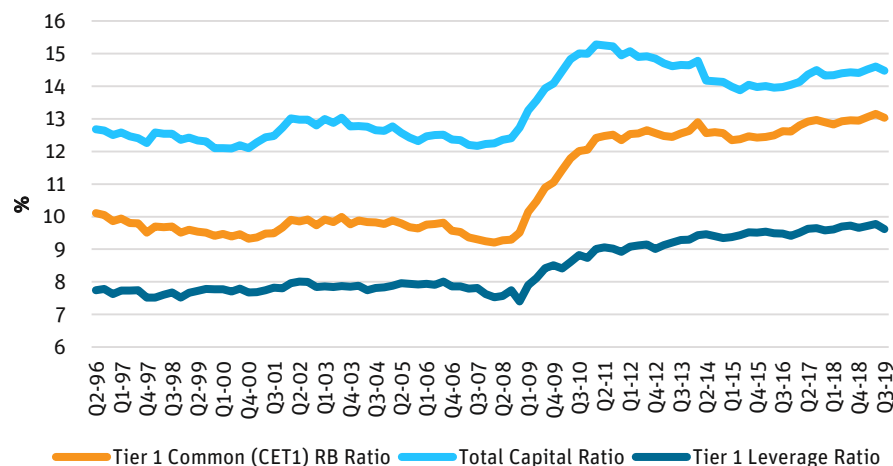
Source: FRED as of 9/30/19. Shaded gray bars represent periods of recession.

Investment Grade Sector Performance



Source: RCA, Morgan Stanley as of 12/31/19.

Bank Capital Levels



Source: S&P Global Market Intelligence as of 9/30/19.



Portfolio Performance

Summary

- The Class I share was up 1.38% during the fourth quarter, outperforming the benchmark by approximately 1.20%, as the Bloomberg Barclays U.S. Aggregate Bond Index was up 0.18% over the same period. The Fund's outperformance was a function of having a shorter duration profile relative to the index as rates rose during the quarter. The Fund's performance also benefited from active trading and rebalancing of the portfolio monetizing certain positions that have particularly increased in value.
- The Fund also outperformed the Bloomberg Barclays U.S. Aggregate 3-5 Year Index, the index which is most similar to the Fund in terms of duration, by 0.85%.

| Net Total Returns as of 12/31/19 | 3 Mo. | YTD | 1 Yr. | Annualized | | |
|---|--------|-------|-------|------------|-------|-----------------|
| | | | | 3 Yr. | 5Yr. | SI ¹ |
| Class I | 1.38% | 6.84% | 6.84% | 5.26% | 3.78% | 3.77% |
| Class A at NAV | 1.32% | 6.45% | 6.45% | 4.99% | 3.53% | 3.52% |
| Class A at MOP ² | -0.98% | 4.11% | 4.11% | 4.18% | 3.06% | 3.06% |
| Bloomberg Barclays U.S. Agg. 3-5 Year Index | 0.53% | 6.33% | 6.33% | 3.05% | 2.54% | 2.51% |
| Bloomberg Barclays U.S. Agg. Bond Index | 0.18% | 8.72% | 8.72% | 4.03% | 3.05% | 3.13% |
| Morningstar Short-Term Bond Category | 0.60% | 4.57% | 4.57% | 2.36% | 1.87% | 1.76% |

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 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. ³The Adviser has contractually agreed to waive fees through 5/31/20.

FUND INFORMATION AS OF 12/31/19

| | Class A | Class I |
|--------------------------------|---------|---------|
| Gross Expense Ratio | 1.43% | 1.18% |
| Net Expense Ratio [^] | 0.94% | 0.69% |
| SEC Yield (Subsidized) | 3.68% | 4.00% |
| SEC Yield (Unsubsidized) | 3.31% | 3.63% |

FUND CHARACTERISTICS

| | |
|---------------------------|------------|
| Fund Assets (All Classes) | \$259.9 mm |
| Number of Securities | 129 |
| Distribution | Monthly |
| Effective Duration | 3.2 |
| Average Price (Portfolio) | \$101.91 |

FUND STATISTICS

| (Since Inception) | Fund ³ | Index ⁴ |
|----------------------|-------------------|--------------------|
| Standard Deviation | 3.6 | 2.4 |
| Sharpe Ratio | 1.1 | 0.9 |
| Correlation to Index | 0.2 | 1.0 |
| Positive Months (%) | 80.3 | 60.7 |
| Negative Months (%) | 19.7 | 39.3 |

³ANFIX

⁴BbgBarc U.S. Agg 3-5 Yr Idx



Sector Attribution

| | | Q4 2019 ¹ | YTD 2019 ¹ |
|----------------------------|-------------------|----------------------|-----------------------|
| | % of Market Value | Attribution (%) | Attribution (%) |
| Corporates | 96.9 | 1.43 | 6.83 |
| CLOs | 0.0 | -0.10 | 0.03 |
| ABS | 0.0 | 0.00 | 0.02 |
| Equity | 2.6 | 0.20 | 0.55 |
| Cash | 0.5 | 0.02 | 0.13 |
| Credit Hedges | - | 0.00 | 0.00 |
| Fund Expenses ² | - | -0.18 | -0.72 |
| Total | 100.0 | 1.38 | 6.84 |

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.

¹Estimated returns, net of hedges, and unaudited. Attribution is calculated using an internal model, thus, returns may vary from the Fund's total return. ²Fund expenses include certain investment expenses, such as interest expense from borrowings and repurchase agreements, incurred directly by the Fund or indirectly through the Fund's investments in underlying Angel Oak Funds (if applicable), none of which are paid to Angel Oak.

Corporates

- Corporates benefited from one of the most robust quarters of primary market issuance across community bank debt. We added attractive-yielding investment-grade subordinated debt in the community bank sector and selectively increased non-bank financials exposure in the BDC sector.
- We continue to have high conviction on the banking sector from a debt perspective, given our outlook for continued strong credit performance. Asset quality for the sector remains pristine; we continue to see modest improvement in non-performing assets and stable trends in net charge-offs. We are mindful of episodic credit events that may impact specific institutions from an equity valuation perspective but see no signs of systemic credit deterioration that may impact the broader bank debt market.
- While we expect top-line growth to slow for the banks in the face of a more challenging interest rate environment and expected future Fed funds rate cuts, banks have levers to partially offset slowing earnings growth: 1) higher mortgage banking revenues as refinancings increase, 2) cost control, and 3) lower interest-bearing deposit costs.
- Mergers and acquisitions (M&A) activity, a positive for bank debt performance, increased in 2019 relative to 2015-2018 levels. The consolidation rate for the industry for 2019 was close to 6% compared with an average of approximately 5% the prior four years. We expect further acceleration in M&A through 2020 as banks search for meaningful efficiencies and cost savings in the face of a tougher earnings and rate environment.
- Fourth-quarter earnings results to date (money center banks and some of the large regional banks), though still very early in the reporting season, show supportive trends on average: 1) strong credit trends, 2) a focus on expense management, and 3) higher fee income. NIM compression has been generally in line with expectations as lower deposit costs are helping offset some of the decline in loan yields.

CLOs

- 2019 ended the year on a positive tone with the loan market rallying and perceived tail risk shrinking within CLOs. With the sector lagging, broader risk market rallying, cash on the sidelines, and a renewed enthusiasm for the sector, we believe the market is set up to start the year on a bullish tone.



Definitions

ABS: Asset-backed security.

BDC: Business development company.

CLO: Collateralized loan obligation.

NIM: Net interest margin.

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

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. Aggregate 3-5 Year Index: An index that tracks bonds with 3-5 year maturities within the Bloomberg Barclays U.S. Aggregate Bond Index.

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. Agg. 3-5 Year 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.

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.

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.

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. Investments in debt securities typically decrease when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and nonrated securities present a greater risk of loss to principal and interest than higher-rated securities do. Investments in asset-backed and mortgage-backed securities include additional risks that investors should be aware of, including credit risk, prepayment risk, possible illiquidity, and default, as well as increased susceptibility to adverse economic developments. Derivatives involve risks different from—and in certain cases, greater than—the risks presented by more traditional investments. Derivatives may involve certain costs and risks such as illiquidity, interest rate, market, credit, management, and the risk that a position could not be closed when most advantageous. Investing in derivatives could lead to losses that are greater than the amount invested. The Fund may make short sales of securities, which involves the risk that losses 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 or 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. 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. For more information on these risks and other risks of the Fund, please see the Prospectus.

The Morningstar Short-Term Bond Category represents an average of all of the funds in the Morningstar Short-Term Bond Category.

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 12/31/19 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

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