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Angel Oak Multi-Strategy Income Fund Quarterly Review

December 31, 2019

Angel Oak
CAPITAL ADVISORS

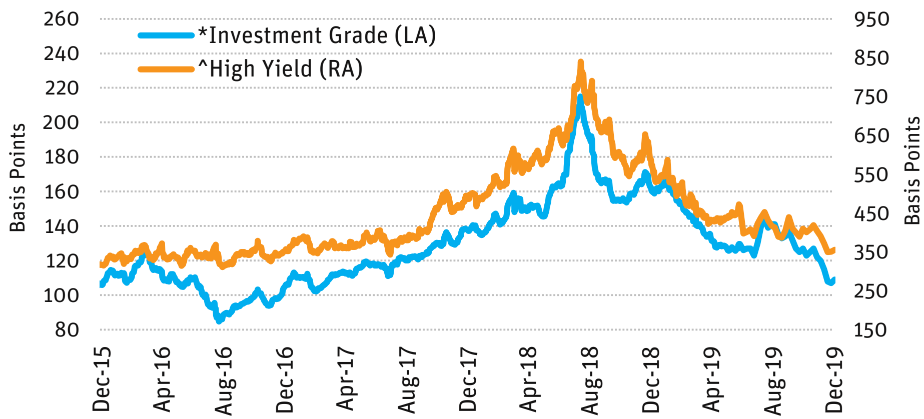
Quarter in Review

- U.S. risk assets performed well in Q4 2019, a continuation of the significant price returns reached so far year-to-date. After a more volatile market environment in the third quarter, positive developments between the U.S. and China increased investor optimism. Expectations of a phase-one, partial trade agreement led to positive risk-asset returns for the final quarter of the year. The S&P 500 increased 9.07% while the Nasdaq Composite Index increased 12.49% in the fourth quarter. Credit spreads were tighter on the quarter while U.S. Treasury yields rose.
- As markets expected, the Federal Open Market Committee (FOMC) cut the Fed funds target rate by 25 points during their October meeting. This was the third rate cut for 2019, reducing the target rate range to 1.50%-1.75%. Short-term interest rates are now firmly in negative real rate territory. This reduction of the "risk-free" curve throughout 2019 fueled risk assets higher. The S&P 500 finished 2019 at all-time highs following one of the best total returns of the post-crisis period. Traditional fixed income benchmarks such as the Bloomberg Barclays U.S. Aggregate Bond Index (known as "the Agg") had an exceptional year, primarily due to the significant amount of interest rate sensitivity in the composite. For 2019, the S&P 500 returned 31.49% while the Nasdaq Composite Index returned 36.74%. High yield and investment grade corporates returned 14.32% and 14.54%, respectively.
- Structured credit returns were positive in the fourth quarter. In particular, lower-rated tranches outperformed, benefiting from improved investor sentiment. Legacy non-agency residential mortgage-backed securities (RMBS) posted positive returns of approximately 1.5%, with positive excess returns of approximately 1.0%. Collateralized loan obligations (CLOs) generated positive excess return of 0.5% for AAA/AA tranches while lower-rated BBB and BB tranches posted positive excess return of 1.4% and 3.8%, respectively. Commercial mortgage-backed securities (CMBS) posted a positive excess return of 0.1% for AA- through BBB-rated tranches. The asset-backed securities (ABS) sector excess returns were flat on the quarter. For the year, credit risk transfer (CRT) B1 and CLO BB tranches generated the highest positive excess returns of 14.8% and 10.9%, respectively.
- On the housing front, the S&P 500 CoreLogic 20 City Home Price Index rose 2.3% through October. Existing home sales decreased 1.7%, to a 5.35M annualized pace, missing the market's expectation of 5.44M in December. From a broader economic perspective, the U.S. consumer sector remains healthy, yet data within manufacturing activity is less rosy. For example, the ISM Manufacturing Index dropped to 47.2 in the final month of 2019. December's reading was the fifth consecutive month of sub-50 results. Survey participants cited cautious optimism while only three industries reported growth, matching the worst performance since early 2009. The U.S. labor market continues to remain healthy despite weak manufacturing data. Nonfarm payrolls increased 145K in December, slightly below the market's expectation of +160K. Unemployment remains at a 50-year low of 3.5%, and the labor force participation rate remained steady at its 63.2% from the previous quarter.

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

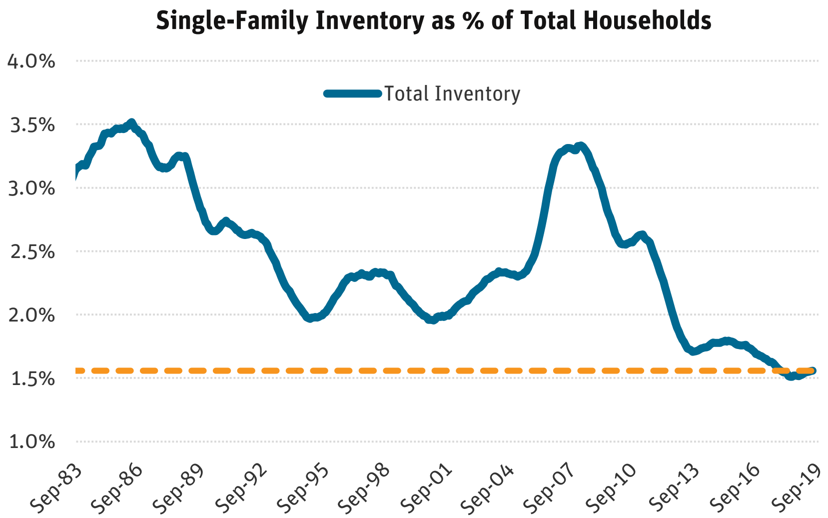
Sources: Bloomberg and Yieldbook as of 12/31/19.

Credit Index Performance

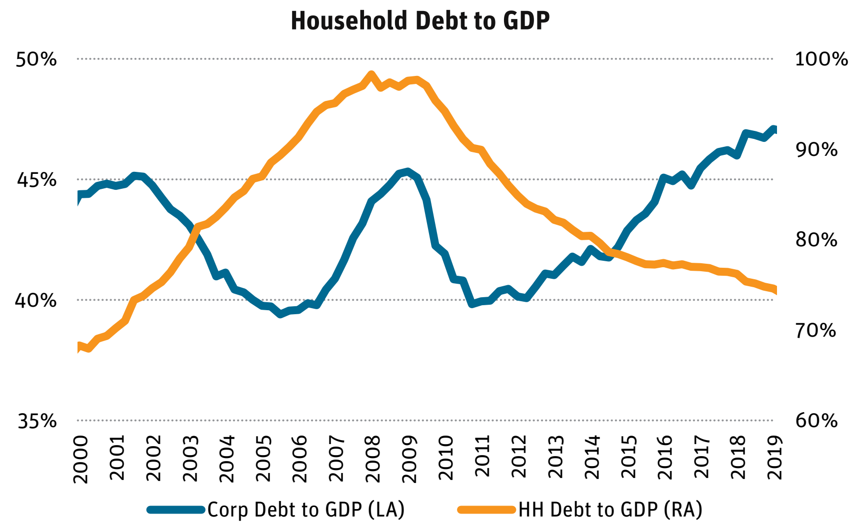


Source: Bloomberg as of 12/31/19.
*Bloomberg Barclays U.S. Corporate Total Return Value Unhedged
^Bloomberg Barclays U.S. Corporate High Yield Total Return Index Value Unhedged

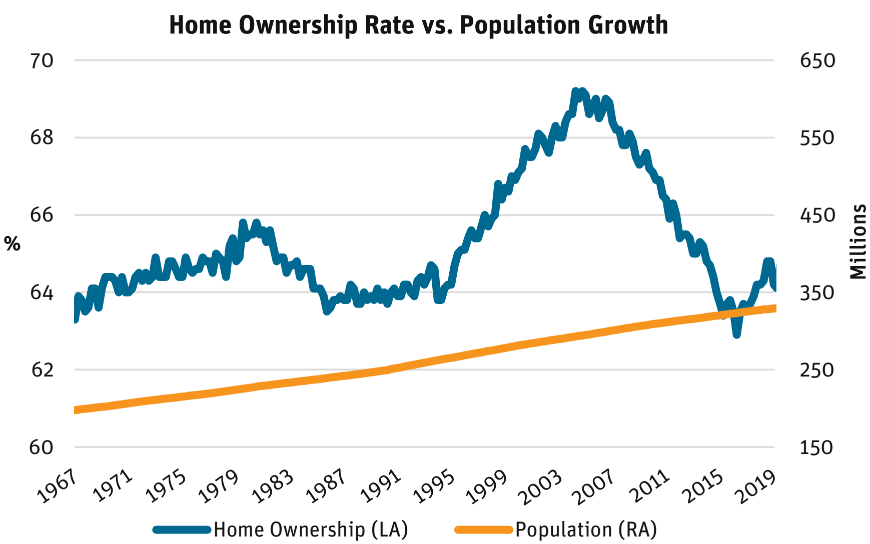
Fundamentals = Scenario Improvement



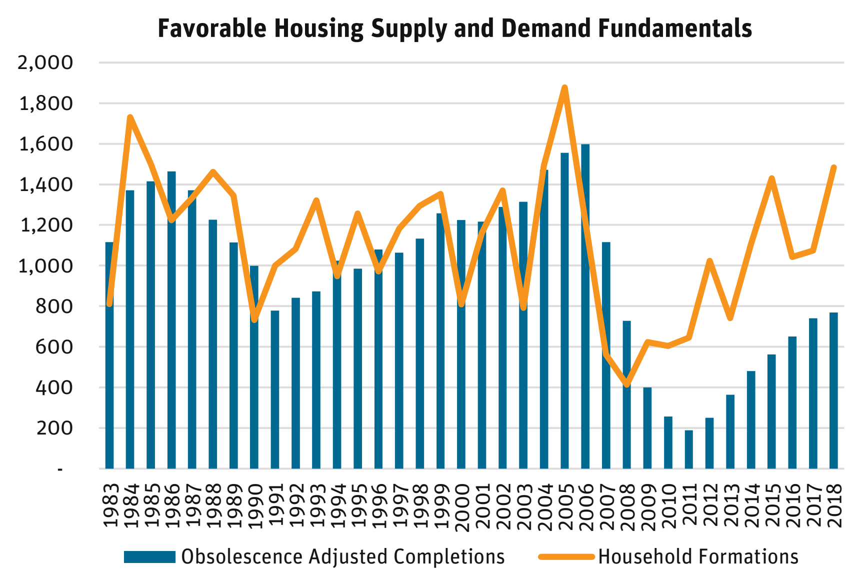
Source: Morgan Stanley as of 9/30/19.



Source: Federal Reserve, Bureau of Economic Analysis as of 9/30/19.



Source: Bloomberg as of 9/30/19.



Source: Morgan Stanley as of 12/31/18.

Portfolio Performance

Summary

The Fund was up 0.89% in the fourth quarter, outperforming the benchmark by 0.71%, which was up 0.18%. For 2019, the Fund was up 4.98%, underperforming the benchmark by 3.74%, as the Bloomberg Barclays U.S. Aggregate Bond Index was up 8.72% over the same period.

Primary contributors to Q4 performance were:

- Positive total returns in RMBS, CMBS, CLOs, ABS, and Corporates
- High allocation to RMBS, including legacy, Non-QM, and CRT
- Positive income returns north of the benchmark

Primary detractor was:

- Focus on floating rate bonds, given the decline in 1M and 3M LIBOR rates

				Annualized		
Net Total Returns as of 12/31/19	**3 Mo.**	**YTD**	**1 Yr.**	**3 Yr.**	**5 Yr.**	**SI[1]**
Class I	0.89%	4.98%	4.98%	4.52%	3.96%	6.82%
Class A at NAV	0.92%	4.71%	4.71%	4.25%	3.69%	6.59%
Class A at MOP[2]	-1.31%	2.39%	2.39%	3.46%	3.22%	6.30%
Bloomberg Barclays U.S. Agg. Bond Index	0.18%	8.72%	8.72%	4.03%	3.05%	3.29%

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 Multi-Strategy Income Fund A Class (ANGLX) was 6/28/11, while the inception date of the Institutional Class (ANGIX) was 8/16/12. The returns of ANGIX shown for periods prior to the inception date include the returns of ANGLX and are adjusted to reflect the operating expenses of ANGIX. [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 12/31/19

	Class A	Class I
Gross Expense Ratio	1.37%	1.12%
Net Expense Ratio^	1.22%	0.97%
SEC Yield (Subsidized)	4.09%	4.44%
SEC Yield (Unsubsidized)	4.09%	4.44%

FUND CHARACTERISTICS

Fund Assets (All Classes)	$7.6bn
Number of Securities	3,495
Distribution	Monthly
Effective Duration	1.8
Average Price (Portfolio)	$92.8
Average Price (Legacy RMBS)	$86.4
Floating Rate (%)	64.7

FUND STATISTICS

(Since Inception)	Fund[3]	Index
Standard Deviation	3.0	3.8
Sharpe Ratio	3.0	1.0
Correlation to Index	0.1	1.0
Positive Months (%)	84.3	62.8
Negative Months (%)	15.7	37.3

[3]ANGIX

Sector Attribution

		Q4 2019[1]	YTD 2019[1]
	% of Market Value	Attribution (%)	Attribution (%)
RMBS	71.6	0.86	4.43
CMBS	8.7	0.08	0.40
CLOs	8.0	0.10	0.60
Corporates	5.0	0.09	0.50
ABS	4.9	0.03	0.18
Cash	1.8	0.00	0.03
Credit Hedges	-	0.00	0.00
Fund Expenses[2]	-	-0.28	-1.16
Total	100.0	0.89	4.98

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.
[1]Estimated returns, net of hedges, and unaudited. Attribution is calculated using an internal model, thus, returns may vary from the Fund's total return. [2]Fund 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.

RMBS

- NA RMBS had a total return of 121 basis points in the fourth quarter, contributing 86 basis points to Fund performance. Year-to-date, the sector generated a total return of 627 basis points, contributing 443 basis points to Fund performance. Spreads across the sector were slightly tighter or range-bound during the quarter. The rate rally helped pull prices higher, while all-in yields were lower. We expect to continue to see the impact of the rate rally to filter through legacy in the form of increased voluntary prepayment speeds in the coming months.
- The new-issue market maintained its strong pace in the fourth quarter, with over $30 billion coming to market across 60 deals. Non-QM remained at the forefront of the conversation, accounting for a quarter of the deals issued. 2019 issuance volume was over 2.5x that of 2018, and is expected to continue to grow in 2020.

CMBS

- CMBS returned 91 basis points in the fourth quarter, contributing 8 basis points to Fund performance net of hedges. For the full year, CMBS returned 493 basis points to Fund performance, contributing 40 basis points net of hedges. Generic spreads for the quarter were wider for all tranches except for AAA. AAAs tightened by 10 basis points to 82, while AAs widened by 15 basis points to 140, single A tranches widened by 20 basis points to 175, and BBBs by 15 basis points to 305. In new issue, $43.8 billion priced for the quarter, split between $17.5 billion of conduit, $20.1 billion of single asset/single borrower (SASB), and $6.2 billion of commercial real estate CLOs. Allocation to CMBS decreased slightly to 8.7% in the fourth quarter from 9.1% in the previous quarter. Over the quarter, the Fund's allocation to SASB has increased while reducing conduit allocation.

CLOs

- CLOs had a total return of 123 basis points in the fourth quarter, contributing 10 basis points to the Fund, bringing the year-to-date total return to 652 basis points, contributing 60 basis points to the Fund. The focus remained on defensive-natured, seasoned bonds closer to the reinvestment period end date as opposed to the standard five-year reinvest/two-year non-call structure. The Fund has also looked to target discount bonds with upside from potential corporate action.

ABS

- The ABS allocation returned 54 basis points on the quarter, contributing 3 basis points to Fund performance. For 2019, the ABS allocation had a positive total return of 547 basis points, contributing 18 basis points to Fund performance. The allocation to ABS decreased by approximately 0.75% quarter-over-quarter. The strategy decreased the exposure to auto and credit card ABS and increased the exposure to consumer loan ABS. This increased the expected yield by approximately 0.15% while decreasing the weighted average life by approximately 0.10 years.
- Credit spreads were modestly tighter for auto and credit card ABS on the quarter by approximately 5 basis points. Total returns for the quarter were driven primarily by current income; rising interest rates were a modest headwind to performance.

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 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.
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. 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 higher and duplicative expenses when it invests in mutual funds, ETFs, and other investment companies. 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 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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