



Angel Oak UltraShort Income Fund Quarterly Review

June 30, 2020

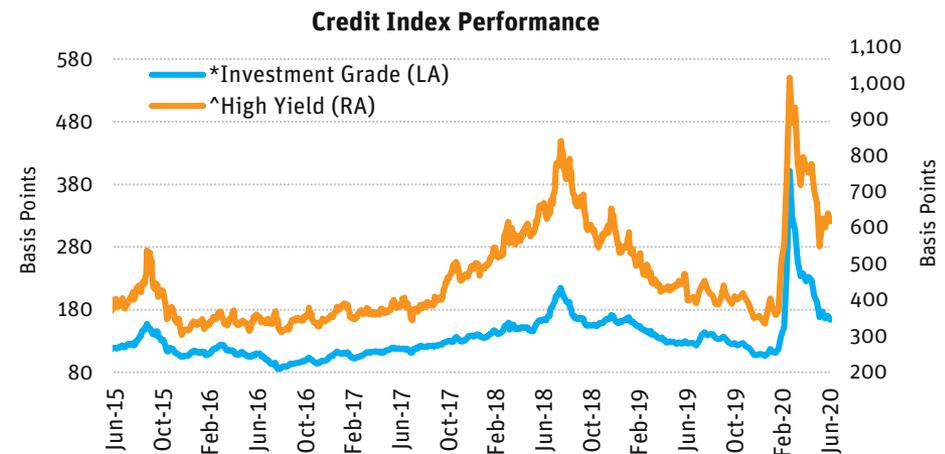


Quarter in Review

- U.S. risk assets bounced back in the second quarter on positive news of declining cases of COVID-19 and the reopening of the U.S. economy. The S&P 500 was up 20.5%, and corporate spreads tightened, with investment grade and high yield spreads tightening 122 and 254 basis points, respectively.
- Structured credit returns were positive in the second quarter, as investor demand outweighed supply. Legacy non-agency residential mortgage-backed securities (RMBS) posted positive returns of approximately 10.1%, with positive excess returns of approximately 9.9%. Non-QM generated positive returns of 4.1%, with positive excess return of 3.6%. Collateralized loan obligations (CLOs) as a cohort produced excess return of 7.1%. Commercial mortgage-backed securities (CMBS) posted a positive excess return of 3.5%. The asset-backed securities (ABS) sector returned 4.2% on the quarter, with positive excess return of 3.6%.
- The Federal Open Market Committee (FOMC) maintained its target range of 0.00% to 0.25% in the second quarter after slashing rates twice in the first quarter. The FOMC noted it “is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.” The committee also expressed its commitment to continue to provide policy accommodation by announcing that it “will increase its holding of Treasury securities and agency residential and commercial mortgage-backed securities at least at the current pace.” The highly anticipated Term Asset-Backed Securities Loan Facility (TALF) went into effect in June. Market participants view the TALF 2.0 program as more of a backstop to AAA-rated structured credit spreads, as most sectors trade inside financing costs by the end of Q2.
- Economic data on the quarter was better than expected. While the unemployment rate increased during the quarter to 11.1% from 4.4%, many participants estimated the figure to be close to 20% due to policymakers’ decision to shut down the U.S. economy. More recently, the unemployment rate has seen two months of decline as many states begin their reopening process, after reaching an all-time high of 14.7% in April 2020. Both headline Institute for Supply Management (ISM) figures surprised to the upside in June. The ISM Manufacturing Index increased to 52.6 in June from the recent low of 41.5 in April, while the ISM Non-Manufacturing increased to 57.1 in June from 41.8, the recent low in April. Both indices came in above the key level of 50, indicating an expansionary move for both manufacturing and service sectors for the U.S. economy.

Benchmark Performance	6/30/20	3/31/20	Quarterly Change (bps)
1-Month LIBOR	0.17	0.98	-81
3-Month LIBOR	0.30	1.43	-113
2-Year Treasury	0.15	0.25	-10
5-Year Treasury	0.29	0.38	-9
10-Year Treasury	0.66	0.67	-1
30-Year Treasury	1.41	1.32	+9
2s/10s Curve	0.51	0.42	+9
2s/30s Curve	1.26	1.08	+18
S&P 500 Total Return Index	6,352	5,269	+2,054
IG Corporate OAS*	150	272	-122
HY Corporate OAS^	626	880	-254

Sources: Bloomberg and Yieldbook as of 6/30/20.



Source: Bloomberg as of 6/30/20.

*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 4.11% in the second quarter, outperforming the benchmark by 4.06%, which was up 0.05%.

Primary contributors to Q2 performance:

- Spread tightening within credit strategies, predominantly within RMBS and ABS
- Longer spread duration relative to the benchmark

Net Total Returns as of 6/30/20	3 Mo.	YTD	1 Yr.	Annualized
				SI ¹
Class I	4.11%	0.24%	1.97%	2.92%
Class A	4.04%	0.01%	1.62%	2.63%
Bloomberg Barclays U.S. Treasury Bill 9-12 Month TR Index	0.05%	1.57%	2.76%	2.70%

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 (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 5/31/21.

FUND INFORMATION AS OF 6/30/20

	Class A	Class I
Gross Expense Ratio	0.85%	0.60%
Net Expense Ratio [^]	0.50%	0.25%
SEC Yield (Subsidized)	1.76%	2.04%
SEC Yield (Unsubsidized)	1.47%	1.75%

FUND CHARACTERISTICS

Fund Assets (All Classes)	\$482.5 mm
Number of Securities	288
Distribution	Monthly
Effective Duration	0.9
Average Price (Portfolio)	\$100.1

FUND STATISTICS

(Since Inception)	Fund ²	Index
Standard Deviation	2.9	0.4
Sharpe Ratio	0.6	3.2
Correlation to Index	0.0	1.0
Positive Months (%)	96.2	96.2
Negative Months (%)	3.8	3.8

²AOUIX



Performance Attribution

		Q2 2020 ¹	YTD 2020 ¹
	% of Market Value	Contribution (%)	Contribution (%)
ABS	41.7	1.89	-0.08
RMBS	35.6	1.91	0.48
CMBS	1.9	0.09	-0.17
CLOs	10.1	0.24	0.07
Cash	9.4	0.00	0.00
Corporates	0.9	0.03	0.03
Agency/Government & Muni.	0.4	0.00	0.05
Fund Expenses ²	-	-0.07	-0.13
Total	100.0	4.11	0.24

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.

RMBS

- NA RMBS contributed 191 basis points to Fund performance in the second quarter, bringing year-to-date contribution to 48 basis points. Spreads across the sector retraced much of their widening throughout the quarter from bottoming amid the COVID-19 fallout in mid-March. A combination of policy support, new money raised to capitalize on dislocations within the sector, stronger forecasts, and a return to regular trading all were part of the rally. While delinquencies picked up as expected, prepayment speeds remained strong, specifically in the credit risk transfer (CRT) and Prime Jumbo subsectors. In June, the new-issue market was back in full force as well, with deals from all sectors pricing, some with yields tighter than levels seen before COVID-19.
- The Fund continues to favor investment-grade-rated Non-QM and Prime Jumbo front pays. The Fund also has looked to buy 2019 vintage CRT M2s given the fast prepayment speed of these high government-wide acquisition contract profiles building rapid credit enhancement while paying down quickly.

ABS

- ABS returned 4.93% in the second quarter, contributing 189 basis points to Fund performance. The allocation to ABS decreased to 41.7% in the second quarter from 44.0% in the previous quarter, as AAA spreads within ABS outperformed short-duration RMBS. The sector allocation to ABS decreased to increase the allocation to short-duration AAA RMBS. Spreads throughout the majority of ABS sectors tightened during the quarter. Prime and subprime AAA tranches were tighter by approximately 155 and 230 basis points, respectively. Credit card AAA-rated ABS tightened by approximately 168 basis points during the quarter. Consumer single-A-rated tranches tightened by approximately 375 basis points, to 225, during the quarter. The strategy maintained its bias toward investment-grade ABS throughout the quarter, with a focus on auto, consumer, and credit card sectors.

CMBS

- CMBS returned 3.62% in the second quarter and contributed 9 basis points to Fund performance. Within CMBS, the portfolio is composed of floating-rate agency CMBS bonds backed by multifamily properties and investment-grade single asset/single borrower tranches. Over the quarter, allocation to CMBS decreased to 1.9% from 2.9% in the previous quarter.

CLOs

- CLOs contributed 24 basis points to Fund performance in the second quarter, bringing year-to-date contribution to 7 basis points. The CLO market saw significant pickups in CCC/Caa buckets and default rates as expected, and some deals tripped their overcollateralization (OC) triggers. Throughout the quarter, the corporate outlook improved as loans rallied, lifting market value metrics in CLOs and allowing managers to clean up deals. With the market dislocation, new money raised, and demand for yield, investors with more opportunistic outlooks took advantage of historically wide levels, and the market rallied throughout the quarter.



Definitions

GWAC: Government-wide acquisition contract.

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.

Correlation: A statistical measure of how two securities move in relation to another. Index used for comparison is the Bloomberg Barclays 9-12 Month U.S. Treasury Bill 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).

ISM Non-Manufacturing Index: An index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives by the Institute of 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 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 6/30/20 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

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