



Angel Oak Multi-Strategy Income Fund Quarterly Review

September 30, 2020

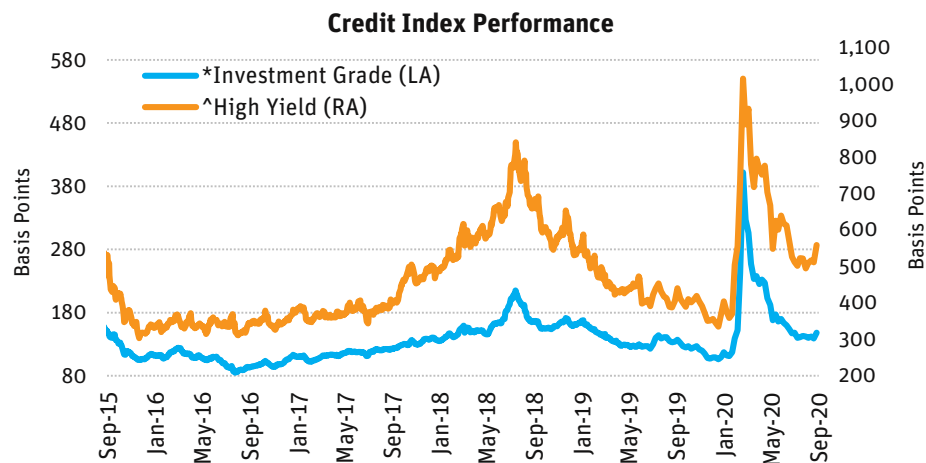
Quarter in Review

- U.S. risk asset valuations rose in the third quarter on the heels of reopening the U.S. economy despite an increase in COVID-19 cases. The S&P 500 was up 8.93% and corporate spreads tightened. Investment grade and high yield spreads tightened by 14 and 109 basis points, respectively.
- Structured credit returns were positive in the third quarter, as investor sentiment and economic data were better than expected. Legacy non-agency residential mortgage-backed securities (RMBS) posted positive returns of approximately 4.1%, with positive excess returns of approximately 4.0%. Non-QM generated positive return and positive excess return of 0.7%. Collateralized loan obligations (CLOs) as a cohort produced an excess return of 2.4%. Commercial mortgage-backed securities (CMBS) posted a positive excess return of 2.2%. The asset-backed securities (ABS) sector returned 1.2% on the quarter¹.
- The Federal Open Market Committee maintained its target range of 0.00% to 0.25% after its September meeting, and is expected to maintain this target range until at least 2023. The committee aims to achieve core inflation that is moderately above 2% in the short term in order to achieve a long-term average inflation rate of 2%. The Term Asset-Backed Securities Loan Facility (TALF) that went into effect in June, has been extended to December 2020 from its original expiration date of September 2020, furthering support for the U.S. markets to help keep capital flowing to U.S. consumers.
- Economic data on the quarter continues to improve, and the U.S. housing market remains a bright spot in the post-COVID-19 era. The unemployment rate declined during the quarter to 7.9% from 11.1%, making five straight months of decline after reaching an all-time high of 14.7% in April 2020. Overall, 52% of the job losses since March 2020 were recovered by the end of the third quarter. Headline Institute for Supply Management (ISM) figures continue to remain above 50, indicating expansion for both the manufacturing and service sectors of the U.S. economy. The ISM Manufacturing Index increased to 55.4 from 52.6 on the quarter while ISM Non-Manufacturing increased to 57.8 from 57.1 during the same period. Consumer sentiment improved as more Americans are embracing a positive economic outlook; the University of Michigan Consumer Sentiment Index increased to 80.4 from 78.1 on the quarter. On the housing front, homebuilder confidence rose in September to 83, an all-time record for the NAHB Housing Market Index (the Index goes back to 1985). Low interest rates and a potential seismic shift to the suburbs are positive catalysts for home builders and housing valuations.

¹BAML Global Research.

Benchmark Performance	9/30/20	6/30/20	Quarterly Change (bps)
1-Month LIBOR	0.15	0.17	-2
3-Month LIBOR	0.23	0.30	-7
2-Year Treasury	0.13	0.15	-2
5-Year Treasury	0.28	0.29	-1
10-Year Treasury	0.68	0.66	+2
30-Year Treasury	1.46	1.41	+5
2s/10s Curve	0.56	0.51	+5
2s/30s Curve	1.33	1.26	+7
S&P 500 Total Return Index	6,919	6,352	+893
IG Corporate OAS*	136	150	-14
HY Corporate OAS^	517	626	-109

Sources: Bloomberg and Yieldbook as of 9/30/20.



Source: Bloomberg as of 9/30/20.

*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 2.55% in the third quarter, outperforming the benchmark by 1.93%, which was up 0.62%.

Primary contributors to Q3 performance:

- Spread tightening with RMBS, CMBS, CLO, ABS, and Corporates
- Underweight agency RMBS relative to the benchmark

Net Total Returns as of 9/30/20	3 Mo.	YTD	1 Yr.	Annualized		
				3 Yr.	5 Yr.	SI ¹
Class I	2.55%	-3.95%	-3.10%	1.50%	2.67%	5.79%
Class A at NAV	2.38%	-4.13%	-3.24%	1.22%	2.40%	5.56%
Class A at MOP ²	0.10%	-6.25%	-5.38%	0.46%	1.94%	5.30%
Bloomberg Barclays U.S. Agg. Bond Index	0.62%	6.79%	6.98%	5.24%	4.18%	3.75%

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 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. ²Maximum Offering Price takes into account the 2.25% maximum initial sales charge. ³The Adviser has contractually agreed to waive fees through 5/31/21.

FUND INFORMATION AS OF 9/30/20

	Class A	Class I
Gross Expense Ratio	1.38%	1.13%
Net Expense Ratio [^]	1.19%	0.94%
SEC Yield (Subsidized)	3.35%	3.67%
SEC Yield (Unsubsidized)	3.35%	3.67%

FUND CHARACTERISTICS

Fund Assets (All Classes)	\$6.2 bn
Number of Securities	3,104
Distribution	Monthly
Effective Duration	2.5
Average Price (Portfolio)	\$87.5
Average Price (Legacy RMBS)	\$80.9
Floating Rate (%)	61.7

FUND STATISTICS

(Since Inception)	Fund ³	Index
Standard Deviation	4.1	4.1
Sharpe Ratio	1.8	1.1
Correlation to Index	0.1	1.0
Positive Months (%)	84.7	63.1
Negative Months (%)	15.3	36.9

³ANGIX



Performance Attribution

		Q3 2020 ¹	YTD 2020 ¹
	% of Market Value	Contribution (%)	Contribution (%)
RMBS	66.2	1.91	-0.91
ABS	11.0	0.35	0.23
CLOs	6.4	0.20	-1.35
Corporates	6.4	0.14	0.01
CMBS	3.6	0.11	-1.04
Other ²	4.8	0.10	-0.03
Cash and Equivalents	1.6	0.00	0.00
Fund Expenses ³	-	-0.25	-0.87
Total	100.0	2.55	-3.95

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. ²Includes investments in affiliated funds, common and preferred equity, collateralized debt obligations, and residential mortgage loans. ³Fund 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 third quarter, bringing year-to-date contribution to -91 basis points. Spreads across the sector tightened, with some sub-sectors reaching tighter all-in yields than their pre-COVID-19 levels. A combination of policy support, new money raised to capitalize on dislocations within the sector, stronger forecasts, and a return to regular trading continued to advance the rally. While delinquencies fell throughout the quarter, prepayment speeds remained strong, specifically in the credit risk transfer (CRT) and Prime Jumbo subsectors. The new-issue market remained active, with deals generally oversubscribed and continuing to drive the market tighter.

CMBS

- CMBS returned 3.21% in the third quarter, contributing 11 basis points to Fund performance, net of hedges. Generic conduit spreads for the quarter were tighter for all tranches. Conduit AAAs tightened by 26 basis points to 87, while BBBs tightened by 60 basis points to 690. Single asset/single borrower (SASB) spreads were also tighter for all property types throughout the stack. SASB Office AAA tightened by 34 basis points to 140, while BBB tightened by 40 basis points to 390. SASB Hotel AAA tightened by 96 basis points to 200, while BBB tightened by 72 basis points to 430. In new issue, \$11.4 billion priced for the quarter, split between \$5.1 billion of conduit, \$5.6 billion of SASB, and \$0.7 billion of commercial real estate CLOs. Allocation to CMBS was unchanged at approximately 3.6% in the third quarter, predominantly composed of wrapped tranches of agency CMBS and non-agency AAA.

CLOs

- CLOs contributed 20 basis points to Fund performance in the third quarter, bringing year-to-date contribution to -135 basis points. CCC/Caa buckets and default rates fell throughout the summer as loan prices rallied throughout the quarter. As the corporate outlook continued to improve, market value metrics in CLOs got stronger and managers were able to clean up deals. The top of the capital structure rallied while below-investment-grade bonds with cleaner collateral traded stronger than their weaker counterparts. The new-issue market saw a few five-year reinvestment period deals with a two-year non-call structure return, although the 3/1 structure remained featured in the majority of deals. Demand for portfolios with low exposure to COVID-19 remained consistent.

ABS

- ABS returned 3.38% in the third quarter, contributing 35 basis points to Fund performance. The allocation to ABS increased to 11.0% in the third quarter from 8.5% in the previous quarter. Spreads throughout the majority of ABS sectors tightened during the quarter. In some cases, retracing through pre-COVID-19 levels. Prime and subprime AAA tranches were tighter by approximately 17 and 30 basis points, respectively. Credit card AAA-rated ABS tightened by approximately 2 basis points during the quarter. Consumer single-A-rated tranches tightened by approximately 155 basis points during the quarter to 170. The strategy is biased towards auto ABS and consumer sectors which currently offer attractive spreads relative to other sectors within ABS.



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).

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.

Michigan Consumer Sentiment Index (MCSI): A monthly survey of U.S. consumer confidence levels conducted by the University of Michigan.

National Association of Home Builders (NAHB) Housing Market Index: A gauge of builder opinion on the relative level of current and future single-family home sales.

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.



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 9/30/20 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

The Angel Oak Funds are distributed by Quasar Distributors, LLC.

©2020 Angel Oak Capital Advisors, which is the adviser to the Angel Oak Funds.

