



Angel Oak UltraShort Income Fund Quarterly Review

September 30, 2020



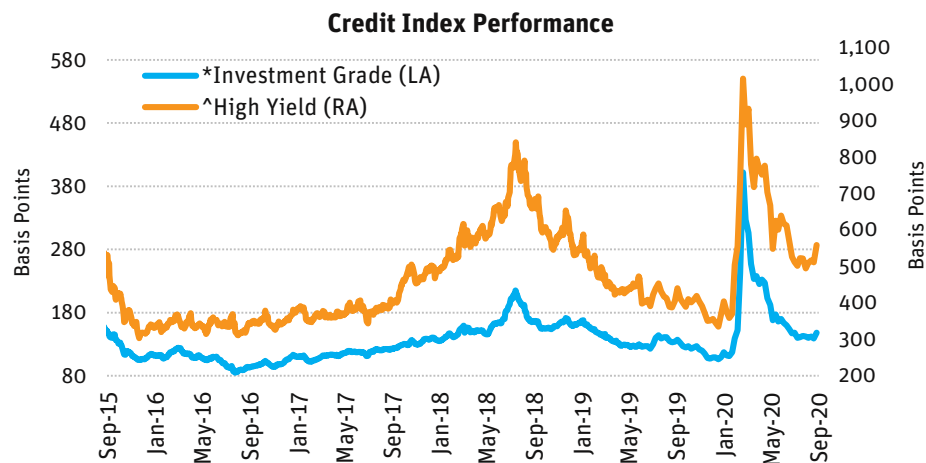
Quarter in Review

- 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 1.11% in the third quarter, outperforming the benchmark by 1.03%, which was up 0.08%.

Primary contributors to Q3 performance:

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

Net Total Returns as of 9/30/20	3 Mo.	YTD	1 Yr.	Annualized
				SI ¹
Class I	1.11%	1.36%	2.01%	3.08%
Class A	1.05%	1.06%	1.76%	2.79%
Bloomberg Barclays U.S. Treasury Bill 9-12 Month TR Index	0.08%	1.65%	2.25%	2.46%

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 9/30/20

	Class A	Class I
Gross Expense Ratio	0.85%	0.60%
Net Expense Ratio [^]	0.50%	0.25%
SEC Yield (Subsidized)	1.64%	1.93%
SEC Yield (Unsubsidized)	1.36%	1.65%

FUND CHARACTERISTICS

Fund Assets (All Classes)	\$601.7 mm
Number of Securities	344
Distribution	Monthly
Effective Duration	0.9
Average Price (Portfolio)	\$100.6

FUND STATISTICS

(Since Inception)	Fund ²	Index
Standard Deviation	2.8	0.4
Sharpe Ratio	0.8	3.1
Correlation to Index	0.0	1.0
Positive Months (%)	96.6	96.6
Negative Months (%)	3.4	3.4

²AOUIX



Performance Attribution

		Q3 2020 ¹	YTD 2020 ¹
	% of Market Value	Contribution (%)	Contribution (%)
ABS	38.7	0.58	0.49
RMBS	37.2	0.44	0.94
CLOs	11.2	0.11	0.18
Treasury/Government & Muni.	2.5	0.00	0.00
Agency MBS	2.3	0.01	0.03
CMBS	1.6	0.03	-0.15
Corporates	0.8	0.01	0.04
Cash and Equivalents	5.7	0.00	0.03
Fund Expenses ²	-	-0.07	-0.20
Total	100.0	1.11	1.36

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 44 basis points to Fund performance in the third quarter, bringing year-to-date contribution to 94 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.
- 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 and new-issue M1s given the fast prepayment speed of these high government-wide acquisition contract profiles building rapid credit enhancement while paying down quickly.

ABS

- ABS returned 1.45% in the third quarter, contributing 58 basis points to Fund performance. The allocation to ABS decreased to 38.7% in the third quarter from 41.7% in the previous quarter. 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. 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 subprime auto and consumer sectors which offer attractive spreads relative to other sectors within ABS. The strategy maintained its bias toward investment-grade ABS throughout the quarter, with a focus on auto ABS and consumer sectors.

CMBS

- CMBS returned 2.05% in the third quarter and contributed 3 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 1.6% from 1.9% in the previous quarter.

CLOs

- CLOs contributed 11 basis points to Fund performance in the third quarter, bringing year-to-date contribution to 18 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.



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 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.

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

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