Angel Oak FUNDS

2015 Outlook

Fundamental credit improvements are allowing valuations to catch up

The Angel Oak Multi-Strategy Income Fund delivered solid performance in 2014, with the I share (ANGIX) returning 5.84% and the A share (ANGLX) returning 5.56%, while its benchmark, the Barclays U.S. Aggregate Bond Index, returned 5.97% over the same time period.

In the face of the very different rate and duration-driven return environments of 2013 and 2014, ANGIX delivered consistent 4% to 6% total returns each year. In contrast, the Fund's benchmark was down 2% in 2013, as interest rates increased. Conversely, during 2014's interest rate declines, the Fund's benchmark gained approximately 6%.

Throughout both periods, ANGIX demonstrated minimal correlation to interest rates, as its returns were driven by the low-volatility, high-current-income profile of its structured credit instruments.

Looking back to 2014

In 2014, the markets continued their focus on the Federal Reserve's influence over interest rates. There was much debate over rate direction, with the 10-year U.S. Treasury note giving back the 100-basis-points gain it had reached by the end of 2013. Depending on which way investors anticipated rates moving, fixed-income portfolios were affected differently. Investors that anticipated rates staying low in 2014 were the clear winners, but in our opinion, the bet on lower interest rates, meant investors assumed more risk.

Over the course of the past year, a number of economic perceptions began to diverge between the Fed and the marketplace.

Brad Friedlander
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Viewing domestic economic growth, increasing employment and a housing recovery in optimistic terms, the Fed saw the proverbial glass as half full. On the other hand, the markets generally saw the glass as half empty due to weaker overseas growth prospects and a variety of vexing geopolitical problems. Periodic, positive data reports on employment, such as U.S. GDP growth, the housing market and consumption, were often overlooked by a marketplace more concerned with distant global challenges.

While we expect to see a comparable level of volatility continue through 2015, one welcome theme did begin emerging at year-end: the return of non-correlative behavior among asset classes and geographies after years of moving in lockstep.

Correlations finally breaking down

We saw the first signs of a breakdown in correlation toward the end of 2014, led by the massive decline in oil prices. The initial response to this drop was the knee-jerk reaction of the herd: High-yield bonds, equities and emerging markets, whether related to energy or not, all suffered in the immediate risk-off environment. Certain asset classes, however, such as North American Residential Mortgage-Backed Securities (RMBS) and Commercial Mortgage-Backed Securities (CMBS), held their ground. Within a couple of days, we saw markets isolating energy-related equities, bonds and geographies. Finally, other equities and asset classes came roaring back to life as the markets paid more attention to the underlying fundamentals across various sectors and geographies.

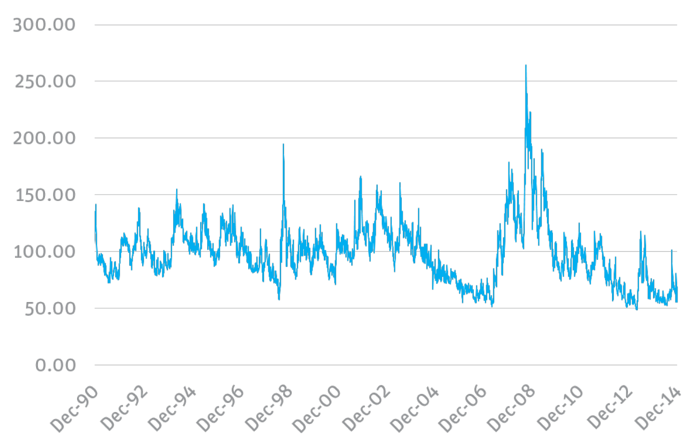
For 2015, we anticipate a continued shift away from the recent over-correlation of risk-on assets. Since the financial crisis of a half-decade ago, the correlation among different asset classes and geographies has grown especially strong. When the Fed and other central banks intervened in the markets with an unprecedented series of Quantitative Easing (QE) policies, investors generally followed the herd toward a risk-on stance involving all asset classes, including equities, commodities, high yield "junk" bonds and emerging market securities. At the first sign of trouble – whether it was the U.S. ratings downgrade, the Eurozone crisis of 2011 or Fed QE tapering in 2013 – the herd assumed a risk-off attitude and sold all asset classes indiscriminately. Soon the behaviors of most asset classes and countries grew closely correlated as year-over-year equities, commodities, high-yield bonds, emerging markets, CMBS and RMBS all outperformed or underperformed as a group, depending on global risk tolerance.

We believe returns will not be driven only by broad increases or decreases in macro-risk premiums and supply technical, as they have been since the crisis. Even as central banks diverge, with the Fed getting ready to start tightening just as the European Central Bank starts kicking its own monetary easing program into high gear, other regions around the globe are diverging in their growth patterns. Europe and Russia are both facing a major slowdown, for example, just as the U.S. and some emerging markets see continued growth. We further believe that more focus on fundamentals and differentiation within equity sectors, global and domestic markets and high-yield corporate bonds, RMBS, CMBS, and Collateralized Loan Obligations (CLOs)* can be expected as well, based on their underlying credit exposures.

As this breakdown in correlation continues through 2015, we believe that active investment selection based on bottom-up, fundamental analysis will emerge as the primary driver behind investment performance.

As asset class selections and risk-on/risk-off strategies become less likely to provide investment returns in 2015, we believe sector selection, individual security selection, and yield curve positioning will drive outperformance in 2015 and beyond.

MERRILL LYNCH OPTION VOLATILITY ESTIMATE MOVE INDEX



Source: BofA Merrill Lynch measured by the MOVE Index
As of 12/31/2014

*Collateralized Loan Obligation (CLO): Special purpose vehicle (SPV) with securitization payments in the form of different tranches. Financial institutions back this security with receivables from loans

All eyes on The Fed

The Fed's extraordinarily accommodative monetary policy, particularly QE has been a historic volatility depressant in the current post-crisis period. As illustrated below, even though interest rate volatility fell to historic lows during the year, it began rising again in the fall of 2014, after the Fed's historic QE program came to a close.

We believe volatility has increased because of one particular elephant in the interest rate room: the uncertainty surrounding the future supply and demand of agency mortgages.

As a result of QE, the Fed has become the largest single participant in the agency mortgage market over the past three years. Currently, the Fed owns approximately $2 trillion in agency mortgages, representing about 37% of the agency mortgage market. Based on current prepayment speeds, the Fed's portfolio is paying down debt at a rate of approximately $20 billion per month, nearly enough to absorb all of the mortgage origination supply in the U.S.

With its enormous purchasing capacity, the Fed has distorted both the market for mortgages and, subsequently, volatility. By not hedging the optionality of the mortgage-backed securities it owns, the Fed has placed downward pressure on volatility. Moreover, for six years the Fed has been on hold at 0% with the one rate it does control directly: the federal funds target rate. The Fed has been very clear that it plans to keep its target rate and its overall monetary policy in an extraordinarily accommodative posture for a considerable time. The result: the Fed will continue to be cautious, selective and patient in its approach to raising rates.

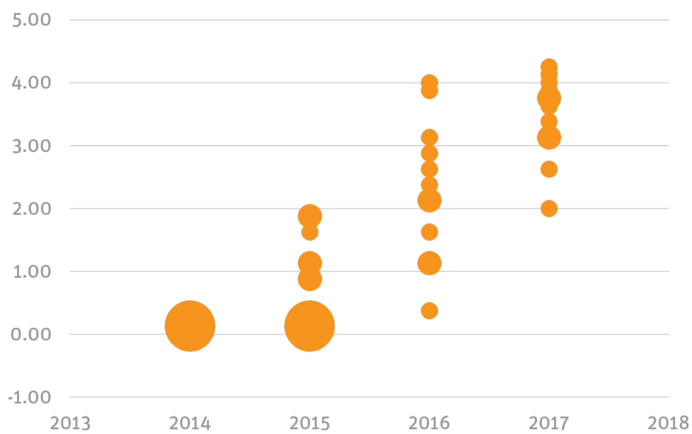
As the Fed slowly becomes less active in the U.S. mortgage market and the Federal Open Market Committee (FOMC) gradually attempts to raise its target rate, we believe interest rate volatility will continue to increase.

While the lack of mortgage hedging and an ultra-accommodative target rate has caused volatility to plummet in the post-crisis period, in our view, this will likely change going forward.

Confused and complacent, the markets have correctly banked on Fed dovishness. We believe, however, that this period of extremes is coming to an end.

The Fed's softer language, which counsels "patience," may be setting the tone for a midyear interest rate hike. However, according to the accompanying chart, median fed funds projections ("the dots") have come down significantly. Even with a much more reasonable trajectory, there is a disparity in the dots, ranging from a 0.50% to a 4.00% fed funds rate by the end of 2016. The pace and trajectory of Fed hikes can help soften the blow of an initial rate move by forecasting a slower pace and potentially lowering the terminal fed funds rate.

FOMC PARTICIPANTS: DOT PLOT



Source: FOMC.com. Frequency expectations for Fed-Funds rate over time. As of 12/31/2014

The question for 2015 will be about the inflation data.

Regardless of the disparity in rate hike projections, the Fed's extraordinarily accommodative monetary policy appears to be working. The growth data ended 2014 with a bang. Driven in part by acceleration in consumer spending, the U.S. economy expanded at a 5% seasonally adjusted rate by the end of the third quarter, its strongest pace since 2003. Having dropped approximately 13% in the third quarter, gasoline prices fell another 36% in the fourth quarter, providing additional spending resources to consumers for continued growth in the near term.

Despite the robust growth data, however, inflation data continued to bounce along the bottom. The core personal consumption expenditures price index (PCE), the Fed's preferred inflation gauge, fell to 1.4% in November, from 1.6% in October. This marked the 31st straight month that the core PCE missed the Fed's 2.0% target. Many market analysts in search of signs of impending Fed tightening have chosen to disregard the low inflation data in favor of focusing on the growth data. We think such pundits may be better served by recollecting the Fed's dual mandate to hold employment to a maximum level and to maintain price stability. While the Fed appears to have made progress on the unemployment front, there clearly is more work to do on the inflation side.

The fundamentals of this recovery remain positive despite the lack of wage gains, relatively non-existent inflation and a 50% drop in gasoline prices over the past six months. We believe inflation data will begin to trend downward in 2015 because of the falling price of crude oil. We anticipate that the Fed will fail to adhere to its price stability mandate for an extended period, which will give it a tremendous amount of flexibility to attain maximum employment and rid the labor markets of its post-crisis slack.

Structured Credit still in favor for 2015

An overweight to the structured credit markets such as RMBS, CMBS and CLO's improved portfolio income for ANGIX in 2014. However, the Fund's lower sensitivity to interest rates (duration) relative to the benchmark proved negative to performance.

Non-agency Residential Mortgage-Backed Securities (RMBS) were the portfolio's best-performing asset class. Management's decision to continue a major allocation of 55-70% to the sector throughout the year proved positive for performance, as the asset class's price volatility remained muted, its correlation to interest rates stayed minimal and price appreciation added to total return in 2014.

For the remainder of the portfolio, an increased exposure to non-agency Commercial Mortgage-Backed Securities (CMBS) improved the Fund's total return by more than 1.00%, which proved to be a major benefit for Fund shareholders.

Throughout the first half of 2014, the Fund decreased exposure to CLOs, but not for fundamental reasons. As an explosion of new CLOs dramatically increased supply, we expected additional pressures to be placed on spreads while anticipating that investor demand would remain the same. Our decrease in allocation during this high-supply period contributed to the Fund's performance.

	YTD 12/31/2014		
Asset Class	Allocation %	Total Return	Attribution To Fund
ABS Other	2.69%	9.99%	0.27%
CLO	14.79%	2.23%	0.33%
CMBS	21.79%	9.64%	2.10%
Corporate	2.55%	4.47%	0.11%
NA CMO	68.15%	7.53%	5.13%
Rate Hedge			-1.12%
Net Total Return			5.84%

Data reflects estimated performance for the Angel Oak Multi Strategy Income Fund - Class I (ANGIX)

Looking forward to 2015, we will continue to position the Fund within the floating-rate structured credit category while maintaining caution toward higher-rate, longer-term durations in anticipation of an eventual return to a higher-interest-rate environment over the next two years.

The key question for investors then might be "What should be done in an environment characterized by a modestly improving economy, interest rate volatility and the beginnings of some divergence in risk appetite?"

FOR ANGEL OAK, OUR ANSWER IS AS FOLLOWS:

- Overweight current income and cash flow through the volatility. We believe that anyone can be right about an interest rate call. (If they are not, just wait 15 minutes.) Our preference is to avoid the noise and conjecture around rates and just endeavor to earn outsized income through the rate storm. That said, we intend to position the portfolio for eventually higher interest rates.

- Focus on value and fundamentals when valuations become less justifiable. Fundamentals are improving, but the market and media remain skeptical of the recovery in housing. This has the effect of setting low expectations on home prices; voluntary prepayments; and the Millennial generation's lack of household formation, wage growth and access to credit. On the other hand, it also represents a ripe environment for opportunity and a solid entry point in vintage mortgages, as well as new outside-the-box originations.

From the entry point perspective, the trading tone for structured credit has been rather listless for the past 12 months. While we have not seen any over exuberance in equities, emerging markets and high-yield bonds year over year, we believe that the weaker tone in structured credit during the third and fourth quarters of 2014 will set the stage for a stronger tone in the first half of 2015.

Structured credit's current lower visibility and reduced liquidity, caused by a lack of participation from the "herd," offers the potential for outsized opportunities throughout 2015. In addition to traditional structured credit, we continue to look at off-the-beaten-path opportunities, such as Corporate credit in the regional financial sector (Regional and Community Banks).

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Legacy RMBS point to opportunity

The year 2015 should bring about continued expansion in mortgage credit. The overwhelming majority of legacy borrowers have been unable to access the mortgage market since 2007, creating higher pent-up demand among Alt-A, Option ARM and sub-prime borrowers.

The best prime borrowers have had access to mortgage credit for years, leading to sustained Voluntary Prepayment Rate (VPR) speeds well into the double digits. While we expect to see some burnout in these speeds in 2015, there is also a risk of adverse selection as the loan count in these pools continues to dwindle, bringing large extension risks into play.

Fixed rate deals tend to have lower Home Price Index (HPI) Loan-to-Value (LTV) ratios than other sectors, driven by a lower interest-only percentage. The amortizing mortgages here closely mirror the mortgages already available in today's markets, which makes the economic benefits of refinancing clearer – since these bonds still trade at a discount to par.

Home Price Appreciation (HPA) growth is expected to slow down (3-4%* per year by most forecasts) over the next few years. Despite this drop in the pace of appreciation, we do not anticipate that the dip will put a halt to the double-digit recovery that got underway in the 2011 to 2013 time frame. Instead, this slowdown will more than likely make home affordability still possible, allowing for the continued conversion of renters into owners.

*Source: Moody's

HERE IS HOW WE WILL CONTINUE TO PURSUE OUTPERFORMANCE WITHIN THE SECTOR IN 2015:

1. Focus on bonds with greater upside potential from increasing VPRs. With the rate curve still very steep (though likely to flatten in 2015), the shortening from increased VPRs can have a material impact on price. Alt-A fixed rate collateral and floaters derived from fixed rate collateral provide similar upside to hybrids in a rising-rate environment, even while they are backed by higher Weighted-Average-Coupon (WAC) borrowers with higher amortization components. We believe this should translate to a more immediate pull-through of mortgage credit expansion. These bonds also trade well below their projected principal recovery. The fixed rate bonds provide high current carry and offer enough of a credit play to be less sensitive to minor changes in rates than their prime counterparts.

2. Simplified Supervisory Formula Approach (SSFA) Plays. Banks are beginning to migrate from the traditional rating-agency-based approach to a more credit-based structural approach to risk weighting of credit assets. Pay Option Adjustable Rate Mortgages (POA) and sub-prime mortgages have favorable structures that will result in a number of below-investment-grade CUSIPs being treated favorably by this new approach. The potential for a new class of real-money buyers to (re)enter the space creates the opportunity for additional spread tightening in these profiles.

With the current allocation to non-Agency mortgages that have the highest potential to increase VPRs in 2015, the Fund has offset that position with a smaller allocation of non-agencies designed to outperform in the event VPRs remain low and produce very high current income. We believe this barbell positioning improves current carry while providing a hedge against the possibility of prepayment speeds remaining low throughout 2015.

Surge in new CLO issue volume

The surge in new issue volume was the main story for CLOs for 2014. Following a slow start due to Volcker Rule*-related uncertainty, the CLO market came roaring back in February 2014 and did not miss a beat for the entire year. Ending the year with $142 billion of global new issuance of which $122 billion was in U.S. dollars; CLOs eclipsed their pre-crisis record of $94 billion.

While most market participants agreed that CLO spreads were cheap versus those of comparable asset classes, the constant wave of supply pushed CLO spreads even wider over the course of 2014. The spread widening was apparent across all tranches, but it was most pronounced in the lower mezzanine part of the capital structure, including BBB, BB and single B.

The higher-carry nature of these bonds still allowed them, on average, to eke out a positive total return for the year despite price decreases. Our decision to reduce our CLO exposure early in the year and to focus purchases on higher coupon bonds, however, helped us outperform the broader CLO market for 2014. Recently, generic BBB CLO yields were approximately around Libor +450, with BB yields around L+675.

Looking through 2015, we believe the fundamental backdrop for U.S. corporations remains favorable. A growing economy is positive for both earnings power and a company's ability to service and refinance debt. We also expect defaults to remain low in 2015.

While lower oil prices could create problems for some of the more highly leveraged energy companies, any defaults within oil-and-energy related industries will be well contained within a majority of CLOs, given their diversification requirements and the lower weight of oil- and gas-related credits in CLOs. The oil and gas industry has an average weight of approximately 5% across all post-crisis CLOs versus a weight upwards of 16% in the high-yield bond universe. We believe both industry and issuer-level diversification and credit enhancement will enable CLOs to withstand isolated defaults without a meaningful impact on performance.

*Volcker Rule:
A federal regulation that prohibits banks from conducting certain investment activities with their own accounts, and limits their ownership of and relationship with hedge funds and private equity funds. The Volcker Rule's purpose is to prevent banks from making certain types of speculative investments that contributed to the 2008 financial crisis.

Bullish on CMBS

We remain bullish on CMBS spreads in 2015 despite the generally tightening spreads we experienced in 2014. While the sector is not as cheap as it once looked, we still believe that riskier credit spreads will tighten even more and the resulting credit curve from AAA to BBB- will continue to flatten.

HERE ARE THE FACTORS UNDERLYING OUR CMBS VIEWPOINT:

- → Global economy. Continued improvement of the U.S. economy, along with lower energy costs, will be a net positive for the demands of the commercial real estate (CRE) market. However, accommodative central bank policies to keep rates reasonably lower in 2015 may force some investors to assume riskier credit positions to access incremental yield. If Treasury yields go higher, the effect could dampen some of the potential demand for CMBS.
- → CRE fundamentals. Improved fundamentals and the the lack of new post-financial-crisis construction will be supportive for CRE prices. We expect this trend to continue through 2015, especially in secondary and tertiary locations and markets. Additionally, lower Treasury yields may prompt CRE borrowers to prepay their loans to lock in lower rates or monetize higher real estate values. Foreign investments, too, will contribute to this trend, especially among higher-quality properties in primary locations.
- → Underwriting standards. With lending becoming more available across multiple sources, issuance is expected to be robust in 2015, perhaps well over $100 billion. We do not think that the impending "wall of maturities" from loans will prove to be a credit problem. However, we believe this competitive backdrop will only drive rating agency "stress" LTVs to higher levels. The additional supply will also force "tiering" across new issue deals in order to grow. Investors may become more selective across deals, which could contribute to unwanted spread volatility.
- → Standard & Poor's rating change? This will be the X factor of 2015 for CMBS. While still too early to predict, a pending SEC investigation can be of minor impact or potentially very damaging, especially if S&P is forced to withdraw ratings from all its rated CMBS bonds.

In the new issue sector, we currently favor BBB- bonds, especially from 2011-2012, which we believe are poised to benefit from increased refinancing activity and ultimately have a higher CE percentage. By adhering to our disciplined approach on 2013-2014 names, we believe our higher-tiered deals will outperform the cohort. In the legacy sector (bonds issued pre-crisis 2008), we favor senior mezzanine (AM) bonds in the legacy sector that were originally AAA rated and created with 20% CE, which should benefit from the increased refinancing activity we expect to see in 2015. These 1-2 year weighted average life (WAL) bonds will roll down each month methodically and should have good potential to trade much tighter, as the original last cash flow (LCF) AAA are now the current pay class.

New Opportunities

NEW ORIGINATION IN NON-PRIME NON-AGENCY MORTGAGES, GREATEST DISLOCATION IN YEARS

Echoing what we mentioned earlier in the legacy North American RMBS market, we believe 2015 should see continued expansion of the mortgage lending credit box. Generally only prime and super-prime borrowers have been able to access credit since the financial crisis, while most near-prime (Alt-A) and non-prime borrowers continue to stand on the sidelines of the housing recovery.

The Alt-A and sub-prime market reached $200 billion-plus per year prior to the crisis, and while we do not anticipate a return to pre-crisis levels in the near term, we believe the market is vastly under-served and likely to grow at least by a few billion dollars in 2015.

New orginiation driven by strong credit underwriting, higher coupons and lower LTVs

In 2014, we observed the first signs of the credit box opening up ever so slightly by experienced non-bank mortgage originators, giving borrowers a chance to participate in the recovery. Due to the very tight credit parameters today, big banks no longer have the appetite or the skill set required to underwrite these mortgages. Instead, an opportunity has been created for non-bank lenders to offer credit to strong borrowers within very compelling risk/return parameters.

New origination in this space is driven by strong credit underwriting, higher coupons, and lower LTVs. Borrowers in this category tend to put more equity in their homes, and do not rely on property appreciation and a housing recovery – which makes for a very favorable risk profile with elevated returns.

Our team continues to see this trend picking up speed and greater volume through 2015. Our team has developed a proprietary Angel Oak Model for Prepayment and Default* (AMPD), based on over 400,000 vintage home loans, that gives us a distinct perspective on estimating default rates, voluntary prepayments, and severities for these new loan originations and purchases.

With continued access to sourcing quality non-agency mortgages and committed capital for both equity and financing, we believe Angel Oak is particularly well positioned. We saw capital investments in the form of financing leverage and warehouse lines start to open up for qualified mortgage originators and investors in the second half of 2014, and we strongly believe this trend will continue in 2015 as the markets gain more comfort with the credit and performance of these loans.

We believe current investors will be rewarded by high current income from higher coupons as well as potential capital appreciation with broader market acceptance and the return of securitization in this space. As first movers, we may have an advantage of helping set acceptable credit standards and risk/return profiles while seizing a chance to grow with the market from zero to a reasonable size.

Considered to belong in Tier Two Capital, subordinated debt doesn't dilute existing shareholders and interest payments are tax deductible.

THE EMERGING ASSET CLASS OF CORPORATE CREDIT TO REGIONAL AND COMMUNITY BANKS

In 2014 we began ramping up our allocation to Corporate credit to regional and community banks. This exposure includes everything from publicly rated offerings to unrated private placements. The subordinated debt offerings of community banks have clearly begun to emerge after a dearth of issuance during most of the post-crisis period.

For example, in 2014 issuance began in the summer and rose from $0 to approximately $1.8 billion within six months. Systemically important financial institutions (SIFI's), all of which are household names, have been very active capital market participants since the darkest days of the credit crisis, utilizing their wholesale funding expertise by issuing a variety of forms of capital to weather the deflationary fallout from the credit crisis.

In contrast, community banks, due to their size and lack of capital markets expertise, had been mostly restricted to private or public equity and Troubled Asset Relief Program (TARP) in the post-crisis period. Prior to the credit crisis, community banks were actively issuing Trust Preferred Securities (TruPS) to bolster Tier 1 capital without diluting existing shareholders. Community bank TruPS issuance peaked at $140 billion in the pre-crisis period, of which approximately $100 billion remains outstanding. Issuance of TruPS, however, collapsed during the crisis as credit conditions and community bank performance deteriorated.

Moreover, the Dodd-Frank Act featured a provision that excluded TruPS from the regulatory capital of bank holding companies. Although community banks with assets of less than $15 billion are allowed to treat previously issued TruPS as Tier 1 capital, they are prevented

AMPD Model:
*Angel Oak has created proprietary models to estimate default rates, voluntary prepayments and loss severities of non-agency Residential Mortgage Bonds. The models analyze loan level data, and then aggregate them at the security level. The empirical analysis is based on a sample of over 400,000 older vintage home loans from a sample of over 300 mortgage bonds. The models provide preliminary default rates, prepayment rates and expected severities on any pool of mortgage loans or securities and have provided a good linear relationship between predicted values and the real cases. Portfolio managers and analysts merge the model outputs with their own views on future market and economic conditions to provide more qualified pre-purchase assumptions.

Asset quality, as measured by non-performing assets and charge-offs, continues to improve at many banks as we now rapidly approach pre-crisis levels of asset quality.

from including future TruPS issuance in Tier 1. Going forward, community banks will have very few alternatives for Tier 1 and Tier 2 capital: common equity, preferred equity and subordinated debt. As credit conditions begin to thaw and Basel III capital requirements become clearer, these community banks will need to issue more subordinated debt to meet stricter capital requirements, to implement growth and acquisition plans, and to redeem legacy TruPS and TARP.

Subordinated debt represents an extremely attractive form of capital for community banks. Considered to belong in Tier 2 capital, subordinated debt doesn't dilute existing shareholders and interest payments are tax deductible.

We think community bank subordinated debt represents a particularly attractive fixed income alternative for investors. On the surface, these unrated offerings can deter large investors and increase the liquidity premium. As new issuances without an active secondary market presence, they are also perceived as illiquid. However, while large investors may lack an understanding of the role of subordinated debt in small bank operations, we believe this is precisely what makes this somewhat-overlooked asset class so attractive.

At Angel Oak, we are able to exploit the same kind of ratings arbitrage strategies in this asset class that we employ on the structured credit side. We also have a keen understanding of the community banking industry, since many of the members of our team have either worked with, or managed, large and small community bank investment portfolios. We have the skill set required to properly underwrite the credits, independent of rating agency opinions.

Further, due to the regulated nature of the industry, there is a tremendous amount of readily available financial information for even the smallest banks. The culture of risk aversion that pertains to these institutions due to their regulatory restrictions should also work to the benefit of debt holders.

We also favor subordinated debt because it can be cross-defaulted to other senior obligations of a bank. This means that despite the fact that subordinated debt is lower in a firm's capital structure, the cross-default clause protects investors from banks' potentially defaulting on the subordinated debt by mandating continued payments on the senior obligations.

From a top-down perspective, as is the case with the rest of our exposures, we believe banks are at a very different point in the credit cycle as they recover from the near-death experience of the credit crisis. By choice – or by decree – in wake of the 2007-2008 global economic downturn, we believe this sector is going to be far more stable than it was before. Never before have we seen so many restrictions on bank activity. Higher capital requirements, increased regulatory oversight and enhanced loan underwriting standards all contribute to a much more conservative approach to pursuing investment performance.

Asset quality, as measured by non-performing assets and charge-offs, continues to improve at many banks as we now rapidly approach pre-crisis levels of asset quality.

Bank balance sheet structures have also changed. Deposits have swelled since 2007 as banks have reshaped their liabilities to access more stable funding sources while substantially increasing allocation to shorter-term, more liquid assets over the past few years. While greater restrictions and more stringent balance sheet requirements may make equity investors nervous, these heightened regulatory impositions should prove very positive to debt holders.

Finally, banks will continue to benefit from the extraordinary reflationary policies of the FOMC and from an increasingly robust climate for M&A activity in the coming years. This should only enhance our credits as larger banks continue to acquire smaller banks in order to achieve the much-needed scale required to survive in the new utility model of banking that regulators are encouraging – and mandating.

Closing Thoughts

We have often spoken and further anticipate more interest rate volatility in 2015, brought about by the timing uncertainty around monetary tightening and a huge (but less publicized) supply/demand technical in agency mortgages.

We're delighted to see correlations in risk assets, and notably much of the structured credit that Angel Oak sources continues to march to the beat of its own drum (versus areas like high-yield corporates), and we expect this trend of macro risk insulation to continue in the coming year as we keep our eyes on fundamental credit improvement and allow valuations to catch up to this improvement over time.

Importantly, we foresee many new opportunities for income and total return in 2015 and pride ourselves on identifying some of those off-the-beaten-path opportunities, like subordinated bank debt. Still, we continue to gravitate toward legacy RMBS as the fundamentals and technicals favor the sector. We are not afraid to have such a confident view. Surprising to many, the average dollar price in ANGIX remains at $82, as we believe opportunities abound.

We remain steadfast in minimizing fund duration while achieving returns through deliberate credit investing. Interest rate gambles are not Angel Oak's business. With that, we wish everyone a prosperous 2015.

→ Learn more: AngelOakCapital.com

Total Returns as of 12/31/2014	4Q 2014	YTD	1 Year	3 Years	Since Inception[1]
Multi-Strategy Income Fund I	0.60%	5.84%	5.84%	10.65%	11.10%
Multi-Strategy Income Fund A	0.54%	5.56%	5.56%	10.40%	10.85%
Class A with Load[2]	-1.72%	3.16%	3.16%	8.23%	8.99%
Barclays U.S. Aggregate Bond Index[3]	1.79%	5.97%	5.97%	2.66%	3.64%

	Class A	Class I
Prospectus Gross Expense Ratio[4]	1.92%	1.67%
Annual Report Net Expense Ratio[5]	1.24%	0.99%

[2] Reflects the maximum sales charge of 2.25% for Class A.

Performance data represents past performance. Past performance does not guarantee future results. Current performance may be lower or higher than performance data quoted. The investment return and principal value of an investment in the Fund will fluctuate so that in investor's shares, when redeemed, may be worth more or less than their original cost. Performance data current to the most recent month end may be obtained by calling 1-888-685-2915.

Barclays U.S. Aggregate Bond Index is 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. Please note that an investor cannot invest directly in the index; therefore its performance does not reflect a reduction for fees or expenses incurred in managing a portfolio.

[1] The A Class of the Angel Oak Multi-Strategy Income Fund incepted on June 28,2011, while the Institutional Class (ANGIX) incepted on August 16, 2012. The returns of ANGIX shown for periods prior to its inception dates (including returns since inception, which are since the investor class's inception) includes the returns of the fund's older investor share class. These returns are adjusted to reflect the operating expenses of ANGIX. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data current to the most recent month end may be obtained by calling 1-888-685-2915.

[3] The benchmark for the Angel Oak Multi-Strategy Income Fund is the Barclays Aggregate Bond Index as listed in the Fund's prospectus.

[4] Gross expense ratios for the A Class and Institutional Class are reported as of the May 30, 2014 prospectus. The Advisor has committed contractually to waive fees and/or reimburse expenses so that net annual fund operating expenses do not exceed certain levels through May 30, 2015.

[5] The Annual Report net expense ratios for the A Class and Institutional Class are reported as of the January 1, 2014 Annual Report and are referenced in the May 30, 2014 prospectus. The Advisor has contractually agreed to waive or limit its fees and to assume other expenses of the Fund until May 31, 2015, so that Total Annual Fund Operating Expenses do not exceed 0.99%. This operating expense limitation does not apply to brokerage fees and commissions, borrowing costs (such as interest and dividend expenses on securities sold short), taxes, 12b-1 fees, extraordinary expenses, and indirect

expenses (such as “acquired funds fees and expenses”). The Advisor may be entitled to the reimbursement of any fees waived or expenses reimbursed pursuant to the agreement, provided overall expenses fall below the limitations set forth above. The Advisor may recoup the sum of all fees previously waived or expenses reimbursed during any of the previous three years, less any reimbursement previously paid, provided total expenses do not exceed the limitation set forth above. This contractual arrangement may be terminated only by mutual consent of the Advisor and the Board of Trustees of the Fund, and it will automatically terminate upon the termination of the investment advisory agreement between the Fund and the Advisor.

The portfolio is actively managed. Holdings and weightings are subject to change daily and are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities mentioned. Fund composition is based on net assets.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Angel Oak Mutual Funds. This and other important information about each Fund is contained in the Prospectus or Summary Prospectus for each Fund, which can be obtained by calling Shareholder Services at 1.888.685.2915 or visiting www.angeloakcapital.com. Read it carefully before investing.

The value of some mortgage-backed securities may be particularly sensitive to changes in prevailing interest rates, and although the securities are generally supported by some form of government or private insurance, there is no assurance that private guarantors or insurers will meet their obligations. Diversification does not ensure a profit or guarantee against loss.

The Fund may invest in high yield securities or unrated securities of similar credit quality (commonly known as junk bonds), as well as derivatives of such securities, and therefore is likely to be subject to greater levels of interest rate, credit and liquidity risk than funds that do not invest in such securities. These securities are considered predominately speculative with respect to the issuers continuing ability to make principal and interest payments. An economic downturn or period of rising interest rates could adversely affect the market for these securities and reduce the Funds ability to sell these securities (liquidity risk). If the issuer of a security is in default with respect to interest or principal payments, the Fund may lose its entire investment.

There is no guarantee that this or any investment strategy will succeed; the strategy is not an indicator of future performance; and investment results may vary.

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