Angel Oak
CAPITAL ADVISORS

Finding Attractive Yield in Short-Term Strategies

12/18/20

Key Themes

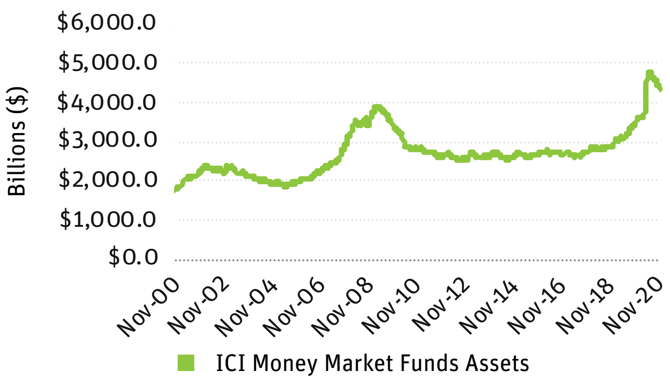
- Short-term investors should favor actively managed ultrashort allocations, as money market yields are back to near zero
- Structured credit provides the potential for enhanced yield compared to T-bills and commercial paper
- Targeting duration closer to one year compared to one month may increase portfolio yield and total return potential

Short-term fixed income markets still offer compelling opportunities; however, investors need to look outside traditional options to find attractive income. Traditional sectors within ultrashort fixed income, Treasury bills, and commercial paper are offering minimal yield slightly above zero. Prime money funds, the typical "higher yielding" alternative within the money market fund space, generally offer marginal excess yield compared to government money market funds, which has led to significant outflows since March.

Money market reform implemented in 2016 has coincided with less capital in prime money market funds and lower yields, creating fewer investment options for short-term investors. We believe investors should look to combine government-only money market funds with actively managed ultrashort-duration strategies to help potentially enhance yield within their short-term investment buckets.

Interestingly, while the short-term Treasury yield curve is quite flat due to Fed intervention, the term structure of U.S. credit for both credit quality and duration are quite steep. Therefore, some investors may have been compensated more handsomely by taking additional short-duration credit risk. Bonds with maturities of six months or less have offered minimal yield, but extending duration marginally within a high-quality portfolio of primarily investment grade structured credit could potentially offer higher yield relative to traditional cash-plus portfolios.

FIGURE 1: MONEY MARKET FUND ASSETS EXPECTED TO ROTATE INTO RISK ASSETS



Source: Bloomberg as of 11/25/20.

FIGURE 2: AOUIX VS. MONEY MARKET FUNDS

	Yield	Duration
AOUIX	1.70%	0.7
Money Market Rate	0.09%	0.0

Source: U.S. of Governors of the Federal Reserve System (FRB). For the U.S., the Federal Reserve Board's money market rate is statistical release contains daily interest rates for selected monetary policy, U.S. Treasury (secondary market), private money market, and capital market instruments. AOUIX SEC Yield as of 11/30/20.

Standardized performance for AOUIX as of 9/30/20 was 2.01% for the 1-year and 3.08% since inception. The inception date for AOUIX was 4/2/18. The gross expense ratio for AOUIX is 0.60%. **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.**

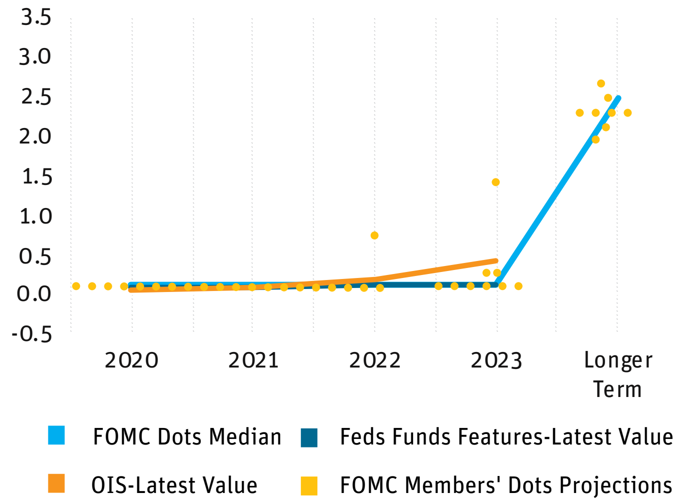
As the Fed noted in its most recent "Summary of Economic Projections," the fed funds target rate range is expected to remain at 0%-0.25% through 2023. Specifically, short-term yields are expected to be well below current inflation rates for another three years. While this backdrop is discouraging for some investors, this provides clarity into the current opportunity set over the next 12 to 18 months in short-duration U.S. credit.

We expect:

1. Cash will continue to move out of money market funds and into U.S. credit funds at a swifter pace than it did during the prior period of 2009-2011
2. Excess yield and alpha-returning strategies will be of increased importance
3. Short-term investors should benefit from actively managed cash-plus allocations

We expect assets will continue to shift from money market funds to more attractive investment opportunities and at a swifter pace than the three-year period following the Great Financial Crisis. The sharp rotation should provide support for fixed income credit valuations and further compress yields in short-duration U.S. credit. Moreover, structured credit is currently at a more attractive relative value (see Figure 4) than pre-COVID-19 valuations and should outperform in 2021. We believe investors who could get ahead of this rotation could potentially benefit.

FIGURE 3: FED ON HOLD UNTIL 2024

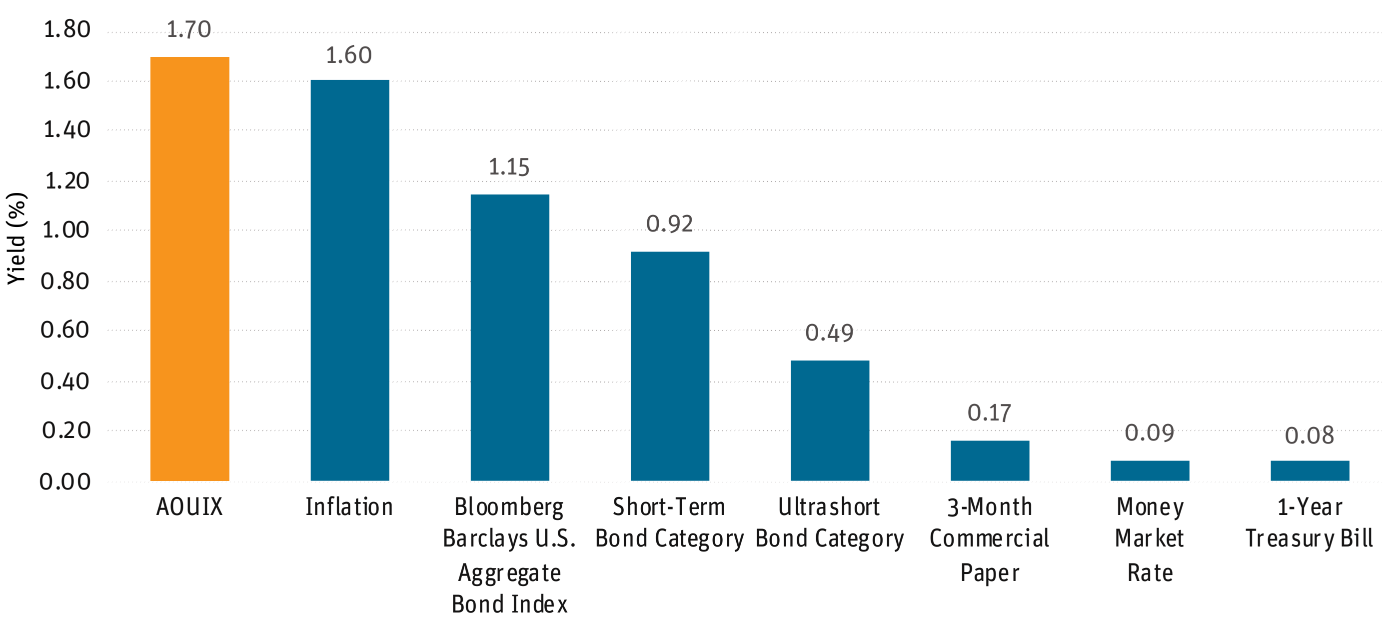


Source: Bloomberg as of 11/30/20.

We believe portfolio balance is key, and investors combining traditional money market assets with a strategic short-duration strategy may enhance yield within their overall cash-plus allocation. Utilizing an actively managed short-duration strategy gives the investment manager the ability to invest in opportunities outside of traditional ultrashort indices, including the steeper-term structure on the front end, sectors away from the Fed's emergency lending facilities, and higher-yielding structured credit over commercial paper. The ability for an active manager to access these short-duration market inefficiencies may provide excess total return for short-duration investors.

This strategic barbell may allow for immediate cash needs while providing exposure to higher-returning asset classes and helping to maintain purchasing power in a short-duration allocation.

FIGURE 4: YIELDS



Sources: Bloomberg, Bureau of Economic Analysis, U.S. Board of Governors of the Federal Reserve System (FRB). CPI YoY, U.S. Money Market Yield, AOUIX SEC Yield, Ultrashort and Short-Term Bond Category SEC Yields as of 11/30/20.

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ABS: Asset-backed security.
FOMC: Federal Open Market Committee.
3-Month Commercial Paper: An unsecured, short-term debt instrument issued by corporations, typically used for the financing of payroll, accounts payable and inventories, and meeting other short-term liabilities with a fixed maturity of 3-months.
Alpha: Measures the difference between a fund's actual returns and its expected performance, given its level of risk (as measured by beta). A positive alpha figure indicates the fund has performed better than its beta would predict. In contrast, a negative alpha indicates a fund has underperformed, given the expectations established by the fund's beta.
Bloomberg Barclays ABS Index: An index that represents the ABS component of the Bloomberg Barclays U.S. Aggregate Index.
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.
Duration: Measures a portfolio's sensitivity to changes in interest rates. Generally, the longer the duration, the greater the price change relative to interest rate movements.
Morningstar Short-Term Bond Category: Represents an average of all funds in the Morningstar Short-Term Bond Category. Short-term bond portfolios invest primarily in corporate and other investment-grade U.S. fixed-income issues and have durations of one to 3.5 years (or, if duration is unavailable, average effective maturities of one to four years).
Morningstar Ultrashort Bond Category: Represents an average of all of the funds in the Morningstar Ultrashort Bond Category. Ultrashort-bond portfolios invest primarily in investment-grade U.S. fixed-income issues and have durations typically of less than one year.

Money market investments are characterized by safety and liquidity, with money market fund shares targeted to $1.

Treasury instruments are guaranteed as to the timely payment of principal and interest and are backed by the full faith and credit of the U.S. Government.

Must be preceded or accompanied by a prospectus. To obtain an electronic copy of the prospectus, please visit www.angeloakcapital.com.

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.

Diversification does not guarantee a profit or protect against a loss in declining markets.

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