Interest Rate Risk – Quick Case Study

February 28, 2013
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From the Asset Management Desk of Angel Oak Capital

Interest rates have trended higher since the 10-year Treasury bottomed in July 2012 (Figure 1). Short-term rates remain anchored near zero percent, and recent comments from Fed officials have hinted at an end or slowdown in longer-term asset purchases by late 2013 or early 2014.

We do not believe short-to-intermediate-term rates are at risk of large moves higher in 2013; however, we view this risk to the upside as the economy improves and inflation edges higher. A continued steepening of the yield curve is very possible throughout 2013.

Multi-Strategy Income Fund Update

This recent rate environment has illustrated interesting return results in Angel Oak’s Multi-Strategy Income Fund “the Fund” vs. other Fixed Income. The Fund remains defensively positioned against interest rate risk with a current effective duration below three years, primarily through heavy exposure to floating rate, non-agency RMBS. Additionally, we anticipate credit spreads to tighten in a rising rate environment, setting the stage for the portfolio to potentially be a strong outperformer relative to our benchmark* and other credit asset classes.

From 7/24/12 to 2/15/13, the Fund returned 10.46%, outperforming the Barclays Aggregate Bond Index, which was down 0.34% over the same period. In addition, both the high income (3.16% in distributions) and tightening credit spreads (up 7.30% in prices) helped the Fund outperform both the IG Corp. Index and the HY Corp. indices. The Fund’s relatively low interest rate risk enhanced performance in the face of a steeping yield curve.

2013 Income Expectations

While prices have increased across the Fund’s main concentration of non-agency mortgage bonds, income also has the potential to improve through an increase in voluntary prepayments, decrease in defaults, and lower loss severities.
on recoveries in these securities. Improved housing prices and the easing of mortgage credit should stimulate both refinancing and home sales activity. In addition, the threat of rising interest rates may push floating rate borrowers to refinance into longer fixed rate mortgages.

Any or all of these scenarios could provide a net increase in the distribution yield of the portfolio. With a current distribution rate of approximately 5% annually, the Fund’s income has the potential to surprise to the upside in 2013.

Portfolio Update
We continue to underweight traditional fixed income securities in the Fund. “Risk-free” assets, such as Treasury bonds and agency MBS, currently offer lower yields and a high degree of potential interest rate risk. Investment grade and high yield corporate bond yields are at all-time lows, however, we have found specific opportunities in both segments in industries with improving underlying fundamentals, including housing and financials.

We believe non-agency mortgage securities offer the best risk-adjusted opportunity in the fixed income market and continue to overweight that sector. In addition, we are looking to other structured credit classes with attractive relative value such as Collateralized Loan Obligations (CLOs). CLOs are diversified secured loans structured with credit enhancement to protect senior and super senior bondholders offering a risk profile similar to non-agencies with floating rate coupons. The current allocation to CLOs is 5.2%.

FIGURE 3: ANGLX PORTFOLIO ALLOCATION (AS OF 2/15/2013)

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Allocation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NA RMBS</td>
<td>74.4</td>
</tr>
<tr>
<td>Agency Debt</td>
<td>7.7</td>
</tr>
<tr>
<td>CLO</td>
<td>5.2</td>
</tr>
<tr>
<td>Agency RMBS</td>
<td>3.9</td>
</tr>
<tr>
<td>CMBS</td>
<td>2.6</td>
</tr>
<tr>
<td>ABS</td>
<td>1.9</td>
</tr>
<tr>
<td>Corporate HY</td>
<td>1.2</td>
</tr>
<tr>
<td>Corporate UG</td>
<td>0.4</td>
</tr>
<tr>
<td>Cash</td>
<td>2.7</td>
</tr>
</tbody>
</table>

FIGURE 4: ANGEL OAK MULTI-STRATEGY INCOME FUND PERFORMANCE (AS OF 12/31/2012)

<table>
<thead>
<tr>
<th>TOTAL RETURNS</th>
<th>1 Month</th>
<th>3 Month</th>
<th>Year-to-Date</th>
<th>1 Year</th>
<th>Annualized Since Inception*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multi-Strategy Income Fund (ANGLX)</td>
<td>0.88%</td>
<td>2.24%</td>
<td>22.72%</td>
<td>22.72%</td>
<td>19.52%</td>
</tr>
<tr>
<td>Barclays US Aggregate Bond Index</td>
<td>-0.14%</td>
<td>0.21%</td>
<td>4.21%</td>
<td>4.21%</td>
<td>6.18%</td>
</tr>
</tbody>
</table>

* Inception 6/28/2011. The since inception return has been annualized as the time period is greater than 1 year.

Expense ratio**: Gross 3.42%; Net 1.48%

Performance quoted is past performance and is no guarantee of future results. 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. Current performance for the Fund can be obtained by calling 888-685-2915.

"Gross expense ratio for A Class (ANGLX) are as of the 7/11/12 prospectus. Net expense ratio is as of the 8/31/12 supplement to the 7/11/12 prospectus. The Advisor has committed contractually, through 8/31/13, to waive fees and/or reimburse expenses to the extent necessary to cap the Fund’s total operating expenses after fee waiver, excluding certain expenses, at 99%. This cap excludes the impact of acquired fund fees and expenses of the underlying funds in which the fund invests. Such expenses are not paid by the fund and are not used in the calculation of the fund’s net asset value and provides a clearer picture of the fund’s actual operating costs."
About Angel Oak Capital
Angel Oak Capital Advisors, LLC is an Atlanta-based, SEC registered firm currently managing investments on behalf of public, private, and institutional clients. Founded in April of 2008, the firm has grown to over $1 Billion in assets under management (AUM), predominately in non-agency residential mortgage-backed securities (“RMBS”).

We seek to provide compelling fixed income investment alternatives available in today’s challenging market. Our viewpoint, both opportunistic and contrarian, help us identify what we believe are the best opportunities.

Portfolio Manager
Since 1999, Mr. Friedlander has been involved in capital markets and asset management across an array of fixed-income products. Prior to Angel Oak, Friedlander spent 5 years as a portfolio manager with Washington Mutual in Seattle, where he managed over $8 billion across RMBS, ABS, US government, and Agency portfolios. He also served as the chief strategist behind the institution’s $25 billion investment portfolio. His experience also includes four years on the trading desk of J.P. Morgan in New York.

Mr. Friedlander earned his bachelor’s degree in economics from the University of Rochester.

BRAD FRIEDLANDER
Managing Partner,
Co-founder Angel Oak Capital Advisors
Head Portfolio Manager,
Angel Oak Multi-Strategy Income Fund
Effective Duration: 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.

Barclays U.S. Aggregate Bond Index: 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.

Barclays U.S. Corporate High-Yield Index: The U.S. Corporate High-Yield Index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

Barclays U.S. Investment Grade Corporate Index: The U.S. Corporate Index is a broad-based benchmark 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 that meet specified maturity, liquidity, and quality requirements.

You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses of the Fund before investing. The Fund’s prospectus contains this and other information about the Fund, and should be read carefully before investing. You may obtain a current copy of the Fund’s prospectus by calling 1-888-685-2915. Distributed by Unified Financial Securities, Inc., 2960 North Meridian Street, Suite 300, Indianapolis, IN 46208. (Member FINRA)

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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