



**FORM ADV PART 2A**

**Angel Oak Capital Advisors, LLC**

3060 Peachtree Road, Suite 1080

Atlanta, GA 30305

Phone: 404-953-4909

Website: [www.angeloakcapital.com](http://www.angeloakcapital.com)

This brochure provides information about the qualifications and business practices of Angel Oak Capital Advisors, LLC ("Angel Oak"). If you have any questions about the contents of this brochure, please contact us at 404-953-4909. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Angel Oak also is available on the SEC's website at [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov).

**March 31, 2013**

## Material Changes

Since Angel Oak filed its annual amendment to Form ADV Part 2A on March 30, 2012, the following material changes have been made to its Form ADV Part 2A:

- Angel Oak has implemented a new Soft Dollar policy, as reflected on page 9.

## Table of Contents

<b>Advisory Business.....</b>	<b>1</b>
<b>Fees and Compensation .....</b>	<b>1</b>
<b>Methods of Analysis, Investment Strategies and Risk of Loss .....</b>	<b>3</b>
<b>Disciplinary Information .....</b>	<b>7</b>
<b>Other Financial Industry Activities and Affiliations .....</b>	<b>7</b>
<b>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....</b>	<b>8</b>
<b>Brokerage Practices .....</b>	<b>8</b>
<b>Review of Accounts .....</b>	<b>9</b>
<b>Client Referrals and Other Compensation .....</b>	<b>10</b>
<b>Custody .....</b>	<b>10</b>
<b>Voting Client Securities .....</b>	<b>10</b>
<b>Financial Information.....</b>	<b>10</b>

## **Advisory Business**

### History and Ownership

Angel Oak Capital Advisors, LLC, a Delaware limited liability company (“Angel Oak”), commenced operations in July 2009. Mike Fierman, Brad Friedlander and Sreeniwas Prabhu are the principal owners.

### Investment Funds

Angel Oak currently provides investment advisory services to private investment partnerships (each a “Fund”, and collectively, the “Funds”). In each structure, Angel Oak Capital Partners, LLC, a Georgia limited liability company, is the general partner of each Fund (the “General Partner”). Angel Oak is solely responsible for making investment decisions to purchase or sell securities for the Funds, consistent with each Fund’s offering memorandum.

In addition, Angel Oak is the investment adviser to the Angel Oak Multi-Strategy Income Fund, an open end management investment company (the “Mutual Fund”), which is described below under “*Other Financial Industry Activities and Affiliations*”.

### Individualized Account Advisory Service

Angel Oak also provides investment advisory services to separately managed accounts tailored to the needs of an individual client (“Individualized Account Advisory Services”). At the outset of each client relationship, Angel Oak spends time with the client, asking questions, reviewing the client’s investment experience and financial circumstances, and discussing Angel Oak’s investment approach and services offered. Based on its reviews, Angel Oak generally develops an investment objective and strategy with each client. Individualized Account Advisory Services may be similar to investment advisory services provided to the Funds.

As used herein, the term “client” may refer to an individual client, a Fund or the Mutual Fund.

### Discretionary Services

All of Angel Oak’s investment advisory services are provided on a discretionary basis. As of December 31, 2012, Angel Oak had approximately \$ \$1,106,343,762.33 in regulatory assets under management.

## **Fees and Compensation**

### General Fee Information

Pursuant to the investment management agreement with each client, the client will pay Angel Oak a quarterly management fee based on the net asset value of the assets under Angel Oak’s management, payable in arrears (the “Management Fee”). In addition to the Management Fee, clients are responsible for brokerage commissions and custodial fees paid to third parties.

Generally, either Angel Oak or a client may terminate an investment management agreement on 30 days' prior notice. In the event of termination, fees will be prorated. Any paid but unearned fees will be promptly refunded to the client, and any fees due to Angel Oak from the client will be invoiced or deducted from the client's account prior to termination. Pursuant to the terms of each client's investment management agreement, fees are deducted by the client's custodian.

#### Fees Charged to Investment Funds

Each Fund pays a Management Fee in an amount equal to between 0.75% and 2.00% per year. In addition to the Management Fee and the other fees described above under "General Fee Information", the Funds also pay expenses related to organization and offering, operating and administrative expenses, structuring fees, distribution fees, rating agency fees, accounting and audit fees, legal fees, insurance, printing and mailing expenses, filing fees, interest on indebtedness and extraordinary expenses.

The Management Fee for the Mutual Fund, and other expenses related to the Mutual Fund, are as set forth in its prospectus.

#### Individualized Account Advisory Service Fees

The Management Fee for Individualized Account Advisory Services depends on the size of the portfolio and services to be provided, which may be tailored to the needs of a client. Generally, however, the Management Fee is in an annualized amount that ranges from 0.50% to 1.50% of the portfolio assets under Angel Oak's management. The Management Fee for Individualized Account Advisory Services will generally be negotiated.

See additional information below under "*Performance-Based Fees and Side-By-Side Management*" and "*Brokerage Practices*".

#### **Performance-Based Fees and Side-By-Side Management**

For some Funds and separate accounts, Angel Oak or the General Partner may receive a performance allocation or a performance fee equal to a percentage of net profits of client accounts, in addition to the Management Fee (each, a "Performance Fee"). Performance Fees are generally payable on an annual basis. This arrangement may act as an incentive for Angel Oak to make investments that are riskier or more speculative than would be the case in the absence of a Performance Fee. This risk is mitigated by the fact that Angel Oak seeks to maximize the performance of the applicable Funds and managed accounts over time. In addition, some accounts subject to Performance Fees are also subject to: (i) a loss carry forward provision (often referred to as a "high water mark"), whereby prior losses are recovered before a Performance Fee can be paid; and/or (ii) a "hurdle" provision, which allows for the payment of a Performance Fee only after the account has achieved an agreed-upon level of performance.

As discussed above, in addition to accounts from which Angel Oak or the General Partner receives a Performance Fee, Angel Oak advises other accounts that pay asset-based fees. While Angel Oak may have an

incentive to favor accounts that pay Performance Fees, limited investment opportunities that suit the investment strategies of more than one account are allocated in an equitable manner.

## **Types of Clients**

### Investment Funds

As indicated above, Angel Oak is the investment adviser for the Funds. The investors in the Funds are generally accredited investors, which may include high net worth individuals, banking or thrift institutions or certain pooled investment vehicles. The minimum investment size for the Funds ranges from \$10,000 to \$500,000, in each case subject to the right of the General Partner, in its sole discretion, to accept a lesser amount.

The minimum initial investment for investors in the Mutual Fund is \$1,000.

### Individualized Account Services

Angel Oak provides individualized account services to individuals, pension and profit-sharing plans and other entities. While Angel Oak may make exceptions, the minimum portfolio value eligible for these services is generally \$2,000,000.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

### Methods of Analysis and Investment Strategies

Angel Oak primarily gives investment advice related to mortgage-backed securities, asset-backed securities, corporate debt securities, collateralized mortgage obligations, collateralized loan obligations, convertible securities and other debt derivatives. Angel Oak generally seeks to maximize client account returns by investing in securities that it considers undervalued and capitalizing on current market dislocations and illiquidity in these securities. Angel Oak uses multiple sources of information to inform its investment advice, including quantitative and qualitative factors and its own proprietary methods of evaluation.

Angel Oak analyzes a variety of factors when selecting investments for client accounts such as collateral quality, credit support, structure and market conditions. Angel Oak attempts to diversify risks that arise from position sizes, geography, ratings, duration, deal structure and collateral values. Angel Oak will also seek to invest in securities that have relatively low volatility.

Additionally, as stated above, the investment objective and strategy for each individualized account is developed by Angel Oak and the client.

While a comprehensive description of each Fund is available in its respective offering memorandum, a brief description of each Fund's investment strategy is set forth below:

- *Angel Structured Credit Opportunity Fund I, LP (Series A and Series B)* seeks to maximize returns by investing in diversified pools of residential mortgage-backed securities ("RMBS"). The investment objective for this fund is total return based on the combination of current income and capital

appreciation. Series A invests in the senior most tranche of an RMBS securitization while Series B invests in the senior support tranche.

- *Angel Oak Debt Recovery Fund, LP* seeks investment opportunities in RMBS and commercial mortgage backed securities (“CMBS”). The Debt Recovery Fund invests in a blend of senior-most and senior support RMBS and CMBS bonds.
- *Mortgage Opportunity Fund I, LP* seeks investments in RMBS; specifically in the senior-most portion of the capital structure. Return goals are met primarily through seeking bonds that provide an attractive level of current income.
- *Angel Oak Partners Fund I, LP* seeks to maximize investor returns through investments in fixed income and equity securities, and portfolio securities may be foreign or domestic. Asset exposure can be gained through direct ownership of the securities or through derivative contracts.
- *Angel Oak Strategic Mortgage Income Fund, LP* seeks to produce investor income through the selection, purchase and efficient financing of senior non-agency RMBS and CMBS. The Fund seeks to mitigate leverage risk by asset selection and the utilization of multiple financing counterparties, diversifying the maturity schedule.
- *Angel Oak Structured Income Fund I, LP* seeks to maximize returns by investing in structured credit securities and other fixed-income assets. While the focus of the Fund is on RMBS, the Fund may also invest in certain other fixed-income asset backed securities (e.g., credit card loans, auto loans, student loans). Securities will be a blend of senior-most and senior support bonds.
- *Angel Oak Structured Income Fund II, LP (Series A and Series B)* seeks to maximize returns by investing in structured credit securities and other fixed-income assets. While the focus of the Fund is on RMBS, the Fund may also invest in certain other fixed-income asset backed securities (e.g., credit card loans, auto loans, student loans). Series A will invest in senior-most bonds while Series B will invest in senior support bonds.

The Mutual Fund’s investment objective and investment strategies are as set forth in its prospectus.

#### Risk of Loss

While Angel Oak actively manages its portfolios in an effort to achieve returns and reduce risk of loss, all investment portfolios are subject to risks. Accordingly, there can be no assurance that client investment portfolios will be able to fully meet their investment objectives and goals, or that investments will not lose money.

Below is a description of several of the principal risks that client investment portfolios face.

- *Fixed Income and Debt-Based Securities.* While interest-bearing securities are investments that may provide a stable stream of income, the prices of such securities are affected by changes in interest rates. The values of fixed-income and debt-based securities also may be affected by changes in the credit rating or financial condition of the issuing entities.

- *Corporate Debt Securities.* Corporate debt securities are long and short term debt obligations issued by companies (such as publicly issued and privately placed bonds, notes and commercial paper).
  - Corporate debt security prices will rise when interest rates fall and will decline when interest rates rise. These fluctuations in prices will be more marked with respect to long-term bonds than with respect to short-term bonds.
  - In addition, the prices of lower coupon bonds are generally more volatile than higher coupon bonds of the same approximate maturity and credit quality.
- *Mortgage-Backed Securities (MBS).* MBS are mortgage-related securities issued or guaranteed by the U.S. Government, its agencies and instrumentalities, or issued by nongovernment entities.
  - Although certain mortgage-related securities are guaranteed by a third party or are otherwise similarly secured, the market value of the security, which may fluctuate, is not so secured. Accordingly, clients invested in MBS may receive monthly scheduled payments of principal and interest along with any unscheduled principal prepayments on the underlying mortgages.
  - Because scheduled and unscheduled principal payments must be reinvested at prevailing interest rates, MBS do not provide an effective means of locking in long-term interest rates for the investor.
- *Asset-backed Securities (ABS).* ABS are structured like mortgage-backed securities, but instead of mortgage loans or interests in mortgage loans, the underlying assets may include such items as motor vehicle installment sales contracts or installment loan contracts, leases of various types of real and personal property, or receivables from credit card agreements or from sales of personal property.
  - ABS typically have no U.S. Government backing, and the ability of an issuer of ABS to enforce its security interest in the underlying assets may be limited.
- *Collateralized Mortgage Obligations (CMOs).* A CMO is a hybrid between a mortgage-backed bond and a mortgage pass-through security. A CMO is a type of mortgage-backed security that creates separate classes with varying maturities and interest rates, called tranches. CMOs may be collateralized by whole mortgage loans, but are more typically collateralized by portfolios of mortgage pass-through securities guaranteed by GNMA, FHLMC, or FNMA, and their income streams.
  - Investors holding the longer maturity classes receive principal only after the first class has been retired. An investor is only partially guarded against a sooner than desired return of principal because of the sequential payments.
- *Collateralized Loan Obligations (CLOs).* CLOs are debt instruments backed solely by debt securities.
  - Normally, CLOs are privately offered and sold (that is, they are not registered under U.S. securities laws) and may be characterized as illiquid securities.
  - In addition to the interest rate, default and other risks of fixed income securities, CLOs carry additional risks, including the possibility that distributions from collateral securities will not be adequate to make interest or other payments, that the quality of the collateral may decline in

value or default, and that the client portfolio may be invested in CLOs that are subordinate to other classes.

- *Convertible Securities.* Angel Oak may invest some client portfolios in convertible securities, which are preferred stocks or bonds that pay a fixed dividend or interest payment and are convertible into common stock or other equity interests at a specified price or conversion ratio. By investing in convertible securities, Angel Oak may seek income for the client's account, and may also seek the opportunity, through the conversion feature, to participate in the capital appreciation of the common stock or other interests into which the securities are convertible, while potentially earning a higher fixed rate of return than is ordinarily available in common stocks. While the value of convertible securities depends in part on interest rate changes and the credit quality of the issuers, the value of these securities will also change based on changes in the value of the underlying stock. Income paid by a convertible security may provide a limited cushion against a decline in the price of the security. However, convertible securities generally have less potential for gain than common stocks. In addition, convertible bonds generally pay less income than non-convertible bonds.
- *Management Style Risks.* While Angel Oak manages client investment portfolios based on Angel Oak's experience, research and proprietary methods, the value of client investment portfolios will change daily based on the performance of the underlying debt instruments and other securities in which they are invested. Accordingly, client investment portfolios are subject to the risk that Angel Oak's investment style is out of favor in the market.
- *Economic Conditions.* Changes in economic conditions, including, for example, interest rates, inflation rates, employment conditions, competition, technological developments, political and diplomatic events and trends, and tax laws may adversely affect market conditions. While Angel Oak performs due diligence on the securities in which it invests, economic conditions are not within the control of Angel Oak and no assurances can be given that Angel Oak will anticipate adverse developments.
- *Illiquid Securities.* Angel Oak may invest some client portfolios in illiquid securities (i.e., securities that are not readily marketable), including, without limitation, some of the types of securities described above. Illiquid securities include, but are not limited to, restricted securities (securities the disposition of which is restricted under the federal securities laws), securities that may only be resold pursuant to Rule 144A under the 1933 Act but that are deemed to be illiquid; and repurchase agreements with maturities in excess of seven days. In the event that Angel Oak is required to sell an illiquid security, Angel Oak may not be able to obtain a favorable price for the security, which could lead to losses for a client account.
- *Hedging and Arbitrage.* While engaging in hedging and arbitrage transactions may be used for risk management purposes, unanticipated changes in securities prices, unanticipated economic, market or corporate events, or unanticipated changes in interest rates or other market factors may result in a poorer overall performance than if hedging or arbitrage investments were not made. In the event of an imperfect correlation between a position in a hedging investment and a portfolio position that it is intended to protect, or unexpected price changes in arbitrage positions, the desired protection may not be obtained, increasing exposure to risk of loss.



- *Leverage.* Client portfolios that use leverage allow Angel Oak or one of its affiliates to borrow money on behalf of clients and to invest the proceeds thereof for the client's portfolio. While the use of leverage may increase potential gains, client accounts are also subject to greater risk of loss in the event that the securities purchased with borrowed money decline in value.

## **Disciplinary Information**

Angel Oak has no disciplinary events to disclose.

## **Other Financial Industry Activities and Affiliations**

Angel Oak has several affiliated businesses that are involved in a variety of financial activities. A description of each is provided below.

### *Angel Oak Private Funds*

As mentioned above, the General Partner, an affiliate of Angel Oak, is the general partner of the Funds.

### *Angel Oak Mutual Fund*

As described above, Angel Oak is the investment adviser to the Angel Oak Multi-Strategy Income Fund, a series of the Valued Advisers Trust, which is an open end management investment company registered with the SEC under the Investment Company Act of 1940, as amended. To the extent Angel Oak invests its clients in the Mutual Fund, any fees paid to the Mutual Fund will be offset from the respective client's Management Fee.

### *Registered Representatives of Broker-Dealer*

Several employees of Angel Oak are registered representatives of Peraza Capital and Investment, LLC ("Peraza"), a registered broker-dealer. However, Angel Oak does not direct trades for its investment advisory client accounts through Peraza. Persons wishing to purchase securities through a registered representative of Peraza will open and maintain a brokerage account with Peraza, and acknowledge that any Angel Oak employee engaging in such transactions will be acting solely in the capacity of a registered representative of Peraza. Angel Oak will not provide investment advice for, and will not receive an advisory fee for, assets maintained in a brokerage account with Peraza.

### *Angel Oak Advisory Services*

Angel Oak Advisory Services, LLC, an affiliate of the General Partner, provides risk advisory and management consulting services to financial institutions and other institutional clients.

### *Angel Oak Prime Bridge*

Angel Oak Prime Bridge, LLC, an affiliate of the General Partner, provides short term loans to construct, refurbish and improve real estate properties in the southeastern United States.

## *Angel Oak Funding*

Angel Oak Funding, an affiliate of the General Partner, is a residential mortgage company.

### **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

#### Code of Ethics

Under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), Angel Oak and its officers, directors and employees (“Supervised Persons”) owe fiduciary duties to their clients. Consistent with these duties, Angel Oak has adopted a Code of Ethics (“Code”) which, among other things, requires that its Supervised Persons reflect the professional standards expected of investment advisers and comply with federal and state securities laws and regulations pertaining to Angel Oak. Under the Code, Supervised Persons should place the interests of clients first, ahead of their own personal interests, and generally seek to treat clients fairly. In addition, Supervised Persons are prohibited from engaging in any practice that defrauds or misleads any client or investor, or engaging in any manipulative or deceitful practice with respect to clients, investors or securities.

The Code also includes provisions addressing personal trading by Supervised Persons, as summarized below:

*Personal Trading.* Under the Code, Supervised Persons are generally required to submit information about their personal trading activities to Angel Oak’s chief compliance officer (“CCO”) or the CCO’s designee for review. In addition, Supervised Persons are generally required to notify the CCO and obtain advance approval of certain personal trades in securities that may be traded by Angel Oak for client accounts. Violations of the Code may result in disciplinary action up to and including dismissal.

*Participation or Interest in Client Transactions.* Under the Code, Supervised Persons are prohibited from trading in securities on the basis of material, non-public information or communicate material, non-public information about the issuer of any security to any other person.

Angel Oak will provide a copy of the Code to clients or prospective clients upon request.

### **Brokerage Practices**

For each trade where it exercises investment discretion, Angel Oak seeks “best execution”, which is a combination of price and execution relative to our instructions, and other factors.

#### Brokerage Selection

In making brokerage determinations, Angel Oak considers a number of judgmental factors, including, without limitation, clearance and settlement capabilities, quality of confirmations and account statements, the ability of the broker to settle the trade promptly and accurately, the financial standing, reputation and integrity of the broker-dealer, access to markets, research capabilities, market knowledge, any “value added” characteristics, Angel Oak’s past experience with the broker-dealer, Angel Oak’s past experience with similar trades, and other factors. Recognizing the value of these factors, Angel Oak may pay a brokerage commission in excess of what

another broker might have charged for effecting the same transaction. Notwithstanding the foregoing, and as noted above, Angel Oak will not direct brokerage of securities transactions for client accounts through Peraza.

#### Soft Dollar Transactions

Angel Oak generally has discretion to determine, without specific consent, the investments to be bought or sold and the amounts to invest for a client account. In making broker-dealer selections, Angel Oak seeks best execution for each trade, which is a combination of price, quality of execution and other factors. In making these determinations, Angel Oak considers a number of judgmental factors, including, without limitation, clearance and settlement capabilities; quality of confirmations and account statements; the ability of the broker to settle the trade promptly and accurately; the financial standing, reputation and integrity of the broker-dealer; the broker-dealer's access to markets; research capabilities; market knowledge; any "value added" characteristics; Angel Oak's past experience with the broker-dealer; Angel Oak's past experience with similar trades; and other factors. Recognizing the value of these factors, Angel Oak may pay a brokerage commission in excess of what another broker might have charged for effecting the same transaction. Consistent with the foregoing, Angel Oak may generate "soft dollars" from brokerage transactions to be used for "brokerage" or "research" services pursuant to the safe harbor of Section 28(e) of the Securities Exchange Act of 1934.

#### Aggregation of Trades

In some circumstances, Angel Oak may find that placing aggregated orders in the same security for more than one client at the same time can improve the price, transaction costs, and other aspects of execution for the trade. In the event an aggregated order is filled at different prices during the same day, each participating client will receive the average price obtained for the entire order.

#### **Review of Accounts**

##### Angel Oak Funds

Angel Oak's portfolio managers review the Funds' accounts on a daily basis. On a monthly basis, Angel Oak reviews calculations of the net asset value of the Funds and of individual investor capital account balances, which are currently provided by Partnership Financial Consulting, LLC (the "Administrator"). These calculations are confirmed by the CCO prior to Angel Oak creating a written monthly summary for each Fund portfolio. The monthly summaries include current significant portfolio investment strategies, indicative performance attribution and monthly commentary, end of month exposures, statistical and other information. The summaries are available for investor access in the password-protected section of Angel Oak's website at [www.angeloakcapital.com](http://www.angeloakcapital.com).

##### Individualized Account Services

Angel Oak's portfolio managers review individually managed client accounts on a case-by-case basis. Generally, reviews of individually managed client accounts will be performed not less than quarterly or as needed due to changing client or market conditions; however, reviews may be more frequent if requested by the client. While Angel Oak does not provide individually managed client accounts with written reports on a regular basis, Angel Oak does request that the Administrator send monthly account statements to each individually managed client account.

## **Client Referrals and Other Compensation**

Angel Oak may engage solicitors who refer clients to Angel Oak consistent with the requirements of Rule 206-4(3) under the Advisers Act. In addition, Angel Oak currently has a fee withdrawal arrangement in place with Baer Wealth Management, LLC (“Baer”), whereby a percentage of the management and performance fees received from each Fund investor introduced to Angel Oak by Baer are withdrawn from the investor’s account and paid to Baer for its advisory services.

## **Custody**

Custody of securities in client accounts is maintained at “qualified custodians,” as such term is defined under Rule 206(4)-2 of the Advisers Act. Each client should request statements from such client’s respective custodian at least quarterly, with paper or electronic copies provided to Angel Oak. Clients should review these statements carefully and promptly notify Angel Oak if they do not receive a quarterly statement from their custodian.

## **Investment Discretion**

Angel Oak has discretionary authority over the client portfolios that it manages pursuant to the terms of each client’s investment management agreement. In addition, Angel Oak has discretionary authority over the Funds pursuant to each Fund’s respective governing documents.

## **Voting Client Securities**

For client accounts for which Angel Oak has proxy voting authority, Angel Oak votes proxies in a manner that serves the best interests of its clients. In voting securities held in a client account, Angel Oak will attempt to resolve any conflict of interest between the client and Angel Oak’s business interests in the way that will most benefit the client. Angel Oak maintains a detailed Proxy Voting Policy and a record of how Angel Oak has voted proxies, each of which are available to clients upon request.

## **Financial Information**

Angel Oak does not require or solicit prepayment of fees six months or more in advance, and Angel Oak currently does not have any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.