

FORM ADV, PART 2A

(commonly referred to as the “Brochure”)

Item 1 – Cover Page



Angel Oak Advisors, LLC

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March 29, 2019

This Brochure provides information about the qualifications and business practices of Angel Oak Capital Advisors, LLC. If you have any questions about the contents of this Brochure, please contact us by phone at (888) 685-2915. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Angel Oak Capital Advisors, LLC is a registered investment adviser. However, registration as an Investment Adviser with the SEC does not imply that the Adviser or its employees possess a certain level of skill or training.

Additional information about Angel Oak Capital Advisors, LLC is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

This Brochure includes amendments since our last annual update dated March 29, 2018. We have updated our Form ADV and this Brochure to provide amended information related to our advisory business.

We have updated our Form ADV and this Brochure to reflect changes to our advisory business and regulatory requirements since the last annual update of this Brochure.

- A private pooled investment vehicle, the Angel Oak Real Estate Investment Fund II, LP, was formed and began operations in November 2018.
- A private pooled investment vehicle, the Angel Oak Bridge Lending Fund, LP, was formed and began operations in June 2018.
- A new open-end mutual fund, the Angel Oak UltraShort Income Fund, began operations in April 2018.
- Additional disclosures below include disclosures of revenue sharing arrangements with certain Private Fund investors, disclosures of sub-advisory and consulting relationships, and additional affiliations disclosed in regards to industry affiliations.

Brochure Available Upon Request

Our current Brochure may be requested at any time free of charge by contacting us by telephone toll free at (888) 685-2915 or via email at adam.langley@angeloakcapital.com.

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Item 4 – Advisory Business

Firm Description and Principal Owners

Angel Oak Capital Advisors, LLC (referred to throughout this Brochure as “Angel Oak” or the “Adviser”), a Delaware limited liability company, commenced operations in July 2009 and became registered with the U.S. Securities and Exchange Commission (“SEC”) as a registered investment adviser in October 2009. The principal owners of Angel Oak are Sreeni Prabhu, Mike Fierman and Brad Friedlander.

Advisory Services

Angel Oak provides investment advisory services to open-end and closed-end funds registered as investment companies under the Investment Company Act of 1940 (“U.S. Registered Funds”), a registered fund under the European Commission’s Undertakings for the Collective Investment of Transferable Securities (“UCITS Fund”), pooled investment vehicles exempt from registration pursuant to Section 3(c)(7) of the Investment Company Act of 1940 (“Private Funds”), insurance companies, banking institutions, and other institutional investors (“Separately Managed Accounts”). The U.S. Registered Funds, UCITS Fund, and Private Funds will be referred to collectively throughout this brochure as “Funds.” The Funds, along with Separately Managed Accounts, are referred to as “Clients” of Angel Oak.

Investment advisory services to some U.S. Registered Funds and the UCITS Fund are provided pursuant to sub-advisory agreements under which Angel Oak serves as sub-advisor to the Fund’s investment adviser.

It is important to note that the term “Client” as defined by federal securities regulations refers to the Funds and Separately Managed Accounts to which Angel Oak provides investment advisory services, not to the investors holding interests in the Funds. To avoid confusion, the term “investors” is used to refer to investors in the Funds.

Although the investment advisory services provided by Angel Oak are not limited to any specific asset class, Angel Oak generally provides investment advice related to asset-backed securities (“ABS”) including collateralized debt obligations (“CDOs”), collateralized loan obligations (“CLOs”), collateralized mortgage obligations (“CMOs”) agency and non-agency residential mortgage-backed securities (“RMBS”), commercial mortgage-backed securities (“CMBS”), bank subordinated debt, residential mortgage loans and residential mortgage-related assets, commercial real estate loans, corporate bonds, high-yield securities, repurchase agreements and reverse repurchase agreements, and derivative instruments including futures contracts, options, and swaps. Angel Oak may provide advisory services related to any other type of investments as well.

Tailored Advisory Services

Angel Oak’s advisory services are provided pursuant to investment authority granted to Angel Oak through an investment management agreement between Angel Oak and the Client. Investment

advisory services are provided on (i) a discretionary basis, giving Angel Oak broad responsibility for making investment decisions to purchase or sell securities for its Clients, within certain investment guidelines or (ii) a non-discretionary basis. Clients may impose restrictions on the types of investments to be used in their portfolio. For Separately Managed Accounts, investment objectives and any investment restrictions are approved by the Client as a part of the investment management agreement. Funds identify their investment objectives and any investment guidelines or restrictions in their offering documents.

Wrap Fee Programs

Wrap fee programs are arrangements between broker-dealers, investment advisers, banks and other financial institutions (typically acting as sponsors of the programs) and affiliated and unaffiliated investment advisors (or portfolio managers) through which the customers of such firms receive discretionary investment advisory, execution, clearing, and custodial services in a “bundled” form. In exchange for these “bundled” services, customers pay an all-inclusive – or “wrap” – fee determined as a percentage of assets held in the wrap fee account.

Angel Oak does not participate in a wrap fee program.

Assets Under Management

As of December 31, 2018, Angel Oak managed \$10,186,252,453 in regulatory assets under management on a discretionary basis and \$47,394,050 in regulatory assets under management on a non-discretionary basis, for a total of \$10,233,646,503. Regulatory assets under management includes total assets without any deductions for outstanding indebtedness or other accrued but unpaid liabilities.

Item 5 – Fees and Compensation

Management Fees

Angel Oak receives compensation through a monthly or quarterly management fee calculated as a percentage of assets under management and payable either in arrears or in advance. Fees are negotiable with Separately Managed Account Clients and are agreed upon as a part of the investment management agreement. Fees paid by Funds (and by investors in the Funds) are outlined in the respective Fund’s offering documents. Management fees range from 0.50% to 2.00% per year. Angel Oak or the general partner of the Private Funds may waive or reduce the management fee in respect of any investor in a Private Fund in its sole discretion.

Angel Oak has agreed to contractually waive and/or reimburse fees or expenses in order to limit total annual operating expenses (exclusive of any front-end sales loads, taxes, interest on borrowings, dividends on securities sold short, brokerage commissions, 12b-1 fees, acquired fund fees and expenses, expenses incurred in connection with any merger or reorganization, and extraordinary expenses) to 0.99% of the Angel Oak Multi-Strategy Income Fund’s average daily net assets, to 0.85% of the Angel Oak Financials Income Fund’s average daily net assets, to 0.65%

of the Angel Oak High Yield Opportunities Fund's average daily net assets, and to 0.49% of the Angel Oak UltraShort Income Fund's average daily assets through May 31, 2020. These waivers and reimbursements may not be terminated or modified prior to that date except with the approval of the Board of Trustees. The Funds may have to repay some of these fee and expense waivers and reimbursements to Angel Oak in the following three years should such fund's expense ratio fall below the agreed upon maximum.

In addition, Angel Oak has voluntarily agreed to waive and/or reimburse fees or expenses in order to limit total annual operating expenses (exclusive of any front-end sales loads, taxes, interest on borrowings, dividends on securities sold short, brokerage commissions, 12b-1 fees, acquired fund fees and expenses, expenses incurred in connection with any merger or reorganization, and extraordinary expenses) to 0.69% of the Angel Oak Financials Income Fund's average daily net assets, to 0.25% of the Angel Oak UltraShort Income Fund's average daily net assets, and to 0.75% of the Angel Oak Strategic Credit Fund's average daily net assets. These voluntary waivers are in addition to any contractual fee waiver discussed above and may be discontinued at any time.

In addition, Angel Oak has contractually agreed through May 31, 2019 to waive the amount of the Angel Oak Multi-Strategy Income Fund's management fee to the extent necessary to offset the proportionate share of the management fees incurred by the Fund through its investment in an underlying fund for which Angel Oak also serves as investment adviser. This arrangement may only be changed or eliminated by the Board of Trustees.

Each Fund deducts the applicable fees from each investor's account under the terms of the relevant Fund's offering documents. Investment Management Agreements between Angel Oak and its Clients allow Angel Oak to deduct its fees directly from the Client's assets in compliance with regulatory requirements regarding custody of client assets.

Performance-Based Fees

Certain Private Funds pay their general partner, which is an affiliate of Angel Oak, a performance-based fee equal to a percentage of net profits. Such fees are set forth in the Fund offering documents for Private Funds that pay performance-based fees. In measuring a Client's net profits for the calculation of performance fees, Angel Oak includes realized and unrealized capital gains and losses.

Revenue Sharing Agreements

Angel Oak may offer certain investors in Private Funds a revenue sharing agreement whereby the investor may be allocated a portion of the fees earned in the management of the relevant Private Fund. The specific terms including percentage of fees paid, and whether such percentage includes the management and/or performance fees are outlined in each revenue sharing agreement. Such a revenue sharing agreement can create a conflict of interest whereby an investment allocator may be more likely to choose for their investor an Angel Oak managed Private Fund for which such allocator has a revenue sharing agreement. It is the responsibility of the investor's investment adviser to disclose this conflict of interest to the investor.

Sub-Advisory Fees

Both Angel Oak Multi-Strategy Income Fund and Angel Oak Financials Income Fund have appointed Parks Capital Management, LLC, to sub-advise a portion of the Funds' portfolios. This sub-advisory relationship has been identified in the prospectus for each Fund. Neither Fund pays additional fees on any portion of assets managed by Parks Capital Management, LLC. All management fees due to Parks Capital Management, LLC are paid from the management fees earned by Angel Oak for the management of the respective Funds.

Other Fees and Expenses

Angel Oak's fees are exclusive of certain charges imposed by custodians, brokers, administrators, and other third parties such as custodial fees, deferred sales charges, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Angel Oak does not receive any portion of these costs.

Each Fund pays its operating expenses consisting of legal, regulatory, registration, accounting, auditing, printing, mailing, administration, taxes, extraordinary expenses, and miscellaneous fees and expenses. Such operating expenses are allocated pro rata to investors.

In certain situations, as outlined in the relevant investment management agreements, Clients may elect to administer internally certain administrative services that would generally be provided by Angel Oak to its Clients. In these situations, Angel Oak may reduce the management fee charged to the Client or pay the Client for the services completed.

Other Business Activities

Angel Oak receives fees based on a program agreement whereby the Adviser provides capital markets consulting services to a third-party related to the purchase, financing, warehousing, and securitization of whole loans. This third-party is not an investment advisory Client of Angel Oak.

Terms

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 invoiced or deducted by the Client's custodian.

Item 6 – Performance-Based Fees and Side-by-Side Management

Certain Private Funds pay their general partner, which is an affiliate of Angel Oak, a performance-based fee equal to a percentage of net profits. Such fees are set forth in the Fund offering documents for Private Funds that pay performance-based fees. In measuring a Client's net profits for the

calculation of performance fees, Angel Oak includes realized and unrealized capital gains and losses.

Angel Oak or the general partner of the Private Funds may waive or reduce the performance-based fee in respect of any investor in a Private Fund at its discretion. Investors are cautioned to review the conflicts of interest disclosure and discussion in the Fund's offering document, along with the relevant risk factors.

Performance-based fees are generally payable on an annual basis or upon liquidation of the Fund.

Performance-based fee arrangements may act as an incentive for the Adviser to make investments that are riskier or more speculative than would be the case in the absence of a performance-based fee. This risk is mitigated by the fact that Angel Oak seeks to maximize the performance of the applicable Client over time. In addition, accounts subject to performance-based 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 is 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.

"Side-by-Side Management" refers to a situation in which the same firm manages accounts that are billed based on a percentage of assets under management and at the same time manages other accounts for which fees are assessed on a performance fee basis. Such fee arrangements may also potentially create an incentive to favor accounts paying performance-based fees over other accounts in the allocation of investment opportunities. Angel Oak has implemented allocation procedures designed to ensure that all Clients are treated fairly and equitably and to prevent this potential conflict from influencing the allocation of investment opportunities among Clients.

Item 7 – Types of Clients

Private Funds

Angel Oak is the investment adviser for Private Funds which are exempt from registration under federal securities regulations. Depending on the Private Fund, the investors in the Private Fund are knowledgeable employees, accredited investors, and/or qualified purchasers (as those terms are defined in the federal securities laws) which include high net worth individuals, institutional investors, or other pooled investment vehicles. The minimum investment size for the Funds ranges from \$250,000 to \$1,000,000, in each case subject to the right of the general partner of the Private Funds, in its sole discretion, to accept a lesser amount.

Angel Oak may from time to time enter into side letter agreements or other similar agreements (collectively, "Side Letters") with one or more investors in the Private Funds which may provide such investor(s) with additional and/or different rights (including, without limitation, with respect to management fees, performance fees, access to information, and minimum investment amounts) than such investors have pursuant to the general terms of the applicable Private Fund. Angel Oak will not be required to notify, or provide copies to, all of the other investors of any such Side

Letters or any of the rights and/or terms or provisions thereof, nor will Angel Oak be required to offer such additional and/or different rights and/or terms to all of the other investors. Certain investors may be provided, though such Side Letters, with “most favored nation” status and will be notified of Side Letters with other investors and may elect to receive terms which are the same or better than other investors.

Retail Funds

Angel Oak provides investment advisory services to open-end and closed-end investment companies registered under the Investment Company Act of 1940. The minimum initial investment for investors in the U.S. Registered Funds is \$1,000. Certain U.S. Registered Funds are advised pursuant to a sub-advisory agreement with the relevant investment manager whereby Angel Oak sub-advises a portion of the fund’s assets under management. Angel Oak also acts as an investment adviser to certain U.S. Registered Funds that have designated sub-advisers for a portion of the fund’s assets under management. With respect to each relationship, the relationships are subject to written investment advisory agreements designating each parties’ responsibility including with respect to quarterly reporting to the Board of Directors and quarterly/annual due diligence.

In addition, Angel Oak provides investment advisory services to a UCITS Fund registered with the Central Bank of Ireland. The minimum initial investment for investors in the UCITS Fund varies depending on the class of shares purchased. The lowest minimum initial investment is \$5,000.

Separately Managed Accounts

Angel Oak provides investment advisory services to institutions, banks, insurance companies, and other entities. While Angel Oak may make exceptions, the minimum initial investment for these services is generally \$10,000,000.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategies

The Adviser employs multiple investment strategies for its various Clients. Generally, the principal investment objectives are to earn attractive risk-adjusted returns by employing a credit-driven approach that identifies undervalued assets predominately within the fixed income sector focusing mainly on structured-credit fixed income markets. In pursuit of its investment objectives, the Adviser utilizes fundamental credit analysis, proprietary models, and quantitative and qualitative research. The Adviser believes that it is well positioned to exploit misunderstood assets, market dislocations, forced liquidations, event-driven situations, and relative value opportunities. The Adviser is also of the view that its comprehensive analytical approach to investing, combined with the investment team’s own historical experience in mortgage-backed and other asset-backed securities provide the Adviser with specialized expertise in analyzing structured consumer credit and the underlying assets.

Angel Oak generally provides investment advice related to asset-backed securities (“ABS”), collateralized debt obligations (“CDOs”), collateralized loan obligations (“CLOs”), collateralized mortgage obligations (“CMOs”) agency and non-agency residential mortgage-backed securities (“RMBS”), commercial mortgage-backed securities (“CMBS”), bank subordinated debt, residential mortgages loans and residential mortgage-related assets, commercial real estate loans, corporate bonds, high-yield securities, repurchase agreements and reverse repurchase agreements, and derivative instruments including futures contracts, options, and swaps. Angel Oak may provide advisory services related to any other type of investments as well.

Certain Clients may utilize borrowing or leverage in pursuit of their investment strategy. In addition, certain investment strategies expect to finance certain of the residential and commercial loans acquired through securitizations and expect to retain securities in the issuing entity of those securitizations.

The investment strategies may, in the Adviser’s discretion, engage in hedging transactions designed to reduce exposure to interest rate and currency fluctuations, declines in market price, credit deterioration or other risks related to the pricing or value of investments.

Risk of Loss

This investment strategies are speculative and involve substantial risks, including the risk of loss of an investor’s entire investment, which an investor should be willing to accept. No assurance can be given that profits will be achieved or that losses will not be incurred.

Other Material Risks

Risks of Investments in Asset-Backed Securities (“ABS”). ABS are debt obligations or debt securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from underlying financial assets, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities. An ABS is subject to the risk that a change in interest rates may influence the pace of prepayments of the underlying securities which, in turn, affects yields on an absolute basis. An ABS is typically created by the sale of assets or collateral to a conduit, generally a bankruptcy-remote vehicle such as a grantor trust or other special-purpose entity, which becomes the legal issuer of the ABS. Interests in or other securities issued by the trust or special-purpose entity, which give the holder thereof the right to certain cash flows arising from the underlying assets, are then sold to investors through an investment bank or other securities underwriter.

The structure of an ABS and the terms of the investors’ interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Although the basic elements of all ABS are similar, individual transactions can differ markedly in both structure and execution. Holders of ABS bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks.

Credit risk is an important issue in ABS because of the significant credit risks inherent in the underlying collateral and because issuers are primarily private entities. Credit risk arises from losses due to defaults by the borrowers in the underlying collateral or the issuer's or servicer's failure to perform. Market risk arises from the cash-flow characteristics of the security, which for many ABS tend to be predictable. The greatest variability in cash flows comes from credit performance, including the presence of wind-down or acceleration features designed to protect the investor if credit losses in the portfolio rise well above expected levels. Interest-rate risk arises for the issuer from the relationship between the pricing terms on the underlying collateral and the terms of the rate paid to security holders and from the need to mark to market the excess servicing or spread account proceeds carried on the balance sheet. Liquidity risk can arise from increased perceived credit risk. Liquidity can also become a significant problem if concerns about credit quality, for example, lead investors to avoid the securities issued by the relevant special-purpose entity. Operations risk arises through the potential for misrepresentation of asset quality or terms by the originating institution, misrepresentation of the nature and current value of the assets by the servicer and inadequate controls over disbursements and receipts by the servicer. Structural risk may arise through investments in ABS with structures (for example, the establishment of various security tranches) that are intended to reallocate the risks entailed in the underlying collateral (particularly credit risk) in ways that give certain investors less credit risk protection (i.e., a lower priority claim on the cash flows from the underlying pool of assets) than others. As a result, such securities have a higher risk of loss as a result of delinquencies or losses on the underlying assets.

Risks of Investments in Collateralized Loan Obligations ("CLOs") and Collateralized Debt Obligations ("CDOs"). CLOs and other CDOs are typically privately offered and sold, and thus, are not registered under the securities laws, which means less information about the security may be available as compared to publicly offered securities and only certain institutions may buy and sell them. As a result, investments in CDOs may be characterized as illiquid investments. An active dealer market may exist for CDOs that can be resold in Rule 144A transactions, but there can be no assurance that such a market will exist or will be active enough for the relevant Clients to sell such securities. In addition to the typical risks associated with fixed-income securities and asset-backed securities, CDOs carry additional risks including, but not limited to: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the risk that the collateral may default, decline in value or quality or be downgraded by a rating agency; (iii) the relevant Clients may invest in tranches of CDOs that are subordinate to other tranches; (iv) the structure and complexity of the transaction and the legal documents could lead to disputes among investors regarding the characterization of proceeds; (v) risk of forced "fire sale" liquidation due to technical defaults such as coverage test failures; and (vi) the CDO's manager may perform poorly.

Risks of Investments in RMBS. RMBS are subject to particular risks because they have loss, yield, prepayment, and maturity characteristics corresponding to their underlying assets. Unlike traditional debt securities, which may pay a fixed rate of interest until maturity when the entire principal amount comes due, payments on certain RMBS include both interest and a partial payment of principal. This partial payment of principal may be comprised of a scheduled principal payment, as well as an unscheduled payment from the voluntary prepayment, refinancing, or foreclosure of the underlying assets. As a result of these unscheduled payments of principal, or

prepayments on the underlying assets, the price and yield of RMBS can be adversely affected. For example, during periods of declining interest rates, prepayments can be expected to accelerate, and the Client would be required to reinvest proceeds at the lower interest rates then available. Prepayments of mortgages that underlie securities purchased at a premium could result in capital losses because the premium may not have been fully amortized at the time the obligation is prepaid. In addition, like other interest-bearing securities, the values of RMBS generally fall when interest rates rise, but when interest rates fall, their potential for capital appreciation is limited due to the existence of the prepayment feature.

The performance of any RMBS, and the results of hedging arrangements entered into with respect to a RMBS, will be affected by: (i) the rate and timing of principal payments on the underlying assets; and (ii) the extent to which such principal payments are applied to reduce, or otherwise result in the reduction of, the principal or notional amount of such RMBS. The rate of principal payments on a pool of RMBS will in turn be affected by the amortization schedules of the assets (which, in the case of assets with an adjustable-rate feature, may change periodically to accommodate adjustments to the mortgage rates thereon) and the rate of principal prepayments thereon (including for this purpose, voluntary prepayments by borrowers and prepayments resulting from liquidations of RMBS due to defaults, casualties or condemnations affecting the related properties).

The extent of prepayments of principal of the assets underlying RMBS may be affected by a number of factors, including the availability of mortgage credit, the relative economic vitality of the area in which the related properties are located, the servicing of the underlying assets, possible changes in tax laws, other opportunities for investment, homeowner mobility and other economic, social, geographic, demographic and legal factors. In general, any factors that increase the attractiveness of selling a mortgaged property or refinancing such property, enhance a borrower's ability to sell or refinance or increase the likelihood of default under a mortgage-related security would be expected to cause the rate of prepayment in respect of a pool of mortgage-related securities to accelerate. In contrast, any factors having an opposite effect would be expected to cause the rate of prepayment of a pool of mortgage-related securities to slow. At any one time, a portfolio of RMBS may be backed by assets with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, RMBS may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage-related securities having more diverse property locations.

The rate of prepayment on a pool of mortgage-related securities is likely to be affected by prevailing market interest rates for mortgages of a comparable type, term and risk level. When the prevailing market interest rate is below a mortgage coupon, a borrower generally has an increased incentive to refinance. Even in the case of assets with an adjustable-rate component, as prevailing market interest rates decline, and without regard to whether the mortgage rates on such assets decline in a manner consistent therewith, the related borrowers may have an increased incentive to refinance for purposes of either: (i) converting to a fixed rate security and thereby "locking in" such rate; or (ii) taking advantage of a different index, margin or rate cap or floor on another

adjustable rate note. Therefore, as prevailing market interest rates decline, prepayment speeds would be expected to accelerate.

Increases in monthly payments on adjustable rate mortgages due to higher interest rates may result in greater future delinquency rates. Borrowers with adjustable payments may be exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate, as applicable, to the rate computed in accordance with the applicable index and margin. This increase in borrowers' monthly payments, together with any increase in prevailing market interest rates, may result in significantly increased monthly payments for borrowers subject to adjustable rates.

Borrowers seeking to avoid these increased monthly payments by refinancing may no longer be able to find alternatives at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed rate periods may find that they cannot sell their properties for an amount equal to or greater than their unpaid principal balances. These events, alone or in combination, may contribute to higher delinquency rates and therefore potentially higher losses on RMBS.

Loan modification and refinance programs may adversely affect the performance of RMBS. Especially with non-Agency RMBS, a significant number of loan modifications with respect to a given security, including those related to principal forgiveness and coupon reduction, could negatively impact the realized yields and cash flows on such security. Litigation and other enforcement actions related to legacy RMBS could have a significant, adverse effect on the ability to receive payments on, or otherwise recoup on its investments, in those RMBS. Servicers of mortgage loans, as well as trustees, impacted by such actions have opted to either reimburse themselves from general collections on the mortgage loans or at the highest priority in a related "waterfall," thereby reducing funds available for distribution to security holders. Moreover, in connection with trust collapses (typically by operation of an optional "clean-up call"), where holders of RMBS would be paid in full, the related trustee and one or more other transaction parties have recently held back a significant portion of the purchase proceeds to cover their unreimbursed and anticipated costs and expenses related to its defense of litigation concerning the related trusts. Such holdbacks resulted in the allocation of realized losses to the RMBS transaction and could cause significant delays to an RMBS's holders receipt of the full amounts of principal and interest payable at the time of termination. Certain bondholders have filed complaints against the applicable trustees asking for a declaratory judgement that the trustee is not permitted to use RMBS trust money to fund its defense against the pending litigation. The results of this litigation and complaints could cause disruptions in the RMBS market.

Risks of Investments in Non-Agency RMBS. Non-Agency RMBS are not guaranteed by the U.S. government in any manner whatsoever and are secured only by cash flows of the underlying mortgages; in contrast, Agency RMBS carry the implicit, and in some cases the explicit, guarantee of the U.S. government. Investing in RMBS involves a high degree of risk.

RMBS performance may be affected by an increase of delinquencies, defaults and foreclosures on underlying mortgages. Non-Agency RMBS are generally made to borrowers with lower credit scores, incomplete application documentation, higher security balances and higher loan-to-value ratios. Also, fraudulent mortgage applications, below normal equity contributions, equity contributions with “piggy-back” mortgages and mortgages supported by properties acquired for investment may increase the likelihood of defaults, delinquencies and losses on mortgage portfolios. In addition, adjustable rate mortgages and hybrid mortgages that have or will enter their adjustable period where the borrower is likely to experience an increase in their monthly payments could increase the likelihood of default. Moreover, higher loan-to-value ratios may result in lower recoveries upon foreclosure and an increase in net losses. A decline in property values is likely to impact recoveries on any second lien position included in the mortgage pools underlying certain RMBS.

In the event of a default on a mortgage underlying a non-agency RMBS in the Client’s portfolio, it will bear the risk of loss as a result of the potential deficiency between the value of the collateral and the debt owed on the mortgage, as well as the costs and delays of foreclosure or other remedies, including the costs of maintaining and ultimately selling a property after foreclosure.

Risks of Investments in CMBS. CMBS are securities backed by obligations (including certificates of participation in obligations) that are principally secured by interests in real property having a multi-family or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers. CMBS are issued in public and private transactions by a variety of public and private issuers using a variety of structures, including senior and subordinated classes. CMBS generally lack standardized terms, tend to have shorter maturities than RMBS and may provide for the repayment of all or substantially all of the principal only at maturity. All of these factors increase the risk involved with commercial real estate lending. Commercial properties tend to be unique and are more difficult to value than single-family residential properties. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential one-to-four family lending since it typically involves larger loans to a single borrower than residential one-to-four family lending. Commercial mortgage lenders typically look to the debt service coverage ratio of a mortgage secured by an income-producing property as an important measure of the risk of default on a mortgage. Commercial property values and net operating income are subject to volatility, and net operating income may be sufficient or insufficient to cover debt service on the related mortgage at any given time. The repayment of mortgages secured by income-producing properties is typically dependent upon the successful operation of the related real estate project as well as upon the liquidation value of the underlying real estate. The value of commercial real estate is also subject to a number of laws and regulations, such as regulations and laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption.

Most CMBS are effectively non-recourse obligations of the borrower, meaning that there is no recourse against the borrower’s assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgages, payments on the subordinated classes of the related CMBS are likely to be adversely

affected. The ultimate extent of the loss, if any, to the subordinated classes of CMBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed-in-lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related CMBS. Revenues from the assets underlying such CMBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

A CMBS may pay fixed or floating rates of interest. A fixed-rate CMBS, like all fixed-income securities, generally declines in value as rates rise. Moreover, although generally the value of fixed-income securities increases during periods of falling interest rates, the inverse relationship may not be as marked in the case of CMBS due to the increased likelihood of prepayments during periods of falling interest rates. This effect is mitigated to some degree for CMBS providing for a period during which no prepayments may be made. Certain CMBS lack regular amortization of principal, resulting in a single "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default.

Risks of Investments in Bank Subordinated Debt. Banks may issue subordinated debt securities, which have a lower priority to full payment behind other more senior debt securities. This means, for example, that if the issuing bank were to become insolvent, subordinated debt holders may not receive a full return of their principal because the bank would have to satisfy the claims of senior debt holders first. In addition to the risks generally associated with fixed income instruments (e.g., interest rate risk, credit risk, etc.), bank subordinated debt is also subject to risks inherent to banks. Because banks are highly regulated and operate in a highly competitive environment, it may be difficult for a bank to meet its debt obligations. Banks also may be affected by changes in legislation and regulations applicable to the financial markets. This is especially true in light of the large amount of regulatory developments in recent years. Bank subordinated debt is often issued by smaller community banks that may be overly concentrated in a specific geographic region, lack the capacity to comply with new regulatory requirements or lack adequate capital. Smaller banks may also have a lower capacity to withstand negative developments in the market in general. If any of these or other factors were to negatively affect a bank's operations, the bank could fail to make payments on its debt obligations, which would hurt a Client's bank subordinated debt investments.

Risks of Investments in the Financials Sector. Clients may invest in companies in the financials sector, and therefore the performance of a Client could be negatively impacted by events affecting this sector. This sector can be significantly affected by changes in interest rates, government regulation, the rate of defaults on corporate, consumer and government debt, the availability and cost of capital, and fallout from the housing and sub-prime mortgage crisis. Insurance companies,

in particular, may be significantly affected by changes in interest rates, catastrophic events, price and market competition, the imposition of premium rate caps, or other changes in government regulation or tax law and/or rate regulation, which may have an adverse impact on their profitability. This sector has experienced significant losses in the recent past, and the impact of more stringent capital requirements and of recent or future regulation on any individual financial company or on the sector as a whole cannot be predicted. In recent years, cyber attacks and technology malfunctions and failures have become increasingly frequent in this sector and have caused significant losses. Subordinated debt, senior debt and preferred securities of banks and diversified financials companies are subject to the risks generally associated with the financials sector.

Risks of Investments in Residential Mortgage Loans. Investments in residential mortgage loans will subject a Client to risks which include, among others: (i) declines in the value of residential real estate; (ii) risks related to general and local economic conditions; (iii) lack of available mortgage funding for borrowers to refinance or sell their homes; (iv) overbuilding; (v) the general deterioration of the borrower's ability to keep a rehabilitated non-performing mortgage loan current; (vi) increases in property taxes; (vii) changes in zoning laws; (viii) costs resulting from the clean-up of, and liability to third parties for damages resulting from, environmental problems, such as indoor mold; (ix) casualty or condemnation losses; (x) uninsured damages from floods, earthquakes or other natural disasters; (xi) limitations on and variations in rents; (xii) fluctuations in interest rates; (xiii) fraud by borrowers, originators and/or sellers of mortgage loans; (xiv) undetected deficiencies and/or inaccuracies in underlying mortgage loan documentation and calculations; and (xv) failure of the borrower to adequately maintain the property, particularly during times of financial difficulty. To the extent that assets underlying these investments are concentrated geographically, by property type or in certain other respects, a Client may be subject to certain of the foregoing risks to a greater extent. Additionally, a Client may be required to foreclose on a mortgage loan and such actions would subject the Client to greater concentration of the risks of the residential real estate markets and risks related to the ownership and management of real property. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law.

Risks of Investments in Residential Bridge ("Fix and Flip") Loans. Clients may invest in residential bridge ("fix and flip") loans, which are particularly illiquid investments due to their short life, the difficulty to securitize such loans, and the greater difficulty of recoupment in the event of a borrower's default. As these loans provide borrowers with short-term capital typically in connection with the acquisition and re-development of a single family or multi-family residence, with a view to the borrower selling the property, there is a risk that a borrower may not be able to sell the property on attractive terms or at all once the property has been re-developed. Moreover, the borrower may experience difficulty in completing the re-development of the property on schedule or at all, whether as a result of cost over-runs, construction-related delays, or other issues, which may result in delays selling the property or an inability to sell the property at all. Since the borrower would typically use the proceeds of the sale of the property to repay the bridge loan, if

any of the foregoing events were to occur, the borrower may be unable to repay its loan on a timely basis or at all, and any participating Clients may lose all or a portion of their investment.

Risks of Investments in Second Lien Residential Mortgage Loans. A second lien residential mortgage loan is a residential mortgage loan that is subordinate to the primary or first lien mortgage loan on a residential property. In the event of a default or a bankruptcy of the borrower, the second lien residential mortgage loan will not be paid off until the first lien mortgage loan is paid off, resulting in a higher likelihood that the Client will be subject to losses on such second lien residential mortgage loan.

Risks of Investments in Investment Property Loans. Investment property loans are mortgage loans made on residential rental properties. The repayment of such a loan by the property owner (i.e., the borrower) often depends primarily on its tenant's continuing ability to pay rent to the property owner. If the property owner is unable to find or retain a tenant for the rental property, the property owner would cease to have a continuous rental income stream with respect to the property and, as a result, the property owner's ability to repay the loan on a timely basis or at all could be adversely affected. In addition, the physical condition of non-owner-occupied properties can be below that of owner-occupied properties due to lax property maintenance standards, which can have a negative impact on the value of the collateral properties. Moreover, loans on non-owner-occupied residential properties generally involve larger principal amounts and a greater degree of risk than owner-occupied residential mortgage loans, resulting in a higher likelihood that the Client will be subject to losses on such investment property loans.

Risks of Investments in Commercial Real Estate Loans. Investment in commercial real estate loans, which are secured (directly or indirectly) by commercial property, are subject to risks of delinquency and foreclosure. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property and not on the existence of independent income or assets of the borrower. If the operating income of the property decreases due to a variety of factors affecting the property's commercial operations, the borrower's ability to repay the loan may be impaired. Special risks associated with commercial mortgage loan investments include changes in the general economic climate or local conditions (such as an oversupply of space or a reduction in demand for space), competition based on rental rates, attractiveness and location of the properties, changes in the financial condition of tenants and changes in operating costs. Real estate values are also affected by such factors as governmental regulations (including those governing usage, improvements, zoning and taxes), interest rate levels, the availability of financing and potential liability under changing environmental and other laws. Of particular concern may be those mortgaged properties which are, or have been the site of manufacturing, industrial or disposal activities. Such environmental risks may give rise to a diminution in the value of property (including real property securing any investment) or liability for cleanup costs or other remedial actions, which liability could exceed the value of such property or the principal balance of the related investment. In certain circumstances, a lender may choose not to foreclose on contaminated property rather than risk incurring liability for remedial actions. In the event of any default under a commercial real estate loan held by the Client, the Client will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral

and the principal and accrued interest of the real estate loan, which could result in losses to the Client.

Risks of Investments in Commercial Bridge Loans. Clients may invest in commercial bridge loans, which are transitional loans that generally involve greater risk of loss than stabilized commercial real estate loans. Commercial bridge loans provide interim financing to borrowers seeking short-term capital for the acquisition or transition (for example, lease up and/or rehabilitation) of commercial real estate and generally have a maturity of five years or less. Such a borrower under a transitional loan has usually identified an asset that has been under-managed and/or is located in a recovering market. If the market in which the asset is located fails to recover according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management and/or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the transitional loan, and a participating Client will bear the risk that it may not recover some or all of its investment. In addition, borrowers usually use the proceeds of a conventional mortgage loan to repay a transitional loan. Clients may therefore be dependent on a borrower's ability to obtain permanent financing to repay a transitional loan, which could depend on market conditions and other factors. In the event of any failure to repay under a transitional loan held by a Client, that Client will bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount and unpaid interest of the commercial bridge loan.

Risks of Investments in Mezzanine Loans. In each instance where an investment is a mezzanine loan secured by interests in a property-owning entity, the investment will be subject, directly or indirectly, to the mortgage or other security interest of a senior lender. The rights and remedies afforded a senior lender may limit or preclude the exercise of rights and remedies by the Client, with resultant loss to the Client. Further, the equity owners of properties or entities in which the Client invests may raise defenses (including protection under bankruptcy laws) to enforcement of rights or imposition of remedies by the Client. In the event such defenses were successful, or resulted in delay, loss to the Client could result.

Risks of Investments in Non-Performing Mortgage Loans. Distressed mortgage loans and distressed mortgage-related assets are those where the borrower had failed to make timely payments of principal and/or interest or where the loan was performing but subsequently could or did become non-performing. There are no limits on the percentage of non-performing assets the Client may hold. Further, the borrowers on such loans may be in economic distress and/or may have become unemployed, bankrupt or otherwise unable or unwilling to make payments when due. Distressed assets may entail characteristics that make disposition or liquidation more challenging, including, among other things, severe document deficiencies or underlying real estate located in states with extended foreclosure timelines. Any loss the Client may incur on such investments may be significant.

Risks of Investments in B-Notes. Investments in B-notes may be subject to additional risks relating to the privately negotiated structure and terms of the transaction, which may result in losses to the Client. If a borrower defaults, there may not be sufficient funds remaining for B-note holders after payment to the A-note holders. Since each transaction is privately negotiated, B-notes can vary in

their structural characteristics and risks. For example, the rights of holders of B-notes to control the process following a borrower default may be limited in certain investments. The Client cannot predict the terms of each B-note investment. B-notes are not as liquid as some forms of debt instruments and, as a result, the Client may be unable to dispose of performing, underperforming or non-performing B-note investments. The higher risks associated with the Client's subordinate position in such investments could subject it to increased risk of losses.

Risks of Investments in Construction Loans. If the Client fails to fund its entire commitment on a construction loan or if a borrower otherwise fails to complete the construction of a project, there could be adverse consequences associated with the loan, including, without limitation: (i) a loss of the value of the property securing the loan, especially if the borrower is unable to raise funds to complete it from other sources; (ii) a borrower claim against the Client for failure to perform under the loan documents; (iii) increased costs to the borrower that the borrower is unable to pay; (iv) a bankruptcy filing by the borrower; and (v) abandonment by the borrower of the collateral for the loan. The occurrence of such events could result in losses to the Client. Other loan types may also include unfunded future obligations that could present similar risks.

Risks of Investments in Small Balance Commercial Real Estate Loans. Non-performing small balance commercial real estate loans are subject to increased risks of credit loss for a variety of reasons, which may include that the underlying property is too highly leveraged or the borrower has experienced financial distress. Whatever the reason, the borrower may be unable to meet its contractual debt service obligation to the Client. Non-performing small balance commercial real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may divert the Investment Manager's attention from other activities and entail, among other things, a substantial reduction in the interest rate or capitalization of past due interest. However, even if restructurings are successfully accomplished, risks still exist that borrowers will not be able or willing to maintain the restructured payments or refinance the restructured mortgage upon maturity. Additional risks inherent in the acquisition of non-performing small balance commercial real estate loans include undisclosed claims, undisclosed tax liens that may have priority, higher legal costs and greater difficulties in determining the value of the underlying property.

Risks of Investments in CRT Securities. CRT securities are risk-sharing instruments issued by government-sponsored enterprises ("GSEs") (such as Fannie Mae or Freddie Mac) or similarly structured transactions arranged by third-party market participants. The securities issued in the CRT sector are designed to synthetically transfer mortgage credit risk from the GSEs to private investors, and transactions arranged by third-party market participants in the CRT sector are similarly structured to reference a specific pool of loans that have been securitized by the GSEs and to synthetically transfer mortgage credit risk related to those loans to the purchaser of the securities. The holder of CRT securities therefore bears the risk that the borrowers may default on their obligations to make full and timely payments of principal and interest. To the extent that the Client is a holder of CRT securities, it will be exposed to such risks and may suffer losses.

Risks of Investments in MSRs and Excess MSRs. MSRs would arise from contractual agreements between the Client and investors (or their agents) in mortgage securities and mortgage loans. The determination of the value of MSRs will require the Investment Manager to make numerous

estimates and assumptions. Such estimates and assumptions include, without limitation, estimates of future cash flows associated with MSR assets based upon assumptions involving interest rates as well as the prepayment rates, delinquencies and foreclosure rates of the underlying serviced mortgage loans. The ultimate realization of the fair value of MSR assets may be materially different than the values of such MSR assets estimated by the Investment Manager. The use of different estimates or assumptions in connection with the valuation of these assets could produce materially different fair values for such assets, which could have a material adverse effect on those Investments.

Changes in interest rates are a key driver of the performance of MSR assets. Historically, the fair value of MSR assets has increased when interest rates rise and decreased when interest rates decline due to the effect those changes in interest rates have on prepayment estimates. To the extent the Client does not hedge against changes in the value of MSR assets, Investments in MSR assets would be more susceptible to volatility due to changes in the value of, or cash flows from, the MSR assets as interest rates change.

Prepayment speeds significantly affect MSR assets. Prepayment speed is the measurement of how quickly borrowers pay down the unpaid principal balance of their loans or how quickly loans are otherwise brought current, modified, liquidated or charged off. The Client may base the price it pays for MSR assets and the rate of amortization of those assets on, among other things, projections of the cash flows from the related pool of mortgage loans. The Investment Manager's expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If prepayment speed expectations increase significantly, the value of the MSR assets could decline. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows the Client receives from MSR assets, and the Client could ultimately receive substantially less return on such assets. Moreover, delinquency rates have a significant impact on the valuation of any MSR assets. An increase in delinquencies generally results in lower revenue because typically the Client would only collect servicing fees for performing loans. The Investment Manager's expectation of delinquencies is also a significant assumption underlying projections of potential returns. If delinquencies are significantly greater than expected, the estimated value of the MSR assets could be diminished. When the estimated value of MSR assets is reduced, the Client could suffer a loss.

Furthermore, MSR assets and the related servicing activities are subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions imposing various requirements and restrictions on the holders of such investments. The Client's failure to comply, or the failure of the servicer to comply, with the laws, rules or regulations to which they are subject by virtue of ownership of MSR assets, whether actual or alleged, could expose the Client to fines, penalties or potential litigation liabilities, including costs, settlements and judgments, any of which could have a material adverse effect on the Client.

Because excess MSR assets are a component of the related MSR, the risks of owning an excess MSR are similar to the risks of owning an MSR. The valuation of excess MSR assets is based on many of the same estimates and assumptions used to value MSR assets, thereby creating the same potential for material differences between estimated value and the actual value that is ultimately realized. Also, the performance of excess MSR assets is impacted by the same drivers as the performance of MSR assets, including interest rates, prepayment speeds and delinquency rates.

Risks Related to Loans Purchased from Affiliate Originators. A significant portion of the Client's portfolio is expected to consist of mortgage loans and other assets acquired from the affiliates of Angel Oak, as well as RMBS and CMBS acquired from securitization vehicles affiliated with the Client, which creates significant conflicts of interest.

The Client's portfolio may consist of a significant amount of loans and other assets purchased from the Affiliate Originators. As the Affiliate Originators are affiliates of Angel Oak, each of the Adviser, Investment Manager, and the Affiliate Originators will receive benefits, including compensation, payable by the Client, for their activities related to the origination, issuance and sale of the loans or other assets. As the Investment Manager directs the investment activities of the Client, there may be conflicts of interest related to the fact that the Affiliate Originators are also affiliates of the Investment Manager.

The Client may purchase RMBS or CMBS that are collateralized by loans originated by Affiliate Originators and the Client's portfolio may consist of a significant amount of such securities. The Investment Manager and certain affiliates thereof may receive benefits, including compensation, for their activities related to the creation of the securitization and the issuance and sale of such securities. The Client will also bear all or a significant portion of the expense incurred in connection with the securitization vehicle to which the Client sells the loans it has acquired. Such expenses include, but are not limited to, the costs and expenses related to structuring the securitization vehicle and the transactions related to the purchase and sale of the loans by the Client to the securitization vehicle.

The Investment Manager has in place policies and procedures that it believes are reasonably designed to facilitate arms' length transactions between the Client and the Affiliate Originators with respect to such loans or other assets purchased from the Affiliate Originators; however, there can be no assurance that such policies and procedures will be successful. Transactions by the Client with the Affiliate Originators and any other affiliates of the Investment Manager must be approved by the Client's Board of Trustees, including a majority of the independent Board members. However, if the Board does not have a majority of independent Board Members, then any such transactions must be approved by a majority in Interest of the Limited Partners.

In addition, the Affiliate Originators may earn origination or other fees from borrowers on loans they originate that are acquired by the Client from such Affiliate Originators.

Risks of Investments in High-Yield Securities. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. Major economic recessions could disrupt severely the market for such securities and may have an adverse impact on the value of such

securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

As with other investments, there may not be a liquid market for certain high-yield securities, which could result in the Client being unable to sell such securities for an extended period of time, if at all. In addition, as with other types of investments, the market for high-yield securities has historically been subject to disruptions that have caused substantial volatility in the prices of such securities. Consolidation in the financial services industry has resulted in there being fewer market makers for high-yield securities, which may result in further risk of illiquidity and volatility with respect to high-yield securities, and this trend may continue in the future.

Risks of Investments in Other Investment Companies. Investments in other investment companies (including those that are part of the same group of investment companies (“affiliated underlying funds”)) that invest in fixed-income securities, risks associated with investments in other investment companies will include fixed-income securities risks. In addition to the brokerage costs associated with the relevant Clients’ purchase and sale of the underlying securities, ETFs and mutual funds incur fees that are separate from those of the relevant Clients. As a result, the relevant Clients’ shareholders will indirectly bear a proportionate share of the operating expenses of the ETFs and mutual funds, in addition to relevant Clients’ expenses. Because the relevant Clients are not required to hold shares of underlying funds for any minimum period, they may be subject to, and may have to pay, short-term redemption fees imposed by the underlying funds. ETFs are subject to additional risks such as the fact that the market price of its shares may trade above or below its NAV or an active market may not develop. The relevant Clients have no control over the investments and related risks taken by the underlying funds in which they invest. The 1940 Act and the rules and regulations adopted under that statute impose conditions on investment companies which invest in other investment companies, and as a result, relevant Clients are generally restricted on the amount of shares of another investment company to shares amounting to no more than 3% of the outstanding voting shares of such other investment company.

In addition to risks generally associated with investments in investment company securities, ETFs are subject to the following risks that do not apply to traditional mutual funds: (i) the market price of an ETF’s shares may be above or below its NAV; (ii) an active trading market for an ETF’s shares may not develop or be maintained; (iii) the ETF may employ an investment strategy that utilizes high leverage ratios; (iv) trading of an ETF’s shares may be halted if the listing exchange’s officials deem such action appropriate; and (v) underlying ETF shares may be de-listed from the exchange or the activation of market-wide “circuit breakers” (which are tied to large decreases in stock prices) may temporarily stop stock trading.

The relevant Clients’ investments in other investment companies may include investments in closed-end funds (“CEFs”). Shares of CEFs frequently trade at a price per share that is less than the fund’s NAV. There can be no assurance that the market discount on shares of any CEF purchased by the relevant Clients will ever decrease or that when the relevant Clients seek to sell shares of a CEF they can receive the NAV of those shares. CEFs have lower levels of daily volume

when compared to open-end companies. There are greater risks involved in investing in securities with limited market liquidity.

With respect to affiliated underlying funds, the Adviser may be subject to potential conflicts of interest in allocating a relevant Clients' assets to underlying funds, such as a potential conflict in selecting affiliated underlying funds over unaffiliated underlying funds. In addition, the relevant Clients' portfolio managers may be subject to potential conflicts of interest in allocating a relevant Clients' assets among underlying funds, as certain of the Clients' portfolio managers may also manage an affiliated underlying fund in which a Client may invest. Both the Adviser and the Clients' portfolio managers have a fiduciary duty to the Clients to act in the Clients' best interest when selecting underlying funds. The Adviser will carefully analyze any such potential conflicts of interest and will take steps to minimize and, where possible, eliminate them.

Risks of Investments in Reverse Repurchase Agreements. A reverse repurchase agreement is the sale by the relevant Clients of a debt obligation to a party for a specified price, with the simultaneous agreement by the relevant Clients to repurchase that debt obligation from that party on a future date at a higher price. Similar to borrowing, reverse repurchase agreements provide the relevant Clients with cash for investment purposes, which creates leverage and subjects the relevant Clients to the risks of leverage. Reverse repurchase agreements also involve the risk that the other party may fail to return the securities in a timely manner or at all. The relevant Clients could lose money if they are unable to recover the securities and the value of collateral held by the relevant Clients, including the value of the investments made with cash collateral, is less than the value of securities. Reverse repurchase agreements also create expenses and require that the relevant Clients have sufficient cash available to purchase the debt obligations when required. Reverse repurchase agreements also involve the risk that the market value of the debt obligation that is the subject of the reverse repurchase agreement could decline significantly below the price at which the relevant Clients are obligated to repurchase the security. Reverse repurchase agreements also may be viewed as borrowings made by the relevant Clients and are a form of leverage which also may increase the volatility of the relevant Clients.

Risks Associated with the Inability to Profitably Execute Securitization Transactions. A number of factors may determine whether a securitization transaction that the Client executes or participates in is profitable. One such factor is the price at which the Client acquires the mortgage loans that it intends to securitize, which may be impacted by, among other things, the level of competition in the marketplace or the relative desirability to originators of retaining mortgage loans as investments versus selling them to third parties such as the Client. Another factor that impacts the profitability of a securitization transaction is the cost of the short-term debt used to finance the Client's holdings of mortgage loans after acquisition and prior to securitization. This cost may vary depending on the availability of short-term financing, interest rates, the duration of the financing, and the extent to which third parties are willing to provide such financing. Additionally, the value of mortgage loans held by the Client prior to securitization may vary over the course of the holding period due to changes in interest rates or the credit quality of the mortgage loans. To the extent the Client seeks to hedge against interest rate fluctuations that affect loan value, the cost of any hedging transaction will decrease returns on the respective securitization transaction. The price that investors pay for securities issued in the Client's securitization

transactions will also significantly affect the profitability margin to the Client. Additionally, in effecting the securitization transactions, the Client may incur transaction costs or may incur or be required to make reserves for any liability in connection with executing a transaction, and such costs can also reduce the profitability of a transaction. To the extent that the Client is not able to profitably execute securitizations of mortgage loans, the Client's Investments could be materially and adversely impacted.

Rating agencies have historically played a central role in the securitization markets. Many purchasers of asset-backed securities require that a security be rated by the agencies at or above a specific grade before they will consider purchasing it. The rating agencies could adversely affect the Client's ability to execute securitization transactions by deciding not to publish ratings for the securitization transactions of the Client, deciding not to consent to the inclusion of those ratings in the prospectuses the Client may file with the SEC relating to securitization transactions, or assigning ratings that are below the thresholds investors require. Further, rating agencies could alter their ratings processes or criteria after the Client has accumulated loans for securitization in a manner that reduces the value of previously acquired loans or that requires the Client to incur additional costs to comply with those processes and criteria.

Risks of Hedging Transactions. The Client may from time to time enter into forward contracts, options and swaps (such as credit default swaps, interest rate swaps or other swaps) as a way to mitigate risk associated with its Investments; however, it is impossible to fully hedge the Client's investments. Furthermore, to the extent that any hedging strategy involves the use of over-the-counter ("OTC") derivatives transactions, such a strategy would be affected by implementation of various regulations adopted pursuant to the Dodd-Frank Act. OTC derivative dealers are now required to register with the Commodities Futures Trading Commission (the "CFTC") and will ultimately be required to register with the SEC. Registered swap dealers will also be subject to new minimum capital and margin requirements and are subject to business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements further increase the overall costs for OTC derivative dealers, which costs may be passed along to market participants as market changes continue to be implemented. The overall impact of the Dodd-Frank Act on the Client remains highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime, along with additional, sometimes overlapping, regulatory requirements imposed by non-U.S. regulators.

Although the Dodd-Frank Act will require many OTC derivative transactions previously entered into on a principal-to-principal basis to be executed through a regulated securities, futures or swap exchange or facility and/or submitted for clearing by a regulated clearinghouse, not all of the Client's derivative transactions will be subject to the clearing requirements. The risk of counterparty nonperformance can be significant in the case of these OTC instruments, and "bid-ask" spreads may be unusually wide in these heretofore substantially unregulated markets. While the Dodd-Frank Act is intended to bring more stability and lower counterparty risk to the derivatives market by requiring central clearing of certain standardized derivatives trades, not all of the Client's trades will be subject to a clearing requirement because the trades are grandfathered or because they are bespoke, or because they are within a class that is not currently subject to

mandatory clearing. Furthermore, it is yet to be seen whether the Dodd-Frank Act will be effective in reducing counterparty risk or if such risk may actually increase as a result of market uncertainty, mutuality of loss to clearinghouse members, or other reasons.

In addition, the success of the hedging strategy will depend, in part, upon the Adviser's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the relevant Clients' hedging strategy will also be subject to the Adviser's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the relevant Clients may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the relevant Clients than if they had not engaged in such hedging transactions. For a variety of reasons, the Adviser may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent the relevant Clients from achieving the intended hedge or expose the relevant Clients to risk of loss. The Adviser may not hedge against a particular risk, including, without limitation, because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because it does not foresee the occurrence of the risk. The use of certain hedging strategies may also become difficult or impractical due to factors including, without limitation, increased hedging costs, reduced availability of hedging counterparties and reduced market liquidity. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the relevant Clients' portfolio holdings. Hedging also involves other risks, including the possible default by the counterparty to the transaction and illiquidity of an agreement in the event that the need arises to close the agreement before its forward date. With regard to the risk of failure or default by the counterparty to such a transaction, the relevant Clients will have contractual remedies pursuant to the agreements related to the transaction (which may or may not be meaningful depending on the financial position of the defaulting counterparty).

Certain Clients may be subject to Risk Retention Rules requiring that the holder of the mandated Retention Interests hold such Retention Interests without transferring or hedging the credit risk represented by those interests, directly or indirectly (including with respect to any hedging by any person affiliated with such holder), for a significant period of time. Accordingly, those Clients will be unable to sell, transfer, liquidate or hedge those positions, which could prevent the relevant Clients from mitigating losses on such investments. These and similar transfer restrictions may adversely affect the financial performance of certain Clients.

Risks of Investments in Derivatives. 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. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the relevant Clients may experience significant delays in obtaining any recovery under the derivative contract in a bankruptcy or other reorganization proceeding, or may not recover at all.

In addition, in the event of the insolvency of a counterparty to a derivative transaction, the derivative contract would typically be terminated at its fair market value. If the relevant Clients are owed this fair market value in the termination of the derivative contract and their claim is unsecured, the relevant Clients will be treated as general creditors of such counterparty, and will not have any claim with respect to the underlying security. Certain of the derivative investments in which the relevant Clients may invest may, in certain circumstances, give rise to a form of financial leverage, which may magnify the risk of owning such instruments. The ability to successfully use derivative investments depends on the ability of the Adviser to predict pertinent market movements, which cannot be assured. In addition, amounts paid by the relevant Clients as premiums and cash or other assets held in margin accounts with respect to the relevant Clients' derivative investments would not be available to the relevant Clients for other investment purposes, which may result in lost opportunities for gain.

Specifically, the relevant Clients may principally engage in the following derivative instruments and techniques:

- Risks of Investments in Futures. A futures contract is a standardized agreement to buy or sell a specific quantity of an underlying instrument at a specific price at a specific future time. The value of a futures contract tends to increase and decrease in tandem with the value of the underlying instrument. Depending on the terms of the particular contract, futures contracts are settled through either physical delivery of the underlying instrument on the settlement date or by payment of a cash settlement amount on the settlement date. A decision as to whether, when and how to use futures involves the exercise of skill and judgment and even a well-conceived futures transaction may be unsuccessful because of market behavior or unexpected events. In addition to the derivatives risks discussed above, the prices of futures can be highly volatile, using futures can lower total return, and the potential loss from futures can exceed the relevant Clients' initial investment in such contracts.
- Risks of Investments in Options. If a Client buys an option, the Client buys a legal contract giving it the right to buy or sell a specific amount of the underlying instrument or futures contract on the underlying instrument at an agreed-upon price typically in exchange for a premium paid by the relevant Client. If a Client sells an option, the Client sells to another person the right to buy from or sell to the relevant Client a specific amount of the underlying instrument or futures contract on the underlying instrument at an agreed-upon price typically in exchange for a premium received by the relevant Client. A decision as to whether, when and how to use options involves the exercise of skill and judgment and even a well-conceived option transaction may be unsuccessful because of market behavior or unexpected events. The prices of options can be highly volatile and the use of options can lower total returns.
- Risks of Investments in Swaps. A swap contract is an agreement between two parties pursuant to which the parties exchange payments at specified dates on the basis of a specified notional amount, with the payments calculated by reference to specified securities, indexes, reference rates, currencies or other instruments. Most swap agreements

provide that when the period payment dates for both parties are the same, the payments are made on a net basis (i.e., the two payment streams are netted out, with only the net amount paid by one party to the other). The relevant Clients' obligations or rights under a swap contract entered into on a net basis will generally be equal only to the net amount to be paid or received under the agreement, based on the relative values of the positions held by each counterparty. Swap agreements are particularly subject to counterparty credit, liquidity, valuation, correlation and leverage risk. Certain standardized swaps are now subject to mandatory central clearing requirements and others are now required to be exchange-traded. While central clearing and exchange-trading are intended to reduce counterparty and liquidity risk, they do not make swap transactions risk-free. Swaps could result in losses if interest rate or foreign currency exchange rates or credit quality changes are not correctly anticipated by the Adviser or if the reference index, security or investments do not perform as expected. The relevant Clients' use of swaps may include those based on the credit of an underlying security, commonly referred to as "credit default swaps." Where the relevant Clients are the buyer of a credit default swap contract, they would be entitled to receive the par (or other agreed-upon) value of a referenced debt obligation from the counterparty to the contract only in the event of a default or similar event by a third party on the debt obligation. If no default occurs, the relevant Clients would have paid to the counterparty a periodic stream of payments over the term of the contract and received no benefit from the contract. When the relevant Clients are the seller of a credit default swap contract, they receive the stream of payments but are obligated to pay an amount equal to the par (or other agreed-upon) value of a referenced debt obligation upon the default or similar event of that obligation. The use of credit default swaps can result in losses if the Adviser's assumptions regarding the creditworthiness of the underlying obligation prove to be incorrect. The relevant Clients, if required, will "cover" their swap positions by segregating an amount of cash and/or liquid securities as required by the 1940 Act and applicable SEC interpretations and guidance from time to time.

Risks of Utilizing Leverage. Clients may use leverage to finance investment operations and to enhance its financial returns. Through the use of leverage, a Client may acquire positions with market exposure significantly greater than the amount of capital committed to the transaction. There is no specific limit imposed by Angel Oak on the amount of leverage that a Client may use and at times Clients may deploy significant leverage. However, Clients and/or relevant regulations may impose leverage limitations for specific Clients which Angel Oak complies with. Leverage will magnify both the gains and the losses. Leverage will increase the Client's returns as long as it earns a greater return on investments purchased with borrowed funds than its cost of borrowing such funds. However, if a Client uses leverage to acquire an asset and the value of the asset decreases, the leverage will increase its losses. Even if the asset increases in value, if the asset fails to earn a return that equals or exceeds the Client's cost of borrowing, the leverage will decrease its returns.

The Client may be required to post large amounts of cash as collateral or margin to secure its leveraged positions. In the event of a sudden, precipitous drop in the value of its financed assets, the Client might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying losses. Even a small decrease in the value of a leveraged asset may require the Client

to post additional margin or cash collateral. This may decrease the cash available to the Client for other purposes.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the Adviser or the integrity of the Adviser's management. The Adviser has had no disciplinary events.

Affiliate Disciplinary Information

On February 16, 2017, the U.S. Securities and Exchange Commission (the "SEC" or "Commission") accepted an offer of settlement from Angel Oak Capital Partners, LLC ("AOCP"), an affiliate of Angel Oak, and entered an administrative order against it.

The order, while recognizing that AOCP did not admit or deny any findings, concluded that AOCP operated as a broker-dealer from March 2010 until October 2014 without registering with the Commission. The SEC found that AOCP entered into an agreement with Peraza Capital & Investment, LLC ("Peraza") in late 2009 for the purpose of conducting a securities business, without registering as a broker-dealer. Traders employed by AOCP in its securities business were registered with the Financial Industry Regulatory Authority ("FINRA") as registered representatives of Peraza, and AOCP and Peraza split the commission revenue generated as a result of AOCP trading activities.

The SEC determined that AOCP and its owners or employees – who were not registered as broker-dealers or associated with a registered broker-dealer – were involved in the operations of the securities business and made key decisions regarding the business. As reflected in the order, the Commission accepted AOCP's offer to disgorge profits received from the operation of \$3,054,288 plus interest, to pay a penalty of \$375,000 and to cease and desist from that activity.

The SEC further accepted an offer of settlement from Sreeniwas Prabhu, Managing Director and co-founder of Angel Oak, and an employee of Angel Oak, based on the allegations of the SEC that they caused AOCP to operate as an unregistered broker dealer. They both agreed to a cease and desist order and an administrative penalty of \$40,000 each.

Item 10 – Other Financial Industry Activities and Affiliations

The Adviser has several affiliated businesses that are involved in a variety of activities. A description of each affiliate is provided below along with conflicts of interest that are not discussed elsewhere.

- *Angel Oak Capital Partners II, LLC, Buckhead One Financial Opportunities, LLC, Falcons I, LLC, and Hawks I, LLC* are registered investment advisers under common control with Angel Oak.

- *Angel Oak Mortgage Solutions, LLC* is an affiliate of the Adviser by common control, and is a wholesale mortgage company. *Angel Oak Home Loans, LLC* is an affiliate of the Adviser by common control, and is a residential mortgage company. *Angel Oak Commercial Lending, LLC* is an affiliate of the Adviser by common control, and provides short term loans to construct, refurbish and improve real estate. *Cherrywood Mortgage, LLC* is an affiliate of the Adviser by common control, and provides small-balance commercial loans. *Angel Oak Prime Bridge, LLC* is an affiliate of the Adviser by common control, and provides short-term loans to construct, refurbish, and improve real estate.

Conflicts of interest involving these entities have been disclosed in response to Item 8 above.

- *Angel Oak Capital Partners, LLC* is a general partner to a limited partnership for which Angel Oak provides investment advisory services.
- *Angel Oak Mortgage Trust I LLC, BFNS 2017-1, Ltd, and BFNS 2019-1 LLC* are securitization trusts which are affiliated with the Adviser by common control.

Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Angel Oak has adopted a Code of Ethics (the “Code”) for all supervised persons of the firm describing its high standards of business conduct and fiduciary duty to its Clients. The Code includes provisions relating to the confidentiality of Client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment provided and received, limits and procedures regarding personal securities trading, among other things. Angel Oak also maintains additional policies and procedures related to making political contributions and engaging in outside business activities.

Under the Code, supervised persons are required to 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. All supervised persons at the Adviser must acknowledge the terms of the Code at least annually, or as amended.

The Adviser anticipates that, in appropriate circumstances, consistent with Clients’ investment objectives, it will cause accounts over which it has management authority to purchase or sell securities in which the Adviser, its affiliates and/or Clients, directly or indirectly, may have a position of interest. The Adviser anticipates that in such circumstances it may also recommend such purchases or sales of securities to Clients. Subject to satisfying such practice and applicable laws, officers, directors, and employees of the Adviser and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for Clients. The Code is designed to ensure that the personal securities transactions, activities, and interests of the employees of the Adviser will not interfere with (i) making decisions in the best interest of Clients,

and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

The Code requires pre-clearance of certain securities transactions, and restricts trading in close proximity to Client trading activity. Nonetheless, because the Code in some circumstances would permit employees to invest in the same securities as Clients, there is a possibility that employees might benefit from market activity by a Client in a security held by an employee. Employee trading is continuously monitored under the Code to reasonably prevent conflicts of interest between the Adviser and its Clients.

ComplianceScience, Inc. provides software which is utilized by the Adviser to monitor employees' personal trading, personal securities holdings, and other aspects of the compliance program such as political contributions and the provision of gifts and entertainment. On a quarterly basis, employees are required to confirm their automatically imported personal holdings in ComplianceScience are accurate. If certain holdings are not shown in ComplianceScience, the employees are required to submit quarterly and annual holdings reports.

Item 12 – Brokerage Practices

Angel Oak has full and complete discretion and authority to manage and direct the investment and reinvestment of Clients assets subject to any limitations included in the investment management agreement. The investment management agreements between Angel Oak and its Clients generally provide for broad discretion in this regard.

In selecting brokers to effect portfolio transactions, Angel Oak will seek best execution after considering such factors as the ability of the brokers to execute and settle the transactions, the brokers' facilities, reliability and financial stability, and the provision for payment of the cost of services. Angel Oak need not, however, solicit company bids and does not have an obligation to seek the lowest available execution costs.

“Soft dollars” are benefits provided to an investment adviser by a broker-dealer as a result of commissions generated from financial transactions executed by the broker-dealer for accounts of funds managed by the investment adviser. Angel Oak does not have any soft dollar arrangements and does not pay for research or other services through the use of soft dollars.

Angel Oak chooses broker-dealers to execute transactions on terms that are, overall, most advantageous when compared with other providers and their services. Angel Oak considers a wide range of factors when choosing a broker-dealer, including:

- Capability to execute, clear, and settle trades itself or to facilitate such services.
- Capability to facilitate timely transfers and payments to and from accounts.
- Quality of services.
- Competitiveness of the price of those services and willingness to negotiate the prices.
- Reputation, financial strength, and stability.
- Prior service to Angel Oak and our other Clients.

In selecting brokers to effect portfolio transactions, Angel Oak will generally seek best execution across a variety of factors, including those factors listed above. Angel Oak need not, however, solicit competitive bids and does not have an obligation to seek the lowest available direct commission cost. Rather, we measure best execution holistically across the varying factors listed above, some of which may be subjective.

Directed Brokerage

Angel Oak may permit Clients to direct the use of specific broker-dealers in executing transactions for their account(s). Likewise, Angel Oak may permit Clients to exclude certain broker-dealers for executing transactions on their behalf. Such directed brokerage instructions, if any, are outlined in the Client's investment management agreement. Directing or limiting brokerage may result in the Client paying higher brokerage commissions because Angel Oak may not be able to aggregate orders to reduce transaction costs or the Client may receive less favorable prices than Angel Oak might receive on behalf of the Client elsewhere.

Aggregation of Trades

In some circumstances, Angel Oak may find that placing orders in the same security to be allocated 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 it will generally be allocated pro rata in proportion to the size of the orders for each Client. Transaction costs are promptly allocated to each applicable Client account on a pro rata basis based upon the ratio of the amount of particular issue of securities purchased or sold in relation to the overall amount of that issue purchased or sold for all accounts in the aggregated order. Angel Oak maintains policies and procedures to ensure that aggregated trades are allocated to Client accounts in a fair and equitable manner.

Item 13 – Review of Accounts

Angel Oak's portfolio managers review Client accounts on a continuous basis, focusing on the performance of the investment portfolios and individual securities, as well as monitoring position and diversification levels, cash balances, and adherence to investment and risk management guidelines. Also, on a regular basis, Angel Oak reviews calculations of the net asset value of Client accounts and of individual investor capital account balances, which are provided by third party administrators.

Angel Oak has engaged Trident Fund Services, U.S. Bank Fund Services, SS&C Investment Management, and The Northern Trust Company (Dublin) to provide administrative services to Client accounts, including monthly accounting and investor reporting functions. Final reviews of accounting and associated reports are conducted by employees of Angel Oak on a daily, monthly, and quarterly basis.

Annual audits of Client accounts are performed by KPMG or Cohen & Company.

Clients and investors receive a monthly or quarterly statement or other similar communication with unaudited results of the relevant account's monthly performance. Investors in Private Funds also receive annual audited financial statements. Audited financial statements for U.S. Registered Funds and the UCITS Fund are filed as part of the U.S. Registered Funds' and UCITS Fund's annual report.

Item 14 – Client Referrals and Other Compensation

Angel Oak may engage solicitors who refer Clients to Angel Oak consistent with the requirements under federal securities regulations. Clients whose accounts involve third-party solicitor arrangements are advised of the arrangement in writing and do not pay higher fees as a result of the arrangement.

Item 15 – Custody

Neither Angel Oak, nor any parties affiliated with Angel Oak maintains physical possession of any assets or securities of any Client account. Angel Oak has requested that Clients receive at least quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains the Client's investment assets and reasonably believes such quarterly statements are being delivered to Clients. Clients should review these statements carefully and promptly notify the broker-dealer, bank or qualified custodian if they do not receive a quarterly statement or if they have questions about their statement.

Clients will also receive statements from the administrator for their account and should carefully compare the administrator's statement with the custody statement. Clients should contact Angel Oak regarding any discrepancies between the statement they receive from the administrator and the statement from the custodian.

Due to the nature of the affiliation that Angel Oak has with Angel Oak Capital Partners, LLC, Angel Oak Capital Partners II, LLC, and Hawks I, LLC, the general partners of certain Private Funds, Angel Oak is deemed to have custody of certain Client funds and securities under Rule 206(4)-2 under the Investment Advisers Act of 1940. Angel Oak follows the applicable requirements of this rule for all Funds for which it has custody.

Item 16 – Investment Discretion

Angel Oak has discretionary authority over certain Client portfolios that it manages pursuant to the terms of each Client's investment management agreement and offering documents, as applicable. Angel Oak's discretionary authority may be subject to conditions imposed by each Client (e.g., investment restrictions regarding specific securities or industries, gross or net exposure guidelines, or maximum position sizes, etc.). In addition, there may also be regulatory investment restrictions such as those applicable to Funds pursuant to the Investment Company Act of 1940.

Prior to assuming discretionary authority over a Client's assets, Angel Oak enters into an investment management agreement with the Client which describes the terms and conditions upon which Angel Oak is appointed investment adviser and granted discretionary authority.

Item 17 – Voting Client Securities

Due to the nature of Angel Oak's investment strategies, routine proxy votes (such as those typically required with equity holdings) are extremely rare. However, Angel Oak will vote all proxies in the best interests of advisory clients and has established procedures to identify and resolve any conflicts of interest of the adviser and Client. Unless instructed differently by the client, Angel Oak will generally vote in favor of routine corporate proposals such as election of directors or selection of auditors. Angel Oak will generally vote against proposals such as those that cause board members to become entrenched or cause unequal voting rights. In reviewing proposals, Angel Oak will consider the opinion of management and the effect on shareholder value and the issuer's business practices.

For Client accounts for which Angel Oak has proxy voting authority, Angel Oak votes proxies in a manner that it believes serves the best interests of its Clients. Separately Managed Account Clients may decide to vote their own proxies. In such cases, they will receive their proxies or other solicitation directly from their custodian or a transfer agent. In addition, Separately Managed Account Clients may choose to direct Angel Oak to vote their proxies pursuant to certain guidelines set forth in the applicable investment management agreement. A Client may contact Angel Oak with questions regarding a particular solicitation. 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.

Item 18 – Financial Information

Registered investment advisers are required to provide Clients with certain financial information or disclosures about the adviser's financial condition under certain circumstances. Angel Oak does not require or solicit prepayment of fees six months or more in advance and is, therefore, not required to include a balance sheet. In addition, Angel Oak does not have any financial condition that is reasonably likely to impair its ability to meet contractual commitments to Clients.

Additional Information

Anti-Money Laundering Program

Angel Oak has implemented an anti-money laundering program to prevent the funding of terrorism and money laundering activities. Through unaffiliated third-party service providers, Angel Oak has confirmed that existing and prospective investors are checked against lists, including the Department of the Treasury's Office of Foreign Assets Control ("OFAC") list, to determine whether they appear on such lists. Each Client's administrator requests certain information and

documentation from prospective investors in order to confirm their identity. Depending on the circumstances, applicable law, rules or regulations may require or allow Angel Oak to provide certain information (e.g., currency transaction reports or suspicious activity reports) to governmental agencies, and may prevent Angel Oak from disclosing its actions to its clients and prospective investors.

Privacy Notification

Angel Oak firmly believes that our clients are entitled to the very best service we can offer – and that includes the right to feel comfortable about the personal non-public information you share with us. We respect every individual's right to privacy. We understand the importance you place on the privacy and security of information that personally identifies you or your account information.

The Securities and Exchange Commission has implemented Regulation S-P, which relates to the privacy of consumer financial information, and has established rules in response to Section 504 of the Gramm-Leach-Bliley Act. Regulation S-P and the Gramm-Leach-Bliley Act limit investment companies, broker-dealers, and registered investment advisers in their disclosure of consumers' and customers' nonpublic personal information. Regulation S-P also requires that financial institutions provide privacy notices in various instances and to adopt policies and procedures to protect the personal information of its customers. This statement describes our firm's privacy policy and how we handle your personal information. This policy applies to former, current, and prospective customers.

This notice is intended to tell you where we obtain information about you, how we use that information and who has access to the information. This notice applies to and includes all subsidiaries, parent or sister companies, limited liability companies, partnerships, or other entities controlling, controlled by, or under common control with Angel Oak.

Why and How We Collect Personal Information. We are required by guidelines of our industry to obtain personal information about you in the course of providing investment solutions to you. We use this information to manage your account, direct transactions, and provide you with valuable information. We may collect this information mainly from documents you provide to us through forms, personal interaction, and contract negotiations. The information includes your name, address, telephone number, social security number, transactional and financial information, as well as other personal nonpublic information we may need to service your account. In addition, we may access or generate information to service your account, such as account statements and portfolio holdings. Finally, we may receive information from third parties with respect to your account, such as accounts you may have with other financial institutions.

How We Protect the Confidentiality of Your Personal Information. Angel Oak does not provide, for sale or otherwise, personal information about you to outside firms, organizations, or individuals except as required by law or as requested by you. In the course of regular business, Angel Oak may share relevant information with regulators, financial institutions and other service providers that support our service of your account. These companies may use this information only for the

services for which we hire them, and are not permitted to use or share this information for any other purpose. There are times when we may distribute information about your account to regulators, financial institutions, and service providers electronically which may include transmitting information via email or by other means over unsecure networks.

We use your personal information in ways that are compatible with the purposes for which we originally requested it. For example, we will use the information you give us to process your requests for transactions, to meet regulatory requirements, to provide you with additional information about products and services, or to share information with you about your account. We may also be required to share information by law due to a subpoena, court order, or regulatory requirements. At all times, we will limit the collection and use of personal information to that which is necessary to administer our business and to deliver the best possible service to you.

Angel Oak restricts access to nonpublic personal information about our customers to employees who need to know such information in order to provide products or services to you. We maintain strict safeguards – physical, electronic, and procedural – designed to protect your personal information and comply with federal standards. If you decide to close your account(s) or become an inactive customer, we will continue to adhere to the privacy policies and practices as described in this notice.

We are Committed to Protecting Your Privacy. Angel Oak and its affiliates have built a reputation for integrity and professionalism among our clients. We value the confidence and trust you have placed in us and strive to protect that trust. We value your business and are committed to giving you the best possible service. If you have questions regarding our customer privacy policy, or any aspect of service we provide, please contact us at (404) 953-4900.

Business Continuity Plan Summary Statement

Angel Oak has developed a Business Continuity Plan to be able to continue conducting business in the event of a significant business disruption or disaster. As the timing and frequency of disasters and disruptions are both unpredictable, we will exercise flexibility in responding to actual events as they occur. This Summary Disclosure Statement provides a summary detail of Angel Oak's risk mitigation strategy in the event of an interruption to its daily conduct of business.

Angel Oak's Business Continuity Plan is aimed at responding to a significant business disruption by protecting its employees and assets, assessing its financial and operational capability, and rapidly instituting recovery measures to resume operations – and therefore allowing our customers to conduct business as soon as possible – while protecting the firm's books and records. The plan is intended to comply with regulatory requirements and sound business practices.

Our Business Continuity Plan anticipates two kinds of potential disruptions, internal and external. Internal disruptions affect only our firm's ability to communicate and do business, such as a disastrous event that would occur within our business premises. External disruptions prevent the operation of the securities markets for a number of firms, such as a terrorist attack, or a wide-scale,

regional disruption. Our response to an external disruption relies more heavily on other organizations and systems, and other entities with which we have agreements.

In the event of a business disruption, either external or internal, Angel Oak will begin immediately communicating relevant information to our clients, investors, employees, critical business constituents, banks, counter-parties, and regulators. The communication options we will employ may include telephone, fax, email, overnight courier, U.S. postal mail service, and our website.

All mission-critical systems are backed up daily and a copy is stored offsite. Mission-critical systems are defined by Angel Oak accordingly in the Business Continuity Plan. In the event of a significant business disruption, these backups will be obtained and restored as quickly as possible.

Despite our efforts to create an ideal response plan, and therefore be able to address a significant business disruption with a greater degree of preparation, we acknowledge the unpredictable nature of disasters and the impossibility of anticipating every possible catastrophic scenario. We are confident that our measures will allow us to continue conducting business with minimum impact to our clients and business partners; however, the possibility of an adverse effect to our operations by a third-party's inability to cope with a disruption beyond our knowledge or control cannot be totally disregarded.

Our firm does not maintain custody of customers' funds or securities. In the event of an internal or external disruption, if telephone service is available, our staff will respond to customer inquiries via telephone; and if our Internet access is available, our firm will post on our website a notice that customers may access their account information or inquire about their account by contacting us at a provided phone number. We will take steps to ensure that customers have access to their funds and securities at all times as described in the investment funds' offering documents.

To obtain a full copy of the Business Continuity Plan, please contact Angel Oak at (888) 685-2915.

Cybersecurity Risk

With the increased use of technologies such as the internet to conduct business, Angel Oak is susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events.

Cyberattacks include, but are not limited to, gaining unauthorized access to digital systems (e.g., through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyberattacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended users).

Cyber incidents affecting Angel Oak or its service providers have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, interference with trading,

the inability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. Similar adverse consequences could result from cyber incidents affecting issuers of securities in which a portfolio invests, counterparties with which Angel Oak engages in transactions, governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers, insurance companies and other financial institutions (including financial intermediaries and service providers for Angel Oak's Clients and other parties). In addition, substantial costs may be incurred in order to prevent any cyber incidents in the future.

Angel Oak maintains a cybersecurity incident response plan designed to provide a quick, organized and effective response to computer-related and physical breach incidents. The incident response plan's mission is to prevent a serious loss of information, information assets, property, and customer confidence by providing an immediate, effective and informed response to any event involving Angel Oak's information systems, networks or workplace.

While Angel Oak and its critical service providers have established business continuity plans in the event of, and risk management systems to prevent, such cyber incidents, there are inherent limitations in such plans and systems including the possibility that certain risks have not been identified. Furthermore, Angel Oak cannot control the cybersecurity plans and systems put in place by its service providers or any other third parties whose operations may affect Angel Oak or its Clients. Angel Oak and its Clients could be negatively impacted as a result.

Class Action Lawsuits

From time to time, Angel Oak receives notification of class action lawsuits wherein its Clients may have a claim of monetary relief. Although Angel Oak does not actively seek out such notifications, Angel Oak sometimes receives instructions for making claims in such lawsuits' settlements. Angel Oak will notify its existing clients regarding the existence of potential class action claims when all of the following criteria have been met: (i) Angel Oak receives notification of the class action lawsuit; (ii) the class has been certified; (iii) a monetary settlement has been reached in the lawsuit and approved by the Court; and (iv) the settlement involves an existing client of Angel Oak. In these cases, Angel Oak will notify the appropriate party representing the client. Angel Oak does not make claims on behalf of its clients.