

FORM ADV, PART 2A
(commonly referred to as the “Brochure”)

Item 1 – Cover Page



Angel Oak Capital Advisors, LLC

3344 Peachtree Rd.

Suite 1725

Atlanta, GA 30326

(404) 953-4900

Email: info@angeloakcapital.com

www.angeloakcapital.com

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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 (404) 953-4900 or by email at info@angeloakcapital.com. 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 28, 2023.

We have updated our Form ADV and this Brochure to provide amended information related to our advisory business. Material changes include:

We have updated our Form ADV in Schedule A to reflect changes to reportable executive officers. Material changes include:

- Addition of Tim Saunders, General Counsel.
- Addition of Manu Singh, Chief Financial Officer.
- Addition of Michael Colombo, Chief Risk Officer.
- Removal of Dan Fazioli, the departing Chief Accounting Officer.
- Removal of Kevin Sluss, the departed Chief Risk Officer.

We have updated our Form ADV and relevant sections of the Brochure Supplement to remove details regarding the Adviser's UCITS product which was closed in November 2023.

Brochure Available Upon Request

Our current Brochure can be requested at any time free of charge by contacting us by telephone toll free at (888) 685-2915 or at (404) 953-4900 or via email at info@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. Angel Oak is directly owned by Angel Oak Asset Management Holdings, LLC which is owned by Angel Oak Companies, LP. The ultimate control persons of the Adviser are Sreeni Prabhu and Michael Fierman through their ownership of Angel Oak Companies, LP.

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 (“1940 Act”) (“U.S. Registered Funds”), pooled investment vehicles exempt from registration pursuant to Section 3(c)(1) or Section 3(c)(7) of the 1940 Act (“Private Funds”), pooled investment vehicles exempt from registration under the Investment Company Act of 1940 by Section 3(c)(5) (“3(c)(5) Funds”), and separately managed accounts owned by institutional investors (“Separately Managed Accounts”). The U.S. Registered Funds, Private Funds, and 3(c)(5) 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 provided to some Clients are provided pursuant to sub-advisory agreements under which Angel Oak serves as sub-advisor to the Client’s investment adviser.

Angel Oak acts as a Qualified Professional Asset Manager (“QPAM”) (as set forth in Section VI(a) of Prohibited Transaction Class Exemption 84-14 (“PTE 84-14”), promulgated by the Department of Labor under the Employment Retirement Income Security Act of 1974) for some Private Fund Clients. Angel Oak has developed policies and procedures to ensure that it maintains QPAM status as required by the investment management agreement with these Private Fund Clients.

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. Angel Oak does not manage any assets for retail investors as defined for the purposes of Form CRS and therefore is not required to complete, maintain, or deliver a Form CRS to any Client or investor.

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 agency and non-agency residential mortgage-backed securities (“RMBS”), collateralized loan obligations (“CLO”), agency and non-agency commercial mortgage-backed securities (“CMBS”), asset-backed securities (“ABS”), residential mortgage loans and residential mortgage related assets, including real estate investment trusts (“REITs”), commercial real estate loans, bank subordinated debt and

other financial institution debt, high-yield and investment-grade corporate bonds, business development companies (“BDCs”), equity securities, trust preferred securities (“TruPS”), and government securities. The Adviser can also use derivatives instruments including futures contracts, options, and swaps. Angel Oak can 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 can 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, 2023, Angel Oak managed \$10,272,826,472 in regulatory assets under management on a discretionary basis and \$101,623,302 in regulatory assets under management on a non-discretionary basis, for a total of \$10,374,449,774. 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: U.S. Registered Funds

U.S. Registered Funds managed by Angel Oak pay management fees in arrears at an annual rate of between 0.44% and 1.35% of either net assets (open-end and interval funds) or managed assets (closed-end funds) as detailed in the relevant prospectus for each U.S. Registered Fund. These fees are accrued daily and paid monthly. Fees of U.S. Registered Funds are not negotiable with

investors but are approved by each Fund's Board of Trustees pursuant to Section 15(c) of the 1940 Act. The Funds are billed for fees, and Angel Oak does not have the ability to deduct fees.

For certain U.S. Registered Funds and as detailed in the Fund's prospectus, Angel Oak has agreed to contractually and/or voluntarily waive fees and/or reimburse expenses in order to limit total annual operating expenses. Please see the relevant Fund's prospectus for more information about the terms of such waivers.

In addition, and as detailed in the relevant prospectus, Angel Oak has contractually agreed to waive the amount of a U.S. Registered 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 can only be changed or eliminated by the Board of Trustees.

Management Fees: Private Funds and 3(c)(5) Funds (collectively, "Unregistered Funds")

Unregistered Funds managed by Angel Oak pay management fees at an annual rate of between 0.55% and 2.00% as detailed in the relevant Private Placement Memorandum, Limited Partnership Agreement, or similar document for each Unregistered Fund. These fees are paid either monthly or quarterly under the terms of the relevant Unregistered Fund's offering documents. Fees are generally paid in advance. If the Adviser is terminated or an investor withdraws assets, fees will be prorated based on the effective date of the termination and the total number of days in the billing period. Any fees paid but unearned will be promptly refunded to the Client or the relevant investor. Investment Management Agreements between Angel Oak and its Unregistered Fund Clients oftentimes allow Angel Oak to deduct its fees directly from the Client's assets in compliance with regulatory requirements regarding custody of client assets.

Investors and prospective investors in Unregistered Funds can negotiate fee terms. Angel Oak or the general partner of an Unregistered Fund can waive or reduce the management fee or performance-based fees (as described below) in respect of any investor in an Unregistered Fund in their sole discretion. Such waivers or reductions would be memorialized in a "side letter" between the Adviser and the investor or a group of investors. Side letters are further reviewed below in *Item 7 – Types of Clients*.

Management Fees: Separately Managed Accounts

Separately Managed Accounts managed by Angel Oak pay management fees in arrears at an annual rate of between 0.10% and 1.10% as detailed in the relevant Investment Management Agreement for each Separately Managed Account. These fees are billed or deducted either monthly or quarterly. Fees are negotiable with Separately Managed Account Clients and are agreed upon as a part of the Investment Management Agreement. Whether a Separately Managed Account Client is billed for fees or has fees deducted is negotiable. Where fees are deducted, the fees are deducted under the terms of the relevant Investment Management Agreement between Angel Oak and the Separately Managed Account which would allow for 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 Unregistered Funds and Separately Managed Accounts pay Angel Oak or an affiliate, a performance-based fee equal to a percentage of net profits. Such fees are set forth in each relevant Client's offering documents and are paid only after reaching a certain performance hurdle. In measuring a Client's net profits for the calculation of performance fees, Angel Oak includes realized and unrealized capital gains and losses. Performance-based fees are charged in compliance with regulatory requirements regarding performance-based fees. Performance-based fees create certain conflicts of interest which are discussed below in *Item 6 – Performance-Based Fees and Side-by-Side Management*.

Revenue Sharing Agreements

Angel Oak offers certain investors in Unregistered Funds and/or investment allocators with significant investments or client investments in Unregistered Funds and Registered Funds a revenue sharing agreement whereby the investor or investment allocator is paid a portion of the fees earned by Angel Oak in connection with the management of the relevant Fund with regard to the investor or the allocator's clients. 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. Investors do not pay additional fees as a result of these revenue sharing agreements. Such a revenue sharing agreement can create a conflict of interest whereby an investment allocator is potentially more likely to choose for their investor an Angel Oak managed 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.

Profit Sharing Agreements

Angel Oak offers certain investors in Unregistered Funds and Registered Funds a joint profit sharing arrangement whereby the investor is allocated a portion of the profits and losses of Angel Oak in connection with the management of the relevant Fund. The specific terms including percentage of profits and losses allocated are outlined in each profit sharing agreement. Investors do not pay additional fees as a result of these profit sharing arrangements. Such a profit sharing agreement can create a conflict of interest whereby an investor is potentially more likely to make investment decisions to maximize their profits from an Angel Oak managed Fund for which such investor has a profit sharing agreement.

Collateral Manager Fees

The Adviser serves as Collateral Manager for a collateralized bond obligation issuer pursuant to a Collateral Management Agreement among the relevant issuer and the Adviser. As Collateral Manager, the Adviser manages collateral in the relevant securitized deal in accordance with the deal's offering circular and a Collateral Management Agreement. Conflicts of interest related to

the Adviser's role as Collateral Manager are discussed in the relevant deal's offering circular. The Adviser is compensated when it acts as Collateral Manager. This is a standard deal expense related to collateralized bond obligation vehicles.

Compensation related to Affiliated Transactions

Angel Oak advises Unregistered Funds and Separately Managed Accounts that engage in the below affiliated transactions where Angel Oak or an affiliate receives compensation for the transaction in addition to the fees outlined above.

1. Whole Loan Purchases and Origination: When Unregistered Funds and Separately Managed Accounts purchase whole loans from an affiliate of Angel Oak or originate whole loans, Angel Oak affiliates are compensated for the transaction. These affiliated transactions are approved pursuant to Angel Oak's *Affiliated Transactions Policy and Procedures*.
2. Servicing Administration Fee: Clients who own residential mortgage whole loans directly or through a wholly owned subsidiary pay a servicing administration fee to an affiliate of the Adviser, AO Servicing Manager, LLC, the servicing administrator ("Servicing Administrator"). In addition, securitization transactions issued by AOMT in which Clients may participate, pay a servicing administration fee to the Servicing Administrator. The Servicing Administrator additionally shares in a portion of ancillary income due to and collected by the servicer (SPS) to include late fees and interest paid on any principal and interest sweep account for the time funds are held before being wired out of the accounts through the monthly remittance process. This affiliated transaction is or has been approved pursuant to Angel Oak's *Affiliated Transactions Policy and Procedures*.
3. Third-Party Origination Sourcing Fee: An origination sourcing fee may be paid to Angel Oak by Unregistered Funds and Separately Managed Accounts when purchasing residential mortgage whole loans from non-affiliated third-party originators. The fee compensates Angel Oak for the operational complexity and additional underwriting of transacting with third-party originators when compared to the operational efficiencies of transacting with affiliated residential mortgage originators. This affiliated transaction is approved pursuant to Angel Oak's *Affiliated Transactions Policy and Procedures*.

Angel Oak has a conflict of interest when engaging in affiliated transactions because the Client compensates Angel Oak or an affiliate for the transaction, leading to increased revenue for Angel Oak and its affiliates, and Angel Oak is incentivized to maximize revenue for itself or its affiliates. Angel Oak mitigates this conflict of interest in the following ways:

1. Affiliated transactions are permitted only when the transaction is in accordance with a Client's investment objective and risk/reward profile as outlined in the Client's offering documents or investment management agreement. Each affiliated transaction listed above is paid by certain Unregistered Funds and Separately Managed Accounts whose investment objective includes purchasing, originating, and transacting in residential and commercial mortgage whole loans.

2. Affiliated transactions are permitted only when the transaction is conducted pursuant to Angel Oak's *Affiliated Transactions Policy and Procedures*. This policy requires that an independent representative of the Client or the independent Board members of a Client approve affiliated transactions. When conducting the review to approve an affiliated transaction, the reviewers are examining whether they believe that the purchase is conducted as an arm's length transaction at a fair price or fair fee. Angel Oak provides information to the independent persons conducting this review to demonstrate that the fees associated with the affiliated transaction are typical of fees that Clients would be expected to pay non-affiliates for similar services, and, that by engaging an affiliate on the transaction, the Clients oftentimes benefit from increased efficiencies and economies of scale related to the Client's investment objectives and are oftentimes able to allocate capital to scarce asset classes.

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. For more information, see below, *Item 12 – Brokerage Practices*.

Each Fund pays its trading costs and 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 can elect to handle 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.

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

Certain Unregistered Funds and Separately Managed Accounts pay Angel or an affiliate, a performance-based fee equal to a percentage of net profits. Such fees are set forth in the Client's offering documents or investment management agreement. 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 relevant general partner can waive or reduce the performance-based fee in respect of any investor in a relevant Client at their sole 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 Client.

Performance-based fee arrangements can 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 each 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 with performance-based fees. Such fee arrangements create an incentive to favor accounts paying performance-based fees over other accounts in the allocation of investment opportunities. Angel Oak has implemented allocation policies and 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

U.S. Registered Funds

Angel Oak provides investment advisory services to open-end and closed-end investment companies registered under the 1940 Act including exchange-traded funds. The minimum initial investment for investors in U.S. Registered Funds varies depending on the class of shares purchased in circumstances where the Fund has multiple classes as described by the Fund’s prospectus. The lowest minimum initial investment is \$1,000 for open-end mutual funds and closed-end interval funds. There is no minimum initial investment for exchange-traded funds and closed-end funds. Financial intermediaries that investors use to transact in U.S. Registered Funds may apply different initial investment thresholds. Certain U.S. Registered Funds are advised pursuant to a sub-advisory agreement with the Fund’s primary investment adviser whereby Angel Oak sub-advises a portion of the Fund’s assets under management.

Unregistered Funds

Angel Oak is the investment adviser for Unregistered Funds which are exempt from registration under federal securities regulations pursuant to Section 3(c)(1), Section 3(c)(5), or Section 3(c)(7) of the 1940 Act. Depending on the Unregistered Fund and its selected exemption, the investors in the Unregistered Fund are either non-accredited investors, accredited investors, qualified clients, and/or qualified purchasers (as those terms are defined in the federal securities laws). The minimum investment size for the Funds ranges from \$50,000 to \$1,000,000, in each case subject to the right of Angel Oak or the general partner of the Unregistered Funds, in their sole discretion, to accept a lesser amount.

Angel Oak is permitted to enter into side letter agreements or other similar agreements (collectively, “Side Letters”) with investors in the Unregistered Funds which can 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 Unregistered 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 are provided, though such Side Letters, with “most favored nation” status and will be notified of Side Letters with other investors and can elect to receive terms which are the same or better than other investors.

Separately Managed Accounts

Angel Oak provides investment advisory services to institutional investors through Separately Managed Accounts. While Angel Oak can 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 seek 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 and real estate 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 real estate, mortgage-backed securities, and other asset-backed securities provide the Adviser with specialized expertise in analyzing structured consumer credit and the underlying assets.

Portfolio Management

Angel Oak seeks to identify the best relative value in U.S. fixed-income markets to maximize risk-adjusted returns over the full credit cycle. Investment strategies employ a top-down approach focused on identifying valuation dislocations in the real estate market and the structured and corporate credit markets and a bottom-up asset selection process. Portfolio managers will invest opportunistically up and down the capital structure based on relative value. Specifically, the Adviser’s investment strategies target opportunities in agency and non-agency residential mortgage-backed securities (“RMBS”), collateralized loan obligations (“CLO”), agency and non-agency commercial mortgage-backed securities (“CMBS”), asset-backed securities (“ABS”), residential mortgage loans and residential mortgage related assets, including real estate investment trusts (“REITs”), commercial real estate loans, bank subordinated debt and other financial institution debt, high-yield and investment-grade corporate bonds, business development

companies (“BDCs”), equity securities, trust preferred securities (“TruPS”), and government securities. The Adviser can also use derivatives instruments including futures contracts, options, and swaps. Angel Oak can provide advisory services related to any other type of investments as well. The Adviser does not manage any portfolio’s asset allocation to track a benchmark but positions each Client to benefit from both income and price return perspectives. Asset allocations can change over time as the Adviser’s views on specific sectors and industries, local and global economies, macroeconomic conditions, interest rates, and capital market conditions change.

Idea Generation

Portfolio managers utilize various data sources to generate investment ideas. Most of the “idea generation” and sourcing of potential alpha opportunities (both at the asset class and individual security level) are driven by internal research and analysis. The combination of Angel Oak’s internal macroeconomic discussions on the global economy and its deep analytics at the asset class and the security level drive idea generation organically.

Portfolio managers and analysts constantly monitor market conditions, trade flows, and trade execution. Active market participation provides a strong understanding of current market trends, which leads to formation of immediate views on relative value within real estate and structured and corporate credit, thus generating new ideas in real-time.

Research

Angel Oak’s investment committee meets at least monthly, and more frequently if necessary (e.g., in light of unique market conditions). The committee includes the Chief Investment Officer, Portfolio Managers, and the Portfolio Analysts, and includes non-voting participation from many of Angel Oak’s infrastructure teams such as Risk and Compliance. Firm-wide strategy is discussed in the context of current market events and their impact on the Clients. Current approaches to each strategy are affirmed or altered based on these discussions. Other discussion topics can include valuation trends, individual security or portfolio level performance, and potential trading counterparties.

The Adviser makes its asset allocation decisions based on its view of macroeconomic trends as well as by identifying opportunities in the capital markets it believes are providing the greatest inefficiencies. Investment opportunities are evaluated on a relative value basis while consideration is also given to liquidity. The portfolio management process involves four main disciplines that form a continuous process:

1. Strategy and Target Allocation
2. Security/Asset Selection
3. Sourcing, Execution, and Allocation
4. Surveillance and Optimization

Fundamental Security Analysis

Angel Oak believes the expertise of its portfolio managers drives a true specialization in individual asset selection. This discipline is conducted from a bottom-up perspective. The portfolio analytics team's risk modeling analysis provides a granular focus on mitigating credit risk and creating a diversified portfolio. The five critical factors for individual security analysis of these assets are: (1) asset type; (2) structure; (3) collateral profile; (4) credit performance; and (5) stress testing/risk underwriting.

Quantitative Security Analysis

Scenario analysis is conducted to help portfolio managers understand how an individual security would perform under a range of economic and capital market conditions. Scenario analysis is completed by applying multiple interest rate, credit, and cash flow assumptions. Once the five-factor individual security selection has been completed, a recommendation is made.

The Adviser uses a combination of proprietary fundamental and quantitative research and specialized software systems to analyze opportunities across the fixed-income spectrum. A thorough understanding of the necessary inputs is required to model various return/risk/yield scenarios because the software is not specifically calibrated to the unique securities in the portfolios. Intelligent application is required to analyze the bonds accurately.

Portfolio managers and analysts merge the model outputs with their own view on future market and economic conditions to provide more qualified pre-purchase assumptions.

Portfolio Construction

Angel Oak manages strategies based on the investment guidelines for each Client. Differences in management style will reflect the difference in pre-determined risk/return profiles of each Client. Relative value analysis or sector allocation is conducted across all asset classes. This top-down approach incorporates analysis of interest rates, global economic expectations, and valuation.

The portfolio management process is continuous and ongoing, resulting in regular performance monitoring and relative-value trading. Forward-looking expectations are re-calibrated given market changes and asset performance. Portfolios are re-positioned as market conditions and global economic trends warrant. The overall focus while monitoring, trading, and re-positioning the portfolio is always on credit/yield optimization.

Leverage

Certain Clients 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.

Hedging

Certain investment strategies, in the Adviser's discretion and in accordance with rules, regulations, and investment restrictions, engage in hedging transactions designed to reduce exposure to interest rate fluctuations, declines in market price, credit deterioration, or other risks related to the pricing or value of investments.

Risk of Loss

These 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. Below, we describe material risks related to each significant investment strategy we employ and significant methods of analysis we use. In addition to these risks, each Client will have a myriad of other risks related to, for example, (i) the Client's structure and the liquidity, regulatory, and tax implications of that structure, (ii) investment strategies not described herein as they are considered to be less significant when compared to the more significant investment strategies that Angel Oak employs for its Clients, and (iii) an investor's ability to or lack of ability to subscribe and redeem from the relevant Client. These additional risks, which are unrelated to the significant methods of analysis we use and the significant investment strategies we employ, are very important risks that each investor should read and understand before investing in a Client. These risks are detailed in the relevant offering documents for a Client or in other publicly available disclosures. If you are having trouble locating these risks or have questions about these risks, please contact the Adviser at the phone number or email address provided on the cover page of this brochure.

Other Material Risks

In the below sections, the Adviser discusses risks which are bucketed into general categories. This bucketing is completed to ease a reader's review of these risks; however, these buckets are subjective and some risks would potentially be bucketed differently by different persons. Additionally, some risks could have the potential to be bucketed in multiple responsive risk buckets.

General Risks

Risks Related to the Current Macroeconomic Environment.

Client losses can be incurred due to declines in one or more markets in which a Client invests. These declines can be the result of, among other things, political, regulatory, market, economic, or social developments affecting the relevant market(s). In addition, turbulence and reduced liquidity in financial markets will likely negatively affect many issuers, which could have an adverse effect on a Client's investment. Global economies and financial markets are increasingly interconnected, and conditions and events in one country, region, or financial market can adversely impact issuers in a different country, region, or financial market. These risks will likely be magnified if certain events or developments adversely interrupt the global supply chain; in these and other

circumstances, such risks might affect companies worldwide. As a result, local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant negative impact on global economic and market conditions.

Specifically, the current interest rate volatility, volatility in the banking and technology sectors, COVID-19 and its variants, global supply chain issues, geopolitical tensions, and the responses taken by many governments to these macroeconomic risks have had negative impacts, and in many cases severe negative impacts, on markets worldwide. It is not known how long such impacts, or any future impacts of other significant events described above, will or would last, but there could be a prolonged period of global economic slowdown, which would likely impact Client investments. Global markets are interconnected, and events like hurricanes, floods, earthquakes, forest fires and similar natural disturbances, war, terrorism or threats of terrorism, civil disorder, public health crises, and similar events have led, and can in the future lead, to increased short-term market volatility and can have adverse long-term and wide-spread effects on the world economies and markets generally. Clients can have exposure to countries and markets impacted by such events, which could result in material losses.

Risks Related to Interest Rates.

Rising interest rates tend to extend the duration of securities, making them more sensitive to changes in interest rates. The value of longer-term securities generally changes more in response to changes in interest rates than shorter-term securities. As a result, in a period of rising interest rates, securities may exhibit additional volatility and may lose value. In response to the outbreak of COVID-19, as with other serious economic disruptions, governmental authorities and regulators enacted significant fiscal and monetary policy changes, including providing direct capital infusions into companies, creating new monetary programs, and lowering interest rates considerably. As a result, interest rates in the United States and many parts of the world were, until recently, near recent historically low levels. More recently, interest rates in the United States and many other countries have risen at a historically fast pace. Changing interest rates, including rates that fall below zero, may have unpredictable effects on markets, including market volatility, and may adversely affect the Client's performance. A change in interest rates may be sudden and significant, with unpredictable effects on the financial markets and a Client's investments. Should interest rates decrease, a Client's investments in certain variable-rate and fixed rate debt securities could be adversely affected.

Risks Related to Fixed-Income Instruments.

Changes in interest rates generally will cause the value of fixed-income instruments held by a Client to vary inversely to such changes. Prices of longer-term fixed-income instruments generally fluctuate more than the prices of shorter-term fixed-income instruments as interest rates change. In addition, a Client with a longer average portfolio duration will be more sensitive to changes in interest rates than a Client with a shorter average portfolio duration. Duration is a measure used to determine the sensitivity of a security's price to changes in interest rates that incorporates a security's yield, coupon, final maturity, and call features, among other characteristics. However,

duration may not accurately reflect the true interest rate sensitivity of instruments held by a Client and, therefore the Client's exposure to changes in interest rates. If an issuer calls or redeems an instrument held by a Client during a time of declining interest rates, a Client might need to reinvest the proceeds in an investment offering a lower yield, and therefore may not benefit from any increase in value as a result of declining interest rates.

Fixed-income instruments that are fixed-rate are generally more susceptible than floating rate instruments to price volatility related to changes in prevailing interest rates. The prices of floating rate fixed-income instruments tend to have less fluctuation in response to changes in interest rates, but will have some fluctuation, particularly when the next interest rate adjustment on such security is further away in time or adjustments are limited in amount over time. A Client may invest in short-term securities that, when interest rates decline, affect the Client's yield as these securities mature or are sold and the Client purchases new short-term securities with lower yields.

Subordinated debt securities that receive payments of interest and principal after other more senior security holders are paid carry the risk that the issuer will not be able to meet its obligations and that the subordinated investments may lose value. An obligor's willingness and ability to pay interest or to repay principal due in a timely manner may be affected by its cash flow.

Fixed-income and debt market conditions are highly unpredictable and some parts of the market are subject to dislocations. In response to the outbreak of COVID-19, as with other serious economic disruptions, governmental authorities and regulators enacted significant fiscal and monetary policy changes, including providing direct capital infusions into companies, creating new monetary programs, and lowering interest rates considerably. These actions present heightened risks to fixed-income and debt instruments, and such risks could be even further heightened if these actions are reversed or are ineffective in achieving their desired outcomes. In light of these actions and current conditions, interest rates and bond yields in the U.S. and many other countries were, until recently, at or near historic lows, and some countries experienced negative rates and yields. Low or negative interest rates magnify the Client's susceptibility to interest rate risk and diminishing yield and performance. More recently, interest rates in the U.S. and many other countries have risen at a historically fast pace. Fluctuations in interest rates expose fixed-income and debt markets to significant volatility and reduced liquidity for the Client's investments.

Risks Related to Floating or Variable Rate Securities.

Floating or variable rate securities pay interest at rates that adjust in response to changes in a specified interest rate or reset at predetermined dates (such as the end of a calendar quarter). Securities with floating or variable interest rates are generally less sensitive to interest rate changes than securities with fixed interest rates, but may decline in value if their interest rates do not rise as much, or as quickly, as comparable market interest rates. Conversely, floating or variable rate securities will not generally increase in value if interest rates decline. The impact of interest rate changes on floating or variable rate securities is typically mitigated by the periodic interest rate reset of the investments. Floating or variable rate securities can be rated below investment grade or unrated; therefore, a relevant Client relies heavily on the analytical ability of the Adviser.

Lower-rated floating or variable rate securities are subject to many of the same risks as high yield securities, although these risks are reduced when the instruments are senior and secured as opposed to many high yield securities that are junior and unsecured. Floating or variable rate securities are often subject to restrictions on resale, which can result in reduced liquidity.

Risks Related to Credit.

A Client could lose money if the issuer or guarantor of a fixed-income security, or the counterparty to a derivatives contract or repurchase agreement, is unable or unwilling, or is perceived (whether by market participants, rating agencies, pricing services or otherwise) as unable or unwilling, to make timely principal and/or interest payments, or to otherwise honor its obligations. The downgrade of the credit of a security held by a Client may decrease its value. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings. Measures such as average credit quality may not accurately reflect the true credit risk of a Client. This is especially the case if a Client consists of securities with widely varying credit ratings. Therefore, if a Client has an average credit rating that suggests a certain credit quality, the Client may in fact be subject to greater credit risk than the average would suggest. This risk is greater to the extent a Client uses leverage or derivatives in connection with the management of the Client. In addition, this risk is greater when there is an increasing amount of issuers that are unprofitable, have little cash on hand, and/or are unable to pay the interest owed on their debt obligations. The number of such issuers may increase if demand for their goods and services falls, borrowing costs rise due to governmental action or inaction, or other reasons. Also, the issuer, guarantor or counterparty may suffer adverse changes in its financial condition or reduced demand for its goods and services or be adversely affected by economic, political, public health, or social conditions that could lower the credit quality (or the market's perception of the credit quality) of the issuer or instrument, leading to greater volatility in the price of the instrument and in the value of a Client.

If an issuer, guarantor or counterparty declares bankruptcy or is declared bankrupt, a Client would likely be adversely affected in its ability to receive principal or interest owed or otherwise to enforce the financial obligations of the other party. A Client may be subject to increased costs associated with the bankruptcy process and experience losses as a result of the deterioration of the financial condition of the issuer, guarantor, or counterparty. The risks to a Client related to such bankruptcies are elevated when there are distressed economic, market, labor, and/or public health conditions.

Risks Related to Utilizing Leverage.

Certain Clients use leverage to finance investment operations and to enhance their financial returns. With leverage, a Client can 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 can use and at times Clients deploy significant leverage. However, Clients and/or relevant regulations 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 is oftentimes 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 could require the Client to post additional margin or cash collateral. This would decrease the cash available to the Client for other purposes.

Risks Related to the Availability of Financing.

If the Adviser cannot obtain sufficient financing on acceptable terms, certain Client's ability to operate could be severely impacted. A Client would be adversely affected by disruptions in the debt capital markets and institutional lending markets, including the lack of access to capital or prohibitively high costs of obtaining or replacing capital. A primary source of liquidity for companies in the real estate industry is the debt capital markets. Access to the capital markets and other sources of liquidity was severely disrupted during the COVID-19 pandemic and the relatively recent global credit crisis and, despite some recent improvements, the markets could suffer another severe downturn and another liquidity crisis could emerge. The Adviser cannot guarantee that any sources of capital will be available on terms that are acceptable to the Adviser and its Clients.

Risks Related to Cybersecurity.

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 can 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 would 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 fully control the cybersecurity plans and systems put in place by its service providers or any other third parties whose operations affect Angel Oak or its Clients. Angel Oak and its Clients could be negatively impacted as a result.

Risks Related to U.S. Government Obligations.

U.S. government securities include direct obligations issued by the United States Treasury, such as U.S. Treasury bills (maturities of one year or less), U.S. Treasury notes (maturities of one to ten years), and U.S. Treasury bonds (generally maturities of greater than ten years). They also include U.S. government agencies and instrumentalities that issue or guarantee securities, such as the Federal Home Loan Banks, FNMA, and the Student Loan Marketing Association. Except for U.S. Treasury securities, obligations of U.S. government agencies and instrumentalities may or may not be supported by the full faith and credit of the United States. Some, such as those of the Federal Home Loan Banks, are backed by the right of the issuer to borrow from the U.S. Treasury, others by discretionary authority of the U.S. government to purchase the agencies' obligations, while still others, such as the Student Loan Marketing Association, are supported only by the credit of the instrumentality. In the case of securities not backed by the full faith and credit of the United States, the investor must look principally to the agency issuing or guaranteeing the obligation for ultimate repayment and may not be able to assess a claim against the United States itself in the event the agency or instrumentality does not meet its commitment.

The total public debt of the United States as a percentage of gross domestic product has grown rapidly since the beginning of the 2008–2009 financial downturn. Although high debt levels do not necessarily indicate or cause economic problems, they may create certain systemic risks if sound debt management practices are not implemented. A high national debt can raise concerns that the U.S. government will not be able to make principal or interest payments when they are due. This increase has also necessitated the need for the U.S. Congress to negotiate adjustments to the statutory debt limit to increase the cap on the amount the U.S. government is permitted to borrow to meet its existing obligations and finance current budget deficits. In August 2011, S&P lowered its long term sovereign credit rating on the U.S. In explaining the downgrade at that time, S&P cited, among other reasons, controversy over raising the statutory debt limit and growth in public spending. Any controversy or ongoing uncertainty regarding the statutory debt limit negotiations may impact the U.S. long term sovereign credit rating and may cause market uncertainty. As a result, market prices and yields of securities supported by the full faith and credit of the U.S. government may be adversely affected. Increased government spending in response to

COVID-19 and other emergencies can cause the national debt to rise higher, which could heighten these associated risks.

Risks Related to Sourcing Investments.

There can be no assurance that the Adviser will be able to identify assets that meet the Client's investment criteria or successfully consummate any investment opportunities identified. The Adviser's inability to do any of the foregoing would materially and adversely affect the Client's results of operations, performance, cash flows, and ability to make distributions to investors.

Risks Related to Operational Risk, Adverse Publicity, and Reputational Harm.

A Client may be adversely affected if the Adviser's reputation, our affiliates' reputation, or the reputation of counterparties with whom we associate is harmed. Reputational risk issues could include, but are not limited to, real or perceived legal or regulatory violations, or could be the result of a failure in performance, risk management, governance, technology, or operations, or claims related to employee misconduct, allegations of employee wrongful termination, conflict of interests, ethical issues, or failure to protect private information, among others. Similarly, market rumors and actual or perceived association with counterparties whose own reputations may become under question could ultimately harm a Client. These harms could include, for example, potentially depressing the market price of a publicly traded Client, potentially leading to outsized redemptions for Clients that permit redemptions, potentially have a negative effect on a Client's ability to conduct business with counterparties, or potentially hinder the Adviser's abilities to attract and / or retain personnel, including key personnel.

An investment in a Client involves operational risk arising from factors such as processing errors, human errors, inadequate or failed internal or external processes, failures in systems and technology, changes in personnel, and errors caused by third-party service providers. Any of these errors, failures, or breaches could result in a loss of information, regulatory scrutiny, reputational damage, or other events, any of which could have a materially adverse effect on a Client. While the Adviser seeks to minimize such events through controls and oversight, there is no guarantee that a Client will not suffer losses due to operational risk.

Risks Related to Liquidity and Valuation.

It may be difficult for a Client to purchase and sell particular investments within a reasonable time at a favorable price. The capacity of traditional fixed-income market makers has not kept pace with the consistent growth in the fixed-income markets in recent years, which has led to reductions in the capacity of such market makers to engage in fixed-income trading and, as a result, dealer inventories of corporate fixed-income and floating rate instruments are at or near historic lows relative to market size. These concerns may be more pronounced in the case of high yield fixed-income and floating rate instruments than higher quality fixed-income instruments. Market makers tend to provide stability and liquidity to debt-securities markets through their intermediary services, and their reduced capacity and number could lead to diminished liquidity and increased volatility in the fixed-income markets. As a result, a relevant Client could be unable to pay

redemption proceeds within the allowable time period due to adverse market conditions, an unusually high volume of redemption requests or other reasons, unless it sells other portfolio investments under unfavorable conditions, thereby adversely affecting the Client. In addition, a Client's ability to sell an instrument under favorable conditions may also be negatively impacted by, among other things, the sale of the same or similar instruments by other market participants at the same time.

To the extent that there is not an established liquid market for instruments in which a Client invests, or there is a reduced number or capacity of traditional market makers with respect to certain instruments, trading in such instruments may be relatively inactive or irregular. In addition, during periods of reduced market liquidity or market turmoil, or in the absence of readily accessible market quotations for an investment in a Client's portfolio, the ability of the Client to assign an accurate value to that investment may be limited and the Adviser, on behalf of the Client, may be required to perform a fair valuation of the instrument. Fair value determinations are inherently subjective and reflect good faith judgments based on available information. Accordingly, there can be no assurance that the determination of an instrument's fair value, conducted in accordance with the valuation procedures, will in fact approximate the price at which a Client could sell that instrument at the time of the fair valuation. The Clients rely on various sources of information to value investments and calculate net asset value. The Clients may obtain pricing information from third parties that are believed to be reliable. In certain cases, this information may be unavailable or this information may be inaccurate because of errors by the third parties, technological issues, absence of current or reliable market data or otherwise, which could impact a Client's ability to accurately value its investments or calculate its net asset value.

Investors who purchase or redeem shares of a relevant Client on days when the Client is holding instruments that have been fair valued may receive fewer or more shares or lower or higher redemption proceeds than they would have received if the instruments had not been fair valued or if the Client had employed an alternative valuation methodology. Such risks may be more pronounced in a rising interest rate environment, and, to the extent the Client that holds a significant percentage of fair valued or otherwise difficult to value securities, it may be particularly susceptible to the risks associated with valuation. Portions of a Client's portfolio that are fair valued or difficult to value vary from time to time. U.S. Registered Fund's shareholder reports contain detailed information about a U.S. Registered Fund's holdings that are fair valued or difficult to value, including values of such holdings as of the dates of the reports.

Risks Related to Market Disruptions.

The Clients are subject to investment and operational risks associated with financial, economic, and other global market developments and disruptions, including those arising from, but not limited to, war; terrorism; market manipulation; government interventions, defaults and shutdowns; political changes or diplomatic developments; embargoes, tariffs, sanctions and other trade barriers; public health emergencies (such as the spread of infectious diseases, pandemics and epidemics); and natural/environmental disasters. Any of these events could negatively impact the securities markets and cause a Client to lose value. These events can also impair the technology

and other operational systems upon which the Client's service providers and Adviser rely on, and could otherwise disrupt the Client's service providers' ability to fulfill their obligations to a Client. The spread of an infectious respiratory illness caused by a novel strain of coronavirus (known as COVID-19) caused volatility, severe market dislocations and liquidity constraints in many markets, including securities the Clients hold, and adversely affected the Clients' investments and operations. The transmission of COVID-19 and efforts to contain its spread resulted in travel restrictions and disruptions, closed international borders, enhanced health screenings at ports of entry and elsewhere, disruption of and delays in healthcare service preparation and delivery, quarantines, event and service cancellations or interruptions, disruptions to business operations (including staff reductions), supply chains and consumer activity, as well as general concern and uncertainty that negatively affected the economic environment. These disruptions led to instability in the market place, including losses and overall volatility. The long-term impact of COVID-19, and other infectious illness outbreaks, epidemics or pandemics that may arise in the future, could adversely affect the economies of many nations or the entire global economy, the financial performance of individual issuers, borrowers and sectors, and the health of the markets generally in potentially significant and unforeseen ways.

In addition, U.S. and global markets recently have experienced increased volatility, including as a result of the recent failures of certain U.S. and non-U.S. banks, which could be harmful to a Client and issuers in which it invests. For example, if a bank in which the Client or an issuer has an account fails, any cash or other assets in bank accounts may be temporarily inaccessible or permanently lost by the Client or issuer. If a bank that provides a subscription line credit facility, asset-based facility, other credit facility, and/or other services to an issuer fails, the issuer could be unable to draw funds under its credit facilities or obtain replacement credit facilities or other services from other lending institutions with similar terms. Even if banks used by issuers in which a Client invests remain solvent, continued volatility in the banking sector could cause or intensify an economic recession, increase the costs of banking services, or result in the issuers being unable to obtain or refinance indebtedness at all or on as favorable terms as could otherwise have been obtained. Conditions in the banking sector are evolving, and the scope of any potential impacts to a Client and issuers, both from market conditions and also potential legislative or regulatory responses, are uncertain.

The foregoing could lead to a significant economic downturn or recession, increased market volatility, a greater number of market closures, higher default rates and adverse effects on the values and liquidity of securities or other assets. Such impacts, which may vary across asset classes, may adversely affect the performance of the Clients. In certain cases, an exchange or market may close or issue trading halts on specific securities or even the entire market, which may result in the Clients being, among other things, unable to buy or sell certain securities or financial instruments or to accurately price their investments.

To satisfy any investor redemption requests, margin calls, or similar cash needs during periods of extreme volatility, it is more likely the relevant Client may be required to dispose of portfolio investments at unfavorable prices compared to their intrinsic value.

Structured Products Risks

Risks of Investments in Structured Products.

Relevant Clients will invest in Structured Products, including CLOs, CDOs, CMOs, CBOs, and other asset-backed securities and debt securitizations. Structured Products are subject to the normal interest rate, default, and other risks associated with fixed-income securities and asset-backed securities. Additionally, the risks of an investment in a Structured Product depend largely on the type of the collateral securities and the class of the Structured Product or other asset-backed security in which a Client invests. A Client generally will have the right to receive payments only from the Structured Product, and generally does not have direct rights against the issuer or the entity that sold the underlying collateral assets. Such collateral may be insufficient to meet payment obligations and the quality of the collateral may decline in value or default. Also, the class of the Structured Product may be subordinate to other classes, values may be volatile, and disputes with the issuer may produce unexpected investment results.

The ability of the Structured Product to make distributions will be subject to various limitations, including the terms and covenants of the debt it issues. For example, performance tests (based on interest coverage or other financial ratios or other criteria) may restrict a Client's ability, as holder of the equity interests in a Structured Product, to receive cash flow from these investments. There is no assurance any such performance tests will be satisfied. Also, a Structured Product may take actions that delay distributions in order to preserve ratings and to keep the cost of present and future financings lower or the Structured Product may be obligated to retain cash or other assets to satisfy over-collateralization requirements commonly provided for holders of the Structured Product's debt. As a result, there may be a lag, which could be significant, between the repayment or other realization on a loan or other assets in, and the distribution of cash out of, a Structured Product, or cash flow may be completely restricted for the life of the Structured Product. If a Client does not receive cash flow from any such Structured Product that is necessary to satisfy the annual distribution requirement for maintaining a relevant Client's Registered Investment Company status, and a relevant Client is unable to obtain cash from other sources necessary to satisfy this requirement, the Client could fail to maintain its status as a Registered Investment Company, which would have a material adverse effect on the Client's financial performance.

Structured Products 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 certain Structured Products or other asset-backed securities may be characterized by a Client as illiquid securities. An active dealer market may exist for Structured Products 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 a Client to sell such securities. Relevant Clients oftentimes invest in any tranche of a Structured Product, including the subordinated/equity tranches.

In addition to the general risks associated with fixed-income securities discussed herein, Structured Products 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 quality

of the collateral may default, decline in value or quality or be downgraded by a rating agency; (iii) the possibility that the investments in Structured Products are subordinate to other classes or tranches thereof; (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes among investors or with the issuer or unexpected investment results; and (v) a forced “fire sale” liquidation may occur due to technical defaults such as coverage test failures.

The activities of the issuers of certain Structured Products will generally be directed by a collateral manager. In a Client’s capacity as holder of interests in such a Structured Product, a Client is generally not able to make decisions with respect to the management, disposition or other realization of any investment, or other decisions regarding the business and affairs, of the Structured Product. Consequently, the success of the securitizations will depend, in part, on the financial and managerial expertise of the collateral manager.

To the extent a Client invests in the equity tranches of a Structured Product, such investments typically represent the first loss position, are unrated, and are subject to greater risk. To the extent that any losses are incurred by the Structured Product in respect of any collateral, such losses will be borne first by the owners of the equity interests, which may include a Client. Any equity interests that a Client holds in a Structured Product will not be secured by the assets of the Structured Product or guaranteed by any party, and a Client will rank behind all creditors of the Structured Product, including the holders of the secured notes issued by the Structured Product. Equity interests are typically subject to certain payment restrictions in the indenture governing the senior tranches. Accordingly, equity interests may not be paid in full, may be adversely impacted by defaults by a relatively small number of underlying assets held by the Structured Product and may be subject to up to 100% loss. Structured Products may be highly levered, and therefore equity interests may be subject to a higher risk of loss, including the potential for total loss. The market value of equity interests may be significantly affected by a variety of factors, including changes in interest rates, changes in the market value of the collateral held by the securitization, defaults and recoveries on that collateral and other risks associated with that collateral. The leveraged nature of equity interest is likely to magnify these impacts. Equity interests typically do not have a fixed coupon and payments on equity interests will be based on the income received from the underlying collateral and the payments made to the senior tranches, both of which may be based on floating rates. While the payments on equity interest will be variable, equity interests may not offer the same level of protection against changes in interest rates as other floating rate instruments. Equity interests are typically illiquid investments and subject to extensive transfer restrictions, and no party is under any obligation to make a market for equity interests. At times, there may be no market for equity interests, and a Client may not be able to sell or otherwise transfer equity interests at their fair value, or at all, in the event that it determines to sell them.

Risks of Investments in Mortgage-Backed and Asset-Backed Securities.

Mortgage-backed and other asset-backed securities are subject to the risks of traditional fixed-income instruments. However, they are also subject to prepayment risk and extension risk, meaning that if interest rates fall, the underlying debt may be repaid ahead of schedule, reducing the value of an investment and if interest rates rise, there may be fewer prepayments, which would

cause the average bond maturity to rise, increasing the potential for a relevant Client to lose money. Mortgage-backed and other asset-backed securities are also susceptible to changes in lending standards and lending rates.

Certain mortgage-backed securities may be secured by pools of mortgages on single-family, multi-family properties, as well as commercial properties. Similarly, asset-backed securities may be secured by pools of loans, such as corporate loans, student loans, automobile loans, and credit card receivables. The credit risk on such securities is affected by homeowners or borrowers defaulting on their loans. The values of assets underlying mortgage-backed and asset-backed securities may decline and therefore may not be adequate to cover underlying investors. Some mortgage-backed and asset-backed securities have experienced extraordinary weakness and volatility in recent years. Possible legislation in the area of residential mortgages, credit cards, corporate loans, and other loans that may collateralize the securities in which a Client may invest could negatively impact the value of that Client's investments. To the extent a Client focuses its investments in particular types of mortgage-backed or asset-backed securities, that Client will be more susceptible to risk factors affecting such types of securities.

The price paid by a Client for asset-backed securities, the yield the Client expects to receive from such securities and the average life of such securities are based on a number of factors, including the anticipated rate of prepayment of the underlying assets. The value of these securities may be significantly affected by changes in lending standards, interest rates, and lending rates, and the risks associated with the market's perception of issuers, the creditworthiness of the parties involved, and investing in real estate securities. The foregoing risks or similar developments may adversely impact the default risk for the properties and loans underlying mortgage-backed securities investments, the value of and income generated by these investments, and could also result in reduced mortgage-backed securities liquidity. The foregoing risks or similar developments may adversely impact the default risk for the properties and loans underlying mortgage-backed securities investments, the value of and income generated by these investments, and could also result in reduced mortgage-backed securities liquidity.

The ability of a Client to successfully utilize these instruments may depend on the ability of Angel Oak to forecast interest rates and other economic factors correctly. These securities may have a structure that makes their reaction to interest rate changes and other factors difficult to predict, making their value highly volatile.

In addition to the risks associated with other asset-backed securities as described above, mortgage-backed securities are subject to the general risks associated with investing in real estate securities; that is, they may lose value if the value of the underlying real estate to which a pool of mortgages relates declines. In addition, mortgage-backed securities comprised of subprime mortgages and investments in other asset-backed securities collateralized by subprime loans may be subject to a higher degree of credit risk and valuation risk. Additionally, such securities may be subject to a higher degree of liquidity risk, because the liquidity of such investments may vary dramatically over time.

In addition, CMOs, which are mortgage-backed securities that are typically collateralized by mortgage loans or mortgage pass-through securities, and multi-class pass-through securities, are commonly structured as equity interests in a trust composed of mortgage loans or other mortgage-backed securities. CMOs are usually issued in multiple classes, often referred to as “tranches,” with each tranche having a specific fixed or floating coupon rate and stated maturity or final distribution date. Under the traditional CMO structure, the cash flows generated by the mortgages or mortgage pass-through securities in the collateral pool are used to first pay interest and then pay principal to the holders of the CMOs. Subject to the provisions of individual CMO issues, the cash flow generated by the underlying collateral (to the extent it exceeds the amount required to pay the stated interest) is used to retire the bonds. As a result of these and other structural characteristics, CMOs entail greater market, prepayment, and liquidity risks than other mortgage-backed securities, and may be more volatile or less liquid than other mortgage-backed securities.

Mortgage-backed securities may be issued by governments or their agencies and instrumentalities, such as, in the United States, Ginnie Mae, Fannie Mae, and Freddie Mac. They may also be issued by private issuers but represent an interest in or are collateralized by pass-through securities issued or guaranteed by a government or one of its agencies or instrumentalities. In addition, mortgage-backed securities may be issued by private issuers and be collateralized by securities without a government guarantee. Such securities usually have some form of private credit enhancement.

Pools created by private issuers generally offer a higher rate of interest than government and government-related pools because there are no direct or indirect government or agency guarantees of payments. Notwithstanding that such pools may be supported by various forms of private insurance or guarantees, there can be no assurance that the private insurers or guarantors will be able to meet their obligations under the insurance policies or guarantee arrangements. A Client may invest in private mortgage pass-through securities without such insurance or guarantees. Any mortgage-backed securities that are issued by private issuers are likely to have some exposure to subprime loans as well as to the mortgage and credit markets generally. In addition, such securities are not subject to the underwriting requirements for the underlying mortgages that would generally apply to securities that have a government or government-sponsored entity guarantee, thereby increasing their credit risk. The risk of non-payment is greater for mortgage-related securities that are backed by mortgage pools that contain subprime loans, but a level of risk exists for all loans. Market factors adversely affecting mortgage loan repayments may include a general economic downturn, high unemployment, a general slowdown in the real estate market, a drop in the market prices of real estate, or an increase in interest rates resulting in higher mortgage payments by holders of adjustable rate mortgages.

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 will 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 will likely 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 can 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 CDOs/CLOs.

Certain Clients invest in CLOs, which are debt instruments typically backed by a pool of loans. The risks of an investment in a CLO depend largely on the type of the collateral securities and the class of the CLO in which the relevant Client invests. Some CLOs have credit ratings but are typically issued in various classes with various priorities. Normally, CLOs are privately offered and sold (that is, they are not registered under the securities laws) and may be characterized by Clients as illiquid investments; however, an active dealer market may exist for CLOs that qualify for Rule 144A transactions. In addition to the normal interest rate, default, and other risks of fixed-income securities, CLOs carry additional risks, including the possibility that distributions from collateral securities will not be adequate to make interest or other payments, the quality of the collateral may decline in value or default, some Clients will invest in CLOs that are subordinate to other classes, values can be volatile, and disputes with the issuer can produce unexpected investment results.

Certain Clients invest in CDOs. A CDO is a security backed by a pool of bonds, loans, and other debt obligations. CDOs are not limited to investing in one type of debt and accordingly, a CDO can own corporate bonds, commercial loans, asset-backed securities, residential mortgage-backed securities, commercial mortgage-backed securities, and emerging market debt. The CDO’s securities are typically divided into several classes, or bond tranches, that have differing levels of investment grade or credit tolerances. Most CDO issues are structured in a way that enables the senior bond classes and mezzanine classes to receive investment-grade credit ratings. Credit risk is shifted to the most junior class of securities. If any defaults occur in the assets backing a CDO, the senior bond classes are first in line to receive principal and interest payments, followed by the mezzanine classes and finally by the lowest rated (or non-rated) class, which is known as the equity tranche. Similar in structure to a collateralized mortgage obligation (described above), CDOs are unique in that they represent different types of debt and credit risk.

For both CDOs and CLOs, the cash flows are split into two or more portions, called “tranches,” varying in risk and yield. The riskiest portion is the “equity” tranche, which bears the bulk of defaults from the debt instruments and serves to protect the other, more senior tranches from default in all but the most severe circumstances. Since it is partially protected from defaults a senior tranche from a CDO or CLO typically has a higher rating and lower yield than its underlying securities and can be rated investment grade. Despite the protection from the equity tranche, tranches can experience substantial losses due to actual defaults, increased sensitivity to defaults due to collateral default and disappearance of protecting tranches, market anticipation of defaults, as well as aversion to CDO or CLO securities as a class.

The market value of CDOs/CLOs generally fluctuates with, among other things, the financial condition of the obligors on the underlying debt obligations or, with respect to synthetic securities, of the obligors on or issuers of the reference obligations, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry, and changes in prevailing interest rates.

CDOs/CLOs are subject to credit, liquidity, and interest rate risks. In particular, investment-grade CDOs/CLOs have greater liquidity risk than investment grade sovereign or corporate bonds. There is no established, liquid secondary market for many of the CDOs/CLOs securities a Client can purchase. The lack of such an established, liquid secondary market can have an adverse effect on the market value of such CDOs/CLOs securities and a Client’s ability to sell them. Further, CDOs/CLOs can be subject to certain transfer restrictions that further restrict liquidity. Therefore, no assurance can be given that if a Client were to dispose of particular CDOs/CLOs held by a Client, it could dispose of such investments at the previously prevailing market price.

The performance of CDOs/CLOs are adversely affected by macroeconomic factors, including (i) general economic conditions affecting capital markets and participants therein, (ii) the economic downturns and uncertainties affecting economies and capital markets worldwide, (iii) concern about financial performance, accounting and other issues relating to various publicly traded companies and (iv) changes (or even proposed changes) in accounting and reporting standards and bankruptcy legislation.

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 can 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 can 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 pays 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 can 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 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 could 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 would likely suffer losses if the outlined situations occurred.

Loan Investing Risks

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 will likely 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 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 certain Clients will hold. Further, the borrowers on such loans might be in economic distress and/or have become unemployed, bankrupt, or otherwise unable or unwilling to make payments when due. Distressed assets oftentimes 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 incurs on such investments could be significant.

Risks and Conflicts of Interest Related to Loans Purchased from Affiliate Originators.

These risks and conflicts are related to the Clients that are permitted to and engage in transactions with Affiliate Originators. A significant portion of certain Client's portfolios 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.

These Client's portfolios will 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, the Affiliate Originators, and other affiliates 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 Adviser directs the investment activities of the Client, there are conflicts of interest related to the fact that the Affiliate Originators are also affiliates of the Adviser.

These Clients will likely purchase RMBS or CMBS that are collateralized by loans originated by Affiliate Originators and the relevant Client's portfolio will likely consist of a significant amount of such securities. The Adviser and certain affiliates thereof receive benefits for their activities related to the creation of the securitization and the issuance and sale of such securities such as benefits related to increased affiliated loan origination volumes. 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 Adviser 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 Adviser must be approved by the Client or 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 earn origination or other fees from borrowers on loans they originate that are acquired by the Client from such Affiliate Originators.

Risks Associated with the Inability to Profitably Execute Securitization Transactions.

Several factors 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 is 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 varies 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 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 incurs 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, relevant Clients 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 files 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 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 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 Adviser to make numerous estimates and assumptions. Such estimates and assumptions include, without limitation, estimates of future cash flows associated with MSRs 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 MSRs could be materially different than the values of such MSRs estimated by the Adviser. 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 MSRs. Historically, the fair value of MSRs 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 MSRs, investments in MSRs would be more susceptible to volatility due to changes in the value of, or cash flows from, the MSRs as interest rates change.

Prepayment speeds significantly affect MSRs. 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 will base the price it pays for MSRs 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 Adviser's expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If prepayment speed expectations increase significantly, the value of the MSRs could decline. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows the Client receives from MSRs, and the Client could ultimately receive substantially less return on such assets. Moreover, delinquency rates have a significant impact on the valuation of any MSRs. An increase in delinquencies generally results in lower revenue because typically the Client would only collect servicing fees for performing loans. The Adviser'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 MSRs could be diminished. When the estimated value of MSRs is reduced, the Client could suffer a loss.

Furthermore, MSRs and the related servicing activities are subject to numerous federal, state, and local laws and regulations and can 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 MSRs, 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's 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's 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's is impacted by the same drivers as the performance of MSR assets, including interest rates, prepayment speeds, and delinquency rates.

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 will likely 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 are those mortgaged properties which are, or have been the site of manufacturing, industrial, or disposal activities. Such environmental risks 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 could 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.

Certain Clients 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 would 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 are therefore 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.

Financials Sector Risks

Risks of Investments in Bank Subordinated Debt.

Banks can 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 would potentially 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 can be difficult for a bank to meet its debt obligations. Banks also will likely 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 can be overly concentrated in a specific geographic region, lack the capacity to comply with new regulatory requirements, or lack adequate capital. Smaller banks will likely 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. Subordinated debt, senior debt, and preferred securities of banks and diversified financials companies are subject to the risks generally associated with the financials sector. See "Financials Sector Risk."

Risks of Investments in Community Banks.

A Client's investments in community banks may make the Client more economically vulnerable in the event of a downturn in the banking industry. Community banks may face heightened risks of failure during times of economic downturns, including those impacting a particular region, than larger banks. Community banks may also be subject to greater lending risks than larger banks, including the risks associated with mortgage loans. The ability of management of financial institutions to identify, measure, monitor, and control the risks of an institution's activities and to ensure a financial institution's safe, sound, and efficient operation in compliance with applicable laws and regulations are critical. Community banks may have fewer resources to devote towards employing and retaining strong management employees and implementing a thorough compliance program. Additionally, banking institutions are subject to substantial regulations that could adversely affect their ability to operate and the value of a Client's investments, including from future banking regulations. Ownership of the stock of certain types of regulated banking

institutions may subject the Client to additional regulations. Investments in banking institutions and transactions related to Client investments may require approval from one or more regulatory authorities. If a Client were deemed to be a bank holding company or thrift holding company, bank holding companies or thrift holding companies that invest in the Client would be subject to certain restrictions and regulations.

Risks of Investments in the Financials Sector.

Certain Clients invest in companies in the financials sector, and therefore the performance of a Client could be negatively impacted by events affecting this sector. Companies in the group of industries related to banks and diversified financials are often subject to extensive governmental regulation and intervention, which may adversely affect the scope of their activities, the prices they can charge and the amount of capital they must maintain. Governmental regulation may change frequently and may have significant adverse consequences for companies in the group of industries related to banks and diversified financials, including effects not intended by such regulation. The impact of past or future regulation in various countries on any individual financial company or on the industries as a whole cannot be predicted. A Client's emphasis on community banks may make a Client more economically vulnerable in the event of a downturn in the banking industry. Community banks may face heightened risks of failure during times of economic downturns than larger banks. Community banks may also be subject to greater lending risks than larger banks.

Certain risks may impact the value of investments in the group of industries related to banks and diversified financials more severely than those of investments outside these industries, including the risks associated with companies that operate with substantial financial leverage. Companies in the group of industries related to banks and diversified financials may also be adversely affected by increases in interest rates and loan losses, decreases in the availability of money or asset valuations, credit rating downgrades, and adverse conditions in other related markets.

Insurance companies are subject to extensive government regulation in some countries and can be significantly affected by changes in interest rates, general economic conditions, price and marketing competition, the imposition of premium rate caps, or other changes in government regulation or tax law. Different segments of the insurance industry can be significantly affected by mortality and morbidity rates, environmental clean-up costs, and catastrophic events such as earthquakes, hurricanes, and terrorist acts.

During the financial crisis that began in 2007, the deterioration of the credit markets impacted a broad range of mortgage, asset-backed, auction rate, sovereign debt, and other markets, including U.S. and non-U.S. credit and interbank money markets, thereby affecting a wide range of financial institutions and markets. A number of large financial institutions failed during that time, merged with stronger institutions, or had significant government infusions of capital. Instability in the financial markets caused certain financial companies to incur large losses. Some financial companies experienced declines in the valuations of their assets, took actions to raise capital (such as the issuance of debt or equity securities), or even ceased operations. Some financial companies borrowed significant amounts of capital from government sources and may face future

government-imposed restrictions on their businesses or increased government intervention. Those actions caused the securities of many financial companies to decline in value.

The group of industries related to banks and diversified financials is also a target for cyber attacks and may experience technology malfunctions and disruptions. In recent years, cyber attacks and technology failures have become increasingly frequent and have caused significant losses.

Risks specific to the bank and diversified financial group of industries also may include:

- Asset Quality and Credit Risk. When financial institutions loan money, commit to loan money, or enter into a letter of credit or other contract with a counterparty, they incur credit risk, or the risk of losses if their borrowers do not repay their loans or their counterparties fail to perform according to the terms of their contract. The companies in which a Client could invest offer a number of products which expose them to credit risk, including loans, leases and lending commitments, derivatives, trading account assets and assets held-for-sale. Financial institutions allow for and create loss reserves against credit risks based on an assessment of credit losses inherent in their credit exposure (including unfunded credit commitments). This process, which is critical to their financial results and condition, requires difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of their borrowers to repay their loans. As is the case with any such assessments, there is always the chance that the financial institutions in which a Client invests will fail to identify the proper factors or that they will fail to accurately estimate the impacts of factors that they identify. Failure to identify credit risk factors or the impact of credit factors may result in increased non-performing assets, which will result in increased loss reserve provisioning and reduction in earnings. Poor asset quality can also affect earnings through reduced interest income which can impair a bank's ability to service debt obligations or to generate sufficient income for equity holders. Bank failure may result due to inadequate loss reserves, inadequate capital to sustain credit losses or reduced earnings due to non-performing assets. A Client will not have control over the asset quality of the financial institutions in which the Client will invest, and these institutions may experience substantial increases in the level of their non-performing assets which may have a material adverse impact on the Client's investments.
- Capital Risk. A bank's capital position is extremely important to its overall financial condition and serves as a cushion against losses. U.S. banking regulators have established specific capital requirements for regulated banks. Federal banking regulators proposed amended regulatory capital regulations in response to the Dodd-Frank Act and the international capital and liquidity requirements set forth by the Basel Committee on Banking Supervision ("Basel III") protocols which would impose even more stringent capital requirements. In the event that a regulated bank falls below certain capital adequacy standards, it may become subject to regulatory intervention including, but not limited to, being placed into a FDIC-administered receivership or conservatorship. The regulatory provisions under which the regulatory authorities act are intended to protect depositors. The deposit insurance fund and the banking system are not intended to protect shareholders or other investors in other securities issued by a bank or its holding company. The effect

of inadequate capital can have a potentially adverse consequence on the institution's financial condition, its ability to operate as a going concern and its ability to operate as a regulated financial institution and may have a material adverse impact on a Client's investments.

- Earnings Risk. Earnings are the primary means for financial institutions to generate capital to support asset growth, to provide for loan losses and to support their ability to pay dividends to shareholders. The quantity as well as the quality of earnings can be affected by excessive or inadequately managed credit risk that may result in losses and require additions to loss reserves, or by high levels of market risk that may unduly expose an institution's earnings to volatility in interest rates. The quality of earnings may also be diminished by undue reliance on extraordinary gains, nonrecurring events, or favorable tax effects. Future earnings may be adversely affected by an inability to forecast or control funding and operating expenses, net interest margin compression improperly executed or ill-advised business strategies, or poorly managed or uncontrolled exposure to other risks. Deficient earnings can result in inadequate capital resources to support asset growth or insufficient cash flow to meet the financial institution's near term obligations. Under certain circumstances, this may result in the financial institution being required to suspend operations or the imposition of a cease-and-desist order by regulators which could potentially impair a Client's investments.
- Management Risk. The ability of management to identify, measure, monitor, and control the risks of an institution's activities and to ensure a financial institution's safe, sound, and efficient operation in compliance with applicable laws and regulations are critical. Depending on the nature and scope of an institution's activities, management practices may need to address some or all of the following risks: credit, market, operating, reputation, strategic, compliance, legal, liquidity, and other risks. A Client will not have direct or indirect control over the management of the financial institutions in which the Client will invest and, given the Client's long-term investment strategy, it is likely that the management teams and their policies may change. The inability of management to operate their financial institution in a safe, sound, and efficient manner in compliance with applicable laws and regulations, or changes in management of financial institutions in which a Client invests, may have an adverse impact on the Client's investment.
- Litigation Risk. Financial institutions face significant legal risks in their businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high. Substantial legal liability or significant regulatory action against the companies in which a Client invests could have material adverse financial effects or cause significant reputational harm to these companies, which in turn could seriously harm their business prospects. Legal liability or regulatory action against the companies in which a Client invests could have material adverse financial effects on the Client and adversely affect the Client's earnings and book value.

- Market Risk. The financial institutions in which a Client will invest are directly and indirectly affected by changes in market conditions. Market risk generally represents the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions. Market risk is inherent in the financial instruments associated with the operations and activities including loans, deposits, securities, short-term borrowings, long-term debt, trading account assets and liabilities, and derivatives of the financial institutions in which a Client will invest. Market risk includes, but is not limited to, fluctuations in interest rates, equity and futures prices, changes in the implied volatility of interest rates, equity and futures prices and price deterioration or changes in value due to changes in market perception or actual credit quality of the issuer. Accordingly, depending on the instruments or activities impacted, market risks can have wide ranging, complex adverse effects on the operations and overall financial condition of the financial institutions in which a Client will invest as well as adverse effects on the Client's results from operations and overall financial condition.
- Monetary Policy Risk. Monetary policies have had, and will continue to have, significant effects on the operations and results of financial institutions. There can be no assurance that a particular financial institution will not experience a material adverse effect on its net interest income in a changing interest rate environment. Factors such as the liquidity of the global financial markets, and the availability and cost of credit may significantly affect the activity levels of customers with respect to the size, number and timing of transactions. Fluctuation in interest rates, which affect the value of assets and the cost of funding liabilities, are not predictable or controllable, may vary and may impact economic activity in various regions.
- Competition. The group of industries related to banks and diversified financials, including the banking sector, is extremely competitive, and it is expected that the competitive pressures will increase. Merger activity in the financial services industry has resulted in and is expected to continue to result in, larger institutions with greater financial and other resources that are capable of offering a wider array of financial products and services. The group of industries related to banks and diversified financials has become considerably more concentrated as numerous financial institutions have been acquired by or merged into other institutions. The majority of financial institutions in which a relevant Client will invest will be relatively small with significantly fewer resources and capabilities than larger institutions; this size differential puts them at a competitive disadvantage in terms of product offering and access to capital. Technological advances and the growth of e-commerce have made it possible for non-financial institutions and non-bank financial institutions to offer products and services that have traditionally been offered by banking and other financial institutions. It is expected that the cross-industry competition and inter-industry competition will continue to intensify and may be adverse to the financial institutions in which a Client invests.
- Regulatory Risk. Financial institutions, including community banks, are subject to various state and federal banking regulations that impact how they conduct business, including but not limited to how they obtain funding, their ability to operate, and the value of a Client's

investments. Changes to these regulations could have an adverse effect on their operations and operating results and a Client's investments. The Clients expect to make long-term investments in financial institutions that are subject to various state and federal regulations and oversight. Congress, state legislatures, and the various bank regulatory agencies frequently introduce proposals to change the laws and regulations governing the banking industry in response to the Dodd-Frank Act, Consumer Financial Protection Bureau (the "CFPB") rulemaking, or otherwise. The likelihood and timing of any proposals or legislation and the impact they might have on the Client's investments in financial institutions affected by such changes cannot be determined and any such changes may be adverse to a Client's investments. Ownership of the stock of certain types of regulated banking institutions may subject a Client to additional regulations. Investments in banking institutions and transactions related to a Client's investments may require approval from one or more regulatory authorities. If a Client were deemed to be a bank holding company or thrift holding company, bank holding companies or thrift holding companies that invest in the Client would be subject to certain restrictions and regulations.

General Corporate Sector Risks

Risks of Investments in Corporate Debt.

Corporate debt securities are long- and short-term debt obligations issued by companies (such as publicly issued and privately placed bonds, notes, and commercial paper). The Adviser considers corporate debt securities to be of investment grade quality if they are rated BBB- or higher by Standard & Poor's Ratings Group ("S&P") or an equivalent rating from another National Recognized Statistical Ratings Organization, or if unrated, determined by the Adviser to be of comparable quality. Investment grade debt securities generally have adequate to strong protection of principal and interest payments. In the lower end of this category, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal than in higher rated categories. Investments in corporate debt are subject to many of the risks highlighted throughout this risk section including credit risk, fixed-income instrument risk, macroeconomic risks, risks impacting the debt issuer, interest rate risk, etc.

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 would likely 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 can result in further risk of illiquidity and volatility with respect to high-yield securities, and this trend could continue in the future.

Risks of Investments in Preferred Securities.

Preferred securities are subject to risks associated with both equity and debt instruments. Because many preferred securities allow the issuer to convert its preferred stock into common stock, preferred securities are often sensitive to declining common stock values. In addition, certain preferred securities contain provisions that allow an issuer to skip or defer distributions, which may be more likely when the issuer is less able to make dividend payments as a result of financial difficulties. Preferred securities can also be affected by changes in interest rates, especially if dividends are paid at a fixed rate, and may also include call features in favor of the issuer. In the event of redemptions by the issuer, a relevant Client may not be able to reinvest the proceeds at comparable or favorable rates of return. Preferred securities are generally subordinated to bonds and other debt securities in an issuer's capital structure in terms of priority for corporate income and liquidation payments, and may trade less frequently and in a more limited volume and may be subject to more abrupt or erratic price movements than many other securities.

Risks of Investments in Equity.

Certain Clients invest in equities and equity-derivative securities. The market price of equity securities goes up or down, sometimes rapidly or unpredictably. A risk of investing in a Client that trades equity securities is that the equity securities in its portfolio will decline in value due to factors affecting equity securities markets generally, the sectors in which the Client will invest, or a particular issuer in which a Client invests. The values of equity securities can decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates, or adverse investor sentiment generally. Equity securities also routinely decline due to factors which affect a particular issuer or industry/industries, such as labor shortages or increased production costs and competitive conditions within an industry. Other risks of investing globally in equity securities include changes in currency exchange rates, exchange control regulations, expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments, the imposition of economic sanctions and trade embargos, and difficulty in obtaining and enforcing judgments against non-U.S. entities. In addition, securities which the Adviser believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame the Adviser anticipates. As a result, a Client could lose all or substantially all of its investment in any particular instance.

Risks of Investments in Real Estate Investment Trusts (“REITs”).

Investments in REITs involve unique risks. REITs may have limited financial resources, may trade less frequently and in limited volume, and may be more volatile than other securities. The value of a REIT may also rise and fall in response to the management skill and creditworthiness of the issuer. In addition, to the extent a Client holds interests in REITs, it is expected that investors in the Client will bear two layers of asset-based management fees and expenses (directly at the Client level and indirectly at the REIT level). The risks of investing in REITs include certain risks associated with the direct ownership of real estate and the real estate industry in general. These include risks related to general, regional, and local economic conditions; fluctuations in interest rates and property tax rates; shifts in zoning laws, environmental regulations, and other governmental action such as the exercise of eminent domain; cash flow dependency; increased operating expenses; lack of availability of mortgage funds; losses due to natural disasters; overbuilding; losses due to casualty or condemnation; changes in property values and rental rates; the management or development of properties, which may be subject to mortgage loans that are subject to the risk of default; and other factors.

Risk of Investments in Small- and Medium-Capitalization Companies.

Certain Clients trade and invest in equity and debt securities of small- and mid-cap issuers. Smaller capitalization stocks involve higher risks in some respects than do investments in stocks of larger companies. For example, prices of small-capitalization and even medium-capitalization stocks are often more volatile than prices of large-capitalization stocks, and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger, “blue-chip” companies. In addition, due to thin trading in some small-capitalization stocks, an investment in those stocks can be highly illiquid. Some small companies have limited distribution channels and financial and managerial resources. Such companies are oftentimes dependent on key personnel and also on personnel (including key personnel) with limited experience.

Other Risks

Risks of Investments in Derivatives.

A Client’s derivatives and other similar investments (referred to collectively in this section as “derivatives” or “derivative investments”) have risks similar to their underlying instruments and may have additional risks, including the imperfect correlation between the value of such instruments and the underlying instrument, 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 instrument, rate or index; the loss of principal; the possible default of the other party to the transaction; illiquidity of the derivative investments; risks arising from margin requirements and settlement payment obligations; and risks arising from mispricing or valuation complexity. The use of derivatives is also subject to operational risk which refers to risk related to potential operational issues, including documentation issues, settlement issues, system failures, inadequate controls, and human error, as well as legal risk which refers to the risk of loss resulting from insufficient documentation,

insufficient capacity or authority of counterparty, or legality or enforceability of a contract. Derivatives are also subject to market risk which refers to the risk that markets could experience a change in volatility that adversely impacts Client returns and a Client's obligations and exposures. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, a Client could 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 a Client is owed this fair market value in the termination of the derivative contract and its claim is unsecured, the Client will be treated as a general creditor of such counterparty, and will not have any claim with respect to the underlying instrument. Certain of the derivative investments in which a Client 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 a Client as premiums and cash or other assets held in margin accounts with respect to the Client's derivative investments would not be available to the Client for other investment purposes, which may result in lost opportunities for gain.

Regulation of the derivatives market presents additional risks to a Client and may limit the ability of a Client to use, and the availability or performance of, such instruments.

Specifically, the relevant Clients 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 a Client's initial investment in such contracts.
- Risks of Investments in Options. If a Client buys an option, it 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 Client. If a Client sells an option, it sells to another person the right to buy from or sell to the 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 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). A Client's 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, leverage, operational, and legal risk. Certain standardized swaps are now subject to mandatory central clearing requirements and are 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 a Client or if the reference index, security, or investments do not perform as expected. A Client's use of swaps could include those based on the credit of an underlying investment, commonly referred to as "credit default swaps." Where a Client is the buyer of a credit default swap contract, it 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, a Client 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 a Client is the seller of a credit default swap contract, it receives the stream of payments but is 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 a Client's assumptions regarding the creditworthiness of the underlying obligation prove to be incorrect.

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 can be viewed as borrowings made by the relevant Clients and are a form of leverage which also oftentimes increases the volatility of the relevant Clients.

Risks of Investments in Other Investment Companies.

Investments in other investment companies will include risks associated with investing in investment companies, risks associated with investing in the underlying assets that the investment company holds, and risks associated with conflicts of interest when the investment company is advised or sub-advised by the Adviser or an affiliate of the Adviser (an “affiliated underlying fund”). 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 can be subject to, and could 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 can trade above or below its net asset value (“NAV”) or an active market might 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 can be above or below its NAV; (ii) an active trading market for an ETF’s shares could not develop or be maintained; (iii) the ETF can employ an investment strategy that utilizes high leverage ratios; (iv) trading of an ETF’s shares can be halted if the listing exchange’s officials deem such action appropriate; and (v) underlying ETF shares can 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 is permitted to 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 will 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 will be subject to potential conflicts of interest in allocating a relevant Clients' assets among underlying funds, as certain of the Clients' portfolio managers potentially also manage an affiliated underlying fund in which a Client could 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 Related to Hedging Transactions.

Certain Clients 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.

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 Client's 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 oftentimes enter into hedging transactions to seek to reduce risk, such transactions can 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 oftentimes does not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation might prevent the relevant Clients from achieving the intended hedge or expose the relevant Clients to risk of loss. The Adviser might 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 could 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 Client's portfolio holdings. Hedging also involves other risks, including the possible default by the counterparty to the transaction and illiquidity of an agreement if 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 might not be meaningful depending on the financial position of the defaulting counterparty).

Certain Clients are 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 can adversely affect the financial performance of certain Clients.

Risks Related to Short Selling.

Certain Clients engage in short selling. In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase the security prior to the date on which delivery to the broker or dealer is required. As a result, a Client will engage in short sales only where the Adviser believes the value of the security will decline between the date of the sale and the date the Client is required to return the borrowed security. The making of short sales will expose a Client to the risk of liability for the market value of the security that is sold, which will be an unlimited risk due to the lack of an upper limit on the price to which a security may rise. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed by the Client at reasonable costs. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a “short squeeze” can occur, and a Client would be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short.

Risks Related to Investing in Multiple Parts of Capital Structure.

From time to time, Clients may make investments at different levels of an issuer’s or borrower’s capital structure (including but not limited to investments in debt versus equity). In managing such investments, the Adviser will consider the interests of each Client in deciding what actions to take with respect to a given issuer or borrower. These potential conflicts of interests become more pronounced in situations in which an issuer or borrower experiences financial or operational challenges, or because of a Client’s use of certain investment strategies, including small capitalization, emerging market, distressed, or less liquid strategies.

Risks Related to ESG Impact Investing.

Certain Clients employ ESG impact investment strategies as detailed in a Client’s relevant offering documents. ESG impact investment strategies limit the universe of investment opportunities available to a Client and will affect a Client’s exposure to certain issuers, sectors, regions, and types of investments, which results in the Client forgoing opportunities to buy or sell certain securities when it might otherwise be advantageous to do so. Adhering to ESG impact investment strategies can affect the Client’s performance relative to similar strategies that do not seek to invest in companies based on their ESG impact. Securities of issuers that the Adviser has identified as having favorable ESG characteristics can shift into and out of favor depending on market and economic conditions, and certain investments can be dependent on U.S. and foreign government policies, including tax incentives and subsidies, which can change without notice.

The Adviser seeks to identify and invest in issuers that align with one or more key themes that the Adviser expects to have positive aggregate ESG outcomes. However, such determinations are inherently subjective and investors' views can differ as to what constitutes a positive or negative aggregate ESG impact outcome. There is no guarantee that the Adviser's views, security selection criteria, or investment judgment will reflect the beliefs or values of any particular investor. In addition, there can be no assurance that issuers in which a Client invests will be successful in their efforts to offer solutions that generate a positive ESG impact. When assessing whether an issuer meets a relevant Client's investment strategy and criteria, the Adviser may rely on third-party data that it believes to be reliable, but it does not guarantee the accuracy of such third-party data.

ESG investing strategies are being targeted and potentially boycotted by anti-ESG activists. Where such anti-ESG activism is successful it means that ESG investing strategies may see the universe of its investing opportunities shrink, and the strategies could be subject to outflows or reduced inflows which could apply additional pressure on the strategies' ability to achieve its investment objectives.

Risks Related to Trade Errors.

Trade errors can occur either in the investment decision making process (e.g., a purchase of a security or an amount of security that violates a Client's investment restrictions) or in the trading process (e.g., a buy order executed as a sell, the purchase or sale of a security other than what was intended, or the trading of an incorrect quantity of securities). Internal or clerical mistakes that affect the investment or trading process and have a financial impact to a Client can also be treated as trade errors.

A trade error will generally be defined as a transaction that is executed in a manner that was not intentional and which results in a corrective action being taken. Any mistakes that do not affect the investment decision making or trading process or cause a violation of a Client's investment policies or restrictions and do not cause a gain or loss to the Client, will not be treated as trade errors.

The Adviser's portfolio managers will be responsible for notifying the CCO promptly of the circumstances of any trade error. Portfolio managers will discuss any action taken to correct a trade error (e.g., selling a security in the open market) and/or any other corrective action with the CCO prior to its implementation as to whether such action is appropriate.

If a third party creates the error, the Adviser will look to the third party to take corrective action. Broker-dealers can be held responsible for a portion of any loss resulting from a trade error if actions of such broker-dealer contributed to the error or the loss. The Adviser will require broker-dealers to assist in rectifying a trade error on favorable terms if their actions or inactions contributed to the error or the resulting loss. A broker can absorb the loss from a trade error caused by the broker. The Adviser will not direct brokerage commissions to brokers or enter into other reciprocal arrangements with brokers, in order to induce a broker to absorb a loss from a trading error caused by the Adviser. No soft dollars are used to satisfy any trade errors. In addition, the

Adviser cannot use the securities in one Client's account to settle the trade error in another Client's account.

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. We discuss two disciplinary events below which have occurred in the last ten years.

Disciplinary Information

On August 10, 2022, the SEC accepted offers of settlement from AOCA and Ashish Negandhi, a former portfolio manager at AOCA, and entered an administrative order against both AOCA and Mr. Negandhi.

The settlement and administrative order relate to AOMT 2018-PB1, a securitization issued in 2018. AOMT 2018-PB1 was a one-off, first-of-its-kind \$90 million securitization with fix-and-flip loans as the underlying collateral. Fix-and-flip loans are loans made to borrowers for the purpose of purchasing, renovating, and selling residential properties. These loans were originated by an affiliate of AOCA, Angel Oak Prime Bridge, which ceased originating loans in 2019. AOCA and its affiliates have not issued another securitization solely backed by this type of collateral.

The SEC's order concluded that AOCA and Mr. Negandhi made inaccurate disclosure of mortgage delinquency rates when reporting on the performance of AOMT 2018-PB1 in violation of the Securities Act and the Advisers Act. The inaccuracies related to the use of funds held in escrow accounts (funds held to reimburse borrowers for renovations to the properties) to cure loan delinquencies. AOCA and Mr. Negandhi did not admit or deny these findings. The order does not allege that AOCA or Mr. Negandhi acted with fraudulent intent. The SEC accepted AOCA's and Mr. Negandhi's offers to settle the case. AOCA and Mr. Negandhi paid civil fines of \$1,750,000 and \$75,000, respectively, were censured, and agreed to cease and desist from future violations.

The SEC's order can be found at: <https://www.sec.gov/litigation/admin/2022/33-11090.pdf>.

Affiliate Disciplinary Information

On February 16, 2017, the SEC accepted an offer of settlement from Angel Oak Capital Partners, LLC ("AOCPP"), an affiliate of Angel Oak, and entered an administrative order against it.

The order, while recognizing that AOCPP did not admit or deny any findings, concluded that AOCPP operated as a broker-dealer from March 2010 until October 2014 without registering with the SEC. The SEC found that AOCPP 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 AOCPP in its securities business were registered with the

Financial Industry Regulatory Authority (“FINRA”) as registered representatives of Peraza, and AOCF and Peraza split the commission revenue generated as a result of AOCF trading activities.

The SEC determined that AOCF 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 SEC accepted AOCF’s offer to disgorge profits received from the operation of \$3,054,288 plus interest of \$237,082, to pay a penalty of \$375,000, and to cease and desist from that activity.

The SEC further accepted an offer of settlement from Sreenivas 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 AOCF 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.

- *Falcons I, LLC (“Falcons”)* is a registered investment adviser under common control with Angel Oak and shares a principal location, some executive officers, and receives additional services from Angel Oak through a shared services agreement. This creates a conflict of interest as there are no requirements to devote an equal amount of time and resources to each registered investment adviser or to the affairs of any one Client. Angel Oak and Falcons mitigate these conflicts with various policies designed to ensure that all Clients and registered investment advisers are treated equitably such as policies requiring a fair allocation of all investment opportunities.
- *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 is a commercial mortgage originator.

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

- *Angel Oak Capital Partners, LLC, Angel Oak Capital Partners II, LLC, and Hawks I, LLC* are general partners to limited partnership(s) for which Angel Oak provides investment advisory services. *Angel Oak Capital Advisors, LLC* is a managing member for a limited liability company for which Angel Oak provides investment advisory services.
- *Angel Oak Mortgage Trust I, LLC, AOMT II, LLC, and BFNS 2022-I* are securitization trusts which are affiliated with the Adviser by common control.

- *Angel Oak Mortgage REIT, Inc* (NYSE: AOMR) is a publicly traded real estate investment trust (REIT) listed on the New York Stock Exchange (NYSE). AOMR is advised by Falcons.
- *AO Servicing Manager, LLC* is an affiliate of the Adviser by common control and is the servicing administrator with respect to all residential mortgage whole loans held by Angel Oak and Falcons managed Clients and for securitizations issued by Angel Oak Mortgage Trust I, LLC and AOMT II, LLC.

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 and Angel Oak’s Compliance Manual include 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, and limits and procedures regarding personal securities trading, among other items. A copy of the Code will be provided to any Client or investor or prospective Client or investor upon request. 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 quarterly.

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 its Clients, directly or indirectly, have a position of interest. The Adviser anticipates that in such circumstances it will 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 can 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 or the Adviser itself 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 mitigate conflicts of interest between the Adviser and its Clients.

Angel Oak uses third-party software 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 personal holdings and transactions are accurate and to correct any discrepancies.

There are times when Angel Oak will make an investment for a Client in another Client managed by Angel Oak or an affiliated adviser. To mitigate this conflict of interest, portfolio managers are required to confirm that any such investments are not based upon material, non-public information, are being made for investment purposes only, and are in the best interests of the investing Client.

Item 12 – Brokerage Practices

Angel Oak generally has full and complete discretion to select trading counterparties subject to any limitations included in a Client's 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 competing bids and does not have an obligation to seek the lowest available execution costs. Rather, we measure best execution holistically across the varying factors listed below, some of which are subjective.

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:

- Ability to source scarce assets.
- 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.

“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 using soft dollars.

Directed Brokerage

Angel Oak permits Clients to direct the use of specific broker-dealers, or exclude certain broker-dealers, in executing transactions for their account(s) but does not currently have any Clients that do so. Such directed brokerage instructions, if any, are outlined in the Client's investment management agreement. Directing or limiting brokerage oftentimes results in the Client paying higher brokerage commissions because Angel Oak oftentimes cannot aggregate orders to reduce transaction costs, or the Client could receive less favorable prices than Angel Oak might receive on behalf of the Client elsewhere.

Aggregation of Trades

In some circumstances, Angel Oak finds 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 partially filled it will generally be allocated pro rata in proportion to the total assets for each Client. Angel Oak maintains policies and procedures which outline situations where it is appropriate to deviate from a pro rata allocation. Such deviations are recorded and reviewed by the Adviser's Compliance team as required by the policies and procedures. Transaction costs are 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.

Principal Trades and Cross Trades

Angel Oak maintains written policies and procedures with respect to principal trades and cross trading activities. The written policies and procedures are designed to comply with all relevant laws, regulations, and Client agreements. Angel Oak prohibits compensated agency cross trades which would entail Angel Oak receiving fees for conducting cross trades between Client accounts. Angel Oak prohibits principal trades which would entail trading between the Adviser's own account or accounts owned by our controlling persons and an advisory Client. Angel Oak permits non-compensated agency cross trades between Client accounts managed by Angel Oak or its affiliates that allow cross trading and where (i) no affiliation exists that prohibits the trade, and (ii) the cross trading activity is not otherwise prohibited by rule or statute. Each cross trade must be in the best interest of each participating Client. Internal policies require cross trades to be preapproved by the Compliance team. The written policies and procedures dictate how independent prices are used to determine all cross trade prices. When the best interests of Clients are considered, cross trades benefit Clients by reducing or eliminating transaction costs which would otherwise be paid to executing broker-dealers, by providing opportunities to purchase assets which are difficult to locate on the open market, and/or by reducing or eliminating settlement risks. Generally, a cross trade will occur when one Client is meeting a redemption or managing its cash flow, risk profile, etc. and another Client is continuing to actively purchase the same assets.

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. Prior to each trade being executed and at the end of each day, Client portfolios are continuously monitored to ensure compliance with the guidelines of the investment strategy, any trading limitations imposed by a Client, and regulatory requirements. Trade monitoring is conducted primarily through the Adviser's trade order management systems and other tools.

Also, on a regular basis, Angel Oak personnel review calculations of the net asset value of Client accounts and of individual investor capital account balances. Angel Oak has engaged Trident Fund Services, U.S. Bank Global Fund Services, U.S. Bank Global Fund Services (Cayman) Limited, SS&C Technologies, and Opus Fund Services (Bermuda) to provide administrative services to various Clients, 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 various Clients are performed by KPMG, Cohen & Company, or Richey, May & Co.

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 Unregistered Funds also receive annual audited financial statements. Audited financial statements for U.S. Registered Funds are filed as part of the U.S. Registered Funds' annual reports.

Item 14 – Client Referrals and Other Compensation

Angel Oak engages 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 certain general partners including Angel Oak Capital Partners, LLC, Angel Oak Capital Partners II, LLC, and Hawks I, LLC, and when considering that Angel Oak itself is a managing member of certain Unregistered 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 is deemed to have 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 is 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 can also be regulatory investment restrictions such as those applicable to Funds pursuant to the 1940 Act.

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

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. Clients can direct Angel Oak to vote their proxies pursuant to certain guidelines set forth in the applicable investment management agreement. A Client can contact Angel Oak with questions regarding a particular proxy 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 and investors upon request.

Given the limited amount of proxy votes that Angel Oak casts, Angel Oak does not employ any proxy advisory services.

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 watch 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 or the Adviser requests certain information and documentation from prospective investors and investors in order to confirm their identity. Depending on the circumstances, applicable law, rules, or regulations can require or allow Angel Oak to provide certain information (e.g., currency transaction reports or suspicious activity reports) to governmental agencies and oftentimes prevent Angel Oak from disclosing its actions to its Clients, investors, and prospective investors. Please note that the anti-money laundering program only applies to investors and prospective investors in certain Clients as described by the Adviser's policies and procedures. Certain other Clients, such as Clients that have publicly traded shares on a stock exchange, do not directly face investors and therefore are not required to conduct and do not conduct anti-money laundering checks on the investors and prospective investors. Instead, the investors are subject to the anti-money laundering policies of their brokerage firms.

For a Client that is an exchange-traded fund ("ETF"), the ETF's customer is the authorized participant ("AP") (or participating party) that is authorized to purchase and redeem shares of the ETF. Most APs qualify as exempt customers under customer identification rules, and accordingly an ETF has no identification or verification responsibilities with respect to such customers. In the event that an AP is not an exempt customer, the ETF will verify the identity of the AP. An ETF is not required to verify the identity of investors who purchase its shares on the secondary market.

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 nonpublic 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, as well as business partners and website visitors.

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 while providing investment solutions to you. We use this information to manage your account, direct transactions, and provide you with valuable information. We collect this information mainly from documents you provide to us through forms, personal interaction, and contract negotiations. Angel Oak will never collect more of your personal nonpublic information than intended to manage, support, and service your account. The information includes your name, address, telephone number, internet or network activity when visiting our website, social security number, transactional and financial information, as well as other personal nonpublic information we need to service your account. In addition, we 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. The security of your personal information is important to us. Angel Oak has developed and implemented technical, organizational, and administrative security measures to protect your personal nonpublic 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 will share relevant information with regulators, financial institutions, and other service providers that support our service of your account. We permit these companies to 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 distribute information about your account to regulators, financial institutions, and service providers

electronically which could 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. We will retain your personal information for as long as it is necessary to deliver the best possible service to you, unless regulatory requirements require us to retain it for a longer period of time.

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 Rights. Angel Oak and its affiliates provide the ability for you to exercise certain rights with respect to your personal information. In accordance with applicable law, you may be entitled to exercise your rights and choices as follows:

- Access and Rectification – If any personal information about you is incorrect, or you would like to access your data, please contact (866) 347-1891.
- Opt Out and Erasure – You may opt out of marketing solicitations at any time, as well as request erasure of your personal data provided to Angel Oak.
- Right to Object – You may object to the processing of your personal information in cases where Angel Oak relies on its legitimate interest to process your data. The right shall not apply to data which is subject to the Gramm-Leach-Bliley Act.
- Data Portability – You are entitled to request copies of your personal information and/or request this information be transmitted to another service provider.

California Residents

Angel Oak will not share your personal and browsing information with non-affiliated third parties, except as permitted by California law. California residents have certain privacy rights under the *California Consumer Privacy Act* which requires a specific privacy policy which is available on Angel Oak's website: <https://angeloakcapital.com/ca-privacy-policy/>.

Nevada Residents

Residents of Nevada may be placed on our internal Do Not Call List by contacting us at (866) 347-1891. Nevada law requires that Angel Oak provide the following contact information to the Bureau of Consumer Protection.

Bureau of Consumer Protection, Office of the Nevada Attorney General
555 East Washington Street, Suite 3900
Las Vegas, NV 89101
(T): (702) 486-3132
(E): BCPINFO@ag.state.nv.us

Oregon Residents

Angel Oak will not share your personal and browsing information with non-affiliated third parties for marketing purposes, except after you have been informed by us and had an opportunity to indicate you do not want a disclosure made for marketing purposes.

Vermont Residents

Angel Oak will not share your personal and browsing information with non-affiliated third parties, except as permitted by Vermont law, such as to process your transactions or maintain your account. In addition, we will not share information about your creditworthiness with our affiliates except when authorized. For joint marketing, we will only disclose your name, contact information, and information related to your transaction.

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, please contact us at (866) 347-1891.

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 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 many 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, counterparties, and regulators. The communication options we will employ can 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 can 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 always have access to their funds and securities as described in the investment funds' offering documents.

To obtain a full copy of the Business Continuity Plan, please contact Angel Oak at (404) 953-4900.

Class Action Lawsuits

From time to time, Angel Oak receives notification of class action lawsuits wherein its Clients 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.