

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

Item 1 – Cover Page

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March 25, 2024

This Brochure provides information about the qualifications and business practices of Falcons I, 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 “Commission”) or by any state securities authority.

Falcons I, 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 Falcons I, LLC is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

This Brochure includes amendments since our last update dated March 27, 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. Changes include:

- Addition of Tim Saunders, General Counsel.
- Addition of Michael Colombo, Chief Risk Officer.
- Removal of Kevin Sluss, the departed Chief Risk Officer.

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

Falcons I, LLC (referred to throughout this Brochure as “Falcons I” or the “Adviser”), a Delaware limited liability company, was formed in February 2018. Falcons I is an investment advisor registered with the U.S. Securities and Exchange Commission (“SEC”) which serves as an investment advisor to a real estate investment trust (“REIT”), Angel Oak Mortgage REIT, Inc. (“AOMR” or “Client”) which is a publicly traded company listed on the New York Stock Exchange (“NYSE”) under the ticker AOMR.

Falcons I 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

Falcons I provides investment advisory services to AOMR.

It is important to note that the term “Client” as defined by federal securities regulations refers to AOMR, the sole entity to which Falcons I currently provides investment advisory services, and not to the stockholders of AOMR. Falcons I does not manage any assets for or offer services to any 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.

Falcons I currently anticipates providing services only to AOMR but could in the future serve as the investment adviser to other Clients that employ trading and investment strategies similar to those of AOMR. If Falcons I were to serve as an investment advisor to other entities, Falcons I generally would not anticipate tailoring its advisory services for each Client, however, potential Clients would be able to impose restrictions and investment guidelines on investing in certain types of assets or assets with specific characteristics.

Falcons I entered into a Shared Services Agreement with Angel Oak Capital Advisors, LLC (“AOCA” or “Angel Oak”) in September 2018 whereby AOCA will provide certain services to Falcons I, including the provision of personnel and resources, to enable Falcons I to perform its duties under its investment management agreement with AOMR. Falcons I compensates AOCA for these services by paying a Service Fee subject to a written contract between the parties.

Although the investment advisory services provided by Falcons I to AOMR via the Shared Services Agreement are not limited to any specific asset class, Falcons I generally provides investment advice to AOMR related to residential mortgage loans and residential mortgage-related assets, commercial mortgage loans, reverse repurchase agreements, and derivative instruments including futures contracts, options, and swaps. Falcons I can provide advisory services related to any other type of investments as well.

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 advisers (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.

Falcons I does not participate in a wrap fee program.

Assets Under Management

As of December 31, 2023, Falcons I managed approximately \$2.31 billion in regulatory assets under management on a discretionary basis and \$0 in regulatory assets under management on a non-discretionary basis, for a total of approximately \$2.31 billion. All regulatory assets under management were assets of AOMR. Regulatory assets under management includes total assets without any deductions for outstanding indebtedness or other accrued but unpaid liabilities.

Item 5 – Fees and Compensation

Falcons I is entitled to a base management fee equal to 1.5% per annum of AOMR’s Equity, calculated and payable quarterly in arrears. For purposes of calculating the base management fee, AOMR’s “Equity” is defined in the Client’s management agreement. In the event of removal of Falcons I as investment manager of AOMR, 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.

Falcons I is entitled to an incentive fee, paid in arrears, equal to 15% of AOMR’s Distributable Earnings in excess of 8% over a period of four rolling fiscal quarters. No incentive fee has been paid by AOMR to Falcons I as of the date of this Form ADV, Part 2A.

In addition to the management fee and incentive fee, the Client is responsible for its trading costs and all operating expenses including payroll, legal, regulatory, registration, accounting, auditing, printing, mailing, administration, taxes, extraordinary expenses, and miscellaneous fees and expenses. See additional information below under *Item 12 – Brokerage Practices*. Falcons I does not receive any portion of these costs.

Financial statements, including the amount of any management fees and incentive fees, are reported publicly to the SEC on an annual and quarterly basis on Forms 10-K and 10-Q, respectively. Payment of management fees (or incentive fees, should they be earned) due to Falcons I are deducted from the Client directly. The Client’s auditor and HR Compensation Committee review the accuracy of these calculations and billings.

Revenue Sharing Agreements

Falcons I has entered into one or more revenue sharing agreements pursuant to which Falcons I will share portion of the fees earned by Falcons I from AOMR. The specific terms of each revenue sharing agreement, including percentage of fees paid and whether such percentage includes the management and/or performance fees are outlined in each revenue sharing agreement. Such a revenue sharing agreement can create conflicts of interest, to the extent that the recipient of the revenue share serves as an investment adviser or otherwise influences the decision of current or potential shareholders to purchase shares of AOMR. Parties to the revenue sharing agreement are incentivized to encourage investors to purchase shares of AOMR which may conflict with the interests of the investor. It is the responsibility of the investor's investment adviser to disclose any such conflicts of interest to any such investors.

Compensation Related to Affiliated Transactions

AOMR engages in the below affiliated transactions where Falcons I or an affiliate receives compensation for the transaction in addition to the fees outlined above:

1. Whole Loan Purchases and Origination: When AOMR purchases whole loans from an affiliate of Falcons I or originates whole loans, Falcons I affiliates are compensated for the transaction. These affiliated transactions are approved pursuant to the Adviser's *Affiliated Transactions Policy and Procedures*.
2. Servicing Administration Fee: When AOMR owns residential mortgage whole loans directly or through a wholly owned subsidiary, AOMR pays 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 AOMR 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 Falcons I's *Affiliated Transactions Policy and Procedures*.
3. Third-Party Origination Sourcing Fee: An origination sourcing fee is paid to AOCA by AOMR when AOMR purchases residential mortgage whole loans from non-affiliated third-party originators. The fee compensates AOCA 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 the Adviser's *Affiliated Transactions Policy and Procedures*.

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

1. Affiliated transactions are permitted only when the transaction is in accordance with AOMR's investment objective and risk/reward profile as outlined in AOMR's Prospectus.
2. Affiliated transactions are permitted only when the transaction is conducted pursuant to the Adviser's *Affiliated Transactions Policy and Procedures*. This policy requires that the independent Board members of AOMR's Affiliated Transactions Committee approve the pricing of affiliated transactions. When conducting the review to approve the pricing of an affiliated transaction, the Affiliated Transactions Committee considers whether they believe that the purchase is conducted as an arm's length transaction at a fair price or fair fee. Falcons I provides information to the Affiliated Transactions Committee to demonstrate that the fees associated with the affiliated transaction are typical of fees that AOMR would be expected to pay non-affiliates for similar services; and, that by engaging an affiliate on the transaction, AOMR oftentimes benefits from increased efficiencies and economies of scale related to AOMR's investment objectives and is able to allocate capital to scarce asset classes.

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

The incentive fee potentially paid to Falcons I described above represents a performance-based fee.

Performance-based fee arrangements act as an incentive for Falcons I 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 Falcons I seeks to maximize the performance of AOMR over time. In addition, accounts subject to performance-based fees are also subject to: (i) a loss carry forward provision, 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. Currently the Adviser has a single Client, AOMR; therefore, there is no side-by-side management of client accounts at Falcons I. However, AOCA, the shared services provider, does have side-by-side management of client accounts, including the AOMR account for which the portfolio management of is completed by AOCA. Both Falcons I and AOCA have implemented allocation procedures designed to ensure that all clients are treated fairly and equitably and to prevent this potential conflict from influencing the allocation of investment opportunities among clients.

Item 7 – Types of Clients

Falcons I currently provides services only to AOMR but could in the future serve as the investment adviser to other Clients that employ trading and investment strategies similar to those of AOMR.

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

Methods of Analysis and Investment Strategies

AOMR's investment strategy primarily includes residential mortgage loans and residential mortgage-related assets in the U.S. mortgage market, including, without limitation, investments in newly-originated residential mortgage loans, second liens and investment property loans purchased from Angel Oak Mortgage Solutions, LLC, Angel Oak Home Loans, LLC, and Angel Oak Commercial Lending, LLC (collectively, the "Affiliate Originators"), each of which is an affiliate of Falcons I, as well as from unaffiliated mortgage companies. The investment strategy may also include commercial mortgage loans (including commercial mortgage loans and investment property loans purchased from the Affiliate Originators). AOMR's investment strategy may also include other real estate-related investments, including, without limitation, agency and non-agency residential mortgage-backed securities ("RMBS"), credit risk transfer ("CRT") securities, commercial mortgage-backed securities ("CMBS"), and mortgage servicing rights ("MSRs") and excess MSRs.

AOMR's investment strategy expects to finance certain of the residential and commercial loans it acquires through securitizations and expects to retain securities in the issuing entity of those securitizations.

AOMR's investment strategy engages 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

The investment strategy described above is speculative and involves 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, losses will not be incurred, or that the stock will not decline materially in value. Additionally, no assurances can be made regarding payment of dividends. 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, the Client will have a myriad of other risks related to, for example, the Client's structure and the liquidity, regulatory, and tax implications of that structure, or, for another example, investment strategies not described herein as they are considered to be less significant when compared to the more significant investment strategies that AOMR employs. 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 the Client. These risks are detailed in the relevant offering documents for the 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 the 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 the 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. The Client 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 the Client's investments. Should interest rates decrease, the 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 the 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, the Client with a longer average portfolio duration will be more sensitive to changes in interest rates than the 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 the Client and, therefore the Client's exposure to changes in interest rates. If an issuer calls or redeems an instrument held by the Client during a time of declining interest rates, the 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. The 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, the 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.

The 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 the 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 the Client. This is especially the case if the Client consists of securities with widely varying credit ratings. Therefore, if the 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 the 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 the Client.

If an issuer, guarantor or counterparty declares bankruptcy or is declared bankrupt, the 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. The 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 the Client related to such bankruptcies are elevated when there are distressed economic, market, labor, and/or public health conditions.

Risks Related to Utilizing Leverage.

The Client will use leverage to finance investment operations and to enhance its financial returns. With leverage, the 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 Falcons I or Angel Oak on the amount of leverage that the Client can use and at times the Client deploys significant leverage. 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 the 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, the Client's ability to operate could be severely impacted. The 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 the Client.

Risks Related to Cybersecurity.

With the increased use of technologies such as the internet to conduct business, Angel Oak and Falcons I are 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, Falcons I, or their 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 and Falcons I engage 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 our Client and other parties). In addition, substantial costs would be incurred in order to prevent any cyber incidents in the future.

Angel Oak and Falcons I maintain 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 and Falcons I’s information systems, networks, or workplace.

While Angel Oak, Falcons I, and their 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 and Falcons I 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, Falcons I, or the Client. Falcons I and the Client 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.

The 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 the Client. These harms could include, for example, potentially depressing the market price of a publicly traded Client, potentially leading to outsized redemptions for any clients that permit redemptions, potentially have a negative effect on the 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 the 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 the Client. While the Adviser seeks to minimize such events through controls and oversight, there is no guarantee that the Client will not suffer losses due to operational risk.

Risks Related to Liquidity and Valuation.

It may be difficult for the 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, the Client could be required to sell portfolio investments under unfavorable conditions, thereby adversely affecting the Client. In addition, the 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 the 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 the 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 the Client could sell that instrument at the time of the fair valuation. The Client relies on various sources of information to value investments. The Client 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 the Client's ability to accurately value its investments.

Risks Related to Market Disruptions.

The Client is 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 the 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 the 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 Client holds, and adversely affected the Client's 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 the 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 the 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 the 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 Client. 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 Client being, among other things, unable to buy or sell certain securities or financial instruments or to accurately price their investments.

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

Structured Products Risks

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 the 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 the Client may invest could negatively impact the value of the Client's investments. To the extent the Client focuses its investments in particular types of mortgage-backed or asset-backed securities, the Client will be more susceptible to risk factors affecting such types of securities.

The price paid by the 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 the Client to successfully utilize these instruments may depend on the ability of the Adviser 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. The 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 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 the 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, the Client will likely be subject to certain of the foregoing risks to a greater extent. Additionally, the 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 the Client 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.

A significant portion of the Client's portfolio consists of mortgage loans and other assets acquired from the affiliates of the Adviser, as well as RMBS and CMBS acquired from securitization vehicles affiliated with the Client, which creates significant conflicts of interest.

The Client's portfolio will consist of a significant amount of loans and other assets purchased from the Affiliate Originators. As the Affiliate Originators are affiliates of Adviser, 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.

The Client purchases RMBS and potentially CMBS that is collateralized by loans originated by Affiliate Originators and the 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's Affiliated Transactions Committee.

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

Prepayment speeds significantly affect MSR. 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 MSR 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 MSR could decline. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows the Client receives from MSR, and the Client could ultimately receive substantially less return on such assets. Moreover, delinquency rates have a significant impact on the valuation of any MSR. 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 MSR could be diminished. When the estimated value of MSR is reduced, the Client could suffer a loss.

Furthermore, MSR 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 MSR, 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 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 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 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.

The Client can 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. The Client is 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 the Client, the 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.

Other Risks

Risks of Investments in Derivatives.

The 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 the 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, the 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 the 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 the 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 the 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 the Client and may limit the ability of the Client to use, and the availability or performance of, such instruments.

Specifically, the Client can engage in the following derivative instruments and techniques:

- Risks of Investments in Futures. A futures contract is a standardized agreement to buy or sell a specific quantity of an underlying instrument at a specific price at a specific future time. The value of a futures contract tends to increase and decrease in tandem with the value of the underlying instrument. Depending on the terms of the particular contract, futures contracts are settled through either physical delivery of the underlying instrument on the settlement date or by payment of a cash settlement amount on the settlement date. A decision as to whether, when and how to use futures involves the exercise of skill and judgment and even a well-conceived futures transaction may be unsuccessful because of market behavior or unexpected events. In addition to the derivatives risks discussed above, the prices of futures can be highly volatile, using futures can lower total return, and the potential loss from futures can exceed the Client's initial investment in such contracts.
- Risks of Investments in Options. If the 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 the 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). The 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 the Client or if the reference index, security, or investments do not perform as expected. The Client's use of swaps could include those based on the credit of an underlying investment, commonly referred to as "credit default swaps." Where the 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, the 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 the 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 the 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 Client of a debt obligation to a party for a specified price, with the simultaneous agreement by the Client to repurchase that debt obligation from that party on a future date at a higher price. Similar to borrowing, reverse repurchase agreements provide the Client with cash for investment purposes, which creates leverage and subjects the Client 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 Client could

lose money if they are unable to recover the securities and the value of collateral held by the Client, 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 Client 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 Client is obligated to repurchase the security. Reverse repurchase agreements also can be viewed as borrowings made by the Client and are a form of leverage which can increase the volatility of the Client.

Risks Related to Hedging Transactions.

The Client can 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 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 Client oftentimes enters into hedging transactions to seek to reduce risk, such transactions can result in a poorer overall performance for the Client 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 Client from achieving the intended hedge or expose the Client 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 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 Client 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).

The Client is 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, the Client will be unable to sell, transfer, liquidate, or hedge those positions, which could prevent the Client from mitigating losses on such investments. These and similar transfer restrictions can adversely affect the financial performance of the Client.

Risks Related to Investing in Multiple Parts of Capital Structure.

From time to time, the Client or affiliates of the Client 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 the Client's use of certain investment strategies, including small capitalization, emerging market, distressed, or less liquid strategies.

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 the 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 the 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 the 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.

Shared Services Risks.

Falcons I does not have its own infrastructure in order to provide certain services to the Client. Falcons I has entered into a Shared Services Agreement with AOCA to provide these services. Potential risks exist in this relationship such as the risk that either party terminates the Shared

Services Agreement at which point Falcons I would need to consider next steps, including the potential to build its employee base and internal infrastructure.

Item 9 – Disciplinary Information

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

Affiliate Disciplinary Information (1 of 2)

On February 16, 2017, the SEC accepted an offer of settlement from Angel Oak Capital Partners, LLC ("AOCPP"), an affiliate of Falcons I, 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 AOCPP and Peraza split the commission revenue generated as a result of AOCPP trading activities.

The SEC determined that AOCPP 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 AOCPP'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 Sreeniwas Prabhu, Managing Director and co-founder of AOCA and the Chief Executive Officer and President of AOMR, and an additional employee of AOCA, based on the allegations of the SEC that they caused AOCPP to operate as an unregistered broker dealer. They both agreed to a cease and desist order and an administrative penalty of \$40,000 each.

Affiliate Disciplinary Information (2 of 2)

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>.

Item 10 – Other Financial Industry Activities and Affiliations

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

- *Angel Oak Capital Advisers, LLC* ("AOCA" or "Angel Oak") is under common control with Falcons I and provides portfolio management and other services to AOMR through a Shared Services Agreement. AOCA is an SEC-registered investment adviser. AOCA provides investment advisory services to registered investment companies, other pooled investment vehicles, and to institutional investors through separately managed accounts.

Because AOCA is under common control with the Adviser, the Adviser has an incentive to recommend AOCA over other potential shared service providers. This conflict is addressed by having the Client's Board of Directors, which is comprised of a majority of Directors not affiliated with AOCA or Falcons I, regularly review the activities of AOCA to determine that the selection of AOCA as shared services provider is appropriate for the Client.

- *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 affiliates of the Adviser by way of common control and are general partners to limited partnership(s) for which AOCA provides investment advisory services. There is no business relationship between Falcons I and these entities. Additionally, AOCA 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.
- *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 AOCA and Falcons I 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

Falcons I 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 Client. The Code and Falcon’s Compliance Manual includes provisions relating to the confidentiality of Client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment provided and received, 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. Falcons I 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 the Client first, ahead of their own personal interests, and generally seek to treat the Client 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 the Client, 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 the Client’s investment objectives, it will cause accounts over which it has management authority to purchase or sell securities in which the Adviser, its affiliates, and/or Clients, directly or indirectly, have a position of interest. The Adviser anticipates that in such circumstances it would also recommend such purchases or sales of securities to the Client. 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 the Client. 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 the Client, 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 the Client, there is a possibility that employees might benefit from market activity by the 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 the Client.

The Adviser 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.

Item 12 – Brokerage Practices

Falcons I, and Angel Oak by way of the Shared Services Agreement, have full and complete discretion to select trading counterparties for AOMR. The investment management agreements between Falcons I and AOMR provides for broad discretion in this regard.

In selecting brokers to effect portfolio transactions, Falcons I 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. Falcons I 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.

Falcons I chooses broker-dealers to execute transactions on terms that are, overall, most advantageous when compared with other providers and their services. Falcons I 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 Falcons I and AOMR.

“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. Falcons I does not have any soft dollar arrangements and does not pay for research or other services through using soft dollars.

Directed Brokerage

AOMR's investment management agreement does not include a provision for directed brokerage.

Aggregation of Trades

In some circumstances, Angel Oak, when executing trades on behalf of AOMR via the Shared Services Agreement, will find that placing orders in the same security to be allocated for more than one account 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 account. 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 Angel Oak Compliance team as required by the policies and procedures. Transaction costs are allocated to each applicable 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 and Falcons I maintain policies and procedures to ensure that aggregated trades are allocated to Client accounts in a fair and equitable manner.

Principal Trades and Cross Trades

Falcons I 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. Falcons I prohibits compensated agency cross trades which would entail Falcons I receiving fees for conducting cross trades between client accounts. Falcons I prohibits principal trades which would entail trading between the Adviser's own account or accounts owned by our controlling persons and an advisory client. Falcons I permits non-compensated agency cross trades between client accounts managed by Falcons I 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

Management personnel of the Adviser will review Client portfolios no less than quarterly, and in most cases monthly. Portfolio managers review portfolios on an ongoing basis.

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 the Client, and regulatory requirements. Trade monitoring is conducted primarily through the Adviser's trade order management systems and other tools.

The below descriptions are applicable to AOMR, as Falcons I's sole Client.

Financial statements and reports of portfolio performance are generally provided monthly to AOMR by the Falcons I's Accounting team. AOMR receives account statements from its custodians. Additionally, AOMR, as a publicly traded company, files Form 8-K to inform stockholders of material events or events that AOMR discloses under Regulation FD.

AOMR files required periodic reports including reviewed quarterly financial statements on Form 10-Q and an Annual Report on Form 10-K, which includes audited financial statements.

AOMR's auditor is KPMG.

Item 14 – Client Referrals and Other Compensation

Falcons I does not directly or indirectly compensate any person for Client referrals.

Item 15 – Custody

Falcons I does not maintain custody of Client assets.

Item 16 – Investment Discretion

Falcons I has discretionary authority over the AOMR portfolio pursuant to the terms of the Client's investment management agreement and offering documents. Falcons I's discretionary authority is subject to conditions imposed by AOMR (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.

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

Item 17 – Voting Client Securities

Due to the nature of Falcons I's investment strategies, routine proxy votes are extremely rare. However, Falcons I 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, Falcons I will generally vote in favor of routine corporate proposals such as election of directors or selection of auditors. Falcons I will generally vote against proposals such as those that cause board members to become entrenched or cause unequal voting rights. In reviewing proposals, Falcons I will consider the opinion of management and the effect on shareholder value and the issuer's business practices.

Given the limited amount of proxy votes that Falcons I casts, Falcons I does not employ any proxy advisory services. Falcons I maintains a detailed *Proxy Voting Policy* and a record of how Falcons I has voted proxies, each of which are available to Clients and investors upon request.

Item 18 – Financial Information

Registered investment advisers are required to provide Clients with certain financial information or disclosures about the adviser's financial condition under certain circumstances. Falcons I 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, Falcons I 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

Falcons I has implemented an anti-money laundering program to prevent the funding of terrorism and money laundering activities. However, Falcons I's only Client is AOMR, a publicly traded company. There is no obligation for Advisers to publicly traded companies to run any anti-money laundering checks on shareholders. Shareholders are subject to the anti-money laundering policies of their brokerage firms.

Privacy Notification

Falcons I 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 Falcons I.

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. Falcons I 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. Falcons I has developed and implemented technical, organizational, and administrative security measures to protect your personal nonpublic information. Falcons I 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, Falcons I 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.

Falcons I 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. Falcons I 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 Falcons I.
- Right to Object – You may object to the processing of your personal information in cases where Falcons I 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

Falcons I 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 Falcons I 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

Falcons I 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

Falcons I 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.

Falcons I 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

Falcons I 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 Falcons I's risk mitigation strategy in the event of an interruption to its daily business.

Falcons I'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, Falcons I will begin immediately communicating relevant information to our clients, investors, employees, critical business constituents, banks, counterparties, and regulators. The communication options we will employ 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 Falcons I 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 Client's offering documents.

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

Class Action Lawsuits

Falcons I will notify its existing clients regarding the existence of potential class action claims when all of the following criteria have been met: (i) Falcons I 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 Falcons

I. In these cases, Falcons I will notify the appropriate party representing the client. Falcons I does not make claims on behalf of its clients.