



Angel Oak
CAPITAL ADVISORS

Angel Oak Capital Advisors, LLC

Angel Oak Strategic Credit Fund
Quarterly Review

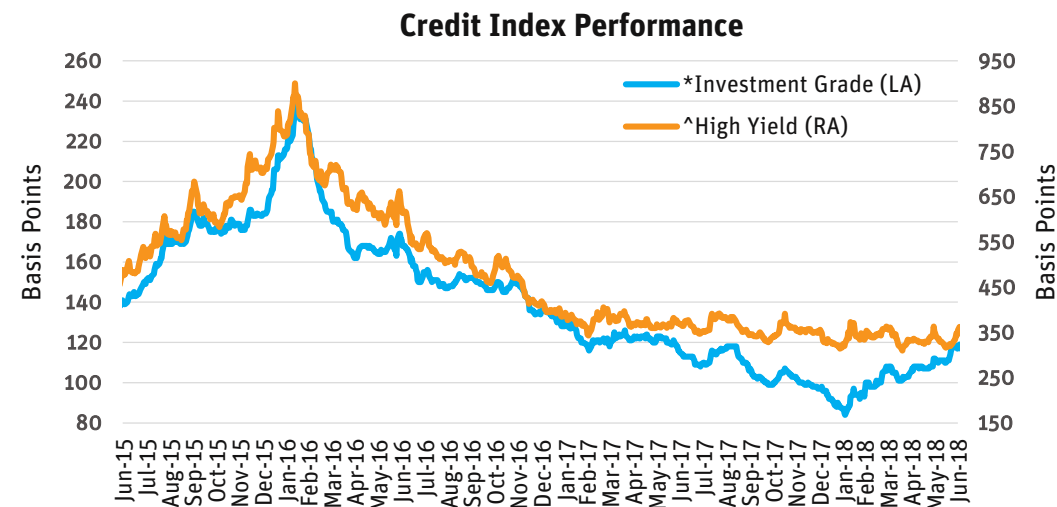
June 30, 2018

Quarter in Review

- Risk asset returns were mixed in the second quarter of 2018 as market participants digested an evolving macro environment, tightening monetary policy in the U.S., and increased global trade tensions. U.S. equities were higher, while corporate credit spreads moved wider on the quarter. The S&P 500 was up 3.43%, as investors shifted from U.S. bonds to U.S. stocks. The U.S. yield curve bear flattened as the Federal Open Market Committee increased the federal funds target rate range to 1.75%-2.00% during its June meeting. The 2s10s spread tightened by 14 basis points to +33 basis points. The 10-year Treasury yield rose 12 basis points to 2.86%.
- Fixed income returns have struggled this year, given wider spreads and rising Treasury yields. For the first half of 2018, global bond markets have struggled to create positive total returns. The Bloomberg Barclays U.S. Aggregate Bond Index is down 1.62% year-to-date, while the Investment Grade and High Yield equivalent indices are -3.27% and +0.16%, respectively.
- Legacy non-agency residential mortgage-backed securities (RMBS) were the best performer according to Bank of America Merrill Lynch Research. Various sectors combined to be up approximately 2% year-to-date, while commercial mortgage-backed securities (CMBS) were mixed as rising interest rates put pressure on the longer-duration asset class, down approximately 1% for the sector. Collateralized loan obligations (CLOs) performed well in the face of heavy supply. Their floating rate nature was a benefit as AAA through BBB tranches were up approximately 1-2% for the cohort. Asset-backed securities (ABS) were mixed but was net positive, up approximately 0.5-1% for 2018 year-to-date.
- The BLS released its June labor market report, which provided mixed results. The establishment survey reported net +213k jobs created in June – better than the market consensus of +195k. Additionally, the prior 2-month net revisions rose +37k. The headline unemployment rate rose 0.2%, to 4.0%, as the labor force participation rate rose 0.2%, to 62.9%. Average hourly earnings came up marginally short of expectations, rising 0.2% month-over-month (versus 0.3%) and +2.7% year-over-year (versus 2.8%).
- On the housing front, the S&P CoreLogic CS 20-City Index rose 6.56% year-over-year through April, up 0.20% month-over-month (slightly below expectations). New home sales rose 6.7% month-over-month in May to a 689k annualized pace. Notably, rising lumber costs are putting pressure on homebuilder margins. Since the beginning of 2016, futures on lumber prices are up over 120% through Friday. For a median-sized home in the U.S., the rise in lumber costs just in 2018 has increased costs by an average of \$9,000 per home.
- Government-sponsored enterprises (GSE) Fannie Mae and Freddie Mac are expected to go through significant changes over the next few years as Congress rewrites rules and regulations with respect to housing and the amount of taxpayer backing required by lawmakers. Initial plan blueprints discuss the two GSEs exiting conservatorship as shareholder-owned corporations. This would relieve much of the risk to the U.S. taxpayer; however, many headwinds exist, including raising additional public capital (which is estimated to be over \$100 billion) and determining which other companies will be allowed to directly compete with Fannie and Freddie.

| Benchmark Performance | 6/30/18 | 3/31/18 | Monthly Change (bps) |
|----------------------------|---------|---------|----------------------|
| 1-Month LIBOR | 2.09 | 1.88 | +21 |
| 3-Month LIBOR | 2.34 | 2.31 | +3 |
| 2-Year Treasury | 2.53 | 2.27 | +26 |
| 5-Year Treasury | 2.74 | 2.56 | +18 |
| 10-Year Treasury | 2.86 | 2.74 | +12 |
| 30-Year Treasury | 2.99 | 2.97 | +2 |
| 2s/10s Curve | 0.33 | 0.47 | -14 |
| 2s/30s Curve | 0.46 | 0.71 | -25 |
| S&P 500 Total Return Index | 5,351 | 5,173 | +343 |
| IG Corporate OAS* | 123 | 109 | +14 |
| HY Corporate OAS^ | 363 | 354 | +9 |

Sources: Bloomberg and Yieldbook as of 6/30/18.



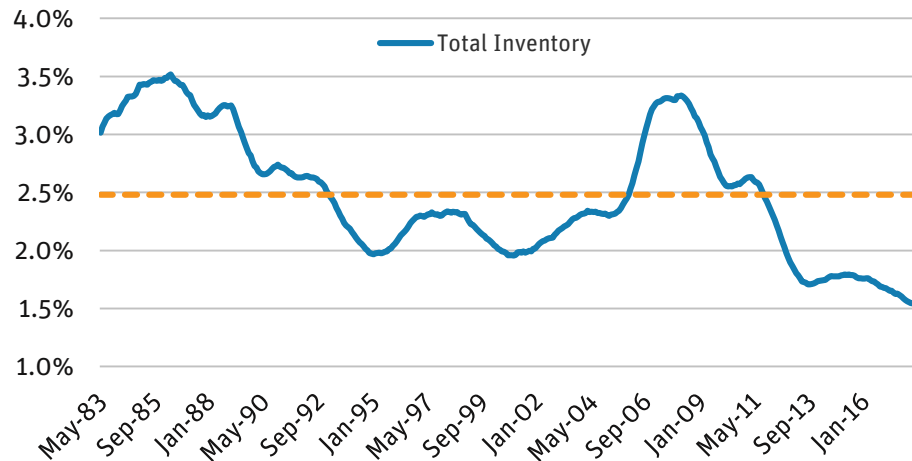
Source: Bloomberg as of 6/30/18.

*Bloomberg Barclays U.S. Corporate Total Return Value Unhedged

^Bloomberg Barclays U.S. Corporate High Yield Total Return Index Value Unhedged

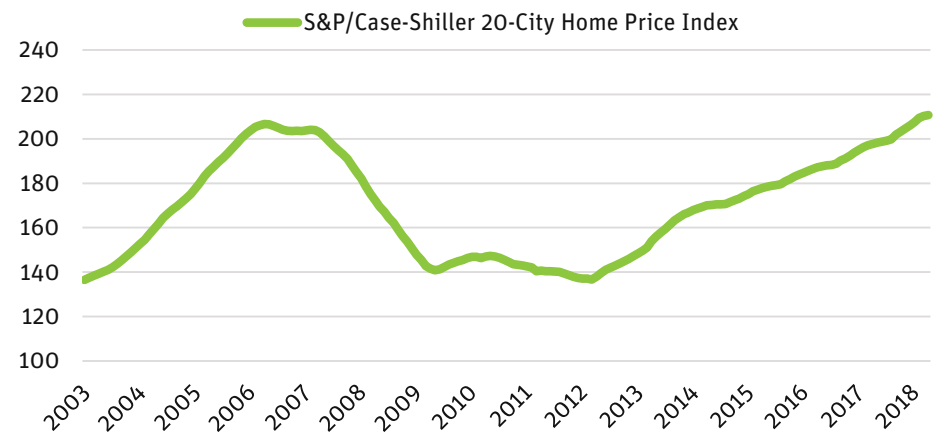
Fundamentals

Single-Family Inventory as % of Total Households



Source: Bloomberg as of 3/31/18.

Home Prices Continue to Improve



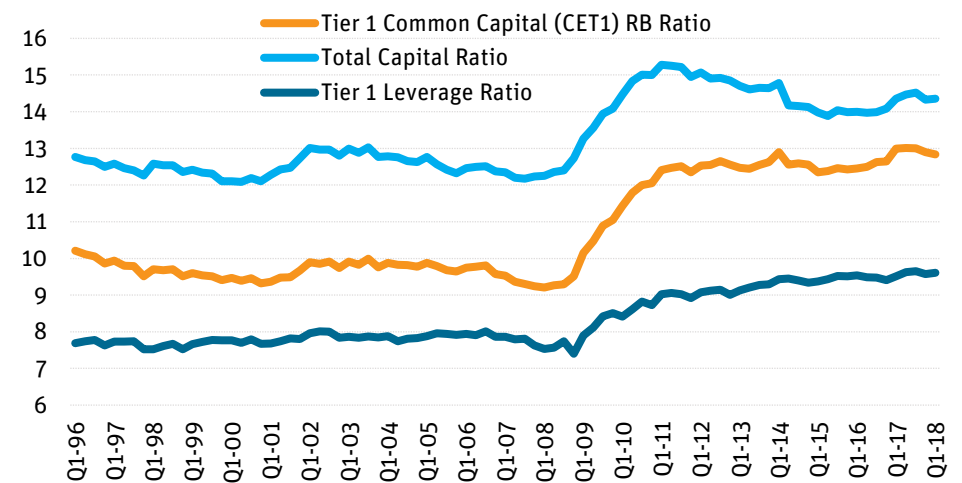
Source: Bloomberg as of 4/30/18.

S&P Leveraged Loan 100 Index



Source: Bloomberg as of 6/30/18.

Bank Subordinated Debt



Source: SNL as of 3/31/18.

Portfolio Performance

Summary

- The Fund was up 232 basis points in the second quarter of 2018, outperforming the benchmark by 248 basis points. The Bloomberg Barclays U.S. Aggregate Bond Index was down 0.16% over the same time period as U.S. interest rates rose throughout the quarter, putting pressure on traditional fixed income assets. For year-to-date 2018, the Fund is up 3.48%.
- Duration strategies were positive contributors to Fund performance as the U.S. yield curve rose rapidly in the first two quarters of 2018 as markets repriced Fed expectations. Fund duration being short of the benchmark was a positive net contributor for the Fund.
- All subsectors of the Fund produced positive results for Fund performance during the second quarter. CMBS led all subsectors with a total return of 520 basis points for the quarter, contributing 57 basis points to Fund performance. ABS was the second best performing subsector in the second quarter, producing a total return of 3.30%.

| Net Total Returns (as of 6/30/18) | 1 Mo. | 3 Mo. | YTD | 1 Yr. | 3 Yr. | SI ¹ |
|---|-------|--------|--------|-------|-------|-----------------|
| Class I | 0.41 | 2.32% | 3.48% | n/a | n/a | 3.47% |
| Bloomberg Barclays U.S. Agg. Bond Index | -0.12 | -0.16% | -1.62% | n/a | n/a | -1.24% |

Current performance may be lower or higher than performance data quoted. Performance quoted is past performance and is no guarantee of future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance to the most recent month-end can be obtained by calling 855-751-4324. ¹The inception date of the Angel Oak Strategic Credit Fund Class I (ASCIX) was 12/26/17. Periods less than one year are cumulative. [^]The Adviser has contractually agreed to waive fees through 5/31/19.

FUND INFORMATION AS OF 6/30/18

| | Class I |
|--------------------------------|---------|
| Gross Expense Ratio | 1.55% |
| Net Expense Ratio [^] | 0.75% |
| SEC Yield (Subsidized) | 6.14% |
| SEC Yield (Unsubsidized) | 1.53% |

FUND CHARACTERISTICS

| | |
|---------------------------|-----------|
| Fund Assets (All Classes) | \$6.4 mm |
| Number of Securities | 28 |
| NAV | Daily |
| Dividend Frequency | Quarterly |
| Liquidity Provisions | Quarterly |
| Floating Rate (%) | 53.2 |

FUND STATISTICS

| (Since Inception) | Fund ² | Index |
|----------------------|-------------------|-------|
| Standard Deviation | 1.5 | 3.7 |
| Sharpe Ratio | 4.9 | -1.8 |
| Correlation to Index | 0.2 | 1.0 |
| Positive Months (%) | 83.3 | 33.3 |
| Negative Months (%) | 16.7 | 66.7 |

²ASCIX

Sector Attribution

| | | Q2 2018* | YTD 2018* |
|-----------------------------|-------------------|-----------------|-----------------|
| | % of Market Value | Attribution (%) | Attribution (%) |
| Residential Mortgage Credit | 24.1 | 0.72 | 1.47 |
| Commercial Mortgage Credit | 8.5 | 0.57 | 0.74 |
| CLOs | 19.6 | 0.72 | 1.06 |
| Corporates | 20.3 | 0.19 | 0.20 |
| Other | 4.6 | 0.23 | 0.21 |
| Cash | 22.9 | 0.07 | 0.17 |
| Fund Expenses | - | -0.19 | -0.37 |
| Total | 100.0 | 2.32 | 3.48 |

*Estimated returns, net of hedges, and unaudited.

Portfolio Update

- The Fund continues to adhere to its thesis of moving throughout the credit markets to invest in the subsectors that present the most attractive risk-adjusted return opportunities. After a strong start to the quarter by the CMBS allocation, the Fund sold down a portion of its exposure to lock in gains which resulted in the Fund holding a large amount of cash at the end of the second quarter.
- Portfolio turnover remained high in the second quarter, as sales exceed 33% of the Fund's assets. While turnover was driven by opportunities in credit risk transfers in the first quarter, CMBS and CLOs drove the volume in the second quarter.
- The Fund's overweight to conduit BBB- within the CMBS market benefited the Fund handsomely in the second quarter. The subsector's total return in June exceeded 12%. Having unwound many of those positions heading into quarter end, the Fund will look to reenter the sector on any volatility.
- Within the corporate market, the Fund favors investment in the Financial Services sector. As issuance increases throughout the second quarter, we expect the Fund's allocation to this sector to increase.

Definitions

CLO: Collateralized loan obligation.

CMBS: Commercial mortgage-backed security.

CRT: Credit risk transfer.

RMBS: Residential mortgage-backed security.

Basis Point (bps): One hundredth of one percent and is used to denote the percentage change in a financial instrument.

Bloomberg Barclays U.S. Aggregate Bond Index: An unmanaged index that measures the performance of the investment-grade universe of bonds issued in the United States. The index includes institutionally traded U.S. Treasury, government sponsored, mortgage and corporate securities.

Bloomberg Barclays U.S. Corporate High Yield Bond Index: An unmanaged market value-weighted index that covers the universe of fixed rate, non-investment grade debt.

Bloomberg Barclays U.S. Corporate Investment Grade Index: An index that measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Correlation: A statistical measure of how two securities move in relation to another. Index used for comparison is the Bloomberg Barclays U.S. Aggregate Bond Index.

Effective Duration: Measures a portfolio's sensitivity to changes in interest rates. Generally, the longer the effective duration, the greater the price change relative to interest rate movements.

LIBOR: A benchmark rate that some of the world's leading banks charge each other for short-term loans. It stands for Intercontinental Exchange London Interbank Offered Rate and serves as the first step to calculating interest rates on various loans throughout the world.

National Association of Home Builders (NAHB) Housing Market Index: A gauge of builder opinion on the relative level of current and future single-family home sales.

S&P CoreLogic Case-Shiller 20-City Composite Home Price Index: The Index seeks to measure the value of residential real estate in 20 major U.S. metropolitan areas.

S&P Leveraged Loan 100 Index: A capitalization-weighted syndicated loan index based upon market weightings, spreads and interest payments.

S&P 500 Total Return Index: An American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.

Sharpe Ratio: A statistical measure that uses standard deviation and excess return to determine reward per unit of risk. A higher Sharpe ratio implies a better historical risk-adjusted performance. The Sharpe ratio has been calculated since inception using the 3-month Treasury bill for the risk-free rate of return.

Spread: The difference in yield between LIBOR and a debt security with the same maturity but of lesser quality.

Standard Deviation: A statistical measure of portfolio risk used to measure variability of total return around an average, over a specified period of time. The greater the standard deviation over the period, the wider the variability or range of returns and hence, the greater the fund's volatility—calculated since inception.

Tier 1 Common Capital (CET1) RB Ratio: Measurement of a bank's core equity capital compared with its total risk-weighted asset that signifies a bank's financial strength.

Tier 1 Leverage Ratio: The relationship between a banking organization's core capital and its total assets.

Total Capital Ratio: The percentage of a bank's capital to its risk-weighted assets.

Tranche: A portion of debt or structured financing. Each portion, or tranche, is one of several related securities offered at the same time but with different risks, rewards, and maturities.

Disclosures

Investing involves risk. Principal loss is possible. The Fund's Shares will not be listed on an exchange in the foreseeable future, if at all. The Fund's derivative investments have risks, including the imperfect correlation between the value of such instruments and the underlying asset, rate or index, which creates the possibility that the loss on such instruments may be greater than the gain in the value of the underlying asset, rate or index; the loss of principal; the possible default of the other party to the transaction; and illiquidity of the derivative investments. The Fund may invest in illiquid securities and restricted securities. Investments in restricted securities could have the effect of increasing the amount of the Fund's assets invested in illiquid securities if qualified institutional buyers are unwilling to purchase these securities. The Fund will be subject to risks associated with adverse political and economic developments in foreign countries, including seizure or nationalization of foreign deposits, the imposition of economic sanctions, different legal systems and laws relating to bankruptcy and creditors' rights and the potential inability to enforce legal judgments, all of which could cause the Fund to lose money on its investments in non-U.S. securities. Changes in interest rates generally will cause the value of fixed-income instruments held by the Fund to vary inversely to such changes. Below investment grade instruments are commonly referred to as "junk" or high-yield instruments and are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. Lower grade instruments may be particularly susceptible to economic downturns. The price paid by the Fund for asset-backed securities, including CLOs, the yield the Fund 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. 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. See the prospectus for a more detailed description of Fund risks.

Must be preceded or accompanied by a current prospectus. To obtain an electronic copy of the prospectus, please visit www.angeloakcapital.com.

It is not possible to invest directly in an index.

Opinions expressed are as of 6/30/18 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

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