



**Angel Oak**  
CAPITAL ADVISORS

# Strategic Mortgage Income Fund 3Q 2015 Presentation

October 22<sup>nd</sup>, 2015

Nothing presented herein is intended to constitute investment advice and no investment decision should be made based on any information provided herein.

For registered professional use only- not for distribution to the public

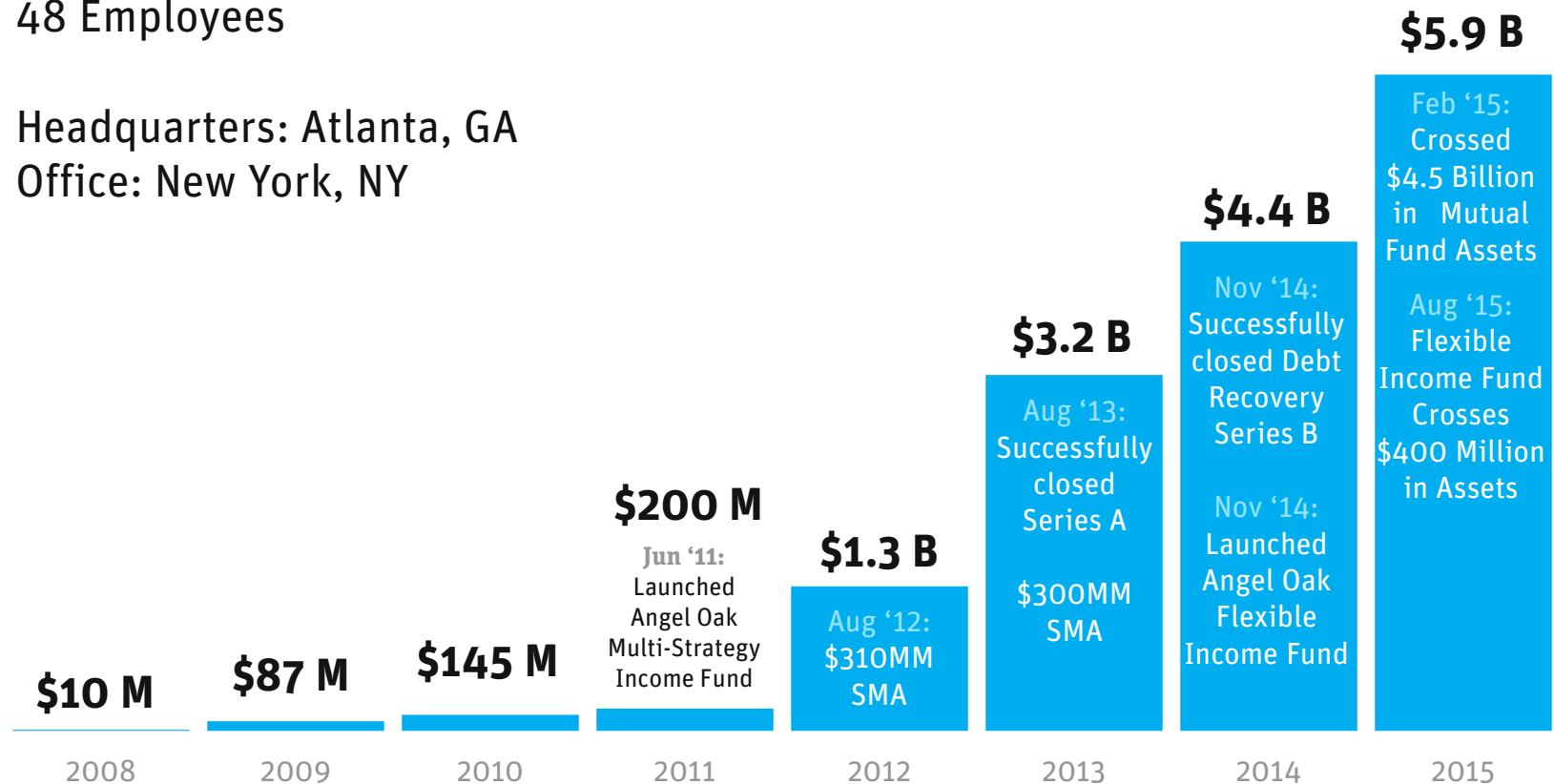
# Firm Overview & Update

## INDEPENDENTLY OWNED, STABLE AND GROWING FIRM

→ 9/30/2015: \$5.9 Billion in Assets Under Management

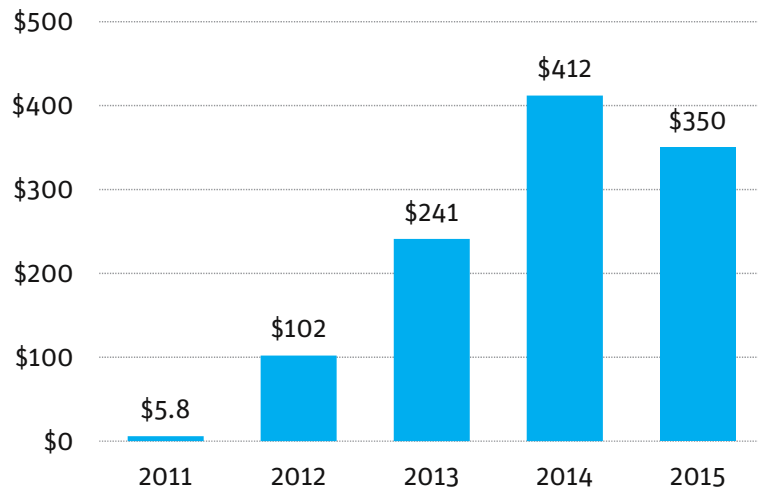
→ 48 Employees

→ Headquarters: Atlanta, GA  
Office: New York, NY

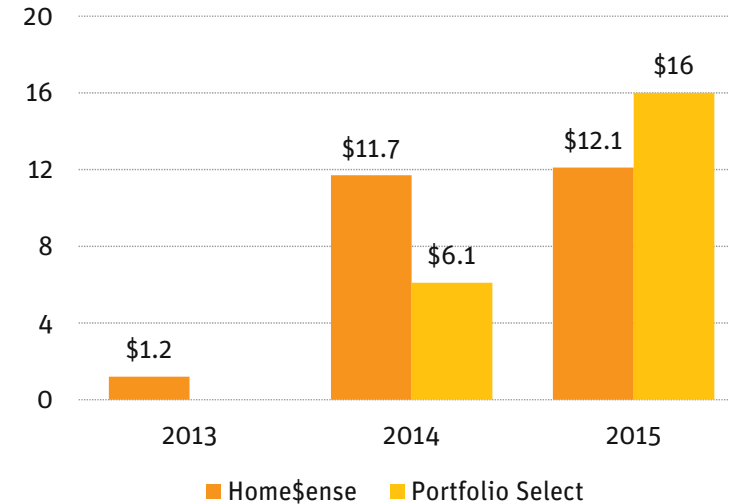


# Home Loans: Highlights

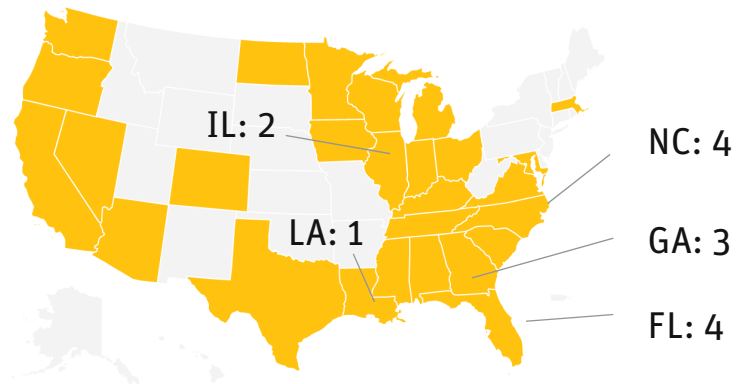
## Annual Closed Volume



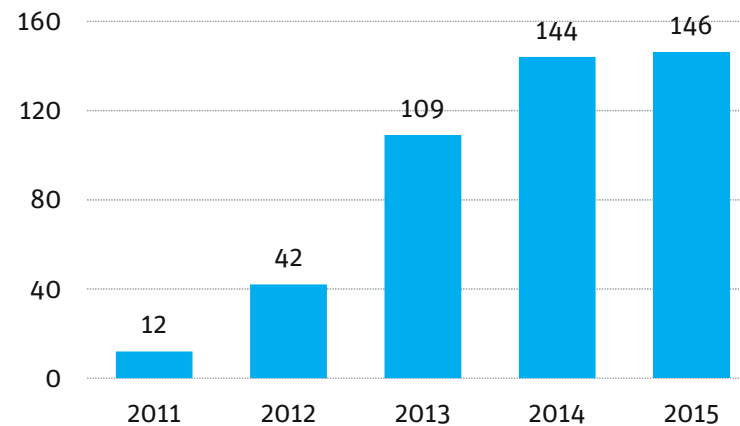
## Closed Volume – HomeSense & Portfolio Select



## Licensed in 40 states with 14 branches

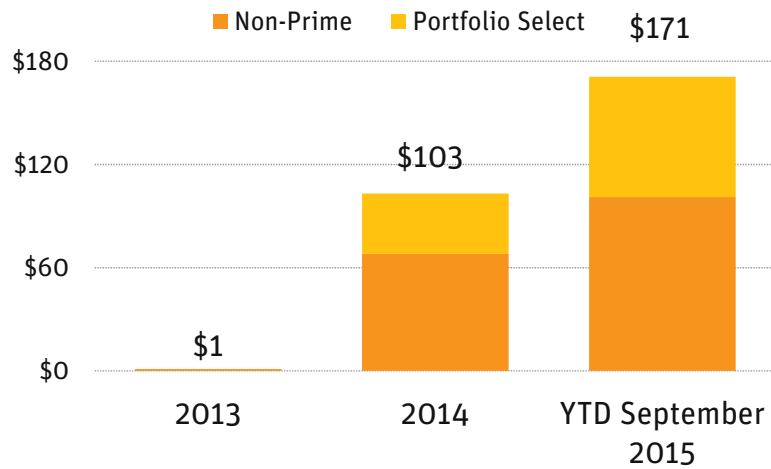


## Annual Employee growth

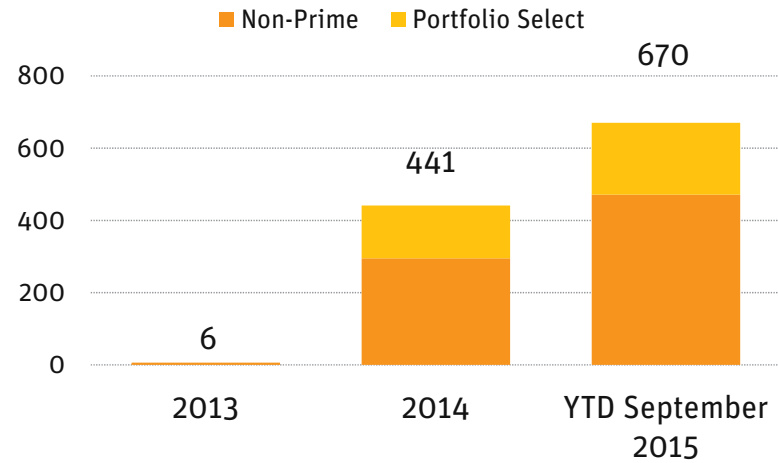


# Mortgage Solutions: Highlights

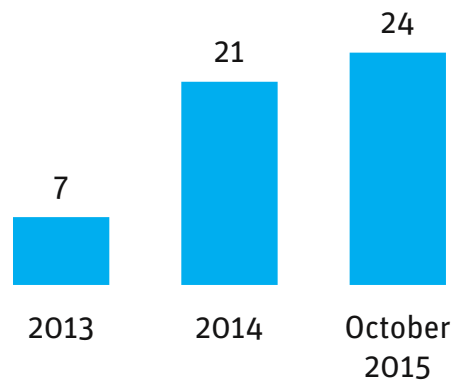
**Volume Closed Since Inception (Millions)**



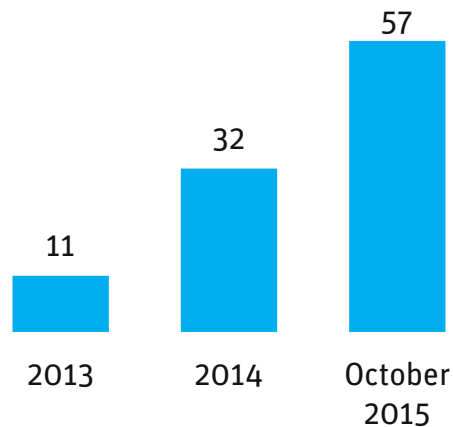
**Units Closed Since Inception**



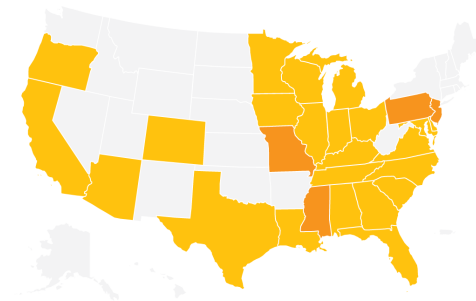
**Number of States Licensed**



**Number of Employees**



**Licensed states: 23**  
**Projected: +5**



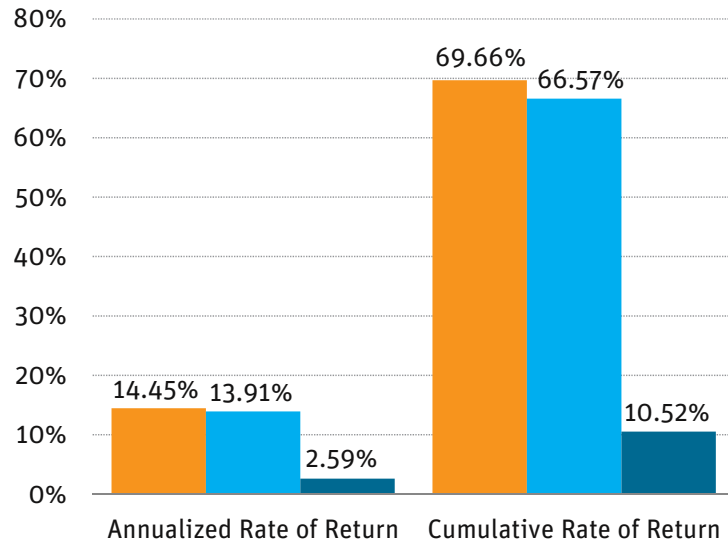
# Mortgage Market Opportunities

	NPL/RPL	Rent to Own	Risk Transfer	Legacy Non-Agency RMBS	Non QM Whole Loans
<b>Overview</b>	Securities backed by legacy pools of non-performing and re-performing loans	Securities backed by cash-flowing rental properties obtained post crisis	Securities backed by loss share agreements with Agency collateral	2003-2007 Vintage non agency mortgage back securities	Newly originated residential mortgages to borrowers who don't meet FNMA/FHLMC guidelines
<b>Yield (unlevered)</b>	3.5% - 5.5%	2.5% - 5.5%	5.0% - 9.0%	4.0% - 6.0%	6.0% - 8.0%
<b>Volatility</b>	Medium	High	High	Medium	Low
<b>Pro</b>	Short WAL. Lots of implied credit enhancement.	Active new issue market and multiple tranches allows for scalable sourcing. Strong sponsorship	Highly Liquid. Huge universe of loans underlying each deal. Very strict underwriting guidelines.	Bonds trade less than intrinsic value due to collateral being underwritten to a deteriorating credit scenario	Agency credit guidelines are too tight leaving strong credit profile borrowers unable to obtain financing
<b>Con</b>	Adverse selection as hard to workout loans become a larger portion of the deal. Not a lot of yield	Limited exit strategy. High volatility. Issuer retains HPA option	Highly volatile. Little to no credit enhancement and very thin tranches.	Becoming tough to source as the market is continuously shrinking and the bonds reside in strong hands	Tough to source as buyers of loans need a trusted mortgage source
<b>Angel Oak Participation</b>	No. Lower return profile	No. Volatile Pricing	No. Volatile pricing	Yes. Established long term player in the market with leading return performance	Yes. Affiliated mortgage companies allows us to source high quality production from a trusted originator.



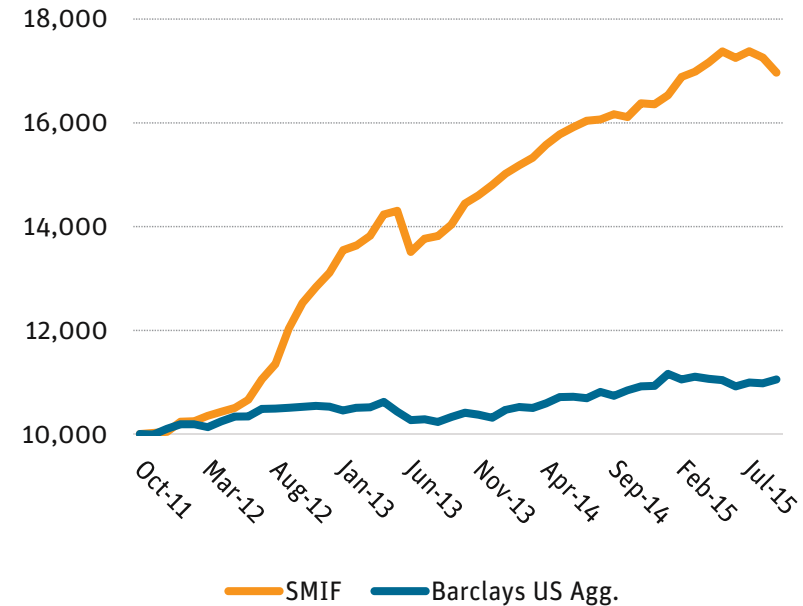
# SMIF Performance Snapshot

## Performance



■ SMIF 
 ■ S&P 500TR 
 ■ Barclays US Agg Bond TR USD

## Growth of \$10,000

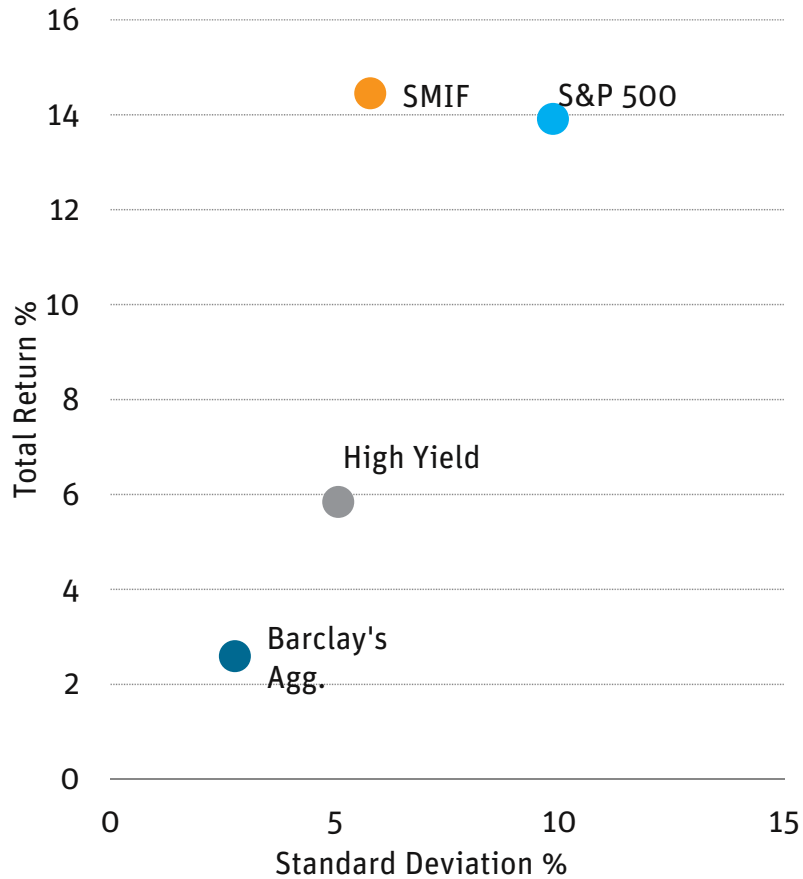


— SMIF 
 — Barclays US Agg.

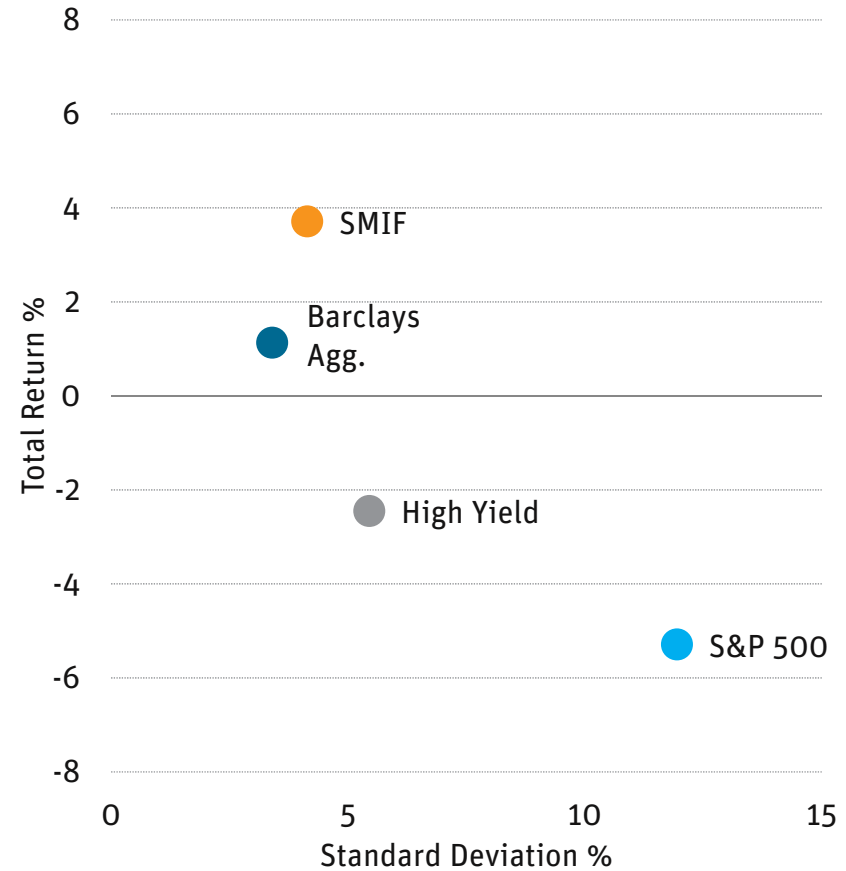
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2015	1.07%	2.12%	0.61%	1.03%	1.24%	-0.70%	0.72%	-0.69%	-1.68%				3.72%
2014	1.48%	1.06%	0.97%	1.64%	1.28%	0.88%	0.78%	0.16%	0.63%	-0.35%	1.64%	-0.10%	10.52%
2013	3.32%	0.68%	1.36%	2.97%	0.49%	-5.54%	1.87%	0.38%	1.62%	2.90%	1.08%	1.36%	12.90%
2012	1.93%	0.11%	1.01%	0.74%	0.73%	1.47%	3.71%	2.68%	6.04%	4.07%	2.47%	2.13%	30.53%
2011											0.23%	0.20%	0.43%

# Total Return vs. Volatility

## Since Inception

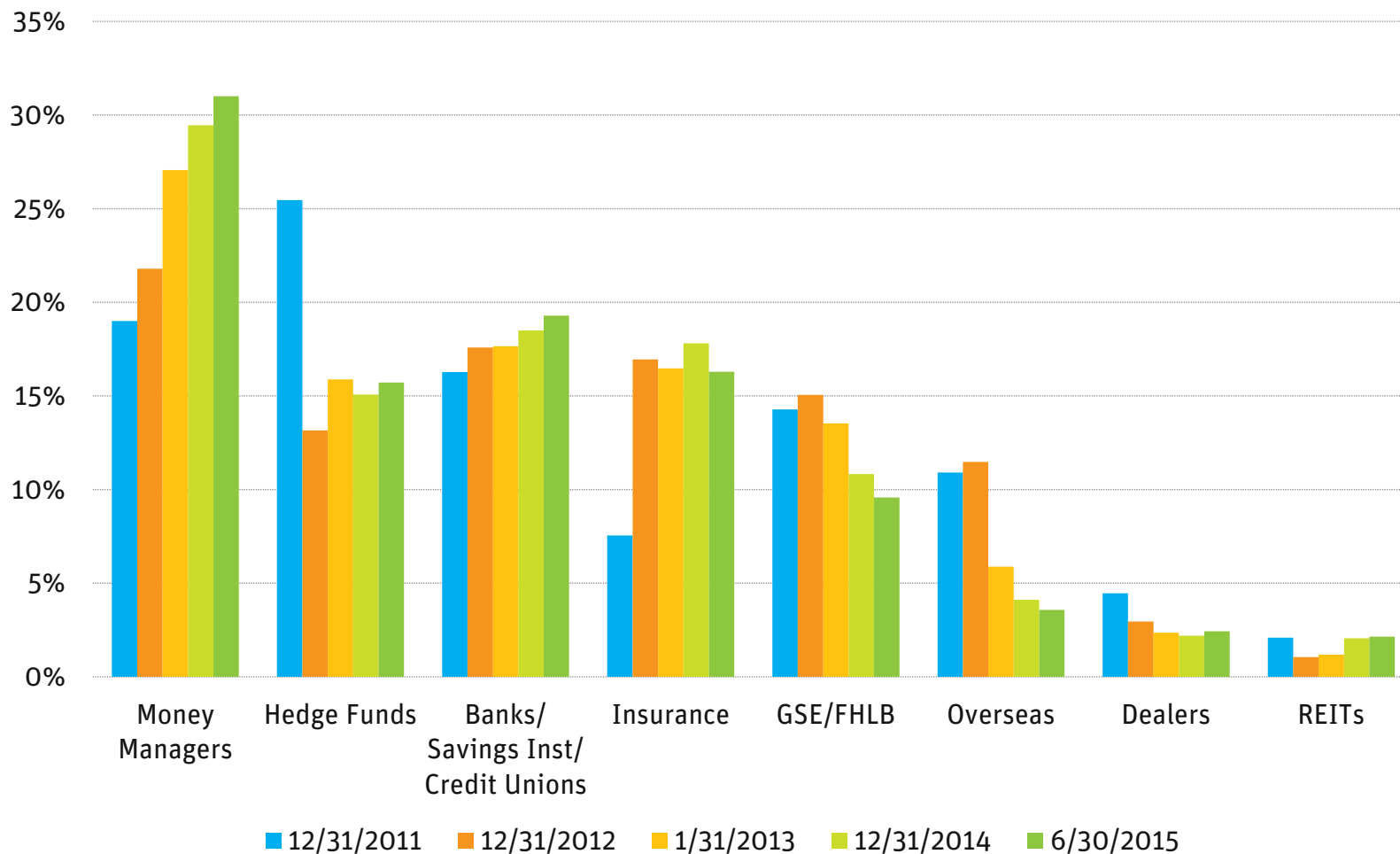


## Year to Date



Source: Bloomberg & Morningstar

# Legacy Non-Agency Security Holders

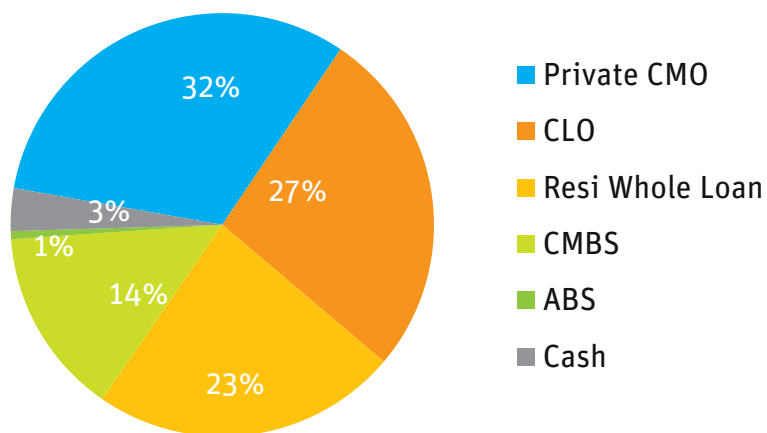


Source: Nomura

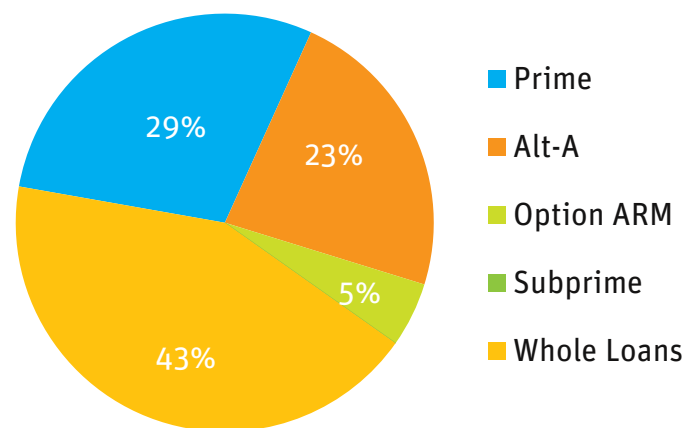


# Portfolio Snapshot

## Asset Class Allocation



## Non-Agency Collateral Type



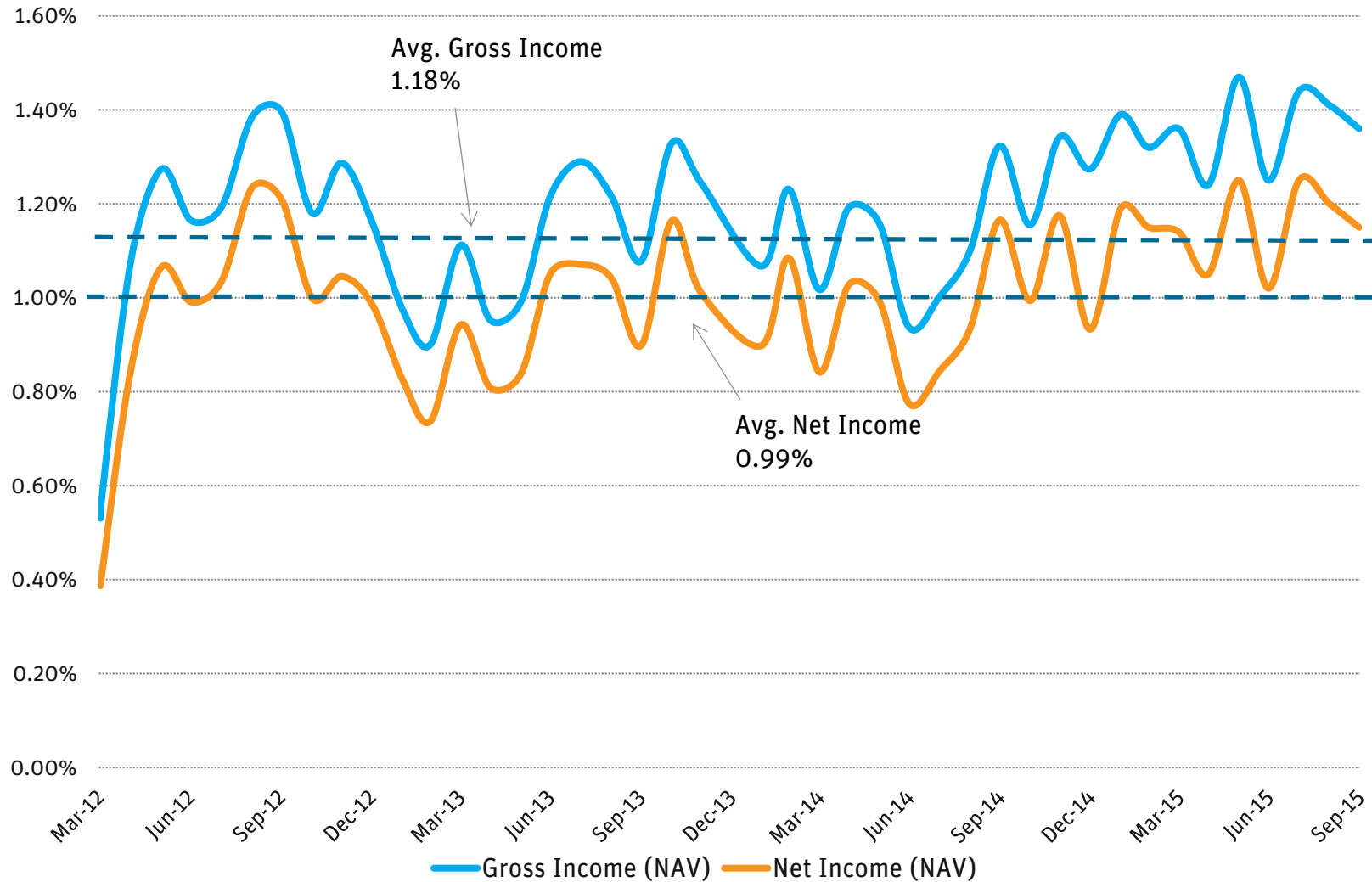
### Diversified Liability Structure

Financing Term	Total Size (%)	Average Rate
1 Month Rolling	52.1%	1.73%
3 Month Rolling	2.4%	1.76%
6 Month Rolling	12.4%	1.69%
Long Term Financing	33.1%	2.12%
Total	100.0%	1.83%

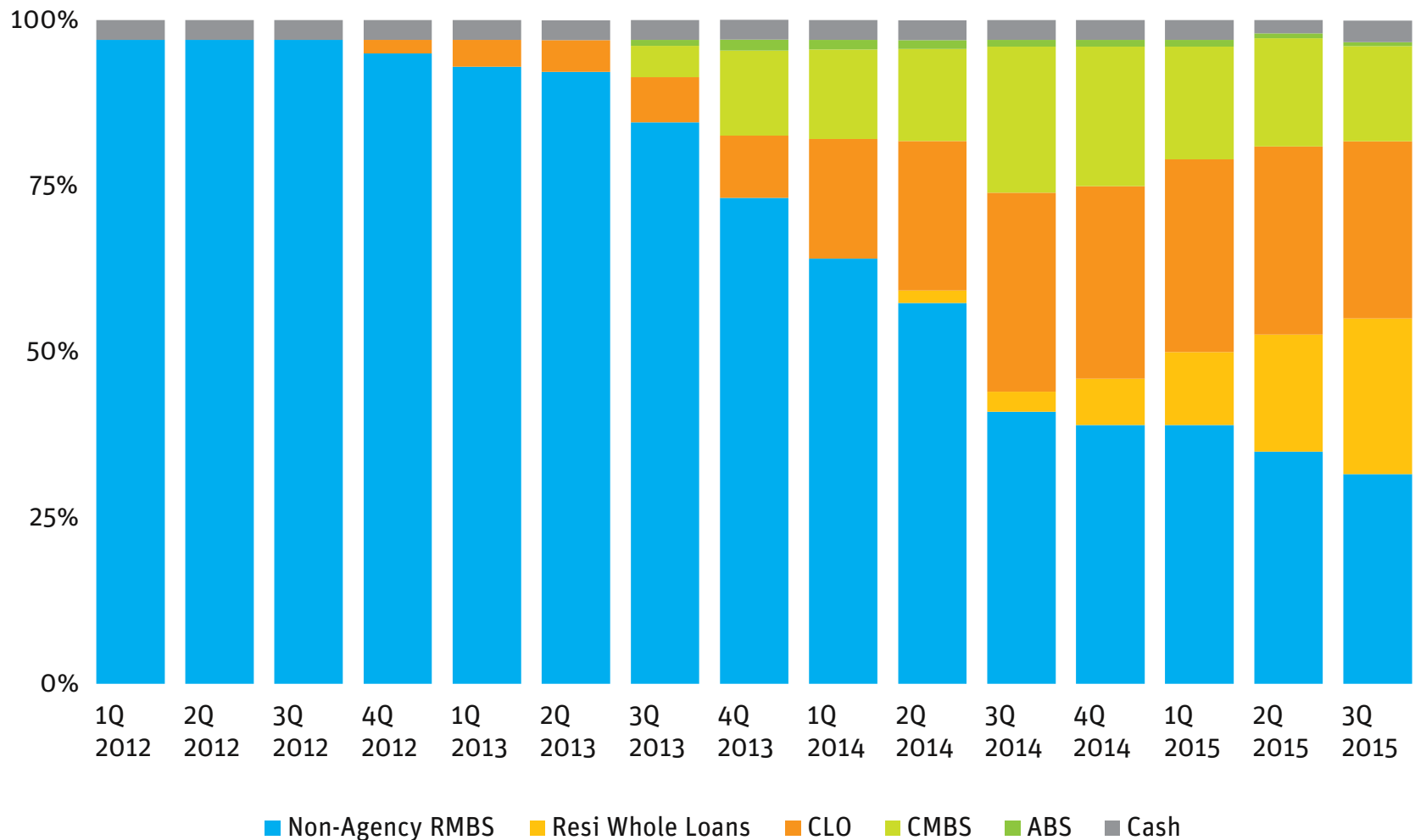
### Contributed Capital - NAV

NAV	\$237,218,324
Average Effective Duration	1.85
Leverage (831.3/237.2)	3.50X
Weighted Average Price	\$91.90

# SMIF Historical Income



# SMIF Allocation Changes

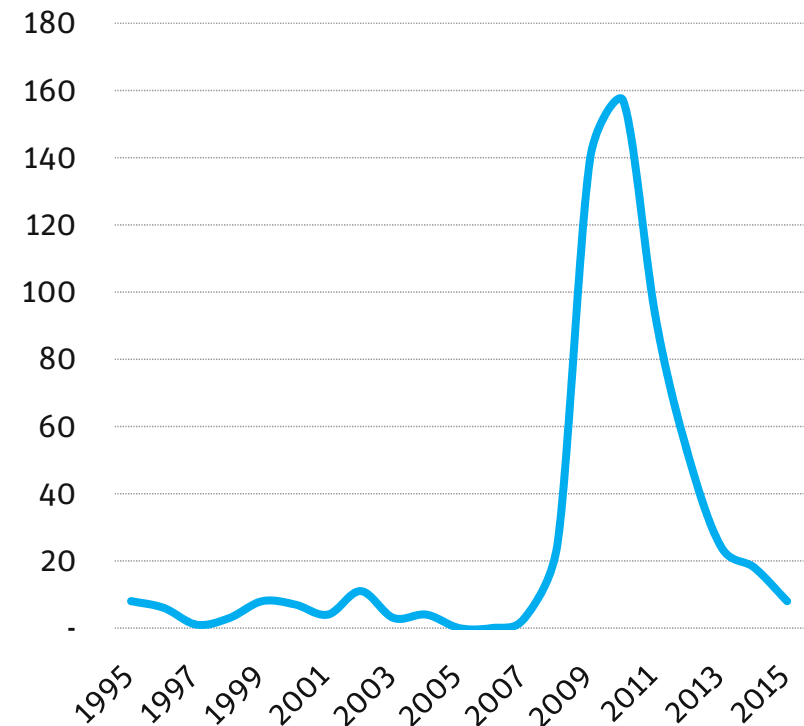


# Fixed Income Product Update

NA RMBS	Whole Loans	CLO	CMBS	Bank Sub Debt
<ul style="list-style-type: none"> <li>• Seasoned</li> </ul>	<ul style="list-style-type: none"> <li>• New Issue</li> </ul>	<ul style="list-style-type: none"> <li>• New Issue</li> </ul>	<ul style="list-style-type: none"> <li>• New Issue</li> </ul>	<ul style="list-style-type: none"> <li>• New Issue</li> </ul>
<ul style="list-style-type: none"> <li>• Senior Tranche</li> </ul>	<ul style="list-style-type: none"> <li>• A, BBB, BB mezz</li> </ul>	<ul style="list-style-type: none"> <li>• A, BBB, BB mezz</li> </ul>	<ul style="list-style-type: none"> <li>• A, BBB, BB mezz</li> </ul>	<ul style="list-style-type: none"> <li>• BBB, BB, Un-Rated</li> </ul>
<ul style="list-style-type: none"> <li>• Currently yielding 4.0% to 6.0%</li> </ul>	<ul style="list-style-type: none"> <li>• Currently yielding 6.0% to 9.0%</li> </ul>	<ul style="list-style-type: none"> <li>• Currently yielding 4.0% to 8.0%</li> </ul>	<ul style="list-style-type: none"> <li>• Currently yielding 4.0% to 5.5%</li> </ul>	<ul style="list-style-type: none"> <li>• Currently yielding 5.0% to 8.0%</li> </ul>
<ul style="list-style-type: none"> <li>• Potential leverage 3 to 5 times</li> </ul>	<ul style="list-style-type: none"> <li>• Potential Leverage of 4 to 5 times</li> </ul>	<ul style="list-style-type: none"> <li>• Potential Leverage of 3 to 5 times</li> </ul>	<ul style="list-style-type: none"> <li>• Potential Leverage of 5 to 7 times</li> </ul>	<ul style="list-style-type: none"> <li>• Potential Leverage of 3 to 4 times</li> </ul>
<ul style="list-style-type: none"> <li>• Current Levered yields of 12% to 20%</li> </ul>	<ul style="list-style-type: none"> <li>• Current levered yields of 15% to 20%</li> </ul>	<ul style="list-style-type: none"> <li>• Current levered yields of 15% to 20%</li> </ul>	<ul style="list-style-type: none"> <li>• Current levered yields of 15% to 20%</li> </ul>	<ul style="list-style-type: none"> <li>• Current levered yields of 15% to 20%</li> </ul>
<ul style="list-style-type: none"> <li>• Still offers potential spread tightening in the coming years as the market still prices in continued deterioration</li> </ul>	<ul style="list-style-type: none"> <li>• Stable price profile with high current coupon. High barriers to entry. Securitization market will provide attractive long term financing</li> </ul>	<ul style="list-style-type: none"> <li>• Trades historically wide to pre-crisis levels and has experienced recent weakening due to heavy new issue calendar</li> </ul>	<ul style="list-style-type: none"> <li>• Trades historically wide to pre-crisis levels and is one of the most liquid fixed income markets</li> </ul>	<ul style="list-style-type: none"> <li>• Growing market place with attractive coupon and low price volatility. Securitization market provides attractive long term financing and returns</li> </ul>

# Current Financial Condition of Banks

- Banks are at a different point in the economic cycle.
  - In wake of the financial crisis, banks are more stable, due to higher capital requirements, increased regulatory oversight and scrutiny, and enhanced loan underwriting standards.
- Asset quality, as measured by nonperforming assets and charge-offs, continues to improve.
- The key driver of earnings in the U.S. banking industry continues to be the improvement in credit performance, the decrease in loan loss provisions and the related increase in operating income.
- Total bank and thrift failures are falling to near pre-crisis levels
- Historically bank default rates are low
  - Average default rate over the last 30 years is 0.789%.
  - Increasingly stringent capital requirements in the post-crisis period will likely push default rates lower going forward



# Bank Sub Debt Overview

## ANGEL OAK FAMILY OF COMPANIES

### Angel Oak Capital Advisors

AOCA is an investment management firm focused on providing compelling fixed income investment solutions for its clients

### Angel Oak Consulting Group

AOCG provides a wide range of specialized consulting services to financial institutions and corporations

### Angel Oak Home Loans

AOHL is a full-service mortgage company featuring in-house processing, underwriting and closing

### Angel Oak Mtg Solutions

AOMS offers non-Agency and specialized mortgage solutions for brokers throughout the country

### AOC Securities

AOC Securities provides specialized broker dealer services to financial institutions

### Bank Sub Debt

Angel Oak Capital Advisors leverages the banking knowledge and over 200 community banking relationships of our affiliated bank consulting group

Key members of the group:

Johannes Palsson

Former community bank CFO

Rob McDonough

Former Regulator

- Completed 95 consulting projects and transactions across 31 states the last two years
- Helped underwrite and successfully securitize one of the first bank sub debt securitization in since the financial crisis
- Securitization received Aa2 rating from Moody's

# Disclosure

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

The information presented herein is being provided to you on a confidential basis with the assumption that you are a “sophisticated investor” able to understand and make decisions related to investing without the need to consult with an investment professional. The information in this document should be considered currently only as of the date indicated in the presentation. Data has been obtained from reliable sources. Angel Oak believes the information herein to be reliable, yet no warranty or guarantee is made as to its accuracy or completeness.

This document does not constitute an offer to sell or a solicitation of an offer to buy any security. It is for informational purposes only and is not intended to promote any specific product or investment vehicle.

Your acceptance of this presentation constitutes your agreement to maintain the contents solely for the purposes of evaluating the information herein. This analysis was prepared for illustration purposes only, is confidential, and may not be reproduced or distributed.



Angel Oak Capital Advisors is located in Atlanta, GA and New York, NY. To learn more about the Angel Oak Funds, speak with a member of our investment team, receive monthly investor updates, or schedule a face-to-face meeting, please contact us at:

**Atlanta Office:**

Angel Oak Capital Advisors  
info@angeloakcapital.com  
3060 Peachtree Road NW, Suite 500  
Atlanta, GA 30305

Toll Free: 888.685.2915

**New York Office:**

Angel Oak Capital Advisors, LLC  
250 West 57th Street, Suite 2122  
New York, NY 10017

Direct: 646.798.8827



**Angel Oak**  
CAPITAL ADVISORS