Angel Oak Strategic Credit Fund
Quarterly Review

Angel Oak
CAPITAL ADVISORS

September 30, 2018

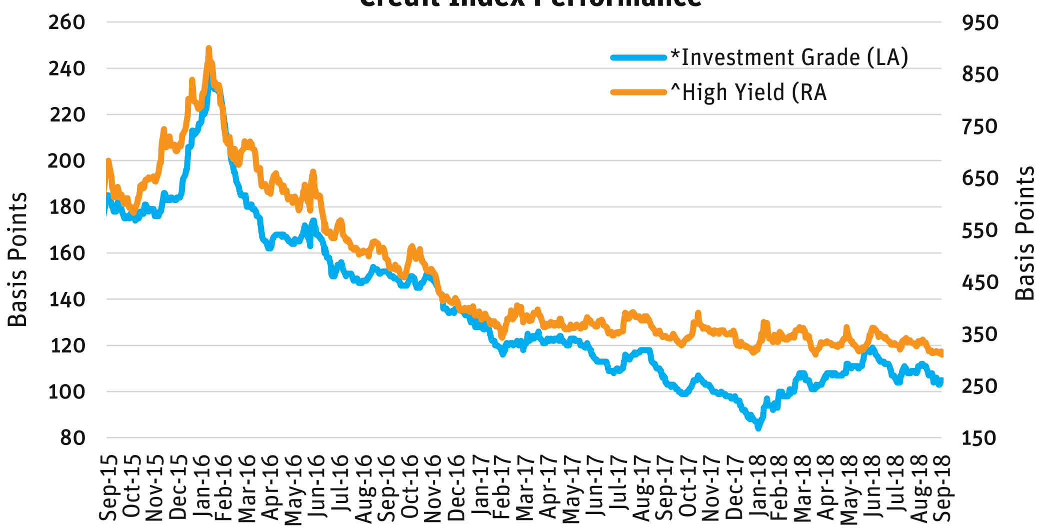
Quarter in Review

- Risk assets moved higher for the quarter amid geopolitical tensions and trade rhetoric. The S&P 500 was up 7.71% during the quarter. Excess returns for U.S. corporates were positive, as both IG and HY credit were tighter. The Bloomberg Barclays Investment Grade Index was tighter by 17 basis points to +106 option-adjusted spread (OAS), while the High Yield Index was tighter by 47 basis points to +316 OAS. Total returns for the IG and HY indices were +0.97% and +2.40%, respectively. U.S. Treasury yields moved higher as the curve bear flattened on the quarter. The U.S. 10-year yield increased by 20 basis points to 3.06%; 2s10s flattened by 9 basis points to 0.24%.
- The labor market report for September continued its momentum from the previous month. Average hourly earnings rose 0.3% month-over-month and 2.8% year-over-year. Nonfarm payrolls came in at +134k in September, a slight decline from +201k in the previous month, predominately due to Hurricane Florence. Surveys illustrated the number of workers who reported reduced hours due to bad weather was approximately 6x larger than the typical figure for September. Absenteeism from work due to bad weather was approximately 7x higher than the average number for the trailing 10-yr period (299k vs. 44k). Prior 2-month net revisions were 87k more than previously reported. After revisions, job gains have averaged 190+ per month over the last 3 months. The headline unemployment rate declined to 3.7%, reaching the lowest rate since 1969, while the labor force participation rate remained at 62.7%.
- U.S. home price increases eased on the margin, with the S&P 500 Core Logic CS 20-City Home Price Index up 5.92% year-over-year through July 2018, coming in below expectations of 6.20%; the trailing 12-month period through June was revised up to 6.36% from 6.31%.
- The Federal Open Market Committee increased its target rate range by 25 basis points to 2.00-2.25%, which was the third hike this year and the eighth hike of this tightening campaign. The FOMC statement dropped the reference to policy being "accommodative." Powell said that dropping "accommodative does not signal any change in the likely path of policy – they still expect further gradual increases in the target range for the Fed funds rate." The Fed's dot plot of member expectations for interest rates was effectively unchanged, and signals for one more 25 basis point hike in 2018 and three more hikes in 2019.
- Consumer confidence remains high as the University of Michigan Consumer Sentiment Index came in at 100.1 for the month of September. This is the highest reading since March 2018, which came in at 101.4. The ISM Index came in at 59.8 in September, a decrease of 1.2 from 61 in August.

Benchmark Performance	9/30/18	6/30/18	Monthly Change (bps)
1-Month LIBOR	2.26	2.09	+17
3-Month LIBOR	2.40	2.34	+6
2-Year Treasury	2.82	2.53	+29
5-Year Treasury	2.95	2.74	+21
10-Year Treasury	3.06	2.86	+20
30-Year Treasury	3.21	2.99	+22
2s/10s Curve	0.24	0.33	-9
2s/30s Curve	0.39	0.46	-7
S&P 500 Total Return Index	5,763	5,351	+771
IG Corporate OAS*	106	123	-17
HY Corporate OAS^	316	363	-47

Sources: Bloomberg and Yieldbook as of 9/30/18.

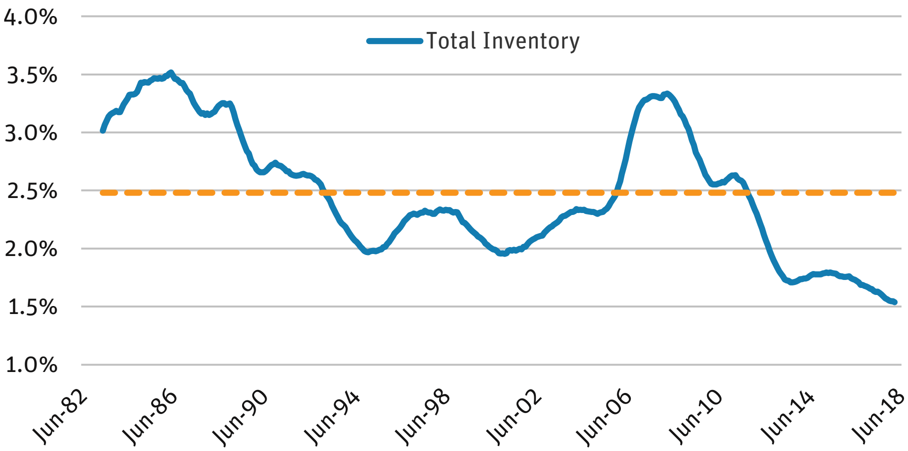
Credit Index Performance



Source: Bloomberg as of 9/30/18.
*Bloomberg Barclays U.S. Corporate Total Return Value Unhedged
^Bloomberg Barclays U.S. Corporate High Yield Total Return Index Value Unhedged

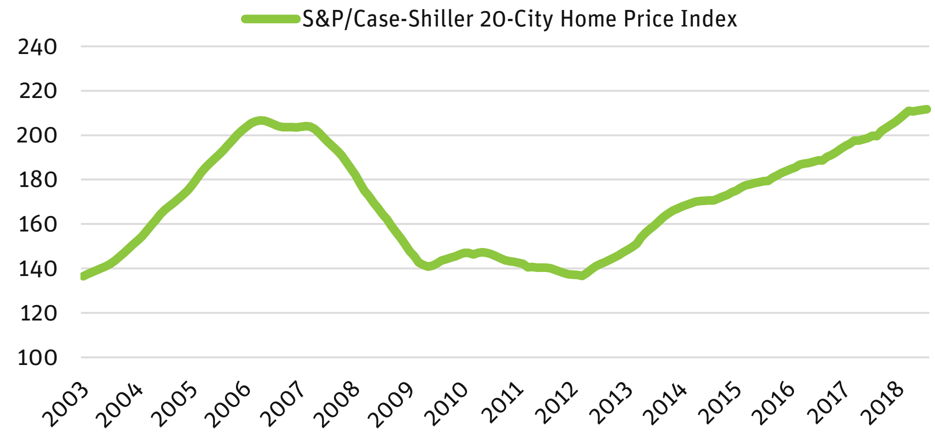
Fundamentals

Single-Family Inventory as % of Total Households



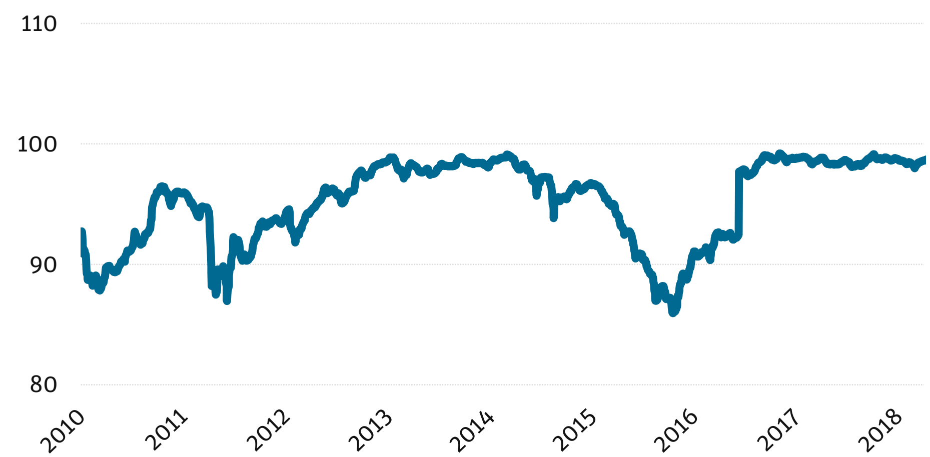
Source: Bloomberg as of 6/30/18.

Home Prices Continue to Improve



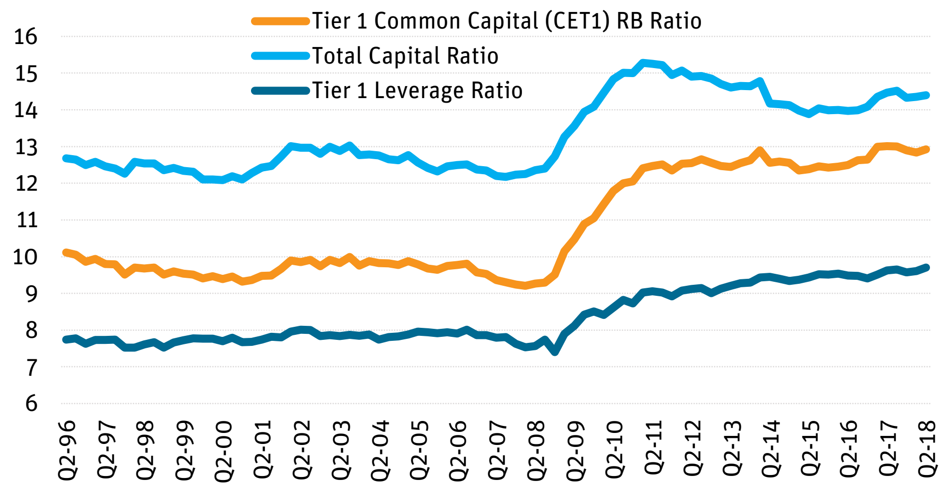
Source: Bloomberg as of 7/31/18.

S&P Leveraged Loan 100 Index



Source: Bloomberg as of 9/30/18.

Bank Subordinated Debt



Source: SNL as of 6/30/18.

Portfolio Performance

Summary

- The Fund was up 201 basis points in the third quarter of 2018, outperforming the benchmark by 199 basis points. The Bloomberg Barclays U.S. Aggregate Bond Index was up 0.02% 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 5.56%.
- Duration strategies were positive contributors to Fund performance again in the third quarter, as the U.S. yield curve continued its move higher as markets repriced towards 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 third quarter. Collateralized loan obligations (CLOs) led all subsectors with a total return of 284 basis points for the quarter, contributing 56 basis points to Fund performance. Residential mortgage-backed securities (RMBS) were the second best performing subsector in the third quarter, producing a total return of 2.67%.

Net Total Returns (as of 9/30/18)	1 Mo.	3 Mo.	YTD	1 Yr.	3 Yr.	SI[1]
Class I	0.65%	2.01%	5.56%	n/a	n/a	5.55%
Bloomberg Barclays U.S. Agg. Bond Index	-0.64%	0.02%	-1.60%	n/a	n/a	-1.23%

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. [1]The 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 9/30/18

	Class I
Gross Expense Ratio	3.14%
Net Expense Ratio^	0.75%
SEC Yield (Subsidized)	6.58%
SEC Yield (Unsubsidized)	-0.18%

FUND CHARACTERISTICS

Fund Assets (All Classes)	$6.3 mm
Number of Securities	33
NAV	Daily
Dividend Frequency	Quarterly
Liquidity Provisions	Quarterly
Floating Rate (%)	53.8

FUND STATISTICS

(Since Inception)	Fund[2]	Index
Standard Deviation	1.4	3.4
Sharpe Ratio	5.8	-1.6
Correlation to Index	0.2	1.0
Positive Months (%)	88.9	44.4
Negative Months (%)	11.1	55.6

[2]ASCIX

Sector Attribution

	% of Market Value	Q3 2018* Attribution (%)	YTD 2018* Attribution (%)
Residential Mortgage Credit	41.7	1.01	2.51
Commercial Mortgage Credit	3.1	0.04	0.78
CLOs	24.9	0.56	1.63
Corporates	20.9	0.46	0.69
ABS	4.7	0.04	0.25
Cash	4.7	0.09	0.26
Fund Expenses	-	-0.19	-0.56
Total	100.0	2.01	5.56

*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. The Fund increased its allocation to RMBS throughout the third quarter, driven primarily by increased investment in new issue subsectors.
- Within the corporate market, the Fund favors investment in the Financial Services sector in both community banks and non-banks.

Definitions

CLO: Collateralized loan obligation.
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.
Michigan Consumer Sentiment Index (MCSI): A monthly survey of U.S. consumer confidence levels conducted by the University of Michigan.
Option-Adjusted Spread (OAS): The yield spread which has to be added to a benchmark yield curve to discount a security's payments to match its market price, using a dynamic pricing model that accounts for embedded options.
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.

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 9/30/18 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

The Angel Oak Funds are distributed by Quasar Distributors, LLC.