



Angel Oak Strategic Credit Fund Quarterly Review

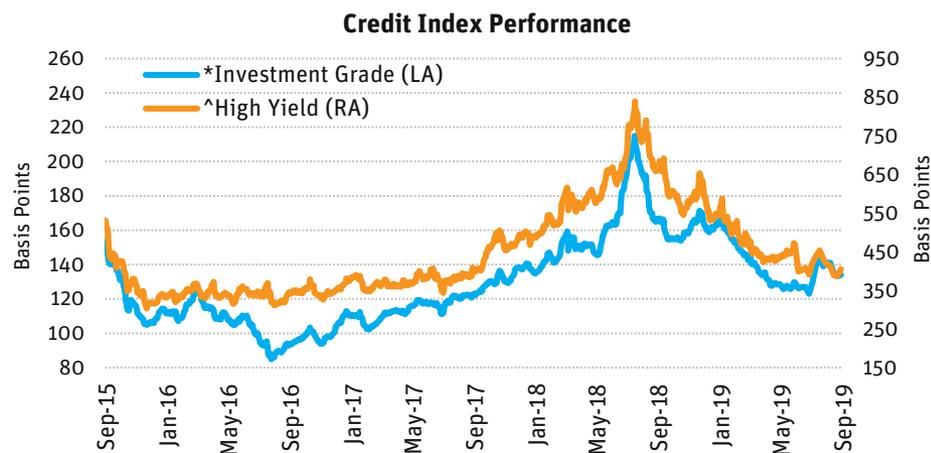
September 30, 2019

Quarter in Review

- U.S. risk assets were volatile in the third quarter as trade tensions with China continued to dominate headlines as both countries announced new rounds of tariffs. Despite geopolitical headwinds, the S&P 500 increased 1.70% while the Nasdaq Composite Index increased 0.18% in the third quarter.
- For the first time since 2007, the Federal Open Market Committee (FOMC) cut the fed funds target rate by 25 basis points, to a range of 2.0%-2.25% in July. The FOMC cut the target range again in September by 25 basis points on concerns of weakening growth in both the U.S. and global markets. The target range currently stands at 1.75%-2.00% at quarter end. Despite two cuts in 2019, investors still expect 1 or 2 additional cuts in the target range by the end of 2019. U.S. Treasury yields fell sharply in 2019, benefiting both equities and U.S. fixed income. Year-to-date, the S&P 500 returned 20.56%, the Bloomberg Barclays IG Corporate returned 12.9%, and the Bloomberg Barclays High Yield returned 11.5%. For Q3, the Bloomberg Barclays IG Corporate Index remained unchanged at 115 OAS, while the HY equivalent tightened by 3 basis points to 373 OAS. U.S. Treasury yields fell across the curve, bull flattening the 2s10s spread by 21 basis points to 0.04%. The 10-year Treasury yield decreased 34 basis points to finish the quarter at 1.66%. 1M LIBOR fell 38 basis points to 2.02%, while 3M LIBOR decreased 23 basis points to 2.09%. The secured overnight financing rate decreased 15 basis points to 2.35% at quarter end.
- Structured credit returns were positive in the third quarter, especially for lower-rated tranches as long-duration assets benefited from the rate rally. Legacy non-agency residential mortgage-backed securities (RMBS) posted positive returns of approximately 1.5%, with positive excess returns for both Alt-A and Option ARM sectors of 1.2%. U.S. collateralized loan obligations (CLOs) were up 0.9%. CLOs generated positive excess returns of 0.5% for AAA- through A-rated tranches and 0.2% for BBB-rated tranches. CLO BB-rated tranches produced negative excess returns of 0.4% due to weakness in leveraged loan markets. Commercial mortgage-backed securities (CMBS) benefited from tighter spreads, posting positive excess returns of 0.7% for AA- through BBB-rated tranches. The asset-backed securities (ABS) sector posted a positive return of 0.8%, driven by spread tightening in floating rate ABS. While most structured spread sectors posted positive returns year-to-date, credit risk transfer (CRT) B1 and CLO BB tranches generated the highest positive excess returns of 12.8% and 6.7%, respectively.
- The ISM Manufacturing Index fell below 50, the demarcation line between expansion and contraction, for both August and September. The September reading of 47.8 was the lowest level since June 2009. New orders and new export components of the survey are at the lowest levels since 2009. While manufacturing data was weak, the U.S. labor market continues to remain healthy. Nonfarm payrolls rose +136k in September, marginally below expectations of +145k. The headline unemployment rate fell to a 50-year low, to 3.5%, as the labor force participation rate increased 0.3% to 63.2% from the previous quarter.
- On the housing front, the S&P CoreLogic 20 City Home Price Index rose 2.0% through July. Housing starts increased 12.2% month-over-month in August to an annualized pace of 1.36 million, the fastest pace since mid-2007. Existing home sales rose 1.29% month-over-month to a 5.49 million annualized pace. Falling financing costs and rates have contributed to an overall increase in affordability.

Benchmark Performance	9/30/19	6/30/19	Quarterly Change (bps)
1-Month LIBOR	2.02	2.40	-0.38
3-Month LIBOR	2.09	2.32	-0.23
2-Year Treasury	1.62	1.75	-0.13
5-Year Treasury	1.54	1.77	-0.23
10-Year Treasury	1.66	2.00	-0.34
30-Year Treasury	2.11	2.53	-0.42
2s/10s Curve	0.04	0.25	-0.21
2s/30s Curve	0.49	0.77	-0.28
S&P 500 Total Return Index	6,009	5,908	+170
IG Corporate OAS*	115	115	0
HY Corporate OAS^	373	376	-3

Sources: Bloomberg and Yieldbook as of 9/30/19.



Source: Bloomberg as of 9/30/19.

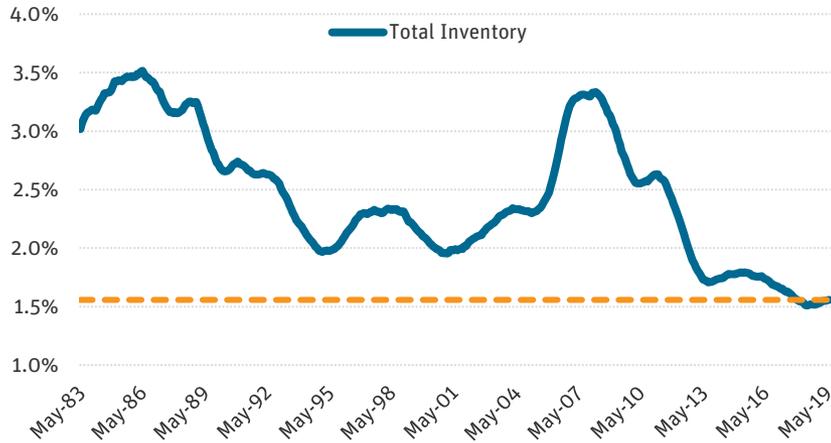
*Bloomberg Barclays U.S. Corporate Total Return Value Unhedged

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



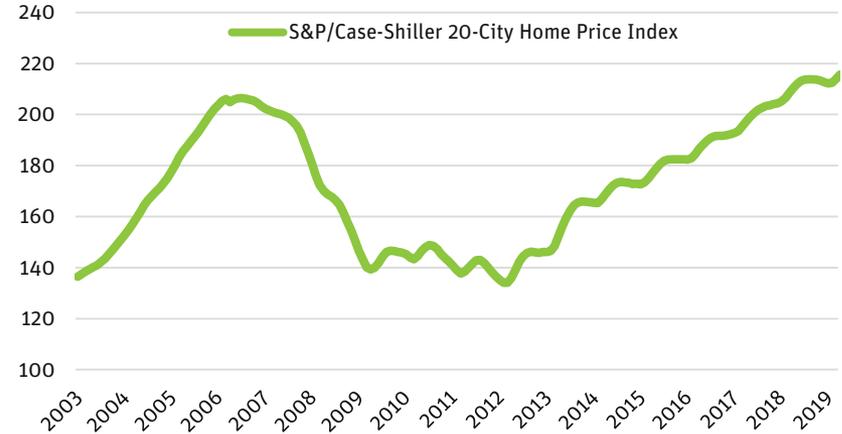
Fundamentals = Scenario Improvement

Single-Family Inventory as % of Total Households



Source: Morgan Stanley as of 6/30/19.

Home Prices Continue to Improve



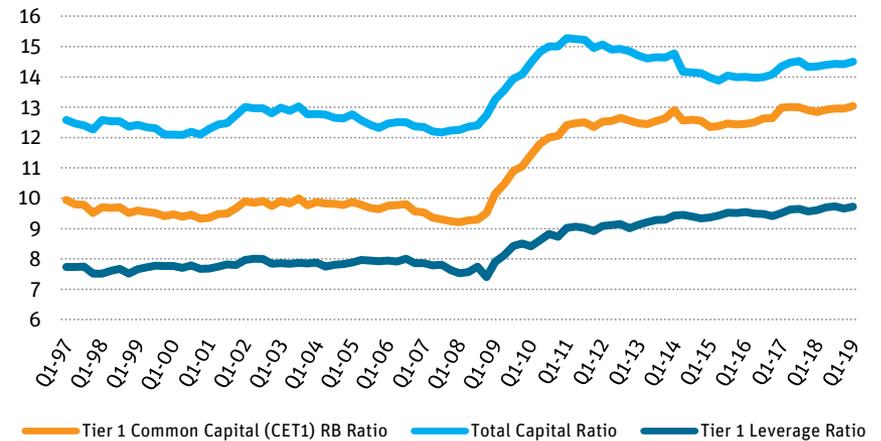
Source: Bloomberg as of 7/31/19.

S&P Leveraged Loan 100 Index



Source: Bloomberg as of 9/30/19.

Bank Subordinated Debt



Source: S&P Global Market Intelligence as of 3/31/19.

Portfolio Performance

Summary

- The Fund was up 1.56% in the third quarter of 2019, underperforming the benchmark by 0.71%. The Bloomberg Barclays U.S. Aggregate Bond Index was up 2.27% over the same period, as U.S. interest rates rallied throughout the quarter, driven by two rate cuts and concerns of weakening growth in both U.S. and global markets.
- Duration positioning drove underperformance relative to the benchmark, as the Fund maintained its duration short of the benchmark. U.S. Treasury yields fell across the curve, bull flattening the 2s10s spread by 21 basis points to 0.04%. The 10-year Treasury yield decreased 34 basis points to finish the quarter at 1.66%. 1M LIBOR fell 38 basis points to 2.02%, while 3M LIBOR decreased 23 basis points to 2.09%. The secured overnight financing rate decreased 15 basis points to 2.35% at quarter end.
- All subsectors of the Fund produced positive returns on the quarter, driven by high current carry. Corporates were the best-performing subsector in the second quarter, producing a total return of approximately 289 basis points, contributing 33 basis points to Fund performance. RMBS produced a total return of approximately 236 basis points, contributing 79 basis points to Fund performance.

Net Total Returns as of 9/30/19	3 Mo.	YTD	1 Yr.	3 Yr.	SI ¹
Class I	1.56%	5.88%	5.17%	n/a	6.10%
Bloomberg Barclays U.S. Agg. Bond Index	2.27%	8.52%	10.30%	n/a	4.98%

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. [^]The Adviser has agreed to waive fees and may amend, extend, or discontinue this waiver at any time without notice.

FUND INFORMATION AS OF 9/30/19

	Class I
Gross Expense Ratio	7.99%
Net Expense Ratio [^]	0.75%
SEC Yield (Subsidized)	6.68%
SEC Yield (Unsubsidized)	3.21%

FUND CHARACTERISTICS

Fund Assets (All Classes)	\$11.1 mm
Number of Securities	54
NAV	Daily
Dividend Frequency	Monthly
Liquidity Provisions	Quarterly
Floating Rate (%)	40.1

FUND STATISTICS

(Since Inception)	Fund ²	Index
Standard Deviation	2.4	3.7
Sharpe Ratio	2.5	1.1
Correlation to Index	0.1	1.0
Positive Months (%)	85.7	61.9
Negative Months (%)	14.3	38.1

²ASCIX



Sector Attribution

		Q3 2019*	YTD 2019*
	% of Market Value	Attribution (%)	Attribution (%)
Residential Mortgage Credit	37.0	0.79	2.52
CLOs	18.8	0.05	1.13
ABS	18.7	0.36	0.65
Commercial Mortgage Credit	13.2	0.20	0.60
Corporates	10.1	0.33	1.35
Cash	2.2	0.03	0.13
Fund Expenses	-	-0.20	-0.48
Total	100.0	1.56	5.89

Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security. Totals may not equal 100% due to rounding.

*Estimated returns, net of hedges, and unaudited.

RMBS

- NA RMBS had a total return of 236 basis points in the third quarter, contributing 79 basis points to Fund performance. Pricing disparity between deals continues to be most profound at new issue, creating opportunities to pick up bonds with strong total return potential. The Fund continues to be overweight Non-QM, though the rate rally has created opportunities in the expanded prime and prime jumbo spaces.
- The new-issue market picked back up in the third quarter, with almost \$34 billion coming to market across 81 deals. Reperforming loans and Non-QM dominated the new-issue landscape, accounting for about half of the issuance. Non-QM continues to be a hot topic, with many new issuers coming to market and total issuance exceeding the entirety of 2018 volume.

CLO

- CLOs returned 24 basis points in the third quarter, contributing 5 basis points to Fund performance. The focus remained on defensive-natured, seasoned bonds closer to the reinvestment period end date rather than the standard five-year reinvest/two-year non-call structure. The Fund has also looked to target discount bonds with upside from potential corporate actions.

CORPORATES

- The Fund's corporate allocation had a total return of 180 basis points in the third quarter, contributing 33 basis points to Fund performance, driven primarily by income.

CMBS

- CMBS produced a total return of 180 basis points on the quarter, contributing 20 basis points to Fund performance. Year-to-date, CMBS returned 661 basis points to Fund performance, contributing 60 basis points net of hedges. The Fund's allocation is predominantly composed of single asset/single borrower tranches.

ABS

- The ABS allocation returned 163 basis points in the third quarter, contributing 36 basis points to Fund performance. Year-to-date, ABS returned 783 basis points to Fund performance, contributing 65 basis points net of hedges. The Fund maintained its allocation to marketplace lending and auto subsectors of the market.



Definitions

ARM: Adjustable-rate mortgage.

QM: Qualified mortgage.

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.

ISM Manufacturing Index: An index that is based on surveys of more than 300 manufacturing firms by the Institute for Supply Management (ISM).

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.

NASDAQ Composite Index: A broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market.

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.

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. It is possible that a repurchase offer may be oversubscribed, in which case shareholders may only have a portion of their shares repurchased. Quarterly repurchase offers and liquidity are limited. 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. For more information on these risks and other risks of the Fund, please see the Prospectus.

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 9/30/19 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.

©2019 Angel Oak Capital Advisors, which is the adviser to the Angel Oak Funds.

