



Angel Oak Strategic Credit Fund Quarterly Review

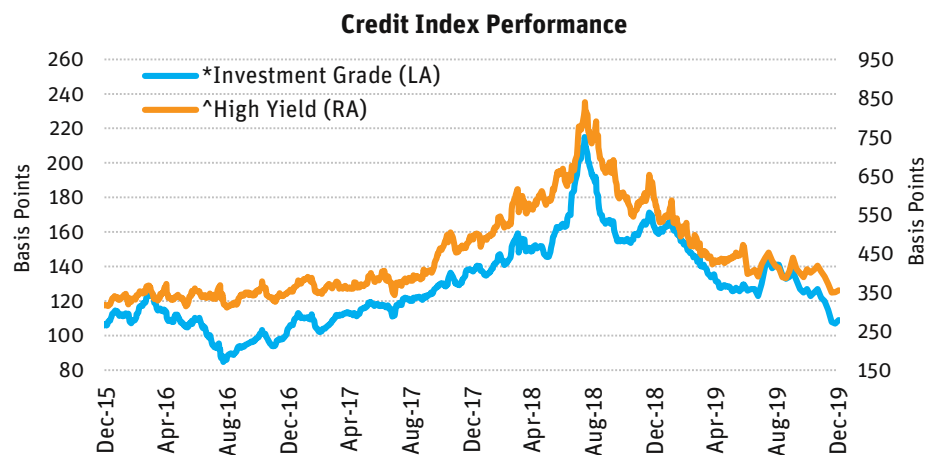
December 31, 2019

Quarter in Review

- U.S. risk assets performed well in Q4 2019, a continuation of the significant price returns reached so far year-to-date. After a more volatile market environment in the third quarter, positive developments between the U.S. and China increased investor optimism. Expectations of a phase-one, partial trade agreement led to positive risk-asset returns for the final quarter of the year. The S&P 500 increased 9.07% while the Nasdaq Composite Index increased 12.49% in the fourth quarter. Credit spreads were tighter on the quarter while U.S. Treasury yields rose.
- As markets expected, the Federal Open Market Committee (FOMC) cut the Fed funds target rate by 25 points during their October meeting. This was the third rate cut for 2019, reducing the target rate range to 1.50%-1.75%. Short-term interest rates are now firmly in negative real rate territory. This reduction of the “risk-free” curve throughout 2019 fueled risk assets higher. The S&P 500 finished 2019 at all-time highs following one of the best total returns of the post-crisis period. Traditional fixed income benchmarks such as the Bloomberg Barclays U.S. Aggregate Bond Index (known as “the Agg”) had an exceptional year, primarily due to the significant amount of interest rate sensitivity in the composite. For 2019, the S&P 500 returned 31.49% while the Nasdaq Composite Index returned 36.74%. High yield and investment grade corporates returned 14.32% and 14.54%, respectively.
- Structured credit returns were positive in the fourth quarter. In particular, lower-rated tranches outperformed, benefiting from improved investor sentiment. Legacy non-agency residential mortgage-backed securities (RMBS) posted positive returns of approximately 1.5%, with positive excess returns of approximately 1.0%. Collateralized loan obligations (CLOs) generated positive excess return of 0.5% for AAA/AA tranches while lower-rated BBB and BB tranches posted positive excess return of 1.4% and 3.8%, respectively. Commercial mortgage-backed securities (CMBS) posted a positive excess return of 0.1% for AA- through BBB-rated tranches. The asset-backed securities (ABS) sector excess returns were flat on the quarter. For the year, credit risk transfer (CRT) B1 and CLO BB tranches generated the highest positive excess returns of 14.8% and 10.9%, respectively.
- On the housing front, the S&P 500 CoreLogic 20 City Home Price Index rose 2.3% through October. Existing home sales decreased 1.7%, to a 5.35M annualized pace, missing the market’s expectation of 5.44M in December. From a broader economic perspective, the U.S. consumer sector remains healthy, yet data within manufacturing activity is less rosy. For example, the ISM Manufacturing Index dropped to 47.2 in the final month of 2019. December’s reading was the fifth consecutive month of sub-50 results. Survey participants cited cautious optimism while only three industries reported growth, matching the worst performance since early 2009. The U.S. labor market continues to remain healthy despite weak manufacturing data. Nonfarm payrolls increased 145K in December, slightly below the market’s expectation of +160K. Unemployment remains at a 50-year low of 3.5%, and the labor force participation rate remained steady at its 63.2% from the previous quarter.

Benchmark Performance	12/31/19	9/30/19	Quarterly Change (bps)
1-Month LIBOR	1.78	2.02	-24
3-Month LIBOR	1.91	2.09	-18
2-Year Treasury	1.57	1.62	-5
5-Year Treasury	1.69	1.54	+15
10-Year Treasury	1.92	1.66	+26
30-Year Treasury	2.39	2.11	+28
2s/10s Curve	0.35	0.04	+31
2s/30s Curve	0.82	0.49	+33
S&P 500 Total Return Index	6,554	6,009	+907
IG Corporate OAS*	93	115	-22
HY Corporate OAS^	336	373	-37

Sources: Bloomberg and Yieldbook as of 12/31/19.



Source: Bloomberg as of 12/31/19.

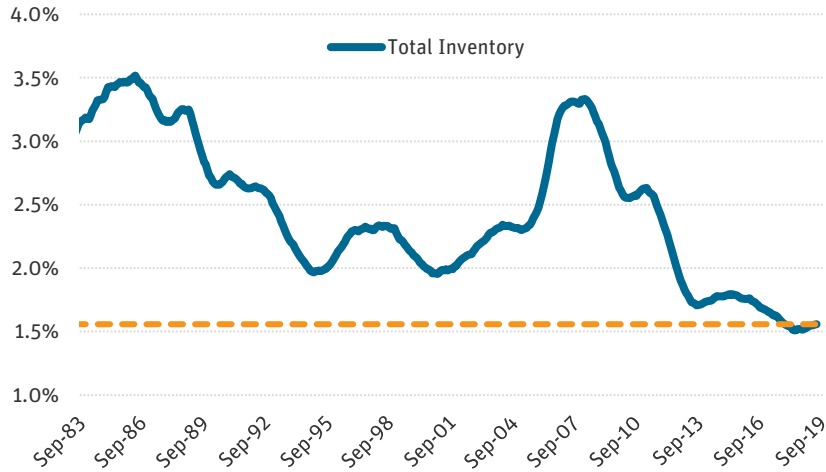
*Bloomberg Barclays U.S. Corporate Total Return Value Unhedged

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



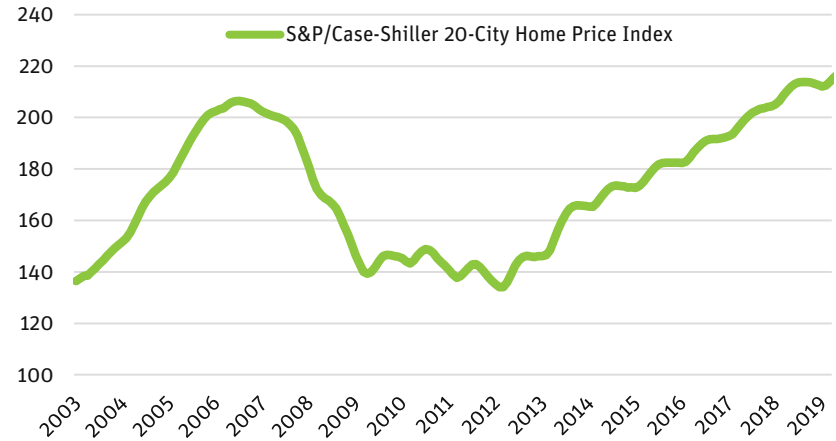
Fundamentals = Scenario Improvement

Single-Family Inventory as % of Total Households



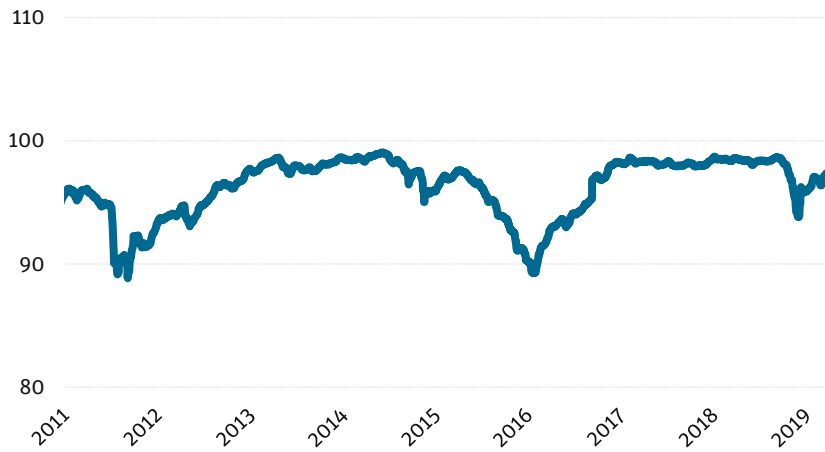
Source: Morgan Stanley as of 9/30/19.

Home Prices Continue to Improve



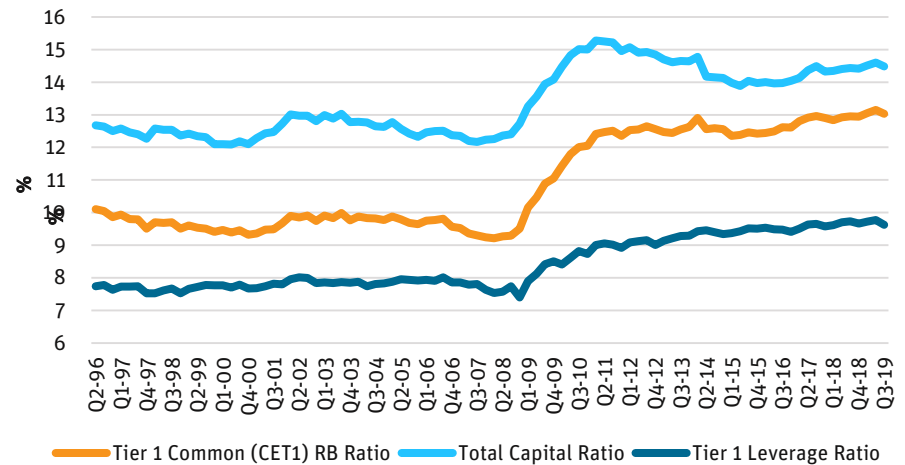
Source: Bloomberg as of 10/31/19.

S&P Leveraged Loan 100 Index



Source: Bloomberg as of 12/31/19.

Bank Capital Levels



Source: S&P Global Market Intelligence as of 9/30/19.

Portfolio Performance

Summary

- The Fund was up 1.57% in the fourth quarter of 2019, outperforming the benchmark by 1.39%. The Bloomberg Barclays U.S. Aggregate Bond Index was up 0.18% over the same period, as U.S. interest rates rallied throughout the quarter, driven by rate cuts and concerns of weakening growth in both U.S. and global markets.
- Outperformance in structured credit focused risk assets, in particular high current carry and range bound spreads during the quarter, drove performance relative to the benchmark. The Fund maintained its duration short of the benchmark. The 2-year Treasury yield decreased by 5 basis points to 1.57%. The 10-year Treasury yield increased 26 basis points to finish the quarter at 1.92%. 1M LIBOR fell 24 basis points to 1.78%, while 3M LIBOR decreased 18 basis points to 1.91%. The secured overnight financing rate decreased 80 basis points to 1.55% 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 fourth quarter, producing a total return of approximately 320 basis points, contributing 29 basis points to Fund performance. RMBS produced a total return of approximately 156 basis points, contributing 52 basis points to Fund performance.

Net Total Returns as of 12/31/19	3 Mo.	YTD	1 Yr.	3 Yr.	SI ¹
Class I	1.57%	7.54%	7.54%	n/a	6.14%
Bloomberg Barclays U.S. Agg. Bond Index	0.18%	8.72%	8.72%	n/a	4.44%

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 12/31/19

	Class I
Gross Expense Ratio	7.99%
Net Expense Ratio [^]	0.75%
SEC Yield (Subsidized)	6.16%
SEC Yield (Unsubsidized)	1.10%

FUND CHARACTERISTICS

Fund Assets (All Classes)	\$12.0 mm
Number of Securities	57
NAV	Daily
Dividend Frequency	Monthly
Liquidity Provisions	Quarterly
Floating Rate (%)	53.0

FUND STATISTICS

(Since Inception)	Fund ²	Index
Standard Deviation	2.3	3.7
Sharpe Ratio	2.6	0.9
Correlation to Index	0.1	1.0
Positive Months (%)	83.3	58.3
Negative Months (%)	16.7	41.7

²ASCIX



Sector Attribution

		Q4 2019 ¹	YTD 2019 ¹
	% of Market Value	Attribution (%)	Attribution (%)
Residential Mortgage Credit	30.5	0.52	3.21
CLOs	26.0	0.29	1.43
ABS	16.6	0.17	0.82
CMBS	16.0	0.45	1.04
Corporates	8.7	0.29	1.64
Cash	2.1	0.03	0.16
Fund Expenses ²	-	-0.19	-0.76
Total	100.0	1.57	7.54

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.

¹Estimated returns, net of hedges, and unaudited. Attribution is calculated using an internal model, thus, returns may vary from the Fund's total return. ²Fund expenses include certain investment expenses, such as interest expense from borrowings and repurchase agreements, incurred directly by the Fund or indirectly through the Fund's investments in underlying Angel Oak Funds (if applicable), none of which are paid to Angel Oak.

RMBS

- NA RMBS had a total return of 156 basis points in the fourth quarter, contributing 52 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 maintained its strong pace in the fourth quarter, with over \$30 billion coming to market across 60 deals. Non-QM remained at the forefront of the conversation, accounting for a quarter of deals issued. 2019 issuance volume was over 2.5x that of 2018 and is expected to continue to grow in 2020.

CLO

- CLOs returned 60 basis points in the fourth quarter, contributing 29 basis points to Fund performance. The focus remained on higher-coupon, non-investment-grade-rated bonds with relatively high credit enhancement. The defensive nature of this targeted profile should outperform structurally weaker counterparts in a negative credit environment.

CORPORATES

- The Fund's corporate allocation had a total return of 320 basis points in the fourth quarter, contributing 29 basis points to Fund performance, driven primarily by income.

CMBS

- CMBS returned 287 basis points on the quarter, contributing 45 basis points to Fund performance net of hedges. For 2019, CMBS returned 913 basis points to Fund performance, contributing 104 basis points net of hedges. The Fund's allocation is predominately composed of single asset/single borrower (SASB) tranches.

ABS

- The ABS allocation returned 99 basis points in the fourth quarter, contributing 17 basis points to Fund performance. For 2019, ABS returned 884 basis points to Fund performance, contributing 82 basis points net of hedges. The Fund maintained its allocation to marketplace lending and the auto subsectors of the market.



Definitions

Non-QM: Non-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 12/31/19 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

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