



Angel Oak Strategic Credit Fund Quarterly Review

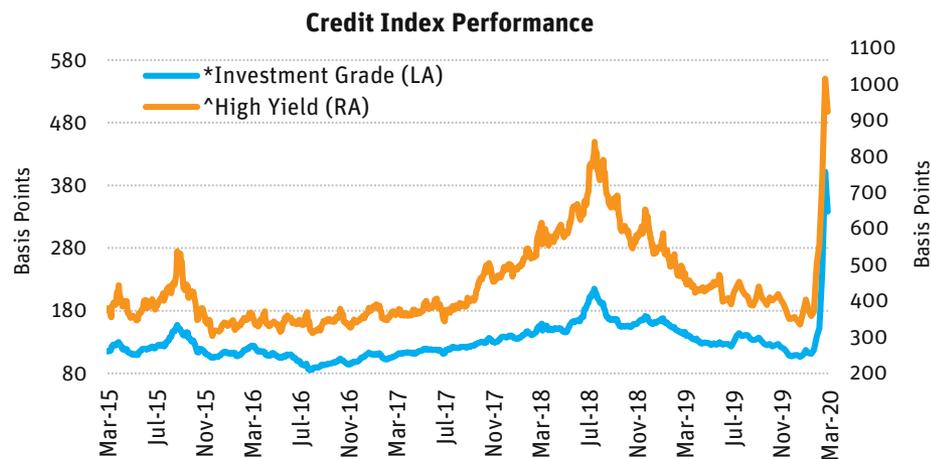
March 31, 2020

Quarter in Review

- U.S. risk assets were extraordinarily volatile in the first quarter, fueled by the spread of COVID-19 and the subsequent potential negative impacts on global growth. The S&P 500 was down 19.6% and corporate spreads gapped wider with investment grade and high yield spreads widening by 178 and 543 basis points, respectively.
- Structured credit spreads gapped wider as well in the first quarter, weighing heavily on performance. Given the risk-off backdrop, higher-rated tranches outperformed compared with lower credit quality tranches, steepening the credit curve across most structured credit asset classes.
- The Federal Open Market Committee (FOMC) executed an emergency cut on March 3rd of 50 basis points to a target rate range of 1.0%-1.25% after a volatile week in the equities market. The FOMC slashed the fed funds rate again to zero in another emergency cut on March 15th. The swifter-than-expected rate cut was executed to help support bond market liquidity and stabilize credit markets ahead of a potential slowdown in U.S. growth given the fears around COVID-19. In addition to rate cuts, the Fed plans to purchase at least \$700 billion in Treasury debt and \$200 billion in agency mortgage-backed securities. In addition to expanding their purchase program, the Fed implemented many crisis-era programs to restore stability to the broader fixed income market.
- Nonfarm payrolls fell 700K in the March jobs report from the Bureau of Labor Statistics, significantly worse than market consensus of 100K. The unemployment rate increased to 4.4% from 3.5%, the highest level since 2017. Many expect the unemployment rate to surge in the coming months as the private sector comes under pressure amid the economic shutdown. The recent surge in jobless claims is implying a 14% unemployment rate. Stay-at-home orders throughout the country are having significant negative impacts on growth and inflation expectations.

Benchmark Performance	3/31/20	12/31/19	Quarterly Change (bps)
1-Month LIBOR	0.99	1.76	-77
3-Month LIBOR	1.45	1.91	-46
2-Year Treasury	0.26	1.56	-130
5-Year Treasury	0.44	1.68	-124
10-Year Treasury	0.68	1.91	-123
30-Year Treasury	1.28	2.38	-110
2s/10s Curve	0.41	0.35	+6
2s/30s Curve	1.02	0.82	+20
S&P 500 Total Return Index	5,269	6,554	-1,960
IG Corporate OAS*	271	93	+178
HY Corporate OAS^	879	336	+543

Sources: Bloomberg and Yieldbook as of 3/31/20.



Source: Bloomberg as of 3/31/20.

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

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



Portfolio Performance

Summary

- The Fund was down 20.41% in the first quarter of 2020, underperforming the benchmark by 23.56%. The Bloomberg Barclays U.S. Aggregate Bond Index was up 3.15% over the same period as U.S. interest rates rallied toward the quarter, driven by rate cuts, the spread of COVID-19, and the subsequent potential negative impacts on global growth.
- Given the risk-off backdrop, higher-rated tranches outperformed compared to lower credit tranches, steepening the credit curve across most structure credit asset classes. The 2-year Treasury yield decreased by 130 basis points to 0.26%. The 10-year Treasury yield decreased 123 basis points to finish the quarter at 0.68%. 1M LIBOR fell 77 basis points to 0.99%, while 3M LIBOR decreased 46 basis points to 1.45%. The secured overnight financing rate decreased 154 basis points to 0.01% at quarter end.

Primary detractors to Q1 performance were:

- Spread widening within RMBS, CMBS, CLO, ABS and Corporates amid COVID-19
- Underweight to agency RMBS and CMBS relative to benchmark
- Duration positioning by focus on floating rate bonds, given the decline in U.S. term structure

Net Total Returns as of 3/31/20	3 Mo.	YTD	1 Yr.	3 Yr.	Annualized
					SI ¹
Class I	-20.41%	-20.41%	-16.32%	n/a	-4.68%
Bloomberg Barclays U.S. Agg. Bond Index	3.15%	3.15%	8.93%	n/a	5.38%

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 3/31/20

	Class I
Gross Expense Ratio	7.99%
Net Expense Ratio [^]	0.75%
SEC Yield (Subsidized)	8.69%
SEC Yield (Unsubsidized)	3.50%

FUND CHARACTERISTICS

Fund Assets (All Classes)	\$9.7 mm
Number of Securities	54
NAV	Daily
Dividend Frequency	Monthly
Liquidity Provisions	Quarterly
Floating Rate (%)	54.2

FUND STATISTICS

(Since Inception)	Fund ²	Index
Standard Deviation	7.8	4.8
Sharpe Ratio	-1.3	1.0
Correlation to Index	0.0	1.0
Positive Months (%)	81.5	59.3
Negative Months (%)	18.5	40.7

²ASCIX



Performance Attribution

		Q1 2020 ¹	YTD 2020 ¹
	% of Market Value	Contribution (%)	Contribution(%)
Residential Mortgage Credit	32.7	-7.12	-7.12
Commercial Mortgage Credit	15.7	-4.66	-4.66
CLOs	19.9	-6.11	-6.11
ABS	17.1	-1.94	-1.94
Corporates	10.3	-0.44	-0.44
Cash	4.4	0.02	0.02
Fund Expenses ²	-	-0.17	-0.17
Total	100.0	-20.41	-20.41

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 contributed -712 basis points to Fund performance in the first quarter. Spreads across the sector were slightly tighter for the first two months before COVID-19 uncertainty led to significant widening in the middle of March. The downward trend turned once the relative value became too strong, and a broader buyer base re-emerged. This, coupled with several easing and market support actions from the Fed, led to stabilization as more real money returned to buying.
- The new-issue market maintained its strong pace in the beginning of the year, but once almost entirely evaporated in March as issuers are left forecasting new plans for the remainder of the year.

CLO

- CLOs contributed -611 basis points to Fund performance in the first quarter. Spreads rallied to start the year through the first two months. The focus remained on higher-coupon, non-investment-grade-rated bonds with relatively high-credit enhancement. We believe the defensive nature of this targeted profile should outperform structurally weaker counterparts in a negative credit environment. However, no CLO was immune from significant spread widening amid COVID-19 fallout as market participants bore the brunt of liquidity challenges and new pricing assumptions, as defaults and severity are expected to be more significant.

CORPORATES

- Corporates contributed -44 basis points to Fund performance in the first quarter.

CMBS

- CMBS contributed -466 basis points to Fund performance net of hedges in the first quarter. The Fund's allocation is predominately composed of single asset/single borrower tranches.

ABS

- ABS contributed -194 basis points to Fund performance in the first quarter. The Fund maintained its allocation to marketplace lending and the auto subsector of the market.



Definitions

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.

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 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.

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. It is possible that a repurchase offer for ASCIX may be oversubscribed, in which case shareholders may only have a portion of their shares repurchased. Quarterly repurchase offers and liquidity are limited. ASCIX 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. 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 3/31/20 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

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