



Angel Oak Strategic Credit Fund Quarterly Review

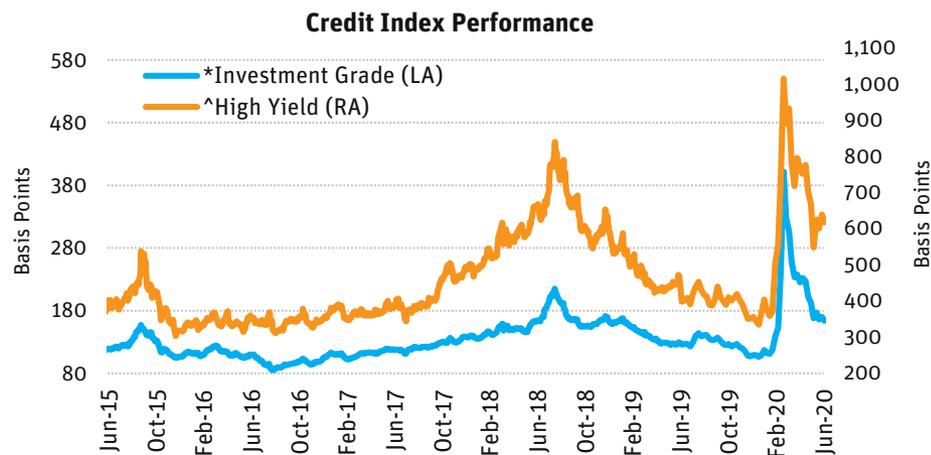
June 30, 2020

Quarter in Review

- U.S. risk assets bounced back in the second quarter on positive news of declining cases of COVID-19 and the reopening of the U.S. economy. The S&P 500 was up 20.5%, and corporate spreads tightened, with investment grade and high yield spreads tightening 122 and 254 basis points, respectively.
- Structured credit returns were positive in the second quarter, as investor demand outweighed supply. Legacy non-agency residential mortgage-backed securities (RMBS) posted positive returns of approximately 10.1%, with positive excess returns of approximately 9.9%. Non-QM generated positive returns of 4.1%, with positive excess return of 3.6%. Collateralized loan obligations (CLOs) as a cohort produced excess return of 7.1%. Commercial mortgage-backed securities (CMBS) posted a positive excess return of 3.5%. The asset-backed securities (ABS) sector returned 4.2% on the quarter, with positive excess return of 3.6%.
- The Federal Open Market Committee (FOMC) maintained its target range of 0.00% to 0.25% in the second quarter after slashing rates twice in the first quarter. The FOMC noted it “is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.” The committee also expressed its commitment to continue to provide policy accommodation by announcing that it “will increase its holding of Treasury securities and agency residential and commercial mortgage-backed securities at least at the current pace.” The highly anticipated Term Asset-Backed Securities Loan Facility (TALF) went into effect in June. Market participants view the TALF 2.0 program as more of a backstop to AAA-rated structured credit spreads, as most sectors trade inside financing costs by the end of Q2.
- Economic data on the quarter was better than expected. While the unemployment rate increased during the quarter to 11.1% from 4.4%, many participants estimated the figure to be close to 20% due to policymakers’ decision to shut down the U.S. economy. More recently, the unemployment rate has seen two months of decline as many states begin their reopening process, after reaching an all-time high of 14.7% in April 2020. Both headline Institute for Supply Management (ISM) figures surprised to the upside in June. The ISM Manufacturing Index increased to 52.6 in June from the recent low of 41.5 in April, while the ISM Non-Manufacturing increased to 57.1 in June from 41.8, the recent low in April. Both indices came in above the key level of 50, indicating an expansionary move for both manufacturing and service sectors for the U.S. economy.

Benchmark Performance	6/30/20	3/31/20	Quarterly Change (bps)
1-Month LIBOR	0.17	0.98	-81
3-Month LIBOR	0.30	1.43	-113
2-Year Treasury	0.15	0.25	-10
5-Year Treasury	0.29	0.38	-9
10-Year Treasury	0.66	0.67	-1
30-Year Treasury	1.41	1.32	+9
2s/10s Curve	0.51	0.42	+9
2s/30s Curve	1.26	1.08	+18
S&P 500 Total Return Index	6,352	5,269	+2,054
IG Corporate OAS*	150	272	-122
HY Corporate OAS^	626	880	-254

Sources: Bloomberg and Yieldbook as of 6/30/20.



Source: Bloomberg as of 6/30/20.

*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 Strategic Credit Fund, a closed-end interval fund, was up 13.05% in the second quarter of 2020, outperforming the benchmark by 10.15%. The Bloomberg Barclays U.S. Aggregate Bond Index was up 2.90% over the same period as U.S. interest rates rallied throughout the quarter, though substantially less than the prior quarter given their proximity to the zero bound.
- After a historically tumultuous first quarter, risk assets began their recovery in earnest during the second quarter as liquidity returned to the market and the full effects of Fed intervention were felt.

Primary contributors to Q2 performance were:

- Spread tightening across all invested sectors
- Overweight to homeowner credit through RMBS and ABS positions
- Underweight to cash and agency RMBS versus the benchmark

Net Total Returns as of 6/30/20	3 Mo.	YTD	1 Yr.	3 Yr.	Annualized
					SI ¹
Class I	13.05%	-10.02%	-7.18%	n/a	0.57%
Bloomberg Barclays U.S. Agg. Bond Index	2.90%	6.14%	8.74%	n/a	6.03%

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. [^]Gross expense ratios are reported as of the 5/31/20 prospectus and the net expense ratios are reported as of the 1/31/20 Annual Report. The Adviser has agreed to waive fees and may amend, extend, or discontinue this waiver at any time without notice.

FUND INFORMATION AS OF 6/30/20

	Class I
Gross Expense Ratio [^]	5.45%
Net Expense Ratio [^]	0.75%
SEC Yield (Subsidized)	7.66%
SEC Yield (Unsubsidized)	3.51%

FUND CHARACTERISTICS

Fund Assets (All Classes)	\$11.5 mm
Number of Securities	55
NAV	Daily
Dividend Frequency	Monthly
Liquidity Provisions	Quarterly
Floating Rate (%)	60.5

FUND STATISTICS

(Since Inception)	Fund ²	Index
Standard Deviation	8.3	4.7
Sharpe Ratio	-0.2	1.3
Correlation to Index	0.0	1.0
Positive Months (%)	83.3	63.3
Negative Months (%)	16.7	36.7

²ASCIX



Performance Attribution

		Q2 2020 ¹	YTD 2020 ¹
	% of Market Value	Contribution (%)	Contribution (%)
Residential Mortgage Credit	50.7	7.25	-1.63
Commercial Mortgage Credit	4.8	0.37	-4.18
CLOs	12.8	3.60	-3.20
ABS	20.4	0.90	-1.16
Corporates	9.2	1.13	0.45
Cash	2.1	0.00	0.02
Fund Expenses ²	-	-0.21	-0.32
Total	100.0	13.05	-10.02

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 725 basis points to Fund performance in the second quarter bringing year-to-date contribution to -163 basis points. Spreads across the sector retraced much of their widening throughout the quarter from bottoming amid the COVID-19 fallout in mid March. A combination of policy support, new money raised to capitalize on dislocations within the sector, stronger forecasts and a return to regular trading were all part of the rally. While delinquencies picked up as expected, prepayment speeds remained strong, specifically in the credit risk transfer (CRT) and Prime Jumbo subsectors. In June, the new-issue market was back in full force as well with deals from all sectors pricing, some with yields tighter than levels seen pre-COVID-19.

CLO

- CLOs contributed 360 basis points to Fund performance in the second quarter, bringing year-to-date contribution to -320 basis points. The CLO market saw significant pickups in CCC/Caa buckets and default rates as expected, and some deals tripped their overcollateralized (OC) triggers. Throughout the quarter, the corporate outlook improved as loans rallied, lifting market value metrics in CLOs and allowing managers to clean up deals. With the market dislocation, new money raised, and demand for yield, investors with more opportunistic outlooks took advantage of historically wide levels, and the market rallied throughout the quarter. The new-issue market consistently issued three-year reinvestment period deals with a one-year non-call structure from May onward, as demand for portfolios with low exposure to COVID-19 remained consistent.

ABS

- ABS returned 5.30% in the second quarter, contributing 90 basis points to Fund performance. The allocation to ABS increased to 20.4% in the second quarter from 17.1% in the previous quarter. The Fund benefited from spread tightening within subprime auto and consumer ABS sectors during the quarter. Spreads remained much wider than levels before COVID-19 in idiosyncratic subsectors such as consumer ABS and rental car mezzanine tranches, which provide potential for outsized total returns looking forward.



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.

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

ISM Non-Manufacturing Index: An index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives by the Institute of Supply Management (ISM).

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 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 6/30/20 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

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