



Angel Oak Strategic Credit Fund Quarterly Review

December 31, 2020



Angel Oak
CAPITAL ADVISORS

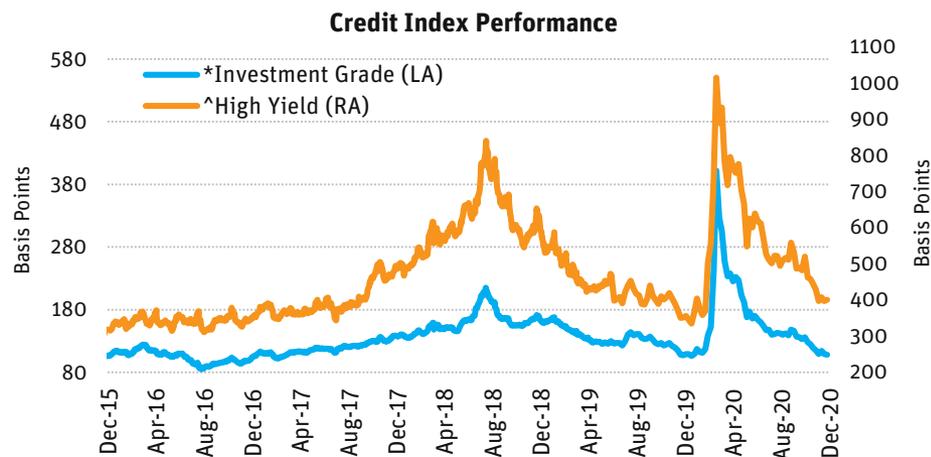
Quarter in Review

- U.S. risk assets fared well in the fourth quarter on the heels of COVID-19 vaccine news and the election outcome. The S&P 500 was up 12.15% on the quarter and up 18.40% for the year. Corporate credit also performed well, as spreads were tighter on the quarter. Investment grade and high yield spreads tightened 40 and 157 basis points, respectively.
- Structured credit returns were positive in the fourth quarter, as investor sentiment improved going into year end. Legacy non-agency residential mortgage-backed securities (RMBS) posted positive returns of approximately 2.10%, with positive excess returns of approximately 2.13%. Non-QM generated a positive return of 1.0% and a positive excess return of 1.4%. Collateralized loan obligations (CLOs) as a cohort produced an excess return of 1.7%. Commercial mortgage-backed securities (CMBS) posted a positive excess return of 1.6%. The asset-backed securities (ABS) sector returned 0.8% on the quarter.¹
- Top-performing sectors on the year were IG Corporates, up 9.8%; Agency CMBS, up 8.4%; CLO BB, up 8.2%; U.S. Treasury, up 8.2%; and CMBS, up 6.8%.¹
- The Federal Open Market Committee maintained its target range of 0.00% to 0.25% in the fourth quarter and is expected to maintain this target range until the end of 2023, according to its dot plot. The Fed continues to expand its balance sheet by purchasing securities on the open market. Fed asset purchases remain at the current monthly pace of \$80 billion in Treasuries and \$40 billion in MBS.
- Economic data on the quarter continued to improve. The headline unemployment rate declined during the quarter to 6.7% from 7.8%. While payrolls have improved in the past few months, they remain 9.8 million below the February 2020 level. The economic leading indicators produced by the Institute for Supply Management (ISM) have been robust in Q4. Both the ISM manufacturing and non-manufacturing indices continued to remain above 50, indicating net growth for both sectors of the U.S. economy. The ISM Manufacturing Index increased to 60.7 from 55.4 on the quarter, while the ISM Non-Manufacturing decreased slightly to 57.2 from 57.8 during the same time period. Consumer sentiment increased marginally quarter-over-quarter as the University of Michigan Consumer Sentiment Index increased to 80.7 in December from 80.4 in September. On the housing front, the S&P 500 Case-Shiller 20-City index increased 7.95% year-over-year through October, the highest increase since June 2014. Homebuilders' confidence reached 90 in November, the highest on record, and ended the year at 86.

¹BofAS Global Research.

Benchmark Performance	12/31/20	9/30/20	Quarterly Change (bps)
1-Month LIBOR	0.14	0.15	-1
3-Month LIBOR	0.24	0.23	+1
2-Year Treasury	0.12	0.13	-1
5-Year Treasury	0.36	0.28	+8
10-Year Treasury	0.91	0.68	+23
30-Year Treasury	1.64	1.46	+18
2s/10s Curve	0.79	0.56	+23
2s/30s Curve	1.52	1.33	+19
S&P 500 Total Return Index	7,759	6,919	+1,215
IG Corporate OAS*	96	136	-40
HY Corporate OAS^	360	517	-157

Sources: Bloomberg and Yieldbook as of 12/31/20.



Source: Bloomberg as of 12/31/20.

*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 Strategic Credit Fund, a closed-end interval fund, was up 7.40% in the fourth quarter of 2020, outperforming the benchmark by 6.73%. The Bloomberg Barclays U.S. Aggregate Bond Index was up 0.67% over the same period as U.S. interest rates were relatively unchanged throughout the quarter.

Primary contributors to Q4 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 12/31/20	3 Mo.	YTD	1 Yr.	Annualized	
				3 Yr.	SI ¹
Class I	7.40%	1.40%	1.40%	4.57%	4.54%
Bloomberg Barclays U.S. Agg. Bond Index	0.67%	7.51%	7.51%	5.34%	5.45%

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 12/31/20

	Class I
Gross Expense Ratio [^]	5.45%
Net Expense Ratio [^]	0.75%
SEC Yield (Subsidized)	7.58%
SEC Yield (Unsubsidized)	2.22%

FUND CHARACTERISTICS

Fund Assets (All Classes)	\$13.0 mm
Number of Securities	55
NAV	Daily
Dividend Frequency	Monthly
Liquidity Provisions	Quarterly
Floating Rate (%)	66.4

FUND STATISTICS

(Since Inception)	Fund ²	Index
Standard Deviation	7.9	4.5
Sharpe Ratio	0.6	1.3
Correlation to Index	0.0	1.0
Positive Months (%)	86.1	61.1
Negative Months (%)	13.9	38.9

²ASCIX



Performance Attribution

		Q4 2020 ¹	YTD 2020 ¹
	% of Market Value	Contribution (%)	Contribution (%)
Residential Mortgage Credit	49.1	4.82	5.00
ABS	20.6	1.01	1.58
CLOs	12.9	1.20	-1.31
Corporates	7.4	0.17	0.89
Commercial Mortgage Credit	6.6	0.37	-4.06
Cash and Equivalents	3.4	0.00	0.02
Fund Expenses ²	-	-0.19	-0.74
Total	100.0	7.38	1.38

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 482 basis points to Fund performance in the fourth quarter, bringing 2020 contribution to 500 basis points. Spreads across the sector tightened, with most subsectors reaching tighter all-in yields than their pre-COVID-19 levels. A combination of policy support, stronger forecasts, continued strong fundamentals from the housing market, and news of an effective vaccine continued to advance the rally. While delinquencies fell throughout the quarter, prepayment speeds remained strong, specifically in the credit risk transfer and Prime Jumbo subsectors. The new-issue market remained active, with deals generally oversubscribed and continuing to drive the market tighter.

CLO

- CLOs contributed 120 basis points to Fund performance in the fourth quarter, bringing 2020 contribution to -131 basis points. CCC/Caa buckets and OC ratios continued to improve, as loan prices rallied throughout the quarter. With market outlooks improving, driven by more news surrounding an effective vaccine, demand for risk assets remained. The top of the capital structure rallied, while below-investment-grade bonds with cleaner collateral traded stronger than their weaker counterparts. The new-issue market was active as issuers looked to take advantage of tightening liabilities as a larger percentage of deals returned to the typical five-year reinvestment and two-year non-call structure. The primary market is slated for an active 2021 as many 3/1 structure deals exit their non-call period along with the older 5/2 deals with coupons in the money, given spread compression in the current low-rate environment.

ABS

- ABS returned 5.05% in the fourth quarter, contributing 101 basis points to Fund performance. For the full year, ABS returned 7.42%, contributing 158 basis points to Fund performance. The allocation to ABS increased slightly to 20.6% in the fourth quarter from 20.2% in the third quarter. The Fund benefited from spread tightening within subprime auto and consumer ABS sectors during the quarter and the sharp flattening of the ABS credit term structure in November and December.



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.

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).

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 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.

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.

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.



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 12/31/20 and are subject to change at any time, are not guaranteed, and should not be considered investment advice.

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