DoubleLine Global Bond Fund Webcast Recap

Originally aired on October 9, 2018

About this Webcast Recap

On October 9, 2018, Portfolio Managers Bill Campbell and Valerie Ho held a webcast discussing the DoubleLine Global Bond Fund (DBLGX/DLGBX) titled "Navigating Global Cross Currents".

This recap is not intended to represent a complete transcript of the webcast. It is not intended as solicitation to buy or sell securities. If you are interested in hearing more of the portfolio managers' views, please listen to the full version of this webcast on www.doublelinefunds.com under the blue **"Webcasts"** tab. You can use the **"Jump To"** feature to navigate to each slide.

Fund Performance

Month-End Returns September 30, 2018	September	YTD	Annualized 1-Year	Annualized Since Inception	1-Yr Std Deviation
I –share (DBLGX)	-0.61%	-3.16%	-2.64%	1.29%	3.56%
N-share (DLGBX)	-0.58%	-3.25%	-2.88%	1.06%	3.52%
FTSE World Government Bond Index (WGBI)	-1.02%	-1.62%	-2.55%	2.40%	3.91%

Quarter-End Returns September 30, 2018	3Q18	YTD	Annualized 1-Year	Annualized Since Inception
I -share	-1.00%	-3.16%	-2.64%	1.29%
N-share	-1.07%	-3.25%	-2.88%	1.06%
FTSE World Government Bond Index (WGBI)	-1.62%	-2.55%	-1.54%	2.40%

Expense Ratio (Gross): I-share, 0.57%; N-share, 0.82%

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained by calling (213) 633-8200 or by visiting www.doublelinefunds.com.

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contain this and other important information about the investment company, and may be obtained by calling (877) 354-6311 / (877) DLINE11, or visiting www.doublelinefunds.com. Read them carefully before investing.

The performance information shown assumes the reinvestment of all dividends and distributions.

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The Rise of Populism in the Developed World

- A large part of successfully navigating global markets has been dependent on navigating global politics.
  - 2016:
    - Brexit Vote (United Kingdom)
    - President Trump election (United States)
  - 2017:
    - Emmanuel Macron election (France)
    - Italian Parliament dissolved by President Sergio Mattarella (Italy)
  - 2018:
    - General Elections (Mexico)
    - General Elections (Brazil)
- This chart shows the percentage of votes for populist parties.
  - The Populism index surged in 2016, and has remained at elevated levels with the share of populist parties taking roughly 32% of the total vote.
- The persistence of the populist sentiment across the globe is what we believe has been guiding U.S. policy, which has also coincided with a rise in President Trump's approval rating as Trump has not wavered on putting increased pressure on U.S. trading partners.

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U.S. Goods Trade Deficit by Country (USD millions)

- President Trump has prioritized negotiating new trade agreements or revising trade agreements with countries where the U.S. runs large trade deficits:
  - China: -$375,913 million
  - Mexico: -$76,127 million
  - Canada: -$22,660 million
- Trump's progress on negotiating trade agreements has been met with varied success.
  - Europe and the U.S. have in theory agreed to negotiate – with the goal of zero tariffs, zero barriers and zero subsidies – on non-auto industrial goods
  - Prime Minister Shinzo Abe of Japan has agreed to start talks for bilateral trade agreement.
  - Trump has successfully renegotiated the Korea Free Trade Agreement (KORUS), which grants the U.S. greater access into the Korean auto market.
  - Arguably Trump's biggest success has been renegotiating the revised North American Free Trade Agreement (NAFTA), which will be renamed United States-Mexico-Canada Agreement (USMCA). The deal achieves improved access to Canada's dairy market, raised the regional content for auto imports, and introduced a 16-year sunset review clause, and in addition introduced a Forex (FX) chapter focusing on manipulation of exchange rates.

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World Gross Domestic Product (GDP)

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- In our opinion, China represents the most important, most contentious and most complicated trade partner to the U.S.
- China's rise in global influence directly challenges the U.S. global economic dominance, which is most clearly represented by China's growing share of GDP.
  - 2001:
    - China represented just 4% of world GDP
    - U.S. represented 31% of world GDP
  - 2018:
    - China surpassed Japan as the second largest economy and now represents 16% of world GDP
    - U.S. represents 23% of world GDP
- China is now the world's largest exporter, taking roughly 14% of global market share.
  - The rise in China's exports was initially concentrated in low-value-add goods such as textiles, machinery and metals.
  - This model is now shifting as China is trying to move up the value chain through its "Made in China 2025" initiative.

Escalating Tariffs

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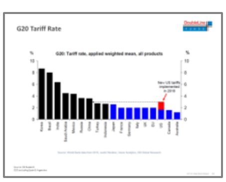

- President Trump started the year with broad tariffs on washing machines, solar panels, steel and aluminum.
- Since March, Trump has started to turn his attention towards China.
  - In July and August, Trump placed a 25% tariff on $50 billion worth of Chinese goods.
  - In September, Trump placed a 10% on an additional $200 billion of Chinese goods.
    - These tariffs are set to increase to 25% in 2019
  - Trump has threatened to impose another 25% of an additional $267 billion of Chinese goods.
- The impact on tariffs is rather difficult to assess. We find that most economists forecast a relatively small impact from the tariffs currently implemented. A forecast done by Bloomberg forecasts that the 10% on the $200 billion and the 25% on the $50 billion would reduce China's GDP by roughly half a percent.
  - If the tariffs were to be further escalated - meaning that 25% would be placed on all imports of Chinese goods – the GDP impact becomes much larger, at 1.5% of GDP.
- The risk of escalating trade war has adversely affected emerging market (EM) economies due to the potential impact on global growth. The countries hit the hardest have been the countries which run large fiscal deficits and rely heavily on external financing, such as Argentina and Turkey.
  - Argentine Peso is down roughly 50% year-to-date (YTD)
  - Turkish Lira is down roughly 38% YTD

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U.S. Exceptionalism

- The impact of "America First" policies and U.S. exceptionalism on global markets has been the U.S. stock market outperforming the rest of the world.
- Equally important to the market has been Trump's tax and fiscal policy. The U.S. is running its largest fiscal deficit due to tax reform, higher defense spending and rising mandatory payments.
  - This has pushed the U.S. deficit up to $782 billion in the fiscal year 2018, which is the largest deficit since 2012.
- The impact of fiscal stimulus has been pushing growth forward. The Congressional Budget Office (CBO) estimates that fiscal stimulus has added roughly 30 basis points (bps) of growth to U.S. GDP in both 2018 and 2019.
- There has also been massive deregulation and removal of red tape under the Trump administration.
  - In 2017, the Federal Registrar saw a 36% drop in the count of pages compared to the record set under Obama in the prior year, 2016, with 95,000 pages.

Trade Weighted USD and USD/EM Performance

- The market impact has resulted in a divergence of the U.S. dollar (USD). Year-to-date, the USD has outperformed developed market currencies; most notably outperforming emerging market currencies.
- The USD has benefited from a flight to quality due to trade disputes

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Global Business and Consumer Confidence

- Both consumer and business sentiment on a global basis are registering historic high readings.
  - Business confidence is backed up by global corporate profits, which continue to remain fairly robust.
  - Rising consumer confidence is correlated to falling unemployment, which for developed economies are at historic lows for the past several decades.
- All Purchasing Managers Index (PMIs) still remain in expansionary territory for the Eurozone, the U.S. and EM.
- After Trump's election and following his fiscal stimulus, global markets saw a synchronized upswing in PMIs.
  - EM and Eurozone PMIs peaked at the end of 2017.
  - U.S. PMI peaked at the beginning of 2018.
- The desynchronization in our view has been caused by the U.S. moving from domestic growth policies to dealing with trade imbalances. The area that has been hit the hardest, at least from this PMI chart, has been the Eurozone.

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China Infrastructure Bonds Fuel Stimulus

- China accounts for 16% of global GDP. However, official Chinese GDP numbers show very little volatility, and there are questions about the accuracy of the official printed numbers.

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- Li Keqiang, currently the Premier of the People's Republic of China, developed his own index for how the real economy is performing.
    - This index looks at three indicators: the railway cargo volume, electricity consumption and loans disbursed by banks.
- While the official China GDP numbers are flat, the Li Keqiang index shows a pickup in Chinese GDP based on the three indicators.

- As trade concerns picked up, the Chinese authorities went from focusing on reforms such as deleveraging and environmental issues to a hyper focus on growth.
- The Ministry of Finance said that by the end of October 2018, China wants to have the full-year fiscal budget implemented for infrastructure.
    - Then they’re going to reevaluate if that’s enough to support growth; if not, they’re going to push forward additional stimulus.

Chinese Yuan Policy

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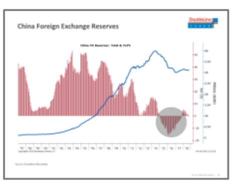

- Another issue that was rattling markets was the selloff of the Chinese currency. In August of this year, China implemented two very strong policy measures with a goal of manually stopping the depreciation of the Yuan versus the U.S. Dollar (USD):
    - Increasing the reserve ratio required on forward contracts.
    - Introduction of a countercyclical factor in its currency setting mechanism.
- By implementing both policies at the same time, China is sending a signal to the market that it’s serious about not letting the currency move much farther, at least in an uncontrolled manner.
- There’s been a lot of speculation that a devaluation of the currency could offset any trade measures that were implemented by the U.S. However, there is risk that if the currency devalues too quickly as it did in 2015 and 2016, that it could cause a capital outflow issue.

U.S. Real Rate – Still Accommodative

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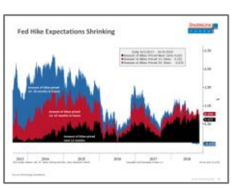

- One way to measure if the Fed’s policy in its current state is easy or restrictive is to look at the real rate, which is the Fed policy rate less inflation.
    - Restrictive rates are when the Fed policy rate is meaningfully above inflation.
    - Despite the Fed hiking rates eight times since the tightening cycle began in 2015, the U.S. real rate is still accommodative, which is a factor that should continue to support global growth.
- This is almost the exact opposite of the European Central Bank’s (ECB) policies.
    - The ECB is coming out of extraordinarily easy policy as they end their quantitative easing.
    - Mario Draghi, president of the ECB, is focused on relatively vigorous inflation.
        - Draghi expects core inflation in 2018 to be 1.1%, and by 2020 he expects it to rise to 1.9%.
- Focusing on inflation is sending a signal to the markets that the ECB has moved from the dovish side of the spectrum to a more hawkish position.

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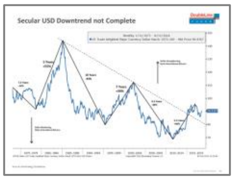

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United States Twin Deficits versus USD

- The twin deficit is the current account deficit plus the fiscal deficit.
- The recent fiscal stimulus is pushing the deficit down. It's likely to continue to push this deficit even wider. The latest release of the U.S. budget deficit had already exceeded the Congressional Budget Office (CBO) estimate for the full year of 2018.
  - If history holds true as a guide, it's likely this will put downward pressure on the USD.

DoubleLine Global Bond Fund (DBLGX)

- Currently, the fund is about a year and a half short of its benchmark, the FTSE World Government Bond Index (WGBI).
  - Given our view that now the market has confirmed that yields are likely headed higher on a secular basis, the fund will look to tactically reduce duration on rallies.
- The fund is underweight:
  - The Americas; that's mostly driven by the U.S. dollar.
  - Developed Europe - both the European continent and the U.K.
  - Euro relative to the WGBI – the majority of which is the fund's non-allocation to Italy, which is about 7.5% of the benchmark.
  - 12% underweight to the U.S. Dollar.
- The fund is overweight:
  - The Central Europe, Middle East and Africa (CEMEA) region as we look to pick up yield and potentially benefit from Euro appreciation in countries that are Euro-linked.
    - Versus a benchmark weighting of 1%, DBLGX has a 14.5% weighting to CEMEA.
  - Slightly overweight Asia.
  - More Euro-linked but outside of Europe, such as Czech Republic, Poland and Hungary.
- The fund is neutral to the Yen, roughly 20% versus the benchmark 19%.
  - We think that the yen has a risk-averse property due to its large international investment position. If we're wrong about global growth outlook or if trade surprises us to the downside and there is a growth shock, we believe the Yen will appreciate.

Question and Answer

- **"Where do you see the U.S. Treasury rates going over the next six months? And is it high enough to slow the economy and push the U.S./globe into recession?"**
  - I think a lot of that comes down to the pace at how quickly we move up. In my view, I think that what we're seeing is a continued normalization of rates. We've actually seen the yield curve steepen just about 10 basis points since rates really started to break out to the upside. And if the pace of selloff in U.S. rates isn't extremely abrupt, I think that global growth and U.S. growth should be able to handle it. Now, that being said, equity markets are clearly having some issues recently with the current rise in rates. So, again, I think it's going to be a function of how quickly the selloff happens, rather than the actual level that we get to over time.
- **"What is your outlook for Renminbi (RMB) bonds?"**
  - China is looking for outside foreign investors to come into their local markets. And as they do so, they've provided a couple of mechanisms for investors to come into the local markets, whether it's through Bond Connect, which is a Hong Kong-based hub, or actually going to the People's Bank of China (PBOC) and setting up an account directly.

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Question and Answer (cont'd)

- Well, in 2015 and 2016, the free flow of capital in and out was shut off. And what we're concerned about is – we don't think a recession is coming at the end of this quarter, but at some point a global recession will come. And we think that it's highly likely that China would reinstitute gates to prevent capital from flowing out of the country. So, going forward, I think that there's a lot of risk embedded in Chinese currency bonds. And we would like to see at least one cycle of capital outflows happen before we decide to put investors' money at risk in China. So, I think as far as RMB bonds, even if they are included in the indexes, we're probably going to be late adopters to putting your money at risk and our money at risk in those markets, just due to the potential for policy to prevent us from getting out.

- **"What is your outlook for U.S.-China trade relations?"**
  - I think that there is still some hope that the U.S. and the Chinese trade negotiators and, especially, President Xi and President Trump might be able to come to a broad-stroke agreement where you could end up in a situation where they stale the tariffs where they currently are, and then maybe there will be a step-function reduction as China makes progress on a specific area, then you could reduce a protectionist measure that the U.S. has put on.

Definitions

Basis Point (bps)- A basis point is a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

Standard Deviation – Shows how much variation there is from the "average" (mean, or expected/budgeted value). A low standard deviation indicated that the data point tend to be very close to the mean, whereas high standard deviation indicated that the date is spread out over a large range of values.

FTSE World Government Bond Index (WGBI) (formerly known as Citi World Government Bond Index) measures the performance of fixed-rate, local currency, investment grade sovereign bonds. The WGBI is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies, and has more than 25 years of history available. The WGBI provides a broad benchmark for the global sovereign fixed income market. Sub-indices are available in any combination of currency, maturity, or rating. You cannot invest directly in an index. Benchmark returns are not covered by the report of independent verifiers.

China Li Keqiang Index – Chinese Premier Li Keqiang once remarked to a U.S. diplomat that China's GDP data was 'man made'. To track growth he preferred to look at change in bank lending, rail freight, and electricity consumption.

Populism Index - An aggregated index of populism in seven large countries over the last century weighted by populist votes and population size. We include the lower house elections in France, Italy, Spain, United Kingdom, Japan and Germany in addition to presidential elections within the United States. While the definition of populism is inherently subjective, the criteria used were as follows: Parties that espouse communist policy positions. Parties that espouse nationalist tendencies with regards to immigration and militarism. Parties led by leaders with dominating, charismatic personalities rather than well-defined policy positions. Regarding Europe, generally parties that display euro-sceptic or anti-Nato tendencies. Anti-Corporate Progressive Presidential candidates in US Elections whose political ideologies fell outside the political mainstream were also included.

Purchasing Managers Index - Is an indicator of economic health for manufacturing and service sectors. The purpose of the PMI is to provide information about current business conditions to company decision makers, analysts and purchasing managers.

Yield curve - Is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates.

It is not possible to invest directly in an index.

Disclaimer

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Diversification does not assure a profit or protect against loss in a declining market.

Certain data discussed in this report is publicly available only on a time delayed basis. DoubleLine strives to analyze data as it becomes available, but makes no representation that all data is reviewed contemporaneously to its release.

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