Webcast Recap

DoubleLine Total Return Bond Fund

This webcast originally aired on December 10, 2019

About this Webcast Recap

On December 10, 2019, Chief Executive Officer Jeffrey Gundlach and Portfolio Manager Andrew Hsu held a webcast titled, A Rolling Loan Gathers No Loss, discussing the DoubleLine Total Return Bond Fund (DBLTX/DLTNX).

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 Mr. Gundlach's and Mr. Hsu's views, please listen to the full version of this webcast on www.doublelinefunds.com and click on the **"Webcasts"** tab under **"Latest Webcast"**. You can use the **"Jump To"** feature to navigate to each slide.

DoubleLine Total Return Bond Fund – Performance

Month-End Returns November 30, 2019	Nov	Last 3-Months	Year-to-Date	Annualized 1-Year	3-Year	5-Year	Since Inception (4-6-10 to11-30-19)
I-share (DBLTX)	-0.16%	-0.30%	6.08%	7.54%	3.87%	3.22%	5.92%
N-share (DLTNX)	-0.18%	-0.27%	5.94%	7.28%	3.62%	2.98%	5.66%
Bloomberg Barclays U.S. Agg Index	-0.05%	-0.28%	8.79%	10.79%	4.10%	3.08%	3.76%

Quarter-End Returns September 30, 2019	Sep	3Q2019	Year-to-Date	Annualized 1-Year	3-Year	5-Year	Since Inception (4-6-10 to 9-30-19)
I-share (DBLTX)	-0.35%	1.58%	6.02%	7.87%	3.20%	3.48%	6.02%
N-share (DLTNX)	-0.28%	1.61%	5.93%	7.71%	2.98%	3.25%	5.77%
Bloomberg Barclays U.S. Agg Index	-0.53%	2.27%	8.52%	10.30%	2.92%	3.38%	3.80%

Gross Expense Ratio: I-share: 0.48%, N-share: 0.73%

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.

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8 	**Negative Yielding Debt** • In 2016, negative interest rates lasted briefly in Germany and parts of Europe. This year, many global developed central banks have shifted to a negative interest rate regime for the foreseeable future.

Slide #	Recap

Negative Yielding Debt (cont'd)

- The amount of negative yielding debt, as measured by the Bloomberg Barclays Global Aggregate Negative Yielding Debt Index, reached a high of $17.04 trillion in August 2019.
  - With rates rising recently, the market value of negative yielding debt is down to roughly $11 trillion. This represents 34% of the total market value of the Bloomberg Barclays Global Aggregate Index Ex-U.S.
- Federal Reserve (Fed) Chairman Jerome Powell said in the Federal Open Market Committee (FOMC) October press conference that the United States (U.S.) does not plan to implement negative interest rates.

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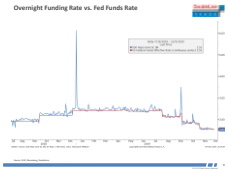

Overnight Funding Rate versus Fed Funds Rate

- In September 2019, the overnight funding rate (the interest rate that large banks use to borrow and lend from one another in the overnight market) spiked to an unusually high level without warning.
- This prompted the Fed to act as the liquidity-provider-of-last-resort for the first time since 2009, as the Fed's open market desk launched repo operations to relieve the funding pressures.
  - The Fed attributed the shortage of short-term money to tax payments coming due, coupled with a mismatch between maturing United States Treasury (UST) Bills and UST Bills that had yet to be issued.
- Mr. Gundlach believes there are deeper structural reasons as to why the overnight rate spiked, such as insufficient liquidity and demand. This is one of the reasons that in the next economic downturn, the first move in interest rates will likely be higher on the long-end, absent any Fed intervention via additional Quantitative Easing (QE).

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Fed Balance Sheet and 3m10yr UST Spread

- The Fed's balance sheet is approximately $4 trillion; various QE operations have been growing the balance sheet since 2008. The addition of repo reserves held under agreements has reversed 40% of the Fed's Quantitative Tightening (QT) in just three months.
  - While the Fed claims their actions in the repo market are not QE, the pace of balance sheet expansion has been similar to that of previous QE operations.
- Contrary to expectations, when the Fed has engaged in buying bonds at the long-end, the yield curve, as measured by the spread between the yield of the 10-year Treasury Note and the interest rate on the 3-month Treasury Bill, steepened. When the Fed engaged in QT, which means letting bonds enter the market, the yield curve flattened.
  - With the Fed engaging in repo facility expansion, their balance sheet is expanding and the yield curve is again steepening.

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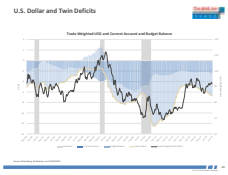

Recap

U.S. Dollar (USD) and Twin Deficits

- Dollar cycles tend to go on for multiple years and correlate closely to the Fed Funds Rate.
  - With other major central banks in Japan and Europe at negative interest rates while the Fed Funds Rate is positive, Mr. Gundlach expects the dollar to weaken as the Fed has begun easing.
- Additionally, the twin deficit, which is the current account deficit plus the fiscal deficit, is highly correlated to moves in the Trade Weighted USD.
- Recent fiscal stimulus has been increasing the deficit, which is nearly negative 7% of U.S. gross domestic product (GDP).
  - When the twin deficits expand, the USD tends to weaken, another reason why Mr. Gundlach is long-term bearish on the USD.
- The USD, as measured by the DXY (U.S. Dollar Index), reached a post-Global Financial Crisis high of 103.30 in December 2016. The DXY started 2019 at 96.17, and has been largely stable throughout the year.
  - As of December 10, 2019, the DXY was 97.41.
- Non-U.S. assets have the potential to outperform U.S. assets if the USD weakens in 2020.

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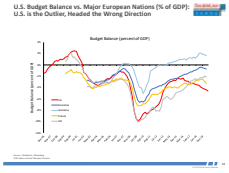

U.S. Budget Balance versus Major European Nations (% of GDP)

- The U.S. budget balance as a percent of GDP is running at a roughly 5% deficit, which is larger than the deficits of the Eurozone, France and the United Kingdom (U.K.), while Germany is running a surplus.
  - This could be a reason why interest rates in the U.S. are higher than that of other developed market countries, as the U.S. has a larger deficit, which has led to a greater supply of bonds.
- The budget balance in the U.S. is unlikely to improve anytime soon, given that President Trump seems to be happy presiding over the very same types of deficit spending that he railed against as a candidate, while the Democratic Party is likely to produce a presidential nominee that will be in favor of further government-spending programs.

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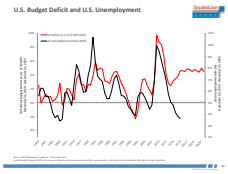

U.S. Budget Deficit and U.S. Unemployment

- Typically the budget deficit has mirrored the U.S. unemployment rate, i.e. when the unemployment rate rises, the deficit rises for a couple of reasons.
  - When the unemployment rate goes up, tax receipts go down and expenditures go up with unemployment benefits.
  - There are Keynesian ideas that when unemployment goes up, the government is expected to do more government spending in order to help dampen volatility in the economy.

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U.S. Budget Deficit and U.S. Unemployment (cont'd)

- Currently the U.S. unemployment rate is at a 50-year low, but the deficit as a percentage of GDP is at recessionary levels.
  - When the economy weakens, one can expect the deficit to increase as the unemployment rate would likely go up.
    - Based on previous recessions, the unemployment rate can get as high as 7-8%; if the deficit increased by roughly the same magnitude, that would suggest the deficit would be approximately 13% of GDP in the next recession.

U.S. 2-Year and 10-Year Treasury

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- Mr. Gundlach believes a 1.40% yield on the 2-year UST represents a resistance to the downside. Even though the Fed has been easing monetary policy, the yield curve remains relatively flat out to the 5-year UST.
  - The short end of the UST yield curve is indicating that there will be little to no change in the Fed Funds Rate for the first half of 2020.
- The yield curve, as measured by the spread between 10-year and 2-year UST yields, is no longer inverted, which many market participants view as a positive signal. Mr. Gundlach believes that is not historically true.
  - The yield curve often inverts well in advance of a recession. In past inversions of the yield curve, the Fed responds with easing measures which has historically led to a steepening of the yield curve back into positive territory.
  - This sequence happened again during 2019, as the Fed cut interest rates three times, and the 10-year UST Note now yields more than the 2-year UST Note.
- The 10-year UST yield appears to be putting in a triple bottom.
  - The bottom was in July 2016, virtually matching the low of July 2012. In the summer of 2019, the 10-year UST yield was not able to take out either the 2012 low or the 2016 low, bouncing off its trend line.
  - Mr. Gundlach expects UST curve steepening to be driven by the long-end of the curve. The Fed holding interest rates steady while building its balance sheet suggests little movement on the short-end of UST curve.

Copper/Gold Ratio and 10-Year U.S. Treasury Yield

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- One of the leading indicators Mr. Gundlach watches for the future direction of the 10-year UST yield is the Copper / Gold ratio.
  - Currently, the Copper / Gold ratio implies the 10-year UST yield should be higher, at roughly 2%; another reason to anticipate a steeper yield curve.
- Another indicator is the average of U.S. nominal GDP and the German 10-year Bund yield.
  - This suggests roughly a 1.90% 10-year UST yield, depending upon what happens to nominal GDP in the next release.

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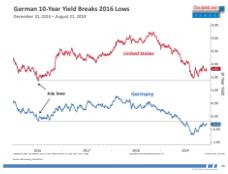

Recap

German 10-Year Yield Breaks 2016 Lows

- The Dow Theory, as it relates to the stock market, compares the performance of the Dow Jones Industrial Average to the Dow Jones Transportation Average; the idea being that one is an indicator of industrial manufacturing while the other measures the shipping of those goods, at least partially.
  - The Dow Theory suggests that if one index goes to a new high and the other index does not go to a new high that gives a sell signal. And vice versa: if one market goes to a new low but the other index fails to confirm that low, that signals a potential reversal point.
- The same logic can be applied to bond markets. The 10-year UST yield did not go to a new low in 2019, however, the German 10-year yield did go to a significant new low since March of this year.
  - Mr. Gundlach believes that this divergence is a sign that yields on the long-end have a path of least resistance to the upside.

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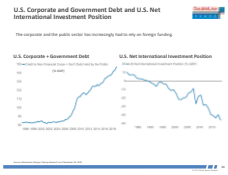

U.S. Corporate and Government Debt and U.S. Net International Investment Position

- The sum of corporate debt plus U.S. government debt owned by the public has exploded as a percentage of GDP, from 80% in 2006 to nearly 150% today.
  - Simultaneously the U.S. net international investment position over that time period of economic growth since 2006 has gone very sharply negative. What that means is that foreigners are buying U.S. investments, likely attributable to the "search for yield."
- Mr. Gundlach believes this is a precarious situation because if the USD declines, it's unlikely these net investment positions will remain this way, as foreign investors would likely sell their declining unhedged USD investment position.
  - Nearly 50% of U.S. GDP value is held by foreign investors in U.S. investment securities, i.e. there's a lot of potential selling that could happen.

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Corporate Bond Market Liquidity

- Dealer inventories went up more than U.S. corporate bond issuance back in the early part of the 2000's, which acted as a real support for the corporate bond market.
- Today, dealer inventories are almost non-existent. Mr. Gundlach believes inventories will stay non-existent even if tremendous selling of corporate bonds occurs.
  - In November and December 2018, there was a dislocation in the corporate bond market; for roughly two months there was no high yield corporate bond issuance due to market volatility. This is a consequence of having no dealer balance sheets and could lead to more volatility when the economy faces its next downturn.

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Corporate Debt: Quantity Up, Quality Down

- The quality of the corporate bond market has completely collapsed over the past 30 years.
  - The percentage of corporate credit outstanding that is rated A or above was two-thirds of the corporate bond market in the early 1990s.
  - As recently as 2008 it was at 55%; today it is at 40%.
- The lowest tier of investment-grade rating, the BBB market, has gone from under $1 trillion back in 2008 to nearly $3 trillion today.
  - Mr. Gundlach believes this is a real problem once the next recession comes, because BBBs are only one notch away from below investment grade status.
    - If those bonds get downgraded from investment-grade status to below investment grade status – all things being equal – the prices do not go up.
- Corporate credit as a percent of GDP went from 40% of GDP up to roughly 47% of GDP in the last five years. While that doesn't seem like much on a percentage basis, GDP is a very large base, meaning small moves up in percentage equate to large amounts of corporate debt issuance.

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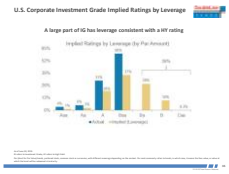

U.S. Corporate Investment Grade Implied Ratings by Leverage

- According to Morgan Stanley research, 39% of the investment-grade corporate bond market would be rated below investment-grade, with a little over 10% rated B or C, if evaluated solely by leverage ratios.
  - Mr. Gundlach believes one of the reasons these companies are not rated lower by the rating agencies is because company officials have acknowledged their debt ratios are too high, and their idea is to address those ratios at some future date.
  - If these companies do not address those debt levels or if there is a recession and they are unable to address those debt levels, there could be a significant portion of the investment-grade market being downgraded.
- This is what has been happening with the high-yield bond market, as the Loan-to-Maturity (LTM) upgrade-to-downgrade ratio has been trending down for roughly one year.

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Long CCC/Short BB Excess Returns by Year

- 2019 has been one of the most remarkable years of relative performance in corporate bonds, as BB rated corporate bonds have outperformed the CCC rated corporate bonds, on an index level by over 800 bps this year.
  - Given that YTD the U.S. stock market is up 25%, U.S. investment-grade corporate bonds are up 14%, emerging market fixed income is up 12%, and U.S. high-yield corporate bonds are up more than 12%, Mr. Gundlach finds it strange that the lower tiers of credit, such as CCC's, have not been a top performer under these circumstances.
  - When CCC's have historically underperformed BB's, it was because the markets were experiencing significant turmoil, such as in 1994, 2001, and 2008. In 2019, the markets are performing well and CCC's are underperforming.

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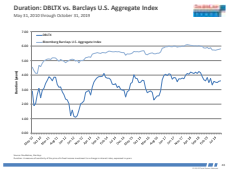

Recap

Duration: DBLTX versus Bloomberg Barclays U.S. Aggregate Index

- The Fund's duration is 3.71 years as of November 30, 2019.
  - The decision to maintain a lower duration than the Fund's benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index (5.88 years), has resulted in lower market drawdowns and lower overall volatility.
- Given the Fund's mortgage allocation, the team is mindful about potential prepayment risk.
- One way we managed to mitigate some of this risk was to invest in Agency commercial mortgage-backed securities (CMBS).
  - Agency CMBS have a government guarantee, but unlike residential mortgage-backed, the borrower base for CMBS have lower propensities to refinance when rates fall.
- As of November 30, 2019, the Fund's average price is roughly $101, which we view as quite attractive compared to the benchmark of roughly $106.

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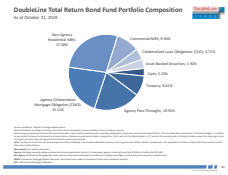

DoubleLine Total Return Bond Fund Portfolio Composition

- Government securities account for over 50% of the portfolio.
  - These are Agency MBS, Agency CMBS, and Treasury securities.
- On the credit side of the portfolio, the Fund has been diversifying across multiple structured credit sectors, including Non-Agency MBS, Non-Agency CMBS, collateralized loan obligations (CLOs), and asset backed securities (ABS) investments.
  - The Fund has historically expressed its views on credit through structured credit only, as the Fund currently does not own any corporate credit; this can act as a diversifier to corporate credit allocations.

Definitions

Below Investment Grade - A term indicating that a security is rated below investment grade. These securities are seen as having higher default risk or other adverse credit events, but typically pay higher yields than better quality bonds in order to make them attractive. They are less likely to pay back 100 cents on the dollar.

Bloomberg Barclays Global Aggregate ex USD Index - A measure of investment grade debt from 24 local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Bonds issued in USD are excluded.

Bloomberg Barclays Global Aggregate Negative Yielding Debt Index - A broad based index representing global intermediate-term investment grade bonds with negative yields.

Bloomberg Barclays US Aggregate Index - This index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. It is not possible to invest in an index.

BPS - A common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1% and is used to denote the percentage change in a financial instrument.

Copper-Gold Ratio - The quotient of the price per pound of copper divided by the price per troy ounce of gold. The ratio's absolute level is irrelevant. What matters is its direction – and whether the yield on the 10-year Treasury moved in the same direction or diverged.

Correlation - A statistical measurement of the relationship between two variables. Possible correlations range from +1 to -1. A zero correlation indicates that there is no relationship between the variables. A correlation of -1 indicates a perfect negative correlation and +1 indicates a perfect positive correlation.

Credit Quality - Determined from the highest available credit rating from any Nationally Recognized Statistical Rating Agency (NRSRO", generally S&P, Moody's, or Fitch). DoubleLine chooses to display credit ratings using S&P's rating convention, although the rating itself might be sourced from another NRSRO. The firm evaluates a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade. In limited situations when the rating agency has not issued a formal rating, the rating agency will classify the security as nonrated.

Dow Jones Industrial Average - A price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

Dow Jones Transportation Average - A 20-stock, price-weighted index that represents the stock performance of large, well-known U.S. companies within the transportation industry.

Duration - Duration is a commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration.

Drawdown - Is a peak-to-trough decline during a specific period for an investment, trading account, or fund.

EURO STOXX 50 - Europe's leading blue-chip index for the Eurozone, provides a blue-chip representation of leaders in the region.

Investment Grade - A level of credit rating for stocks regarded as carrying a minimal risk to investors. Ratings are based on corporate bond model. The higher the rating the more likely the bond will pay back par/100 cents on the dollar.

Spread - The difference between two prices, rates or yields.

U.S. Dollar Spot Index (DXY) - Indicates the general international value of the US dollar by averaging the exchange rates between the USD and major world currencies.

Upgrade-to-downgrade Ratio – A ratio between bond upgrades (when a rating agency raises a bond's rating) and bond downgrades (when a rating agency lowers a bond's rating).

Yield Curve - A curve on a graph in which the yield of fixed-interest securities is plotted against the length of time they have to run to maturity.

It is not possible to invest in an index.

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

Important Information Regarding This Report

DoubleLine assumes no obligation to provide revised assessments in the event of changed circumstances. While this information based on sources believed to be reliable, DoubleLine does not guarantee the accuracy of the information provided. DoubleLine assumes no duty to update this information, which is not a complete discussion of all economic factors reviewed by DoubleLine. DoubleLine reserves the right to change its investment perspective and outlook without notice as market conditions dictate or as additional information becomes available. The opinions of any individual portfolio manager does not necessarily reflect the opinions of all DoubleLine portfolio managers.

Mutual fund investing involves risk; Principal loss is possible. Investments in debt securities typically decrease when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in Asset-Backed and Mortgage- Backed securities include additional risks that investors should be aware of including credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Investments in lower rated and non–rated securities present a great risk of loss to principal and interest than higher rated securities. The Total Return Bond Fund intends to invest more than 50% of its net assets in mortgage-backed securities of any maturity or type. The Fund therefore potentially is more likely to react to any volatility or changes in the mortgage-backed securities market place.

Diversification does not assure a profit, nor does it protect against a 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.

Opinions expressed are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

Fund holdings are subject to change and should not be considered a recommendation to buy or sell any security.

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