DoubleLine Total Return Bond Fund Webcast Recap

Originally aired on December 11, 2018

About this Webcast Recap

On December 11, 2018, Chief Executive Officer Jeffrey Gundlach held a webcast 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 views, please listen to the full version of this webcast on www.doublelinefunds.com 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, 2018	Nov	YTD	Annualized 1-Year	3-Year	5-Year	Since Inception (4-6-2010 to 11-30-18)	1-Yr Std Deviation
I-share	0.62%	0.36%	0.65%	2.03%	2.91%	5.73%	1.77%
N-share	0.70%	0.22%	0.49%	1.81%	2.67%	5.48%	1.77%
Bloomberg Barclays U.S. Agg Index	0.60%	-1.79%	-1.34%	1.33%	2.03%	2.98%	2.47%

Quarter-End Returns September 30, 2018	3Q2018	YTD	Annualized 1-Year	3-Year	5-Year	Since Inception (4-6-2010 to 9-30-18)
I-share	0.17%	0.00%	0.23%	1.82%	2.92%	5.81%
N-share	0.01%	-0.19%	-0.02%	1.53%	2.67%	5.54%
Bloomberg Barclays U.S. Agg Index	0.02%	-1.60%	-1.22%	1.31%	2.16%	3.06%

Gross Expense Ratio
I-share: 0.47%, N-share: 0.72%
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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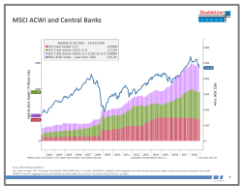

Global Economy – "Scared sick looking at it"- Ernest Hemingway

- One development Mr. Gundlach has been talking about for a few years now is the high correlation between central bank balance sheets and the global equity markets.
- The cumulative balance sheet of the Federal Reserve (Fed), the European Central Bank (ECB), and the Bank of Japan (BOJ), peaked out at year-end, which was the exact peak of the MSCI ACWI (All Country World Index) on January 26, 2018.
- The percentage of countries in the MSCI ACWI that individually are exhibiting a death cross, which is when the 50-day moving average is below the 200-day moving average, is over 75%.

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- As predicted in the January 2018 "Just Markets" webcast, the year is heading towards its first annual decline since 2008 as measured by the S&P 500 Total Return Index.
- 2018 is shaping up to be one of the worst performing years across the breadth of the market, as roughly 90% of asset classes are posting negative returns year-to-date (YTD) according to an analysis by Deutsche Bank. This is the highest percentage of negative returns in any calendar year going back to 1901.

G3 Wages – Rising Wage Pressure

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- Another reason global stocks have been suffering is due to wages rising faster than GDP growth, which could be problematic for corporate profitability in the future.
  - U.S. Real GDP year-over-year (YoY) registered at 3.00% while U.S. average hourly earnings private yearly percent change was 3.05%
  - U.K. Real GDP YoY registered at 1.50% while average weekly earnings 3 month growth was 3.30%
  - EU Real GDP YoY registered at 1.90% while Organisation for Economic Co-operation and Development (OECD) Euro Area Early Estimate Unit Labour Costs (ULC) Indicators was 2.32%
- Corporate profitability is expected to compress in periods when wages are increasing above GDP growth figures.

U.S. – "He felt quite sure that he would never die" - Ernest Hemingway

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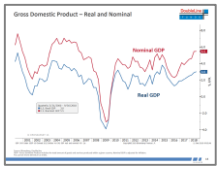

- The pervading sentiment that the U.S. markets and economy were invincible compared to the rest of the world has faded. However, leading economic indicators in the U.S. remain strong.
  - U.S. nominal GDP and real GDP are strong at 5.5% and 3.0%, respectively.
  - Going back to the 1960's, the U.S. has never had a recession without the leading economic indicators first going negative. The U.S. Conference Board Leading Economic Indicator printed at 5.90 as of 10/31/2018.
  - Business and Consumer sentiment all remain at elevated levels, as measured by CEO Confidence, Home Builder Confidence, Consumer Confidence, and Small Business Optimism.
  - Purchasers Manufacturing Index surveys continue at non-recessionary levels, as the ISM Manufacturing PMI and the ISM Non-Manufacturing NMI printed at 57.7 and 60.3, respectively as of 10/31/2018.
  - Excluding the build-up in inventory levels as a part of U.S. GDP figures, the quarterly GDP ex-inventories finished Q3 at 1.23. This means that the 3.5% GDP figure was comprised of ~64% inventory build-up. So, without the inventory build, the economy is at one of its weakest levels in the past three to four years.
  - Despite financial media pundits' claims that wage growth is strong, Real Average Hourly Earnings YoY registered at 0.6. This is one of the lowest readings in the past four years.
  - Home Building and Home Buying remains weak. With increasing mortgage rates and home prices outpacing wage gains for years, housing has been one of the weakest sectors of the economy in 2018. The percentage of consumers when asked, "do you think this is a good time to buy a house?" who responded yes has declined from 85% in 2015 to 65% as of 11/30/2018, its lowest level since 2008. On the supply side, the ratio of houses for sale versus the selling rate has moved up from 3.5 in 2013 to 6.5 as of 10/31/2018.

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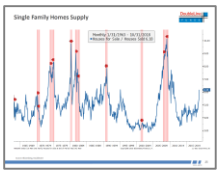

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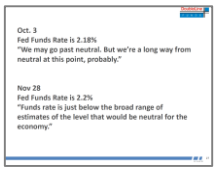

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The Fed – "He did not want any consequences ever again" - Ernest Hemingway

- The Fed wants to raise rates and reduce their balance sheet, and they don't want to have any consequences.
  - On October 3, 2018 with the Fed Funds rate at 2.18%, Jay Powell said, "we may go past neutral. But we're a long way from neutral at this point."
  - A few weeks later with the Fed Funds rate at 2.2% on November 28, 2018, Powell proclaimed the Fed "Funds rate is just below the broad range of estimates of the level that would be neutral for the economy."
  - The market is pricing in one hike over the next 12 month period, in essence thinking the Fed will raise rates on 12/18/2018 and shrouding 2019 in uncertainty.
  - The Taylor Rule, which looks at GDP and inflation expectations and trends, implies the Fed Funds rate should be at ~5%
- We've seen a countertrend rally in bonds in recent months. Mr. Gundlach does not believe rates are down significantly, given that the two-year U.S. Treasury (UST) yield is down 20 basis points (bps) from its high close of 2.96 on 11/8/2018 and the thirty-year bond is down from its high close of 3.45 on 11/2/2018 by roughly 25 bps.
- The U.S. Budget Deficit as a Percentage of GDP printed at -3.95 on 10/31/2018 and including the growth in the national deficit, that number should be closer to -5.10%.

Rising Deficits and Rising Rates

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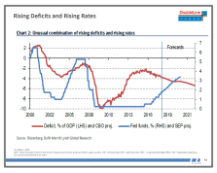

- Mr. Gundlach believes this is one of the most important charts within the deck, which shows the unusual situation of rising deficits while interest rates are being hiked by the Federal Reserve.
  - It's very strange that the U.S. is continuing to increase its deficits as a percent of GDP this late during an economic expansion while the U.S. is supposedly in a good economy, as Nominal GDP is at 5.5% YoY and Real GDP is at 3.0% YoY.
  - The reason economic growth has continued to expand is likely due to the growth in the deficit. When the deficit increases, that's potentially good for the short-term, but it's borrowing from the future.
  - This is the "suicide mission" that Mr. Gundlach has been talking about for much of 2018, as the U.S. is increasing our debt while simultaneously increasing the cost to service that debt by raising interest rates.
- According to the Xia-Wu study from the Atlanta Fed, $800 billion of quantitative tightening equates to a 100 bps rate hike.
  - With the Fed likely to reduce their balance sheet by $600 billion in 2019, this would equate to three additional 25 bps rate hikes.

Just Markets – "Nick did not like to fish with other men on the river… They spoiled it." Ernest Hemingway

- "Some people say that I'm a contrarian. I don't really feel like a contrarian, but I don't like to fish with everybody else in the market." – Jeffrey Gundlach
- A quick overview of the bond market on a year-to-date (YTD) basis through 12.11.2018:
  - The Bloomberg Barclays Aggregate Bond Index (LBUSTRUU Index): -1.00%
  - U.S. Treasuries (Bloomberg Barclays U.S. Treasury Index): -0.38%

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- U.S. High-yield (LF98TRUU Index): -0.12%
- Mortgaged-backed agency securities (LUMSTRUU Index): -0.05%
- U.S. Corporate Bonds (LUACTRUU Index): -3.17%

- As Mr. Gundlach signaled over a year ago, when the Fed increases rates the worst performing sector would be investment-grade corporate bonds.
  - Emerging market debt in dollar terms has outperformed investment-grade corporate bonds. The J.P. Morgan CEMBI Broad Diversified Index (JCBBDIVR Index) is -1.39%. In local currency terms, emerging market debt is down 5%-10% depending on the region. In Argentina, they're down over 50%.
  - Treasury Inflation-protected Securities (G0QI Index): -1.70%
- In contrast to these market movements, the DoubleLine Total Return Bond Fund (DBLTX) is positive 0.83% YTD, outperforming the Agg by roughly 200 bps largely because the fund does not have any corporate bond exposure; the fund's defensive interest rate positioning, with a duration of roughly 3.50 years compared to the Agg of roughly 6.00 years.

U.S. Inflation

- Core Goods YoY inflation is hovering around 0.00%, while Core Services YoY inflation registered at 2.9%.
- DoubleLine's inflation model is predicting headline inflation to drop down to roughly 1.5% over the next several quarters, as the price of energy continues to remain highly volatile as WTI is down over 30% in the past few months.
- Core Inflation might not drop very much because some of the indicators that lead the core CPI are actually suggesting that it may have room to run higher.

S&P 500 vs. MSCI ACWI (ex-U.S.) Normalized January 26, 2018

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- Mr. Gundlach proclaimed this could be the "chart of the year" in his September webcast.
- The performance between the S&P 500 and MSCI ACWI (ex-U.S.) began decoupling around the end of April / beginning of May this year.
  - The MSCI ACWI (ex-U.S.) started to fall from a level of 93 down to as low as 79. At the same time, the S&P 500 was increasing by roughly the same amount.
  - During Mr. Gundlach's 09.11.2018 webcast, he alluded to the fact this is unlikely to continue, because if the weakness in the global stock market reasserted itself, the U.S. stock market would not able to act as an island of safety and would likely fall in sync with the global stock market.
    - That's exactly what has happened. As the MSCI ACWI (ex-U.S.) took out its low in September, the S&P 500 began to trend downward, giving up its positive returns for the year, and entered into correction territory.
- Volatility in the market is weak, as the Chicago Board Options Exchange SPX Volatility Index (VIX) is well contained and not at "panic levels." Many measures of the stock market do now show an oversold situation.
- Mr. Gundlach believes that if interest rates start to move higher again, that further downward pressure would occur in the economy and to risk measures.

Emerging Markets and U.S. Dollar

- Broadly, Emerging Markets (EM) as measured by the MSCI EM Index have not hit new lows like the non-U.S. stock market.

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EM is starting to outperform the developed parts of the non-U.S. stock market since developed markets have displayed marked weakness in recent months.

- The Cyclically-adjusted Price-to-Earnings (CAPE) ratio of EM as of 12.11.2018 at 14.38 is decidedly low compared to the CAPE ratio of the S&P 500 at 30.85.
- The bullishness on the United Stated Dollar (USD) is extraordinary; Mr. Gundlach believes this bullishness may be nearing an end.
  - The USD is broadly secularly declining after a rally from 2011 into 2017, as measured by the U.S. Dollar Index (DXY).
- DoubleLine turned negative on the USD in January 2017, when the DXY hit 103. Since that time, the DXY fell below 90, before rallying in 2018 with its latest reading at 97.38. Mr. Gundlach believes we will not see the DXY set a new high above 103.
- The U.S. budget deficit and U.S. current accounts deficit (twin deficits) appear to be correlated with the dollar. As these deficits are widening, it correlates with dollar weakness. DoubleLine believers these deficits are going to move higher in the next period of economic weakness, and the dollar is very likely to go lower during that time period.
- Based on Mr. Gundlach's long-term view of the dollar and EM equities, over the next 20-year period owning equities away from the United States seems favorable.

Equity Bubbles and the Fall of FAANG Stocks

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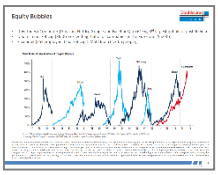

Mr. Gundlach has referenced the "Equity Bubbles" chart multiple times throughout 2018. The five stocks that comprise the FAANG acronym (Facebook, Apple, Amazon, Netflix, and Google) are all in bear market territory.

The Dow Jones E-Commerce Index, which holds Amazon, Netflix, Google, and Facebook, is up 617% this cycle. This equates to the third largest bubble of the past 40 years behind the Tech Bubble of 2000-2002 and the Housing Bubble of 2006-2008.

YTD through 12.11.2018:

FB: -31.72%; AMZN: -9.36%; AAPL: -11.50%; NFLX: -27.16%; GOOGL: -11.39%

U.S. Treasuries

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- We saw record short positioning for all U.S. Treasuries in late September/early October. Approximately half the shorts have been covered as of 12.04.2018, which was worth about 20 bps on the two-year and 25 bps on the thirty-year U.S. Treasury bond yields.
- On a currency hedged basis, U.S. Treasury yields are unattractive to foreign investors due to the rising costs of hedging.
- The three month LIBOR in the U.S. and the Euribor 3 Month spread is at approximately 309 bps, meanwhile the spread on the ten-year is approximately 240.
  - This spread should ultimately lead to a steepening in the yield curve.
- One of the great signposts for the ten-year U.S. Treasury yield is the average of nominal GDP in the USD and the German Bund yield. As of 12.11.2018, the spread between them was -2.61, ultimately indicating the attractiveness of the U.S. relative to Germany is steepening the curve.

Corporate and High-Yield Bonds

- Corporate bonds remain overvalued in spite of a 300 bps underperformance versus UST YTD. Corporate bonds are still one and one-half standard deviations rich to Treasuries.

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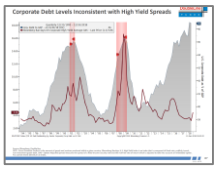

Recap

- For investors worried about interest rate risk, corporate bonds should be avoided because their duration is generally long, as the Bloomberg Barclays U.S. Aggregate Index Modified Adjusted Duration is over 7 years.

- Corporate debt levels as a percentage of GDP are extremely elevated, printing at 46% at the end of Q3. Meanwhile, corporate bond spreads have begun to widen but are nowhere near as wide as they have been during other times of similar corporate indebtedness.
- High-yield bonds, as measured against the thirty-year bond are near historically overvalued levels. However, high-yield spreads would have to widen by approximately another 100 bps to be a convincing signal to portend a recession.

Disclaimer

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.

*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 1 (877) 354-6311/1 (877) DLINE11, or visiting **www.doublelinefunds.com**. Read carefully before investing.*

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.

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.

DoubleLine Funds are distributed by Quasar Distributors, LLC.

As of 12/31/2018 DoubleLine Total Return Bond Fund held 0.00% in Facebook, Amazon, Apple, Netflix, and Google.

Definitions

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

BCOM Index - Bloomberg Commodity Index is calculated on an excess return basis and reflects commodity futures price movements with monthly rebalancing. You cannot invest directly in an index.

Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

CAPE Ratio - A measure of the price of a company's stock relative to average earnings growth over the past 10 years.

Consumer Price Index (CPI) – A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living. Core CPI excludes food and energy components.

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.

Conference Board Leading Economic Indicator Index® (LEI) - The composite economic indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components.

DXY - U.S. dollar spot index indicates the general international value of the US dollar by averaging the exchange rates between the USD and major world currencies.

Institute of Supply Management (ISM) Manufacturing Index - The index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production, inventories, new orders and supplier deliveries. The ISM Non-Manufacturing Index accounts for the services industry.

Morgan Stanley Capital International-Emerging Markets Index (MSCI EM) - A float-adjusted market capitalization index designed to measure equity market performance in global emerging markets. The index consists of 26 emerging economies, including but not limited to, Argentina, Brazil, China, India, Poland, Thailand, Turkey, and Venezuela.

MSCI ACWI Index is a market capitalization weighted index designed to provide a broad measure of equity- market performance throughout the world. FARBAST tracks the aggregate assets and liabilities of banks within the economy. You cannot invest directly in an index.

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.

Purchasing Managers' Index (PMI) – Is an indicator of the economic health of the manufacturing sector.

Price-to-Sales Ratio - Is a valuation metric for stocks. It is calculated by dividing the company's market cap by the revenue in the most recent year; or, equivalently, divide the per-share stock price by the per-share revenue.

Spread – Spread is the percentage point difference between yields of various classes of bonds compared to treasury bonds.

Standard Deviation - A measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Calculated by the square-root of the variance.

S&P 500 Index - S&P 500 Index is based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices.

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.

CEO Confidence Index - This concept tracks the general state of the economy as it relates to businesses. It can include broad economy-wide conditions or specific economic conditions of a particular industry.

National Association of Home Builders Index - A reading above 50 indicates more builders view conditions as good than poor.

NFIB Small Business Optimism Index – This index tracks the general state of the economy as it relates to businesses. It can include broad economy-wide conditions or specific economic conditions of a particular industry.

Conference Board Consumer Confidence Index - An index that measures the degree of optimism that consumers feel and future expectations about the overall economy.

Chicago Board Options Exchange SPX Volatility Index - The Chicago Board Options Exchange Volatility Index reflects a market estimate of future volatility, based on the weighted average of the implied volatilities for a wide range of strikes. 1st & 2nd month expirations are used until 8 days from expiration, then the 2nd and 3rd are used.

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.

JPMorgan Corporate EMBI Broad Diversified Index – This index tracks a broad basket of performance of investment grade corporate debt, including smaller issues covering a wider array of publically issued across a range of emerging market countries.

Dow Jones Internet Commerce Index (USD) - The Dow Jones Internet Commerce Index is designed to measure the 15 largest and most actively traded internet commerce stocks.

Bloomberg Barclays U.S. Treasury Total Return Index - The Bloomberg Barclays US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are partof a separate Short Treasury Index.

Bloomberg Barclays U.S. Corporate High Yield Total Return Index - The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays U.S. MBS Index Total Return Index - The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage.

Bloomberg Barclays U.S. Corporate Total Return Index - The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.