DoubleLine Asset Allocation Webcast Recap

Originally aired on February 9, 2021

About this Webcast Recap

On February 9, 2021, Deputy CIO Jeffrey Sherman held an Asset Allocation webcast discussing the DoubleLine Low Duration Bond Fund (DBLSX/DLSNX), the DoubleLine Core Fixed Income Fund (DBLFX/DLFNX), and the DoubleLine Flexible Income Fund (DFLEX/DLINX).

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. Sherman's views, please listen to the full version of this webcast on www.doublelinefunds.com and click on the "Webcasts" tab under "Latest Webcast."

DoubleLine Low Duration Bond Fund Performance

Quarter-End Returns December 31, 2020	1 Month	4Q2020	Year-to-Date	Annualized 1-Year	Annualized 3-Year	Annualized 5-Year	Annualized Since Inception (9-30-11 to 12-31-20)
I-share (DBLSX)	0.39%	0.93%	2.02%	2.02%	2.70%	2.70%	2.43%
N-share (DLSNX)	0.36%	0.76%	1.76%	1.76%	2.45%	2.45%	2.17%
ICE BofA 1-3 Yr. U.S. Treasury Index	0.05%	0.05%	3.10%	3.10%	2.74%	1.90%	1.26%
Bloomberg Barclays US Agg 1-3 Yr. Index	0.13%	0.22%	3.08%	3.08%	2.90%	2.17%	1.57%

Expense Ratio	I-Share	N-Share
Gross	0.43%	0.68%

DoubleLine Core Fixed Income Fund Performance

Quarter-End Returns December 31, 2020	1 Month	4Q2020	Year-to-Date	Annualized 1 Year	Annualized 3 Years	Annualized 5 Years	Annualized 10 Years	Annualized Since Inception (6-1-10 to 12-31-20)
I-share (DBLFX)	0.61%	1.72%	5.60%	5.60%	4.47%	4.44%	4.75%	5.20%
N-share (DLFNX)	0.59%	1.66%	5.25%	5.25%	4.21%	4.16%	4.49%	4.94%
Bloomberg Barclays US Agg Index	0.14%	0.67%	7.51%	7.51%	5.34%	4.44%	3.84%	3.89%

Expense Ratio	I-Share	N-Share
Gross	0.48%	0.73%

DoubleLine Flexible Income Fund Performance

Quarter-End Returns December 31, 2020	1 Month	4Q2020	Year-to-Date	Annualized 1 Year	Annualized 3 Years	Annualized 5 Years	Annualized Since Inception (4-7-14 to 12-31-20)
I-share (DFLEX)	1.52%	3.51%	2.92%	2.92%	3.37%	4.17%	3.51%
N-share (DLINX)	1.38%	3.45%	2.65%	2.65%	3.11%	3.91%	3.24%
ICE BofA 1-3 Yr. Eurodollar Index	0.19%	0.56%	3.85%	3.85%	3.56%	2.83%	2.31%
LIBOR USD 3 Month	0.02%	0.06%	0.75%	0.75%	1.81%	1.48%	1.18%

Expense Ratio	I-Share	N-Share
Gross	0.74%	0.99%

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.

Economic Data Change: U.S., Global, Europe, Emerging Markets (EM) and China

- Global economic data is starting to reflect the expectations for a return to growth in 2021 after the COVID-19-induced contraction in 2020.
  - World gross domestic product (GDP) is forecast to grow 5.2% in 2021.
- Chinese economic data, which is above its trend of the last 12 months, is key to global growth forecasts for 2021.
  - China was one of the only major economies to register positive growth in 2020, with its GDP growing 6.5% year-over-year (YoY) as of Dec. 31.
- U.S. economic data now shows significant signs of recovery, largely as a result of government stimulus and accommodative monetary policy.
  - U.S. economic data was well above its trend for the past 12 months, as of Feb. 8, and was leading other regions in this metric.

U.S Real GDP

- Based on estimates by the International Monetary Fund, as of Jan. 26, U.S. YoY real GDP growth is projected int he near term to stay below its long-term trend in the near-term due to the COVID-19-induced recession.
  - Below-trend-line U.S. YoY real GDP growth began after the Global Financial Crisis.
- The current recession produced the largest drawdown in U.S. real GDP, a decrease of 10.5%, in the post-WWII era.
  - While past recessions have produced drawdowns in real GDP, nothing comes close to the shock of the current contraction and its rapid pace.
- U.S. real GDP is forecast to grow 4.1% in 2021.
  - Should the U.S. GDP estimate for 2021 come to fruition, it would represent the best year for U.S. economic growth since 2000.
- The Federal Reserve Bank of New York's Weekly Economic Index (WEI) is a higher frequency measure of economic activity than GDP.
  - The WEI has been recovering since the second quarter of 2020, though it looks to have stalled temporarily near year-end when increased COVID-19 cases prompted renewed lockdowns across the country.

U.S. Mobility Statistics

- Air travel still has a large gap to fill as the number of daily U.S. travelers passing through Transportation Security Administration airport checkpoints remained below levels of one year prior as of Feb. 8.
  - This figure did tick above 1 million travelers in late November and December, coinciding with increased holiday travel, albeit well below 2019 levels of approximately 2 million.
- Reflecting the reduction in passenger air travel is the elevated number of aircraft being stored.
  - Wide-body aircraft, used for long-haul/transoceanic routes, are being stored at higher rates than narrow-body aircraft.
- Hotel occupancy rates started 2021 with a slight uptick to approximately 40% occupancy as of Jan. 23.
  - This level was still below the aggregate pre-COVID January 2020 occupancy level of approximately 50% and below the median level of the last 20 years.

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U.S. Budget Deficit and Public Debt Outstanding % of GDP

- The effect of fiscal policy during this recession has been a significant increase to the U.S. budget deficit as a percentage of nominal GDP.
  - As of Dec. 31, the U.S. budget deficit stood at 15.8% of nominal GDP.
  - This figure does not take into account the additional $1.9 trillion stimulus plan proposed by the Biden administration.
- Public debt outstanding as a percentage of GDP is emblematic of the growing indebtedness of the U.S.
  - The public-debt-to-GDP ratio of 133% exceeds the previous high set in the aftermath of WWII.

Inflation

- Global measures of inflation fell significantly in 2020.
  - World inflation, as measured by the Consumer Price Index (CPI), rose only 0.8% YoY as of Dec. 31.
  - EM CPI grew 1.2% YoY as of Dec. 31, a higher rate than developed markets though well below its nearly 5.0% YoY growth rate in the first quarter of 2020.
- Measures of core inflation in the U.S. have been relatively stable over the past nine years.
  - The Fed's preferred measure for inflation, the Core Personal Consumption Expenditure Price Index, trailed other measures of core inflation at 1.5% YoY as of Dec. 31.
- The components of core CPI, goods and services, diverged over the past 10 years but recently converged as of Dec. 31.
  - Mr. Sherman believes the rise in core goods inflation and the decline in core services inflation can be summed up in the effects of the lockdowns enacted to counter the COVID-19 pandemic.
    - With American consumers stuck at home for much of 2020 and unable to spend on travel, restaurants and other services, many turned to buying goods and home improvement.
- Implied inflation in the bond market, as measured by breakevens (yield differential between nominal U.S. Treasuries and Treasury Inflation-Protected Securities (TIPS)), has been rising since the second quarter of 2020.
  - U.S. five-year breakevens at 2.3% and 10-year breakevens at 2.2%, as of Feb. 6, were at approximately six-year highs.
- DoubleLine expects inflation to accelerate in the U.S. in 2021, largely due to base effects created by depressed economic activity in March and April 2020.

U.S. Labor Statistics

- Broad measures of U.S. unemployment have been steadily improving, falling from record levels set in April.
  - The total measure of unemployed workers in the labor force (U-3) peaked at 14.7%, seasonally adjusted, in April. As of Jan. 31, the unemployment rate was 6.3%.
  - The unemployment rate including those that are underemployed or marginally attached (U-6) peaked at 22.8%, seasonally adjusted, as of April 30. As of Jan. 31, the U-6 rate was 11.1%.
- Unemployment benefit programs encompassed over 17 million individuals for the week ended Jan. 22.
  - While regular state unemployment benefit rolls have decreased since peaking in May, the benefit programs created by the Coronavirus Aid, Recovery, and Economic Security Act now account for a majority of unemployed individuals.

    - Pandemic Unemployment Assistance covered 7.2 million individuals for the week ended Jan. 15.
    - Pandemic Emergency Unemployment Compensation covered 3.6 million individuals for the week ended Jan. 15.
- In contrast to the falling unemployment rate, the number of permanent job losses has grown as a result of the pandemic-induced recession.
  - As of Jan. 31, 3.5 million individuals, seasonally adjusted, permanently lost their jobs.

Personal Consuption and Small Businesses

- Personal consumption rebounded from its lowest ever quarter-over-quarter (QoQ) contraction of 33.2% in the second quarter of 2020 to its largest QoQ expansion of 41.0% in the third quarter.
  - Since then, personal consumption moderated to a 2.5% QoQ expansion in the fourth quarter.
- Rebounds in consumer spending since the outbreak of the pandemic generally have not translated to higher revenues for small businesses nationally relative to the start of 2020.
  - Based on this measure, as of Jan. 24, 2021, consumer spending was up approximately 5% as compared to small-business revenue, which was still down over 30% relative to January 2020 levels.

Fixed Income Index Performance by Sector

- The top-performing sector of fixed income year-to-date (YTD) is non-Agency residential mortgage-backed securities (RMBS) (as measured by the Markit iBoxx Broad U.S. Non-Agency RMBS Index), which returned 1.7% as of Feb. 8.
  - This sector has been the beneficiary of a strong housing market, which has been one of the bright spots of the U.S. economy over the past year.
- Fixed income performance across several sectors with higher interest rate sensitivity is lagging YTD, showing the effect of rising Treasury yields.
  - Global developed sovereign bonds, as measured by the ICE BofA Global Bond Index, returned a negative 2.5% YTD through Feb. 8.
  - Government securities, as measured by the ICE BofA U.S. Treasury & Agency Index, were down 1.5% YTD through Feb. 8.
  - U.S. investment grade (IG) corporate bonds, as measured by the ICE BofA U.S. Corporate Index, returned a negative 1.3% YTD through Feb. 8.

Fixed Income Valuation

- U.S. IG corporate bonds have once again reached two standard deviations rich based on historical relative growth to Treasuries; the most-overvalued reading of this metric of relative valuation since 1985.
  - After falling in March 2020, the sector retraced all of its losses due to support from the Federal Reserve and its various facilities.
- Agency mortgage-backed securities (MBS) appear cheap relative to Treasuries based on this relative valuation framework.
  - Due to their shorter duration, Agency MBS could continue to outperform Treasuries if yields rise.
- TIPS appear fairly valued to Treasuries.

  - With breakevens moving higher, investor anticipation of higher inflation is reflected in the recovery in TIPS from their 2020 selloff.
- Municipal bonds appear roughly one standard deviation rich relative to Treasuries.
  - Mr. Sherman believes strong investor demand evident in the municipal bond market is being driven by the anticipation of higher taxes under the Biden administration.

DoubleLine Low Duration Bond Fund Portfolio Composition

- The DoubleLine Low Duration Bond Fund invests primarily in IG-rated securities and had less interest rate sensitivity than its benchmark, the ICE BofA 1-3 Year U.S. Treasury Index, as of Jany 31..
  - Securities rated below investment grade accounted for 4.7% of the portfolio while unrated securities represented 14.8% as of Jan. 31.
    - A large portion of the unrated securities reside within securitized credit and a security being unrated is not necessarily indicative of a below-investment-grade asset.
- YTD, the Fund decreased its exposure to Agency MBS and increased its allocation to sectors with floating rate coupons: bank loans and collateralized loan obligations (CLOs).
  - The Fund’s current tilt toward structured credit emphasizes sectors of the market that the DoubleLine team assesses to be undervalued or at fair value relative to the shorter-maturity segments of other fixed income sectors.

DoubleLine Core Fixed Income Fund Portfolio Composition

- The DoubleLine Core Fixed Income Fund is diversified across a mix of fixed income sectors while maintaining a duration profile 1.3 years shorter than its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, as of Jan. 31.
  - Government-guaranteed fixed income sectors including Agency MBS, Treasuries, and cash, represented approximately 39.1% of the Fund as of Jan. 31.
  - Below-investment-grade exposure comprised 14.3% of the portfolio and unrated securities accounted for 7.1%.
    - Unrated securities are not necessarily indicative of a below-investment-grade asset.
- The Fund reduced its exposure to Agency MBS while increasing exposure to commercial MBS, asset-backed securities (ABS), and CLOs over the fourth quarter.

DoubleLine Flexible Income Fund Portfolio Composition

- The DoubleLine Flexible Income Fund ("the Fund") is broadly diversified across 10 fixed income asset classes and has historically taken on more credit risk than the DoubleLine Core Fixed Income Fund and DoubleLine Low Duration Bond Fund.
  - As of Jan. 31, the Fund had 37.5% in below-investment-grade exposure and 12.6% in unrated securities.
- The Fund’s current tilt towards structured credit emphasizes sectors of the market that the DoubleLine team assesses to be undervalued or at fair value relative to the Fund’s broad investable universe.

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Definitions and Terms

The outbreak of **COVID-19** has negatively affected the worldwide economy, including the U.S. The future impace of COVID-19 is currently unknown, and it may exacerabte other risks that apply to the Funds.

Below Investment Grade/Non-Investment Grade – Term indicating a security is rated below investment grade (IG). These securities are seen as having higher default risk or being prone to other adverse credit events. They typically pay higher yields than higher-quality bonds in order to make them attractive. They are less likely than IG bonds to pay back 100 cents on the dollar.

Bloomberg Barclays U.S. Aggregate 1-3-Year Index – This component of the Bloomberg Barclays US Aggregate Bond Index tracks bonds of duration of at least one year and not greater than three years.

Bloomberg Barclays US Aggregate Bond Index – This index represents securities that are SEC registered, taxable and dollar denominated. It covers the U.S. investment-grade fixed-rate bond market, with components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indexes that are calculated and reported on a regular basis.

Consumer Price Index (CPI) – This index examines the weighted average of the prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by averaging price changes for each item in the basket. Changes in the CPI are used to assess price changes associated with the cost of living. The CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

Core Personal Consumption Expenditure (PCE) Price Index – This index, published by the U.S. Bureau of Economic Analysis, measures prices paid by consumers for goods and services, excluding the volatility of food and energy prices, to gauge underlying inflation trends. It is the Federal Reserve's preferred index for tracking inflation.

Drawdown – Peak-to-trough decline during a specific period for an investment, trading account or fund. A drawdown is usually quoted as the percentage between the peak and the subsequent trough.

Duration – 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.

ICE Bank of America (BofA) AAA-A U.S. Fixed-Rate Commercial Mortgage-Backed Securities (CMBS) Index – This index tracks the performance of the AAA-A component of U.S. dollar-denominated, investment grade (IG), fixed-rate commercial mortgage-backed securities (CMBS) publicly issued in the U.S. domestic market. Qualifying securities must have an IG rating (based on an average of Moody's, S&P and Fitch), a fixed coupon schedule, at least one year remaining to final maturity and at least one month to the last expected cash flow.

ICE Bank of America (BofA) 1-3 Year Eurodollar Index – This index is a subset of the ICE Bank of America (BofA) Eurodollar Index, including all securities with a remaining term to final maturity of less than three years. The ICE BofA Eurodollar Index tracks the performance of U.S.-dollar-denominated, investment grade (IG) quasi-government, corporate, securitized and collateralized debt publicly issued in eurozone markets.

ICE Bank of America (BofA) 1-3 Year U.S. Treasury Index – This index is a subset of the ICE BofA U.S. Treasury Index, including all securities with a remaining term to maturity less than three years. ICE BofA U.S. Treasury Index tracks the performance of U.S. dollar-denominated sovereign debt publicly issued by the U.S. government in its domestic market.

ICE BofA Global Bond Index – This tracks the performance of Australian, Canadian, French, German, Japan, Dutch, Swiss and UK investment grade sovereign debt publicly issued and denominated in the issuer's own domestic market and currency.

ICE Bank of America (BofA) U.S. Corporate Index ("Investment Grade") – This index tracks the performance of U.S.-dollar denominated, investment grade (IG) corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have an IG rating (based on an average of Moody's, S&P and Fitch) and an IG-rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency, long-term sovereign debt ratings). Securities must have at least one year remaining to final maturity, a fixed coupon schedule and a minimum amount outstanding of $250 million.

ICE Bank of America (BofA) U.S. High Yield (HY) Cash Pay Index ("Below Investment Grade") – This index tracks the performance of U.S. dollar-denominated, below-investment-grade corporate debt that is currently in a coupon paying period and was publicly issued in the U.S. domestic market. Qualifying securities must have a below-investment-grade rating (based on an average of Moody's, S&P and Fitch foreign currency long-term sovereign debt ratings). They must also have one year remaining to final maturity and a minimum outstanding amount of $100 million.

ICE Bank of America (BofA) U.S. Treasury & Agency Index – This index tracks the performance of U.S. dollar-denominated U.S. Treasury and nonsubordinated U.S. Agency debt issued in the U.S. domestic market. Qualifying securities must have an investment grade (IG) rating (based on an average of Moody's, S&P and Fitch). In addition, qualifying securities must have at least one year remaining to final maturity, at least 18 months to maturity at time of issuance, a fixed coupon schedule and a minimum amount outstanding of $1 billion for sovereigns and $250 million for Agencies.

Investment Grade – Rating that signifies a municipal or corporate bond presents a relatively low risk of default. Bonds below this designation are considered to have a high risk of default and are commonly referred to as "junk bonds." The higher the bond rating the more likely the bond will return 100 cents on the U.S. dollar.

London Interbank-Offered Rate (LIBOR) – Indicative average interest rate at which a selection of banks, known as the "panel banks," are prepared to lend one another unsecured funds on the London money market.

Markit iBoxx U.S. Non-Agency Residential Mortgage-Backed Securities (RMBS) Index – This index comprises of 27 subindexes referencing approximately 350 senior bonds from a portfolio of 22,000 RMBS issued between 2005 and 2007. The subindexes' selection criteria include deal size, pricing date and the type/quality of the mortgages referenced in each deal. Index pricing is based on Markit's bond pricing service, which sources quotes from a panel of dealers.

Standard Deviation – Measures the dispersion of a dataset relative to its mean.

U-3 Unemployment Rate – Officially recognized rate of unemployment, compiled and released monthly by the U.S. Bureau of Labor Statistics, measuring the number of unemployed people as a percentage of the labor force.

U-6 Unemployment Rate – Rate that includes discouraged workers who have quit looking for a job and part-time workers who are seeking full-time employment. The U-6 rate is considered by many economists to be the most revealing measure of a country's unemployment situation since it covers the percentage of the labor force that is unemployed, underemployed and discouraged.

Unrated Bonds – Bonds that have not received a credit rating from one of the major credit rating agencies.

Weekly Economic Index (WEI) – This index, compiled and published by the Federal Reserve Bank of New York, tracks 10 indicators of real economic activity and is scaled to align with the four-quarter GDP growth rate. It represents the common component of series covering consumer behavior, the labor market and production.

It is not possible to invest in an index.

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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 marketplace.

Diversification does not assure a profit, nor does it protect against a loss in a declining market.

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