Webcast Recap

DoubleLine Total Return Bond Fund

This webcast originally aired on June 13, 2019

About this Webcast Recap

On June 13, 2019, 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 May 31, 2019	May	YTD	Annualized 1-Year	3-Year	5-Year	Since Inception	1-Yr Std Deviation
I-share	1.54%	3.57%	5.71%	3.07%	3.20%	5.98%	2.31%
N-share	1.52%	3.57%	5.44%	2.81%	2.94%	5.72%	2.35%
Bloomberg Barclays U.S. Agg Index	1.78%	4.80%	6.40%	2.50%	2.70%	3.55%	3.29%

Quarter-End Returns March 31, 2019	1Q19	YTD	Annualized 1-Year	3-Year	5-Year	Since Inception
I-share	1.99%	1.99%	4.31%	2.65%	3.25%	5.91%
N-share	2.02%	2.02%	4.05%	2.39%	3.02%	5.65%
Bloomberg Barclays U.S. Agg Index	2.94%	2.94%	4.48%	2.03%	2.74%	3.41%

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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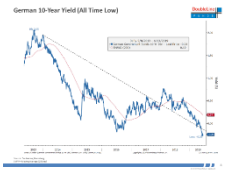
8 	**German 10-Year Yield (All Time Low)** • Deutsche Bank stock has been very weak for the last few years. The stock's performance can be attributed to the falling German 10-year Bund yield, which has been falling precipitously since 2013, and is near an all-time low of negative 24 basis points (bps). • Whenever the German 10-year Bund yield goes to lower levels, we see obvious weakness in financial entities. – It's extremely difficult for financial entities such as banks and insurance companies to make money in negative interest rate environments.

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German 10-Year Yield (All Time Low) (cont'd)

- The 10-year United States Treasury (UST) yield hit its all-time low at the same time as the German 10-year, back in July of 2016.
  - 10-year UST yield low: 1.36% on July 8th, 2016
  - 10-year German yield on July 8th, 2016: -0.17%
    - 10-year German yield low: -0.26% on June 7th, 2019
  - The 10-year UST yield is up roughly 76 bps from its low, while the 10-year German yield has continued to trend lower.

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Korean Stock Exchange Index

- Euro area new export orders have been incredibly weak since the beginning of 2018. One of the best ways to get a gauge on the markets attitudes towards global trade is to follow South Korea's stock market, where nearly half of their economy is exports.
- Not surprisingly, when the global economy slows down or trade activity slows down, it often results in a lower Korea Composite Stock Price Index (KOSPI) share index price.
  - There was an incredible upward movement in the KOPSI after the 2016 United States (U.S.) presidential election.
  - The KOPSI rallied roughly 30% in 2017, after nearly no movement from 2013 to late 2016.
- However in early 2018, the KOPSI collapsed, much sooner than the U.S. stock market and the more commonly followed global stock market averages.
- The KOPSI has now found itself all the way back down to that level of sideways movement from 2013 to 2016.
  - This is likely an indication that there are some issues with global trade.

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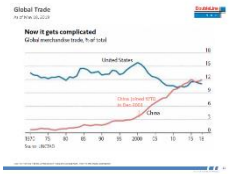

Global Trade

- China has had massive growth in the percentage of global trade they represent while the U.S. has had no growth in the percentage of global trade represented. This speaks to the incredible growth of the Chinese economy and the expansion of their global footprint.
  - After being roughly the same for nearly the last eight years, the United States now has a lower percentage of global merchandise trade than China.
- One of the trends that is helping China and bodes relatively well for their future is the types of graduate students that they are producing in areas that are significant: science, technology, engineering, and mathematics (STEM).
  - In 2016, China had 4.7 million STEM graduate students; the U.S. had 568,000.
  - Part of that is due to population differences, but on a per capita basis, it's obvious that China is much higher in STEM graduates than the U.S.

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U.S. Conference Board Leading Economic Indicator

- For the last few years, there has been no indication of any coming recession. Now, there are several indicators that suggest a recession could occur within the next year.
  - On a previous webcast, Mr. Gundlach was asked about the probabilities of recession. His response:
    - Six months: 30%
    - One year: maybe 50%
    - Two years: almost 100%
  - Today, he said those numbers are up slightly:
    - Six months: ~40-45%
    - One year: ~65%
    - Two years: almost 100%
- The U.S. Conference Board Leading Economic Indicator (LEI), an indicator Mr. Gundlach deems, "The granddaddy of recessionary forecasts" is not yet forecasting a recession.
  - April's LEI registered at 2.7% year-over-year (YoY), which has dropped since October's reading of 7.0%.
  - Historically, the U.S. has never had a recession without the LEI falling below zero on a YoY basis. However, our analysis suggests that it's possible that the YoY LEI does go negative before year-end.
    - This is something DoubleLine will be watching month-by-month.

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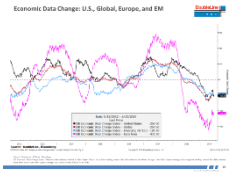

Economic Data Change: U.S., Global, Europe, and Emerging Markets (EM)

- Citi Economic Data Change is an indicator that compares data as it comes out day by day, and compares the most recent releases to the 12-month moving average of those various categories of data.
  - If the current prints are above 12-month moving averages, this means things are coming out better than where they've been, on average, for the past year. If the prints are below the 12-month moving average, it means it is coming out worse than it has been for the last year.
- In aggregate, the U.S., Global, Europe and Emerging Markets (EM) data has been coming out below trend consistently for over a year. This is clearly not showing signs of robust health.

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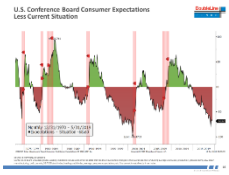

U.S. Conference Board Consumer Expectations Less Current Situation

- One of the indicators that's the most concerning about an oncoming recession is the comparison of current consumer views of the strength of the economy compared to their view of how the economy will be in the future.
  - If consumers think the future is going to be a lot worse than the present, you go into the red shaded areas on the chart; the deeper the red dips, the contrast between their good feelings about the present and bad feelings about the future becomes more acute.
- One of the most important things to watch is consumer confidence for the present situation. If it starts to drop, this chart will begin to display a distinctive recessionary look.
  - The reason this happens is because people's view of the present starts to deteriorate right before a recession starts.
- It's for this reason Mr. Gundlach believes the U.S. has a potential for a recession that's not insignificant in the next six months.

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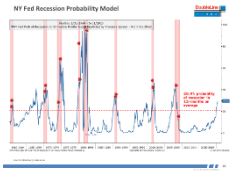

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NY Fed Recession Probability Model

- The Fed uses the yield curve in what they call the New York Fed Recession Probability Model. Not surprisingly, it shows the same message as the three-month to 10-year UST (3mo10s) yield curve, because this is a yield curve-based recession probability model that the New York Fed has created.
  - Currently, this model is suggesting a 20.9% probability of a recession in the next 12-months.
  - In the 1960's the model got to similar levels as today and it was several years before the recession came. However, that was quite a different environment.
- Over the past three recessions, the level that we're at right now became much more correlated with an imminent recession.
- Prior to the last four recessions, the 3mo10s started to get less inverted before the recession came. This is due to the fact that the Fed might start cutting interest rates, or people are anticipating the fact that the Fed will cut interest rates and that starts steepening out the yield curve. And when that happens, it's often right before the recession.

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Fed Dots vs. Market Expectations 2019 and 2020

- Mr. Gundlach believes that Jay Powell has a really tough balancing act coming up. One of the reasons is due to a huge divergence between the Fed's last discussion of the dots, back in March, and what the bond market has been doing since basically the fourth quarter of last year.
- Looking at the left hand chart, in January 2017, the Fed Dots signaled for three hikes while the market was only suggesting one hike. As the year progressed, the bond market, represented by the short-end of the Treasury yield curve, was largely in agreement with the Fed.
  - However starting in roughly the fourth quarter of 2018, with the stock market dropping and yields starting to fall in the later part of December, the number of hikes projected by the Feds dot plot was reduced to zero in March of 2019 for the remainder of the year, while the bond market began to price in multiple rate cuts.
- Looking out to 2020 on the right hand side, the Fed's dot plots show a "cosmetic" one hike, while the bond market suggests further cuts next year.
  - Mr. Gundlach believes it's strange for the Fed to have any confidence in an outlook 18 months from now given the degree of capitulation witnessed in the first half of this year; nonetheless, this is a framework the Fed has, perhaps regrettably, gotten themselves into.
- There have been talks of the Fed cutting 50 bps for the first cut of this cycle and there's certainly precedent for that.
  - At the start of the last two easing cycles, 2007 and 2000, there were 50 bps cuts to the Fed funds rate to kick of the cycle.

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Turn of the Cycle?

- There are four major stock groups in the world:
  - Nikkei 225 in Japan
  - S&P 500 Index in the U.S.
  - MSCI Emerging Markets Index
  - Euro Stoxx 50 Index in Europe
- Before each of the last three recessions, we had one major stock market peak; none of those three have made it back to pre-recession levels:
  - Nikkei 225 peaked before the 1991 recession
  - Euro Stoxx 50 peaked before the dotcom crash of 2000
  - MSCI Emerging Markets Index crashed before the Global Financial Crisis of 2007
    - Mr. Gundlach believes it's interesting how these peaks have happened before recessions and they've never retraced their losses.
- The U.S. has gone on a solo journey to a much higher level and performed much better than non-U.S. stock markets. Part of this is due to the fact that the earnings in the U.S. have improved much more than the earnings in other parts of the world.
  - One group of stocks that have contributed to the S&P 500 Index reaching new highs is the FANG stocks (Facebook, Amazon, Netflix and Alphabet's Google).
  - However, since the middle of 2018, the S&P 500 has actually outperformed the FANGs.
    - When the leaders on the upside start to underperform, it's usually a sign that things are changing. This is something Mr. Gundlach believes is worth watching.

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U.S. Trade Weighted Broad Dollar

- There is a double top on the trade-weighted broad U.S. dollar (USD), while the relative strength index (RSI) is displaying a big non-confirmation. This is technically set up as a momentum-waning market, which very often precedes a weakening market.
- Looking at the Fibonacci levels, we can see that the dollar lost momentum has been losing momentum constantly since roughly the second quarter of 2018.
- The USD is trading close to its 200-day moving average; if the USD stays where it is currently, it may maintain its level below its 200-day moving average.

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U.S. Dollar (USD) and Twin Deficits

- The twin deficit, which is the current account deficit plus the fiscal deficit, is highly correlated to moves in the USD.
  - When the twin deficits are expanding, the USD tends to weaken.
- The recent fiscal stimulus is pushing the deficit down. It's likely to continue to push this deficit even wider. If history holds true as a guide, it's likely that this will put downward pressure on the USD.
  - This is one reason why Mr. Gundlach is long-term bearish on the USD, as the deficits don't show any signs of going away.

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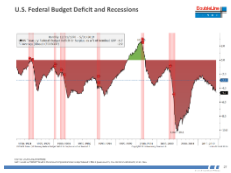

U.S. Federal Budget Deficit and Recessions

- The current Federal budget deficit as a percent of Nominal Gross Domestic Product (GDP) is -4.7%.
  - This is a level that has been historically associated with U.S. recessions or the aftermath of a recession.
  - With the U.S. economy growing at a 3.1% real rate, a 5.0% nominal rate, and an unemployment rate of 3.6%, things on the surface appear great. And yet, the U.S. has a recessionary type of budget deficit.
- The amount of borrowing is actually worse than the budget deficit, due to a number of off-balance sheet items, such as loans from Social Security, natural disaster relief, and veterans' benefits.

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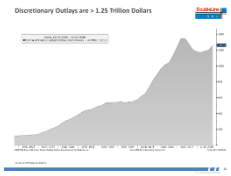

- Additionally, the U.S. government has a really bad debt-to-income problem. Mr. Gundlach pointed out in a previous webcast that U.S. consumers need to have a debt-to-income below 50% to get a government-guaranteed mortgage. And yet, the U.S. government has a 537% debt-to-income problem right now.
- Discretionary outlays are currently greater than $1.25 trillion. The other part is non-discretionary spending; entitlements and mandatory spending are over $2.5 trillion, double that of discretionary spending.
  - This means that two-thirds of the budget is automatic. And it has been rising extremely rapidly, a trend likely to persist with a compounding curve due to the demographics of the nation.
  - If the U.S. is running a budget deficit of about $1.25 trillion, the only way to get rid of it is to eliminate all discretionary spending, which shows the magnitude of the problem.

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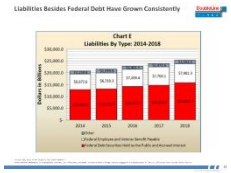

Liabilities Besides Federal Debt Have Grown Consistently

- Data from the U.S. Treasury Department shows that public debts are not the only liabilities that are growing in the federal government. There is also federal employee and veterans' benefits payable which have been growing and are now $7.9 trillion in liabilities that are off balance sheet. They also list "other" which is $1.5 trillion.
  - This is the real size of the liabilities, not the publicly held debt of $16 trillion, but rather the true liabilities add up to roughly $24 trillion, which is essentially the national debt, and is higher than U.S. GDP of roughly $19 trillion.
- However, the budget deficit is consistently understated, as it doesn't use net operating costs of the federal government; it uses just what's on the balance sheet.
  - The budget deficit for fiscal 2018 was a little under $800 billion. However, the national debt increased by $1.4 trillion, fully 50% more than the official deficit.
  - Mr. Gundlach believes this is a very big problem.

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- With the USD weakening a little and an increase in trade war tensions, gold has finally started to make some movement to the upside.
  - Mr. Gundlach turned positive on gold after going neutral below $1,200 in a webcast about this time last year. Gold was about $1,190 at the time.
  - Gold is up roughly 13% since then. Additionally, it continues bumping into this resistance line of roughly $1,340.
- Mr. Gundlach believes gold will break above its resistance line, and is long the senior gold miners. A lot of that has to do with that fact that Mr. Gundlach believes the USD is going to continue to move down and close the year negative.

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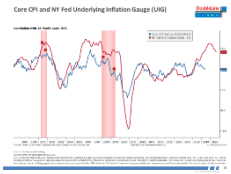
Core CPI and NY Fed Underlying Inflation Gauge (UIG)



- The Core Consumer Price Index (CPI) registered at 2.0% YoY, which suggests to Mr. Gundlach there are some pockets of inflation. The New York Fed Underlying Inflation Gage (UIG) leads Core CPI by 16 months with a .80 correlation.
  - From the looks of the UIG, core inflation could be heading to 2.5% over the next 16 months.
- Wages are rising, as average hourly earnings registered at 3.2% YoY. The National Federation of Independent Business (NFIB) line of companies reporting their single biggest issue is finding quality labor.
- The correlation between the NFIB and the Employment Cost Index (ECI) has been very strong.
  - The NFIB line suggests higher wages over the next 12 months.

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

- One of the two indicators Mr. Gundlach looks at for direction of the 10-year UST yield is the Copper / Gold ratio.
  - Currently, the copper-gold ratio says the 10-year UST yield should be almost exactly where it is right now at 2.10%. So, not much of a signal in terms of rate direction there.
- The other indicator is the average of U.S. nominal GDP and the German 10-year Bund yield.
  - This indicator also reads the 10-year UST yield is traded right where it should be. Again, there is no signal right now.

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Bid to Cover Ratio at Post-Crisis Low

- One of the indicators that's been getting a lot of attention and rightfully so is the waning demand for our UST auctions.
- The 10-year UST bid-to-cover ratio is at a post-Crisis low, after weakening for much of the past six years.
  - The 10-year UST yield is roughly the same as the inflation rate, while short-term rates are below the headline CPI inflation rate so they're not very attractive.

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Maturity Profile of Treasuries Held by Foreign Owners

- One narrative Mr. Gundlach has been trying to disprove is that the inverted yield curve has been caused by foreign demand flattening the curve.
- The argument for this is that the 10-year UST yield is supposed to be attractive compared to the German 10-year Bund yield or Japanese 10-year yield, for example.
- However, this chart shows foreign investors are not buying longer-dated Treasuries. Examining the actual maturity profile of USTs held by foreign owners:
  - 10- to 15-year USTs have extremely little foreign ownership
  - Most of the foreign ownership is in one-, two-, and three-year USTs. If anything, the demand has been lowering short-term interest rates, not lowering long-term interest rates; i.e. this has been acting to steepen the curve.
- Meanwhile, out at the long end of the curve, the 30-year is not doing nearly as well as the rest of the bond market. The 5-year and 30-year UST (5s30s) yield curve has steepened by roughly 60 bps over the past year.

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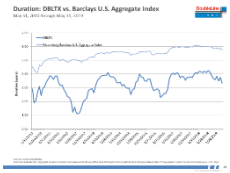

Duration: DBLTX vs. Bloomberg Barclays U.S. Aggregate Index

- The duration of the Bloomberg Barclays U.S. Aggregate Index (Agg) is nearly the longest it's been over the past 10 years.
- The duration of DBLTX has been historically much lower than that of the Agg, and it continues to have a highly favorable pattern of being longer duration than the fund's average when the yields are higher on the 10-year and shorter duration than the fund's average when yields are lower – i.e. actively manipulating the duration of the fund with almost perfect consistency since the fund's inception has been accretive to higher risk-adjusted returns.
  - Our tendency of having a lower duration allows us to take on less interest rate risk sensitivity than the Agg which has allowed us to do better in market drawdowns and reduce our overall volatility.

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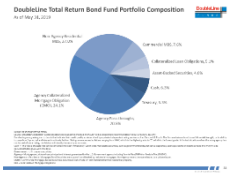

DoubleLine Total Return Bond Fund Portfolio Composition

- Cash is about 6.3%; it has been reduced as the fund had purchased some securities when rates were a little bit higher.
- Commercial Mortgage-Backed Securities (CMBS) is 7.6%, split between Conduit and Single Asset Single Borrower (SASB).
- Collateralized Loan Obligation (CLO) is at 5.1%. Those are very high quality CLOs, AAA-rated. The floating-rate nature is not as attractive as it used to be, with the Fed very likely to be cutting rates before year-end.
- The fund still has nearly 45% in government-guaranteed mortgages.
- 27% in new issue and legacy non-agency residential securities.
- There are no corporate bonds, nor have there ever been corporate bonds. One day when corporate bonds are super cheap, likely well into the next recession, the fund has to ability to invest in corporate bonds.
  - At today's valuations and given the leverage in the corporate economy, Mr. Gundlach believes this is a cocktail for disaster for corporate bonds when the next recession hits
- By not owning corporate bonds, DBLTX helps to diversify away from funds that have a lot of corporate bond exposure.

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.

Bid to Cover Ratio - The dollar amount of bids received in a Treasury security auction versus the amount sold. The bid-to-cover ratio is an indicator of the demand for Treasury securities. A high ratio is an indication of a strong demand.

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.

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.

Consumer Price Index (CPI) - A measure that examines the weighted average of prices of a basket of consumer goods and service, such as transportation, food and medical care.

Copper/Gold Ratio - This ratio indicates the number of ounces of gold it takes to buy an ounce of copper. The ratio is an indicator of the health of the global economy.

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.

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.

Employment Cost Index - A quarterly economic series detailing the changes in the costs of labor for businesses in the United States economy.

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

Fibonacci Ratio - In technical analysis, a Fibonacci retracement is created by taking two extreme points (usually a major peak and trough) on a stock chart and dividing the vertical distance by the key Fibonacci ratios of 23.6%, 38.2%, 50%, 61.8% and 100%.

Gold (XAU) - XAU/USD. One U.S. dollar per troy ounce of gold.

Korean Stock Exchange (KOSPI) - A cap-weighted index of all common shares on the KRX main board.

MSCI Emerging Markets Index - A free-float weighted equity index that captures large and mid-cap representation across EM countries.
Nikkei 225 Index - A price-weighted average of 225 top-rated Japanese companies listed on the Tokyo stock exchange.

Relative Strength Index (RSI) - A technical indicator used in the analysis of financial markets. It is intended to chart the current and historical strength or weakness of a stock or market based on the closing prices of a recent trading period.

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.

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.

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.

As of June 13, 2019, the DoubleLine Total Return Bond Fund held 0% of Amazon, Deutsche Bank, Facebook, Google, and Netflix.

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.

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

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