DoubleLine Total Return Bond Fund Webcast Recap

Originally aired on September 11, 2018

About this Webcast Recap

On September 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 August 31, 2018	Aug	YTD	Annualized 1-Year	3-Year	5-Year	Since Inception (4-6-2010 to 8-31-18)	1-Yr Std Deviation
I-share	0.61%	0.37%	0.24%	2.21%	3.24%	5.91%	1.64%
N-share	0.59%	0.20%	-0.02%	1.92%	2.98%	5.64%	1.61%
Bloomberg Barclays U.S. Agg Index	0.64%	-0.96%	-1.05%	1.76%	2.49%	3.17%	2.21%

Quarter-End Returns June 30, 2018	Jun	YTD	Annualized 1-Year	3-Year	5-Year	Since Inception (4-6-2010 to 6-30-18)
I-share	0.13%	-0.17%	1.13%	2.32%	3.02%	5.97%
N-share	0.11%	-0.20%	0.88%	2.10%	2.78%	5.71%
Bloomberg Barclays U.S. Agg Index	-0.12%	-1.62%	-0.40%	1.72%	2.27%	3.15%

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.
Bloomberg Barclays US Aggregate 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.

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Leading Economic Indicators

- One of Mr. Gundlach's favorite indicators is the Conference Board Leading Economic Indicator (LEI) Year-over-year (YoY) for the U.S.
  - The LEI YoY is at 6.30%.
  - Current levels match its peak back in 2012/2013.
  - The LEI tends to be very deliberate in the way it moves, meaning trends tend to persist; from current levels we believe it would take quite some time to go negative.
- Going back to 1970, the U.S. has never had a recession without the LEI YoY going negative.

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Business Sentiment / ISM Manufacturing and Services PMI

- All five Business Sentiment measures (Recession, Consumer Confidence, CEO Confidence, Home Builders Confidence, and Small Business Optimism) continue to trend higher.
  - Small business optimism hit an all-time record in August, registering at 108.8.
  - This is partially due to the tax cuts and partially due to deregulation.
    - Similar to LEI, when Business Sentiment rolls over it has historically signaled a recession.
    - Unlike LEI, these indicators can change rapidly – I.e. in the aftermath of the 2016 Presidential election we saw a spike to the upside across all five metrics.
- The Institute for Supply Management (ISM) indices continue to be very strong:
  - ISM Manufacturing PMI at 61.3 – the highest in 20-years.
  - ISM Non-Manufacturing NMI at 58.5 - rebounded nicely in the most recent month.
  - Readings above 50 indicates that the economy is in expansion, while readings below 50 signals the economy is in retraction with the potential for a recession.

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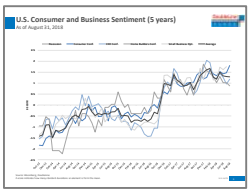

U.S. Budget Deficit as % Gross Domestic Product (GDP)

- A flashing warning sign is the continued increase in the U.S. budget deficit.
- Currently the U.S. budget deficit as a percent of GDP is at a level that in the past has been associated with the Keynesian deficit growth that is used to counter a recession.
  - When a recession comes, the deficit tends to increase as unemployment increases and tax receipts decrease.
- Going back to 1970 the average deficit as a percent of GDP was 2.86%.
  - The current deficit is 3.68%, and the U.S. is supposedly in a strong economy.
  - Concerning Mr. Gundlach is the fact that the Congressional Budget Office (CBO) forecasts this number to increase to 4.90% by 2020 or 2021, a level that we have not seen since the Great Recession.
- Household Debt Balance Composition has been increasing along with government debt
  - Since 2003, the total household debt has increased from roughly $8 trillion to $13.29 trillion by the end of Q2 2018.

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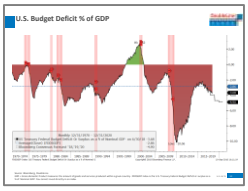

Fewer Potential Homebuyers Due to Higher Mortgage Rates

- One of the indicators that gives DoubleLine pause is the University of Michigan Homebuilders survey. This survey asks the question, "Is it a good time to buy a house?" Currently registering at 64%, it is the lowest reading since 2008.
- This has been trending down for several reasons:
  - Student loan debt: tuition inflation has been outrageous, as student loan debt now accounts for 11% of all outstanding debt.
  - Higher mortgage rates – 30-Year Fixed Rate Mortgage are currently 4.54%, up over 100 basis points (bps) from its low of 3.32% in 2012.
  - Home price appreciation has far exceeded wage growth in the last several years.

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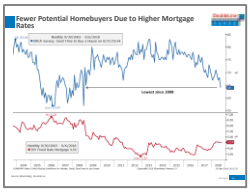

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MSCI ACWI and Central Banks

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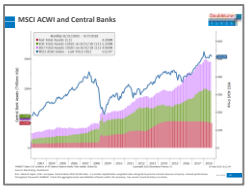

- Taking a look at the Morgan Stanley All Country World Stock Index (MSCI ACWI) compared to balance sheet of "The Big Three", the MSCI ACWI Index return is strongly correlated to the amount of debt between The Big Three:
  - The Federal Reserve (The Fed), European Central Bank (ECB) and Bank of Japan (BOJ)
- If central banks stop current practices, their balance sheets would shrink, and world indices would likely fall.
  - Since the end of 2017, The Big Three's balance sheets have come down slightly and the MSCI ACWI including Emerging Markets (EM) is negative nearly 6.75% year-to-date (YTD).

Rising Deficits and Rising Rates

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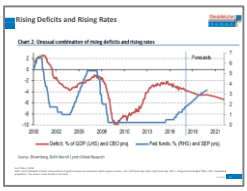

- Tying back to the webcast theme, the U.S. is increasing its deficit while simultaneously increasing the Fed Funds rate. This late in the cycle, Keynesian Economics would advise running a surplus and build up reserves to deploy when the economy weaken. Currently the U.S. is doing the opposite:
  - The Trump tax cut has been helping the U.S. economy out in the short term, but continues to grow the deficit which is potentially harmful in the long term.
  - The Fed has raised rates seven times since December 2015, and is forecast to continue to raise rates.
- Historically, these lines have moved in tandem – I.E. when the deficit increases, interest rates decrease.

CAPE Ratios

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- The CAPE ratio, created by Robert Shiller, is one of the best-known models for forecasting long-term real stock returns.
- Currently, the U.S. CAPE Ratio on the S&P 500 Index (SPX) is 32.51, well above the 21.52 reading at the end of 2004. Only two other times in history has the U.S. CAPE ratio been higher:
  - Leading up to the Great Recession in 1929 & Pre-Tech Bubble in 2000
- Trade war rhetoric, tariffs, and the rising U.S. Dollar (USD) has caused negative returns across Emerging Market countries year-to-date (YTD). The MSCI Emerging Markets CAPE Ratio is currently at 16.31, roughly half of the SPX CAPE Ratio.
  - From a valuation stand point, Mr. Gundlach would be hard-pressed to put new money into U.S. equities based on the CAPE ratio.
- The S&P 500 and the MSCI ACWI ex-U.S. have been moving in tandem until May 2018, when U.S. and International markets began to diverge when trade wars begin to escalate.
  - The gap is building as U.S. equities continue to rise, with the S&P 500 up over 8.00% for the year, while equities ex-U.S. are down roughly 7.00% YTD.

Commodities

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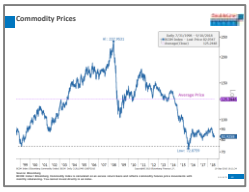

- Against the backdrop of a stronger dollar and talk around trade wars, commodities have been volatile to start the year. Mr. Gundlach still favors commodities over the long-term.

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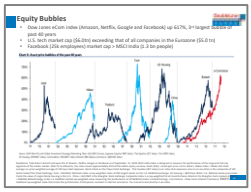

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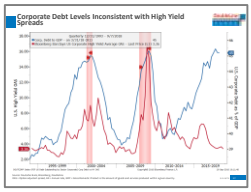

Recap

- The Bloomberg Commodities Index (BCOM) bottomed at 72.87 back in 2015. Currently the BCOM is at 82.93, well below the average of the last 20-years of 125.25, up 15% since May.
  - At these levels, commodities are extremely cheap relative to equities.
- Gold looks a lot like the U.S. Dollar (DXY) did back when DXY bottomed at 79.093 on 05/06/14.
  - This could potentially signal the beginning of a rally in Gold.

Equity Bubbles

- Going back to the 1970's, there has been a number of parabolic rises in markets:
  - 1977-1979: Gold was up over 500% before losing 60% of its value over the next four years.
  - 1989-1989: The Nikkei was up close to 500% before losing more than half its value over the next two years.
  - 1989-1994: Thailand was up nearly 400% before giving it all back by 1998.
  - 1996-2000: Tech was up over 700% before crashing, losing roughly 90% of its value by 2003.
  - 2000 – 2006: U.S. Housing posted a 700% return, before crashing in 2007; giving back all gains by 2009.
  - 2006 –2008: China gained over 400% before going to zero by 2009.
  - 2009 – 2015: Biotechnology gained close to 600% before losing nearly half over the next two years.
  - 2011 – PRESENT: Dow Jones eCom Index (Amazon, Netflix, Google and Facebook) is up 617%, making it the third largest bubble in the last 40 years.

German 10-Year Treasury

- The average of U.S. Nominal GDP YoY and the German 10-Year Treasury Yield has been a reliable indicator as to where to 10-Year U.S. Treasury (UST) rate should be. Currently, U.S. Nominal GDP YoY is 5.40%, while the German 10-Year yield is 0.40%. Averaging the two implies the 10-Year UST yield should be 2.90%.
  - As of 9/11/18, the 10-Year UST yield was 2.97%.
- Additional indicators with high correlation to the 10-Year UST yield:
  - Brent Crude
  - Copper/Gold ratio

Corporate Debt levels

- Corporate debt levels remain inconsistent with High Yield (HY) spreads. In the past, as corporate debt to GDP increased, so did HY spreads. Currently, we have massive corporate debt to GDP, while HY spreads have actually declined, with the Bloomberg Barclays U.S. Corporate High Yield Average Option Adjusted Spread (OAS) at 3.36.
- If High Yield spreads move significantly higher, that could be a warning sign of an oncoming recession. However, we don't see a recession on the horizon for the next six months.

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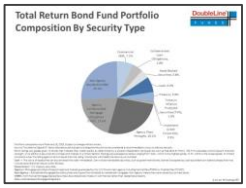

Recap

Question and Answer

- "Do you still like commodities?"
  - Yes, it's a late-cycle play and we're in the late-cycle. Commodities are extremely volatile, and if you own commodities you just have to live with the drawdowns. If you don't own them, this might be a great time to buy.
- "If/when the USD reverses, do you expect increase in gold/silver?"
  - Yes – you're playing two sides of the same coin.
- "Any concerns about Mortgage-Backed Securities (MBS) issuance?"
  - No, not at all. Supply is pretty low. Where we have a lot of supply is corporate bonds – we've seen an explosion of issuance over the past 10-years, up 110%. There's a lot less supply pressure in the mortgage-related market. And the quality of issuance in the non-guaranteed mortgage market continues to be very, very high. We believe the credit risk in the non-agencies we own are very low; this is coming from somebody that was well aware of the credit risk in the non-agency market in 2007.
- "Between non-agency MBS, High Yield, and long-dated treasuries, which would be your favorite category to put money to work?"
  - Non-agency MBS, HY and Longs
- "Can the USD keep rallying if U.S. inflation is accelerating?"
  - Yes. One of the reasons the USD rallies is because the interest rate is attractive – if global rates remain low, the dollar gets more attractive
- "Is gold exhausted to the downside?"
  - I think so. It's currently below $1,200, good entry point
- "How high is my conviction the S&P ends negative for the year?"
  - I have a suspicion the S&P will end the year moderately negative, low single digits. The world stock market is not doing well, and there's a great fraction of markets around the world that are down substantially. There's bear markets all over the place. In the U.S., the NASDAQ has been leading markets down recently, and that's concerning.

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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.

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.

MSCI India Index is designed to measure the performance of the large and mid-cap segments of the Indian market. With 79 constituents, the index covers approximately 85% of the Indian equity universe.
Option-Adjusted Spread (OAS) is a methodology using option pricing techniques to value the imbedded options risk component of a bond's total spread. Imbedded options are call, put or sink features of bonds.
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.
Gold (XAU) - Gold spot price in U.S> dollars
Nikkei Index - Nikkei 225 stock average is a price weighted average of 225 top=rated Japanese stocks listed on the Tokyo Stock Exchange.
Thai Equities (SET Index) is an index that measures returns on securities in the composite of SET Sector Index/Thai Stock Exchange.
Tech - NASDAQ 100 stock index is cap-weighted index of 100 largest stocks on the U.S. NASDAQ exchange.
U.S. Housing - S&P/Case-Shiller U.S. National Home price Index tracks the value of single-family housing in the U.S.
China - SHCOMP is the Shanghai Stock Exchange Composite Index is a cap-weighted for all A and B shares listed on the Shanghai stock market.
Biotech - NASDAQ Biotechnology Index is a modified market cap weighted index measuring the performance of all NASDAQ stocks in biotechnology.
E-Commerce - Dow Jones Internet Commerce Index is a modified cap-weighted index that tracks the performance of companies involved in internet commerce. You cannot invest directly in an index.
Copper/Gold ratio - HG1 Comdty : Copper. GC1: Gold futures.

DoubleLine Total Return Bond Fund owns 0% of Amazon, Netflix, Google or Facebook as of September 11, 2018.