DoubleLine Total Return Bond Fund Webcast Recap

Originally aired on September 8, 2020

About this Webcast Recap

On September 8, 2020, Chief Executive Officer Jeffrey Gundlach and Portfolio Manager Andrew Hsu held a webcast titled "Hey Kid, Want Some Candy?," discussing the DoubleLine Total Return Bond Fund (DBLTX/DLTNX).

This recap is not intended to represent a complete transcript of the webcast. It is not intended as solicitation to buy or sell securities. If you are interested in hearing more of Mr. Gundlach's and Mr. Hsu's views, please listen to the full version of this webcast on www.doublelinefunds.com and click on the "Webcasts" tab under "Latest Webcast." You can use the "Jump To" feature to navigate to each slide.

Total Return Bond Fund

Month-End Returns August 31, 2020	1 Month	3 Months	Year-to-Date	Annualized 1 Year	3 Years	5 Years	10 Years	Since Inception (4-6-10 to 8-31-20)	Gross Expense Ratio
I-share (DBLTX)	-0.19%	1.91%	3.31%	2.74%	3.56%	3.42%	4.76%	5.79%	0.49%
N-share (DLTNX)	-0.21%	1.76%	3.04%	2.48%	3.31%	3.15%	4.49%	5.52%	0.73%
Bloomberg Barclays U.S. Agg Index	-0.81%	1.31%	6.85%	6.47%	5.09%	4.33%	3.65%	4.14%	

Quarter-End Returns June 30, 2020	1 Month	2Q2020	Year-to-Date	Annualized 1 Year	3 Years	5 Years	10 years	Since Inception (4-6-10 to 6-30-20)
I-share (DBLTX)	1.25%	3.41%	2.63%	4.05%	3.83%	3.47%	5.14%	5.82%
N-share (DLTNX)	1.13%	3.25%	2.41%	3.78%	3.54%	3.21%	4.87%	5.55%
Bloomberg Barclays U.S. Agg Index	0.63%	2.90%	6.14%	8.74%	5.32%	4.30%	3.82%	4.14%

Gross Expense Ratio: I-share: 0.49%, N-share: 0.73%

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained by calling (213) 633-8200 or by visiting www.doublelinefunds.com.

World Gross Domestic Product (GDP) Forecast by Year (Slide 6)

- Prior to the COVID-19 pandemic, 2020 world GDP year-over-year (YoY) was forecast to be at about the same level as the five preceding years. Following the economic contraction due to the pandemic, 2020 world GDP YoY is forecast to be negative 3.90% annualized.
- Global trade volume declined 60% YoY in April, roughly the same drawdown during the 2008 Global Financial Crisis (GFC).

2020 U.S. Real GDP Growth Forecast by Quarter (Slide 8)

- U.S. real GDP quarter-over-quarter (QoQ) was negative 4.80% annualized for the first quarter of 2020 and negative 32.30% annualized for the second quarter.
- The forecast for the third quarter is 21.00% annualized QoQ and 6.05% annualized for the fourth quarter.
  - The forecast for 2020 U.S. real GDP YoY is negative 5.00% annualized, which is lower than the world GDP forecast of negative 3.90% despite the United States' unprecedented fiscal and monetary response to the COVID-19 pandemic.

Conference Board Consumer Confidence: Expectations and Present Situation (Slide 14)

- Consumer confidence fell off a cliff from a height that was quite similar to the dot-com bubble level in 1999, when the Conference Board Consumer Confidence Index got to 144.71. This year, it fell from a high of 132.60 in February to 84.80 as of Aug. 31.
  - The index rebounded in June and July, likely in response to the stimulus checks and unemployment benefits that gave people extra money.
- Consumer confidence in the present situation is volatile. Consumers go into the depths of despair during a recession after feeling euphoric right before a recession.
- Consumer expectations for the future are less volatile, as consumers generally have a modest assessment of one year forward.
- Consumers' negative view of the present relative to the future is likely being driven by employment, among other factors. The Conference Board Labor Differential, which is the percentage of consumers saying jobs are "plentiful" less the percentage of those claiming jobs are "hard to get," was negative 3.70 as of Aug. 31, down from 35.3 in January.

Real Clear 2020 Donald Trump Average Poll vs. Net Change in U.S. Daily COVID-19 Cases (Inverted) (Slide 23)

- The coronavirus could be a large determinant of whether President Donald Trump gets reelected, as there is a correlation between Real Clear Politics polling for Trump and confirmed U.S. cases of COVID-19.
  - Mr. Gundlach's base case is that President Trump will get reelected. If COVID-19 cases flare up again in a major way, that could change his prediction.

This Crisis Increased Disposable Income (Slide 27)

- Mr. Gundlach believes this could be the chart of the year.
- The various stimulus programs included in the Coronavirus Aid, Relief, and Economic Security (CARES) Act has pumped up personal income in aggregate by about $3 trillion.
  - This represents roughly 15% of U.S. GDP; yet the U.S. has a lower real GDP forecast than the forecast for the rest of the world.

Small Business Taking Disproportionate Hit (Slide 30)

- Consumer spending has been moving higher while small-business revenue has been trending lower.
  - While $377 billion from the $2.2 trillion CARES Act was to go to small-business assistance, it hasn't helped small businesses so far.

Public Debt Outstanding as % of U.S. GDP (Slide 33)

- In the "Just Markets" webcast in January, Mr. Gundlach said that when the next recession came, he expected the federal budget deficit to widen to about $4 trillion.
  - That has come to fruition, and there's likely no end of this in sight because government assistance is not going to suddenly end. Both political parties have embraced budget deficits.
- Another record that's been broken is public debt outstanding as a percentage of U.S. GDP: 126%. This is higher than the past peak, which was slightly below 120% following World War II.

Fed Holdings of TIPS and 10-Year Real Yield (Slide 35)

- The Fed has been increasing its purchases of U.S. Treasury Inflation-Protected Securities (TIPS).
  - Prior to COVID-19, the Fed owned under 10% of TIPS outstanding. As of Aug. 31, the Fed owned roughly 18% of TIPS outstanding.
- The TIPS market is a thin market relative to other Treasury securities. Prices can move quickly, and light volume can fuel significant volatility. The Fed's activity in the TIPS markets is one of the reasons the U.S. has this level of negative real yields.
  - DoubleLine does not currently favor TIPS versus nominal bonds because the Fed's activity has manipulated TIPS to the point where nominal bonds offer a better return per unit of risk.
  - Breakeven inflation rates appear high given the short-term deflationary consequences of recent economic turmoil.

Fed Sitting on Dry Powder? (Slide 36)

- With all of the Fed's programs, it hasn't come close to fully utilizing them. The Fed has dry powder to use these facilities again should the perceived need arise.
- The Fed began purchasing corporate bond exchange-traded funds and individual corporate bonds. Mr. Gundlach has spoken in the past about how that's in direct violation of the Federal Reserve Act of 1913.
  - *"It bothers me when institutions – significant public institutions – violate their charters, because it makes me wonder what form the next violation will take. Once we know we have a charter violator, then I'm not really going to believe that they're going to, on all the other aspects of their charter, make sure that they drive within the guardrails."*

U.S. Corporate Leverage Ratios (Slide 38)

- The leverage ratio for U.S. investment grade (IG) corporate bonds was around 2.0x in 2009. Currently, the U.S. IG leverage ratio is around 3.5x.
- U.S. high yield (HY) bonds, which inherently have higher leverage, had a leverage ratio around 3.5x in 2009. Currently, the U.S. HY leverage ratio has spiked to around 5.2x.
  - Both leverage ratios have increased by roughly 50%, which should mean a higher reward for taking on the additional risk, but that has not been the case.
  - As of Sept. 4, the IG corporate bond spread is slightly tighter than the 30-year average. That's very unusual to be happening during the first part of a recession.

U.S. Investment Grade BBB vs. High Yield (Slide 41)

- The BBB-rated portion of the IG market as a percentage of the HY bond market has gone from approximately 100% 10 years ago to roughly 250% currently. If there were mass downgrades of BBB-rated bonds, this could overwhelm the junk bond market.
  - If half of the BBB-rated bonds were to get downgraded to junk, the junk bond market would more than double in size.
- The yield of the BBB slice of the corporate bond market is near its all-time low. During the GFC, BBBs widened to 10%. This was during a time where the corporate economy wasn't at the center of the GFC; the GFC was more centered on securitized lending and the financial banking system.
  - As of Sept. 4, the yield-to-worst ratio on the Bloomberg Barclays Baa Corporate Index was 2.35% assuming no defaults. These are bonds where a significant fraction could be downgraded into junk and require much more than a 2% yield in order to entice investors into what are fundamentally deteriorating companies.

Boost From the Fed (Slide 43)

- In the first eight months of 2020, there was more issuance of corporate bonds than any other full calendar year in history.
  - 2020 is on pace to set a record issuance by at least 50%.
- The Fed has helped with this binge of corporate bonds by solving for the illiquidity issues during March.
  - The Fed has not necessarily resolved the solvency problems that downgrades and a weak U.S. economy represent.

Corporate BBB vs. BB Yield (Slide 45)

- At the beginning of the year, the spread differential between BB-rated and BBB-rated corporate bonds was historically narrow at approximately 50 basis points (bps). Mr. Gundlach said during his "Just Markets" webcast in January that one of his highest-conviction ideas was that this differential would widen in 2020.
  - As of Sept. 4, the spread differential had widened to 181 bps.

U.S. Corporate High Yield Spreads (Slide 46)

- HY spreads during the last two recessions increased substantially before the recession came and then continued to expand at least through the middle or late into the recession. In fact, in the dot-com bust, HY spreads continued to expand after the recession was officially over.
- The front edge of the current recession was the March 23 wide in the option-adjusted spread (OAS) of the Bloomberg Barclays US Corporate High Yield Index to Treasury bonds: 1,100 bps.
  - As of Sept. 4, the OAS over Treasuries was 488 bps, a retracing of over 50% from the March wide and a significantly lower level relative to where HY spreads have historically been in past recessions.
- The current U.S. HY par-weighted default rate, at roughly 7%, is higher relative to the industrial recession that ended in 2016.
  - Based on the recent tightening of commercial and industrial loan standards, the par-weighted HY default rate could plausibly nearly double one year from now.

Large Bankruptcies (Slide 51)

- Large corporate bankruptcies are increasing. The cumulative count of U.S. companies with $1 billion or more in debt that are filing Chapter 11 is well ahead of where it was when compared to 2002 or 2009.
  - Most of the increase was in the last few months, and while it has slowed down a little bit, this is not a reassuring trend for lenders to any large indebted companies.

BBB CLO, BBB CMBS Last Cash Flows and BBB Corporate Yield (Slide 57)

- The yields for BBB-rated collateralized loan obligations (CLOs) recovered to a much-lesser extent than BBB-rated corporate bonds, while BBB-rated commercial mortgage-backed securities (CMBS) last cash flows (LCFs) recovered even less.
  - Some areas of the BBB-rated CMBS market could take heavy losses. Their spreads are not even halfway back to prepandemic levels.
- BBB corporates are at incredibly low absolute yields. In BBB CLOs, there could be pockets of opportunity. BBB CMBS are being priced like there is some real distress in parts of the CMBS market.
  - CMBS is a very professional market. In order to successfully navigate through some of this distress, it is imperative firms have the experience, systems and staffing in place to sort through these securities. This is not a beta trade in CMBS. It's an absolute full-on security selection trade that is rarely seen.
- DoubleLine believes there is a lot of opportunity there, but it comes with obvious challenges for nonprofessional investors.

S&P 500 Price-to-Earnings Ratio (Slide 61)

- The ratio of the S&P 500 Index market cap relative to U.S. GDP is the highest of all time, making it the most overvalued in U.S. market history according to this metric.
- The S&P 500 price to earnings (P/E) ratio is in nosebleed territory. The current P/E ratio is similar to 1999; not quite as bad but in the same ballpark. The forward P/E, which has reached the most overvalued level, basically matched the overvaluation preceding the dot-com bust.
- The cyclically adjusted price-to-earnings (CAPE) ratio has a similar look to 1929; only the dot-com bust was worse.
  - The last six months have shown the greatest multiple expansions of P/E ratios in 30 years.

Bloomberg Dollar Index (Inverted) and S&P 500 (Slide 65)

- One thing that's characterized this melt-up in the S&P 500 is it happened with the dollar going down.
  - DoubleLine turned positive on the dollar for the first time in a long time in late August as a tactical move as the dollar rested right on a resistance point. Mr. Gundlach is still a dollar bear long term, but he believes that the dollar run got ahead of itself.
- The dollar has fallen against the euro, the Swiss franc, the pound sterling and the yen, but it is up against most emerging markets.
  - A broadly stronger dollar would likely be a headwind for emerging markets credit risk and emerging markets bonds.

2s10s Grinding Higher (Slide 70)

- The spread between 10-year and two-year Treasury yields has steepened year-to-date (YTD).
- The 10-year yield looks like it's been pegged post crisis while the two-year is anchored near zero and should stay there while the Fed keeps rates low.
  - DoubleLine believes that the yield curve will steepen, and that the Fed will allow 30-year rates to rise, up to a point. The 30-year yield has risen roughly 50 bps from its March 9 lows.

New York Fed Underlying Inflation Gauge (16-month lead) (Slide 77)

- U.S. breakeven prices have radically increased. The breakevens on 5-, 10- and 30-year securities had fallen significantly below 1% YTD, and currently they're right back to pre-COVID-19 levels.
- There doesn't seem to be a lot of evidence of imminent inflation. The New York Fed Underlying Inflation Gauge leads inflation by 16 months and might have bottomed out, but it is consistent with inflation staying near current levels.

Wage Growth vs. 30-Year Mortgage Rates (Slide 79)

- The 30-year mortgage rate is lower than the Atlanta Wage Growth Tracker by roughly 83 bps.
- If people are able to borrow money to buy a house, and their wages are growing faster than their mortgage rate, it is plausible to think their debt is, in a sense, being monetized away.
- The above dynamic could help to explain the strong housing data:
  - Both pending-home sales and existing-home sales are exhibiting a visible V-shaped recovery.
  - Housing starts have rebounded in a very short period of time.
  - Lumber futures have skyrocketed, likely on demand for homebuilding.
  - New-home sales have taken out multiple years of highs with a reading not seen since the 1990s.
  - The Mortgage Purchase Index has rebounded in spite of tighter lending standards.
  - Starting in June, the Redfin median home sales price started to rise quickly, which led to double-digit growth YoY.
- The supply of new homes went up briefly during the lockdown but is back down to roughly a 10-year low.

RMBS Forbearance Report (Slide 93)

- Despite the tepid economic fundamentals, there's been a noticeable decline in forbearance figures across the mortgage market.
  - DoubleLine audited the cash flows of our residential mortgage-backed securities (RMBS) and noticed that many borrowers who requested forbearance in March actually continued to pay their mortgages.
  - Many borrowers likely sought out the forbearance option in case they ran into financial difficulty but never utilized it.
- Since then, many borrowers have exited forbearance and are making payments.
- The OAS on Fannie Mae and Freddie Mac MBS experienced a sharp spread widening in March.
  - While spreads have since rebounded, OAS are not back to pre-COVID-19 tights.
- Based on historical spread differentials, Agency MBS appear to offer better relative value compared to AA-rated corporate bonds.

CMBS Delinquency Rates (Slide 97)

- The Green Street Commercial Property Price Index is a measure of commercial real estate (CRE) values. There has been an approximately 10% drawdown in this index during the pandemic crisis.
- Delinquencies across the various sectors of CRE are high, but there appears to be some recent stabilization.
  - Areas such as the hotel and retail sectors will need to see further fundamental recovery to reestablish confidence in these markets.
  - Utilization rates within the hotel sector have seen some recovery with summer leisure travel, but it remains to be seen what the impact will be after the summer travel season. Assets that typically rely on business travel are not seeing much business travel currently.

Agency CMBS Option-Adjusted Spread (Slide 99)

- The DoubleLine Total Return Bond Fund has been utilizing Agency CMBS in its portfolio given that the sector offers spread over Treasuries and also gives investors a significant amount of prepayment protection.
- Agency CMBS spreads recovered quickly from the March widening, largely due to government support. But with prepayment activity on residential mortgages being so brisk, a lot of investors, including DoubleLine, have looked to supplement some of their duration exposure.
  - Banks and money managers have all been active buyers of Agency CMBS, and this has caused some rapid spread compression. On the positive side, it also has increased liquidity.

CMBS Price by Rating (Slide 101)

- The senior part of the CMBS capital structure has recovered sharply. The mezzanine and junior tranches remain well off their pre-COVID-19 levels. It is likely fundamentals will need to continue to improve in order for additional upward price action.
- Lenders are tightening standards in the wake of the March stress, while at the same time, demand for CRE loans is dropping off very sharply. There are signs of a nascent pickup on the demand side, but lending institutions remain very conservative regarding what type of assets they're willing to lend to.

Duration: DBLTX vs. Bloomberg Barclays US Aggregate Bond Index (Slide 106)

- The yield per unit of duration on the Fund's benchmark, the Bloomberg Barclays US Aggregate Bond Index, was 0.18 as of Sept. 4, which is the lowest that it has been. This might be the least-attractive point ever to be invested in a passive fixed income fund based upon this metric.
  - DBLTX aims to maximize this ratio by maintaining a lower duration and higher yield than the index.
- The Fund's duration was 3.19 years as of Aug. 31.
- As of Aug. 31, the Fund's average price was $102.03, which we view as quite attractive from a convexity standpoint compared to the benchmark's average price of $110.52.

DoubleLine Total Return Bond Fund Portfolio Composition (Slide 107)

- As of Aug. 31, government-guaranteed securities accounted for over 50% of the portfolio.
  - These are Agency MBS, Agency CMBS and Treasury securities.
- On the credit side of the portfolio, the Fund has been diversifying across multiple securitized credit sectors, including non-Agency RMBS, non-Agency CMBS, CLOs and asset backed securities (ABS).
  - The majority of the Fund's credit exposure is senior in the capital structure; these positions can withstand significant stress before experiencing a dollar of principal loss.
- Last quarter, the Fund added to its CLO position, which was accretive given CLO prices rallied very quickly.
  - The Fund is currently looking at harvesting some of those gains and to reinvest those proceeds into RMBS, CMBS and ABS, as the team believes those sectors offer attractive relative value.

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Definitions

Bloomberg Barclays US Aggregate Index – This index represents securities that are SEC-registered, taxable and dollar denominated. The index covers the U.S. 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.

Bloomberg Barclays Baa US Corporate Index – This index tracks the performance of Baa-rated corporate bonds on the Bloomberg Barclays US Corporate Index.

Bloomberg Barclays US Corporate High Yield (HY) Index – This index measures the U.S. dollar-denominated HY fixed-rate corporate bond market. Securities are classified as HY if the respective middle ratings of Moody's, Fitch and S&P are Ba1, BB+ or BB+ or below. The Bloomberg Barclays US HY Long Index, including bonds with maturities of 10 years or greater, and the Bloomberg Barclays US HY Intermediate Index, including bonds with maturities of 1 to 9.999 years, are subindexes of the Bloomberg Barclays US Corporate HY Index.

Bloomberg Barclays US Corporate Index – This index measures the investment-grade, fixed-rate taxable corporate bond market. It includes U.S. dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg Dollar Spot Index – This index tracks the performance of a basket of 10 leading global currencies versus the U.S. dollar.

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

Cash Flow – The net amount of cash and cash equivalents being transferred into and out of a business. At the most fundamental level, a company's ability to create value for shareholders is determined by its ability to generate positive cash flows.

Conference Board US Leading Index (LEI) – Leading Economic Indicators are statistics that predict the next phase of the business cycle.

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.

Convexity – Is a measure of the nonlinear relationship of bond prices to changes in interest rates, the second derivative of the price of the bond with respect to interest rates.

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.

Cyclically Adjusted Price-to-Earnings (CAPE) Ratio – This ratio measures valuation by using real earnings per share (EPS) over a 10-year period to smooth out fluctuations in corporate profits that occur over different periods of a business cycle. It is also known as the "Shiller P/E ratio" for Yale University professor Robert Shiller, who popularized its use.

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 – 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.

Green Street's Commercial Property Price Index – This index is a time period-specific series of unleveraged U.S. commercial property values that capture the prices at which commercial real estate transactions are being negotiated and contracted.

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

Last Cash Flow (LCF) – Last revenue stream paid to a bond over a given period.

Leverage Ratio – Any one of several financial measurements that look at how much of a company's capital comes in the form of debt (loans) or assesses the ability of a company to meet its financial obligations.

Mortgage Bankers Association (MBA) Mortgage Purchase Index – This index includes all mortgage applications for purchases of single-family homes. It covers the entire market: conventional and government loans, and all products.

Option-Adjusted Spread (OAS) – Measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is then adjusted to take into account an embedded option. Typically, an analyst uses U.S. Treasury yields for the risk-free rate. The spread is added to the fixed-income security price to make the risk-free bond price the same as the bond.

Price-to-Earnings (P/E) Ratio – This ratio for valuing a company measures current share price relative to earnings per share (EPS). The P/E ratio is also sometimes known as the "price multiple" or the "earnings multiple." A high P/E ratio could mean that a company's stock is overvalued, or investors are expecting high growth rates in the future.

Spread – Difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument. The spread can be measured between debt instruments of differing maturities, credit ratings or risk.

S&P 500 – Is the stock market index that tracks the stocks of 500 large-cap U.S. companies. Financials include the S&P 500 financial companies.

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

Yield – Refers to the earnings generated and realized on an investment over a particular period of time.

Yield to Worst (YTW) – The lowest yield of a bond that can be received short of default.

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.

As of August 31, 2020, the DoubleLine Total Return Bond Fund held 26.4% in Fannie, 19.6% Freddie.

Earnings growth is not representative of the Fund's future performance.

It is not possible to invest in an index.

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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 marketplace.

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

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