Bank Loans In a Rising Rate Environment

March 2021

Conventional wisdom holds that bond prices typically fall when interest rates rise due to the inverse relationship between a bond's price and interest rates. This inverse relationship is known as "duration," which measures how much the price of a security is affected as interest rates rise or fall. Duration is measured in years, and for every 1% increase or decrease in interest rates, a bond's price will change approximately 1% in the opposite direction for every year of duration. Thus, during a period of rising interest rates, defined as a period where the 10-year U.S. Treasury yield increased over 100 basis points (bps) trough to peak, a bond with a longer duration would fall more in price than a bond with a shorter duration. Also during a period of rising interest rates, floating-rate bank loans have historically outperformed the broader fixed income market due to their shorter duration. *(Figure 1)*

Why do floating-rate loans generally outperform in rising rate environments?

The coupon on floating-rate bank loans is typically tied to a short-term rate such as the London Interbank Offered Rate. As interest rates move, the coupon on a floating-rate bank loan will adjust at predefined intervals to reflect those changes. Due to the ability to adjust their coupon, bank loans typically have lower interest rate sensitivity. Therefore, in a rising rate environment, bank loans adjust their coupons higher and can also potentially benefit from price appreciation. At the advent of a credit cycle, typically after defaults and downgrades have peaked, bank loans potentially offer an attractive return per unit of risk among below-investment-grade credit. In times of economic expansion, bank loans are a uniquely positioned early cycle investment that can benefit from rising interest rates and positive credit developments in a growing economy. As evidenced by the four most-recent rising rate periods below, bank loans have offered a performance advantage to the broader fixed income market:

- ✓ in 2013 during the Taper Tantrum,
- ✓ in 2016 as the market anticipated an increase in the federal funds rate,
- ✓ in late 2017 as the market digested the prospect of a continued economic recovery after the Fed increased its federal funds rate seven times from March 2017 to December 2018
- ✓ and, most recently, as rates have risen partly in response to the massive fiscal and monetary stimulus response to the COVID-19 pandemic.

Rising Rate Performance

	Rising Rate Period	10-Year U.S. Treasury Yield		Domestic Fixed Income, Cumulative Total Return				
Period	Trough - Peak	Trough / Peak (%)	Δ in Basis Points	US Treasury Index*	US Aggregate Index*	US Corporate Index*	US Corporate HY Index*	S&P/LSTA Leveraged Loan Index
1	5/2/13 - 9/5/13	1.63% / 2.99%	136	-4.52%	-4.87%	-6.44%	-2.39%	0.56%
2	7/8/16 - 12/15/16	1.36% / 2.60%	124	-5.67%	-4.28%	-4.19%	5.36%	4.66%
3	9/7/17 - 10/5/18	2.04% / 3.23%	119	-3.70%	-2.91%	-2.70%	3.28%	5.62%
4	8/4/20 - 3/19/21	0.51% / 1.72%	121	-6.15%	-3.94%	-4.27%	6.08%	7.70%

Figure 1
Source: Bloomberg, DoubleLine.

* Bloomberg Barclays US Treasury Total Return Index, Bloomberg Barclays US Aggregate Bond Total Return Index, Bloomberg Barclays US Corporate Total Return Index, Bloomberg Barclays US Corporate Total Return Index, Bloomberg Barclays Corporate High Yield Total Return Index.

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March 2021

DoubleLine Floating Rate Fund

The DoubleLine Floating Rate Fund (DBFRX/DLFRX) (the "Fund") is co-managed by Portfolio Manager/Director of Global Developed Credit, Robert Cohen, CFA, and Portfolio Manager/Director of Corporate Research, Philip Kenney, CFA. The portfolio managers are supported by a team of 20 investment professionals that includes sector analysts and traders. The portfolio management team is time-tested, having managed bank loans across multiple credit cycles and in various economic environments. Our sector analysts' industry experience complements DoubleLine's macroeconomic viewpoint with bottom-up, fundamental analysis, and the team's analysts take a long-term approach when developing a sector or industry outlook.

The Fund focuses on floating-rate securities, such as bank loans and collateralized loan obligations, with the potential to opportunistically invest up to 20% in other debt instruments such as high yield bonds. The Fund's low-duration profile makes it an attractive diversifier to portfolios that are more interest rate sensitive. The Fund has the potential to provide compelling current income in varying rate environments while providing investors with a below-category average expense ratio.[1] The Fund has a track record of better risk-adjusted performance relative to its benchmark and peers over a full market cycle, as measured using the Sharpe Ratio to assess the return on an investment compared to its risk. *(Figure 2)*

The portfolio team utilizes a value-driven investment methodology to balance current income with capital preservation. The credit selection process follows a multipronged approach:

Macroeconomic Foundation

DoubleLine's macroeconomic outlook underpins our bottom-up credit and portfolio construction decisions. The top-down framework, determined by CEO and Chief Investment Officer Jeffrey Gundlach and our investment team, serves as a risk management framework to credit selection. This process includes consideration of macroeconomic factors, proprietary quantitative and qualitative research insights, and historical business cycles.

Bottom-Up Credit Selection

The portfolio management team implements a consistent philosophy and process, attempting to limit exposure to credits with binary risk payoffs while seeking credits with durable enterprise values that will survive credit cycles. Insights gained from fundamental analysis and valuation tools are used to determine security selection, industry exposure and term structure. The credit analysis process incorporates an assessment of long-term outlook, historical and pro forma trends, liquidity levers and maturity schedule, competitive position, capital structure, covenants and deal terms, relative value and management effectiveness.

Investment Opportunity Sourcing

The investment team maintains relationships with underwriters to access primary issues, which complements our bottom-up credit selection. Meanwhile, our sector analysts actively identify trade ideas within their coverage.

Portfolio Construction

Our portfolio managers evaluate each credit in relation to the portfolio as a whole, maintaining a methodical focus on industry, and credit rating and diversification. Credit quality, liquidity and recovery prospects are also used to determine placement and positioning within the Fund.

Active Asset Allocation

The Fund's relatively flexible asset-allocation approach gives it the opportunity to find the best value within the market and not be forced to buy a single asset class when there are more compelling opportunities.

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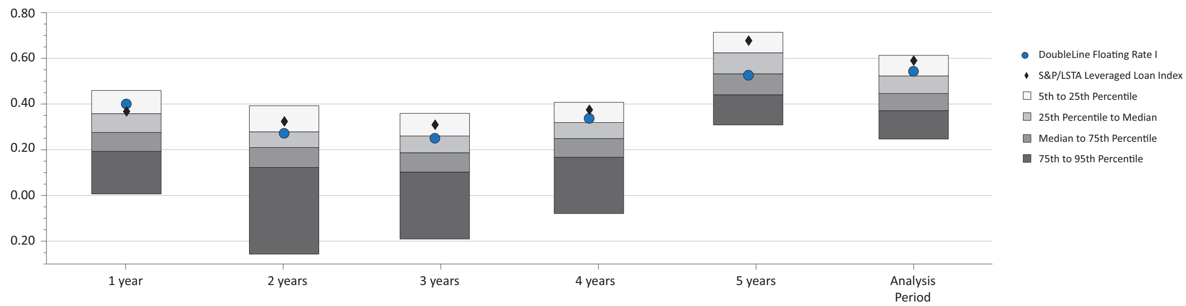
Bank Loans In a Rising Rate Environment

March 2021

Performance Tables

The Fund has produced more attractive risk-adjusted returns since inception with better drawdowns when compared to its Morningstar peer group.[2] Of the 202 managers in the Morningstar Bank Loan universe, the Fund's Sharpe Ratio ranks in the top 20% since the Fund's inception.

DoubleLine Floating Rate Fund versus Morningstar Bank Loan (MF + ETF) Universe: Sharpe Ratio Rank | March 2013 - February 2021



	1 Year (255 managers)	2 Years (250 managers)	3 Years (248 managers)	4 Years (242 managers)	5 Years (237 managers)	Analysis Period (202 managers)
DoubleLine Floating Rate I	11.81%	28.92%	29.15%	17.43%	51.69%	19.40%
S&P/LSTA Leveraged Loan Index	20.25%	12.20%	9.20%	7.76%	10.27%	8.36%

Figure 2
Source: Zephyr

DoubleLine Floating Rate Fund Performance | Monthly and Quarterly Standardized Returns

Month-End Returns | February 28, 2021

	1 Month	3 Months	Year-to-Date	1 Year	3 Years	5 Years	Since Inception	Gross Expense Ratio
I Share (DBFRX)	0.67%	2.56%	1.47%	5.22%	3.34%	4.17%	3.25%	0.71%
N Share (DLFRX)	0.65%	2.48%	1.42%	4.93%	3.10%	3.90%	3.01%	0.96%
S&P/LSTA Leveraged Loan Index	0.59%	3.15%	1.78%	5.78%	4.23%	5.86%	4.08%	

Quarter-End Returns | December 31, 2020

	1 Month	3 Months	Year-to-Date	1 Year	3 Years	5 Years	Since Inception
I Share (DBFRX)	1.07%	3.00%	2.74%	2.74%	3.14%	3.68%	3.13%
N Share (DLFRX)	1.04%	2.92%	2.45%	2.45%	2.87%	3.41%	2.89%
S&P/LSTA LeveragedLoan Index	1.35%	3.81%	3.12%	3.12%	4.01%	5.24%	3.93%

The Floating Rate Fund imposes a 1.00% Redemption Fee on all share classes if shares are sold within 90 days of purchase. Performance data does not reflect the redemption fee. If it had, returns would be reduced.

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 current to the most recent month-end may be obtained by calling (213) 633-8200 or by visiting www.doublelinefunds.com.

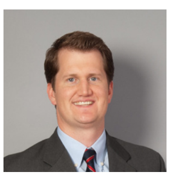
Bank Loans In a Rising Rate Environment

March 2021

DoubleLine Floating Rate Fund Portfolio Managers

Robert Cohen, CFA
Director, Global Developed Credit

Mr. Cohen joined DoubleLine's Global Developed Credit ("GDC") Group in 2012. He is a Portfolio Manager and the Director of the group. He is also a permanent member of the Fixed Income Asset Allocation Committee. Prior to DoubleLine, Mr. Cohen was a Senior Credit Analyst at West Gate Horizons Advisors (and its predecessor ING Capital Advisors), where he worked as an Analyst covering bank loans and high yield bonds. Prior to ING, he was an Assistant Vice President in the Asset Management Group of Union Bank, where he managed a diversified portfolio of leveraged loans as well as a portfolio of collateralized debt obligation securities. Prior to Union Bank, he was an Associate Director of Corporate and Investment Banking at the Bank of Montreal in its Natural Resources Group. Mr. Cohen holds a B.A. in Economics from the University of Arizona and an MBA from the University of Southern California. He is a CFA® charterholder.



Philip Kenney, CFA
Portfolio Manager/Director of Corporate Research, Global Developed Credit

Mr. Kenney joined DoubleLine's Global Developed Credit Group in 2013 and has been Director of Corporate Research since 2016. Prior to DoubleLine, he worked at Crescent Capital as an Analyst with a focus on high yield bonds and leveraged loans. Mr. Kenney began his career at Nomura Corporate Research and Asset Management, where he worked as a High Yield Bond Analyst covering autos, paper, publishing, food and restaurants. He holds a B.A. in History, cum laude, from Yale University and is a CFA® charterholder.

Citations

1 Morningstar. Gross expense ratio for the DoubleLine Floating Rate Fund I Share is 0.71%. Morningstar classifies the Fund in their Bank Loan category.

2 Versus the S&P/LSTA Leveraged Loan Index

Definitions

Basis Points (BPS) – Basis points (or basis point (bp)) refer to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% or 0.0001, and is used to denote the percentage change in a financial instrument. The relationship between percentage changes and basis points can be summarized as: 1% change = 100 basis points; 0.01% = 1 basis point.

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 US Aggregate Bond Total Return Index – This index measures the total return performance of 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.

Bloomberg Barclays US Corporate Bond Total Return Index – This index measures the total return performance of 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 Barclays US Corporate High Yield (HY) Total Return Index – This index measures the performance of 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.

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 Treasury Total Return Index – This index measures the total return performance of U.S. dollar-denominated fixed-rate nominal debt issued by the U.S. Treasury with a remaining maturity of one year or more. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index.

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.

Federal Funds Rate – Target interest rate, set by the Federal Reserve at its Federal Open Market Committee (FOMC) meetings, at which commercial banks borrow and lend their excess reserves to each other overnight. The Fed sets a target federal funds rate eight times a year, based on prevailing economic conditions.

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.

S&P/LSTA Leveraged Loan Index – This index tracks the market-weighted performance of institutional weighted loans based on market weightings, spreads and interest payments.

S&P/LSTA Leveraged Loan Total Return Index – This market value-weighted index measures the performance of the U.S. leveraged loan market on a total return basis based upon market weightings, spreads and interest payments.

Sharpe Ratio – Used to help investors understand the return of an investment compared to its risk. The ratio is the average return earned in excess of the risk-free rate per unit of volatility or total risk. Volatility is a measure of the price fluctuations of an asset or portfolio. Subtracting the risk-free rate from the mean return allows an investor to better isolate the profits associated with risk-taking activities. The risk-free rate of return is the return on an investment with zero risk, meaning it's the return investors could expect for taking no risk. The yield for a U.S. Treasury bond, for example, could be used as the risk-free rate.

Taper Tantrum – The 2013 surge in U.S. Treasury yields as a result of the Federal Reserve's announcement that it would be reducing the pace of its purchases of Treasury bonds, thus, reducing the amount of money it was feeding into the economy. The ensuing rise in bond yields in reaction to the announcement was referred to as the "Taper Tantrum" in financial media.

It is not possible to invest in an index.

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March 2021

DoubleLine Floating Rate Fund Disclosure

Mutual fund investing involves risk; Principal loss is possible.

Fund Risk Disclosure

Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in ABS, MBS, and floating rate securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Investments in floating rate securities include additional risks that investors should be aware of such as credit risk, interest rate risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for investments in emerging markets. The Fund may use leverage which may cause the effect of an increase or decrease in the value of the portfolio securities to be magnified and the Fund to be more volatile than if leverage was not used. Derivatives involve special risks including correlation, counterparty, liquidity, operational, accounting and tax risks. These risks, in certain cases, may be greater than the risks presented by more traditional investments. Investing in ETFs involve additional risks such as the market price of the shares may trade at a discount to its net asset value ("NAV"), an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact a Funds ability to sell its shares.

Morningstar Disclosure

Morningstar rankings represent a fund's total -return percentile rank relative to all funds that have the same Morningstar category. Morningstar Rankings represent a fund's total-return rank relative to all funds that have the same Morningstar Category. The highest rank is 1 and the lowest is based on the total number of funds ranked in the category. It is based on Morningstar total return, which includes both income and capital gains or losses and is not adjusted for sales charges or redemption fees. Each Morningstar category average is representative by funds of similar investment objectives.

Zephyr StyleADVISOR uses returns-based style analysis to determine managers' investment style and to create a style benchmark for evaluating manager performance. StyleADVISOR also tests for style consistency. Zephyr StyleADVISOR is a third party vendor whose data is believed to be accurate, but cannot be guaranteed.

Past performance does not guarantee future results.

DoubleLine Disclosure

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