DoubleLine®

# Quarterly Commentary

## Floating Rate Fund

## DBFRX/DLFRX

**June 30, 2017**

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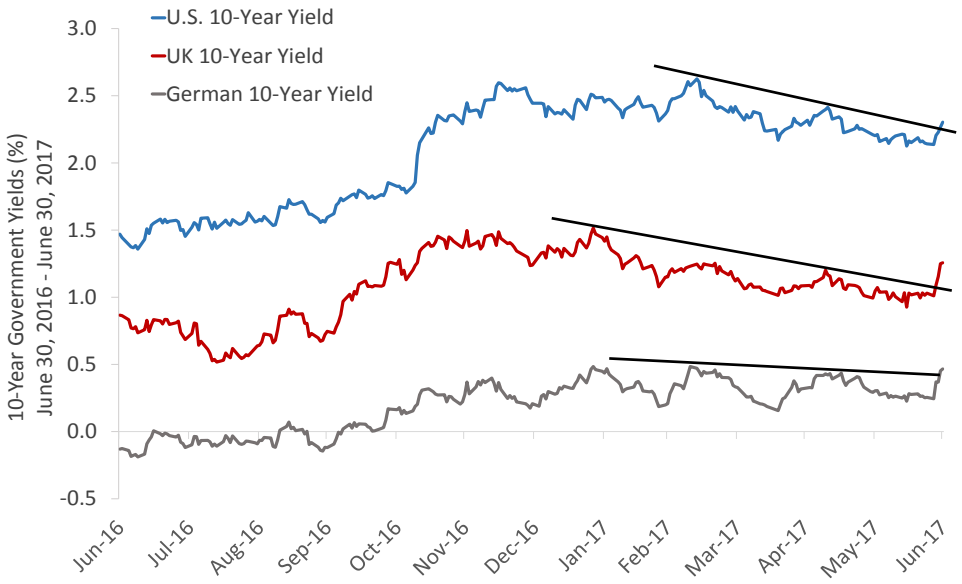
## Overview

A few main themes dominated headlines at the close of the second quarter: changes to Federal Reserve (Fed) monetary policy, the direction of U.S. Treasury (UST) rates, and persistent low volatility across several asset classes. For the most part, however, the first half of the year was a continuation of the latter half of 2016 as more credit sensitive sectors such as convertible bonds, high yield (HY) and emerging market (EM) debt continued to outperform. Although sectors such as mortgage-backed securities (MBS) and U.S. Treasuries were the laggards, they too maintained a positive total return.

**10-Year Government Yields**
**June 30, 2016 to June 30, 2017**




Source: DoubleLine, Bloomberg

As anticipated, the Fed was all the talk during the second quarter after another successful rate hike during June brought the benchmark target to between 1.00% and 1.25%. After two successful hikes through the first half of the year, it appears that the Fed has finally been able to meet their own expectations after years of disappointing the market. According to Bloomberg's World Interest Rate Probability (WIRP) function, the implied probability of another hike by year-end is just over 50%. We believe the true probability is accurately reflected in the futures market as it will be difficult for the Fed to hike once more by year-end. Aside from subpar Gross Domestic Product (GDP) which came in at 1.4% during the first quarter, the Fed will have to fight falling inflation, which appears to have peaked for the year barring any exogenous shocks to the base effects. Headline Consumer Price Index (CPI) fell to 1.9% year-over-year (YoY) during May after reaching a high of 2.7% in February 2017. Core CPI fell to 1.7% YoY after reaching a high of 2.3% in January 2017. Flat-to-weaker energy prices will likely keep a lid on any higher inflation expectations through the second half of the year.

The UST curve continued to flatten for most of the second quarter as it has for most of the year. The benchmark yield spread between the long end of the 10-year bond and the short end of the 2-year note (2s10s) began the year at 125 basis points (bps) but later fell as low as 79 bps ahead of the Fed's rate hike. Meanwhile, the 2-year UST ended the quarter at 1.38%, an 8-year high, validating the notion that short-term interest rates have been in a secular rising interest rate environment for the better part of five years. Most notably, price action on the 10-year UST is worth keeping an eye on through the second half of the year as the 10-year yield broke out to the upside during the last week of June to end the month at 2.30%. The move coincided with a jump in global developed sovereign yields as stronger growth and talk of less accommodative policy in Europe led to a 21 bps spike in 10-year German Bund yield and a 23 bps spike in 10-year UK Gilt yields during the last week of June. The 10-year German Bund and 10-year UK Gilt ended the quarter at 0.47% and 1.26%, respectively. All told, it is clear that pressure has remained to the upside for yields as we move into the second half of the year.

Lastly, we continue to keep an eye on the lack of volatility across risk assets as the quiet summer months could give investors a false sense of calm.

The CBOE Volatility Index (VIX), which measures the volatility across the S&P 500, fell to all-time lows during June and ended the month near levels not seen since 1993. While we do not forecast a recession in the immediate future, further delays and disappointments in economic policy, rising bond yields and subpar growth are all events that could lead to investor uncertainty. Although Fed Chair Janet Yellen does not expect "another financial crisis in our lifetime," we believe any market dislocations and mispricings can be opportunities over the long term.[1]

## Bank Loans

- The S&P/LSTA Leveraged Loan Index (the Index) posted a return of 0.76% in the second quarter, with coupon-clipping returns in April and May offset by a decline of 0.04% in June, which snapped a 15-month streak of positive returns. The weighted average bid of the Index retreated 31 bps in June and declined 20 bps in the second quarter.
- CCC-rated names performed well in April and May, but there was a reversal in risk appetite in June, and CCC-rated names closed the month down 1.46%. For the quarter, CCC-rated loans rose 0.70% - not notably different from the 0.76% return of the Index as a whole. The default rate remains subdued at 1.49% for the trailing 12-month period.
- The June sell-off was led by the Oil and Gas sector, which declined 3.92% as a result of lower oil prices. After showing positive returns in April and May, Retailers struggled in June, declining 1.49% with continued concerns around online competition. The best performing sector in the second quarter was Beverage & Tobacco, which rose 4.27%.
- The loan market's strong technical backdrop in April and May reversed in June as inflows into loan funds slowed notably. Inflows averaged just $38 million per week during the four weeks through June 28th, with outflows in the last two weeks.

1. Source: Fox Business, "Yellen: I 'don't believe' we'll see another financial crisis in our lifetime."

## Fund Performance

| Month-End Returns June 30, 2017 | June | Year-to-Date | Annualized 1-Year | Annualized 3-Year | Annualized Since Inception (2-1-13 to 6-30-17) | 1-Yr Std Deviation[2] |
|---|---|---|---|---|---|---|
| I-share | 0.12% | 1.54% | 4.77% | 2.85% | 2.99% | 0.95% |
| N-share | 0.00% | 1.31% | 4.40% | 2.56% | 2.76% | 0.98% |
| Benchmark[1] | -0.04% | 1.91% | 7.42% | 3.35% | 3.83% | 1.47% |

| Quarter-End Returns June 30, 2017 | 2Q17 | Year-to-Date | Annualized 1-Year | Annualized 3-Year | Annualized Since Inception (2-1-13 to 6-30-17) |
|---|---|---|---|---|---|
| I-share | 0.96% | 1.54% | 4.77% | 2.85% | 2.99% |
| N-share | 0.80% | 1.31% | 4.40% | 2.56% | 2.76% |
| Benchmark[1] | 0.76% | 1.91% | 7.42% | 3.35% | 3.83% |

| Calendar Year Returns | 2016 | 2015 | 2014 | 2013[3] | Expense Ratio | Gross |
|---|---|---|---|---|---|---|
| I-share | 5.29% | 1.60% | 1.56% | 3.19% | I-share | 0.66% |
| N-share | 5.02% | 1.35% | 1.40% | 3.11% | N-share | 0.91% |
| Benchmark[1] | 10.16% | -0.69% | 1.60% | 4.21% | | |

*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 does not reflect the 1% redemption fee on shares held less than 90 days and if deducted the fee would reduce the performance data quoted. Performance data current to the most recent month-end may be obtained by calling 213-633-8200 or by visiting www.doubleline.com.*

1. Benchmark: S&P/LSTA Leveraged Loan Index = Index is comprised of non-investment grade and non-rated loans and strips our defaulted issue at the price directly following the default. You cannot invest directly in an index. 2. 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. 3. The Fund's inception date is 2-1-2013, thus the calendar year performance for 2013 is an unannualized partial year return.

The performance information shown assumes the reinvestment of all dividends and distributions.

## Performance Attribution

During the second quarter of 2017, the DoubleLine Floating Rate Fund outperformed the S&P LSTA Leveraged Loan Index return of 0.20%. The Fund benefited from its over-exposure to B-rated loans, which returned 0.94% from an Index perspective compared to a 0.67% return for BB-rated loans and a 0.70% return for CCC-rated loans. This was a marked shift from recent quarters in which CCC-rated loans outperformed the market materially. The Fund held overweight positions in Automotive and Healthcare, sectors that both outperformed the Index. The Fund's small position in High Yield was accretive to performance driven by credit selection and strength in the High Yield market, while the small cash position was dilutive to overall performance.

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# DoubleLine Floating Rate Fund
## Ticker: DBFRX/DLFRX
## As of June 30, 2017

## Fund Statistics

| Portfolio Characteristics | |
|---|---|
| # of Issues | 162 |
| Ending Market Value | $438,219,698 |
| Market Price[1] | $100.02 |
| Duration[2] | 0.29 |
| Weighted Avg Life[3] | 5.55 |

| Top 10 Sectors | |
|---|---|
| Computers & Electronics | 12.57% |
| Healthcare | 11.55% |
| Leisure Goods/Activities/Movies | 6.48% |
| Telecom | 5.56% |
| Retailers (Except Food & Drug) | 5.24% |
| Chemicals & Plastics | 4.85% |
| Industrial Equipment | 3.85% |
| Business Equipment & Services | 3.19% |
| Surface Transport | 3.27% |
| Food Products | 3.13% |
| **Total:** | **59.71%** |

| Top 10 Issuers | |
|---|---|
| Leslie's Pool Supplies | 0.96% |
| Cyxtera Technologies | 0.96% |
| Lumileds | 0.96% |
| Ellucian/Sophia Term Loan B | 0.96% |
| Constellis | 0.96% |
| Gates Global | 0.96% |
| JDA Software Group | 0.96% |
| Atotech | 0.95% |
| Select Medical | 0.95% |
| Nord Anglia Education | 0.95% |
| Total: | **9.57%** |

| Asset Mix[4] | |
|---|---|
| Floating Rate Loans | 92.09% |
| Cash & Equivalents | 4.05% |
| U.S. Corporate High Yield | 2.95% |
| CLO[7] | 0.91% |
| **Total:** | **100.00%** |

| Current Quality Credit Distribution[5] (Percent of Portfolio) | |
|---|---|
| Cash | 4.05% |
| AAA | 0.00% |
| AA | 0.00% |
| A | 0.00% |
| BBB | 1.37% |
| BB | 30.91% |
| B | 62.82% |
| CCC and Below | 0.84% |
| Not Rated | 0.00% |
| **Total:** | **100.0%** |

| SEC 30-Day Yield | I-Share | N-Share |
|---|---|---|
| Gross | 4.03% | 3.78% |
| Net[6] | 4.03% | 3.78% |

**Past performance does not guarantee future results.**

1. Market Price - The weighted average of the prices of the Fund's portfolio holdings. While a component of the fund's Net Asset Value, it should not be confused with the Fund's NAV. 2. Duration - A commonly used measure of the potential volatility of the price of a debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration. 3. Weighted Average Life (WAL) - The average number of years for which each dollar of unpaid principal on a loan or mortgage remains outstanding. 4. Figures shown represent the net assets invested in a particular asset class as a percentage of total net assets. 5. Credit distribution is determined from the highest available credit rating from any Nationally Recognized Statistical Rating Agency ("NRSRO", generally S&P, Moody's and Fitch). DoubleLine chooses to display credit ratings using S&P's rating convention, although the rating itself might be sourced from another NRSRO. 6. If a Fund invested in an affiliate Fund sponsored by the Adviser during the period covered by this report the Adviser agreed to not charge a management fee to the Fund in an amount equal to the investment advisory fees paid by the affiliated Fund in respect of the Fund's investment in the affiliated fund to avoid duplicate charge of the investment advisory fees to the investors. 7. CLO = Collateralized Loan Obligation.

AAA to BBB - Bond rating firms, such as Standard & Poor's, identify AAA – AA as having the highest credit quality. A to BBB as medium credit quality. These are considered Investment Grade. The higher the rating the more likely the bond will pay back par/100 cents on the dollar.

BB and Below = Bonds rated BB and below are considered low credit quality, commonly referred to as "junk bonds". These are less likely to pay back par/100 cents on the dollar.

Sector allocations are subject to change at any time and should not be considered a recommendation to buy or sell any security. Portfolio holdings generally are made available fifteen days after month-end by calling 1-877-DLine11. The source for the information in this report is DoubleLine Capital, which maintains its data on a trade date basis.

## Definitions

**Basis Point** -A basis point (bps) equals to 0.01%.

**Bloomberg World Interest Rate Probability (WIRP) -** A Bloomberg function based on futures trading data that gives probabilities of rate increases by central bank meeting date.

**Chicago Board Options Exchange (CBOE) Volatility Index (VIX) -** An index that represents the cash-pay securities of the Citigroup High-Yield Market Capped Index, a modified version of the High Yield Market Index, by delaying the entry of fallen angel issues and capping the par value of individual issuers at $5 billion par amount outstanding.

**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.

**S&P 500 Index** - Standard & Poor's US 500 Index, a capitalized-weighted index of 500 stocks.

**Spread** - The 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 and risk.

An investment cannot be made in an index.

## Disclaimers

**The fund's 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 investment company, and it may be obtained by calling 1 (877) 354-6311/ 1 (877) DLINE11, or visiting www.doublelinefunds.com. Read it carefully before investing.**

While the Fund is no-load, management fees and other expenses still apply.

Please refer to the prospectus for further details.

*Mutual fund investing involves risk; Principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. 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. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated 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 increase susceptibility to adverse economic developments. Investments in foreign securities may involve political, economic and currency risks, greater volatility and differences in accounting methods. These risks are greater for investments in emerging markets. In order to achieve its investment objectives, the Fund may use certain types of exchange traded funds or investment derivatives. Derivatives involve risks different from, and in certain cases, greater than the risks presented by more traditional investments. Derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when more advantageous. Investing in derivatives could lose more than the amount invested. ETF investments involve additional risks such as the market price trading at a discount to its net asset value, an active secondary trading market may not develop or be maintained or trading may be halted by the ex-change in which they trade, which may impact the fund's ability to sell its shares. 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.*

Fund portfolio characteristics and holdings are subject to change without notice. The Advisor may change its views and forecasts at anytime, without notice.

Credit ratings from Moody's range from the highest rating of Aaa for bonds of the highest quality that offer the lowest degree of investment risk to the lowest rating of C for the lowest rated class of bonds. Credit ratings from Standard & Poor's (S&P) range from the highest rating of AAA for bonds of the highest quality that offer the lowest degree of investment risk to the lowest rating of D for bonds that are in default. Adverse economic conditions or changing circumstances, however, are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation according to S&P's methodology.

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**Important Information Regarding DoubleLine**

In preparing the client reports (and in managing the portfolios), DoubleLine and its vendors price separate account portfolio securities using various sources, including independent pricing services and fair value processes such as benchmarking.

To receive a complimentary copy of DoubleLine's current Form ADV (which contains important additional disclosure information), a copy of the DoubleLine's proxy voting policies and procedures, or to obtain additional information on DoubleLine's proxy voting decisions, please contact DoubleLine's Client Services.

**Important Information Regarding DoubleLine's Investment Style**

DoubleLine seeks to maximize investment results consistent with our interpretation of client guidelines and investment mandate. While DoubleLine seeks to maximize returns for our clients consistent with guidelines, DoubleLine cannot guarantee that DoubleLine will outperform a client's specified benchmark. Additionally, the nature of portfolio diversification implies that certain holdings and sectors in a client's portfolio may be rising in price while others are falling; or, that some issues and sectors are outperforming while others are underperforming. Such out or underperformance can be the result of many factors, such as but not limited to duration/interest rate exposure, yield curve exposure, bond sector exposure, or news or rumors specific to a single name.

DoubleLine is an active manager and will adjust the composition of client's portfolios consistent with our investment team's judgment concerning market conditions and any particular security. The construction of DoubleLine portfolios may differ substantially from the construction of any of a variety of bond market indices. As such, a DoubleLine portfolio has the potential to underperform or outperform a bond market index. Since markets can remain inefficiently priced for long periods, DoubleLine's performance is properly assessed over a full multi-year market cycle.

**Important Information Regarding Client Responsibilities**

Clients are requested to carefully review all portfolio holdings and strategies, including by comparing the custodial statement to any statements received from DoubleLine. Clients should promptly inform DoubleLine of any potential or perceived policy or guideline inconsistencies. In particular, DoubleLine understands that guideline enabling language is subject to interpretation and DoubleLine strongly encourages clients to express any contrasting interpretation as soon as practical. Clients are also requested to notify DoubleLine of any updates to Client's organization, such as (but not limited to) adding affiliates (including broker dealer affiliates), issuing additional securities, name changes, mergers or other alterations to Client's legal structure.