The Case for Actively Managed Fixed Income

DoubleLine Total Return Bond Fund

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Over the past several years, some investors have shown a preference for passive investment vehicles in order to obtain their desired exposure to the market. Whether this shift can be attributed to the widespread under-performance of active equity managers or the attractive fees, investors may be exposing themselves to additional risk when using a passive fixed income product.

Over the past two years net inflows into passive fixed income funds and ETFs totaled over $300 billion surpassing the amount invested in actively managed fixed income products. We want to revisit the case for an actively managed portfolio and offer one option that may add some alpha to your investment portfolio.

Figure 1 – Fund Duration vs. 10-Year UST Yield[1]

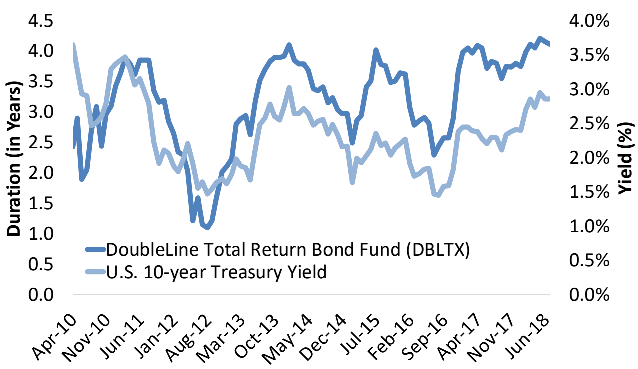


Figure 2 – Fund vs. Index Duration[2]

	Duration
DoubleLine Total Return Bond Fund	4.11
Bloomberg Barclays Aggregate Bond Index	6.01

DoubleLine Total Return Bond Fund Performance

Quarter-End Returns June 30, 2018	June	2Q18	Year-to-Date	Annualized 1-Year	Annualized 3-Year	Annualized 5-Year	Annualized Since Inception (4-6-10 to 6-30-18)
I-share (DBLTX)	0.13%	-0.17%	-0.17%	1.13%	2.32%	3.02%	5.97%
N-share (DLTNX)	0.11%	-0.20%	-0.20%	0.88%	2.10%	2.78%	5.71%
Benchmark[3]	-0.12%	-1.62%	-1.62%	-0.40%	1.72%	2.27%	3.15%

	Expense Ratio	30-Day SEC Yield (Gross)	30-Day SEC Yield (Net)	1-Year Std Dev[4]
I-share (DBLTX)	0.47%	3.85%	3.85%	1.84%
N-share (DLTNX)	0.72%	3.60%	3.60%	1.75%
Benchmark[3]				2.37%

Performance is subject to change without notice. The performance information shown assumes the reinvestment of all dividends and distributions. Sector allocations are subject to change and should not be considered a recommendation to buy or sell any security.

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 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.

Source: DoubleLine

[1] Returns for periods less than one year are not annualized.
[2] Source: DoubleLine (As of June 30, 2018)
[3] Bloomberg Barclays U.S. Aggregate Index - Represents securities that are 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. It is not possible to invest in an index.
[4] 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.

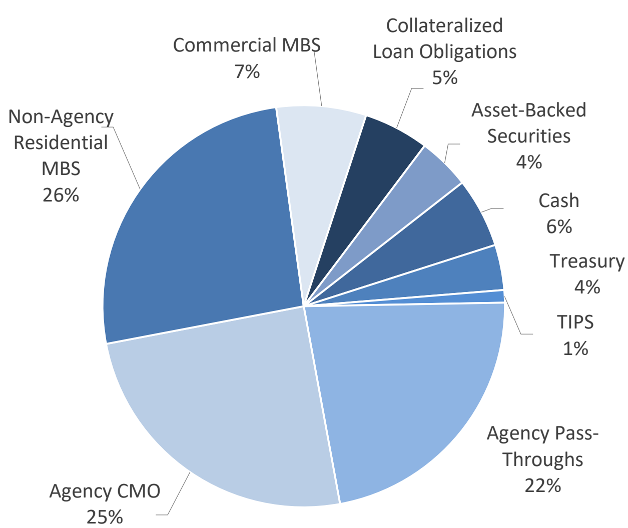
Managing Interest Rate Sensitivity

The risk of rising interest rates has always been a primary concern of fixed income investors, particularly over the past couple of years as the Federal Open Market Committee (FOMC) moved way from its zero interest rate policy.

Fortunately, rising rates do not have to spell disaster for investors if you are willing to look outside of traditional sectors in order to build a portfolio with a shorter duration. As of June 30, 2018, the Bloomberg Barclays Aggregate Bond Index (the Index) exhibited a duration of 6.01 years, marking one of the higher figures since the Index's inception in 1986. Corporate credit, a large component of the Index, is even more interest rate sensitive with a duration of 7.50 years. With a 25.3% weighting to corporate credit, the Index offers a very unattractive risk/reward setup.

At DoubleLine, we believe that actively managed bond funds may mitigate interest rate risk and preserve capital in rising rate environments. An effective active manager is one that can reduce effective duration when rates are low in expectation of high future rates and one that has the liquidity and foresight to add to duration after rates move higher. Over time the DoubleLine Total Return Bond Fund (the Fund, DBLTX/DLTNX) has done just that by tactically adjusting interest rate risk through asset allocation and security selection with the goal of providing superior risk adjusted returns. As of June 30, 2018, the Fund had an effective duration of 4.11 years which is significantly shorter than the benchmark.

Figure 3 – Fund Sector Breakdown[1]

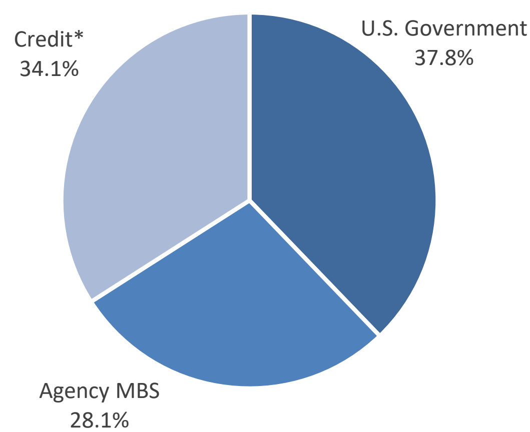


[1] Source: DoubleLine (As of June 30, 2018)

Diversification and Credit Risk

The Bloomberg Barclays Aggregate Bond Index also suffers from a lack of diversification providing investors limited exposure amidst a vast landscape of opportunity. Aside from U.S. Treasuries and Agency MBS, Figure 4 shows that the Index does little to offer credit exposure outside of traditional investment grade corporate bonds. With investment grade corporate debt spreads near all-time lows of 116 basis points (bps) over duration-matched Treasuries as of June 30th, investors are being compensated very little for credit risk this late in the market cycle. While fundamentals still look strong across the corporate credit market, investors should be aware that a spike in rates coupled with volatility across risk assets could be a double edge sword for corporate credit.

Figure 4 – Index Sector Breakdown[1]



The beginning of 2018 was an example of spread widening coupled with a higher move in interest rates and served as a reality check for most bond strategies. As such, most passive fixed income funds and even larger core managers were challenged if they were even benchmark weighted or more to traditional corporate credit. While other sectors of the fixed income universe are not immune, a properly constructed portfolio can mitigate some of the volatility by looking into other areas of the credit market. Securitized credit such as Commercial Mortgage-Backed Securities (CMBS), Collateralized Loan Obligations (CLO), Asset-Backed Securities (ABS) and other securitized structures can balance the risk from traditional credit due to the underlying collateral credit quality and amortizing structures.

The DoubleLine Total Return Bond Fund seeks to balance different types of credit risk to provide investors the opportunity to broaden the investible fixed income universe where the manager can look for pockets of relative value. As of 6/30/18 the Fund is invested in six fixed income sectors which are comprised of a combination of fixed or floating rate securities, shorter maturity profiles and strategic sectors that can benefit from current overarching macro themes.

Why the DoubleLine Total Return Bond Fund?

Stability of team

DoubleLine's Fixed Income Portfolio Management team averages 23 years of industry experience and 17 years of working together and successfully navigated several market cycles together, including the Federal Reserve tightening of interest rates by 300 basis points (bps) in 1994, the Asian currency crisis in 1998, 17 consecutive Federal Reserve rate hikes from 2004-2006, and the global credit meltdown in 2008. The longevity and stability of the team help distinguish DoubleLine from other managers.

Active Risk Management

Active risk management is at the core of our investment process. Our teams employ a robust investment approach based on top-down macro analysis combined with bottom-up security selection. We mitigate the risks of our strategies via sector allocations, security selection, overall credit quality and duration of the portfolio, and ongoing monitoring of the portfolio and individual security holdings. We seek to mitigate interest rate risk and preserve principal regardless of the interest rate environment.

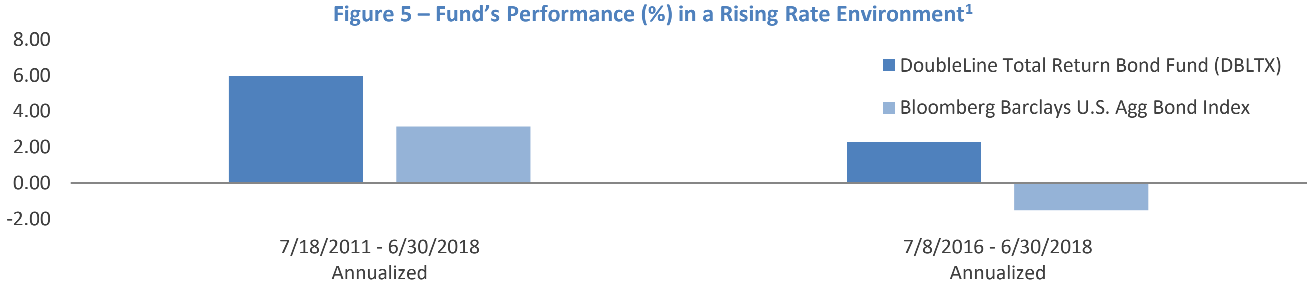
By focusing on broad trends, the DoubleLine team implements measured rotations over time as opportunities arise. A few recent examples are listed below:

- 2010: In 2010 the portfolio management team was able to identify a major dislocation in the Non-Agency Mortgage Backed Securities (MBS) space, an out of benchmark position. We recognized an opportunity to take advantage of discounted prices, while anticipating the health of the economy would soon improve and these securities would appreciate in value. Since the end of the financial crisis Non-Agency MBS have been one of the best performing fixed income sectors. Since the inception of the Markit iBoxx Broad US Non-Agency RMBS Index on August 16, 2013, Non-Agency MBS have outperformed the Bloomberg Barclays Aggregate Bond Index (the Agg) by 97.38% cumulatively.
- 2012/2013: As the supply of the Non-Agency MBS sector has shrunk from roughly $2 trillion outstanding to nearly $500 billion, our portfolio management team has begun to diversify our credit risk. The fund has continued to leverage our expertise in the structure product universe by adding additional exposure in the fund to sectors like Collateralized Loan Obligations and Asset-Backed Securities. Collateralized Loan Obligations grew to over one percent of the fund in November of 2012, while Asset-Backed Securities were added to the fund in April of 2013.
- July 6th, 2016: Jeffrey Gundlach's outlook turned "maximum negative" on bonds noting that the low in rates was in. In the headline statement, "sell everything" Mr. Gundlach suggested that investors get defensive. Duration in the portfolio was kept low while maintaining a defensive credit positioning in expectation of rising rates through year-end. Portfolio duration was brought down to 2.29 years by June 30, 2016, which was significantly lower than 5.47 years on the Agg. The breakdown of AAA securities within the fund came close to its all time high percent weighting at 74.61%, while our cash and cash surrogate position increased to 10.24%.

Performance

Our mandate focuses on striving to deliver better risk-adjusted returns relative to a strategy's respective benchmark. With a diversified portfolio and the ability to move opportunistically in and out of sectors, the team at DoubleLine has been able to outperform the Index by over 280 bps per annum net of fees since inception. How has the Fund performed over the most recent rate hike which started on July 8th of 2016? From the bottom in rates on July 8, 2016 through June 30, 2018, a period over which the yield on the 10-year UST more than doubled to 2.86%, the Index declined 1.51% while the Fund returned positive 2.28%.

Figure 5 – Fund's Performance (%) in a Rising Rate Environment[1]



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Markit iBoxx US non-agency RMBS indices consist of 27 sub-indices referencing approximately 350 senior bonds from a portfolio of 22,000 RMBS issued between 2005 and 2007. These sub-indices are divided into four categories: prime, sub-prime, Alt-A and Option ARM.

[1] Source: DoubleLine, Bloomberg (As of June 30, 2018)

Fund Risks

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 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 Asset-Backed and Mortgage-Backed 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. The Fund may use certain types of 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 risk such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. The Fund may also invest in securities related to real estate, which may decline in value as a result of factors affecting the real estate industry. 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.

Diversification does not assure a profit or protect against loss in a declining market.

While the Fund is no-load, management fees and other expenses still apply. Please refer to the prospectus for further details.

DoubleLine Funds are distributed by Quasar Distributors, LLC.

Important Information regarding Active Investing

Active investing has higher management fees because of the manager's increased level of involvement while passive investing has lower management and operating fees. Investing in both actively and passively managed mutual funds involves risk and principal loss is possible. Both actively and passively managed mutual funds generally have daily liquidity. There are no guarantees regarding the performance of actively and passively managed mutual funds. Actively managed mutual funds may have higher portfolio turnover than passively managed funds. Excessive turnover can limit returns and can incur capital gains.

Alpha – A measure of performance on a risk-adjusted basis. Alpha takes the volatility (price risk) of a mutual fund and compares its risk-adjusted performance to a benchmark index. **Average Duration –** Duration is used as a risk measure. It measures the price volatility of a security given a change in interest rate movements. **Basis Points (BPS) –** A basis point equals 0.01%. **Citi World Government Bond Index (WGBI)** - Measures the performance of fixed-rate, local currency, investment grade sovereign bonds. The WGBI is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies, and has more than 25 years of history available. The WGBI provides a broad benchmark for the global sovereign fixed income market. It is not possible to invest in an index. **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.

Important Information Regarding This Report

Issue selection processes and tools illustrated throughout this presentation are samples and may be modified periodically. Such charts are not the only tools used by the investment teams, are extremely sophisticated, may not always produce the intended results and are not intended for use by non-professionals.

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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 or the market or that DoubleLine's risk management techniques will successfully mitigate losses. 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 sector or security. The construction of DoubleLine portfolios may differ substantially from the construction of any of a variety of 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.

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