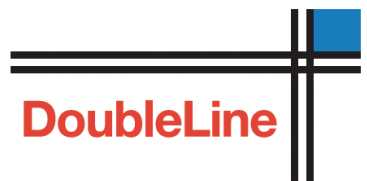


Quarterly Commentary

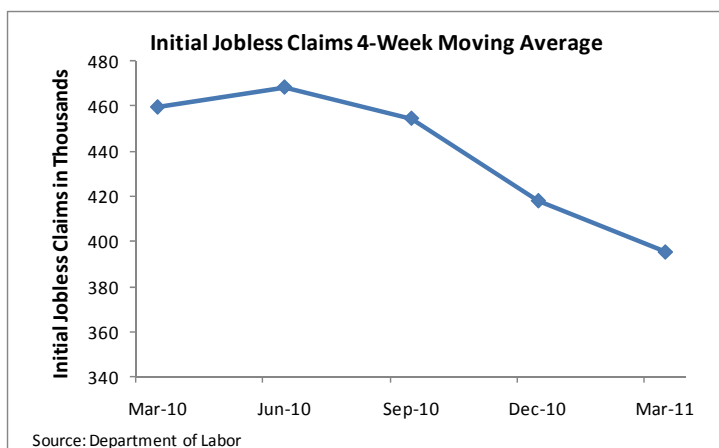
First Quarter 2011



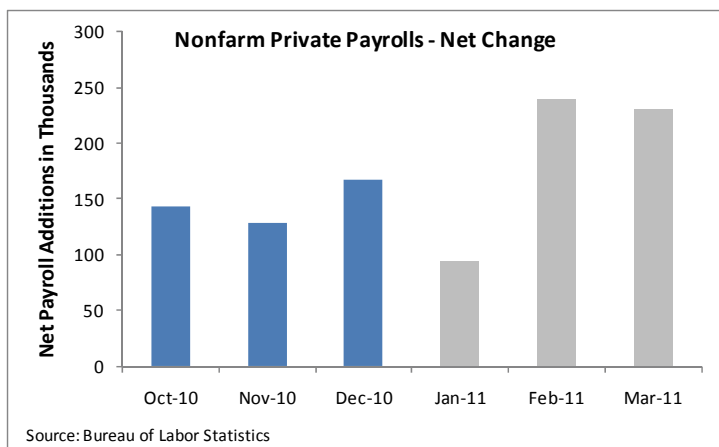
DoubleLine

Overview

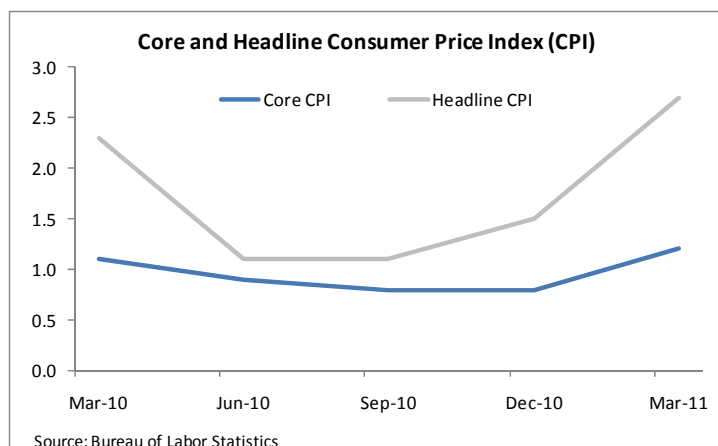
The employment situation improved in the first quarter of 2011: the headline unemployment rate declined 60 basis points (bps) to 8.8% in March 2011 over December 2010. The 4-week moving average on initial jobless claims dropped below 400 for the first time since the third quarter of 2008.



Nonfarm payrolls in the private sector also improved, adding over 560,000 jobs in the first quarter.



Headline Consumer Price Index (CPI) increased to 2.7% year-over-year (YoY) through the first quarter from 1.5% at fourth quarter-end 2010. Gains were largely attributed to spikes in energy prices as well as rising food prices. Core CPI increased to 1.2% YoY in the first quarter versus 0.8% the previous quarter.



Emerging Markets

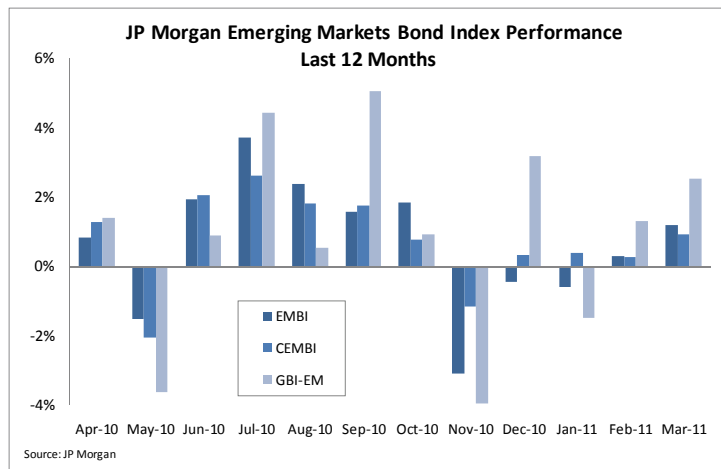
In Emerging Markets Fixed Income, all three sectors posted solid returns for the first quarter 2011 and for March – the external sovereign represented by the JP Morgan Government Bond Index Emerging Markets Broad Diversified (GBI-EM), corporate debt by the JP Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI) and local currency bonds by JP Morgan Emerging Markets Bond Index Global Diversified (EMBI).

	Tickers	Monthly Return	1Q11	YTM	Spread	S&P Ratings
EMBI	JPGCCOMP	1.19%	0.87%	6.12%	277	BB+
CEMBI	JBCDCOMP	0.94%	1.58%	5.96%	300	BBB
GBI-EM	JGENBDUJ	2.53%	2.34%	6.82%	N/A	A-

Data Source, including for ratings: JP Morgan
(Past performance is no guarantee of future results.)

In March, emerging markets (EM) government local currency bonds outperformed with a return of 2.53%, with the bulk of returns coming from currency appreciation. Positive returns were broad-based across all regions, led by Europe (Central and Eastern) which returned 3.23%. External sovereign and corporate EM debt benefited from credit spread tightening of 7-9 bps and a modest decline in 10-year U.S. Treasury yield of 4 bps. The high yield credits in both the EMBI and CEMBI outperformed their investment grade counterparts for the month. The monthly returns for the high yield components of the EMBI and CEMBI for March 2011 were 1.87% and 1.47%,

respectively. Geographically, the gains for both the EMBI and CEMBI were broad based, with African credits leading returns.



EM debt started March on a tightening trend (similar to January and February), as U.S. economic data continued to signal signs of economic recovery and Libyan rebels had begun to make significant progress in gaining control of much of Western Libya. EMBI spreads tightened 21 bps through March 9. This trend was soon interrupted by a massive earthquake and tsunami in Japan, the fourth largest earthquake in modern times. The damage caused by these events is expected to be the most expensive natural disaster in history at nearly \$300 billion. Spreads widened 35 bps as the extent of the widespread damage became more understood, including fallout from a leaking nuclear power plant. Additional spread pressure came from Libya as Gaddafi's forces rallied and re-took several coastal cities, putting the rebels on the defensive. As the month progressed, several events led spreads tighter by month end: 1) the European Union agreed to a crisis package, although delays in voting on and implementing changes will have to wait until mid-year after the Finnish and Portuguese elections; 2) on March 19, a multi-state coalition began military intervention in Libya in an effort to protect civilians in the rebel held areas of the country; 3) continued improvements in manufacturing data and employment numbers out of the U.S.

Year-to-date, 10-year U.S. Treasury yields have increased by 18 bps, with the 10-year U.S. Treasury rate at 3.47% as of quarter-end, rising from 3.29% at 2010 year-end. During

this time, EM yields have more or less moved in tandem with Treasuries as EM spreads have only widened by 3 bps. EM debt seems to have passed the test of most of the global challenges thrown at it since the beginning of the year. The table below details the monthly performance of the EMBI, as well as the spread levels and 10-year U.S. Treasury yields at the end of each month, year-to-date.

EMBI Global Diversified*	Monthly Returns	Spread Level	YTM	10-year U.S. Treasury
December 2010	-0.45%	274	5.97%	3.29%
January 2011	-0.60%	285	6.13%	3.37%
February 2011	0.29%	285	6.16%	3.43%
March 2011	1.19%	277	6.12%	3.47%

Sources: JP Morgan, Bloomberg, DoubleLine Research
(Past performance is no guarantee of future results.)

It appeared some headway had been made in reducing some of the global risks facing EM markets during the month of March, with the European Union agreeing to a crisis package and EM countries getting a jump on inflationary pressure by raising rates. In March, European leaders agreed to a new crisis package which included an increase in the existing European Financial Stability Facility (EFSF) from 250 billion euros to 440 billion; lower interest rates on EFSF loans; the ability of the EFSF to purchase sovereign debt in the primary markets; and an increase in the size of the future European Stabilization Mechanism (ESM) to 500 billion euros. While viewed positively by the global market as a step in the right direction for peripheral Europe, the plan will have to wait until after mid-year elections in Finland and Portugal to finalize specifics. Elections in Portugal are a direct result of the resignation of Portuguese Prime Minister Jose Socrates after his austerity measures were rejected by his parliament. Despite delays in implementing the agreed-upon crisis measures, and an increasing likelihood that Portugal could soon join the ranks of Greece and Ireland as a recipient of European Union bailout funds, sentiment toward peripheral Europe seems to have turned positive on the back of the recently announced policy measures. Inflation

remains a risk for EM, but EM countries are becoming more proactive in raising rates: 14 EM countries raised interest rates since the beginning of 2011, with 10 doing so just within March. With market perception of some of the global risks improving, the "risk-on" trade is likely back in the near-term.

Many of the same global risks are still present and we continue to monitor the length and depth of the crisis in North Africa and the Middle East, the European Debt Crisis and rising inflation in EM.

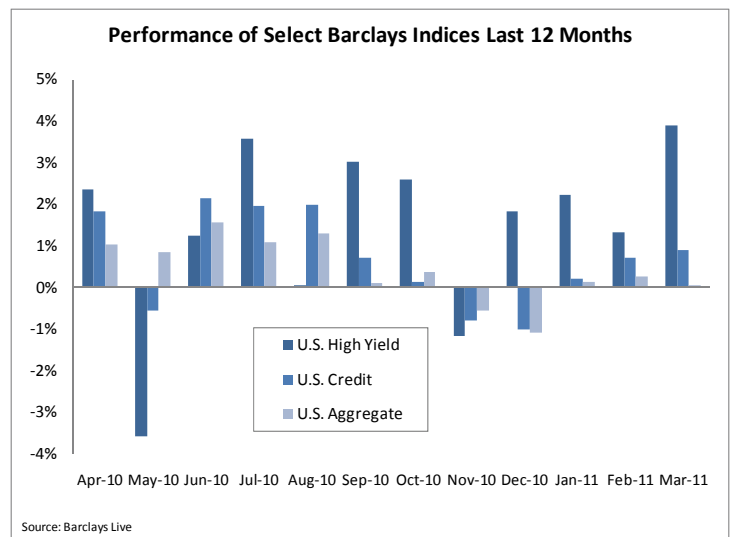
1. Political instability in the Middle East and North Africa
2. Rising inflation in EM
3. High oil prices
4. Euro sovereign crisis
5. Repercussions from the Japan earthquake
6. Over-optimistic growth estimates for the eurozone and U.S.
7. Potential for "currency wars" or "trade wars"

We continue to expect EM countries and companies to benefit from rating upgrades during the next 12 months; however, EM valuations are likely to remain constrained by the global volatility. The new issue pipeline, although slower than the first two months of 2011, has picked up during the first week of April and is expected to continue to provide select opportunities to buy new credits, which may come with new issue premiums or discounts to an existing yield curve for repeat issuers.

Global Developed Credit

Despite continuing concerns surrounding Japan's nuclear crisis, unrest in the Middle East and North Africa, and European debt woes, the investment grade and high yield credit markets delivered positive total returns during the first quarter of 2011. The resiliency of the credit markets has been remarkable. Even more amazing is the fact that the markets easily absorbed an abundance of new issuance during the quarter. According to data provider

Dealogic, issuance in investment grade credit for the first quarter was \$279 billion, up 19% on the \$234 billion raised during the first quarter of 2010. Global high yield corporate debt sales hit a record \$113.8 billion during the quarter. Amid this backdrop, during the first quarter the Barclays Capital U.S. Credit Index returned 0.89% generating an excess return of 1.05%. The Barclays Capital U.S. High Yield Index returned 3.88% with an excess return of 3.87% compared to Treasuries. By way of comparison, the total return of the Barclays Capital U.S. Aggregate Bond Index was 0.42% for the quarter.



Among investment grade corporate bonds the best performing sectors during the first quarter (as measured by excess return) included Textiles (+4.57%), Non-Captive Consumer Finance (+4.26%) and Refining (+3.26%). The worst performing sectors were Entertainment (-0.69%), Pharmaceuticals (-0.17%) and Media-Cable (-0.09%). Debt rated in the lower tier of investment grade (Baa) outperformed higher rated (single- A or better) debt. With respect to the high yield market, Life Insurance Companies were the top performers during the quarter (+10.76%), followed by Non-Captive Consumer Finance (+8.93%) and Refining (+6.68%). Although all of the sectors in the high yield space generated positive excess returns during the quarter, on a relative basis the worst performers included Airlines (+0.83%), Restaurants (+1.76%) and Home Construction (+2.11%). In line with the investment grade

market, lower-rated issues outperformed their higher-rated counterparts.

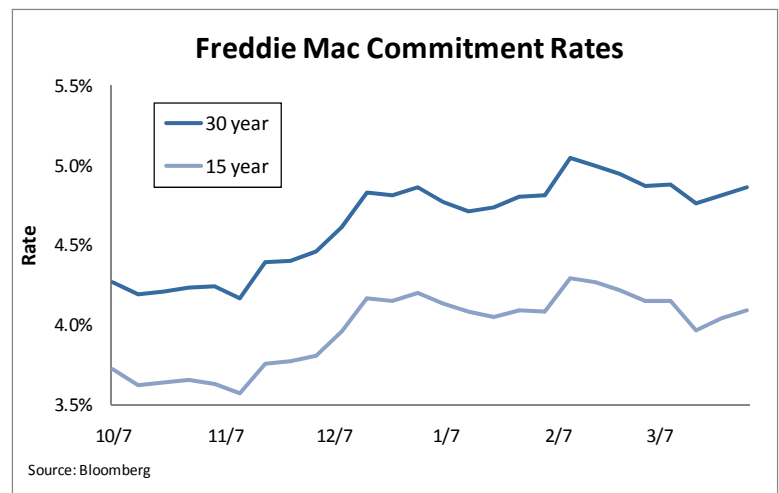
The markets faced many challenges during the first quarter of 2011 ranging from natural disasters (an earthquake followed by a devastating tsunami in Japan) to man-made disasters (Portugal was added to the list of countries expected to seek a bailout from the European Union). Added to those concerns is the escalating conflict in Libya along with civil unrest in Bahrain, Saudi Arabia and Syria. With a few minor exceptions, the markets largely ignored crisis after crisis during the first quarter, buoyed by the prospects for an improving economic outlook in the U.S. However, the expected cessation of the Federal Reserve's quantitative easing program in the second quarter, which many market participants claim has provided the impetus behind the rally in risky assets, looms as a question mark.

On a sector-specific note, it appears that corporate managements have changed their focus from improving liquidity and protecting balance sheets to expanding the income statement and returning value to shareholders. Rather than issuing to refinance debt or lengthen maturities, proceeds are now increasingly being used for funding acquisitions, share buybacks and capital expansions. These types of activities are typically detrimental to bondholders and can increase credit risk. Security selection will remain increasingly important in the year ahead, and outperformance will be achieved by avoiding issuers with a tendency to act adversely to bondholder interests as well as selecting bonds which offer adequate covenant protection. Due to our belief that the prospect of further price appreciation and spread narrowing in the high yield sector is much more limited than at any time since the credit rally began in March 2009, DoubleLine continues to favor investment grade corporate debt versus high yield corporate debt.

Agency Mortgage-Backed Securities

For the first quarter of 2011, the Barclays Capital U.S. MBS Index returned 0.58%. By comparison, the Barclays Capital U.S. Treasury sector had a return of -0.16% and the Barclays Capital Investment Grade Corporate sector returned 0.86%. These subsector returns caused the Barclays Capital U.S. Aggregate Bond Index to return 0.42% for the quarter. Treasury rates rose by 17-27 bps across the curve. Credit spreads, as measured by U.S. Government/Swap spreads, remained fairly constant throughout the first quarter: two-year swap spreads went from 18 to 17 bps, while the 10-year swap spreads went from 7 to 11 bps.

Mortgage prepayments slowed significantly during the first quarter as a result of rising rates. The yield on 10-year U.S. Treasuries has risen more than 100 bps from 2.38% on October 7, 2010. The 30-year Freddie Mac (FHLMC) commitment mortgage rate rose 65 bps to 4.86%.



These higher mortgage rates have reduced the economic incentive to refinance. In contrast, the average existing 30-year mortgage rate is almost 100 bps higher. In theory, based on back-looking regression models, this relationship should cause prepayment speeds to accelerate above market. However, underwriters have tightened their underwriting standards back to what they were in the 1970s and 1980s. As a result, many existing borrowers will

not qualify under these new tighter underwriting standards. The rising rates and tougher underwriting standards, coupled with a 37% drop in housing values nationwide, make it easy to see why prepayment speeds have slowed considerably.

The future of the Government-Sponsored Enterprises (GSEs) has been in the center of mortgage market news during the quarter, including the February 11 release of Treasury's white paper (referenced in last month's commentary). The Treasury provided three options for the future of the GSEs and the mortgage market in the white paper: a totally privatized system, a privatized system with government support in a crisis, and a government reinsurance of private guarantors' risk. (More details are available in the Non-Agency Mortgage-Backed Securities discussion which immediately follows this section.) This issue will ultimately be decided upon by Congress. Regardless of the outcome, both sides acknowledge that a reduction in government involvement would increase borrowing costs, which would not be a positive for the housing market. Consequently, in an effort to avoid further disruption to the mortgage market and homeowners' equity, changes to the GSEs current mandate will likely be phased in over a period of years, perhaps as many as 10 years.

On March 21, Treasury announced it would start winding down its \$142 billion mortgage portfolio over time, capping out at \$10 billion per month. The mortgage market became skittish upon this announcement and mortgage bonds underperformed on March 21 as a result. The market's concern was whether this was a harbinger of future Federal Reserve action and what they would do with their \$1.3 trillion mortgage portfolio. As time went on, investors became less concerned that the U.S. Treasury's actions would be a precursor to the Federal Reserve's. Since the U.S. Treasury purchased these mortgages at the end of 2008 to help support the mortgage market, the Agency mortgage market has certainly recovered so there is no need for the Treasury to retain this position. Whether this helped the housing

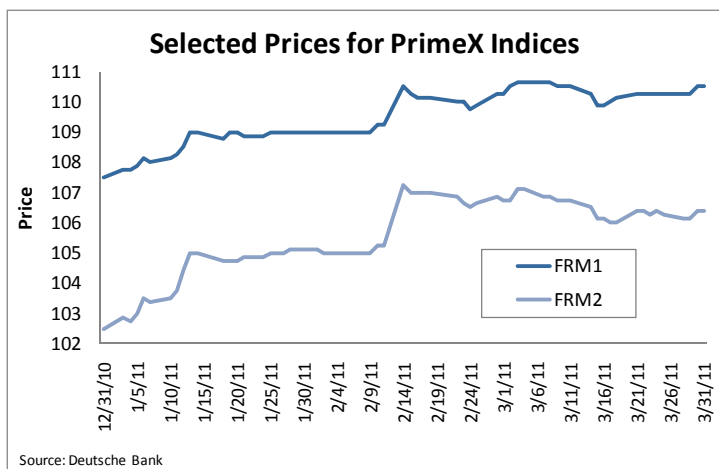
market is impossible to determine at this time, but if it did it was minimal since the housing market is much lower than it was in late 2008.

The mortgage market has changed its focus from Wall Street to Washington, DC, since it seems that congressional and Federal Reserve actions will be more important than anything Wall Street can come up with at this time. This phenomenon should continue as the housing market continues to struggle.

Non-Agency Mortgage-Backed Securities

After almost a year of lower yields and rising prices, the non-Agency MBS market took a breather in March. Governments, state and federal, were at it again, including 50 State Attorneys General pressing the five largest mortgage servicers to discuss the \$20 billion lawsuit they have initiated.

The ABX 07-1 AAA closed March with a price of 43.00, down from February's price of 46.50 and January's price of 45.50. The ABX 06-2 AAA dropped to 59.25 in March, from 60 in February and 61.25 in January. The PrimeX FRM 1 finished March with a close of 110.75 versus a February close of 110.50, and the PrimeX FRM 2 closed March at 105.75 versus 107.00 in February. Those issues started the year at 108 and 103, respectively. Mortgage Agency pass-throughs were down marginally for the month: Fannie Mae (FNMA) 30-year 4.5s were 101.50 on February 28 and closed March 31 at 101.19. In the midst of this activity, the non-Agency MBS market more or less traded sideways during March.



In the beginning of March, the 50 State Attorneys General put out a 27-page proposal to the major bank mortgage servicers that could require them to not only write down principal on existing mortgages but also incur fines of upwards of \$20 billion. This proposal results from the documentation handling crisis that began last fall (also known as robo-signing). The \$20 billion number seems extremely high for a documentation issue, for once the paperwork issues are resolved, the fundamental fact remains that people have borrowed money and have failed to repay. It would seem more beneficial for the servicers to set up a fund that would help borrowers whose documents were either misplaced, lost or destroyed to recoup those documents and settle any other outstanding issues.

What would not be beneficial is if a global settlement relieves mortgage issuers and servicers of their responsibility, at a time when fraud and early payment defaults are still a large issue. Mortgage servicer putbacks are closer to a \$200 billion problem than \$20 billion. In late March, the Securities and Exchange Commission approved a "Notice of Proposed Rulemaking" (NPR) regarding the credit risk retention provisions of the Qualified Mortgage Exemption (QRM) set forth in the Dodd-Frank bill. It is out for comment, and those comments must be back by June 10.

The February white paper from Treasury on "Reforming America's Housing Market", posed three options. One

option was to totally privatize the system and limit the government's role to the Federal Housing Administration (FHA), the U.S. Department of Agriculture (USDA) and Veterans Affairs (VA). Option two would be similar, but with a federal guarantee mechanism to scale up during times of crisis. And option three would be a private system with government agencies only assisting low and moderate income borrowers with catastrophic re-insurance behind significant private capital. These discussions are coming amidst the Congressional call for an end to FNMA and Freddie Mac (FHMLC). Many proposals have surfaced during the first quarter, but most, in our opinion, will take at least 1-3 years to really gain traction and progress forward.

On the home loan modification front, it appears the Home Affordable Modification Program (HAMP) is slowly fading as most of the loans that qualify under the program have been modified and the volume will primarily come from those who actually need a second loan modification.

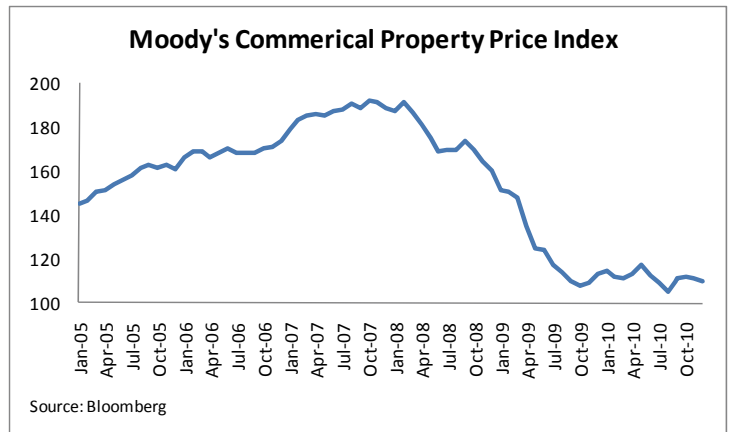
A great deal of discussion continues concerning the Dodd-Frank bill, the new federal consumer agency, principal reduction and foreclosure moratoriums. All of these are vital to our market stability and we will continue to focus attention on these issues. The securitization business has slowed dramatically and it is imperative that the U.S. Congress and the Administration come together to create the environment that will re-ignite the business again.

Included in that environment must be national underwriting standards, a definition that is actually credible for the QRM program and the overhaul of both government-sponsored enterprises (FNMA and FHLMC). We would also expect national standards for mortgage servicing to develop and possibly a national recourse standard on all mortgages.

Commercial Mortgage-Backed Securities

The CMBS market took somewhat of a breather in March as global macroeconomic concerns with regard to the Japan earthquake triggered a broad sell-off causing spreads to widen by as much as 30 bps on generic last cash flow (LCF) super seniors. Overall, we saw better selling across the capital stack with AM/AJ markets taking the brunt of the price volatility as investors took off more risk for a brief period of time following the Japan earthquake and subsequently regained some momentum pairing back a portion of the losses into month-end. For the month, CMBS was down 0.62%, and underperforming the Barclays Capital U.S. Aggregate Bond Index by 54 bps. Due to its strong performance for the first two months of this year, however, CMBS still outperformed the broader Index by 203 bps, up 2.05% for the first quarter and 8.41% on a rolling 12-month basis.

In terms of commercial real estate (CRE) fundamentals, credit performance continues to decline though the pace of deterioration has slowed over the past few months. For March, the 30+ delinquency rate rose 6 bps to 9.72%. Despite the continued uptick in the delinquency rate, the pace of CRE defaults has slowed, albeit for the time being as the bulk of problematic loans that should have defaulted already have. This is not to say that all signs on the CRE front are fine, as we continue to view the upcoming CMBS refinancing pipeline as problematic if the broader economy remains weak. On the valuation front, there was a 1.2% decline for the month of January, according to the latest available Moody's/REAL Commercial Property Price Index (CPPI). This equates to a 42.8% decline from the October 2007 peak and 4.2% above the post-peak low recorded in August 2010.



Our investment focus for this sector remains largely the same with an emphasis on security selection as we continue to look for securities with a more “storied” basis, since our ability to drill down to the collateral/borrower level allows us to adequately assess risk. Looking forward, our outlook for CMBS continues to remain cautious despite improvement in the lending environment, as a majority of loans able to obtain financing in new vintage CMBS are predominantly higher in quality off seasoned transactions. Interest rate risk and unemployment continue to be large contributing factors for CRE fundamentals. Without any real improvement in the unemployment picture, real recovery in the CRE sector will be limited.

U.S. Government Securities

U.S. Treasury yields moved mostly sideways through the first quarter, albeit with a bias toward higher rates. The yield on the 10-year Treasury note traded between 3.17-3.74% during the quarter, rising four bps in March to bring the change for the quarter to 18 bps. The yield rise was most pronounced in intermediate maturities: the 3-year note yield rose 31 bps during the quarter, the 5-year note yield rose 27 bps, while the 2-year Treasury rose 23 bps and the 30-year Treasury rose 17 bps.

Yield Curve

	12/31/2010	3/31/2011	1st Quarter Change
3 month	0.12	0.09	-0.03
6 month	0.18	0.17	-0.01
1 year	0.26	0.27	0.01
2 year	0.59	0.82	0.23
3 year	0.99	1.30	0.31
5 year	2.01	2.28	0.27
10 year	3.29	3.47	0.18
30 year	4.33	4.51	0.17

Source: Bloomberg

U.S. Government securities underperformed other fixed income sectors in the first quarter in a repeat of their fourth quarter 2010 performance. The Barclays Capital U.S. Government Index returned -0.08% for the quarter, compared to 0.58% for the Barclays Capital U.S. MBS Index and 0.89% for the Barclays Capital U.S. Credit Index. Agency securities handily outperformed U.S. Treasuries, with first quarter performance of 0.27% versus -0.16% for U.S. Treasuries. Inflation adjusted Treasuries caught fire in the first quarter, with the Barclays U.S. Treasury Inflation-Protected Securities (TIPS) Index returning 2.08%.

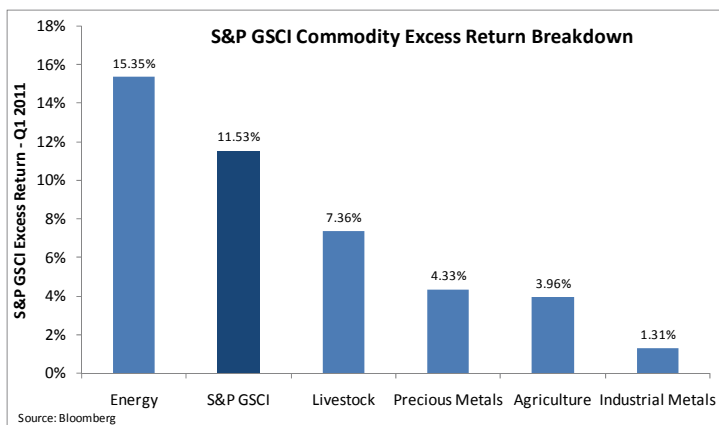
The U.S. Treasury market struggled to gauge the course of the economic recovery, the outlook for inflation and the intentions of the Federal Reserve throughout the quarter. By March month-end, those three overriding concerns came into focus: the tentative consensus was that the economic recovery, while weak by historical standards, is on track to continue, with job growth as the key to recovery. Gains in Non-Farm Payrolls have been lackluster, but other labor market indicators, such as initial unemployment claims, the unemployment rate, job gains in the Labor Department's household survey and Institute for Supply Management (ISM) Employment Index all point to strong labor market improvement. Regarding inflationary concerns, the consensus is that the risk of deflation has passed and the trend to inflation is now higher. The Shelter component of the Consumer Price Index (CPI) and CPI-ex Shelter are now both rising, along with headline and core CPI. The market views the course of Federal Reserve policy as roiled by the unprecedented nature of their current efforts to support the economy and by the very public dissenting views of the more hawkish

Federal Open Market Committee (FOMC) members. The market consensus is that that the Federal Reserve's current asset purchase program will proceed as planned. The \$600 billion U.S. Treasury purchase program launched last fall will continue to its scheduled conclusion in June. The Federal Reserve's U.S. Treasury purchases arising from the reinvestment of principal paydowns on its MBS portfolio will continue. No new asset purchase programs will be started. This economic consensus largely explains the key features of the U.S. Treasury market changes over the last quarter: underperformance versus other sectors, rate increases focused in the intermediate and short intermediate segments of the yield curve, and outperformance by inflation-indexed U.S. Treasuries.

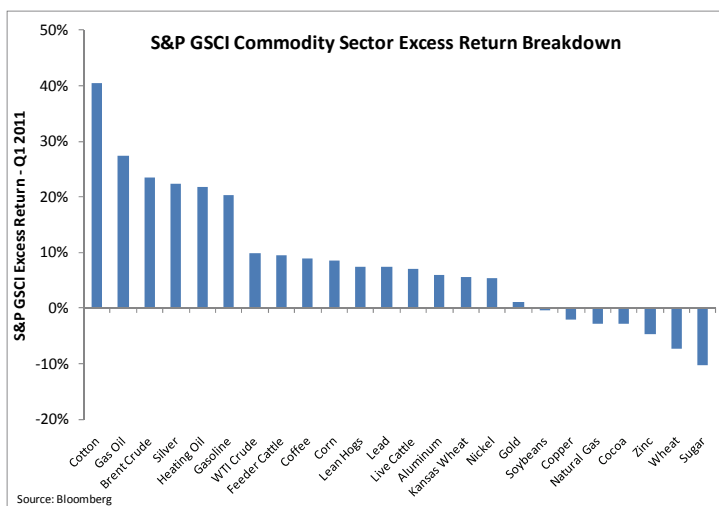
Our government exposure is structured to perform well in an environment where these trends continue. We favor underweighting in the vulnerable 2- to 3-year part of the U.S. Treasury yield curve and overweighting in the less vulnerable and higher yielding 10-year area. Our short duration holdings are mostly callable Agency notes that should perform well in a stable to modestly higher-rate environment.

Commodities

The broad-based commodities market continued to be a strong performer in the first quarter of 2011 with all of the various sectors producing positive returns. The energy complex led the performance with the S&P Goldman Sachs Commodity Index (GSCI) Energy Excess Return Index earning 15.3%, which was more than twice the return of any other commodity sector.



Investors continued to increase commodity exposure over the quarter with long-only commodity exchange traded products (ETPs) assets increasing to \$165.7 billion from \$155.5 billion at 2010 year-end, according to data from JP Morgan. Investors continue to increase exposure across all sectors of the commodity market with the largest increases coming in the Agriculture ETPs, which increased to \$9.3 billion from \$6.5 billion as of 2010 year-end. Precious metals continue to dominate the bulk of the ETP assets with over \$121 billion in the sector or about 73% of the commodity ETP universe. However the increase in the sector came from the continued interest in Silver ETPs increasing their exposure to \$21.3 billion from \$16.7 billion at year-end, and from \$7.4 billion one year ago.



Of the 24 commodities in the S&P GSCI, five of the top seven performing commodities for the quarter came from the Energy complex. Geopolitical instability in the Middle East and North Africa (MENA) region helped lead crude oil prices upward. The social and political unrest, which began in Tunisia at the end of last year, extended throughout the

region leading to civil unrest in numerous countries including Libya. Libya produces more than 1.6 million barrels of oil per day, of which 1.2 million barrels are exported outside of its borders. The uncertainty of how long Muammar Gadhafi can hang on to his dictatorship, and whether or not Libyan production will remain online, has tacked on a significant premium to the crude oil markets and will persist until some clarity about future production is achieved.

Further causing disruption to the global energy markets was the 8.9 Tohoku earthquake and ensuing tsunami that occurred on March 11 in Japan, taking out numerous nuclear power plants as well as causing fires at local oil refineries. The Japanese are supplementing their nuclear power production with coal, oil and natural gas driven power plants. Already, liquified natural gas prices are increasing which will likely spill over to the distillate market as well. Coupling the geopolitical landscape with the uncertainty surrounding the ramifications of the Japanese natural disaster should leave upside risk to prices across the entire Energy complex.

Global Equities

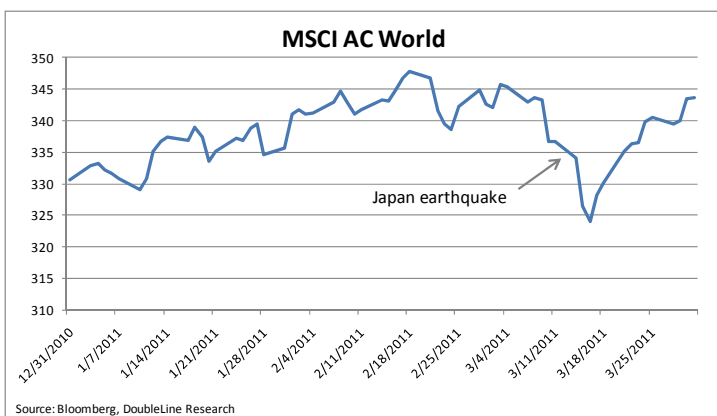
Global equity markets posted strong returns for the quarter as continued impact from QE2 and signs of recovery, coupled with favorable economic indicators and corporate earnings, continue to provide a strong support basis for equities.

	DJIA	S&P500	Nasdaq	MSCI AC World Index (MXWD)	MSCI EAFE Index (MXEA)	MSCI Emerging Markets (MXEF)
Closing Value	12,320	1,326	2,781	344	1,703	1,171
1Q 2011	7.1%	5.9%	5.0%	4.5%	3.5%	1.9%
2010	14.1%	15.1%	18.2%	13.3%	8.4%	19.0%
2009	22.7%	26.5%	45.4%	35.5%	32.4%	78.6%
2008	-31.9%	-37.0%	-40.0%	-41.8%	-43.0%	-53.2%

Source: Bloomberg, DoubleLine Research

U.S. equity markets led major international indices with a 7.07% quarterly return for the DJIA and 5.92% for the S&P

500. Non-U.S. developed markets indices as represented by the Morgan Stanley Capital International (MSCI) EAFE (Europe, Australasia, and Far East) Index returned 3.5%, and emerging market indices, as represented by the MSCI Emerging Markets (EM) Index, returned 1.95% for the quarter. Cross-sector global equity markets as a whole were up 4.52% for the quarter according to the MSCI All-Country World Index. Aside from relative strong quarterly performance, there continues to be an overcast of concerns regarding the Federal Reserve’s plan for QE2 (scheduled to end in June), geo-political risks surrounding the Middle East/North Africa, and the post-Japan earthquake macroeconomic global impact.



U.S. equity markets began 2011 strongly as corporate earnings across various sectors continued to surprise the market to the upside. Furthermore, the net affect of QE2 provided a strong support basis as U.S. Treasury rates were kept near all-time lows, thus providing a ripe environment for debt capital raising and spurring business investments and share buy-backs. Despite the Federal Reserve’s intention to spur economic growth via low interest rates, there continues to be widespread concerns with the potential for higher inflation and interest rates later in the year, and uncertainty about the outcome of the end of QE2 on capital markets.

Much was the same for developed markets, as the first quarter proved to be positive with European markets leading with a 5.42% return – a strong performance outpacing continued uncertainties with on-going fiscal monetary situations for the PIIGS (Portugal, Italy, Ireland,

Greece and Spain). In general, much of the developed markets’ equities growth has proved to have multiple contributors, a bulk of which has been tied to a reliance on continued strong demand in resource-reliant countries such as China, India and Japan. There are several headwinds, however, which will be hard to ignore: the net impact and severity of Japanese re-patriation and subsequent developments in the geopolitical arena relative to the Middle East, which may cause issues for companies in the developed markets.

Coming into the first quarter, emerging market equities were capping off a year of strong returns in 2010. Almost as soon as the quarter began, however, concerns about inflation and its impact on the emerging countries contributed to relative weakness in emerging market equities compared to those of the U.S. and other developed markets. The weakness across the emerging markets seemed to bottom around the time that Hosni Mubarak resigned as the Egyptian president. After a period of consolidation, emerging market equities began a rally that continued for the rest of the quarter and finished with a strong 1.95% return as measured by the MSCI EM Index.

ABX Index

This index consists of the 20 most liquid credit default swaps (CDS) on U.S. home equity asset-backed securities (ABS) and is used to hedge asset-backed exposure or to take a position in the asset class.

Barclays U.S. Aggregate Bond Index

The Barclays US Aggregate Bond 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.

Barclays U.S. Credit Index

This index is the US Credit component of the US Government/Credit Index and consists of publically issued US corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered. The US Credit Index is the same as the former US Corporate Investment Grade Index.

Barclays U.S. Government Index

This index is the US Government component of the US Government/Credit Index and includes securities issued by the US Government, including treasuries and agencies. This includes public obligations of the US Treasury with a remaining maturity of one year or more and publically issued debt of US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government.

Barclays U.S. High Yield Index

This index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issuer from countries designated as emerging markets (e.g. Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeros, step-up coupon structures, 144-As and pay-in-kind (PIK, as of October 1, 2009) are also included.

Basis Point

A basis point (bps) equals to 0.01%.

Consumer Price Index

The Bureau of Labor Statistics produces the Consumer Price Index (CPI), monthly data on the changes in the prices paid by urban consumers for a representative basket of goods and services. The month-to-month change in the CPI is one of the most popular indicators of inflation.

JP Morgan Corporate Emerging Market Bond Index (CEMBI)

This index is a market capitalization weighted index consisting of US-denominated Emerging Market corporate bonds. It is a liquid global corporate benchmark representing Asia, Latin America, Europe and the Middle East/Africa.

JP Morgan Emerging Markets Bond Global Diversified Index (EMBI)

This index is uniquely-weighted version of the EMBI Global. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts of debt outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by EMBI Global.

JP Morgan Government Bond Emerging Markets (GBI EM)

This index is the first comprehensive, global local Emerging Markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure.

London-Interbank Offered Rate (LIBOR)

British Bankers Association Fixing for US Dollar. The fixing is conducted each day at 11 am (London time). The rate is an average derived from the quotations provided by the banks determined by the British Bankers' Association.

Moody's REAL/Commercial Property Price Index (CPPI)

This index tracks fluctuations in value by measuring the sale price of specific properties that have been sold at different points in the real estate cycle.

Morgan Stanley Capital International EAFE Index (MXEA)

The MSCI EAFE (Europe, Australasia and Far East) is a market-capitalization weighted stock market index designed to measure equity market performance of developed markets outside of the U.S. and Canada. This index includes a selection of stocks from 21 developed markets, excluding the U.S. and Canada.

Morgan Stanley Capital International Emerging Markets Index (MXEF)

The MSCI Emerging Markets Index is a float-adjusted market capitalization index designed to measure equity market performance in global emerging markets. It consists of indices in 26 emerging economies, including but not limited to, Argentina, Brazil, China, India, Poland, Thailand, Turkey, and Venezuela.

Morgan Stanley Capital International All Country World Index (MXWD)

The MSCI All Country (AC) World Index is a market-capitalization-weighted index designed to provide a broad measure of stock performance throughout the world, including both developed and emerging markets.

PrimeX

The PrimeX index is a synthetic credit default swap (CDS) index which references non-Agency Prime residential mortgage-backed securities (RMBS). There are 20 prime RMBS deals referenced in each sub-index from 2005, 2006, and 2007.

S&P 500

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

An investment cannot be made in an index.

Important Information Regarding This Report

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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.

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