

DoubleLine®

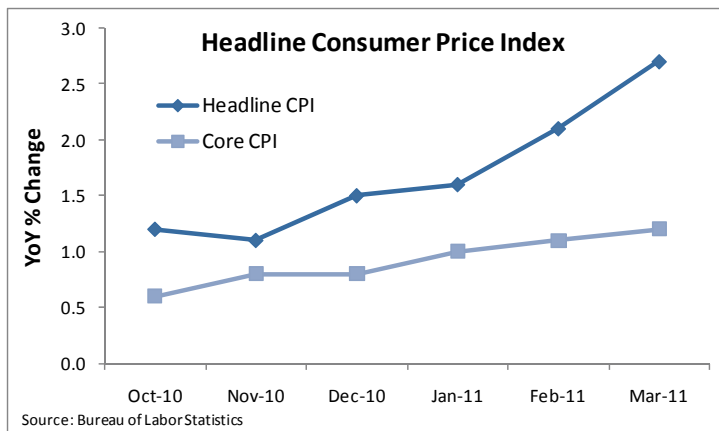
Monthly Commentary

April 2011

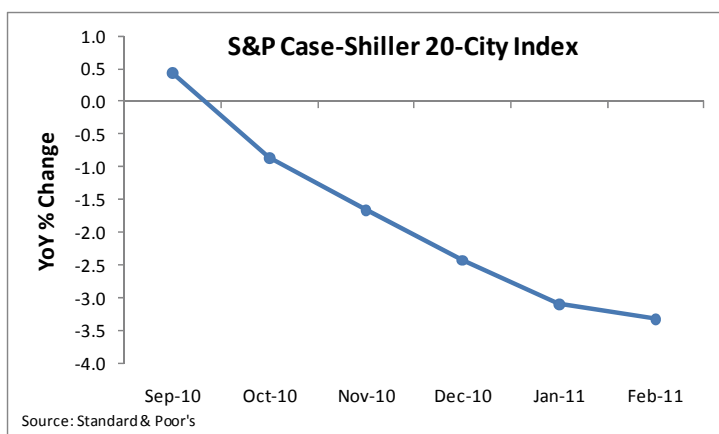


Overview

According to the Bureau of Labor Statistics, headline Consumer Price Index (CPI) rose 0.5% in March, up 2.7% year-over-year (YoY), with food and energy accounting for 3/4 of the increase. Core CPI gained 0.1% in March and 1.2% on the year, which was below expectations and the Federal Reserve's target of 2.0%.

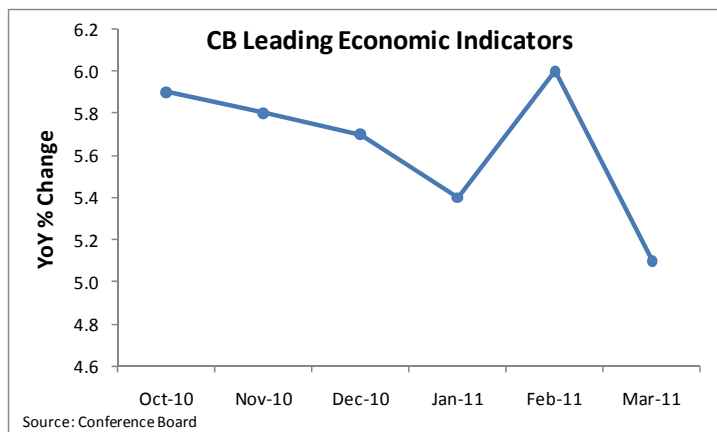


The S&P Case-Shiller 20-city Home Price Index continued to fall with the non-seasonally adjusted index declining by 1.09% on a month-to-month (MoM) basis and by 3.33% on a year-over-year (YoY) basis. Detroit was the only city registering a MoM price gain, increasing 1% over January. Washington DC was the only city to gain YoY.



The Conference Board Leading Economic Indicators increased 0.4% on the month, versus +1.0% the previous month. This was the ninth consecutive increase. The index gained 5.1% YoY in March versus 6.0% in February. Six of 10 components underlying the index were positive over the previous month. Orders on nondefense capital goods,

stock prices, M2 money supply and consumer expectations were negative.



Emerging Markets

In Emerging Markets Fixed Income, all three sectors of the markets – the external sovereign, corporate debt and local currency bonds, represented by the JP Morgan Emerging Markets Bond Index Global Diversified (EMBI), the JP Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI) and the JP Morgan Government Bond Index Emerging Markets Broad Diversified (GBI-EM), respectively – posted solid returns for the month of April 2011, with the GBI-EM significantly outperforming the other two indices over the period.

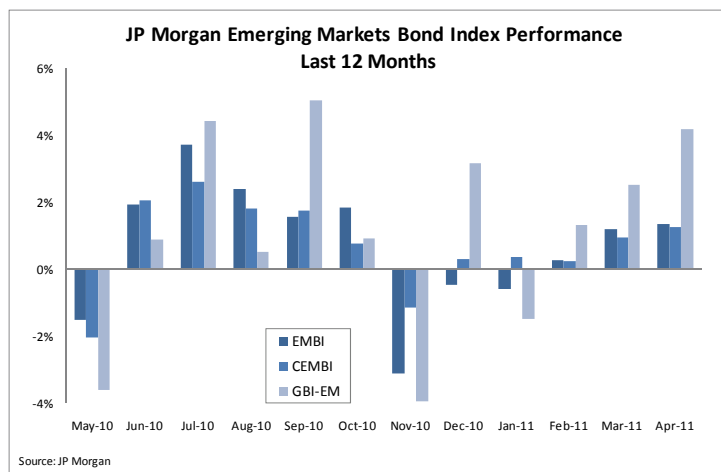
	Tickers	Monthly Return	YTD	YTM	Spread	S&P Ratings
EMBI	JPGCCOMP	1.36%	2.24%	6.01%	281	BBB-
CEMBI	JBCDCOMP	1.25%	2.85%	5.81%	306	BBB
GBI-EM	JGENBDUU	4.20%	6.64%	6.73%	N/A	A-

Source: JP Morgan

(Past performance is no guarantee of future results.)

For the month of April, the emerging markets (EM) government local currency bonds were the best performer with a return of 4.20%, with the bulk of returns once again coming from currency appreciation. Positive returns were broad based across all regions, led by Europe which posted a 5.86% return. External sovereign and corporate EM debt benefited from a modest decline in the 10-year U.S. Treasury yield of 18 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 April 2011 were 1.86% and 1.50%, respectively. Geographically, the gains for both the EMBI and CEMBI were broad based, with African and Middle Eastern credits leading returns.



April witnessed the continuation of the “risk on” EM debt trade that began at the end of March. EMBI spreads tightened 17 bps through the first week of month, before the same obstacles to global growth began to re-surface: euro sovereign crisis, slower growth and employment recovery out of the U.S., and EM inflation risks. As a result, EM spreads slowly widened 21 bps to end the month at 281 bps, 4 bps wider than March month-end.

EMBI spread tightening at the beginning of the month was aided by the declining macroeconomic risks associated with the Middle East/North Africa and Japan. A succession of negative news throughout the month, however, reminded investors that the global economic recovery is still fragile. On April 5, China raised its benchmark lending and deposit rates by 25 bps in an effort to slow inflationary pressures. This was followed 10 days later with a 50 bps increase in the country’s bank reserve requirements. These adjustments created new fears that China’s Central Bank might overshoot its targeted measures and lead China to slower growth than desired, weighing on the global recovery.

On April 21, Portugal joined the bailout bandwagon with Greece and Ireland, and officially asked for the support of the European Union and International Monetary Fund to

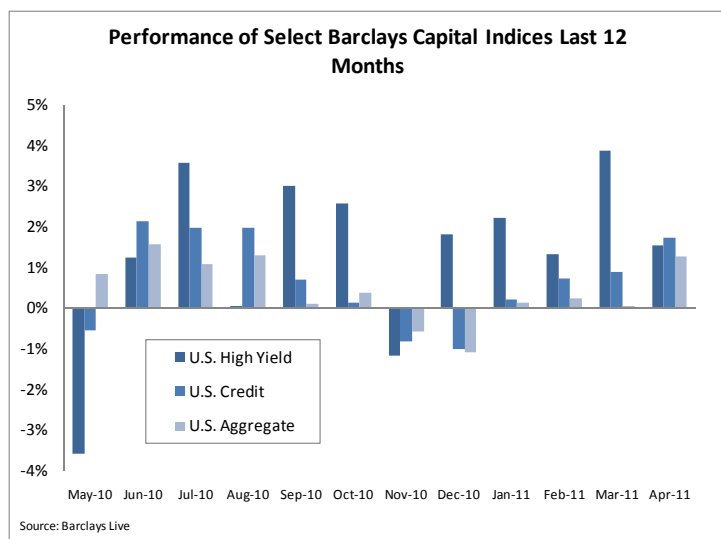
recapitalize its banking sector. This news, along with a growing belief that Greece will need to restructure its debt, drove spreads wider: Ireland to 635 bps, Portugal to 635 bps and Greece to 1280 bps by April month-end. During the inaugural post Federal Open Market Committee (FOMC) meeting, the Federal Reserve guided 2011 real Gross Domestic Product (GDP) growth targets lower and raised unemployment and inflation rates higher than previously guided. In addition to the external drags on global growth mentioned above, inflation remains a risk for EM on the back of high fuel and foods costs. We are, however, more hopeful on the inflation front as many EM countries have become more proactive in raising rates: 15 EM countries have raised interest rates since the beginning of 2011, with nine doing so in April. Growing market indifference toward many of the global risks and strong liquidity continue to support EM debt.

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 has picked up and is expected to remain robust over the medium term. This should continue to provide select opportunities to buy new credits that may come with new-issue premiums or discounts to an existing yield curve for repeat issuers.

Global Developed Credit

Both the investment grade and high yield credit markets posted solid returns in April. The Barclays Capital U.S. Credit Index outperformed duration-matched Treasuries by 42 bps for a total return of 1.73%. The Barclays Capital High Yield Index posted its fifth consecutive monthly gain in April, generating 51 bps of excess returns for a total return of 1.55%. This performance was achieved despite the fact that the month was marked by continuing concerns surrounding the weakest European peripheral sovereign credits: Greece, Ireland and Portugal. According to Deutsche Bank, 5-year Greek bond spreads widened

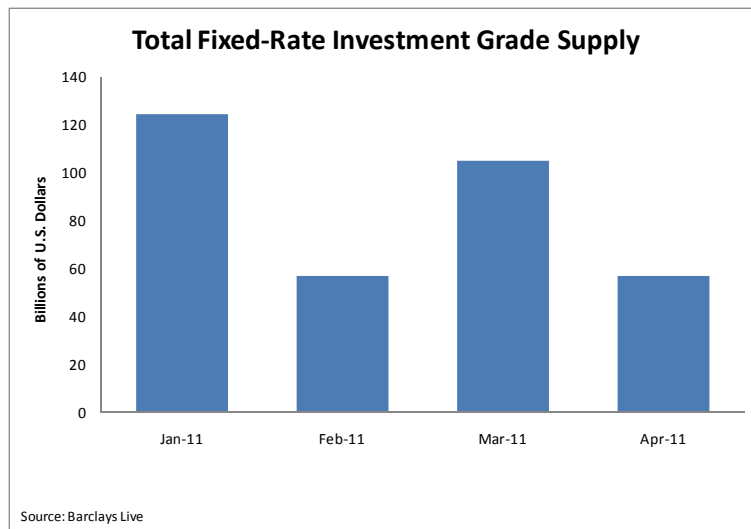
283 bps on the month given the resurgent rumblings surrounding the potential for a Greek debt restructuring. Other market concerns impacting corporate bonds in April included rising energy prices, the prospect for declining fiscal stimulus in the U.S. and the worse-than-anticipated aftermath of the Japanese earthquake and tsunami.



Within the investment grade universe the best-performing sectors included Refining (+171 bps); Foreign Local Government (+145 bps); Life Insurance (+101 bps); Independent Energy (+96 bps) and Cable (+81 bps). Single-A and BBB-rated credit outperformed AA-rated and crossover credits. The worst-performing sectors were Textiles (-112 bps); Airlines (-73 bps); Home Construction (-58 bps); Other Industrial (-57 bps) and Consumer Cyclical Services (-31 bps). The top five performers in the high yield space for the month were Property and Casualty Insurers (+3.68%); Electric Utilities (+3.15%); Supermarkets (+2.99%); Autos (+2.29%) and Wirelines (+2.27%). All high yield sectors posted gains during the month; however, on a relative basis the worst performers were Airlines (+0.08%); Media (+0.88%); Other Financials (+0.94%); Independent Energy (+1.00%) and Consumer Cyclical Services (+1.00%). The triple-C Index gained 1.87%, single-Bs gained 1.46% and double-Bs gained 1.42%.

Fixed-rate investment grade supply for April was \$57 billion, a significant slowdown from the \$105 billion issued in March. Industrials were the most active issuers. High yield issuers priced \$24.8 billion in April which also

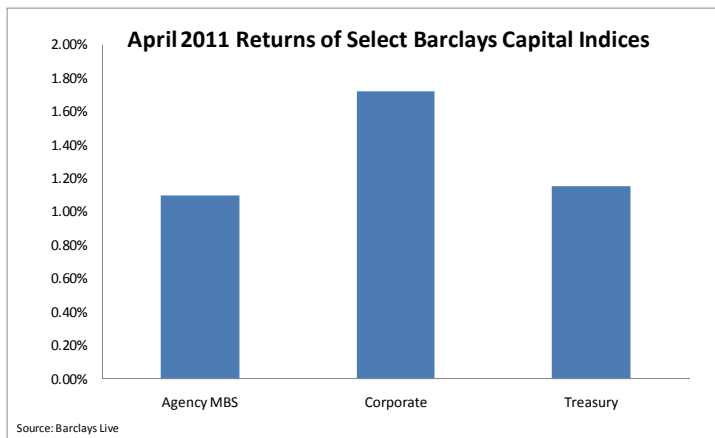
represented a significant slowdown from the previous month. Year-to-date, two-thirds of high yield proceeds have gone toward refinancing with another 16% going toward mergers and acquisitions, 14% toward capital expenditures and the remainder toward other purposes.



Even though corporate bond spreads have returned to their lows of the year, corporate bonds have underperformed equities. It appears that credit markets have reached the point in the cycle where all-in yields are likely to become a more important driver of performance. Absolute changes in corporate credit quality, or the numerical change in the spread of corporate bonds versus Treasuries, become less meaningful when the spread is numerically smaller vis-à-vis the overall yield. In April, the positive impact of better corporate earnings was offset by the rally in U.S. Treasuries. In addition, at this point in the cycle it is unlikely that credit quality improvement continues at the same pace relative to the start of the recovery. For these and other reasons, DoubleLine continues to see less room for further spread compression in the corporate credit markets. We continue to favor investment grade over high yield credits.

Agency Mortgage-Backed Securities

U.S. Treasury rates fell by 10 to 30 bps depending on their maturity. Two-year U.S. Treasury rates declined 22 bps, 5-year rates declined 30 bps and 10-year U.S. Treasury rates declined 18 bps. The Corporate component of the Barclays Capital U.S. Aggregate Bond Index returned 1.72% as the U.S. Treasury sector returned 1.15% and the U.S. MBS Index returned 1.10%. The Corporate component had the highest return as it has the longest duration of the three sectors at 6.5 years, in addition to credit spreads tightening during the month. The U.S. Treasury component slightly outperformed the mortgage component as its longer duration (5.3 years versus 4.3 years) more than offset its lower yield offered.



April was a quiet month in regard to announcements from Washington, D.C. pertaining to government/agency mortgages. The most interesting news item was the proposal of a monetary charge for failing to deliver mortgages as contractually agreed upon. Any seller of mortgages calculates a few factors in determining their willingness to sell; these factors include the current size of their holdings of said security, their ability to buy and/or borrow said security, and their outlook on relative price movements compared to other fixed income securities. The mortgage market has relied on these factors for its high level of liquidity in the To-Be-Announced (TBA) market. If implemented, the proposed “fail charge” could cost sellers of mortgages who were unable to deliver the bonds a fee of around 7/32s per month. In that event, potential sellers would ensure that

they hold the actual bonds that they could deliver, leading to fewer trades and thus less liquidity. The main reason why the “fail” situation is an issue currently is that the Federal Reserve purchased \$1.3 trillion of pass-throughs in their QE1 program. The Federal Reserve had to take delivery of these securities and could not roll them. This tremendous increase in demand for delivery of actual mortgage pools has created some “short” problems regarding delivering bonds to buyers.

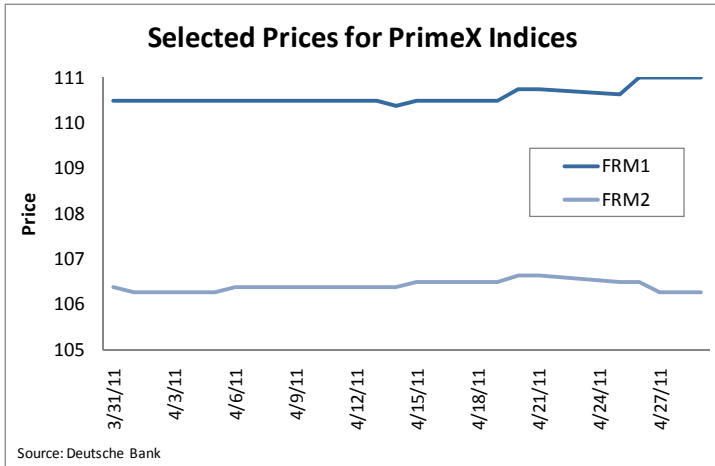
Prepayment speeds have slowed over the past few months due to a couple of issues. Part of the reduction has been due to the increase in Treasury and mortgage rates from the beginning of October 2010. The other factor is “burnout” among current mortgage borrowers. There are refinancing opportunities available for many borrowers where they could save money, but many borrowers no longer qualify under newer, tighter underwriting standards. Many of those who qualify have already refinanced, so the outstanding balance of any mortgage pool contains larger and larger percentages of borrowers who do not qualify. Due to the financial conditions that exist in the mortgage and housing markets today, we expect to see a continuation of this situation and therefore dampened prepayment speeds going forward.

Non-Agency Mortgage-Backed Securities

As March ended and April began, there was buzz in the non-Agency market concerning the upcoming sale of over \$12 billion of assets from Maiden Lane II after the Federal Reserve turned down AIG’s bid for the entire portfolio. The Federal Reserve had determined it would be better served to auction off the portfolio over time into a market hungry for assets.

The ABX 07-1 AAA Index closed both March and April at 43. The ABX 06-2 AAA Index, however, closed April at 57.0 compared to 59.2 in March. The PrimeX FRM 1 finished the month with a close of 110.92 versus the March close of 110.75. The only clear success story was the PrimeX

FRM 2, which closed at 106.25 in April versus 105.75 in March. The cash market also showed little movement with only the better quality, fixed rate paper increasing in value.



Volumes and bid lists continued during the month and were bid well. There were four auctions (on April 6, 13, 14 and 29) for Maiden Lane II, totaling over \$4.5 billion with a mix of prime, alt-A and subprime securities. Only during the last auction did the interest begin to wane, though almost 80% of the assets were sold. The Maiden Lane II portfolio has over \$12 billion of assets (with accrued interest) and the Federal Reserve will likely continue to liquidate the portfolio over the coming months. We believe Washington, D.C. will continue to make the market for non-Agencies.

There was an effort by the 50 state attorneys' general (AGs) in March to put in place a global-type settlement of \$20 billion on the major mortgage servicers. This was an unwanted and, in our opinion, unnecessary attempt to bundle the blame on the banks under the guise of robo-signing while trying to help the consumer with loan modifications. Although important, robo-signing is not the critical issue in the current mortgage debate. In our view, the major issues confronting the market are the ability of investors to put back loans that were not underwritten to the standards represented and the overhang of the second mortgage position on the balance sheets of the four largest banks.

Toward the end of April, the state AGs started to splinter

along political lines, with the principal forgiveness issue becoming the hot button. And just when it seemed the climate couldn't get any more interesting, the Board of Governors (the "Board") of the Federal Reserve issued a press release on April 13 announcing formal enforcement actions for 10 banking organizations to address a pattern of misconduct and negligence related to deficient practices in residential mortgage loan servicing and foreclosure processing. The banks included JP Morgan, Bank of America, Citigroup, Ally Financial, HSBC North America, Met Life, PNC Financial, Sun Trust Banks, U.S. Bancorp and Wells Fargo. These institutions represent 65% of the mortgage servicing industry or, nearly, \$6.8 trillion in mortgage balances.

The formal enforcement actions require the servicers to take a number of steps to significantly revise certain mortgage loan processes, including but not limited to the following:

- Strengthening coordination of communications with borrowers (including providing the borrower with a primary point of contact at the servicer);
- Ensure that foreclosures are not pursued if modification had been approved (dual tracking);
- Establish more stringent controls over third-party vendors;
- Provide remediation to borrowers; and
- Strengthen programs to ensure compliance with state and federal laws.

While seemingly straight forward, these actions are unfortunately challenging with the large volume of mortgages in default. Servicers' defaulted portfolios were never equipped to handle this volume.

On April 19, the Board released a Notice of Proposed Rulemaking (NPR) that under Regulation Z would require creditors to determine a consumer's ability to repay a mortgage before making the loan, as well as establish minimum mortgage underwriting standards. One would assume those standards and rules would already be required, but unfortunately are not and the Dodd-Frank Act has given the Board even more regulations to write and address.

In addition, the Internal Revenue Service (IRS), under the watchful eye of the Treasury, is again questioning the tax-exempt status of certain Real Estate Mortgage Conduits (REMICs). The IRS regards some of these transactions as tainted due to improper foreclosure or transfer of mortgage note procedures.

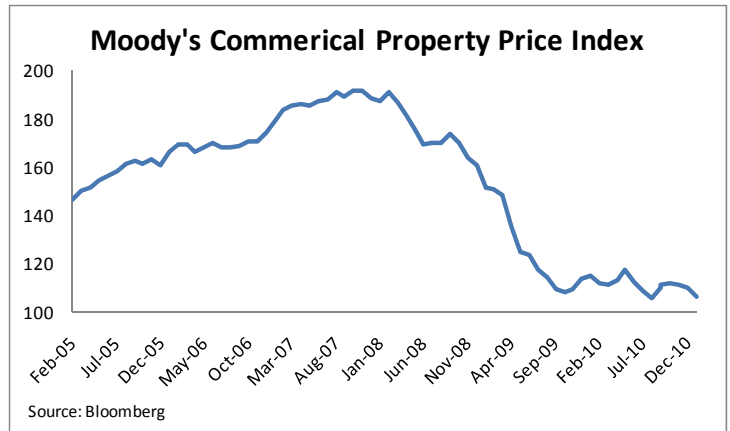
In housing, the default rate seems to have come down while the foreclosure rate continues to climb. As long as the foreclosure timelines continue to extend, loss severities will continue to increase. For this reason, we have been increasing loss severity assumption on our non-Agency mortgage security purchases.

Commercial Mortgage-Backed Securities

The CMBS market came back in full strength in April, following a down month in March, due to increased investor appetite for risk assets. Driving demand were dissipating concerns over the impact of the Japan earthquake and Middle East conflicts and strong first quarter corporate earnings reports. Overall, we saw strong market technicals across the credit curve as yields on generic 2007 last cash flow super seniors experienced a 30 bps yield compression into the high 3% range while the generic 20% enhanced mezzanine AAA super senior CMBS (AMs) tightened in substantially. The sector continues to appear attractive and provide solid risk-adjusted returns versus corporate and ABS spread sectors. CMBS returned 2.36% for the month of April, outperforming the Barclays Capital U.S. Aggregate Bond Index by 132 bps and was effectively one of the best-performing sectors for the month, up 4.46% year-to-date.

On the commercial real estate (CRE) fundamental side, market technicals continue to outpace real estate collateral performance as delinquencies continue to rise. The 30+ day delinquency rate rose 25 bps in March to 9.96% which, contrary to the previous month's performance, represents a significant jump as 344 loans totaling \$4.8 billion became newly delinquent. On the valuation front, the latest Moody's/REAL Commercial Property Price Index (CPPI) showed a 3.3% decline for the

month of February 2011, equating to a 44.8% decline from the October 2007 peak and 1% above the post-peak low recorded in August 2010.



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

U.S. Government Securities

U.S. Treasury yields moved modestly lower in April. The modest rally was not confined to government securities; lower discount rates were evident across a variety of markets as U.S. Treasury prices rose together with Treasury Inflation-Protected Securities (TIPS) prices, equities and commodities. Near-zero money market rates encouraged Treasury investors to move out of the curve to the benefit of the 3- to 5-year maturity range. The current 3- and 5-year U.S. Treasury notes each fell 31 bps on the

month. The 10-year note fell 19 bps and the 30-year bond fell 13 bps to within 5 bps of the its low for the year.

Yield Curve

	3/31/2011	4/30/2011	April Change
3 month	0.09	0.03	-0.06
6 month	0.17	0.09	-0.08
1 year	0.27	0.18	-0.09
2 year	0.82	0.60	-0.22
3 year	1.30	0.99	-0.31
5 year	2.28	1.97	-0.31
10 year	3.47	3.28	-0.19
30 year	4.51	4.38	-0.13

Source: Bloomberg

The Barclays Capital U.S. Government Index returned 1.09% in April. The 5-year Treasury provided the best risk-adjusted return at 1.54%, while the 30-year bond provided the highest absolute return at 2.01%. Agency securities returned 0.79%, trailing the 1.15% return on Treasury issues but outperforming by 8 bps on a duration-adjusted basis. Inflation-indexed Treasuries benefited from lower real rates as inflation expectations remained steady. The Barclays Capital U.S. TIPS Index returned 2.51% in April.

Our government exposure continued to track the Barclays Capital U.S. Government Index closely, positioned well for a tepid economic recovery if the Federal Reserve's policy remains unchanged through the remainder of 2011. We prefer less exposure to interest rates inside five years and greater exposure to longer rates, when compared with the U.S. Government Index. We also prefer a greater-than-Index allocation to Agency securities, with maturities no later than December 2012.

A current focus of the financial markets is the approaching conclusion of QE2 and the implications for yields. DoubleLine does not expect any market disruption or sustained rise in yields as the Federal Reserve's purchases end in June; to the contrary, we see a drop in yields as more likely. The case of QE1 is instructive. Foreign central banks easily absorbed the bonds not purchased by the Federal Reserve after QE1 ended in March 2010. Central banks, as well as commercial banks and households have room to add Treasury holdings. Foreign central banks especially have incentive to buy Treasuries as they seek to limit the appreciation of their currencies versus the dollar.

Dealers and hedge funds appear to have larger short positions than is normally the case and will likely be forced into the market when yields fail to rise. Finally, we note that the yield curve is currently very steep, suggesting the Federal Reserve's purchases to date have not pushed Treasury prices above fair value.

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.

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.

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.

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/Case-Shiller Home Price Indices

The Standard & Poor's (S&P) Case-Shiller Home Price Indices track changes in U.S. house prices using repeat sales pricing methodologies. The 20-City Composite Home Price Index is a value-weighted average of the 20 metropolitan area indices.

An investment cannot be made in an index.

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