

Quarterly Commentary

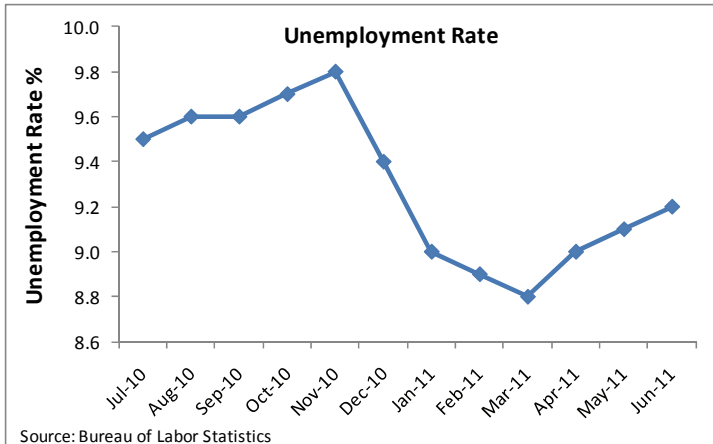
Second Quarter 2011



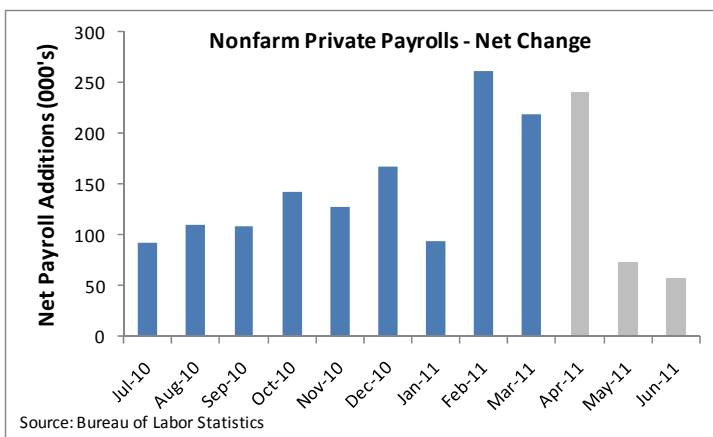
DoubleLine

Overview

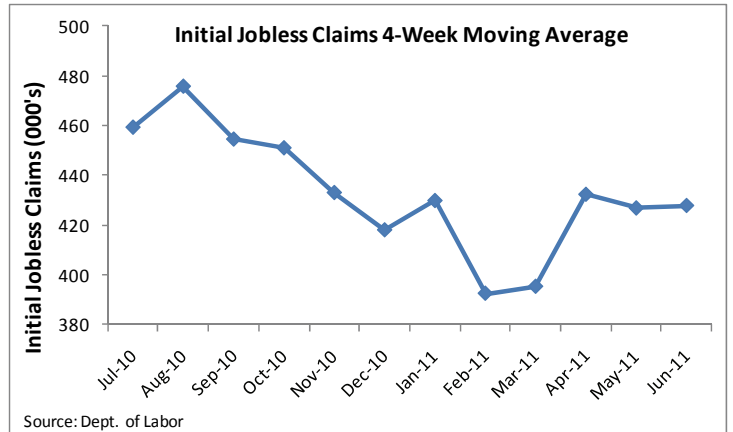
The employment situation deteriorated in the second quarter of 2011: the headline unemployment rate (U3) climbed to 9.2% in June, rising for the third month in a row after four consecutive months of improvement.



Private nonfarm payrolls were equally disappointing with two back-to-back months of sub-100k net payroll gains.



Similarly, the 4-week moving average on initial jobless claims climbed back above the 400k level after 2 months at a high 300k level.

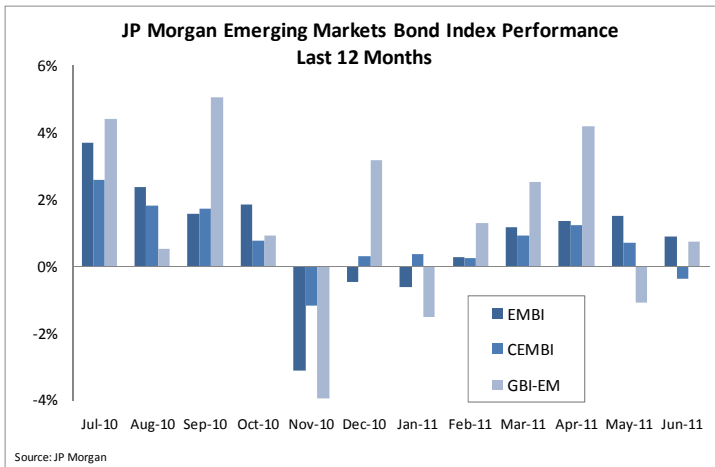


Emerging Markets

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 positive returns for the second quarter 2011, although returns for the month ending June 2011 were mixed.

	Tickers	June Return	2Q11	YTD	YTM	Spread
EMBI	JPGCCOMP	0.91%	3.86%	4.76%	5.80%	271
CEMBI	JBCDCOMP	-0.35%	1.63%	3.23%	5.93%	320
GBI-EM	JGENBDUU	0.76%	3.87%	6.30%	6.76%	N/A

Source: JP Morgan. Past performance is no guarantee of future results.



For the month of June, emerging markets (EM) external sovereign bonds and government local currency bonds were the best performers with a return of 0.91% and 0.76%, respectively. Positive returns in the EMBI were broad based across all regions, led by Latin America which posted a 1.46% return and Asia which posted a 1.0% return. Latin America was also the strongest performer in GBI-EM, driven by strong currency returns out of Colombia and Peru. Corporate EM debt returns lagged the month at -0.35%, led by a negative 1.14% return from the corporate high yield sub-index. High yield corporate names faced downward pressures from troubles in the Kazakhstan banking sector and questionable corporate governance practices from Chinese corporates. Unlike its EM corporate counterpart, the high yield sovereign sub-index of the EMBI posted strong positive returns of 1.30%, benefiting from a strong technical bid for risk assets at the end of June and a 24 basis points (bps) spread tightening month over the month. Venezuela led the rally in the high yield sovereign names, with spreads compressing 78 bps on news of Hugo Chavez’s ailing health and a reduced chance he may run for another presidential term in the next election cycle.

EM local government currency bonds and EM external sovereign bonds were the strongest performers over the second quarter, returning 3.87% and 3.86%, respectively. The EM corporate debt index trailed in returns at 1.63%. Although the GBI-EM and EMBI posted similar returns over the quarter, the GBI-EM exhibited much more volatility, reflecting the quarter’s changing investor sentiment from the “risk-on” to “risk-off” trade. EM currencies were whipsawed around as investors tried to sort out data pointing to a slowdown in global growth, the end of QE2, and a possible “solution” to the Greece debt saga. The EM corporate debt index lagged in performance as CEMBI spreads widened 31 bps versus a 6 bps spread tightening in the EMBI.

For much of the month of June, EM debt continued its “risk-off” trade that began in May, with EM spreads widening 20 bps at their peak to 310 bps versus May month-end. The spread widening was primarily due to the continued debt crisis in Europe, with a rising fear of Greece defaulting on its debt. Additional spread pressure came from the uncertainty surrounding the end of QE2 in the United States and continued weak global economic news throughout the first three weeks of the month, which included disappointing Purchasing Managers’ Index (PMI) data out of China and the eurozone. Going into the last few days of the month, risk assets staged a comeback and EM spreads tightened in to 271 bps, from a peak of 310 bps, as the Greek Prime Minister, George Papandreou, survived a no confidence vote and parliament agreed to another round of austerity measures. The latter was required by the European Central Bank (ECB) and International Monetary Fund (IMF) before the fifth tranche (€12 billion), from last year’s bailout (€110 billion), could be distributed in

July. The second bailout package could total €85bn in new financing, with the IMF covering 30% and the eurozone and private investors providing 70%. The new round of austerity measures approved by Greece is in addition to €50 billion in privatizations it announced this past May. Privatization proceeds will be used to reduce the debt. A solid build-up of cash on the sideline and a slower new issue pipeline throughout the summer should provide support to EM assets.

During the second quarter, 10-year U.S. Treasury yields decreased by 31 bps, with the 10-year U.S. Treasury rate at 3.16% as of quarter-end, declining from 3.47% at quarter-end March. During this time, EM yields have more or less moved in tandem with Treasuries as EM spreads have only tightened by 6 bps. EM debt continues to provide a measure of stability during a relatively volatile quarter. 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 (YTD).

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%
April 2011	1.36%	281	6.01%	3.29%
May 2011	1.53%	290	5.86%	3.06%
June 2011	0.91%	271	5.80%	3.16%

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

Greece optimism aside, a sustainable solution to the country's large debt load has yet to be found and the French proposal for a "voluntary" rollover of Greek debt maturing in the coming years is still being worked out and does not resolve the issue of Greece's unsustainable debt load. It is also not clear whether the Greek population will tolerate the sale of

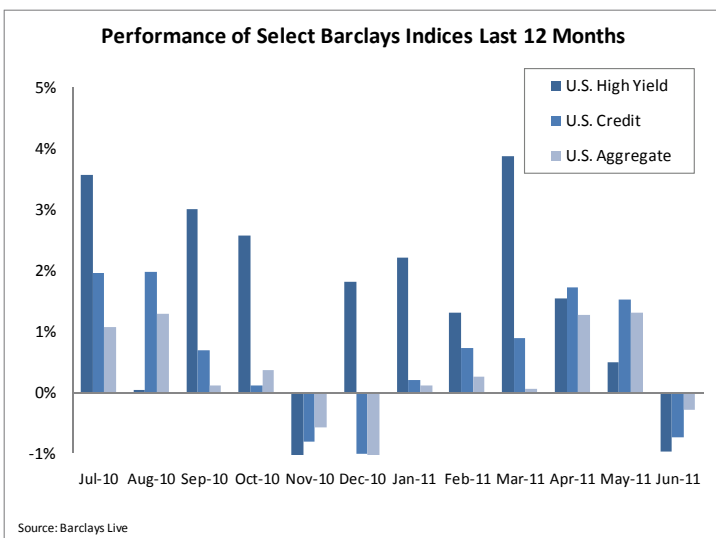
€50 billion in state assets or endure the latest round of austerity measures. There are; however, several potential positive outcomes to kicking the Greek debt can down the road; 1) provide time for European banks to raise capital to offset a potential future default; 2) allow Portugal, Ireland, Spain and Italy to show the markets that they are in better shape than Greece; and 3) provide a potential path toward fiscal union for the eurozone. Despite this latest round of support, Greece risk could return within six months, with two debt payments due in December and continued IMF reviews monitoring progress on the country's agreed-to economic targets. Reminding the markets that Greece is not the only eurozone country with troubles: Moody's downgraded Portugal's foreign currency debt rating four notches to Ba2 (negative outlook), citing challenges in achieving austerity measures and other reforms pledged by Portugal in return for its recent bailout. Moody's also warned of a second potential bailout for Portugal in the future, similar to what is happening in Greece.

The next big market event over the near-term is whether the U.S. Congress will raise the debt ceiling before August 2, or face having the U.S. AAA rating downgraded, potentially to D (per Standard & Poor's). At this point it is believed that Congress will come up with an eleventh-hour compromise and raise the debt ceiling, averting a downgrade; however, volatility will remain on this issue throughout the month of July. On a positive note, an expected slower economic recovery based on recent global economic data, should provide a reduction in inflationary pressures going forward. In addition, a diffusing (for now) of the Greek default threat, mixed global economic data, and strong cash balances on the sidelines have increased the potential for the "risk-on" trade over the near-term.

We continue to expect EM countries and companies to benefit from rating upgrades during the next 12 months; however, EM valuations are expected to continue to remain constrained by global volatility. The new issue pipeline, expected to pick-up at the end of the summer, should continue to provide select opportunities to buy new credits.

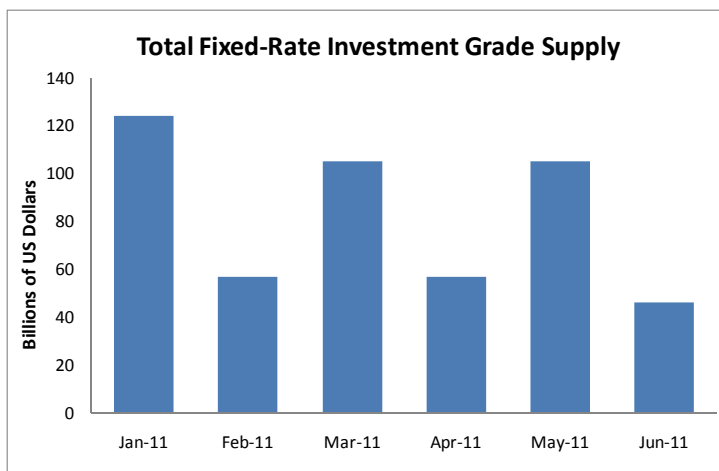
Global Developed Credit

Credit markets posted a disappointing performance during the latter part of the quarter as ongoing U.S. economic weakness culminated in a worse-than-expected May employment report and the fiscal situation in Greece continued to deteriorate. Amid this backdrop, the Barclays Capital U.S. Credit Index returned 2.50% and the Barclays Capital High Yield Index returned 1.05%. The Barclays Capital U.S. Credit Index has returned 3.41% YTD, and the Barclays Capital U.S. Corporate High Yield Index has returned 4.97%. While excess returns for both indices versus Treasury securities were negative during the quarter, on a YTD basis excess returns for both investment grade and high yield credit remained positive.



Among investment grade corporate bonds, the best-performing sectors during the second quarter as measured by excess return included Media/Cable (+84 bps), Refining (+52 bps) and Lodging (+45 bps). The worst performing sectors were Paper (-180 bps), Non-Captive Consumer Finance (-93 bps) and Airlines (-92 bps). Performance by rating category was mixed during the quarter with single-A rated debt posting -22 bps of excess return, which was likely due to the preponderance of financial issues in that rating cohort. Baa-rated debt lost 1 bp and debt in the Aaa-rated category gained 9 bps, while Aa-rated debt gained 5 bps. With respect to the high yield market, the Supermarket sector was the top performer during the quarter (+91 bps) followed by Property & Casualty Insurers (+24 bps) and Restaurants (+20 bps). The vast majority of the sectors in the high yield space generated negative excess returns during the quarter. On a relative basis, the worst performers included Natural Gas Distributors (-339 bps), Transportation Services (-336 bps) and Building Materials (-307 bps). In line with the investment grade market, lower-rated issues generally underperformed their higher-rated counterparts.

Issuance in both the investment grade and high yield sectors slowed noticeably during the second half of the quarter. Gross supply in investment grade corporate, however, stands at \$494 billion YTD, exceeding the \$421 billion issued at the half-way point of 2010. Gross supply in high yield now stands at \$168 billion YTD, which represents an increase of more than 50% from last year's first half total of \$108 billion in June 2010.



High yield debt is diverging the furthest from investment grade in more than six months as U.S. economic growth decelerates and concern mounts that Europe's debt crisis will spill over into credit markets, making it more difficult for weaker companies to obtain capital. A combination of factors is driving spreads wider to include the conclusion of QE2, whose purpose was to inflate the economy and inflate risk assets. Risk assets have indeed sold off and investors pulled a record \$6.16 billion out of high yield mutual funds in June representing the largest level of withdrawals on record in absolute terms. The conclusion of QE2 was accompanied by weaker economic news and resurgent fears of the potential for a Greek default almost exactly one year after the initial fears roiled the market in the spring of 2010.

The performance of high yield corporate bonds, like equities, is correlated to the U.S. economy. When the overall economy is robust, the riskiest companies have a better chance of prospering. The reverse is also true: In contrast to the directional flow of assets for high yield corporate bonds, investment grade corporate bonds saw strong inflows during the period. The investment grade market benefitted from the high yield outflows given that investment grade companies typically have positive free cash flow, much less leverage and better access to funding than

their high yield brethren. DoubleLine is maintaining a defensive posture in the corporate credit markets as we head into the third quarter and continues to favor investment grade over high yield issuers.

Mortgage-Backed Securities

Similar to the market close on May 31, there was a flurry of political and regulatory activity at the close of June. And during the month, the markets movements were highly volatile. Two important announcements were made on the last two days of June. First, a proposed settlement between Bank of America and 22 institutional investors was announced, suggesting a settlement of disputes and put backs on 530 non-Agency trusts, which were originated by Countrywide (now owned by Bank of America) for a total of \$8.5 billion. The second announcement was by the New York Federal Reserve Bank that it was halting its future sale of the Maiden Lane portfolio indefinitely until market conditions had shown evidence of improvement.

We have noted in previous commentaries that the reps-and-warrants issues for the non-Agency market should be in the hundreds of billions of dollars at this point (including Agency mortgages), with at least Bank of America at the table. One expected consequence will be to bring the other large servicers to the table. As we review the settlement, it is certain there will be challenges and disputes and the settlement of these claims will take much longer than the 4 months indicated in the settlement document. In brief, the settlement would put cash back into deals and dispense that cash through the deal's waterfall structure, in most cases, while writing up whatever subordinate tranches are remaining.

Additionally, if the holders chose to opt-out of the settlement, some questions of the totality of this settlement would arise.

As early as July 5, 2011, there was a notice of petition from a group known as Walnut Place Investors who are currently in litigation with Bank of New York (Trustee) about these same reps-and-warrants issues. This petition is likely only the tip of the iceberg.

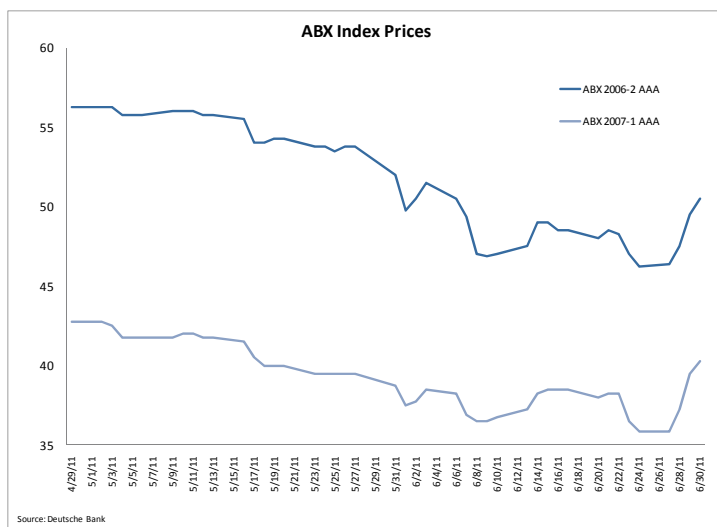
We will be watching the developments as they unfold, though we anticipate a number of petitions to hit the court before the October 31 deadline. This is true especially as it relates to the timeline and mechanics of the settlement. For instance, before an investor in any of the pools will know how that particular pool will be treated, the trustee will first have to agree to the settlement 6 weeks prior to its occurrence.

The announcement that the New York Federal Reserve Bank is not completing the sale of the Maiden Lane portfolio was not anticipated, though welcomed. The first auction set the ground rules and incentivized the street to participate, though each auction became increasingly more difficult to place. On June 9 with 3.8 billion to sell, and the reserve prices reduced for easier sale, only 1.9 billion actually traded. That result, along with the increasing weakness in the ABX indices, helped push the New York Federal Reserve Bank to halt the auctions until further notice. We will continue to monitor this situation closely.

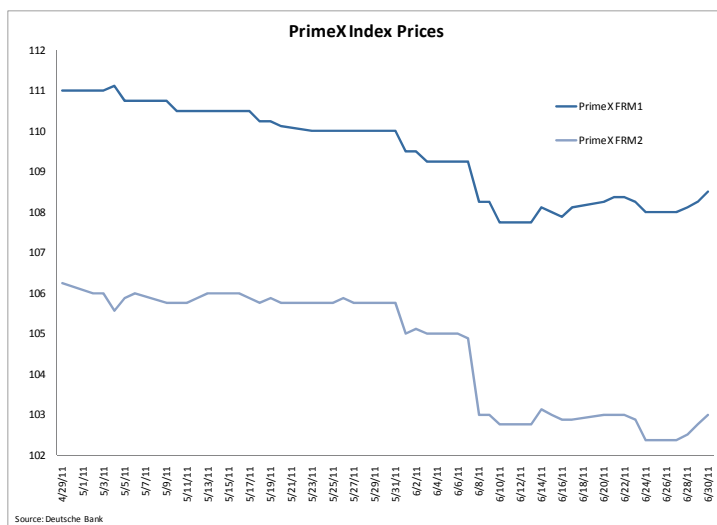
Non-Agency MBS

The ABX 07-1 AAA Index, which closed on May 31 at 38.5, closed on June 30 at 40.75: an increase of 8.7%.

The ABX 06-2 AAA Index, which closed on May 31 at 52.25, closed on June 30 at 55.25: an increase of 5.7%. The bulk of the upswing occurred on the last two days of the month as shown in the following chart.



PrimeX FRM 1, which closed on May 31 at 110.25, closed on June 31 at 109.75. The PrimeX FRM 2, which closed on May 31 at 105.5, fell more and closed on June 30 at 103.25. Again, the movement was up from the middle of the month and occurred primarily on the last two days of June.



Quarter-over-quarter, the indices' movement took on

a different look since the volatility was more severe in the second quarter. The ABX 07-1 Index was 43.00 at 2Q close versus 40.75 at 1Q close, and the ABX 06-2 Index was 59.25 at 2Q close versus 55.25 at 1Q close. The PrimeX FRM 1 Index closed 2Q at 110.75 versus 109.75 for 1Q, and the PrimeX FRM 2 Index closed 2Q at 105.75 versus 103.25.

Conditional Prepayment Rates (CPR)			
2011	April	May	June
FNMA	13.2	12.8	15.0
FHLMC	12.9	12.2	14.2
GNMA	9.1	8.4	9.6

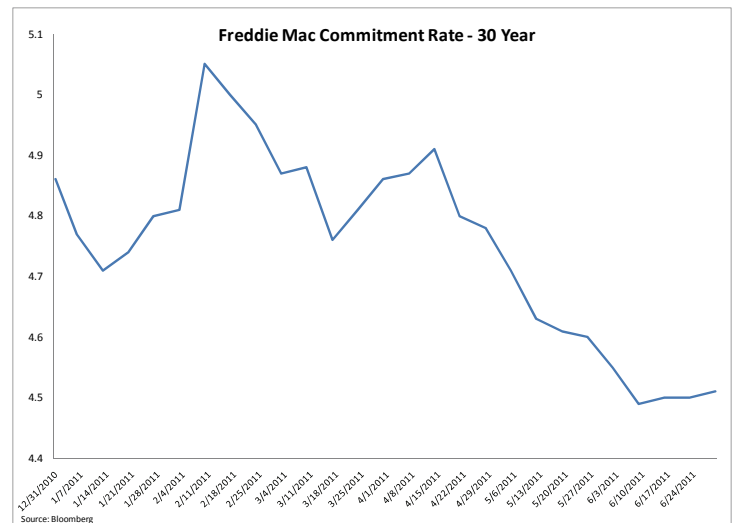
Mortgage Index	5/31/2011	6/30/2011	Change
Average Dollar Price	106.23	105.98	-0.25
Duration	4.50	4.58	0.08

Index Returns	April 2011	May 2011	6/1/2011
Aggregate	1.27%	1.31%	-0.29%
MBS	1.10%	1.07%	0.09%
Corporate	1.72%	1.44%	-0.88%
Treasury	1.15%	1.56%	-0.34%

Source: eMBS, Barclays Capital

Agency MBS

The month of June 2011 showed only minor changes in U.S. Treasury rates. Two-year U.S. Treasury rates fell by 1 bp while 10-year U.S. Treasury rates rose by 10 bps. Credit spreads as measured by swap spreads widened out 2-5 bps. These conditions normally lead to mortgage outperformance and this period was not different. The Barclays Capital U.S. MBS Index (the Agency MBS sector) had a return of 0.09% which was better than the Barclays Capital U.S. Treasury Index return of -0.34% and the Barclays Capital Corporate Index (investment grade corporate sector) which returned -0.88%. The Agency MBS market has a shorter duration than both the U.S. Treasury and the investment grade corporate sectors, creating less expected volatility in prices due to changes in rates. At the same time, the Agency MBS sector has a higher stated yield.



Two of the most interesting current items within the Agency MBS universe deal with prepayments and the future of the Government-Sponsored Enterprises (GSEs). There is historically a correlation between rates and prepayment speeds: lower rates imply more refinancing opportunities. Over the past 6 months, 10-year U.S. Treasury rates have fallen by 13 bps. Given where prepayment speeds were 6 months ago, such a rate change would probably be accompanied with a small increase in prepayment speeds. Yet, during this period prepayment speeds have decreased by more than 50%. Economic rate incentive to refinance still exists for more than 65% of borrowers. Historically environments where most of the borrowers could refinance into a lower rate were periods where prepayment speeds were very fast. Conditions are different now as underwriters have tightened up their underwriting standards and housing prices are down 35% on a nationwide basis which means borrowers would have to come up with cash to meet the new standards and bring their loan-to-value (LTV) in line. Most borrowers can't afford to refinance at this time and probably won't be able to until either their incomes go up or the value of housing goes up. It is possible that the decreasing

prepayment speeds are due to a “burnout” effect. Those that can afford financially to take advantage of the rate incentive may have already done so, which leaves the mortgage pool with a greater percentage of borrowers who can’t afford to make the upfront cash outlay.

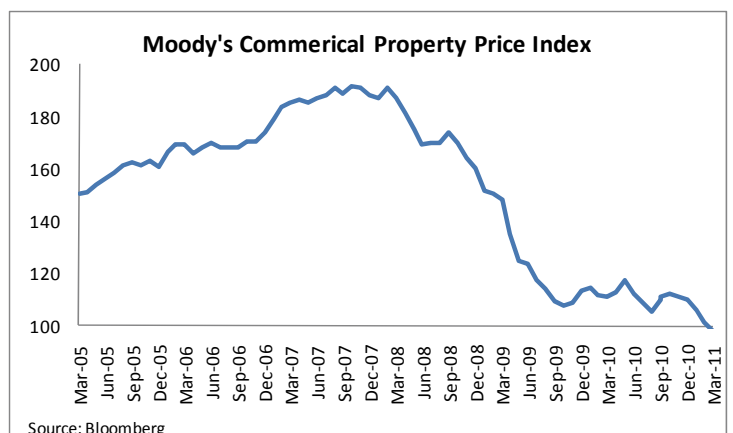
There hasn’t been any big news lately on the future of the GSEs. The news will be coming out; it is a question of when, not if. The news will be coming from Washington and will have to go through political discussions and debate. When policy is finally decided upon, it probably would be phased in over a period of years to minimize any potential disruption to an already fragile mortgage and housing market.

Commercial Mortgage-Backed Securities

The month of June proved challenging for CMBS as continued weak macroeconomic pressures, coupled with a resurgence of fear in the Greece/eurozone debt crisis, caused a sharp re-pricing among risk assets. We saw a significant retracement of pricing levels across the capital structure. The brunt of the downward price pressure was concentrated in the mezzanine AAA super senior CMBS (AMs) and junior AAA CMBS (AJs) space as support for this part of the capital structure disappeared after a strong 6-month rally, predominantly technical driven. Month-to-date, AMs and AJs traded down roughly 6 and 10 points, respectively. Meanwhile generic 30% credit enhanced super senior bonds widened out between 25-40 bps dependent on deal name with new issue CMBS pricing levels weaker as well. From a generic market-view perspective, AMs and AJs have enjoyed a decent run-up YTD to levels which have been perceived as a

bit rich, especially in the AJ space given that the majority of loans scheduled to mature between 2015 and 2017 have potential balloon risks yet to be priced in. For the month, the CMBS portion of the Barclays Capital U.S. Aggregate Bond Index was down -1.01% underperforming the Barclays Capital U.S. Aggregate Bond Index by 98 bps; however the asset class as a whole is still up 3.71% YTD and continues to be one of the strongest performing asset class.

On the commercial real estate (CRE) fundamental side, we have yet to see any meaningful improvement in delinquency rate however do note the pace of deterioration has continued to slow down with the advent of CMBS securitization market now open and fully functioning. For the month, 30-day plus delinquency rate was unchanged at 9.94% in June, while the 60+ delinquency rate declined 13 bps to 8.93%. In addition, CRE prices continue to remain suppressed as represented by the Moody’s Commercial Property Price Index (CPPI) which posted a 4.2% decline for March, effectively bringing the index down to its lowest level since October 2007 peak. Distressed assets within CMBS transactions typically take 12-24 months from default to disposition, and there tends to be a lag effect which may be present in the CPPI.



Our investment focus for this sector remains largely the same with emphasis on security selection as we 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 improvement in lending environment as majority of loans that are able to obtain financing in new vintage CMBS are predominantly higher in quality off seasoned transactions. We’d also note that interest rate risk and unemployment continue to be large contributing factors for CRE fundamentals and without any real improvement in the unemployment picture, real recovery in commercial real estate sector will be limited.

U.S. Government Securities

The Treasury market did a sharp U-turn in June. Yields trended gradually lower through the first three weeks of the month only to experience a sharp sell-off that took the five-year note yield higher by 39 bps in the final four trading days of the month. The catalyst for the sell-off was positive news out of Europe regarding the ongoing efforts to restructure Greek sovereign debt. Flight-to-quality buyers in the Treasury market suddenly became sellers. Domestic accounts joined in the selling as yields passed through significant technical levels. The 10-year Treasury began the month at a yield of 3.06%. It fell to 2.86% as of the 24th before selling off to 3.16% at month-end. The 30-year bond was the worst performing issue on the curve, rising 15 bps to 4.37%. The weak domestic economy and the Fed on hold kept short-end yields well anchored. The three-month bill ended the month at an annual yield of just one basis point.

Yield Curve

	3/31/2011	6/30/2011	May Change
3 month	0.09	0.01	-0.08
6 month	0.17	0.10	-0.07
1 year	0.27	0.18	-0.09
2 year	0.82	0.46	-0.36
3 year	1.30	0.80	-0.50
5 year	2.28	1.76	-0.52
10 year	3.47	3.16	-0.31
30 year	4.51	4.37	-0.14

Source: Bloomberg

The Barclays Capital U.S. Government Index returned -0.30% in June. Reversing the May result, the 30-year bond provided the worst return at -2.38% by virtue of its long duration combined with a 15 bps rise in yield. The 10-year note posted a return of -0.65% while maturities inside 5 years eked out small positive returns. Agency securities returned -0.10%, in line with comparable duration Treasuries. Inflation-indexed Treasuries performed well, with the Barclays Capital U.S. Treasury Inflation-Protected Securities (TIPS) Index returning 0.81% in June. The multi-month trend toward higher expected inflation rates derailed in May but was reestablished in June. Tax-exempt municipal bonds also outperformed Treasuries for the month of June as the municipal market avoided the flight to quality-driven selling at month-end and restrained supply helped support prices. The Barclays Municipal Bond Index returned 0.35% in June.

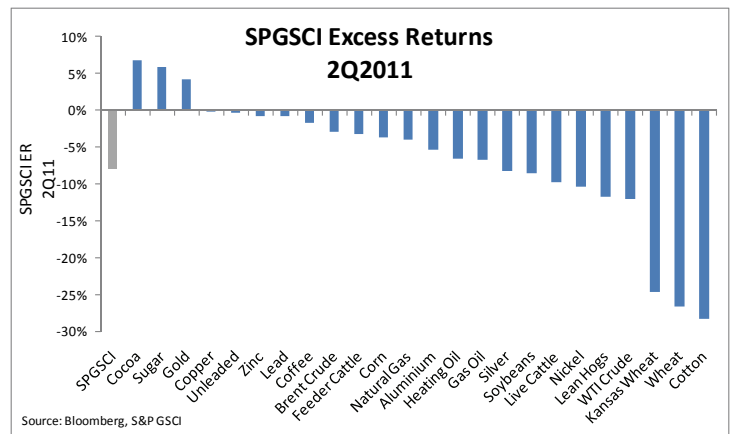
The three main elements of the government portfolio structure remained in place: neutral duration (versus the benchmark), a market value overweight in short callable agencies while staying underweighted in overall agency market exposure, and an overweight in intermediate maturity Treasuries. Some changes in individual holdings have taken place as the late-month sell off brought about relative value changes within intermediate-maturity Treasuries. As noted in the past, the allocation to agency securities will begin to move modestly lower at some point as the supply of agencies maturing within the period of unlimited

Treasury support (through December 2012) trends lower and spreads continue to contract.

Commodities

The commodities markets experienced a sharp reversal in performance during the second quarter of 2011. After returning more than 11% in the first quarter, the Standard & Poor's Goldman Sachs Commodity Index Excess Return (SPSCI ER) lost nearly 8% in the second quarter. In addition to being the worst performing sector of the financial markets during the quarter, the commodity complex experienced significantly increased volatility as the markets digested the impact of the Federal Reserve ending their second round of quantitative easing. Further dispersion in performance across individual commodity markets is expected over the remainder of the year as the markets focus more keenly on supply and demand data versus broad-based economic data.

The only sector of the commodity market that generated a positive return for the quarter, according to the SPGSCI ER, was precious metals, earning a little over 2%. The worst performing sector was the agricultural sub-index losing more than 12%, led by cotton which shed more than 28% during the quarter. In addition, wheat prices plummeted over 26% on better than expected crop progress according to the USDA, reversing the expectations that crop yields would be poor based on inclement weather and flooding throughout the Midwest early in the second quarter. There were bright spots in the sector, however, as the two top performing commodities for the quarter – cocoa and sugar – both generated positive excess returns on the back of weaker supply data.



The quintessential example of volatility in the commodities market was exhibited by the spot price of silver. After starting the quarter at \$ 37.73 per ounce, silver skyrocketed nearing a spot price of \$50 per ounce before a correction to \$ 33.49 per ounce. Silver spot prices recovered from the lows to end the quarter higher at \$ 34.83 per ounce, but were still off approximately 8% for the quarter. Using the gold/silver ratio of spot prices as a relative valuation metric shows that subsequent to the sell-off, silver appears to be more in line with the long-term average.

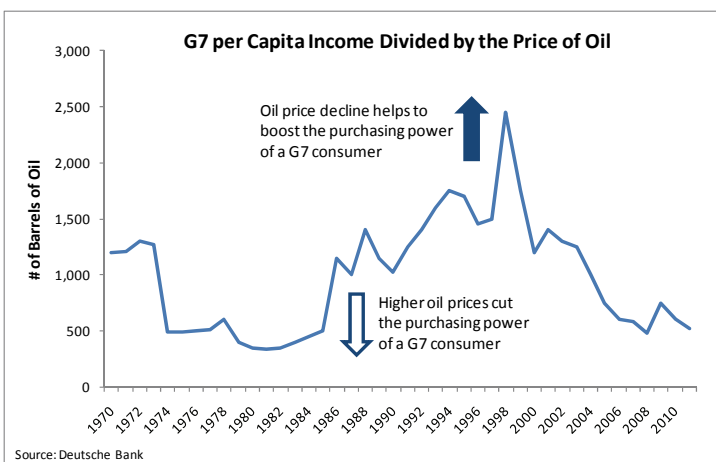
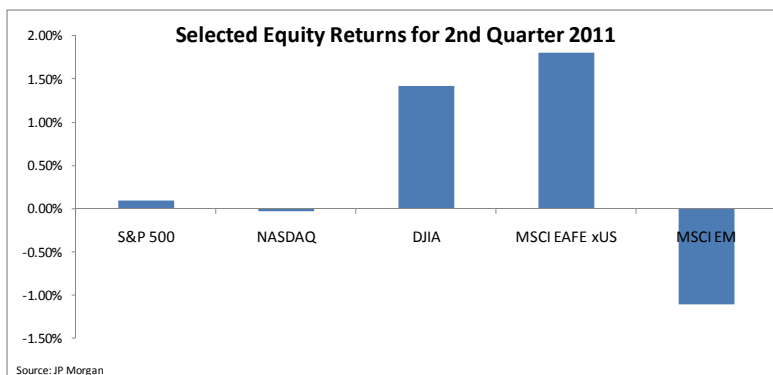


The crude oil market was not immune to the commodity price volatility during the quarter. Crude oil continued its upward trajectory in April focusing on supply side constraints created from the turmoil in the Middle East/North Africa (MENA) region at the

beginning of the year. At the beginning of May, however, crude oil prices retreated more than 10% over the course of two trading days as the market started to focus on demand destruction with the plethora of negative global economic data dominating the headlines. Later in the quarter, the International Energy Agency (IEA) pledged to draw down 60 million barrels of crude oil from the Strategic Petroleum Reserves in an attempt to lower prices and, they hope, to spur economic growth since high energy prices provide a headwind to economic growth. Looking at the purchasing power of a G7 consumer based on per-capita income, we note that purchasing power is back down to levels not seen since the oil embargo and high oil prices of the early 1980s. And if one compares purchasing power to disposable income, the metric is worse. Coupling the purchasing power metric with the severe austerity measures that are required in many developed countries in an effort to address budget deficits could have a significant impact on global consumption of not only crude oil, but the entire commodity complex. Thus, we continue to expect volatility in the commodities markets as the developed world tries to address the objective of generating strong economic growth while simultaneously facing the fiscal prudence of running a balanced budget.

Global Equities

Equity markets ended the quarter essentially unchanged to slightly up following a tumultuous ride for the better part of the quarter and subsequently staging an impressive rally near quarter end. The S&P 500 rallied 5.6% over the span of 4 days into quarter-end and effectively redeemed itself following the sell-off, ending the quarter flat at 0.10%. Much of the market volatility can be summed up by a multi-faceted causation effect as QE2, European sovereign debt issues, concerns with U.S. debt ceiling limits, and signs of a weaker global economy spurring concerns amongst investors. It appears equity markets volatility could persist absent of any real and positive resolutions to each of the macroeconomic concerns. The NASDAQ Composite Index posted -0.03% and the Dow Jones Industrial Average (DJIA) was up +1.42%.



On the developed markets front, the Morgan Stanley Capital International (MSCI) EAFE (Europe, Australasia, and Far East) Index (excluding U.S.) posted a 1.80% return for the quarter squeezing by U.S. equities. Lastly, emerging markets (EM) performed the worst, down 1.10% for the quarter as represented by the MSCI EM Index. Cross-Sector global equity markets as a whole were up 0.66% for the quarter as represented by the MSCI All-Country World Index. Continued headwinds in the eurozone, coupled with a weak U.S. outlook due to QE2 and the

debt ceiling, contributed to sub-par performance for the quarter as represented by the MSCI EM Index.

EM equity continues to suffer from the pressures of higher inflation rates and the attempts by the Central Bank to combat these pricing pressures with tighter monetary conditions and credit. In addition to the quantitative easing ending, EM lagged global equity markets in performance for most of the quarter.

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.

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.

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.

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.

DoubleLine has no obligation to provide revised assessments in the event of changed circumstances. While we have gathered this information from sources believed to be reliable, DoubleLine cannot guarantee the accuracy of the information provided. Securities discussed are not recommendations and are presented as examples of issue selection or portfolio management processes. They have been picked for comparison or illustration purposes only. No security presented within is either offered for sale or purchase. DoubleLine reserves the right to change its investment perspective and outlook without notice as market conditions dictate or as additional information becomes available.

Ratings shown for various indices reflect the average for the indices. Such ratings and indices are created independently of DoubleLine and are subject to change without notice.

DoubleLine's portfolio managers generally make investment decisions for the respective Clients that they manage independently of the manner in which it approaches a similar or even the same investment made by other DoubleLine portfolio managers. In addition, DoubleLine, on behalf of certain Clients, may choose not to hedge certain risks that other DoubleLine investment teams hedge (or vice versa).

Important Information Regarding Risk Factors

Investment strategies may not achieve the desired results due to implementation lag, other timing factors, portfolio management decision-making, economic or market conditions or other unanticipated factors. The views and forecasts expressed in this material are as of the date indicated, are subject to change without notice, may not come to pass and do not represent a recommendation or offer of any particular security, strategy, or investment. Past performance (whether of DoubleLine or any index illustrated in this presentation) is no guarantee of future results.

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.

DoubleLine® is a registered trademark of DoubleLine Capital LP.