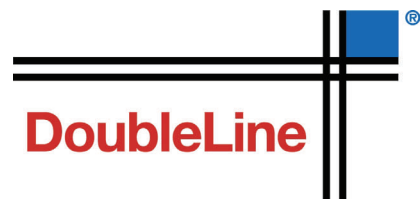


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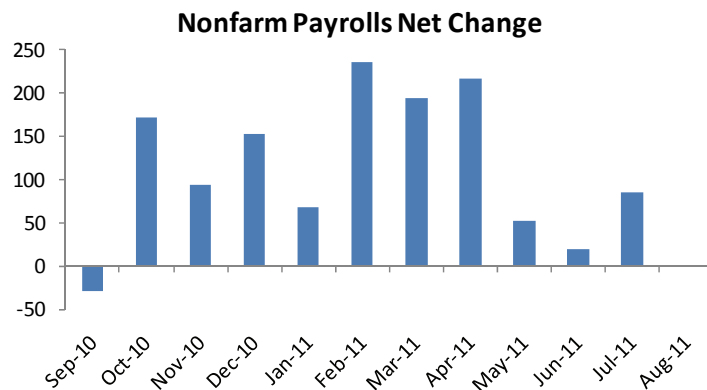
Monthly Commentary

August 2011



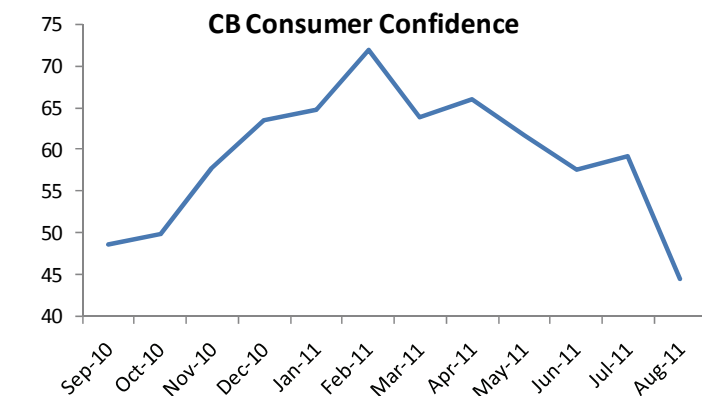
Overview

Nonfarm Payrolls came in unchanged for the month of August. Only a mere 17k jobs were added to the private sector and that that was entirely offset by a 17k decline in government sector jobs. Consensus estimates had called for a gain of +68k jobs.



Source: Bureau of Labor Statistics

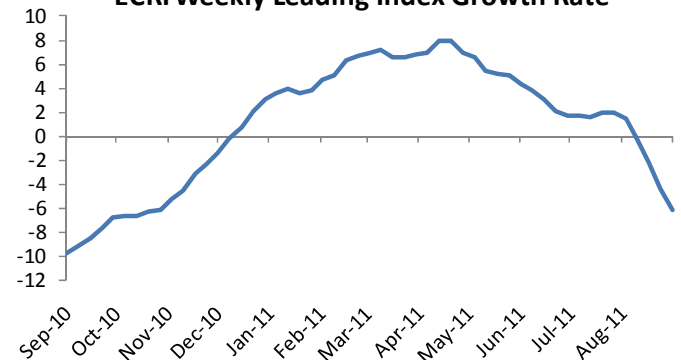
Consumer Confidence plummeted in August with the Conference Board's index dropping to 44.5 from 59.2 in July, versus consensus expectations of 52. The decline was driven largely by a sizeable negative move in the expectations component, which dropped to 51.9 from 74.9.



Source: Conference Board

The ECRI Weekly Leading Index Growth Rate continued its downward trend dropping to -4.3% the last week of August. This is the 3rd straight week spent in negative territory.

ECRI Weekly Leading Index Growth Rate



Source: Economic Cycle Research Institute

Emerging Markets

In Emerging Markets Fixed Income, the three sectors of the market – 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 mixed returns for the month of August 2011.

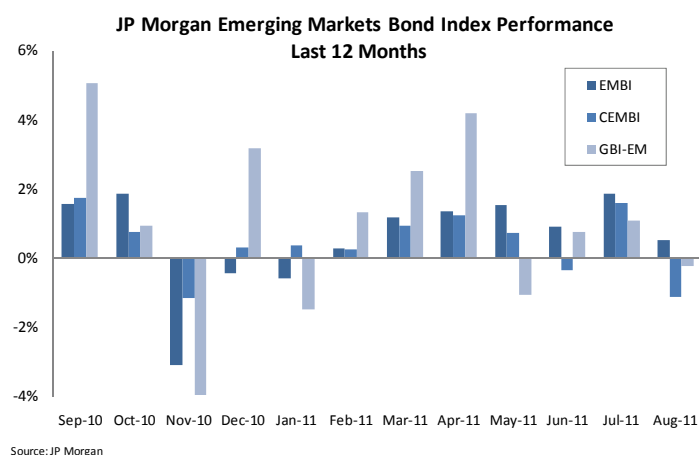
	Tickers	Monthly Return	Last 3 Months	YTD	YTM	Spread	S&P Ratings
EMBI	JPGCCOMP	0.52%	3.31%	7.25%	5.59%	339	BBB-
CEMBI	JBCDCOMP	-1.11%	0.12%	3.72%	5.88%	408	BBB
GBI-EM	JGENBDUU	-0.22%	1.62%	7.21%	6.33%	N/A	BBB+

Source: JP Morgan

(Past performance is no guarantee of future results.)

For the month of August, emerging markets (EM) external sovereign bonds were the best performer, returning 0.52% for the month. Despite a 53 basis point (bps) spread widening of the EMBI, returns were positive, responding in part to a strong U.S. Treasury rally with yields on the 10-year falling 58 bps from 2.80% to 2.22% month-over-month (MoM). EM local currency bonds posted a -0.22% return for the

month of August, driven by negative currency returns on the Mexican Peso, South African Rand, and Russian Ruble. EM corporate bonds were the worst performer of the month returning -1.11%. The high yield sub index of the CEMBI posted a -4.04% return, reflecting the changing sentiment of investors from “risk on” to “risk off.” In addition, both EMBI and CEMBI performance suffered from negative news out of peripheral Europe, with the European sub indices returning -0.26% and -3.05%, respectively.



EM debt was mostly about the “risk-off” trade in August with EM spreads widening 53 bps to 339 bps by month end. At the start of the month, periphery Europe (represented primarily by Portugal, Italy, Ireland, Greece and Spain) remained weak; the U.S. debt reduction plan underwhelmed expectations; and global growth indicators continued to point toward a potential second recession. The announced, enhanced European support plan for periphery Europe and the U.S. extension of its debt ceiling were not enough to offset the massive flight-to-quality in August. EM dedicated funds saw negative flows for the first three weeks of the month, flat for the remainder, suggesting EM investors were largely in a wait-and-see mode.

Contagion concerns surrounding Italy and Spain drove their 5-year credit default swap (CDS) spreads to all

time highs at the beginning of August, forcing the European Central Bank (ECB) to begin purchasing Italian and Spanish debt under its Securities Markets Program (SMP). Use of the ECB’s SMP is meant to be a short-term stop gap until the eurozone parliaments pass agreed changes to the European Funding Stability Facility (EFSF), which should happen by the end of September, allowing it to purchase bonds in the secondary market. Debt purchases made through the SMP facility succeeded in bringing Italian and Spanish yields in these two countries down nearly 200 bps from the 7.0% range toward a more sustainable 5.0%. Greece continued to be a source of concern as it continued to miss its fiscal targets and show a lack of progress on much needed privatizations. This has raised some concern that the European Union (EU), ECB and International Monetary Fund (IMF) may not readily disburse the sixth tranche (€8 billion) of the new loan agreement with the Greek government due this month.

Going into September, periphery Europe and U.S. growth prospects again, like the start of August, will likely dominate market sentiment. The EU will need to come through with additional measures to strengthen its current plan, which is expected to cost a lot more than currently anticipated. Additionally, it will be subject to a significant amount of political debate by the Northern European members of the EU, who will have to put up more money, and by members of the periphery, which will need to comply with extremely difficult austerity measures. The existing EU plan for debt reduction in Greece and changes to the scope of the EFSF, is viewed as being too small to resolve the eurozone’s debt and banking crisis and is likely to be revised in the future.

U.S. GDP growth remains sluggish, resulting in the IMF revising down its 2011 and 2012 targets from

2.5% and 2.7% to 1.6% and 2.0%, respectively. Despite no mention of QE3 at Jackson Hole, Wyoming in late August, there is increasing talk that the Federal Reserve will need to announce some stimulus measures before year-end. With continued weakness in the eurozone and a slower recovery in the U.S., a “risk-off” trade is expected over the near-term.

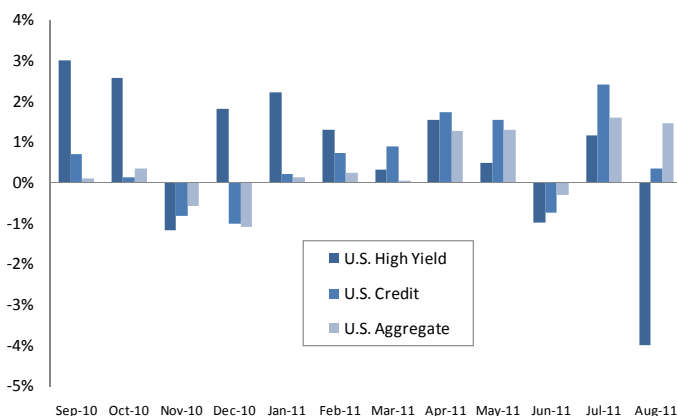
We continue to expect EM countries and companies to benefit from rating upgrades during the next 12 months. EM valuations are expected to remain constrained by global volatility. The new issue pipeline, expected to pick-up in September, should continue to provide select opportunities to buy new credits, which may come with new issue premiums or discounts to an existing yield curve for repeat issuers.

Global Developed Credit

Although last month the investment grade credit space provided somewhat of a safe-haven bid, in August the selling pressure intensified across the rating spectrum as investors flocked to Treasuries despite the loss of the U.S. Government’s AAA sovereign rating early in the month. The Barclays Capital U.S. Credit Index ended August 47 bps wider and underperformed duration-matched Treasuries by 297 bps. Year-to-date (YTD) total returns in investment grade now stand at 6.28% and YTD excess return is -1.81%. The selloff in high yield was more pronounced. August was the eighth worst performance month, as measured by total and excess returns, in the past 20 years. The Barclays Capital High Yield Index widened 168 bps on the month and underperformed duration-matched Treasuries by 6.02%. Total return in high yield now stands at 1.94% YTD and YTD excess return is -3.97%.

Within the investment grade universe the best-performing sectors with respect to excess return

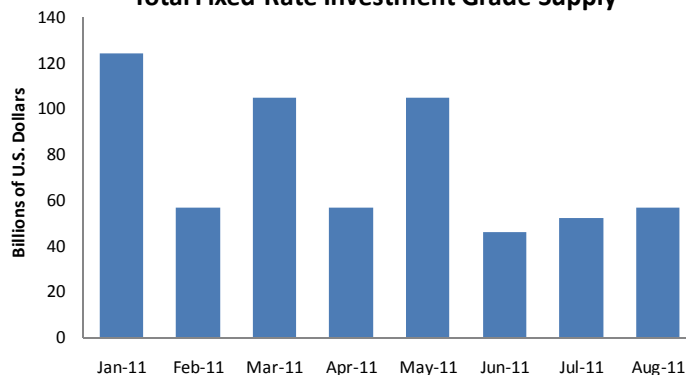
Performance of Select Barclays Indices Last 12 Months



Source: Barclays Live

included Supranationals (-6 bps); Other Industrials (-80 bps); Lodging (-131 bps); Other Financials (-143 bps) and Consumer Cyclical Services (-144 bps). The worst-performing sectors were Life Insurance (-652 bps); Building Materials (-597 bps); Refining (-548 bps); REITs (-505 bps) and Non-Captive Consumer Finance (-504 bps). The best performers in the high yield space for the month were Textile (-1.95%); Media Cable (-2.22%); Restaurants (-2.27%); Lodging (-2.45%) and Food & Beverage (-2.69%). The worst performing high yield sectors for the month of August were Transportation Services (-7.47%); Banking (-6.82%); P&C Insurance (-6.43%); Home Construction (-6.27%) and Media Non-Cable (-5.66%).

Total Fixed-Rate Investment Grade Supply



Source: Barclays Live

Fixed-rate investment grade supply for August was \$57 billion representing a slight increase from the \$52 billion issued in July. Industrials led gross supply volume this month which represented a marked contrast from July when financials comprised the bulk of issuance. High yield issuers priced \$900 million in August making it the fifth slowest month for new issues in the past 20 years.

As the results posted in August demonstrate, the declining macroeconomic outlook was the driving factor in the credit markets in August. Concern about the lack of meaningful policy initiatives in Washington continues to place the onus for a policy response to a slowing economy more heavily on the Federal Open Market Committee (FOMC) but the Federal Reserve is facing its own constraints. In times of economic weakness, the Fed normally pushes down short-term interest rates to lower borrowing costs and encourage investment and spending. However, the Fed has already effectively lowered short-term rates to just above zero and have agreed to maintain short-term interest rates near zero for at least two years as long as inflation doesn't threaten to rise too much or unemployment doesn't fall substantially before then. According to Charles Evans, president of the Federal Reserve Bank of Chicago, "Without stronger commitments to keep rates low or other Fed efforts to boost growth, there is a 'tangible risk' that the economy won't be any stronger two years from now than it is today." Despite the health of corporate balance sheets and low expected default rates, we expect credit spreads to bounce around current levels, with a bias towards widening, and to principally be influenced by macroeconomic data and developments at home and across the eurozone.

Mortgage-Backed Securities

The Federal Housing Finance Agency (FHFA), the conservator of Freddie Mac and Fannie Mae, announced in August that they are suing 17 different financial institutions over misrepresentations in their respective underwritings of non-Agency bonds that were purchased by either Fannie Mae or Freddie Mac. Of the 17 named defendants, a few names stand out: GE Capital (owned WMC, subprime mortgage lender), HSBC Holdings, and First Horizon Holdings. This follows the August 5 announcement by S&P that the long-term U.S. debt rating was downgraded to AA+ from AAA. The rationale for the downgrade is there is political risk and rising debt burdens. According to S&P, "the political brinkmanship of recent months highlights what we see as America's governance and policymaking becoming less stable, less effective, and less predictable than what we previously believed". Although the markets seemed to take this news in stride, it was most assuredly an overhang on the market for the entire month.

Adding to the confusion in the overall mortgage market, a recent NY Times article which discussed a potential proposal from the administration of a massive refinance program that would be all-encompassing and has the potential to devastate the mortgage backed securities market. While this news appeared a few weeks ago, it now appears, through sources in Washington, that the result will be some changes to the HARP program. The HARP program allows those whose loans are guaranteed by either of the two agencies to refinance those loans down to current interest rates, as long as the last 12 payments were made on time, irrespective of the loan to value ratio. We estimate the loans that could potentially be eligible for this program at approximately 4 million

units in agency product. Moreover, any national attempt to cause a large scale refinance in non agency product would be wrought with difficulties due to items such as ownership of the actual certificates and jurisdiction of the trusts that those loans are actually part of or imbedded within.

Last month we had what appeared to be a settlement between 22 investors and Bank of America (B of A) for damages stemming from Countrywide’s (now a B of A subsidiary) mortgage underwriting. Then we learned that the NY state Attorney General among others was trying to intercede with the settlement. On August 25, the FDIC decided to join in the fray and is now contesting the \$8.5 billion settlement. The FDIC bases its intervention on the fact that it has been a receiver of several failed banks that held certificates issued by the trusts covered under the proposed settlement. This development will most certainly extend any potential settlement, in our opinion, at least 12-24 months.

The largest headline to grab our attention this month was the FHFA suit against several banks, including B of A for their misrepresentation of underwriting standards.. To quote the FHFA: “At the heart of the suits is FHFA’s conclusion that the actual mortgages backing many of the securities had characteristics

that differed in a material way from what had been represented in securities filings. Under the securities laws at issue here, it does not matter how “big” or “sophisticated” a security purchaser is, the seller has a legal responsibility to accurately represent the characteristics of the loans backing the securities being sold. The nation’s financial system cannot function if sellers of securities fail to fulfill this legal responsibility. Our laws provide legal remedies through challenges such as the ones FHFA has brought”.

Agency Mortgage-Backed Securities

The U.S. Mortgage market had a return of 1.25% for the month of August as it was a “risk-off” month with credit spreads widening. As a result, the U.S. Corporate index only returned 0.07% for the month. The U.S. Treasury sector was the top performer returning 2.78% as rates fell between 20 and 60 bps.

There was initial concern in the mortgage market due to the S&P downgrade of the U.S. Treasury’s credit rating. The concern dealt with investors’ willingness and ability to invest in mortgages, and to allow those mortgages to be used for collateral in financings since the mortgages could be considered split rated. Within

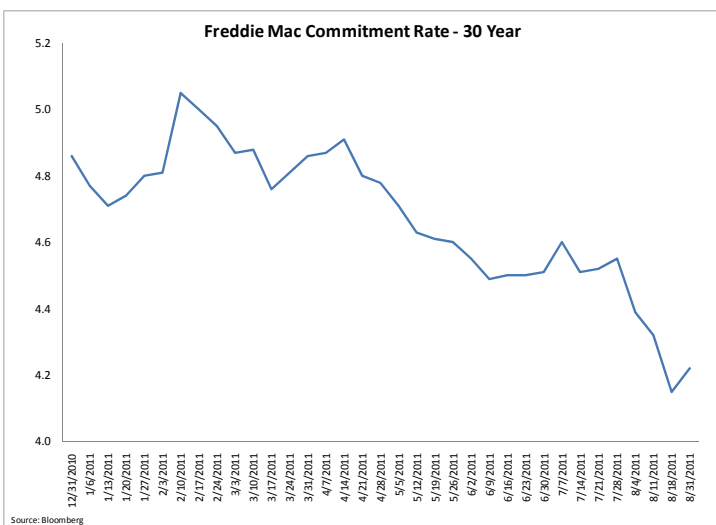
a few days, it became clear that investors did not change their opinion of the creditworthiness of these mortgages even though there

was a downgrade. It does not appear to us that mortgage spreads changed as a result of S&P’s action.

Lower coupon mortgages rose in price more than higher coupon mortgages during the month. This was as expected as the lower coupons have longer

2011 Conditional Prepayment Rates (CPR)								
	January	February	March	April	May	June	July	August
FNMA	19.4	15.2	15.2	13.2	12.8	15.0	15.2	17.3
FHLMC	21.0	17.4	14.4	12.9	12.2	14.2	14.9	17.0
GNMA	13.4	12.0	10.2	9.1	8.4	9.6	9.6	11.5
Mortgage Index	7/31/2011	8/31/2011	Change					
Average Dollar Price	106.65	107.68	1.03					
Duration	4.33	3.66	-0.67					
2011 Index Returns	June	July	August					
Aggregate	-0.29%	1.59%	1.46%					
MBS	0.09%	0.93%	1.25%					
Corporate	-0.88%	2.52%	0.07%					
Treasury	-0.34%	1.82%	2.78%					

durations and rates fell. Higher coupon mortgages, however, exhibited a fair amount of volatility during the month mainly due to the New York Times' article mentioned above. When the article came out, there was some fear of the "Great Refi" which would hurt all premium dollar-priced securities. The market concluded that the change in policy would be a loosening of underwriting standards to allow for more HARP refinancing. To date, only 800,000 loans have taken advantage of HARP. This is a small number considering there are 55 million borrowers with mortgages, and 25-30% of those borrowers are underwater on their loans equating to 14 million eligible borrowers. The preliminary thoughts and hopes for the revised program would allow between 3 and 4 million new refinancings.

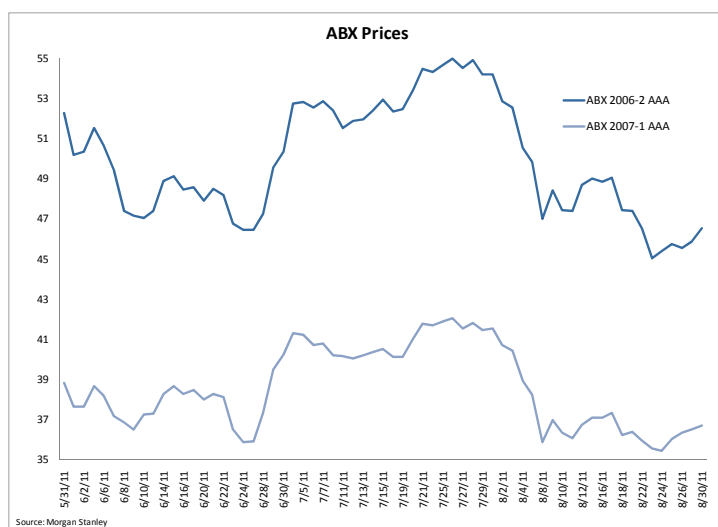


Prepayment speeds for the month of August increased for the third consecutive month. This is mainly due to the decrease in rates over this period. The increases in prepayment speeds have not been of great magnitude. In fact prepayment speeds are slower than they were back in January when 10-year interest rates were approximately 150 bps higher. This has been due to the "credit burnout" factor; in other words those that could qualify to refinance their mortgages probably already have, leaving a pool

with a greater percentage of borrowers who do not have the financial means to refinance i.e. come up with more money. These prepayment numbers should increase over the next few months if the Home Affordable Refinance Program (HARP) is expanded. Even with this expected increase, prepayment speeds should not approach the speeds that the market has experienced in the past in "normal" markets given these rate levels.

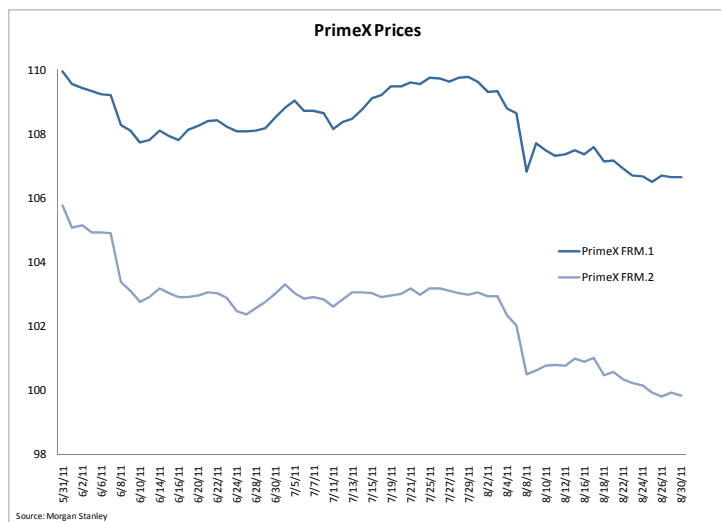
Non-Agency Mortgage-Backed Securities

The ABX 07-1 AAA Index ended July at 41.45 and ended August at 37.39, while the ABX 06-2 AAA Index ended July at 54.18 and August at 46.88. The subprime market continues to decline in value and is starting to look like it may be reaching a point of some value. We are monitoring this market carefully.



The PrimeX Fixed-Rate Mortgage (FRM) 1 Index closed July at 109.78 and ended August at 106.24, while the PrimeX FRM 2 Index closed July at 102.98 and August at 99.85. In other words, the equity market was not the only volatile market in August.

The risk-off trade gained a lot of popularity this month.



BWIC volumes for the month seemed to fall between June and July as you can see in the following table.

Current Face Traded			
	June 2011	July 2011	August 2011
Total	10,607,077,952	5,502,957,864	8,000,303,665
Liquidation	600,559,871	919,169,199	501,026,448
BWIC	10,006,518,080	4,583,788,665	7,499,277,217

Source: Deutsche Bank; Bid Wanted In Competition (BWIC)

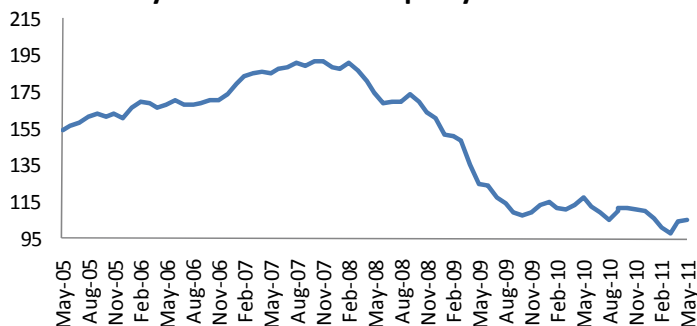
At the beginning of the year, the non-Agency market was approximately \$1.3 trillion in terms of supply and now it appears that the number is more like \$1.14 trillion, with a small pay down this month of \$14.6 billion. This is a strong positive for the market as the major technical influence is continuing supply depletion. There have been effectively no new deals this year. The negative seems to be that, as we have stated many times in these reports, the external or legal headline interference with the marketplace.

Commercial Mortgage-Backed Securities

CMBS performance for the month of August was anything but stable amidst the volatility that was stirred up by a barrage of macroeconomic concerns centered on Europe. For the month, we saw increased volatility across the credit curve with the bulk of price movement focused around lower enhanced junior and mezzanine tranches with little support for credit risk. Generically, 30% enhanced super seniors ended the month 80 bps wider at swaps + 240 bps, while the 20% enhanced mezzanine AAA super senior CMBS (AMs) are down approximately 5-10 points for generic 2006-2007 vintage names. The CMBS portion of the Barclays Capital U.S. Aggregate Bond Index reported a -1.74% return for August, underperforming the broader index by -3.08%.

On the commercial real estate (CRE) fundamental side, we have yet to see any meaningful improvement in delinquency rates; however, the pace of deterioration has continued to slow down. For August the 30+ day delinquency rate dipped 18 bps, while the 60+ delinquency rate declined 16 bps to 8.86%. While seemingly a slight improvement, the decline in delinquency rate is largely attributed to loans which were previously delinquent that returned to current status as loan modifications and assumptions continued to come through the default pipeline. In addition, CRE prices improved slightly showing a 0.9% increase in June versus May. Distressed assets within CMBS transactions typically take 12 to 24 months from default to disposition. As such, there tends to be a lag effect which may be present in the Moody's Commercial Property Price Index (CPPI).

Moody's Commercial Property Price Index



Source: Bloomberg

Our investment focus for this sector continues to be an emphasis on security selection and shorter duration assets, including securities with a more “storied” basis, as our ability to drill down to the collateral/borrower level allows adequate risk assessment. Looking forward, our outlook for the sector remains cautious despite a slight improvement in the lending environment as a majority of loans that are able to obtain financing in new vintage CMBS are predominantly higher in quality, off-seasoned transactions. 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 CRE sector will be limited.

U.S. Government Securities

As the U.S. Treasury market sprang to life in August after a quiet July, bond prices rallied the final two days of July and continued to move strongly higher through the first third of August. The 10-year U.S. Treasury yield moved from 3.18% in early July to 2.80% at July month-end, and then down to 2.11% on August 10. The yield dropped to an intra-day low below two percent on the August 18 before settling

into a range around 2.20% late in the month. The usual suspects were cited for the rally – the sovereign debt crisis in Europe and weak economic data in the U.S. By August month-end, the 10-year U.S. Treasury yield ended at 2.22%, down 58 bps on the month and down over 150 bps from the most recent peak in February. The 30-year bond yield finished the month down 52 bps, followed by the 5-year yield decline of

Yield Curve

	7/31/2011	8/31/2011	Change
3 month	0.09	0.01	-0.08
6 month	0.15	0.04	-0.11
1 year	0.20	0.10	-0.10
2 year	0.36	0.20	-0.16
3 year	0.54	0.32	-0.22
5 year	1.36	0.96	-0.40
10 year	2.80	2.22	-0.58
30 year	4.12	3.60	-0.52

Source: Bloomberg

40 bps and the 2-year decline of 16 bps.

The Barclays Capital U.S. Government Index returned 2.54% in August. The 30-year bond provided the highest return at 10.34%. The return was lower at shorter maturities, with returns of 5.66%, 2.27% and 0.36% for the 10-year, 5-year and 2-year notes, respectively. Agency securities returned 1.28%, slightly above comparable duration Treasuries. Inflation-indexed Treasuries were unable to keep pace with conventional notes and bonds, returning 0.82% as expected inflation declined. Tax-exempt municipal bonds also lagged Treasuries as low absolute yields failed to excite municipal bond buyers. The Barclays Capital Municipal Bond Index returned 1.71% in August.

The four long-standing themes in our government holdings for the most part began to shift in August: neutral duration, a bias favoring a flatter yield curve,

no exposure to Agency credit beyond 2012, and an overweight in short callable Agency notes. The Federal Reserve is now committed to holding short rates low through at least 2013. This has essentially anchored the 2-year yield near its current level of 0.20%, so falling yields imply a flatter yield curve. We will continue to adjust our exposure in this sector along the yield curve in response to changes in relative value, but will reduce exposure to wholesale shifts in curve shape. In general, an allocation to short callable Agency notes is declining as the supply of paper maturing within our self-imposed maximum maturity of December 2012 begins to wane.

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.

BWIC

Bid Wanted In Competition (BWIC) is a situation where an institutional investor submits its bond list to various securities dealers who are allowed to make bids on the listed securities. The dealers with the highest bids are then contacted.

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.

An investment cannot be made in an index.

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

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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.

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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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