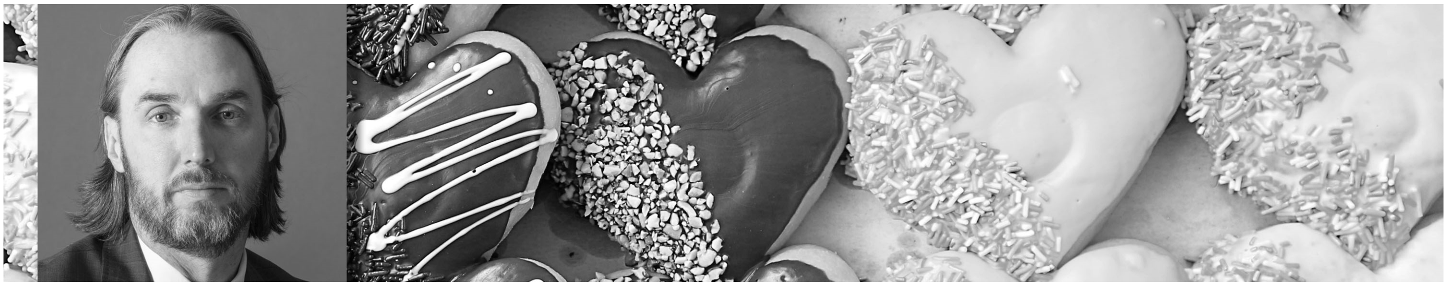
DoubleLine Asset Allocation Webcast Recap

Originally aired on February 8, 2022



About this Webcast Recap

On February 8, 2022, Deputy CIO Jeffrey Sherman held an Asset Allocation webcast discussing the DoubleLine Low Duration Bond Fund (DBLSX/DLSNX), the DoubleLine Core Fixed Income Fund (DBLFX/DLFNX), and the DoubleLine Flexible Income Fund (DFLEX/DLINX).

This recap is not intended to represent a complete transcript of the webcast. It is not intended as solicitation to buy or sell securities. If you are interested in hearing more of Mr. Sherman's views, please listen to the full version of this webcast on www.doublelinefunds.com and click on the "Webcasts" tab under "Latest Webcast."

Low Duration Bond Fund

Quarter-End Returns December 31, 2021	1 Month	4Q2021	Year-to-Date	Annualized 1 Year	3 Years	5 Years	10 Years	Since Inception (9-30-11 to 12-31-21)	Gross Expense Ratio
I-share (DBLSX)	-0.07%	-0.31%	0.70%	0.70%	2.47%	2.29%	2.19%	2.26%	0.43%
N-share (DLSNX)	0.01%	-0.27%	0.56%	0.56%	2.25%	2.04%	1.95%	2.01%	0.68%
ICE BofA 1-3 Yr. U.S. Treasury Index	-0.25%	-0.53%	-0.55%	-0.55%	2.02%	1.61%	1.09%	1.08%	
Bloomberg US Agg 1-3 Yr. Index	-0.15%	-0.56%	-0.49%	-0.49%	2.19%	1.81%	1.38%	1.37%	

Core Fixed Income Fund

Quarter-End Returns December 31, 2021	1 Month	4Q2021	Year-to-Date	Annualized 1 Year	3 Years	5 Years	10 Years	Since Inception (6-1-10 to 12-31-21)	Gross Expense Ratio
I-share (DBLFX)	-0.13%	-0.23%	-0.34%	-0.34%	4.36%	3.53%	3.59%	4.71%	0.48%
N-share (DLFNX)	-0.06%	-0.20%	-0.50%	-0.50%	4.13%	3.29%	3.34%	4.46%	0.73%
Bloomberg US Agg Index	-0.26%	0.01%	-1.54%	-1.54%	4.79%	3.57%	2.90%	3.41%	

Flexible Income Fund

Quarter-End Returns December 31, 2021	1 Month	4Q2021	Year-to-Date	Annualized 1 Year	3 Years	5 Years	10 Years	Since Inception (4-7-14 to 12-31-21)	Gross Expense Ratio
I-share (DFLEX)	0.18%	-0.15%	3.79%	3.79%	4.62%	3.83%	-	3.54%	0.77%
N-share (DLINX)	0.16%	-0.21%	3.53%	3.53%	4.36%	3.57%	-	3.28%	1.02%
ICE BofA 1-3 Yr. Eurodollar Index	-0.08%	-0.51%	0.00%	0.00%	2.97%	2.44%	-	2.01%	
LIBOR USD 3 Month	0.01%	0.04%	0.16%	0.16%	1.10%	1.36%	-	1.04%	

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained by calling (213) 633-8200 or by visiting www.doublelinefunds.com.

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Global Economic Data

- World Gross Domestic Product (GDP) is forecast to grow 4.3% in 2022 year-over-year (YoY), per the median response of economists surveyed by Bloomberg.
- Chinese economic data is below its trend of the last 12 months and is broadly underperforming global economic data.
  - Euro area economic data is above its 12-month trend and leading other regions based on this metric.
- Continued global economic growth is being driven, in part, by robust manufacturing activity.
  - J.P. Morgan Global Manufacturing Purchasing Managers' Index (PMI) data registered in expansionary territory, above 50, at 53.2 for January.

U.S Real and Nominal GDP

- U.S. real GDP surpassed its pre-COVID-19 peak in 2021, erasing its recession drawdown.
  - However, based on estimates by the International Monetary Fund as of Jan. 31, U.S. YoY real GDP growth is projected to stay below its long-term trend for the foreseeable future.
  - U.S. real GDP is forecast to grow 3.8% YoY in 2022.
- U.S. nominal GDP, which includes the effects of inflation, is forecast to grow 6.3% in 2022.
  - 2021 was the best year for nominal U.S. economic growth since 1984.
- The Federal Reserve Bank of New York's Weekly Economic Index (WEI) is a higher-frequency measure of economic activity than GDP.
  - The WEI peaked in early 2021 but is still indicating strong YoY growth.

Change in Fed Balance Sheet and U.S. Budget Deficit

- The increase in the size of the Federal Reserve's balance sheet since the onset of the pandemic has been substantially greater than its increase after the Global Financial Crisis (GFC).
  - With the Fed on track to conclude purchasing U.S. Treasuries and Agency mortgage-backed securities (MBS) by the March Federal Open Market Committee (FOMC) meeting, the balance sheet will likely stay largely stable in the coming months due to reinvestment.
- A significant increase to the U.S. budget deficit as a percentage of nominal GDP has been one effect of fiscal policy during the COVID-19-induced recession.
  - As of Dec. 31, the U.S. budget deficit was 10.8% of nominal GDP.
  - The budget deficit has narrowed from its post-recession trough, largely due to an increase in nominal GDP.

Inflation

- Various measures show elevated inflation is a global phenomenon.
  - The Global Consumer Price Index (CPI), as measured by Bloomberg, rose 5.1% YoY as of Dec. 31.
  - Emerging markets inflation, which has typically been higher than developed markets inflation over much of the past 20 years, grew 4.4% YoY as of Dec. 31, as measured by Bloomberg.
    - Developed markets CPI, a larger component of world CPI, grew 5.5% YoY as of Dec. 31, as measured by Bloomberg.
- Measures of core inflation in the U.S. have broadly risen to their highest levels in over 25 years and are growing at a substantially

higher rate than the Fed's long-term target of 2.0% YoY.

  - Core CPI, which excludes food and energy prices, and the Core Personal Consumption Expenditures (PCE) Price Index, the Fed's preferred measure for inflation, have broken out to nearly 40-year highs as of Dec. 31.
  - Meanwhile, the Cleveland Fed's Median CPI, Atlanta Fed's Sticky-Price CPI and Dallas Fed's Trimmed Mean PCE have all been rising, albeit at a more subdued pace, ranging from 3.0% to 4.0% YoY as of Dec. 31.

- The two components of core CPI, goods and services, have diverged significantly since the onset of the pandemic.
  - The advance of core goods inflation, at 10.7% YoY as of Dec. 31, was a sharp reversal from roughly the last five years in which core goods experienced a deflationary environment.
  - Meanwhile, core services rebounded from their pandemic-induced low and grew at 3.7% YoY as of Dec. 31.
- Persistent supply chain bottlenecks could continue to support elevated inflation.
  - The Federal Reserve Bank of New York's Global Supply Chain Pressure Index remained near an all-time high as of Dec. 31.
- Increased shelter costs are also likely to put pressure on the services component of core CPI in 2022.
  - According to rentals website Apartment List, rents increased nationwide every month during 2021 except for December.
  - Home price growth hit 18.8% YoY nationwide through November, with the trailing 24-month growth figure at 30.1% through November, as measured by S&P CoreLogic Case-Shiller indexes.
  - There is a large gap between alternative rent measures and the housing component of CPI as of January, reflecting the lag of shelter inflation filtering into CPI.
- As of Dec. 31, the Producer Price Index (PPI), which measures inflation for domestic producers based on input costs, was up 9.7% YoY, the highest reading in the last decade.
- The ISM Prices Paid Index, which tends to lead CPI by approximately four months, has come down from its record high print in June 2021.

U.S. Labor Statistics

- Broad measures of U.S. unemployment have been steadily improving, falling from record high levels in April 2020.
  - The total measure of unemployed workers in the labor force (U-3) peaked at 14.7% seasonally adjusted in April 2020. As of January, the U-3 rate was 4.0%.
  - The unemployment rate including those that are underemployed or marginally attached (U-6) peaked at 22.8% seasonally adjusted in April 2020. As of January, the U-6 rate was 7.1%.
- Unemployment benefit programs encompassed 2.1 million individuals as of the week ended Jan. 14.
  - Continuing claims for regular state unemployment benefit rolls have decreased steadily since peaking in May 2020.
  - The additional benefit programs created by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and the Pandemic Unemployment Assistance (PUA) and Pandemic Emergency Unemployment Compensation (PEUC) programs expired on Sept. 6, and their rolls have dropped precipitously since the programs ended.
- Despite the recovery in payrolls, there remains approximately 2.9 million fewer individuals employed as of January versus the pre-pandemic peak.
- Wage growth has rebounded to pre-pandemic levels.
  - The Bureau of Labor Statistics' measure of average hourly earnings for nonfarm payrolls grew at a seasonally adjusted rate of 6.9% YoY as of January.
    - The calculation of this measure makes it a more volatile indicator in contrast to the Atlanta Fed's Wage Growth Tracker, which shows wages grew at 4.5% YoY as of December.

Fixed Income Market Performance

- Most sectors of fixed income have negative returns year-to-date (YTD) as of Feb. 2.
  - The notable exception to the tough start to the year has been floating-rate sectors, including bank loans and collateralized loan obligations (CLOs).
- The negative performance of fixed income markets generally has been driven in large part by rising bond yields globally YTD.
  - Turkey and China are the global outliers in terms of their falling 10-year bond yields YTD through Feb. 3.
- Real yields, as measured by the 10-year U.S. Treasury yield less 10-year breakeven rates, have moved higher YTD.
  - Mr. Sherman believes higher real yields might have broad implications for risk assets as investors reconsider return expectations for various asset classes.
- As of Feb. 7, the market had priced in approximately five quarter-point interest rate hikes by the Fed before year-end 2022.
  - This represents an aggressive shift in hike expectations relative to after the December FOMC meeting.
  - As a result, the U.S. Treasury yield curve has been flattening, driven by the rise in short-end yields.
- U.S. investment grade (IG) and high yield (HY) corporate bonds have experienced spread widening YTD after nearing their post-GFC tights in terms of option-adjusted spreads in 2021.
  - Spread widening coupled with the duration effect of rising yields has produced the negative returns experienced in each sector YTD.
- Prices of IG CLO tranches have remained largely near par over the past year, which demonstrated strong demand for the floating-rate sector.
  - Perhaps contributing to the strong fundamentals of the sector is the low default environment for CLOs' underlying collateral, bank loans.
    - Bank loan default rates have reached a post-GFC low of 0.3% as of Jan. 31.
- The prices of various commercial MBS (CMBS) credit cohorts have declined since the middle of 2021.
  - The Bloomberg US CMBS Index comprises fixed-rate conduit securities that have experienced price declines largely due to the duration effect from rising rates.
  - Despite price declines, DoubleLine is still generally favorable on certain segments of the CMBS market in asset allocation portfolios.

DoubleLine Low Duration Bond Fund Portfolio Composition

- The DoubleLine Low Duration Bond Fund invests primarily in IG-rated securities and as of Jan. 31 had less interest-rate sensitivity and a higher yield to maturity (YTM) than its benchmark, the ICE Bank of America 1-3 Year U.S. Treasury Index.
  - Below-IG securities accounted for 6.3% of the portfolio while unrated securities represented 14.7% as of Jan. 31.
    - A large portion of the unrated securities reside within securitized credit; a security being unrated is not necessarily indicative of a below-IG asset.
- In January, the Fund increased its target exposure to Treasuries and decreased its allocation to various sectors of credit, including: non-Agency MBS, CMBS, CLOs, asset-backed securities (ABS) and emerging markets fixed income (EMFI).
  - The Fund maintains a tilt toward structured credit, which emphasizes sectors of the market that the DoubleLine team assesses as offering the most attractive value compared to the shorter-maturity segments of other fixed income sectors.

DoubleLine Core Fixed Income Fund Portfolio Composition

- The DoubleLine Core Fixed Income Fund is diversified across a mix of fixed income sectors while maintaining a duration profile 1.4 years shorter than its benchmark, the Bloomberg US Aggregate Bond Index, as of Jan. 31.
  - Government-guaranteed fixed income sectors, including Agency MBS, Agency CMBS, Treasuries and cash, represented approximately 41.5% of the Fund as of Jan. 31.
  - Below-IG exposure comprised 17.0% of the portfolio, and unrated securities accounted for 5.3% as of Jan. 31.
- The Fund reduced its target exposure to international sovereign bonds, EMFI and CMBS in favor of Treasuries, IG corporate bonds and Agency MBS in January.

DoubleLine Flexible Income Fund Portfolio Composition

- The DoubleLine Flexible Income Fund is broadly diversified across fixed income asset classes and has historically taken on more credit risk than the DoubleLine Low Duration Bond Fund and DoubleLine Core Fixed Income Fund.
  - As of Jan. 31, the DoubleLine Flexible Income Fund was 41.9% allocated to below-IG exposure and 10.2% to unrated securities.
- The Fund's current tilt toward structured credit emphasizes sectors of the market that the DoubleLine team assesses as being undervalued or at fair value relative to the Fund's broad investable universe.
  - In January, the Fund reduced its target exposure to international sovereign bonds, EMFI and non-Agency MBS in favor of Treasuries and Agency MBS.

Definitions and Terms

Below Investment Grade/Non-Investment Grade – Term indicating a security is rated below investment grade (IG). These securities are seen as having higher default risk or being prone to other adverse credit events. They typically pay higher yields than higher-quality bonds in order to make them attractive. They are less likely than IG bonds to pay back 100 cents on the dollar.

Bloomberg US Aggregate Bond Index – This index represents securities that are SEC registered, taxable and dollar denominated. It covers the U.S. investment grade, fixed-rate bond market, with components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indexes that are calculated and reported on a regular basis.

Bloomberg US Commercial Mortgage-Backed Securities (CMBS) Index – This index measures the market of conduit and fusion CMBS deals with a minimum current deal size of $300 million.

Conduit Loans – Type of loans, also known as commercial mortgage-backed securities (CMBS) loans, that are commercial real estate loans pooled together with similar commercial mortgages and sold on the secondary market. CMBS loans are known for their relaxed credit requirements but are only available for income-generating properties, and cannot typically be used as land or construction loans. On the secondary market, conduit loans are divided into tranches based on risk, return and loan maturity. Riskier loans with longer terms and higher interest rates will likely be sold to higher-risk investors, like hedge funds, while lower-risk investors, such as pension funds, are more likely to go with lower-risk tranches.

Consumer Price Index (CPI) – This index, compiled by the U.S. Bureau of Labor Statistics, examines the weighted average of the prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by averaging price changes for each item in the basket. Changes in the CPI are used to assess price changes associated with the cost of living. The CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

Core Personal Consumption Expenditures (PCE) Price Index – This index, published by the U.S. Bureau of Economic Analysis, measures prices paid by consumers for goods and services, excluding the volatility of food and energy prices, to gauge underlying inflation trends. It is the Federal Reserve's preferred index for tracking inflation.

Global Supply Chain Pressure Index (GSCPI) – This index, published by the Federal Reserve Bank of New York, draws upon shipping, air freight and purchasing managers' index data to track supply chain pressure and its impact on economic outcomes.

Gross Domestic Product (GDP) – Market value of all final goods and services produced within a country in a given period. GDP is considered an indicator of a country's standard of living.

ICE Bank of America (BofA) 1-3 Year U.S. Treasury Index – An unmanaged index that tracks the performance of the direct sovereign debt of the U.S. government having a maturity of at least one year and less than three years.

ISM Prices Paid Index – This index is a subindex of the ISM Manufacturing Purchasing Managers Index (PMI), which is compiled by the Institute for Supply Management and tracks the economic health of the manufacturing sector. The index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and employment environment. The Prices Paid Index is a diffusion index calculated by adding the percent of responses indicating managers paid more for inputs plus one-half of those responding that they paid the same for inputs. The resulting single index number is then seasonally adjusted.

J.P. Morgan Global Manufacturing Purchasing Managers' Index (PMI) – This index is compiled from IHS Markit surveys of purchasing managers in over 40 countries. The PMI is a weighted average of five global indexes: new orders (30%), output (25%), employment (20%), suppliers' delivery times (15%) and stocks of purchases (10%).

Median CPI – Calculated by the Federal Reserve Bank of Cleveland, the median CPI (Consumer Price Index) and the 16% trimmed-mean CPI based on data released in the Bureau of Labor Statistics' monthly CPI report. Median CPI is the one-month inflation rate of the component whose expenditure weight is in the 50th percentile of price changes. The 16% trimmed-mean CPI is a weighted average of one-month inflation rates of components whose expenditure weights fall below the 92nd percentile and above the eighth percentile of price changes. By omitting outliers (small and large price changes) and focusing on the interior of the distribution of price changes, the median CPI and the 16% trimmed-mean CPI can provide a better signal of the underlying inflation trend than the CPI or core CPI (excluding food and energy).

Par – Short for "par value," par can refer to bonds, preferred stock, common stock or currencies, with different meanings depending on the context. Par most commonly refers to bonds, in which case, it means the face value, or value at which the bond will be redeemed at maturity.

Producer Price Index (PPI) – This index, published by the U.S. Bureau of Labor Statistics, uses a target set of goods and services to track the entire marketed output of U.S. producers. This includes goods, services and construction products purchased by other producers as inputs to their operations or as capital investment; goods and services purchased by consumers either directly from the service producer or indirectly from a retailer; and products sold as export and to government.

S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index – This index measures the value of residential real estate in 20 major U.S. metropolitan areas: Atlanta; Boston; Charlotte; Chicago; Cleveland; Dallas; Denver; Detroit; Las Vegas; Los Angeles; Miami; Minneapolis; New York City; Phoenix; Portland, Oregon; San Diego; San Francisco; Seattle; Tampa; and Washington, D.C.

S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index – This index tracks the value of single-family housing within the United States and is a composite of single-family price indexes for the nine Census Bureau divisions.

Sticky-Price CPI – This index, published by the Federal Bank of Atlanta, sorts the components of the Consumer Price Index (CPI) into either flexible (prices change relatively frequently) or sticky (slow to change) categories based on the frequency of their price adjustment.

Trimmed Mean PCE Inflation Rate – This inflation rate, produced by the Federal Reserve Bank of Dallas, is an alternative measure of core inflation in the Personal Consumption Expenditures (PCE) Index. The data series is calculated by the Dallas Fed, using data from the Bureau of Economic Analysis. Calculating the trimmed mean PCE inflation rate for a given month involves looking at the price changes for each of the individual components of personal consumption expenditures. The individual price changes are sorted in ascending order from "fell the most" to "rose the most," and a certain fraction of the most extreme observations at both ends of the spectrum are thrown out or trimmed. The inflation rate is then calculated as a weighted average of the remaining components.

U-3 Unemployment Rate – Officially recognized rate of unemployment, compiled and released monthly by the U.S. Bureau of Labor Statistics, measuring the number of unemployed people as a percentage of the labor force.

U-6 Unemployment Rate – Rate that includes discouraged workers who have quit looking for a job and part-time workers who are seeking full-time employment. The U-6 rate is considered by many economists to be the most revealing measure of a country's unemployment situation since it covers the percentage of the labor force that is unemployed, underemployed and discouraged.

Yield to Maturity (YTM) – The total return anticipated on a bond if the bond is held until it matures. Yield to maturity is considered a long-term bond yield but is expressed as an annual rate.

Wage Growth Tracker – Measure of the nominal wage growth of individuals published by the Federal Reserve Bank of Atlanta. It is constructed using microdata from the Current Population Survey and is the median percent change in the hourly wage of individuals observed 12 months apart.

Weekly Economic Index (WEI) – This index, compiled and published by the Federal Reserve Bank of New York, tracks 10 indicators of real economic activity and is scaled to align with the four-quarter GDP growth rate. It represents the common component of series covering consumer behavior, the labor market and production.

It is not possible to invest in an index.

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Diversification does not assure a profit, nor does it protect against a loss in a declining market.

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