DoubleLine Infrastructure Income Fund Webcast Recap

Originally aired on July 26, 2022

On July 26, 2022, the DoubleLine Infrastructure team held a webcast discussing the Infrastructure Income Fund (BILDX/BILTX), titled “Hard Assets for Hard Times.”

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 the Infrastructure team’s views, please listen to the full version of this webcast on www.doublelinefunds.com under “Latest Webcasts” under the “Webcasts” tab. You can use the “Jump To” feature to navigate to each slide. You can also learn more about future webcasts by viewing the 2022 webcast schedule at www.doublelinefunds.com under “Webcasts.”

Infrastructure Income Fund (%)

				Annualized					
Month-End Returns June 30, 2022	**1 Month**	**3 Months**	**Year-to-Date**	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Since Inception (4-1-16 to 6-30-22)**	**Gross Expense Ratio**
I-share (BILDX)	-1.67	-3.98	-9.08	-9.52	-0.57	1.24	-	1.80	0.57
N-share (BILTX)	-1.70	-4.05	-9.18	-9.72	-0.84	0.99	-	1.55	0.82
Bloomberg US Agg Index	-1.57	-4.69	-10.35	-10.29	-0.93	0.88	-	1.01	
				Annualized					
Quarter-End Returns June 30, 2022	**1 Month**	**2Q2022**	**Year-to-Date**	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Since Inception (4-1-16 to 6-30-22)**	
I-share (BILDX)	-1.67	-3.98	-9.08	-9.52	-0.57	1.24	-	1.80	
N-share (BILTX)	-1.70	-4.05	-9.18	-9.72	-0.84	0.99	-	1.55	
Bloomberg US Agg Index	-1.57	-4.69	-10.35	-10.29	-0.93	0.88	-	1.01	

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.

Macro Challenges Creating Infrastructure Opportunities

- Geopolitical tensions have put a strain on food and energy production, national security and data infrastructure.
- Elevated inflation, which has eroded purchasing power, is the No .1 agenda item for global central banks.
  - Infrastructure-related assets can potentially provide uncorrelated returns should market volatility continue due to fears of a global recession.
- Climate change and the adoption of environmental, social and governance (ESG) investing standards represent a paradigm shift for companies as they attempt to curb their carbon footprint.
- Declining global oil inventories, combined with a lack of capital expenditures (capex) from energy companies, has compromised producers' ability to meet increased demand.
  - Countries have been forced to create energy infrastructure as COVID-19 and geopolitical tensions have shifted energy dependency from traditional suppliers such as Russia. Meanwhile, countries such as the United States are exporting more energy to help bridge the supply gap.
- Germany relies heavily on natural gas; however, gas storage rates are low relative to previous years, largely due to the Russia-Ukraine conflict.
  - Germany has begun mandating power conservation and has increasingly imported natural gas from alternative suppliers such as the U.S.
  - Going forward, Germany, and other European nations, will need to create infrastructure to support new energy supply systems.
  - The DoubleLine team has been focusing on natural gas projects, given the increasing capex needs of natural gas producers and the infrastructure needed to distribute and store gas.
- Shifting away from traditional sources of natural gas requires significant infrastructure spend in the U.S. and Europe to ensure efficient storage, transmission, distribution and other facilities to transport natural gas and hydrocarbons.
  - In turn, Europe plans to increasingly transition its energy dependence to renewable sources such as wind, solar and hydrogen.
  - Renewable energy sources are competitive compared to traditional means of power in terms of cost, as there has been approximately 70% supply growth in this industry over the last five years.
    - The DoubleLine team has deployed capital in both residential and utility-scale renewable investments. We favor these investments for their stable cash-flow streams, and for their potential downside protection given they are delivering a critical service.

Supply Chain, Travel and Energy Infrastructure Opportunities

- Port congestion is higher now relative to late 2020 in the wake of the pandemic. This disruption in supply chains has driven shipping costs higher, extended delivery timelines and increased utilization rates. These increased costs are inflationary and ultimately passed to the end consumer.
  - Andrew Hsu believes that supply chain issues will take time to address but, if resolved, will eventually improve the existing infrastructure and alleviate supply chain pressures going forward, which should put downward pressure on inflation.
- Transportation infrastructure was severely impacted during COVID-19 lockdowns, as manufacturing shut down during the initial outbreak and supply chains essentially seized up.
  - As of June 30, 2022, rail traffic has fully rebounded to pre-pandemic levels; rail infrastructure delivers everything from durable goods to food and energy.
    - Rail infrastructure assets have been one of the best-performing asset classes within BILDX year-to-date (YTD).

- Aviation displayed a similar pattern to rail assets during the global lockdowns. A strong rebound in global airline revenue in 2022 has approached pre-pandemic levels despite inflationary issues, as consumers are displaying inelastic demand for air travel.
- The U.S. power-generation mix has shifted dramatically over the last decade:
  – Coal has decreased from approximately 50% in 2010 to 22% in 2020.
  – Renewable energy sources, such as wind, solar and hydro, have increased from approximately 9% in 2010 to 20% in 2020.
  – Natural gas has increased from 25% in 2010 to 40% in 2020.
  – Nuclear power has remained relatively stable, contributing 19% in 2020, down slightly from 20% in 2010.

Growing Diversification for Infrastructure Debt and Its Benefits

- Infrastructure debt has experienced increased issuance since 2010 and, in turn, investors have allocated more capital to the asset class.
  – In particular, issuance has increased 16% for energy, 12% for telecom and 10% for renewable-related infrastructure assets in the decade following 2010.
- Benefits of infrastructure debt relative to similarly rated traditional corporate bonds include[1]:
  – Lower historical default rates: Baa-rated infrastructure debt historically has a cumulative default rate of 2% over a 10-year period relative to 3.1% for similarly rated corporate bonds.
  – Higher recovery rates: Senior secured infrastructure debt has a historical recovery rate of 68% given default relative to 58% for similarly rated corporate bonds. Senior unsecured infrastructure debt has historically recovered 57% relative to 38% for similarly rated corporate bonds.
  – Less rating volatility than corporate debt by a factor of 2.6x.

DoubleLine Infrastructure Income Fund

- The Fund has consistently maintained a duration shorter than the benchmark Bloomberg US Aggregate Bond Index. As of June 30, the Fund's duration was 3.19 years compared to the index's 6.44 years.
- As of June 30, the Fund's country exposure is heavily tilted toward the U.S., with about 86.0% of assets (including cash) invested domestically. The Fund has 8.2% invested in other developed countries such as Australia and Chile and 6.3% in emerging markets.
  – The largest sector weighting is to transportation at 33.7%, followed by telecom at 22.1% and renewables at 13.1%.
    - The team continues to target the renewable energy sector, favoring securities exposed to solar energy in particular.
- The Fund's exposure favors secured assets over unsecured assets:
  – As of June 30, the Fund held 65.9% in secured assets (including cash) and 34.1% in unsecured assets.

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Citations

[1] Source: Moody's, "Infrastructure default and recovery rates, 1983-2020"

Definitions

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.

Duration – Commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration.

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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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