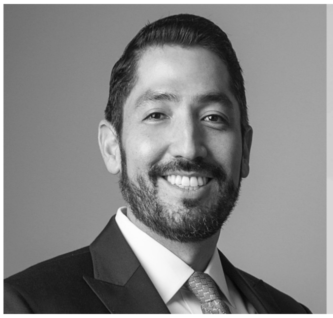
DoubleLine Income Fund Webcast Recap

Originally Aired June 21, 2022



About this Webcast Recap

On June 21, 2022, Portfolio Managers Ken Shinoda and Morris Chen held a webcast titled "The Rate Hikes are Coming!," discussing the current market, and the DoubleLine Income Fund (DBLIX/DBLNX).

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. Shinoda or Mr. Chen's views, please listen to the full version of this webcast on www.doublelinefunds.com and click on the "Webcasts" tab under "Latest Webcast."

Income Fund (%)

				Annualized		Gross	Net
Month-End Returns June 30, 2022	**1 Month**	**3 Months**	**Year-to-Date**	**1 Year**	**Since Inception (9-3-19 to 6-30-22)**	**Expense Ratio**	**Expense Ratio[2]**
I-share (DBLIX)	-1.42	-3.96	-8.04	-7.69	-2.64	0.72	0.65
N-share (DBLNX)	-1.44	-4.01	-8.15	-7.90	-2.83	1.03	0.90
Bloomberg US Agg Index	-1.57	-4.69	-10.35	-10.29	-2.02		
				Annualized			
Quarter-End Returns June 30, 2022	**1 Month**	**2Q2022**	**Year-to-Date**	**1 Year**	**Since Inception (9-3-19 to 6-30-22)**		
I-share (DBLIX)	-1.42	-3.96	-8.04	-7.69	-2.64		
N-share (DBLNX)	-1.44	-4.01	-8.15	-7.90	-2.83		
Bloomberg US Agg Index	-1.57	-4.69	-10.35	-10.29	-2.02		

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.

1. The Advisor has contractually agreed to waive fees and expenses through July 31, 2023.

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The DoubleLine Income Fund

- The DoubleLine Income Fund ("the Fund") is designed for investors seeking reliable income. The Fund invests across a diversified portfolio of structured products relying on the DoubleLine team's time-tested process to mitigate risk.
- Why the DoubleLine Income Fund?
  - Typically, structured products can offer a diversified source of income relative to corporate bonds and often display lower interest-rate risk relative to corporate bonds and U.S. Treasuries.
    - The Fund holds approximately 44% of the portfolio in floating-rate securities, which help mitigate interest rate risk.
- For investors that are familiar with the DoubleLine Total Return Bond Fund, the DoubleLine Income Fund largely focuses on the same sectors.
  - However, the DoubleLine Income Fund largely emphasizes investments that are more subordinate in the capital structure in order to source potentially higher yields and returns.
    - Please refer to Slide 51 for the Fund's portfolio exposure as of May 31.

Fixed Income Overview

- Year-to-date (YTD) through June 17, there has been a significant repricing of the Treasury yield curve, as yields across the curve have nearly all breached their recent highs from 2018.
- Fixed income returns have broadly declined YTD. Floating-rate assets, such as leveraged loans and collateralized loan obligations (CLOs), have generally experienced smaller drawdowns compared to their fixed-rate counterparts, including investment grade, high yield (HY) and emerging markets bonds.
- The Bloomberg US Aggregate Bond Index is off to its worst start to a calendar year since the index's 1976 inception.
- Given the sharp decline in fixed income YTD coupled with the rise in Treasury rates, absolute yields across areas of securitized and traditional fixed income are at levels not seen since the aftermath of the Global Financial Crisis (GFC).
- As rates have risen, the prepayment risk associated with mortgages has fallen. This relationship has helped reduce the negative effective convexity of the ICE BofA U.S. Mortgage-Backed Securities (MBS) Index as of June 6.
- Credit enhancement, as it relates to structured products, is essentially the cushion of how much loss a bond can absorb before its first dollar of principal loss.
  - Most sectors within the Fund have higher credit enhancement relative to the serious delinquency rate of their underlying assets. The serious delinquency rate represents loans that have been delinquent for 60 days or longer.
  - Another factor to consider is average dollar price, which equates to additional protection. For example, the Fund's non-Agency residential MBS (RMBS) positions were purchased at an average price of $89.8, which equates to over 10 additional points of protection relative to a par-priced security.

Growth, Inflation and Central Banks

- Forecasts for real gross domestic product (GDP) point to slower growth in 2022 relative to 2021.
- Stubbornly high inflation prints have led to repricing of interest rates and risk assets. DoubleLine expects elevated post-pandemic goods spending, one of the components of the Consumer Price Index (CPI), to fall in the coming months as supply chain pressures fade and demand slows. However, inflation related to services spending and shelter might remain elevated.
- The costs associated with owning or renting property have significantly increased, which should put upward pressure on the shelter component of CPI.
  - The U.S. house price-to-rent ratio was at its highest level of all time as of March 31 and was up 30% from its pre-pandemic level.
  - Home price appreciation (HPA), which was up 36.8% on a two-year basis as of May 31, has historically led the shelter component of CPI with an 18-month lag.

- The number of job openings relative to unemployed individuals in the labor force was at a record level as of May 31 with roughly twice as many job openings as unemployed workers.
  - This elevated ratio can be partially explained by the increased number of individuals who left the labor force after the onset of the pandemic.
  - Foreign-born immigration to the U.S., generally a source of marginal labor supply, was also down approximately 50% in 2021 relative to 2020.
- The market's expectations for hikes to the federal funds rate doubled from March to June 17 to an expected implied policy rate of 3.57, as measured by Bloomberg's December 2022 World Interest Rate Probability monitor.

Consumer and Housing

- U.S. consumers are well positioned to manage their debts, as cumulative excess savings by U.S. households has exceeded $2.5 trillion since the onset of the pandemic, approximately 80% higher relative to April 2020.
  - Consumers are carrying less debt as a percentage of disposable personal income, as total household financial obligations relative to income was at 14% as of December. The long-term historical average is slightly above 16%.[1]
  - Despite the end of pandemic-related direct stimulus payments, consumer debt delinquencies in credit card, auto, student and mortgage loans remained low as of March.
  - In the event of rising mortgage delinquencies and defaults, record-high home equity should limit losses to mortgage credit.
- Credit quality of new-origination mortgages remains high, as borrowers with credit scores greater than 760 were the largest cohort of new-mortgage originations in the first quarter.
- The costs associated with owning or renting property have significantly increased.
  - The average mortgage payment as a percent of median household income is at 30%, surpassing pre-GFC levels.
- While housing affordability has declined due to rising home prices and mortgage rates, housing fundamentals remain solid, driven largely by historically low supply and relatively strong demand.
  - Existing housing inventory, at approximately 1 million units, is still near its all-time low level.[2]
  - Increasing household formations among the millennial generation, which includes 66 million individuals, should provide a tailwind for the housing market.
- Mortgage forbearance and other loss-mitigation strategies can lower potential losses in an economic downturn. Ken Shinoda believes that mortgage servicers are better equipped to deal with a housing downturn relative to the GFC, as forbearance and loan modifications have become more-established strategies to assist struggling borrowers.

Commercial Real Estate and Transportation

- Commercial real estate (CRE) transaction volume declined year-over-year (YoY) in April after 13 months of YoY transaction volume increases.[3] Increasing mortgage rates are impacting potential-buyer return expectations and are potentially a leading indicator of pricing pressure.
- The cap spread, which is the risk premium above 10-year Treasury yields that real estate investors utilize to determine price, widened at the onset of the pandemic. However, YTD increases as of March 31 in Treasury yields have compressed cap spreads to near historic tights.
- Net operating income (NOI) growth remains robust for most property types other than office. However, NOI growth rates might have peaked and are starting to decelerate from their all-time highs.
- NOI is a calculation used to analyze the profitability of income-generating real estate properties.
  - NOI deceleration is due in part to increasing mortgage rates, as mortgage rates in commercial and apartment buildings are rising off their all-time lows.
- Domestic air traffic continues to improve, with over 2 million travelers on average passing through Transportation Security Administration checkpoints per day in recent months. These figures are still roughly 10% below their 2019 average.

Corporate Credit

- The discount margin for bank loans and the option-adjusted spread (OAS) for HY bonds are widening, as inflation and growth concerns are weakening investor sentiment. Historically, widening spreads are an indicator of future weakness in credit markets.
  - The OAS differential between corporate bonds rated CCC and BB significantly widened YTD as of June 16, as investors priced in a potential slowdown in the economy.
- CLO prices across the capital stack have fallen in recent months.
  - The Fund generally owns CLOs rated BBB and BB, which have sufficient credit enhancement to potentially hedge from losses if defaults were to increase from their low base to historical trends.
- The default rate for HY bonds and leveraged loans is hovering near their all-time lows. However, if economic growth slows, defaults could increase, which could put further downward pressure on credit broadly.

Citations

1 Board of Governors of the Federal Reserve System

2 National Association of Realtors

3 Real Capital Analytics

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Definitions

Agency – Mortgage securities whose principal and interest are guaranteed by a U.S. government agency such as Fannie Mae (FNMA) or Freddie Mac (FHLMC).

Bloomberg US Aggregate Bond Index – This index ("the Agg") 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 World Interest Rate Probability (WIRP) Function – Statistical function developed by Bloomberg that uses fed funds futures and options to assess the probability of future Federal Open Market Committee (FOMC) decisions. It seeks to calculate the chances of a rate hike at each of the FOMC meetings using futures trading data.

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.

ICE Bank of America (BofA) Mortgage-Backed Securities (MBS) Index – This index tracks the performance of U.S. dollar-denominated, fixed-rate and hybrid residential mortgage pass-through securities publicly issued by U.S. Agencies in the domestic market. 30-year, 20-year, 15-year and interest-only, fixed-rate mortgage pools are included in the index provided they have at least one year remaining to final maturity and a minimum amount outstanding of at least $5 billion per generic coupon and $250 million per production year within each generic coupon.

Net Operating Income (NOI) – Calculation used to analyze the profitability of income-generating real estate investments. NOI equals all revenue from the property, minus all reasonably necessary operating expenses.

Non-Agency Residential Mortgage-Backed Security (RMBS) – Debt-based security (similar to a bond), backed by the interest paid on loans for residences. The interest on loans such as mortgages, home-equity loans and subprime mortgages is considered to be something with a comparatively low rate of default and a comparatively high rate of interest, since there is a high demand for the ownership of a personal or family residence. "Non-Agency" refers to RMBS not issued by the government-sponsored enterprises.

Option-Adjusted Spread (OAS) – Measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is then adjusted to take into account an embedded option. Typically, an analyst uses U.S. Treasury yields for the risk-free rate. The spread is added to the fixed-income security price to make the risk-free bond price the same as the bond.

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.

You cannot invest directly in an index.