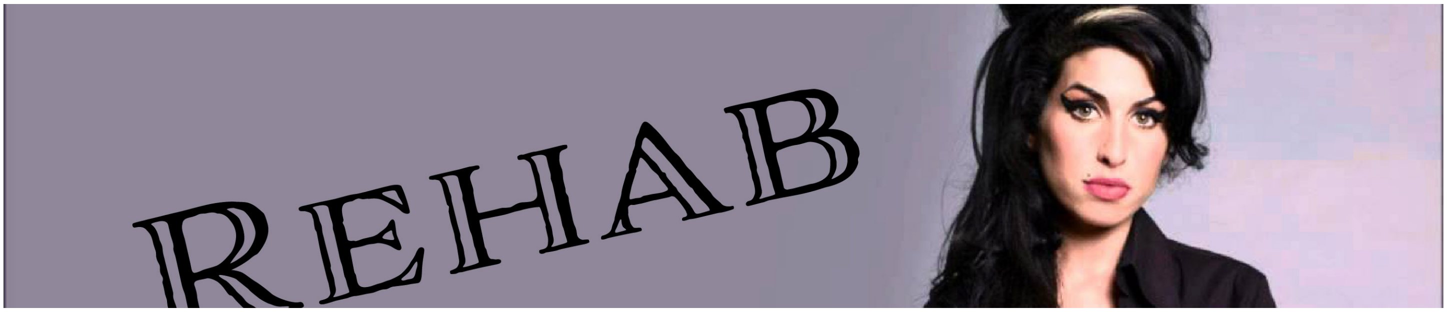
DoubleLine Total Return Bond Fund Webcast Recap

Originally Aired September 15, 2022



About this Webcast Recap

On September 15, 2022, Chief Executive Officer Jeffrey Gundlach and Portfolio Manager Andrew Hsu held a webcast titled "Rehab," discussing the current market, and the DoubleLine Total Return Bond Fund (DBLTX/DLTNX).

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

Total Return Bond Fund (%)									
				Annualized					
Month-End Returns September 30, 2022	**1 Mo**	**3 Mo**	**Year-to-Date**	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**	**Since Inception (4-6-10 to 9-30-22)**	**Gross Expense Ratio**
I-share (DBLTX)	-3.79	-4.22	-12.46	-12.61	-3.03	-0.28	1.39	3.77	0.48
N-share (DLTNX)	-3.71	-4.28	-12.62	-12.75	-3.27	-0.51	1.15	3.52	0.73
Bloomberg US Agg Index	-4.32	-4.75	-14.61	-14.60	-3.26	-0.27	0.89	2.06	
				Annualized					
Quarter-End Returns September 30, 2022	**1 Mo**	**3Q2022**	**Year-to-Date**	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**	**Since Inception (4-6-10 to 9-30-22)**	
I-share (DBLTX)	-3.79	-4.22	-12.46	-12.61	-3.03	-0.28	1.39	3.77	
N-share (DLTNX)	-3.71	-4.28	-12.62	-12.75	-3.27	-0.51	1.15	3.52	
Bloomberg US Agg Index	-4.32	-4.75	-14.61	-14.60	-3.26	-0.27	0.89	2.06	

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.

United States Needs Rehab

- 69% of all U.S. adults think the country is moving in the wrong direction due in part to political polarization.[1]
- The U.S. budget deficit as a percentage of gross domestic product (GDP) was negative 3.18% as of July 31, an improvement following the negative midteen readings following COVID-19 stimulus.
  - Despite large amounts of fiscal stimulus since the Global Financial Crisis (GFC) in 2008, U.S. real GDP remains below its trendline going back to 1947.
- The average federal student loan debt-to-income (DTI) ratio nearly doubled from approximately 30% in 2007 to 54% in 2020.
- After increasing for much of 2020 and 2021, the monthly change in household excess savings has been negative since January 2022 as the effects of fiscal stimulus have faded and inflation has remained elevated.
  - Lower savings and higher inflation have contributed to a sharp increase in revolving consumer credit.
- Unsecured personal loan delinquencies have trended higher over the past 12 months, particularly among borrowers with lower credit scores.
  - The 30-day-plus delinquency rate for consumer loans steadily increased from 2.75% to slightly above 5% over the last 12 months.

Economic Indicators

- Despite two consecutive quarters of negative GDP growth, Jeffrey Gundlach does not believe the U.S. is currently in a recession.
  - The Leading Economic Index (LEI) year-over-year (YoY) print was 0.0% as of July 31. However, the LEI six-month annualized change was negative 3.2%.
    - This indicates to Mr. Gundlach that perhaps the U.S. is getting close to the front end of a recession, and the odds for a 2023 recession remain high.
- The unemployment rate relative to its 12-month moving average is another indicator for the front end of a recession.
  - As of Aug. 31, the U-3 unemployment rate was 3.7% relative to its 12-month moving average of 4.1%. Should the unemployment rate continue to trend higher and cross above its 12-month moving average, it would indicate the U.S. might be near a recession.
- U.S. real average weekly earnings have remained in negative territory for much of the last two years, which has likely contributed to the increase in consumer credit.
- Consumer sentiment has deteriorated and is at levels consistent with past recessions.[2]
- Prior to the onset of the COVID-19 pandemic, the durable goods, nondurable goods and services components of the U.S. Personal Consumption Expenditures Price Index were all increasing in lockstep. However, following the pandemic, durable goods spending has grown at approximately 25% above trend while services spending has lagged.
  - Mr. Gundlach notes this as his "chart of the year" and expects spending on goods to normalize back to their pre-pandemic trends, which could be a drag on economic growth.

[1] Ipsos, as of August 31, 2022

[2] As measured by the University of Michigan Consumer Sentiment Index

Real Estate

- Mortgage rates have more than doubled from 2.8% at the end of 2020 to 6.0% as of Sept. 9.[3]
- Home prices have increased 40% in the two years since the onset of the pandemic in March 2020.[4]
  - This has led to a sharp increase in monthly mortgage payments for new-home purchases.[5]
- Commercial real estate (CRE) fundamentals have continued to improve: CRE property prices have generally increased while delinquency rates have broadly declined.

The Federal Reserve and U.S. Dollar

- Looking at previous monetary cycles, the two-year U.S. Treasury yield led the Federal Reserve in tightening and easing monetary conditions via the federal funds rate (FFR).
  - As of Sept. 15, the two-year yield was approximately 137 basis points (bps) higher than the upper bound of the FFR, signaling the market's expectation of significant future increases to the FFR.
- As of Sept. 14, the market's expectation was for the FFR to peak around 4.4% in early 2023, followed by an easing cycle into 2024.
- The U.S. Dollar Index (DXY) has remained strong since the onset of the pandemic.
  - Mr. Gundlach remains positive on the dollar until the U.S. enters a recession.

Inflation and Commodities

- Global inflation remains historically elevated. As of Aug. 31, the world consumer price index (CPI) rate was 8.33% YoY, developed markets 8.04% and emerging markets ex China 10.11%.[6]
  - Various measures of U.S. core inflation show prices broadly have risen in the mid-single digits YoY.
- U.S. import and export prices, which unlike the CPI are not subject to hedonic adjustments, have started to roll over but remain historically elevated.
- Wage growth has continued to trend higher, particularly for "job switchers."
  - However, overall wage growth remained below CPI as of Aug. 31.[7]
- The U.S. Zillow Rent Index increased 13.2% YoY as of July 31. However, the owners' equivalent rent component of the core CPI calculation, which is approximately one-third of the index, only increased 6.3% YoY.
  - Given the rise in home prices, it is likely that the shelter component of inflation will continue to trend higher.
- The Bloomberg Commodity (BCOM) Index has recently trended lower toward its 200-day moving average.
  - Mr. Gundlach believes the BCOM is unlikely to fall significantly below its 200-day moving average in the near term.

[3] Mortgage Bankers Association (MBA) Weekly Application Survey, MBA 30-Year Contract Rate

[4] S&P CoreLogic Case-Shiller U.S. National Home Price Index

[5] National Association of Realtors (sales price); Freddie Mac (30-year mortgage rate)

[6] Developed Markets (DM): U.S., eurozone, Japan, U.K., Canada, Australia, Sweden, Norway and Switzerland. EM: Brazil, Russia, China, South Korea, South Africa, Me xico, Colombia, Chile, Turkey and Poland. World is DM and EM. Inflation indexes are GDP weighted.

[7] Atlanta Fed Wage Growth Tracker

Equity Markets

- U.S. real yields, based on Treasury Inflation-Protected Securities (TIPS), have been rising since the start of the year and were positive across the five-, 10- and 30-year tenors as of Sept. 15.
  - Positive 10-year real yields have historically led to forward price-to-earnings ratio compression for the S&P 500 Index.
- The Nasdaq 100 has underperformed the S&P 500 for the last two years.
  - Mr. Gundlach believes this trend could continue for the next few years.
    - Similarly, Mr. Gundlach believes that European equities could outperform U.S. equities in the near term.[8]
- The S&P 500 has outperformed the MSCI Emerging Markets Index by approximately 400% since the end of the GFC.
  - Mr. Gundlach believes this trend could reverse in the next recession, particularly if the dollar were to weaken.

Fixed Income

- 2022 has been the worst start to the year for the Bloomberg US Aggregate Bond Index (the “Agg”) in its coverage dating back to 1976 . However, the outlook for many parts of fixed income has improved as higher yields have made bonds generally as attractive as they have been in quite some time.
  - Starting yield tends to have a strong relationship with forward expected returns for fixed income.
    - The yield to worst for the Agg was 4.26% as of Sept. 14. This implies an approximate 4.2% three-year-forward annualized return and an approximate 4.5% six-year-forward annualized return for the Agg.
- Total returns for fixed income could be higher than implied forward returns based on yield should Treasury rates fall. Some metrics, such as the copper-gold ratio, suggest that the 10-year Treasury yield is above fair value and could fall.
- Treasury liquidity has deteriorated as volatility has increased.
- Performance across credit markets has been largely negative in 2022, with longer-duration investment grade (IG) corporate bonds and emerging markets fixed income down nearly 19%.
- U.S. IG and high yield (HY) bonds have experienced substantial spread widening year-to-date (YTD).
  - Current spread levels have historically been a decent buying opportunity for investors with a horizon of at least two years.
- Default rates for HY and bank loans have trended higher recently but remain near their all-time lows.
- Mr. Gundlach is bullish on Agency mortgage-backed securities (MBS), as spreads are near a 10-year high.[9] At current spreads, Agency MBS generally yield around 5% with no credit risk.

[8] MSCI Europe Index and S&P 500 Index

[9] 30-year FNMA loan par coupon less average five- and 10-year U.S. Treasury yield

DBLTX DoubleLine Total Return Bond Fund

- As of Aug. 31, DBLTX had an average price of $92.28. The Fund's duration was 4.97 years, approximately 1.4 years shorter than the Agg.
  - The Fund's portfolio management team has actively managed duration positioning. As rates have risen, the Fund's duration has increased due in part to the Fund's mortgage-related holdings, which have generally extended.
    - The DoubleLine team believes it is likely that interest rate volatility will continue, and by positioning the Fund with a lower duration relative to its benchmark, the team attempts to dampen overall volatility for its investors.
    - The positive convexity for many of the Fund's Agency MBS holdings indicates the sector could perform well should rates fall and prepayments rise, despite their lower overall duration.
- Looking at the largest 180-day increases in the 10-year Treasury yield over the last decade reveals three distinct periods in which DBLTX outperformed the Agg considerably:
  - During the Taper Tantrum from May 5, 2013, to January 8, 2014, DBLTX outperformed by 94 bps.
  - During the energy crisis recovery from July 5, 2016, to March 13, 2017, DBLTX outperformed by 226 bps.
  - During the post-COVID-19 recovery from July 23, 2020, to March 31, 2021, DBLTX outperformed by 268 bps.
    - DBLTX outperformance during these periods could be attributed, in part, to its duration positioning, as the Fund has consistently maintained a lower duration than the Agg.
- Roughly half of the Fund's exposure remains in government-backed assets such as Agency MBS, Agency commercial MBS (CMBS) and Treasuries, and roughly half in a diversified mix of securitized credit, including non-Agency residential (RMBS), non-Agency CMBS, asset-backed securities (ABS) and collateralized loan obligations (CLOs).
- Delinquency rates have started to flatten or tick up in certain consumer-related areas such as student loans, auto loans, credit cards and mortgages.
- 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 is defined as a loan that has 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 legacy RMBS positions were purchased at an average price of $67, which means there is an additional 33 points of protection relative to a par-priced security.

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Definitions

Basis Points (BPS) – Basis points (or basis point (bp)) refer to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% or 0.0001, and is used to denote the percentage change in a financial instrument. The relationship between percentage changes and basis points can be summarized as: 1% change = 100 basis points; 0.01% = 1 basis point.

Bloomberg Commodity (BCOM) Index – This index (formerly the Dow Jones-UBS Commodity Index) is calculated on an excess return basis and reflects the price movements of commodity futures. It rebalances annually, weighted two-thirds by trading volume and one-third by world production, and weight caps are applied at the commodity, sector and group levels for diversification. The roll period typically occurs from the sixth to 10th business day based on the roll schedule.

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.

Conference Board Leading Economic Index (LEI) – This index tracks a group of composite indexes (manufacturers' orders, initial unemployment insurance claims, et al.) as a means of gauging the strength of a particular industry or the economy.

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.

Copper-Gold Ratio (CGR) – Calculated by dividing the market price of a pound of copper by the market price of an ounce of gold.

Duration – Measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

Federal Funds Rate – Target interest rate, set by the Federal Reserve at its Federal Open Market Committee (FOMC) meetings, at which commercial banks borrow and lend their excess reserves to each other overnight. The Fed sets a target federal funds rate eight times a year, based on prevailing economic conditions.

Fannie Mae (FNMA) – The Federal National Mortgage Association (Fannie Mae) is a government-sponsored enterprise (GSE) chartered by Congress in 1938 during the Depression to stimulate home ownership and provide liquidity to the mortgage market. Its purpose is to help moderate- to low-income borrowers obtain financing for a home.

Freddie Mac U.S. Mortgage Market Survey 30-Year Homeowner Commitment National Index – This index tracks the 30-year fixed-rate mortgages component of the Freddie Mac Primary Mortgage Market Survey (PMMS), which tracks the most-popular 30- and 15-year fixed-rate mortgages, and 5-1 hybrid amortizing adjustable-rate mortgage products among a mix of lender types.

Morgan Stanley Capital International Emerging Markets Index (MSCI EMI) – This index captures large- and mid-cap representation across 26 emerging markets countries. With 1,385 constituents, the index covers approximately 85% of the free-float-adjusted market capitalization in each country.

Morgan Stanley Capital International (MSCI) Europe Index – This index is U.S. dollar denominated and represents the performance of large- and mid-cap equities across 15 developed countries in Europe. It covers approximately 85% of the free float-adjusted market capitalization in each country.

Nasdaq 100 Index – This index comprises the 100 largest U.S. and non-U.S. nonfinancial securities based on market capitalization listed on the Nasdaq stock exchange. The index reflects companies across major industry groups including computer hardware and software, telecommunications, biotechnology and retail/wholesale trade.

Owners' Equivalent Rent (OER) – Component metric used in the Consumer Price Index for the amount of rent that would have to be paid in order to substitute a currently owned house as a rental property. This value is also referred to as "rental equivalent." In other words, OER figures the amount of monthly rent that would be equivalent to the monthly expenses of owning a property (e.g., mortgage, taxes, etc.).

Personal Consumption Expenditures (PCE) Price Index – This index, published by the U.S. Bureau of Economic Analysis, measures price changes in consumer goods and services exchanged in the U.S. economy to reveal underlying inflation trends.

Price-to-Earnings (P/E) Ratio – This ratio for valuing a company measures current share price relative to earnings per share (EPS). The P/E ratio is also sometimes known as the "price multiple" or the "earnings multiple." A high P/E ratio could mean that a company's stock is overvalued, or investors are expecting high growth rates in the future.

Real GDP – Inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year (expressed in base-year prices) and is often referred to as "constant-price GDP," "inflation-corrected GDP" or "constant-dollar GDP."

S&P CoreLogic Case-Shiller U.S. National Home Price 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.

S&P 500 Index – This unmanaged capitalization-weighted index of the stocks of the 500 largest publicly traded U.S. companies is designed to measure performance of the broad domestic economy through changes in the aggregate market value of the 500 stocks, which represent all major industries.

Spread – Difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument. The spread can be measured between debt instruments of differing maturities, credit ratings or risk.

Treasury Inflation-Protected Securities (TIPS) – Type of Treasury security issued by the U.S. government that is indexed to inflation in order to protect investors from a decline in the purchasing power of their money. As inflation rises, TIPS adjust in price to maintain their real value.

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.

University of Michigan Consumer Sentiment Index – This index rates the relative level of current and future economic conditions through monthly surveys of about 500 U.S. households (ex Alaska and Hawaii). There are two versions of this data released two weeks apart, preliminary and revised. The preliminary data tends to have greater impact. A higher-than-expected reading should be taken as positive/bullish for the U.S. dollar; a lower-than-expected reading should be taken as negative/bearish.

U.S. Dollar Index (DXY) – A weighted geometric mean of the U.S. dollar's value relative to a basket of six major foreign currencies: the euro, Japanese yen, British pound, Canadian dollar, Swedish krona and Swiss franc.

U.S. Existing-Home Sales Index – This index, published by the National Association of Realtors, reflects the total unit sales of homes that are already built in the United States. This is a lagging indicator tracking the U.S. housing market, which is impacted by a change in mortgage rates.

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.

Yield to Worst (YTW) – The lowest yield of a bond that can be received short of default.

Zillow Rent Index – This U.S. dollar-valued index tracks typical market rent for a given segment (i.e., multifamily or single-family units) and/or geography (i.e., a given ZIP code, city, county, state or metro) by leveraging Zillow rental estimates.

You cannot invest directly in an index.

Mutual fund investing involves risk; Principal loss is possible. Investments in debt securities typically decrease when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in Asset-Backed and Mortgage-Backed securities include additional risks that investors should be aware of including credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Investments in lower rated and non-rated securities present a great risk of loss to principal and interest than higher rated securities. The Total Return Bond Fund intends to invest more than 50% of its net assets in mortgage-backed securities of any maturity or type. The Fund therefore potentially is more likely to react to any volatility or changes in the mortgage-backed securities marketplace.

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

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