# DoubleLine Actively Managed Equities: Seeking Value Amidst Uncertainty

Originally aired on May 25, 2021

## About this Webcast Recap

On May 25, 2021, Portfolio Manager Emidio Checcone held a webcast titled "Seeking Value Amidst Uncertainty," discussing the current market, and the DoubleLine Equity Value strategy.

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. Checcone's views, please listen to the full version of this webcast on www.doubleline.com and click on the "Webcasts" tab found on the homepage.

**Performance as of June 30, 2021**

| | | | | | Annualized | | Calendar Year | |
|---|---|---|---|---|---|---|---|---|
| | | 3 Months | 6 Months | Year-to-Date | 1 Year | Since Inception (10-12-18 to 6-30-21) | 2020 | 2019 |
| DoubleLine Equity Value Composite | Gross | 6.43% | 18.91% | 18.91% | 47.01% | 17.76% | 9.98% | 29.47% |
| | Net | 6.34% | 18.71% | 18.71% | 46.51% | 17.35% | 9.59% | 29.03% |
| Russell 1000 Value Index | | 5.21% | 17.05% | 17.05% | 43.68% | 13.51% | 2.80% | 26.54% |
| Gross Excess Return | | 122 bps | 186 bps | 186 bps | 333 bps | 425 bps | 718 bps | 293 bps |

Source: DoubleLine
Performance presented is supplemental to the DoubleLine Equity Value Composite Report found at the end of this recap.
Past performance is no guarantee of future results.

## Growing Risk in the U.S. Equity Market

- Equity valuations relative to U.S. GDP are at multidecade highs, as measured by the aggregate market value of the Russell 3000 Index compared to nominal U.S. GDP.
- There's a growing prevalence of "price insensitive" investors such as buyers of exchange-traded funds (ETFs). Further, buyers of environmental, social and governance (ESG) funds are hoping to invest in companies that can address the externality of climate change and might not care as much about price discovery, as evidenced by the large inflows into ESG funds.
- Generally when investing in equities, the higher the price paid, the lower the expected future returns over a 10-year period. Currently, investors are paying a roughly 2.50x price-to-revenue ratio, which would imply a negative 10-year annual total return based on sales and revenue data of S&P 500 Index companies since 1990.
- Inflation has become a key risk for equity investors. If inflation is not transitory, a key question is: Will a company be able to pass along costs to its customers before its margins are eroded?
  - Input costs are increasing to extraordinary levels, as measured by the Bloomberg Commodity Index, which reached 93.88 on May 12, its highest level since 2015.
- Inflation remains a key concern for the investment community, as approximately 70% of fund managers surveyed by Bank of America cited above-trend inflation as an investment risk.

## A Strategy for Navigating These Growing Risks: Value Stocks

- Based on price-to-sales ratio, growth stocks relative to value stocks are hovering at historic overvaluation levels.
- Historically speaking, as corporate profits rebound, value stocks have outperformed growth stocks in a reflationary economic environment, as measured by the returns of the Russell 1000 Value (RLV) Index compared to the Russell 1000 Growth (RLG) Index.
- The setup for value stocks is currently favorable because:
  - Value stocks have lower multiples relative to growth stocks. Therefore, the risk of multiple compression for value stocks is perhaps mitigated versus the lofty valuations of growth stocks.
  - Value stocks, especially of cyclical companies, are better equipped to pass along inflationary pressures to their consumers.
- From 2001 through mid-2006, inflation expectations increased as measured by the prices of 10-year Treasury Inflation-Protected Securities (TIPS). During this period, the RLV significantly outperformed the RLG.
- Consumer confidence has reached a new high in the wake of the COVID-19 pandemic, as measured by the Conference Board Global Consumer Confidence Index.

## A Way to Play Value: DoubleLine Actively Managed Equities

- The DoubleLine Equity Value Strategy (the "Strategy") has a differentiated process that includes:
  - A philosophy of fundamental value that is differentiated. The team does not rely on static valuation metrics. The team is a small subset of value investors who try to assess a company's intrinsic value by studying the company's fundamentals.
  - DoubleLine's macro focus provides a tailwind to our process.
  - The overall portfolio management team consists of individuals that are assigned to an area or sector of the Strategy, and each individual is measured on their performance.
- The Strategy currently favors the financial sector, specifically regional banks, consumer finance and large money centers. Reasons include:
  - The sector is cyclically sensitive, as the positions the Strategy holds within this sector should see their margins expand as the Treasury yield curve steepens.
  - Reserves for credit losses should decline in an expansionary economic environment.
  - Lending activity should continue to improve as the economy reopens and continues recovering.
  - The positions the Strategy hold are relatively inexpensive relative to the generalized S&P 500 multiple both on a price-to-book ratio and forward price-to-earnings basis.
- The Strategy currently favors the healthcare sector, specifically in medical devices and managed care. Reasons include:
  - As regions around the world reopen due to rising vaccination rates, procedure volumes are poised to return to pre-pandemic levels, benefiting global sales of medical device makers.
  - If interest rates rise, our managed care holdings will benefit from rising investment income, while higher-multiple subsectors such as biotech and tools could underperform.
- The Strategy currently favors the industrials sector, specifically in aerospace and defense, and midcycle industrial segments. Reasons include:
  - Aerospace and defense carry the largest active overweight for our Strategy in the industrials sector given that the segment was one of the hardest hit areas during the pandemic. Moreover, valuations in the segment continue to meaningfully lag the broader industrial recovery.
  - Midcycle industrials offer attractive relative value as long as the pace of inflation is not drastic, allowing them to pass through rising costs to the end consumer, thereby enhancing margins.

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## DoubleLine Equity Value Composite

**GIPS Composite Report | ** October 12, 2018 to December 31, 2020

| Year | Composite Gross Return (%) | Composite Net Return (%) | Russell 1000 Value Index Return (%) | Composite 3-Yr St Dev (%) | Russell 1000 Value Index 3-Yr St Dev (%) | Number of Portfolios | Internal Dispersion (%) | Composite Assets ($M) | Firm Assets ($M) |
|---|---|---|---|---|---|---|---|---|---|
| **2018** | -7.86 | -7.93 | -7.29 | N/A | N/A | 1 | N/A | 67 | 119,510 |
| **2019** | 29.47 | 29.03 | 26.54 | N/A | N/A | 1 | N/A | 60 | 147,985 |
| **2020** | 9.98 | 9.59 | 2.80 | N/A | N/A | 1 | N/A | 46 | 135,069 |

1. DoubleLine claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. DoubleLine has been independently verified for the periods January 1, 2010 through December 31, 2020. A firm that claims compliance with the GIPS standards must establish policies and procedure for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Equity Value Composite has been examined for the periods October 12, 2018 through December 31, 2020. The verification and performance examination reports are available upon request.
2. For the purpose of complying with the GIPS standards, DoubleLine ("the Firm") consists of the assets under management of DoubleLine Capital LP ("DoubleLine Capital"), DoubleLine Equity LP ("DoubleLine Equity") and DoubleLine Alternatives LP ("DoubleLine Alternatives", formerly known as DoubleLine Commodity LP). Defining the Firm for GIPS purposes as "DoubleLine" is not intended to imply any legal affiliation among DoubleLine Capital, DoubleLine Equity and DoubleLine Alternatives. Effective January 1, 2017, the assets of DoubleLine Alternatives LP and DoubleLine Capital LP were added to the Firm definition.
3. As of January 1, 2017, the Firm was redefined to reflect an expansion of products within organization.
4. Results are for accounts that are in the Composite for the specified periods. The Composite includes all accounts, except for accounts subject to material client restrictions and deemed non-discretionary. When a new composite is formed, the first account is included as of the account's inception date.
5. A list of Composite descriptions, pooled fund descriptions for limited distribution pooled funds and a list of broad distribution pooled funds is available upon request.
6. The internal dispersion of annual returns is measured by the standard deviation across equally-weighted portfolio returns represented within the composite for the full year and is calculated using gross returns. For those periods where less than six (6) accounts are in the composite for the full year, or where the period is less than a full year, standard deviation is not presented.
7. Performance is reported in U.S. dollars and reflects the reinvestment of dividends and other earnings.
8. Gross returns do not reflect the deduction of management fees, custodial fees and other administrative expenses. Including these costs would reduce the returns shown. Net returns reflect the deduction of model management fees. The model management fee is the higher of the maximum standard fee charged to U.S. institutional clients without considering any applicable breakpoints, or the highest fee paid by any account in the composite. Certain clients could pay a significantly higher or lower fee which would result in different net returns. By way of example a fee which is 0.5% higher than the standard U.S. institutional fee will result in the total return being reduced, over five years, by 2.53% on a compound basis. Net returns do not include the deduction of custodial fees or other administrative expenses, which will also reduce the returns shown.
9. DoubleLine makes no representation that future investment performance will conform to past performance. Past performance is no guarantee of future results. It is possible to lose money when investing in this strategy.
10. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.
11. This Composite was created on October 12, 2018.
12. The Composite includes accounts that are managed to outperform the Russell 1000 Value Index over the long term by primarily investing in companies of any market capitalization that are considered to be undervalued. The strategy primarily invests in U.S. listed stocks. Portfolios in the Composite may also invest in foreign equities, including via American Depository Receipts (ADRs), private placements, preferred securities and convertible preferred securities.
13. The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. Benchmark returns are not covered by the report of independent verifiers. You cannot invest directly in an index.
14. The U.S. institutional fee schedule is as follows: 0.35% on all assets under management in this strategy.
15. Leverage or derivatives are not used in the management of the accounts within this Composite.
16. Three year annualized ex-post standard deviation of the Composite measures the variability of the composite and the benchmark returns over the preceding 36-month period and is calculated using gross returns. The three-year annualized ex-post standard deviation of the Composite and the benchmark are not presented when 36 monthly returns have not yet been generated by this Composite.
17. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The Firm's fees are available on request and may be found in Part 2A of Form ADV.
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**Citations**

[1] Forecast based on Atlanta Fed GDPNow for Q2 2021, Bloomberg economist survey for Q3-Q4 2021, and DoubleLine CPI forecast as proxy for GDP deflator.

[2] December 23, 2009

**Definitions**

**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.

**Conference Board Global Consumer Confidence Index (CCI)** – This index is based on data from the Conference Board Global Consumer Confidence Survey, an online survey of more than 30,000 respondents across countries in Africa, Asia-Pacific, Europe, Latin America, the Middle East and North America. A reading above 100 means that there are more optimistic consumers than pessimistic consumers in a survey region; a reading below 100 means the opposite.

**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.

**Price-to-Sales (P/S) Ratio** – Valuation ratio that compares a company's stock price to its revenues. It is an indicator of the value that financial markets have placed on each dollar of a company's sales or revenues. The P/S ratio can be calculated either by dividing the company's market capitalization by its total sales over a designated period (usually 12 months) or on a per-share basis by dividing the stock price by sales per share. The P/S ratio is also known as a "sales multiple" or "revenue multiple."

**Russell 1000 Growth (RLG) Index** – This index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. Growth stocks are shares in a company that are anticipated to grow at a rate significantly above the average growth for the market.

**Russell 1000 Value (RLV) Index** – This index measures the performance of the large-cap value segment of the U.S. equity universe. It includes Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values. Value stocks are shares of a company that appear to trade at a lower price relative to the company's fundamentals.

**Russell 3000 Index** – This market capitalization-weighted index tracks the performance of the 3,000 largest U.S.-traded stocks, which represent about 98% of all U.S.-incorporated equity securities.

**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.

**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.

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