Accessing Infrastructure Debt With DoubleLine

Stephan Diaz Ellinghaus & Phil Gioia, CFA | August 2024

Executive Summary

- *Infrastructure debt can offer stable, long-term returns with defensive characteristics and has a demonstrated track record of resilience during recessions and economic downturns, making it an attractive option for investors.*
- *The asset class's resiliency can be attributed to its idiosyncratic characteristics such as high barriers to entry, inelastic demand, and historically stable and predictable cash flows.*
- *The sector offers broad diversification with investment opportunities in energy transition, renewable energy generation and digital infrastructure, among others, driven by global trends toward cleaner energy, greater electrification and increased digitization.*
- *Infrastructure debt is a fast-growing asset class for well-diversified investment portfolios. Traditionally, infrastructure debt is an esoteric asset class and as such is difficult for some investors to access. At DoubleLine, we have developed an infrastructure debt strategy that we believe suits most investors. As an example, we have seen investors use our infrastructure debt strategy to complement credit portfolios with potential for higher risk-adjusted returns.*
- *Selecting experienced managers with a strong origination platform and global presence is crucial for capitalizing on these opportunities. DoubleLine has managed infrastructure debt strategies since 2016.*

There is ample literature about how infrastructure debt as an asset class has a demonstrated track record of resiliency during economic cycles. In our view, this is well captured by S&P in a multidecade study that tracks defaults of infrastructure debt versus nonfinancial corporate debt *(Figure 1)*. During recent periods of economic volatility or downturns, defaults of infrastructure debt remained subdued and steady. Anecdotally, DoubleLine's experience supports this thesis, as our dedicated infrastructure strategies have never experienced a default.

Trailing-12 Month Default Rates: All Infrastructure and Nonfinancial Corporates
January 1999 through December 2022

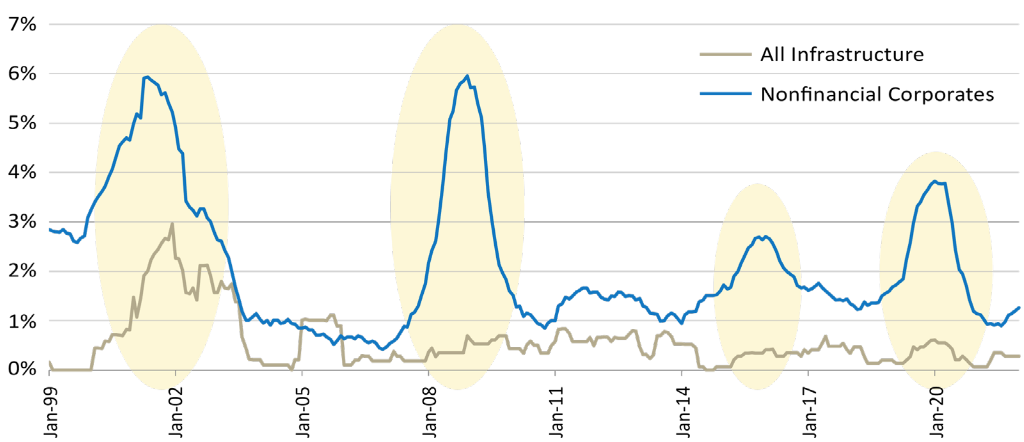
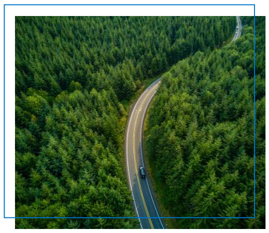


Figure 1
Source: S&P Global Ratings Credit Research & Insights

We attribute this stability to infrastructure debt's idiosyncratic characteristics that make the asset class, in our opinion, a good candidate for investment portfolios. Among those attributes is that infrastructure assets tend to be essential, even indispensable, for communities and therefore benefit from inelastic demand. In addition, infrastructure debt offers broad diversification, from renewable power generation to fiber networks and data centers, among others. Notably, studies indicate that infrastructure debt performance has low correlation to other fixed income products.[1] Structurally, infrastructure debt is often secured by tangible assets, which we believe is the driver for higher recovery rates.[2] Infrastructure debt offers both investment grade and high yield opportunities, and it provides excess spreads for private debt.

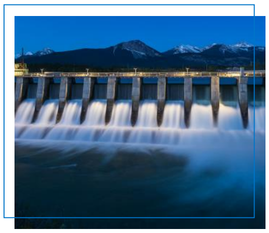
Infrastructure Attributes



1 | HIGH BARRIERS OF ENTRY
High initial capex outlays, concession awards and/or regulatory constraints limit competition.

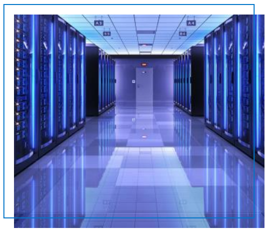
2 | INELASTIC DEMAND
Users tend to have limited options in many infrastructure sectors, resulting in relatively stable demand during economic cycles.

3 | IMPLICIT INFLATION PROTECTION
Operators have the ability to pass on higher costs to users (e.g., regulated utilities, toll roads), and, in some cases, revenues and costs are supported by fixed or inflation-linked prices.



4 | INVESTMENT LONGEVITY
Once an infrastructure asset is commissioned and operating, it generally has a life expectancy of 25 years or more.

5 | HISTORICALLY STABLE & PREDICTABLE CASH FLOWS
Many projects can potentially achieve stable cash flows via long-term contracts (for revenue and/or expenses) or regulated rate protections.



6 | LOW CORRELATION TO OTHER ASSET CLASSES
Given the essential nature of infrastructure assets and services, they tend to be less correlated to economic cycles.

7 | ESSENTIAL SERVICES FOR SOCIETY
Many infrastructure projects are critical for the economic activity of a community and in forming the backbone of the economy.

8 | HISTORICALLY LOW DEFAULT RATES & HIGH RECOVERY
Studies show that infrastructure assets are historically more resilient to economic cycles than other asset classes.

Given these investor-friendly attributes, it is not surprising that the appeal of the asset class is growing. Preqin, a market leader in private-market investment data, expects infrastructure debt to continue to be one of the fastest-growing alternative asset classes. Between 2015 and 2023, infrastructure debt assets under management (AUM) compound annual growth was 20%, and total AUM was more than $1 trillion.[3]

Despite the rapid growth and adoption, infrastructure debt for some investors remains a difficult to access niche and esoteric sector. We believe that one of the reasons this is the case is that most ways to access infrastructure debt is via illiquid vehicles with lockup periods that tie up investors' money for several years.

DoubleLine understands that this might be undesirable for some investors, and that is why we developed a unique, liquid infrastructure strategy that has demonstrated a strong track record over eight years. In addition, since infrastructure is a niche sector, we focus on providing clarity and transparency via steady communication with our clients. With our solutions (from liquid to less liquid) plus open and steady communication, we aim to provide our clients the tools to access this desirable asset class with idiosyncratic attributes that we believe enhance any investment portfolio.

Our strategy targets infrastructure debt but approaches it via multiple products, which allows for maximum flexibility and helps identify the best possible relative value while benefiting from the underlying infrastructure assets' features.

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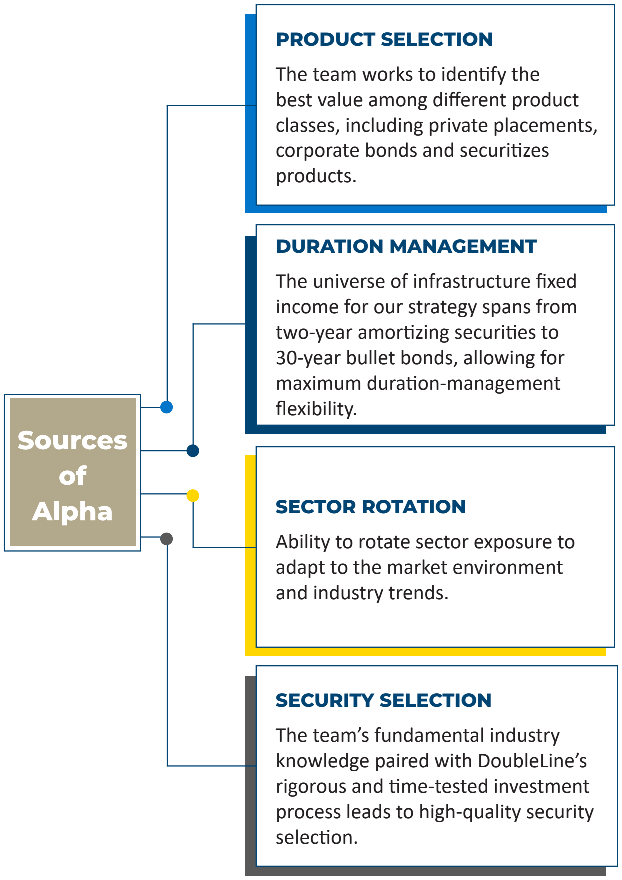
A Unique Approach to Infrastructure

DoubleLine's Infrastructure Income strategy benefits from multiple sources to potentially generate alpha through different market environments.



This approach has contributed to strong absolute and risk-adjusted returns compared to corporate credit indices. Going forward, we expect Infrastructure Income to potentially exhibit lower volatility than corporate credit, with the potential for higher returns given the current yield profile. *(Figure 2)*

Experienced Investment Team and Active Portfolio Management

Combining experienced managers with rigorous underwriting standards, a strong origination platform and global presence is crucial for capitalizing on these opportunities. Led by Portfolio Managers Andrew Hsu, Damien Contes and Infrastructure Specialist Stephan Diaz Ellinghaus, DoubleLine's Infrastructure Income Fund benefits from an investment team with an average of more than 18 years of industry experience. The team's emphasis on a value-oriented research process, which combines bottom-up fundamental analysis with DoubleLine's top-down macroeconomic views, guides the Fund.

DoubleLine Infrastructure Fund vs. Other Indices
May 2016 through June 2024

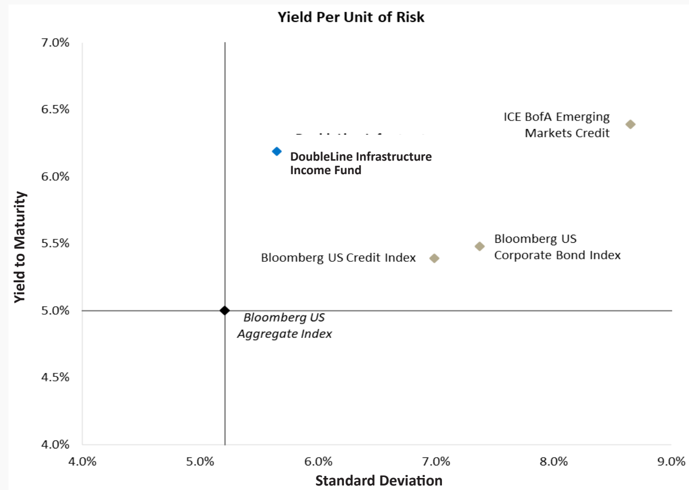


Figure 2
Source: DoubleLine, Bloomberg, Zephyr StyleAdvisor. Please see index definitions at end of document. **Standard Deviation** – A measure of an investment's volatility.. A low standard deviation indicates that the data points tend to be very close to the mean, whereas a high standard deviation indicates that the data is spread out over a large range of values. **Yield to Maturity** – 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.

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 current to the most recent month-end may be obtained by calling (213) 633-8200 or by visiting DoubleLine.com.

Conclusion

With an uncertain economic outlook, DoubleLine believes the infrastructure debt sector provides a compelling portfolio solution due in part to its defensive features that do not sacrifice total return potential. The DoubleLine Infrastructure Income Fund offers investors a unique opportunity to access the potential benefits of infrastructure debt investment. ■

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DoubleLine Infrastructure Income Fund Performance (%) | June 30, 2024

	2Q24	YTD	1Y	3Y	5Y	Since Inception (4-1-16 to 6-30-24)	30-Day SEC Yield Gross	30-Day SEC Yield Net	Gross Expense Ratio
BILDX	0.84	1.37	6.77	-0.95	1.09	2.24	4.60	4.60	0.57
BILTX	0.77	1.24	6.50	-1.19	0.82	1.99	4.35	4.35	0.83
Bloomberg US Aggregate Bond Index	0.07	-0.71	2.63	-3.02	-0.23	0.97	–	–	

The performance information shown assumes the reinvestment of all dividends and distributions. Returns for periods greater than one year are annualized.

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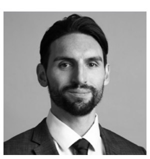
About the Authors

Stephan Diaz Ellinghaus
Specialist, Structured Products - ABS/Infrastructure

Mr. Diaz joined DoubleLine in 2021 as a Specialist on the Global Infrastructure Investments/Asset-Backed Securities team. He is also part of DoubleLine's ESG Investment Task Force, responsible for the ESG integration framework for the Global Infrastructure Investments/Asset-Backed Securities group. Prior to DoubleLine, Mr. Diaz was with Nomura Securities International as an Executive Director. Previous to that, he was with Norddeutsche Landesbanak Girozentrale as a Director. Mr. Diaz holds a B.A. in Economics from Instituto Tecnologico Autonomo De Mexico and an MBA in Business Administration from New York University.



Phil Gioia, CFA
Product Specialist

Mr. Gioia joined DoubleLine in 2018. He is a member of the Investor Services team, in which he serves as a Product Specialist. In this capacity, Mr. Gioia is responsible for various aspects of DoubleLine product marketing, investment strategy updates, portfolio communications and competitive analysis, with a focus on DoubleLine's Securitized Product strategies. He is also responsible for producing market commentary and dedicated strategy content. Prior to DoubleLine, Mr. Gioia was an Investment Product Manager for Fidelity Investments. He holds a B.S. in Financial Management and Business Administration with a minor in Accounting from Salve Regina University and earned a certification for the Applied Data Science Program from Massachusetts Institute of Technology. Mr. Gioia is a CFA® charterholder and holds the FINRA Series 7 and 63 Licenses.

Endnotes

[1] Source: EDHEC, Strategic Asset Allocation With Unlisted Infrastructure; February 2021

[2] Source: Moody's

[3] Source: EDHEC, Strategic Asset Allocation With Unlisted Infrastructure; February 2021

Alpha – Term used in investing to describe a strategy's ability to beat the market, or its "edge." Alpha is thus also often referred to as "excess return" or "abnormal rate of return," which refers to the idea that markets are efficient, and so there is no way to systematically earn returns that exceed the broad market as a whole.

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 US Corporate Bond Index – This index measures the investment grade, fixed-rate taxable corporate bond market. It includes U.S. dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg US Credit Index – This index tracks the U.S. credit component of the Bloomberg US Government/Credit Index on a total return basis. It consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity and quality requirements. To qualify, bonds must be SEC registered. The US Credit Index is the same as the former US Corporate Index.

Capital Expenditures (Capex) – Funds used by a company to acquire, upgrade and maintain physical assets such as property, plants, buildings, technology or equipment. Capex is often used to undertake new projects or investments by a company, commonly with the goal of increasing the scope of or adding some economic benefit to operations.

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

High Yield (HY) – Bonds that pay higher interest rates because they have lower credit ratings than investment grade (IG) bonds. HY bonds are more likely to default, so they must pay a higher yield than IG bonds to compensate investors.

ICE BofA Emerging Markets Corporate Plus Index – This index tracks the performance of U.S. dollar- and euro-denominated emerging markets nonsovereign debt publicly issued in the major domestic and eurobond markets.

Investment Grade (IG) – Rating that signifies a municipal or corporate bond presents a relatively low risk of default. Bonds below this designation are considered to have a high risk of default and are commonly referred to as high yield (HY) or "junk bonds." The higher the bond rating the more likely the bond will return 100 cents on the U.S. dollar.

It is not possible to 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 lower-rated and non-rated securities present a great risk of loss to principal and interest than higher rated 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 foreign securities involve political, economic, and currency risks, greater volatility, and differences in accounting methods. These risks are greater for investments in emerging markets. The Infrastructure Income Fund may use certain types of investment derivatives. Derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. The Fund may use leverage which may cause the effect of an increase or decrease in the value of the portfolio securities to be magnified and the Fund to be more volatile than if leverage was not used. The value of the Fund's infrastructure investments may be entirely dependent upon the successful development, construction, maintenance, renovation, enhancement or operation of infrastructure-related projects. Accordingly, the Fund has significant exposure to adverse economic, regulatory, political, legal, demographic, environmental, and other developments affecting the success of the infrastructure investments in which it directly or indirectly invests. The Fund is non-diversified meaning it may concentrate its assets in fewer individual holdings than a diversified fund.

Infrastructure Debt, Corporate Bonds, and other investment products have different risk-return profiles, which should be considered when investing. All investments contain risk and may lose value.

Diversification does not assure a profit, not does it protect against a loss in a declining market.

Past performance does not guarantee future results.

A fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contain this and other important information about the investment company and may be obtained by calling (877) 354-6311 / (877) DLINE11, or visiting www.doubleline.com. Read them carefully before investing.

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