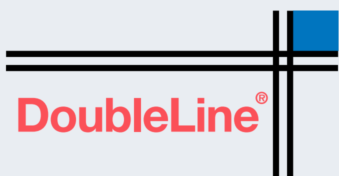


Residential Mortgages as Portfolio Building Blocks

DoubleLine Mortgage ETF | Ticker: **DMBS** | March 2024

The Case for Residential Mortgage-Backed Securities (RMBS)

- **Better Risk-Adjusted Returns:** RMBS have historically exhibited lower volatility and provided better risk-adjusted returns relative to U.S. Treasuries and the Bloomberg US Aggregate Bond Index. *(Figure 1)*
- **Higher-Yielding Government Securities:** Agency MBS have no credit risk and offer a higher yield compared to Treasuries to compensate investors for prepayment risk.
- **Lower Correlation to Equities:** Agency and non-Agency RMBS have historically exhibited a lower correlation to equities relative to corporate bonds, which can be beneficial to investors' portfolios during volatile periods. *(Figure 2)*
- **Attractive Entry Point:** Current valuations leave Agency RMBS current-coupon spreads in the 90th percentile over the last 10 years. Agency RMBS could offer an advantageous relative risk-reward dynamic for many years ahead as spreads mean revert.

Higher Risk-Adjusted Returns Than Corporate Bonds

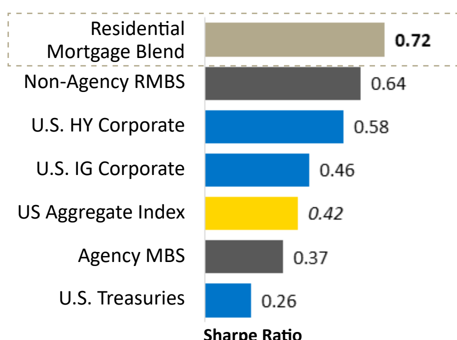


Figure 1
Source: DoubleLine, Bloomberg. February 2008 through December 2023.

Lower Correlation to Equities than Corporate Bonds

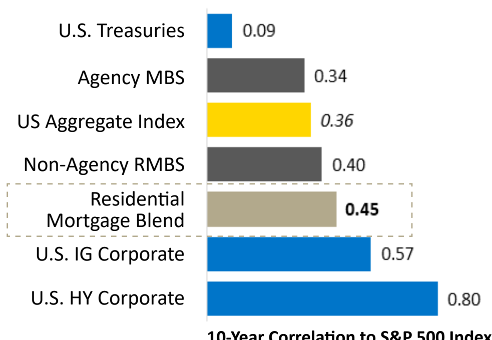


Figure 2
Source: DoubleLine, StyleAdvisor, Bloomberg. December 31, 2013, through December 31, 2023.

Agency/Non-Agency Residential Mortgage-Backed Securities (RMBS) Blend: 70% Bloomberg US MBS Index, 30% Amherst Non-Agency MBS Index; rebalanced monthly. **U.S. Treasuries:** Bloomberg US Treasury Index, **Agency Mortgage-Backed Securities:** Bloomberg US MBS Index, **US Agg Index:** Bloomberg US Aggregate Bond Index, **U.S. Investment Grade (IG) Corporates:** Bloomberg US Corporate Bond Index, **U.S. High Yield (HY) Corporates:** Bloomberg US Corporate High Yield Bond Index, **Non-Agency Residential Mortgage-Backed Securities:** Amherst Non-Agency MBS Index. You cannot invest directly in an index.

Why Active Management

- **Inefficiencies Within MBS Market:** Weighted averages of loan characteristics can mask differences among mortgage pools. By assessing the layered risks, i.e., loans that exhibit more than one component of default or prepayment risk, investors can select RMBS with stronger potential returns per unit of risk.
- **Coupon Selection and Out-of-Index Opportunities:** Actively allocating to different Agency pass-through coupons can offer the potential for higher risk-adjusted returns. Coupons trading slightly below par offer advantageous carry without sacrificing much convexity, while lower-coupon bonds provide optimal optionality to prepayments. There are also attractive opportunities in out-of-index Agency collateralized mortgage obligations, as it's possible to source lower-dollar-priced securities with positive convexity that can be used to manage duration.
- **Higher Risk-Adjusted Returns Combining Government Backing with Residential Credit:** Adding a 30% allocation to credit-based mortgages to a government-backed mortgage portfolio has historically improved return and reduced volatility.
  - Actively managing a combination of Agency RMBS with remote credit risk and nongovernment-guaranteed residential credit can provide investors the potential for higher risk-adjusted returns relative to a passive Agency RMBS portfolio.

DoubleLine Mortgage ETF

- **Potential for Higher Risk-Adjusted Returns Relative to a Passively Managed Portfolio of Agency MBS:** The DoubleLine Mortgage ETF (DMBS) seeks to generate excess return over the Bloomberg US MBS Index by investing in an actively managed portfolio of high-quality RMBS, assessing both prepayment and default risk.
- **DMBS Can Offer Investors:**
  - Actively managed exposure of high-quality Agency and non-Agency RMBS by an experienced team.
  - Exposure to a wider range of residential mortgage-related investments than those included in the Bloomberg US MBS Index.
- **DMBS Delivers a Time-Tested Investment Framework in a DoubleLine Exchange-Traded Fund:** DoubleLine's dedicated residential mortgage teams comprise seasoned investment professionals with decades of experience investing in residential mortgages through many market cycles and have been recognized as leaders in the space.

Terms and Definitions

Agency – Refers to mortgage-backed securities (MBS) whose principal and interest are guaranteed by a U.S. government agency such as Fannie Mae (FNMA) or Freddie Mac (FHLMC).

Amherst Non-Agency Mortgage Index – This index, updated monthly by Amherst, tracks the performance of non-Agency mortgages.

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 Corporate High Yield (HY) Bond Index – This index measures the U.S. dollar-denominated, HY, fixed-rate corporate bond market. Securities are classified as HY if the respective middle ratings of Moody's, Fitch and S&P are Ba1, BB+ or BB+ or below. The Bloomberg US HY Long Bond Index, including bonds with maturities of 10 years or greater, and the Bloomberg US HY Intermediate Bond Index, including bonds with maturities of 1 to 9.999 years, are subindices of the Bloomberg US Corporate HY Bond Index.

Bloomberg US Mortgage-Backed Securities (MBS) Index – This index measures the performance of investment grade, fixed-rate, mortgage-backed, pass-through securities of the government-sponsored enterprises (GSEs): Federal Home Loan Mortgage Corp. (Freddie Mac), Federal National Mortgage Association (Fannie Mae) and Government National Mortgage Association (Ginnie Mae).

Bloomberg US Treasury Index – This index measures U.S. dollar-denominated, fixed-rate nominal debt issued by the U.S. Treasury with a remaining maturity of one year or more. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index.

Collateralized Mortgage Obligation (CMO) – Refers to a type of mortgage-backed security that contains a pool of mortgages bundled together and sold as an investment. Organized by maturity and level of risk, CMOs receive cash flows as borrowers repay the mortgages that act as collateral on these securities. In turn, CMOs distribute principal and interest payments to investors based on predetermined rules and agreements.

Convexity – A measure of the curvature, or the degree of the curve, in the relationship between bond prices and bond yields. Convexity demonstrates how the duration of a bond changes as the interest rate changes. Portfolio managers will use convexity as a risk-management tool, to measure and manage the portfolio's exposure to interest rate risk.

Duration – A commonly used measure of the potential volatility of the price of debt securities in response to a change in interest rates prior to maturity. Securities with longer duration generally have more volatile prices than securities of comparable quality with shorter duration.

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.

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.

Mortgage-Backed Securities (MBS) – Investment similar to a bond that is made up of a bundle of home loans bought from the banks that issued them. Investors in MBS receive periodic payments similar to bond coupon payments.

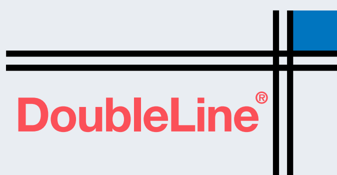
Pass-Through Security – Pool of fixed income securities backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security (that is, people or entities who have invested in it).

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.

Sharpe Ratio – Used to help investors understand the return of an investment compared to its risk. The ratio is the average return earned in excess of the risk-free rate per unit of volatility or total risk. Volatility is a measure of the price fluctuations of an asset or portfolio. Subtracting the risk-free rate from the mean return allows an investor to better isolate the profits associated with risk-taking activities. The risk-free rate of return is the return on an investment with zero risk, meaning it's the return investors could expect for taking no risk. The yield for a U.S. Treasury bond, for example, could be used as the risk-free rate.

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.

You cannot invest directly in an index.



Residential Mortgages as Portfolio Building Blocks

DoubleLine Mortgage ETF | Ticker: **DMBS** | March 2024

The 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 (855) 937-0772, or visiting DoubleLine.com. Read them carefully before investing.

Investing involves risk. Principal loss is possible. Equities may decline in value due to both real and perceived general market, economic and industry conditions.

The Fund is a "non-diversified" investment company and therefore may invest a greater percentage of its assets in the securities of a single issuer or a limited number of issuers than funds that are "diversified." Accordingly, the Fund is more susceptible to risks associated with a single economic, political or regulatory occurrence than a diversified fund might be.

ETF investments involve additional risks such as the market price trading at a discount to its net asset value, an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact a fund's ability to sell its shares.

While Agency MBS may have no credit risk, the fund is subject to credit risk, which is the risk that an issuer, counterparty or other obligor to the Fund will fail to pay its obligations when they are due, which may reduce the Fund's income and/or reduce, in whole or part, the value of the Fund's investment.

Mortgage backed securities risk is the risk that borrowers may default on their mortgage obligations or the guarantees underlying the mortgage-backed securities will default or otherwise fail and that, during periods of falling interest rates, mortgage-backed securities will be called or prepaid, which may result in the Fund having to reinvest proceeds in other investments at a lower interest rate.

Real estate sector risk is the risk that real estate-related investments may decline in value as a result of facotrs affecting the real estate sector, such as the supply of real property in certain markets, changes in zoning laws, delays in completion of construction and changes in real estate values.

For additional information regarding the unique attributes and risks of the ETF, see the ETF Prospectus and SAI, which are available on the DoubleLine website.

Important Information Regarding This Material

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