



Shifting Tides Present Opportunities for Commercial Real Estate Investors

Morris Chen, Portfolio Manager

Phil Gioia, CFA, Product Specialist | May 2024



Despite headlines highlighting risks to commercial real estate (CRE) fundamentals, the non-Agency commercial mortgage-backed securities (CMBS) market has outperformed many other fixed-income sectors to start the year. (Figure 1) Performance across the capital structure can be attributed to improved investor sentiment that has contributed to meaningfully tighter spreads from year-end 2023.

Non-Agency CMBS and Corporate Credit Performance Year-to-Date

As of April 30, 2024

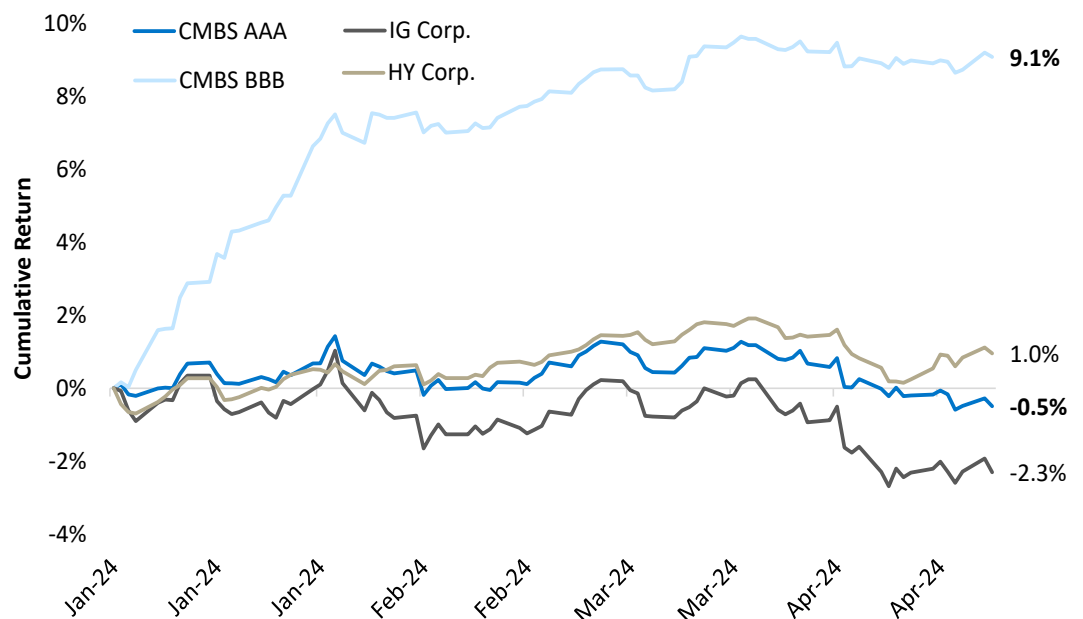


Figure 1

Source: DoubleLine, Bloomberg.

Investment Grade (IG), High Yield (HY). See disclosures for the indices used in this figure.



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This is in stark contrast to just one year ago, when the CRE market faced converging headwinds of rising interest rates, slowing transaction volume and declining property valuations. What has changed this year is increased loan availability and strong capital markets, particularly within CMBS, which have provided qualified borrowers an avenue to refinance their loans. Even with a recent rise in interest rates and a higher-for-longer narrative, there remains improved clarity on asset valuations coupled with the likely bottoming of most property prices. (Figure 2) As such, we believe transaction volumes will continue to increase in conjunction with greater debt availability. Further, as the gap between buyers and sellers narrows, we believe this will give the market a better feel for valuations and form a positive feedback loop that begets additional transactions and, subsequently, greater clarity on valuations.

CRE Property Prices | As of March 31, 2024

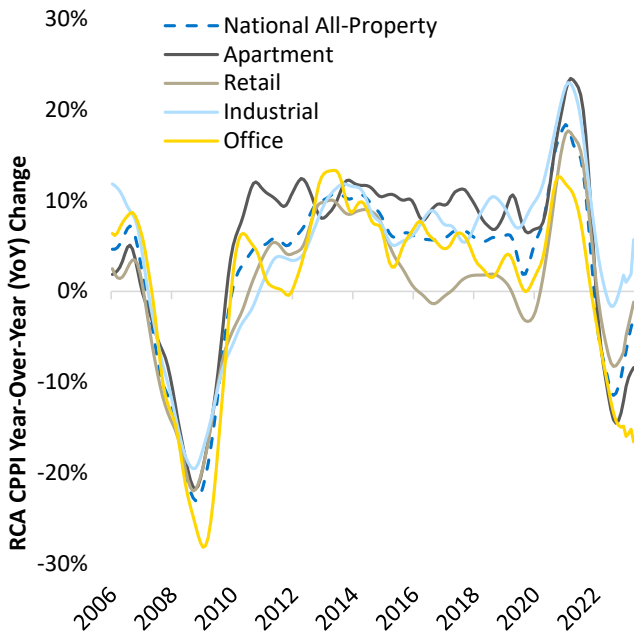


Figure 2
Source: DoubleLine, RCA Consumer Property Price Index (CPPI)

While headlines of CRE loans defaulting at maturity will likely remain prevalent, we caution against painting the CRE market with broad strokes. For example, approximately 80% of conduit loans scheduled to mature last year paid off on time. (Figure 3) Parsing through the underlying data, much of the deterioration in payoff rates has been in the office sector while other property types have continued to largely pay off without issue and do not indicate a cause for concern for systemic weakness. (See: [Commercial Real Estate Update](#))

Conduit Payoff History by Original Maturity Year As of December 31, 2023

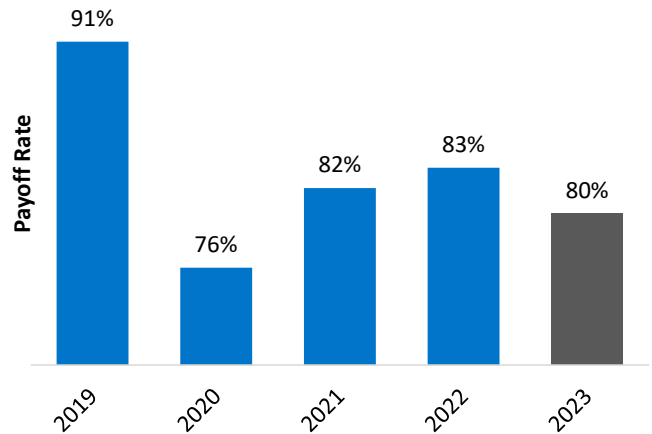


Figure 3
Source: DoubleLine, BofA Global Research

Another positive for the CMBS market has been an improvement in issuance volume from last year's anemic pace. First quarter private-label CMBS issuance was roughly \$19 billion, over 2.5x the first quarter of 2023 and consistent with a pickup in investor demand amid a more favorable fundamental outlook for CRE. (Figure 4)

Private-Label CMBS Issuance | As of March 31, 2024

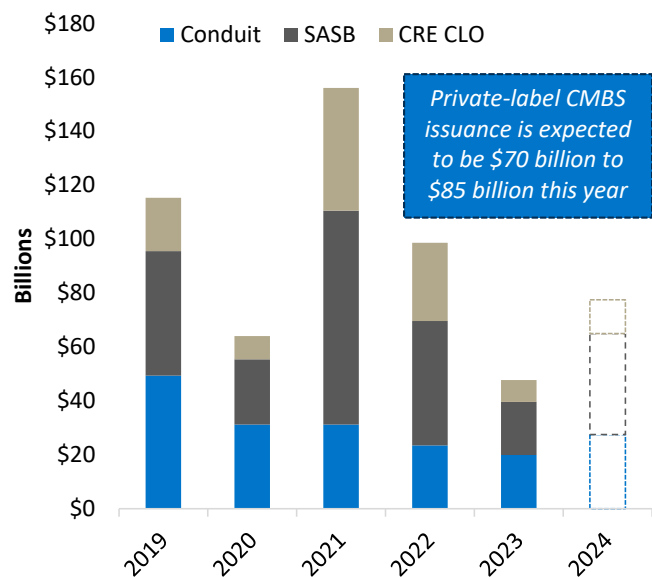


Figure 4
Source: DoubleLine, J.P. Morgan
Single Asset, Single Borrower (SASB), Collateralized Loan Obligation (CLO)



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That said, uncertainty remains. A higher interest-rate environment will likely continue to generate headwinds for CRE borrowers, but we do not believe that it will hinder all borrowers' ability to refinance. We expect lenders and servicers will continue to employ modifications and extensions – practices that should result in higher recoveries than near-term foreclosures and liquidations. Borrowers with cash-flowing assets are likely to receive extensions, as are those that have experienced price appreciation in their underlying assets and are willing to put in more equity. To the extent new risks arise, we expect issues to remain largely idiosyncratic and isolated to individual assets in certain troubled sectors. Property types that we anticipate investors will continue to favor include industrial, higher-quality multifamily, trophy office, resort hotel, necessity-based retail and certain segments of lodging.

This dispersion of potential outcomes across property types and bond structures should allow for active management to shine. A crucial benefit to an actively managed, diversified CMBS portfolio is the ability to avoid underperforming properties and geographies, and proactively shift exposure across the CRE landscape, informed by fundamental top-down and bottom-up research and analysis. The heterogeneous nature of individual CRE assets, as well as the bespoke nature of CMBS investments, necessitates active management for successful all-weather navigation through economic cycles.

The DoubleLine Commercial Real Estate ETF (DCRE) is positioned to capitalize on the opportunities present in the CMBS market. DCRE is focused on the most-senior portions of the capital structure, which currently present attractive yields relative to other fixed-income sectors, while allocating to relatively low-duration securities, which can help mitigate price declines should interest rates move higher. We believe these higher-yielding, shorter-duration securities give investors the opportunity to generate attractive risk-adjusted returns across a variety of interest rate and economic scenarios.

DCRE leverages the dedicated DoubleLine CRE team's deep experience and track record. Their proprietary top-down macroeconomic and property market views are paired with a bottom-up approach to credit analysis for a curated portfolio of CRE property types and CMBS subsectors. (Figure 5) In general, the portfolio favors senior-rated conduit multiborrower transactions with loan- and property-type diversification that have de-leveraged over time and exhibit limited extension risk. We also see opportunities in out-of-index floating-rate SASB loans and CRE CLOs with prepayment upside and asymmetric return to risk profiles. These bonds are unlikely to suffer losses, even in a downturn, and trade at attractive yields with additional upside potential should fundamental scenarios play out better than expectations. ■

DCRE Subsector Exposure | As of March 31, 2024

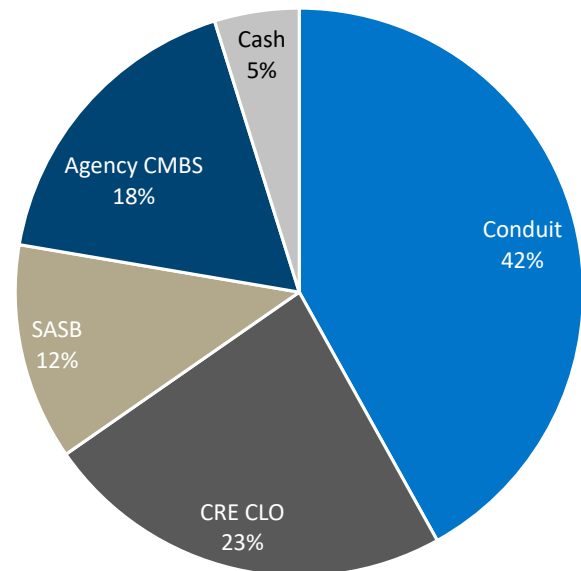
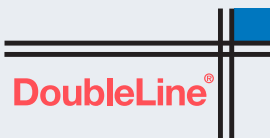


Figure 5
Source: DoubleLine

DoubleLine's CRE team members have an average of 17 years of CRE experience and today manage \$7.2 billion in CMBS and CRE debt in CRE-dedicated and multisector investment strategies and portfolios. DoubleLine's CRE team invests across the credit spectrum and capital structure; participates in CRE direct originations; and maintains deep working relationships with the industry's top CRE lenders, owners and operators.



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DoubleLine Commercial Real Estate ETF Portfolio Managers



Morris Chen
Portfolio Manager

Mr. Chen joined DoubleLine at its inception in 2009. He is a Portfolio Manager leading the CMBS/CRE Debt Investment team and CRE New Investment Review team, and is responsible for the oversight and management of all CRE debt-related investments at DoubleLine. Mr. Chen is a permanent member of the Fixed Income Asset Allocation and Structured Products committees, providing valued insight into the CMBS sector. He is also an active participant and speaker at CREFC events. Prior to DoubleLine, Mr. Chen was a Vice President at TCW, where he was responsible for CMBS credit analysis and trading from 2004 to 2009. He holds a B.S. in Business Administration with concentrations in Business Development and Finance from the University of California, Riverside.



Mark Cho
Portfolio Manager

Mr. Cho joined DoubleLine in 2013. He is a Portfolio Manager responsible for the CMBS credit platform at DoubleLine and is part of the CRE New Investment Review team. Prior to DoubleLine, he was an Investment Associate at H/2 Capital Partners covering a broad range of real estate credit opportunities. Prior to that, Mr. Cho worked in real estate acquisitions as a Director at Jamison Properties. He began his career as an Investment Banking Analyst at Lehman Brothers. He holds a B.A. in Economics from Stanford University and an MBA from the Wharton School at the University of Pennsylvania. Mr. Cho is a member of the Founder's Circle of Stanford Professionals in Real Estate (SPIRE).



Robert Stanbrook
Portfolio Manager

Mr. Stanbrook joined DoubleLine in 2019. He is a Portfolio Manager responsible for the CRE loan platform as well as DoubleLine's CRE CLO portfolios. Mr. Stanbrook is also a CRE ESG specialist on DoubleLine's ESG Investment team, responsible for overseeing and monitoring the ESG integration framework for the CMBS/CRE team. Prior to DoubleLine, he was a Principal and Chief Credit Officer with Narrative Capital Management. Prior to that, Mr. Stanbrook was a Vice President at Colony Capital, with day-to-day oversight of origination and underwriting for a \$3 billion bridge lending platform. He began his career in origination and acquisition roles at Karlin Asset Management/Calmwater Capital. Mr. Stanbrook holds a B.A. in Business Administration from Loyola Marymount University.

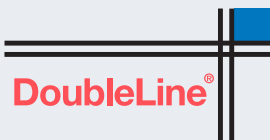
DoubleLine Commercial Real Estate ETF (DCRE) Performance

Quarter-End Returns As of June 30, 2024 (%)	1 Month	2Q2024	Year-to-Date	1 Year	Since Inception (3-31-2023)
Market	0.70	1.71	3.33	7.35	7.08
NAV	0.58	1.57	3.19	7.29	6.85
Bloomberg US Agg 1-3 Yr. Index	0.56	0.95	1.41	4.92	3.61

Gross Expense Ratio: 0.39%

Performance reported for time periods greater than one year are annualized.

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 www.doubleline.com.



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Author Biographies



Morris Chen
Portfolio Manager, CMBS/CRE

Mr. Chen joined DoubleLine at its inception in 2009. He is a Portfolio Manager leading the CMBS/CRE Debt Investment team and CRE New Investment Review team, and is responsible for the oversight and management of all CRE debt-related investments at DoubleLine. Mr. Chen is a permanent member of the Fixed Income Asset Allocation and Structured Products committees, providing valued insight into the CMBS sector. He is also an active participant and speaker at CREFC events. Prior to DoubleLine, Mr. Chen was a Vice President at TCW, where he was responsible for CMBS credit analysis and trading from 2004 to 2009. He holds a B.S. in Business Administration with concentrations in Business Development and Finance from the University of California, Riverside.



Phil Gioia, CFA
Product Specialist, Macro Asset Allocation

Mr. Gioia joined DoubleLine in 2018. He is a member of the Macro Asset Allocation team, on 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 he earned a certification for the Applied Data Science Program from the Massachusetts Institute of Technology. Mr. Gioia is a CFA® charterholder and holds the FINRA Series 7 and 63 licenses.

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](https://www.doubleline.com). Read them carefully before investing.

Definitions

Indices used in Figure 1: **CMBS:** ICE BofA U.S. Fixed-Rate Commercial Mortgage-Backed Securities (CMBS) Index; **IG Corp.:** Bloomberg US Corporate Index; **HY Corp:** Bloomberg US Corporate High Yield Bond Index.

Bloomberg US Corporate High Yield (HY) 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 Index.

Bloomberg US Corporate 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.

Collateralized Loan Obligation (CLO) – Single security backed by a pool of debt.

Conduit Loans – Type of loans, also known as commercial mortgage-backed securities (CMBS) loans, that are commercial real estate loans pooled together with similar commercial mortgages and sold on the secondary market. On the secondary market, conduit loans are divided into tranches based on risk, return and loan maturity.

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.

ICE BofA U.S. Fixed-Rate Commercial Mortgage-Backed Securities (CMBS) Index – This index tracks the performance of U.S. dollar-denominated, investment grade (IG), fixed-rate commercial mortgage-backed securities (CMBS) publicly issued in the U.S. domestic market. Qualifying securities must have an IG rating (based on an average of Moody's, S&P and Fitch), a fixed coupon schedule, at least one year remaining to final maturity and at least one month to last expected cash flow.

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.

Market Price – Weighted average of the prices of a fund's portfolio holdings. While a component of the fund's net asset value (NAV), it should not be confused with the fund's NAV.

Maturity – Date on which the life of a transaction or financial instrument ends, after which it must be renewed or it will cease to exist.

Net Asset Value (NAV) – Net value of an entity calculated as the total value of the entity's assets minus the total value of its liabilities. Most commonly used in the context of a mutual fund or an exchange-traded fund (ETF), the NAV represents the per share/unit price of the fund at a specific date or time.

Non-Agency Commercial Mortgage-Backed Security (CMBS) – Debt-based security (similar to a bond), backed by the interest paid on loans for commercial properties. "Non-Agency" refers to CMBS not issued by the government-sponsored enterprises.

RCA Commercial Property Price Index (CPPI) – This index describes various nonresidential property types for the U.S. (10 monthly series from 2000). It is a periodic same-property round-trip investment price-change index of the U.S. commercial investment property market. The dataset contains 20 monthly indicators.

You cannot invest directly in an index.



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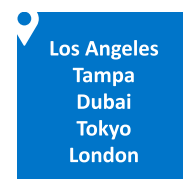
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