DoubleLine Low Duration Bond: Unlocking the Potential in Short-Term Fixed Income

Colin Callahan, Product Specialist | September 2023

Key Takeaways

- *The combination of tight monetary policy, inflation above the Federal Reserve's 2% target and elevated recession concerns has caused investors to seek refuge in money market funds and U.S. Treasury bills, with both yielding nearly 5.5%.*
- *Investors focusing only on the shortest-maturity fixed-income instruments could introduce reinvestment risk to their portfolios and fail to recognize current opportunities presented within fixed income markets.*
- *In today's environment, short-duration fixed income can provide investors with many of the attributes that have historically defined core fixed-income portfolios, including high-quality securities and attractive yield profiles, while mitigating interest rate risk due to its shorter duration profile.*
- *As the Fed's campaign of monetary policy tightening seems to be near its end, investors should reconsider their allocations to T-bills. Looking back at the past three recessions, short-term bonds have historically outperformed cash, on average, after the Fed stops tightening on a one- and three-year forward-looking basis.*
- *The DoubleLine Low Duration Bond Fund (I shares DBLSX), a high-quality, diversified and flexible approach to short-term fixed income, seeks to take advantage of the current opportunities in this market while limiting duration and credit risk.*

Fixed income investors endured steep drawdowns in calendar year 2022 after decades-high inflation prints drove a significant policy-tightening campaign by the Fed, fueling a rise in interest rates across the Treasury curve. The traditional tool of investor diversification, a 60-40 portfolio of equities and fixed income, generally failed to limit downside as negative performance in fixed income was mirrored by drawdowns in equity markets. Going forward, the combination of tight monetary policy, inflation above the Fed's 2% target and elevated recession concerns has caused investors to seek refuge in money market funds and Treasury bills, with both yielding nearly 5.5%. As of Sept. 30, assets in money market funds had grown approximately $910 billion year-to-date, a 20% gain, to an all-time high of $5.6 trillion. *(Figure 1)*

Money Market Fund Assets | September 30, 2023

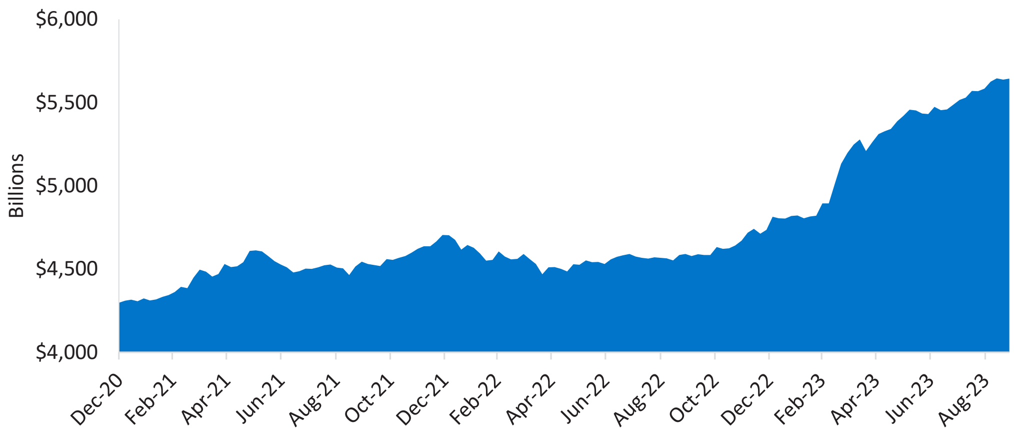

Figure 1
Source: DoubleLine, Bloomberg, Investment Company Institute

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Investors focusing only on the shortest-maturity fixed-income instruments could introduce reinvestment risk to their portfolios and fail to recognize current opportunities presented within fixed income markets.

The DoubleLine team believes that investors can limit both duration and credit risk while still taking advantage of current market opportunities. A high-quality, diversified and flexible approach to short-term fixed income, such as the DoubleLine Low Duration Bond Fund (DBLSX, the "Fund"), can augment investor portfolios in the current market environment.

Why Now?

When considering fixed income allocations today, an inverted Treasury yield curve is an important element of context. Decades-high inflation prompted historic Fed monetary policy moves, which created an environment in which rates on the short end of the Treasury curve are higher than rates on the intermediate and long end. Investor concerns regarding inflation and the future path of rates is well warranted. Investors in 2022 were reminded about the double-edged sword of duration risk as intermediate-term bonds faced stiff headwinds, with the Agg falling 13% on the year, its worst annual performance. 2023 has been a tail of two halves so far, as fixed income investors got off to a good start but were reminded of duration risk in the third quarter when the yield on the 10-year Treasury increased 73 bps. The increase in rates drove down the Agg 3.2% in the quarter after posting a 2.1% increase in the first half of the year.

We believe volatility driven by macro uncertainty creates an opportunity for sector rotation by managers with the flexibility of a multisector approach to unlock the best relative-value opportunities. Given current valuations and the high degree of uncertainty in the macro environment, we remain cautious and are prudently managing the types of credit risk within the Fund. DoubleLine believes such an approach could put the Fund in a favorable position to add to risk sectors should credit spreads widen.

While yields on cash equivalents are attractive today, yields on short-term bond funds are also higher than they have been in years, and yields have a strong relationship to future potential returns. With this in mind, the DoubleLine Low Duration Bond Fund provides a pickup in yield over T-bills and other cash equivalents.

As the Fed's campaign of monetary policy tightening seems to be near its end, largely due to elevated recession expectations, investors should reconsider their allocations to T-bills. Looking back at the past three recessions, short-term bonds historically outperformed cash, on average, after the Fed stops tightening on a one- and three-year forward-looking basis.[1] *(Figure 2)*

Average Returns After Fed Stopped Tightening

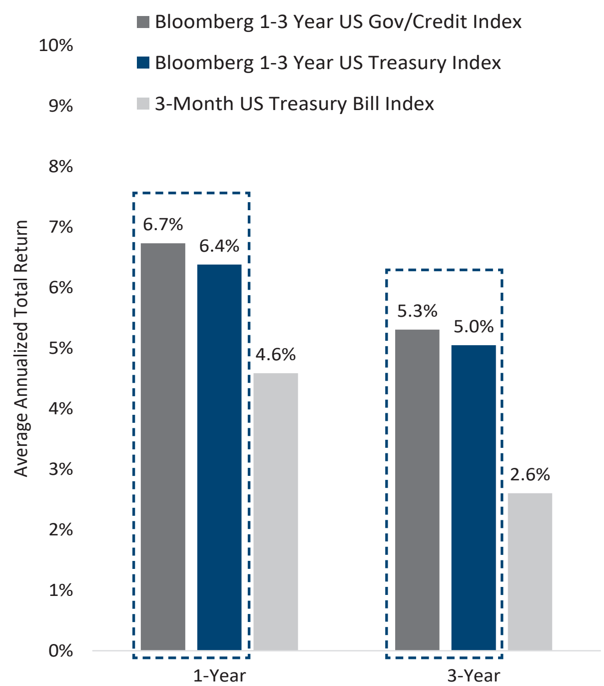

Figure 2
Source: DoubleLine, Bloomberg
Dashed box represents short-duration fixed income.
Time periods used for analysis: Dot.com pause lasted from March 16, 2000, until Jan. 3, 2001 (eight months); Global Financial Crisis pause lasted from June 29, 2006, to Sept. 18, 2007 (15 months); COVID-19 pause lasted from Dec. 20, 2018, to Aug. 1, 2019 (nine months). A pause is the period between the last Fed rate hike and the first rate cut. Returns greater than one year are annualized. You cannot invest directly in an index.

Why DoubleLine Low Duration?

In general, the two main risks to a fixed income portfolio are interest rate risk and credit risk, which are generally measured by duration and credit spread, respectively. At DoubleLine, our goal is to maximize the risk-adjusted return (as measured by the Sharpe ratio) of a fixed income portfolio. Thus, we seek to construct a portfolio that maximizes yield per unit of duration with an adjustment for credit quality. This approach aims to dampen volatility and drawdowns while capturing currently elevated short-term yields.

[1] Cash returns are represented by the ICE BofA 3-Month U.S. Treasury Bill Index.

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In today's environment, short-duration fixed income can provide investors with many of the attributes that have historically defined core fixed-income portfolios, including high-quality securities and attractive yield profiles, while mitigating interest rate risk due to its shorter duration profile. *(Figure 3)*

DoubleLine's investment approach combines rigorous bottom-up fundamental analysis with the firm's top-down macroeconomic views. The following characteristics are key benefits that the Fund provides and which differentiate the Fund from its peer group:

- Stable team of veteran portfolio managers with experience working together through multiple market environments
- Broad investment universe compared to other active and passive approaches
- Actively managed sector positioning and security selection
- Historically lower portfolio drawdowns
- Historically higher risk-adjusted returns

Attractive Yields Across Short Term Indices | September 30, 2023

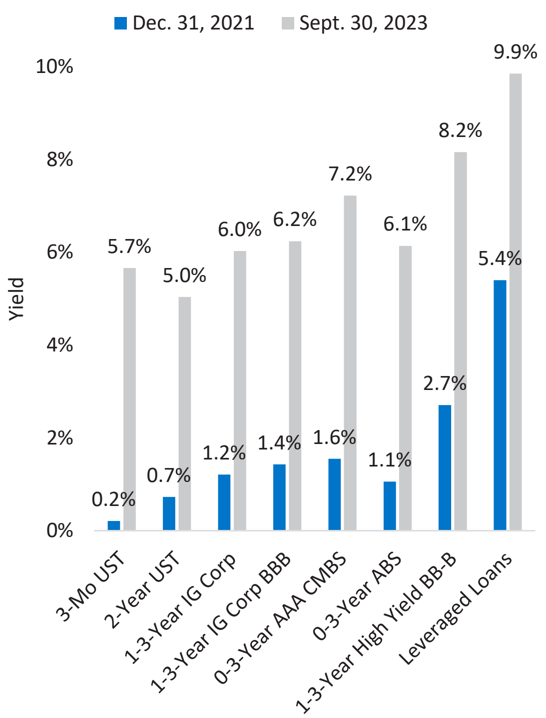

Figure 3
Source: DoubleLine, Bloomberg
U.S. Treasury (UST); Investment Grade (IG); Corporate Bonds (Corp); Commercial Mortgage-Backed Securities (CMBS); Asset-Backed Securities (ABS)
Duration and Credit Quality bands are sub-indices of the larger index, defined at the end of this presentation.

DoubleLine Process and Philosophy

DoubleLine's seasoned investment team has decades of experience investing in global fixed income through many market cycles and various interest-rate environments and has been recognized as leaders in the industry. Our time-tested investment philosophy and process have established track records of strong absolute and risk-adjusted returns. Active management permeates all stages of the Fund's investment process, starting with our top-down macroeconomic outlook, which influences sector positioning and credit exposures, to our bottom-up sponsor, asset and security level analysis. Each step in the process is focused on finding the best reward-to-risk ratio and relative value opportunities as well as assessing how the sectors relate to each other across a portfolio. The team controls these risks by shifting sector allocations within the portfolio, the security selection process at the time of investment, and ongoing monitoring of the portfolio and individual security holdings. Our holistic approach helps ensure our investors are properly compensated for the commensurate risk. The portfolio management team has been working together for 17 years on average, and they are able to draw on this experience when integrating global fixed-income sectors into the Fund. This experience is also important in risk management, which involves a deep understanding of not only the underlying collateral, sectors and asset types but also knowing when to shift allocations in the face of changing market and credit conditions. Put together, we believe this repeatable, comprehensive approach gives the Fund one of its competitive advantages.

Performance and Portfolio Strategy

DoubleLine was founded to offer investment services under a cardinal mandate: deliver better risk-adjusted returns. This mandate includes the avoidance of unnecessary risk-taking that can lead to principal losses. This philosophy is evident in the Fund's track record of generating attractive absolute and risk-adjusted returns.

Since inception through Sept. 30, 2023, the Fund has:

- Generated a return that has outperformed over 84% of peers
- Displayed lower volatility, as measured by standard deviation, than 58% of peers
- Lower drawdowns; outperformed benchmark by 96 basis points (bps) in 2022
- On a risk-adjusted basis, as measured by the Sharpe ratio, outperformed 95% of peers *(Figure 4)*

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The Fund's superior risk-adjusted track record among the Morningstar Short-Term Bond Category is largely due to its differentiated investment approach. In general, the category comprises funds that are predominately positioned in short-term investment grade (IG) corporate bonds. However, DoubleLine's approach to the space is unique given its broad investment universe, which pairs IG corporate credit with:

- Securitized Credit, including:
  - Collateralized Loan Obligations
  - Asset-Backed Securities
  - Commercial Mortgage-Backed Securities
  - Non-Agency Mortgage-Backed Securities (MBS)
- Agency MBS
- Bank Loans
- Emerging Markets Debt
- U.S. Treasuries

Despite drawdowns across both equities and fixed income in 2022, the importance of a diversified portfolio to mitigate return volatility remains at the crux of portfolio construction. As such, the Fund has historically provided low correlated returns to various fixed-income benchmarks since inception (a 1.0 would mean perfect positive correlation):

- A correlation of 0.11 to the ICE BofA 1-3 Year U.S. Treasury Index
- A correlation of 0.37 to the Bloomberg US Aggregate 1-3 Year Bond Index
- A correlation of 0.44 to the Bloomberg US Aggregate Bond Index (the "Agg")

Conclusion

With yields elevated on the front end of the Treasury curve, and many high-quality sectors presenting substantial spreads above the Treasury curve, DoubleLine believes a diversified, short-term bond portfolio is a compelling strategy thanks to its defensive nature, higher all-in yields and total return potential. The DoubleLine Low Duration Bond Fund offers a distinct vehicle for investors to access the broad universe of short-term fixed-income sectors that can potentially provide attractive total returns relative to T-bills and money market funds. ■

Peer Group Ranking: Manager vs. Morningstar Short-Term Bond

October 1, 2011 through September 30, 2023	One Year 574 Mng	Three Years 549 Mng	Five Years 521 Mng	Ten Years 441 Mng	Since Inception 391 Mng
Sharpe Ratio Rank	9th	9th	16th	5th	5th
Sharpe Ratio Quartile Rank	1st	1st	1st	1st	1st
Return Rank	9th	5th	16th	10th	16th
Return Quartile Rank	1st	1st	1st	1st	1st

Figure 4
Source: DoubleLine, Zephyr. Mng = Mangers

DoubleLine Low Duration Bond Fund Performance

Quarter-End Returns September 30, 2023 (%)	One Month	Three Months	Year-to-Date	One Year	Three Years	Five Years	Ten Years	Since Inception	Gross Expense Ratio
I Share (DBLSX)	0.09	1.31	3.92	5.00	0.92	1.74	1.86	2.02	0.43
N Share (DLSNX)	0.07	1.35	3.84	4.85	0.67	1.51	1.61	1.78	0.67
ICE BofA 1-3 Yr. U.S. Treasury Index	-0.01	0.74	1.72	2.47	-0.84	1.06	0.81	0.75	
Bloomberg US Agg 1-3 Yr. Bond Index	-0.06	0.74	1.89	2.80	-0.73	1.16	1.01	1.01	

The performance information shown assumes the reinvestment of all dividends and distributions.Returns for periods greater than one year are annualized.
The Fund incepted on September 30, 2011.

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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About the Author

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Product Specialist

Mr. Callahan joined DoubleLine in 2018. He is a member of the Product Specialist Team. In this capacity, he is responsible for various aspects of DoubleLine product marketing, investment strategy updates, portfolio communications and competitive analysis, with a focus on DoubleLine's Global Developed Credit strategies. Mr. Callahan is also responsible for producing market commentary and dedicated strategy content. As part of the Product Specialist team he attends the Fixed Income Asset Allocation, Macro Asset Allocation, Global Developed Credit, and Structured Product meetings. Prior to DoubleLine, Mr. Callahan was an Assistant Vice President at Gabelli Funds. He holds a BS in Finance from Fairfield University cum laude and an MBA in Finance from the UCLA Anderson School of Management. Mr. Callahan also holds the Series 7 and 63 Licenses.

Definitions of Terms and Index Descriptions

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).

Asset-Backed Securities (ABS) – Investment securities, such as bond or notes, that are collateralized by a pool of assets, such as loans, leases, credit card debt, royalties or receivables.

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 1-3 Year US Government/Credit Index – This index, which tracks components with a maturity of one to three years, is a broad-based flagship benchmark that measures the nonsecuritized component of the Bloomberg US Aggregate Bond Index. It includes investment grade, U.S. dollar-denominated, fixed-rate U.S. Treasuries, and government-related and corporate securities.

Bloomberg 1-3 Year 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 to three years. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index.

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 Aggregate 1-3 Year Bond Index – This index tracks the one- to three-year component of the Bloomberg US Aggregate Bond Index, which represents securities that are SEC registered, taxable and dollar denominated in the U.S. investment grade, fixed-rate bond market.

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

Commercial Mortgage-Backed Securities (CMBS) – Securitized loans made on commercial rather than residential properties.

Correlation – A statistical measurement of the relationship between two variables. Possible correlations range from +1 to -1. A zero correlation indicates no relationship between the variables; -1 indicates a perfect negative correlation; +1 indicates a perfect positive correlation.

Drawdown – Peak-to-trough decline during a specific period for an investment, trading account or fund. A drawdown is usually quoted as the percentage between the peak and the subsequent trough.

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 1-3 Year U.S. Treasury Index – An unmanaged index that tracks the performance of the direct sovereign debt of the U.S. government having a maturity of at least one year and less than three years.

ICE BofA 3-Month U.S. Treasury Bill Index – This unmanaged index comprises a single U.S. Treasury issue with approximately three months to final maturity, purchased at the beginning of each month and held for one full month.

Non-Agency Mortgage-Backed Securities (MBS) – MBS whose principal and interest are not guaranteed by a U.S. government agency such as Fannie Mae (FNMA) or Freddie Mac (FHLMC).

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.

Standard Deviation – Measure of the variation or dispersion of a set of data from its mean or expected/budgeted value. 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. A measure of an investment's volatility.

Yield Curve – A line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. There are three main types of yield curve shapes: normal (upward sloping curve), inverted (downward sloping curve) and flat.

It is not possible to invest directly in an index.

An investment in a Money Market Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency, and it is possible to lose money by investing in a Money Market Fund.

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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 (877) 354-6311 / (877) DLINE11, or visiting www.doubleline.com. Read them carefully before investing.

DoubleLine Low Duration Bond Fund Disclosure

Mutual fund investing involves risk; Principal loss is possible.

Past performance does not guarantee future results.

Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for investments in emerging markets. 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. Derivatives involve special risks including correlation, counterparty, liquidity, operational, accounting and tax risks. These risks, in certain cases, may be greater than the risks presented by more traditional investments. Investing in ETFs involve additional risks such as the market price of the shares may trade at a discount to its net asset value ("NAV"), 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 Funds ability to sell its shares.

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

Zephyr StyleADVISOR uses returns-based style analysis to determine managers' investment styles and to create a style benchmark for evaluating manager performance. StyleADVISOR also tests for style consistence. Zephyr StyleADVISOR is a third party vendor, whose data is believed to be accurate, but cannot be guaranteed.

Morningstar Disclaimer:
Morningstar rankings represent a fund's total-return percentile rank relative to all funds that have the same Morningstar category. The highest percentile rank is 1 and the lowest is 100. It is based on Morningstar total return, which includes both income and capital gains or losses and is not adjusted for sales charges or redemption fees. Morningstar Rankings (Absolute) represent a fund's total-return rank relative to all funds that have the same Morningstar Category. The highest rank is 1 and the lowest is based on the total number of funds ranked in the category. Past performance is not a guarantee of future results.

DoubleLine Disclosure

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