DoubleLine® FUNDS

Quarterly Commentary

Shiller Enhanced CAPE®

DSEEX/DSENX

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DoubleLine® FUNDS

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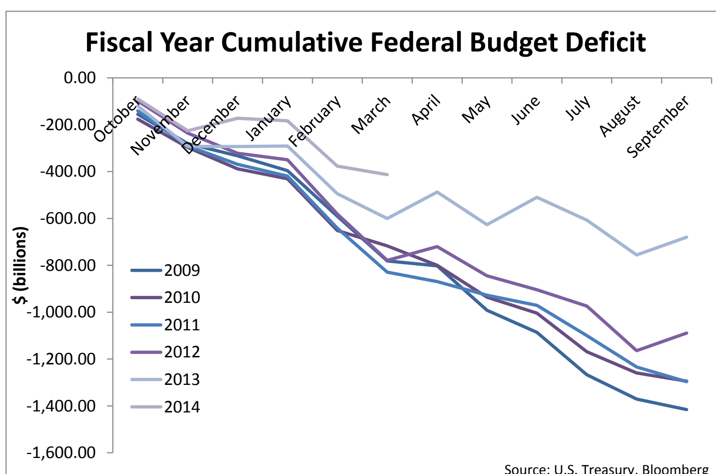
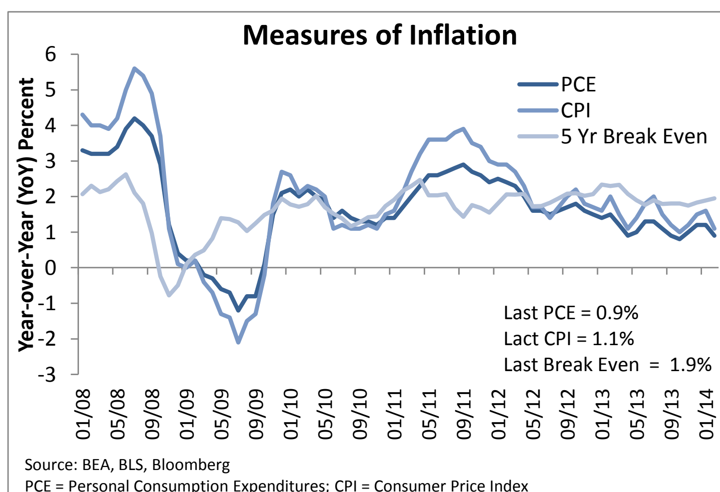
Overview

Record cold temperatures across a broad swath of the U.S. led to disappointing economic data to begin the first quarter of 2014. This posed another opportunity to question the 'escape velocity' of the recovery, particularly on the back of data showing Gross Domestic Product (GDP) growth during the second half of 2013 was the strongest such growth in a decade. The poor data spooked equity markets to the tune of a 3.5% fall in the S&P 500 Index on a total return basis, and 10-year U.S. Treasury (UST) yields fell 38 basis points (bps).

Since January, however, something of a sea change occurred, as most investors ascribed the poor data purely to weather related issues. With "tapering" of its Quantitative Easing (QE) program in full swing, investors subsequently began focusing on when the Federal Reserve (the Fed) would eventually raise rates. This sentiment was largely fueled by an unemployment rate that was quickly approaching the Fed's previously stated target of 6.5% (a target which has since been discarded), the belief that the budget agreement reached in December would reduce much of the fiscal drag seen in 2013, and inflation measures that were slowly inching higher into the end of 2013. Hawkish sentiment also was expressed in Fed Chair Janet Yellen's first press conference after the Federal Open Market Committee (FOMC) meeting on March 19th. When asked to clarify the timing on plans to keep the federal funds rate near zero for a "considerable time", Fed Chair Yellen replied that it "probably means [...] around six months." This was decidedly a shorter timeline than most market participants had anticipated. Subsequent comments from the Fed have attempted to walk back this hawkish view.

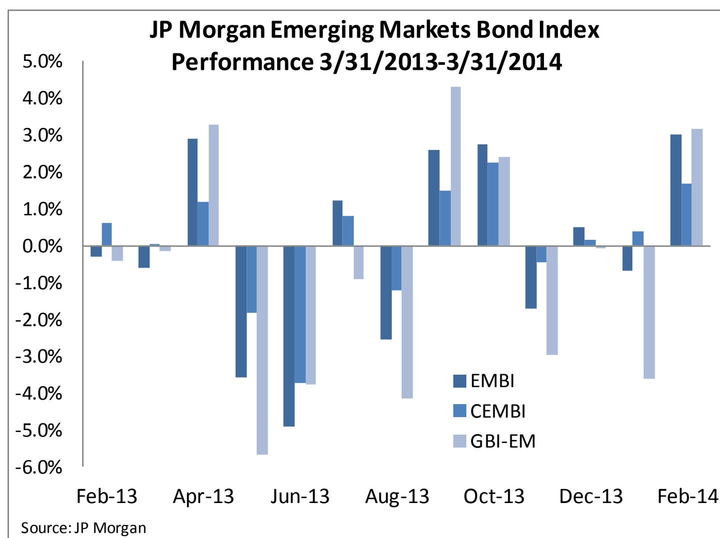
The pickup in intermediate rates offered a contrast to the growing commentary on 'secular stagnation', continued elevated levels of the long-term unemployed, and levels of inflation that are historically quite low. Data from the eurozone suggested inflation of only 0.5% in the latest print, and more momentum seems to be gaining towards their own version of QE. For its own part, the most recent Core Personal Consumption Expenditures (PCE) data in the U.S. was only 1.1%, which is hardly consistent with a robust economy some five years into the recovery. If the rest of the year is anything like the first quarter, markets should continue to be reactive largely in anticipation of any movement from the Fed.





Emerging Markets Fixed Income

Markets continued to rebound from a late January selloff during March, as risk assets broadly moved higher. Credit markets were supported by relatively more robust economic data out of the U.S. and strong technical support as investors deployed cash that had been held on the sidelines, especially favoring Emerging Markets Fixed Income (EMFI). Though benchmark UST yields rose by 7 basis points (bps) to 2.72% this month, hard currency Emerging Market (EM) sovereign debt saw its spread compress by 23 bps. Other risk assets including equities and agricultural commodities such as corn and wheat rallied, while precious metals and copper sold off. For the quarter, EM bonds as represented by the JPM Emerging Markets Bond Index Global Diversified (EMBI), returned 3.73%, the bulk of which performance came in the month of February. EM sovereign bonds outperformed both EM corporates and local bonds in this period.



Source: JP Morgan

	Tickers	Monthly Return	Last 3 Months	Yield-to-Maturity (YTM)	Spread	S&P Ratings
EMBI	JPGCCOMP	1.37%	3.73%	5.56%	297	BBB-
CEMBI	JBCDCOMP	0.67%	2.79%	5.44%	304	BBB
GBI-EM	JGENBDUU	2.80%	2.20%	6.78%	N/A	A-

Source: JP Morgan

Past performance is no guarantee of future results; EMBI = JP Morgan Emerging Markets Bond Index Global Diversified; CEMBI = JP Morgan Corporate Emerging Markets Bond Index Broad Diversified; GBI-EM = JP Morgan Emerging Markets Government Bond Index

Abroad, the eurozone economy remained largely sluggish: the Consumer Price Index (CPI)[1], year-over-year (YoY) estimate for March was reported at 0.5%, slightly below expectations. Retail sales were reported as unexpectedly increasing month-over-month (MoM) for February. China, whose growth prospects have weighed on commodities and many emerging market economies linked to natural resources, announced YoY exports shrank by 18.1% in February, versus a 7.5% expected increase. The official Purchasing Managers Index (PMI)[2] for March showed only slight expansion in the manufacturing sector, while HSBC's private PMI showed further contraction in the sector than February. Headlines continue around the frothy local debt market and the number of bad loans being written off: the five biggest quasi-sovereign banks wrote off $10.5 billion of nonperforming loans in 2013, 2.5 times the number of bad loans transferred off their books the year prior.

March was a volatile month in Europe, the Middle East, and Africa (EMEA): early in the month Russia occupied and ultimately annexed the Crimea province of Ukraine sending both nations' debt and currencies plunging amid escalating geopolitical tensions and fear of heavy sanctions on Russia from the West. Though Russian troops remain amassed on Ukraine's eastern border, outright war did not erupt and a stalemate appears to have emerged. Furthermore, sanctions from the U.S. were narrowly targeted to individuals and a bank tied to Russian President Putin's administration. Markets reacted positively to the lack of a worst-case-scenario outcome, and both nations' debt and currencies rallied into month-end.

1. CPI measures the weighted average of prices of consumer goods and services, such as transportation, food and medical care.
2. PMI is an indicator for economic activity, specifically of the economic health of the manufacturing sector, and is based on five major indicators including new orders, inventory levels, supplier deliveries, production and employment environment.

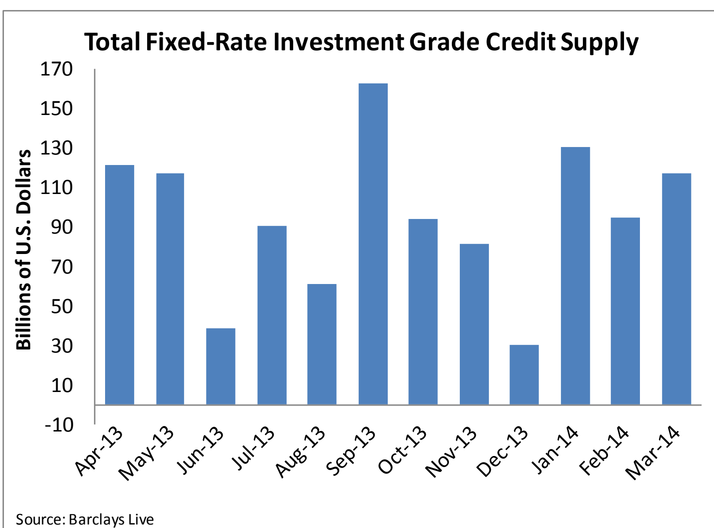
The Russian Ruble closed March at 35.17 per USD, versus 35.86 on February 28th. Ukraine also rallied on the back of the International Monetary Fund (IMF) announcing a $14 to $18 billion aid package tied to reforms including free floating the Hryvnia, cutting gas subsidies (the interim government agreed to a 50% price hike in early May), reducing budget expenditures and fighting rampant corruption. It remains to be seen how successful the government will be at implementing all the IMF's mandated reforms to unlock the aid.

In Latin America, Venezuela announced SICAD 2, a government-controlled foreign exchange platform. Despite many delays to the launch of SICAD 2, the government surprised investors and allowed the exchange rate to depreciate and more closely match the black-market rate (the first trade went through at 55 Bolivars per USD), which is multiples above the official exchange rate. The higher parallel exchange rate may potentially increase supply of dollars to the economy, helping to alleviate basic shortages. Though volumes on the exchange remain relatively low, investors reacted favorably to the "market-friendly" move by the government and the nation's debt rallied. Argentina, which has also traditionally pursued less-than-market-friendly policies, announced GDP growth for 2013 at 3.0% from a previously reported 4.9% after rebasing real GDP to a 2004 base year. The revised 2013 GDP was below the strike on the GDP warrants, saving the government from paying an approximately $3.2 billion coupon. The lower GDP is considered a more accurate reflection of Argentina's economic growth, and consistent with Argentina's attempt to improve credibility in data reporting. Finally, Brazil saw a credit downgrade to BBB- from S&P. The downgrade had largely been priced in by markets, while S&P's "Stable" outlook appeared to calm investors. Support for President Dilma Rousseff has been falling in polls as inflation has risen to 5.9%, with elections coming in October.

March again saw EMFI mutual funds post outflows, albeit at a much slower pace than prior months: $640 million exited hard currency funds and $70 million left local currency funds. For the first calendar quarter, hard currency funds witnessed approximately $5 billion in outflows, while local currency funds had about $9 billion exit. Corporate-benchmarked funds saw only $1.2 billion in outflows for the quarter, versus outflows of $8.1 billion for sovereign-benchmarked funds and $4.8 billion for mixed funds. The new issue pipeline for 2014 is beginning to develop more robustly, with the latter half of March seeing increasing numbers of issuers come to market, and the pace appearing to continue into April.

Investment Grade Credit

The quarter ending March 31, 2014 was a solid quarter for Corporate credit overall. Investment grade credit recorded a total return of 2.91% as measured by the Barclays U.S. Credit Index. The flattening of the UST curve had a big impact on investment grade corporate spreads for March. With significant underperformance in 5-year UST, there was little performance difference between investment grade corporates, as measured by the Bank of America Merrill Lynch U.S. Corporate Index, and high yield corporates, as measured by the Bank of America Merrill Lynch U.S. High Yield Index, which both handily outperformed equities with quarterly returns of 2.91% and 2.98%, respectively, versus 1.81% for the S&P 500 Index.



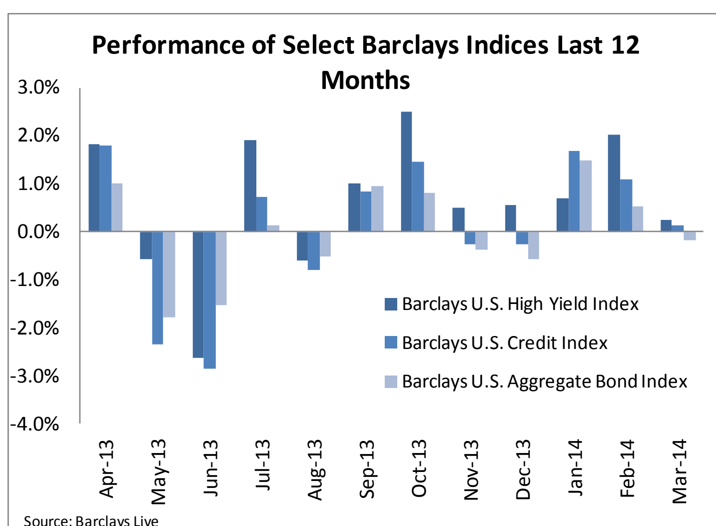
March began with markets watching events in Ukraine nervously as Russia made its case for assuming control of Ukraine's Crimea region, and worrying about China's slowing GDP growth. On the domestic front, despite risk and "safe haven" markets being impacted by non-U.S. factors, the main attraction was the March FOMC meeting held by new Chair Janet Yellen. The flattening of the short-end of the UST curve during the month was due to the Fed's forward guidance, which the markets viewed as more hawkish than expected, and Yellen's 6-month comment regarding how long before the Fed would hike rates after ending QE. For the month of March, the Barclay U.S. Credit Index posted a total return of 0.12% and ended March 3 bps tighter, outperforming duration-matched UST by 34 bps. For the quarter, investment grade credit recorded an excess return above UST of 75 bps.

Within investment grade, investors continued to reach down the credit spectrum as BBB's posted excess returns of 64 bps for the month and 121 bpsfor the quarter. The best-performing sectors for the month included Sovereigns (+143 bps); Consumer Cyclical Services (+95 bps); Refining (+88 bps); Gaming (+73 bps) and Media Non-Cable (+73 bps). At the other end of the spectrum the worst-performing sectors were Banking (+3 bps); Pharmaceuticals (+3 bps); Supranationals (+5 bps); Construction Machinery (+8 bps); and Home Construction (+8 bps). Financial institutions, which make up approximately 25.6% of the Barclay U.S. Credit Index, posted excess returns of only 14 bps due in part to supply dynamics and generally benefitted less from a flattening curve environment.

The new issue market was quite robust given the combination of relatively low interest rates and tighter spreads. March was one of the strongest months of inflows for investment grade since May 2012 and the strongest first quarter on record. Supply followed demand, as the investment grade market priced $117 billion in March from $95 billion in February, bringing first quarter 2014 issuance to a record $342 billion.

Within investment grade credit, the opportunity for

further spread compression is becoming more challenging given that corporate bond yields are approaching historically tight levels. We continue to remain highly selective with respect to credit purchases across the risk spectrum and are concentrating our holdings in those firms that have long-term sustainable competitive advantages, proven management teams, and cash flow and balance sheet strength.



Bank Loans

With strong technical conditions aided by a surge in Collateralized Loan Obligations (CLO) issuance, the S&P/LSTA Leveraged Loan Index returned 0.36% in March, up from a six-month low of 0.18% in February. For the quarter ending March 31, 2014, the Index was up 1.20% mainly due to 1.16% of interest accrual along with just 0.04% from market-value gains. This continued the trend from 2013, which may be the closest thing the loan market has ever had to a coupon-clipping year, with price changes accounting for only 0.33% out of the 5.29% total return.

The best-performing loan sectors during the month included Utilities (+1.71%), Publishing (+0.84%) and Forest Products (+0.60%). The worst performing sectors were Food Products (0.10%), Home Furnishings (0.11%) and Aerospace & Defense (0.12%). For the quarter, the best-performing sectors were Publishing (+3.85%), Utilities (+3.02%) and Media (+2.17%) while the worst-performing were Food Service (-0.73%), Ecological Services & Equipment (+0.78%). Lower-rated, higher-spread loans continued to outperform in March, with CCC-rated loan returns of 1.58% monthly and 4.76% quarterly significantly outpacing single-Bs at 0.32% and 1.20%, which in-turn outpaced BBs at 0.20% and 0.61%. This can be tied in part to higher-quality loans having thinner spreads, as evidenced by the average price of loans with a 3.5% all-in coupon decreasing 0.18% during the quarter while loans with yields greater than 3.5% seeing prices increase 0.28%.

March saw strong CLO formation with $10.8 billion of new vehicles, the highest post-crisis monthly total; quarterly issuance was $22.3 billion. This more than offset falling retail inflows that hit a 14-month low of $2.1 billion (based on the first four weeks of Lipper data on weekly reporters), bringing the quarterly inflow to $9.3 billion. On the supply side, the Index universe of loans expanded by $8.7 billion in the month to a record $710.2 billion.

Defaults continued their muted trend in March, with the lagging 12-month loan default rate hitting a 16-month low of 1.21% by dollar amount and 1.02% by number of loans. The near-term outlook also appears benign based on low near-term maturities across issuers, substantial liquidity in the credit markets and continued growth in borrower cash flows.

Agency Mortgage-Backed Securities

For the quarter ending March 31, 2014, the U.S. Agency MBS sector had a return of 1.59% as indicated by the Barclays U.S. MBS Index. This return outperformed the return of the UST sector return of 1.34%. This outperformance of the MBS sector relative to the UST sector in this declining rate period is due to the longer duration of the MBS Index. As of March 31, the duration of the Agency MBS sector stood at 5.5 years, close to the all time high of 5.7 years registered November 2013. Within the MBS sector, lower coupon mortgages outperformed higher coupon mortgages and 30-year mortgages outperformed 15-year mortgages. There are 2 main reasons for this: first, interest rates fell and the lower coupon mortgages and 30-year mortgages have longer durations than the higher coupon mortgages and 15-year mortgages; second, the yield curve changed shape during the first quarter. Longer rates declined substantially more than shorter rates and the lower coupon mortgages and 30-year mortgages cash flows are further out the curve than the higher coupon mortgages and 15-year mortgages and therefore would appreciate in price more due to a greater rate change for their cash flows.

Overall prepayment speeds were down slightly for the first quarter. Prepayment speeds went down in January and February and then increased in March but ended up slower than they were at the beginning of the quarter. Ginnie Mae (GNMA) speeds have been slightly higher than Fannie Mae (FNMA) and Freddie Mac (FHLMC) speeds over the past 5 months, which is likely due to involuntary prepayments (defaults). The last time this occurred was in 2009 during the middle of the subprime crisis. GNMA borrowers are generally less credit worthy borrowers than FNMA and FHLMC borrowers. Prepayment speeds in aggregate are as low as they have been since 2009, and their previous low before that was in 2000. Higher coupon mortgages continue to prepay faster than lower coupon mortgages. For the first quarter of 2014, lower coupon mortgage prepayments were virtually unchanged while higher coupon mortgage prepayments were down by approximately 5 CPR (Conditional Prepayment Rate).

With the decrease in prepayments there has also been a continued decrease in gross issuance of MBS. For the quarter, the monthly gross issuance of MBS has gone from $80 billion to $60 billion to $50 billion for January, February and March, respectively. These issuance numbers have decreased almost every month since last summer when there were monthly gross issuance numbers of around $150 billion. This

Conditional Prepayment Rates (CPR) %												
2013 - 2014	Apr	May	June	July	August	September	October	November	December	January	February	March
FNMA	24.0	25.1	22.7	20.5	16.2	12.2	11.5	10.4	10.6	8.7	8.0	9.4
FHLMC	25.3	25.5	23.4	21.5	17.1	13.1	12.0	10.8	11.1	9.1	8.3	9.8
GNMA	23.0	22.2	19.4	18.2	14.9	12.2	12.1	11.2	11.2	9.7	10.0	11.0

Barclays Capital U.S. MBS Index	1/31/2014	2/28/2014	3/31/2014	Change $
Average Dollar Price	104.26	104.35	103.62	-0.73
Duration	5.31	5.38	5.51	0.13

Barclays Capital U.S. Index Returns	1/31/2014	2/28/2014	3/31/2014
Aggregate	1.48%	0.53%	-0.17%
MBS	1.56%	0.34%	-0.32%
Corporate	1.68%	1.09%	0.12%
Treasury	1.36%	0.27%	-0.29%

source: eMBS, Barclays Capital

Past Performance is no guarantee of future results

reduction in supply is important because it comes during an environment where the Fed is "tapering" its QE program. On March 18, the Fed announced its third tapering which brings monthly purchases down to $55 billion per month, down from $85 billion last December before the first taper. This current level of $55 billion per month includes purchases of $25 billion in mortgages. This reduction in demand has been offset by the tremendous decrease in issuance of MBS.

The first quarter saw two different announcements pertaining to the future of the Government Sponsored Enterprises (GSEs). We believe that any solution is a ways off and the actual implementation of this solution could be as far away as five years from now. In March, the Johnson-Crapo housing reform bill – a bipartisan bill similar to the Corker-Warner bill – was announced. Both bills called for a privately held first loss piece of 10%, underwriting standards that adhere to Qualified Mortgages (QM), and a commitment to a liquid TBA[3] market. Later in the month, Congresswoman Maxine Waters (D-CA) proposed the Housing Opportunities Move the Economy (HOME) Forward Act of 2014. This was a little different from the other proposed bills in that it calls for a 5% first loss piece sold to private investors, and loans would not be required to be QM. The implementation of any of these bills will take a long time and the implementation of any of these plans could end up raising mortgage rates.

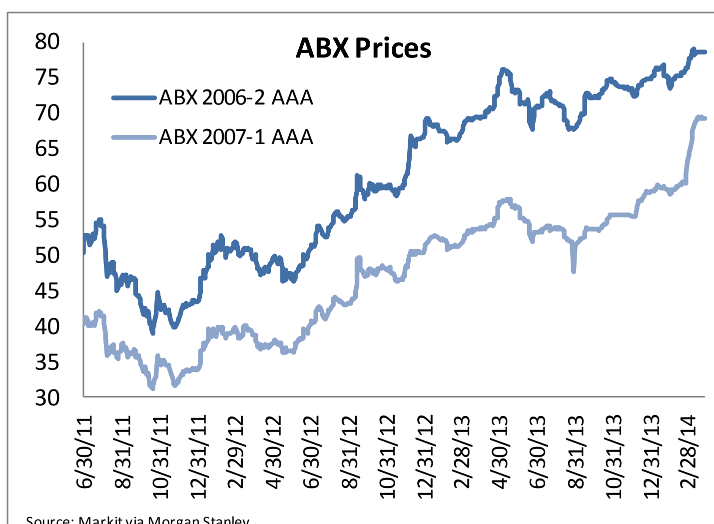
3. TBA stands for "to-be-announced"

Non-Agency Mortgage-Backed Securities

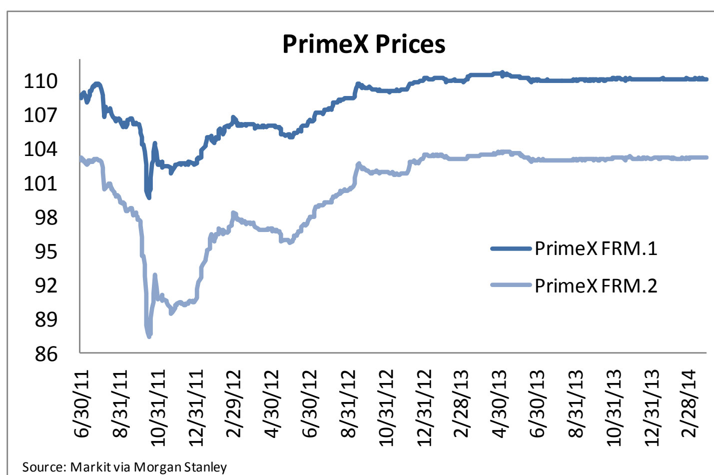
2014 kicked off to a sluggish start in the non-Agency MBS market as the market largely shrugged off the expectations of rising rates from Fed tapering. The lack of volume made it challenging for all market participants despite the interest to put money to work. Trading volume slowed in March, with the absence of large portfolio liquidations seen in the previous months, March trading volume finished with approximately $14 billion of original face being traded. Prime collateral accounted for 9% ($1.3 million) of total volume while Alt-A collateral accounted for 17%, or $2.5 billion of traded volume. For the month of March, trading remained competitive with many bond spreads tightening. During the quarter, prime non-Agency MBS tightened approximately 25 bps, Alt-A bonds from 25-50 bps, and subprime bonds from 50-75 bps. The majority of activity in the prime and Alt-A space was focused on Adjustable-Rate Mortgages (ARMs) and floating rate bonds during March. Subprime collateral continued to be the most active sector at March month-end and traded $4.4 billion of volume.

Despite positive trending data in mortgage fundamentals, supply technicals remain the primary driver of the rally we have experienced in non-Agency MBS. As of March 31, 2014, yields have compressed slightly with prime bonds trading at approximately 4%, Alt-A bonds trading from 4-4.5% and subprime bonds trading at approximately 5-7% depending on weighted average life (WAL) profile.

The 30-year fixed mortgage rate began rallying in May 2013 and has steadily risen from 3.4% to 4.38% as of quarter-end. Rising mortgage rates during the quarter have dampened prepayment speeds and March remittance reports have shown slower speeds across all subsets of the non-Agency MBS marketplace. Prime collateral slowed by 1.3 CPR for March, while Alt-A and subprime fell 0.7 CPR and 0.3 CPR, respectively. Liquidations also declined as Alt-A liquidation rates fell by 1.1 CDR (Conditional Default Rate) and subprime fell by 0.7 CDR. Liquidations on prime collateral remained flat during March. Delinquency and liquidation rates have slowed down over the first quarter, and modification rates have increased by approximately 4% from February to March, with an average 3.11% rate reduction on the underlying loans.



Source: Markit via Morgan Stanley



Source: Markit via Morgan Stanley

Modification rates remained steady throughout the quarter with rate modifications being the primary option of servicers. Average rate modifications

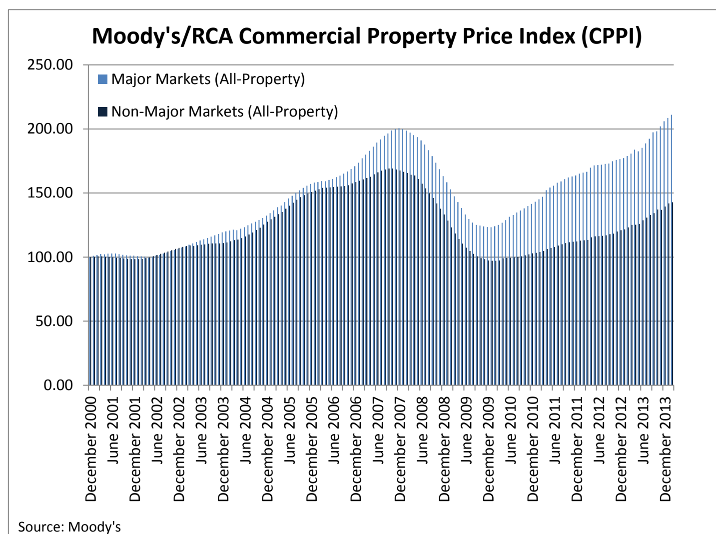
reduced interest rates by approximately 3%, drastically helping these borrowers. The biggest headline during March, however, was the reclassification of forbearance modifications and the resulting surge in losses. Reps and warrantees litigation was also in the headlines as there were rumors that Citibank was close to settling with the institutional investors involved in their suit.

Commercial Mortgage-Backed Securities (CMBS)

The CMBS market ended the first quarter somewhat weakly as legacy supply continued to be muted in the secondary market. Overall, demand for the riskier part of the capital structure continued to remain strong as legacy AJs (legacy seasoned mezzanine CMBS) and new issue BBB- and BB all rallied substantially since the beginning of the year. While some portion of this move can be attributed to supply/demand technicals, CMBS as a sector continued to portray some relative value when compared to similarly rated investment grade and high yield corporates.

This is further evidenced by the year-to-date (YTD) underperformance of the Barclays U.S. CMBS Index versus investment grade corporates, as measured by the Bank of America Merrill Lynch U.S. Corporate Index, by 165 bps which may likely garner attention from cross-over sector buyers looking for additional yield. This Index's underperformance coupled with improving commercial real estate (CRE) fundamentals would support the rationale for the CMBS credit curve to flatten in the near-term. For the month, legacy AAA spreads tightened by 6 bps to 90 bps over swaps while on the new issuance side, the most recent AAA new issuances priced at 88 bps over swaps with BBBs at 365 bps. The CMBS portion of the Barclays U.S. Aggregate Bond Index returned -0.10% in March, and 1.29% YTD. As for the primary market, seven deals totaling $5 billion were brought to market. Of the seven deals, four were fixed-rate conduit transactions totaling $4 billion with two large loan single borrower deals and one floating rate transaction making up the balance. YTD total new issuance lags 2013 ($16 billion in 2014 versus $21 billion through March 2013) as large loan single borrower deal new issuance has tapered off; however conduit deal new issuance is on pace with 2013 (11 deals totaling $12 billion through 2014 versus 10 deals totaling $12 billion through March 2013).

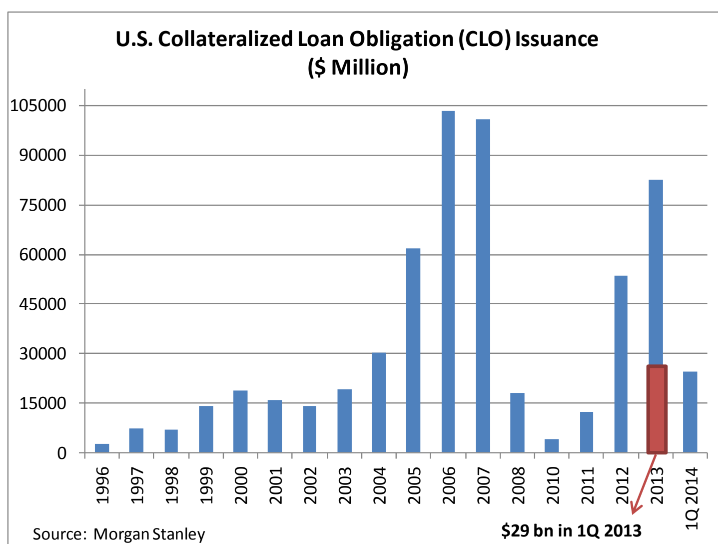
The overall U.S. CMBS delinquency rate fell by 24 bps to 6.54% in February according to Trepp Analytics. The decline is primarily attributed to the resolution of the remaining loans liquidated in a large special servicer liquidation that began to settle in February. The 30+ day delinquency rate by property sector improved across the board, lead by office which posted a 50 bps improvement to 6.73%. Mirroring that trend, the industrial delinquency rate improved by 46 bps to 8.82%, the lodging delinquency rate declined by 16 bps to 6.46%, multifamily delinquency fell 13 bps to 10.22% and retail delinquency declined by 6 bps to 5.71%. Following this improvement, the Moody's/RCA Commercial Property Price Indices (CPPI) national major markets composite index increased 1.1% in February 2014 while non-major markets were up 0.7%. March loan loss severities averaged 52% over $1 billion of loans liquidated according to Trepp Analytics.



Source: Moody's

Collateralized Loan Obligations (CLOs)

CLO issuance started the year slowly as managers waited for more clarity on the regulatory front in regards to Volcker Rule, Risk Retention, and Liquidity Coverage Ratios. The market was initially concerned about future forced selling from banks, mostly due to Volcker Rule implications, which also brought new CLO issuance to only $2.5 billion in January. The January U.S. CLO monthly supply hit its lowest level since the middle of 2012. Since January, there was a surge of newly issued deals due to positive momentum on the regulatory front. Forty-seven new deals were issued in the first quarter of 2014 totaling to $22.3 billion with $10.8 billion of that total issued in the month of March alone.



Retail loan funds continue to see strong demand with loan fund assets under management rising to approximately equal the outstanding balance of post-crisis deals (CLO 2.0/3.0). The elevated pace of retail fund flows into loan funds did slow in March. These funds grew, however, to hold 31.5% of the CLO primary market in 2013, while historically they held only 15-20%.

Approximately $30 billion of CLO 2.0s will exit their call protection period this year. Many equity investors may look to refinance tranches to lower funding costs – especially as the benefit of LIBOR[4] floors are becoming diminished in the event of rising interest rates. Six CLO 2.0 deals were refinanced in the first quarter of the year with the spread to LIBOR for AAA-tranches reduced by an average of about 30 basis points, AA-tranche spreads reduced by 90 bps, A -tranche spreads reduced by 80 bps, BBB-tranche spreads reduced by 100 bps, BB-tranche spreads reduced by 26 bps and one ING B-tranche was refinanced with a spread reduction of 50 bps. On the collateral side, high levels of loan refinancing have also put pressure on pre-crisis (CLO 1.0) WAL[5] tests. This could also lead to earlier calls on CLO 1.0 deals.

At the top of the credit stack, spreads for AAA rated tranches have widened roughly 40 bps from 2013's tight levels. With two year call protection, the sector looks attractive relative to comparable products. The AAA spreads have remained sticky at about LIBOR+ 155 bps due to a combination of regulatory uncertainty, supply pressures and new manager price concessions. Mezzanine tranches have seen spreads relatively unchanged for AA/As and slightly tighter for BBB/BBs since the beginning of the year. Equity remains well bid at the end of the quarter despite loan spreads tightening. While performance varied amongst different deals and managers, yield targets were about low to mid teens in most base case scenarios. In general, U.S. CLO tranche prices have only slightly increased over the quarter.

4. London-Interbank Offered Rate (LIBOR).
5. Weighted Average Life

U.S. Government Securities

A maxim of the Treasury market is that the market will move in the direction that causes the greatest pain to market participants. Many UST investors, convinced that a rate rise was imminent, reduced positions and shortened duration in late 2013. True to form, the market rallied from the first trading day of 2014. The short covering rally carried the 10-year UST yield down 45 bps, from a high of 3.03% on December 31 to 2.58% on February 3. The market was confined to a narrow range for the remainder of the quarter, with the 10-year UST staying between 2.60% and 2.80%.

Yield Curve

	2/28/2014	3/31/2014	Change
3 month	0.05	0.03	-0.02
6 month	0.07	0.06	-0.01
1 year	0.10	0.11	0.01
2 year	0.32	0.42	0.10
3 year	0.67	0.87	0.20
5 year	1.50	1.72	0.22
10 year	2.65	2.72	0.07
30 year	3.58	3.56	-0.02

Source: Bloomberg

The yield curve flattened throughout the first quarter. Concern about the approaching turn in Fed policy limited the rally in short- and intermediate-maturity UST while longer issues showed sustained strength. The five-year UST rallied 30 bps in January, but ended the first quarter near its December 31 level. The 30-year UST, by contrast, held its January gains and reached a new low yield in late March. The 3.51% yield on March 27 was the lowest since early July 2013. The yield spread between the 5- and 30-year benchmark issues, at 181 bps on March 27, was the lowest since September 2009.

A focal point of the quarter was the March FOMC meeting, the first under new Chair Janet Yellen. The proceedings were scrutinized for any hints of policy changes and, as expected, the statement from the FOMC was revised to be more qualitative in nature and economic projections from the committee were updated. Chair Yellen then stated that the policy views of the FOMC had not changed, the changed forward guidance notwithstanding. Still, the Treasury market sold off sharply at the conclusion of the meeting. The consensus of commentators detected a more hawkish Fed, with hikes in short rates nearer than had been the case. The alarmist reaction faded over the remainder of the month, however, and yield drifted back to the low end of the range.

The Barclays U.S. Government Index returned 1.31% for the first quarter, recovering about half of the loss realized in calendar 2013. Returns were stronger for longer maturity issues, with the two-year, 10-year and 30-year benchmark maturities returning 0.19%, 3.38% and 8.11%, respectively.

Treasury Inflation-Protected Securities (TIPS) performed in line with conventional UST, returning 1.95% for the quarter. The Barclays U.S. Municipal Bond Index returned 3.32% for the quarter, driven by low issuance and magnified by the long duration of the sector.

DoubleLine®

Quarterly Commentary

DoubleLine Shiller Enhanced CAPE®

Ticker: DSEEX/DSENX

As of March 31, 2014

Performance Attribution

In the first quarter of 2014, the DoubleLine Shiller Enhanced CAPE® (DSEEX/DSENX) outperformed the S&P 500®. Four out of six sectors that the Shiller Barclays CAPE® US Sector Index (Total Return) was exposed to delivered positive returns, including Healthcare, Technology, Financials and Industrials. The two sectors that underperformed were Energy and Consumer Staples. Energy suffered heavy losses in January and was subsequently dropped in February, fortunately it was picked up in March and was able to pare its losses. The average return for all six sectors the Shiller Barclays CAPE® US Sector Index (Total Return) was exposed to during the period was greater than the return of the S&P 500®, leading to the outperformance. The fixed income collateral pool generated a strong positive return outperforming cash. All bond sectors the fund had exposure to posted positive returns on the quarter. Key drivers of performance were emerging markets and corporate bonds as these sectors outperformed the aggregate bond market during the quarter. The fixed income collateral pool generated positive performance in the first quarter driven by a bull flattening yield curve and a healthy environment for credit spread securities.

DoubleLine®

Shiller Enhanced CAPE®

As of March 31, 2014

Month End March 31, 2014	March	1-Year Annualized	Since Inception Annualized (10-31-13 to 3-31-14)
I-share	1.40%	-	7.83%
N-share	1.37%	-	7.73%
Shiller CAPE® U.S. Sector TR USD Index	0.84%	-	7.57%

Quarter End March 31, 2014	1Q 2014	1-Year Annualized	Since Inception Annualized (10-31-13 to 3-31-14)
I-share	3.49%	-	7.83%
N-share	3.52%	-	7.73%
Shiller CAPE® U.S. Sector TR USD Index	1.81%	-	7.57%

As of March 31, 2014	I-Share	N-Share
Gross Expense Ratio	1.09%	1.34%
Net Expense Ratio*	0.66%	0.91%

As of March 31, 2014	I-Share	N-Share
Gross SEC 30-Day Yield	0.64%	0.32%
Net SEC 30-Day Yield	2.47%	2.21%

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 data current to the most recent month-end may be obtained by calling 213-633-8200 or by visiting www.doublelinefunds.com. The performance information shown assumes the reinvestment of all dividends and distributions.

*The Advisor has contractually agreed to waive fees and reimburse expenses through October 28, 2014.

Portfolio Characteristics	
Ending Market Value	$39,750,620
Fixed Income Statistics	
Duration[4]	1.9
Weighted Avg Life[5]	4.0
Equity Statistics	
Mean Mkt Cap[6]	$18.8 B
Weighted Avg Mkt Cap[6]	$135.2 B

Current Quality Credit Distribution[7] (Percent of Portfolio)	
Cash	5.1%
Government	7.2%
Agency	1.7%
Investment Grade	55.5%
Below Investment Grade	27.2%
Unrated Securities	3.2%
Total:	**100.0%**

Fixed Income Sector Allocation (Percent of Portfolio)	
Cash	5.1%
U.S. Government	6.8%
Agency Residential MBS	2.1%
Non-Agency Residential MBS	7.1%
Credit	16.8%
Commercial MBS	14.1%
Municipal	0.0%
Collateralized Loan Obligations	18.0%
Bank Loan	9.8%
International Emerging	20.2%
Total	**100.0%**

Duration Breakdown[4] (Percent of Portfolio)	
Less than 0	41.4%
0 to 3 years	25.9%
3 to 5 years	16.8%
5 to 7 years	6.3%
7+ years	4.5%
Cash	5.1%
Total:	**100.0%**

Weighted Average Life[5] Breakdown (Percent of Portfolio)	
0 to 3 years	36.0%
3 to 5 years	27.0%
5 to 7 years	20.9%
7+ years	11.0%
Cash	5.1%
Total:	**100.0%**

CAPE® Sector Allocations (Percent of Portfolio)	
Health Care	24.4%
Consumer Staples	25.3%
Industrials	25.3%
Energy	24.9%
Total	**100.0%**

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Investment Grade = Refers to a bond considered investment grade if its credit rating is BBB– of higher by Standard & Poor's or Baa3 or higher by Moody's. Ratings are based on a corporate bond model. The higher the rating the more likely the bond will pay back par/100 cents on the dollar.

Below Investment Grade = Refers to a security that is rated below investment grade. These securities are seen as having higher default risk or other adverse credit events, but typically pay higher yields than better quality bonds in order to make them attractive. They are less likely to pay back 100 cents on the dollar.

4) Duration is a commonly used measure of the potential volatility of the price of a debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration. **5) Weighted Average Life** = the average number of years for which each dollar of unpaid principal on a loan or mortgage remains outstanding. **6) Market Cap** = the market price of an entire company, calculated by multiplying the number of shares outstanding by the price per share. **7) Credit distribution** is determined from the highest available credit rating from any Nationally Recognized Statistical Rating Organization (S&P, Moody's and Fitch).

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Disclaimer

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the investment company, and it may be obtained by calling 1 (877) 354-6311/ 1 (877) DLINE11, or visiting www.doublelinefunds.com. Read it carefully before investing.

While the Fund is no-load, management fees and other expenses still apply.

Please refer to the prospectus for further details.

The DoubleLine Shiller Enhanced CAPE® Fund may invest 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. In order to achieve its investment objectives, the Fund may use certain types of exchange traded funds or investment derivatives. Derivatives involve risks different from, and in certain cases, greater than the risks presented by more traditional investments. 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. 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. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt 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 increase susceptibility to adverse economic developments. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. The Fund may also invest in securities related to real estate, which may decline in value as a result of factors affecting the real estate industry. Equities may decline in value due to both real and perceived general market, economic and industry conditions. The fund may make short sales of securities, which involves the risk that losses may exceed the original amount invested.

Fund portfolio characteristics and holdings are subject to change without notice. The Advisor may change its views and forecasts at anytime, without notice.

Credit ratings from Moody's range from the highest rating of Aaa for bonds of the highest quality that offer the lowest degree of investment risk to the lowest rating of C for the lowest rated class of bonds. Credit ratings from Standard & Poor's (S&P) range from the highest rating of AAA for bonds of the highest quality that offer the lowest degree of investment risk to the lowest rating of D for bonds that are in default. Adverse economic conditions or changing circumstances, however, are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation according to S&P's methodology.

Sector allocations are subject to change at any time and should not be considered a recommendation to buy or sell any security., Portfolio holdings generally are made available fifteen days after month-end by calling 1-877-DLine11.

The source for the information in this report is DoubleLine Capital, which maintains its data on a trade date basis.

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Definitions

ABX Index

The ABX Index consists of the 20 most liquid credit default swaps (CDS) on U.S. home equity asset-backed securities (ABS) and is used to hedge asset-backed exposure or to take a position in the subprime mortgage asset class. The ABX Index has four series (06-1, 06-2, 07-1 and 07-2) with five tranches per series. The ABX 07-1 AAA Index references underlying collateral of that 2007 vintage and AAA credit quality type, just as the ABX 06-2 AAA Index references underlying collateral of the 2006 vintage and AAA credit quality type.

BofA Merrill Lynch U.S. Corporate Index (COAO)

The Merrill Lynch Corporate Index tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings). Securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of $250MM.

BofA Merrill Lynch US High Yield Index (H0A0)

Tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of $100 million.

Barclays U.S. Aggregate Bond Index

The Barclays Capital U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Barclays U.S. CMBS Index

This index measures the performance of investment grade commercial mortgage-backed securities, which are classes of securities that represent interests in pools of commercial mortgages.

Barclays U.S. Corporate Index

The Barclays Capital U.S. Corporate Index is the corporate component of the Barclays Capital U.S. Credit Index. It consists of publically-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 corporate sub-sectors are industrial, utility and finance, which include both U.S. and non-U.S. corporations.

Barclays U.S. Corporate HY Index

The index is representative of the universe of fixed-rate, non-investment grade debt.

Barclays U.S. Credit Index

This index is the US Credit component of the US Government/Credit Index and consists of publically issued US 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 Investment Grade Index.

Barclays U.S. Government Index

This index is the US Government component of the US Government/Credit Index and includes securities issued by the US Government, including treasuries and agencies. This includes public obligations of the US Treasury with a remaining maturity of one year or more and publically issued debt of US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government.

Barclays U.S. High Yield Index

This index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issuer from countries designated as emerging markets (e.g. Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeros, step-up coupon structures, 144-As and pay-in-kind (PIK, as of October 1, 2009) are also included.

Barclays U.S. High Yield Loan Index

The Barclays U.S. High Yield Loan Index is an unmanaged index that provides broad and comprehensive total return metrics of the universe of U.S.-dollar denominated syndicated term loans.

Barclays U.S. MBS Index

The Barclays Capital U.S. MBS Index measures the performance of investment grade fixed-rate mortgage-backed pass-through securities of the Government-Sponsored Enterprises (GSEs): Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

An investment cannot be made in an index.

Barclays Municipal Bond Index
This index tracks the performance of U.S. dollar denominated investment grade tax-exempt debt publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. domestic market. Qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and an investment grade rating (based on Moody's, S&P and Fitch). Minimum size vary based on the initial term to final maturity at time of issuance.

Barclays U.S. Treasury Index
The Barclays Capital U.S. Treasury Index is the U.S. Treasury component of the U.S. Government Index. Public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Barclays U.S. Treasury Inflation-Protected Securities (TIPS) Index
This index includes all publicly issued, U.S. TIPS that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value. The CPI ex-Shelter reference in this commentary means this Index is an inflation linked bond index, linked to the U.S. Consumer Price Index (CPI) and excludes the Shelter subset.

Basis Point
A basis point (bps) equals to 0.01%.

Beta
A measure of volatility of a security or a portfolio in comparison to the market as a whole.

Cash Flow
Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income.

Citi High-Yield Cash-Pay Capped Index
This index represents the cash-pay securities of the Citigroup High-Yield Market Capped Index, which represents a modified version of the High Yield Market Index by delaying the entry of fallen angel issues and capping the par value of individual issuers at $5 billion par amount outstanding.

Consumer Price Index (CPI)
This index measures changes in the price level of a market basket of consumer goods and services purchased by households. The CPI in the U.S. is defined by the Bureau of Labor Statistics as "a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services."

Credit Suisse Leveraged Loan Index
Credit Suisse Leveraged Loan is an index designed to mirror the investable universe of the U.S.-denominated leveraged loan market.

Duration
A measure of the sensitivity of a price of a fixed income investment to a change in interest rates, expressed as a number of years.

HELOC
A home equity line of credit (HELOC) is a line of credit extended to a homeowner that uses the borrower's home as collateral.

Institute of Supply Management (ISM) Manufacturing
This index is based on surveys of more than 300 manufacturing firms by the ISM and monitors employment, production inventories, new orders and supplier deliveries.

JP Morgan Corporate Emerging Markets Bond Broad Diversified Index (CEMBI)
This index is a market capitalization weighted index consisting of US-denominated Emerging Market corporate bonds. It is a liquid global corporate benchmark representing Asia, Latin America, Europe and the Middle East/Africa.

JP Morgan Emerging Markets Bond Global Diversified Index (EMBI)
This index is uniquely-weighted version of the EMBI Global. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts of debt outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by EMBI Global.

JP Morgan Government Bond Emerging Markets Broad Diversified Index (GBI EM)
This index is the first comprehensive, global local Emerging Markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure.

An investment cannot be made in an index.

London-Interbank Offered Rate (LIBOR)

British Bankers Association Fixing for US Dollar. The fixing is conducted each day at 11 am (London time). The rate is an average derived from the quotations provided by the banks determined by the British Bankers' Association.

Moody's/RCA Commercial Property Price Index

The Moody's/RCA Commercial Property Price Index (CPPI) describes various non-residential property types for the U.S. (10 monthly series from 2000). The Moody's/RCA Commercial Property Price Index 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.

Payment Option ARM

A monthly adjusting adjustable-rate mortgage (ARM) which allows the borrower to choose between several payment options (a 30 or 40-year fully amortizing payment, a 15-year fully amortizing payment, an interest– only payment, a minimum payment or any amount grater than the minimum payment).

Prime, Alt-A, and Subprime

These are subsets of non-Agency mortgage-backed securities (MBS) depending on underlying loan criteria. For example, the prime non-Agency MBS bucket includes prime rated securities that have underlying loans where the borrowers are most credit-worthy and highest likelihood of paying. Alt-A non-Agency MBS includes underlying loans where borrowers still have good credit but there may be other risk concerns with the loan, for example a higher loan-to-value (LTV) or debt-to-income ratios. Subprime non-Agency MBS includes underlying loans with the lowest credit quality borrower type and raised risk concerns of likelihood of payment. Subprime Mezznine (Mezz) refers to a tranche of a subprime non-Agency MBS security, specifically the mezzanine tranche.

PrimeX

The PrimeX index is a synthetic credit default swap (CDS) index which references non-Agency, prime residential mortgage-backed securities (RMBS). There are 20 prime RMBS deals referenced from the 2005, 2006, and 2007 vintages. The vintages separate the PrimeX into four sub indices by cut-off dates and collateral type. The PrimeX Fixed-Rate Mortgage (FRM) 1 and FRM 2 are two of these sub indices that contain specific underlying collateral and vintage types.

Real Gross Domestic Product (GDP)

An inflation-adjusted measure that reflects the value of all goods and services produced in a given year, expressed in base-year prices. Often referred to as "constant-price," "inflation-corrected" GDP or "constant dollar GDP".

Purchasing Managers Index (PMI)

The PMI is an indicator for economic activity, more specifically of the economic health of the manufacturing sector. This index is based on five major indicators including new orders, inventory levels, supplier deliveries, production and employment environment. Nationally, this data is collected by the Institute of Supply Management (ISM), but for China it is produced by HSBC and is called the Purchasing Manufacturing Index, though it measures the same thing for that country.

S&P 500 Index

Standard & Poor's US 500 Index, a capitalized-weighted index of 500 stocks.

S&P/Case-Shiller Index

The index measures the change in value of the U.S. residential housing market by tracking the growth in real estate values by following the purchase price and resale value of homes.

S&P/LSTA Leveraged Loan Index

The capitalization-weighted syndicated loan indices are based upon market weightings, spreads and interest payments, and this index covers the U.S. market back to 1997 and currently calculates on a daily basis. Created by the Leveraged Commentary & Data (LCD) team at S&P Capital IQ, the review provides an overview and outlook of the leveraged loan market as well as an expansive review of the S&P Leveraged Loan Index and sub-indexes. The review consists of index general characteristics, results, risk-return profile, default/distress statistics, and repayment analysis.

Shiller Barclays CAPE® US Sector Index (Total Return)

The index was launched on September 2012 ("Index"). Any provided performance information relating to a period prior to that date is hypothetical. The Index methodology is available for review upon request. Barclays Bank PLC ("Barclays") or an affiliate of Barclays prepared the provided performance information (including the hypothetical performance information), is the index sponsor for the Index and potentially is the counterparty to a transaction referencing the Index. It is in Barclays interest to demonstrate positive pre-inception index performance. The pre-inception index

Shiller Barclays CAPE® US Sector Index (Total Return) - continued

performance is included from the period from Feb 1988 to September 2012. Actual performance is highlighted in grey. The data below reflects a cost of 0.28% per annum that is incorporated into the Index formula. The performance information, however, does not reflect any additional fees that may be paid by counterparty to a transaction referencing the Index that may be agreed between the parties thereto. Fees are not reflected in the provided Index performance information.

Spread

The 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 and risk.

Yield-to-Maturity (YTM)

The rate of return anticipated on a bond if held until the end of its lifetime. YTM is considered a long-term bond yield expressed as an annual rate. The YTM calculation takes into account the bond's current market price, par value, coupon interest rate and time to maturity. It is also assumed that all coupon payments are reinvested at the same rate as the bond's current yield.

An investment cannot be made in an index.

Disclaimer

Important Information Regarding This Report

Issue selection processes and tools illustrated throughout this presentation are samples and may be modified periodically. Such charts are not the only tools used by the investment teams, are extremely sophisticated, may not always produce the intended results and are not intended for use by non-professionals.

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Ratings shown for various indices reflect the average for the indices. Such ratings and indices are created independently of DoubleLine and are subject to change without notice.

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Important Information Regarding DoubleLine

In preparing the client reports (and in managing the portfolios), DoubleLine and its vendors price separate account portfolio securities using various sources, including independent pricing services and fair value processes such as benchmarking.

To receive a complimentary copy of DoubleLine’s current Form ADV (which contains important additional disclosure information), a copy of the DoubleLine’s proxy voting policies and procedures, or to obtain additional information on DoubleLine’s proxy voting decisions, please contact DoubleLine’s Client Services.

Important Information Regarding DoubleLine’s Investment Style

DoubleLine seeks to maximize investment results consistent with our interpretation of client guidelines and investment mandate. While DoubleLine seeks to maximize returns for our clients consistent with guidelines, DoubleLine cannot guarantee that DoubleLine will outperform a client's specified benchmark. Additionally, the nature of portfolio diversification implies that certain holdings and sectors in a client's portfolio may be rising in price while others are falling; or, that some issues and sectors are outperforming while others are underperforming. Such out or underperformance can be the result of many factors, such as but not limited to duration/interest rate exposure, yield curve exposure, bond sector exposure, or news or rumors specific to a single name.

DoubleLine is an active manager and will adjust the composition of client’s portfolios consistent with our investment team’s judgment concerning market conditions and any particular security. The construction of DoubleLine portfolios may differ substantially from the construction of any of a variety of bond market indices. As such, a DoubleLine portfolio has the potential to underperform or outperform a bond market index. Since markets can remain inefficiently priced for long periods, DoubleLine’s performance is properly assessed over a full multi-year market cycle.

Important Information Regarding Client Responsibilities

Clients are requested to carefully review all portfolio holdings and strategies, including by comparing the custodial statement to any statements received from DoubleLine. Clients should promptly inform DoubleLine of any potential or perceived policy or guideline inconsistencies. In particular, DoubleLine understands that guideline enabling language is subject to interpretation and DoubleLine strongly encourages clients to express any contrasting interpretation as soon as practical. Clients are also requested to notify DoubleLine of any updates to Client’s organization, such as (but not limited to) adding affiliates (including broker dealer affiliates), issuing additional securities, name changes, mergers or other alterations to Client’s legal structure.

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