

# DoubleLine Strategic Commodity Fund Webcast Recap

## “Time To Revisit?”



Originally aired on April 26, 2016

### About this Webcast Recap

On April 26, 2016, Portfolio Manager Jeffrey Sherman, Jeffrey Mayberry & Samuel Lau held a webcast discussing the DoubleLine Strategic Commodity Fund (DBCMX/DLCMX) titled “Time To Revisit?”

This recap is not intended to represent a complete transcript of the webcast. It is not intended as solicitation to buy or sell securities. If you are interested in hearing more of the team’s views, please listen to the full version of this webcast on [www.doublelinefunds.com](http://www.doublelinefunds.com) under the “Webcasts” tab. You can use the “Jump To” feature to navigate to each slide. You can also learn more about future webcasts by viewing the 2016 webcast schedule at [www.doublelinefunds.com](http://www.doublelinefunds.com) under “Webcasts.”

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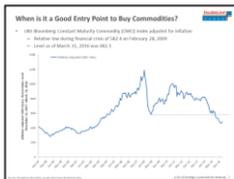


### Recap

#### Rationale For Investing In Commodities

- Potential to dampen overall volatility to a portfolio with a small allocation:
  - Diversification benefits relative to traditional asset classes.
    - Potential low-to-uncorrelated return source to traditional asset classes.
  - Potential to hedge against unexpected inflation.
    - Physical assets have historically tended to move in line with broad inflation measures.
  - Potential incremental returns from each individual commodity’s market structure.
  - Commodity supply and demand is generally correlated to the cyclical of the global economy.

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#### Commodity Market as Measured by the UBS Bloomberg Constant Maturity Commodity (CMCI)

- Relative low during financial crisis of 582.4 on February 28, 2009.
- Level as of March 31, 2016 was 482.3.

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#### DoubleLine Strategic Commodity Fund’s Structure

- DoubleLine Strategic Commodity Fund is a long-biased commodity fund that tactically allocates to a long-short dollar neutral commodities strategy when a 100% long commodity allocation is unattractive. However, the strategy always maintains a 50% exposure to long-only.
- Tactical allocation to beta and alpha baskets determined by an internal model developed by the Commodities team with discretion to override the model when warranted.
- Strategic Commodity’s Long-Only Beta (50%-100% allocation).
- Strategic Commodity’s Long-Short Alpha (0-50% allocation).

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## Recap

### What is Commodity Beta?

- Traditional asset classes define beta using market capitalization, or a similar price-based metric, as the basis for determining the weighting scheme.
- Since commodity investments are typically obtained via commodity futures there is a challenge with defining commodity beta in a similar vein.
  - For each futures contract outstanding there is one entity which is long the exposure and one offsetting entity that is short the exposure.
  - Therefore the market capitalization of each futures market is zero.
- Index providers have turned to other factors to determine how to allocate capital across various commodities.
  - These include, but are not limited to open interest, volume, production and fixed weights.
- Since there is no agreeable definition of how to define the market weights of various commodities, all commodity indices are actually rules-based commodity strategies.

### Strategic Commodity's Long-Only Beta (50% - 100% Allocation)

- Long-only commodity basket that allocates across 3 broad market sectors in roughly equal weights.
- Commodity selection is based on those that have historically exhibited the highest degree of backwardation and that have active liquid future markets.
- Future contract selection is unique to each commodity based on historically term structure and liquidity.
- The basket rebalances annually each January.
- Allocations as of March 31, 2016:

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**How the BFMCB Allocates Across Sectors**

BFMCB Index Weights as of March 31, 2016

Commodity	Weight
Energy	34.4%
Metals	32.2%
Agriculture and Livestock	33.4%

- 5 Energy Positions (34.4%)
  - Oil: West Texas Intermediate (WTI) Crude (10.2%) and Brent Crude (10.4%)
  - Distillates: Gasoil (5.5%), Unleaded Gasoline (5.1%) and Heating Oil (3.2%)
- 2 Metals Positions (32.2%)
  - Copper (20.1%), Nickel (12.1%)
- 4 Agriculture and Livestock Positions (33.4%)
  - Grains: Soybeans (19.6%)
  - Softs: Sugar (5.5%) and Cotton (3.6%)
  - Livestock: Live Cattle (4.8%)

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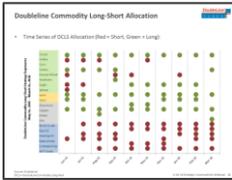
### Strategic Commodity's Alpha (0% - 50% Allocation)

- Dollar-neutral commodities strategy comprised of futures contracts selected from the universe of commodities in the S&P GSCI.
- Monthly trading signals derived from rules-based calculation methodology built around global and demand fundamentals.
  - Utilizes key metrics such as:
    - Degree of contango or backwardation
    - Price momentum

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## Recap

- DoubleLine has been running a similar strategy since 2012.
- Allocations as of March 31, 2016:
  - Long (5): Cocoa, Cotton, Gold, Zinc, Copper
  - Short (5): Crude Oil, Brent Crude, Gasoil, Heating Oil, Natural Gas

## Making the Tactical Allocation Decision

- A timing signal developed by DoubleLine uses a rules-based approach to assess the relative attractiveness of investing in long-only commodities.
  - Determines if the allocation mix between the Long-Only Beta allocation and the Long-Short Alpha.
- Created using a rules-based calculation methodology that looks at and analyzes the fundamental global supply and demand picture. Some of the metrics the model analyzes are degree of contango, backwardation and price momentum.
- The signal is generated monthly; the output is a dollar-neutral commodity strategy that invests equally, based on a notional amount, across long and short baskets.

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## Question and Answer

- Silver
  - Trying to forecast 16 months in the future, given the intervention of central banks around the world, is a useless exercise.
  - Mr. Sherman see silver going higher over the next 12 months. Some estimates have the fair value on silver closer to \$20/ounce.
- Oil
  - Oil may have reached a bottom. We may see it trade sideways.
- Commodities Investing
  - Mr. Sherman believes commodities can make a significant move up and that investors in commodities must remain patient. That is why we've introduced this idea of tactically allocating away from the beta when things aren't as attractive.
- Rebalancing
  - DoubleLine rebalances the Long-Short Alpha basket on a monthly basis.

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## Definitions:

**Alpha** - A measure of performance on a risk-adjusted basis. Alpha takes the volatility (price risk) of a mutual fund and compares its risk-adjusted performance to a benchmark index.

**Backwardation** - A condition in which the market quotes a lower price for a more distant delivery date, and a higher price for a nearby delivery date.

**Beta** - The measure of a mutual fund's volatility in relation to the market. By definition, the market has a beta of 1.0, and individual mutual funds are ranked according to how much they deviate from the market. A beta of above 1.0 means the fund swings more than the market. If the fund moves less than the market, the beta is less than 1.0.

**Barclays Capital U.S. Aggregate Bond Index** - The Barclays Capital U.S. Aggregate 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.

**Contango** - A condition in which the market quotes a higher price for a more distant delivery date, and a lower price for a nearby delivery date.

**Correlation** - A statistical measurement of the relationship between two variables. Possible correlations range from +1 to -1. A zero correlation indicates that there is no relationship between the variables. A correlation of -1 indicates a perfect negative correlation and +1 indicates a perfect positive correlation.

**S&P Goldman Sachs Commodity Index (GSCI)** - An index that measures investment in the commodity markets and commodity market performance over time.

**S&P 500 Index (SPX)** - S&P 500 is a free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States.

**UBS Bloomberg Constant Maturity Commodity Index (CMCI)** - A family of indices developed to track real performance of commodity prices across 27 commodity future contracts.

One may not directly invest in an index.

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**Diversification does not assure a profit or protect against loss in a declining market..**

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