

# DoubleLine Asset Allocation Webcast Recap



Originally aired on July 12, 2016

## About this Webcast Recap

On July 12, 2016, Chief Executive Office Jeffrey Gundlach held a webcast discussing the DoubleLine Core Fixed Income Fund (DBLFX/DLFNX) and the DoubleLine Flexible Income Fund (DFLEX/DLINX) titled “Asset Allocation Webcast.”

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 Mr. Gundlach’s views, please listen to the full version of this webcast on [www.doublelinefunds.com](http://www.doublelinefunds.com) on the “Webcasts” tab under “Latest Webcast”. You can use the “Jump To” feature to navigate to each slide.

Slide #	Recap
	<h3>Global Overview</h3> <ul style="list-style-type: none"> <li>The Federal Reserve (Fed)                             <ul style="list-style-type: none"> <li>The bond market is pricing in a very low probability of a rate hike this year.</li> <li>Following the Brexit vote, sentiment has shifted from an “obsession with the Fed” to “suddenly no one cares about the Fed.”</li> </ul> </li> <li>Negative Rates                             <ul style="list-style-type: none"> <li>Negative interest rates have produced the opposite effect of the intended purpose of weakening local currencies and propping up stock markets.</li> </ul> </li> <li>Inflation                             <ul style="list-style-type: none"> <li>The Consumer Price Index (CPI) has been moving sideways at about 1% year-over-year (YoY). The PriceStats Index have moved up to 0.0% from -1.0% YoY. We don’t see a lot of inflation although it is moving up in conjunction with the Fed’s targeted mandate.</li> </ul> </li> <li>U.S. Dollar (USD)                             <ul style="list-style-type: none"> <li>The USD has been range-bound. We have not had a strong conviction on the USD since earlier this year.</li> </ul> </li> <li>Unemployment Rate                             <ul style="list-style-type: none"> <li>When the U-6 Unemployment Rate crosses the 3-year moving average to the upside, this has historically signaled a recession. We are not close at this point and would need a significant move in the unemployment rate to be indicative of recession.</li> </ul> </li> <li>Gross Domestic Product (GDP)                             <ul style="list-style-type: none"> <li>Nominal GDP is at levels that are typically correlated with recessions.</li> </ul> </li> <li>Commodities                             <ul style="list-style-type: none"> <li>Mr. Gundlach believes silver and gold are creating strength in the commodities market which may be masking the weakness in the price of copper and other industrial metals.</li> </ul> </li> </ul>
8	
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15	
17	

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## Slide #

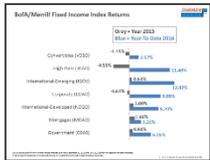
## Recap

18



- S&P 500
  - The volatility within the stock market continued to move sideways due to the lower earnings growth of the S&P 500.
  - The S&P 500 yearly earnings expectation for 2016 is falling. We would not be surprised to see a similar trend for 2017 earnings.

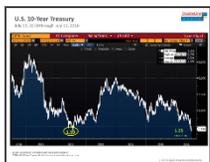
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## Fixed Income Overview

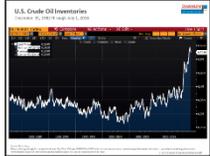
- Year-To-Date (YTD) Winners
  - Emerging market (EM) debt, high yield (HY) debt, investment grade (IG) corporate bonds and international developed debt
- Underperformers YTD
  - Mortgages and convertibles
    - Mortgages tend to have a shorter duration which contributed to the underperformance.

24



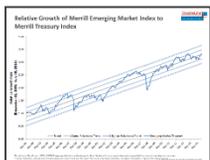
- U.S. Treasury (UST) Trends
  - 2-year and 5-year UST are in a rising trend.
  - In his career, Mr. Gundlach has not seen a worse setup for the 10-year UST. The risk-reward proposition of buying the 10-year UST at a yield of 1.35% provides little upside for investors.
  - Mr. Gundlach believes the 10-year UST yield will move higher and wouldn't be surprised to see the 10-year UST rise to 1.70%.

39



- Oil
  - Oil inventories in the U.S. remain incredibly elevated. Oil seems to be trapped between \$45 and \$50 a barrel. Mr. Gundlach believes that the chance price breaks to the downside is better than 50/50.

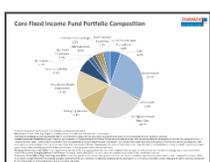
25



- Relative Value
  - Mortgages: Mr. Gundlach believes they look attractive relative to UST
  - Corporate Bonds: Mr. Gundlach believes they look expensive relative to UST
  - HY: Mr. Gundlach believes HY doesn't look bad from a pricing perspective, but watch out for looming defaults and slower growth
  - Municipals: Have cheapened up since the beginning of the year
  - Treasury Inflation-Protected Securities (TIPS): Mr. Gundlach believes they look expensive and are grinding sideways versus UST
  - EM Debt: Fairly valued. We continue to favor EM debt over HY bonds.

## DoubleLine Core Fixed Income Fund (DBLFX) as of June 30, 2016

47



- Current duration is 4.7 years. Much shorter than the Barclays Aggregate Bond Index which is 5.5 years.
- There is no leverage, swaps or derivatives within the portfolio. We are using cash bonds.
- The Fund is broadly diversified across all fixed income sectors with only 25% of the portfolio allocated to mortgages.

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**Slide #**  
**49**

Flexible Income Fund Portfolio Statistics

	DoubleLine Flexible Income Fund	Portfolio (as of 6/30/16)
Duration (years)	1.97	2.07
Duration (years)	2.00	2.00

**Recap**

**DoubleLine Flexible Income Fund (DFLEX) as of June 30, 2016**

- Current duration is 1.9 years.
- The Fund is designed for absolute returns while attempting to hedge rising rates.<sup>1</sup>

**Question and Answer**

- Presidential Election
  - Mr. Gundlach believes Donald Trump will win the presidential election.
- 10-year UST
  - Mr. Gundlach believes the 10-year UST yield is headed higher in the short term.
- Closed-end funds.
  - Mr. Gundlach would not be an aggressive buyer of closed-end funds at these levels because they have leverage, a lot of risk exposure and have performed well.
- DoubleLine Shiller Enhanced CAPE Fund (DSEEX)
  - Mr. Gundlach believes that those interested in the stock market should look at DSEEX. The fund has an emphasis on risk management and risk-adjusted returns.

1. Absolute return strategies are not intended to outperform stocks and bonds during strong market rallies.

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## Definitions:

**Barclays Aggregate Bond Index** - An index that represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. 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.

**S&P 500 (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.

**Consumer Price Index (CPI)** - A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.

**Basis Point** - A basis point is a unit that is equal to 1/100<sup>th</sup> of 1%, and is used to denote the change in a financial instrument.

**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.

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

**Investment Grade** = Indices rated AAA to BBB- (shown above) are considered to be investment grade. A bond is considered investment grade if its credit rating is BBB- or higher by Standard & Poor's or Baa3 by Moody's. The higher the rating, the more likely the bond is to pay back at par/\$100 cents on the dollar. AAA is considered the highest quality and the lowest degree of risk. They are considered to be stable and dependable.

Credit distribution from the highest available credit rating from any Nationally Recognized Statistical Rating Organization (S&P, Moodys, and Fitch).

One cannot invest directly in an index.

## 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 may be obtained by calling 1 (877) 354-6311 / 1 (877) DLine11, or visiting [www.doublelinefunds.com](http://www.doublelinefunds.com). Read carefully before investing.***

*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. Investments in Asset-Backed and Mortgage-Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Funds may use certain types of 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 risk 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. The Funds may also invest in securities related to real estate, which may decline in value as a result of factors affecting the real estate industry*

*The Core Fixed Income 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 Flexible Income 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.*

*Credit distributions are determined from the highest available credit rating from any Nationally Recognized Statistical Rating Organization (S&P, Moody's, and Fitch).*

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

Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

## **Important Information Regarding This Report**

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