DoubleLine Total Return Bond Fund Webcast Recap "Turning Points"

Originally aired on September 8, 2016

About this Webcast Recap

On September 8, 2016, Chief Executive Officer Jeffrey Gundlach held a webcast discussing the DoubleLine Total Return Bond Fund (DBLTX/DLTNX) titled "Turning Points."

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 on the **"Webcasts"** tab under **"Latest Webcast"**. You can use the **"Jump To"** feature to navigate to each slide.

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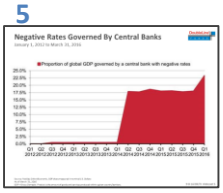
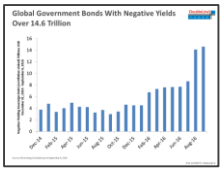
	The Global Economy
5 	• "Sell Everything" ○ On July 6th the 10-year U.S. Treasury (UST) bond was at a yield of 1.32% and Mr. Gundlach's outlook turned "maximum negative" for the bond market on that day. Since then, yields have risen gently on a global level. Mr. Gundlach thinks the bond market is starting to realize that the narrative of negative interest rates is tired and that this regime may be about to change. ○ "When I said 'sell everything,' obviously that's meant to be advice that's very broad, non-specific. It's a headline-grabbing way of saying, 'Get more defensive.' It's a way of saying, 'Wake up, people!' Things are different. The narrative that you're relying on to hold these assets and some of these risk assets is changing."
6 	• Negative Yielding Bonds ○ As of September 8th, there are over $14 trillion bonds worldwide with a negative yield. ○ Over 1/3 of global Gross Domestic Product (GDP) is governed by negative interest rates.
7 	• U.S. GDP ○ Real GDP and Nominal GDP have been declining for seven years. ○ Real GDP is the lowest it's been in the last decade. ○ Nominal GDP is now in the low twos. The last time it was this low was in 2008. ○ GDP forecasts have been downgraded from 3% all the way down to 1% for 2016. • The Federal Reserve (Fed) ○ The market implied probability of a September 21st rate hike is 28%. ○ It seems as though the Fed has lost confidence in themselves by lowering their dots. ○ Mr. Gundlach does not expect a rate hike in September, unless the World Interest Rate Probability (WIRP) function is above 40% and the S&P 500 is below 2150.

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- "The Fed wants to prove their independence from the WIRP function and they may hike with it being as low as 40%, in which case the markets may blow themselves up," says Gundlach.

- Treasury Rates
  - When interest rates bottomed on July 6th, Mr. Gundlach became openly negative on bonds. Since then the 2-year is up 16 basis points (bps), the 5-year is up 23 bps and the 10-year is up 25 bps.
  - Mr. Gundlach believes the 10-year will continue to grind higher and likely reach the low twos between now and year-end. Furthermore, he recommends being defensive regarding interest rate risk and credit risk.
- Corporate Bonds
  - Mr. Gundlach believes that corporate bonds are highly overvalued because spreads have tightened in a declining rate environment, while simultaneously having a longer duration profile.
- High Yield
  - Mr. Gundlach continues to favor Emerging Market (EM) bonds over high yield. He believes high yield bonds have significant recession and default risk.

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- Manufacturing
  - Institute for Supply Management Manufacturing Purchasing Managers Index (ISM PMI) now reads 49.3, below the 50.0 level which signals a contraction in the economy and has historically been associated with recessions.
  - ISM Non-Manufacturing Index (NMI) is now 51.4 its lowest level since 2009.

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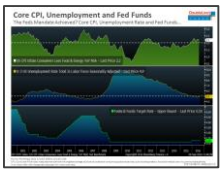

- Unemployment
  - The unemployment rate is currently at 4.90, below its 12-month moving average of 4.94. An early indicator of recession is when the unemployment crosses over its 12 month moving average.
  - The more important indicator of recession is when the unemployment rate crosses over its 36-month moving average, which has not happened, but in ever instance in the past, a recession has followed.

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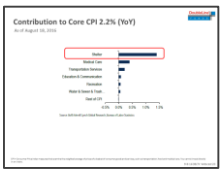

- Inflation
  - Average Hourly Earnings are in a clear uptrend.
  - Core Consumer Price Index (CPI), which excludes food and energy, seems to be gradually increasing and is slightly above the Fed's 2% target. Shelter accounts for 2/3 of Core CPI, which is not exactly an inflationary sign.
  - The Future Inflation Gauge (FIG) is showing some signs of life in the last several months.
- Gold
  - Mr. Gundlach remains bullish on gold and believes it is going to $1,400.

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- U.S. Dollar (USD)
  - USD remains in an 18-month range.
  - The USD fell 7% following last December's rate hike. That is inconsistent with most people's expectations of the USD after a rate hike.
  - Mr. Gundlach places a higher probability on a break to the downside, but he does not have high conviction on the USD in any direction.

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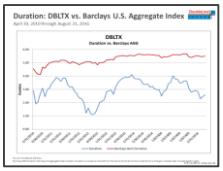

Recap

DoubleLine Total Return Bond Fund (DBLTX/DLTNX) As of August 31, 2016

- Duration of 2.44 years is significantly shorter than 5.51 years of Barclays Aggregate Bond Index, so in falling rate periods it is likely to lag and then should make it up in rising rate periods. This is based on DBLTX's lower duration and higher yield.
- Cash is 12.10%.
- No corporate credit exposure.

Definitions:

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.
Barclays U.S. 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.
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. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.
Institute for Supply Management Manufacturing Purchasing Managers Index (ISM PMI) - An index made up of data from 300 manufacturing firms collected by the Institute of Supply Management (ISM). It indicates the economic health of the manufacturing sector.
Institute for Supply Management Non-Manufacturing Index (ISM NMI) - An index made up of data from 400 non-manufacturing firms collected by the Institute of Supply Management (ISM).
S&P 500 - A free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States.
Basis Point - A basis point is a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

One cannot invest directly in an index.

DoubleLine Total Return Bond Fund Webcast Recap

Originally aired on June 14, 2016

Disclaimer

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Credit Distribution is 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.

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Opinions expressed are subject to change at any time, are not forecasts and should not be considered investment advice.

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