

## Get Paid While You Wait

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Today stocks and bonds alike are quite attractive. Choosing which to buy is tough. I suggest both. The potential returns for both are quite strong and with bonds you don't need the market to agree with you, you just need the issuer to be solvent enough to make its payments. You can get paid to wait.

Warren Buffett has been on a bond-buying spree. He has been making special deals to lock in a high yield in perpetuity from companies that need capital and that will pay a premium for Buffett's seal of approval.

We huddled masses aren't being offered deals quite as sweet as Buffett's, but they're still awfully good. You can earn equity-like returns from a wide variety of income-producing funds because all the bond money is going to Treasuries, forcing riskier debt to pay big yields. That comes with risk, but, unlike stocks, most of the income-producing securities require that the issuer remain solvent enough to pay the coupon regardless of what the market thinks.

Let's look at some of the best ways to get paid to wait. I've arranged some favorite income-producing funds from highest-yielding and riskiest to lowest-yielding and least risky. With one notable exception, yield is in line with risk. In each case I've included the fund's SEC yield, which states the income generated from the past 30 days. The yield column in the Morningstar 500 data tables is the income paid out over the past 12 months—a good measure of actual past income,

but, with yields surging, not as good a measure of what to expect.

### **MetWest High Yield Bond MWHYX | 17% yield**

Investing in junk bonds amid a brutal recession is a dangerous game. But in the hands of skilled managers like MetWest, it seems like a worthwhile risk. The team has adeptly shifted into healthier companies at the right time so that it limited losses in 2008. Moreover, with a 17% yield, it can take a couple of hits and you'd still get an attractive return.

### **T. Rowe Price High-Yield PRHYX | 12%**

Want to take that risk down a notch? Then this fund is a good idea. It's a little more cautious but still has upside potential—just what you'd expect from the Goldilocks of the mutual fund world. We're big fans of Mark Vaselkiv, who has made adept moves of his own, including one into **Goldman Sachs GS** just like the Oracle of Omaha.

### **Vanguard High-Yield Corporate VWEHX | 11%**

Vanguard uses its low-cost edge to run the most conservative high-yield fund around. It mostly owns bonds that are just above or just below the investment-grade/high-yield borderline. And yet with that nice, cautious superdiversified portfolio, the fund still throws off 11%. Not too shabby.

### **Loomis Sayles Bond LSBRX | 10%**

I added this fund to my own portfolio because I like the idea of letting maestro Dan Fuss have a free rein to pick up great bonds. He invests all over the world in low quality and high quality alike. He currently has a big slug in investment-grade corporate bonds—understandably so, given the big difference between corporate bonds and Treasuries.



Russel Kinnel,  
Director of Fund Research and Editor

**Dodge & Cox Income DODIX | 7.5%**

If you prefer to stay on the investment-grade side of the line, consider Dodge & Cox Income. It's an excellent fund that plies corporate bonds, mortgages, and Treasuries, but its forte is corporates, where it has built an excellent record through issue selection.

**T. Rowe Price Corporate Income PRPIX | 7%**

Want a pure play on corporate bonds? Here it is. I like T. Rowe's sound management and the fact that this fund is free of overpriced Treasuries. Manager David Tiberii invests most of the fund in investment-grade corporate bonds but puts 10% to 15% in junk bonds. The fund also has a chunk in BBB—just above the junk-bond line—including some emerging-markets debt. Its returns stunk in 2008, but that's because most long-term bond funds have a lot of government debt—not because of bad moves by the manager.

**Vanguard Convertible Securities VCVSX | 5%**

I put this fund ahead of its place based on yield because it does have some equity risk. Convertible bonds pay a yield, but they also have an equity option so that you can participate in the upside. Needless to say, those options aren't worth all that much, but that will change if the market does rally sharply and in the meantime you get a respectable yield.

**T. Rowe Price Tax-Free High-Yield PRFHX | 6.5%**

Defaults are a rarity in the muni world—even with high-yield bonds. The greater risk here is that liquidity

dries up at a time when the fund is hit with redemptions. Yet that seems unlikely as management has done a good job and investors haven't been given much reason to sell. Remember, too, that the 6.5% yield on munis is like a 10% yield in taxable bonds for investors in the highest tax bracket.

**T. Rowe Price Spectrum Income RPSIX | 6%**

This fund offers a wide sweep of T. Rowe's income-generating funds including **Equity Income PRFDX**. Manager Ed Notzon shifts among those that he considers most attractive. It's an approach with some risk, as the fund's 12-month loss of 14% illustrates. Still, it provides a lot of diversification and benefits from T. Rowe's moderate approach in a variety of sectors.

**Vanguard Wellesley Income VWINX | 6%**

This is a good way to dip a toe into equities while still earning some income. The fund is about one third equities with the rest in fixed income. The Wellington team running this fund has done a brilliant job with a conservative strategy that gives me confidence in good markets and bad. Although the managers are pretty new, they are seasoned veterans of the firm. With a price tag of 0.33%, this is a bargain.

**Fidelity Tax-Free Bond FTABX | 4.5%**

Even high-quality muni funds are paying attractive yields. This Alternative Minimum Tax-free fund is one of my favorites, but our other picks are worth a look. ■■■

## 11 Great Funds with Robust Income

Fund Name	Morningstar Category	Manager Name	SEC Yield	3 Year			5 Year			10 Year			Prospectus Net Exp Ratio
				Tot Ret	Rank Cat (%)	Rank Cat (%)	Tot Ret	Rank Cat (%)	Rank Cat (%)	Tot Ret	Rank Cat (%)	Rank Cat (%)	
Dodge & Cox Income	Intermediate-Term Bond	Emery et al	7.5	3.26	38	2.72	32	5.21	17	0.44			
Fidelity Tax-Free Bond	Muni National Long	Thompson/Pagliocco	4.5	2.82	6	3.01	3	—	—	0.25			
Loomis Sayles Bond Retail	Multisector Bond	Fuss/Gaffney	10.0	-3.02	68	1.10	59	5.38	16	0.94			
Metropolitan West High Yield Bond	High Yield Bond	Landmann et al	17.0	-2.59	10	1.03	10	—	—	0.80			
T. Rowe Price Corporate Income	Long-Term Bond	David A. Tiberii	7.0	-0.39	79	0.74	70	4.10	50	0.75			
T. Rowe Price High-Yield	High Yield Bond	Mark J. Vaselkiv	12.0	-4.34	37	0.10	29	2.95	15	0.76			
T. Rowe Price Spectrum Income	Multisector Bond	Edmund M. Notzon III	6.0	0.45	24	2.10	32	4.63	35	0.68			
T. Rowe Price Tax-Free High-Yield	High Yield Muni	James M. Murphy	6.5	-4.40	38	-0.39	34	2.01	35	0.72			
Vanguard Convertible Securities	Convertibles	Larry Keele	4.7	-5.83	18	-0.23	3	5.13	4	0.72			
Vanguard High-Yield Corporate	High Yield Bond	Michael L. Hong	11.0	-3.61	26	-0.10	34	2.20	32	0.25			
Vanguard Wellesley Income	Conservative Allocation	Keogh/Reckmeyer	6.0	-0.69	13	1.50	10	4.49	5	0.33			

Data through March 31, 2009.

# Metropolitan West High Yield Bond Fund (M-Class) ★★★★★

5-Star Overall Morningstar Rating based on risk-adjusted returns as of 3/31/09 among 473 High Yield Bond Funds.

## NET PERFORMANCE TOTAL RETURNS - As of March 31, 2009

	Annualized				
	1Q09	1-year	3-year	5-year	Since Inception
MWHYX (Inception: 09/30/2002) <sup>1</sup>	7.53%	-12.59%	-2.61%	1.02%	6.71%
Barclays Capital U.S. Corp HY - 2% Issuer Cap <sup>2</sup>	6.61%	-18.56%	-4.45%	-0.03%	5.32%
<b>Under/Outperformance</b>	<b>92 bps</b>	<b>597 bps</b>	<b>184 bps</b>	<b>105 bps</b>	<b>139 bps</b>

30-Day Yield: 15.73%

The performance data quoted represents past performance and does not guarantee future results. Current performance may be lower or higher. Performance data current to the most recent month-end may be obtained at [www.mwamllc.com](http://www.mwamllc.com). The investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. The fund offers another class, the performance for which will vary due to fees and expenses.

The 30-Day Yield is based on net income during the 30-day period ending on 3/31/09.

For MWHYX the total expense ratio is 0.98% and the net expense ratio is 0.80%. Expenses reflect a contractual agreement by the Adviser to reduce its fees and/or absorb expenses to limit the Fund's total annual operating expenses for the current fiscal year. The Adviser voluntarily extended the agreement for the current fiscal year, and expects to renew the contractual expense limitation each year in May. For more information about fees and expenses, please read the prospectus.

<sup>1</sup> Total return figures assume reinvestment of all distributions. Total returns reflect fee waivers in effect. Without fee waivers, returns would have been lower.

<sup>2</sup> The Barclays Capital U.S. Corporate High Yield - 2% Issuer Cap Index is generally representative of corporate bonds rated below investment-grade. The index limits the maximum exposure to any one issuer to 2% of the market value of the index. The securities in the Fund may differ substantially from those in the index. Unlike a mutual fund, the performance of an index assumes no taxes, transaction costs, management fees or other expenses.

Bond Funds have the same interest rate, yield and credit risks associated with the underlying bonds in the portfolio, all of which could reduce the Fund's value. As interest rates rise, the value of the Fund can decline and an investor can lose principal. High yield investments by the Fund in lower-rated and non-rated securities presents a greater risk of loss of principal and interest than higher-rated securities. The Fund may also not be suitable for all investors due to its use of sophisticated investment instruments such as derivatives.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year Morningstar Rating metrics. The Metropolitan West High Yield Bond Fund M-Class was rated 5 stars for the 3-year period and 5 stars for the 5-year period against 473 and 405 U.S.-Domiciled High Yield Bond Funds, respectively. Morningstar ratings are for the M share class only; other classes may have different performance characteristics. Past performance does not guarantee future results.

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This article must be preceded or accompanied by a prospectus.

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