

Metropolitan West High Yield Bond M MWHYX

Morningstar's Take | 06-16-09 | by Lawrence Jones

Metropolitan West High Yield Bond deserves more attention than it gets.

This small fund displayed impressive performance recently under various market conditions, speaking to the effective implementation of the team's approach. At the end of 2008, market stress sent high-yield bond prices tumbling to previously unseen levels. And while the typical fund in the category declined 26.4% last year, this fund saw a loss of 21.6%, which while disappointing ranked it ahead of three fourths of its rivals that year. This year, we've seen a dramatic reversal of this risk aversion, and as of mid-June the lowest-rated parts of the junk-bond market sprang back forcefully, as did this offering's returns, by near 31% as of June 15, 2009, a top-decile showing. So the fund performed well both in a period characterized by extreme risk aversion and when risk was rewarded.

Those results stem from management's opportunistic approach to the high-yield asset class. The team combines fundamentally based, issue-specific credit research with more macroeconomic considerations (involving sector weightings and the degree of credit risk to be taken at various points in the credit cycle) as vital parts of its process. For example, through much of 2008, concern over the fallout from the credit crisis convinced the team to shift assets away from more-troubled issuers and toward securities deemed stronger credits, such as the preferreds of investment-grade financials, or toward those representing higher legal claims on a firm's assets, such as bank loans (recently 15% of assets). The moves helped shield the portfolio from some trouble and aided results this year as the bank-loan sector outperformed high-yield bonds.

Moreover, we have a high degree of confidence in this team. Beyond the four comanagers and the six analysts who support them, investment ideas come from varied sources, and the group has the talent and the resources to execute its style well.

Lawrence Jones is a Senior Mutual Fund Analyst with Morningstar.

Morningstar Rating

★★★★★

Kudos

- The fund's expense ratio is now being capped at 0.80%.
- Metropolitan West has provided the fund with the resources to be successful.

Risks

- Like other high-yield bond funds, it is sure to be volatile at times.
- The fund's flexible approach can make it a bit unpredictable.

Strategy

Like other high-yield bond funds, this one invests heavily in bonds rated BB and below. Management attempts to limit the fund's downside risk by looking closely at asset value, cash flow, and seniority in evaluating specific issues. It also makes top-down adjustments based on its outlook for interest rates and the overall bond market. In 2003, for example, the fund took on a little more credit risk than its average high-yield peer. More recently, however, management has been more defensive, as evidenced by the fund's increasing stake in higher-quality shorter-term bonds.

Management

On March 6, 2006, Jamie Farnham replaced Mark Unferth as lead manager here. Farnham joined Metropolitan West as a credit analyst in 2002 and became its director of credit research in late 2004. Comanagers Gino Nucci, Tad Rivelle, David Lippman, Stephen Kane, and Laird Landmann also contribute here. The team is supported by a group of six analysts who follow different sectors of the market.

Inside Scoop

This high-yield bond fund's managers emphasize issuers with solid asset values and the ability to generate cash flow while keeping an eye on value. The fund won't appeal to those looking for benchmarklike exposure to the sector, as the advisor's edge is in issue selection.

Role in Portfolio

Supporting Player

Metropolitan West High Yield Bond M MWHYX

Year	Total Return (%)	+/-Category
YTD	26.34	7.13
2009	—	—
2008	-21.59	4.82
2007	2.73	1.26
2006	8.74	-1.40

Data through 05-31-09

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) ¹	7.53%	-12.59%	-2.61%	1.02%	6.71%
Barclays Capital U.S. Corp HY - 2% Issuer Cap ²	6.61%	-18.56%	-4.45%	-0.03%	5.32%
<i>Under/Outperformance</i>	92 bps	597 bps	184 bps	105 bps	139 bps

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.mwamlc.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. You should consider the investment objectives, risks, charges, and expenses of the Metropolitan West Funds carefully before investing. A prospectus with this and other information about the Funds may be obtained by calling (800) 241-4671 or you can download one at www.mwamlc.com. It should be read carefully before investing.

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.

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

² 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.

Metropolitan West Funds has no editorial control over the content, subject matter, and timing of this article and is independent of **Morningstar, Inc.** and its publisher. Investment strategies may not achieve the desired results due to implementation lag, other timing factors, portfolio management decision-making, economic or market conditions or other unanticipated factors. The views and forecasts expressed in this material are as of the date indicated, are subject to change without notice, may not come to pass and do not represent a recommendation or offer of any particular security, strategy, or investments. While we have gathered this information from sources believed to be reliable, MetWest cannot guarantee the accuracy of the information provided. Investors should consult investment professionals regarding their individual investment programs. Metropolitan West Asset Management, LLC reserves the right to change its investment perspective and outlook without notice as market conditions dictate.

Shares of the Metropolitan West Funds are distributed by PFPC Distributors, Inc., 760 Moore Road, King of Prussia, PA 19406.

Reprinted with permission from **Morningstar, Inc.** June 2009.

DFU 6/09

METWEST

Metropolitan West Asset Management
11766 Wilshire Boulevard, Suite 1500
Los Angeles, California 90025

TEL 310.966.8900
FAX 310.966.8951
www.mwamlc.com