

Metropolitan West High Yield Bond M MWHYX

Morningstar's Take | 12-01-09 | by Sonya Morris, CFA

This nimble fund has much to recommend it.

Metropolitan West High Yield Bond has made the most of its flexible strategy.

Few high-yield bond funds have outperformed in both 2008 and so far in 2009. That's because the factors that contributed to relative resilience in a challenging 2008 have been a hindrance in 2009. In 2008, the lowest quality issues were severely punished, so the funds that reined in risk generally held up better than more aggressive competitors. However, the junkiest issues have bounced back strongly in 2009, rewarding the category's more daring offerings.

This fund managed to perform well in both years thanks to its nimble approach to the high-yield market. It began 2008 stressing the highest-quality bonds in its universe. But as the corporate-bond market cratered later in the year, management scooped up lower-rated bargains, which is in keeping with its relative-value focus. This allowed the fund to participate in 2009's junk rally.

Currently, bargains are less plentiful after the market's sharp rebound. In addition, the team expects a tepid economic recovery at best. So, it has once again positioned the fund cautiously. At present, the portfolio emphasizes higher-quality bonds in asset-rich sectors, such as utilities and energy. Management has also allocated a modest portion (13%) of assets to senior secured bank loans.

This positioning could work against the fund if the U.S. economy mounts a strong recovery. But the team's execution over the long term inspires confidence. The fund has generated annualized returns of 11% since its September 2002 inception through November 2009, handily beating its typical category peer. It has also surpassed the category average in 75% of the rolling three-year periods during that time frame. It has delivered these impressive results while keeping volatility (as measured by standard deviation) below average.

Those seeking high-yield exposure should include this fund on their short list.

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.
- Management has skillfully navigated a variety of market conditions.

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. Bottom-up analysis lies at the heart of its process. Management attempts to limit the fund's downside risk by looking closely at asset value, cash flow, and seniority in evaluating specific issues. However, it also makes top-down adjustments based on its outlook for interest rates and the overall bond market. This flexible approach has fared well in a variety of market conditions.

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.

Role in Portfolio

Supporting Player

Metropolitan West High Yield Bond M MWHYX

| Year | Total Return (%) | +/-Category |
|------|------------------|-------------|
| YTD | 51.44 | 34.09 |
| 2009 | — | — |
| 2008 | -21.59 | -12.38 |
| 2007 | 2.73 | -0.06 |
| 2006 | 8.74 | 5.11 |

Data through 11-30-09

Metropolitan West High Yield Bond Fund (M-Class)

NET PERFORMANCE TOTAL RETURNS - As of September 30, 2009

| | 3Q09 | YTD | Annualized | | | |
|------------------------------------------------------------|-----------------|-----------------|----------------|----------------|---------------|-----------------|
| | | | 1-year | 3-year | 5-year | Since Inception |
| MWHYX (Inception: 09/30/2002) ¹ | 11.92% | 46.32% | 23.93% | 6.78% | 6.73% | 10.99% |
| Barclays Capital U.S. Corp HY - 2% Issuer Cap ² | 14.21% | 49.52% | 22.51% | 5.66% | 6.16% | 10.12% |
| <i>Under/Outperformance</i> | <i>-229 bps</i> | <i>-320 bps</i> | <i>142 bps</i> | <i>112 bps</i> | <i>57 bps</i> | <i>87 bps</i> |

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. 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.mwamllc.com. It should be read carefully before investing.

For MWHYX the total expense ratio is 1.00% and the net expense ratio is 0.80%. The Fund incurred Acquired Fund Fees and Expenses for the year ended March 31, 2009, and the ratio of annualized operating expenses to average net assets for that year was 0.81%. Expenses reflect a contractual agreement by the Advisor to reduce its fees and/or absorb expenses to limit the fund's total annual operating expenses until March 31, 2011. 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 index is unmanaged, and is not available for direct investment. Unlike a mutual fund, the performance of an index assumes no taxes, transaction costs, management fees or other expenses. The securities in the Fund may differ substantially from those in the index.

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.

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