

Metropolitan West Total Return Bond M MWTRX

Morningstar's Take | 07-29-08 | by Paul Herbert, CFA

Metropolitan West Total Return has contrarian appeal.

To be sure, the fund has plenty of appeal for a variety of reasons. These include its experienced managers and analysts, their thorough, value-driven process, and their conviction in their positioning. Plus, the whole effort has combined to lead this Analyst Pick to one of the best long-term records in the intermediate-term bond category. The fund also fared relatively well during the credit crisis that has dogged the bond market during the past year or so.

Things could have been better, though, as the fund's stakes in nonagency mortgage and asset-backed securities have dragged down recent results. Although the firm's managers keep close tabs on portfolio level risk, much of their edge comes from highlighting attractive broad sectors (or subareas within them, or certain structurally advantaged security types) rather than sticking close to benchmark weightings. Lately, they've emphasized residential-housing-related fare—prime and subprime—given high yields, significant total-return potential, and good protection from actual loan losses. Such bonds have come under heavy selling pressure, despite sturdy credit performance, though, leading to middling 12-month and year-to-date results for this fund (and worse showings for most of the firm's other funds).

There's sufficient cause to expect a rebound here, though higher volatility may also be in the cards. The team has held or added to its positions, which have not experienced permanent impairment, and will benefit as other investors are drawn to these fundamentally strong, attractively priced securities. However, no one knows precisely how long that will take, and in the meantime, the fund's results may continue to bounce around a bit. The fund has come back from weakness before, as its run from 2003 to 2007 indicates, so patience is required. In the end, we think that long-term investors will be rewarded here.

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Morningstar Rating



Analyst Pick

Kudos

- The fund boasts an experienced, proven management team.
- It charges lower expenses than its average peer.
- It rebounded dramatically in 2003 and 2004.

Risks

- The fund's flexible approach can lead it to take on added credit risk or interest-rate risk, which could make short-term returns a bit unpredictable.

Strategy

This fund attempts to outperform its peers through duration bets, yield-curve adjustments, sector rotation, and issue selection. Management argues that there are issue- and sector-level inefficiencies in the bond market because information is not always widely disseminated. In recent years, that has meant above-average stakes in corporate bonds and asset-backed securities. Management is not shy about holding large positions or taking on credit risk, although the fund follows a policy of putting no more than 2.5% of assets in a single purchase.

Management

The fund's management team of Stephen Kane, Laird Landmann, and Tad Rivelle delivered solid returns at Hotchkis & Wiley and PIMCO before starting this fund in 1997. David Lippman joined the team in 2001. The team has also had success with Metropolitan West Low Duration Bond MWLDX, which follows a similar approach to this fund but carries less interest-rate risk.

Inside Scoop

This fund's flexible approach can cause a few bumps in the road, but it also provides potential for greater yield and total return.

Role in Portfolio

Core

Metropolitan West Total Return Bond M MWTRX

Year	Total Return (%)	+/-Category
YTD	-1.88	-0.34
2008	—	—
2007	6.27	1.57
2006	6.99	2.84
2005	3.10	1.30

Data through 07-31-08

Metropolitan West Total Return Bond Fund (M-Class) ★★★★★

5-Star Overall Morningstar Rating based on risk-adjusted returns as of 6/30/08 among 990 Intermediate-Term Bond Funds.

NET PERFORMANCE TOTAL RETURNS - As of June 30, 2008

	Q2 '08	YTD	1-year	Annualized			
				3-year	5-year	10-year	Since Inception
MWTRX (Inception: 03/31/1997) ¹	-1.87%	-0.89%	4.18%	4.23%	5.14%	5.92%	6.70%
Lehman Brothers Aggregate Index ²	-1.02%	1.13%	7.12%	4.08%	3.85%	5.68%	6.31%
Under/Outperformance	-85 bps	-202 bps	-294 bps	15 bps	129 bps	24 bps	39 bps
% Rank in Category			50	8	2	6	

The performance data quoted represents past performance and does not guarantee future results. Current performance may be lower or higher. Five year returns are due to conditions that may not be repeated in the future. 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. Without fee waivers, returns would have been lower. The Fund offers another class, the performance for which will vary due to fees and expenses.

For MWTRX the total expense ratio is 0.66% and the net expense ratio is 0.65%. 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. For Class M, 12b-1 fees were not charged until April 1, 2000.

² The Lehman Brothers Aggregate Index is an unmanaged index not available for direct investment. 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.

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 Total Return Bond Fund M-Class was rated 5 stars for the 3-year period, 5 stars for the 5-year period and 5 stars for the 10-year period against 990, 831 and 438 U.S.-Domiciled Intermediate-Term Bond Funds respectively.

The Metropolitan West Total Return Bond Fund (MWTRX) was ranked by Morningstar as of 6/30/08 based on total return within the Intermediate-Term Bond category. The fund received a percentile ranking of 50%, 8%, 2% and 6% among 1126, 990, 831 and 438 funds for the one-, three-, five- and ten-year periods, respectively. Morningstar ranks funds from 1 (being the highest percentile rank) to 100 (the lowest percentile rank). A top-performing fund will receive a rank of 1 in its category. Morningstar ratings and rankings are for the M share class only; other classes may have different performance characteristics. Past performance is no guarantee of future results.

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