

Metropolitan West High Yield Bond M MWVHYX

Analyst Report
by Scott Berry

Morningstar's Take | 05-06-2004

Morningstar Rating
Not Rated

We think Metropolitan West High Yield Bond has potential.

This fund could not have timed its launch better. It opened its doors in September 2002, when the high-yield bond market was near multi-year lows. For managers Mark Unferth, who has been with the fund since its inception, and Jeff Koch, who joined the fund in December 2002, it was a bargain-hunter's paradise. They scooped up a number of issues that were trading below their asset value and watched them rally as the high-yield bond market found its footing. The fund actually gained 9.8% in the fourth quarter of 2002 and an additional 8.2% in the first quarter of 2003.

The fund's performance has moderated a bit, but we think it has staying power. Unferth and Koch bring a lot of experience to the table, and Metropolitan West has provided them with the tools to succeed. In addition to a six-member analyst team, the fund sports a reasonable expense ratio and Metropolitan West's growing wealth of research capabilities.

The fund's approach is fairly straightforward. Unferth and Koch look at the market from a top-down perspective to position the fund based on their outlook for interest rates and for the overall high-yield bond market. They then build the portfolio from the bottom up, focusing on asset value, cash flow, and seniority. Their focus on asset value should help limit the damage that can be caused by issue-specific credit problems, but as with all high-yield bond funds, this one has the potential to be quite volatile.

Since its inception, the fund has been positioned a bit more aggressively than its average high-yield category peer, but Unferth and Koch have the flexibility to be more defensive. In recent months, for example, they have added to the fund's stake in floating-rate bank loans, which offer more seniority than plain-vanilla high-yield bonds and possibly more protection against rising interest rates.

We aren't ready to pound the table for this fund, but we like what we've seen thus far.

Scott Berry, CFA, is a senior fund analyst with Morningstar.com.

Year	Total Return (%)	+/-Category
YTD	-0.10	-1.39
2003	30.72	6.65
2002	---	---
2001	---	---
2000	---	---

Data through 04-30-2004

Kudos

The fund's expense ratio is capped at 0.80%.

Metropolitan West has provided the fund with the resources to be successful.

Risks

The fund is relatively new and unproven.

Like other high-yield bond funds, it is sure to be volatile at times.

Strategy

Like other high-yield bond funds, this one invests heavily in bonds rated BB and below. Management looks 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. The fund has taken on a little more credit risk than its average high-yield peer since its inception, but management has the flexibility to go more defensive.

Management

Mark Unferth and Jeff Koch team up here. Both are experienced--Unferth joined Metropolitan West from Credit Suisse First Boston, while Koch joined from Strong. They are supported by a team of six analysts, who follow different sectors of the market.

Inside Scoop

This fund has performed well out of the gate. It takes on considerable credit risk, but we think the fund has the tools to succeed.

Role in Portfolio

Supporting Player

Net Performance

(Average Annual Total Returns through 03/31/04)

	Q1 '04	1 Year	Since Inception 9/30/02
Metropolitan West High Bond – M-class¹	1.03%	21.99%	28.11%
<i>Lehman US Corp High Yield Index²</i>	2.35%	22.65%	25.70%

The performance data quoted represents past performance and does not guarantee future results. Current performance may be lower or higher. Since inception returns are due in part to market conditions which might not be repeated in the future. Performance data current to the most recent month-end may be obtained at www.mwanllc.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.

This article must be preceded or accompanied by a prospectus for the Metropolitan West High Yield Bond Fund. The prospectus describes the investment objectives, risks, charges, and expenses of the Metropolitan West Funds. High Yield Investment by the fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities and may not be suitable for all investors. Securities rated below BBB are considered more speculative and subject to greater risks than higher rated bonds.

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¹Returns for the Fund are net of all charges and fees assuming reinvestment of dividends and capital gain distributions at net asset value. Returns for periods greater than one year are annualized. For Class M, the Advisor has undertaken to limit the 12b-1 expenses to 0.25% for the current fiscal year. The advisor has contractually agreed to reduce its fees and/or absorb expenses, and to pay a portion of the Fund's distributing expenses to limit the Fund's total annual operating expenses to 0.80% of the Fund's Class M average net assets, which has the effect of increasing the rate of return.

²The Lehman Brothers U.S. Corporate High Yield Bond Index is an unmanaged index not available for direct investment. The securities that comprise the Lehman High Yield Index may differ substantially from those in the Fund's portfolio. These indices are unmanaged indices that are not available for direct investment. Unlike a mutual fund, the performance of an index assumes no taxes, transaction costs, management fees, or other expenses. Total return figures assume reinvestment of all distributions and are net of all charges.

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