

Metropolitan West High Yield Bond M MWHYX

Analyst Report

by Scott Berry

Morningstar's Take | 04-06-05

Metropolitan West High Yield Bond has shown it can play defense as well as offense.

When this fund opened its doors in 2002, management went on the offensive, scooping up a number of beaten-down junk bonds. With many of those issues leading the market higher in 2003, this fund registered a 30% gain that year while outperforming nine out of every 10 of its high-yield category rivals. Management has since shifted to a more defensive stance, arguing that the market no longer offers a tremendous amount of opportunity. To reflect that view, management has moved the fund up in quality and down in interest-rate risk. Both moves paid off in the first quarter of 2005, when a General Motors profit warning and an interest-rate spike slammed the high-yield bond market. This fund lost a fractional amount for the year to date through April 4, 2005, but posted narrower losses than most of its category peers.

A flexible approach does have potential drawbacks, though. For starters, it can make a fund unpredictable. If management zigs when the market zags, for example, a fund's performance can suffer. A flexible approach also makes a fund more reliant on management's skills and resources; in the wrong hands, it can be a dangerous tool.

Fortunately, that's not the case here. While the fund can be a bit unpredictable, we think manager Mark Unferth has the skills and resources to deliver solid long-term results. The fund's early success shows Unferth is a forward-looking manager with a good eye for value. Meanwhile, he is backed by a deep and talented group of managers and analysts who have proved their abilities over the longer term at siblings Met West Total Return MWTRX and Met West Low Duration MWLDX, both of which have the flexibility to invest in high-yield issues.

Overall, we think this fund is shaping up to be a good choice for high-yield bond investors. Look for a Morningstar Rating in early October 2005, following the fund's three-year anniversary.

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

Year	Total Return (%)	+/-Category
YTD	-1.51	1.22
2005	-	-
2004	9.26	-0.65
2003	30.72	6.25
2002	-	-

Data through 04-30-2005

Morningstar Rating
Not rated

Stewardship Grade

This fund earns solid marks.

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, though, management has been more defensive, as evidence by the fund's increasing stake in higher-quality shorter-term bonds.

Management

Mark Unferth has led the effort here since the fund's inception in 2002. Prior to joining Metropolitan West, Unferth served as a managing director in the fixed-income group at Credit Suisse First Boston. Metropolitan West veterans Tad Rivelle 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 fund has performed well out of the gate. It takes on considerable credit risk, but we think it has the tools to succeed over the long term.

Role in Portfolio

Supporting Player

Metropolitan West High Yield Bond Fund (M-Class) Net Performance

Average Annual Total Returns as of 3/31/2005

	Q1 '05	1-Year	2-Year	Since Inception 9/30/02
MWHYX ¹	-0.29%	7.84%	14.70%	19.58%
Lehman US Corp High Yield ²	-1.61%	6.84%	14.45%	17.76%

Yearly Performance

	2003	2004	YTD 2005
MWHYX ¹	30.71%	9.27%	-0.29%
Lehman US Corp High Yield ²	28.96%	11.14%	-1.61%

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.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.

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. Although the funds are no-load, other annual fees and expenses do apply as described in the prospectus. 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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¹ Returns 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.

² The 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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