

Metropolitan West High Yield Bond M MWHYX

Analyst Report
by Scott Berry

Morningstar's Take | 09-15-05

Metropolitan West High Yield has attracted little attention thus far, but its small asset base actually adds to its appeal.

With just \$57 million in assets, this fund is considerably smaller than its average high-yield bond category peer. The fund's small size is a bit surprising given the fund's early success. After launching at the tail end of a high-yield bond slump in the fall of 2002, it soared during the subsequent rally, gaining 30.7% in 2003 and an additional 9.3% in 2004. We expected that those gains would attract assets, but that hasn't been the case yet, as many investors appear to be waiting to see a three-year history and/or a Morningstar Rating before committing to the fund.

Asset growth might pick up once those measures are published, but we actually think the fund's small size is a big asset. A small asset base allows manager Mark Unferth to take advantage of opportunities that might be of little interest to larger funds, which focus much of their attention on the largest high-yield bond issuers. The fund's size also allows it to be quite nimble. Unferth pounced on beaten-down bonds in 2002, in what he described as a bargain-hunter's paradise. While recently, he has gotten more defensive, as junk bond yields have drifted closer to Treasury yields.

One potential concern with small high-yield bond funds is their lack of dedicated high-yield resources. However, Unferth brings relevant high-yield experience to the fund. Further, Metropolitan West has provided him the tools and support he needs to succeed here. Another potential concern is cost, where small funds often struggle to compete with larger funds. Here too, Metropolitan West has stepped up to the plate, effectively capping the fund's expense ratio at 0.80%. That places the fund in the no-load high-yield subgroup's cheapest quartile.

Overall, we think this fund has a lot going for it. Investors looking for high-yield bond exposure should consider it one of their better options.

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Year	Total Return (%)	+/-Category
YTD	2.16	1.47
2005	—	—
2004	9.26	-0.69
2003	30.72	6.19
2002	—	—

Data through 10-31-2005

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, 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. Comanager Gino Nucci and 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

Total Returns as of 9/30/05

	Q3 '05	YTD 2005	1-Year	ANNUALIZED	
				3-Year	Since Inception 9/30/2002
MWHYX ¹	1.54%	2.28%	7.05%	17.05%	17.05%
Lehman US Corp High Yield ²	0.92%	2.05%	6.72%	15.99%	15.99%

Yearly Performance

	2003	2004	YTD 2005
MWHYX ¹	30.71%	9.27%	2.28%
Lehman US Corp High Yield ²	28.96%	11.14%	2.05%

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 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 generally representative of corporate bonds rated below investment-grade. 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.

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