

Two Bond Funds Off to a Great Start

Fund Spy

by Gregg Wolper

Some funds are attractive even without a long track record.

You don't usually want to buy a fund without a long track record. Of course, a fund's future returns won't duplicate those in its past. But it makes sense to see how a fund has performed in different market climates. If the fund still has the same manager and strategy, that information provides some guidance as to how it might perform should similar conditions reappear.

Occasionally, though, you can ignore that rule. Maybe a new fund's manager has already built a long and impressive record at a different offering run in a similar fashion. Perhaps the firm advising the fund instills confidence as well. Right now, two bond funds with very short histories qualify on both counts.

A Promising Youngster Out West

Junk-bond funds have been on fire in 2003, so we don't necessarily think this is a great time to dive into the category headfirst. Yet as Morningstar senior analyst Scott Berry explained in a Bond Squad article last week, while the high-yield arena is certainly less attractive than it was a year ago, there's no particular reason to think it's headed for a crash, either. A promising young choice in this group is Metropolitan West High Yield Bond MWHYX. This fund is also just a bit more than one year old, but, as with the Fidelity offering, it boasts a wealth of experience in its managerial suite. One of the day-to-day managers is Jeff Koch, who built a solid record at Strong High-Yield Bond STHYX before leaving there in July 2002. Similarly, the other day-to-day manager, Mark Unferth, brings knowledge gained from years at Credit Suisse First Boston and other firms to this post.

It's worth noting that with this fund, Met West did exactly what we like to see fund companies doing: It created a new offering when the fund's sector was out of favor, not after the category has already staged a lengthy rally. In fact, that history is important to keep in mind when assessing this fund's brief record. Now that junk bonds have climbed, the fund has a scorching 39.2% trailing 12-month return through Oct. 17, 2003, which puts it in the top decile of the high-yield bond category. Often, it's worth wondering if funds—especially bond funds—that boast high short-term rankings are using excessively risky strategies. In this case, though, the fund simply benefited by starting out at a time when it could load up on cheap bonds. We don't think it takes a particularly risky approach. (But keep in mind the risks of the whole below-investment-grade realm, of course.)

Although it is an eminently respectable bond house, Met West's funds did run into some trouble in 2002 owing partly to problems with WorldCom bonds. Overall, though, our bond-fund analysts still think highly of the firm. This fund is worth a look—either now or at some other point when junk hasn't already been on a tear.

Gregg Wolper is a senior analyst with Morningstar.com.

Visit the Metropolitan West Funds website at www.mwamllc.com for more information including current distributions, daily prices and performance, and prospectus with charges and expenses. Please read the prospectus carefully prior to investing.

Net Performance

(Trailing Returns through 9/30/03)

	Q3 '03	YTD	1 Year	Since Inception (September 30, 2002)
MWHYX¹	3.34%	23.29%	35.34%	35.34%
<i>Lehman US High Yield Credit Index²</i>	<i>2.77%</i>	<i>21.77%</i>	<i>29.97%</i>	<i>29.97%</i>

1. MWHYX = Metropolitan West Funds High Yield Bond Fund Class M shares
2. The Lehman Brothers U.S. High Yield Bond Index is an unmanaged index generally representative of corporate bonds rated below investment-grade. It does not reflect the payment of transaction costs, fees, and expenses associated with an investment in the Fund. 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.

Performance data quoted represents past performance, is for a short time period, and is no guarantee of future results. Net asset value, investment return, and principal value of an investment will fluctuate so shares, when redeemed, may be worth more or less than their original cost. Returns for periods of one year or greater are average annual total returns. The Metropolitan West Funds offer other classes of shares with different fees and expenses to eligible investors. Performance figures reflect a partial waiver of fees without which the total return would have been lower.

Returns for the Fund are net of all charges and fees assuming reinvestment of dividends and capital gain distributions at net asset value. 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% and 0.55% of the Fund's Class M and Class I average net assets, respectively, which has the effect of increasing the rate of return.

While the article mentions that the High Yield Fund ranked in the top decile as of October 17, 2003, the High Yield Fund actually was in the top six percent of 385 High Yield Bond funds ranked by Morningstar in a total return percentage comparison for the one year trailing period ended September 30, 2003. Morningstar rankings are based on total return for periods stated with dividends reinvested and capital gains, and do not take into account or reflect sales charges.

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. Issues rated below BBB are commonly referred to as non-investment grade debt obligations, or "junk bonds." While offering higher yields, these securities generally are considered more speculative and are subject to greater risks than higher-rated bonds. The Fund may not be suitable for all investors.

Shares of Metropolitan West Funds are distributed by PFPC Distributors, Inc., 760 Moore Road, King of Prussia, PA 19406. To obtain a prospectus with more complete information, including charges and expenses, please call (800) 241-4671 or visit www.mwamllc.com.

DFU 11/03

Article excerpted from "Two Bond Funds Off to a Great Start" appearing on Morningstar.com on October 21, 2003: <http://news.morningstar.com/doc/article/0,,98099,00.html?fsection=Comm1>

