

Metropolitan West Low Duration Bond M MWLDX

Morningstar's Take | 03-26-08 | by Paul Herbert, CFA

Metropolitan West Low Duration Bond has taken some lumps, but it remains a capable offering.

Advisor Metropolitan West Asset Management has done a pretty good job of surviving the broad bond market sell-off at flagship fund Total Return MWTRX, but this fund hasn't kept pace. It has lost 1.3% during the past 12 months, which ranks near the back of the short-term bond-fund pack. The fund's stakes in private-label mortgage-backed securities and subprime asset-backed securities, though they have been concentrated in bonds at the safest end of the risk spectrum, have stumbled. The fund's managers have also stepped lightly in short-term Treasury bonds because they find them too costly. Unfortunately, Treasuries have been the best-performing area in the bond market amid a broad-based flight to quality.

Although this positioning has hurt the fund, investors shouldn't be surprised if it rebounds. Treasury bonds indeed look rich relative to other types of bonds as well as their own historical values. But the securities in which the fund invests, as well as the fund itself, currently enjoy large yield advantages over these government bonds. The fund should outperform Treasuries as well as peers who favor them as long as rates don't move lower and the fund's holdings in housing-related bonds tread water. It could fare even better if yields on these issues fall, as the managers expect. They aren't betting that every cheap area will be revived—they've remained cautious on corporate bonds as a slowing economy could sidetrack the sector—but that certain higher-quality areas will recover.

We're inclined to agree with them. For one, the fund has bounced back before. By holding firm with some beaten-up positions in 2002, it shone for several years thereafter. Plus, its combination of talented managers, a consistent focus on valuation, and a low expense ratio give it a head start on rivals. As such, despite its recent trials, we think it makes sense to stay put here.

Paul Herbert, CFA, is a senior fund analyst with Morningstar.com.

Morningstar Rating

★★★

Kudos

- This fund boasts a strong management team.
- A below-average expense ratio gives it an edge over many of its competitors.

Risks

- The fund has been quite cautious lately, but in the past its added credit risk has weighed on its performance.
- Individual positions, though capped at 2.5% of assets, can add to the fund's volatility.

Strategy

Managers Tad Rivelle, Laird Landmann, Stephen Kane, and David Lippman don't typically make big macroeconomic bets but instead try to boost returns by identifying undervalued corners of the bond market. The fund's duration is kept within one year of the Merrill Lynch 1-3 Year U.S. Treasury Index's. The fund typically takes on more issue-specific and credit risk than its average category peer, although its limit on new purchases has been reduced to 2.5% of assets.

Management

The fund's management team, which includes Tad Rivelle, Laird Landmann, and Stephen Kane, has put up good numbers here since the fund's inception in 1997. Prior to founding Metropolitan West, the team had a strong record with Hotchkis and Wiley in the mid-1990s. David Lippman joined the group in 2001.

Inside Scoop

This fund has had some ups and downs, but it has protected against rising interest rates better than most.

Role in Portfolio

The fund's focus on short-term bonds makes it more of a supporting player.

Metropolitan West Low Duration Bond M MWLDX

Year	Total Return (%)	+/-Category
YTD	-2.84	-2.66
2008	—	—
2007	2.50	-1.79
2006	6.15	2.10
2005	2.72	1.27

Data through 05-31-08

Metropolitan West Low Duration Bond Fund (M-Class) ★★ ★

3-Star Overall Morningstar Rating based on risk-adjusted returns as of 3/31/08 among 383 Short-Term Bond Funds

NET PERFORMANCE TOTAL RETURNS - As of March 31, 2008

	1Q 08	ANNUALIZED				
		1 Year	3 Year	5 Year	10 Year	Since Inception
MWLDX (Inception: March 31, 1997) ¹	-2.94%	-2.11%	2.60%	3.31%	4.28%	4.68%
Merrill Lynch 1-3 Year US Treasury Index ²	2.98%	8.99%	5.40%	3.61%	4.90%	5.14%
Under/Outperformance	-592 bps	-1110 bps	-280 bps	-30bps	-62 bps	-46 bps
% Rank in Category	-	90	80	24	55	-

The performance data quoted represents past performance and does not guarantee future results. Current performance may be lower or higher. 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. You should consider the investment objectives, risks, charges, and expenses of the Metropolitan West Funds carefully before investing. A prospectus with this and other information about the Funds may be obtained by calling (800) 241-4671 or you can download one at www.mwamllc.com. It should be read carefully before investing.

For MWLDX the total expense ratio is 0.60% and the net expense ratio is 0.58%. 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, Rule 12b-1 fees were not charged until April 1, 2000.
- ² The Merrill Lynch 1-3 Year US Treasury 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. The securities in the Fund may differ substantially from those in the index.

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 Low Duration Bond Fund M-Class was rated 2 stars for the 3-year period, 4 stars for the 5-year period and 3 stars for the 10-year period against 383, 291 and 164 U.S.-Domiciled Short-Term Bond Funds, respectively.

The Metropolitan West Low Duration Bond Fund (MWLDX) was ranked by Morningstar as of 3/31/08 based on total return within the Intermediate-Term Bond category. The fund received a percentile ranking of 90%, 80%, 24% and 55% among 459, 383, 291 and 164 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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