

Metropolitan West Low Duration Bond M MWLDX

Analyst Report

by Paul Herbert, CFA

Morningstar's Take | 05-30-07

Metropolitan West Low Duration Bond has been striking the right balance of conservatism and savvy assertiveness.

In our previous analysis of this fund, as well as in 2007 write-ups of its siblings, we have stressed that the fund's advisor has been getting wary. The firm has been concerned that valuations for corporate bonds and asset-backed securities have gotten rich, and a few factors, including a housing slowdown, will contribute to slower economic growth. They've positioned this fund and others cautiously, as a result. Here, for instance, they've cut back on corporate exposure—to near an all-time low of 23% of assets. They've focused on higher-rated issues within the mortgage- and asset-backed spaces as well.

The fund hasn't lost its edginess, though, which helps to explain why it has done relatively well lately. The bosses haven't given up on corporate issues altogether—the fund's stake is on par with its typical short-term bond fund peer's—and they've been successful at issue selection there. Reflecting their carefulness, the managers have continued to focus on securities in this area with hard assets such as aircraft equipment and real estate backing them. Plus, after determining that their yields more than compensated for potential losses, they also picked up exposure to the highest-quality (rated AAA) portions of subprime-mortgage obligations. These and some other moves have helped the fund to return nearly 2% so far in 2007, which places in the category's best 10%.

Going forward, we like the fund's chances. Given current market valuations, absolute returns may continue to be slight in the near term. We think MetWest's ability to exploit small market inefficiencies, such as those mentioned above, helps the fund in nearly any market, though. Its trim 0.58%-of-assets expense ratio plays a similar role.

In all, the fund is a good option for short-term bond investors.

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Year	Total Return (%)	+/-Category
YTD	1.82	0.30
2007	—	—
2006	6.15	2.13
2005	2.72	1.30
2004	3.28	1.61

Data through 05-31-2007

Morningstar Rating

★★★★★

Stewardship Grade

This mutual fund earns high marks.

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 Fund (M-Class) Net Performance

Total Returns as of 3/31/07

	1Q'07	1-Year	ANNUALIZED			
			3-Year	5-Year	10-Year	Since Inception 3/31/1997
MWLDX¹	1.61%	6.74%	4.03%	3.78%	5.38%	5.38%
Merrill Lynch 1-3 Yr UST ²	1.40%	5.00%	2.30%	3.10%	4.76%	4.76%
<i>Under/Outperformance</i>	<i>21 bps</i>	<i>174 bps</i>	<i>173 bps</i>	<i>68 bps</i>	<i>62 bps</i>	<i>62 bps</i>

The performance data quoted represents past performance and does not guarantee future results. Current performance may be lower or higher. One year performance was due to conditions that may 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. 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 U.S. 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, high 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.

The Metropolitan West Low Duration Bond Fund (M-Class) was ranked by Morningstar as of 5/31/07 based on total return within the Short-Term Bond category. The fund received a percentile ranking of 4%, 3%, 18%, and 9% among 415, 355, 253, and 151 funds for 1-, 3-, 5-, and 10-Year period 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. Past performance is not indicative of future result.

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