

Metropolitan West Low Duration Bond M MWLDX

Analyst Report
by Paul Herbert, CFA

Morningstar's Take | 11-01-07

We remain fans of Metropolitan West Low Duration Bond, despite a recent hiccup.

This fund has a lot going for it. Manager Metropolitan West Asset Management's small size allows its managers and analysts to take meaningfully sized positions in individual bonds. Its professionals therefore scour fixed-income sectors for bonds offering good value relative to traits such as their issuers' ability to repay and their structures. The fund's process isn't one-sided, though: It may also profit from the managers' views on the future direction of interest rates and the relative prospects for bonds with different maturities.

Over time, the managers have done very well for investors at this fund, which focuses on bonds with terms of one to three years, on average. Its three-, five-, and 10-year returns rank in the short-term bond category's top 12% or better as of 9/30/07.

The fund has hit a bit of a bump in the road lately. As we mentioned in our last analysis, it had held what we thought to be a sensible mix of caution and risk-taking on its own terms. The managers reduced the fund's stake in corporate bonds, but stuck with issues that would not be subject to leveraged-buyout activity. This summer, news of mortgage-borrower delinquencies set off events that caused investors to lose their appetite for risk. The category's winners took steps such as holding bigger stakes in Treasury bonds and fleeing other sectors. The fund lagged, particularly in August, because it wasn't conservative enough.

We don't think its recent results are worth getting too worked up about. For one, the fund's year-to-date gain as of October 2007 lags its typical peer's by less than 1 percentage point. Second, many of the fund's corporate, asset-backed, and mortgage-backed bonds—as well as those the fund has picked up lately—now feature more attractive yields, setting the fund up to outperform. Finally, other things equal, its low cost hurdle will also making catching up easier.

This fund remains an attractive option.

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Year	Total Return (%)	+/-Category
YTD	2.58	-0.96
2007	—	—
2006	6.15	2.10
2005	2.72	1.27
2004	3.28	1.65

Data through 10-31-2007

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 Fund (M-Class) ★★★★★

5-Star Overall Morningstar Rating based on risk-adjusted returns as of 9/30/07 among 375 Short-Term Bond Funds

Net Performance Total Returns as of 9/30/07	Q3 '07	Year to Date	1-Year	ANNUALIZED			
				3-Year	5-Year	10-Year	Since Inception 3/31/1997
MWLDX ¹	0.79%	2.86%	5.03%	4.40%	4.74%	5.01%	5.24%
Merrill Lynch 1-3 Yr UST ²	2.67%	4.85%	5.80%	3.49%	2.82%	4.68%	4.86%
<i>Under/Outperformance</i>	<i>-188 bps</i>	<i>-199 bps</i>	<i>-77 bps</i>	<i>91 bps</i>	<i>192 bps</i>	<i>33 bps</i>	<i>38 bps</i>
% Rank in Category			24	3	4	12	

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 5 stars for the 3-year period, 5 stars for the 5-year period and 4 stars for the 10-year period against 375, 281 and 159 U.S.-Domiciled Short-Term Bond funds, respectively. Past performance does not guarantee future results. Morningstar Ratings are for the M share class only; other classes may have different performance characteristics.

The Metropolitan West Low Duration Bond Fund (MWLDX) was ranked by Morningstar as of 9/30/07 based on total return within the Intermediate-Term Bond category. The fund received a percentile ranking of 24%, 3%, 4% and 12% among 438, 375, 281 and 159 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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