

Analyst Pick | Eric Jacobson

Metropolitan West Total Return Bond



What is an Analyst Pick?

The Morningstar

FundInvestor 500 includes 140 Analyst Picks, which are the favorite funds of the Morningstar analysts who specialize in each particular category. Analysts make their selections based on a fund's historical risk and return, costs, and knowledge of the managers and their strategies.

Metropolitan West Total Return Bond MWTRX

boasts just about everything we look for in a Fund Analyst Pick.

Management

We've been following the team here for a number of years and we're summarily impressed. The core group cut its teeth working under Bill Gross at PIMCO, developed an impressive record at Hotchkis and Wiley, and then founded its own shop in the late 1990s. Especially notable, however, have been the additions made over the years in terms of both managers and analysts. Despite a modest asset base in comparison with some well-known competitors, the firm boasts at least 20 investment pros, nearly all of whom contribute here in one way or another.

Strategy

Not surprisingly, this fund takes a page out of the playbook that was originally written by Bill Gross. It focuses on total return (rather than just yield), so that efforts to pump out income don't jeopardize the principal that investors have committed. This team has been more intrepid in its application of that formula over the years, however, in that it has been willing to move sizeable sums from sector to sector depending on what is cheap at a given time. While some rivals have shied away from corporate bonds, for example, Met West has stayed in the game. That hurt in 2002, but has helped make a lot of money for shareholders since. Yet when those securities have looked expensive, the fund has been flexible enough to take advantage of values in adjustable-rate mortgages, bank loans, and various asset-backed securities. While this team may be a bit more aggressive than some peers, it has still worked within a quite reasonable risk-control framework.

Costs

What's especially impressive about this fund's individual-investor-focused M share class is that even with a 12b-1 fee (meant to compensate brokers' distribution platforms, such as mutual fund supermarkets), it still manages to compete with funds like **Harbor Bond** HABDX and **Dodge & Cox Income** DODIX that are not in supermarkets. Its 0.65% expense ratio **1** is lower than that of most no-load funds in the intermediate-term bond category.

Stewardship

Metropolitan West generally earns high marks for its stewardship of investor assets. The firm has a healthy corporate culture that tends to focus significant attention on serving fundholders, and has also resulted in attractive cost profiles across this small fund family. And though we'd like to see the funds' trustees show a greater financial commitment to the funds they oversee, the senior managers' compensation and fund investments are generally strong.

Long-Term Performance

Despite the rare bump or slow step, this fund has made much of its myriad advantages by turning in a terrific long-term performance record. Its three- and five-year returns **2** have bounced back handily after the 2002 setback, and they now place in the top quartile among peers in the category. And unless something unexpected happens, the fund will likely earn strong 10-year marks when it reaches that anniversary a couple of years from now.

Conclusion

By themselves, none of the strengths discussed here would likely be enough to sway us, but taken together they form a compelling picture. It's true that the fund has stumbled before, but it has also proven the ability to stage a strong recovery. Overall, this fund has done a great job for shareholders. **III**

Contact Eric Jacobson at eric_jacobson@morningstar.com

Metro West Total Ret

Governance and Management

Stewardship Grade: A

Portfolio Manager(s)

The fund's management team of Stephen Kane, Laird Landmann, and Tad Rivelle delivered solid returns at Hotchkis & Wiley and PIMCO before starting this fund in 1997. David Lippman joined the team in 2001. The team has also had success with Metropolitan West Low Duration Bond, which follows a similar approach to this fund but carries less interest-rate risk.

Strategy

This fund attempts to outperform its peers through duration bets, yield-curve adjustments, sector rotation, and issue selection. Management argues that there are issue- and sector-level inefficiencies in the bond market because information is not always widely disseminated. In recent years, that has meant above-average stakes in corporate bonds and asset-backed securities. Management is not shy about holding large positions or taking on credit risk, although the fund follows a policy of putting no more than 2.5% of assets in a single purchase.

Performance 08-31-05

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2001	4.37	0.79	4.01	-0.22	9.18
2002	-0.21	-2.82	-2.30	4.54	-0.95
2003	1.66	6.49	1.77	3.36	13.88
2004	2.80	-2.68	2.81	2.23	5.15
2005	0.13	2.44	—	—	—

Trailing

	Total Return%	+/- LB Aggr	+/- LB 5-10YR	%Rank Cat	Growth of \$10,000
3 Mo	1.88	0.97	0.90	2	10,188
6 Mo	2.89	0.04	-0.38	14	10,289
1 Yr	6.09	1.94	1.58	3	10,609
3 Yr Avg	8.67	3.79	2.25	2	12,833
5 Yr Avg	6.97	-0.01	-1.43	21	14,006
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis

	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	6.28	2	2.20	90
5 Yr (estimated)	4.19	50	2.60	94
10 Yr (estimated)	—	—	—	—

Potential Capital Gain Exposure: -8% of assets

Morningstar's Take by Scott Berry 08-05-05

Metropolitan West Total Return remains one of our favorite core bond funds.

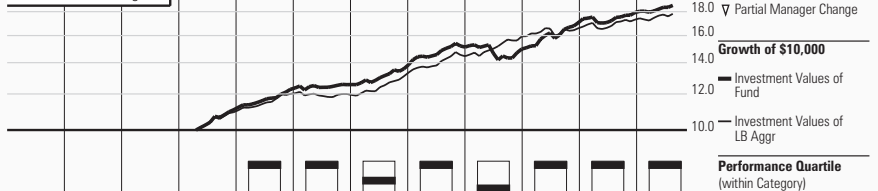
This fund has been on quite a roll. It rebounded strongly in 2003 when a number of its corporate bond holdings rallied from depressed levels. Then in 2004, it squeezed past more than 80% of its intermediate-bond category peers thanks in part to the added yield provided by its mid-quality holdings. More recently, the fund's interest-rate positioning has paid off. In the first half of 2005, management placed a greater emphasis on long-term bonds, which performed relatively well, and looked to reduce the fund's market risk by going off the beaten track into areas such as adjustable-rate mortgages, bank loans, and airline-enhanced equipment trust certificates. Those moves have helped cushion the fund against rising interest rates and have placed the fund near the very top of the charts for the year to date through Aug. 4, 2005.

The fund's management team employs a value approach that can lead them to underfollowed and

Analyst Pick	Ticker	Load	NAV	Yield	SEC Yield	Total Assets	Mstar Category
	MWTRX	None	\$9.80	5.7%	5.19%	\$1,345 mil	Intermediate-Term Bond

Historical Profile

Return	Above Avg
Risk	High
Rating	★★★★
	Above Avg



Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	08-05	History
NAV	—	—	—	10.51	10.65	10.05	10.11	10.15	9.30	9.92	9.82	9.80	NAV
Total Return %	—	—	—	11.88*	9.96	1.72	10.18	9.18	-0.95	13.88	5.15	3.56	Total Return %
+/-LB Aggr	—	—	—	—	1.27	2.54	-1.45	0.74	-11.20	9.78	0.81	0.68	+/-LB Aggr
+/-LB 5-10YR	—	—	—	—	-0.18	4.60	-2.26	0.36	-13.98	7.91	-0.15	0.57	+/-LB 5-10YR
Income Return %	—	—	—	0.00	7.10	7.42	9.48	7.81	7.17	6.96	6.15	3.75	Income Return %
Capital Return %	—	—	—	—	2.86	-5.70	0.70	1.37	-8.12	6.92	-1.00	-0.19	Capital Return %
Total Rtn % Rank Cat	—	—	—	—	2	3	51	13	99	1	12	4	Total Rtn % Rank Cat
Income \$	—	—	—	0.54	0.72	0.76	0.91	0.76	0.70	0.63	0.59	0.36	Income \$
Capital Gains \$	—	—	—	0.11	0.15	0.01	0.00	0.10	0.04	0.00	0.00	0.00	Capital Gains \$
Expense Ratio %	—	—	—	—	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	Expense Ratio %
Income Ratio %	—	—	—	—	7.39	6.92	7.68	9.16	7.14	7.40	5.62	6.02	Income Ratio %
Turnover Rate %	—	—	—	—	—	136	128	205	78	90	165	180	Turnover Rate %
Net Assets \$mil	—	—	—	15	83	187	278	621	568	483	453	469	Net Assets \$mil

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	6.09	—	—	—
3 Yr	8.67	High	+Avg	★★★★★
5 Yr	6.97	+Avg	High	★★★★
10 Yr	—	—	—	—
Incept	7.57	—	—	—

Other Measures

	Standard Index	Best Fit Index
Alpha	LB Aggr 4.5	LB Credit 3.6
Beta	0.73	0.60
R-Squared	50	60
Standard Deviation	4.28	—
Mean	8.67	—
Sharpe Ratio	1.57	—

Portfolio Analysis 06-30-05

Total Fixed-Income:237	Date of Maturity	Amount \$000	Value \$000	% Net Assets
US Treasury Note 3%	11-15-07	156,268	154,046	11.10
US Treasury Bond 6.125%	11-15-27	57,787	72,997	5.26
US Treasury Note 2%	07-15-14	25,434	27,059	1.95
FNMA 5%	07-25-35	26,975	26,983	1.94
Qwest Cap Fdg 7.75%	08-15-06	24,670	25,348	1.83
General Mtrs 8.25%	07-15-23	29,719	24,741	1.78
Short-Term Asset Receive	06-11-18	22,250	23,616	1.70
FNMA 5.5%	02-01-34	20,862	21,173	1.53
Air 2 Us 1999 8.027%	10-01-20	22,881	20,482	1.48
Cwvalt CMO	08-25-35	19,720	19,912	1.43
FNMA 5.5%	12-01-18	19,178	19,673	1.42
FNMA 7.125%	03-15-07	18,547	19,564	1.41
Citigroup Mtg Ln Tr FRN	05-25-34	19,094	19,206	1.38
Cwvalt CMO	06-25-35	18,700	19,003	1.37
US Treasury Note 1.625%	01-15-15	18,606	18,895	1.36
Ford Mtr 7.45%	07-16-31	21,202	17,745	1.28
Duke Fdg 144A	11-10-35	17,000	17,202	1.24
Lb Commrc Mtg Tr 2000-C	08-15-26	15,155	17,095	1.23
FHLMC 6%	03-01-20	16,073	16,630	1.20
News Amer Cv	02-28-21	28,256	16,459	1.19

Current Investment Style

Duration	Short Int Long
Quality	High Med Low
Market	Govt Corp

Avg Eff Duration ¹	3.6 Yrs
Avg Eff Maturity	6.9 Yrs
Avg Credit Quality	AA
Avg Wtd Coupon	5.46%
Avg Wtd Price	97.23% of par

Coupon Range	% of Bonds	Rel Cat
0% PIK	2.3	0.6
0% to 6%	47.6	0.7
6% to 8%	38.5	1.6
8% to 10%	13.1	2.4
More than 10%	0.8	1.0

Credit Analysis

	% bonds 06-30-05	BB
US Govt	37	16
AAA	15	0
AA	10	Below B
A	5	NR/NA
BBB	17	0

Sector Breakdown

	% of assets
US Treasuries	21
TIPS	0
US Agency	2
Mortgage Pass-Throughs	12
Mortgage CMO	12
Mortgage ARM	0
US Corporate	20
Asset-Backed	21
Convertible	1
Municipal	0
Corporate Inflation-Protected	0
Foreign Corporate	2
Foreign Govt	0

Composition

	Cash	Bonds	Stocks	Other
	8.9	88.3	0.1	2.7

Special Securities

Restricted/illiquid Secs	8
Exotic Mortgage-Backed	1
Emerging-Markets Secs	0
Options/Futures/Warrants	No

Address:	11766 Wilshire Blvd Los Angeles CA 90025 800-241-4671	Minimum Purchase:	\$5000	Add: \$0	IRA: \$1000
Web Address:	www.mwamlc.com	Min Auto Inv Plan:	\$0	Add: —	
Inception:	03-31-97*	Sales Fees:	No-load, 0.25%S		
Advisor:	Metropolitan West Asset Management LLC	Management Fee:	0.35%		
Subadvisor:	None	Actual Fees:	Mgt:0.35% Dist:0.21%		
NTF Plans:	Fidelity Retail-NTF, Schwab OneSource	Expense Projections:	3Yr:\$212 5Yr:\$371 10Yr:\$833		
		Income Distrib:	Monthly		



© 2005 Morningstar, Inc. All rights reserved. The information herein is not represented or warranted to be accurate, correct, complete or timely. Past performance is no guarantee of future results. Access updated reports at mfb.morningstar.com. To order reprints, call 312-696-6100.



Metropolitan West Total Return Bond Fund (M-Class) Net Performance

Total Returns as of 9/30/05

	3Q'05	YTD 2005	1-Year	ANNUALIZED			30-Day SEC Yield
				3-Year	5-Year	Since Inception 3/31/1997	
MWTRX ¹	0.28%	2.87%	5.16%	8.79%	6.43%	7.41%	5.06%
Lehman Aggregate ²	-0.68%	1.83%	2.80%	3.95%	6.62%	6.83%	

Yearly Performance

	1999	2000	2001	2002	2003	2004	YTD 2005
MWTRX ¹	1.72%	10.20%	9.19%	-0.95%	13.88%	5.15%	2.87%
Lehman Aggregate ²	-0.83%	11.63%	8.42%	10.26%	4.10%	4.34%	1.83%

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. Portfolio holdings and sectors are subject to change without notice.

Metropolitan West Funds has no editorial control over the content, subject matter, and timing of this article and is independent of Morningstar and its publisher. The views expressed in this article do not constitute investment advice. Investors should consult investment professionals regarding their individual investment programs. Since the date of this article, economic and market conditions and the portfolio manager's views of the prospects of any particular investments may have changed.

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 Aggregate Index is an unmanaged index generally representative of a broad range of fixed income securities. The securities that comprise the Lehman Brothers Aggregate Bond Index may differ substantially from those in the Fund's portfolio. An unmanaged index is not available for direct investment. Unlike a mutual fund, the performance of an index assumes no taxes, transaction costs, management fees, or other expenses.

Shares of the Metropolitan West Funds are distributed by PFPC Distributors, Inc., 760 Moore Road, King of Prussia, PA 19406. DFU 10/05

Reprinted with permission from Morningstar, Inc. October 2005

Star ratings are based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. A fund must be in existence three years to be rated. The top 10% of funds in a category receive 5 stars, the next 22.5% receive 4 stars, the next 35% 3 stars, the next 22.5% 2 stars, and the bottom 10% receive 1 star. As of 8/31/05, the Fund received 5 stars among 764 funds for the 3-year period, and 4 stars among 570 funds for the 5-year period. Ratings are subject to change monthly, are historical and do not represent future results.

Credit Analysis (% bonds as of 09/30/05)			
US Govt	43	BB	7
AAA	17	B	6
AA	4	Below B	7
A	5	NR/NA	0
BBB	11		

Sector Breakdown (% bonds as of 09/30/05)			
US Treasuries	27	US Corporate	27
TIPS	2	Asset-Backed	12
US Agency	3	Convertible	0
Mortgage Pass-Throughs	18	Municipal	0
Mortgage CMO	4	Corporate Inflation-Protected	0
CMBS	6	Foreign Corporate	1
Mortgage ARM	0	Foreign Govt	0

Metropolitan West Total Return Bond Fund
as of 09/30/2005

Total Fixed Income 262	Date of Maturity	Amount \$000	Value \$000	% of Net Assets
US TREASURY NOTE 3.88%	5/15/10	166,818	164,453	12.21%
US TREASURY NOTE 3.13%	9/15/08	98,743	95,889	7.12%
US TREASURY NOTE 3.00%	11/15/07	37,669	36,798	2.73%
U.S. TREASURY BOND 6.13%	11/15/27	29,432	35,522	2.64%
US TREASURY NOTE 4.25%	11/15/14	35,142	34,902	2.59%
QWEST CAP FDG 7.75%	8/15/06	24,670	25,040	1.86%
GENERAL MOTORS 8.25%	7/15/23	31,686	24,794	1.84%
BECKMAN COULTER 00-A	12/15/18	22,250	24,611	1.83%
AIR 2 US A 8.03%	10/1/19	22,881	21,426	1.59%
FN 6.0 LLB SEASONED 6.00%	3/1/33	19,871	20,321	1.51%
CWALT MTA UBS JUNE 4.09%	8/25/35	19,623	19,810	1.47%
CWHL 2005-HYB5 4A1 5.25%	9/20/35	19,936	19,737	1.47%
FN 725257 5.50%	2/1/34	19,643	19,658	1.46%
CWHL 2005-45 IA1 5.39%	8/25/35	19,455	19,409	1.44%
FANNIE MAE 7.13%	3/15/07	18,547	19,259	1.43%
CWALT 2005-43 IA1 5.39%	10/25/35	18,875	18,834	1.40%
TSY INF IX N/B TPI0 1.63%	1/15/15	18,606	18,817	1.40%
CMLTI 2004-RR2 A2 4.76%	5/25/34	19,094	18,583	1.38%
FNMA 30YR 5.0 OCT 5.00%	10/25/35	18,775	18,382	1.36%
CWALT 2005-16 A1 4.51%	6/25/35	18,081	18,274	1.36%

