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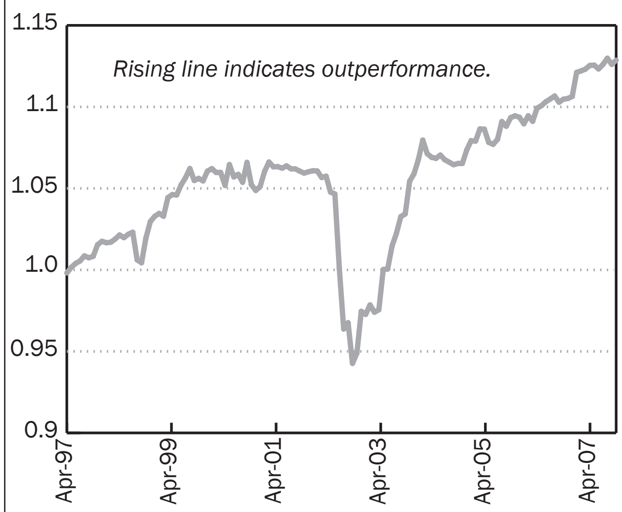
Fund Reports

The performance graph in the fund report shows the manager's relative performance. The single line represents the ratio of the manager's total compound return to that of the benchmark. A rising line indicates outperformance, a falling line underperformance. If the line is above (below) one, the manager's total compound return to that date is greater than (less than) the benchmark's.

Relative Strength: Metropolitan West Total Return Bond Fund vs. Vanguard Total After Bond Market



FUND UPDATE

Metropolitan West Total Return Bond Inst'l (MWTIX); Retail (MWTRX)

CATEGORY: Intermediate-Term Bond
MANAGER: Team
DATE OF INTERVIEW: 10/11/07
WITH: Tad Rivelle, generalist portfolio manager and chief investment officer

Rivelle says that the U.S. will likely face a "slow-growth economic environment" in 2008. Metropolitan West does not develop specific growth targets but it believes U.S. economic growth will be much slower than what we have seen over the past few years. Housing is central to Met West's view of the U.S. economy. "As goes housing, so goes the economy," says Rivelle. He opines that credit was available cheaply for too long and it resulted in economic imbalances, such as overbuilding of residential homes. He says this excess home supply will put downward pressure on housing prices and, consequently, negatively impact consumer spending, which is a large part of the economy. Lower housing prices have a negative psychological effect on consumers and may impact how they spend. In addition, Rivelle explains it limits consumers' ability to extract equity out of their houses to fund spending on key consumer items, such as automobiles. This ability, in his view, has been a material factor in supporting consumer spending over the last few years.

As the weakness in the housing sector starts getting reflected in GDP (gross domestic product) numbers and in other macro readings, Rivelle says he expects the Fed to lower interest rates. Rivelle believes the Fed could lower its funds rate (short-term rates at which banks lend to each other) through open-market operations from the current 4.75% level to as low as 4% in the next 12 months or so, depending upon the extent of the weakness they see in the economy. He does not think the housing slowdown will tip the economy into a recession though. "A major national housing recession would probably bring out the big guns at the Fed: you'll probably see a tremendous amount of easing, well beyond what we posit," says Rivelle. That said, he notes the Fed will also be concerned about inflation. "Inflation is running near the upper end of the comfort range of what they previously described as their comfort level. They need to be watchful, we believe, of the potential inflationary consequences of an excessively stimulative policy," says Rivelle.

Given Met West's view on interest rates and its concern that inflation remains a risk, Rivelle expects the Treasury yield curve to steepen, especially between the two-year and the 10-year part of the curve. Rivelle thinks that the shorter end of the curve will decline as market participants assign a higher probability to the Fed lowering interest rates in the future and buy shorter-maturity bonds, lifting their prices and lowering their yields.

He also expects the longer end of the yield curve to rise as market participants become concerned about the Fed stoking inflation and sell longer-maturity bonds (similar to how the market reacted recently when the Fed cut rates by 50 basis points in September), putting downward pressure on their prices and raising their yields. To benefit from this view in the fund, Met West is overweighting bonds in the two- to five-year maturity range, where it believes bond prices will rise the most.

While Met West believes interest rates across the yield curve will generally trend lower, the fund's average duration of about 4.5 years is close to that of the index. (Duration measures the sensitivity of a bond's price to a change in interest rates. The higher the duration, the larger the impact.) Rivelle says much of the decline in rates that Met West expects has already been discounted in bond prices. "[The case for] going long duration is not a strong one at this point," he says. The fund has seldom made significant duration bets relative to its index. In 2003, when the Fed funds rate was at historical lows, the fund was short duration by 0.75 years versus the index. This was the largest duration bet the fund has made since its inception in March 1997.

The fund is underweighted to corporate bonds (16% versus 21% for the index), and this is despite Met West adding to this area in the last few months when it took advantage of widening spreads that resulted from this summer's subprime crisis. The reasons for underweighting this sector are twofold. First is Met West's belief that the economy is slowing down, which will negatively impact corporate profitability. Second, Met West believes the use of derivative structures, such as collateralized debt obligations, encouraged corporations to use excessive leverage, especially in the high-yield (or lower-rated) universe. Even in the investment-grade (or higher-rated) area, Rivelle notes that some companies used their cash to repurchase their stock and became more leveraged than he considers optimal. This increase in leverage across the corporate sector has lowered Met West's overall confidence in the quality of corporate earnings. If credit-spreads in the corporate sector widen, Met West may increase their weighting to this sector, as they did this summer.

Another sector where Met West has been concerned about the use of derivatives and excessive leverage is asset-backed securities (ABS), a sector that was most exposed to the subprime crisis. Since highlighting its concerns about this sector about three years ago, Met West has been steadily reducing its exposure there. (At the end of 2004, the fund had about 24% in ABS versus about 6% now.) In addition, it had been focusing on only high-quality ABS names. Met West did this by focusing on loan-origination and servicing companies that had a long, successful track record and that, in Met West's view, had managed their businesses well during difficult market conditions. Also, Met West picked originators that had stricter lending standards when evaluating borrowers, making them less likely to default on interest and principle payments. The fund entered the subprime crisis of this summer with ABS exposure similar to what it has now. Commenting on the fund's ABS holdings Rivelle says, "[They] are good bonds that are in no danger under any reasonable, or even almost inconceivable, scenario of losing money. [But] they have been repriced at much wider spreads in the capital markets." The fund's overweighting to the poor-performing ABS sector (the index has less than 1% in ABS) detracted about seven basis points from relative performance in the third quarter (when subprime concerns led to a credit crunch), but over the past three years the fund's ABS positioning has added a cumulative 16 basis points of excess performance over the index. While the fund's high-quality bias in ABS did not yield much outperformance over the long term, it helped the fund avoid significant losses during an extremely tough period for the sector this summer.

Met West Total Return Bond Sector Allocations (9/30/07)

U.S. Treasury/Agency	40%
Mortgage-Backed	31%
Asset-Backed	6%
Corporate	16%
Cash and Equivalents	7%

Met West Total Return Bond Credit Quality (9/30/07)

U.S. Treasury	41%
Agency	12%
AAA	22%
AA	12%
A	3%
BBB	5%
BB	3%
Below BB	2%

The fund's 30-day SEC yield as of 9/30/07 was 5.13% and the average quality was AAA.

Litman/Gregory Opinion

Year to date through October, Met West Total Return Bond is up 4.2% versus 4.7% for Vanguard Total Bond Market Index Fund.[1] Over longer periods, the fund stacks up very well versus both its index and peers. It has beaten its index over the trailing three-, five-, and 10-year periods (ending September 2007) by an annualized 200, 380, and, 120 basis points, respectively, placing it in the top decile among its peers for all periods.[2] This performance has come with very good consistency. Over the last 10 years, Met West Total Return has beaten the index in over 80% of rolling 36-month periods. Although performance consistency has been good longer term, the fund can be significantly out of sync with the index over shorter periods. Met West can take large bets relative to its index (as it did in the ABS sector in 2004). As for risks, the fund has been slightly more volatile (as measured by monthly standard deviation of returns) than the index. Also, it has exhibited more downside risk. Its worst 12-month loss of 6.8% compares to a loss of 1.7% for the index. The fund suffered this loss in 2002 when its corporate bond holdings declined sharply as extreme risk aversion in the bond market led to a flight to higher-quality Treasuries. Met West stuck with its investment in corporate bonds believing they were cheap and more than made up for the 2002 loss in subsequent years.

While we have not conducted formal due diligence on the Total Return fund, we have done extensive work on the firm's High Yield fund in the past and have developed a positive opinion on its investment team and investment process. All the investment professionals we have met or talked with exhibit a high level of expertise in their respective areas and conduct rigorous fundamental analysis prior to making investment decisions.

As a reminder, Met West is an independent and privately owned asset-management firm. It was founded in 1996 by Tad Rivelle and Laird Landmann, the former co-directors of fixed-income at Hotchkis and Wiley, along with other members of Hotchkis and Wiley's fixed-income team. While there, Rivelle and Landmann co-managed the firm's Low Duration Bond Fund. Prior to that, they were employed as portfolio mangers at PIMCO. All investment activities are overseen by Met West's four generalist portfolio managers, led by Tad Rivelle, the firm's chief investment officer. The firm employs a generalist/specialist portfolio management system to make key investment decisions. The generalists apply a top-down, macro overlay that influences duration and yield-curve positioning, sector weightings, and positioning within those sectors. Specialist portfolio managers, who focus on sectors such as mortgages, Treasuries, corporates, high-yield, and asset-backs, are responsible for implementing the firm's broad macro view in their respective sectors.

Based on our contact with the firm, we continue to believe that Met West is among the highest-quality firms within the fixed-income arena. If and when our research priorities allow, we plan to do further work on Metropolitan West Total Return Bond Fund to assess whether it meets our standards for being *Recommended.*

–Rajat Jain, CFA

[1]Returns are based on MWTIX.
[2]From April 1997 to March 2000, MWTRX's record is used. This record is expense adjusted to reflect institutional share class expenses. From April 2000 onwards, MWTIX's record is used.

As of 12/31/07, the Metropolitan West Total Return Bond Fund M-Class returned 6.24%, 7.01%, and 6.46% for the periods 1-, 5-, and 10-year, respectively. The Metropolitan West Total Return Bond Fund I-Class returned 6.47%, 7.23%, and 6.77% for the periods 1-, 5-year, and since inception (3/31/2000), respectively, for the same period. Returns are net of fees.

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 total expense ratio is *0.66%* and *0.45%* for the MWTRX and MWTIX, respectively.

Contact & Purchase Information

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FUND	MIN. INITIAL	AVAILABILITY	EXPENSES
Class I (MWTIX)	$1,000,000	S, A, F	0.46%
Class M(MWTRX)	$5,000	SIO, SO, AN, FN	0.67%

Performance Table

	Met West Total Return Bond	*Vanguard Total Bond Market*
YTD thru 10/31/07	4.2%	*4.7%*
Calendar-Year Returns		
2006	7.3%	*4.3%*
2005	3.4%	*2.4%*
2004	5.4%	*4.2%*
2003	14.1%	*4.0%*
2002	-0.8%	*8.3%*
Compound Annual Returns*		
1 year	7.4%	*5.1%*
3 year	5.8%	*3.8%*
5 year	7.8%	*4.0%*
10 year	6.9%	*5.7%*
Since Inc. (Apr-97)	7.3%	*6.1%*

**Compound Annual Returns thru 9/30/07*

Metropolitan West Total Return Bond Fund (M & I Class)

Net Performance Total Returns as of 12/31/07	Inception Date	Q4 '07	1-Year	ANNUALIZED			
				3-Year	5-Year	10-Year	Since Inception
MWTRX[1]	3/31/1997	1.99%	6.24%	5.43%	7.01%	6.46%	7.11%
Lehman Aggregate[2]		3.00%	6.96%	4.56%	4.42%	5.97%	6.50%
Under/Outperformance		*-101 bps*	*-72 bps*	*87 bps*	*259 bps*	*49 bps*	*61 bps*
% Rank in Category			23	2	2	3	
MWTIX[1]	3/31/2000	2.04%	6.47%	5.65%	7.23%	-	6.77%
Lehman Aggregate[2]		3.00%	6.96%	4.56%	4.42%	-	6.43%
Under/Outperformance		*-96 bps*	*-49 bps*	*109 bps*	*281 bps*	-	*34 bps*
% Rank in Category			17	1	1		

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. 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 MWTRX the total expense ratio is *0.66%* and the net expense ratio is 0.65%. For MWTIX the total expense ratio is *0.45%* and the net expense ratio is 0.44%. 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 Lehman Brothers Aggregate 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.

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 Total Return Bond Fund M and I Class were ranked by Morningstar as of 12/31/07 based on total return within the intermediate-Term Bond category. The fund M class received a percentile ranking of 23%, 2%, 2% and 3% and the fund I class received a percentile ranking of 17%, 1%, and 1% among 1097, 967, 826 and 414 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. Past performance is no guarantee of future results.

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