

# Metropolitan West Total Return Bond M MWTRX

## Analyst Report

by Paul Herbert, CFA

**Morningstar's Take** | 02-25-08

### Metropolitan West Total Return has been playing it safe, but it hasn't lost its daring.

This fund has coped with recent market tumult well. Its managers had been of the mind that housing-market weakness would spell trouble for the economy and the bond market, so they went on the defensive last year. They reduced the fund's exposure to corporate bonds to a rare, slight underweight versus the Lehman Brothers Aggregate Index and increased the fund's stake in Treasury bonds to approximately one third of assets. These shifts and others have helped the fund to outlast 75% of intermediate-bond funds during the 12 months ended Feb. 22, 2008.

The fund's managers aren't predicting a rapid recovery for the U.S. economy, but they aren't sitting on their hands, either. Spending by consumers and corporations will remain under pressure, they think, as banks will be less able and willing to extend credit. As such, they have largely maintained the sector biases described above. However, with many pockets of the bond market trading cheaply, they spy some compelling options. For instance, the managers continue to believe that investors are being too pessimistic about the highest-rated subprime asset-backed securities, so they hold short-dated securities rated AAA in this area. The team has also added exposure to commercial mortgage-backed securities as they have sold off in recent months, again with an emphasis on the highest-quality issues.

The fund's mix of reserve and measured risk-taking seems just right for uncertain times, and some of its other qualities provide durable advantages. For one, the fund's experienced managers and analysts aren't burdened by a heavy asset load, so they can continue to take meaningful stakes in lightly traded bonds whenever these securities offer great value. Plus, its costs are low, which gives it a head start on most rivals.

Add it all up, and this fund remains one of our favorites.

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Year	Total Return (%)	+/-Category
YTD	1.50	0.40
2007	6.27	1.57
2006	6.99	2.84
2005	3.10	1.30
2004	5.15	1.24

Data through 02-29-2008

### Morningstar Rating

★★★★★

### Analyst Pick

### Kudos

The fund boasts an experienced, proven management team.

It charges lower expenses than its average peer.

It rebounded dramatically in 2003 and 2004.

### Risks

The fund's flexible approach can lead it to take on added credit risk or interest-rate risk, which could make short-term returns a bit unpredictable.

### 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.

### Management

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 MWLDX, which follows a similar approach to this fund but carries less interest-rate risk.

### Inside Scoop

This fund's flexible approach can cause a few bumps in the road, but it also provides potential for greater yield and total return.

### Role in Portfolio

Core

## Metropolitan West Total Return Bond Fund (M-Class) ★★★★★

5-Star Overall Morningstar Rating based on risk-adjusted returns as of 12/31/07 among 967 Intermediate-Term Bond Funds.

Net Performance Total Returns as of 12/31/07	Q4 '07	1-Year	ANNUALIZED			
			3-Year	5-Year	10-Year	Since Inception 3/31/1997
MWTRX <sup>1</sup>	1.99%	6.24%	5.43%	7.01%	6.46%	7.11%
Lehman Aggregate <sup>2</sup>	3.00%	6.96%	4.56%	4.42%	5.97%	6.50%
<i>Under/Outperformance</i>	<i>-101 bps</i>	<i>-72 bps</i>	<i>87 bps</i>	<i>259 bps</i>	<i>49 bps</i>	<i>61 bps</i>
% Rank in Category <sup>3</sup>		23	2	2	3	

The performance data quoted represents past performance and does not guarantee future results. Current performance may be lower or higher. Five 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](http://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](http://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%. 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.

- <sup>1</sup> 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.
- <sup>2</sup> 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.
- <sup>3</sup> The Metropolitan West Total Return Bond Fund (MWTRX) was ranked by Morningstar as of 12/31/07 based on total return within the Intermediate-Term Bond category. The fund received a percentile ranking of 23%, 2%, 2% and 3% 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. 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.

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.

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 Total Return Bond Fund was rated against the following numbers of U.S.-domiciled Intermediate-Term Bond funds over the following time periods: 967 funds in the last three years, 826 funds in the last five years, and 414 funds in the last ten years. With respect to these Intermediate-Term Bond funds, the Metropolitan West Total Return Bond Fund received a Morningstar Rating of 5 stars, 5 stars, and 5 stars for the three-, five- and ten-year periods, respectively. Past performance is no guarantee of future results.

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