

Metropolitan West Total Return Bond M MWTRX

Analyst Report

by Paul Herbert, CFA

Morningstar's Take | 09-13-07

What did Metropolitan West Total Return do on its summer vacation?

Okay, that's a trick question: This vehicle and other bond funds didn't really have time for a holiday during the summer months of 2007. Repercussions from weakness in the housing market were felt throughout not only the residential mortgage-bond market, but in other fixed-income sectors, making it hard for managers to keep up with rallying Treasury bonds. (And for some bonds prices were hard to even come by, as these issues weren't trading at all. Not because traders were taking days off, but because no party wanted to own certain low-quality subprime asset-backed bonds.)

Amid this turmoil, this fund is looking relatively well-rested and chipper. Its managers had begun to prepare for choppiness over the preceding months. As they were becoming wary of unappealing valuations and expecting slower economic growth, they had started cutting back on corporate bonds in favor of government-related fare. This move, as well as another aimed at benefiting from a widening in the yield disparity between shorter- and longer-term bonds has led to appealing results. For the three-month period ended Sept.12, the fund had gained 4.3%, bettering more than 90% of its peers.

Moreover, it seems poised to get back to work buying non-government issues that are cheaper than they had been months—or even years. The managers continue to tread carefully in the high-yield space and other areas in which a borrower's creditworthiness is in question. However, bonds of more-secure financial firms and certain short-dated prime mortgage issues have been selling at such bargain prices that they have caught the managers' attention. Such additions should set the fund up for future successes.

We continue to find this fund one of the top options for the core of an investor's bond portfolio.

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Year	Total Return (%)	+/-Category
YTD	4.20	1.32
2007	—	—
2006	6.99	2.84
2005	3.10	1.30
2004	5.15	1.24

Data through 09-30-2007

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 9/30/07 among 968 Intermediate-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
MWTRX ¹	3.07%	4.18%	7.09%	5.52%	7.54%	6.65%	7.08%
Lehman Aggregate ²	2.85%	3.84%	5.13%	3.86%	4.13%	5.96%	6.37%
<i>Under/Outperformance</i>	<i>22 bps</i>	<i>34 bps</i>	<i>196 bps</i>	<i>166 bps</i>	<i>341 bps</i>	<i>69 bps</i>	<i>71 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 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.

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.

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: 968 funds in the last three years, 819 funds in the last five years, and 407 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. Morningstar Rating is for the M share class only; other classes may have different performance characteristics.

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