

Metropolitan West Ultra Short Bond M MWUSX

Analyst Report

by Scott Berry

Morningstar's Take | 04-20-05

We think Metropolitan West Ultra Short Bond is a promising young fund.

In years past, investors had few reasonably priced, broadly diversified ultrashort bond funds to pick from. This fund, which opened its doors in mid-2003, has helped fill that gap. The fund invests across different sectors of the bond market, owning asset-backed securities, mortgage issues, corporate bonds, and government bonds, and is fairly priced. It's not the cheapest ultra-short fund, but its expense ratio lands right between Fidelity's and Charles Schwab's, which puts it in good company.

The fund's main draw is its low volatility. Management keeps the fund's duration (a measure of interest-rate sensitivity) short of one year, which means for every 1 percentage point increase in interest rates, the fund should lose less than 1 percent of its value. The fund showed its resilience when rates spiked in April 2004, posting a small gain that month while its average category peer posted a small loss. The fund's low volatility was also on display in early 2005, when rising interest rates again stung the bond market. The fund posted its first monthly loss in March, but its 0.8% gain for the year to date through April 15 bested roughly 85% of its category rivals.

The fund's early returns have been quite encouraging, and we think Metropolitan West provides the depth of resources for it to be a long-term success. Along with its three-member management team of Stephen Kane, Mitch Flack, and Jamie Farnham, we expect the fund to benefit from Metropolitan West's wide-ranging analytical capabilities. In recent months, for example, the fund has held a slug of bank loans, which has provided some added protection against rising rates.

The fund is not yet three years old, so it has yet to earn a Morningstar Rating. However, we are fans of Metropolitan West and think this fund has a bright future. Investors would do well to consider it.

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Year	Total Return (%)	+/-Category
YTD	0.99	0.33
2005	—	—
2004	3.32	2.14
2003	—	—

Data through 04-30-2005

Morningstar Rating

Not Rated

Kudos

The fund's early returns have been quite promising.

The fund's expense ratio is quite reasonable for a no-load ultra-short bond fund.

Risks

The fund doesn't have much of a track record, having only opened in mid-2003.

Strategy

This fund isn't looking to take big risks. The management team keeps duration shorter than one year and concentrates on investment-grade bonds. They also emphasize extreme diversification, which should prevent issue-specific or sector-specific problems from doing too much damage to the fund. This fund should not be confused for a money-market fund, though, as its net asset value can and will fluctuate.

Management

The fund's management team includes Stephen Kane, Mitch Flack, and Jamie Farnham. Kane is generalist who has contributed to the success of Metropolitan West Total Return MWTRX and Metropolitan West Low Duration MWLDX. Flack is a mortgage specialist, while Farnham is a corporate specialist. We think the three compliment each other well.

Inside Scoop

This fund is still just a couple of years old, but we think its reasonable costs, diversified portfolio, and skilled management make it worth a look.

Role in Portfolio

Supporting Player. The fund's focus on short-term bonds makes it more of a supporting player in a diversified portfolio.

Metropolitan West Ultra Short Bond Fund (M-Class) Net Performance Average Annual Total Returns as of 3/31/2005

	Q1 '05	1-Year	Since Inception 6/30/03
MWUSX ¹	0.28%	2.31%	5.00%
Merrill Lynch 1-Year UST ²	0.22%	0.59%	0.93%

Yearly Performance

	2004	YTD 2005
MWUSX ¹	3.32%	0.28%
Merrill Lynch 1-Year UST ²	0.81%	0.22%

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 Ultra Short 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.

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¹ The Fund's 12b-1 Plan allows for payments of up to 0.25% of the Fund's average daily net assets but the Adviser has undertaken to limit the 12b-1 Plan expenses to 0.16% of the Fund's average daily net assets for the current fiscal year. Total returns reflect fee waivers in effect. Without fee waivers returns would have been lower. Total return figures assume reinvestment of all distributions.

² The Merrill Lynch 1-Year Treasury Index is an unmanaged index that tracks the performance of U.S. Treasury Notes with maturities of approximately one year. The indices discussed above are unmanaged indices that are not available for direct investment. Unlike a mutual fund, the performance of an index assumes no taxes, transaction costs, management fees, or other expenses. Total return figures assume reinvestment of all distributions and are net of all charges. The securities that comprise the Index may differ substantially from those in the Fund's portfolio.

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