METWEST Funds
TCW Family of Funds

THIRD QUARTER 2019 COMMENTARY

MetWest Floating Rate Income Fund

Performance as of September 30, 2019

(%)	I Share	M Share	Index[1]
Latest Quarter	0.98	1.03	0.99
Year-To-Date	6.14	5.99	6.79
1 Year	3.50	3.40	3.10
3 Years	3.89	3.68	4.53
5 Years	3.54	3.34	3.98
Since Inception	3.84	3.65	3.99

Not annualized if less than one year.

Expense Ratio (%)	I Share	M Share
Gross	0.71	1.03
Net[3]	0.70	0.90

Annual fund operating expenses as stated in the Prospectus dated July 29, 2019.

Source: TCW

1 S&P/LSTA Leveraged Loan Index (LLI) – Reflects the market-weighted performance of U.S. dollar-denominated institutional leveraged loan portfolios based upon real-time market weightings, spreads and interest payments. The index is not available for direct investment; therefore its performance does not reflect a reduction for fees or expenses incurred in managing a portfolio. The securities in the index may be substantially different from those in the Fund.

2 The since inception return for the index reflects the inception date of the MetWest Class I and Class M Share Funds, for period 6/28/13 – 9/30/19.

3 Expenses reflect a contractual agreement by the Adviser to reduce its fees and/or absorb certain expenses to limit the fund's total annual operating expenses until July 31, 2020, unless terminated earlier by the Board of Trustees. Performance would have been lower if fees had not been waived in various periods

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Market Review - "the more things change, the more they stay the same"

Having foreshadowed a willingness to renew monetary accommodation as early as January of this year, perhaps the Fed could be lauded for holding off action until the third quarter against the withering criticism from the President and intermittently volatile markets. But capitulate it finally did, not once but twice, with an ease of 25 basis points in September to follow one in late July, which had marked its first cut since 2008. What was notable in the redirection of policy, as highlighted by the latest meeting minutes, was a lack of consensus versus the past, underscoring uncertainty (and dispersion of opinion) among the FOMC members. The broader viewpoints suggest increased risk of policy error, particularly in the face of unrelenting political pressure. However, it wasn't as if the more dovish faction was without support for its perspective: since the start of the year, trade tension and its fallout disaffected economic measurables in a meaningful way. As a result, global recessionary concerns mounted in the third quarter, particularly in Europe where the IHS Market Eurozone composite PMI, which captures both manufacturing and services activity, fell to 50.4 in September, the lowest reading since June 2013, and German manufacturing PMI fell to a 10-year low. Trade concerns have taken a toll on U.S. manufacturing as well, with the PMI here falling into contraction territory for the first time in three years. Not surprisingly, businesses remain skeptical of the prospective environment, as evidenced by sharp declines in survey-based measures of expectations, confidence, and spending decisions.

And if the policy challenge wasn't enough, "operational" issues surfaced late in the quarter as the NY Fed was spurred to intervene in lending markets during September to address significant stress in the overnight funding markets whereby repurchase rates spiked from 2% to 10% over the course of a week. The funding squeeze hypothetically owed to technical factors (corporate tax payments and Treasury auction settlements that reduced excess bank reserves held at the Fed, and thus reduced the cash available to lending in the repo market). For now, the dislocation does not suggest a broader liquidity crisis, though it highlights the post-global financial crisis regulatory environment in which dealers have limited ability to maintain order in the repo market, and counsels ongoing vigilance to downstream effects into other bank funding markets.

Despite the continuing late-cycle conditions characterizing the U.S. and global economy, with soaring debt and slowing growth, thus far, a strong consumer and accommodative Fed have kept the expansion going and asset prices up (mostly). This is reflected in the ongoing climb of equity markets this year notwithstanding periodic sell-offs, as the S&P 500 advanced 1.7% in the third quarter to notch a year-to-date return of nearly 21%. Fixed income markets, too, have posted impressive total returns, with the Bloomberg Barclays Aggregate Index up 2.3% for the quarter and 8.5% year-to-date. Investment grade corporate credit, in particular, has benefitted from the Fed's signals/actions and a global appetite for yield fed by U.S. issuers, delivering a 3.1% gain in the quarter and 13.2% year-to-date, the best return in 10 years. High yield returned 1.3% in the third quarter; though performance bifurcation by quality continued in 2019 as the BB-rated cohort gained 2.0% while CCC-rated credits fell by nearly the same amount.

In leveraged loans, the S&P/LSTA Index ("Index") was up 1.0% for the quarter, led by more defensive sectors like housing, aerospace, and financial, all up about 3%, while those with more market sensitivity, particularly commodity-related ones, lagged: metals & minerals

The performance data presented represents past performance and is no guarantee of future results. Total returns include reinvestment of dividends and distributions. Current performance may be lower or higher than the performance data presented. Performance data current to the most recent month end is available on the Fund's website at TCW.com. Investment returns and principal value will fluctuate with market conditions. The value of an investment in the Fund, when redeemed, may be worth more or less than its original purchase cost.

You should consider the investment objectives, risks, charges and expenses of a mutual fund carefully before investing. A Fund's Prospectus and Summary Prospectus contain this and other information about the Fund. To receive a Prospectus, please call 800-241-4671 or you may download the Prospectus from the Fund's website at TCW.com. Please read it carefully.

(-4.2%), energy (-4.0%), and retail (-0.2%). A risk-off tone has pervaded the loans universe as conservative sectors have outperformed for the past year as well, with financial, gaming/leisure, and food & drug leading, while metals & minerals, energy, and consumer durables trailed. Quality-wise, the theme is the same as in high yield with better-rated loans outperforming for the quarter as BBBs gained 1.8% while Bs fell 3.2%. Distressed papers declined further over the past three months as some lower-rated loans became un-investable for the rating-sensitive CLOs. The primary market was also impacted by the bifurcation of higher quality versus lower quality, with the former oversubscribed while the latter widened in order to find buyers. Compounding the problems for lower quality was the increase in rating agency activities in the form of downgrades and negative outlooks, which forced selling by CLOs and produced lower loan prices, attracting even more rating agency attention.

Retail outflows continued to mount with multiple consecutive weeks of outflows, though the pace has decelerated as September's outflows of $1.2 billion is the lowest since October 2018. Assets under management in loan mutual funds dwindled to $104 billion from a peak of $154 billion since nearly a year ago. Meanwhile, CLO inflows were moderate, with primary issuance totaling $8.3 billion in September, a 15% uptick from August. On the supply side, refinancing activity dominated, buoyed by higher-rated borrowers looking to extend maturities as well as by a record-setting amount of loan prepayments that has left CLO managers flush with cash to invest. In CLO new issuance, the quarter was the lightest of 2019, though the year's supply is on track to be the third strongest in CLO history.

In loan fundamentals, the last 12-month default tally is 23, led by retail (six defaults), servicing & leasing (four defaults), and oil & gas (three defaults). Quarter-over-quarter, the default rate by number and by principal amount crept up by 4 and 5 bps to 1.54% and 1.29%, respectively. As of the end of September, the imputed default rate for loans was 2.7%, a slight uptick from 2.6% in August. Fundamentals in CLOs were also relatively stable with overcollateralization (OC) holding steady, though quality continued to deteriorate due to loan downgrades. Valuation-wise, the three-year discount margin ended at 478 bps, above the historical average of 460 bps and the average of 417 bps when excluding the global financial crisis period. Of note is the increase in the spread differential between BBs and Bs, which is now 36 bps wider than historical averages, further demonstrating the aforementioned rating bifurcation.

Performance

The MetWest Floating Rate Bond Fund – I Class ("Fund") gained approximately 1.0% (net of fees) in the third quarter of 2019, performing relatively in line with the S&P/LSTA Leveraged Loan Index ("Index"). Given trade and geopolitical tensions during the quarter, industries with more market sensitivities underperformed, benefiting the Fund which held a defensive stance. Issue selection boosted performance, particularly among non-cyclical consumer-related credits in healthcare and food & beverage. Further additive were issues selected within gaming, packaging, as well as communication names in cable and media. Also beneficial to the Fund was the underweight to metals/minerals and energy, as well as retail (which was further weighed down by e-commerce competitions). However, the underweight to outperforming technology was a drag as the sector did not experience widespread deterioration over the quarter, while the overweight to utilities weighed on returns as the sector trailed most other industries in the Index. Lastly, the emphasis on higher quality paper rewarded the Fund as lower quality lagged, with BBBs outpacing CCCs by over 300 bps in total return.

Outlook & Positioning

Following a prolonged, albeit not especially vigorous, expansion, TCW has increasingly viewed current conditions as late-cycle in character, with a slowing pace of growth a consequence. Given the decidedly tightening posture of the Fed between late 2016 and early 2019 – nine rate hikes and significant balance sheet reduction – it's not surprising that activity would turn down somewhat, particularly with a flatter yield curve reducing the incentives for financial intermediaries to expand their lending books. Add in the uncertainty of trade policy and you have players in the real economy deferring capital investment (weakening business confidence) and production volume (falling ISM manufacturing), putting further downward pressure on

potential growth. The investment management team continues to emphasize a cycle-aware philosophy to mitigate the effects of a more challenging downturn and remains positioned to expand the risk budget when long-term expected returns are more favorable.

In this environment, the Fund continues to hold a defensive stance, favoring non-cyclicals like healthcare and food & beverage as well as those with generally stable cash flows and strong asset coverage, including communications, packaging, midstream, and gaming. Meanwhile, the Fund maintains a cautious view of industries with more market exposure such as metals & mining and retail. Going forward, with the performance divergence in quality, increased supply and outflows, and limited appetite for lower rated segments, higher yield premiums than current levels will likely materialize. With rating agencies reacting to price and CLOs limited to better quality paper, costs for B borrowers should continue to rise relative to BBs, extending the price dispersion that had begun during late 2018. Notwithstanding these concerns, pockets of the leveraged loan market remain favorable based on fundamentals, and we are actively scouring for opportunities in specific issuers and industries where we believe there is value in excess of current price levels.

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Investment Risks

It is important to note that the Fund is not guaranteed by the U.S. Government. Fixed income investments entail interest rate risk, the risk of issuer default, issuer credit risk, and price volatility risk. Funds investing in bonds can lose their value as interest rates rise and an investor can lose principal. Floating rate loans entail special risks. The market for floating rate loans may be illiquid, making it difficult for the Fund to determine the true value of a loan, or to sell its interest in a failing loan promptly or at a profitable price. The collateral for secured loans may be insufficient to cover a default, and the Fund may have limited remedies when a borrower defaults. High-yield (unrated or rated below-investment grade) loans and bonds have greater credit risk and more volatility than debt instruments rated investment grade. Loans made to distressed borrowers or to finance leveraged corporate acquisitions may be especially vulnerable to adverse changes in economic and market conditions. The risk of loss is even greater for unsecured loans. The Fund’s use of leverage (borrowing) and derivatives may increase the volatility of the Fund’s returns. Although the floating rate loans are intended to provide creditors with protection against rising interest rates, some of the debt securities in which the Fund invests will be subject to interest rate risk and may decline in value when interest rates rise. Foreign securities are subject to special additional risks, such as changing currency values, lack of regulation, and political and economic environments in the countries where the Fund invests. Equity investments entail equity risk and price volatility risk. The value of stocks and other equity securities will change based on changes in a company’s financial condition and in overall market and economic conditions. The value of the Fund’s share price will fluctuate up or down based on the value of the portfolio holdings, which can be affected by these risks.

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MetWest Floating Rate Income Fund

Glossary of Terms

Accommodative Monetary Policy – When a central bank (such as the Federal Reserve) attempts to expand the overall money supply to boost the economy when growth is slowing (as measured by GDP). **Baa** – Corporate bonds can receive ratings that range from a high of Aaa to a low of C. Bonds given the Baa rating are considered as medium-grade obligations, meaning they are neither highly protected nor poorly secured. Bonds rated Baa and above are considered investment grade. **Balance Sheet** – A financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. **Beta** – The sensitivity of a stock (portfolio) to the market (benchmark) in the capital asset pricing model. It is comprised of the volatility of a stock and its correlation with the market (benchmark). **Bloomberg Barclays U.S. Aggregate Bond Index** – A market capitalization-weighted index of investment-grade, fixed-rate debt issues, including government, corporate, asset-backed and mortgage-backed securities, with maturities of at least one year. **BPS** (Basis Points) – A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security. **Central Bank** – A monopolized and often nationalized institution given privileged control over the production and distribution of money and credit. **Collateral** – Property or other assets that a borrower offers a lender to secure a loan. **Corporate –** Of or relating to a bond issued by a corporation as opposed to a bond issued by the U.S. Treasury, a non-U.S. government or a municipality. **CLO** (Collateralized Loan Obligations) – A special purpose vehicle (SPV) with securitization payments in the form of different tranches. Financial institutions back this security with receivables from loans. **Contraction** – A phase of the business cycle in which the economy as a whole is in decline. More specifically, contraction occurs after the business cycle peaks, but before it becomes a trough. According to most economists, a contraction is said to occur when a country's real GDP has declined for two or more consecutive quarters. **Corporate Credit** – A term that is used in written investment materials and commentaries to refer to a corporation's debt or to the corporate debt market as a whole. **Credit** – Issuers. **Currency** – A generally accepted form of money, including coins and paper notes, which is issued by a government and circulated within an economy. **Cyclical** – A cyclical stock is a stock highly correlated to changes in the economy. **Debt Security** – Any debt instrument that can be bought or sold between two parties and has basic terms defined, such as notional amount (amount borrowed), interest rate and maturity/renewal date. **Default** – The failure to perform on a futures contract as required by an exchange. **Derivative Instruments** – Any type of financial securities that depend on the performance of some type of underlying security in order to have any value. **Dislocation** – Circumstance in which financial markets, operating under stressful conditions, cease to price assets correctly on an absolute and relative basis. **Distressed Debt** – Distressed securities of companies or government entities that are either already in default, under bankruptcy protection, or in distress and heading toward such a condition. **Distribution** – Distributions of income and capital gains that mutual funds make to their investors periodically during a calendar year. **Dividend** – A distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. **Dove/Dovish** – An economic policy advisor who promotes monetary policies that involve the maintenance of low interest rates, believing that inflation and its negative effects will have a minimal impact on society. Statements that suggest that inflation will have a minimal impact are called "dovish." **Easing** – A monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply. **Eurozone** – A geographic and economic region that consists of all the European Union countries that have fully incorporated the euro as their national currency. **Federal Reserve** (the Fed) – The central bank of the United States which regulates the U.S. monetary and financial system. **Floating Rate** – Any interest rate that changes on a periodic basis. The change is usually tied to movement of an outside indicator, such as the prime interest rate. **FOMC (Federal Open Market Committee)** – The branch of the Federal Reserve Board that determines the direction of monetary policy. **Foreign** – Located and/or domiciled outside of the United States. **Fundamental** – Macroeconomics and Microeconomics. Macroeconomic fundamentals include topics that affect an economy at large. **High Yield** – A bond that is rated below investment grade. **Inflation** – A condition of a rise in the general level of prices of goods and services in an economy over a period of time. **Investment Grade** – A bond that is rated Baa3/BBB- or higher by Moody's, Standard & Poors and Fitch. **IHS (inverse head and shoulders)** – Also called a "head and shoulders bottom", an IHS is similar to the standard head and shoulders pattern, but inverted: with the head and shoulders top used to predict reversals in downtrends. **ISM Manufacturing Index** – A monthly index released by the Institute of Supply Management which tracks the amount of manufacturing activity that occurred in the previous month. **Late-cycle** – Often coincides with peak economic activity, implying that the rate of growth remains positive but slows. A typical late-cycle phase may be characterized as an overheating stage for the economy when capacity becomes constrained, which leads to rising inflationary pressures. **Leverage** – The use of borrowed money to increase investing power. A firm with significantly more debt than equity is considered to be highly leveraged. **Leveraged Loan** – Loans extended to companies or individuals that already have considerable amounts of debt. Lenders consider leveraged loans to carry a higher risk of default and, as a result, a leveraged loan is more costly to the borrower. **Liquidity** – The ability to convert an asset to cash quickly. **Margin** – In a general business context, the difference between a product's (or service's) selling price and the cost of production. Maturity – The period of time for which a financial instrument remains outstanding. **Mutual Funds** – An investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money-market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus. **Outperform** – Outperform is when an investment is expected to perform better than the return generated by a particular index or the overall market. Since the performance of many investments is compared to a benchmark index, outperform refers to generating a higher return than a particular benchmark over time. Outperform also refers to an analyst's rating on a security, and outperform is a better rating than neutral and worse than a strong buy recommendation. **Overcollateralization** –

The provision of more collateral than is needed in order to reduce risk to a lender or an investor in a debt security. **Overweight** – A condition where the portfolio exposure to a given asset class (or risk measure) exceeds that of the benchmark index. **PMI (Purchasing Managers Index)** – An indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. **Recession** – Two consecutive quarters of negative economic growth as measured by a country's gross domestic product. **Repurchase Agreement (Repo)** – A form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back the following day. **Risk-off** – When stocks are selling off and investors run for shelter in bonds or gold, the environment is said to be risk-off. **Secured Debt** – Is debt that is backed by some type of collateral such as assets or revenue from the borrower. **S&P 500 Index (SPX)** – A capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. **Spread** – The difference between the bid and the ask price of a security or asset. **Tightening** – Short for tight monetary policy. A situation in which a central bank enacts relatively high target interest rates to lower the available of credit. Effectively "tightening" the supply of credit. **Underweight** – A condition where a portfolio does not hold a sufficient amount of a particular security when compared to the security's weight in the underlying benchmark portfolio. **U.S. Treasuries** – U.S. dollar denominated debt issued by the U.S. government. **Valuations** – The process of determining the current worth of an asset or company. There are many techniques that can be used to determine value, some are subjective and others are objective. **Volatility** – A measure of the risk of price moves for a security calculated from the standard deviation of day to day logarithmic historical price changes. **Yield** – The income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. **Yield Curve** – A line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth.

For more information about the Fund call us at 800 241 4671.

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METWESTFunds

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