METWEST Funds
TCW Family of Funds

FIRST QUARTER 2019 COMMENTARY

MetWest High Yield Bond Fund

Performance as of March 31, 2019

(%)	I Share	M Share	Index[1]
Latest Quarter	5.89	5.94	7.26
Year-To-Date	5.89	5.94	7.26
1 Year	5.72	5.57	5.93
3 Years	6.17	5.94	8.56
5 Years	3.10	2.87	4.69
10 Years	9.24	8.98	11.21
Since Inception	7.44	8.08	8.22; 8.85[2]

Not annualized if less than one year.

Expense Ratio (%)	I Share	M Share
Gross	0.63	0.91
Net[3]	0.61	0.86

Annual fund operating expenses as stated in the Prospectus dated July 27, 2018.

1 Bloomberg Barclays U.S. Corporate High Yield Index 2% Issuer Cap – An unmanaged index that covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. The index limits exposures to a specific issuer to a maximum 2% by market value. 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, respectively. For period 3/31/03 – 3/31/19; 9/30/02 – 3/31/19.

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, 2019 unless terminated earlier by the Board of Trustees. Performance would have been lower if fees had not been waived in various periods.

Market Review

Reeling from 2018's fourth quarter, over which risk markets tumbled and, as if to dare the Fed to maintain its ongoing tightening regime, U.S. Treasury issues rallied sharply, it took only a few days into the new year for a dovish pivot to change sentiment. Foreshadowed by Fed Chair Powell's January 3rd "low inflation" and "patient" comments, the FOMC meeting concluded later in the month with an unchanged funds rate and substantially softened messaging, suppressing volatility and providing cover for higher valuations. The runway clear, risk assets ended the first quarter in strong positive territory, as the S&P 500 Index gained 13.6% while the Bloomberg Barclays Aggregate and High Yield Indexes returned 2.9% and 7.3%, respectively, the latter on an astonishing 135 basis points of spread narrowing as risk aversion subsided. Other indicators of the reversal included emerging markets debt, which gained north of 5% to open the year after a rugged 2018, and oil, which ran up 30% (though likely for technical reasons as much as anything as economic fundamentals faded).

To the matter of growth, first for the U.S., as the effects of fiscal stimulus from tax cuts have abated, several additional drags - particularly the government shutdown – are thought to have meaningfully slowed activity in the first quarter, with the Federal Reserve Bank of Atlanta's GDPNow forecasting Q1 GDP at only 0.4%. Notably, leading indicators such as manufacturing new orders, building permits and consumer expectations suggested weakening, while other downside signals included a flat-to-inverted yield curve and trend declines in more economically and interest rate sensitive sectors such as housing and auto sales. (The housing market slowdown was not recent as it showed signs of cooling over the course of 2018 as rates pushed higher from September 2017 through much of the following 13 months, translating into negative prints for housing starts and home sales on affordability concerns, i.e., years of housing price appreciation with higher financing costs layered on.) Globally speaking, growth concerns reverberated as Eurozone manufacturing data disappointed, Chinese growth faded, and the OECD once again trimmed its forecast for worldwide economic expansion in 2019 to 3.3% from 3.5%. Not atypically, other global central banks took their cues from the Fed, highlighted most prominently by an accommodative redirection from the European Central Bank (ECB) that pushed back the expected timing of their first hike to 2020 and announced a new round of targeted long-term refinancing operations to provide additional funding to banks.

Given the Fed's transmitted pause to hikes and the resulting calm (and then some) to the markets, the up-move in valuations was in keeping with post-crisis (or should we say post-Volcker?) norms. Digging into the details of the fixed income market in Q1, corporates overall drove performance in the Aggregate Index as strong inflows paired with the renewed risk appetite and spreads ultimately ended over 30 bps lower from year-end levels. Remediation was most evident in the high yield market, where spreads essentially made a round trip in terms of average levels after the fourth quarter sell-off to end March at 391 bps over Treasuries. While valuations did not reach the absolute tights of this cycle set on October 3rd, the market saw a return to the general valuation regime which existed for most of 2018. The technical backdrop was supportive during the quarter, further lulling the high yield market into complacency as net inflows totaled over $12 billion year-to-date, following a roughly $47 billion exodus from the sector in 2018. This steady demand, combined with low net primary issuance, sustained the upward momentum in high yield bond prices and the recovery was broad-based in terms of quality. It is worth pointing out that the CCC-rated cohort was slightly behind BB- and B-rated issues on a total return basis to start the year, suggesting that although investors remain yield-hungry, a degree of caution for default risk in lower quality tiers persists. With regards to sector performance, top performers included finance companies, tobacco, and technology, while energy led the pack as refiners and oil field services gained over 11%. Notwithstanding positive total returns, banking, REITS, and insurance were laggards for the quarter.

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.

FIRST QUARTER 2019 COMMENTARY

MetWest High Yield Bond Fund

Performance

The MetWest High Yield Bond Fund – I Class ("Fund") gained 5.89% (net of fees) in the first quarter of 2019, trailing the Bloomberg Barclays High Yield 2% Issuer Capped Index by 137 bps. With all corporate sectors outpacing the Index in the first quarter, a defensive posture, including an underweight to top performing energy, technology and finance companies was a drag. Meanwhile, an additional focus on higher quality issues weighed on relative performance as the lower quality cohort outpaced the Index on a duration-adjusted basis. These drags were partially offset by an emphasis on outperforming communications and consumer non-cyclical credits, particularly wirelines and pharmaceuticals. Finally, while the duration of the Fund was extended in a disciplined fashion as rates rallied late last year, the position remained at approximately three-tenths of a year short relative to the Index in the first quarter, resulting in a headwind to performance as Treasury yields fell across the curve.

Outlook & Positioning

The Fed's surprisingly dovish shift to start the year effectively signaled that this might just be the end of the hiking cycle. While the Fed may think they are in a holding pattern and will take future actions based on incoming economic data, their recent capitulation to the markets has yet again demonstrated that markets may dictate the Fed's future course of action more than the Fed itself lets on. Meanwhile, the inverted yield curve demonstrates that bond investors have a distinctively cautious view of future growth, which stands in stark contrast with the heady equity market rally of Q1. Regardless of the signaling effects, an inverted or flat curve weighs on banks' willingness to extend credit as net interest margins are pressured, limiting credit creation on a go-forward basis and exacerbating liquidity conditions. Outside of the domestic concerns, there are numerous global sources of volatility with few identifiable catalysts to drive positive momentum. Considering these factors, we believe that fixed income valuations have not fully priced in long-term fundamentals and underwriting these potential risks remains paramount to the investment strategy. Echoing a theme of the past several quarters, credit conditions and pricing remain decidedly late cycle.

In this environment, we are cautious of the first quarter rebound, whereby capital market activity that would never have been permitted amid the volatility in the fourth quarter was once again being accommodated (such as dividend recapitalizations). Defaults are expected to remain low as broad-based credit stress has been elusive with a de minimus percent of the high yield market trading at a price below $70 during the quarter. However, amid the broader recovery, a growing list of energy-related capital structures are beginning to lose sponsorship and forced to consider restructuring, with March default activity concentrated in the oil and gas exploration and production segment of the universe. At present, these appear to represent discrete issues, though the trend is notable and worth monitoring. Indeed, the fundamental risks underpinning the re-pricing in the fourth quarter remain in effect, and therefore, it is prudent to capitalize on this aggressive recovery by taking profits and preserving liquidity for better risk-adjusted opportunities.

We believe that a credit-intensive, bottoms-up investment approach remains the key to value uncovering opportunities and, most importantly, avoiding credit accidents. This disciplined approach to portfolio construction is reflected in the Fund's focus on higher quality, better-collateralized areas of the market, while the introduction of risk into the portfolio is done in an extremely measured and selective way. Industrials continue to represent a relative underweight, with an emphasis on non-cyclical sectors that have less economically sensitive business drivers, focusing on select companies with solid asset coverage and stable cash flows within lower beta packaging, transportation, communication, food & beverage, and midstream energy sectors. Finally, the cash position remains elevated to preserve ample capacity to deploy capital as opportunities emerge.

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Glossary of Terms

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).**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. **Cohort** – A group who shared a particular characteristic or a particular time span. **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. **Credit** – Issuers. 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." **Duration** – A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. **ECB** – European Central Bank. **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. **GDP (Gross Domestic Product**) – The market value of all final goods and services produced within a country in a given period of time. **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. **Liquidity** – The ability to convert an asset to cash quickly. **MBS** (Mortgage-Backed Securities) – A type of asset-backed security that is secured by a mortgage or collection of mortgages. These securities must also be grouped in one of the top two ratings as determined by a accredited credit rating agency, and usually pay periodic payments that are similar to coupon payments. Furthermore, the mortgage must have originated from a regulated and authorized financial institution. **Non-Agency MBS** – Mortgage backed securities sponsored by private companies other than government sponsored enterprises such as Fannie Mae or Freddie Mac. **OECD (Organisation for Economic Co-operation and Development)** – A group of 34 member countries that discuss and develop economic and social policy. OECD countries are democratic countries that support free market economies. **REIT (Real Estate Investment Trusts)** – Any corporation, trust or association that acts as an investment agent specializing in real estate and real estate mortgages" under Internal Revenue Code section 856. **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. **Total Return** – The rate of return on a security, including income from dividends and interest, as well as appreciation or depreciation in the price of the security, over a given time period of time. **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. **Underwriting** – The process by which investment bankers raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt). **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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