METWEST Funds
TCW Family of Funds

THIRD QUARTER 2019 COMMENTARY

MetWest Low Duration Bond Fund

Performance as of September 30, 2019

(%)	I Share	M Share	Index[1]
Latest Quarter	0.66	0.61	0.58
Year-To-Date	3.80	3.65	3.03
1 Year	4.87	4.78	4.36
3 Years	2.16	1.99	1.52
5 Years	1.71	1.48	1.32
10 Years	3.53	3.31	1.18
Since Inception	3.30	3.63	2.82; 3.21[2]

Not annualized if less than one year.

Expense Ratio (%)	I Share	M Share
Gross	0.41	0.62

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

Source: TCW

1 ICE BofAML 1-3 Year U.S. Treasury Index – A subset of ICE BofAML U.S. Treasury Index including all securities with a remaining term to final maturity less than 3 months. 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 3/31/00 – 9/30/19; 3/31/97 – 9/30/19.

Market Review: "What is it that you would like me to do, sir?"

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. Among securitized products, agency MBS realized a return of 1.4%, despite a weak August, outperforming Treasuries by a modest 6 bps on a duration-adjusted basis over the quarter. The sector has had a challenging year, as Fed balance sheet reduction, Treasury rate volatility, and changes to the TBA market have caused spreads to fluctuate. Non-agency MBS, in contrast, continued to provide steady though modest positive performance, buttressed by favorable supply/demand characteristics. In the commercial MBS (CMBS) space, non-agency CMBS led with a 2.0% return and 34 bps of excess return over duration-matched Treasuries, while higher quality agency CMBS trailed Treasuries by 6 bps. Finally, benign consumer fundamentals buoyed traditional ABS sectors, resulting in a modest positive return of 0.9% gain 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.

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MetWest Low Duration Bond Fund

Performance

The MetWest Low Duration Bond Fund I-Class gained 0.66% (net of fees) in the third quarter of 2019, outperforming the ICE BofAML 1-3 Year U.S. Treasury Index by a modest 8 bps. Duration positioning was largely neutral throughout the quarter, and had little impact on performance. However, near the end of the quarter with Treasury rates falling, duration was extended modestly to 0.05 years longer than the Index. Relative returns benefitted from the allocation to short corporate credit, which led fixed income with an excess return vs. duration-matched Treasuries of over 30 bps. Holdings remained focused on non-cyclicals, wireless communications, and finance companies all among the top performers during the quarter, though some of this was offset by select exposure in the independent energy space where spreads widened. Structured products also contributed, particularly the allocation to non-agency CMBS which outpaced short corporates, while residential legacy non-agency MBS prices continued to edge higher, supported by solid demand and attractive fundamentals. Meanwhile, performance was held back by the allocation to Treasury futures (used to manage duration) as financing rates have recently exceeded yields.

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.

Portfolio duration extended modestly into the back-up during the last several weeks in September, ending the quarter 0.05 years long versus the benchmark (from neutral at the start of the quarter). By way of sector positioning, the Fund maintains a defensive credit stance with minimal exposure to the more vulnerable (i.e., "breakable") issuers and industries. Exposure emphasizes communications and consumer non-cyclicals such as pharmaceuticals, healthcare, or food and beverage, with an eye towards adding opportunistically across credit during bouts of volatility when prices look relatively more attractive. Outside of credit, senior parts of the structured products markets remain a haven from credit excesses while still generating incremental return, though we remain vigilant to pockets of looser underwriting standards, particularly in current vintage CMBS. Residential MBS also remains an area to pick up safe yield, particularly in the legacy non-agency MBS space, which continues to present attractive risk-adjusted return potential despite a shrinking market. Finally, the Fund focuses on super senior ABS backed by government guaranteed student loan collateral and agency-backed issues within CMBS.

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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. Mortgage-backed and other asset-backed securities often involve risks that are different from or more acute than risks associated with other types of debt instruments. MBS related to floating rate loans may exhibit greater price volatility than a fixed rate obligation of similar credit quality. With respect to non-agency MBS, there are no direct or indirect government or agency guarantees of payments in pools created by non-governmental issuers. Non-agency MBS are also not subject to the same underwriting requirements for the underlying mortgages that are applicable to those mortgage-related securities that have a government or government-sponsored entity guarantee. For a complete list of Fund risks, please see the Prospectus.

MetWest Low Duration Bond Fund

Glossary of Terms

ABS (Asset-Backed Security) – A debt obligation that represents claims to the cash flows from a pool of loans, leases or receivables against assets other than real estate and mortgage-backed securities, such as credit card debt, student loans, car loans, aircraft leases, etc. **Agency CMBS** – The Agency CMBS market includes various mortgage-backed securities where the underlying assets are commercial real estate, predominantly multifamily properties. They have either an explicit US government guarantee or are guaranteed by one of the Government Sponsored Enterprises. **Agency MBS** – The purchase of mortgage-backed securities issued by government-sponsored enterprises such as Ginnie Mae, Fannie Mae or Freddie Mac. **Asset-Backed Securities** – A financial security backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities. **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. **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. **Central Bank** – A monopolized and often nationalized institution given privileged control over the production and distribution of money and credit. **Collateralized Mortgage Obligation (CMO)** – A type of mortgage-backed security in which principal repayments are organized according to their maturities and into different classes based on risk. **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. **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. **CMBS** (Commercial Mortgage-Backed Securities) – A debt obligation that represents claims to the cash flows from pools of mortgage loans on commercial property. **Credit** – Issuers. **Defensive** – Stock that provides a constant dividend and stable earnings regardless of the state of the overall stock market. **Dove** – 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. **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. **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. **FOMC** (Federal Open Market Committee) – The branch of the Federal Reserve Board that determines the direction of monetary policy. **Futures** – A legally binding agreement to buy or sell a commodity or financial instrument in a designated future month at a price agreed upon at the initiation of the contract by the buyer and seller. Futures contracts are standardized according to the quality, quantity, and delivery time and location for each commodity or financial instrument. **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. **ISM (Institute For Supply Management)** – A non-profit organization that serves professionals, who are employed in the supply management profession. **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. **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. **Monetary Policy** – The actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates. **Non-Agency CMBS** – Commercial Mortgage Backed Securities whose underlying assets are commercial real estate such as multi-family, hotel, office, or retail properties and do not have an explicit US government guarantee nor are they guaranteed by one of the Government Sponsored Enterprises. **Non-Agency MBS** – Mortgage backed securities sponsored by private companies other than government sponsored enterprises such as Fannie Mae or Freddie Mac. **Non-cyclical** – Non-cyclical stocks repeatedly outperform the market when economic growth slows. Non-cyclical securities are generally profitable regardless of economic trends because they produce or distribute goods and services we always need, including things like food, power, water, and gas. **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. **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. **Securitized Product** – Any fixed income investment from the mortgage-backed, asset-backed, or commercial mortgage-backed sectors. **Short Position** – The sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value; In the context of options, it is the sale (also known as "writing") of an options contract. **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. **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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