TCW Funds
TCW Family of Funds

## Performance as of September 30, 2019

| (%) | I Share | N Share[1] | Index[2] |
|---|---|---|---|
| Latest Quarter | -1.41 | -1.45 | 1.22 |
| 1 Year (annualized) | -9.49 | -9.56 | 1.60 |
| 3 Years (annualized) | 6.66 | 6.54 | 7.82 |
| 5 Years (annualized) | 4.64 | 4.47 | 7.55 |
| 10 Years (annualized) | 9.69 | 9.43 | 12.29 |
| Since Inception (annualized) | 9.70 | 7.27 | 10.26; 9.60[3] |

| Expense Ratio (%) | I Share | N Share |
|---|---|---|
| Gross | 0.90 | 1.28 |
| Net[4] | 0.90 | 1.00 |

Annual fund operating expenses as stated in the Prospectus dated February 28, 2019, excluding interest and acquired fund fees and expenses, if any.

Source: State Street B&T

1 Since inception returns include the performance of the predecessor limited partnership for periods before the Fund's registration became effective. The predecessor limited partnership was not registered under the Investment Company Act of 1940 ("1940 Act") and therefore, was not subject to certain investment restrictions imposed by the 1940 Act. If the limited partnership was registered under the 1940 Act, its performance may have been adversely affected.

2 Russell Midcap® Value Index – A market capitalization-weighted index of medium-capitalization, value-oriented stocks of U.S. companies. 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.

3 The annualized since inception return for the index reflects the inception date of the TCW Class I and Class N Share Funds, respectively. For period 11/1/96-9/30/19; 10/31/00-9/30/19.

4 Effective February 28, 2019, the Fund's investment advisor has agreed to waive fees and/or reimburse expenses to limit the Fund's total annual operating expenses (excluding interest, brokerage, extraordinary expenses and acquired fund fees and expenses, if any) to 0.90% of average daily net assets with respect to Class I shares and 1.00% of average daily net assets with respect to Class N shares. This contractual fee waiver/expense reimbursement will remain in place through March 1, 2020 and may be terminated by the investment adviser, or extended or modified with approval of the Board of Directors.

**Portfolio holdings are stated as a percentage of the Fund's total net assets including cash and cash equivalents as of September 30, 2019.

† Not held by the Fund as of September 30, 2019.

THIRD QUARTER 2019 COMMENTARY

# TCW Relative Value Mid Cap Fund

## Investment Environment

U.S. equities turned in a modest showing in the third quarter. July was much ado about corporate earnings which were largely positive with a majority of companies beating estimates. 2Q:19 U.S. GDP came in better than expected at 2.0% year-over-year, boosted by consumer and government expenditures while business investment (perhaps due in large part to uncertainty on trade), declining inventories, and net imports were a drag. As widely expected, for the first time in over a decade, the Federal Open Market Committee (FOMC) cut rates by 25 basis points at its July 31 meeting and was followed by a second reduction of the same magnitude in September. August began inauspiciously with President Trump's tweet announcing the imposition of 10% tariff on $300 billion worth of Chinese goods. China soon thereafter allowed its currency (renminbi) to cross over the crucial 7/1 threshold versus the U.S. dollar. In response, the U.S. Treasury Department officially designated China as a "currency manipulator." The equity markets remained turbulent throughout the month with much of the volatility due to the ongoing trade war between the two sides and its ripple effect on the global economy; Germany, the Eurozone's largest economy, contracted in the second quarter. The yield curve's inversion stoked U.S. recessionary fears, however positive, albeit slowing, economic data helped assuage concerns due to a relatively strong and confident U.S. consumer. Toward quarter end stocks were rattled (but soon thereafter recovered) upon the whistleblower complaint which has subsequently led to a presidential impeachment inquiry. The two most recent impeachment inquiries' (Richard Nixon; down and Bill Clinton; up) impact on U.S. markets was mixed and much more dependent on underlying economic growth.

## Security Selection[5]

Over the course of the quarter, the portfolio's top ten holdings by weight returned 5.5%[6], on average, led by KB Home (KBH; 2.93%**), Jacobs Engineering (JEC; 2.86%**), and Cypress Semiconductor (CY; 4.04%**). The most notable contribution to relative performance came from the portfolio's consumer discretionary stocks which outperformed 10.5% versus the group move of 0.6% led by homebuilders KB Home, Beazer Homes (BZH; 1.28%**), Lennar (LEN; 2.35%**), D.R. Horton (DHI; 1.40%**), and Toll Brothers (TOL; 1.70%**). The portfolio's energy names bested their peers returning 0.2% versus their peers' steep decline of -12.3% while Cypress Semiconductor led to the outperformance in information technology. On the downside, the portfolio's largest detraction occurred in industrials where its names returned -5.5% versus the group gain of 1.03% due largely to Manitowoc (MTW; 2.36%**). The declines in Viacom (VIAB; 1.57%**) and Discovery (DISCA; 1.76%**) led to the underperformance in communication services where the portfolio's holdings returned -16.0% versus the group loss of -3.0% while the portfolio's materials underperformed returning -14.1% versus -0.9% with Freeport-McMoRan (FCX; 1.46%**) being mostly responsible. Evercore (EVR; 1.93%**) and Comerica† were the bottom performers in financials while Molina Healthcare (MOH; 2.14%**) was mostly to blame for the detraction in health care.

**5** Relative performance versus the Russell Midcap **6** Based on a simple average of the top ten holdings by weight.

**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 800-386-3829 or you may download the Prospectus from the Fund's website at TCW.com. Please read it carefully.**

TCWFunds

TCW Family of Funds

## Top Ten Securities (%)

| | |
|---|---|
| Cypress Semiconductor | 4.04 |
| Popular | 3.92 |
| Maxim Integrated Products | 3.41 |
| Kirby | 3.13 |
| KeyCorp | 3.03 |
| Newpark Resources | 2.93 |
| KB Home | 2.93 |
| AES | 2.87 |
| Jacobs Engineering Group | 2.86 |
| Synovus Financial | 2.49 |

Security percentages are calculated on the total net asset value, including cash and cash equivalents.

## Sector Weightings (%)

| | |
|---|---|
| Financials | 20.56 |
| Industrials | 18.76 |
| Consumer Discretionary | 13.49 |
| Information Technology | 11.82 |
| Health Care | 7.22 |
| Real Estate | 5.98 |
| Energy | 5.53 |
| Utilities | 4.04 |
| Consumer Staples | 3.41 |
| Communication Services | 3.33 |
| Materials | 3.12 |
| Cash | 2.74 |

Source: TCW

Past performance is no guarantee of future results.

Portfolio characteristics and holdings are subject to change at any time.

It should not be assumed that an investment in the securities listed was or will be profitable.



# TCW Relative Value Mid Cap Fund

## Market Outlook

Increased tariffs are our base case scenario. Supply chain dynamics on stock prices should not be as impactful in 2H:19 as they had been in 2H:18 as companies have been adapting quickly to reconfigure their supply chains. Intermediate and longer term, U.S. corporations have made supply chain moves for products built overseas not for "in country" consumption and can continue to make significant supply chain adjustments. Although from a relatively low base, imports to the U.S. from Vietnam increased over 30% year-over-year in Q2:19. The U.S./China trade war remains one of the biggest concerns though there are some signs of rapprochement. High ranking officials from the two sides are holding talks, marking the thirteenth time senior-level representatives from both sides have met to negotiate a deal.

We believe the U.S. is still the best place to invest. Due in part to trade tensions, global growth concerns have increased as have recessionary fears with Italy now in recession (and its government in disarray) and the Eurozone's largest economy Germany posting a negative 2Q:19 GDP. Just over one-half of respondents in a survey conducted by Bank of America/Merrill Lynch stated a worsening trade war as their top concern. Additionally, the UK/Brexit situation remains thorny. Argentina facing a deepening economic crisis, Hong Kong protests, Iran, and Syria are each dampening business confidence and a decline to the U.S. ISM Manufacturing Purchasing Managers Index (PMI). To combat the slowdown, a massive global easing cycle has gained traction with the U.S., Chinese, European, New Zealand, Thailand, Indian, and Australian central banks all now in stimulus mode since April. The transmission mechanisms for central bank easing lags by six to nine months so positive evidence of their efforts should be felt by year end and into the first half of 2020.

The risk of a U.S. recession has risen with the yield curve's inversion highlighting bond investors' concerns and putting pressure on some financials' net interest income. The classic recessionary causes such as an overheated economy, earnings recession, runaway inflation, and financial imbalances are not evident but must be monitored vigilantly and could be assured if tariffs increase further and consumer spending wavers. U.S. GDP headwinds include China/U.S. tariffs raising prices, more prohibited semiconductor and semi-equipment sales to Huawei and other Chinese companies being placed on the U.S. "Security List", and fewer aircraft deliveries as the Boeing 737 Max continues to be grounded for the foreseeable future.

One of the Relative Value team's historically defensive measures has been diversification across all the major economic sectors yielding significant risk control over time. There have been many quarters and annual periods when it would have been better to have been concentrated in a few winning sectors. 2018 was a prime example in that only two of the nine Russell economic sectors displayed positive absolute performance. Today, energy stocks account for under 5% of the Russell Midcap, though companies in the sector in aggregate sport a healthy 3% dividend yield. Given the focus on total shareholder return and disciplined capital expenditure for the Relative Value Mid Cap energy portfolio holdings, along with increasing tensions for major Middle East suppliers, we believe continued sector diversification is more important than ever with energy as an example. While the strategy's energy weight is greater than the Russell Midcap, it is in line with the Russell Midcap Value Index weight.

There have been many times when the macro has overwhelmed the micro company specific fundamentals, but the "truth will out." Companies, when faced with adversity, typically will undertake cost cutting and restructuring, and reinvest in the people and technology to stay relevant and competitive. If management teams are not strong enough, company boards and investors may force change. Historically, extreme growth valuation levels have reversed with value sizably outperforming growth over multiple years. The dilemma investors face is whether 1) they should continue to "ride" momentum or 2) consider value stocks as "insurance" with attractive valuations that have been overlooked and oversold as a result of the growth decade. As value investors, we believe it is imperative to stick to the fundamentals (cash flow, earnings, and company specific catalysts) and those companies with the balance sheets and management teams to prevail over time. Stocks trading at attractive valuations, with ample long-term growth prospects, should ultimately win investor favor. Finally, prudent investors should maintain diversification in both styles to avoid chasing potential seismic changes as well as curtail risk and be in the position to gain throughout economic cycles which should smooth returns over time.

The RVMC portfolio remains attractively valued relative to the Russell Midcap Value. Using consensus estimates (the RV team's own estimates are higher), the portfolio's 2Y EPS annualized growth rate is nearly double digits. The portfolio's higher growth potential versus the value benchmark while simultaneously trading at a discount underscores the "Search for Value Poised for Growth" Relative Value investment philosophy.

We thank you for your continued support.

**Diane E. Jaffee, CFA**
Group Managing Director
Equities

## Representative Buys (Ticker; Sector)*

**TTM Technologies, Inc. (TTMI; Information Technology) (0.29%**)** TTM, headquartered in Santa Ana, CA is a provider of printed circuit board (PCB) design and manufacturing services. At initiation, TTMI had a market capitalization of approximately $1.1 billion and met four of the five valuation factors (price-to-sales, price-to-cash flow, price-to-book and price-to-earnings). The primary catalysts are new products/markets and restructuring. A recent acquisition increases the company's exposure to higher-margin design services while expanding their addressable market with new radio frequency technology (primarily radar systems used in aerospace/defense, automotive, and emerging applications). The company is also coming to market with new manufacturing techniques that enable smaller PCBs with more dense circuit patterns. In addition to the deal-related synergies from the recent acquisition, the company has initiated modest cost cutting efforts to keep its cost structure in line with current demand patterns. We believe management is also evaluating a divestiture of a small non-core asset that provides contract manufacturing services. The higher margin mix expected to unfold in coming quarters and years, combined with the restructuring activities, should provide for increasing margins and cash flow and build upon the company's very stable, predictable history of cash flow generation. We expect TTMI to focus on deleveraging in the near term, but that attention will shift fairly quickly to additional merger and acquisition (M&A) opportunities and/or strong capital returns to shareholders.

## Representative Sells (Ticker; Sector)*†

**Comerica (CMA; Financials)** Comerica, headquartered in Dallas, TX, operates retail and business bank, and wealth management through its 437 branches, predominantly in California, Michigan, and Texas. At elimination, the stock had a market capitalization of $9.2 billion and met four of the five valuation factors: price-to-cash flow, price-to-earnings, price-to-book, and dividend yield. The primary catalyst was cost cutting with an overhead ratio (OR) running at 69% at 2009. In the summer of 2016, the company announced a bold cost cutting initiative called Gear Up which targeted $140 million of savings by the end of 2017 and $230 million by end of 2018. Simultaneously, the company has been able to increase its loan growth but along the way it met and exceeded interim milestones and the position was reduced. Its asset sensitive balance sheet faces headwinds as the Federal Reserve has shifted

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from increasing rates in 2018 to cutting rates this year. As we do not expect the company to announce another cost cutting plan, nor do we find it advisable, with the primary catalyst having run its course, the position was eliminated. Soon after the final sale, CMA abruptly released its CFO without any specific reasons, though the company did state it did not relate to the bank's financials.

**Trinity Industries, Inc. (TRN; Industrials)** Trinity Industries, headquartered in Dallas, TX, is a rail car manufacturer and lessor serving the North American railroad industry. With a current market capitalization of $2.5 billion, the stock meets all five valuation factors: price-to-cash flow, price-to-sales, price-to-book, price-to-earnings, and a 3.4% dividend yield. Trinity's cost cutting and restructuring catalysts were based on reducing cyclical exposure through portfolio divestitures and implementing operational excellence programs. Examples include the company's successful lean manufacturing implementation across the enterprise and the spin out of its infrastructure-related businesses into a new publically traded company. The next restructuring catalyst has been delayed due to the recent drop in end market demand for rail cars which is postponing the company's plan to sell its rail car manufacturing business and become a pure-play rail car leasing company. With the next phase of its restructuring strategy on hold, the position was eliminated.

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**GLOSSARY OF TERMS**

**Absolute Return (Total Return)** – The rate of return on a security (portfolio), including income from dividends and interest, as well as appreciation or depreciation in the price of the security (portfolio), over a given time period of time. **Balance Sheet** – A financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. **Base Case** – A term used to describe the highest probability outcome in the opinion of the presenter or author. It is often used in conjunction with describing other possible outcomes usually labeled "downside", "negative", "adverse", "upside", or "positive". **Basis Point (bps)** – one hundredth of one percent, used chiefly in expressing differences of interest rates. **Brexit** – An abbreviation of "British exit", which refers to the June 23, 2016 referendum by British voters to exit the European Union. **Capex (Capital Expenditure)** – Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. **Cash Flow** – The movement of money into or out of a business, project, or financial product. **Central Bank** – A monopolized and often nationalized institution given privileged control over the production and distribution of money and credit. **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. **Currency** – A generally accepted form of money, including coins and paper notes, which is issued by a government and circulated within an economy. **Deleverage** – To decrease financial leverage by paying off debt. **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. **Dividend Yield** – A financial ratio that shows how much a company pays out in dividends each year relative to its share price. In the absence of any capital gains, the dividend yield is the return on investment for a stock. **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. **GDP (Gross Domestic Product)** – The market value of all final goods and services produced within a country in a given period of time. **Growth** – A diversified portfolio of stocks that has capital appreciation as its primary goal, with little or no dividend payouts. Portfolio companies would mainly consist of companies with above-average growth in earnings that reinvest their earnings into expansion, acquisitions, and/or research and development. **Inflation** – A condition of a rise in the general level of prices of goods and services in an economy over a period of time. **Macroeconomic** – Relating to the branch of economics concerned with large-scale or general economic factors, such as interest rates and national productivity. **Margin** – In a general business context, the difference between a product's (or service's) selling price and the cost of production. **Market Capitalization** – Represents the aggregate value of a company or stock. It is obtained by multiplying the number of shares outstanding by their current price per share. **Medium Capitalization** – A company with a market capitalization of over $1 billion, but below $5 billion. **Mergers and Acquisitions (M&A)** – A general term used to refer to the consolidation of companies. A merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another in which no new company is formed. **Microeconomic** – the part of economics concerned with single factors and the effects of individual decisions. **Momentum** – The rate of acceleration of a security's price or volume. **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. **Overhead Ratio** – A measurement of the operating costs of doing business compared to the company's income. **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. **Price-to-Book Value (P/BV or Price/Book)** – A ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share. **Price-to-Cash Flow** – A ratio that measures the market's expectations of a firm's future financial health. It is calculated by dividing the share price by the cash flow per share. **Price-to-Earnings Ratio (P/E)** – A valuation ratio of a company's current share price compared to its per-share earnings. **Price-to-Sales** – A ratio for valuing a stock relative to its own past performance, other companies, or the market itself. **Recession** – Two consecutive quarters of negative economic growth as measured by a country's gross domestic product. **Restructuring** – A significant modification made to the debt, operations or structure of a company. **Small Capitalization (Small Cap)** – Companies with a market capitalization of between $300 million and $2 billion. **Stimulus** – Something that causes a reaction; an incentive. **Tariff** –A tax imposed on imported goods and services. **Underperform** – If an investment is underperforming, it is not keeping pace with other securities. **U.S. ISM Manufacturing Purchasing Managers Index (PMI)** – An indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. **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. **Value** – A fund that primarily holds stocks that are deemed to be undervalued in price and that are likely to pay dividends. **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 curve on a graph in which the yield of fixed-interest securities is plotted against the length of time they have to run to maturity.