

JULY 29  
2019

## Statement of Additional Information

METWEST ALPHATRAK 500 FUND (“AlphaTrak 500 Fund”)  
(M Share: MWATX)

METWEST CORPORATE BOND FUND (“Corporate Bond Fund”)  
(I Share: MWCBX; M Share: MWCSX)

METWEST FLEXIBLE INCOME FUND (“Flexible Income Fund”)  
(I Share: MWFEF; M Share: MWFSX)

METWEST FLOATING RATE INCOME FUND (“Floating Rate Income Fund”)  
(I Share: MWFLX; M Share: MWFRX)

METWEST HIGH YIELD BOND FUND (“High Yield Bond Fund”)  
(I Share: MWHIX; M Share: MWHYX)

METWEST INTERMEDIATE BOND FUND (“Intermediate Bond Fund”)  
(I Share: MWIIX; M Share: MWIMX)

METWEST INVESTMENT GRADE CREDIT FUND (“Investment Grade Credit Fund”)  
(I Share: MWIGX; M Share: MWISX)

METWEST LOW DURATION BOND FUND (“Low Duration Bond Fund”)  
(I Share: MWLIX; M Share: MWLDX; Admin Share: MWLNK)

METWEST STRATEGIC INCOME FUND (“Strategic Income Fund”)  
(I Share: MWSIX; M Share: MWSTX)

METWEST TOTAL RETURN BOND FUND (“Total Return Bond Fund”)  
(I Share: MWTIX; M Share: MWTRX; Admin Share: MWTNX; P Share: MWTSX)

METWEST ULTRA SHORT BOND FUND (“Ultra Short Bond Fund”)  
(I Share: MWUIX; M Share: MWUSX)

METWEST UNCONSTRAINED BOND FUND (“Unconstrained Bond Fund”)  
(I Share: MWCIX; M Share: MWCRX)

This Statement of Additional Information (“SAI”) is not a prospectus, and it should be read in conjunction with the Prospectus dated July 29, 2019, as supplemented from time to time, which describes each of the separate investment series (each, a “Fund” and collectively, the “Funds”) of Metropolitan West Funds (the “Trust”). Copies of the Prospectus may be obtained at no charge by writing to Metropolitan West Funds, 865 South Figueroa Street, Los Angeles, California 90017. Metropolitan West Asset Management, LLC (the “Adviser”) is the investment adviser to the Funds. Incorporated by reference herein are the Prospectus dated July 29, 2019 and the financial statements of the AlphaTrak 500 Fund, Corporate Bond Fund, Flexible Income Fund, Floating Rate Income Fund, High Yield Bond Fund, Intermediate Bond Fund, Investment Grade Credit Fund, Low Duration Bond Fund, Strategic Income Fund, Total Return Bond Fund, Ultra Short Bond Fund and Unconstrained Bond Fund contained in the Funds’ Annual Report to Shareholders for the fiscal year ended March 31, 2019, including the Report of Deloitte & Touche LLP, the Funds’ Independent Registered Public Accounting Firm. Copies of the Funds’ Annual and Semi-Annual Reports to shareholders are available, upon request, without charge, by calling (800) 241-4671, or by writing to Metropolitan West Funds, 865 South Figueroa Street, Los Angeles, California 90017 or by visiting [www.tcw.com](http://www.tcw.com).

## METROPOLITAN WEST FUNDS

### SUPPLEMENT DATED DECEMBER 30, 2019 TO THE STATEMENT OF ADDITIONAL INFORMATION DATED JULY 29, 2019, AS SUPPLEMENTED (THE “SAI”)

***For current and prospective investors in the Metropolitan West High Yield Bond Fund (the “Fund”):***

Effective December 31, 2019, Tad Rivelle and Bryan Whalen will cease to be portfolio managers of the Fund, and Jerry Cudzil and Steven J. Purdy will be added to the portfolio management team of the Fund. Therefore, effective December 31, 2019, the disclosure relating to Jerry Cudzil under the heading “**PORTFOLIO MANAGERS —Other Managed Accounts**” on page 62 of the SAI is deleted in its entirety and replaced with the following:

Jerry Cudzil\*

Type of Accounts	Total # of Accounts Managed	Total Assets (millions)	# of Accounts Managed with Performance- Based Advisory Fee	Total Assets with Performance-Based Advisory Fee (millions)
Registered Investment Companies:	0	\$ 0	0	\$ 0
Other Pooled Investment Vehicles:	10	\$ 3,559	6	\$ 2,330
Other Accounts:	10	\$ 4,232	0	\$ 0

\* Information for Mr. Cudzil is provided as of November 30, 2019.

In addition, effective December 31, 2019, the disclosure relating to Steven J. Purdy under the heading “**PORTFOLIO MANAGERS —Other Managed Accounts**” on page 60 of the SAI is added as follows:

Steven J. Purdy\*

Type of Accounts	Total # of Accounts Managed	Total Assets (millions)	# of Accounts Managed with Performance- Based Advisory Fee	Total Assets with Performance-Based Advisory Fee (millions)
Registered Investment Companies:	0	\$ 0	0	\$ 0
Other Pooled Investment Vehicles:	9	\$ 3,494	6	\$ 2,330
Other Accounts:	8	\$ 3,976	0	\$ 0

\* Information for Mr. Purdy is provided as of November 30, 2019.

In addition, effective December 31, 2019, the disclosure relating to the Fund under the heading “**PORTFOLIO MANAGERS – Ownership of Securities**” on page 63 of the SAI is deleted in its entirety and replaced with the following:

	Dollar Range of Fund Shares Beneficially Owned
High Yield Bond Fund	
Stephen M. Kane	\$500,001 - \$1,000,000
Laird R. Landmann	Over \$1,000,000
Jerry Cudzil*	None
Steven J. Purdy*	None

\* Information for Messrs. Cudzil and Purdy is provided as of November 30, 2019.

**Please retain this Supplement with your SAI for future reference.**

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## **THE TRUST**

The Trust was organized on December 9, 1996 as a Delaware statutory trust and is registered with the U.S. Securities and Exchange Commission (“SEC”) as an open-end, management investment company. The Trust currently consists of twelve separate series, each of which has separate assets and liabilities. Each series of the Trust is a diversified fund. Each series of the Trust other than the AlphaTrak 500 Fund, the Low Duration Bond Fund and the Total Return Bond Fund has two classes of shares of beneficial interest, Class M and Class I, each with a par value of \$0.01 per share. The Low Duration Bond Fund and the Total Return Bond Fund each also has an Administrative Class of shares of beneficial interest, each with a par value of \$0.01 per share. The Total Return Bond Fund additionally has a Plan Class of shares of beneficial interest, with a par value of \$0.01 per share. The Trust’s Board of Trustees decides matters of general policy and reviews the activities of the Adviser. The Trust’s officers conduct and supervise the daily business operations of the Trust. The Board of Trustees may, at its own discretion, create additional series of shares and classes within each series.

## **INVESTMENT OBJECTIVES AND POLICIES**

The investment objective of each Fund is described in the Prospectus.

The portfolio and strategies with respect to the composition of each Fund are described in the Prospectus.

### ***INVESTMENT RESTRICTIONS***

Each Fund has adopted the following restrictions (in addition to those indicated in the Prospectus) as fundamental policies, which may not be changed without the favorable vote of the holders of a “majority” of that Fund’s outstanding voting securities, as defined in the Investment Company Act of 1940, as amended (the “1940 Act”). Under the 1940 Act, the vote of the holders of a “majority” of a Fund’s outstanding voting securities means the vote of the holders of the lesser of (i) 67% of the shares of the Fund represented at a meeting at which the holders of more than 50% of its outstanding shares are represented or (ii) more than 50% of the outstanding shares.

Except as noted, no Fund may:

1. Purchase any security, other than obligations of the U.S. government, its agencies, or instrumentalities (“U.S. government securities”) or mutual funds, if as a result of that purchase: (i) with respect to 75% of its total assets, more than 5% of the Fund’s total assets (determined at the time of investment) would then be invested in securities of a single issuer, or (ii) more than 25% of the Fund’s total assets (determined at the time of investment) would be invested in one or more issuers having their principal business activities in a single industry. For purposes of the industry concentration

test, (a) finance company subsidiaries will be considered to be in the industries of their parent companies if their activities are primarily related to financing the activities of the parent companies; (b) utilities will be regarded as separate industries based on their services; for example, electric, natural gas, telephone, among others, will each be considered a separate industry; and (c) the Floating Rate Income Fund may concentrate in the banking industry to the extent that such concentration results from the Fund's purchase of loan participations from banks and the banks are considered the issuers of those participations.

2. Purchase securities on margin (but any Fund may obtain such short-term credits as may be necessary for the clearance of transactions and may otherwise borrow as expressly permitted by the Prospectus or this SAI) provided that the deposit or payment by a Fund of initial or maintenance margin in connection with futures or options is not considered the purchase of a security on margin.
3. Make short sales of securities or maintain a short position, unless at all times when a short position is open it owns an equal amount of collateral consisting of liquid securities or such securities or securities convertible into or exchangeable, without payment of any further consideration, for securities of the same issue as, and equal in amount to, the securities sold short (short sale against-the-box), and unless not more than 25% of the Fund's net assets (33<sup>1/3</sup>% for the Corporate Bond Fund, Flexible Income Fund, High Yield Bond Fund, Investment Grade Credit Fund and Strategic Income Fund) (taken at current value) is held as collateral for such sales at any one time.
4. Issue senior securities, borrow money or pledge its assets, except that any Fund may borrow from a bank for temporary or emergency purposes in amounts not exceeding 10% (taken at the lower of cost or current value) of its total assets (not including the amount borrowed) and may pledge its assets to secure such borrowings. The Corporate Bond Fund, Flexible Income Fund, Floating Rate Income Fund, High Yield Bond Fund, Investment Grade Credit Fund, Strategic Income Fund and Unconstrained Bond Fund may borrow from a bank in amounts not exceeding 33<sup>1/3</sup>% of its total assets (including borrowings) and may pledge its assets to secure such borrowings. The Funds may borrow from banks or enter into reverse repurchase agreements and pledge assets in connection therewith, but only if, to the extent required by applicable law, immediately after each borrowing there is asset coverage of at least 300%, except for borrowing for temporary administrative purposes on an unsecured basis in an amount not to exceed 5% of total assets.
5. Purchase any security (other than U.S. government securities) if as a result of that purchase, with respect to 75% of the Fund's total assets, the Fund would then hold more than 10% of the outstanding voting securities of an issuer.
6. Act as an underwriter except to the extent that, in connection with the disposition of portfolio securities, it may be deemed to be an underwriter under certain federal securities laws.
7. Make investments for the purpose of exercising control or management. (However, this does not prohibit representatives of the Fund or the Adviser from participating on creditor's committees with respect to the Fund's portfolio investments.)
8. Participate on a joint or joint and several basis in any trading account in securities that would be restricted or prohibited by the 1940 Act, except to the extent the Fund has received an exemptive order from the Securities and Exchange Commission ("SEC") permitting such account or otherwise is in compliance with interpretive guidance from the staff of the SEC. (As of the date of this SAI, the Trust has neither obtained nor applied for such an order.)
9. Invest in commodities, except that the Fund may invest in futures contracts, options on futures contracts and other instruments, such as swaps, that are regulated by the Commodity Futures Trading Commission ("CFTC") to the extent permitted by the CFTC's regulations, so that either (a) the aggregate initial margin and premiums required to establish the positions in those futures contracts and other CFTC-regulated instruments do not exceed five percent of the respective Fund's liquidation value (after taking into account unrealized profits and losses on those positions) or (b) the net aggregate notional value or obligation of all futures contracts and other CFTC-regulated instruments do not exceed the liquidation value of the Fund's portfolio at the time the most recent position was established (after taking into account unrealized profits and losses on those positions). (This exception is an operating policy that may be changed without shareholder approval, consistent with applicable regulations.)
10. Lend money or other assets to other persons in any form or manner except as permitted to the fullest extent by the 1940 Act and other applicable law. To the extent the following activities constitute loans within the meaning of applicable law, none of the following are prohibited: (i) acquiring floating rate instruments, corporate loans, bonds, debentures or other corporate debt securities; (ii) investing in government obligations, commercial paper, pass-through instruments, certificates of deposit, bankers acceptances, repurchase agreements or any similar instruments; and (iii) lending its portfolio securities. (The Low Duration Bond Fund is not permitted to loan its portfolio securities.)
11. Purchase or sell real estate or interests in real estate, except that the Fund may purchase securities backed by real estate or interests therein, or issued by companies, including real estate investment trusts, which invest in real estate or interests therein. (For purposes of this restriction, investments by a Fund in mortgage-backed securities and other securities representing interests in mortgage pools shall not constitute the purchase or sale of real estate or interests in real estate or real estate mortgage loans.)

In addition, the Trust has adopted the following non-fundamental policies, which may be changed without shareholder approval, so that no Fund will: (a) notwithstanding the investment restrictions in (1) above, purchase any security, other than U.S. government securities or mutual funds, if as a result of that purchase, with respect to 100% of that Fund's total assets, more than 5% of its total assets (determined at the time of investment) would then be invested in securities of a single issuer, provided that this restriction does not apply to the Corporate Bond Fund, Flexible Income Fund, High Yield Bond Fund, Investment Grade Credit Fund, Strategic Income Fund and Unconstrained Bond Fund or to banks and other intermediaries from which the Floating Rate Income Fund purchases a loan participation; (b) invest more than 15% of its net assets in illiquid securities, excluding securities that have been determined to be liquid pursuant to procedures adopted by the Board of Trustees such as restricted securities eligible for resale pursuant to Rule 144A under the Securities Act of 1933, as amended ("Securities Act"); (c) purchase securities of other investment companies, except in connection with a merger, consolidation, reorganization or other acquisition of assets or except as disclosed in the Prospectus or this SAI, but not more than 3% of the total outstanding stock of such company would be owned by the Fund and its affiliates; and (d) invest in securities of registered open-end investment companies or unit investment trusts in reliance on Sections 12(d)(1)(F) or (G) of the 1940 Act or any successor provisions. Notwithstanding the diversification limits described above, Rule 5b-2 adopted under the 1940 Act allows the Trust and each Fund to disregard for purposes of those limits the total value of securities issued or guaranteed by a single guarantor so long as the value of all securities owned by a Fund issued or guaranteed by a common guarantor does not exceed 10% of the value of the total assets of that Fund.

Investment restrictions based on a percentage of a Fund's net or total assets generally will be based at the time of investment in a security or instrument, except for investments that would constitute a senior security. Typically, certain designated or segregated assets are specified to cover a Fund's obligation under what would be otherwise regarded as a senior security, in which case a mark-to-market valuation would be used to test compliance with the investment restriction. For example, the market value of a position in a swap contract that is purchased would be used for these purposes rather than the initial purchase price or the notional value or reference value of the contract. The Fund would look through any affiliated investment company in which it invests for purposes of testing the industry concentration limit under investment restriction No. 1 above. Also for purposes of investment restriction No. 1 above with respect to industry concentration, each Fund relies on categories from recognized industry references such as the U.S. Department of Labor's Standard Industrial Classification (SIC codes) or Bloomberg's Industry Sub-Groups, as determined to be reasonable and up-to-date by the Adviser. For this purpose, the Funds analyze privately issued mortgage-backed securities and asset-backed securities to determine the particular industry categories that apply to those securities. Also, for this purpose, please see the discussion under "Mortgage-Related Securities" related to the treatment of those securities under the industry concentration limit.

## SECURITIES AND TECHNIQUES USED BY THE FUNDS

The following provides more detailed information about securities and techniques used by the Funds and the risks associated with them.

### **GENERAL**

The Floating Rate Income Fund will attempt to achieve its objective primarily by investing in the following items (that may be issued by domestic or foreign entities, including those in emerging market countries): (i) senior secured floating rate loans or debt; (ii) second lien or other subordinated or unsecured floating rate loans or debt; (iii) fixed-rate loans or debt, such as corporate bonds, preferred securities, convertible securities, mezzanine investments, collateralized loan obligations, senior loans, second lien loans, structured products and U.S. government debt securities, with respect to which the Fund has entered into derivative instruments that have the effect of converting the fixed-rate interest payments into floating-rate interest payments; and (iv) writing credit derivatives, which would give the Fund exposure to the credit of a single issuer or an index. The Fund may also purchase, without limitation, participations or assignments in senior floating rate loans or second lien floating rate loans.

The Funds will attempt to achieve their objectives by investing in the following types of securities (that may be issued by domestic or foreign entities) such as but not limited to: (i) U.S. government and agency securities; (ii) corporate debt securities, including bonds, notes and debentures; (iii) corporate and asset-backed commercial paper; (iv) mortgage and other asset-backed securities, including CMOs and REMICs (see "Mortgage Related Securities"); (v) variable and floating rate debt securities (including inverse floaters); (vi) subordinated corporate, mortgage, and asset-backed securities; (vii) structured debentures, bonds and notes; (viii) collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other collateralized debt obligations ("CDOs"), including CDO equity and preference shares; (ix) bank certificates of deposit; (x) fixed time deposits and bankers' acceptances; (xi) money market securities, including non-U.S. money market securities; (xii) repurchase agreements and reverse repurchase agreements; (xiii) debt securities that are convertible into or exchangeable for equity securities ("convertible securities"); (xiv) warrants; (xv) preferred and common equity securities; (xvi) obligations of foreign governments or their subdivisions, agencies and instrumentalities; (xvii) obligations of international agencies (such as the Agency for International Development) or supranational entities; (xviii) loan participations and assignments; (xix) derivatives (including but not limited to swap agreements such as credit default swaps, index credit default swaps, total return swaps, interest rate swaps, swaptions and net interest margins); (xx) privately placed and Rule 144A securities; (xxi) leveraged loans; (xxii) mezzanine investments; (xxiii) futures and options on

futures relating to currencies, indexes and other financial factors; (xxiv) bank loans or loan participations; (xxv) defaulted debt securities; (xxvi) dollar rolls; (xxvii) sell buybacks; (xxviii) other mutual funds, including Exchange Traded Funds (“ETFs”), such as iShares; (xxix) TRAC-X related securities (TRAC-X is an index of credit default swaps);(xxx) unrated securities; (xxxi) municipal bonds and securities and (xxxii) bridge loans.

There is no limitation on the percentage of a Fund’s assets that may be committed to any of these types of securities, except to the extent that a security may be deemed to be illiquid. As new fixed income products and securities are developed, the Adviser may invest in those opportunities for the Funds as well.

Note that preferred stocks normally differ greatly from common stocks, with which most people are familiar. Although preferred stock can possess many characteristics of equity, such as the right to convert to common stock, preferred stock often possesses characteristics of bonds because it operates like debt, plus interest, owed to the owner of the preferred stock.

In addition to the securities above, the AlphaTrak 500 Fund may invest all of its assets in the following equity derivative instruments (and in liquid assets backing its investments in these derivatives): (i) S&P 500 Index futures contracts; (ii) Mini S&P 500 Index futures contracts (“E-Mini”); (iii) options on the S&P 500 Index and S&P futures; (iv) swap agreements involving the S&P 500 Index. When the above-listed S&P 500 Index derivatives appear to be overvalued relative to the S&P 500 Index, the Fund may invest up to 100% of its assets in ETFs or in other pooled vehicles intended to track the performance of the S&P 500 Index and in the common stocks that comprise the S&P 500 Index. The Fund likely would not purchase all 500 issues, but would instead purchase a basket of common stocks represented in the S&P 500 Index that, in the opinion of the Adviser, will substantially track the movements in the S&P 500 Index.

Positions in S&P 500 Index futures and options will be entered into only to the extent they constitute permissible positions for the Fund according to applicable rules of the CFTC. At times, the Adviser may be constrained in its ability to use S&P 500 Index derivatives either by requirements of the Internal Revenue Code or by an unanticipated inability to close positions when it would be most advantageous to do so.

Because each Fund may invest up to 25% of its total assets in mutual funds that invest in stocks or bonds or other “baskets” of securities (such as ETFs), subject to other limits under applicable law, investors should know that a Fund would pay the additional fees and expenses of a mutual fund investment. Each Fund also may invest an unlimited amount of its cash in a money market fund. This would result in an additional layer of management fees and expenses for shareholders in a Fund. To the extent the acquiring Fund pays a sales load, distribution fee, or service fee on acquired fund shares (if it does), the Adviser must waive a sufficient amount of its advisory fee to offset the cost of the loads or distribution fees. The Funds also may invest in other affiliated funds to the extent permitted by applicable rule. Additional information (if applicable) is available in the Prospectus.

Each Fund may invest in debt securities or other obligations whose issuers are in default. However, under normal conditions, each Fund will not invest more than 5% (15% for the High Yield Bond Fund) of its total assets in debt securities or other obligations whose issuers are in default at the time of purchase.

A Fund may hold equity securities under certain circumstances, including, but not limited to, the resolution of a default or bankruptcy of a bond issuer, the entry of an issuer into receivership, a corporate or securities transaction by the issuer that affects securities held by the Fund, or the exercise by the Fund of conversion or purchase rights associated with a convertible or other fixed-income security purchased by the Fund. These equity securities may include a wide range of securities and instruments, including those listed above, that have risk and other characteristics of stocks or of both stocks and bonds.

By holding and investing in equity securities, a Fund may expose an investor to certain risks that could cause the investor to lose money, particularly if there is a sudden decline in a holding’s share price or an overall decline in the stock market. Equity securities are not expected to represent a material portion of a Fund’s portfolio unless the Fund exercises conversion or purchase rights or otherwise receives equity securities other than through the direct purchase of those equity securities.

The value of an investment in a Fund could decline because of equity securities held by the Fund based on the day-to-day fluctuation or the decline in their value related to movements in the stock market, as well as in response to the activities of individual companies. In addition, some of the equity securities that a Fund would obtain as a result of the special circumstances described above could be subject to restrictions on transfer or sale that may reduce their market value compared to freely tradable securities.

## **CREDIT RATINGS**

The Prospectus describes the permissible range of credit ratings (generally assigned by a Nationally Recognized Statistical Rating Organization) for the securities in which each Fund is permitted to invest. Securities rated Baa are considered by Moody’s to have speculative characteristics. For Baa/BBB rated securities, changes in economic conditions or other circumstances are more likely to lead to a weakened capacity to make principal and interest payments than is the case with higher grade securities. Securities rated below BBB or Baa are considered to be below “investment grade” and are judged to be predominantly speculative with respect

to their capacity to pay interest and repay principal in accordance with the terms of their obligations and are commonly known as “junk bonds.” The AlphaTrak 500 Fund may invest up to 15% of its total assets in securities rated below investment grade at the time of purchase. The Corporate Bond Fund may invest up to 20% of its total assets in securities rated below investment grade at the time of purchase. The Flexible Income Fund will invest up to 65% of its total assets in junk bonds if rated as such by at least one of the nationally recognized statistical rating organizations. The Investment Grade Credit Fund may invest up to 10% of its total assets in debt securities rated below investment grade at the time of purchase. The Strategic Income Fund and Unconstrained Bond Fund each may invest up to 50% of its total assets in debt securities rated below investment grade at the time of purchase, or, if unrated, determined by the Adviser to be of comparable quality. The Floating Rate Income Fund will invest a substantial portion of its assets in such high yield securities. The High Yield Bond Fund will invest at least 80% of its total assets in junk bonds if rated as such by at least one of the nationally recognized statistical rating organizations. The Investment Grade Credit Fund may invest up to 10% of its total assets in debt securities rated below investment grade at the time of purchase. The Strategic Income Fund and Unconstrained Bond Fund each may invest up to 50% of its total assets in debt securities rated below investment grade at the time of purchase.

Unpredicted and unforeseen economic and other external events can affect the credit ratings of portfolio securities, resulting in the assignment of a lower rating for a security or perhaps resulting in a security not being rated. Such downgrades can, in turn, adversely impact the average dollar-weighted credit quality of the Fund. This would not require the Fund to sell the security, but the Adviser will consider such an event (among other factors) in determining whether the Fund should continue to hold the security in the portfolio. The Adviser may assign credit ratings to unrated securities based on criteria which are, in the Adviser’s opinion, relevant to assessing the credit quality of the security, such as but not limited to the credit worthiness of the issuer, risk of default, issuer asset valuations, securities with comparable risk profiles and the issuer’s financial fundamentals, such as revenue. When calculating the average credit quality of a Fund, the Adviser also may assign a credit rating to equity securities held as a means of assessing the overall portfolio, absent any external sources.

## ***DURATION***

In selecting fixed-income securities for the Funds, the Adviser makes use of the concept of duration. Duration is a measure of the expected life of a fixed-income security on a present value basis. Most debt obligations provide interest (“coupon”) payments in addition to a final (“par”) payment at maturity. Some obligations also have call provisions. Depending on the relative magnitude of these payments, the market values of debt obligations may respond differently to changes in the level and structure of interest rates. Duration takes the length of time intervals between the present time and the time that the interest and principal payments are scheduled or, in the case of a mortgage-backed, asset-backed, or callable bond, expected to be received, and weights them by the present values of the cash to be received at each future point in time.

For any fixed-income security with interest payments occurring before the payment of principal, duration is ordinarily less than maturity. In general, all other things being equal, the lower the stated or coupon rate of interest of a fixed-income security, the longer the duration of the security; conversely, the higher the stated or coupon rate of interest of a fixed-income security, the shorter the duration of the security. There are some situations where even the standard duration calculation does not properly reflect the interest rate exposure of a security. In these and other similar situations, the Adviser will use more sophisticated analytical techniques that incorporate the economic life of a security into the determination of its interest rate exposure. A Fund’s computation of duration is based on estimated rather than known factors. Thus, there can be no assurance that any particular portfolio duration will at all times be achieved by a Fund.

Futures, options and options on futures have durations, which, in general, are closely related to the duration of the securities that underlie them. Holding long futures or call option positions will lengthen a Fund’s duration by approximately the same amount that holding an equivalent amount of the underlying securities would.

Short futures or put option positions have durations roughly equal to the negative of the duration of the securities that underlie those positions, and have the effect of reducing portfolio duration by approximately the same amount that selling an equivalent amount of the underlying securities would.

There are some situations where even the standard duration calculation does not properly reflect the interest rate exposure of a security. For example, floating and variable rate securities often have final maturities of ten or more years; however, their interest rate exposure corresponds to the frequency that coupon is reset. Another example where the interest rate exposure is not properly captured by duration is the case of mortgage pass-through securities. The stated final maturity of such securities is generally 30 years, but current prepayment rates are more critical in determining the securities’ interest rate exposure. In these and other similar situations, the Adviser will use more sophisticated analytical techniques that incorporate the economic life of a security into the determination of its interest rate exposure.

Assuming an expected average duration of 0.75 years for the AlphaTrak 500 Fund or Ultra Short Bond Fund, a 1% decline in interest rates would cause each Fund to gain 0.75% in value; likewise, a 1% rise in interest would produce a decline of 0.75% in each Fund’s value. It should be noted, however, that the above assumptions (regarding the AlphaTrak 500 Fund) do not reflect any



changes in S&P 500 Index futures contracts, other derivatives or S&P 500 Index stocks that may be held by the Fund. Assuming an expected average duration of 5 years for the Corporate Bond Fund, Flexible Income Fund and Investment Grade Fund, a 1% decline in interest rates would cause each Fund to gain 5% in value; likewise, a 1% rise in interest rates would produce a decline of 5% in each Fund's value. Assuming an expected average duration of 2 years for the Low Duration Bond Fund, Intermediate Bond Fund or the Strategic Income Fund, a 1% decline in interest rates would cause each Fund to gain 2% in value; likewise, a 1% rise in interest rates would produce a decline of 2% in each Fund's value. Assuming an expected average duration of 4.5 years for the Total Return Bond Fund, a 1% decline in interest rates would cause the Fund to gain 4.5% in value; likewise, a 1% rise in interest rates would produce a decline of 4.5% in the Fund's value. Assuming an expected average duration of 4 years for the High Yield Bond Fund, Unconstrained Bond Fund or Floating Rate Income Fund, a 1% decline in interest rates would cause the Fund to gain 4% in value; likewise a 1% rise in interest would produce a decline of 4% in the Fund's value. Other factors such as changes in credit quality, prepayments, the shape of the yield curve and liquidity affect the net asset value of the Funds and may be correlated with changes in interest rates. These factors can increase swings in the Fund's share prices during periods of volatile interest rate changes.

### ***EVENT DRIVEN AND SPECIAL SITUATION STRATEGIES***

Event driven and special situation strategies involve attempting to predict the outcome of a particular transaction as well as the best time at which to commit capital to such a transaction. These strategies are designed to benefit from price movements caused by anticipated corporate events such as a merger, acquisition, spin-off, liquidation, reorganization or other special situations. The Funds believe that carefully selected investments in vehicles related to these events could enhance the Funds' capital appreciation potential. The success or failure of these strategies usually depends on whether the Adviser accurately predicts the outcome and timing of the transaction event. Also, major market declines that could cause transactions to be re-priced or fail, may have a negative impact on the strategy. Investments in special situations may be illiquid, as determined by the Adviser based on policies established by the Board of Trustees. The Funds will not invest more than 15% of their net assets in illiquid investments, including special situations.

### ***INVESTMENT STRATEGIES OF THE ALPHATRAK 500 FUND***

Under normal market conditions, the Fund will invest in S&P 500 Index futures contracts or S&P 500 swap contracts with a contractual or "notional" value substantially equal to the Fund's total assets. While the Fund strives to substantially match the contractual or "notional" value of the futures contracts held by the Fund to the Fund's total assets, the Fund may experience operational limitations in its ability to do so. For example, there may be daily fluctuations in the purchase and redemption cash flow activity of the Fund that cannot be completely anticipated. There is no guarantee that the Fund's strategy will achieve positive results.

### ***INVESTMENT STRATEGIES OF THE STRATEGIC INCOME FUND***

The Fund expects to employ various strategies, including: relative value/arbitrage strategies; market-timing strategies; event driven and special situation strategies; long-short or market-neutral equity strategies; and other strategies discussed in the Prospectus. These strategies are intended to provide absolute (positive) returns regardless of general market conditions; however, the values of the Fund's investments may change with market conditions, and so will the value of an investment in the Fund. There is no guarantee that the Fund's strategy will achieve positive results.

***RELATIVE VALUE/ARBITRAGE STRATEGIES:*** Arbitrage strategies include investing both long and short in related securities or other instruments to take advantage of perceived discrepancies in market prices. Arbitrage strategies typically employ leverage. These strategies may include, but are not limited to: capital structure arbitrage, which involves seeking out mispriced securities a corporation may use for funding, and hedging the capital structure of this entity; convertible arbitrage, which is hedged investing in the convertible securities of a company such as buying the convertible bond and shorting the common stock of the same company; commodities/futures arbitrage, which involves arbitraging intra- and inter-market discrepancies among the various commodity and interest rate futures markets; and fixed income or interest rate arbitrage, which involves buying long and short different debt securities, interest rate swap arbitrage, and U.S. and non-U.S. government bond arbitrage.

***MARKET-TIMING STRATEGIES:*** These strategies are designed to benefit from cyclical relationships that exist in certain markets, sectors and security types. Examples include: interest rate timing, yield curve relationships and arbitrage, and sector and issue allocations. Interest rate timing is based on the premise that interest rates have historically exhibited a cyclical pattern. Real interest rates (nominal interest rates less inflation) have been higher during economic expansions and have decreased as the economy slows. The Adviser uses this relationship to set the average duration of the Fund to benefit over a full market cycle from changes in interest rates. This investment process uses cost averages of new investments to adjust the duration of the Fund higher as real interest rates rise beyond their historic normal levels, and adjusts the duration lower as real interest rates move lower. At times, the portfolio's average duration may be negative if real interest rates are negative. Yield curve relationships and arbitrage presumes that like interest rates, the relationship between bonds of various maturities has been highly variable across the economic cycle. The Fund seeks to take advantage of these movements both with relative value trades as described above and by concentrating the portfolio in the historically most undervalued sections of the yield curve. These strategies seek to benefit from the cyclical changes that occur in

the shape of the yield curve. Sector and issue allocation investments are where the Adviser strives to benefit from cyclical changes between sectors of the fixed income markets. This is accomplished by using relative value and historical benchmarks to determine when sectors are undervalued. It might be implemented through long-only positions or a combination of long and short positions. The Adviser will use fundamental research to find individual issuers of securities that the Adviser believes are undervalued and have high income and the potential for price appreciation. The success of a market-timing strategy is dependent on several factors, including the Adviser's ability to accurately predict market events and relationships.

**LONG-SHORT OR MARKET-NEUTRAL EQUITY STRATEGIES:** These strategies are designed to exploit equity market inefficiencies and generally involve being simultaneously invested in long and short matched equity portfolios of the same size, usually in the same sector or market. Under these strategies, the Adviser seeks to hold stocks "long" that the Adviser believes will perform better than comparable stocks, and sell stocks "short" that the Adviser believes will underperform comparable stocks, drawing on analyses of earnings, timing, pricing, or other factors. This type of investing may reduce market risk, but effective stock analysis and stock picking are essential to obtaining positive results.

### **INVESTMENT PRACTICES AND RISK CONSIDERATIONS**

The following tables and discussion provide more detail about the specific investment practices, security types and risk considerations of the Funds.

	<b>AlphaTrak 500 Fund</b>	<b>Corporate Bond Fund</b>	<b>Flexible Income Fund</b>	<b>Floating Rate Income Fund</b>	<b>High Yield Bond Fund</b>	<b>Intermediate Bond Fund</b>
Asset-Backed Securities	✓	✓	✓			✓
Bank Loans; Participations and Assignments	✓		✓	✓	✓	✓
Bank Obligations	✓	✓	✓	✓	✓	✓
Below Investment Grade Mortgage-Backed Securities			✓			
Borrowing	✓	✓	✓	✓	✓	✓
Collateralized Debt Obligations	✓	✓	✓	✓	✓	✓
Convertible Securities	✓	✓	✓	✓	✓	✓
Corporate Debt and Other Obligations	✓	✓	✓	✓	✓	✓
Delayed Funding Loans and Revolving Credit Facilities	✓	✓	✓	✓	✓	✓
Derivatives						
• Forward Currency Exchange Contracts		✓	✓	✓	✓	✓
• Futures Contracts and Options on Futures Contracts	✓	✓	✓	✓	✓	✓
• Options	✓	✓	✓	✓	✓	✓
• Structured Notes	✓	✓	✓	✓	✓	✓
• Swap Agreements	✓	✓	✓	✓	✓	✓
Distressed and Defaulted Securities	✓		✓	✓	✓	
Dollar Rolls	✓	✓	✓	✓	✓	✓
Emerging Market Countries and Sovereign Debt Obligations	✓	✓	✓	✓	✓	✓
Foreign Securities	✓	✓	✓	✓	✓	✓
High Yield Securities or "Junk Bonds"	✓	✓	✓	✓	✓	✓
Illiquid Securities	✓	✓	✓	✓	✓	✓
Loans of Portfolio Securities	✓	✓	✓	✓	✓	✓
Master Limited Partnerships				✓		
Mezzanine Securities				✓	✓	
Municipal Securities		✓	✓			✓
Non-U.S. Money Market Securities	✓	✓	✓			✓
Preferred Stock	✓	✓	✓	✓	✓	✓
Repurchase Agreements	✓	✓	✓	✓	✓	✓
Reverse Repurchase Agreements	✓	✓	✓	✓	✓	✓
Short Sales	✓	✓	✓	✓	✓	✓
Sale-Buybacks	✓	✓	✓	✓	✓	✓
U.S. Government Securities	✓	✓	✓	✓	✓	✓
Warrants		✓	✓	✓	✓	
When-Issued Securities	✓	✓	✓	✓	✓	✓

	Investment Grade Credit Fund	Low Duration Bond Fund	Strategic Income Fund	Total Return Bond Fund	Ultra Short Bond Fund	Unconstrained Bond Fund
Asset-Backed Securities	✓	✓	✓	✓	✓	✓
Bank Loans; Participations and Assignments	✓	✓	✓	✓	✓	✓
Bank Obligations	✓	✓	✓	✓	✓	✓
Borrowing	✓	✓	✓	✓	✓	✓
Collateralized Debt Obligations	✓	✓	✓	✓	✓	
Convertible Securities	✓	✓	✓	✓	✓	✓
Corporate Debt and Other Obligations	✓	✓	✓	✓	✓	✓
Credit Linked Notes	✓	✓	✓	✓	✓	✓
Delayed Funding Loans and Revolving Credit Facilities	✓	✓	✓	✓	✓	✓
Derivatives						
• Forward Currency Exchange Contracts	✓	✓	✓	✓	✓	
• Futures Contracts and Options on Futures Contracts	✓	✓	✓	✓	✓	✓
• Options	✓	✓	✓	✓	✓	✓
• Structured Notes	✓	✓	✓	✓	✓	✓
• Swap Agreements	✓	✓	✓	✓	✓	✓
Distressed and Defaulted Securities		✓	✓	✓	✓	✓
Emerging Market Countries and Sovereign Debt Obligations	✓	✓	✓	✓	✓	✓
Dollar Rolls	✓	✓	✓	✓	✓	✓
Emerging Market Countries and Sovereign Debt Obligations	✓	✓	✓	✓	✓	✓
Foreign Securities	✓	✓	✓	✓	✓	✓
High Yield Securities or “Junk Bonds”	✓	✓	✓	✓	✓	✓
Illiquid Securities	✓	✓	✓	✓	✓	✓
Loans of Portfolio Securities	✓		✓	✓	✓	✓
Mezzanine Securities			✓			
Mortgage-Related Securities	✓	✓	✓	✓	✓	✓
Municipal Securities	✓	✓	✓	✓	✓	
Non-U.S. Money Market Securities	✓	✓		✓	✓	
Repurchase Agreements	✓	✓	✓	✓	✓	✓
Reverse Repurchase Agreements	✓	✓	✓	✓	✓	✓
Sale-Buybacks	✓	✓	✓	✓	✓	✓
Short Sales	✓	✓	✓	✓	✓	✓
U.S. Government Securities	✓	✓	✓	✓	✓	✓
Warrants	✓		✓			
When-Issued Securities	✓	✓	✓	✓	✓	✓

### **ASSET-BACKED SECURITIES**

The Funds may invest in securities issued by trusts and special purpose corporations with principal and interest payouts backed by, or supported by, any of various types of assets. These assets typically include receivables related to the purchase of automobiles, credit card loans, and home equity loans. These securities generally take the form of a structured type of security, including pass-through, pay-through, and stripped interest payout structures similar to the CMO structure. Investments in these and other types of asset-backed securities must be consistent with the investment objectives and policies of the Funds.

The yield characteristics of asset-backed securities differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying mortgage loans or other assets generally may be prepaid at any time. As a result, if the Funds purchase such a security at a premium, a prepayment rate that is faster than expected will reduce yield to maturity, while a prepayment rate that is slower than expected will have the opposite effect of increasing yield to maturity. Alternatively, if the Funds purchase these securities at a discount, faster than expected prepayments will increase, while slower than expected prepayments will reduce, yield to maturity. The Adviser will seek to manage these risks (and potential benefits) by diversifying its investments in such securities and through hedging techniques.

Asset-backed securities involve certain risks that are not posed by mortgage-related securities, resulting mainly from the fact that asset-backed securities do not usually contain the complete benefit of a security interest in the related collateral. For example, credit card receivables generally are unsecured and the debtors are entitled to the protection of a number of state and federal consumer credit laws, some of which may reduce the ability to obtain full payment. In the case of automobile receivables, due to various legal and economic factors, proceeds from repossessed collateral may not always be sufficient to support payments on these securities.

### ***BANK LOANS; PARTICIPATIONS AND ASSIGNMENTS***

The Funds may purchase participations in commercial loans, or may purchase assignments of these loans. This indebtedness may be secured or unsecured. Loan participations typically represent direct participation in a loan made to a corporate borrower, and generally are offered by banks or other financial institutions or lending syndicates. The Funds may participate in such syndications, or can buy part of a loan, becoming a part lender. When purchasing loan participations, a Fund assumes the credit risk associated with the corporate borrower and may assume the credit risk associated with an interposed bank or other financial intermediary. The participation interests in which a Fund intends to invest may not be rated by any nationally recognized rating service. Participations and assignments also involve special types of risk, including interest rate risk, liquidity risk, and the risks of being a lender. If the Fund purchases a participation, it may be able to enforce its rights only through the lender, and may assume the credit risk of the lender in addition to the borrower.

A loan is often administered by an agent bank acting as agent for all holders. The agent bank administers the terms of the loan, as specified in the loan agreement. In addition, the agent bank is normally responsible for the collection of principal and interest payments from the corporate borrower and the apportionment of these payments to the credit of all institutions that are parties to the loan agreement. Unless, under the terms of the loan or other indebtedness, a Fund has direct recourse against the corporate borrower, the Fund may have to rely on the agent bank or other financial intermediary to apply appropriate credit remedies against a corporate borrower.

A financial institution's employment as agent bank might be terminated if it fails to observe a requisite standard of care or becomes insolvent. A successor agent bank would generally be appointed to replace the terminated agent bank, and assets held by the agent bank under the loan agreement should remain available to holders of such indebtedness. However, if assets held by the agent bank for the benefit of a Fund were determined to be subject to the claims of the agent bank's general creditors, the Fund might incur certain costs and delays in realizing payment on a loan or loan participation and could suffer a loss of principal and/or interest. In situations involving other interposed financial institutions (*e.g.*, an insurance company or governmental agency) similar risks may arise.

Purchasers of loans and other forms of direct indebtedness depend primarily upon the creditworthiness of the corporate borrower for payment of principal and interest. If a Fund does not receive scheduled interest or principal payments on such indebtedness, the Fund's share price and yield could be adversely affected. Loans that are fully secured offer a Fund more protection than an unsecured loan in the event of non-payment of scheduled interest or principal. However, there is no assurance that the liquidation of collateral from a secured loan would satisfy the corporate borrower's obligation, or that the collateral can be liquidated.

The Funds may invest in loan participations with credit quality comparable to that of issuers of its securities investments. Indebtedness of companies whose creditworthiness is poor involves substantially greater risks, and may be highly speculative. Some companies may never pay off their indebtedness, or may pay only a small fraction of the amount owned. Consequently, when investing in indebtedness of companies with poor credit, a Fund bears a substantial risk of losing the entire amount invested.

Loan assignments, loan participations, delayed funding loans, revolving credit facilities, bridge loans and other types of direct indebtedness may not be readily marketable and may be subject to restrictions on resale. In some cases, negotiations involved in disposing of indebtedness may require weeks to complete. Consequently, some indebtedness may be difficult or impossible to dispose of readily at what the Adviser believes to be a fair price. Certain types of loans, such as bridge loans (especially those in which the High Yield Bond Fund may invest) may provide certain types of equity features such as warrants and conversion rights. Those equity-type instruments and investments involve additional risks of an investment in equity, including potentially significant changes in value, difficulty in accurately valuing them, a lack of liquidity, and a significant loss on the investment, and the possibility that the particular right could expire worthless if not exercised.

In addition, valuation of illiquid indebtedness involves a greater degree of judgment in determining a Fund's net asset value than if that value were based on available market quotations, and could result in significant variations in the Fund's daily share price. At the same time, some loan interests are traded among certain financial institutions and accordingly may be deemed liquid. As the market for different types of indebtedness continues to develop, the liquidity of these instruments is expected to improve. In addition, the Funds currently intend to treat indebtedness for which there is no readily available market as illiquid for purposes of the Funds' limitation on illiquid investments. To the extent this is the case, a Fund would consider the loan participation as illiquid and subject to the Fund's restriction on investing no more than 15% of its net assets in illiquid securities. (See also the discussion entitled "Illiquid Securities.")

Each Fund limits the amount of its total assets that it will invest in any one issuer or in issuers within the same industry (see "Investment Restrictions"). For purposes of these limits, a Fund will generally treat the corporate borrower as the "issuer" of indebtedness held by the Fund. In the case of loan participations where a bank or other lending institution serves as a financial intermediary between the Fund and the corporate borrower, SEC interpretations require the Fund to treat both the lending bank or other lending institution and the corporate borrower as "issuers" for the purpose of determining whether the Fund has invested more than 5% of its total assets in a single issuer. Treating a financial intermediary as an issuer of indebtedness may restrict the Funds' ability to invest in indebtedness related to a single financial intermediary, or a group of intermediaries engaged in the same industry, even if the underlying borrowers represent many different companies and industries.

Loans and other types of direct indebtedness may not be readily marketable and may be subject to restrictions on resale. In some cases, negotiations involved in disposing of indebtedness may require weeks to complete. Consequently, some indebtedness may be difficult or impossible to dispose of readily at what the Adviser believes to be a fair price. In addition, valuation of illiquid indebtedness involves a greater degree of judgment in determining a Fund's net asset value than if the value were based on available market quotations, and could result in significant variations in the Fund's daily share price. At the same time, some loan interests are traded among certain financial institutions and accordingly may be deemed liquid. As the market for different types of indebtedness develops, the liquidity of these instruments is expected to improve. In addition, the Funds currently intend to treat indebtedness for which there is no readily available market as illiquid for purposes of the Fund's limitation on illiquid investments. The liquidity of each loan investment will be reviewed according to the requirements of the Funds' liquidity policy established by the Board of Trustees. Investments in loan participations are considered to be debt obligations for purposes of any investment restriction relating to the lending of funds or assets by a Fund.

Investments in loans through a direct assignment of the financial institution's interests with respect to the loan may involve additional risks to the Funds. In an assignment, the Funds would acquire a contractual relationship with the borrower and associated rights against that borrower. For example, if the loan is foreclosed, a Fund could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that under emerging legal theories of lender liability, a Fund could be held liable as co-lender. It is unclear whether loans and other forms of direct indebtedness offer securities law protections against fraud and misrepresentation.

## ***BANK OBLIGATIONS***

Bank obligations in which the Funds may invest include certificates of deposit, bankers' acceptances and time deposits. Certificates of deposit are negotiable certificates issued against funds deposited in a commercial bank for a definite period of time and earning a specific return. Bankers' acceptances are negotiable drafts or bills of exchange, normally drawn by an importer or exporter to pay for specific merchandise, which are "accepted" by a bank, meaning, in effect, that the bank unconditionally agrees to pay the face value of the instrument on maturity. Fixed time deposits may be withdrawn on demand by the investor, but may be subject to early withdrawal penalties that vary depending upon market conditions and the remaining maturity of the obligation. There are no contractual restrictions on the right to transfer a beneficial interest in a fixed time deposit to a third party, although there is no market for such deposits.

Obligations of foreign banks involve somewhat different risks than those affecting obligations of United States banks, including the possibility that their liquidity could be impaired because of future political and economic developments, that their obligations may be less marketable than comparable obligations of United States banks, that a foreign jurisdiction might impose withholding taxes on interest income payable on those obligations, that foreign deposits may be seized or nationalized, that foreign governmental restrictions such as exchange controls may be adopted which might adversely affect the payment of principal or interest on those obligations and that the selection of those obligations may be more difficult because there may be less publicly available information concerning foreign banks or the accounting, auditing and financial reporting standards, and practices and requirements applicable to foreign banks that differ from those applicable to United States banks. Foreign banks are not generally subject to examination by any U.S. government agency or instrumentality.

## ***BELOW INVESTMENT GRADE MORTGAGE-BACKED SECURITIES***

The Flexible Income Fund may invest up to 35% of its total assets in residential mortgage-backed securities (“RMBS”) and commercial mortgage-backed securities (“CMBS”) that are rated below investment grade or, if unrated, determined by the Adviser to be of comparable quality. In addition to the risks discussed below with respect to mortgage-related securities generally, RMBS and CMBS rated below investment grade carry additional risks. RMBS and CMBS rated below investment grade generally carry greater liquidity risk than their investment grade counterparts. Historically, the market for these securities, and for below investment grade asset-backed securities in general, has been characterized at times by less liquidity than the market for comparable investment grade securities, particularly during the financial crisis of 2007 and 2008. In the aftermath of that period, the market for such securities has improved and become more transparent, but the asset class remains complicated.

The Adviser has extensive experience analyzing, managing and trading below investment grade RMBS and CMBS, and conducts a thorough evaluation with respect to the liquidity of any such investment under consideration for investment by the Flexible Income Fund. A below investment grade RMBS or CMBS may be classified as liquid only if the Adviser reasonably expects that the below investment grade RMBS or CMBS can be disposed of in current market conditions within seven (7) calendar days without the sale or disposition significantly changing the market value of the RMBS or CMBS, based on a number of factors including, but not limited to, bid and ask spreads, frequency of trades or quotes, number of dealers willing to purchase or sell the security, rating history of the security, whether there are contractual penalties for unwinding a purchase or contractual restrictions on trading, and other factors relating to the trading history of the security and corporate events of the issuer (such as bankruptcy or reorganization). The Adviser also conducts ongoing evaluations of the below investment grade RMBS and CMBS held by the Fund, including extensive risk management processes with respect to the liquidity of those investments.

While the Adviser generally intends to invest in markets that are liquid, depending on market conditions, the Flexible Income Fund may not be able to sell certain of these investments when desirable to do so, or may be able to sell them only at less than their fair value. Market liquidity for lower-rated investments may be more likely to deteriorate than for higher-rated investments. Dealers in below investment grade mortgage-backed securities play an important role in providing liquidity, but are under no obligation to do so and may stop providing liquidity at any time. The impact of recent regulatory changes may further limit the ability or willingness of dealers to provide liquidity. Changing regulatory and market conditions, especially conditions in the housing market or changes to the status of the issuers of these securities, may adversely affect the liquidity of the Fund’s investments. These risks may be magnified in a rising interest rate environment or in other circumstances where investor redemptions from fixed income mutual funds may be higher than normal, causing increased supply in the market due to selling activity.

The risks discussed below under “Mortgage-Related Securities” also apply to below investment grade mortgage-backed securities.

## ***BORROWING***

The Corporate Bond Fund, Flexible Income Fund, Floating Rate Income Fund, High Yield Bond Fund, Investment Grade Credit Fund, Strategic Income Fund and Unconstrained Bond Fund may borrow money to the extent permitted under the 1940 Act, and as interpreted, modified or otherwise permitted by regulatory authority having jurisdiction, from time to time. This means that, in general, these Funds may borrow money from banks for any purpose on a secured basis in an amount up to one-third of the Fund’s total assets. These Funds may also borrow for temporary administrative purposes on an unsecured basis in an amount not to exceed 5% of the Fund’s total assets.

The AlphaTrak 500 Fund, Corporate Bond Fund, Flexible Income Fund, Intermediate Bond Fund, Investment Grade Credit Fund, Low Duration Bond Fund, Total Return Bond Fund and Ultra Short Bond Fund, may borrow for temporary, emergency or investment purposes up to the amount permitted by its fundamental investment restrictions. This borrowing may be unsecured. The provisions of the 1940 Act require a Fund to maintain continuous asset coverage (that is, total assets including borrowings, less liabilities exclusive of borrowings) of 300% of the amount borrowed, with an exception for borrowings not in excess of 5% of the Fund’s total assets made for temporary administrative purposes. Any borrowings for temporary administrative purposes in excess of the Fund’s total assets must maintain continuous asset coverage. If the 300% asset coverage should decline as a result of market fluctuations or other reasons, a Fund may be required to sell some of its portfolio holdings within three days to reduce debt and restore the 300% asset coverage, even though it may be disadvantageous from an investment standpoint to sell securities at that time.

Borrowing subjects a Fund to interest costs that may or may not be recovered by appreciation of the securities purchased, and can exaggerate the effect on net asset value of any increase or decrease in the market value of a Fund’s portfolio. This is the speculative factor known as leverage.

As discussed further below, a Fund also may enter into certain transactions, including reverse repurchase agreements, that can be viewed as constituting a form of borrowing or financing transaction by the Fund. To the extent a Fund covers its commitment under a reverse purchase agreement (or economically similar transaction) by the designation of assets determined in accordance with procedures adopted by the Board of Trustees to be equal in value to the amount of the Fund’s commitment to repurchase, such an

agreement will not be considered a “senior security” by the Fund and therefore will not be subject to the 300% asset coverage requirement otherwise applicable to borrowings by the Funds. Borrowing will tend to exaggerate the effect on net asset value of any increase or decrease in the market value of a Fund’s portfolio. Money borrowed will be subject to interest costs that may or may not be recovered by appreciation of the securities purchased. A Fund also may be required to maintain minimum average balances in connection with such borrowing or to pay a commitment or other fee to maintain a line of credit; either of these requirements would increase the cost of borrowing over the stated interest rate.

### ***COLLATERALIZED DEBT OBLIGATIONS (“CDOs”), INCLUDING COLLATERALIZED BOND OBLIGATIONS (“CBOs”) AND OTHER COLLATERALIZED LOAN OBLIGATIONS (“CLOs”)***

The Funds may invest in CBOs, CLOs and other CDOs, which are debt instruments backed solely by a pool of other debt securities. The risks of an investment in a CBO, CLO or other CDO depend largely on the type of the collateral securities (which would have the risks described elsewhere in this document for that type of security) and the class of the CBO, CLO or other CDO in which a Fund invests. Some CBOs, CLOs and other CDOs have credit ratings, but are typically issued in various classes with various priorities. Normally, CBOs, CLOs and other CDOs are privately offered and sold (that is, not registered under the securities laws) and may be characterized by the Funds as illiquid securities, but an active dealer market may exist for CBOs, CLOs and other CDOs that qualify for Rule 144A transactions. In addition to the normal interest rate, default and other risks of fixed income securities discussed elsewhere in this document, CBOs, CLOs and other CDOs carry additional risks, including: distributions from collateral securities may not be adequate to make interest or other payments; the quality of the collateral may decline in value or default; the CBOs, CLOs or other CDOs in which the Funds invest may be subordinate to other classes or may experience volatility in values; and the complex structure of the security may not be fully understood at the time of investment, potentially producing disputes with the issuer or unexpected investment results.

### ***CONVERTIBLE SECURITIES***

The Funds may invest in convertible securities of domestic or foreign issuers that meet the ratings criteria set forth in the Prospectus. A convertible security is a fixed-income security (a bond or preferred stock) which may be converted at a stated price within a specific period of time into a certain quantity of common stock or other equity securities of the same or a different issuer.

Convertible securities rank senior to common stock in a corporation’s capital structure but are usually subordinated to similar non-convertible securities. While providing a fixed-income stream (generally higher in yield than the income derivable from common stock but lower than that afforded by a similar non-convertible security), a convertible security also offers an investor the opportunity, through its conversion feature, to participate in the capital attendant upon a market price advance in the convertible security’s underlying common stock.

In general, the market value of a convertible security is at least the higher of its “investment value” (*i.e.*, its value as a fixed-income security) or its “conversion value” (*i.e.*, its value upon conversion into its underlying stock). As a fixed-income security, a convertible security tends to increase in market value when interest rates decline and tends to decrease in value when interest rates rise. However, the price of a convertible security is also influenced by the market value of the security’s underlying stock. The price of a convertible security tends to increase as the market value of the underlying stock rises, whereas it tends to decrease as the market value of the underlying stock declines. While no securities investment is without some risk, investments in convertible securities generally entail less risk than investments in the stock of the same issuer.

With respect to the Strategic Income Fund, because the investment characteristics of each convertible security vary, that variety enables the Fund to use convertible securities in different ways to pursue its investment objective of maximizing long-term total return without tracking any particular markets or indices. For example, the Fund can invest in: convertible securities that provide a relatively high level of income, with less appreciation potential; convertible securities that have high appreciation potential and a relatively low level of income; or convertible securities that provide some combination of both income and appreciation potential.

### ***CORPORATE DEBT AND OTHER OBLIGATIONS***

The Funds may invest in corporate debt securities, variable and floating rate debt securities and corporate commercial paper in the rating categories described above. Floating rate securities normally have a rate of interest that is set as a specific percentage of a designated base rate, such as the rate on Treasury bonds or bills or the prime rate at a major commercial bank. The interest rate on floating rate securities changes periodically when there is a change in the designated base rate. Variable rate securities provide for a specified periodic adjustment in the interest rate based on prevailing market rates.

The Funds may invest in corporate debt securities with contractual call provisions that permit the seller of the security to repurchase the security at a pre-determined price. The market price typically reflects the presence of a call provision.

The Funds may invest in structured debentures and structured notes. These are hybrid instruments with characteristics of both bonds and swap agreements. Like a bond, these securities make regular coupon payments and generally have fixed principal amounts. However, the coupon payments are typically tied to a swap agreement that can be affected by changes in a variety of factors such as exchange rates, the shape of the yield curve and foreign interest rates. Because of these factors, structured debentures and structured notes can display price behavior that is more volatile than and often not correlated to other fixed-income securities. See “Derivative Instruments – Structured Notes” below for additional information.

The Funds may also invest in inverse floaters and tiered index bonds. An inverse floater is a type of derivative that bears a floating or variable interest rate that moves in the opposite direction to the interest rate on another security or index level. Changes in the interest rate of the other security or index inversely affect the residual interest rate paid on the inverse floater, with the result that the inverse floater’s price will be considerably more volatile than that of a fixed-rate bond. Tiered index bonds are also a type of derivative instrument. The interest rate on a tiered index bond is tied to a specified index or market rate. So long as this index or market rate is below a predetermined “strike” rate, the interest rate on the tiered index bond remains fixed. If, however, the specified index or market rate rises above the “strike” rate, the interest rate on the tiered index bond will decrease. In general, the interest rates on tiered index bonds and inverse floaters move in the opposite direction of prevailing interest rates. The market for inverse floaters and tiered index bonds is relatively new. These corporate debt obligations may have characteristics similar to those of mortgage-related securities, but corporate debt obligations, unlike mortgage-related securities, are not subject to prepayment risk other than through contractual call provisions that generally impose a penalty for prepayment.

A Fund’s investments in U.S. dollar or foreign currency-denominated corporate debt securities of domestic or foreign issuers are limited to corporate debt securities (corporate bonds, debentures, notes or other similar corporate debt instruments) which meet the minimum ratings criteria set forth for the Fund, or, if unrated, which are in the Adviser’s opinion comparable in quality to corporate debt securities in which the Fund may invest. These criteria are described in the Prospectus. The rate of return or return of principal on some debt obligations may be linked or indexed to the level of exchange rates between the U.S. dollar and a foreign currency or currencies.

#### ***DELAYED FUNDING LOANS AND REVOLVING CREDIT FACILITIES***

The Funds may enter into, or acquire participations in, delayed funding loans and revolving credit facilities, in which a lender agrees to make loans up to a maximum amount upon demand by the borrower during a specified term. These commitments may have the effect of requiring a Fund to increase its investment in a company at a time when it might not otherwise decide to do so (including at a time when the company’s financial condition makes it unlikely that such amounts will be repaid). To the extent that a Fund is committed to advance additional funds, it will segregate assets determined to be liquid by the Adviser in accordance with procedures established by the Board of Trustees in an amount sufficient to meet such commitments. Delayed funding loans and revolving credit facilities are subject to credit, interest rate and liquidity risk of being a lender.

#### ***DERIVATIVE INSTRUMENTS***

In addition to the asset-backed securities, CBOs, CLOs and other CDOs and mortgage-related securities (including tiered index bonds and inverse floaters) which may be purchased by the Funds, the Funds may utilize certain other financial instruments with performance derived from the performance of an underlying asset (“derivatives”). Each Fund may, but is not required to, use derivative instruments for risk management purposes or as part of its investment strategies. The Funds might not employ any of the strategies described below, and no assurance can be given that any strategy used will succeed. The use of derivatives in general may be subject to management risk, credit risk, market risk, liquidity risk, lack of availability or other unanticipated risks.

Derivatives utilized by a Fund may involve the purchase and sale of derivative instruments. Derivatives may relate to a wide variety of underlying instruments, including equity and debt securities, indexes, interest rates, currencies and other assets. Certain derivative instruments which a Fund may use and the risks of those instruments are described in further detail elsewhere in this Statement of Additional Information. A Fund may in the future also utilize derivatives techniques, instruments and strategies that may be newly developed or permitted as a result of regulatory changes, consistent with the Fund’s investment objective and policies. Such newly developed techniques, instruments and strategies may involve risks different than or in addition to those described herein. No assurance can be given that any derivatives strategy employed by a Fund will be successful.

The risks associated with the use of derivatives are different from, and possibly greater than, the risks associated with investing directly in the instruments underlying such derivatives. Derivatives are highly specialized instruments that require investment techniques and risk analyses different from other portfolio investments. The use of derivative instruments requires an understanding not only of the underlying instrument but also of the derivative itself. Certain risk factors generally applicable to derivative transactions are described below.



- Derivatives are subject to the risk that the market value of the derivative itself or the market value of underlying instruments will change in a way adverse to a Fund's interests. A Fund bears the risk that the Adviser may incorrectly forecast future market trends and other financial or economic factors or the value of the underlying security, index, interest rate or currency when establishing a derivatives position for the Fund.
- Derivatives may be subject to pricing or "basis" risk, which exists when a derivative becomes extraordinarily expensive (or inexpensive) relative to historical prices or corresponding instruments. Under such market conditions, it may not be economically feasible to initiate a transaction or liquidate a position at an advantageous time or price.
- Many derivatives are complex and often valued subjectively. Improper valuations can result in increased payment requirements to counterparties or a loss of value to a Fund.
- Using derivatives as a hedge against a portfolio investment subjects a Fund to the risk that the derivative will have imperfect correlation with the portfolio investment, which could result in the Fund incurring substantial losses. This correlation risk may be greater in the case of derivatives based on an index or other basket of securities, as the portfolio securities being hedged may not duplicate the components of the underlying index or the basket may not be of exactly the same type of obligation as those underlying the derivative. The use of derivatives for "cross hedging" purposes (using a derivative based on one instrument as a hedge on a different instrument) may also involve greater correlation risks.
- While using derivatives for hedging purposes can reduce a Fund's risk of loss, it may also limit the Fund's opportunity for gains or result in losses by offsetting or limiting the Fund's ability to participate in favorable price movements in portfolio investments.
- Derivatives transactions for non-hedging purposes involve greater risks and may result in losses which would not be offset by increases in the value of portfolio securities or declines in the cost of securities to be acquired. In the event that a Fund enters into a derivatives transaction as an alternative to purchasing or selling the underlying instrument or in order to obtain desired exposure to an index or market, the Fund will be exposed to the same risks as are incurred in purchasing or selling the underlying instruments directly.
- The use of certain derivatives transactions involves the risk of loss resulting from the insolvency or bankruptcy of the other party to the contract (*i.e.*, the counterparty) or the failure by the counterparty to make required payments or otherwise comply with the terms of the contract. In the event of default by a counterparty, a Fund may have contractual remedies pursuant to the agreement related to the transaction.
- Liquidity risk exists when a particular derivative is difficult to purchase or sell. If a derivative transaction is particularly large or if the relevant market is illiquid, a Fund may be unable to initiate a transaction or liquidate a position at an advantageous time or price.
- Certain derivatives transactions are not entered into or traded on exchanges or in markets regulated by the CFTC or the SEC. Instead, such over-the-counter ("**OTC**") derivatives are entered into directly by the counterparties and may be traded only through financial institutions acting as market makers. OTC derivatives transactions can only be entered into with a willing counterparty that is approved by the Adviser in accordance with guidelines established by the Board of Trustees. Where no such counterparty is available, a Fund will be unable to enter into a desired transaction. There also may be greater risk that no liquid secondary market in the trading of OTC derivatives will exist, in which case the liquidity that is afforded to exchange participants will not be available to the Fund as a participant in OTC derivatives transactions. OTC derivatives transactions are not subject to the guarantee of an exchange or clearinghouse and as a result a Fund would bear greater risk of default by the counterparties to such transactions.
- A Fund may be required to make physical delivery of portfolio securities underlying a derivative in order to close out a derivatives position or to sell portfolio securities at a time or price at which it may be disadvantageous to do so in order to obtain cash to close out or to maintain a derivatives position.
- As a result of the structure of certain derivatives, adverse changes in the value of the underlying instrument can result in losses substantially greater than the amount invested in the derivative itself. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment.
- Certain derivatives may be considered illiquid and therefore subject to a Fund's limitation on investments in illiquid securities.
- Derivatives transactions conducted outside the United States may not be conducted in the same manner as those entered into on U.S. exchanges, and may be subject to different margin, exercise, settlement or expiration procedures. Brokerage commissions, clearing costs and other transaction costs may be higher on foreign exchanges. Many of the risks of OTC derivatives transactions are also applicable to derivatives transactions conducted outside the United States. Derivatives transactions conducted outside the United States are subject to the risk of governmental action affecting the trading in, or the prices of, foreign securities, currencies and other instruments. The value of such positions could be adversely affected by foreign political and economic factors; lesser availability of data on which to make trading decisions; delays on a Fund's ability to act upon economic events occurring in foreign markets; and less liquidity than U.S. markets.

- Currency derivatives are subject to additional risks. Currency derivatives transactions may be negatively affected by government exchange controls, blockages, and manipulations. Currency exchange rates may be influenced by factors extrinsic to a country's economy. There is not systematic reporting of last sale information with respect to foreign currencies. As a result, the available information on which trading in currency derivatives will be based may not be as complete as comparable data for other transactions. Events could occur in the foreign currency market which will not be reflected in currency derivatives until the following day, making it more difficult for a Fund to respond to such events in a timely manner.

The Funds may purchase and write call and put options on securities, securities indices and on foreign currencies, and enter into futures contracts and use options on futures contracts. The Funds also may enter into swap agreements with other institutional investors with respect to corporate securities, foreign currencies, interest rates, and securities indices, to name just a few of the various types of swap transactions. The Funds may use these techniques to hedge against changes in interest rates, foreign currency exchange rates or securities prices or as part of their overall investment strategies. Each Fund will maintain designated assets consisting of cash.

U.S. government securities, equity securities or other liquid, unencumbered assets that are permitted under applicable laws and regulations to be used for this purpose (including net proceeds from purchases and redemptions of Fund shares that have not settled but are expected to timely settle in the usual way), marked-to-market daily (or, as permitted by applicable regulation, enter into certain offsetting positions), to cover its obligations under options contracts, futures contracts and swap agreements to avoid leveraging the Fund. The value of some derivative investments in which the Funds invest may be particularly sensitive to changes in prevailing interest rates or securities prices. A Fund's ability to successfully utilize these instruments may depend in part on the Adviser's ability to forecast correctly the movement of interest rates, securities prices and other economic factors. Should the Adviser incorrectly forecast those factors, and take positions in derivative instruments contrary to prevailing market trends, the Funds could lose value and experience substantial volatility.

The Funds may buy or sell interest rate futures contracts, options on interest rate futures contracts and options on debt securities for the purpose of hedging against changes in the value of securities which a Fund owns or anticipates purchasing due to anticipated changes in interest rates. The Funds also may engage in currency exchange transactions by means of buying or selling foreign currency on a spot basis, entering into forward foreign currency exchange contracts, and buying and selling foreign currency options, futures and options on futures. Foreign currency exchange transactions may be entered into for the purpose of hedging against foreign currency exchange risk arising from the Funds' investment or anticipated investment in securities denominated in foreign currencies.

**FORWARD FOREIGN CURRENCY EXCHANGE CONTRACTS.** The Funds may use forward contracts to protect against uncertainty in the level of future exchange rates. The Funds will not speculate with forward contracts or foreign currency exchange rates.

A Fund may enter into forward contracts with respect to specific transactions. For example, when a Fund enters into a contract for the purchase or sale of a security denominated in a foreign currency, or when a Fund anticipates the receipt in a foreign currency of dividend or interest payments on a security that it holds, the Fund may desire to "lock" in the U.S. dollar price of the security or the U.S. dollar equivalent of the payment, by entering into a forward contract for the purchase or sale, for a fixed amount of U.S. dollars or foreign currency, of the amount of foreign currency involved in the underlying transaction. A Fund will thereby be able to protect itself against a possible loss resulting from an adverse change in the relationship between the currency exchange rates during the period between the date on which the security is purchased or sold, or on which the payment is declared, and the date on which such payments are made or received.

A Fund also may use forward contracts in connection with portfolio positions to lock in the U.S. dollar value of those positions, to increase the Fund's exposure to foreign currencies that the Adviser believes may rise in value relative to the U.S. dollar or to shift the Fund's exposure to foreign currency fluctuations from one country to another. For example, when the Adviser believes that the currency of a particular foreign country may suffer a substantial decline relative to the U.S. dollar or another currency, it may enter into a forward contract to sell the amount of the former foreign currency approximating the value of some or all of the Funds' portfolio securities denominated in such foreign currency. This investment practice generally is referred to as "cross-hedging" when another foreign currency is used.

**Risks Associated with Forward Foreign Currency Exchange Contracts.** The precise matching of the forward contract amounts and the value of the securities involved will not generally be possible because the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the date the forward contract is entered into and the date it matures. Accordingly, it may be necessary for a Fund to purchase additional foreign currency on the spot (*i.e.*, cash) market (and bear the expense of such purchase) if the market value of the security is less than the amount of foreign

currency the Fund is obligated to deliver and if a decision is made to sell the security and make delivery of the foreign currency. Conversely, it may be necessary to sell on the spot market some of the foreign currency received upon the sale of the portfolio security if its market value exceeds the amount of foreign currency the Fund is obligated to deliver. The projection of short-term currency market movements is extremely difficult, and the successful execution of a short-term hedging strategy is highly uncertain. Forward contracts involve the risk that anticipated currency movements will not be accurately predicted, causing the Fund to sustain losses on these contracts and transaction costs. A Fund may enter into forward contracts or maintain a net exposure to such contracts only if (1) the consummation of the contracts would not obligate the Fund to deliver an amount of foreign currency in excess of the value of the Fund's portfolio securities or other assets denominated in that currency or (2) the Fund designates liquid assets in an amount not less than the value of the Fund's total assets committed to the consummation of the contracts. Under normal circumstances, consideration of the prospect for currency parities will be incorporated into the longer-term investment decisions made with regard to overall diversification strategies. However, the Adviser believes it is important to have the flexibility to enter into such forward contracts when it determines that the best interests of a Fund will be served.

At or before the maturity date of a forward contract that requires a Fund to sell a currency, the Fund either may sell a portfolio security and use the sale proceeds to make delivery of the currency or retain the security and offset its contractual obligation to deliver the currency by purchasing a second contract pursuant to which the Fund will obtain, on the same maturity date, the same amount of the currency that it is obligated to deliver. Similarly, a Fund may close out a forward contract requiring it to purchase a specified currency by entering into a second contract entitling it to sell the same amount of the same currency on the maturity date of the first contract. The Fund would realize a gain or loss as a result of entering into such an offsetting forward contract under either circumstance to the extent the exchange rate between the currencies involved moved between the execution dates of the first and second contracts.

The cost to the Fund of engaging in forward contracts varies with factors such as the currencies involved, the length of the contract period and the market conditions then prevailing. Because forward contracts are usually entered into on a principal basis, no fees or commissions are involved. The use of forward contracts does not eliminate fluctuations in the prices of the underlying securities the Fund owns or intends to acquire, but it does fix a rate of exchange in advance. In addition, although forward contracts limit the risk of loss due to a decline in the value of the hedged currencies, at the same time they limit any potential gain that might result should the value of the currencies increase.

Although the Funds value their assets daily in terms of U.S. dollars, they do not intend to convert holdings of foreign currencies into U.S. dollars on a daily basis. The Funds may convert foreign currency from time to time, and investors should be aware of the costs of currency conversion. Although foreign exchange dealers do not charge a fee for conversion, they do realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer may offer to sell a foreign currency to a Fund at one rate, while offering a lesser rate of exchange should the Fund desire to resell that currency to the dealer.

***FUTURES CONTRACTS AND OPTIONS ON FUTURES CONTRACTS.*** A Fund may use interest rate, foreign currency or index futures contracts, as specified for that Fund in the Prospectus. An interest rate, foreign currency or index futures contract provides for the future sale by one party and purchase by another party of a specified quantity of a financial instrument, foreign currency or the cash value of an index at a specified price and time. A futures contract on an index is an agreement pursuant to which two parties agree to take or make delivery of an amount of cash equal to the difference between the value of the index at the close of the last trading day of the contract and the price at which the index contract was originally written. Although the value of an index might be a function of the value of certain specified securities, no physical delivery of these securities is made. A public market exists in futures contracts covering a number of indexes as well as financial instruments and foreign currencies, including but not limited to: the S&P 500; the S&P 100; the S&P Midcap 400; the Nikkei 225; the NYSE composite; U.S. Treasury bonds; U.S. Treasury notes; GNMA Certificates; three-month U.S. Treasury bills; 90-day commercial paper; bank certificates of deposit; Eurodollar certificates of deposit; the Australian dollar; the Canadian dollar; the British pound; the Japanese yen; the Swiss franc; the Mexican peso; and certain multinational currencies, such as Euro. It is expected that other futures contracts will be developed and traded by the Funds in the future.

A Fund may purchase and write call and put futures options. Futures options possess many of the same characteristics as options on securities and indexes (discussed above). A futures option gives the holder the right, in return for the premium paid, to assume a long position (call) or short position (put) in a futures contract at a specified exercise price at any time during the period of the option. Upon exercise of a call option, the holder acquires a long position in the futures contract and the writer is assigned the opposite short position. In the case of a put option, the opposite is true.

Each Fund will use futures contracts and options on futures contracts in accordance with the applicable rules of the CFTC under which the Trust and the Funds avoid being deemed a "commodity pool" and the Adviser being deemed a "commodity pool operator." Because of these plans, the Funds have claimed the applicable exemptions under CFTC Rules and are not registered as commodity pool operators. Accordingly, each Fund intends generally to limit its use of futures contracts and futures options as described below under "Limitations on Use of Futures, Options and Swaps."

The Funds generally will use futures for hedging and other purposes described in the Prospectus and elsewhere in this SAI. Hedging purposes include gaining exposure to desired investments or markets rather than making direct investments in the underlying securities or instruments. The AlphaTrak 500 Fund uses futures in an effort to achieve total return greater than the S&P 500 Index (and as such, hedges S&P 500 Index exposure), as described in the Prospectus. With respect to hedging transactions, for example, a Fund might use futures contracts to hedge against anticipated changes in interest rates that might adversely affect either the value of the Fund's securities or the price of the securities that the Fund intends to purchase. A Fund's hedging activities may include sales of futures contracts as an offset against the effect of expected increases in interest rates, and purchases of futures contracts as an offset against the effect of expected declines in interest rates. Although other techniques could be used to reduce a Fund's exposure to interest rate fluctuations, the Fund may be able to hedge its exposure more effectively and perhaps at a lower cost by using futures contracts and futures options.

A Fund will only enter into futures contracts and futures options that are standardized and traded on a U.S. or foreign exchange, board of trade, or similar entity, or quoted on an automated quotation system. The Funds might, but do not expect to, engage in futures trading based on tangible assets.

When a purchase or sale of a futures contract is made by a Fund, the Fund is required to deposit with its custodian (or broker, if legally permitted) a specified amount of assets determined to be liquid by the Adviser in accordance with procedures established by the Board of Trustees ("initial margin"). The margin required for a futures contract is set by the exchange on which the contract is traded and may be modified during the term of the contract. Margin requirements on foreign exchanges may be different than U.S. exchanges. The initial margin is in the nature of a performance bond or good faith deposit on the futures contract that is returned to the Fund upon termination of the contract, assuming all contractual obligations have been satisfied. Each Fund expects to earn interest income on its initial margin deposits. A futures contract held by a Fund is valued daily at the official settlement price of the exchange on which it is traded. Each day the Fund pays or receives cash, called "variation margin," equal to the daily change in value of the futures contract. This process is known as "marking to market." Variation margin does not represent a borrowing or loan by a Fund but is instead a settlement between the Fund and the broker of the amount one would owe the other if the futures contract expired. In computing daily net asset value, each Fund will mark to market its open futures positions.

A Fund is also required to deposit and maintain margin with respect to put and call options on futures contracts written by it. Such margin deposits will vary depending on the nature of the underlying futures contract (and the related initial margin requirements), the current market value of the option, and other futures positions held by the Fund.

Although some futures contracts call for making or taking delivery of the underlying securities, generally these obligations are closed out prior to delivery by offsetting purchases or sales of matching futures contracts (same exchange, underlying security or index, and delivery month). If an offsetting purchase price is less than the original sale price, the Fund realizes a capital gain, or if it is more, the Fund realizes a capital loss. Conversely, if an offsetting sale price is more than the original purchase price, the Fund realizes a capital gain, or if it is less, the Fund realizes a capital loss. The transaction costs must also be included in these calculations.

The Funds may write covered straddles consisting of a call and a put written on the same underlying futures contract. A straddle will be covered when sufficient assets are deposited to meet the Funds' immediate obligations. A Fund may use the same liquid assets to cover both the call and put options where the exercise price of the call and put are the same, or the exercise price of the call is higher than that of the put. In such cases, the Funds will also designate liquid assets equivalent to the amount, if any, by which the put is "in the money."

***Risks Associated with Futures Contracts and Options on Futures Contracts.*** There are several risks associated with the use of futures contracts and futures options as hedging techniques, in addition to those described above. A purchase or sale of a futures contract may result in losses in excess of the amount invested in the futures contract. There can be no guarantee that there will be a correlation between price movements in the hedging vehicle and in the Fund securities being hedged. In addition, there are significant differences between the securities and futures markets that could result in an imperfect correlation between the markets, causing a given hedge not to achieve its objectives. The degree of imperfection of correlation depends on circumstances such as variations in speculative market demand for futures and futures options on securities, including technical influences in futures trading and futures options, and differences between the financial instruments being hedged and the instruments underlying the standard contracts available for trading in such respects as interest rate levels, maturities and creditworthiness of issuers. A decision as to whether, when and how to hedge involves the exercise of skill and judgment, and even a well-conceived hedge may be unsuccessful to some degree because of market behavior or unexpected interest rate trends.

Futures exchanges may limit the amount of fluctuation permitted in certain futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price at the end of the current trading session. Once the daily limit has been reached in a futures contract subject to the limit, no more trades may be made on that day at a price beyond that limit. The daily limit governs only price movements during a particular trading day and therefore does not limit potential losses because the limit may work to prevent the liquidation of unfavorable positions. For example, futures prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of positions and subjecting some holders of futures contracts to substantial losses.

**OPTIONS.** A Fund may invest in options on securities, options on securities indexes and options on foreign currencies.

**Options on Securities and on Securities Indexes:** A Fund may purchase put options on securities to seek to protect holdings in an underlying or related security against a substantial decline in market value. A Fund may purchase call options on securities to seek to protect against substantial increases in prices of securities the Fund intends to purchase pending its ability to invest in such securities in an orderly manner. A Fund may sell put or call options it has previously purchased, which could result in a net gain or loss depending on whether the amount realized on the sale is more or less than the premium and other transaction costs paid on the put or call option that is sold. A Fund may write a call or put option only if the option is "covered" by the Fund's holding a position in the underlying securities or by other means which would permit immediate satisfaction of the Fund's obligation as writer of the option. Prior to exercise or expiration, an option may be closed out by an offsetting purchase or sale of an option of the same series.

The purchase and writing of options involves certain risks. During the option period, the covered call writer has, in return for the premium on the option, given up the opportunity to profit from a price increase in the underlying securities above the sum of the premium and exercise price, but, as long as its obligation as a writer continues, has retained the risk of loss should the price of the underlying securities decline. The writer of an option has no control over the time when it may be required to fulfill its obligation as a writer of the option. Once an option writer has received an exercise notice, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver the underlying securities at the exercise price. If a put or call option purchased by the Fund is not sold when it has remaining value, and if the market price of the underlying security, in the case of a put, remains equal to or greater than the exercise price or, in the case of a call, remains less than or equal to the exercise price, the Fund will lose its entire investment in the option. Also, where a put or call option on a particular security is purchased to hedge against price movements in a related security, the price of the put or call option may move more or less than the price of the related security. There can be no assurance that a liquid market will exist when a Fund seeks to close out an option position. Furthermore, if trading restrictions or suspensions are imposed on the options markets, a Fund may be unable to close out a position.

**Risks Associated with Options on Securities and Indexes.** As mentioned above, there are several risks associated with transactions in options on securities and on indexes. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events.

There can be no assurance that a liquid market will exist when a Fund seeks to close out an option position. If a Fund were unable to close out an option that it had purchased on a security, it would have to exercise the option in order to realize any profit or the option may expire worthless. If a Fund were unable to close out a covered call option that it had written on a security, it would not be able to sell the underlying security unless the option expired without exercise.

If trading were suspended in an option purchased by a Fund, the Fund would not be able to close out the option. If restrictions on exercise were imposed, the Fund might be unable to exercise an option it had purchased. Except to the extent that a call option on an index written by the Fund is covered by an option on the same index purchased by the Fund, movements in the index may result in a loss to the Fund; however, such losses may be mitigated by changes in the value of the Fund's securities during the period the option was outstanding.

**Foreign Currency Options.** The Funds may take positions in options on foreign currencies to hedge against the risk of foreign exchange rate fluctuations on foreign securities the Funds hold in their portfolios or intend to purchase. For example, if a Fund were to enter into a contract to purchase securities denominated in a foreign currency, it could effectively fix the maximum U.S. dollar cost of the securities by purchasing call options on that foreign currency. Similarly, if a Fund held securities denominated in a foreign currency and anticipated a decline in the value of that currency against the U.S. dollar, it could hedge against such a decline by purchasing a put option on the currency involved. No Fund will enter into foreign currency option contracts if the premiums on such options exceed 5% of the Fund's total assets.

**Risks Associated with Foreign Currency Options.** The markets in foreign currency options are relatively new, and a Fund's ability to establish and close out positions in such options is subject to the maintenance of a liquid secondary market. There can be no assurance that a liquid secondary market will exist for a particular option at any specific time. In addition, options on foreign currencies are affected by all of those factors that influence foreign exchange rates and investments generally.

The quantities of currencies underlying option contracts represent odd lots in a market dominated by transactions between banks, and as a result extra transaction costs may be incurred upon exercise of an option.

There is no systematic reporting of last sale information for foreign currencies or any regulatory requirement that quotations be firm or revised on a timely basis. Quotation information is generally representative of very large transactions in the interbank market and may not reflect smaller transactions where rates may be less favorable. Option markets may be closed while round-the-clock interbank currency markets are open, and this can create price and rate discrepancies.

**Additional Risks Associated with Options Trading.** The Funds may effectively terminate their rights or obligations under options by entering into closing transactions. Closing transactions permit a Fund to realize profits or limit losses on its options positions prior to the exercise or expiration of the option. The value of a foreign currency option depends on the value of the underlying currency relative to the U.S. dollar. Other factors affecting the value of an option are the time remaining until expiration, the relationship of the exercise price to market price, the historical price volatility of the underlying currency and general market conditions. As a result, changes in the value of an option position may have no relationship to the investment merit of a foreign security. Whether a profit or loss is realized on a closing transaction depends on the price movement of the underlying currency and the market value of the option.

Options normally have expiration dates of up to nine months. The exercise price may be below, equal to or above the current market value of the underlying currency. Options that expire unexercised have no value, and a Fund will realize a loss of any premium paid and any transaction costs. Closing transactions may be effected only by negotiating directly with the other party to the option contract, unless a secondary market for the options develops. Although the Funds intend to enter into foreign currency options only with dealers which agree to enter into, and which are expected to be capable of entering into, closing transactions with the Funds, there can be no assurance that a Fund will be able to liquidate an option at a favorable price at any time prior to expiration. In the event of insolvency of the counter-party, a Fund may be unable to liquidate a foreign currency option. Accordingly, it may not be possible to effect closing transactions with respect to certain options, with the result that a Fund would have to exercise those options that it had purchased in order to realize any profit.

**ADDITIONAL RISKS ASSOCIATED WITH OPTIONS ON SECURITIES, FUTURES CONTRACTS, OPTIONS ON FUTURES CONTRACTS, AND FORWARD CURRENCY EXCHANGE CONTRACTS AND OPTIONS THEREON.** Options on securities, futures contracts, options on futures contracts, and options on currencies may be traded on foreign exchanges. Such transactions may not be regulated as effectively as similar transactions in the United States, may not involve a clearing mechanism and related guarantees, and are subject to the risk of governmental actions affecting trading in, or the prices of, foreign securities. The value of such positions also could be adversely affected by (i) other complex foreign political, legal and economic factors, (ii) lesser availability than in the United States of data on which to make trading decisions, (iii) delays in the Trust's ability to act upon economic events occurring in foreign markets during non-business hours in the United States, (iv) the imposition of different exercise and settlement terms and procedures and margin requirements than in the United States, and (v) lesser trading volume.

**STRUCTURED NOTES.** Structured notes are derivative debt securities, the interest rate or principal of which is determined by an unrelated indicator. Indexed securities include structured notes as well as securities other than debt securities, the interest rate or principal of which is determined by an unrelated indicator.

**Risks Associated with Structured Notes.** Indexed securities may include a multiplier that multiplies the indexed element by a specified factor and, therefore, the value of such securities may be very volatile. To the extent a Fund invests in these securities, however, the Adviser analyzes these securities in its overall assessment of the effective duration of the Fund's portfolio in an effort to monitor the Fund's interest rate risk.

**SWAP AGREEMENTS.** The Funds may enter into various swap agreements, including (but not limited to) credit default, interest rate, total return, index and currency exchange rate swap agreements. These transactions attempt to obtain a particular return when it is considered desirable to do so, possibly at a lower cost to a Fund than if the Fund had invested directly in an instrument that yielded that desired return. Swap agreements are two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to more than one year. In a standard "swap" transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments, which may be adjusted for an interest factor. The gross returns to be exchanged or "swapped" between the parties are generally calculated with respect to a "notional amount," *i.e.*, the return on or increase in value of a particular dollar amount invested at a particular interest rate, in a particular foreign currency, or in a "basket" of securities representing a particular index. Forms of swap agreements include interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or "cap"; interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or "floor"; and interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels.

Most swap agreements entered into by the Funds calculate the obligations of the parties to the agreement on a “net basis.” Consequently, a Fund’s current obligations (or rights) under a swap agreement will generally be equal only to the net amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement (the “net amount”). A Fund’s current obligations under a swap agreement will be accrued daily (offset against any amounts owing to the Fund) and any accrued but unpaid net amounts owed to a swap counterparty will be covered by the maintenance of a designated account consisting of assets determined to be liquid by the Adviser in accordance with procedures established by the Board of Trustees, to avoid any potential leveraging of the Fund’s portfolio. Obligations under swap agreements so covered will not be construed to be “senior securities” for purposes of the Fund’s investment restriction concerning senior securities. Swap agreements are subject to the Funds’ overall limit that no more than 15% of net assets may be invested in illiquid securities, although a swap agreement may be deemed to be liquid pursuant to policies approved by the Funds’ Board of Trustees. A Fund will not enter into a swap agreement with any single party if the net amount owed or to be received under existing contracts with that party would exceed 5% of the Fund’s total assets at time of purchase.

**Swaptions.** The Funds may also enter into swap options, or “swaptions.” A swaption is a contract that gives one party the right (but not the obligation), in return for payment of the option premium, to enter into a new swap agreement or to shorten, extend, cancel or otherwise modify an existing swap agreement at some designated future time and on specified terms. A Fund may write (sell) and purchase put and call swaptions. Depending on the terms of the particular option agreement, a Fund will generally incur a greater degree of risk when it writes a swaption than it will incur when it purchases a swaption. When a Fund purchases a swaption, it risks losing only the option premium it paid should it decide not to exercise the option. When a Fund writes a swaption, however, it is obligated according to the terms of the underlying agreement if the option holder exercises the option.

**Risks Associated with Swap Agreements and Swaptions.** Whether a Fund’s use of swap agreements and swaptions will be successful in furthering its investment objectives will depend on the Adviser’s ability to predict correctly whether certain types of investments are likely to produce greater returns than other investments. Because they are two party contracts and because they may have terms of greater than seven days, swap agreements may be considered to be illiquid. Whether a particular swap is liquid is assessed on a case by case basis under guidelines and standards established by the Funds’ Board of Trustees. Moreover, a Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. The Funds will enter into swap agreements that are not cleared through a recognized market only with counterparties that meet certain standards of creditworthiness (generally, such counterparties would have to be eligible counterparties under the terms of the Funds’ repurchase agreement guidelines). Certain restrictions imposed on the Funds by the Internal Revenue Code of 1986, as amended (the “Code”) may limit the Funds’ ability to use swap agreements. The portions of the swaps market involving swaps that are not cleared through a central market are largely unregulated. It is possible that developments in the swaps market, including further government regulation, could adversely affect a Fund’s ability to terminate existing swap agreements or to realize amounts to be received under such agreements. There can be no assurance that a Fund’s use of swap agreements will assist it in meeting its investment objectives.

**Credit Default Swap Contracts.** Each Fund may enter into credit default swap agreements. The “buyer” in a credit default contract is obligated to pay the “seller” a periodic, stream of payments over the term of the contract provided no event of default by a selected entity (or entities) has occurred. In the event of default, the seller must pay the buyer the “par value” (full notional value) of the reference obligation in exchange for the reference obligation.

**Risks Associated with Credit Default Swap Contracts.** The Fund may be either the buyer or seller in the transaction. If the Fund is a buyer and no event of default occurs, the Fund loses its investment and recovers nothing. However, if an event of default occurs, the buyer receives full notional value for a reference obligation that may have little or no value. As a seller, the Fund receives a fixed rate of income throughout the term of the contract, provided there is no default event. If an event of default occurs, the seller may pay the notional value of the reference obligation. The value of the reference obligation received by the seller, coupled with the periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value to the Fund. Credit default swaps involve greater risks than if the Fund had invested in the reference obligation directly. In addition to general market risks, credit default swaps are subject to risks such as but not limited to illiquidity risk, counterparty risk and credit risks.

**Interest Rate Swap Contracts.** A Fund may also enter into interest rate swaps, which involve the exchange of interest payments by the Fund with another party, such as an exchange of floating rate payments for fixed interest rate payments with respect to a notional amount of principal.

**Risks Associated with Interest Rate Swap Contracts.** If the Adviser is incorrect in its interest rate forecasts and/or an interest rate swap used as a hedge negates a favorable interest rate movement, the investment performance of a Fund would be less than what it would have been if the Fund had not entered into the interest rate swap.

**Total Return Swap Contracts.** Each Fund may enter into total return swap agreements. Total Return Swap is the generic name for any non-traditional swap where one party agrees to pay the other the “total return” of a defined underlying asset, usually in return for receiving a stream of LIBOR-based cash flows. The Total Return Swap may be applied to any underlying asset but is most commonly used with equity indexes, single stocks, bonds and defined portfolios of loans and mortgages. The Total Return Swap is a mechanism for the user to accept the economic benefits of asset ownership without utilizing the balance sheet. The other leg of the swap, usually LIBOR, is spread to reflect the non-balance sheet nature of the product. Total Return Swaps can be designed with any underlying asset agreed between two parties. No notional amounts are exchanged with Total Return Swaps.

**Risks Associated with Total Return Swap Contracts.** If the Adviser is incorrect in its forecast of the performance of the asset or reference underlying the total return swap contract, the investment performance of a Fund would be less than what it would have been if the Fund had not entered into the total return swap contract.

**LIMITATIONS ON USE OF FUTURES, OPTIONS, AND SWAPS.** The Funds will enter into positions in futures contracts, options on futures and foreign currency, forward contracts on financial commodities, and swaps only to the extent permitted by the regulations of the CFTC. For those transactions not entered into for bona fide hedging purposes as defined by the rules of the CFTC, a Fund will limit them so that the aggregate net notional value or obligation of all futures contracts does not exceed the liquidation value of the Funds’ portfolio, after taking into account unrealized profits and losses. This means that, with respect to forwards and futures that are not contractually required to settle for cash, a Fund must cover its open contract positions by setting aside liquid assets equal to the contracts’ full notional value. With respect to forwards and futures that are contractually required to settle for cash, a Fund may, however, instead set aside liquid assets in an amount equal to the Fund’s daily marked-to-market net obligation (that is, any net liability) rather than the notional value. Using this net liability or market value to determine the amount of liquid assets to set aside allows a Fund to employ greater leverage.

A call option is “in-the-money” if the value of the futures contract that is the subject of the option exceeds the exercise price. A put option is “in-the-money” if the exercise price exceeds the value of the futures contract that is the subject of the option. There is no other percentage limitation on a Fund’s use of options, futures and options thereon, except for the limitation on foreign currency option contracts described above under “Derivative Instruments – Options – Foreign Currency Options.”

When purchasing a futures contract, a Fund will designate (and mark-to-market on a daily basis) assets determined to be liquid by the Adviser in accordance with procedures established by the Board of Trustees, that, when added to the amounts deposited with (or for the benefit of) a futures commission merchant as margin, are equal to the market value of the futures contract as described above. Alternatively, the Fund may “cover” its position by purchasing a put option on the same futures contract with a strike price as high or higher than the price of the contract held by the Fund.

When selling a futures contract, a Fund will designate (and mark-to-market on a daily basis) assets determined to be liquid by the Adviser in accordance with procedures established by the Board of Trustees that are equal to the market value of the instruments underlying the contract, or the related liability as described above. Alternatively, the Fund may “cover” its position by owning the instruments underlying the contract (or, in the case of an index futures contract, a portfolio with a volatility substantially similar to that of the index on which the futures contract is based), or by holding a call option permitting the Fund to purchase the same futures contract at a price no higher than the price of the contract written by the Fund (or at a higher price if the difference is maintained in liquid assets with the Trust’s custodian).

When selling a call option on a futures contract, a Fund will maintain with its custodian (and mark-to-market on a daily basis) assets determined to be liquid by the Adviser in accordance with procedures established by the Board of Trustees, that, when added to the amounts deposited with (or for the benefit of) a futures commission merchant as margin, equal the total market value of the futures contract underlying the call option as described above. Alternatively, the Fund may cover its position by entering into a long position in the same futures contract at a price no higher than the strike price of the call option, by owning the instruments underlying the futures contract, or by holding a separate call option permitting the Fund to purchase the same futures contract at a price not higher than the strike price of the call option sold by the Fund.

When selling a put option on a futures contract, a Fund will maintain with its custodian (and mark-to-market on a daily basis) assets determined to be liquid by the Adviser in accordance with procedures established by the Board of Trustees, that equal the purchase price of the futures contract, less any margin on deposit. Alternatively, the Fund may cover the position either by entering into a short position in the same futures contract, or by owning a separate put option permitting it to sell the same futures contract so long as the strike price of the purchased put option is the same or higher than the strike price of the put option sold by the Fund.

To the extent that securities with maturities greater than one year are used to establish and collateralize or cover a Fund’s obligations under futures contracts and related options, such use will not eliminate the risk of a form of leverage, which may tend to exaggerate the effect on net asset value of any increase or decrease in the market value of a Fund’s portfolio, and may require liquidation of portfolio positions when it is not advantageous to do so. However, any potential risk of leverage resulting from the use of securities with maturities greater than one year may be mitigated by the overall duration limit on a Fund’s portfolio securities. Thus, the use of a longer-term security may require a Fund to hold offsetting short-term securities to balance the Fund’s portfolio such that the Fund’s duration does not exceed the maximum permitted for the Fund in the Prospectus.



The requirements for qualification as a regulated investment company also may limit the extent to which a Fund may enter into futures, futures options or forward contracts. See “Dividends and Tax Status.”

### ***DISTRESSED AND DEFAULTED SECURITIES***

The Floating Rate Income Fund and High Yield Bond Fund may invest in securities, including loans purchased in the secondary market, that are the subject of bankruptcy proceedings or otherwise in default or in risk of being in default as to the repayment of principal and/or interest at the time of acquisition by the Fund or that are rated in the lower rating categories by one or more nationally recognized statistical rating organizations and would be regarded as “junk” quality or, if unrated, are in the judgment of the Adviser of equivalent quality (“Distressed Securities”). Investing in Distressed Securities is speculative and involves significant risks.

The Fund will generally make these investments only when the Adviser believes it is reasonably likely that the issuer of the Distressed Securities will make an exchange offer or will be the subject of a plan of reorganization pursuant to which the Fund will receive new securities in return for the Distressed Securities. However, there can be no assurance that such an exchange offer will be made or that such a plan of reorganization will be adopted. In addition, a lengthy period may pass between the time at which the Fund makes its investment in Distressed Securities and the time that any such exchange offer or plan of reorganization is completed. During this period, it is unlikely that the Fund will receive any interest payments on the Distressed Securities, the Fund will be subject to significant uncertainty as to whether or not the exchange offer or plan of reorganization will be completed and the Fund may be required to bear certain extraordinary expenses to protect and recover its investment. Therefore, to the extent the Fund seeks capital appreciation through investments in distressed securities, the Fund’s ability to achieve current income for its shareholders may be diminished. The Fund also will be subject to significant uncertainty as to when and in what manner and for what value the obligations evidenced by the distressed securities will eventually be satisfied (e.g., through a liquidation of the obligor’s assets, an exchange offer or plan of reorganization involving the distressed securities or a payment of some amount in satisfaction of the obligation). Even if an exchange offer is made or plan of reorganization is adopted with respect to Distressed Securities held by the Fund, there can be no assurance that the securities or other assets received by the Fund in connection with such exchange offer or plan of reorganization will have an improved value or income potential than may have been anticipated when the investment was made, and may have no value. Moreover, any securities received by the Fund upon completion of an exchange offer or plan of reorganization may be restricted as to resale. Similarly, if the Fund participates in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of Distressed Securities, the Fund may be restricted from disposing of such securities. To the extent that the Fund becomes involved in those proceedings, the Fund may more actively participate in the affairs of the issuer than would be typical for an investor. The Fund, however, will not make investments for the purpose of exercising day-to-day management control of any issuer’s affairs.

### ***DOLLAR ROLLS***

The Funds may enter into dollar roll transactions in which the Funds sell a fixed income security for delivery in the current month and simultaneously contracts to purchase substantially similar (same type, coupon and maturity) securities at an agreed upon future time. By engaging in a dollar roll transaction, the Funds forego principal and interest paid on the security that is sold, but receive the difference between the current sales price and the forward price for the future purchase. The Funds would also be able to earn interest on the income that is received from the initial sale. The obligation to purchase securities on a specified future date involves the risk that the market value of the securities that the Funds are obligated to purchase may decline below the purchase price. In addition, in the event the other party to the transaction files for bankruptcy, becomes insolvent or defaults on its obligation, the Funds may be adversely affected.

### ***EMERGING MARKET COUNTRIES AND SOVEREIGN DEBT***

The Funds may invest in emerging market securities, provided, however, that the High Yield Bond Fund, Intermediate Bond Fund, Low Duration Bond Fund, Total Return Bond Fund and Ultra Short Bond Fund may invest up to only 10% of their total assets in emerging market securities; the AlphaTrak 500 Fund and Strategic Income Fund may invest up to 15% of their total assets in emerging market securities; the Floating Rate Income Fund may invest up to 20% of its total assets in emerging market securities; and the Flexible Income Fund and Unconstrained Bond Fund may invest up to 50% of their total assets in emerging market securities. The Corporate Bond Fund and Investment Grade Credit Fund have no such restriction on investments in emerging market securities. Emerging markets generally include every country in the world other than the United States, Canada, Japan, Australia, Malaysia, New Zealand, Hong Kong, Singapore and most Western European countries. In determining what countries constitute emerging markets, the Adviser will consider, among other things, data, analysis and classification of countries published or disseminated by the International Bank for Reconstruction and Development (the “World Bank”) and the International Financial

Corporation. The Adviser generally considers emerging market countries to include all of the countries in the JPMorgan Emerging Markets Global Diversified Bond Index, the JPMorgan Corporate Emerging Markets Broad Diversified Bond Index and the JPMorgan Global Emerging Markets Bond Index. Currently, investing in many emerging markets may not be desirable or feasible, because of the lack of adequate custody arrangements for a Fund's assets, overly burdensome repatriation and similar restrictions, the lack of organized and liquid securities markets, unacceptable political risks or other reasons. As opportunities to invest in securities in emerging markets develop, the Funds expect to expand and further broaden the group of emerging markets in which they invest.

From time to time, emerging markets have offered the opportunity for higher returns in exchange for a higher level of risk. Accordingly, the Adviser believes that each Fund's ability to invest in emerging markets throughout the world may enable the achievement of results superior to those produced by funds with similar objectives to those of the Funds that invest solely in securities in developed markets. There is no assurance that any Fund will achieve these results.

The Funds may invest in the following types of emerging market fixed-income securities: (a) fixed-income securities issued or guaranteed by governments, their agencies, instrumentalities or political subdivisions, or by government-owned, controlled or sponsored entities, including central banks (collectively, "Sovereign Debt"), including Brady Bonds (described below); (b) interests in issuers organized and operated for the purpose of restructuring the investment characteristics of Sovereign Debt; (c) fixed-income securities issued by banks and other business entities; and (d) fixed-income securities denominated in or indexed to the currencies of emerging markets. Fixed-income securities held by the Funds may take the form of bonds, notes, bills, debentures, bank debt obligations, short-term paper, loan participations, assignments and interests issued by entities organized and operated for the purpose of restructuring the investment characteristics of any of the foregoing. There is no requirement with respect to the maturity of fixed-income securities in which the Funds may invest.

The Funds may invest in Brady Bonds and other Sovereign Debt of countries that have restructured or are in the process of restructuring Sovereign Debt pursuant to the Brady Plan. "Brady Bonds" are debt securities issued under the framework of the Brady Plan, an initiative announced by former U.S. Treasury Secretary Nicholas F. Brady in 1989 as a mechanism for debtor nations to restructure their outstanding external commercial bank indebtedness. In restructuring its external debt under the Brady Plan framework, a debtor nation negotiates with its existing bank lenders as well as multilateral institutions such as the World Bank and the International Monetary Fund ("IMF"). The Brady Plan framework, as it has developed, contemplates the exchange of commercial bank debt for newly issued Brady Bonds. Brady Bonds may also be issued in respect of new money being advanced by existing lenders in connection with the debt restructuring. The World Bank and/or the IMF support the restructuring by providing funds pursuant to loan agreements or other agreements which enable the debtor nation to collateralize the new Brady Bonds or to repurchase outstanding bank debt at a discount.

Investment in sovereign debt can involve a high degree of risk. The governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of its debt. A governmental entity's willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the governmental entity's policy towards the IMF and the political constraints to which a governmental entity may be subject. Governmental entities may also be dependent on expected disbursements from foreign governments, multilateral agencies and others abroad to reduce principal and interest arrearages on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on the implementation of economic reforms and/or economic performance and the timely service of such debtor's obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the governmental entity, which may further impair such debtor's ability or willingness to timely service its debts. Consequently, governmental entities may default on their sovereign debt.

Holders of sovereign debt may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. In the event of a default by a governmental entity, there may be few or no effective legal remedies for collecting on that debt.

Emerging market fixed-income securities generally are considered to be of a credit quality below investment grade, even though they often are not rated by any nationally recognized statistical rating organizations. Investment in emerging market fixed-income securities will be allocated among various countries based upon the Adviser's analysis of credit risk and its consideration of a number of factors, including: prospects for relative economic growth among the different countries in which the Funds may invest; expected levels of inflation; government policies influencing business conditions; the outlook for currency relationships; and the range of the individual investment opportunities available to international investors. The Adviser's emerging market sovereign credit analysis includes an evaluation of the issuing country's total debt levels, currency reserve levels, net exports/imports, overall economic growth, level of inflation, currency fluctuation, political and social climate and payment history. Particular fixed-income securities will be selected based upon credit risk analysis of potential issuers, the characteristics of the security and interest rate sensitivity of the various debt issues available with respect to a particular issuer, analysis of the anticipated volatility and liquidity of the particular debt instruments, and the tax implications to the Fund. The emerging market fixed-income securities in which the Funds may invest are not subject to any minimum credit quality standards, so long as the value of those investments does not cause a Fund to surpass its applicable limit on investments in securities rated below investment grade.

The risks described under “Securities and Techniques Used by the Funds – Foreign Securities” below also apply to emerging market securities, and tend to be greater in emerging markets compared to more developed countries.

## **FOREIGN SECURITIES**

The High Yield Bond Fund, Intermediate Bond Fund, Low Duration Bond Fund, Strategic Income Fund, Total Return Bond Fund and Ultra Short Bond Fund each may invest up to 25% of its total assets in securities of foreign issuers that are denominated in U.S. dollars. The Floating Rate Income Fund may invest up to 20% of its total assets in securities of foreign issuers that are denominated in U.S. dollars. The AlphaTrak 500 Fund, Corporate Bond Fund, Flexible Income Fund, Investment Grade Credit Fund and Unconstrained Bond Fund have no such restriction on investments in securities of foreign issuers that are denominated in U.S. dollars.

Investments in securities of foreign issuers that are not denominated in U.S. dollars by the Funds (other than the Corporate Bond Fund, Flexible Income Fund, Floating Rate Income Fund, Investment Grade Credit Fund, Strategic Income Fund and Unconstrained Bond Fund) will be limited to a maximum of 15% of each Fund’s total assets. The Corporate Bond Fund, Flexible Income Fund, Investment Grade Credit Fund and Unconstrained Bond Fund may invest, without limitation, in securities of foreign issuers. The Flexible Income Fund and Unconstrained Bond Fund may invest up to 40% of their total assets in securities of foreign issuers that are not denominated in U.S. dollars. The Strategic Income Fund may invest up to 30% of its total assets in securities of foreign issuers that are not denominated in U.S. dollars. Investments by the Corporate Bond Fund, Floating Rate Income Fund and Investment Grade Credit Fund in securities that are not denominated in U.S. dollars will be limited to a maximum of 20% of the respective Fund’s total assets. Foreign economies may differ from the U.S. economy; individual foreign companies may differ from domestic companies in the same industry; and foreign currencies may be stronger or weaker than the U.S. dollar. The Adviser believes that the ability to invest abroad will enable the Funds to take advantage of these differences when they are favorable.

Fixed-income securities that may be purchased by the Funds include debt obligations issued or guaranteed by foreign governments, their subdivisions, agencies or instrumentalities, or by supranational entities that have been constituted by the governments of several countries to promote economic development, such as The World Bank and The Asian Development Bank. Foreign investment in certain foreign government debt is restricted or controlled to varying degrees.

As compared to U.S. companies, foreign issuers generally disclose less financial and other information publicly and are subject to less stringent and less uniform accounting, auditing and financial reporting standards. Foreign countries typically impose less thorough regulations on brokers, dealers, stock exchanges, corporate insiders and listed companies than does the U.S., and foreign securities markets may be less liquid and more volatile than U.S. markets. Investments in foreign securities involve higher costs than investments in U.S. securities, including higher transaction and custody costs as well as additional taxes imposed by foreign governments. In addition, security trading practices abroad may offer less protection to investors such as the Funds. Political or social instability, civil unrest, acts of terrorism and regional economic volatility are other potential risks that could impact an investment in a foreign security. Settlement of transactions in some foreign markets may be delayed or may be less frequent than in the U.S., which could affect the liquidity of a Fund’s portfolio.

The European financial markets have continued to experience volatility because of concerns about economic downturns and about high and rising government debt levels of several countries in the European Union (“EU”) and Europe generally. These events have adversely affected the exchange rate of the Euro and the European securities markets, and may spread to other countries in Europe, including countries that do not use the Euro. These events may affect the value and liquidity of certain of the Funds’ investments. Responses to the financial problems by EU governments, central banks and others, including austerity measures and reforms, may not work, may result in social unrest and may limit future growth and economic recovery or have other unintended consequences. Further defaults or restructurings by governments and others of their debt could have additional adverse effects on economies, financial markets and asset valuations around the world.

In a public referendum in June 2016, the United Kingdom (“UK”) voted to leave the EU (a process now commonly referred to as “Brexit”). On March 29, 2017, UK Prime Minister Theresa May delivered a letter invoking Article 50 of the Lisbon Treaty and notifying the European Council of the UK’s decision to withdraw from the EU. The letter triggered the two-year withdrawal negotiation process. The deadline for the UK’s departure was extended to October 31, 2019. Although there have been extensive negotiations between the U.K. and the EU, it remains uncertain whether, when and under what terms, the U.K. will leave the EU. In addition, it is possible that measures could be taken to revote on the issue of Brexit, or that portions of the UK could seek to separate and remain a part of the EU. As a result of the political divisions within the UK and between the UK and the EU that the referendum vote and the negotiations have highlighted and the uncertain consequences of a Brexit, the UK and European economies and the broader global economy could be significantly impacted, which may result in increased volatility and illiquidity, and potentially lower economic growth on markets in the UK, Europe and globally that could potentially have an adverse effect on the value of the Fund’s investments. Brexit may also cause additional member states to contemplate departing from the EU, which would likely perpetuate political and economic stability in the region and cause additional market disruption in global financial markets.

## **HIGH-YIELD SECURITIES OR “JUNK BONDS”**

Securities rated below investment grade are commonly known as “junk bonds.” Investments in securities rated below investment grade that are eligible for purchase by the Funds, and in particular the High Yield Bond Fund, are described as speculative by both Moody’s and S&P. Lower-rated or unrated (*i.e.*, high-yield or “junk bond”) securities are more likely to react to developments affecting market risk (such as interest rate sensitivity, market perception of creditworthiness of the issuer and general market liquidity) and credit risk (such as the issuer’s inability to meet its obligations) than are more highly rated securities, which react primarily to movements in the general level of interest rates. The Adviser considers both credit risk and market risk in making investment decisions for the Funds. Investors should carefully consider the relative risk of investing in high-yield securities and understand that such securities are not generally meant for short-term trading. These high-yield securities are regarded as predominantly speculative with respect to the issuer’s continuing ability to meet principal and interest payments. Analysis of the creditworthiness of issuers of debt securities that are high-yield may be more complex than for issuers of higher quality debt securities.

High-yield securities may be more susceptible to real or perceived adverse economic and competitive industry conditions than investment grade securities. The prices of high-yield securities have been found to be less sensitive to interest-rate changes than higher-rated investments, but more sensitive to adverse economic downturns or individual corporate developments. A projection of an economic downturn or of a period of rising interest rates, for example, could cause a decline in high yield security prices because the advent of a recession could lessen the ability of a highly leveraged company to make principal and interest payments on its debt securities. If an issuer of high-yield securities defaults, in addition to risking payment of all or a portion of interest and principal, the Funds investing in such securities may incur additional expenses to seek recovery. In the case of high-yield securities structured as zero-coupon or pay-in-kind securities, their market prices are affected to a greater extent by interest rate changes, and therefore tend to be more volatile than securities that pay interest periodically and in cash. The Adviser seeks to reduce these risks through diversification, credit analysis and attention to current developments and trends in both the economy and financial markets.

The amount of high-yield securities outstanding proliferated in the 1980’s in conjunction with the increase in merger and acquisition and leveraged buyout activity. Under adverse economic conditions, there is a risk that highly leveraged issuers may be unable to service their debt obligations upon maturity. In addition, the secondary market for high-yield securities, which is concentrated in relatively few market makers, may not be as liquid as the secondary market for more highly rated securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values of high-yield securities, especially in a thinly traded market. Under adverse market or economic conditions, the secondary market for high-yield securities could contract further, independent of any specific adverse changes in the condition of a particular issuer. As a result, the Adviser could find it more difficult to sell these securities or may be able to sell the securities only at prices lower than if such securities were widely traded. Prices realized upon the sale of such lower-rated or unrated securities, under these circumstances, may be less than the prices used in calculating the Funds’ net asset value. Additionally, when secondary markets for high-yield securities are less liquid than the market for higher grade securities, it may be more difficult to value the securities because valuation may require more research, and elements of judgment may play a greater role in the valuation because there is less reliable, objective data available.

The use of credit ratings as the sole method of evaluating high-yield securities can involve certain risks. For example, credit ratings evaluate the safety of principal and interest payments, not the market value risk of high-yield securities. Also, credit rating agencies may fail to change credit ratings in a timely fashion to reflect events since the security was last rated. The Adviser does not rely solely on credit ratings when selecting securities for the Funds, and develops its own independent analysis of issuer credit quality. If a credit rating agency changes the rating of a portfolio security held by a Fund, the Fund may retain the portfolio security if the Adviser deems it in the best interest of shareholders.

Lower-rated or unrated debt obligations present risks based on payment expectations. If an issuer calls the obligation for redemption, a Fund may have to replace the security with a lower yielding security, resulting in a decreased return for investors. If a Fund experiences unexpected net redemptions, it may be forced to sell its higher-rated securities, resulting in a decline in the overall credit quality of the Fund’s portfolio and increasing the exposure of the Fund to the risks of high-yield securities.

**PARTICIPATION ON CREDITOR COMMITTEES:** Representatives of a Fund (in particular – but not limited to – the High Yield Bond Fund) or the Adviser may from time to time participate on committees formed by creditors to negotiate with the management of financially troubled issuers of securities held by the Fund. Such participation may subject a Fund to expenses such as legal fees and may make a Fund an “insider” of the issuer for purposes of the federal securities laws, and therefore may restrict such Fund’s ability to trade in or acquire additional positions in a particular security when it might otherwise desire to do so. Participation by a Fund on such committees also may expose the Fund to potential liabilities under the federal bankruptcy laws or other laws governing the rights of creditors and debtors. A Fund will participate on such committees only when the Adviser believes that such participation is necessary or desirable to enforce the Fund’s rights as a creditor or to protect the value of securities held by the Fund.

## ILLIQUID SECURITIES

In October 2016, the U.S. Securities and Exchange Commission (the “SEC”) adopted Rule 22e-4 under the 1940 Act (the “Liquidity Rule”), which, among other things, requires that all registered open-end management investment companies, including the Funds, establish a written liquidity risk management program (a “Liquidity Program”). Under a fund’s Liquidity Program, a fund must assess, manage and periodically review the fund’s liquidity risk, classify the liquidity of each of the fund’s portfolio investments, determine a highly liquid investment minimum, limit illiquid investments to 15% of fund investments, and establish policies and procedures regarding how and when a fund will engage in redemptions in-kind. Certain provisions of the Liquidity Rule went into effect as of December 1, 2018, with the remaining provisions of the Liquidity Rule in effect as of June 1, 2019. Consistent with the Liquidity Rule, the Board of Trustees (the “Board”) has reviewed and approved the written Liquidity Program for the Funds and has designated a committee of professionals associated with the Adviser to administer the Funds’ Liquidity Program. On an ongoing basis, the Board will review annual reports from that committee, as the program administrator of the Funds’ Liquidity Program, on operations of the Funds’ Liquidity Program, its adequacy and effectiveness of implementation, and any material changes made to the Funds’ Liquidity Program. Under certain circumstances such as when there is a shortfall in a Fund’s highly liquid investments below its established highly liquid investment minimum or when a Fund’s illiquid investment holdings exceed 15% of its net assets, certain remedial actions must be taken, which may include Board notification or review.

Under the Liquidity Rule, each Fund may not invest more than 15% of its net assets in repurchase agreements that have a maturity of longer than seven days or in other illiquid securities, including securities that are illiquid by virtue of the absence of a readily available market (either within or outside of the United States) or legal or contractual restrictions of resale. Historically, illiquid securities have included securities subject to contractual or legal restrictions on resale because they have not been registered under the Securities Act, securities that are otherwise not readily marketable and repurchase agreements that have a maturity of longer than seven days. Securities which have not been registered under the Securities Act generally are referred to as private placements or restricted securities and are purchased directly from the issuer or in the secondary market. Mutual funds do not typically hold a significant amount of these restricted or other illiquid securities because of the potential for delays on resale and uncertainty in valuation. Limitations on resale may have an adverse effect on the marketability of portfolio securities and a mutual fund might be unable to dispose of restricted or other illiquid securities promptly or at reasonable prices and might thereby experience difficulty satisfying redemptions within seven days. A mutual fund might also have to register such restricted securities in order to dispose of them resulting in additional expense and delay. Adverse market conditions could impede such a public offering of securities. Currently the Funds may invest in securities issued in private placements. The Funds also may invest in mezzanine securities that are placed between debt and equity in a company’s capital structure. These securities are typically subordinated debt instruments for late stage venture and mature companies and may offer income through a current coupon and equity participation through a warrant. In addition to being subject to credit risk, mezzanine securities are generally considered less liquid.

Over a period of years, however, a large institutional market has developed for certain securities that are not registered under the Securities Act, including repurchase agreements, commercial paper, foreign securities, municipal securities, convertible securities and corporate bonds and notes. Institutional investors depend on an efficient institutional market in which the unregistered security can be readily resold or on an issuer’s ability to honor a demand for repayment. The fact that there are contractual or legal restrictions on resale to the general public or to certain institutions may not be indicative of the liquidity of such investments.

Rule 144A under the Securities Act allows for a broader institutional trading market for securities otherwise subject to restriction on resale to the general public. The market for Rule 144A securities is active and liquid as a result of automated systems for the trading, clearance and settlement of unregistered securities of domestic and foreign issuers, such as the PORTAL Alliance platform sponsored by various securities industry participants.

Restricted securities eligible for resale pursuant to Rule 144A under the Securities Act and commercial paper for which there is a readily available market will not be deemed to be illiquid. The Adviser will monitor the liquidity of such restricted securities subject to the supervision of the Board of Trustees. In reaching liquidity decisions, the Adviser will consider the following factors, among other considerations: (1) the frequency of trades and quotes for the security; (2) the number of dealers wishing to purchase or sell the security and the number of other potential purchasers; (3) dealer undertakings to make a market in the security; and (4) the nature of the security and the nature of the marketplace trades (*e.g.*, the time needed to dispose of the security, the method of soliciting offers and the mechanics of the transfer). In addition, in order for commercial paper that is issued in reliance on Section 4(a)(2) of the Securities Act to be considered liquid, (i) it must be rated in one or two of the highest rating categories by at least two nationally recognized statistical rating organizations (“NRSRO”), or if only one NRSRO rates the securities, by that NRSRO, or, if unrated, be of comparable quality in the view of the Adviser, and (ii) it must not be “traded flat” (*i.e.*, without accrued interest) or in default as to principal or interest. While the Adviser uses procedures to determine that certain Rule 144A securities are liquid, market conditions may later affect that assessment adversely. Therefore, the Fund could potentially hold higher levels of illiquid securities than previously anticipated. Investing in Rule 144A securities could have the effect of increasing the level of Fund illiquidity to the extent that qualified institutional buyers become, for a time, uninterested in purchasing these securities. Repurchase agreements subject to demand are deemed to have a maturity equal to the notice period.

## ***LOANS OF PORTFOLIO SECURITIES***

The AlphaTrak 500 Fund, Corporate Bond Fund, Flexible Income Fund, Floating Rate Income Fund, High Yield Bond Fund, Intermediate Bond Fund, Investment Grade Credit Fund, Strategic Income Fund, Total Return Bond Fund, Ultra Short Bond Fund and the Unconstrained Bond Fund are authorized to lend their portfolio securities in an effort to increase the return and income on the Fund's portfolio. A Fund that loans portfolio securities will typically loan those securities to well-known and recognized U.S. and foreign brokers, dealers and banks. These loans, if and when made, may not exceed one-third of the value of the Fund's total assets. The Funds' loans of securities will be collateralized by cash, letters of credit, government securities or qualifying liquid securities. The Funds will retain the right to all interest and dividends payable with respect to the loaned securities. If a Fund lends its portfolio securities it may charge the borrower a negotiated fee and retain the ability to terminate the loan at any time. In lending securities, a Fund will be subject to risks, including the potential inability to recall the loaned securities should the borrower fail financially, and the possible loss in market value of the collateral. While voting rights on the loaned securities may pass to the borrower, the Trust's Board of Trustees must be able to terminate the loan and regain the right to vote the securities if a material event adversely affecting the investment occurs.

## ***MASTER LIMITED PARTNERSHIPS***

The Floating Rate Income Fund may invest in publicly traded master limited partnerships ("MLPs"), which are limited partnerships or limited liability companies taxable as partnerships. MLPs may derive income and gains from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil, or products thereof), or the marketing of any mineral or natural resources. MLPs generally have two classes of owners, the general partner and limited partners. When investing in an MLP, the Fund intends to purchase publicly traded common units issued to limited partners of the MLP. The general partner is typically owned by a major energy company, an investment fund, the direct management of the MLP or is an entity owned by one or more of those parties. The general partner may be structured as a private or publicly traded corporation or other entity. The general partner typically controls the operations and management of the MLP through an up to 2% equity interest in the MLP together with, in many cases, ownership of common units and subordinated units. Limited partners own the remainder of the partnership, through ownership of common units, and have a limited role in the partnership's operations and management.

MLPs are typically structured such that common units and general partner interests have first priority to receive quarterly cash distributions up to an established minimum amount (referred to as "minimum quarterly distributions" or "MQD"). Common and general partner interests also accrue arrearages in distributions to the extent the MQD is not paid. Once common and general partner interests have been paid, subordinated units receive distributions of up to the MQD; however, subordinated units do not accrue arrearages. Distributable cash in excess of the MQD paid to both common and subordinated units is distributed to both common and subordinated units generally on a pro rata basis. The general partner is also eligible to receive incentive distributions if the general partner operates the business in a manner that results in distributions paid per common unit surpassing specified target levels. As the general partner increases cash distributions to the limited partners, the general partner receives an increasingly higher percentage of the incremental cash distributions. These incentive distributions encourage the general partner to streamline costs, increase capital expenditures and acquire assets in order to increase the partnership's cash flow and raise the quarterly cash distribution in order to reach higher tiers. This result benefits all security holders of the MLP.

MLP common units represent a limited partnership interest in the MLP. Common units are listed and traded on U.S. securities exchanges, with their value fluctuating predominantly based on prevailing market conditions, distributions levels and the success of the MLP. The Fund intends to purchase common units in market transactions. Unlike owners of common stock of a corporation, owners of common units have limited voting rights and have no ability annually to elect directors. If the MLP is liquidated, common units have preference over subordinated units, but not over debt or preferred units, to the remaining assets of the MLP.

## ***MEZZANINE INVESTMENTS***

The Floating Rate Income Fund, High Yield Bond Fund and Strategic Income Fund (and the other Funds to a limited extent) may invest in certain high yield securities known as mezzanine investments, which are subordinated debt securities generally issued in private placements in connection with an equity security (e.g., with attached warrants). Mezzanine investments may be issued with or without registration rights. Similar to other high yield securities, maturities of mezzanine investments are typically seven to ten years, but the expected average life is significantly shorter at three to five years. Mezzanine investments are usually unsecured and subordinate to other obligations of the issuer.

## ***MORTGAGE-RELATED SECURITIES***

The Funds may invest in residential or commercial mortgage-related securities, including mortgage pass-through securities, collateralized mortgage obligations ("CMOs"), adjustable rate mortgage securities, CMO residuals, stripped mortgage-related securities, floating and inverse floating rate securities and tiered index bonds. CMOs and other mortgage-related securities that are

issued or guaranteed by the U.S. government or by any of its agencies or instrumentalities will be considered U.S. government securities for purposes of applying a Fund's diversification and industry concentration tests. For purposes of a Fund's industry concentration policy, the Funds will analyze the characteristics of a particular issuer, security, underlying collateral and related obligors and then assign an industry or sector classification consistent with those characteristics.

The yield characteristics of mortgage-related securities differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying mortgage loans or other assets generally may be prepaid at any time. As a result, if the Funds purchase such a security at a premium, a prepayment rate that is faster than expected will reduce yield to maturity, while a prepayment rate that is slower than expected will have the opposite effect of increasing yield to maturity. Alternatively, if the Funds purchase these securities at a discount, faster than expected prepayments will increase, while slower than expected prepayments will reduce, yield to maturity. The Funds may invest a portion of their assets in derivative mortgage-related securities that are highly sensitive to changes in prepayment and interest rates. The Adviser will seek to manage these risks (and potential benefits) by diversifying its investments in such securities and through hedging techniques.

During periods of declining interest rates, prepayment of mortgages underlying mortgage-related securities can be expected to accelerate. Accordingly, a Fund's ability to maintain positions in high-yielding mortgage-related securities will be affected by reductions in the principal amount of such securities resulting from such prepayments, and its ability to reinvest the returns of principal at comparable rates is subject to generally prevailing interest rates at that time. Prepayments may also result in the realization of capital losses with respect to higher yielding securities that had been bought at a premium or the loss of opportunity to realize capital gains in the future from possible future appreciation.

*MORTGAGE PASS-THROUGH SECURITIES:* Mortgage pass-through securities represent interests in pools of mortgages in which payments of both principal and interest on the securities are generally made monthly, in effect "passing through" monthly payments made by borrowers on the residential or commercial mortgage loans which underlie the securities (net of any fees paid to the issuer or guarantor of the securities). Mortgage pass-through securities differ from other forms of debt securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or specified call dates. Early payment of principal on mortgage pass-through securities (arising from prepayments of principal due to the sale of underlying property, refinancing, or foreclosure, net of fees and costs which may be incurred) may expose a Fund to a lower rate of return upon reinvestment of principal. Also, if a security subject to repayment has been purchased at a premium, in the event of prepayment, the value of the premium would be lost.

There are currently three types of mortgage pass-through securities, (i) those issued by the U.S. government or one of its agencies or instrumentalities, such as the GNMA, the FNMA and the FHLMC; (ii) those issued by private issuers that represent an interest in or are collateralized by pass-through securities issued or guaranteed by the U.S. government or one of its agencies or instrumentalities; and (iii) those issued by private issuers that represent an interest in or are collateralized by whole mortgage loans or pass-through securities without a government guarantee but usually having some form of private credit enhancement.

GNMA is a wholly-owned United States Government corporation within the Department of Housing and Urban Development. GNMA is authorized to guarantee, with the full faith and credit of the United States Government, the timely payment of principal and interest on securities issued by the institutions approved by GNMA (such as savings and loan institutions, commercial banks and mortgage banks), and backed by pools of mortgages insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

Obligations of FNMA and FHLMC are not backed by the full faith and credit of the United States Government. In the case of obligations not backed by the full faith and credit of the United States Government, a Fund must look principally to the agency issuing or guaranteeing the obligation for ultimate repayment. FNMA and FHLMC may borrow from the U.S. Treasury to meet their obligations, but the U.S. Treasury is under no obligation to lend to FNMA or FHLMC.

Private mortgage pass-through securities are structured similarly to GNMA, FNMA and FHLMC mortgage pass-through securities and are issued by originators of and investors in mortgage loans, including depository institutions, mortgage banks, investment banks and special purpose subsidiaries of the foregoing. Pools created by private mortgage pass-through issuers generally offer a higher rate of interest than government and government-related pools because there are no direct or indirect government or agency guarantees of payments in the private pools. However, timely payment of interest and principal of these pools may be supported by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance and letters of credit. The insurance and guarantees are issued by governmental entities, private insurers and the mortgage poolers. The insurance and guarantees and the credit worthiness of the issuers thereof will be considered in determining whether a mortgage-related security meets the Funds' investment quality standards. There can be no assurance that the private insurers or guarantors can meet their obligations under the insurance policies or guarantee arrangements. Private mortgage pass-through securities may be bought without insurance or guarantees if, through an examination of the loan experience and practices of the originator/services and poolers, the Adviser determines that the securities meet the Funds' quality standards.

*COLLATERALIZED MORTGAGE OBLIGATIONS:* CMOs, including CMOs that have elected to be treated for federal income tax purposes as Real Estate Mortgage Investment Conduits (“REMICs”), are hybrid instruments with characteristics of both bonds and mortgage pass-through securities. CMOs are debt obligations collateralized by residential or commercial mortgage loans or residential or commercial mortgage pass-through securities. Interest and prepaid principal are generally paid monthly. CMOs may be collateralized by whole mortgage loans or private mortgage pass-through securities but are more typically collateralized by portfolios of mortgage pass-through securities guaranteed by GNMA, FHLMC or FNMA. The issuer of a series of CMOs may elect to be treated for tax purposes as a REMIC. All future references to CMOs shall also be deemed to include REMICs.

CMOs are structured into multiple classes, each bearing a different stated maturity. Monthly payment of principal received from the pool of underlying mortgages, including prepayments, is first returned to investors holding the shortest maturity class. Investors holding the longer maturity classes usually receive principal only after shorter classes have been retired. An investor may be partially protected against a sooner than desired return of principal because of the sequential payments.

Issuers of CMOs generally are not considered investment companies because of available exclusions under the 1940 Act and, as a result, the Funds may invest in the securities of these issuers without the limitations imposed by the 1940 Act on investments by the Fund in other investment companies. In the unusual situation that a Fund invests in a CMO that does not meet the requirements of those exclusions or of any separate exemptive order the CMO may have obtained from the SEC, that Fund may not invest more than 10% of its assets in all such entities considered to be investment companies and may not acquire more than 3% of the voting securities of any single entity.

The Funds also may invest in, among other things, parallel pay CMOs, Planned Amortization Class CMOs (“PAC bonds”), sequential pay CMOs, and floating rate CMOs. Parallel pay CMOs are structured to provide payments of principal on each payment date to more than one class. PAC bonds generally require payments of a specified amount of principal on each payment date. Sequential pay CMOs generally pay principal to only one class while paying interest to several classes. Floating rate CMOs are securities whose coupon rate fluctuates according to some formula related to an existing mortgage index or rate. Typical indices would include the Eleventh District Cost-of-Funds Index, the London Interbank Offered Rate, one-year Treasury yields, and ten-year Treasury yields.

*ADJUSTABLE RATE MORTGAGE SECURITIES:* Adjustable rate mortgage securities (“ARMs”) are pass-through securities collateralized by mortgages with adjustable rather than fixed rates. ARMs eligible for inclusion in a mortgage pool generally provide for a fixed initial mortgage interest rate for either the first three, six, twelve, thirteen, 36, or 60 scheduled monthly payments. Thereafter, the interest rates are subject to periodic adjustment based on changes to a designated benchmark index.

The ARMs contain maximum and minimum rates beyond which the mortgage interest rate may not vary over the lifetime of the security. In addition, certain ARMs provide for additional limitations on the maximum amount by which the mortgage interest may be adjusted for any single adjustment period. In the event that market rates of interest rise more rapidly to levels above that of the ARM’s maximum rate, the ARM’s coupon may represent a below market rate of interest. In these circumstances, the market value of the ARM security will likely have fallen.

Some ARMs contain limitations on changes in the required monthly payment. In the event that a monthly payment is not sufficient to pay the interest accruing on an ARM, any such excess interest is added to the principal balance of the mortgage loan, which is repaid through future monthly payments. If the monthly payment for such an instrument exceeds the sum of the interest accrued at the applicable mortgage interest rate and the principal payment required at such point to amortize the outstanding principal balance over the remaining term of the loan, the excess is then utilized to reduce the outstanding principal balance of the ARM.

*CMO RESIDUALS:* CMO residuals are derivative mortgage securities issued by agencies or instrumentalities of the U.S. government or by private originators of, or investors in, mortgage loans, including savings and loan associations, homebuilders, mortgage banks, commercial banks, investment banks, and special purpose entities of the foregoing.

The cash flow generated by the mortgage assets underlying a series of CMOs is applied first to make required payments of principal and interest on the CMOs and second to pay the related administrative expenses of the issuer. The residual in a CMO structure generally represents the interest in any excess cash flow remaining after making the foregoing payments. Each payment of such excess cash flow to a holder of the related CMO residual represents income and/or a return of capital. The amount of residual cash flow resulting from a CMO will depend on, among other things, the characteristics of the mortgage assets, the coupon rate of each class of CMO, prevailing interest rates, the amount of administrative expenses and the prepayment experience on the mortgage assets. In part, the yield to maturity on the CMO residuals is extremely sensitive to prepayments on the related underlying mortgage assets, in the same manner as an interest-only (“IO”) class of stripped mortgage-related securities. See “Stripped Mortgage-Related Securities” below. In addition, if a series of a CMO includes a class that bears interest at an adjustable rate, the yield to maturity on the related CMO residual will also be extremely sensitive to changes in the level of the index upon which interest rate adjustments are based. As described below with respect to stripped mortgage-related securities, in certain circumstances a Fund may fail to recoup its initial investment in a CMO residual.



CMO residuals are generally purchased and sold by institutional investors through several investment banking firms acting as brokers or dealers. The CMO residual market has recently developed and CMO residuals currently may not have the liquidity of other more established securities trading in other markets. Transactions in CMO residuals are generally completed only after careful review of the characteristics of the securities in question. In addition, CMO residuals may or, pursuant to an exemption, may not have been registered under the Securities Act. CMO residuals, whether or not registered under the Securities Act, may be subject to certain restrictions on transferability, and may be deemed “illiquid” and subject to a Fund’s limitations on investment in illiquid securities.

*STRIPPED MORTGAGE-RELATED SECURITIES:* Stripped mortgage-related securities (“SMRS”) are derivative multi-class mortgage securities. SMRS may be issued by agencies or instrumentalities of the U.S. government, or by private originators of, or investors in, mortgage loans, including savings and loan associations, mortgage banks, commercial banks, investment banks, and special purpose entities of the foregoing.

SMRS are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. A common type of SMRS will have one class receiving some of the interest and most of the principal from the mortgage assets, while the other class will receive most of the interest and the remainder of the principal. In the most extreme case, one class will receive all of the interest (the “IO” class), while the other class will receive the entire principal (the principal-only or “PO” class). The yield to maturity on an IO class is extremely sensitive to the rate of principal payments (including prepayments) on the related underlying mortgage assets, and a rapid rate of principal payments may have a material adverse effect on a Fund’s yield to maturity from these securities. If the underlying mortgage assets experience greater than anticipated prepayments of principal, a Fund may fail to fully recoup its initial investment in these securities even if the security is in one of the highest rating categories.

SMRS are purchased and sold by institutional investors through several investment banking firms acting as brokers or dealers. Although the market for these securities is increasingly liquid, the Adviser may determine that certain stripped mortgage-backed securities issued by the U. S. government, its agencies or instrumentalities are not readily marketable. If so, these securities, together with privately-issued stripped mortgage-backed securities, will be considered illiquid and subject to a Fund’s limitations on investment in illiquid securities. The Funds also may invest in stripped mortgage-backed securities that are privately issued. The liquidity of these securities will be determined in accordance with the policies and procedures established by the Board of Trustees.

*INVERSE FLOATERS:* An inverse floater is a debt instrument with a floating or variable interest rate that moves in the opposite direction to the interest rate on another security or index level. Changes in the interest rate on the other security or index inversely affect the residual interest rate paid on the inverse floater, with the result that the inverse floater’s price will be considerably more volatile than that of a fixed-rate bond. Inverse floaters may experience gains when interest rates fall and may suffer losses in periods of rising interest rates. The market for inverse floaters is relatively new.

*TIERED INDEX BONDS:* Tiered index bonds are relatively new forms of mortgage-related securities. The interest rate on a tiered index bond is tied to a specified index or market rate. So long as this index or market rate is below a predetermined “strike” rate, the interest rate on the tiered index bond remains fixed. If, however, the specified index or market rate rises above the “strike” rate, the interest rate of the tiered index bond will decrease. Thus, under these circumstances, the interest rate on a tiered index bond, like an inverse floater, will move in the opposite direction of prevailing interest rates, with the result that the price of the tiered index bond may be considerably more volatile than that of a fixed-rate bond.

*RESIDENTIAL MORTGAGE-BACKED SECURITIES (“RMBS SECURITIES”):* Beginning in early 2008, the U.S. residential mortgage-backed securities market, particularly the portion commonly referred to as “subprime,” was well into a period of extreme stress and dislocation. Most market participants believe this stress to be the result of years of excessive volume growth in residential mortgage loans (which will be referred to in this paragraph as “Loans” or, individually, as a “Loan”) and a sharp deterioration of Loan quality. The phrase “subprime” refers to a Loan given to a borrower with a poor or no credit history and usually includes one or more aggressive Loan terms such as a high Loan-to-value ratio. Such Loans carry a higher degree of risk than other Loans, and, therefore, a higher probability of default. Credit and other structural enhancements provided within residential mortgage-backed securities (“RMBS Securities”) backed in whole or in part by subprime Loans (such RMBS Securities, “Subprime RMBS”) were intended to incorporate this higher degree of risk. Such enhancements were provided as a protection to holders of such Subprime RMBS. However, the current market prices of these Subprime RMBS and the delinquencies and defaults of their underlying Loans imply that many of these Subprime RMBS do not have adequate credit protection and may indeed suffer further partial or a complete loss of principal. Credit rating agencies have downgraded tens of billions of dollars of RMBS Securities and CDOs that include Subprime RMBS and other RMBS Securities and additional downgrades are expected. Some or all of the principal may be lost in these Subprime RMBS. While such Subprime RMBS will be purchased with the expectation of a potential for a positive long-term internal rate of return, it is possible that a prolonged period of continued stress and dislocation in the “subprime” residential mortgage sector will have a negative impact on the short-term liquidity and market pricing of these assets. Such effects have the potential to adversely impact the short-term and long-term liquidity and returns of the Funds.

## ***MUNICIPAL SECURITIES***

Municipal bonds (also municipal securities or municipal obligations) generally are issued by state and local governments and their agencies, authorities and other instrumentalities. Municipal obligations include obligations issued to obtain funds for various public purposes, including constructing a wide range of public facilities, such as bridges, highways, housing, hospitals, mass transportation, schools and streets. Other public purposes for which municipal obligations may be issued include the refunding of outstanding obligations, the obtaining of funds for general operating expenses and the making of loans to other public institutions and facilities. In addition, certain types of industrial development bonds (“IDBs”) and private activity bonds (“PABs”) are issued by or on behalf of public authorities to finance various privately operated facilities, including certain pollution control facilities, convention or trade show facilities, and airport, mass transit, port or parking facilities.

The two principal classifications of municipal obligations are “general obligation” and “revenue” bonds. “General obligation” bonds are secured by the issuer’s pledge of its faith, credit and taxing power. “Revenue” bonds are payable only from the revenues derived from a particular facility or class of facilities or from the proceeds of a special excise tax or other specific revenue source such as the corporate user of the facility being financed. IDBs and PABs are usually revenue bonds and are not payable from the unrestricted revenues of the issuer. The credit quality of IDBs and PABs is usually directly related to the credit standing of the corporate user of the facilities.

The ability of state, county or local governments to meet their obligations will depend primarily on the availability of tax and other revenues to those governments and on their fiscal conditions generally. The amounts of tax and other revenues available to governmental issuers may be affected from time to time by economic, political and demographic conditions within or outside of the particular state. In addition, constitutional or statutory restrictions may limit a government’s power to raise revenues or increase taxes.

Municipal bonds are subject to interest rate, credit and market risk. Because of how they are issued, municipal bonds also are subject to the risk that litigation, legislation, various political events, local business or economic conditions, or the bankruptcy of the issuer could have a significant effect on an issuer’s ability to make payments of principal and/or interest. Lower rated municipal bonds generally are subject to greater credit and market risk than higher quality municipal bonds. The types of municipal bonds in which the Funds may invest include municipal lease obligations. The Funds may also invest in industrial development bonds, which are municipal bonds issued by a government agency on behalf of a private sector company and, in most cases, are not backed by the credit of the issuing municipality and may therefore involve more risk. The Funds may also invest in securities issued by entities whose underlying assets are municipal bonds.

The Funds may invest, without limitation, in residual interest bonds (sometimes referred to as inverse floaters) (“RIBs”), which brokers create by depositing municipal bonds into a trust. The trust in turn issues a variable rate security and RIBs. The interest rate for the variable rate security is determined by an index or an auction process held approximately every 7 to 35 days, while the RIB holder receives the balance of the income from the underlying municipal bond less an auction fee. The market prices of RIBs may be highly sensitive to changes in market rates and may decrease significantly when market rates increase. In a transaction in which a Fund purchases a RIB from a trust, and the underlying municipal bond was held by the Fund prior to being deposited into the trust, the Fund treats the transaction as a secured borrowing for financial reporting purposes. As a result, the Fund will incur a non-cash interest expense with respect to interest paid by the trust on the variable rate securities, and will recognize additional interest income in an amount directly corresponding to the non-cash interest expense. Therefore, the Fund’s net asset value per share and performance are not affected by the non-cash interest expense. This accounting treatment does not apply to RIBs acquired by the Funds where the Funds did not previously own the underlying municipal bond.

## ***NON-U.S. MONEY MARKET SECURITIES***

The Funds may invest in non-U.S. money market securities. Money-market securities are generally subject to credit risk, which is the risk that an issuer will default in the payment of principal and/or interest on a security, and the risk that a security’s value may decline for reasons directly related to the issuer, such as management performance, financial leverage and condition of the business. Foreign money market securities are additionally subject to currency risk, in that foreign currencies may decline in value relative to the U.S. dollar and affect a Fund’s investments in such securities, and they may have less liquidity than similar U.S. securities.

## ***REPURCHASE AGREEMENTS***

Each Fund may enter into repurchase agreements involving U.S. government securities or other collateral including mortgage-related products or corporate securities with commercial banks or broker-dealers, whereby the seller of a security agrees to repurchase the security from the Fund on an agreed-upon date in the future. While each Fund intends to be fully collateralized as to such agreements, and the collateral will be marked to market daily, if the person obligated to repurchase from the Fund defaults, there may be delays and expenses in liquidating the securities subject to the repurchase agreement, a decline in their value and a loss of interest income.

A repurchase transaction occurs when, at the time a Fund purchases a security, that Fund also resells it to a vendor (normally a commercial bank or broker-dealer) and must deliver the security (and/or securities substituted for them under the repurchase agreement) to the vendor on an agreed-upon date in the future. Such securities, including any securities so substituted, are referred to as the “Resold Securities.” The resale price is in excess of the purchase price in that it reflects an agreed-upon market interest rate effective for the period of time during which the Fund’s money is invested in the Resold Securities. The majority of these transactions run from day to day, and the delivery pursuant to the resale typically will occur within one to five days of the purchase. The Fund’s risk is limited to the ability of the vendor to pay the agreed-upon sum at the delivery date; in the event of bankruptcy or other default by the vendor, there may be possible delays and expenses in liquidating the instrument purchased, decline in its value and loss of interest. The Adviser will consider the creditworthiness of any vendor of repurchase agreements. Repurchase agreements can be considered as loans “collateralized” by the Resold Securities, and are defined as “loans” in the 1940 Act. The return on such collateral may be more or less than that from the repurchase agreement. The Resold Securities will be marked to market every business day so that the value of the collateral is at least equal to the value of the loan, including the accrued interest earned thereon. All Resold Securities will be held by the Fund’s custodian either directly or through a securities depository (tri-party repurchase agreement) or the Federal Reserve book-entry system.

### ***REVERSE REPURCHASE AGREEMENTS***

The Funds may enter into reverse repurchase agreements, whereby a Fund sells securities concurrently with entering into an agreement to repurchase those securities at a later date at a fixed price. During the reverse repurchase agreement period, the Fund continues to receive principal and interest payments on those securities. Reverse repurchase agreements are speculative techniques involving leverage and are considered borrowings by the Fund for purposes of the percentage limitations applicable to borrowings.

### ***SALE-BUYBACKS***

The Funds also may effect simultaneous purchase and sale transactions that are known as “sale-buybacks.” A sale-buyback is similar to a reverse repurchase agreement, except that in a sale-buyback, the counterparty that purchases the security is entitled to receive any principal or interest payments made on the underlying security pending settlement of the Fund’s repurchase of the underlying security. A Fund’s obligations under a sale-buyback typically would be offset by liquid assets equal in value to the amount of the Fund’s forward commitment to repurchase the subject security.

### ***SHORT SALES***

If a Fund anticipates that the price of a security will decline, it may sell the security “short” and borrow the same security from a broker or other institution to complete the sale. The Fund may make a profit or loss depending upon whether the market price of the security decreases or increases between the date of the short sale and the date on which the Fund must replace the borrowed security. Until the security is replaced, the Fund generally is required to pay to the lender amounts equal to any interest that accrues during the period of the loan. To borrow the security, the Fund also may be required to pay a premium, which would also increase the cost of the security sold. The proceeds of the short sale will be retained by the broker (or by the Fund’s custodian in a special custody account), to the extent necessary to meet the margin requirements, until the short position is closed out.

Until the Fund closes its short position or replaces the borrowed security, the Fund will designate liquid securities at such a level that (i) the amount deposited in the account plus the amount deposited with the broker as collateral will equal the current value of the security sold short and (ii) the amount designated plus the amount deposited with the broker as collateral will not be less than the market value of the security at the time it was sold short.

The Corporate Bond Fund, Flexible Income Fund, Investment Grade Credit Fund, High Yield Bond Fund and Strategic Income Fund may not make short sales of securities or maintain a short position if more than 33<sup>1/3</sup>% of the Fund’s total assets (taken at current value) are held as collateral for such sales at any one time. The AlphaTrak 500 Fund, Intermediate Bond Fund, Low Duration Bond Fund, Total Return Bond Fund, Ultra Short Bond Fund and Unconstrained Bond Fund will not make total short sales exceeding 25% of the Fund’s total assets. The Floating Rate Income Fund will not make total short sales exceeding 15% of the Fund’s total assets.

### ***U.S. GOVERNMENT SECURITIES***

The Funds may invest in U.S. government securities. U.S. government securities include direct obligations issued by the United States Treasury, such as Treasury bills, certificates of indebtedness, notes, bonds and component parts of notes or bonds (including the principal of such obligations or the interest payments scheduled to be paid on such obligations). U.S. government securities also can include securities issued or guaranteed by U.S. government agencies and instrumentalities that issue or guarantee securities, including, but not limited to, the Federal National Mortgage Association (“FNMA”), Government National Mortgage Association (“GNMA”), Federal Home Loan Banks, Federal Financing Bank, Student Loan Marketing Association. Federal Home

Loan Mortgage Corporation (“FHLMC”), Federal Intermediate Credit Banks, Federal Land Banks, Tennessee Valley Authority, Inter-American Development Bank, Asian Development Bank and the International Bank for Reconstruction and Development. Certain of these entities are U.S. Government Sponsored Enterprises (“GSE”). Although the securities of these GSEs, and others like them, may be chartered or sponsored by Acts of Congress, their securities are neither issued nor guaranteed by the United States Treasury. For example, FNMA’s guarantee is supported by its ability to borrow from the U.S. Treasury, while FHLMC’s guarantee is backed by reserves set aside to protect holders against losses due to default. In September 2008, the Federal Housing Finance Agency placed FNMA and the FHLMC into conservatorship to control their operations. Certain financing arrangements were put in place to support their bonds, but they are not backed by the full faith and credit of the U.S. government. Also included as U.S. government securities are bank-issued debt instruments that are guaranteed by the Federal Deposit Insurance Corporation (FDIC) under its Temporary Liquidity Guarantee Program, which is backed by the full faith and credit of the U.S. government.

Except for U.S. Treasury securities, obligations of U.S. government agencies and instrumentalities may or may not be supported by the full faith and credit of the United States. Some are backed by the right of the issuer to borrow from the Treasury; others by discretionary authority of the U.S. government to purchase the agencies’ obligations; while still others, such as the Student Loan Marketing Association, are supported only by the credit of the instrumentality. In the case of securities not backed by the full faith and credit of the United States, the investor must look principally to the agency or instrumentality issuing or guaranteeing the obligation for ultimate repayment, and may not be able to assert a claim against the United States itself in the event the agency or instrumentality does not meet its commitment. Each Fund will invest in securities of such instrumentality only when the Adviser is satisfied that the credit risk with respect to that instrumentality is acceptable.

Among the U.S. government securities that may be purchased by the Funds are certain “mortgage-backed securities” of GNMA, the FHLMC and FNMA. See the discussion under “Mortgage-Related Securities.”

The Funds may invest in component parts of the U.S. Treasury notes or bonds, namely, either the principal of such Treasury obligations or one of the interest payments scheduled to be paid on such obligations. These obligations may take the form of (i) Treasury obligations from which the interest coupons have been stripped, (ii) the interest coupons that are stripped, (iii) book-entries at a Federal Reserve member bank representing ownership of Treasury obligation components, or (iv) receipts evidencing the component parts (principal or interest) of Treasury obligations that have not actually been stripped. Such receipts evidence ownership of component parts of Treasury obligations (principal or interest) purchased by a third party (typically an investment banking firm) and held on behalf of the third party in physical or book-entry form by a major commercial bank or trust company pursuant to a custody agreement with the third party. These custodial receipts are known by various names, including “Treasury Receipts,” “Treasury Investment Growth Receipts” (TIGRs) and “Certificates of Accrual on Treasury Securities” (CATS), and are not issued by the U.S. Treasury. Therefore they are not U.S. government securities, although the underlying bonds represented by these receipts are debt obligations of the U.S. Treasury.

## ***WARRANTS***

The Corporate Bond Fund, Flexible Income Fund, High Yield Bond Fund, Investment Grade Credit Fund and Strategic Income Fund may invest in or acquire warrants to purchase equity or fixed income securities. Bonds with warrants attached to purchase equity securities have many characteristics of convertible bonds and their prices may, to some degree, reflect the performance of the underlying stock. Bonds also may be issued with warrants attached to purchase additional fixed income securities at the same coupon rate. A decline in interest rates would permit the Funds to buy additional bonds at the favorable rate or to sell the warrants at a profit. If interest rates rise, the warrants would generally expire with no value.

## ***WHEN-ISSUED SECURITIES***

The Funds may purchase securities on a when-issued or delayed-delivery basis, generally in connection with an underwriting or other offering. When-issued and delayed-delivery transactions occur when securities are bought with payment for and delivery of the securities scheduled to take place at a future time, beyond normal settlement dates, generally from 15 to 45 days after the transaction. The price that the Fund is obligated to pay on the settlement date may be different from the market value on that date. While securities may be sold prior to the settlement date, the Funds intend to purchase such securities with the purpose of actually acquiring them, unless a sale would be desirable for investment reasons. At the time the Fund makes a commitment to purchase a security on a when-issued basis, it will record the transaction and reflect the value of the security each day in determining the Fund’s net asset value. The Fund will also designate liquid securities, marked-to-market daily, equal in value to its obligations for when-issued securities.

## **PORTFOLIO TURNOVER**

Portfolio securities are sold whenever the Adviser believes it appropriate, regardless of how long the securities have been held. Portfolio turnover generally involves some expense to the Fund, including brokerage commissions, dealer markups and other transaction costs, and may result in the recognition of capital gains that may be distributed to shareholders. Generally, portfolio turnover over 100% is considered high and increases these costs. The rate of portfolio turnover will not be a limiting factor in making portfolio decisions. Each Fund's investment program emphasizes active portfolio management with a sensitivity to short-term market trends and price changes in individual securities. Accordingly, each Fund may take frequent trading positions, resulting in portfolio turnover that may exceed the portfolio turnover of most investment companies of comparable size. Portfolio turnover rates for the most recent fiscal periods of the Funds are set forth in the "Financial Highlights" tables in the Prospectus.

## **RISK OF INCREASED RELIANCE ON DATA ANALYTICS**

In recent years, the asset management business has become increasingly dependent on data analytics to support portfolio management, investment operations and compliance. The Adviser's regulators have also substantially increased the extent and complexity of the data analytic component of compliance requirements. A failure to source accurate data from third parties or to correctly analyze, integrate or apply data could result in operational, trade or compliance errors, could cause portfolio losses, and could lead to regulatory concerns.

## **DEFENSIVE INVESTING**

The Funds may engage in defensive investing, which is a deliberate, temporary shift in portfolio strategy that may be undertaken when markets start behaving in volatile or unusual ways. Depending on the Adviser's analysis of the various markets and other considerations, the Funds may, for temporary defensive purposes, invest a substantial part or all of their assets in bonds of U.S. or foreign governments, cash, certificates of deposit, bankers' acceptances, high-grade commercial paper, and repurchase agreements. Such investments may also be made for temporary purposes pending investment in other securities or following substantial new investment in a Fund. When the Funds have invested defensively in low risk, low return securities, they may not achieve their investment objectives. There is no assurance that the Funds will enter into a defensive strategy in the event of volatility or other unusual activity in the securities markets.

## **INTERFUND BORROWING AND LENDING**

The SEC has issued an exemptive order permitting the Funds to borrow money from and lend money to each other, as well as funds managed by TCW Investment Management Company LLC, an affiliate of the Adviser. A Fund will borrow through the program only when the costs are equal to or lower than the cost of bank loans, and will lend through the program only when the returns are higher than those available from an investment in overnight repurchase agreements. Interfund loans and borrowings normally extend overnight, but can have a maximum duration of seven days. Loans may be called on one day's notice. In addition, a Fund may participate in the program only if and to the extent that such participation is consistent with the Fund's investment restrictions, policies, limitations and organizational documents. A borrowing Fund may have to borrow from a bank at a higher interest rate if an interfund loan is called or not renewed. Any delay in repayment of an interfund borrowing to a lending Fund could result in lost investment opportunities or additional borrowing costs. The Board of Trustees is responsible for overseeing and periodically reviewing the interfund lending program.

## **MANAGEMENT**

### **BOARD LEADERSHIP STRUCTURE AND RISK OVERSIGHT**

The operations of the Funds are under the direction of the Board of Trustees. The Board establishes the Funds' policies and oversees and reviews the management of the Funds. The Board meets regularly (*i.e.*, at least quarterly) to review the investment performance of the Funds and other financial and operational matters, including policies and procedures with respect to compliance with regulatory and other requirements, as well as to review the activities of the Trust's officers, who are responsible for the day-to-day operations of the Funds. The Board met five times during the fiscal year ended March 31, 2019.

The Board consists of eight Trustees, six of whom are not "interested persons" (as defined in the Investment Company Act of 1940, as amended) of the Trust (the "Independent Trustees"). An Independent Trustee serves as Chairman of the Board. In addition, there are three standing committees of the Board to which the Board has delegated certain authority and supervisory responsibilities, two of which are comprised exclusively of Independent Trustees. Those committees are the Audit Committee, Nominating and Governance Committee and Valuation Committee, whose responsibilities and activities are described below.

As part of each regular Board meeting, the Independent Trustees meet separately from the Adviser, and as needed with their independent legal counsel and with the Trust's Chief Compliance Officer. The Board reviews its leadership structure periodically as part of its annual self-assessment process and believes that its structure is appropriate to enable the Board to exercise its oversight of the Funds.

The Funds have retained the Adviser as the Funds' investment adviser. Subject to the objectives and policies as the Trustees may determine, the Adviser furnishes a continuing investment program for the Funds, makes investment decisions on their behalf, manages risks that arise from the Funds' investments and operations, and provides administrative services to each Fund, all pursuant and subject to its investment advisory agreement with the Funds. Employees of the Adviser serve as the Trust's officers, including the Trust's President, Treasurer, Secretary and Chief Compliance Officer.

The Board oversees the services provided by the Adviser, including certain risk management functions. Risk management is a broad concept that can cover many elements. The Board handles its review of different elements and types of risks in different ways. In the course of providing oversight, the Board and the Committees receive reports on the Funds' activities, including regarding each Fund's investment portfolio and the Funds' financial accounting and reporting. The Board also meets periodically with the Trust's Chief Compliance Officer who reports on the compliance of the Funds with the federal securities laws and the Trust's internal compliance policies and procedures. The Audit Committee's meetings with the Funds' independent auditors also contribute to its oversight of certain internal control risks. In addition, the Board meets periodically with the portfolio managers of the Funds to receive reports regarding the management of the Funds, including certain investment and operational risks. Because the Board has delegated the day-to-day activities of the Funds to the Adviser and other service providers, the risk management oversight provided by the Board can mitigate but not eliminate the identified risks. Not all risks that may affect a Fund can be identified or processes and controls developed to eliminate or mitigate their occurrence or effects, and some risks are simply beyond any control of a Fund or the Adviser, its affiliates or other service providers.

### **TRUSTEES AND OFFICERS**

Information pertaining to the Trustees and officers of the Trust is provided in the table below. The term "officer" means president, vice president, secretary, treasurer, controller, or any other officer who performs policymaking functions. All officers serve without direct compensation from the Funds. "**Fund Complex**" used in this SAI refers to the Trust (consisting of 12 portfolios), TCW Funds, Inc. (consisting of 19 portfolios), and TCW Strategic Income Fund, Inc. (consisting of 1 portfolio).

<b>NAME AND YEAR OF BIRTH***</b>	<b>POSITION(S) HELD WITH TRUST</b>	<b>TERM OF OFFICE AND LENGTH OF TIME SERVED****</b>	<b>PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS</b>	<b>NUMBER OF FUNDS IN FUND COMPLEX OVERSEEN BY TRUSTEE</b>	<b>OTHER DIRECTORSHIPS HELD BY TRUSTEE</b>
<b>Independent Trustees of the Trust*</b>					
Ronald J. Consiglio (1943)	Trustee	Indefinite term, since 2003	Since 1999, Mr. Consiglio has served as the managing director of Synergy Trading, a securities-trading partnership.	12	MannKind Corp. (pharmaceutical preparations)
Patrick C. Haden (1953)	Trustee	Indefinite term, since 2010	President (since 2003), Wilson Ave. Consulting (business consulting firm); Senior Advisor to President (July 2016 - June 2017) and Athletic Director (August 2010 - June 2016), University of Southern California	32	Tetra Tech, Inc. (environmental consulting); Auto Club (affiliate of AAA); TCW Funds, Inc. (mutual funds); TCW Strategic Income Fund, Inc. (closed-end fund)
Martin Luther King III (1957)	Trustee and Chairman of the Nominating Committee	Indefinite term, since 1997	Since 1998, Mr. King has served as the President and Chief Executive Officer of The King Center. Since January 2006, he has served as Chief Executive Officer of Realizing the Dream, a non-profit organization that continues the humanitarian and liberating work of Dr. Martin Luther King, Jr. and Mrs. Coretta Scott King. He has been engaged as an independent motivational lecturer since 1980.	12	None

<b>NAME AND YEAR OF BIRTH***</b>	<b>POSITION(S) HELD WITH TRUST</b>	<b>TERM OF OFFICE AND LENGTH OF TIME SERVED****</b>	<b>PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS</b>	<b>NUMBER OF FUNDS IN FUND COMPLEX OVERSEEN BY TRUSTEE</b>	<b>OTHER DIRECTORSHIPS HELD BY TRUSTEE</b>
Peter McMillan (1957)	Trustee	Indefinite term, since 2008	Co-founder, Managing Partner and Chief Investment Officer (since May 2013), Temescal Canyon Partners (investment advisory firm); Co-founder and Executive Vice President (since 2005), KBS Capital Advisors (a manager of real estate investment trusts); Co-founder and Managing Partner (since 2000), Willowbrook Capital Group LLC (investment advisory firm).	32	KBS Real Estate Investment Trusts (real estate investments); KBS Strategic Opportunity REIT (real estate investments); Keppel-KBS U.S. REIT (real estate investments); TCW Funds, Inc. (mutual funds); TCW Strategic Income Fund, Inc. (closed-end fund); TCW DL VII Financing LLC (business development company)
Robert G. Rooney (1957)	Trustee and Chairman of the Audit Committee	Indefinite term, since 2009	Chief Financial and Administrative Officer (since November 2018), ParkJockey Global Inc. (real estate and technology services company); Chief Financial Officer (January 2018 – November 2018), Citizens Parking Inc. (nationwide automobile parking facilities); Chief Financial Officer (2015-2017), Novitex Enterprise Solutions, Inc. (document management services); Partner (2011-2015), Televerse Media (digital media company); Executive Vice President and Chief Operating Officer (2006-2011), Affinion Group, Inc. (“Affinion”), (customer engagement and loyalty company).	12	None
Andrew Tarica (1959)	Trustee and Chairman of the Board	Indefinite term, since 2002 and 2008, respectively	Chief Executive Officer (since 2001), Meadowbrook Capital Management (asset management company); Employee (since 2003), Cowen Prime Services (broker-dealer).	32	TCW Funds, Inc. (mutual funds); TCW Strategic Income Fund, Inc. (closed-end fund); TCW Direct Lending VII, LLC (business development company)

NAME AND YEAR OF BIRTH**	POSITION(S) HELD WITH TRUST	TERM OF OFFICE AND LENGTH OF TIME SERVED****	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS	NUMBER OF FUNDS IN FUND COMPLEX OVERSEEN BY TRUSTEE	OTHER DIRECTORSHIPS HELD BY TRUSTEE
<b>Interested Trustees**</b>					
Patrick Moore (1964)	Trustee	Indefinite term, since 2014	Mr. Moore is a Group Managing Director for the Adviser, TCW Investment Management Company LLC, TCW Asset Management Company LLC and TCW LLC. He has been with the Adviser since 2000. Mr. Moore is a member of the CFA Institute.	12	None
Laird Landmann (1964)	Trustee and Executive Vice President	Indefinite term, since 2008 and 2007, respectively	Mr. Landmann is President for the Adviser and Group Managing Director of The TCW Group, Inc., TCW Investment Management Company LLC, TCW Asset Management Company LLC and TCW LLC. Since August 1996, Mr. Landmann has been a Generalist Portfolio Manager with the Adviser and currently serves as the Adviser's President.	12	None
<b>Officers of the Trust who are not Trustees</b>					
David B. Lippman (1958)	President and Principal Executive Officer	Indefinite term, since November 2008	Mr. Lippman is the Chief Executive Officer of the Adviser (since June 2008), and the Chief Executive Officer and President of The TCW Group, Inc., TCW Investment Management Company LLC, TCW Asset Management Company LLC and TCW LLC (since August 2012).	1	TCW Strategic Income Fund, Inc. (closed-end fund)
David S. DeVito (1962)	Treasurer, Principal Financial Officer and Principal Accounting Officer	Indefinite term, since 2010	Mr. DeVito is Executive Vice President and Chief Operating Officer of the Adviser, TCW Investment Management Company LLC, The TCW Group, Inc., TCW LLC and TCW Asset Management Company LLC; President and Chief Executive Officer, TCW Alternative Funds, TCW Funds, Inc. and TCW Strategic Income Fund, Inc.	20	TCW Funds, Inc. (mutual funds); TCW Strategic Income Fund, Inc. (closed-end fund)
Eric Chan (1978)	Assistant Treasurer	Indefinite term, since 2010	Mr. Chan is Senior Vice President of Fund Operations for the Adviser, TCW Investment Management Company LLC, TCW Asset Management Company LLC and TCW LLC; Assistant Treasurer, TCW Funds, Inc. He has been with the Adviser since November 2006. Mr. Chan is a Certified Public Accountant.	N/A	N/A



<b>NAME AND YEAR OF BIRTH***</b>	<b>POSITION(S) HELD WITH TRUST</b>	<b>TERM OF OFFICE AND LENGTH OF TIME SERVED****</b>	<b>PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS</b>	<b>NUMBER OF FUNDS IN FUND COMPLEX OVERSEEN BY TRUSTEE</b>	<b>OTHER DIRECTORSHIPS HELD BY TRUSTEE</b>
Tad Rivelle (1961)	Executive Vice President	Indefinite term, since 2007	Mr. Rivelle is the Chief Investment Officer and Group Managing Director for the Adviser, TCW Investment Management Company LLC, TCW Asset Management Company LLC and TCW LLC. He has been with the Adviser since August 1996.	N/A	N/A
Stephen M. Kane (1962)	Executive Vice President	Indefinite term, since 2007	Mr. Kane is a Group Managing Director for the Adviser, TCW Investment Management Company LLC, TCW Asset Management Company LLC and TCW LLC. He has been with the Adviser since August 1996.	N/A	N/A
Cal Rivelle (1958)	Executive Vice President	Indefinite term, since 2009	Mr. Rivelle is a Group Managing Director for the Adviser, The TCW Group, Inc., TCW Investment Management Company LLC, TCW Asset Management Company LLC and TCW LLC.	N/A	N/A
Jeffrey Engelsman (1967)	Chief Compliance Officer and AML Officer	Indefinite term, since 2014 and 2016, respectively	Mr. Engelsman is the AML Officer of TCW Funds, Inc. and TCW Strategic Income Fund, Inc. (since December 2016); Managing Director and Global Chief Compliance Officer of the Adviser, TCW Investment Management Company LLC, TCW Asset Management Company LLC and TCW LLC (since January 2016). He is the Chief Compliance Officer of The TCW Group, Inc. Prior to joining TCW, he was a Managing Director of New York Life Investments and the Chief Compliance Officer of the MainStay Funds, a group of more than 70 open-ended and closed-end funds. Mr. Engelsman holds the Series 7, 24 and 63 FINRA licenses. He is Chief Compliance Officer for TCW Funds, Inc. and TCW Strategic Income Fund, Inc.	N/A	N/A

NAME AND YEAR OF BIRTH***	POSITION(S) HELD WITH TRUST	TERM OF OFFICE AND LENGTH OF TIME SERVED****	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS	NUMBER OF FUNDS IN FUND COMPLEX OVERSEEN BY TRUSTEE	OTHER DIRECTORSHIPS HELD BY TRUSTEE
Meredith Jackson (1959)	Vice President and Secretary	Indefinite term, since 2013	Ms. Jackson is Executive Vice President, General Counsel and Secretary of the Adviser, The TCW Group, Inc., TCW LLC, TCW Investment Management Company LLC, and TCW Asset Management Company LLC (since February 2013); before then she was Partner, Irell & Manella LLP (law firm). She is Senior Vice President, General Counsel and Secretary for TCW Funds, Inc. and TCW Strategic Income Fund, Inc.	N/A	N/A
Patrick Dennis (1981)	Vice President and Assistant Secretary	Indefinite term, since 2013	Mr. Dennis is Senior Vice President, Associate General Counsel and Assistant Secretary of the Adviser, TCW Investment Management Company LLC, TCW LLC and TCW Asset Management Company LLC (since February 2013); Associate (2010—2013) Paul Hastings LLP (law firm); Associate (2006—2010) Dechert LLP (law firm). He is Vice President and Assistant Secretary for TCW Funds, Inc. and TCW Strategic Income Fund, Inc.	N/A	N/A

\* Denotes a Trustee who is not an “interested” person of the Funds as defined in the 1940 Act.

\*\* Denotes a Trustee who is an “interested” person of the Trust as defined in the 1940 Act, due to the relationship indicated with the Adviser.

\*\*\* For purposes of Trust business, the address for all Trustees and officers is c/o Metropolitan West Asset Management, LLC, 865 South Figueroa Street, Los Angeles, California 90017.

\*\*\*\* On December 12, 2016, members of the Board of Trustees recognized the value of having a retirement policy and that having such a policy would be consistent with best practices in the mutual fund industry. For that reason, the Board adopted the following retirement policy (the “Policy”): A member of the Board shall be required to retire from the Board (and any committee (s) of the Board on which he or she serves) no later than the first regular quarterly meeting of the Board next held after that Board member reaches his or her 75th birthday; provided, however, that the affected Board member may continue to serve as a member of the Board (and member of committee(s) of the Board) for one or more successive one-year periods, or such shorter extension periods, as shall be approved by a unanimous secret vote of the other members of the Board then serving. Any member of the Board who has already reached his or her 75th birthday at the time of adoption of the Policy shall be automatically granted a two-year extension term, subject to any prior resignation or removal as a member of the Board before the expiration of that two-year term. Any continuation of that Board member’s service beyond that two-year extension would be subject to the vote requirement previously specified above.

The Board of Trustees will consider nominees for Trustee recommended by shareholders provided that such recommendations are submitted by the date disclosed in a Fund’s proxy statement and otherwise comply with applicable securities laws, including Rule 14a-8 under the 1934 Act. Such shareholder recommendations must be in writing and should be sent to the attention of the Board of Trustees in care of the Fund at 865 South Figueroa Street, Los Angeles, California 90017. Shareholder recommendations should include the proposed nominee’s biographical information (including business experience for the past ten years) and a description of the qualifications of the proposed nominee, along with a statement from the proposed nominee that he or she is willing to serve and meets the requirements to be a disinterested Trustee, if applicable.

## **INFORMATION ABOUT EACH TRUSTEE'S QUALIFICATIONS, EXPERIENCE, ATTRIBUTES OR SKILLS**

The Board took into account a variety of factors in the original selection of candidates to serve as a Trustee, including the then composition of the Board. Generally, no one factor was decisive in the selection of an individual to join the Board. Among the factors the Board considered when concluding that an individual should serve on the Board were the following: (i) the individual's business and professional experience and accomplishments; (ii) the individual's ability to work effectively with the other members of the Board; and (iii) how the individual's skills, experience, and attributes would contribute to an appropriate mix of relevant skills and experience on the Board. In addition, the Trustees also possess various other intangible qualities such as intelligence, work ethic, the ability to work together, to communicate effectively, to ask incisive questions and exercise judgment, and to oversee the business of the Trust. The Board also considered, among other factors, the particular attributes described below with respect to the various individual Trustees. The summaries set forth below as to the qualifications, attributes, and skills of the Trustees are furnished in response to disclosure requirements imposed by the SEC and do not impose any greater or additional responsibility or obligation on, or change any standard of care of, any such person or on the Board as a whole than otherwise would be the case.

Mr. Consiglio has many years of experience as an executive in the securities industry, including service as a board member. From 1999 through 2001, Mr. Consiglio was Executive Vice President and Chief Financial Officer of Trading Edge, Inc., a national automated bond-trading firm. From January 1993 to 1998, Mr. Consiglio served as Chief Executive Officer and President of Angeles Mortgage Investment Trust, a publicly traded real estate investment trust. Before that position, he served as Senior Vice President and Chief Financial Officer of Cantor Fitzgerald & Co. and as a member of its board of directors. Mr. Consiglio practiced as a certified public accountant and was an audit partner with Deloitte Haskins & Sells from 1977 through 1984. He also has in-depth experience with audit and accounting principles and practices, and serves as the Audit Committee Financial Expert on the Audit Committee. He also has many years of experience serving on the Trust's Board.

Mr. Haden is the Independent Chairman of TCW Funds, Inc. and the President of Wilson Ave. Consulting. From July 2016 through June 2017, he served as the Senior Advisor to the President of the University of Southern California. He also currently serves on the board of directors of Tetra Tech, Inc., an environmental consulting company, Auto Club, an affiliate of AAA, and TCW Strategic Income Fund, Inc., a publicly-traded closed end fund, of which he is also the Independent Chairman. Previously, he was the Athletic Director of the University of Southern California. Mr. Haden is a Rhodes Scholar and prior to August 2010, was a member of the board of trustees of the University of Southern California. All of these positions give him extensive experience serving as a board member and discharging his fiduciary responsibilities with respect to investment companies, including approximately nine years of experience serving on the Trust's Board.

Mr. King is a nationally prominent community leader and organizer, and has had leadership positions with various community organizations. He also has many years of experience serving on the Trust's Board.

Mr. McMillan is the Co-Founder and Managing Partner of Willowbrook Capital Group, LLC, an investment advisory firm, Co-Founder, Managing Partner and Chief Investment Officer of Temescal Canyon Partners, an investment advisory firm, and Co-Founder and Executive Vice President of KBS Capital Advisors, a manager of real estate investment trusts. He serves on the boards of various KBS real estate investment trusts, TCW Funds, Inc., TCW Strategic Income Fund, Inc., and TCW DL VII Financing LLC. Prior to forming Willowbrook Capital Group in 2000, Mr. McMillan served as the Executive Vice President and Chief Investment Officer of Sun America Investments, Inc. Prior to 1989, he served as Assistant Vice President for Aetna Life Insurance for Aetna Life Insurance and Annuity Company with responsibility for the company's fixed income portfolios. He also has approximately eleven years of experience serving on the Trust's Board.

Mr. Rooney has many years of senior executive and board experience with various companies, including in-depth experience with financial matters. Since November 2018, he has served as Chief Financial and Administrative Officer of ParkJockey Global Inc. Previously, he was Chief Financial Officer of Citizens Parking Inc. from January 2018 to November 2018, Chief Financial Officer of Novitex Enterprise Solutions, Inc. from September 2015 to July 2017 and was Executive Vice President and interim Chief Financial Officer at Affinion from October 2005 to January 2006. Between November 2004 and October 2005, Mr. Rooney was Executive Vice President at CMG (predecessor to Affinion) and between January 2004 and October 2004, Mr. Rooney was Executive Vice President and Chief Financial Officer at CMG. From July 2001 to January 2004, Mr. Rooney was Executive Vice President and Chief Financial Officer at Trilegiant, a subsidiary of Affinion. He also has approximately ten years of experience serving on the Trust's Board.

Mr. Tarica is the founder and CEO of Meadowbrook Capital Management ("MCM"), a fixed income credit asset management business he founded in 2001. Mr. Tarica is currently the CEO of MCM as well as an employee of Cowen Prime Services ("CPS"), an SEC/FINRA registered broker dealer. He runs fixed income proprietary trading at CPS. Prior to founding MCM, he was the global head of the high grade corporate bond department at Donaldson, Lufkin & Jenrette from 1992 to 1999. From 1990 to 1992 he ran the investment grade sales and trading department at Kidder Peabody. He began his career at Drexel Burnham in 1983 in the investment grade trading area, where he eventually became the head of trading. He is a member of the Board of Directors of TCW Funds, Inc., TCW Strategic Income Fund, Inc. and TCW Direct Lending VII LLC. Mr. Tarica is a graduate of Northeastern University.

Mr. Landmann is an executive officer and co-founder of the Adviser, and has many years of experience managing fixed-income portfolios for clients of the Adviser including the Funds. Mr. Landmann also previously served as a Trustee of the Trust.

Mr. Moore is an executive officer with the Adviser, and has many years of experience with the Adviser’s portfolio management activities for its clients, including the Funds. Mr. Moore also previously served as a Trustee of the Trust from 2010 until 2011.

### **COMMITTEES**

The Board has an Audit Committee consisting of Messrs. King, Consiglio, Haden, Tarica, Rooney and McMillan. Mr. Rooney is the Chairman of the Audit Committee. All of the members of the Audit Committee are not “interested persons” of the Trust as defined in the 1940 Act (“Independent Trustees”). The Audit Committee reviews the scope and results of the Trust’s annual audit with the Trust’s independent registered public accountants, recommends the engagement of such accountants and approves all audit services and permissible non-audit services. The Audit Committee met two times during the fiscal year ended March 31, 2019.

The Board has a Nominating and Governance Committee consisting of all the Independent Trustees. The Nominating and Governance Committee (i) evaluates the qualifications of Board member candidates and makes nominations for Independent Trustee membership on the Board; (ii) recommends Trustee compensation for consideration by the full Board; and (iii) considers general matters of Trust governance and Board operations. Mr. King is Chairman of the Nominating and Governance Committee. The Nominating and Governance Committee met one time during the fiscal year ended March 31, 2019.

The Board has a Valuation Committee consisting of Messrs. Haden, Landmann, McMillan and Tarica. The Valuation Committee monitors the implementation of the Trust’s valuation procedures and has the authority to resolve valuation issues that may arise from time to time in consultation with the Adviser’s Pricing Committee. The Valuation Committee did not meet during the fiscal year ended March 31, 2019.

### **SECURITY AND OTHER INTERESTS**

The table below sets forth the dollar range of equity securities beneficially owned by each Trustee in the Funds and in all registered investment companies overseen by the Trustee within the Trust’s family of investment companies, as of December 31, 2018.

Name of Trustee	Dollar Range of Equity Securities in the Funds <sup>(1)</sup>	Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Director in Family of Investment Companies <sup>(2)</sup>
<b>INDEPENDENT TRUSTEES</b>		
Ronald J. Consiglio	Total Return Bond Fund – over \$100,000	Over \$100,000
Patrick C. Haden	Unconstrained Bond Fund – over \$100,000	Over \$100,000
Martin Luther King, III	None	None
Andrew Tarica	Floating Rate Income Fund – over \$100,000 High Yield Bond Fund – over \$100,000 Strategic Income Fund – over \$100,000 Total Return Bond Fund – over \$100,000 Unconstrained Bond Fund – over \$100,000	Over \$100,000
Peter McMillan	Total Return Bond Fund – over \$100,000	Over \$100,000
Robert Rooney	Floating Rate Income Fund – over \$100,000 Unconstrained Bond Fund – over \$100,000	Over \$100,000

Name of Trustee	Dollar Range of Equity Securities in the Funds <sup>(1)</sup>	Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Director in Family of Investment Companies <sup>(2)</sup>
<b>INTERESTED TRUSTEES</b>		
Laird Landmann	Flexible Income Fund – over \$100,000 Floating Rate Income Fund – over \$100,000 High Yield Bond Fund – over \$100,000 Intermediate Bond Fund – over \$100,000 Low Duration Bond Fund – over \$100,000 Strategic Income Fund – over \$100,000 Total Return Bond Fund – over \$100,000 Ultra Short Bond Fund – \$10,001 – \$50,000 Unconstrained Bond Fund – over \$100,000	Over \$100,000
Patrick Moore	AlphaTrak 500 Fund – over \$100,000 High Yield Bond Fund – over \$100,000 Low Duration Bond Fund – over \$100,000 Total Return Bond Fund – over \$100,000 Unconstrained Bond Fund – over \$100,000	Over \$100,000

- (1) Securities beneficially owned as defined under the Securities Exchange Act of 1934 (the “1934 Act”) include direct and/or indirect ownership of securities where the trustee’s economic interest is tied to the securities, employment ownership and securities when the trustee can exert voting power and when the trustee has authority to sell the securities. The dollar ranges are: None, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, over \$100,000.
- (2) Certain figures represent and include the Trustees’ economic exposure to each series of the Trust through the deferred compensation plan. See “**DEFERRED COMPENSATION PLAN**” for additional details.

As of December 31, 2018, none of the Independent Trustees, or their immediate family members owned, beneficially or of record, any securities in the Adviser or principal underwriter of the Trust, or in a person (other than a registered investment company) directly or indirectly controlling, controlled by or under common control with the adviser or principal underwriter of the Trust.

## COMPENSATION

The Trust does not pay salaries to any of its officers or fees to any of its Trustees who are affiliated with the Adviser. The Independent Trustees each receive an annual retainer of \$120,000, with the Independent Chairman of the Board receiving an additional annual retainer of \$51,000. The Chairman of the Audit Committee receives an additional annual retainer of \$34,000 and the Chairman of the Nominating and Governance Committee receives an additional annual retainer of \$17,000. Each Independent Trustee also receives a fee of \$10,000 for each meeting of the Board of Trustees attended in person and for each telephonic meeting related to the annual investment management contract renewal process pursuant to Section 15(c) of the 1940 Act, and a fee of \$2,500 for each meeting of the Board of Trustees attended telephonically. The total compensation paid by the Trust to each Trustee for the fiscal year ended March 31, 2019 is set forth below.

Name of Trustee	Aggregate Compensation from the Trust	Pension or Retirement Benefits Accrued As Part of Fund Expenses	Estimated Annual Benefits Upon Retirement	Total Compensation From the Trust and Fund Complex <sup>(2)</sup> Paid to Trustees
Patrick Moore	None	None	None	None
Laird Landmann	None	None	None	None
Ronald J. Consiglio	\$ 170,000	None	None	\$ 170,000
Patrick C. Haden	\$ 200,000	None	None	\$ 405,000
Martin Luther King III	\$ 172,000	None	None	\$ 172,000
Andrew Tarica <sup>(1)</sup>	\$ 299,000	None	None	\$ 463,800
Peter McMillan <sup>(1)</sup>	\$ 155,000	None	None	\$ 315,150
Robert G. Rooney <sup>(1)</sup>	\$ 196,500	None	None	\$ 196,500

- (1) Messrs. Tarica, McMillan and Rooney participated in a deferred compensation plan for certain eligible Trustees of the Trust during the last fiscal year. Mr. Rooney has elected to receive 50% of his compensation in cash and 50% in the deferred compensation plan. The total value of deferred compensation as of March 31, 2019 was as follows: \$1,142,430 for Mr. Tarica, \$793,855 for Mr. McMillan and \$503,269 for Mr. Rooney. The deferred compensation plan is discussed in more detail below.
- (2) Includes TCW Funds, Inc. and TCW Strategic Income Fund, Inc., each a registered investment company advised by TCW Investment Management Company LLC, an affiliate of the Adviser.

## **DEFERRED COMPENSATION PLAN**

The Trust has an unfunded, non-qualified deferred compensation plan (the “Plan”) for certain eligible Trustees. The Plan allows Trustees to defer some or all of their annual trustees’ fees otherwise payable by the Trust for a minimum of three years. The fees deferred are posted to a bookkeeping account maintained by the Trust. The various series of the Trust will use the returns on those Funds selected by the Trustee to determine the income, gains and losses to allocate to the account. At the time for commencing distributions from a Trustee’s deferral account, which is no later than when the Trustee ceases to be a member of the Board of Trustees, deferred fees will be paid out in a single sum in cash or a maximum of ten annual installments.

## **CODE OF ETHICS**

The Trust and the Adviser, together with the Adviser’s TCW affiliates, have adopted a joint Code of Ethics under Rule 17j-1 of the 1940 Act and Rule 204A-1 under the Investment Advisers Act of 1940 (the “Advisers Act”) that (i) establishes procedures for personnel with respect to personal investing; (ii) prohibits or restricts certain transactions that may be deemed to create a conflict of interest between personnel and the Funds; and (iii) permits personnel to invest in securities, including securities that may be purchased or held by the Funds. The Code of Ethics is available at [www.sec.gov](http://www.sec.gov) under the Metropolitan West Funds, or will be provided upon request.

## **PROXY VOTING POLICIES**

The Board has adopted joint Proxy Voting Guidelines and Procedures (the “Policy”) with the Adviser and its TCW affiliates. The Policy delegates the responsibility for voting proxies relating to the Trust to the Adviser, subject to the Board’s continuing oversight. Summary of Adviser’s Proxy Voting Policy: The Adviser believes that the right to vote proxies is a significant asset of its clients’ holdings. In order to carry out its fiduciary responsibilities in the voting of proxies for its clients, the Adviser has established a proxy voting committee (the “Proxy Committee”) and adopted these proxy voting guidelines and procedures (the “Guidelines”).

The Proxy Committee generally meets quarterly (or at such other frequency as determined by the Proxy Committee), and its duties include establishing proxy voting guidelines and procedures, overseeing the internal proxy voting process, and reviewing proxy voting issues. The members of the Proxy Committee include personnel from the Adviser’s investment, compliance, legal and marketing departments. The Adviser also uses outside proxy voting services (each an “Outside Service”) to help manage the proxy voting process. An Outside Service facilitates the Adviser’s voting according to the Guidelines (or, if applicable, according to guidelines submitted by the Adviser’s clients) and helps maintain the Adviser’s proxy voting records. In the event of a conflict between contractual requirements and the Guidelines, TCW will vote in accordance with its contractual obligations. All proxy voting and record keeping by the Adviser is, of course, dependent on the timely provision of proxy ballots by custodians, clients and other third parties. Under specified circumstances described below involving potential conflicts of interest, an Outside Service may also be requested to help decide certain proxy votes. The Proxy Committee shall review and evaluate the voting recommendations of such Outside Service to ensure that recommendations are consistent with the Adviser’s clients’ best interests. In the event that the Adviser inadvertently receives any proxy materials on behalf of a client that has retained proxy voting responsibility, and where it is reasonably feasible for the Adviser to determine the identity of the client, the Adviser will promptly forward such materials to the client.

As a matter of firm policy, the Adviser does not disclose to unaffiliated third parties how it expects to vote on upcoming proxies and does not disclose the way it voted proxies without a legitimate need to know such information.

### *Philosophy*

When voting proxies, the Adviser’s utmost concern is that all decisions be made solely in the interests of the client and with the goal of maximizing the value of the client’s investments. Generally, proposals will be voted in accordance with the Guidelines and any applicable guidelines provided by the Adviser’s clients. The Adviser’s underlying philosophy, however, is that its portfolio managers, who are primarily responsible for evaluating the individual holdings of the Adviser’s clients, are best able to determine how to further client interests and goals. The portfolio managers may, in their discretion, take into account the recommendations of the Adviser management, the Proxy Committee, and an Outside Service.

### *Proxy Voting Overrides*

Individual portfolio managers, in the exercise of their best judgment and discretion, may from time to time override the Guidelines and vote proxies in a manner that they believe will enhance the economic value of clients’ assets, keeping in mind the best interests of the beneficial owners. A portfolio manager choosing to abstain on a vote will provide a written rationale for doing so and that rationale will be in the vote notes of the proxy when it is voted. A portfolio manager choosing to override the Guidelines

must deliver a written rationale for each such decision to the Adviser's Proxy Specialist (the "Proxy Specialist"), who will maintain such documentation in the Adviser's proxy voting records and deliver a quarterly report to the Proxy Committee of all votes cast other than in accordance with the Guidelines. If the Proxy Specialist believes there is a question regarding a portfolio manager's vote, he/she will liaise with the portfolio manager as necessary to clarify the rationale. If the Proxy Specialist is unable to resolve the question to his/her satisfaction after liaising with the relevant portfolio manager, TCW's Director of Research (the "Director of Research") will review the portfolio manager's vote and make a determination. If the Director of Research believes it appropriate, he/she may elect to convene the Proxy Committee for its independent consideration as to how the vote should be cast.

### *Conflicts of Interest*

In the event a potential conflict of interest arises in the context of voting proxies for the Adviser's clients, the primary means by which the Adviser will avoid a conflict is by casting such votes solely according to the Guidelines and any applicable guidelines provided by the Adviser's clients, as outlined below. If a potential conflict of interest arises and there is no predetermined vote, or the Guidelines (or any applicable the Adviser client guidelines) themselves refer such vote to the portfolio manager for decision, or the portfolio manager would like to override a predetermined vote, then the Adviser will undertake the following analysis:

Where the issuer soliciting proxy votes is itself a client of the Adviser's (or because an affiliate of such issuer, such as a pension or profit sharing plan sponsored by such issuer, is a client of the Adviser's), then the Proxy Specialist will determine whether such relationship may be deemed not to be material to the Adviser based on the level of assets under management and other relevant facts and circumstances, and will submit his/her analysis to the Proxy Committee for its approval. Where the relationship is deemed material, the Adviser will refrain completely from exercising its discretion with respect to voting the proxy with respect to such vote and will, instead, refer that vote to an Outside Service for its independent consideration as to how the vote should be cast.

Where an employee of the Adviser sits on the Board of a public company, the Proxy Specialist will determine whether such Board member is the portfolio manager for the account holding the security, or whether the Board member has spoken with the portfolio managers for the account holding the security. If either the particular Board member is the portfolio manager or there has been communication concerning such proxy vote between the portfolio manager and the particular Board member, then the Proxy Specialist will provide the Proxy Committee with the facts and vote rationale so that it can determine and vote the securities.

When the issuer is a key vendor or broker of TCW, the Proxy Specialist will determine if the portfolio manager for the account(s) holding the security has spoken with the key vendor or broker about the upcoming proxy vote. If there has been communication concerning the proxy vote between the portfolio manager and the key vendor or broker, the relationship will be deemed material. The Proxy Specialist will provide the Proxy Committee with the relevant facts and the Proxy Committee will vote the proxy.

Where the issuer is a known affiliate of the Adviser, the Adviser will refrain completely from exercising its discretion with respect to voting the proxy with respect to such a vote and will, instead, refer that vote to an Outside Service for its independent consideration as to how the vote should be cast.

Where any other portfolio manager conflict is identified with respect to a given proxy vote, the Proxy Committee will remove such vote from the conflicted portfolio manager and will itself consider and cast the vote.

### *International Proxy Voting*

While the Adviser utilizes these Proxy Voting Guidelines for both international and domestic portfolios and clients, there are some significant differences between voting U.S. company proxies and voting non-U.S. company proxies. For U.S. companies, it is relatively easy to vote proxies, as the proxies are automatically received and may be voted by mail or electronically.

For proxies of non-U.S. companies, although it is typically both difficult and costly to vote proxies, the Adviser will make every reasonable effort to vote such proxies.

The Trust is required to file Form N-PX, with each Fund's complete proxy voting record for the 12 months ended June 30th, no later than August 31st of each year. Form N-PX for each Fund is available on the Funds' website at [www.tcw.com](http://www.tcw.com) or the SEC's website at [www.sec.gov](http://www.sec.gov).

### **ANTI-MONEY LAUNDERING POLICY**

The Trust has adopted an Anti-Money Laundering Policy (the "AML Policy") as required by the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA Patriot Act"). To ensure compliance with this law, the AML Policy provides for the development of internal practices, procedures and controls, designation of anti-money laundering compliance officers, an ongoing training program and an independent audit function to determine the

effectiveness of the AML Policy. Procedures to implement the AML Policy include, but are not limited to, determining that the Funds' Underwriter and Transfer Agent have established proper anti-money laundering and customer identification procedures, reported suspicious and/or fraudulent activity and reviewed all new opening account applications. As a result of the AML Policy, the Trust may be required to "freeze" the account of a shareholder if the shareholder appears to be involved in suspicious activity or if certain account information matches information on government lists of known terrorists or other suspicious persons, or the Trust may be required to transfer the account or proceeds of the account to a governmental agency. The Trust will not transact business with any person or entity whose identity cannot be adequately verified under the provisions of the USA PATRIOT Act (such actions generally are taken by the Funds' servicing agents on behalf of the Trust).

**CONTROL PERSONS AND PRINCIPAL HOLDERS OF SECURITIES**

Listed in the table below are shareholders deemed to be control persons or principal owners of a Fund, as defined in the 1940 Act. Control persons are presumed to control a Fund for purposes of voting on matters submitted to a vote of shareholders due to their beneficial ownership of 25% or more of the outstanding voting securities of a Fund. Principal holders own of record or beneficially 5% or more of a Fund's outstanding voting securities. As of July 1, 2019, the following persons owned beneficially more than 5% of the outstanding voting shares of the Funds. As of July 1, 2019, the Trustees and officers of the Trust, individually and as a group, owned beneficially less than 1% of the outstanding shares of the Funds, other than Class I of Flexible Income Fund, of which they owned 76.81%, and Class I of Investment Grade Credit Fund, of which they owned 62.36%:

<u>FUND</u>	<u>PERCENT OWNERSHIP</u>
<b>ALPHATRAK 500 FUND – CLASS M:</b>	
National Financial Services LLC For the Exclusive Benefit of our Customers Attn: Mutual Funds Dept. 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	24.83%
Charles Schwab & Co. Inc. Special Custody Acct FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	14.82%
Raymond James Omnibus for Mutual Funds 880 Carillon Parkway St. Petersburg, FL 33716	13.84%
Wells Fargo Clearing Services LLC Special Custody Acct FEBO Customer 2801 Market Street Saint Louis, MO 63103	10.63%
LPL Financial 4707 Executive Drive San Diego, CA 92121	10.52%
Pershing LLC 1 Pershing Plaza Jersey City, NJ 07399	5.23%
<b>CORPORATE BOND FUND – CLASS M:</b>	
TCW Asset Management Company International LTD 865 S. Figueroa Street, Suite 1800 Los Angeles, CA 90017	100.00%
<b>CORPORATE BOND FUND – CLASS I:</b>	
TCW Asset Management Company International LTD 865 S. Figueroa Street, Suite 1800 Los Angeles, CA 90017	59.36%
Mitchell A Flack and Ana Leticia Flack Trust c/o Metropolitan West Asset Management, LLC 865 S. Figueroa Street, Suite 1800 Los Angeles, CA 90017	6.77%



<u>FUND</u>	<u>PERCENT OWNERSHIP</u>
James S. Farnham	6.77%
Jean G Farnham Trustees c/o Metropolitan West Asset Management, LLC 865 S. Figueroa Street, Suite 1800 Los Angeles, CA 90017	
Scott Austin	6.77%
Andrea B. Austin Trustees Scott Austin & Andrea B Austin Family Trust Tarzana, CA 91356	
Bret Robert Barker	6.77%
Manhattan Beach, CA 90266	
Harrison Choi	6.77%
Michelle Lee Trustees Choi Family 2014 Living Trust Sherman Oaks, CA 91423	
Jerry Michael Cudzil and Lorie Elizabeth Cudzil JTWROS	6.77%
Pacific Palisades, CA 90272	
<b>FLEXIBLE INCOME FUND – CLASS M:</b>	
TCW Asset Management Company International LTD	100.00%
865 S. Figueroa Street, Suite 1800 Los Angeles, CA 90017	
<b>FLEXIBLE INCOME FUND – CLASS I:</b>	
Tad Rivelle	33.57%
c/o Metropolitan West Asset Management, LLC 865 S. Figueroa Street, Suite 1800 Los Angeles, CA 90017	
David Lippman	15.31%
Jody Lippman Trustees David & Jody Lippman Family Trust c/o Metropolitan West Asset Management, LLC 865 S. Figueroa Street, Suite 1800 Los Angeles, CA 90017	
Laird R. Landmann	15.30%
c/o Metropolitan West Asset Management, LLC 865 S. Figueroa Street, Suite 1800 Los Angeles, CA 90017	
Stephen M. Kane	11.63%
Mary Beth Kane Trustees Kane Revocable Living Trust c/o Metropolitan West Asset Management, LLC 865 S. Figueroa Street, Suite 1800 Los Angeles, CA 90017	
Bryan T. Whalen	11.62%
Corinn Cross Trustees The Whalen Family Trust c/o Metropolitan West Asset Management, LLC 865 S. Figueroa Street, Suite 1800 Los Angeles, CA 90017	
<b>FLOATING RATE INCOME FUND – CLASS M:</b>	
National Financial Services LLC	53.80%
For the Exclusive Benefit of our Customers Attn: Mutual Funds Dept. 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	
Charles Schwab & Co. Inc.	31.86%
Special Custody Acct FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	

<u>FUND</u>	<u>PERCENT OWNERSHIP</u>
LPL Financial 4707 Executive Drive San Diego, CA 92121	5.44%
<b>FLOATING RATE INCOME FUND – CLASS I:</b>	
Wells Fargo Bank NA FBO Navy MetWest Bank Loans PO Box 1533 Minneapolis, MN 55480	17.96%
State of Ohio Bureau of Workers Compensation 30 West Spring Street Columbus, OH 43215	7.42%
The North Carolina Supplemental Retirement Plans Group Trust 3200 Atlantic Avenue Raleigh, NC 27604	5.65%
Fidelity Management Trust CO TTEE Master Trust for DC Plans of American Airlines & US Airways ET 4333 Amon Carter Boulevard MD 5662 Fort Worth, TX 76155	5.59%
<b>HIGH YIELD BOND FUND – CLASS M:</b>	
Charles Schwab & Co. Inc. Special Custody Acct. FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	40.61%

<u>FUND</u>	<u>PERCENT OWNERSHIP</u>
National Financial Services Corp. (FBO) Our Customers Attn: Mutual Funds Dept. 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	26.91%
TD Ameritrade Inc. For The Exclusive Benefit of Our Clients PO Box 2226 Omaha, NE 68103	15.38%
<b>HIGH YIELD BOND FUND – CLASS I:</b>	
National Financial Services LLC For The Exclusive Benefit of Our Customers Attn: Mutual Funds Dept. 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	10.80%
Charles Schwab & Co. Inc. Special Custody Acct FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	9.21%
California Service Employees Health & Welfare Trust Fund 2323 Eastlake Avenue E Seattle, WA 98102	6.74%
TD Ameritrade Inc. For The Exclusive Benefit of Our Clients PO Box 2226 Omaha, NE 68103	5.93%
<b>INTERMEDIATE BOND FUND – CLASS M:</b>	
Charles Schwab & Co. Inc. Special Custody Acct FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	32.93%
National Financial Services Corp. (FBO) Our Customers Attn: Mutual Funds Department 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	27.67%
TD Ameritrade Inc. For The Exclusive Benefit of Our Clients PO Box 2226 Omaha, NE 68103	6.03%
Pershing LLC 1 Pershing Plaza Jersey City, NJ 07399`	5.04%

<u>FUND</u>	<u>PERCENT OWNERSHIP</u>
<b><i>INTERMEDIATE BOND FUND – CLASS I:</i></b>	
Charles Schwab & Co. Inc. Special Custody Acct FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	21.24%
National Financial Services LLC For Exclusive Benefit of Our Customers Attn: Mutual Funds Department 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	18.11%
Morgan Stanley Smith Barney LLC For the Exclusive Benefit of its Customers 1 New York Plaza, Floor 12 New York, NY 10004	11.32%
JP Morgan Chase Bank NA 4 Chase Metrotech Center, 6 <sup>th</sup> Floor Brooklyn, NY 11245	6.18%
Mitra & Co FBO 98 C/O Reliance Trust Company (WI) 480 Pilgrim Way, Suite 1000 Green Bay, WI 54304	6.00%
<b><i>INVESTMENT GRADE CREDIT FUND – CLASS M:</i></b>	
TCW Asset Management Company International LTD 865 S. Figueroa Street, Suite 1800 Los Angeles, CA 90017	100.00%
<b><i>INVESTMENT GRADE CREDIT FUND – CLASS I:</i></b>	
Tad Rivelle c/o Metropolitan West Asset Management, LLC 865 S. Figueroa Street, Suite 1800 Los Angeles, CA 90017	41.59%
TCW Asset Management Company International LTD 865 S. Figueroa Street, Suite 1800 Los Angeles, CA 90017	15.75%
Bryan T. Whalen Corinn Cross Trustees The Whalen Family Trust c/o Metropolitan West Asset Management, LLC 865 S. Figueroa Street, Suite 1800 Los Angeles, CA 90017	10.40%
Stephen M. Kane Mary Beth Kane Trustees Kane Revocable Living Trust c/o Metropolitan West Asset Management, LLC 865 S. Figueroa Street, Suite 1800 Los Angeles, CA 90017	10.40%
David Lippman Jody Lippman Trustees David & Jody Lippman Family Trust c/o Metropolitan West Asset Management, LLC 865 S. Figueroa Street, Suite 1800 Los Angeles, CA 90017	10.37%

<u>FUND</u>	<u>PERCENT OWNERSHIP</u>
<b><i>LOW DURATION BOND FUND – CLASS M:</i></b>	
National Financial Services LLC For the Exclusive Benefit of our Customers Attn: Mutual Funds Dept 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	64.51%
Charles Schwab & Co. Inc. Special Custody Acct FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	22.94%
<b><i>LOW DURATION BOND FUND – CLASS I:</i></b>	
Morgan Stanley Smith Barney LLC For the Exclusive Benefit of its Customers 1 New York Plaza, Floor 12 New York, NY 10004	28.59%
Charles Schwab & Co. Inc. Special Custody Acct FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	19.10%
National Financial Services LLC For the Exclusive Benefit of our Customers Attn: Mutual Funds Dept 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	14.88%
<b><i>LOW DURATION BOND FUND – ADMINISTRATIVE CLASS:</i></b>	
Merrill Lynch Pierce Fenner & Smith Inc. Sole Benefit of its Customers Attn: Service Team 4800 Deer Lake Drive East 3rd Floor Jacksonville, FL 32246	59.00%
T Rowe Price Retirement Plan Services Inc. 4515 Painters Mill Road Owing Mills, MD 21117	16.15%
Raymond James Omnibus For Mutual Funds Attn: Courtney Waller 880 Carillon Parkway St. Petersburg, FL 33716	13.75%
State Bank of Cross Plains 455 South Junction Road Suite 100 Madison, WI 53719	11.10%
<b><i>STRATEGIC INCOME FUND – CLASS M:</i></b>	
Charles Schwab & Co. Inc. Special Custody Acct FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	45.10%

<u>FUND</u>	<u>PERCENT OWNERSHIP</u>
National Financial Services LLC (FBO) Our Customers Attn: Mutual Funds Dept 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	23.22%
Great-West Trust Company LLC TTEE F Employee Benefits Clients 401K 8515 E. Orchard RD 2T2 Greenwood Village, CO 80111	9.42%
TD Ameritrade Inc. For The Exclusive Benefit of Our Clients PO Box 2226 Omaha, NE 68103	8.39%
<b>STRATEGIC INCOME FUND – CLASS I:</b>	
National Financial Services LLC For the Exclusive Benefit of our Customers Attn: Mutual Funds Dept. 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	75.97%
Charles Schwab & Co. Inc. Special Custody Acct FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	15.93%
<b>TOTAL RETURN BOND FUND – CLASS M:</b>	
National Financial Services LLC For the Exclusive Benefit of our Customers Attn: Mutual Funds Dept 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	39.01%
Charles Schwab & Co. Inc. Special Custody Acct FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	25.04%
<b>TOTAL RETURN BOND FUND – CLASS I:</b>	
Charles Schwab & Co. Inc. Special Custody Acct FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	16.60%
National Financial Services LLC For the Exclusive Benefit of our Customers Attn: Mutual Funds Dept. 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	13.97%
Wells Fargo Clearing SVCS LLC Special Custody Acct for the Exclusive Benefit of Customer 2801 Market Street St. Louis, MO 63103	10.84%

<u>FUND</u>	<u>PERCENT OWNERSHIP</u>
Raymond James Omnibus For Mutual Funds 880 Carillon Parkway St. Petersburg, FL 33716	8.39%
Morgan Stanley Smith Barney LLC For the Exclusive Benefit of its Customers 1 New York Plaza FL 12 New York, NY 10004	7.87%
Merrill Lynch Pierce Fenner & Smith Inc. Sole Benefit of its Customers Attn: Service Team 4800 Deer Lake Drive East 3rd Floor Jacksonville, FL 32246	5.15%
<b>TOTAL RETURN BOND FUND – ADMINISTRATIVE CLASS:</b>	
National Financial Services LLC For the Exclusive Benefit of our Customers Attn: Mutual Funds Dept. 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	60.94%
Minnesota Life Insurance Co. 400 Robert Street North Saint Paul, MN 55101	18.05%
Matrix Trust Company FBO Paul Hastings LLP Defined Contribution P.O. Box 52129 Phoenix, AZ 85072	5.11%
<b>TOTAL RETURN BOND FUND – PLAN CLASS:</b>	
National Financial Services LLC For the Exclusive Benefit of our Customers Attn: Mutual Funds Dept. 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	23.75%
JP Morgan Securities LLC Omnibus Account for the Exclusive Benefit of Customers 4 Chase Metrotech Center 3rd Floor Mutual Fund Department Brooklyn, NY 11245	8.06%
Edward D. Jones & Co. For the Benefit of Customers 12555 Manchester Road St. Louis, MO 63131	6.06%
Charles Schwab & Co. Inc. Special Custody Acct FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	5.08%
<b>ULTRA SHORT BOND FUND – CLASS M:</b>	
National Financial Services LLC For the Exclusive Benefit of our Customers Attn: Mutual Funds Dept. 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	44.15%

<u>FUND</u>	<u>PERCENT OWNERSHIP</u>
Charles Schwab & Co. Inc. Special Custody Acct FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	34.20%
TD Ameritrade Inc. For The Exclusive Benefit of Our Clients PO Box 2226 Omaha, NE 68103	5.61%
<b><i>ULTRA SHORT BOND FUND – CLASS I:</i></b>	
Nationwide Trust Company FSB C/O IPO Portfolio Accounting PO Box 182029 Columbus, OH 43218	40.19%
National Financial Services LLC For the Exclusive Benefit of our Customers Attn: Mutual Funds Dept. 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	18.74%
Charles Schwab & Co. Inc. Special Custody Acct FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	14.38%
Wells Fargo Clearing SVCS LLC Special Custody Account for the Exclusive Benefit of Customer 2801 Market Street St. Louis, MO 63103	8.26%
LPL Financial 4707 Executive Drive San Diego, CA 92121	5.93%
TD Ameritrade Inc. FBO the Exclusive Benefit of our Clients PO Box 2226 Omaha, NE 68103	5.60%
American Enterprise Investment SVC 707 2nd Avenue South Minneapolis, MN 55402	5.24%
<b><i>UNCONSTRAINED BOND FUND – CLASS M:</i></b>	
Charles Schwab & Co. Inc. Special Custody Acct FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	30.00%
Goldman Sachs & Co. C/O Mutual Funds Ops. 222 South Main Street Salt Lake City, UT 84101	23.20%



<b>FUND</b>	<b>PERCENT OWNERSHIP</b>
National Financial Services LLC For The Exclusive Benefit of our Customers Attn: Mutual Funds Dept. 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	20.99%
TD Ameritrade Inc. FBO The Exclusive Benefit of our Clients PO Box 2226 Omaha, NE 68103	9.88%
<b>UNCONSTRAINED BOND FUND – CLASS I:</b>	
Charles Schwab & Co. Inc. Special Custody Acct FBO Customers Attn: Mutual Funds 101 Montgomery Street San Francisco, CA 94104	17.51%
National Financial Services LLC FBO Our Customers Attn: Mutual Funds Dept. 4th Floor 499 Washington Boulevard Jersey City, NJ 07310	15.33%
Pershing LLC 1 Pershing Plaza Jersey City, NJ 07399	5.02%

### **PORTFOLIO TRANSACTIONS AND BROKERAGE**

The Investment Advisory Agreement (the “Advisory Agreement”) between the Trust and the Adviser states that in connection with its duties to arrange for the purchase and sale of securities held in the portfolio of each Fund by placing purchase and sale orders for that Fund, the Adviser shall select such broker-dealer (“brokers”) as shall, in the Adviser’s judgment, implement the policy of the Trust to achieve “best execution”, *i.e.*, placing trades in ways that are intended to capture the maximum value of the investment ideas, giving due regard to all of the circumstances in which the trade is placed. In making such selection, the Adviser is authorized in the Advisory Agreement to consider the reliability, integrity and financial condition of the broker.

The Adviser normally causes the Funds to purchase and sell portfolio securities on a principal basis from the owner or purchaser of the security, such as a broker-dealer. Those principal trades do not involve the payment of a commission and, therefore, are not permitted to be used to generate soft dollar benefits. In rare situations where a Fund pays a commission, the following discussion would apply: The Adviser is also authorized by the Advisory Agreement to consider whether the broker provides brokerage and/or research services to the Funds and/or other accounts of the Adviser. The Advisory Agreement states that the commissions paid to brokers may be higher than another broker would have charged if a good faith determination is made by the Adviser that the commission is reasonable in relation to the services provided, viewed in terms of either that particular transaction or the Adviser’s overall responsibilities as to the accounts as to which it exercises investment discretion and that the Adviser shall use its judgment in determining that the amount of commissions paid are reasonable in relation to the value of brokerage and research services provided and need not place or attempt to place a specific dollar value on such services or on the portion of commission rates reflecting such services. The Advisory Agreement provides that to demonstrate that such determinations were in good faith, and to show the overall reasonableness of commissions paid, the Adviser shall be prepared to show that commissions paid (i) were for purposes contemplated by the Advisory Agreement; (ii) were for products or services which provide lawful and appropriate assistance to the Adviser’s decision-making process; and (iii) were within a reasonable range as compared to the rates charged by brokers to other institutional investors as such rates may become known from available information.

The research services discussed above may be in written form or through direct contact with individuals and may include information as to particular companies and securities as well as market, economic, or institutional areas and information assisting the Trust in the valuation of the Funds’ investments. The research that the Adviser may receive for the Funds’ brokerage commissions, whether or not useful to a Fund, may be useful to the Adviser in managing the accounts of the Adviser’s other advisory clients. Similarly, the research received for the commissions of such accounts may be useful to any Fund. The Adviser may receive typical unsolicited research materials routinely sent by broker-dealers to their clients.

In the over-the-counter market, securities are generally traded on a “net” basis with dealers acting as principal for their own accounts without a stated commission although the price of the security usually includes a profit to the dealer. Money market instruments usually trade on a “net” basis as well. On occasion, certain money market instruments may be purchased by the Funds directly from an issuer in which case no commissions or discounts are paid. In underwritten offerings, securities are purchased at a fixed price that includes an amount of compensation to the underwriter, generally referred to as the underwriter’s concession or discount.

There may be occasions where the Adviser believes that it would be in the best interest of one or more Funds to participate in a cross transaction between a Fund and another Fund or an account managed by the Adviser or an affiliate of the Adviser. A cross transaction is a transaction directly between a Fund and another Fund or an advised account without the use of a broker-dealer. The Adviser would cause a cross transaction to be used only if believed to be in the best interest of the participating Fund(s) and any other accounts such as the ability to obtain more favorable terms without effecting the transaction in the open market. Any such cross transaction would be effected in compliance with the pricing and other requirements of applicable SEC rules (such as Rule 17a-7 under the 1940 Act) and any other applicable contractual restriction or regulatory requirements, as well as policies and procedures adopted by the Trust.

The following table shows total brokerage commissions (as opposed to dealer mark-ups) paid by the Funds in the last three fiscal years. The amount of brokerage commissions paid by a Fund may change from year to year because of, among other things, changes in asset levels, shareholder activity, and/or changes in portfolio turnover.

### Total Brokerage Commissions

Fund	Fiscal Year Ended		
	March 31, 2019	March 31, 2018	March 31, 2017
AlphaTrak 500 Fund	\$ 2,780	\$ 3,921	\$ 2,206
Corporate Bond Fund*	44	0	0
Flexible Income Fund**	0	0	0
Floating Rate Income Fund	0	0	0
High Yield Bond Fund	32,991	1,267	0
Intermediate Bond Fund	25,933	26,127	14,118
Investment Grade Credit Fund*	392	0	0
Low Duration Bond Fund	123,356	83,512	32,993
Strategic Income Fund	1,776	1,278	2,070
Total Return Bond Fund	3,825,332	3,290,404	4,025,340
Ultra Short Bond Fund	593	244	0
Unconstrained Bond Fund	86,404	59,427	49,964

\* The Corporate Bond Fund and Investment Grade Credit Fund did not commence operations until June 29, 2018.

\*\* The Flexible Income Fund did not commence operations until November 30, 2018.

The Adviser has not obtained any soft dollar benefits from transactions by the Funds since their respective inception dates.

Each Fund may at times invest in securities of its regular broker-dealers or the parent of its regular broker-dealers. The value of each Fund's aggregate holdings of securities of its regular broker-dealers as of March 31, 2019 was as follows:

Fund Name	Issuer	Value of Fund's Aggregate Holdings of Issuer
AlphaTrak 500 Fund	Bank of America Securities LLC	\$ 389,169
	Wells Fargo Securities, LLC	\$ 348,742
	J.P. Morgan Securities, Inc.	\$ 325,193
	The Goldman Sachs Group, Inc.	\$ 251,649
	Morgan Stanley	\$ 153,481
	Citigroup Global Markets Inc.	\$ 120,352
Corporate Bond Fund*	J.P. Morgan Securities, Inc.	\$ 51,764
	Bank of America Securities LLC	\$ 41,008
	Morgan Stanley	\$ 35,485
	Wells Fargo Securities, LLC	\$ 35,345
	The Goldman Sachs Group, Inc.	\$ 35,323
	Citigroup Global Markets Inc.	\$ 34,988
Flexible Income Fund**	Wells Fargo Securities, LLC	\$ 30,679
	Morgan Stanley	\$ 15,816
	The Goldman Sachs Group, Inc.	\$ 15,174
	Bank of America Securities LLC	\$ 14,947
	J.P. Morgan Securities, Inc.	\$ 10,114
Floating Rate Income Fund	Citigroup Global Markets Inc.	\$ 1,419,572
	The Goldman Sachs Group, Inc.	\$ 1,001,081
High Yield Bond Fund		\$ 0
Intermediate Bond Fund	Wells Fargo Securities, LLC	\$ 5,861,570
	Bank of America Securities LLC	\$ 5,739,835
	The Goldman Sachs Group, Inc.	\$ 5,494,913
	J.P. Morgan Securities, Inc.	\$ 3,993,365
	Morgan Stanley	\$ 1,186,565
Investment Grade Credit Fund*	J.P. Morgan Securities, Inc.	\$ 160,957
	Bank of America Securities LLC	\$ 117,018
	The Goldman Sachs Group, Inc.	\$ 94,982
	Morgan Stanley	\$ 91,537
	Citigroup Global Markets Inc.	\$ 39,578
	Wells Fargo Securities, LLC	\$ 20,134
Low Duration Bond Fund	Wells Fargo Securities, LLC	\$ 39,927,097
	J.P. Morgan Securities, Inc.	\$ 36,562,916
	Bank of America Securities LLC	\$ 35,807,180
	Morgan Stanley	\$ 26,513,762
	The Goldman Sachs Group, Inc.	\$ 19,598,897
	Citigroup Global Markets, Inc.	\$ 5,523,383
Strategic Income Fund	Bank of America Securities LLC	\$ 1,267,466
	J.P. Morgan Securities, Inc.	\$ 908,988
	Wells Fargo Securities LLC	\$ 583,227
	Morgan Stanley	\$ 502,782
	Citigroup Global Markets Inc.	\$ 404,401
	The Goldman Sachs Group, Inc.	\$ 388,632
Total Return Bond Fund	Bank of America Securities LLC	\$ 708,711,304
	J.P. Morgan Securities, Inc.	\$ 643,674,515
	Wells Fargo Securities, LLC	\$ 497,877,899
	The Goldman Sachs Group, Inc.	\$ 452,073,388
	Morgan Stanley	\$ 165,891,299
	Citigroup Global Markets Inc.	\$ 146,162,318

Fund Name	Issuer	Value of Fund's Aggregate Holdings of Issuer
Ultra Short Bond Fund	Wells Fargo Securities, LLC	\$ 1,774,364
	Morgan Stanley	\$ 1,375,508
	Citigroup Global Markets, Inc.	\$ 1,367,200
	J.P. Morgan Securities, Inc.	\$ 1,353,582
	Bank of America Securities LLC	\$ 752,407
Unconstrained Bond Fund	Bank of America Securities LLC	\$ 32,314,206
	J.P. Morgan Securities, Inc.	\$ 28,642,858
	Wells Fargo Securities, LLC	\$ 24,578,520
	The Goldman Sachs Group, Inc.	\$ 19,693,085
	Morgan Stanley	\$ 10,744,254
	Citigroup Global Markets Inc.	\$ 10,226,818

\* The Corporate Bond Fund and Investment Grade Credit Fund did not commence operations until June 29, 2018.

\* \* The Flexible Income Fund did not commence operations until November 30, 2018.

### **INVESTMENT ADVISORY SERVICES**

The Adviser, Metropolitan West Asset Management, LLC, with principal offices at 865 South Figueroa Street, Los Angeles, California 90017, is a registered investment adviser and was organized as a California limited liability company in 1996. The Adviser is a wholly owned subsidiary of TCW Asset Management Company LLC. Under the Advisory Agreement relating to the Funds, the Adviser provides the Funds with investment management services. Shareholders are not parties to, or intended (or “third party”) beneficiaries of, the Advisory Agreement. Rather, the Trust and the Funds are the sole intended beneficiaries of the Advisory Agreement. Neither this SAI nor the Prospectus is intended to give rise to any contract rights or other rights in any shareholder, other than any rights conferred by federal or state securities laws that may not be waived.

Under the Advisory Agreement, subject to the supervision and direction of the Board of Trustees, the Trust retains the Adviser, among other things, to act as investment manager to the Funds and supervise the investments of the Funds, including to furnish the Funds with advice and recommendations with respect to the investment of each Fund’s assets and the purchase and sale of portfolio securities for the Funds, and to take such other steps as may be necessary to implement such advice and recommendations; to furnish the Funds with reports, statements and other data on securities, economic conditions and other pertinent subjects which the Board of Trustees may reasonably request; to provide persons to act as officers and employees of the Trust and the Funds; and to render to the Board of Trustees such periodic and special reports with respect to each Fund’s investment activities as the Board may reasonably request.

The Advisory Agreement also provides that, with respect to the operation of each Fund and to the extent not paid or reimbursed through a plan adopted by the Fund under Rule 12b-1 under the 1940 Act, the Adviser is responsible for the compensation of any of the Trust’s trustees, officers, and employees who are affiliates of the Adviser (other than employees performing services in connection with expenses that are the Fund’s responsibility under the Advisory Agreement); the expenses of printing and distributing the Funds’ prospectuses, statements of additional information, and sales and advertising materials to prospective investors; and providing office space and equipment reasonably necessary for the operation of the Funds. Except for expenses specifically assumed by the Adviser under the Advisory Agreement, each Fund is responsible for all of its expenses, including, without limitation, fees and expenses of the Independent Trustees, broker commissions and other ordinary or extraordinary costs and expenses incurred by the Fund in the course of its operation.

As compensation for these services, each Fund pays management fees at an annualized rate of its average daily net assets, as described in the Prospectus. For the fiscal years ended March 31, 2019, 2018 and 2017, the amounts of the advisory fees earned by the Adviser and the amounts of the reductions in fees and reimbursements of expenses by the Adviser as a result of the expense limitations and fee waivers described in the Prospectus, are provided in the chart below.

	Fiscal Year Ended March 31, 2019		Fiscal Year Ended March 31, 2018		Fiscal Year ended March 31, 2017	
	Contractual Advisory Fees	Advisory Fees Reduced and Expenses Reimbursed by Adviser	Contractual Advisory Fees	Advisory Fees Reduced and Expenses Reimbursed by Adviser	Contractual Advisory Fees	Advisory Fees Reduced and Expenses Reimbursed by Adviser
<b>AlphaTrak 500 Fund</b>	\$ 51,517	\$ 88,122	\$ 3,076	\$ 0	\$ 24,506	\$ 131,176
<b>Corporate Bond Fund*</b>	\$ 6,109	\$ 138,411	\$ 0	\$ 0	\$ 0	\$ 0
<b>Flexible Income Fund**</b>	\$ 4,586	\$ 84,349				
<b>Floating Rate Income Fund</b>	\$ 1,477,851	\$ 47,495	\$ 1,335,832	\$ 69,036	\$ 1,026,861	\$ 101,217
<b>High Yield Bond Fund</b>	\$ 2,587,690	\$ 201,390	\$ 3,670,933	\$ 252,493	\$ 4,863,330	\$ 239,308
<b>Intermediate Bond Fund</b>	\$ 2,554,498	\$ 0	\$ 3,820,616	\$ 0	\$ 4,356,840	\$ 0
<b>Investment Grade Credit Fund*</b>	\$ 12,327	\$ 142,645	\$ 0	\$ 0	\$ 0	\$ 0
<b>Low Duration Bond Fund</b>	\$ 7,024,015	\$ 0	\$ 8,743,241	\$ 0	\$ 9,662,485	\$ 0
<b>Strategic Income Fund</b>	\$ 900,905	\$ 0	\$ 1,983,004	\$ 117,930	\$ 1,988,101	\$ 0
<b>Total Return Bond Fund</b>	\$255,406,402	\$ 0	\$279,308,723	\$ 0	\$275,474,022	\$ 0
<b>Ultra Short Bond Fund</b>	\$ 274,021	\$ 247,985	\$ 321,510	\$ 233,733	\$ 362,237	\$ 227,293
<b>Unconstrained Bond Fund</b>	\$ 20,325,854	\$ 0	\$ 23,935,827	\$ 194,740	\$ 16,871,768	\$ 0

\* The Corporate Bond Fund and Investment Grade Credit Fund did not commence operations until June 29, 2018.

\*\* The Flexible Income Fund did not commence operations until November 30, 2018.

The Advisory Agreement may be terminated by the Trust on behalf of any one or more of the Funds at any time, without payment of any penalty, by the Board of Trustees of the Trust or by vote of a majority of the outstanding voting securities of a Fund, upon 60 days' written notice to the Adviser, and by the Adviser upon 60 days' written notice to a Fund.

The Board of Trustees of the Trust, including the Independent Trustees, last approved the Advisory Agreement with respect to the AlphaTrak 500 Fund, Floating Rate Income Fund, High Yield Bond Fund, Intermediate Bond Fund, Low Duration Bond Fund, Strategic Income Fund, Total Return Bond Fund, Ultra Short Bond Fund and Unconstrained Bond Fund pursuant to Section 15(c) of the 1940 Act at a meeting called for the purpose of voting on such approval on September 24, 2018. At an in-person meeting held on June 4, 2018, the Board of Trustees of the Trust, including the Independent Trustees, approved the Advisory Agreement with respect to the Corporate Bond Fund, Flexible Income Fund and Investment Grade Credit Fund for an initial term of two years. Before approving the Advisory Agreement, the Board evaluated information provided by the Adviser. The Board considered a number of factors with respect to each of the Funds. Based on this review, the full Board, and by separate vote, the Independent Trustees concluded that the advisory fees to be paid by the Funds, as well as the proposed expenses of the Funds, are fair, both absolutely and in comparison with those of other mutual funds in the industry. A discussion regarding the basis for the Board of Trustees' approval of the Advisory Agreement with respect to each Fund will be contained in the Trust's semi-annual report to shareholders for the six months ending September 30, 2019.

The Advisory Agreement also provides that in the absence of willful misfeasance, bad faith, gross negligence, or reckless disregard of the obligations or duties under the Advisory Agreement, the Adviser will not be subject to liability to the Trust or the Funds or any shareholder of the Funds for any act or omission in the course of, or connected with, rendering services to the Funds or for any losses that may be sustained in the purchase, holding or sale of any security by the Funds. Under the Advisory Agreement, the Funds will also indemnify and hold harmless the Adviser and the partners, members, officers and employees of the Adviser and its general partner against any loss, liability, claim, damage or expense arising out of such person's or persons' performance or non-performance of any duties under the Advisory Agreement, except for liability resulting from willful misfeasance, bad faith or gross negligence in the performance of those duties or from reckless disregard of obligations and duties under the Advisory Agreement.

On October 16, 2015, Thomas J. Kennis filed a derivative lawsuit against Metropolitan West Asset Management, LLC (the "Adviser") on behalf of the Metropolitan West Total Return Bond Fund. The lawsuit, which was filed in the U.S. District Court for the Central District of California, seeks recovery under Section 36(b) of the 1940 Act for the alleged overpayment of investment management fees to the Adviser. The Adviser believes that the Fund has among the best long-term risk-adjusted performance results and lowest fees in its peer group category and, accordingly, considers the claim to be entirely without merit. The Adviser has retained special counsel experienced in these matters and is vigorously defending against the action. The Board of Trustees, including the Independent Trustees, is carefully monitoring the proceedings. As of March 31, 2019, the lawsuit is still pending and there are no material updates to report.

The Adviser has agreed in an Operating Expenses Agreement with the Trust to limit each Fund's expenses as described in the Prospectus. The Operating Expenses Agreement has a one-year term, renewable with respect to the periods for which the prospectus is effective, which normally means an annual term ending July 31 of the applicable year. Each Fund has agreed to reimburse the Adviser, for a period of up to three years, for any such expense subsidy payments or fee reductions, to the extent that the Fund's operating expenses are otherwise below its expense cap (excluding the AlphaTrak 500 Fund and the Strategic Income Fund, which shall reimburse the Adviser to the extent that the Fund's "other expenses" as described in the Prospectus, are below an agreed-upon cap). The Adviser's obligation will not be recorded as a liability on the books of the applicable Fund to the extent that the total operating expenses ("other expenses" with respect to the AlphaTrak 500 Fund and the Strategic Income Fund) of the Fund are at or above the expense cap. However, if the total operating expenses ("other expenses" with respect to the AlphaTrak 500 Fund and the Strategic Income Fund) of a Fund fall below the expense cap, the reimbursement to the Adviser (up to the cap) will be accrued by the Fund as a liability if the Adviser seeks to recoup those amounts and the Independent Trustees have approved that reimbursement. The Adviser may not request or receive reimbursement from a Fund for prior reductions or reimbursements before the payment of a Fund's operating expenses for the current fiscal year. Certain officers and Trustees of the Funds are also officers and directors of the Adviser.

## ***PORTFOLIO MANAGERS***

### ***Other Accounts Managed***

The following tables provide information about funds and accounts, other than the Funds, for which the Funds' portfolio managers are primarily responsible for the day-to-day portfolio management as of March 31, 2019.

**Tad Rivelle**

<u>Type of Accounts</u>	<u>Total # of Accounts Managed</u>	<u>Total Assets (millions)</u>	<u># of Accounts Managed with Performance- Based Advisory Fee</u>	<u>Total Assets with Performance- Based Advisory Fee (millions)</u>
Registered Investment Companies:	34	\$105,668	0	\$ 0
Other Pooled Investment Vehicles:	49	\$ 14,683	27	\$ 3,249
Other Accounts:	223	\$ 45,812	7	\$ 4,133

**Stephen Kane, CFA**

<u>Type of Accounts</u>	<u>Total # of Accounts Managed</u>	<u>Total Assets (millions)</u>	<u># of Accounts Managed with Performance- Based Advisory Fee</u>	<u>Total Assets with Performance- Based Advisory Fee (millions)</u>
Registered Investment Companies:	33	\$99,347	0	\$ 0
Other Pooled Investment Vehicles:	28	\$11,652	8	\$ 2,380
Other Accounts:	208	\$39,802	6	\$ 3,948

**Laird R. Landmann**

<u>Type of Accounts</u>	<u>Total # of Accounts Managed</u>	<u>Total Assets (millions)</u>	<u># of Accounts Managed with Performance- Based Advisory Fee</u>	<u>Total Assets with Performance- Based Advisory Fee (millions)</u>
Registered Investment Companies:	30	\$99,300	0	\$ 0
Other Pooled Investment Vehicles:	20	\$ 8,580	3	\$ 402
Other Accounts:	199	\$36,955	6	\$ 3,948

**Mitch Flack**

<u>Type of Accounts</u>	<u>Total # of Accounts Managed</u>	<u>Total Assets (millions)</u>	<u># of Accounts Managed with Performance- Based Advisory Fee</u>	<u>Total Assets with Performance- Based Advisory Fee (millions)</u>
Registered Investment Companies:	4	\$ 6,880	0	\$ 0
Other Pooled Investment Vehicles:	31	\$ 6,232	22	\$ 1,271
Other Accounts:	34	\$ 9,639	1	\$ 184

## Jerry Cudzil

Type of Accounts	Total # of Accounts Managed	Total Assets (millions)	# of Accounts Managed with Performance- Based Advisory Fee	Total Assets with Performance- Based Advisory Fee (millions)
Registered Investment Companies:	2	\$ 275	0	\$ 0
Other Pooled Investment Vehicles:	9	\$ 3,104	5	\$ 1,977
Other Accounts	9	\$ 2,846	0	\$ 0

## Bryan T. Whalen

Type of Accounts	Total # of Accounts Managed	Total Assets (millions)	# of Accounts Managed with Performance- Based Advisory Fee	Total Assets with Performance- Based Advisory Fee (millions)
Registered Investment Companies:	32	\$105,650	0	\$ 0
Other Pooled Investment Vehicles:	42	\$ 11,677	22	\$ 1,271
Other Accounts	217	\$ 43,211	7	\$ 4,132

## Portfolio Manager Compensation

The overall objective of the Adviser's compensation program for portfolio managers is to attract experienced and expert investment professionals and to retain them over the long term. Compensation is comprised of several components which, in the aggregate, are designed to achieve these objectives and to reward the portfolio managers for their contributions to the successful performance of the accounts they manage. Portfolio managers are compensated through a combination of base salary, fee sharing based compensation ("*fee sharing*"), bonus and equity incentive participation in the Adviser's parent company ("*equity incentives*"). Fee sharing and equity incentives generally represent most of the portfolio managers' compensation. In some cases, portfolio managers are eligible for discretionary bonuses.

*Salary.* Salary is agreed to with portfolio managers at the time of employment and is reviewed from time to time. It does not change significantly and often does not constitute a significant part of a portfolio manager's compensation.

*Fee Sharing.* Fee sharing for investment professionals is based on revenues generated by accounts in the investment strategy area for which the investment professionals are responsible. In most cases, revenues are allocated to a pool and fee sharing compensation is allocated among members of the investment team after the deduction of certain expenses (including compensation over a threshold level) related to the strategy group. The allocations are based on the investment professionals' contribution to TCW and its clients, including qualitative and quantitative contributions.

In general, the same fee sharing percentage is used to compensate a portfolio manager for investment services related to a Fund as that used to compensate portfolio managers for other client accounts in the same strategy managed by the Adviser or an affiliate of the Adviser (collectively, the "*TCW Advisers*"). In some cases, the fee sharing pool includes revenues related to more than one product, in which case each participant in the pool is entitled to fee sharing derived from his or her contributions to all the included products.

Investment professionals are not directly compensated for generating performance fees. In some cases, the overall fee sharing pool is subject to fluctuation based on the relative pre-tax performance of the investment strategy composite returns, net of fees and expenses, to that of the benchmark. The measurement of performance relative to the benchmark can be based on single year or multiple year metrics, or a combination thereof. The benchmark used is the one associated with the Fund managed by the portfolio manager as disclosed in the prospectus. Benchmarks vary from strategy to strategy but, within a given strategy, the same benchmark applies to all accounts, including the Funds.

*Discretionary Bonus/Guaranteed Minimums.* Discretionary bonuses may be paid out of an investment team's fee sharing pool, as determined by the supervisor(s) in the department. In other cases where portfolio managers do not receive fee sharing or where it is determined that the combination of salary and fee sharing does not adequately compensate the portfolio manager, discretionary bonuses may be paid by the applicable TCW Adviser. Also, pursuant to contractual arrangements, some portfolio managers received minimum bonuses.



*Equity Incentives.* Management believes that equity ownership aligns the interests of portfolio managers with the interests of the firm and its clients. Accordingly, TCW's key investment professionals participate in equity incentives through ownership or participation in restricted unit plans that vest over time or unit appreciation plans of the Adviser's parent company. The plans include the Fixed Income Retention Plan, Restricted Unit Plan and 2013 Equity Unit Incentive Plan.

Under the Fixed Income Retention Plan, certain portfolio managers in the fixed income area were awarded cash and/or partnership units in the Adviser's parent company, either on a contractually-determined basis or on a discretionary basis. Awards under this plan were made in 2010 that vest over time.

Under the Restricted Unit Plan, certain portfolio managers in the fixed income and equity areas may be awarded partnership units in the Adviser's parent company. Awards under this plan have vested over time, subject to satisfaction of performance criteria.

Under the 2013 Equity Unit Incentive Plan, certain portfolio managers in the fixed income and equity areas may be awarded options to acquire partnership units in the Adviser's parent company with a strike price equal to the fair market value of the option at the date of grant. The options granted under this plan are subject to vesting and other conditions.

*Other Plans and Compensation Vehicles.* Portfolio managers may also elect to participate in the applicable TCW Adviser's 401(k) plan, to which they may contribute a portion of their pre- and post-tax compensation to the plan for investment on a tax-deferred basis.

*Ownership of Securities.* The following table sets forth the dollar range of equity securities beneficially owned by each portfolio manager in the Funds as of March 31, 2019.

	<b>Dollar Range of Fund Shares Beneficially Owned</b>
<b>AlphaTrak 500 Fund</b>	
Tad Rivelle	None
Stephen Kane	\$100,001 - \$500,000
<b>Corporate Bond Fund</b>	
Tad Rivelle	None
Bryan T. Whalen	None
Jerry Cudzil	\$50,001 - \$100,000
<b>Flexible Income Fund</b>	
Tad Rivelle	Over \$1,000,000
Laird R. Landmann	\$500,001 - \$1,000,000
Stephen Kane	\$500,001 - \$1,000,000
Bryan T. Whalen	\$500,001 - \$1,000,000
<b>Floating Rate Income Fund</b>	
Stephen Kane	None
Laird R. Landmann	Over \$1,000,000
Tad Rivelle	None
Jerry Cudzil	None
<b>High Yield Bond Fund</b>	
Laird R. Landmann	Over \$1,000,000
Stephen Kane	\$500,001 - \$1,000,000
Tad Rivelle	None
Bryan T. Whalen	None
<b>Intermediate Bond Fund</b>	
Tad Rivelle	None
Stephen Kane	None
Laird R. Landmann	\$100,001 - \$500,000
Bryan T. Whalen	None
<b>Investment Grade Credit Fund</b>	
Tad Rivelle	Over \$1,000,000
Laird R. Landmann	None
Stephen Kane	\$100,001 - \$500,000
Bryan T. Whalen	\$500,001 - \$1,000,000

<b>Low Duration Bond Fund</b>	
Tad Rivelle	Over \$1,000,000
Stephen Kane	Over \$1,000,000
Laird R. Landmann	Over \$1,000,000
Bryan T. Whalen	\$50,001 - \$100,000
<b>Strategic Income Fund</b>	
Tad Rivelle	None
Stephen Kane	None
Laird R. Landmann	Over \$1,000,000
Bryan T. Whalen	None
<b>Total Return Bond Fund</b>	
Tad Rivelle	Over \$1,000,000
Stephen Kane	Over \$1,000,000
Laird R. Landmann	Over \$1,000,000
Bryan T. Whalen	\$100,001 - \$500,000
<b>Ultra Short Bond Fund</b>	
Tad Rivelle	None
Laird R. Landmann	\$10,001 - \$50,000
Stephen Kane	None
Mitch Flack	\$100,001 - \$500,000
Bryan T. Whalen	None
<b>Unconstrained Bond Fund</b>	
Tad Rivelle	Over \$1,000,000
Stephen Kane	Over \$1,000,000
Laird R. Landmann	Over \$1,000,000
Bryan T. Whalen	None

### **Conflicts**

Actual or potential conflicts of interest may arise when a portfolio manager has management responsibilities to more than one account (including a Fund), such as devotion of unequal time and attention to the management of the accounts, inability to allocate limited investment opportunities across a broad band of accounts and incentive to allocate opportunities to an account where the portfolio manager, the Adviser or another TCW Adviser has a greater financial incentive, such as a performance fee account, or where an account or fund managed by a portfolio manager has a higher fee sharing percentage than the portfolio manager's fee sharing percentage with respect to a Fund. When accounts managed by the Adviser (including a Fund) invest in different parts of an issuer's capital structure (*e.g.*, one account owns equity securities of an issuer while another account owns debt obligations of the same issuer), actual or potential conflicts of interest may also arise with respect to decisions concerning the issuer's financing, investments or risks, among other issues, as related to the interests of the accounts. The TCW Advisers have adopted policies and procedures reasonably designed to address these types of conflicts, and the Adviser believes these policies and procedures serve to operate in a manner that is fair and equitable among its clients, including the Funds.

### **DISCLOSURE OF PORTFOLIO HOLDINGS**

General. The Trust has established a policy governing the disclosure of each Fund's portfolio holdings that is designed to protect the confidentiality of that Fund's non-public portfolio holdings and to prevent inappropriate selective disclosure of those holdings. The Board of Trustees has approved this policy and will be asked to approve any material amendments to this policy. Exceptions to the Funds' portfolio holdings disclosure policies may be granted only by an officer of the Trust or the Chief Executive Officer of the Adviser upon a determination that the release of information would be in the best interests of the Fund's shareholders and appropriate for legitimate business purposes, and must be reported quarterly to the Board of Trustees. There is no guarantee that the Funds' policies on the use and dissemination of portfolio holdings information will protect the Funds from the potential misuse of holdings by individuals or firms in possession of such information. The Board of Trustees will monitor disclosure of portfolio holdings by approval in advance of material changes to that policy, and by occasional review of reports or discussions with the Trust's officers about disclosures of the Funds' portfolio holdings.

Investors in separate accounts and unregistered products managed by the Adviser or its affiliates have access to their portfolio holdings, and prospective investors of separate accounts and unregistered products have access to representative portfolio holdings. Disclosures of portfolio holdings to those investors and prospective investors are not subject to the Funds' disclosure of portfolio holdings policies discussed above and below. Some of these separate accounts and unregistered products have substantially similar or identical investment objectives and strategies as certain Funds and, therefore, may have similar, or in certain cases nearly identical, portfolio holdings as those Funds.

Neither the Adviser nor the Funds will receive any compensation or other consideration in connection with disclosure of a Fund's portfolio holdings.

**Public Disclosure of Portfolio Holdings.** The Funds currently disclose portfolio holdings with respect to holdings at the end of the second and fourth quarters in their semi-annual and annual reports to shareholders, and with respect to holdings at the end of the first and third quarters in their Form N-Q reports, which are available at [www.sec.gov](http://www.sec.gov) and [www.tcw.com](http://www.tcw.com). The Funds or the Adviser may distribute non-specific information about the Funds and/or summary information about the Funds at any time. Such information will not identify any specific portfolio holding, but may reflect, among other things, the quality or character of a Fund's holdings.

In addition, it is the policy of the Funds to provide certain unaudited information regarding the portfolio composition of the Funds as of month-end to shareholders and others upon request to the Funds, beginning on the 15th calendar day after the end of the month (or, if not a business day, the next business day thereafter). These complete holdings lists are not contained on the Funds' website. Top ten quarter-end holdings lists and other portfolio characteristics at month-end for certain Funds may be posted on the Funds' website at [www.tcw.com](http://www.tcw.com).

Shareholders and others who wish to obtain portfolio holdings for a particular month may make a request by contacting the Funds between the hours of 7:00 a.m. and 5:00 p.m. Pacific time, Monday through Friday, toll free at (877) 829-4768 beginning on the 15th day following the end of that month (or, if not a business day, the next business day thereafter). Requests for portfolio holdings may be made on a monthly basis pursuant to this procedure, or standing requests for portfolio holdings may be accepted.

Persons making requests will be asked to provide their name and a mailing address, e-mail address or fax number. The Funds reserve the right to refuse to fulfill a request if they believe that providing portfolio holdings would be contrary to the best interests of the Funds. Those decisions are made by personnel of the Adviser of the Trust with the Title of Managing Director, Senior Vice President or higher (an "Authorized Person").

**Disclosure of Non-Public Portfolio Holdings.** A Fund may, in certain cases, disclose to third parties its portfolio holdings that have not been made publicly available. Disclosure of non-public portfolio holdings to third parties may be made only if an Authorized Person determines that such disclosure is in the best interests of the Fund's shareholders. In addition, the third party receiving that information, or any representatives of a third party receiving that information, will be required to agree in writing to keep that information confidential and use it for an agreed upon legitimate business purpose. The Adviser's legal department reviews any confidentiality agreement entered into with a third party receiving non-public portfolio holdings. The restrictions and obligations described in this paragraph do not apply to non-public portfolio holdings provided to entities that provide on-going services to the Funds in connection with their day-to-day operations and management, including the Funds' Adviser and its affiliates, and the Funds' custodian, administrator, pricing services, broker-dealers, accounting services provider, independent registered public accounting firm, financial printer, and proxy voting service provider.

To the extent that an Authorized Person determines that there is a potential conflict of interest with respect to the disclosure of information that is not publicly available between the interests of a Fund's shareholders, on the one hand, and the Adviser, or an affiliated person of the Adviser or the Fund, on the other, the Authorized Person must inform the Trust's Chief Compliance Officer of that potential conflict of interest, and the Trust's Chief Compliance Officer shall determine whether, in light of the potential conflict, disclosure is reasonable under the circumstances.

Current or quarterly portfolio holdings may be disclosed to governmental authorities pursuant to applicable laws or regulations, or a judicial, regulatory or other similar request. Information regarding the characteristics of a Fund portfolio, such as its current credit quality or duration, may be provided upon request, subject to the discretion of the Trust's officers.

**Ongoing Arrangements To Make Portfolio Holdings Available.** With authorization from the Trust's Chief Compliance Officer or an Authorized Person, Trust representatives disclose Fund portfolio holdings to the following recipients on an ongoing basis: the Adviser; fund rating agencies (including Lipper, Morningstar, Standard & Poor's and Weisenberger); consultants and analysts (including Bloomberg, FactSet Research Systems, Fidelity, Vestek and Yon Drake); The Bank of New York Mellon (the Funds' custodian); Chase Bank (the Funds' limited custodian under the terms of certain repurchase and futures agreements); BNY Mellon Investment Servicing (US) Inc. (the Funds' transfer agent); Paul Hastings LLP and Dechert LLP (legal counsel); Deloitte & Touche LLP (the Funds' independent registered public accounting firm); Donnelley Financial Solutions (financial printer); and Glass Lewis & Co., LLC (the proxy voting service provider and the service provider that has been retained to process votes and corporation actions on behalf of the Funds). Each recipient, except the Funds' independent registered public accounting firm, the Funds' legal counsel and the Funds' financial printer, receives the portfolio holdings information on a daily basis. Each of the Funds' independent registered public accounting firm, the Funds' legal counsel and the Funds' financial printer receives the information when requested in connection with its services to the Funds.

## ADMINISTRATION AND ACCOUNTING SERVICES

The Funds have a Fund Administration and Accounting Agreement (the “Administration Agreement”) with The Bank of New York Mellon (“BNY Mellon”), which has offices at 760 Moore Road, King of Prussia, Pennsylvania 19406. The Administration Agreement provides that BNY Mellon will perform certain administrative services for the Trust including, among other things, prepare and coordinate with the Funds and Funds’ counsel the filing of the Funds’ annual post-effective amendment; assemble and distribute quarterly Board materials including the drafting of notices, agendas and resolutions for quarterly Board meetings; maintain the Trust’s corporate records; administratively assist in arranging the fidelity bond and directors’ and officers’/errors and omissions insurance policies; and maintain the Trust’s regulatory calendar. BNY Mellon also performs certain administrative and accounting services for the Trust such as preparing and filing shareholder reports, preparing and filing federal and state tax returns on behalf of the Trust and providing statistical and research data. In addition, BNY Mellon prepares and files certain reports with the appropriate regulatory agencies and prepares certain materials required by the SEC or any state securities commission having jurisdiction over the Trust. The accounting services performed by BNY Mellon include maintaining the accounting books and records of the Funds, calculating the Funds’ net asset value per share, maintaining records relating to the securities transactions of the Funds and coordinating the preparation and payment of Fund-related expenses. The amount of administration and accounting services fees paid by each Fund to BNY Mellon for the last three fiscal years is as follows:

	Fiscal Year Ended March 31, 2019	Fiscal Year Ended March 31, 2018	Fiscal Year ended March 31, 2017
<b>AlphaTrak 500 Fund</b>	\$ 79,199	\$ 59,084	\$ 46,195
<b>Corporate Bond Fund*</b>	\$ 55,462	\$ 0	\$ 0
<b>Flexible Income Fund**</b>	\$ 23,454	\$ 0	\$ 0
<b>Floating Rate Income Fund</b>	\$ 149,116	\$ 132,346	\$ 113,245
<b>High Yield Bond Fund</b>	\$ 127,372	\$ 127,985	\$ 139,739
<b>Intermediate Bond Fund</b>	\$ 151,746	\$ 151,684	\$ 154,115
<b>Investment Grade Credit Fund*</b>	\$ 59,436	\$ 0	\$ 0
<b>Low Duration Bond Fund</b>	\$ 263,033	\$ 254,073	\$ 263,495
<b>Strategic Income Fund</b>	\$ 121,147	\$ 87,492	\$ 79,417
<b>Total Return Bond Fund</b>	\$ 4,242,468	\$ 4,127,147	\$ 4,001,540
<b>Ultra Short Bond Fund</b>	\$ 96,171	\$ 83,241	\$ 82,467
<b>Unconstrained Bond Fund</b>	\$ 339,033	\$ 328,909	\$ 243,656

\* The Corporate Bond Fund and Investment Grade Credit Fund did not commence operations until June 29, 2018.

\*\* The Flexible Income Fund did not commence operations until November 30, 2018.

## CUSTODIAN AND TRANSFER AGENT

The Bank of New York Mellon, located at One Wall Street, New York, New York 10286, serves as the Funds’ custodian under a separate Custodian Agreement. Under the Custodian Agreement, The Bank of New York Mellon (i) maintains a separate account or accounts in the name of each Fund, (ii) holds and transfers portfolio securities on account of each Fund, (iii) accepts receipts and makes disbursements of money on behalf of each Fund, (iv) collects and receives all income and other payments and distributions on account of each Fund’s securities, and (v) makes periodic reports to the Board of Trustees concerning each Fund’s operations. Pursuant to applicable rules, The Bank of New York Mellon also acts as the Fund’s foreign custody manager.

Pursuant to applicable rules, the Funds also maintain futures accounts with Citigroup Global Markets Inc., Goldman, Sachs & Co., and Credit Suisse Securities (USA) LLC, all of which are futures commission merchants registered with the National Futures Association. Because of margin requirements for futures transactions, certain Funds’ assets occasionally may be held in the accounts instead of with the Funds’ custodian.

BNY Mellon Investment Servicing (US) Inc. serves as the transfer agent for the Funds under a Transfer Agency and Shareholder Services Agreement.

## UNDERWRITER

TCW Funds Distributors LLC (the “Underwriter”), located at 865 S. Figueroa Street, Suite 1800, Los Angeles, California 90017, is a broker-dealer that serves as each Fund’s principal underwriter in a continuous public offering of the Funds’ shares on a best-efforts basis. The Underwriter is under common ownership with the Adviser.

Under a Distribution Agreement with the Trust (the “Distribution Agreement”), the Underwriter acts as the agent of the Trust in connection with the continuous offering of shares of the Funds. The Underwriter continually distributes shares of the Funds on a best efforts basis. The Underwriter has no obligation to sell any specific quantity of Fund shares. The Underwriter and its officers have no role in determining the investment policies or which securities are to be purchased or sold by the Trust.

The Underwriter may enter into agreements with selected broker-dealers, banks or other financial intermediaries for distribution of shares of the Funds. With respect to certain financial intermediaries and related fund “supermarket” platform arrangements, the Funds and/or the Adviser, rather than the Underwriter, typically enter into such agreements. These financial intermediaries may charge a fee for their services and may receive shareholder service or other fees from parties other than the Underwriter. These financial intermediaries may otherwise act as processing agents and are responsible for promptly transmitting purchase, redemption and other requests to the Funds.

Investors who purchase shares through financial intermediaries will be subject to the procedures of those intermediaries through which they purchase shares, which may include charges, investment minimums, cutoff times and other restrictions in addition to, or different from, those listed herein. Information concerning any charges or services will be provided to customers by the financial intermediary through which they purchase shares. Investors purchasing shares of the Funds through financial intermediaries should acquaint themselves with their financial intermediary’s procedures and should read the Prospectus in conjunction with any materials and information provided by their financial intermediary. The financial intermediary, and not its customers, will be the shareholder of record, although customers may have the right to vote shares depending upon their arrangement with the financial intermediary. The Underwriter does not receive compensation from the Funds for its distribution services except the distribution/service fees with respect to the shares of those classes for which a 12b-1 Plan is effective. The Adviser or its parent company may reimburse expenses of or contribute capital to the Underwriter.

After its initial term of two years, the Distribution Agreement between the Funds and the Underwriter will continue in effect for periods not exceeding one year if approved at least annually by (i) the Board of Trustees or the vote of a majority of the outstanding shares of each Fund (as defined in the 1940 Act) and (ii) a majority of the Independent Trustees, in each case cast in person at a meeting called for the purpose of voting on such agreement. The Distribution Agreement may be terminated without penalty by the parties thereto upon 60 days’ written notice, and it is automatically terminated in the event of its assignment as defined in the 1940 Act.

### **SHARE MARKETING PLAN**

The Trust has adopted a Share Marketing Plan (or Rule 12b-1 Plan) (the “12b-1 Plan”) with respect to the Funds pursuant to Rule 12b-1 under the 1940 Act. The Underwriter serves as the Distribution Coordinator under the 12b-1 Plan and, as such, receives for disbursement any fees paid by the Funds pursuant to the 12b-1 Plan.

On April 1, 1997, the Board of Trustees of the Trust, including a majority of the Independent Trustees who have no direct or indirect financial interest in the operation of the 12b-1 Plan or in any agreement related to the 12b-1 Plan adopted the 12b-1 Plan for Class M shares of the Ultra Short Bond Fund, Low Duration Bond Fund and Total Return Bond Fund. On May 18, 1998, the Board of Trustees of the Trust, including a majority of the Independent Trustees who have no direct or indirect financial interest in the operation of the 12b-1 Plan or in any agreement related to the 12b-1 Plan, adopted the Plan for the AlphaTrak 500 Fund. On June 10, 2002, the Board of Trustees of the Trust, including a majority of the Independent Trustees who have no direct or indirect financial interest in the operation of the 12b-1 Plan or in any agreement related to the 12b-1 Plan, adopted the Plan for Class M shares of the High Yield Bond Fund and Intermediate Bond Fund. On May 19, 2003, the Board of Trustees of the Trust, including a majority of the Independent Trustees who have no direct or indirect financial interest in the operation of the 12b-1 Plan or in any agreement related to the 12b-1 Plan, adopted the 12b-1 Plan for Class M shares of the Strategic Income Fund. On September 19, 2011, the Board of Trustees of the Trust, including a majority of the Independent Trustees who have no direct or indirect financial interest in the operation of the 12b-1 Plan or in any agreement related to the 12b-1 Plan, adopted the 12b-1 Plan for Class M shares of the Unconstrained Bond Fund. On May 20, 2013, the Board of Trustees of the Trust, including a majority of the Independent Trustees who have no direct or indirect financial interest in the operation of the 12b-1 Plan or in any agreement related to the 12b-1 Plan, adopted the 12b-1 Plan for Class M shares of the Floating Rate Income Fund. The Funds’ Rule 12b-1 plan covers the Class M shares of each of the Funds. The 12b-1 Plan also covers the Administrative Class shares of the Low Duration Bond Fund and Total Return Bond Fund. On June 4, 2018, the Board of Trustees of the Trust, including a majority of the Independent Trustees who have no direct or indirect financial interest in the operation of the 12b-1 Plan or in any agreement related to the 12b-1 Plan adopted the 12b-1 Plan for Class M shares of the Corporate Bond Fund, Flexible Income Fund and Investment Grade Credit Fund.

Under the 12b-1 Plan, each Fund pays distribution fees to the Distribution Coordinator at an annual rate of up to 0.25% of the Fund’s aggregate average daily net assets to reimburse expenses incurred in connection with the promotion and distribution of each Fund’s shares. The promotional and distribution activities paid by the 12b-1 Plan include, but are not limited to, compensation of intermediaries such as broker-dealers that sponsor fund marketplaces or platforms, and service shareholder accounts. Because these fees are paid out of the Funds’ assets on an ongoing basis, over time these fees will increase the cost of an investor’s investment and may cost such investor more than paying other sales charges. The 12b-1 Plan is intended to facilitate the sale of Class M shares. Because the various Funds may be marketed jointly, the payments made by some Funds could have the effect of also promoting other Funds, but the charges imposed by intermediaries are normally billed with respect to specific Funds. The Adviser has undertaken to limit the 12b-1 Plan expenses to 0.21% for the Total Return Bond Fund, 0.19% for the Low Duration Bond Fund, 0.21% for the Intermediate Bond Fund and 0.16% for the Ultra Short Bond Fund for the fiscal year ending March 31, 2019. The AlphaTrak 500 Fund is presently waiving all Rule 12b-1 fees.

The 12b-1 Plan provides that the Distribution Coordinator may use the Rule 12b-1 distribution fees received from a Fund only to pay for the distribution and shareholder servicing expenses of the Fund. Distribution fees are accrued daily and paid monthly, and are charged as expenses of the shares as accrued.

A Fund is not obligated under the 12b-1 Plan to pay any distribution expense in excess of the distribution fee. Thus, if the 12b-1 Plan were terminated or otherwise not continued, no amounts (other than current amounts accrued but not yet paid) would be owed to the Distribution Coordinator. Using its own resources, the Adviser may pay distribution and other fees and expenses in excess of the distribution fee under agreements with certain intermediaries (such as but not limited to broker-dealers, banks, employee benefit plan alliances, record keepers or other financial institutions) under selling or servicing agreements for the Funds.

The 12b-1 Plan provides that it shall continue in effect from year to year provided that a majority of the Board of Trustees of the Trust, including a majority of the Independent Trustees, vote annually to continue the 12b-1 Plan. The 12b-1 Plan (and any distribution agreement between the Trust, the Underwriter or the Adviser and a selling agent) may be terminated without penalty upon at least 60-days' notice by the Underwriter or the Adviser, or by the Trust by vote of a majority of the Independent Trustees, or by vote of a majority of the outstanding shares (as defined in the 1940 Act).

All distribution fees paid by the Funds under the 12b-1 Plan will be paid in accordance with FINRA Conduct Rule 2830, as such Rule may change from time to time. Pursuant to the 12b-1 Plan, the Board of Trustees will review at least quarterly a written report of the distribution expenses on behalf of each Fund. In addition, as long as the 12b-1 Plan remains in effect, the selection and nomination of Trustees who are not interested persons (as defined in the 1940 Act) of the Trust shall be made by the Trustees then in office who are not interested persons of the Trust.

For the fiscal year ended March 31, 2019, 12b-1 fees were paid by the Funds as shown in the following table. All of the amounts shown were paid as compensation for distribution-related services and shareholder-related services to broker/dealers, recordkeepers and other intermediaries. These amounts reflect actual payments made by the Funds net of reimbursement by the Adviser. The Funds did not have any unreimbursed expenses carried over to future years.

Fund	12b-1 Fees Paid for Fiscal Year Ended March 31, 2019	
AlphaTrak 500 Fund – Class M		None
Corporate Bond Fund – Class M*	\$	1,421
Flexible Income Fund – Class M**	\$	1
Floating Rate Income Fund – Class M	\$	41,381
High Yield Bond Fund – Class M	\$	475,503
Intermediate Bond Fund – Class M	\$	88,527
Investment Grade Credit Fund – Class M*	\$	1,424
Low Duration Bond Fund – Class M	\$	1,393,825
Strategic Income Fund – Class M	\$	54,742
Total Return Bond Fund – Class M	\$	21,431,884
Ultra Short Bond Fund – Class M	\$	63,764
Unconstrained Bond Fund – Class M	\$	1,314,441

\* The Corporate Bond Fund and Investment Grade Credit Fund did not commence operations until June 29, 2018.

\*\* The Flexible Income Fund did not commence operations until November 30, 2018.

In addition, Adviser and its affiliates may, at their own expense and out of their own legitimate profits or other resources, pay additional compensation to an authorized broker-dealer, investment adviser, financial adviser, retirement plan administrator, insurance company, or other financial intermediary that has entered into a distribution agreement, service agreement or other type of arrangement with Adviser, the Underwriter or the Funds (“Authorized Firms”) for selling or servicing one or more class of Fund shares. Authorized Firms that receive these payments may be affiliated with Adviser. Payments may relate to selling and/or servicing activities, such as: access to an Authorized Firm’s customers or network; recordkeeping services; aggregating, netting and transmission of orders; generation of sales and other informational materials; individual or broad-based marketing and sales activities; wholesaling activities; conferences; retention of assets; new sales of Fund shares, and a wide range of other activities. Compensation amounts generally vary, and can include various initial and on-going payments. Additional compensation may also be paid to broker-dealers who offer certain Funds as part of a special preferred-list or other preferred treatment program. Additional compensation creates a potential conflict of interest in the form of an additional financial incentive to a registered representative of an Authorized Firm to recommend the purchase of the Funds over another mutual fund or another investment option. As of March 31, 2019, the Adviser has entered into arrangements to make additional distribution related payments to the following Authorized Firms: ADP Retirement Services, American Century, Ameriprise Financial Services, Inc., BPA, BMO Harris Bank, Charles Schwab & Co Inc., E\*Trade Savings Bank, Fidelity Investments, Financial Data Services (Merrill Lynch Pierce Fenner), GWFS Equities In, Hartford Life Insurance, JP Morgan Private Bank, Lincoln Financial Group, John Hancock,

MassMutual Financial Group, Morgan Stanley, Matrix Financial Solutions, Minnesota Life, Nationwide Financial Services Inc., Pershing LLC, Principal Life Insurance, Prudential Investment Management Services, RBC Capital Markets Corporation, Standard Insurance Company, T. Rowe Price, TD Ameritrade Inc., TIAA, UBS Financial Services Inc., U.S. Bank, Valic Retirement Services, The Vanguard Group, Voya Financial, Wells Fargo Bank and Wells Fargo Clearing. Inclusion on this list does not imply that the additional compensation paid to such Authorized Firms necessarily constitutes “special cash compensation” as defined by FINRA Conduct Rule 2830(l)(4). The Adviser will update this listing annually and interim arrangements may not be reflected. The Adviser and the Funds assume no duty to notify any investor whether an Authorized Firm through which he/she invests should be included in any such listing. You are encouraged to review the Prospectus for each Fund for any other compensation arrangements pertaining to the distribution of Fund shares. You also are encouraged to ask your brokerage representative or other contact with the distribution platform (or broker) what compensation that person or the relevant firm may be receiving for your investment in the Funds.

### **SHAREHOLDER SERVICING PLAN**

The Trust has adopted a Shareholder Servicing Plan that allows each Fund to pay to broker-dealers and other financial intermediaries a fee for shareholder services provided to Fund shareholders who invest in the Administrative Class shares of the Fund through the intermediary. The fee is payable at an annual rate not to exceed 0.25% of the Fund’s average daily net assets invested through the intermediary, or such lower amount specified in the then-current prospectus (which currently specifies 0.20%). Because these fees are paid out of the Fund’s assets, over time these fees will also increase the cost of a shareholder’s investment in the Administrative Class shares of the Fund. For the fiscal years ended March 31, 2019, 2018 and 2017, the Low Duration Bond Fund – Administrative Class paid shareholder servicing fees of \$2,666, \$13,182 and \$15,699, respectively. For the fiscal years ended March 31, 2019, 2018 and 2017, the Total Return Bond Fund – Administrative Class paid shareholder servicing fees of \$1,889,345, \$1,807,907 and \$1,000,140, respectively.

The shareholder services that may be provided under the Shareholder Servicing Plan are non-distribution shareholder services that the intermediary provides with respect to Administrative class shares of the Fund owned from time to time by customers of the intermediary. Such services include but are not limited to (i) transfer agent and sub-transfer agent type of services for beneficial owners of those Fund shares, (ii) aggregating and processing purchase and redemption orders for Fund shareholders, (iii) providing beneficial owners of Fund shares who are not record owners with statements showing their positions in the Fund, (iv) processing dividend payments for Fund shares, (v) providing sub-accounting services for Fund shares held beneficially, (vi) forwarding shareholder communications, such as proxies, shareholder reports, dividend and tax notices, and updated prospectuses to beneficial owners of Fund shares who are not record owners, (vii) receiving, tabulating and transmitting proxies executed by beneficial owners of Fund shares who are not record owners, (viii) responding generally to inquiries these shareholders have about the Fund or Funds, and (ix) providing such other information and assistance to these shareholders as they may reasonably request.

### **OTHER SHAREHOLDER SERVICING EXPENSES PAID BY THE FUNDS**

Each Fund is authorized to compensate each broker-dealer and other third-party intermediary up to 0.10 percent (10 basis points) of the assets serviced for that Fund by that intermediary for shareholder services to each Fund and its shareholders. These services constitute sub-recordkeeping, sub-transfer agent or similar services and are similar in scope to services provided by the transfer agent to a Fund. These expenses paid by a Fund would remain subject to any overall expense limitation applicable to that Fund. These expenses are in addition to any supplemental amounts the Adviser pays out of its own resources and are in addition to the Fund’s payment of any amounts through the 12b-1 Plan. This amount may be adjusted, subject to approval by the Board of Trustees.

### **NET ASSET VALUE**

As stated in the Prospectus, the net asset value or “NAV” per share of each Fund’s shares will be determined at the close of the New York Stock Exchange (the “NYSE”) (generally 4:00 p.m. ET, but the NYSE sometimes closes earlier) on each day that the NYSE is open for trading. The determination of NAV per share of each Fund’s shares may utilize portfolio valuations established prior to the close of the NYSE, as opposed to the closing market price, particularly with respect to fixed income instruments where prices are received from a pricing service or fair value process. The NYSE annually announces the days on which it will not be open for trading; the most recent announcement indicates that it will not be open on the following days: New Year’s Day, Martin Luther King Jr. Day, Presidents’ Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. The NYSE may, however, close on days not included in that announcement. No Fund is required to compute its net asset value on any day on which no order to purchase or redeem its shares is received. The daily net asset value may not reflect the closing market price for all futures contracts held by the Funds because the markets for certain futures contracts close shortly after the time net asset value is calculated.

Fixed-income securities for which market quotations are readily available are valued at prices as provided by independent pricing vendors. As appropriate, quotations for high yield bonds may also take additional factors into consideration such as the activity of the underlying equity or sector movements. However, securities with a demand feature exercisable within one to seven days are valued at par. The Funds receive pricing information from independent pricing vendors approved by the Board of Trustees. The Funds use what they refer to as a “benchmark pricing system” to the extent vendors’ prices for securities are either inaccurate (such as when the reported

prices are different from recent known market transactions) or are not available from another pricing source. For a security priced using this system, the Adviser, initially selects a proxy comprised of a relevant security (*i.e.*, U.S. Treasury Note) or benchmark (*i.e.*, LIBOR) and a multiplier, divisor or margin that the Adviser believes would together best reflect changes in the market value of the security. The Adviser adjusts the value of the security daily based on changes to the market price of the assigned benchmark. Once each month, the Adviser obtains from one or more dealers an independent review of prices produced by the benchmark system as well as a review of the benchmark selected to adjust the price. Although the Adviser believes that benchmark pricing is the most reliable method for pricing securities not priced by pricing services, there is no assurance that the benchmark price reflects the actual price for which a Fund could sell a security. The accuracy of benchmark pricing depends on the judgment of one or more market makers regarding a security's market price, as well as the choice of the appropriate benchmark, subject to review by the Adviser. The benchmark pricing system is continuously reviewed by the Adviser and implemented according to the pricing policy reviewed at least annually by the Board of Trustees.

Debt securities that mature in fewer than 60 days are valued at amortized cost if their original maturity was 60 or fewer days or by amortizing the value as of the 61st day before maturity, if their original term to maturity exceeded 60 days (unless the Board of Trustees determines that this method does not represent fair value).

Fixed income securities can be complicated financial instruments. There are many methodologies (including computer-based analytical modeling and "individual security evaluations") available to generate approximations of their market value, and there is significant professional disagreement about which is best. No evaluation method may consistently generate approximations that correspond to actual "traded" prices of the instruments. Evaluations may not reflect the transaction price at which an investment can be purchased or sold in the market.

Equity securities, including depository receipts, are valued at the last reported sale price as reported by the stock exchange or pricing service. In cases where equity securities are traded on more than one exchange, the securities are valued using the prices from the respective primary exchange of each security. Options on equity securities are valued at the average of the latest bid and ask prices as reported by the stock exchange or pricing service. S&P 500 futures contracts generally are valued at the first sale price after 4:00 p.m. ET on the Chicago Mercantile Exchange. All other futures contracts are valued at the official settlement price of the exchange on which the applicable contract is traded. Changes to market closure times may alter when futures contracts are valued.

Trading in securities listed on foreign securities exchanges is normally completed before the close of regular trading on the NYSE. In addition, foreign securities trading may not take place on all business days in New York and may occur on days on which the NYSE is not open. Foreign currency exchange rates are generally determined prior to the close of trading on the NYSE. Events affecting the value of foreign securities and currencies will not be reflected in the determination of net asset value unless the Board of Trustees determines that the particular event would materially affect net asset value, in which case an adjustment will be made. Foreign currency exchange transactions conducted on a spot basis are valued at the spot rate prevailing in the foreign exchange market.

Securities and other assets that cannot be valued as described above will be valued at their fair value as determined by the Adviser under guidelines established by and under the general supervision and responsibility of the Board of Trustees. These guidelines generally take into account appropriate factors such as institutional-sized trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, trading characteristics, and other market data. Information that becomes known to the Funds or their agents after the NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or the NAV determined earlier that day. Valuing a security at a fair value involves relying on a good faith value judgment made by individuals rather than on price quotations obtained in the marketplace. Although intended to reflect the actual value at which securities could be sold in the market, the fair value of one or more securities could be different from the actual value at which those securities could be sold in the market. Therefore, if a shareholder purchases or redeems shares in a Fund and the Fund holds securities priced at fair value, valuing a security at a fair value may have the unintended effect of increasing or decreasing the number of shares received in a purchase or the value of the proceeds received upon a redemption.

Each Fund's liabilities are allocated among its classes. The total of such liabilities allocated to a class plus that class's distribution and/or servicing fees (if any) and any other expenses specially allocated to that class are then deducted from the class's proportionate interest in the Fund's assets, and the resulting amount for each class is divided by the number of shares of that class outstanding to produce the class's "net asset value" per share.

## **CONVERSION OF SHARES BETWEEN CLASSES**

You will be permitted to convert shares between Class I Shares and Class M Shares and the Plan Class, provided that your investment meets the minimum initial investment requirements in the other class, that the shares of the other class are eligible for sale in your state of residence and that those shares are otherwise available for offer and sale. When an individual shareholder cannot meet the initial investment requirements of the other class, conversions of shares from one class to another class will be permitted if such a shareholder's investment is normally aggregated with other shareholders' requests, such as through a broker-dealer's omnibus account. Shareholders will not be charged any fees by the Funds for such conversions, nor shall any intermediary charge any fees for such conversions. Ongoing fees and expenses incurred by a given share class will differ from those of other share classes, and a



shareholder receiving new shares in an intra-Fund exchange may be subject to higher or lower total expenses following such exchange. Not all Funds offer all classes of shares or may be open to new investors. Conversion transactions will be effected only into an identically registered account. Conversion transactions will not be treated as a redemption for federal income tax purposes. Shareholders should consult their tax advisors as to the federal, foreign, state and local tax consequences of an intra-Fund exchange. Such conversion transactions must be effected according to other applicable law. The Funds also reserve the right to revise or terminate the conversion privilege, limit the amount or number of conversions or reject any conversion. A conversion of shares between Class I Shares and Class M Shares and Plan Class Shares is exempt from the Frequent Trading Policy described under "Trading Limits" in the Prospectus.

## REDEMPTION IN KIND

If the Board of Trustees determines that it would be detrimental to the best interests of the remaining shareholders of any Fund to make payment wholly in cash, the Fund may pay the redemption price in part by a distribution in kind of readily marketable securities from the portfolio of that Fund, in lieu of cash. The Trust has elected to be governed by Rule 18f-1 under the 1940 Act pursuant to which each Fund is obligated to redeem shares solely in cash up to the lesser of \$250,000 or one percent of the net asset value of the Fund during any 90-day period for any one shareholder. Should redemptions by any shareholder exceed such limitation the Fund will have the option of redeeming the excess in cash or in kind. If shares are redeemed in kind, the redeeming shareholder would incur brokerage costs in converting the assets into cash.

## DIVIDENDS AND TAX STATUS

Each Fund has elected and intends to continue to qualify to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). Each Fund is taxed as a separate entity under Subchapter M and must qualify on a separate basis. Qualification as a regulated investment company requires, among other things, that (a) at least 90% of a Fund's annual gross income, without offset for losses from the sale or other disposition of securities, be derived from interest, dividends, payments with respect to securities loans, and gains from the sale or other disposition of securities, foreign currencies or options (including forward contracts) thereon; and (b) a Fund diversify its holdings so that, at the end of each quarter of the taxable year, (i) at least 50% of the market value of the Fund's assets is represented by cash, U.S. government securities, securities of other regulated investment companies and other securities limited in respect of any one issuer to an amount not greater than 5% of the Fund's assets and 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of its assets is invested in the securities of any one issuer (other than U.S. government securities) or two or more issuers that the Fund controls and that are engaged in the same, similar or related trades or businesses, or the securities of one or more qualified publicly traded partnerships. In addition, in order to qualify as a regulated investment company a Fund must distribute to its shareholders at least 90% of its net investment income, other than net capital gains, and 90% of its tax-exempt interest income, earned in each year. As such, and by complying with the applicable provisions of the Code, a Fund will not be subject to U.S. federal income tax on the portion of its taxable income (and its net realized long-term capital gains) that it distributes to shareholders in accordance with the timing requirements of the Code.

A Fund must pay an excise tax to the extent it does not distribute to its shareholders during each calendar year at least 98% of its ordinary income for that calendar year, 98.2% of its net capital gains (both long-term and short-term) over capital losses for the one-year period ending October 31 in such calendar year, and all undistributed ordinary income and capital gains for the preceding respective one-year period. The Funds intend to meet these distribution requirements to avoid excise tax liability. If the net asset value of shares of a Fund should, by reason of a distribution of realized capital gains, be reduced below a shareholder's cost, such distribution would to that extent be a return of capital to that shareholder even though taxable to the shareholder, and a sale of shares by a shareholder at net asset value at that time would establish a capital loss for U.S. federal income tax purposes.

An additional 3.8% federal tax is imposed on certain net investment income (including ordinary dividends and capital gain distributions received from a Fund and net gains from redemptions or other taxable sales or dispositions of Fund shares) of U.S. individuals, estates and trusts to the extent that such person's "modified adjusted gross income" (in the case of an individual) or "adjusted gross income" (in the case of an estate or trust) exceeds certain threshold amounts. Shareholders are advised to consult their tax advisors regarding the possible implications of this additional tax on their investment in the Fund. Corporate shareholders are eligible to deduct 70% of dividends received from domestic corporations. The Funds pass through this benefit to their corporate shareholders subject to certain limitations under the Code. The dividends-received deduction is allowed to a corporate shareholder only if the shareholder satisfies a 46-day holding period for the dividend-paying stock (or a 91-day period for certain dividends on preferred stock). The 46-day and 91-day holding periods generally do not include any time in which the shareholder is protected from the risk of loss otherwise inherent in the ownership of an equity interest.

A Fund must satisfy the above holding period requirements in order to pass through this benefit to its corporate shareholders. In addition, a corporate shareholder of a Fund must also satisfy the holding period requirement with respect to its Fund Shares. In determining the extent to which a Fund's dividends may be eligible for the 70% dividends-received deduction by corporate shareholders, interest income, capital gain net income, gain or loss from Section 1256 contracts (described below), dividend income from foreign corporations and income from other sources will not constitute qualified dividends. Corporate shareholders should consult their tax advisers regarding other requirements applicable to the dividends-received deduction.

The use of hedging strategies, such as entering into futures contracts and forward contracts and purchasing options, involves complex rules that will determine the character and timing of recognition of the income received in connection therewith by the Funds. Income from foreign currencies (except certain gains therefrom that may be excluded by future regulations) and income from transactions in options, futures contracts and forward contracts derived by a Fund with respect to its business of investing in securities or foreign currencies will qualify as permissible income under Subchapter M of the Code.

For accounting purposes, when a Fund purchases an option, the premium paid by the Fund is recorded as an asset and is subsequently adjusted to the current market value of the option. Any gain or loss realized by a Fund upon the expiration or sale of such options held by the Fund generally will be capital gain or loss.

Any security, option, or other position entered into or held by a Fund that substantially diminishes the Fund's risk of loss from any other position held by the Fund may constitute a "straddle" for U.S. federal income tax purposes. In general, straddles are subject to certain rules that may affect the amount, character and timing of a Fund's gains and losses with respect to straddle positions by requiring, among other things, that the loss realized on disposition of one position of a straddle be deferred until gain is realized on disposition of the offsetting position; that the Fund's holding period in certain straddle positions not begin until the straddle is terminated (possibly resulting in the gain not being treated as long-term capital gain); and that losses recognized with respect to certain straddle positions, which would otherwise constitute short-term capital losses, be treated as long-term losses. Different elections are available to a Fund that may mitigate the effects of the straddle rules.

Certain options, futures contracts and forward contracts that are subject to Section 1256 of the Code ("Section 1256 Contracts") and that are held by a Fund at the end of its taxable year generally will be required to be "marked to market" for U.S. federal income tax purposes, that is, deemed to have been sold at market value. Sixty percent of any net gain or loss recognized on these deemed sales and 60% of any net gain or loss realized from any actual sales of Section 1256 Contracts will be treated as long-term capital gain or loss, and the balance will be treated as short-term gain or loss.

A Fund may be subject to foreign withholding taxes on dividends and interest earned with respect to securities of foreign corporations. A Fund may invest in the stock of foreign investment companies that may be treated as "passive foreign investment companies" ("PFICs") under the Code. Certain other foreign corporations, not operated as investment companies, may nevertheless satisfy the PFIC definition. A portion of the income and gains that a Fund derives from PFIC stock may be subject to a non-deductible U.S. federal income tax at the Fund level. In some cases, a Fund may be able to avoid this tax by electing to be taxed currently on its share of the PFIC's income, whether or not such income is actually distributed by the PFIC. This is known as the qualifying electing fund, or QEF, election. Each Fund will endeavor to limit its exposure to the PFIC tax by investing in PFICs only where the election to be taxed currently will be made. Because it is not always possible to identify a foreign issuer as a PFIC in advance of making the investment, a Fund may incur the PFIC tax in some instances.

Under Section 988 of the Code, gains or losses attributable to fluctuations in exchange rates which occur between the time a Fund accrues interest or other receivables or accrues expenses or other liabilities denominated in a foreign currency and the time the Fund actually collects such receivables or pays such liabilities are treated as ordinary income or loss. Similarly, gains or losses on forward foreign currency exchange contracts (other than forward foreign currency exchange contracts that are governed by Section 1256 of the Code and for which no election is made) or dispositions of debt securities denominated in a foreign currency attributable to fluctuations in the value of the foreign currency between the date of acquisition of the security and the date of disposition are also treated as ordinary gain or loss. These gains and losses, referred to as "Section 988" gains or losses, increase or decrease the amount of a Fund's investment company taxable income available to be distributed to its shareholders as ordinary income, rather than increasing or decreasing the Fund's net capital gain. If a Fund's Section 988 losses exceed other investment company taxable income during a taxable year, the Fund would not be able to make any ordinary dividend distributions, or distributions made before the losses were realized would be recharacterized as a return of capital to shareholders, rather than as an ordinary dividend, reducing the basis of each shareholder's shares.

Any loss realized on a sale, redemption or exchange of shares of a Fund by a shareholder will be disallowed to the extent the shares are replaced within a 61-day period, beginning 30 days before and ending 30 days after the disposition of shares. Shares received in connection with the payment of a dividend by a Fund constitute a replacement of shares.

Under the Foreign Account Tax Compliance Act ("FATCA"), and subject to any applicable intergovernmental agreements, a 30% withholding tax on a Fund's distributions generally applies if paid to a foreign entity unless: (i) if the foreign entity is a "foreign financial institution," it undertakes certain due diligence, reporting, withholding and certification obligations, (ii) if the foreign entity is not a "foreign financial institution," it identifies certain of its U.S. investors or (iii) the foreign entity is otherwise excepted under FATCA. Under existing Treasury regulations, FATCA withholding on gross proceeds from the sale or disposition of Fund shares was to take place on January 1, 2019; however, proposed Treasury regulations, on which taxpayers may rely until further notice, would eliminate FATCA withholding on such types of payments. If withholding is required under FATCA on a payment related to your shares, investors that otherwise would not be subject to withholding (or that otherwise would be entitled to a reduced rate of withholding) on such payment generally will be required to seek a refund or credit from the IRS to obtain the benefits of such exemption or reduction. The Funds will not pay any additional amounts in respect to amounts withheld under FATCA. You should consult your tax advisor regarding the effect of FATCA based on your individual circumstances.

Dividends generally are taxable to shareholders at the time they are paid. However, dividends declared in October, November and December and made to shareholders of record in such a month are treated as paid and are taxable as of December 31, provided that the dividend is paid during January of the following year. A Fund may make taxable distributions even during periods in which share prices have declined.

If a shareholder recognizes a loss with respect to a Fund's shares of \$2 million or more for an individual shareholder or \$10 million or more for a corporate shareholder (or certain greater amounts over a combination of years), the shareholder must file with the IRS a disclosure statement on IRS Form 8886. Direct shareholders of portfolio securities are in many cases exempted from this reporting requirement, but under current guidance, shareholders of a regulated investment company are not exempted. The fact that a loss is so reportable does not affect the legal determination of whether the taxpayer's treatment of the loss is proper.

Special tax rules apply to investments through defined contribution plans and other tax-qualified plans. Shareholders should consult their tax advisers to determine the suitability of shares of a Fund as an investment through such plans and the precise effect of such an investment in their particular tax situations. Each shareholder will receive annual information from its Fund regarding the tax status of that Fund's distributions.

The above discussion and the related discussion in the Prospectus are not intended to be complete discussions of all applicable federal tax consequences of an investment in a Fund. This discussion does not purport to consider all aspects of U.S. federal income taxation that might be relevant to beneficial owners of shares of the Funds. Paul Hastings LLP has expressed no opinion in respect thereof. Nonresident aliens and other foreign persons are subject to different tax rules, and may be subject to U.S. federal income tax withholding on certain payments received from a Fund. Shareholders are advised to consult with their own tax advisers concerning the application of federal, state, local, and foreign taxes to an investment in a Fund.

### **FURTHER INFORMATION ABOUT THE TRUST**

The Declaration of Trust for the Trust permits the Board of Trustees to issue an unlimited number of full and fractional shares of beneficial interest and to divide or combine the shares into a greater or lesser number of shares without thereby changing the proportionate beneficial interest in each Fund. Each share represents an interest in a Fund proportionately equal to the interest of each other share. Upon the Trust's liquidation, all shareholders would share *pro rata* in the net assets of the Fund in question available for distribution to shareholders. If it deems it advisable and in the best interest of shareholders, the Board of Trustees may create additional classes of shares. Each of such classes has or will have a different designation. Income and operating expenses not specifically attributable to a particular Fund are allocated fairly among the Funds by the Board of Trustees, generally on the basis of the relative net assets of each Fund.

Rule 18f-2 under the 1940 Act provides that any matter required to be submitted to the holders of the outstanding voting securities of an investment company such as the Trust shall not be deemed to have been effectively acted upon unless approved by a majority of the outstanding shares of the series of the Trust affected by the matter. Under Rule 18f-2, a series is presumed to be affected by a matter, unless the interests of each series in the matter are identical or the matter does not affect any interest of such series. Under Rule 18f-2 the approval of an investment advisory agreement or any change in a fundamental investment policy would be effectively acted upon with respect to a Fund only if approved by a majority of its outstanding shares. However, the rule also provides that the ratification of independent registered public accounting firms, the approval of principal underwriting contracts and the election of directors may be effectively acted upon by the shareholders of the Trust voting without regard to a Fund.

The Declaration of Trust provides that the Board of Trustees will not be liable for errors of judgment or mistakes of fact or law, but nothing in the Declaration of Trust protects a Trustee against any liability to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office. The Declaration of Trust also provides that the Trust shall, upon request, assume the defense of any claim made against any shareholder for any act or obligation of the Trust and satisfy any judgment thereon.

The Trust's custodian is responsible for holding the Funds' assets. Sub-custodians provide custodial services for assets of the Trust held outside the U.S. The Trust's independent registered public accounting firm examines the Trust's financial statements and assists in the preparation of certain reports to the SEC.

## ADDITIONAL INFORMATION

### LEGAL OPINION

The validity of the shares offered by the Prospectus has been passed upon by Paul Hastings LLP, 101 California Street, Forty-Eighth Floor, San Francisco, California 94111.

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The annual financial statements of the Funds were audited by Deloitte & Touche LLP, 555 West 5th Street, Suite 2700, Los Angeles, California 90013, independent registered public accounting firm for the Funds. An affiliate of Deloitte & Touche LLP provides tax services.

### OTHER INFORMATION

The Prospectus and this SAI, together, do not contain all of the information set forth in the Registration Statement of Metropolitan West Funds filed with the SEC. Certain information is omitted in accordance with rules and regulations of the Commission. The Registration Statement may be inspected at the Public Reference Room of the Commission at 100 F Street, NE, Washington, D.C. 20549, and copies thereof may be obtained from the Commission at prescribed rates. It is also available on the SEC's Internet Web site at <http://www.sec.gov>. Statements contained in the Prospectus or this SAI as to the contents of any contract or other document referred to herein or in the Prospectus are not necessarily complete, and, in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Trust's registration statement, each such statement being qualified in all respects by that reference.

### FINANCIAL STATEMENTS

Audited financial statements and the accompanying report of Deloitte & Touche LLP, the Independent Registered Public Accounting Firm, for the fiscal year ended March 31, 2019 for the Funds, as contained in the Annual Report to Shareholders for the fiscal year ended March 31, 2019, are incorporated herein by reference to that report.

**MOODY'S INVESTORS SERVICE**

**BOND RATINGS:**

“Aaa”—Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as “gilt-edged.” Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

“Aa”—Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long term risks appear somewhat larger than in Aaa securities.

Moody's applies numerical modifiers “1”, “2” and “3” in each generic rating classification from Aa through B. The modifier “1” indicates that the obligation ranks in the higher end of its generic rating category; the modifier “2” indicates a mid-range ranking; and the modifier “3” indicates that the company ranks in the lower end of that generic rating category.

“A”—Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium-grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment sometime in the future.

“Baa”—Bonds which are rated Baa are considered as medium-grade obligations (*i.e.*, they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

“Ba”—Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

“B”—Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

“Caa”—Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

“Ca”—Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

“C”—Bonds which are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

**SHORT-TERM DEBT RATINGS:**

*Moody's short-term debt ratings are opinions regarding the ability of issuers to repay punctually senior debt obligations. These obligations have an original maturity not exceeding one year, unless explicitly noted.*

“P-1”—Issuers rated “Prime-1” or “P-1” (or supporting institutions) have a superior ability for repayment of senior short-term debt obligations.

“P-2”—Issuers rated “Prime-2” or “P-2” (or supporting institutions) have a strong ability for repayment of senior short-term debt obligations.

“P-3”—Issuers rated “Prime-3” or “P-3” (or supporting institutions) have an acceptable ability for repayment of senior short-term debt obligations.

“Not Prime”—Issuers rated “Not Prime” do not fall within any of the Prime rating categories. In addition, in certain countries the prime rating may be modified by the issuer's or guarantor's senior unsecured long-term debt rating.

## STANDARD & POOR'S RATING GROUP

### BOND RATINGS:

“AAA”—Debt rated AAA has the highest rating assigned by S&P. Capacity to pay interest and repay principal is extremely strong.

“AA”—Debt rated AA has a very strong capacity to pay interest and repay principal and differs from the highest rated issues only in small degree.

“A”—Debt rated A has a strong capacity to pay interest and repay principal, although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher-rated categories.

“BBB”—Debt rated BBB is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher-rated categories.

Debt rated BB and B is regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major exposures to adverse conditions.

“CCC”—Debt rated CCC is regarded as being currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the debtor to meet its financial commitment on the debt. In the event of adverse business, financial, or economic conditions, the debtor is not likely to have the capacity to meet its financial commitment on the debt.

“CC”—An obligation rated CC is currently highly vulnerable to nonpayment.

“C”—Debt rated C is regarded as being currently highly vulnerable to nonpayment. The C rating may be used to cover a situation where a bankruptcy petition has been filed or similar action taken, but payments on this debt are being continued.

“D”—Debt rated D is regarded as in payment default. The D rating category is used when payments on debt are not made on the date due even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on a debt are jeopardized.

Plus (+) Minus (—)—The ratings from “AA to CCC” may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

### COMMERCIAL PAPER RATINGS:

An S&P commercial paper rating is a current assessment of the likelihood of timely payment of debt considered short-term in the relevant market.

“A-1”—This highest category indicates that the degree of safety regarding timely payment is strong. Those issues determined to possess extremely strong safety characteristics are denoted with a plus (+) designation.

“A-2”—Capacity for timely payment on issues with this designation is satisfactory. However, the relative degree of safety is not as high as for issues designated A-1.

“A-3”—This designation exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the debtor to meet its financial commitment on the debt.

“B”—This designation is regarded as having significant speculative characteristics. The debtor currently has the capacity to meet its financial commitment on the debt; however, it faces major ongoing uncertainties which could lead to the debtor's inadequate capacity to meet its financial commitment on the debt.

“C”—This designation is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the debtor to meet its financial commitment on the debt.

“D”—A short-term debt rated D is in payment default. The D rating category is used when payments on a debt are not made on the date due even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on a debt are jeopardized.

## **FITCH IBCA RATINGS**

### **BOND RATINGS:**

The following summarizes the ratings used by Fitch for corporate bonds:

“AAA”—Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

“AA”—Bonds considered to be investment grade and of very high credit quality. The obligor’s ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated “AAA.” Because bonds rated in the “AAA” and “AA” categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally rated “F-1+.”

“A”—Bonds considered to be investment grade and of high credit quality. The obligor’s ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

“BBB”—Bonds considered to be investment grade and of satisfactory credit quality. The obligor’s ability to pay interest and repay is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to have adverse impact on these bonds and, therefore, impair timely payment. The likelihood that the ratings of these bonds will fall below investment grade is higher than for bonds with higher ratings.

“BB”—Bonds are considered speculative. The obligor’s ability to pay interest and repay principal may be affected over time by adverse economic changes. However, business and financial alternatives can be identified, which could assist the obligor in satisfying its debt service requirements.

“B”—Bonds are considered highly speculative. While bonds in this class are currently meeting debt service requirements, the probability of continued timely payment of principal and interest reflects the obligor’s limited margin of safety and the need for reasonable business and economic activity throughout the life of the issue.

“CCC, CC, C”—Bonds considered to have high default risk. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. A “CC” rating indicates that default of some kind appears probable. “C” ratings signal imminent default.

“DDD, DD, D”—The ratings of obligations in this category are based on their prospects for achieving partial or full recovery in a reorganization or liquidation of the obligor. Expected recovery values are highly speculative and cannot be estimated with any precision.

Entities rated in this category have defaulted on some or all of their obligations. Entities rated “DDD” have the highest prospect for resumption of performance or continued operation with or without a formal reorganization process. Entities rated “DD” and “D” are generally undergoing a formal reorganization or liquidation process; those rated “DD” are likely to satisfy a higher portion of their outstanding obligations, while entities rated “D” have a poor prospect of repaying all obligations.

Plus (+) Minus (-)—Plus and minus signs are used with a rating symbol to indicate the relative position of a credit within the rating category. Plus and minus signs, however, are not used in the “AAA” category.

### **SHORT-TERM DEBT RATINGS:**

“F-1+”—Exceptionally Strong Credit Quality. Issues assigned this rating are regarded as having the strongest degree of assurance for timely payment.

“F-1”—Very Strong Credit Quality. Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than issues rated “F-1+.”

“F-2”—Good Credit Quality. Issues assigned this rating have a satisfactory degree of assurance for timely payment, but the margin of safety is not as great as for issues assigned “F-1+” or “F-1” ratings.

“F-3”—Fair Credit Quality. Issues assigned this rating have adequate capacity for timely payment of financial commitments; however, near-term adverse changes could result in a reduction to non-investment grade.

“B”—Speculative. Issues assigned this rating have minimal capacity for timely payment of financial commitments, plus vulnerability to near-term adverse changes in financial and economic conditions.

“C”—High Default Risk. Default is a real possibility for issues assigned this rating. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment.

“D”—Default. Issues assigned this rating denote actual or imminent payment default.

#### SHORT-TERM MUNICIPAL BOND RATINGS

There are three rating categories for short-term municipal bonds that define an investment grade situation, which are listed below. In the case of variable rate demand obligations (VRDOs), a two-component rating is assigned. The first element represents an evaluation of the degree of risk associated with scheduled principal and interest payments, and the other represents an evaluation of the degree of risk associated with the demand feature. The short-term rating assigned to the demand feature of VRDOs is designated as VMIG. When either the long- or short-term aspect of a VRDO is not rated, that piece is designated NR, *e.g.*, Aaa/NR or NR/VMIG 1. MIG ratings terminate at the retirement of the obligation while VMIG rating expiration will be a function of each issue’s specific structural or credit features.

MIG 1/VMIG 1: This designation denotes superior quality. There is present strong protection by established cash flows, superior liquidity support or demonstrated broad-based access to the market for refinancing.

MIG 2/VMIG 2: This designation denotes strong quality. Margins of protection are ample although not so large as in the preceding group.

MIG 3/VMIG 3: This designation denotes acceptable quality. All security elements are accounted for but there is lacking the undeniable strength of the preceding grades. Liquidity and cash flow protection may be narrow and market access for refinancing is likely to be less well established.

SG: This designation denotes speculative quality. Debt instruments in this category lack margins of protection.





## PRIVACY POLICY

### The TCW Group, Inc. and Subsidiaries

TCW Investment Management Company LLC  
TCW Asset Management Company LLC  
Trust Company of the West  
Metropolitan West Asset Management, LLC

TCW Funds, Inc.

TCW Strategic Income Fund, Inc.

Metropolitan West Funds

TCW Alternative Funds

Sepulveda Management LLC

TCW Direct Lending LLC

TCW Direct Lending VII LLC

Effective September 2017

### WHAT YOU SHOULD KNOW

At TCW, we recognize the importance of keeping information about you secure and confidential. **We do not sell or share your nonpublic personal and financial information with marketers or others outside our affiliated group of companies.**

We carefully manage information among our affiliated group of companies to safeguard your privacy and to provide you with consistently excellent service.

We are providing this notice to you to comply with the requirements of Regulation S-P, "Privacy of Consumer Financial Information," issued by the United States Securities and Exchange Commission.

### OUR PRIVACY POLICY

We, The TCW Group, Inc. and its subsidiaries, the TCW Funds, Inc., TCW Strategic Income Fund, Inc., the Metropolitan West Funds, and the TCW Alternative Funds, Sepulveda Management LLC and TCW Direct Lending (collectively, "TCW") are committed to protecting the nonpublic personal and financial information of our customers and consumers who obtain or seek to obtain financial products or services primarily for personal, family or household purposes. We fulfill our commitment by establishing and implementing policies and systems to protect the security and confidentiality of this information.

In our offices, we limit access to nonpublic personal and financial information about you to those TCW personnel who need to know the information in order to provide products or services to you. We maintain physical, electronic and procedural safeguards to protect your nonpublic personal and financial information.

### CATEGORIES OF INFORMATION WE COLLECT

**We may collect the following types of nonpublic personal and financial information about you from the following sources:**

- Your name, address and identifying numbers, and other personal and financial information, from you and from identification cards and papers you submit to us, on applications, subscription agreements or other forms or communications.
- Information about your account balances and financial transactions with us, our affiliated entities, or nonaffiliated third parties, from our internal sources, from affiliated entities and from nonaffiliated third parties.
- Information about your account balances and financial transactions and other personal and financial information, from consumer credit reporting agencies or other nonaffiliated third parties, to verify information received from you or others.

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## CATEGORIES OF INFORMATION WE DISCLOSE TO NONAFFILIATED THIRD PARTIES

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We may disclose your name, address and account and other identifying numbers, as well as information about your pending or past transactions and other personal financial information, to nonaffiliated third parties, for our everyday business purposes such as necessary to execute, process, service and confirm your securities transactions and mutual fund transactions, to administer and service your account and commingled investment vehicles in which you are invested, to market our products and services through joint marketing arrangements or to respond to court orders and legal investigations.

We may disclose nonpublic personal and financial information concerning you to law enforcement agencies, federal regulatory agencies, self-regulatory organizations or other nonaffiliated third parties, if required or requested to do so by a court order, judicial subpoena or regulatory inquiry.

**We do not otherwise disclose your nonpublic personal and financial information to nonaffiliated third parties, except where we believe in good faith that disclosure is required or permitted by law. Because we do not disclose your nonpublic personal and financial information to nonaffiliated third parties, our Customer Privacy Policy does not contain opt-out provisions.**

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## CATEGORIES OF INFORMATION WE DISCLOSE TO OUR AFFILIATED ENTITIES

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- We may disclose your name, address and account and other identifying numbers, account balances, information about your pending or past transactions and other personal financial information to our affiliated entities for any purpose.
- We regularly disclose your name, address and account and other identifying numbers, account balances and information about your pending or past transactions to our affiliates to execute, process and confirm securities transactions or mutual fund transactions for you, to administer and service your account and commingled investment vehicles in which you are invested, or to market our products and services to you.

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## INFORMATION ABOUT FORMER CUSTOMERS

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We do not disclose nonpublic personal and financial information about former customers to nonaffiliated third parties unless required or requested to do so by a court order, judicial subpoena or regulatory inquiry, or otherwise where we believe in good faith that disclosure is required or permitted by law.

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## QUESTIONS

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Should you have any questions about our Customer Privacy Policy, please contact us by email or by regular mail at the address at the end of this policy.

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## REMINDER ABOUT TCW'S FINANCIAL PRODUCTS

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Financial products offered by The TCW Group, Inc. and its subsidiaries, the TCW Funds, Inc., TCW Strategic Income Fund, Inc., the Metropolitan West Funds, TCW Alternative Funds, Sepulveda Management LLC and TCW Direct Lending.

- Are not guaranteed by a bank;
- Are not obligations of The TCW Group, Inc. or of its subsidiaries;
- Are not insured by the Federal Deposit Insurance Corporation; and
- Are subject to investment risks, including possible loss of the principal amount committed or invested, and earnings thereon.

THE TCW GROUP, INC.

TCW ALTERNATIVE FUNDS

TCW FUNDS, INC.

SEPULVEDA MANAGEMENT LLC

TCW STRATEGIC INCOME FUND, INC.

TCW DIRECT LENDING LLC

METROPOLITAN WEST FUNDS

TCW DIRECT LENDING VII LLC

Attention: Privacy Officer | 865 South Figueroa St. Suite 1800 | Los Angeles, CA 90017 | email: [privacy@tcw.com](mailto:privacy@tcw.com)