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LIPPER FUND AWARDS

Metropolitan West Asset Management

Winner: Overall Small Company and Small Company Mixed Assets

Meeting in the Middle

MetWest team approach employs both top-down and bottom-up research



Bryan Whalen

Generalist Portfolio Manager

The investment professionals at Metropolitan West Asset Management use both top-down and bottom-up tools as they build their portfolios. This meet-in-the-middle approach helped the Los Angeles-based firm to win the 2016 Lipper Award for large company fixed income funds.

"We are a value manager that exercises a dollar-cost averaging discipline across the investment cycle, and we have provided the majority of our alpha through bottom-up portfolio management," says Bryan Whalen, generalist portfolio manager for MetWest Funds. "At the same time, the thought process that drives our bottom-up decision making is very much driven by our top-down beliefs about where we are in the credit and business cycle. So the bottom-up selections for the portfolios need to be consistent with our top-down views."

Metropolitan West Asset Management was founded in 1996 in Los Angeles by Tad Rivelle, Laird Landmann and Steve Kane. They, along with Mr. Whalen, are the four current generalist fixed income portfolio managers at TCW, which MetWest joined in 2009. TCW is based in Los Angeles and has about 600 employees and about \$180 billion in assets under management as of Dec. 31, 2015. Of that, about \$147 billion is in fixed income assets.

MetWest relies heavily on a team approach to help identify opportunities in the fixed income markets. "We believe that in fixed income there are often inefficiencies at the individual issue level, so when you build a smart team, provide them with quality resources and remain disciplined to your process, you are able to capitalize on those inefficiencies. And when you aggregate those over time, it shows in the alpha," Mr. Whalen says.

"Many investors try to perfectly time the economic or interest rate cycle, and history has shown that very few people can do that consistently."

In keeping with its team-based philosophy, MetWest's portfolio management structure consists of generalists and specialists. The four generalist portfolio managers who oversee the fixed income portfolio management focus on top-down, macro factors, while the specialist portfolio managers focus on individual sectors within fixed income.

"It is a very collaborative, open process," Mr. Whalen says. "The generalists and specialist portfolio

who are dedicated to either research or trading. "We also have developed a number of proprietary analytics tools and technologies to help us identify pricing dislocations that can present interesting opportunities," Mr. Whalen says.

As essentially a value investment firm, MetWest believes that "there are no bad bonds, nor bad sectors – just bad prices," Mr. Whalen says, adding that they look at pricing on both an absolute and a relative basis when building portfolios.

"We will always evaluate each sector and security on its own merits and compare it relatively to the other options in the marketplace. That's how we construct and manage the portfolio," he says.

"Based on where we think we are in the credit cycle, and where both credit spreads and interest rates are moving, that will, at a high level, determine how we want to be positioned. Then we look at the most efficient and cheapest ways to express that opinion."

For example, Mr. Whalen says, securitized assets have looked cheaper relative to credit and corporate assets in recent years. "However, the first five years of the past decade it was the other way around, where credit looked cheaper than securitized, and we were overweight on credit. I'm sure over the next few years that will shift," he says.

**"There are no bad bonds, nor bad sectors – just bad prices."
– Bryan Whalen**

managers sit together on the trading floor in very close proximity. And it's really about working as an integrated team. The specialists are hearing what we are thinking top-down, and we're hearing and seeing what they are doing bottom-up, and that's a dialogue that happens on an ongoing basis every day."

Research is also critical to portfolio design at MetWest. "Research plays a very strong role in our investment process," Mr. Whalen says. "The majority of the value we've provided to clients over the years comes from our bottom-up issue selection, which is both trading- and research-oriented."

The firm has more than three dozen team members

But MetWest believes that its approach to building portfolios works regardless of what the market is doing – as long as it managers stick to that approach. He notes that MetWest achieved its Lipper-worthy performance in a very difficult market.

"Discipline has been the key. We were disciplined in our outlook that the credit cycle was aging and that the very tight credit spread environment was

on its last legs," Mr. Whalen says. "We developed that position in 2014. And with the understanding that you can never time these things perfectly, we may have been a little early, but certainly in this market it's better to be early than late." §

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