



## **TCW Post-Gundlach**

By Robert Huebscher

December 15, 2009

Jeff Gundlach's abrupt dismissal on December 4 from the Trust Company of the West and its flagship fund, the TCW Total Return Bond Fund (TGLMX), has led to the redemption of almost one third of the fund's assets.

The reasons for Gundlach's termination and his future plans have become subjects of great speculation. I will leave it to others to answer those questions. Instead, I'll focus on one important issue that was raised in a conference call TCW held with investors last Friday.

That call was hosted by the incoming management team of Tad Rivelle and Bryan Whalen, who joined TCW through its just-completed acquisition of MetWest. Rivelle stated categorically that there was "no plan" to merge TGLMX with MetWest's fund, the Metropolitan West Total Return Bond Fund (MWTIX).

Rivelle's promise may serve to allay the short-term concerns of some investors, but it is inconceivable that TCW will want to manage these funds separately over the long term. They will be merged.

Both funds are already almost identically positioned, with approximately two thirds of their assets in agency mortgage-backed securities and the remainder in non-agency securities. According to Rivelle, both management teams seized upon opportunities in the fall of 2008 to capitalize on extreme dislocations in the non-agency market, and both own securities at the most senior level of the capital structure.

Some differences exist – in their CMBS and sub-prime holdings, for instance – but their overall positioning is virtually identical.

Rivelle stated that he intends to keep the management of TGLMX "stylistically the same" despite Gundlach's departure. His definition of that style, though, appears to be the same definition he applies to his own management of MWTIX.

He said both funds are run based on the premise that active management in the bond market creates value in two ways: from individual security selection based on pricing inefficiencies, often on a loan-by-loan basis, and by optimally allocating the portfolio among the sub-sectors of the bond market, particularly among mortgage-backed securities.



“There isn’t really a lot of difference in terms of how the teams believe a mortgage portfolio should be constructed,” Rivelle said. “Both teams have a value-oriented, bottom-up philosophy.”

Given the almost imperceptible differences in style, positioning and philosophy, TCW would face a marketing nightmare if it were to offer these funds separately. Investors and advisors would need to answer questions about why one fund outperformed the other, despite their identical mandates and management teams.

From an internal perspective, TCW would surely achieve economies of scale in marketing, technology and operations by combining the funds.

Unless TCW identifies a way to differentiate the funds, no compelling reason exists for keeping them separate. The funds do not need to be pitted against one another in a performance contest; they each already have the Barclay AGG benchmark to beat.

If you own or are considering buying TGLMX, your decision should be guided by the history and style of MWTIX, because ultimately these two funds will be one.

The performance record of MWTIX, incidentally, is impressive over the last three and five years, but not quite as impressive as that of TGLMX.

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