

Absolute Income Grower

Absolute Income Grower seeks to invest in securities with a relatively high level of income and income growth potential. We focus on companies with strong balance sheets, good cash flows and a rising stream of dividends, the result of which has been equity-like returns with lower volatility. A rising income stream helps institutions meet cash flow requirements.

Objective

The strategy seeks a level of income that exceeds the average yield on U.S. stocks generally, to grow such income annually, and to distribute an increasing amount of income; the fund also seeks to provide growth of capital. It accomplishes this without the use of leverage, complex derivatives, short selling or illiquid assets.

Strategy characteristics

Invests in:

- Global equities
- Convertibles
- Fixed-income securities

Assets in strategy: \$440.9 million*

Strategy inception date: May 2003

Minimum account size:

Defined contribution	\$0**
Collective fund	\$10 million
Separately managed	\$100 million

Benchmark: MSCI World Index

*Assets in strategy represent Capital Guardian and its global institutional affiliates as of March 31, 2010.

**Plan size minimum of \$250 million may apply.

Investment process

A core belief in independent research, a long-term focus and diverse viewpoints through our multiple portfolio manager system define our investment process.

We have a large global team of analysts that carefully examine each company's dividend policy, history and payout ratio to identify securities that can provide attractive yield and dividend growth over the long term. Investment professionals share ideas and research globally to gain a more comprehensive knowledge of securities and the markets in which they operate. Most of our analysts have made research their career, which affords long-standing relationships with key people in the companies they follow and a long-term perspective that helps analysts project a company's dividends several years ahead.

Our multiple manager approach combines teamwork with individual accountability. The Absolute Income Grower team consists of nine managers, five that invest in equities and four that invest in fixed-income securities to boost income and add to the stability of the portfolio's total return. Although the investment universe is large, managers must maintain a disciplined focus on meeting the portfolio's specific income and income growth targets. The different investment styles and approaches among managers allow us to create a broadly diversified portfolio of the team's best ideas. The mandate manager helps ensure the team has the proper mix of complementary investment styles.

We have a comprehensive framework for addressing risk. Capital Guardian's fundamental research process is our best risk control. The multiple manager system creates natural diversification, and the portfolio's investment in companies with consistent dividend growth helps dampen volatility. Our independent portfolio control group monitors compliance with client guidelines. Our legal and compliance team reviews operations to make certain we adhere to regulations in the markets in which we operate. A dedicated team of specialists monitors non-investment risks in foreign markets.

Portfolio management team

Team averages 21 years of investment experience

Equity portfolio managers

- Gerald Du Manoir
- Todd James
- Darcy Kopcho
- Ted Samuels
- Lionel Sauvage

Fixed-income portfolio managers

- Ellen Carr
- David Lee
- Laurentius Harrer
- Robert Neithart

Investment results

	Q210	1 year	3 years	5 years
Absolute Income Grower Composite ¹				
— gross ²	-6.87%	11.66%	-7.80%	1.52%
— net ³	-7.04	10.89	-8.45	0.81
MSCI World Index ⁴	-12.67	10.20	-11.46	0.06
S&P 500 Index ⁵	-11.43	14.43	-9.81	-0.80
Barclays Capital Aggregate Bond Index ⁶	3.49	9.50	7.55	5.54

Portfolio composition

	% Portfolio ⁷
Asset mix	
Non-U.S. equity	37.9%
U.S. equity	37.2
U.S. investment-grade	16.7
Global High-Yield	5.4
Cash	2.9
Top equity holdings	
Merck	3.9%
Philip Morris	2.8
Mercury General	2.6
Emerson Electric	2.3
Telstra Corp.	2.1
Top fixed-income holdings	
U.S. investment-grade by issuer	
U.S. Treasury	5.4%
Fannie Mae	3.3
Ginnie Mae	1.2
Freddie Mac	0.9
Total	10.7

Risk characteristics (based on monthly returns)

	Standard deviation	
	3 yrs	5 yrs
Absolute Income Grower Composite ⁸	14.90%	12.46%
MSCI World Index ⁴	22.23	18.20
S&P 500 Index ⁵	-9.81	-0.80
Barclays Capital Aggregate Bond Index ⁶	4.06	3.67

Dividend growth

	Dividend growth						
	7/1/04	7/1/05	7/1/06	7/1/07	7/1/08	7/1/09	7/1/10
Portfolio ⁵	5.7%	6.1%	9.6%	11.6%	6.3%	dividend maintained	dividend maintained

Upside and downside capture vs. MSCI World Index⁴

Up capture	Down capture	R-squared
74.2%	70.9%	90.3%

Why Absolute Income Grower?

- Business conditions are improving at the margin, and should lend support to global equities over the near term. The benefits of low interest rates and publicly funded stimulus programs will continue to flow through to the economy. But over the medium term, with most of the benefits of cost-cutting behind them, and in an environment likely to be characterized by sluggish consumer spending, high unemployment and reduced availability of bank credit, businesses could struggle to generate the sales growth required to boost profitability. Portfolio managers continue to focus on companies best placed to maintain revenue and profit growth, allowing them to continue to pay and grow dividends. The financials sector could also be a rich source for dividends and dividend growth given the recapitalizations and return to profitability.

All data as of June 30, 2010 unless otherwise specified.

Results are in US\$. Periods greater than one year are annualized. Results reflect the reinvestment of dividends, interest and other earnings.

All indices are unmanaged.

¹Results are net of withholding taxes on dividends, interest and capital gains. Withholding tax rates apply primarily to U.S. institutional investors.

²Gross of management fees.

³Net results are calculated using the highest management fees charged based on the applicable rates for portfolios with a minimum investment of \$10 million. Actual investment results net of management fees may differ depending on the size of the portfolio.

⁴MSCI World Index with net dividends reinvested.

⁵S&P 500 Index with income reinvested.

⁶Barclays Capital Aggregate Bond Index.

⁷CGTC Representative Absolute Income Grower Portfolio.

⁸The analysis is based on monthly data and periods greater than one year are annualized. The composite results are final and gross of management fees.

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