

# Emerging Markets Total Opportunity

Emerging Markets Total Opportunity (ETOP) is a strategy focused on tapping into the vitality of the emerging markets. The goal is to generate equity-like returns with lower volatility. Our managers invest in stocks, bonds, currencies, warrants and other vehicles, using the inherent diversity within this group. The strategy aims for a 10% return with 12% volatility over a full market cycle.

## Objective

Generate equity-like returns with lower volatility by investing in a broad range of emerging markets securities, including stocks, bonds and convertibles, as well as currencies.

## Strategy characteristics

### Invests in:

- Emerging markets equities
- Emerging markets fixed-income (local and \$ denominated)
- Convertibles

**Assets in strategy:** \$593.2 million\*

**Strategy inception date:** 2007

<b>Minimum account size:</b>	Collective fund	\$10 million
	Separately managed	\$100 million

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

## Portfolio management team

**Team averages 23 years of investment experience**

### Portfolio managers

- Laurentius Harrer
- Luis Oliveira
- Shaw Wagener

### Emerging markets at Capital Guardian

The Capital organization's first emerging markets equity fund was launched in 1986, more than one year prior to the inception of the MSCI Emerging Markets Index. We began investing in emerging markets debt in 1991 and had our first dedicated emerging markets debt account in 1994. Our first emerging markets private equity fund was launched in 1992. We continue to have one of the largest dedicated emerging markets research efforts in the investment management business.

## Investment process

Our portfolio managers are experienced investors and draw upon a large research network that extends across the entire emerging markets spectrum. They are aided by a dedicated quantitative research analyst who helps them identify securities with the best expected risk-return tradeoff within a targeted volatility framework.

Research is the cornerstone of Capital Guardian's investment process. Our equity, debt and private equity research teams are independent, yet work closely together to identify investment opportunities. Managers benefit from the synergy of analyzing both fixed-income and equity securities.

The ETOP team consists of three portfolio managers, all with experience in both debt and equity investing. Managers examine stocks, bonds and currencies within a dynamic risk-reward context; instead of a top-down asset allocation framework, managers look at valuations and risk parameters — and the relationship between them — to create a complete picture of the emerging markets universe. They use a variety of investments, including futures, forwards, warrants and cash instruments, for maximum flexibility.

A dedicated quantitative analyst provides the portfolio managers with information on a variety of risk parameters for securities, markets and the overall portfolio. This analyst is also responsible for monitoring individual managers' portfolios, tracking their progress in meeting return and volatility targets and identifying any unintended biases that may arise. We recognize that exceptional periods in the markets — often marked by high volatility and risk aversion — can provide attractive opportunities. Our process allows portfolio managers to exceed pre-determined risk parameters with the objective of maximizing returns over the long term.

We have a comprehensive framework for addressing any risk. Our fundamental research process and multiple manager approach help diversify the portfolio. Capital Guardian's independent portfolio control group monitors compliance with client guidelines. Our legal and compliance team reviews operations to help 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.

## Investment results

	Q210	1 year	Lifetime
Emerging Markets Total Opportunities Composite <sup>1</sup>			
— gross <sup>1,2</sup>	-3.10%	12.29%	4.22%
— net <sup>2,3</sup>	-3.35	11.19	3.18
MSCI Emerging Markets IMI with net dividends reinvested <sup>3,4</sup>	-8.18	24.57	-6.79
Emerging Markets Equity-Debt Index <sup>4,5</sup>	-4.41	20.62	0.70

## Standard deviation

	Q210	1 year	Lifetime
Emerging Markets Total Opportunities Composite <sup>1</sup>	11.64%	8.48%	12.36%
MSCI Emerging Markets IMI with net dividends reinvested <sup>3,4</sup>	24.92	20.28	30.47
Emerging Markets Equity-Debt Index <sup>4,5</sup>	17.25	13.40	19.93

## Portfolio composition

	% Portfolio
<b>Asset mix</b>	
Equity	38.3%
Bonds	47.0
Cash <sup>5,6</sup>	14.7

Top equity holdings	
Taiwan Semiconductor Manufacturing	5.2%
Samsung Electronics	4.3
AngloGold Ashanti	3.7
Philippine Long Distance Telephone	3.4
Bharti Airtel	3.2

Top fixed-income holdings <sup>8</sup>	
Brazil government (inflation linked)	16.5%
Mexico government (MXN)	9.5
Indonesia government (IDR)	8.8
Uruguay government (inflation-linked)	6.5
Argentina government	6.1

	% Bonds	% Equity
<b>Regional asset mix</b>		
Africa	2.6%	1.8%
East/S.E. Asia	7.4	23.8
Europe	2.3	3.3
Latin America	25.7	2.5
Middle East	2.3	1.6
North America	—	1.2
Pacific Basin	—	4.0

## Portfolio information

	%		%
<b>Characteristics</b>		<b>Projected volatility</b>	
Yield	4.7%	Portfolio	12.2%
P/E (I/B/E/S) <sup>6,7</sup>	14.4	Target	12.0
Duration (ex. cash)	6.9	MSCI EM IMI (1-year realized) <sup>4</sup>	21.3

## Review and strategy

- Portfolio managers reduced risk as Europe's sovereign debt crisis appeared to worsen in April. Some managers reduced local currency bonds and added to dollar-denominated emerging markets debt. Overall, managers shifted some assets from equities into cash-like short-term instruments. This strategy paid off earlier in the quarter but was sub-optimal in June when markets rallied.
- Portfolio managers have reduced exposure to countries with close ties to the euro zone, such as Poland and Hungary. They have also trimmed holdings in countries that are especially dependent on global trade, such as South Korea. Managers have invested proceeds in areas that should provide better capital protection in the short term. Our long-term thesis remains unchanged. Emerging markets economies will most likely be able to sustain higher economic growth rates over longer periods even in the face of sluggish growth in the developed world. While bullish on the long-term prospects, managers have been tactical in increasing or decreasing investments in certain areas based on their views of recent market developments as well as relative valuations.

All data as of June 30, 2010 unless otherwise specified. Totals may not reconcile due to rounding.

<sup>1</sup>Lifetime: September 30, 2007–June 30, 2010. Results are in US\$. Periods greater than one year are annualized. Results reflect the reinvestment of dividends, interest and other earnings. Returns are rebalanced monthly. Standard deviations are based on daily returns. The Composite's primary investment objective is to seek equity-like returns with significantly lower volatility and preservation of capital. The objective is 10% annual return and 12% volatility over a business cycle.

<sup>2</sup>Gross of management fees.

<sup>3</sup>Composite net results are calculated using the current highest management fees.

<sup>4</sup>MSCI Emerging Markets IMI with net dividends reinvested reflects MSCI Emerging Markets Index with net dividends reinvested through November 30, 2007 and MSCI Emerging Markets Investable Market Index with net dividends reinvested thereafter.

<sup>5</sup>Emerging Markets Equity-Debt Index represents 50% MSCI EM IMI Index/25% JP Morgan GBI EM Global Index/25% JP Morgan EMBI Global Index.

<sup>6</sup>U.S. cash includes U.S. inflation-linked bonds.

<sup>7</sup>Source: Vestek

<sup>8</sup>Names are aggregated by issuer.

All indices are unmanaged.

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