

# U.S. balanced

U.S. balanced portfolios combine the strength of Capital Guardian's equity and bond portfolios within an asset allocation process that is designed to address short-term changes in the market. Balanced portfolios take advantage of our extensive research efforts in both equity and fixed income as well as our large team of investment professionals, including portfolio managers, economists and modeling specialists. Capital Guardian has an established track record with this strategy, having managed balanced accounts since 1980.

## Objective

This strategy seeks a balance of long-term growth of capital and income and high total return consistent with the conservation of capital, with investments primarily in U.S. stocks and bonds

## Strategy characteristics

### Invests in:

- U.S. equities
- U.S. fixed income

**Assets in strategy:** \$619.1 million\*

**Strategy inception date:** 1974

**Minimum account size:**      Collective fund      \$15 million  
    Separately managed      see note\*\*

**Benchmarks:** 60% S&P 500 Index/40% Citigroup BIG Bond Index

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

\*\*Please contact your relationship manager for further information.

## Asset allocation team

### Team averages 16 years of investment experience

- Benson Durham
- David Holstein
- Michael Sabbatini
- Darrell Spence
- Wesley Phoa

### Balanced portfolios at Capital Guardian

Drawing upon our experience investing in both equity and fixed-income securities, Capital Guardian began managing balanced portfolios for institutional clients in 1980. Our portfolios benefit from a deep pool of research conducted by 66 equity analysts, 43 fixed-income analysts and 14 economists.

## Investment process

Capital Guardian's U.S. balanced strategy provides clients with exposure to our actively managed equity and bond portfolios. Additional asset classes, such as high yield, can be included at the client's request. The strategy's overall returns are driven by the individual portfolios. Our separate asset allocation process, tailored to meet individual client needs, then tactically combines the portfolios.

## Research and portfolio management

Our investment process is distinguished by independent research, a long-term focus, and the expression of varied viewpoints through our multiple portfolio manager system. The diversity inherent in our multiple manager system creates robust investment discussions, with analysts and portfolio managers continually challenging prevailing convictions and retesting investment theses. The U.S. equity and U.S. bond strategies are managed by separate investment teams composed of portfolio managers with different investment styles and perspectives.

## Asset allocation

A group of investment professionals determines how the portfolio's assets should be allocated to the stock and bond portfolios. This team is made up of individuals with macroeconomic, quantitative and modeling expertise. Much like our process for investing in individual securities, Capital Guardian's asset allocation process benefits from extensive global research, rigorous discussion and diverse viewpoints. Each month, the group meets to discuss their views on geopolitical developments, economic data, market factors and trends in valuation that may affect the short- to medium-term outlook for stocks and bonds. The five specialists then make their asset allocations, which are combined and implemented on client portfolios.

## Risk management

Capital Guardian's fundamental research process is our best risk control. The multiple manager system naturally creates diversification within the portfolio. In addition, 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.

## Investment results

	Q210	YTD	1 year	3 years	5 years	10 years	15 years
U.S. Balanced Composite <sup>1</sup>							
— gross <sup>2</sup>	-6.99%	-3.53%	10.42%	-8.08%	-1.19%	1.49%	6.36%
— net <sup>3</sup>	-7.11	-3.77	9.87	-8.54	-1.68	0.98	5.83
60% S&P 500 Index/40% Citigroup BIG Bond Index <sup>4</sup>	-5.52	-1.81	12.63	-2.56	2.14	1.98	6.68

## Asset allocation of target account

	Target	Benchmark	Range
U.S. Equity	62.75%	60.0%	45%–75%
U.S. Fixed Income	37.25%	40.0%	25%–55%

## Risk characteristics (based on monthly returns)

	Standard deviation		Information ratio		Tracking error	
	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
U.S. Balanced Composite <sup>5</sup>	13.88%	11.47%	-1.63%	-1.09%	3.39%	3.06%
60% S&P 500 Index/ 40% Citigroup BIG Bond Index <sup>4</sup>	12.66	10.27				

## Outlook and strategy

- To date, the U.S. economic revival has been helped by pent-up demand and federal largesse. To continue to grow, consumer spending and company investments need to make up for fading government stimulus. As this transition occurs, a period of more moderate growth is likely. This is normal for an economic recovery after the initial rebound and, in our view, does not foreshadow a double-dip recession as some observers fear. Despite lingering unemployment and heavy consumer debt loads, incomes are rising, leading to improvements in consumer spending. Corporations are in even better shape, with little debt, plenty of cash, low cost of capital and efficient cost structures. They should continue to benefit from improving global demand.
- Against this backdrop, the voting members continue to maintain a slight overweight in equities. In the bond portfolio, the largest allocation is to Treasuries. Although long-term bond yields are low, inflation risks are muted and the economy appears to be growing at a slow pace. The Federal Reserve is likely to keep rates low for an extended period. In this environment, bond yields are likely to remain low, allowing investors to earn the coupon. While corporate bonds are still not inexpensive, corporate balance sheets are strong. The portfolio's largest relative underweight position is in agency mortgage-backed securities, which appear fully valued.

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.

<sup>1</sup>Preliminary. Composite results prior to January 1, 1993 include the investment results of Personal Investment Management accounts managed by institutional portfolio managers with the same mandate.

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

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

<sup>4</sup>60% S&P 500 Index with income reinvested/40% Barclays Capital Government/Credit Bond Index from inception to December 31, 1979 and 60% S&P 500 Index with income reinvested/40% Citigroup Broad Investment-Grade Bond Index thereafter. All indices are unmanaged.

<sup>5</sup>Preliminary. Gross of management fees. The analysis is based on monthly data and periods greater than one year are annualized.

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## The Capital Group Companies

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