

# Emerging markets equity

Capital Guardian takes an expansive view of the emerging markets, investing across countries, sectors and the market capitalization spectrum. We treat benchmarks as reference points but invest in a much wider opportunity set that encompasses the entire investable universe. The diversity afforded by our multiple portfolio manager system combined with independent, on-the-ground research underpins all of our investments. As emerging markets become more globally integrated, managers and analysts also benefit from the insights of developed equity as well as fixed-income investment professionals.

## Objective

Provide long-term growth of capital by investing in companies across the developing world.

## Strategy characteristics

**Invests in:** Emerging markets equities

**Assets in strategy:** \$25.9 billion\*

**Strategy inception date:** 1986

<b>Minimum account size:</b>	Defined Contribution	\$0**
	Emerging Markets Growth Fund <i>(qualified purchasers only)</i>	\$0.1 million
	Collective fund	\$25 million
	Separately managed	\$100 million

**Benchmark:** MSCI Emerging Markets IMI

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

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

## Portfolio management team

**Team averages 28 years of investment experience**

■ Christopher Choe	■ Luis Oliveira
■ David Fisher	■ Lisa Thompson
■ Victor Kohn	■ Shaw Wagener

**Research portfolio**

### Emerging markets equity 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 continue to have one of the largest dedicated emerging markets research efforts in the investment management business. Our emerging markets team is an integral part of Capital Guardian's broader global investment group, closely interacting with the developed-market equity, debt and private equity research teams and benefiting from a cross-pollination of investment ideas as markets and economies become more globalized.

## Investment process

A core belief in independent research, a long-term focus and the multiple perspectives inherent to Capital Guardian's multiple portfolio manager system define our investment process. Portfolio managers and the team's investment analysts contribute to a high level of portfolio diversification.

As active managers, we have found value throughout the developing world as markets have evolved, but our approach has remained the same since the inception of our strategy more than 20 years ago. Independent, first-hand research is a fundamental aspect of our process. Most analysts at Capital Guardian have made research their careers, establishing long-standing relationships with key corporate managers and policymakers over the course of several business and market cycles. We thoroughly analyze the prospects of each company regardless of its market index weighting, gathering information from on-site visits in order to determine each company's business prospects, management and competitive position within a local and global context.

We aim to fully understand the social, economic, cultural and political factors that contribute to the long-term outlook for each company as well as the markets and industries within which they operate. Investments in commodities, energy and technology companies, for instance, may be based on research by several dedicated emerging markets analysts, combined with extensive discussion among developed-market analysts, fixed-income or macroeconomic analysts, and several managers, all looking at similar data points from different angles and perspectives. These exchanges also help identify the best ways to invest in longer term trends such as infrastructure development, urban growth and growing consumer demand in the emerging markets.

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	YTD	1 year	3 years	5 years	10 years	15 years
Emerging Markets Equity Composite							
— gross <sup>1</sup>	-7.05%	-5.11%	23.94%	-0.06%	16.30%	10.39%	10.61%
— net <sup>2</sup>	-7.26	-5.54	22.84	-0.96	15.27	9.40	9.62
MSCI Emerging Markets IMI <sup>3</sup>	-8.18	-5.68	24.57	-1.94	13.12	10.22	7.05
Emerging Markets Index – Standard <sup>4</sup>	-8.37	-6.17	23.15	-2.50	12.73	10.03	6.93

## Portfolio composition

	Portfolio <sup>5</sup>	Index <sup>3</sup>
<b>Country exposure</b>		
Latin America	17.7%	21.2%
Southeast Asia	22.3	16.6
Far East Asia	34.3	44.5
Europe/Middle East/Africa	13.1	17.7
<b>Sector exposure</b>		
Energy	12.1%	12.6%
Materials	13.3	14.2
Industrials	6.5	8.3
Consumer discretionary	7.8	7.7
Consumer staples	9.1	6.8
Health care	0.9	1.4
Financials	19.2	24.1
Information technology	13.3	13.6
Telecom services	10.7	7.5
Utilities	3.0	3.8

	% of portfolio <sup>5</sup>
<b>Top five holdings</b>	
Samsung Electronics	2.6
Gazprom	2.5
LG Chem	2.4
América Móvil	2.4
China Shenhua Energy	2.0

	%
<b>Turnover (one year)</b>	<b>58.09</b>

## Risk characteristics (based on monthly returns)

	Standard deviation		Information ratio		Tracking error	
	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Emerging Markets Equity Composite <sup>6</sup>	29.69%	25.49%	0.36	0.72	5.22%	4.40%
MSCI Emerging Markets IMI <sup>3</sup>	33.38	28.26				

## Outlook and strategy

- Concerns about the impact of the European debt crisis on the global economy are likely to linger in the near term. Several smaller emerging markets economies saddled with significant debt burdens, primarily those in Central and Eastern Europe, may also come under further pressure. Despite this, the developing world is generally in better shape than developed markets. Countries such as South Korea and Taiwan with substantial exports to Europe may experience some sluggishness as a result of decreased demand. But domestic economies should remain relatively strong on the whole, and trade between developing economies, particularly in Asia, should continue to grow.
- Against this backdrop, our portfolio managers and analysts favor consumer companies that are likely to benefit from credit growth and rising consumption in local markets. We also remain interested in infrastructure-related firms poised to gain from longer term trends in urbanization and development. In addition, managers continue to find opportunities in well-capitalized banks throughout Asia. Several analysts and managers also believe that further tightening efforts in China are likely to be more muted in upcoming months and are adding to investments in some Chinese financial companies, based on share price weakness. Energy and materials companies that have unique access to natural resources also feature prominently in the portfolio, as do technology and telecommunication firms.

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

<sup>1</sup>Preliminary. Gross of management fees.

<sup>2</sup>Preliminary. Composite net results are calculated using the current highest management fees.

<sup>3</sup>MSCI Emerging Markets IMI reflects S&P/IFC Global Composite Index with gross dividends reinvested from May 31, 1986 through December 31, 1987, MSCI Emerging Markets Index with gross dividends reinvested through December 31, 2000, 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>4</sup>Emerging Markets Index - Standard reflects S&P/IFC Global Composite Index with gross dividends reinvested from May 31, 1986 through December 31, 1987, MSCI Emerging Markets Index with gross dividends reinvested through December 31, 2000 and the MSCI Emerging Markets Index with net dividends reinvested thereafter.

<sup>5</sup>Capital Guardian Emerging Markets Equity Master Fund.

<sup>6</sup>Preliminary. Gross of management fees. The analysis is based on monthly data and periods greater than one year are annualized.

All indices are unmanaged.

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## The Capital Group Companies

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