

# Global equity

Capital Guardian uses a seamless approach to managing global equity portfolios, seeking to build a single portfolio containing “best-of-world” stocks rather than multiple portfolios containing “best-of-region” stocks. Returns for developed market equities are increasingly driven by global industry factors. To take advantage of this trend, we use an integrated research process that compares companies cross-regionally and across sectors. This creates a bigger universe for active managers that are able to “comparison” shop and choose the best stocks globally for achieving long-term growth of capital and income. Our seamless approach results in a true bottom-up portfolio that looks beyond regional designations aiming to uncover the best investments internationally.

## Objective

Long-term growth of capital and income by investing primarily in global equity securities.

## Strategy characteristics

**Invests in:** Global equities

**Assets in strategy:** \$16.4 billion\*

**Strategy inception date:** 1983

<b>Minimum account size:</b>	Defined Contribution	\$0**
	Collective fund	\$10 million
	Separately managed	\$50 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. As active managers, we believe that a comprehensive knowledge of companies in the global context in which they operate is a key to superior long-term investment returns.

The investment process begins with in-depth, independent research conducted by a large global team of analysts through visits to companies, their competitors, suppliers and other relevant parties. They also work with fixed-income and macroeconomic analysts when examining potential investments, especially in global industries such as energy, technology and materials, allowing managers the benefit of multiple views and vigorous discussion. Many of our analysts have made research their career, which affords long-standing relationships with the key people in the industries they follow. Analysts as a group are given assets to manage, each in their particular fields of knowledge and expertise. Because they manage money, analysts provide portfolio managers with clear signals about their strongest convictions.

The investment team consists of six portfolio managers, each of whom makes independent investment decisions. The different investment styles and approaches of the managers create robust interaction with constant challenges to prevailing convictions and ideas, prompting frequent retesting of investment theses in each stock and market. We believe this allows us to create a 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 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 noninvestment risks in foreign markets.

## Portfolio management team

**Team averages 28 years of investment experience**

- |                    |                    |
|--------------------|--------------------|
| ■ Terry Berkemeier | ■ Lionel Sauvage   |
| ■ Darcy Kopcho     | ■ Rudolf Staehelin |
| ■ Nancy Kyle       | ■ Eric Stern       |

**Research portfolio**

### Global Equity at Capital Guardian

Capital Guardian began managing domestic equity portfolios for institutional clients in 1968 and has offered international equity management since 1978. 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. Our portfolios draw upon a deep pool of research conducted by more than 100 investment professionals, nearly half of whom are dedicated to international and emerging markets equity. Capital Guardian and its global institutional affiliates manage over \$90 billion in international equities as of March 31, 2010.

## Investment results

	Q210	YTD	1 year	3 years	5 years	10 years	15 years
Global Equity Composite <sup>1</sup>							
— gross <sup>2</sup>	-12.05%	-9.69	10.04%	-11.00%	0.22%	0.15%	7.51%
— net <sup>3</sup>	-12.28	-10.15	8.95	-11.90	-0.78	-0.85	6.45
MSCI World Index <sup>4</sup>	-12.67	-9.84	10.20	-11.46	0.06	-1.02	4.68

## Portfolio composition

	Portfolio <sup>5</sup>	Index <sup>4</sup>
<b>Country exposure</b>		
European Monetary Union	13.4%	13.3%
Other Europe ex. U.K.	6.0	5.7
United Kingdom	9.5	9.5
Middle East	.5	.4
Pacific Basin ex. Japan	2.7	5.8
Japan	10.2	10.5
North America	49.8	54.8
Emerging markets	2.9	0.0
<b>Sector exposure</b>		
Energy	9.1%	9.8%
Materials	9.4	7.4
Industrials	8.8	11.1
Consumer discretionary	11.6	10.0
Consumer staples	12.3	10.4
Health care	9.6	10.2
Financials	12.1	20.5
Information technology	15.4	12.0
Telecom services	5.9	4.3
Utilities	0.8	4.3

	% of portfolio <sup>5</sup>	
<b>Top five holdings</b>		
Procter & Gamble	2.4	0.9
SOFTBANK	1.6	0.1
Roche	1.6	0.5
American Tower	1.6	0.1
Target	1.6	0.2

	%
<b>Turnover (1 year)</b>	<b>62.43</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
Global Equity Composite <sup>6</sup>	21.92%	18.10%	0.16	0.06	2.95%	2.77%
MSCI World Index <sup>4</sup>	22.23	18.20				

## Outlook and strategy

- As the euro zone's weaker economies struggle to produce credible plans to reduce their huge public debt burdens to more sustainable levels, the region's fragile recovery appears increasingly at risk. The uncertainty over how Europe's problems might affect the global economy has led to a reduction in risk appetite among investors and an increase in market volatility. Even so, there are reasons for optimism. Corporate balance sheets remain very strong, earnings growth can be expected to continue, and business investment appears set to gather momentum. The portfolio is positioned to capitalize on these developments.
- Technology is a key theme in the portfolio: we have identified a number of companies that will benefit from a new product replacement cycle and increased capital spending as well as shifts in data use among both businesses and consumers.
- During periods of economic uncertainty, we believe telecommunications companies represent a dependable source of dividend income. As such, we continue to hold some large positions in the sector. We have a narrow focus in the financials sector. It is an area where regulatory scrutiny is intensifying and loan loss provisions among banks look likely to remain a burden for some time to come, particularly for those with large holdings of Southern European government debt.
- Consumer staples feature prominently in the portfolio, with managers attracted to the ability to increase profits during most phases of the business cycle. We have also increased investments in some consumer discretionary companies, particularly those with strong ties to fast-growing emerging markets.

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. The composite consists primarily of accounts that are allowed to invest a portion of their assets in countries outside of the MSCI World Index, such as emerging market countries. Results are net of withholding taxes on dividends, interest and capital gains. Withholding tax rates apply primarily to U.S. institutional investors.

<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 World Index with net dividends reinvested All indices are unmanaged.

<sup>5</sup>Capital Guardian Global Equity Master Fund, excluding Capital Guardian International (Non-U.S.) Small Capitalization 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.

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## The Capital Group Companies

Capital International

Capital Guardian

Capital Research and Management

Capital Bank and Trust

American Funds