

# All country world ex. U.S. equity

Capital Guardian uses a seamless approach to managing all-country world ex. U.S. portfolios, seeking to build a single portfolio containing “best-of-world” stocks rather than multiple portfolios containing “best-of-region” stocks. The line between developed and emerging markets is blurring. To take advantage of this trend, we use an integrated research process that compares companies cross-regionally and across their capital structures. Our managers choose what they believe are 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

The fund seeks long-term growth of capital and income with investments primarily in equity securities of issuers from all countries, excluding the U.S.

## Strategy characteristics

### Invests in:

- Developed markets equities, excluding U.S.
- Emerging markets equities

**Assets in strategy:** \$3.6 billion\*

**Strategy inception date:** 2001

<b>Minimum account size:</b>	Defined Contribution	\$0**
	Collective fund	\$10 million
	Separately managed	\$100 million

**Benchmark:** MSCI ACWI ex. USA

\*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 29 years of investment experience

- |                 |                           |
|-----------------|---------------------------|
| ■ Michael Cohen | ■ Nancy Kyle              |
| ■ David Fisher  | ■ Lionel Sauvage          |
| ■ Victor Kohn   | <b>Research portfolio</b> |

### International 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 process

Fundamental research by a large global team of analysts is the cornerstone of our investment process. Each equity analyst specializes in one or more industries, and typically more than one analyst covers each industry. The equity analysts also work with fixed-income and macroeconomic teams when examining potential investments. We believe interaction between investment professionals with different perspectives, styles and regional coverage yields an informational advantage.

We invest substantial time and resources in conducting our own in-depth, independent research. Analysts collect first-hand information by visiting the companies, their competitors, suppliers and other relevant parties. Most analysts at Capital Guardian 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 expertise. Because they manage money, Capital Guardian’s analysts provide portfolio managers with clear signals as to where their strongest convictions lie.

The investment team consists of five 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 make certain we adhere to regulations in the markets in which we operate. A dedicated team of specialists monitors noninvestment risks in foreign markets.

## Investment results

	Q210	YTD	1 year	3 years	5 years
All Country World Equity ex. USA Composite <sup>1</sup>					
— gross <sup>2</sup>	-10.59%	-9.97%	12.44%	-9.46%	4.70%
— net <sup>3</sup>	-10.82	-10.43	11.33	-10.37	3.66
MSCI ACWI ex. USA with net dividends reinvested <sup>4</sup>	-12.45	-11.06	10.43	-10.70	3.38

## Portfolio composition

	Portfolio <sup>5</sup>	Index <sup>4</sup>
<b>Country exposure</b>		
European Monetary Union	25.0%	20.5%
Other Europe ex. U.K.	8.9	8.7
United Kingdom	9.9	14.5
Pacific Basin ex. Japan	4.1	8.6
Japan	17.2	16.0
North America	4.0	7.9
Middle East	1.3	0.6
Emerging Markets	26.6	23.2
<b>Sector exposure</b>		
Energy	7.2%	10.2%
Materials	11.2	11.9
Industrials	7.8	10.6
Consumer discretionary	9.1	8.7
Consumer staples	11.0	9.1
Health care	7.8	6.5
Financials	15.1	25.4
Information technology	14.5	6.8
Telecom services	8.6	6.0
Utilities	4.7	4.8
<b>% of portfolio<sup>5</sup></b>		
<b>Top five holdings</b>		
Roche		2.6
SOFTBANK		2.3
Nintendo		1.9
Siemens		1.7
L'Oréal		1.5
<b>%</b>		
<b>Turnover (one year)</b>	<b>67.74</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
ACWE ex. USA Composite <sup>6</sup>	24.64%	20.68%	0.36	0.45	3.40%	2.98%
MSCI ACWI ex. USA with net dividends reinvested <sup>4</sup>	26.09	21.57				

## Outlook and strategy

- The sovereign debt crisis in Europe appears to be the next chapter in the global credit adjustment that began in 2008. Government actions to stabilize the financial sector, while successful, have come at a high price: sovereign debt burdens in the developed world are now at levels not seen for decades. The key issue is whether the problems in Europe can be resolved effectively so as to allow the ongoing economic recovery to continue. The developing world is generally in better shape than developed markets. Emerging markets should remain relatively strong on the whole, and trade between developing economies should continue to grow, particularly in Asia.
- The largest positions relative to the index are in information technology, which should continue to benefit from new product development cycles, and telecommunication services, which provides a steady stream of dividend income. Financials remains the largest sector holding, though portfolio managers have been selling certain stocks and have low exposure to the sector relative to the index. Managers are concerned about the impact of the sovereign debt crisis on several European banks, especially those in Spain, but continue to find value in the strongest franchises where the downside risk appears limited. Some managers have also increased investments in consumer discretionary companies with exposure to emerging markets.

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

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

<sup>1</sup>Preliminary. 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 ACWI ex USA with net dividends reinvested. All indices are unmanaged.

<sup>5</sup>Capital Guardian All Country World ex. U.S. Equity Master Fund, distributing holdings in the 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