

# Non-U.S. equity

Capital Guardian uses a seamless approach to managing non-U.S. equities, relying on independent research and the integration of multiple perspectives. As markets and economies become more globalized, returns for developed market equities are increasingly driven by industry factors outside the U.S. Our research process and multiple portfolio manager system take advantage of this trend: we compare companies across regions and sectors to create a bottom-up portfolio designed to reflect the best investments internationally.

## Objective

Long-term growth of capital and income by investing in companies throughout the developed markets, excluding the U.S.

## Strategy characteristics

### Invests in:

- Non-U.S. equities

**Assets in strategy:** \$17.9 billion\*

**Strategy inception date:** 1978

<b>Minimum account size:</b>	Defined Contribution	\$0**
	Collective fund	\$10 million
	Separately managed	\$50 million

**Benchmark:** MSCI EAFE 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.

## Portfolio management team

### Team averages 32 years of investment experience

- |                    |                           |
|--------------------|---------------------------|
| ■ Gerald Du Manoir | ■ Lionel Sauvage          |
| ■ David Fisher     | ■ Nilly Sikorsky          |
| ■ Arthur Gromadzki | ■ Rudolf Staehelin        |
| ■ Nancy Kyle       | <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

A core belief in independent research and long-term focus, combined with the diversity captured through our multiple portfolio manager system, define our investment process. As active managers, we believe that a comprehensive knowledge of companies and the global context in which they operate is the key to superior long-term returns.

The investment process begins with in-depth research conducted by a large global team of analysts through on-site visits to companies, their competitors, suppliers and other relevant parties. Most of our analysts have made research their careers, developing long-standing relationships with key people in the industries they follow. Non-U.S. equity portfolio analysts and managers also work closely with our fixed-income and macroeconomic analysts when examining potential investments, especially in global industries such as energy and technology, benefiting from the vigorous discussion of multiple views. Analysts as a group are given a portion of portfolio assets to manage, each in their particular fields of expertise. Because they manage money, analysts provide portfolio managers with clear signals about their strongest convictions.

The investment team consists of seven portfolio managers, each of whom makes independent investment decisions. Managers maintain a long-term view as they look for quality companies at attractive prices. Varying investment styles and approaches among managers result in robust interaction, with constant challenges to prevailing convictions and frequent retesting of investment theses in each stock and market. This entire process is overseen by a mandate manager who seeks to achieve an ideal balance of convictions and investment styles to create a portfolio that reflects the best ideas of our managers.

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.

## Investment results

	Q210	YTD	1 year	3 years	5 years	10 years	15 years
Non-U.S. Equity Composite <sup>1</sup>							
— gross <sup>2</sup>	-11.44%	-10.37%	9.35%	-11.72%	2.23%	0.05%	6.98%
— net <sup>3</sup>	-11.67	-10.83	8.27	-12.61	1.22	-0.94	5.92
MSCI EAFE Index <sup>4</sup>	-13.97	-13.23	5.92	-13.38	0.88	0.16	3.75

## Portfolio composition

	Portfolio <sup>5</sup>	Index <sup>4</sup>
<b>Country exposure</b>		
European Monetary Union	26.5%	29.6%
Other Europe ex. U.K.	12.1	12.6
United Kingdom	16.4	21.0
Pacific Basin ex. Japan	7.8	12.6
Japan	20.0	23.3
Canada	5.5	—
Emerging markets	8.8	—
<b>Sector exposure</b>		
Energy	8.8%	7.3%
Materials	12.8	10.0
Industrials	8.3	12.3
Consumer discretionary	7.7	10.2
Consumer staples	11.0	10.6
Health care	8.3	8.9
Financials	16.2	24.4
Information technology	12.2	5.2
Telecom services	10.3	5.6
Utilities	1.9	5.5

	% of portfolio <sup>5</sup>
<b>Top five holdings</b>	
SOFTBANK	3.1
Roche	2.5
Koninklijke	2.0
L'Oréal	2.0
Royal Dutch Shell	2.0

	%
<b>Turnover (one year)</b>	<b>45.68</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
Non-U.S. Equity Composite <sup>6</sup>	23.77%	19.84%	0.47%	0.42%	3.54%	3.24%
MSCI EAFE Index <sup>4</sup>	24.52	20.31				

## 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.
- Overall, the portfolio is more defensively positioned than in previous quarters. The largest positions relative to the index remain in information technology, which should continue to benefit from new product development cycles, and telecommunication services, which provides a steady stream of dividend income. We have also been adding to a number of consumer-related stocks on expectations for earnings growth, while selling certain financials, where we continue to have low exposure relative to the index even though it is still the largest sector holding in the portfolio. We are concerned about the impact of the sovereign debt crisis on several European banks, especially those in Spain, but we continue to find value in the strongest franchises where the downside risk appears limited. The materials sector remains another area of focus, especially mining stocks, as demand for commodities will likely remain strong on a long-term basis.

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 prior to January 1, 1993 include the investment results of Capital Group Private Client Services accounts managed by institutional portfolio managers with the same mandate. 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. The composite consists primarily of accounts that are allowed to invest a portion of their assets in countries outside of the MSCI EAFE Index, such as emerging market countries and Canada.

<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 EAFE Index with net dividends reinvested.

<sup>5</sup>Capital Guardian International (Non-U.S.) 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

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