

U.S. equity

Capital Guardian's U.S. equity portfolio draws upon the strengths of our multiple portfolio manager system and our philosophy of bottom-up investing to build a portfolio with a focus on companies that offer long-term superior total return potential. Those companies may be distinguished by opportunities for long-term growth, cyclical improvement, turnarounds or deep value situations. Our managers and analysts work in conjunction with our global investment teams, benefiting from information from foreign companies and worldwide trends to provide added insights for our U.S. portfolio.

Objective

Our U.S. equity mandate seeks to achieve long-term total returns superior to the broad market over a full market cycle

Strategy characteristics

Invests in:

- U.S. equities

Assets in strategy: \$4.5 billion*

Strategy inception date: 1966

Minimum account size:	Defined Contribution	\$0**
	Collective fund	\$15 million
	Separately managed	\$50 million

Benchmark: S&P 500 Index with income reinvested

*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 26 years of investment experience

- Terry Berkemeier
- Theodore Samuels
- Eric Stern
- Alan Wilson

Research portfolio

U.S. equity at Capital Guardian

Capital Guardian began managing domestic equity portfolios for institutional clients in 1968. Our portfolios draw upon a deep pool of research conducted by more than 100 investment professionals. Capital Guardian and its global institutional affiliates manage over \$10 billion in U.S. equities as of March 31, 2010.

Investment process

Our investment process begins with intensive company scrutiny by our analysts, who do all their own research. These analysts formulate recommendations based on proprietary models for earnings estimates and valuations, and conduct regular one-on-one meetings with all levels of management at companies in their coverage. Each year our research analysts make thousands of visits to companies located throughout the country. Analysts and managers look for long-term growth, cyclical improvement, turnarounds or deep value situations.

Analysts as a group are given a portion of portfolio assets to manage, each in their particular fields of expertise, so in addition to making investment recommendations to portfolio managers, analysts trade based on their investment convictions. Because they manage money, Capital Guardian's analysts provide portfolio managers with clear signals about their strongest convictions.

The equity analysts and portfolio managers also work with fixed-income and macroeconomic teams as well as our large team of international equity investment professionals when examining potential investments. We believe interaction between investment professionals with different perspectives, styles and regional coverage yields an informational advantage.

Our fundamental research process and multiple manager approach diversify risk by helping us understand our holdings and the investment universe very well. Every new idea is discussed and debated by the U.S. investment group, including the portfolio managers, bringing to light bull and bear arguments and increasing the likelihood of identifying and considering all of the key issues that might affect the investment.

Capital Guardian's multiple manager portfolio system creates a mandate that is highly diversified by company and by sector because we rely on multiple stockpickers in every portfolio. Our independent portfolio control group monitors compliance with internal and client guidelines, while the investment committee oversees the portfolio control group to ensure all clients are treated fairly and equitably.

Investment results

	Q210	YTD	1 year	3 years	5 years	10 years	15 years
U.S. Equity Composite ¹							
— gross ²	-12.85%	-8.77%	11.59%	-12.75%	-3.14%	-0.43%	7.09%
— net ³	-13.01	-9.09	10.82	-13.36	-3.82	-1.12	6.34
S&P 500 Index with income reinvested ⁴	-11.43	-6.65	14.43	-9.81	-0.80	-1.59	6.23

Portfolio composition

	Portfolio ⁵	Index ⁴
Sector exposure		
Energy	10.6%	10.7%
Materials	8.0	3.5
Industrials	7.8	10.3
Consumer discretionary	12.6	9.9
Consumer staples	11.7	11.6
Health care	13.0	12.3
Financials	11.5	16.3
Information technology	19.3	18.8
Telecom services	2.4	2.9
Utilities	1.0	3.7

	% of portfolio ⁵
Top five holdings	
Philip Morris International	4.7
Target	3.1
Google	2.3
American Tower	2.2
Cisco Systems	2.1

	%
Turnover (1 year)	34.38

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. Equity Composite ⁶	20.77%	17.09%	-0.75%	-0.65%	3.90%	3.58%
S&P 500 Index with income reinvested ⁴	20.44	16.68				

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.
- The portfolio has more than twice the amount of materials stocks than the index; while near-term demand is uncertain, we believe a long-term uptrend is firmly in place. Health care is an area where we have significant exposure to a diverse group of companies that feature strong cash generation. The portfolio's largest sector exposure on an absolute basis is information technology, which should benefit from the upgrading and replacement of old technological capacity. The portfolio has a less-than-index weighting in financials. While steep yield curves are helping banks to recapitalize, some lines of business have shrunk while profits in others may be curbed by new regulations.

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.

¹Preliminary. Composite 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.

²Gross of management fees.

³Composite net results are calculated using the current highest management fees.

⁴S&P 500 Index with income reinvested. All indices are unmanaged.

⁵Capital Guardian U.S. Equity Master Fund.

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

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