

Emerging markets debt (USD)

Strategy characteristics

Benchmark:

- JP Morgan Emerging Markets Bond Index Global

Minimum average credit quality: BB

Currency:

- US\$ allocation: 70%–100%
- Local currency: 0%–30%

Invests in emerging markets debt:

- U.S. dollar-denominated bonds
- Local currency bonds
- Corporate bonds
- Sovereign debt

Assets in strategy: \$7.5 billion*

Strategy inception date: 1994

Excess return estimate: 250–400 basis points^{1,2}

Tracking error estimate: 400–700 basis points^{1,2}

Source of excess return estimates:

- country allocation: 45%
- currency exposure: 15%
- security selection: 40%

Minimum account size:	Defined Contribution	\$0**
	Collective fund	\$10 million
	Separately managed	\$250 million

*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 24 years of investment experience

Team	Investment experience
■ David Barclay	28 years
■ Laurentius Harrer	21 years
■ Robert Neithart	22 years
■ Research portfolio	

Investment process

Research is the cornerstone of Capital Guardian's investment process, which integrates macroeconomic, fixed-income and equity analysis from all regions of the globe. An emerging markets debt analyst at CGTC typically focuses on countries in a geographic area—for example, Latin America, Eastern Europe or Africa—to enhance their assessment of relative value and the characteristics of each market. The fixed-income analysts may also draw on the work of CGTC's equity research team. In addition, a 14-person strategic group is dedicated to currencies, asset allocation, quantitative research, politics and other macro issues.

The emerging markets debt investment team consists of three portfolio managers, each of whom manages a portion of the total portfolio as if it were a stand-alone entity, and three research analysts who also manage a separate segment of the portfolio. This system promotes diverse sources of return. The portfolio managers look for value in securities that feature solid or improving credit quality not yet recognized by the market and for which significant risk premiums are being paid by the issuer. Portfolio managers also work closely with CGTC's traders, who provide information about anomalies, inefficiencies and deal flow in the market in addition to executing trades.

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 fixed-income 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.

Fixed income at Capital Guardian

We began managing fixed-income assets for institutional clients in 1973 and have over \$20 billion in fixed-income assets under management as of March 31, 2010. Our sister company, Capital Research and Management Company, manages the American Funds series of mutual funds and its fixed-income mutual fund assets total more than \$180 billion as of the same period.³

In addition, Capital Guardian has more than 20 years' experience investing in emerging markets. We began investing in emerging markets debt in 1991, had our first dedicated emerging markets debt account in 1994, and established a global high-yield strategy that combined emerging markets and U.S. high-yield debt in 1998.

Investment results (1st quartile over 1, 3, 5, 10 and 15 years)

	Q210	YTD	1 year	3 years	5 years	10 years	15 years
Emerging Markets Debt (USD) Composite ⁴							
— gross ¹	-0.02%	4.45%	17.57%	6.77%	11.50%	14.41%	15.75%
— net ⁵	-0.17	4.14	16.88	6.14	10.84	13.74	15.07
JP Morgan Emerging Markets Bond Index Global ⁶	1.16	5.37	17.90	8.20	8.16	10.36	12.10

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 Debt (USD) Composite ⁷	14.75%	12.78%	-0.28%	0.59%	5.03%	5.67%
JP Morgan Emerging Markets Bond Index Global ⁶	12.27	10.02				

Portfolio characteristics

	Effective duration	Yield-to-worst
Portfolio ⁸	6.0 yrs	5.9%
Index ⁶	7.0	5.8

Portfolio composition

	Portfolio ⁸	Index ⁶
Country exposure		
Brazil	13.6%	11.6%
Turkey	9.7	9.8
Indonesia	9.0	6.3
Colombia	7.0	3.5
United States	6.7	—
Sector exposure		
Hard currency	69.2%	100.0%
Government/Sovereign	62.7	100.0
Corporate	6.4	—
Local currency	27.9	0.0
Government/Sovereign	27.9	—
Corporate	—	—
Currency exposure		
U.S. dollar	85.5%	100.0%
Uruguayan peso	2.6	—
Brazilian real	2.6	—
Turkish lira	1.9	—
Mexican peso	1.9	—

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. Portfolio managers have rotated investments into areas that should provide better capital protection at a time when the pace of global growth appears set to slow. The portfolio's exposure to emerging markets currencies has been reduced, chiefly through the hedging of currency risk and partly by switching into dollar-denominated sovereign debt.
- Managers have lowered exposure to countries with close ties to the euro zone, such as Poland and Hungary. They have also reduced holdings in countries that are especially dependent on global trade, such as Korea, and lowered our exposure to the currencies of large commodity exporters, such as Brazil and Mexico. Overall, the medium- to long-term view remains unchanged. Low interest rates in the developed world and relatively muted inflation bodes well for emerging markets bonds. The most compelling feature of the market is the improving credit quality of sovereign issuers in the developing world relative to their developed counterparts. Hence, our managers expect that emerging markets economies will be able to sustain higher economic growth rates over longer periods even in the face of sluggish growth in the developed world.

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. Quartile rankings reflect Mellon Emerging Markets Debt Portfolio Universe.

¹Gross of management fees.

²CGTC is an "active manager" that creates portfolios by selecting securities using fundamental research. The estimated excess return and tracking error numbers are based on a number of factors including our investment process, historical results and historical market conditions. We cannot provide any guarantee with respect to results or preservation of assets. The estimated excess return and tracking error above should not be considered an assurance or guarantee of the risk or return of any portfolio or impose any liability on CGTC.

³Fixed-income investment professionals provide fixed-income research across the Capital Group organization; however for securities with equity characteristics, they act solely on behalf of either the mutual funds or global institutional portfolios.

⁴Preliminary. Results are net of withholding taxes on dividends, interest and capital gains. Withholding tax rates apply primarily to U.S. institutional investors.

⁵Composite net results are calculated using the current highest management fees.

⁶JP Morgan Emerging Markets Bond Index Global. All indices are unmanaged.

⁷Preliminary. Gross of management fees. The analysis is based on monthly data and periods greater than one year are annualized.

⁸Capital Guardian Emerging Markets Fixed Income Fund for Tax-Exempt Trusts.

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