

# Global plus fixed income

## Strategy characteristics

**Benchmark:** Barclays Capital Global Aggregate Bond Index

**Minimum average credit quality:** A

**Maximum below investment-grade bonds:** up to 20%

**Duration:** Plus or minus one year of benchmark

**Invests in:**

- U.S. fixed income
- Non-U.S. fixed income
- Extended sectors — high yield and emerging markets debt

**Assets in strategy:** \$1.4 billion\*

**Strategy inception date:** 1998

**Excess return estimate:** 100–200 basis points<sup>1,2</sup>

**Tracking error estimate:** 100–300 basis points<sup>1,2</sup>

**Sources of excess return estimates:**

- country allocation: 30%
- currency exposure: 20%
- duration: 5%
- sector allocation: 30%
- security selection: 15%

**Minimum account size:**

Defined Contribution	\$0**
Collective fund	\$15 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.

## Investment process

Research is the cornerstone of our investment process, which integrates macroeconomic, fixed income and equity analysis from all regions of the globe. Each credit analyst specializes in one or more industries or sectors and thoroughly examines the individual issues within his or her coverage, seeking out hidden risks and benefits. The fixed-income analysts also work with Capital's equity research team. In addition, a 14-person strategic group is dedicated to currencies, asset allocation, quantitative research, politics and other macro issues.

Our investment process incorporates top-down and bottom-up considerations. Top-down decisions are made regarding duration in the major bond markets and the size of the allocation to global high yield. All other decisions — such as country, currency, yield curve positioning and security selection — are made by the individual portfolio managers for the segments they manage. In global plus accounts, the allocation to global high yield — which invests in high-yield developed market corporate bonds and emerging markets debt — is an important source of potential excess return, while duration decisions are intended to have a minimal impact on relative results.

The investment team consists of several portfolio managers, each of whom is responsible for a portion of the portfolio and manages it as if it were a stand-alone entity. This system ensures the portfolio has diverse sources of return. Portfolio managers look for value across a broad universe of marketable securities, including those issued by sovereign governments and their agencies, corporate bonds, and mortgage-backed and asset-backed securities throughout the worldwide investment-grade market. The portfolio's currency exposure is actively managed. Duration positions relative to the benchmark are modest, while relative yield curve positions may be significant. Portfolio managers also work closely with Capital Guardian's traders, who provide valuable information about market anomalies, inefficiencies and deal flow 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.

## Portfolio management team

Team averages 22 years of investment experience

### Global generalists

- Mark Dalzell
- Laurentius Harrer
- Robert Neithart

### Regional specialists

- Mark Brett
- Wesley Phoa

### Extended sector specialists

- Ellen Carr
- Laurentius Harrer
- Robert Neithart

## Fixed income at Capital Guardian

We began managing fixed-income assets for institutional clients in 1973 and have more than \$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.<sup>3</sup>

## Investment results

	Q210	YTD	1 year	3 years	5 years	10 years
Global Plus Fixed-Income Composite <sup>4</sup>						
— gross <sup>1</sup>	-1.34%	-0.62%	6.19%	4.70%	5.05%	7.27%
— net <sup>5</sup>	-1.43	-0.80	5.80	4.31	4.65	6.87
Barclays Capital Global Aggregate Bond Index <sup>6</sup>	-0.04	-0.31	5.00	6.80	5.03	6.40

## 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 Plus Fixed-Income Composite <sup>7</sup>	8.70%	7.26%	-0.47	-0.10	6.11%	5.12%
Barclays Capital Global Aggregate Bond Index <sup>6</sup>	4.06	3.67				

## Portfolio characteristics

	Effective duration	Yield-to-worst
Portfolio <sup>8</sup>	5.1 yrs	3.3%
Index <sup>6</sup>	5.3	2.6

## Portfolio composition

	Portfolio <sup>8</sup>	Index <sup>6</sup>
<b>Bond market</b>		
U.S.	45.9%	42.5%
Eurozone	24.4	25.6
Japan	4.5	18.8
Australia	2.8	0.9
Mexico	2.7	0.3
<b>Sector exposure</b>		
Sovereign	57.9%	51.4%
Government-related	10.6	14.2
Corporates	16.1	15.8
Securitized	11.4	18.5
<b>Currency exposure</b>		
U.S. dollar	49.1%	42.5%
Euro	19.6	25.6
Japanese yen	12.7	18.8
Canadian Dollar	2.4	2.6
South Korean Won	2.3	0.9

## 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. The portfolio is underweight in government bonds issued by the euro zone's peripheral countries: in the absence of far-reaching economic and structural reform, these nations will struggle to place their public finances on a sound footing. It is also underweight in gilts as portfolio managers await further details on the U.K. government's aggressive fiscal consolidation plan. We have reduced our exposure to the euro. The currency's trajectory remains uncertain as the region's most indebted nations struggle to implement the structural reforms necessary to restore their competitiveness. We have increased our exposure to the U.S. dollar as the economy is moving out of recession more quickly — and in a more broad-based manner — than the euro zone. We have raised investments in currencies that are enjoying yield support from a monetary tightening cycle, such as the Australian dollar. Financials overall are a significant investment in the portfolio but managers have reduced exposure to the large investment banks and to several European banks until there is greater clarity on the regulatory environment for the financials sector and the effectiveness of the rescue package in Europe.

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>Gross of management fees.

<sup>2</sup>CGTC 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.

<sup>3</sup>Fixed 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.

<sup>4</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>5</sup>Composite net results are calculated using the current highest management fees charged.

<sup>6</sup>Barclays Capital Global Aggregate Bond Index. All indices are unmanaged.

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

<sup>8</sup>CGTC Representative Global Plus Fixed-Income Portfolio

The statements expressed herein are informed opinions, are as of the date noted, and are subject to change at any time based on market or other conditions. They reflect the view of an individual and may not reflect the view of Capital Guardian. This information is intended merely to highlight issues and not to be comprehensive or to provide advice. Permission is given for personal use only. Any reproduction, modification, distribution, transmission or republication of the information, in part or in full, is prohibited.

This information supplements or enhances required or recommended disclosure and presentation provisions of the GIPS® standards, which if not included herein, are available upon request. GIPS is a trademark owned by CFA Institute.

Securities offered through American Funds Distributors, Inc. Member FINRA/SIPC.

## The Capital Group Companies

Capital International

Capital Guardian

Capital Research and Management

Capital Bank and Trust

American Funds