

Global high-yield fixed income

Strategy characteristics

Benchmark: 50% Barclays Capital U.S. Corporate High Yield\
2% Issuer Cap/50% JP Morgan EMBI Global

Minimum average credit quality: BB

Maximum in below-investment-grade bonds: 100%

Invests in:

- High-yield corporate bonds
- Emerging markets debt

Global high-yield assets under management: \$2.1 billion*

Strategy inception date: 1998

Excess return estimate: 150–300 basis points^{1,2}

Tracking error estimate: 250–450 basis points^{1,2}

Source of excess return estimates:

- country allocation: 15%
- sector allocation: 20%
- currency exposure: 10%
- security selection: 55%

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.

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. Our fixed-income analysts typically specialize in one or more industries and/or industry sectors, covering the full quality spectrum from investment grade to high yield and drawing on the work of their counterparts in our equity research group. This integrated approach provides valuable information across the capital structure. Emerging markets analysts further cover a geographical region to better understand the investability of their universe and potential contagion correlation effects. Other fixed-income analysts focus on quantitative and qualitative research on securitized debt. In addition, a 14-person strategic group is dedicated to currencies, asset allocation, quantitative research, politics and other macro issues.

The global high-yield team consists of several portfolio managers, each of whom manages a portion of the total portfolio as if it were a stand-alone entity. One manager invests solely in emerging markets debt, another invests solely in high-yield corporate bonds in developed markets, and the third may invest in both asset classes. This system ensures the portfolio has diverse sources of return. The portfolio managers seek to add value through research-driven country, currency, sector and security selection. We may have substantial investments in individual bond markets and currencies based on our views of the macroeconomic cycle, monetary policy and similar issues. The portfolio managers also work closely with Capital Guardian's traders, who provide invaluable 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.

Portfolio management team

Team averages 18 years of investment experience

Managers	Specialty	Investment experience
■ Ellen Carr	Corporate high yield	11 years
■ Laurentius Harrer	Global high yield	21 years
■ Robert Neithart	Emerging markets debt (Sovereign and corporate)	22 years

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 (CRMC), manages the American Funds and its fixed-income mutual fund assets total more than \$180 billion as of the same period.³

We began managing a global high-yield strategy in 1998, after nearly a decade of experience managing both emerging markets debt and high-yield

debt separately. We began investing in emerging markets debt in 1989, created an emerging markets debt fund in 1994, and most recently (2007) began managing emerging markets debt "linkers" strategies for institutional clients. We were one of the first to begin managing emerging markets equities in 1986 and launched our first private equity fund for emerging markets investments in 1992. CRMC began managing high-yield bonds in 1988 for retail clients and we began in 1999 for institutional clients.

Investment results

	Q210	YTD	1 year	3 years	5 years	10 years
Global High-Yield Fixed-Income Composite ⁴						
— gross ¹	0.00%	4.65%	21.72%	6.91%	10.65%	11.36%
— net ⁵	-0.17	4.28	20.89	6.17	9.88	10.59
Global High-Yield Index ⁶	0.56	4.90	22.41	7.01	7.49	8.76

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 High-Yield Fixed-Income Composite ⁷	15.07%	12.40%	-0.02%	0.73%	4.06%	4.33%
Global High-Yield Index ⁶	13.59	10.74				

Portfolio characteristics

	Effective duration	Yield-to-worst
Portfolio ⁸	5.5 yrs	7.1%
Index ⁹	5.7	7.5

Portfolio composition

	Portfolio ⁸	Index ⁹
Country exposure		
United States	40.7%	44.3%
Brazil	8.8	5.8
Turkey	5.3	4.9
Iraq	4.8	0.3
Mexico	4.5	6.2
Sector exposure		
EM local currency	23.5%	—
EM \$-denominated	23.5	51.4%
U.S. High Yield	40.7	44.3
Non-U.S. High Yield	7.8	4.3
Currency exposure		
U.S. dollar	89.4%	100.0%
Brazilian real	2.6	—
Turkish lira	1.8	—
Mexican peso	1.2	—
Peso Uruguayo	1.1	—

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. Our 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 and have also reduced holdings in countries that are especially dependent on global trade, such as Korea. They have also lowered our exposure to the currencies of large commodity exporters, such as Brazil and Mexico.
- Within high yield, default rates remain low as low absolute interest rates and increasing investor interest have allowed many companies to tap the markets and improve their balance sheets. Therefore, the allocation to high yield is unlikely to be reduced.

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.

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 based on the applicable rates charged for portfolios with a minimum investment of \$25 million. Actual investment results net of management fees may differ depending on the size of the portfolio.

⁶Global High-Yield Index reflects 50% Credit Suisse High Yield Bond Index/50% JP Morgan EMBI Plus through December 31, 1999, 50% Credit Suisse High Yield Bond Index/50% JP Morgan EMBI Global from January 1, 2000–August 31, 2000, 100% Barclays Capital Global High Yield Index from September 1, 2000–July 31, 2004, and 50% Credit Suisse High-Yield Index, Developed Countries Only/50% JP Morgan EMBI Global Diversified from August 1, 2004–January 31, 2010 and 50% Barclays Capital U.S. Corporate High Yield, 2% Issuer Cap/50% JP Morgan EMBI Global thereafter.

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

⁸Capital Guardian Global High-Income Opportunities Fund.

⁹50% Barclays Capital U.S. Corporate High Yield, 2% Issuer Cap/50% JP Morgan EMBI Global.

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