

# U.S. core plus fixed income

## Strategy characteristics

**Benchmark:** Barclays Capital Aggregate Bond Index

**Average credit quality:** AA

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

**Currency:** Actively managed

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

**Extended sector investments:** Up to 10% in each

- Non-dollar fixed income
- High yield
- Emerging markets debt

**Assets in strategy:** \$268.0 million\*

**Strategy inception date:** 1983

**Excess return estimate:** 75–135 basis points<sup>1,2</sup>

**Tracking error estimate:** 100–250 basis points<sup>1,2</sup>

**Source of excess return estimates:**

- sector allocation: 50%
- security selection: 40%
- duration: 10%

<b>Minimum account size:</b>	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. A dedicated group, the Structured Investments Group is responsible for quantitative and qualitative analysis of securitized debt, including mortgage-backed and asset-backed securities. 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 the appropriate duration stance and the allocation to each of the extended sectors: emerging markets debt, U.S. high yield and non-U.S. bonds. A team also decides the allocation to governments, corporate bonds and securitized debt. In Core Plus accounts, the allocations to the extended sectors and the investment-grade sectors are an important source of potential excess return, while duration decisions are designed to have minimal impact on a portfolio's relative returns.

The portfolio management team consists of several portfolio managers, each of whom is a sector specialist. This ensures diverse sources of return. As active managers, portfolio managers seek to add value by research-driven security selection. Specialized manager teams invest in the emerging markets, U.S. high yield and non-U.S. asset allocations. 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 21 years of investment experience**

<b>Core team</b>	<b>Specialty</b>	<b>Extended sector (# of managers)</b>
■ David Lee	Credit sector	<ul style="list-style-type: none"> <li>■ U.S. high yield (2)</li> <li>■ Non-U.S. (3)</li> <li>■ EM Debt (3)</li> </ul>
■ Wesley Phoa	Treasuries, agencies and securitized debt	

## 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, 2009. 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	15 years
U.S. Core Plus Fixed-Income Composite <sup>4</sup>							
— gross <sup>1</sup>	3.82%	5.54%	11.32%	5.03%	4.76%	6.23%	6.28%
— net <sup>5</sup>	3.75	5.38	10.99	4.72	4.45	5.91	5.96
Barclays Capital Aggregate Bond Index <sup>6</sup>	3.49	5.33	9.50	7.55	5.54	6.47	6.39

## 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. Core Plus Fixed-Income Composite <sup>7</sup>	4.72%	4.03%	-0.89%	-0.38%	3.29%	2.66%
Barclays Capital Aggregate Bond Index <sup>6</sup>	4.38	3.91				

## Portfolio characteristics

	Effective duration	Yield-to-worst
Portfolio <sup>8</sup>	5.0 yrs	3.0 %
Index <sup>6</sup>	4.3	2.6

## Portfolio composition

	Portfolio <sup>8</sup>	Index <sup>6</sup>
<b>Sector exposure</b>		
Government	37.9%	44.5%
Corporates	17.6	20.4
Securitized	35.9	35.2
CMBS	2.8	—
MBS	32.9	34.9
ABS	0.2	0.2
Non-US	0.9	—
Emerging Markets Debt	1.7	—
High Yield	3.3	—
<b>Credit rating</b>		
AAA	71.7%	78.0%
AA	4.3	3.2
A	8.0	10.1
BBB	8.3	8.7
BB	3.5	—
B	1.2	—
CCC and below	0.2	—

## 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. However, the improved fundamentals are largely reflected in prices. With that in mind, managers have reduced exposure to credit in recent months and increased investments in Treasuries. Also, managers have rotated credit holdings into higher quality companies as credit spreads have tightened considerably, raising the risk of a spread widening. These include utilities, pharmaceuticals, pipelines and railroads. In general, managers continue to favor the media and telecommunication companies that have relatively stable cash flows and strong balance sheets. Portfolios also continue to be underweight in the mortgage-backed securities sector. Spreads to Treasuries are tight and do not necessarily reflect the risks these securities face in the event of interest rate volatility or the selling of securities by the central bank.

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>Capital Guardian/International 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 Capital Guardian/International.

<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 based on the applicable rates 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.

<sup>6</sup>Barclays Capital 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 U.S. Core Plus Fixed-Income Portfolio.

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