

# U.S. investment-grade credit fixed income

## Strategy characteristics

**Benchmark:** Barclays Capital U.S. Credit Index

**Minimum average credit quality:** A

**Maximum in below-investment-grade securities:**

- 0%
- May be part of “plus” strategy with a maximum of 20% in High Yield/Global High Yield

**Currency - US\$ allocation :** 100%

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

**Invests in:** U.S. corporate bonds

**Assets in strategy:** \$1.2 billion\*

**Strategy inception date:** 2004

**Excess return estimate:** 50–75 basis points<sup>1,2</sup>

**Tracking error estimate:** 100–150 basis points<sup>1,2</sup>

**Source of excess return estimates:**

- security selection: 65%
- sector allocation: 25%
- duration: 10%

**Minimum account size:** Separately managed \$250 million

\*Assets in strategy represent Capital Guardian and its global institutional affiliates as of March 31, 2010.

## Portfolio management team

**Team averages 11 years of investment experience**

Team	Investment experience
■ Ellen Carr	11 years
■ David Lee	10 years

## 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. The fixed-income analysts also work with Capital’s equity research team. In addition, a 14-person Capital Strategy Research team is dedicated to currencies, asset allocation, quantitative research, politics and other macro issues.

The portfolio management team consists of several portfolio managers, each of whom is responsible for a portion of the portfolio, managing it as if it were a stand-alone portfolio. This ensures diverse sources of return. As active managers, portfolio managers seek to add value by research-driven security selection. Our research-intensive investment style is due to our deep research resources, cross-asset-class integration, global scale and long-term experience and is why we expect security selection to be the greatest contributor to a portfolio’s relative performance. 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.

## 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
U.S. Investment-Grade Corporate Fixed-Income Composite					
— gross <sup>1</sup>	3.71%	6.38%	18.44%	5.06%	4.32%
— net <sup>4</sup>	3.64	6.22	18.09	4.75	4.01
Barclays Capital U.S. Credit Index <sup>5</sup>	3.27	5.62	14.68	7.41	5.31

## 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. Inv.-Grade Corp. Fixed-Income Composite <sup>6</sup>	9.00%	7.34%	-0.78%	-0.41%	3.03%	2.40%
Barclays Capital U.S. Credit Index <sup>5</sup>	7.91	6.58				

## Portfolio characteristics

	Effective duration	Yield-to-worst
Portfolio <sup>7</sup>	6.1 yrs	4.2%
Index <sup>5</sup>	6.3	4.0

## Portfolio composition

	Portfolio <sup>7</sup>	Index <sup>5</sup>
<b>Sector exposure</b>		
Government	7.9%	18.7%
Corporates	86.4	81.2
Securitized	1.9	—
CMBS	1.6	—
MBS	0.1	—
ABS	0.1	—
<b>Credit rating</b>		
AAA	5.3%	10.1%
AA	17.9	20.8
A	32.3	39.8
BBB	40.6	29.4
BB	—	—
B	—	—
CCC & below	4.6	—

## 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 capital and efficient cost structures. They should continue to benefit from improving global demand. However, the improved fundamentals are already largely reflected in prices. With that in mind, managers have rotated 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. 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 to the regulatory environment for the financial sector in the U.S. 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>Preliminary. 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. Composite net results are calculated using the current highest management fees.

<sup>5</sup>Barclays Capital U.S. Credit Index. All indices are unmanaged.

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

<sup>7</sup>CGTC Representative U.S. Investment-Grade Corporate Fixed-Income Portfolio.

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