Capital Guardian℠

Profile
June 30, 2010

Long duration government/credit

Strategy characteristics

Benchmark:

Barclays Capital U.S. Long Government/Credit Index

Maximum in below-investment-grade securities:

- 0%
- May be part of "plus" strategy with a 0%-20% allocation in Global High Yield

Duration range:

Plus or minus two years of benchmark

Excess return estimate: 50–100 basis points[1,2]

Tracking error estimate: 100–250 basis points[1,2]

Sources of excess return estimates:

- security selection: 50%
- sector/industry: 35%
- duration: 15%

Assets in strategy: $1.8 billion

Minimum account size:

Commingled fund — $15 million
Separately managed — $250 million

Portfolio management team

Team averages 17 years of investment experience

Core team	Specialty	Investment experience
Andrew Barth	Credit sector	24 years
Ellen Carr	Credit sector	11 years
David Lee	Credit sector	10 years
Kevin Adams	Government	25 years
Wesley Phoa	Government	16 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, 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]

Investment process

Our approach is to build long duration portfolios with excess return coming primarily from sector allocation, industry selection, research-based corporate bond selection as well as duration and yield curve management. The strategy seeks to generate appropriate risk-adjusted excess return by investing the majority of assets in corporate bonds and Treasuries. It also selectively invests in TIPS, zero-coupon securities and bonds of quasi-sovereign entities when appropriate, thus taking advantage of the broadest opportunity set available in credit and government bond markets.

Our investment process incorporates top-down and bottom-up decisions. We manage sector allocation to corporate and government bonds as well as duration and yield curve positioning at the team level. Portfolio managers make individual decisions on industry allocation, credit quality distribution and issuer selection. We manage duration primarily through our corporate and Treasury investments and selectively use Treasury zeros, TIPS, interest rate swaps and futures based on our analysis of relative value and efficiency of execution.

Research is the cornerstone of our investment process. We construct portfolios by combining broad macroeconomic analysis and specific industry and credit evaluation. A 14-person Capital Strategy Research team is dedicated to providing macro insights in areas including U.S. economic research, duration and yield curve expectations, relative value comparisons among industries and on credit quality. This team also provides broad political, quantitative and regulatory insights — all necessary for the successful management of this strategy. Over 20 credit analysts, with insights from their equity counterparts, support portfolio managers by providing their best insights for industry allocation and issuer selection. The combination of equity and fixed-income perspectives allows us to evaluate the entire capital structure of companies, enabling us to make optimal issuer and security selection.

The portfolio management team consists of five portfolio managers: three managers focus on corporate bond selection and two focus on duration and yield curve management and overall U.S. Treasury exposure. This multiple manager approach ensures diversity of investment ideas and full coverage of the opportunity set. Portfolio managers work closely with a team of dedicated traders to identify market anomalies, inefficiencies and capital flows — technical factors that can be exploited for more efficient trade execution. This strategy is also available as a "plus" strategy which incorporates high-yield and emerging markets debt with the goal of achieving higher excess returns.

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.

Investment results

	Q210	YTD	1 year	3 years	5 years	10 years
Long Duration Government/Credit Plus Composite						
— gross[1]	9.49%	11.85%	19.16%	12.13%	7.33%	10.51%
— net[4]	9.41	11.69	18.81	11.79	7.01	10.18
Long Duration Government/Credit Index[5]	8.56	10.24	16.49	9.43	5.57	8.05

Risk characteristics (based on monthly returns)

	Standard deviation		Information ratio		Tracking error	
	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Long Duration Government/Credit Plus[6]	11.16%	10.02%	0.85%	0.68%	3.18%	2.61%
Long Duration Government/Credit Index[5]	11.64	10.08				

Portfolio characteristics

	Effective duration	Yield-to-worst
Portfolio[7]	12.7yrs	4.6%
Index[5]	12.8	4.8

Portfolio composition

	Portfolio[7]	Index[5]
Sector exposure		
Government	33.4%	55.8%
Corporates	45.7	44.1
Securitized	1.7	–
CMBS	0.2	–
MBS	0.8	–
ABS	0.7	–
Non-U.S.	2.5	–
Emerging markets debt	1.5	–
High yield	4.2	–
Credit rating		
AAA	30.0%	47.6%
AA	8.9	10.0
A	21.2	22.7
BBB	23.5	19.7
BB	2.5	–
B	2.3	–
CCC & below	0.8	–

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.
[1]Gross of management fees.
[2]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.
[3]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.
[4]Preliminary. Composite net results are calculated using the current highest management fees.
[5]Barclays Capital U.S. Aggregate 10+ Years or Higher Index to October 31, 2009 and Barclays Capital U.S. Long Government/Credit Index thereafter . All indices are unmanaged.
[6]Preliminary. Gross of management fees. The analysis is based on monthly data and periods greater than one year are annualized.
[7]Capital Guardian Representative Long Duration Government/Credit Portfolio.
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