

# Long duration credit

## Strategy characteristics

### Benchmark:

Barclays Capital Long Credit Index

### Minimum average credit quality: A

### 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-year benchmark

**Excess return estimate:** 50–100 basis points<sup>1,2</sup>

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

### Source of excess return estimates:

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

### 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
■ David Lee	Credit sector	10 years
■ Ellen Carr	Credit sector	11 years
■ Andrew Barth	Credit sector	24 years
■ Wesley Phoa	Government	16 years
■ Kevin Adams	Government	25 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.<sup>3</sup>

## Investment process

Our approach is to build long duration portfolios with excess return coming primarily from industry selection, research-based corporate bond selection as well as duration and yield curve management. The fund seeks to maximize total return and yield by holding the majority of assets in corporate bonds. When market conditions warrant a more defensive position, we also expect to add value by rotating more aggressively into U.S. Treasuries.

Our investment process incorporates top-down and bottom-up decisions. We manage duration and sector allocation into corporates at the team level. Portfolio managers make individual decisions on industry allocation, credit quality distribution and issuer selection.

Research is the cornerstone of our investment process. We construct portfolios by combining broad macroeconomic analysis and specific industry and credit evaluation from both fixed-income and equity perspectives. More than 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, what we believe is, the optimal selection of issuers and securities. In addition, a 14-person macro 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.

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 helps provide diversity of investment ideas and coverage of the broad credit opportunity set. Portfolio managers work closely with a three-person team of dedicated corporate traders to identify technical market anomalies, inefficiencies and capital flows — factors that can be exploited for more efficient trade execution.

Capital Guardian’s fundamental research process is our best risk control. The multiple manager system naturally creates diversification within the portfolio. In addition, our independent portfolio control group monitors compliance with client guidelines. Our legal and compliance team reviews operations to make certain we adhere to regulations in the markets in which we operate.

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.

<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.

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