The search for yield in volatile markets: A progressive approach.
An introduction to Capital Group

Our heritage

1931
Jonathan Bell Lovelace founded a small company based on the belief that fundamental research is essential to achieving superior, long-term investment results.

Today
Capital Group’s private ownership and focus on delivering consistent, positive results for long-term investors has made us one of the largest asset managers in the world.

Top 5 active asset managers

1. Fidelity
2. **Capital Group**
3. Vanguard
4. JP Morgan
5. BlackRock

$1.4tn assets under management
$234bn fixed income assets under management

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1. Based on percentage share of active assets under management. As at 31 December 2014. Source: Morningstar
2. As at 31 December 2015. Source: Capital Group
The Capital Advantage
Private ownership fosters stability and a long-term focus

Aligned with investor success
- Capital Group takes a long-term perspective to align our goals with the interests of clients
- Managers are rewarded for superior long-term results
- Capital associates are significant investors in our offerings

The Capital System℠
- Allows investment decisions based on an individual’s highest convictions
- Limits the risk of isolated investment decisions
- Incorporates a multi-layered governance structure

Built to last
- Privately owned
- High retention rates of our portfolio managers¹
- Our portfolio managers average 22 years at Capital Group²

A long-term perspective on behalf of clients

Average holding period (years)

<table>
<thead>
<tr>
<th></th>
<th>Comparable equity funds</th>
<th>Capital Group³</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.7</td>
<td></td>
<td>2.9</td>
</tr>
</tbody>
</table>

Compensation basis (years)

<table>
<thead>
<tr>
<th></th>
<th>Short-term emphasis</th>
<th>Capital Group emphasis⁴</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
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<tr>
<td>3</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>8</td>
<td></td>
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</tr>
</tbody>
</table>

Average holding periods as of the most recent fiscal year-end periods available through 31 December 2014.
Source for comparable equity funds: Lipper
1. Source: Morningstar, for the American Funds, as at 31 December 2014. Based on percentage of portfolio managers who have stayed with the firm during the past five calendar years.
2. Data as at 31 December 2015. Source: Capital Group
3. For the American Funds only, as at 31 December 2014.
4. Increasing weight is placed on each successive measurement period to encourage a long-term investment approach.
The search for yield
Interest rates could be lower for longer
In a low-growth, low-inflation world, rates could stay lower for longer

10-year Treasury yields

Data as at 31 December 2015. Sources: Federal Reserve, FactSet

The Long Depression (1873-1896)
31 years of low rates
5.32%

The Great Depression (1929-1939)
32 years of low rates
1.95%

8 years of low rates
2.27%

14.59%
The long-term decline in core sovereign bond yields

10-year sovereign bond yields

- Germany
- Switzerland
- Japan
- United States
- United Kingdom

Data as at 31 January 2016. Source: Thomson Reuters Datastream
Even investment-grade bond yields are near record lows

**US bond yields**

- Corporate high yield
- Corporate investment grade
- 10-year Treasury

Data as at 31 January 2016. Source: Thomson Reuters Datastream
Quantitative easing is increasing in major economies
Central banks in the US, Europe and Japan have expanded balance sheets

Central bank assets

Data as at 31 December 2015. Source: Federal Reserve
The impact of higher sovereign debt

Sovereign debt has been rising

OECD sovereign debt as a % of GDP (1969–2016)

Growth has been lower at higher debt levels

Median real GDP growth for OECD nations at various levels of public debt


2. Source: Reinhart and Rogoff
Uneven economic recovery
Developed-world economic recovery has been mediocre at best

Global GDP growth (yoy)

As at October 2015. Source: International Monetary Fund, World Economic Outlook Database
Who said this is a low-yield world?
Recent weakness in emerging markets and high-yield sectors has resulted in attractive yields

Yields are for 31 December 2014 to 15 January 2016, from Barclays US High Yield Index, JPMorgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified, and JPMorgan Emerging Markets Bond Index Global. Sources: Barclays Research, JPMorgan
High-yield debt
High yield has historically offered an attractive spread

Yield, %

- Corporate high yield
- 10-year US Treasury

Data as at 31 January 2016
1. Barclays US Corporate High Yield 2% Issuer Cap Total Return. Sources: Barclays, Bloomberg
2. Sources: JPMorgan, Bloomberg
And from the current default perspective, spreads appear attractive

As at 31 December 2015. Sources: JPMorgan, Moody’s Investors Service
It’s not just in the resource sector that yields have risen

As at 31 January 2016. Source: Barclays Capital
The case for investing in high-yield debt

- Spreads over treasuries and absolute yields are at attractive levels
- The sell-off in the resource sector has also affected other sectors
- But selectivity is key both in terms of which companies to invest in and where in the capital structure to invest
Emerging market debt (EMD)
Strategic case for EMD remains intact

Higher expected returns

- Capture further yield convergence with developed market bond yields
- Potential to capture improving credit trends

Diversification

- EMD is not a homogenous asset class
- Low correlation with ‘traditional’ fixed income returns

Growing demand and liquidity

- Asset class continues to broaden and deepen
- Strategic allocation for western investors
- Deepening local markets with local buyers
EMD: a broad opportunity set

Emerging Market Debt
60+ countries

- Local currency corporate bonds
  $6.1 trillion

- Corporate dollar bonds
  $1.3 trillion

- Index-linked bonds
  $650 billion

- Sovereign hard currency bonds
  $793 billion

- Sovereign local currency bonds
  $6.6 trillion

Segment sizes are for illustrative purposes only.
1. Data as at 30 April 2015. Sources: Worldbank, IMF
Skill set needed to manage EMD portfolios today

<table>
<thead>
<tr>
<th>Drivers of returns</th>
<th>Skill set required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sovereign credit/country selection</td>
<td>Macroeconomic, political and credit research</td>
</tr>
<tr>
<td>Currency</td>
<td>Currency analysis</td>
</tr>
<tr>
<td>Duration and yield curve positioning</td>
<td>‘Traditional’ fixed income</td>
</tr>
<tr>
<td>Sector/issuer selection</td>
<td>Credit and relative value discipline</td>
</tr>
</tbody>
</table>
EMD: Higher potential long-term returns

Yield to maturity

- US$ sovereign EM debt ¹
- Local currency sovereign EM debt ²
- 10-year US Treasury ³

Data as at 31 December 2015.
1. EMD Sovereign (USD): JPMorgan Emerging Markets Bond Index Global
2. EMD Sovereign (Local Currency): JPMorgan Government Bond Index-Emerging Markets Global Diversified
3. Sources: JPMorgan, Barclays, Bloomberg

Past results are not a guarantee of future results.
Higher yielding assets can offer higher potential returns

A blended emerging market debt and high-yield fund: historical starting yield versus subsequent three-year return

Past results are not a guarantee of future results. Data as at 31 January 2016. Source: Capital Group

Fund shown is Capital Group Global High Income Opportunities (LUX)
Equity income
Look globally for dividend payers and growers

Many markets offer relatively attractive dividend yields

Data as at 31 January 2016. Sources: Bloomberg generic 10-year government yields, MSCI country indices
A simple approach seems to add value over time: this suggests investors should buy high yielders

MSCI ACWI – lifetime performance by dividend quintile (regionalised)

Data as at 31 December 2015.
Quintiles are calculated by taking the top 20%, by weight, of dividend payers within each region, then grouping them together and calculating a weighted return for the quintile. This was then repeated with the next 20% of each region. The data is regrouped on an annual basis, at the end of each year. Returns are in GBP. Sources: MSCI, FactSet.
But this strategy has failed in the last 10 years

MSCI ACWI - lifetime performance by dividend quintile (regionalised) - relative

Quintile 1  Quintile 2  Quintile 3  Quintile 4  Quintile 5

Data as at 31 December 2015.
Quintiles are calculated by taking the top 20%, by weight, of dividend payers within each region, then grouping them together and calculating a weighted return for the quintile. This was then repeated with the next 20% of each region. The data is regrouped on an annual basis, at the end of each year. Returns are in GBP. Sources: MSCI, FactSet.
Dividend growers have been generators of superior long-term returns

Dividend growers have historically provided superior long-term returns around the globe

Past results are not a guarantee of future results.

Note: Returns are based on the weighted average of total returns in USD (with gross dividend reinvested) of a global universe of companies. The universe consists of the 1,000 largest companies in the S&P BMI Global Indices for North America (50% weight), Europe (25%), Japan (10%) and the 500 largest companies for Emerging Markets (10%) and Pacific ex. Japan (5%) from December 1989 to December 2004 and the 1,000 largest companies in the MSCI IMI Indices for North America, Europe and Japan and the 500 largest companies for Emerging Markets and Pacific ex. Japan thereafter. The universe constituents are rebalanced quarterly. Volatility reflects annualised standard deviation of monthly total returns. Data from 31 December 1989 through 31 December 2015.

Sources: FactSet, Compustat, Worldscope, MSCI, Capital Group
Dividend growers are still attractively valued

Dividend growers are trading at a discount to high dividend payers
31 December 1990 – 31 December 2015

As at 31 December 2015

1. Valuations are based on the median forward P/E multiples for the highest quintile of S&P 500 companies by dividend growth and dividend yield.

Source: Bank of America Merrill Lynch
Looking for attractive combinations of current yield and future dividend growth

Eligibility requires a balance between yield and expected dividend growth

- Approved companies
- Rejected companies

Dividend characteristics of securities shown

<table>
<thead>
<tr>
<th>Security</th>
<th>Gross dividend yield¹ (%)</th>
<th>Forecast dividend growth rate² (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adecco</td>
<td>2.9</td>
<td>11.9</td>
</tr>
<tr>
<td>Crown Castle Intl.</td>
<td>4.1</td>
<td>2.4</td>
</tr>
<tr>
<td>Exxon Mobil</td>
<td>3.0</td>
<td>9.3</td>
</tr>
<tr>
<td>Huaneng Power</td>
<td>5.2</td>
<td>3.4</td>
</tr>
<tr>
<td>Sydney Airport</td>
<td>4.5</td>
<td>7.9</td>
</tr>
<tr>
<td>Reference point</td>
<td>3.6</td>
<td>5.0</td>
</tr>
<tr>
<td>The Home Depot</td>
<td>2.1</td>
<td>12.0</td>
</tr>
<tr>
<td>LVMH</td>
<td>2.5</td>
<td>9.2</td>
</tr>
</tbody>
</table>

The above is a sampling of securities on the Eligible List. This is a historical snapshot and is for illustrative purposes only. The securities listed may or may not be held in either the Absolute Income Grower or World Dividend Growers portfolio at any given time and are not intended to be representative of the securities in the aforementioned strategies. The projections are forecasts only, and there is no guarantee these will be realised. This information has been provided solely for informational purposes and is not an offer, or solicitation of an offer, or a recommendation to buy or sell any security or instrument listed herein.

1. As at 31 March 2015. It is calculated by dividing trailing 12-month dividend per share by the month-end price.
2. Bloomberg’s BDVD projected three-year dividend growth is calculated as: Projected dividend per share growth rate over next three years, based on the trailing 12-month dividend starting three years from today’s date. This dividend amount is then divided by the current trailing 12-month dividend amount, annualised.
3. Provides point of reference for eligibility

As at 31 March 2015. Sources: Bloomberg, Capital Group
Conclusion

• Most sovereign and investment-grade bonds offer low current yield

• High-yield and emerging market bonds are currently selling at a potentially attractive entry point

• Selectivity, however, is key

• Equity strategies focussing on high yield have not worked recently

• Dividend growth strategies however, have produced better returns

Research is the key

Past results are not a guarantee of future results.
Further information
Institutional relationship team in Germany

Henning Busch
Director, Financial Intermediaries
Tel.: +49 69 4272 78710
Mobile: +49 172 280 9617
Email: henning.busch@capgroup.com

Soren Mikkelsen
Director, Financial Intermediaries
Tel.: +352 271 76233
Mob.: +352 621 253746
Email: soren.mikkelsen@capgroup.com
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Risk factors you should consider before investing:
- The value of shares and income from them can go down as well as up and you may lose some or all of your initial investment.
- Past results are not a guide to future results.
- If the currency in which you invest strengthens against the currency in which the underlying investments of the fund are made, the value of your investment will decrease.
- The Prospectus and Key Investor Information Document set out risks, which, depending on the fund, may include risks associated with investing in emerging markets and/or high yield securities. Emerging markets are volatile and may suffer from liquidity problems.