Managing an evolving asset class.
Capital Group: a pioneer in emerging markets
Thirty years ago, the World Bank invited us to create the world’s first emerging markets equity fund

1986
Capital makes its first investment in Korea, Thailand, Philippines and Malaysia

1987
Our first investment in Taiwan, Argentina, Brazil and Mexico

1986
Emerging Markets Growth Fund

1987
Emerging Markets Equities

1990
Begin investing in emerging market debt

1992
First investment in China

1993
First investment in India

1996
First investment in Russia

1992
Emerging Markets Private Equity

1994
First dedicated emerging market debt mandate

1994
First dedicated emerging market debt mandate

2007
Capital Group Emerging Markets Debt Fund (LUX)

2010
Capital Group Emerging Markets Local Currency Debt Fund (LUX)

2008
Mumbai office opens

2009
Beijing office opens

2017
$50bn+

2017
Assets under management in emerging market-focused strategies

Knowledge gained through decades of experience leads to a deeper understanding of the unique complexities inherent in emerging markets

All data as at 30 June 2017. The Capital Group companies manage equities through three investment divisions that make investment and proxy voting decisions independently. Fixed-income investment professionals provide fixed-income research and investment management across the Capital organisation; however, for securities with equity characteristics, they act solely on behalf of one of the three equity investment groups. Source: Capital Group

1. Emerging Markets Growth Fund is a US-domiciled open-end interval fund generally offered to institutional investors and other qualified purchasers in the US by Capital International, Inc. The American Funds are not registered for sale outside of the United States.

2. Available only to qualified purchasers.
Five reasons to be positive about emerging market debt
Current valuations are supportive of strategic long-term case to allocate to emerging market debt

1. Macro
Synchronised global growth positive for emerging markets, with support from more stable commodity prices and scope for further currency appreciation

2. Growth
Strong and broadly sustainable across emerging markets, with many economies and governments’ financial profiles relatively sound

3. Policy profiles
Flexibility to respond to macro shocks has improved and is in many cases stronger than that of developed markets

4. Reform
Many governments continue to make progress implementing reform programmes

5. Valuation
Attractive bond markets with mostly positive real yields and term premia

Past results are not a guarantee of future results.
As at 31 January 2018. Source: Capital Group
A little background on EMD and its development as an asset class

EMD today is a mainstream asset class: the universe has deepened and become more diversified

1990s
• Development of hard currency market and introduction of yield curves

2000s
• Significant growth of local currency market
• Hard currency debt buybacks begin

2010 – Today
• $4.6 trillion investable universe
• More than 60 countries
• Development of corporates and linkers create four major sub-asset classes

Data as at 31 December 2017 in US dollar terms. EMD: emerging market debt. Labels in the chart refer to Capital Group strategies.

1. Based on market value of indices used
2. JPMorgan EMBI Global Index. Source: JPMorgan
3. JPMorgan GBI-EM Broad Index. Source: JPMorgan
4. JPMorgan CEMBI Broad Index. Source: JPMorgan
5. Bloomberg Barclays EMGIL Bond Index. Source: Bloomberg Barclays
The local and hard currency indices offer a broad and growing range of sovereign issuers
Credit profile of the local currency universe is particularly strong

Country weights in EMD local currency universe¹
Local currency

$893bn
18 countries
78% IG

Country weights in EMD USD universe²
Hard currency

$899bn
67 countries
53% IG

Figures may not total 100 due to rounding.
IG: investment grade
EMD: emerging market debt
Data as at 31 December 2017. EMD: emerging market debt.
1. Local currency universe is JPMorgan GBI-EM Global Diversified Index. Source: JPMorgan
2. USD universe is JPMorgan EMBI Global Diversified Index. Source: JPMorgan
The recent past: EMD has offered attractive returns since the financial crisis
Global demand for yield has driven returns particularly in hard currency assets

Hard currency debt has outperformed since the Global Financial Crisis …

- EMD (hard currency)
- EMD (local currency)
- Euro government
- Euro corporates

… but this trend has been reversing in the past 2 years

- EMD (hard currency)
- EMD (local currency)
- Euro government
- Euro corporates

Past results are not a guarantee of future results.

Data as at 31 October 2017. EMD: emerging market debt.
1. JPMorgan EMBI Global Index. Source: JPMorgan
2. JPMorgan GBI-EM Global Diversified Index. Source: JPMorgan
4. Bloomberg Barclays Euro Aggregate Corporate Index. Source: Bloomberg Barclays
1. Synchronised global growth is positive for emerging market growth profiles
IMF expects growth to continue to strengthen in medium term in both developed and emerging markets

Data as at February 2018. 2019 growth rates are projected, for illustrative purposes only. Sources: International Monetary Fund (IMF), Thomson Reuters
CEE: Central and Eastern Europe

Capital Group
1. EM currencies remain fair to attractively valued relative to USD
Certain currencies continue to look attractive but 2017 saw some appreciation

- Increasing differentiation in currency valuation but many offer tailwind to bond returns
- Top three cheapest currencies on our estimates: TRY, MXN, COP
- Top three most expensive currencies on our estimates: THB, CNY, ILS

Going forward, EM exchange rates could be less of a headwind and broadly supportive of EM assets

Past results are not a guarantee of future results. 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.

Currencies are Turkish lira (TRY), Mexican peso (MXN), Columbian peso (COP), Philippine peso (PHP), Brazilian real (BRL), Malaysian ringgit (MYR), Hungarian forint (HUF), South African rand (ZAR), Russian rouble (RUB), Polish zloty (PLN), Indian rupee (INR), Singapore dollar (SGD), Korean won (KRW), Chilean peso (CLP), Israeli shekel (ILS), Indonesian rupiah (IDR), Czech koruna (CZK), Chinese yuan renminbi (CNY) and Thai baht (THB).

EM: emerging markets
1. 3 January 2017
2. 21 February 2018
Source: Capital Group
1. Commodity price recovery and reduced volatility are supportive of emerging market growth

**Oil and commodities prices have recovered**

- **Oil price (Brent)**
- **Raw industrials**

**Oil price volatility has fallen**

Data as at 31 January 2018
1. Crude Oil Brent Forties Oseberg (BFO) Month 1 Europe Free on Board United States USD/Barrel
2. Commodity Research Bureau BLS Spot Index Raw Industrials. Source: Thomson Reuters Datastream

Data as at 31 January 2018
CBOE Crude Oil Volatility Index
Source: Thomson Reuters Datastream
2. Positive growth profiles: improving emerging market fundamentals

Data as at 31 October 2017. EM: emerging markets.
1. Six-month moving average. Source: CPB World Trade Monitor

Commodity price rises will help provide a tailwind for energy producers
Economic growth forecasts of major energy exporters (%)
2. Emerging markets generally exhibit strong financial profiles
Government debt levels are significantly lower than those of developed markets.

Forecasts shown for illustrative purposes only.
Data as available as at 30 September 2017. Source: FactSet
2. EM economies and governments’ finances are improving
Financial profiles are more robust than during 2013 ‘Taper Tantrum’

Current account deficits of the ‘Fragile Five’

<table>
<thead>
<tr>
<th>Country</th>
<th>2012 (% of GDP)</th>
<th>2017F (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>3.2</td>
<td>2.1</td>
</tr>
<tr>
<td>India</td>
<td>5.1</td>
<td>4.3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3.0</td>
<td>2.5</td>
</tr>
<tr>
<td>South Africa</td>
<td>4.8</td>
<td>4.5</td>
</tr>
<tr>
<td>Turkey</td>
<td>4.7</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Forecasts shown for illustrative purposes only.
As at October 2017
The ‘Taper Tantrum’ refers to the surge in US Treasury yields following a speech by the then Federal Reserve Governor Ben Bernanke suggesting the withdrawal of monetary stimulus. ‘Fragile Five’ was a term used to describe emerging market economies in 2013 that had become particularly dependent on foreign financing. F: forecast. EM: emerging markets.
Source: International Monetary Fund, World Economic Outlook Database
3. Policy profiles: EM central banks retain flexibility to respond to macro shocks

There is scope for rate stimulus if necessary - no QE trap in EM...

Central bank policy rates

Data as at 31 January 2018. Source: Thomson Reuters Datastream
EM: emerging markets. QE: quantitative easing.
4. Reform: many governments continue to make progress implementing reform programmes

Egypt as an example: reform creates long-term opportunity, with revaluation offering short-term gains

**Market characteristics**
- B rating
- USD and local currency issuance
- Local yields of around 14.5%¹
- FX: 50% devaluation via 2016 liberalisation
- Central bank rate: 17.75%²
- Inflation: remains high post devaluation but declining towards 13% target rate
- Debt-to-GDP: around 100% but expected to decline towards 80% by 2020

**IMF programme agreed November 2016**
- Current government recognised the need for reform, entering into IMF-supported adjustment programme
- Three-year programme aims to restore the economic stability of Egypt and encourage long-term growth
- Fiscal consolidation to reduce budget deficit is core to the programme
- Deficit has recovered to <3% GDP through increased remittances and recovering tourism receipts
- GDP growth rates have recovered to 5%, close to pre-Arab Spring levels

**Reform programme is making good progress**
- Significant fiscal adjustment in 2017 achieved via:
  - Cuts to fuel subsidies
  - Introduction of VAT
  - Improved control of public wage system

**Egypt budget balance (% GDP)³**

<table>
<thead>
<tr>
<th>Year</th>
<th>Overall</th>
<th>Primary</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>-8.4%</td>
<td>-6.0%</td>
</tr>
<tr>
<td>2009-10</td>
<td>-8.2%</td>
<td>-5.8%</td>
</tr>
<tr>
<td>2010-11</td>
<td>-8.0%</td>
<td>-5.6%</td>
</tr>
<tr>
<td>2011-12</td>
<td>-7.8%</td>
<td>-5.4%</td>
</tr>
<tr>
<td>2012-13</td>
<td>-7.6%</td>
<td>-5.2%</td>
</tr>
<tr>
<td>2013-14</td>
<td>-7.4%</td>
<td>-5.0%</td>
</tr>
<tr>
<td>2014-15</td>
<td>-7.2%</td>
<td>-4.8%</td>
</tr>
<tr>
<td>2015-16</td>
<td>-7.0%</td>
<td>-4.6%</td>
</tr>
<tr>
<td>2016-17</td>
<td>-6.8%</td>
<td>-4.4%</td>
</tr>
<tr>
<td>2017-18</td>
<td>-6.6%</td>
<td>-4.2%</td>
</tr>
<tr>
<td>2018-19</td>
<td>-6.4%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>2019-20</td>
<td>Forecast</td>
<td></td>
</tr>
</tbody>
</table>

**Potential improvement in rating as a result of IMF programme could lead to spread tightening**

Past results are not a guarantee of future results.

IMF: International Monetary Fund. GDP: gross domestic product.
1. 5-year government bond, as at 31 December 2017. Source: Thomson Reuters Datastream
2. As at 15 February 2018. Source: Thomson Reuters Datastream
3. As at 31 January 2018. Forecasts are shown for illustrative purposes only.
5. EMD has offered attractive yields vs. developed market bonds
Investors have continued to benefit from yield pick-up in EMD, particularly relative to European markets.

Historical yields of primary emerging market and developed market bond indices

- EMD (hard currency)\(^1\)
- EMD (local currency)\(^2\)
- Euro government\(^3\)
- Euro corporates\(^4\)
- US aggregate\(^5\)
- Spread (RHS)\(^6\)

Past results are not a guarantee of future results.

Data as at 31 December 2017. EMD: emerging market debt.
1. JPMorgan EMBI Global Index. Source: JPMorgan
2. JPMorgan GBI-EM Global Diversified Index. Source: JPMorgan
4. Bloomberg Barclays Euro Aggregate Corporate Index. Source: Bloomberg Barclays
6. JPMorgan EMBI Global USD spread. Source: JPMorgan
5. Local currency yields remain above pre-Taper Tantrum lows
But spread to US Treasuries is now at post-crisis low

Local yields tightened through 2017 with a recent moderate pick-up...
Local currency sovereign bond yield (%)¹

... but much less than what we have seen in US Treasuries
Spread of local currency index¹ to 5-year US Treasuries² (%)

Past results are not a guarantee of future results.
The ‘Taper Tantrum’ refers to the surge in US Treasury yields following a speech by the then Federal Reserve Governor Ben Bernanke suggesting the withdrawal of monetary stimulus.
Data as at 15 February 2018
1. JPMorgan GBI-EM Global Diversified Index. Source: Bloomberg
2. US Generic Govt 5 Year Yield Source: Bloomberg
5. EM continues to offer positive real yields
Africa and Latin America most attractive, while emerging Europe is more in line with developed markets

Real yields look broadly attractive...
Real 10-year bond yields minus core inflation (%)

...but the premium relative to the US has been declining
EM real yields less US real yields (10-year minus inflation) (%)

Past results are not a guarantee of future results.
Data as at 23 January 2018. Source: Bloomberg

Data as at 23 January 2018. Source: Bloomberg
1. ‘EM’ represents average of countries shown in left-hand chart.
5. Upwards sloping yield curves: a ‘normal’ relationship between rates and inflation

EM curves on average are now steep relative to DM... but there is big variation across markets

---

EM curves have been resilient while US curve has flattened considerably...
Yield curve: 2s10s (bps)

US  GBI-EM (average)

... but there are big differences across countries
Yield curve: range of 2s10s (bps) slope since February 2016

Past results are not a guarantee of future results.
Data as at 23 January 2018. Source: Bloomberg
‘EM’ represents average of the following countries: Brazil, Hungary, Indonesia, Malaysia, Mexico, Poland, Romania, Russia, South Africa, Thailand, Turkey

Data as at 23 January 2018. Source: Bloomberg
s.d.: Standard deviation
‘EM’ represents average of countries shown in left-hand chart.
What does EMD offer investors today? Positive long-term outlook, but some risks to consider

Long-term opportunity merits a strategic allocation

- A diverse universe of sovereign and corporate credits
- Global macro environment expected to remain supportive
- Continued economic integration
- Wide variation in yields and risk premia across US dollar and local currency markets
- Structural change and improved governance
- Future development of markets and country curves could increase investment opportunities

Short to medium term presents some risks

- Volatility has been benign but recently there have been signs of a pick-up
- Demand for yield driven by QE: what happens when that goes away?
- Rising rates: pace and path of increases will be crucial
- Geopolitical risk, though this appears lower than in recent past
- Renegotiation of international trade agreements (e.g. NAFTA)
- Political risk – elections in Brazil and Mexico, new leadership in South Africa
- Local currency offers positive real yields and attractive valuations
- Hard currency appears stretched having seen greater inflows through QE-driven demand for yield

EMD today is a deep and broad asset class with opportunities to structure diversified portfolios to help weather multiple economic scenarios

Past results are not a guarantee of future results. The information provided is not intended to be comprehensive or to provide advice.

As at 31 January 2018. Source: Capital Group
EMD: emerging market debt, QE: quantitative easing. NAFTA: North American Free Trade Agreement
A broad opportunity set can help create a portfolio capturing diverse drivers of return

“Traditional” emerging market stories: improving growth …¹

<table>
<thead>
<tr>
<th>Country</th>
<th>2016 GDP</th>
<th>2020 GDP (estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td>3.5%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Egypt</td>
<td>4.3%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Argentina</td>
<td>-2.2%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

... and some more mixed stories, such as Turkey²

Fiscal outlook is concerning

- Overall balance
- Primary balance

While nominal yields appear attractive, inflation remains high

- 10y real yield
- Inflation
- 10Y nominal yield

More mature bond markets can become core holdings and require traditional fixed-income analysis¹

<table>
<thead>
<tr>
<th>Country</th>
<th>2016 GDP</th>
<th>2020 GDP (estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>12.9%</td>
<td>4.0%</td>
</tr>
<tr>
<td>India</td>
<td>4.9%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.1%</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

Past results are not a guarantee of future results. Forecasts are shown for illustrative purposes only. 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.

GDP: gross domestic product
1. Source: World Economic Outlook (October 2017)
2. As at 15 February 2018. Source: Thomson Reuters Datastream

Capital Group
Appendix
Hard currency (USD-denominated) EMD

**Composition**
- 67 countries
- $899 billion of assets
- Issued by governments
- First step to building up a credit track record
- Bonds mainly owned by non-EM investors
- Liquidity varies across issuers but can be low in a number of markets

**Drivers of return**
- US Treasury/interest rate risk (duration)
- Credit risk (spread)
- Changes to investor appetite
- Liquidity

**Components of return**
- Coupon +/- price movement (from change in yields/spreads)

**Market breakdown by credit rating**

**Regional breakdown**

**Top 10 largest countries (US$bn)**

Past results are not a guarantee of future results.

Data as at 31 December 2017. NR: not rated. EMD: emerging market debt. Market represented by JPMorgan EMBI Global Diversified Index. Source: JPMorgan

1. By index weight (%)
2. By market value (US$bn)
3. Credit rating based on Capital Group’s rating methodology. By index weight (%). Source: Capital Group
1. And credit quality of hard currency EMD assets has steadily improved
Over 50% of the index is investment-grade rated

Ratings breakdown of hard currency EMD index

Improved management of emerging economies has paid off
- Better credit ratings
- Lower interest rates
- Increased availability of capital

New financing alternatives
- Local currency
- Local duration

Data as at 31 December 2017. EMD: emerging market debt.

1. JPMorgan EMBI Global Index. Credit rating is based on JP Morgan’s methodology. Source: JPMorgan.
Local currency EMD

Composition
• 18 countries
• $893bn in assets
• Issued by governments in their currency
• Typically issued after building up a sufficient credit track record
• Domestic vs. foreign ownership varies

Drivers of return
• Tied to country’s fiscal and monetary policies
• Inflation and interest rate expectations
• Duration and yield curve positioning
• Currency

Components of return
• Coupon +/- price movement and currency return

Past results are not a guarantee of future results.
Data as at 31 December 2017. EMD: emerging market debt. Market represented by JPMorgan GBI-EM Global Diversified Index. Sources: Capital Group, JPMorgan
1. By index weight (%)
2. By market value (US$bn)
3. Credit rating based on Capital Group’s rating methodology. By index weight (%). Source: Capital Group
Local currency EMD index remains a high-quality one

Ratings breakdown of local currency EMD index

- **A rated**
- **BB rated**
- **BBB rated**
- **B rated**
- **AA rated**

**A predominantly investment-grade index**
- 70%+ investment-grade rated for 90% of index lifetime (see chart)

**Increased issuance has brought dispersion**
- As the local market has grown, there has been an increase in BB-rated bonds

As at 31 December 2017. EMD: emerging market debt.

1. JPMorgan GBI-EM Global Diversified Index. Credit rating is based on JP Morgan’s methodology. Source: JPMorgan
Inflation-linked EMD

**Composition**
- 76 bonds
- $518 billion in assets
- Sometimes offer the only viable way to access a market (e.g. Uruguay)
- Grown rapidly as EM governments shift to diversify funding sources and signal confidence in anti-inflationary policies

**Drivers of return**
- Inflation
- Duration
- Yield curve positioning
- Currency

**Components of return**
- Coupon payments (not fixed)
- Inflation accrual
- Change in quoted clean price (based on real yield)

**Past results are not a guarantee of future results.**
Data as at 31 March 2017: EMD: emerging market debt. Market represented by Bloomberg Barclays EMGILB index. Source: Bloomberg Barclays
1. By index weight (%).
2. By market value (US$bn).
EM corporates

Composition
- 600+ issuers
- $970 billion in assets
- Issued by corporations and quasi-sovereigns
- Growing rapidly since the Global Financial Crisis - due to cheap dollar financing and growing demand for higher yield sources
- Predominantly USD-denominated

Drivers of return
- US treasury/interest rate risk (duration shorter than sov.)
- Credit risk (spread)
- Changes to investor appetite
- Liquidity

Components of return
- Coupon +/- price movement

Past results are not a guarantee of future results.
Data as at 31 December 2017. EM: emerging market. Market represented by JPMorgan CEMBI Broad index. TMT: technology, media and telecommunications. Sov.: Sovereigns. Source: JPMorgan
1. By index weight (%).
Regulatory information

This material, issued by Capital International Management Company Sàrl ("CIMC"), 37A avenue J.F. Kennedy, L-1855 Luxembourg, is distributed for information purposes only. CIMC is regulated by the Commission de Surveillance du Secteur Financier ("CSSF" – Financial Regulator of Luxembourg) and manages the fund(s) which is a (are) sub-fund(s) of Capital International Fund (CIF), Capital International Portfolios (CIP), or Capital International Emerging Markets Fund (CIEMF), organised as an investment company with variable capital (SICAV) under the laws of the Grand Duchy of Luxembourg and authorised by the CSSF as a UCITS. All information is as at the date indicated unless otherwise stated and subject to change.

This material, issued by Capital International Management Company Sàrl ("CIMC"), 37A avenue J.F. Kennedy, L-1855 Luxembourg, is distributed for information purposes only. CIMC is regulated by the Commission de Surveillance du Secteur Financier ("CSSF" – Financial Regulator of Luxembourg) and manages the fund(s) which is a (are) sub-fund(s) of Capital International Portfolios (CIP), organised as an investment company with variable capital (SICAV) under the laws of the Grand Duchy of Luxembourg and authorised by the CSSF as a UCITS. All information is as at the date indicated unless otherwise stated and subject to change.

A full list of Paying Agents and Distributors is located on the website stated. All legal documentation mentioned in this disclaimer are available in hard-copy and free of charge from the Paying Agent.

Risk factors you should consider before investing:
• This material is not intended to provide investment advice or be considered a personal recommendation.
• 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.

Other important information
The fund(s) is (are) offered only by Prospectus, together with the Key Investor Information Document. These documents, together with the latest Annual and Semi-Annual Reports and any documents relevant to local legislation, contain more complete information about the fund(s), including relevant risks, charges and expenses, and should be read carefully before investing. However, these documents and other information relating to the fund(s) will not be distributed to persons in any country where such distribution would be contrary to law or regulation. They can be accessed online at www.capitalgroup.com/europe, where latest daily prices are also available.

The tax treatment depends on individual circumstances and may be subject to change in future. Investors should seek their own tax advice. This information is neither an offer nor a solicitation to buy or sell any securities or to provide any investment service.