



AMERICAN  
FUNDS®

From Capital Group

# Fixed Income at Capital Group

## Realities, Myths and Actionable Ideas

Figures are past results and are not predictive of results in future periods. Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

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# Fixed Income at Capital Group

## Capital Group

- **Founded in 1931**
- **Privately held**
- **\$1.79 trillion in assets under management\***
- **Manager of the American Funds® mutual funds and Capital Group institutional strategies**

\*Assets under management as of March 31, 2018. All values in USD.

The Capital Group companies manage equity assets through three investment groups. These groups make investment and proxy voting decisions independently. Fixed income investment professionals provide fixed income research and investment management across the Capital organization; however, for securities with equity characteristics, they act solely on behalf of one of the three equity investment groups.

# Broad Fixed Income Capabilities

## \$321 Billion in Assets Under Management

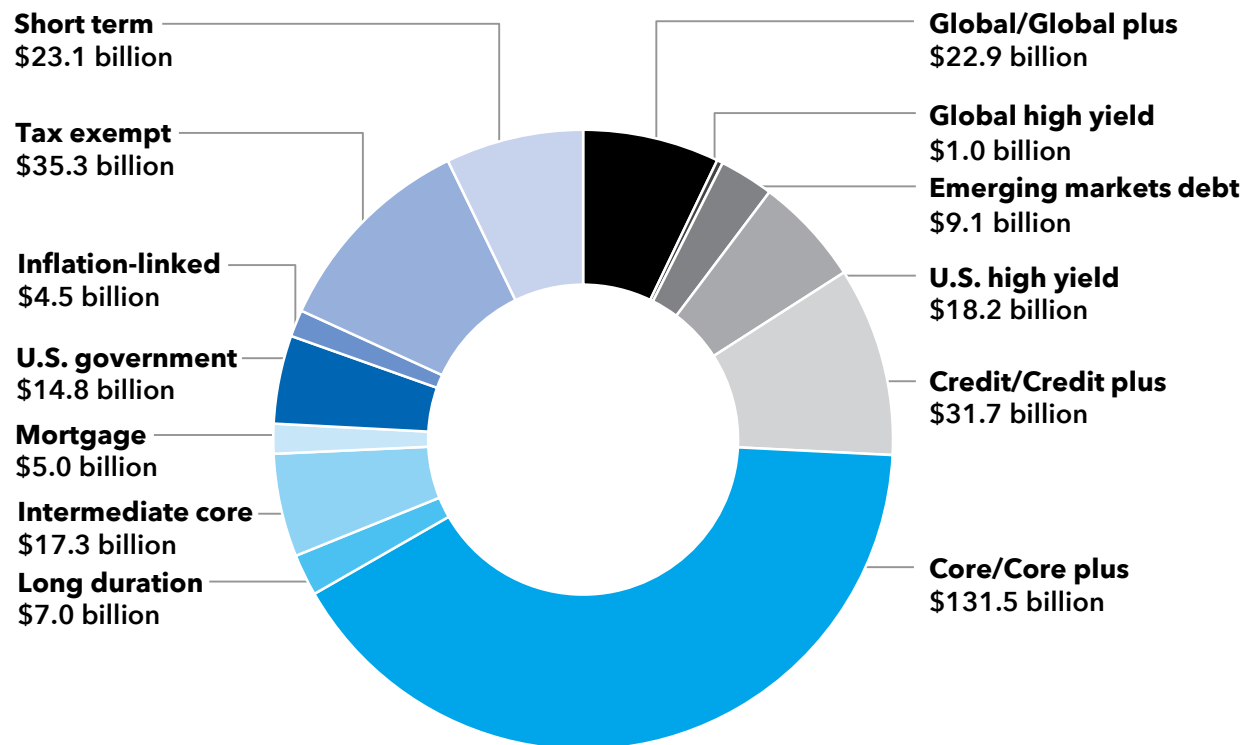
### Taxable

- American Funds U.S. Government Money Market Fund<sup>SM</sup>
- Short-Term Bond Fund of America<sup>®</sup>
- Intermediate Bond Fund of America<sup>®</sup>
- The Bond Fund of America<sup>®</sup>
- U.S. Government Securities Fund<sup>®</sup>
- American Funds Inflation Linked Bond Fund<sup>®</sup>
- American Funds Mortgage Fund<sup>®</sup>
- American Funds Corporate Bond Fund<sup>®</sup>
- American Funds Strategic Bond Fund<sup>SM</sup>
- Capital World Bond Fund<sup>®</sup>
- American High-Income Trust<sup>®</sup>
- American Funds Emerging Markets Bond Fund<sup>®</sup>

### Tax-Exempt

- American Funds Short-Term Tax-Exempt Bond Fund<sup>®</sup>
- Limited Term Tax-Exempt Bond Fund of America<sup>®</sup>
- The Tax-Exempt Bond Fund of America<sup>®</sup>
- American High-Income Municipal Bond Fund<sup>®</sup>
- The Tax-Exempt Fund of California<sup>®</sup>
- American Funds Tax-Exempt Fund of New York<sup>®</sup>

### Total Fixed Income Assets by Strategy



Assets under management by Capital Fixed Income Investors as of June 30, 2018. All values in USD. Totals may not reconcile due to rounding.

# Pursuing Durable Outcomes for Investors

## Our Focus on Long-Term Client Outcomes and Downside Protection Has Led to Strong Relative Results

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### A Disciplined Process Guided by Conviction

- Empowering research analysts to manage money enhances accountability and helps identify better opportunities
- A team approach results in high-conviction ideas gaining prominence in our portfolios
- 160 fixed income professionals collaborate regularly with their equity colleagues, leveraging our size and scale<sup>1</sup>

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### Commitment to Investor Success

- Portfolio managers invest in their own funds – 100% manager ownership in each fixed income fund
- Manager compensation places an emphasis on long-term results, not assets under management
- We offer funds with low expense ratios, as reflected by receiving the highest “positive” grade from Morningstar’s Price Pillar rating<sup>2</sup>

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### Superior Outcomes

- Delivered strong returns and risk-adjusted returns vs. peers<sup>3</sup>
- Help investors achieve diversification through attention to the correlation between bonds and equities<sup>4</sup>
- Manage core bond funds that have shown resilience in periods of equity market volatility<sup>5</sup>

<sup>1</sup> As of June 30, 2018.

<sup>2</sup> Based on Morningstar analysis of American Funds fixed income funds with at least three years of results having all received the “positive” rating for F-2 share class, as of 6/30/2018.

<sup>3</sup> Data as of 12/31/2017. Based on one-, three-, five- and seven-year return data of Class F-2 shares for taxable and tax-exempt bond funds. Peer group is defined as the Morningstar category for each fund. The majority of funds’ total return and Morningstar risk-adjusted return outpaced their peer group medians.

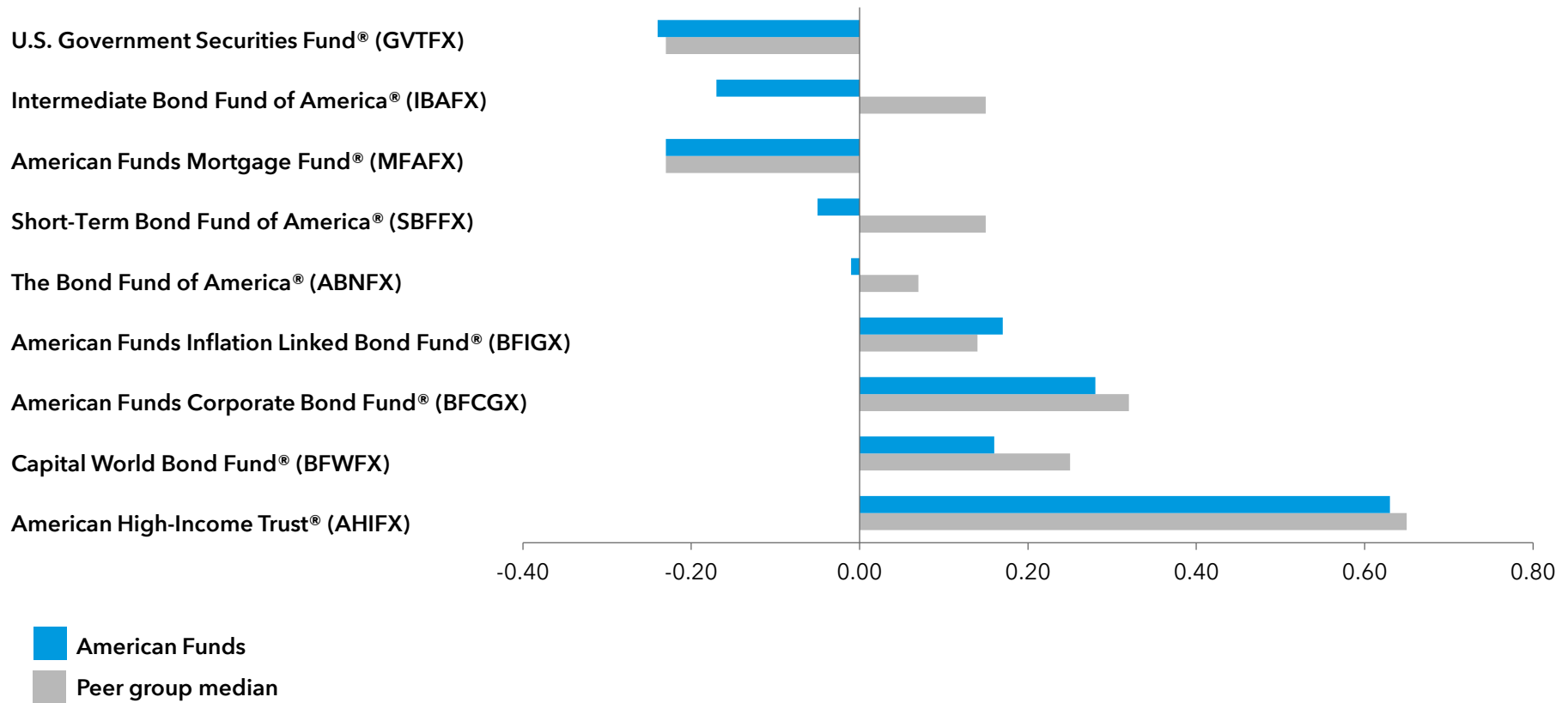
<sup>4</sup> Data as of 6/30/2018. Standard & Poor’s 500 Composite Index was used as an equity market proxy. Correlation based on monthly total returns in USD.

<sup>5</sup> Data from Datastream and Morningstar. Periods of equity volatility were defined as those when the Chicago Board Options Exchange Volatility Index® (VIX®) exceeded 30, as occurred from 5/6/2010 to 7/2/2010, 8/4/2011 to 12/8/2011, and 8/24/2015 to 9/1/2015. During these periods the VIX fluctuated but each started and ended with the VIX closing over 30. The VIX is a measure of market expectations for near-term volatility conveyed by S&P 500 stock index option prices.

# True Diversification

## Bond Funds Behaving Like Bond Funds









Low Correlation to the S&P 500 Composite Index – Three-Year Period



Source: Morningstar. Data as of 6/30/2018. Based on results of Class F-2 shares. Three-year correlation measured against peer median using monthly return data and standard compounding method. Tax-exempt funds not included. Categorically they are not correlated with equity and have shown less than 0.1% correlation.

# A Process Built on Experience

## An Experienced Team of Dedicated Fixed Income Professionals

		Total	Average Years of Experience	
			In the Industry	With Capital Group
	Research Analysts	40	12	5
	Macro Analysts	12	22	8
	Risk and Quantitative Analysts	8	13	5
	Portfolio Managers	30	26	17
	Trading	33	19	12
	Investment Services Professionals	20	18	5
	Other Fixed Income Professionals	17	16	7
	Fixed Income Professionals	160		

Data as of June 30, 2018.

Trading includes traders, trading analysts and Head of Global Fixed Income Trading.

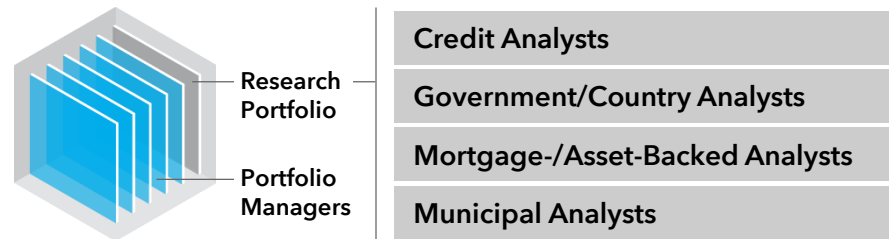
Investment Resource Group Associates includes Investment Specialists and Investment Product Management associates.

Other Fixed Income Professionals includes portfolio and derivatives strategists, research associates and business management.

# Our Research Advantage

## Analysts Managing Money Helps Create Value

- Our commitment to research analysts managing assets helps us attract and retain excellent talent
- Analysts typically begin to manage money soon after their initial investment review
- Holdings in Research Portfolios (RPs) signal the analysts' investment convictions to portfolio managers
- Analysts learn how to construct portfolios and manage different types of investment risk early in their Capital careers
- RP investment results help inform succession planning
- Most new portfolio managers have a track record of successful investing within the RPs
- **Research Portfolios have, historically, been additive to fund results**



Size and number of portfolio segments do not reflect actual asset allocations.

# Trading Experience

## Institutional Strength in Trade Execution

### Experienced Team

- 33-person trading team
- Averaging 19 years of industry experience and 12 years with Capital Group
- Trading desks in London, Los Angeles, New York and Singapore

### Partner in the Investment Process

- Participate in investment meetings
- Deep sector experience
- Relative value analysis
- Advice on sizing ideas in the portfolio

### Primary and Secondary Liquidity

- Capital's size, scale and reputation position us well in the new issue market
- Sector specialists often find better secondary liquidity than generalist traders

### Specialized Trading Responsibilities

	Average Years of Experience		
	Traders	Industry	Capital Group
Non-U.S. and Emerging Markets Debt	6	18	15
Corporates (High Yield and Investment Grade)	7	19	12
Municipal	4	24	13
Foreign Exchange	3	30	23
Money Market	2	23	21
Rates and Structured	4	15	5
Fixed Income Trading Management	1	25	1
Fixed Income Trading Analysts	6	9	7

Data as of June 30, 2018.



# Macro & Market Realities

# Reality: Synchronized Economic Recovery

## GDP Growth (%)

### Advanced Economies

U.S.  
Euro Area  
Germany  
France  
Italy  
Spain  
Portugal  
Japan  
United Kingdom  
South Korea  
Canada  
Australia  
Taiwan  
Switzerland  
Sweden

### Emerging and Developing

China  
India  
Indonesia  
Malaysia  
Philippines  
Hungary  
Poland  
Romania  
Turkey  
Brazil  
Chile  
Colombia  
Mexico  
Venezuela



## Unemployment Rate

### United States

10.0%



4.0%

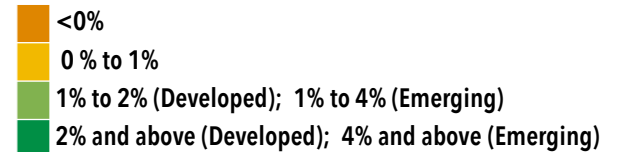
### European Union

11.0%



7.0%

### GDP Growth



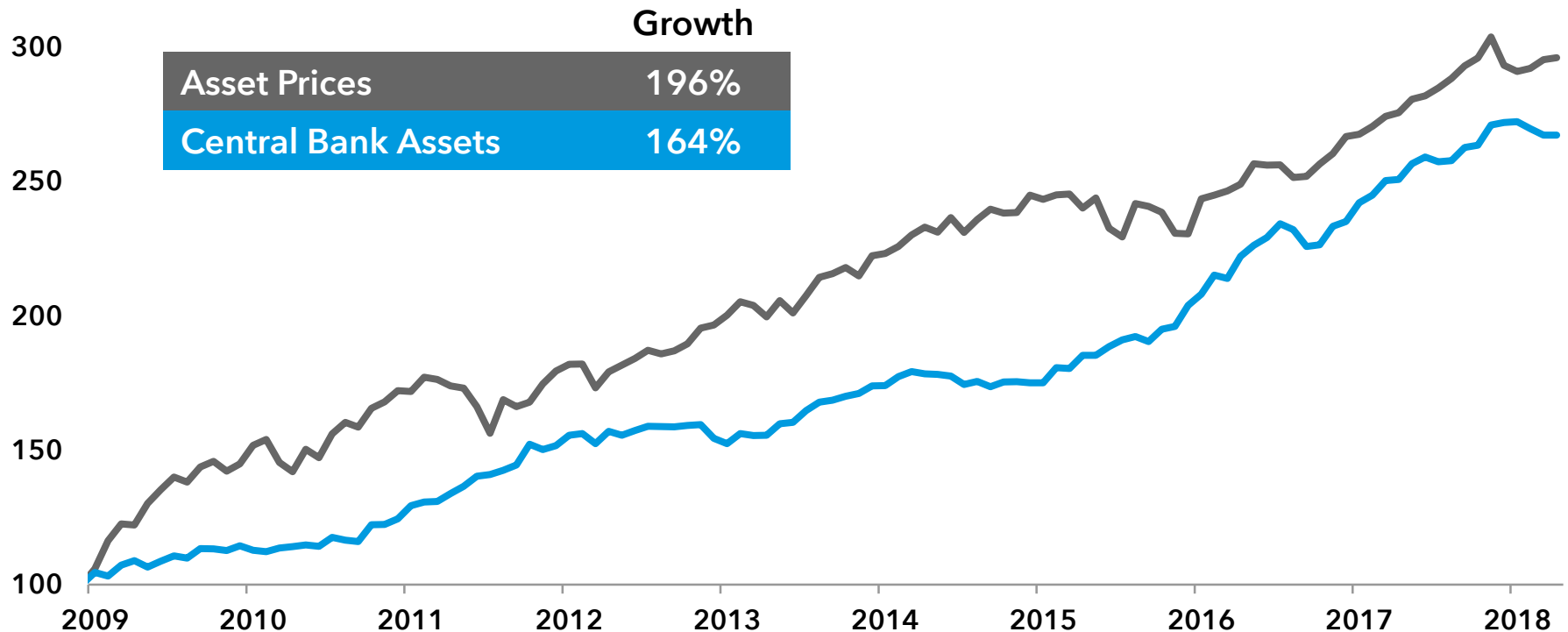
Sources: IMF, Thomson Reuters. U.S. unemployment data from 2009 peak through June 2018; EU from 2013 peak through May 2018.

2018 growth rates are projected. Unemployment rate change represents peak during period, to current rate.

# Reality: Monetary Policy Has Driven Asset Prices

## Strong Returns Highly Correlated with Unprecedented, Experimental Policy

Asset Prices vs Central Bank Assets (USD)

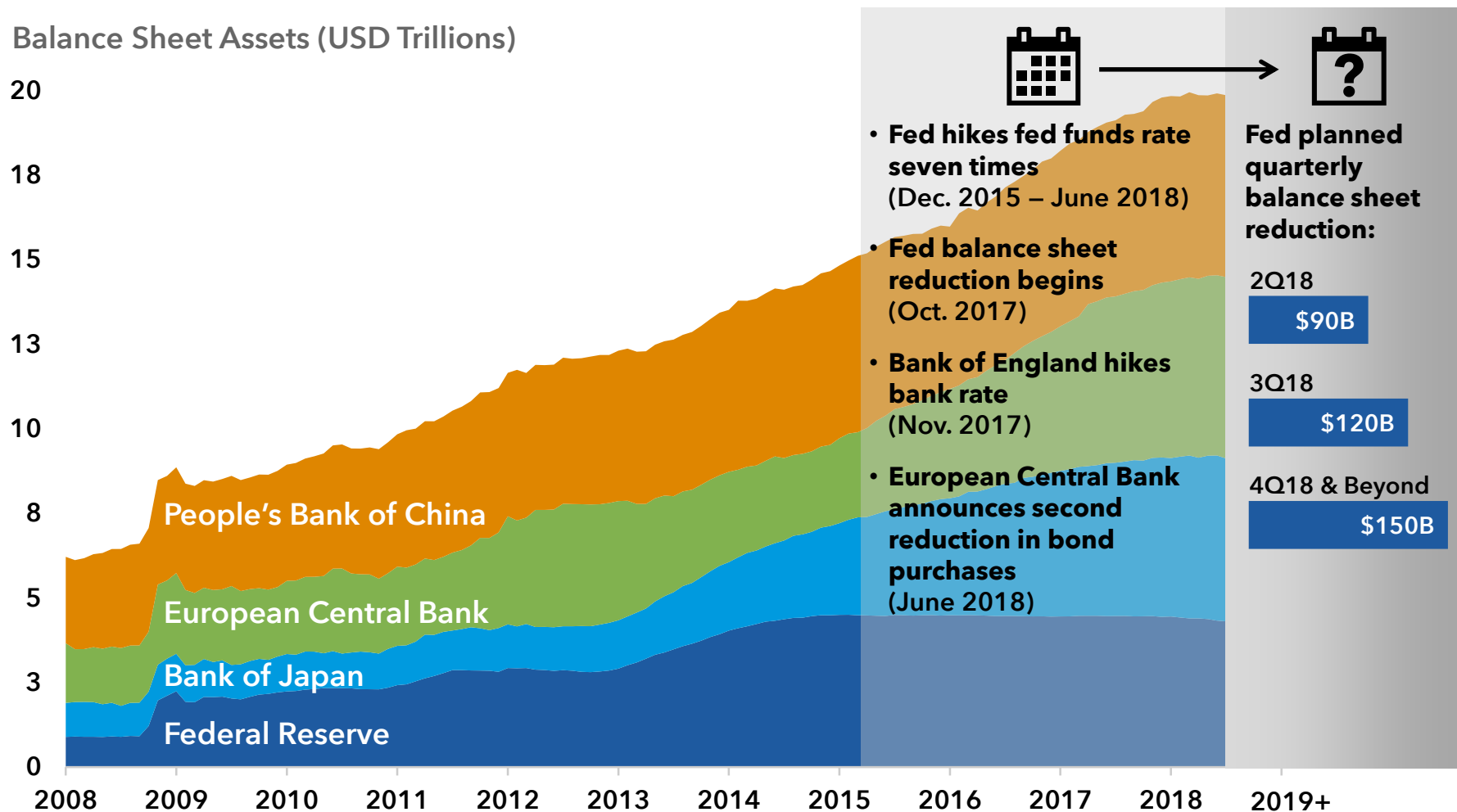


Index=100 at 2/28/2009. Asset Prices reflect a blended asset basket consists of 40% U.S. equities (S&P 500 Index), 20% non-U.S. equities (MSCI ACWI ex. U.S. Index), 30% core bonds (Bloomberg Barclays U.S. Aggregate Index) and 10% real estate (MSCI U.S. REIT Index). Central bank assets include those of the Bank of Japan, European Central Bank and Federal Reserve.

Sources: RIMES, Thomson Reuters. As of 6/30/18.

# Reality: Global Monetary Policy Is Beginning to Change

## Will the Shift from QE to QT Impact Asset Prices?



Sources: Federal Reserve, Thomson Reuters. All data as of 6/30/2018, except for PBoC, which is as of 5/31/2018.

# Reality: Stretched Valuations; Complacent Markets

## Easy Monetary Policy Has Coincided with High Valuations and Low Volatility

### Market Indices<sup>1</sup>

S&P 500 Price Earnings Ratio

MSCI ACWI Price Earnings Ratio

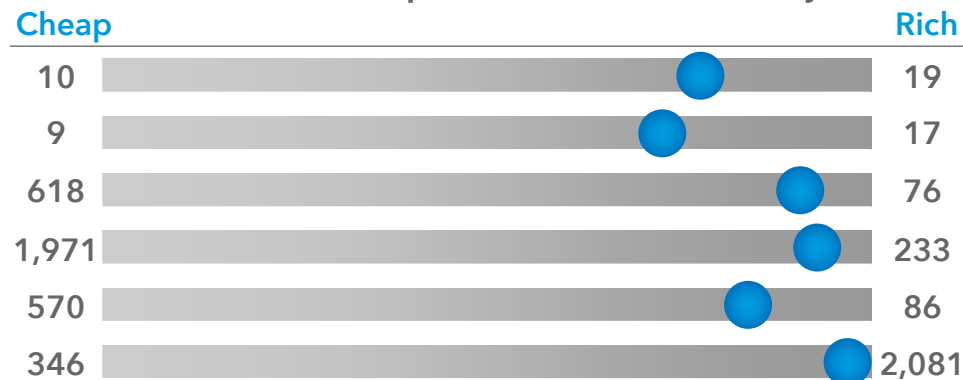
U.S. Investment-Grade Corporate Spreads

U.S. High-Yield Bond Spreads

Global Credit Spreads

Real Estate<sup>3</sup>

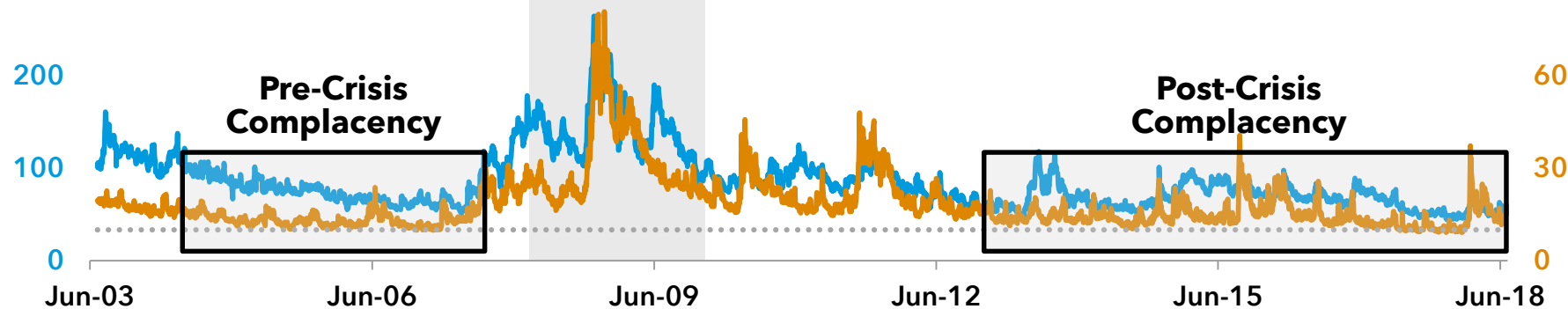
### Current Valuation Compared to 15-Year History<sup>2</sup>



### Market Volatility

300 Interest rates (MOVE)-left axis

Equities (VIX)-right axis 90



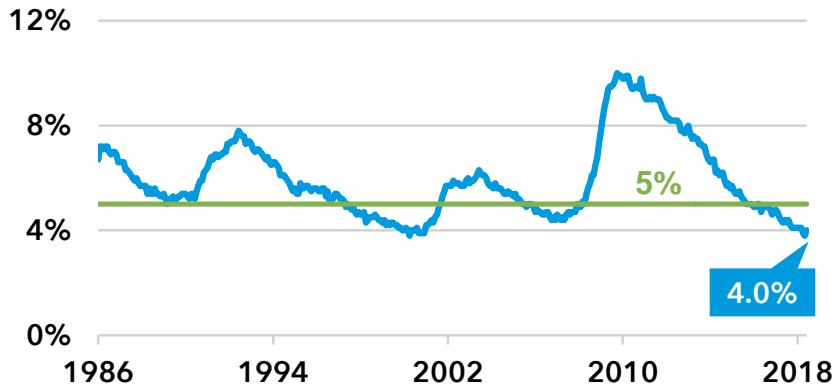
<sup>1</sup>Price-earning ratios are based on one-year forward earnings. Bloomberg Barclays U.S. Aggregate Corporate Index OAS, Bloomberg Barclays U.S. High Yield 2% Issuer Cap Index OAS, Bloomberg Barclays Global Aggregate Corporate Index OAS, MSCI U.S. REIT Index. <sup>2</sup>Scale represents the minimum/maximum value for the respective index from June 2003 to June 2018. <sup>3</sup>Real estate figure is based on the total return index levels of the MSCI U.S. REIT Index.

Sources: Bloomberg Index Services, Ltd., IBES, MSCI, Standard & Poor's, Thomson Reuters.

# Reality: U.S. Late Cycle

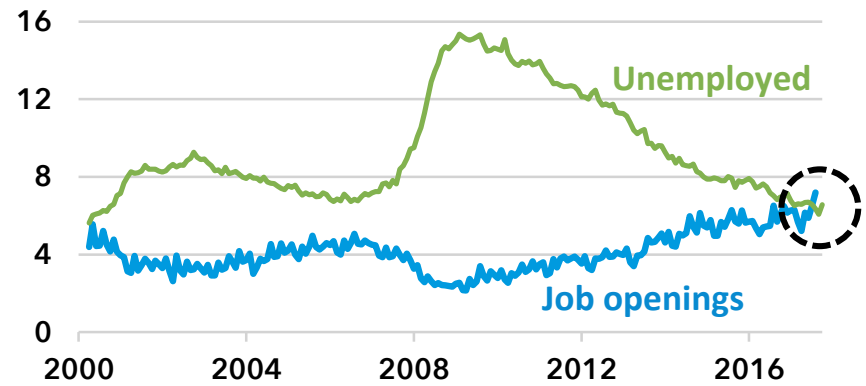
## ① Full Employment

U.S. unemployment rate<sup>1</sup>



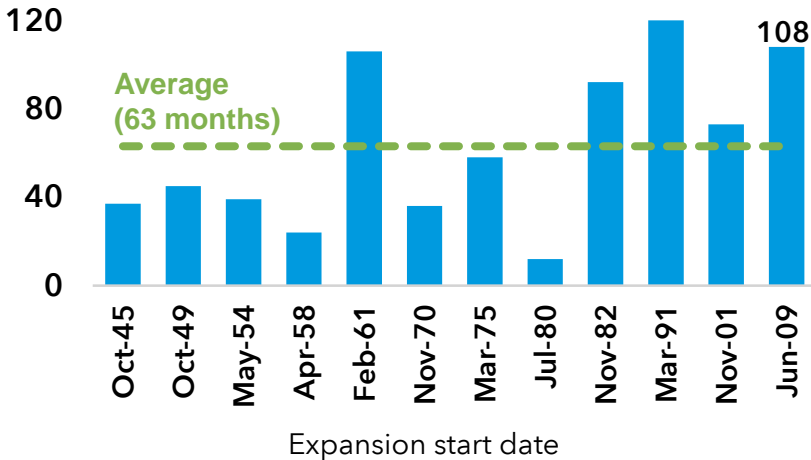
## ② Job Openings vs. Unemployed

U.S. job vacancies and unemployed, millions<sup>2</sup>



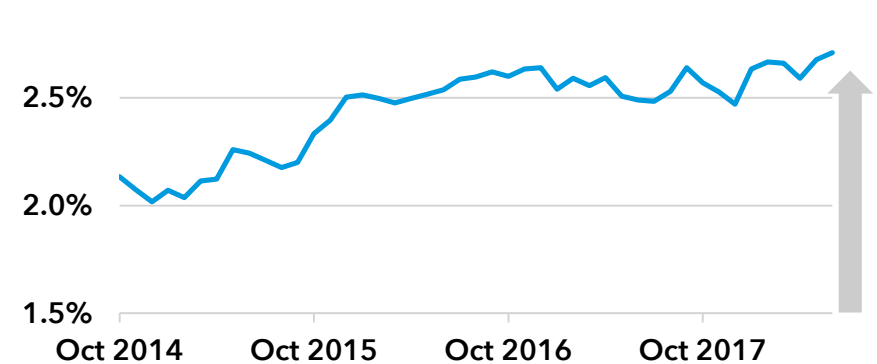
## ④ Duration of Economic Expansions

Number of months<sup>1</sup>



## ③ Wage Pressures Building

Hourly wages, trailing 3-month average year-over-year change<sup>1</sup>



Sources: Bureau of Labor Statistics, Federal Reserve, National Bureau of Economic Research, Thomson Reuters.

<sup>1</sup>As of June 30, 2018. <sup>2</sup>Unemployment data as of June 30, 2018; openings data as of April 30, 2018.

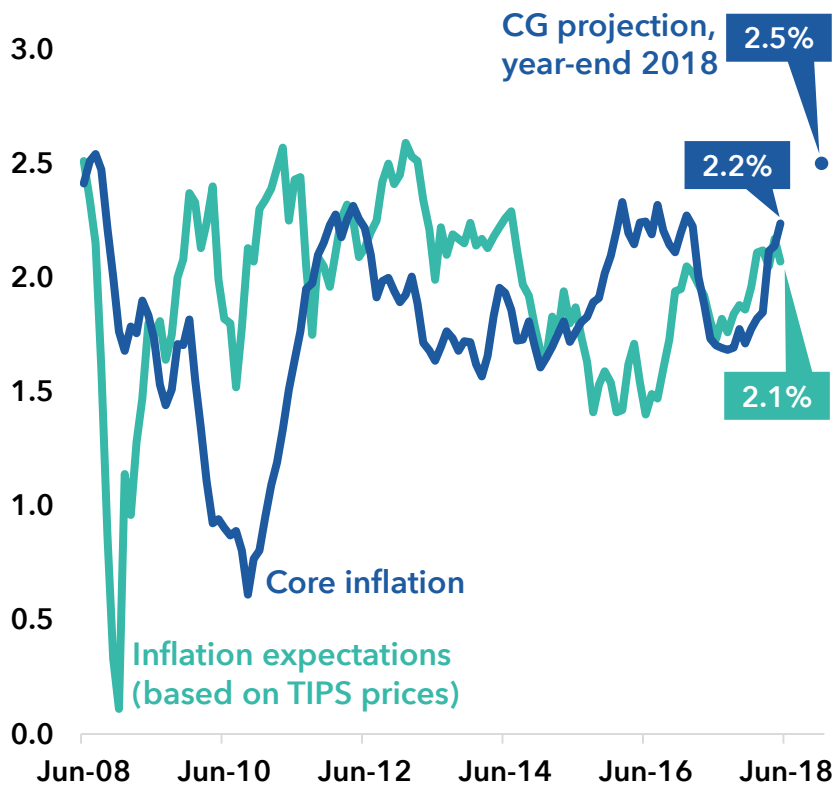
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# Reality: Inflation Is Back

## We Believe There Is Upside to Inflation

Inflation and inflation expectations have trended higher



Sources of inflation pressure

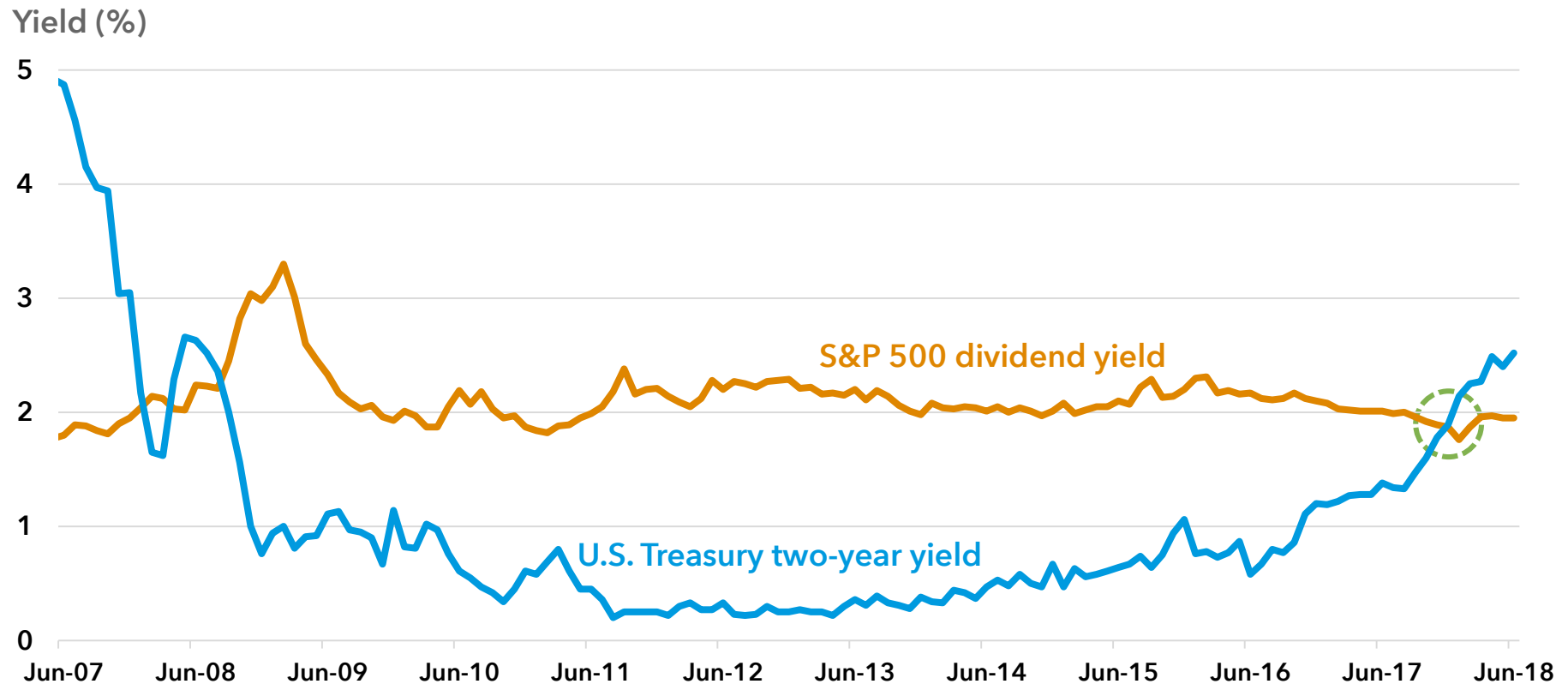
- + Rising wage growth
- + \$22 trillion global central bank balance sheets<sup>1</sup>
- + Tax reform at full employment
- + Global manufacturing recovery
- + Tariffs/trade wars
- + Dollar weakness

<sup>1</sup>Total includes Federal Reserve, European Central Bank, Bank of Japan, People's Bank of China, Bank of England and the Swiss National Bank.

Sources: Federal Reserve, Thomson Reuters. As of 5/31/18.

# Reality: Short Yields Have Become Relatively Attractive

## The Two-Year Treasury Yield Is Now Above the S&P 500 Dividend Yield



Source: Thomson Reuters. As of 6/30/18.

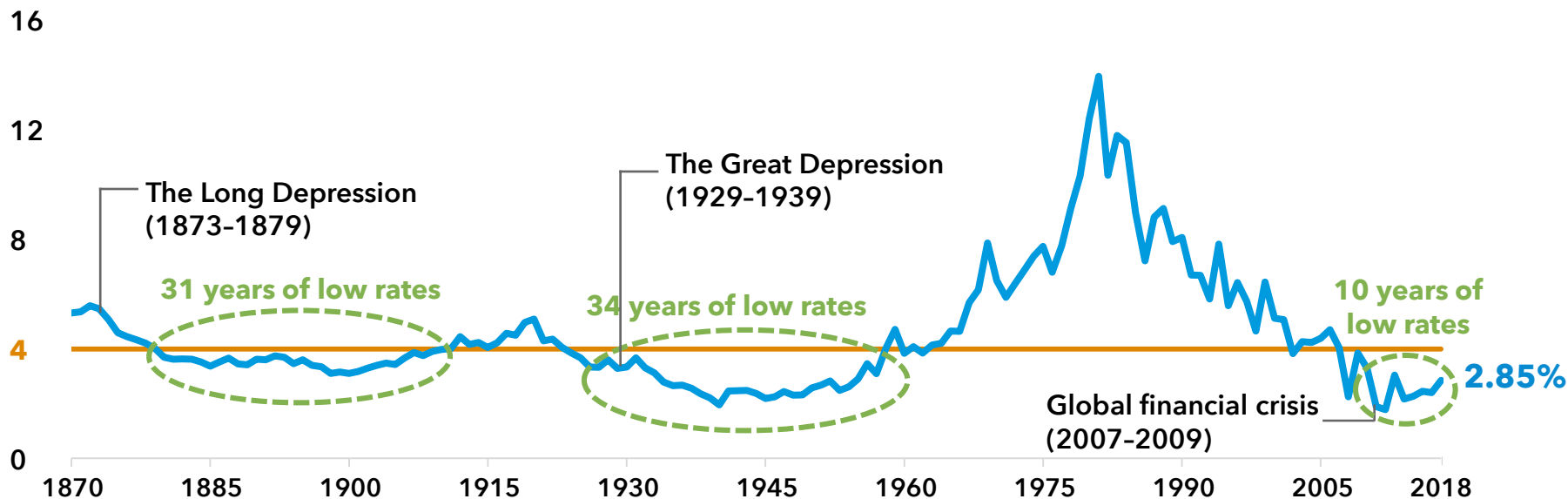


# Reality: Long-Term Rates Expected to Rise Only Modestly

And History Shows That U.S. Yields Can Remain Lower for Long Periods

Maturity	Treasury Forward Markets <sup>1</sup>				
	Today (6/30/18)	1YR	2YR	3YR	5YR
2-Year	2.52	2.78	2.87	2.92	3.06
5-Year	2.73	2.89	2.95	2.98	3.01
10-Year	2.85	2.95	2.98	3.01	3.05

U.S. Long-Term Government Bond Yields (%)<sup>2</sup>



<sup>1</sup>Source: Bloomberg forward curve matrix, using the U.S. Treasury Actives Curve; Thomson Reuters for today's yields. As of 6/30/18.

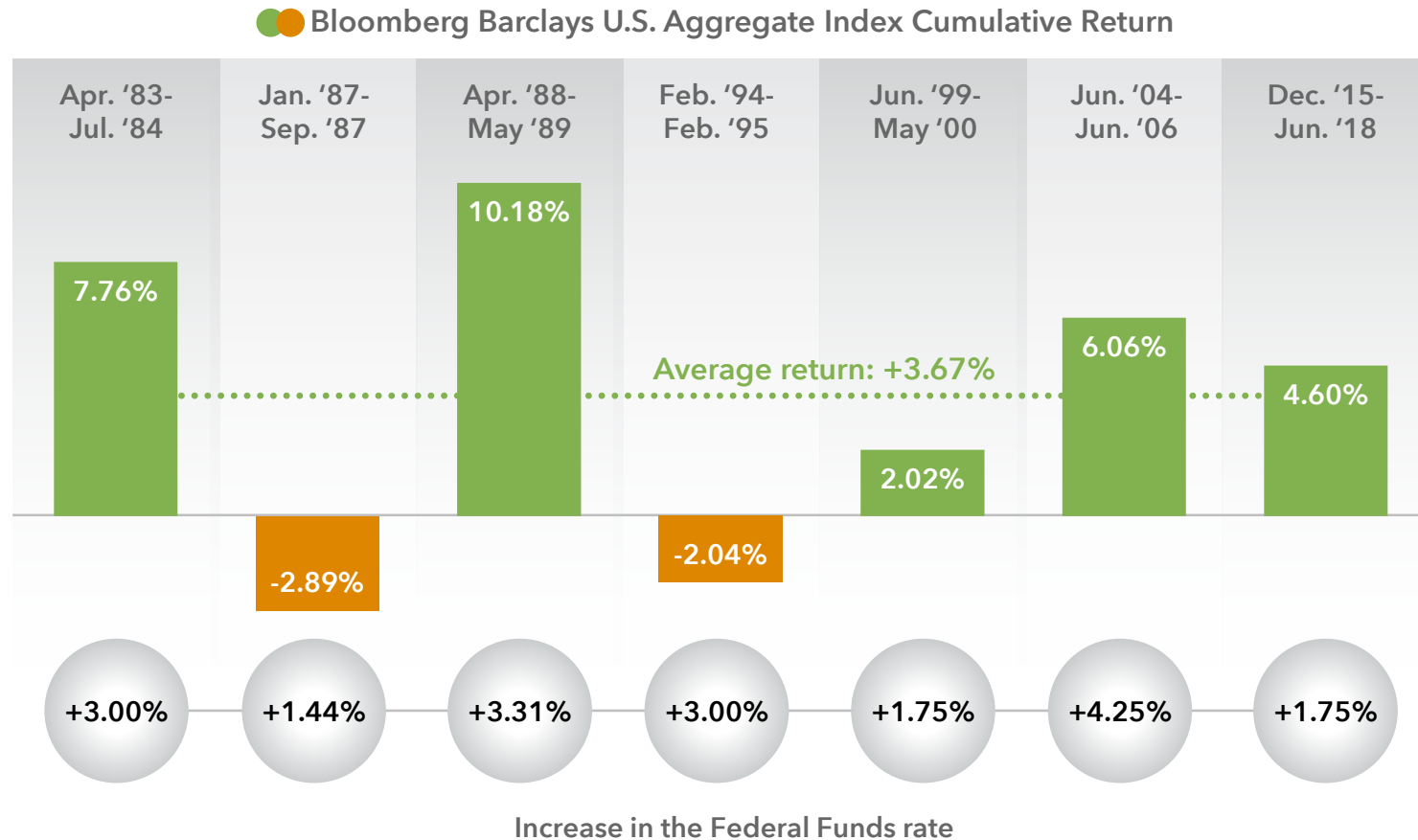
<sup>2</sup>Source: Federal Reserve, Robert Shiller, Thomson Reuters. Data for 1871–1961 represents average monthly U.S. long-term government bond yields compiled by Robert Shiller. Data for 1962–2017 represents 10-year Treasury yields, as of December 31 each year within the period. 2018 data as of 6/30/18. Length of low-rate periods above are consecutive years with rates below 4%.



# Myths Debunked

# Myth: Higher Fed Funds = Negative Bond Returns

## Reality: High Quality Bonds Have Generally Produced Positive Results During Recent Fed-Hiking Cycles



Sources: Bloomberg Index Services Ltd., Federal Reserve. Data through 6/30/2018.

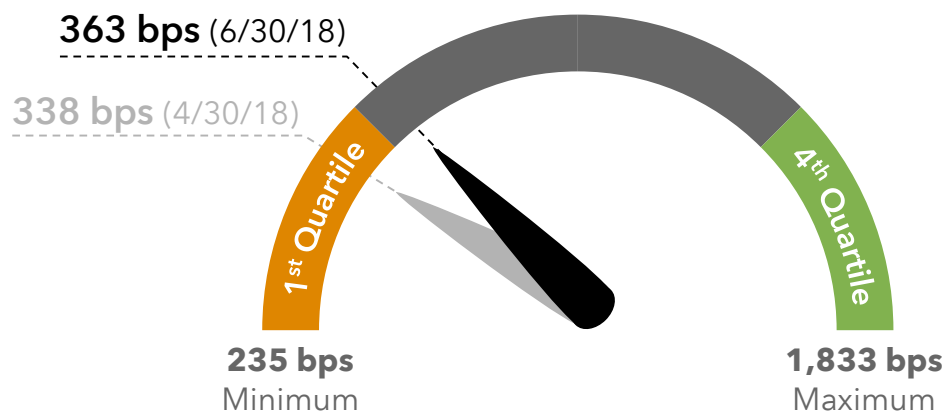
Periods represented above include: 4/1/83-7/31/84, 1/1/87-9/30/87, 4/1/88-5/31/89, 2/4/94-2/1/95, 6/30/99-5/16/00, 6/30/04-6/29/06, 12/16/15-6/30/18.

Note: Daily results for the index are not available prior to 1994. For those earlier periods, returns were calculated from the closest month end to the day of the first hike through the closest month end to the day of the final hike.

# Myth: It Always Pays to Be Overweight High-Yield Credit

## Reality: Treasury Returns Have Historically Outpaced Richly Valued High-Yield Corporate Bonds

Range of High-Yield Bond Spreads Since 1996



Historical performance when high-yield spreads were in the 1st quartile:

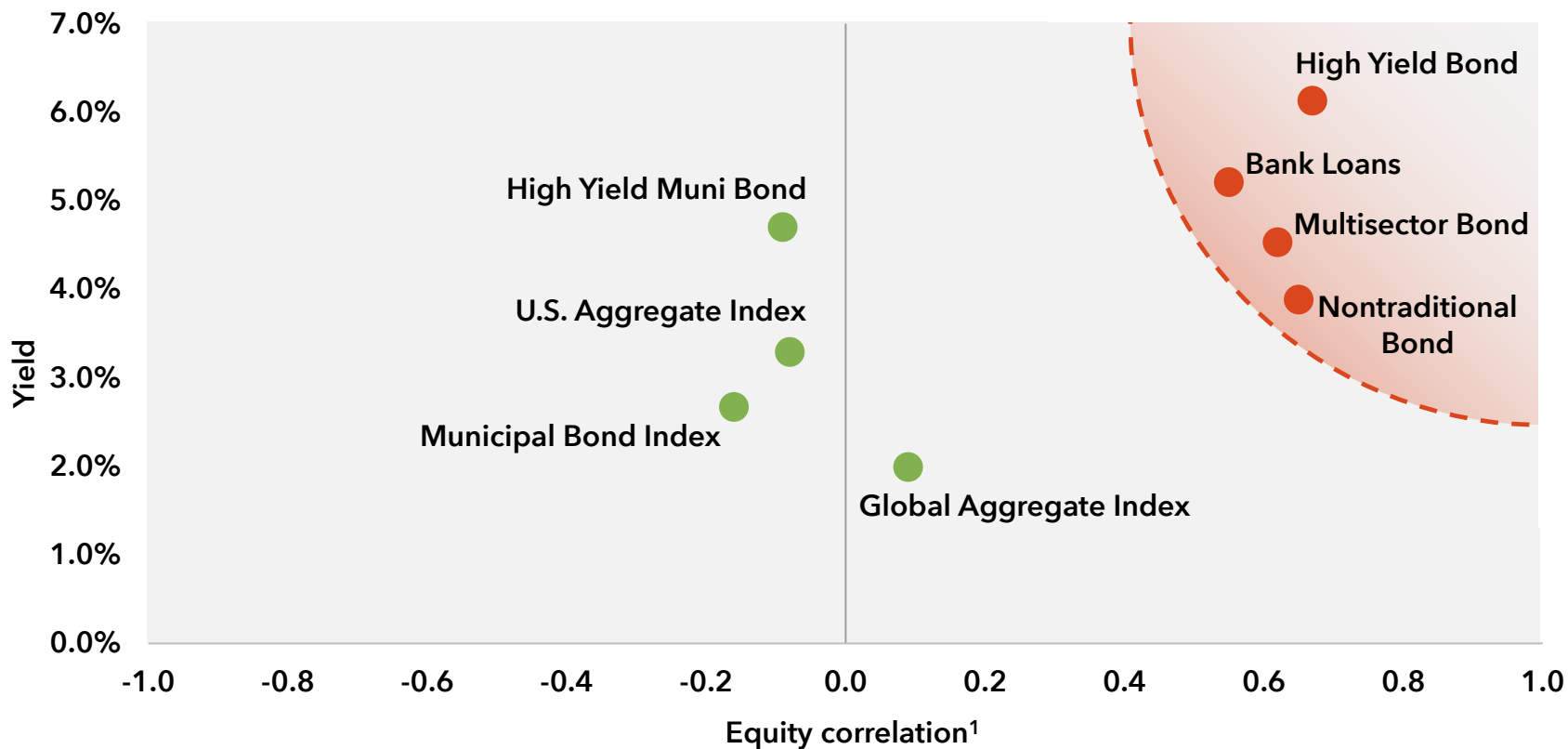
Index	Following 2-Year Returns (Annualized)
High-yield corporates	3.3%
U.S. Treasuries	6.8%
<b>Excess return</b>	<b>-3.5%</b>

Asset classes above are represented by the Bloomberg Barclays U.S. Corporate High Yield Index and the Bloomberg Barclays U.S. Treasury Index, respectively. Source: Bloomberg Index Services Ltd. Data from January 1996 through June 2018.

# Myth: The More Yield the Better

## Reality: Reaching for Yield = Higher Correlation to Equities

Yield and Equity Correlation of Selected Morningstar Groups and Indices



<sup>1</sup>Three-year correlation to the S&P 500 Index.

Labels above indicate Morningstar bond category averages or Bloomberg Barclays indices. Yields shown are yield to maturity, except for the Municipal Bond Index where only yield-to-worst is available.

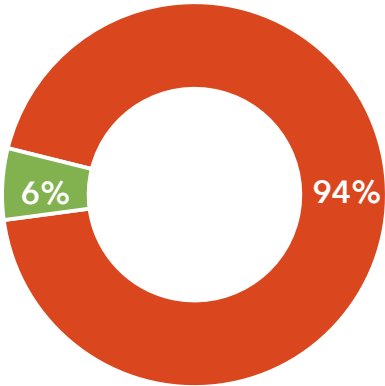
Sources: Bloomberg Index Services Ltd., Morningstar. Morningstar group yield to maturity as of 5/31/18. All other data as of 6/30/18.

# Myth: A Bond Fund Is a Bond Fund Is a Bond Fund

Reality: Many of Today's Top Performers Have Engaged in Scope Creep

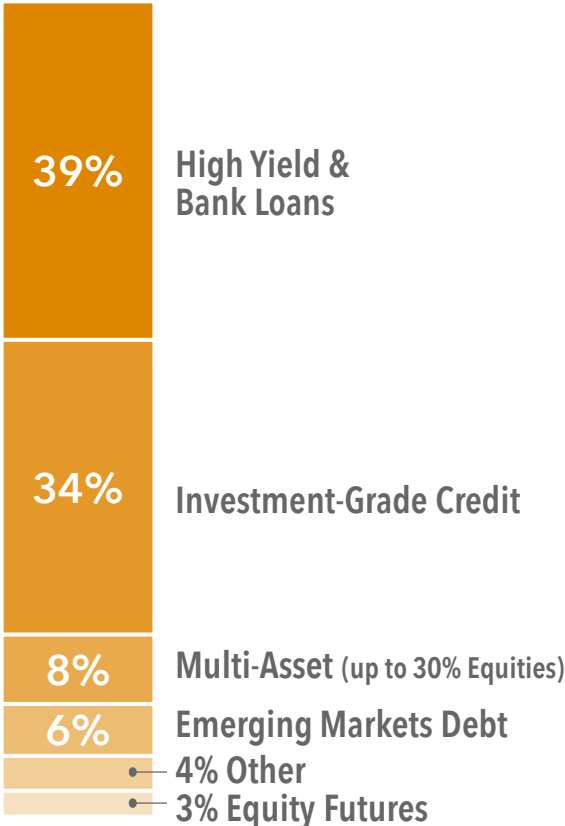
Morningstar's Best Fit Index Reveals What These Funds Have Actually Behaved Like:

## Short-Term Bond Category, Top Quartile



- True Short-Term Bond
- Scope Creeper

**94%**  
of the best-performing short-term bond funds have behaved more like credit funds



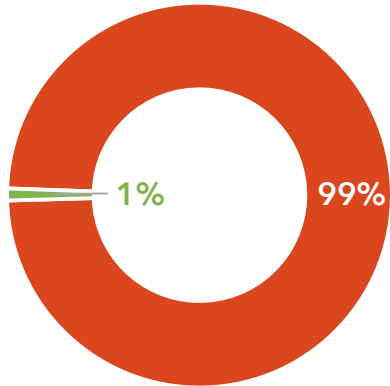
Source: Morningstar. As of 6/30/18. According to Morningstar's Best Fit Index, applied to Morningstar Short-Term Bond category. Funds examined are the top-quartile for trailing three-year average annual returns. Morningstar's Best Fit Index definition: The market index that shows the highest correlation with a fund's excess returns over the most recent 36-month period. This analysis, therefore, indicates that only 6% of top-quartile short-term bond funds were actually most highly correlated to short-term bonds.

# Myth: A Bond Fund Is a Bond Fund Is a Bond Fund - Part II

## Reality: Many Funds Being Used as Core Bond Allocations Are Scope Creepers

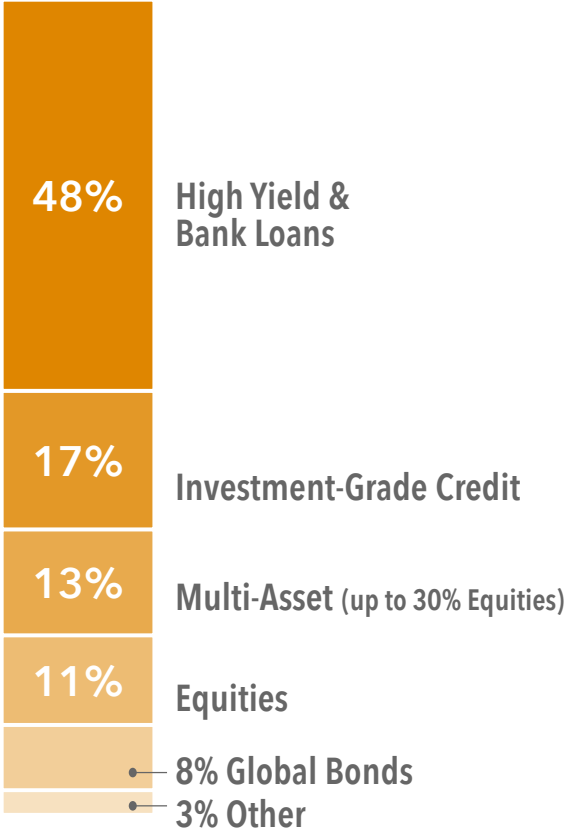
Morningstar's Best Fit Index Reveals What These Funds Have Actually Behaved Like:

### Categories Used for Core Fixed Income Allocations, Top Quartile



- True Core
- Scope Creeper

**99%**  
of the best-performing bond funds have behaved more like credit funds

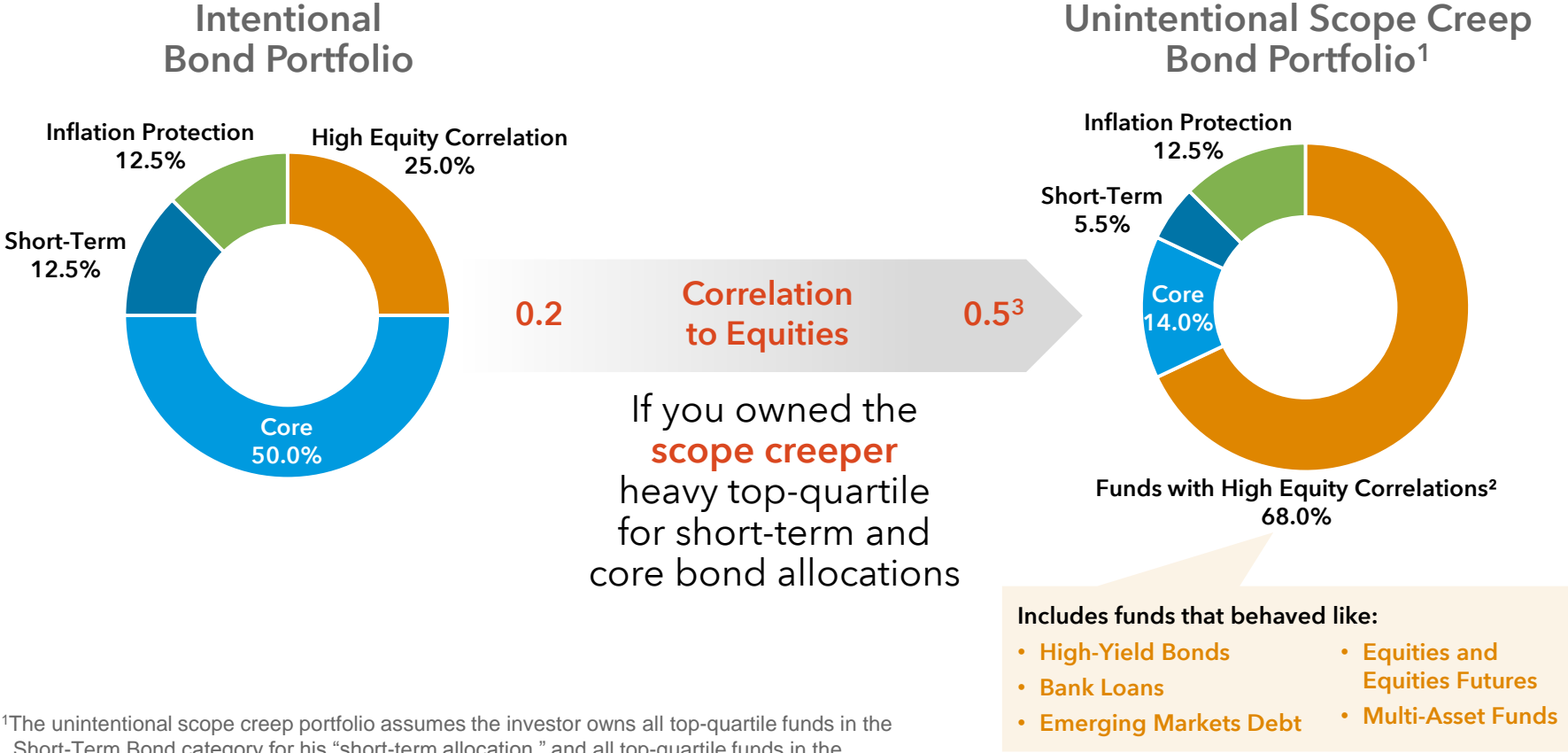


Source: Morningstar. As of 6/30/18. According to Morningstar's Best Fit Index, applied to Morningstar Intermediate-Term Bond, Multisector Bond and Nontraditional Bond categories. Funds examined are the top-quartile for trailing three-year average annual returns. Morningstar's Best Fit Index definition: The market index that shows the highest correlation with a fund's excess returns over the most recent 36-month period. This analysis, therefore, indicates that only 1% of top-quartile of funds in these three categories were actually most highly correlated to core bonds. Totals may not reconcile due to rounding.



# Myth: You Know What's In Your Bond Portfolio

## Reality: If You Used Scope Creepers, You Were Likely Exposed to Unintended Risks



<sup>1</sup>The unintentional scope creep portfolio assumes the investor owns all top-quartile funds in the Short-Term Bond category for his “short-term allocation,” and all top-quartile funds in the Intermediate-Bond, Multisector, and Nontraditional categories for his “core allocation.”

<sup>2</sup>“Funds with High Equity Correlation” defined as funds that have a best fit index with an equity correlation of >0.4.

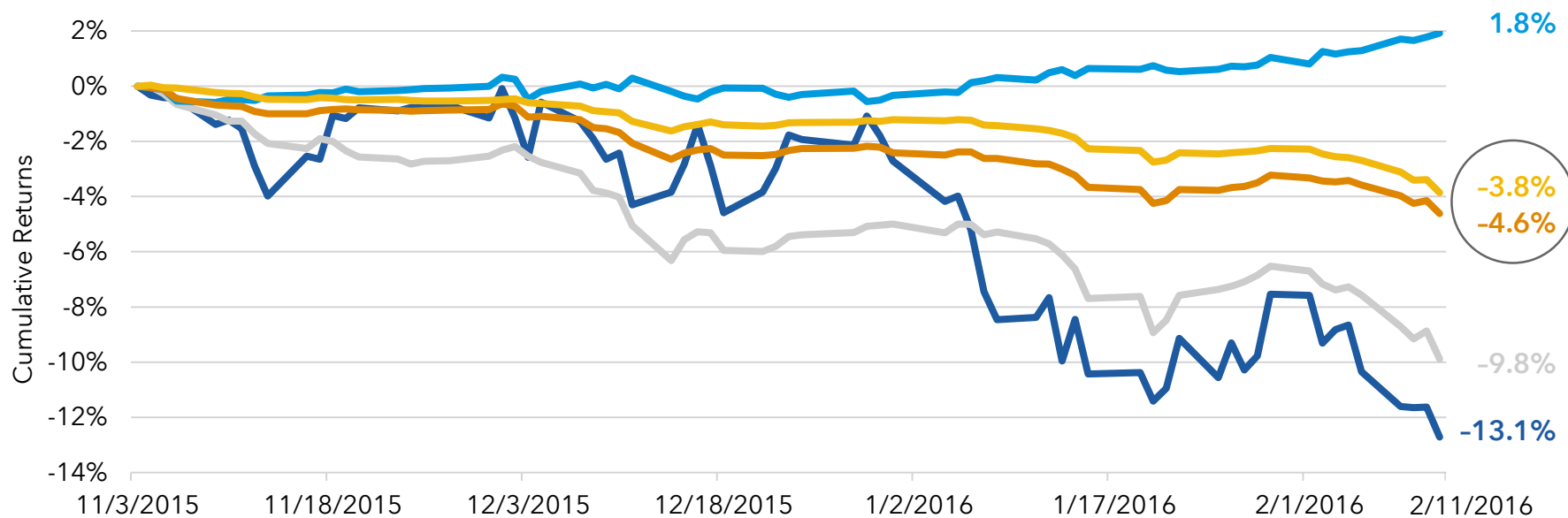
<sup>3</sup>Correlation assumes a 0.7 correlation for funds with high equity correlation and a 0.0 correlation for all other funds.

Source: Capital Group using Morningstar’s Best Fit Index analysis. As of 6/30/18. Funds examined are the top-quartile for trailing three-year average annual returns. Morningstar’s Best Fit Index definition: The market index that shows the highest correlation with a fund’s excess returns over the most recent 36-month period.

# Myth: Multisector and Nontraditional Funds Are All-Weather

## Reality: These Flexible Bond Funds Have Fallen Alongside Equities

Comparing Unconstrained Bonds to Core Bonds During Last Severe Bout of Equity Market Turmoil<sup>1</sup>



### 3-Year Correlation to S&P 500

Bloomberg Barclays U.S. Aggregate Index	-0.01
Morningstar Nontraditional Bond Category	0.73
Morningstar Multisector Bond Category	0.70
Bloomberg Barclays High Yield Index	0.78
S&P 500	

Sources: Bloomberg Index Services Ltd., Morningstar.

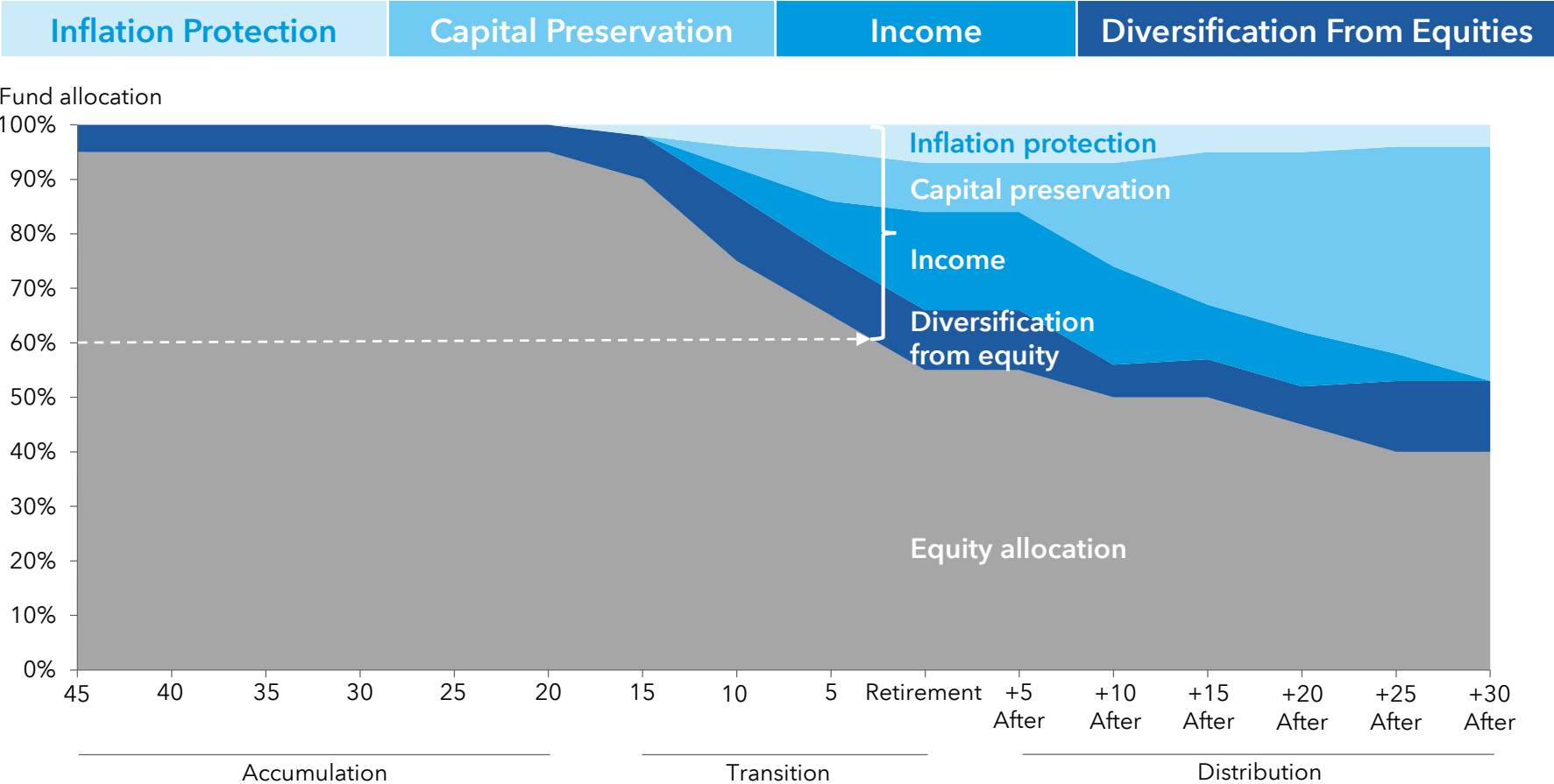
Correlation data as of March 31, 2016, based on monthly returns.

<sup>1</sup>Unconstrained bond funds can be found in the Multisector and Nontraditional Morningstar categories.

# Actionable Ideas to Upgrade Your Bond Portfolio

# Back to Basics: Fixed Income Has Four Key Roles

## Age-Based Equity/Fixed Income Glide Path

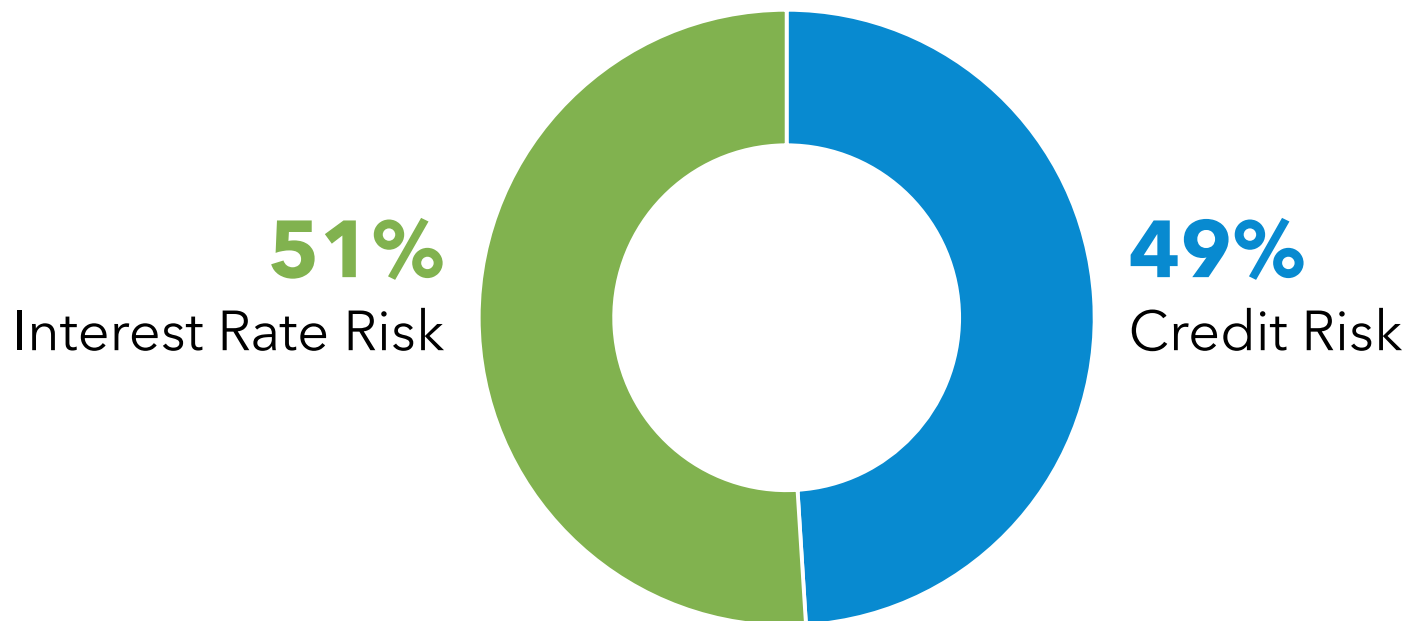


Source: Capital Group. American Funds Target Date Fund Series: Fixed Income Glide Path. As of December 31, 2017.

# 30,000 Advisors Focus on Both Interest Rate and Credit Risk

## We Polled Advisors On What Risk They're Most Worried About

In the current market environment, which do you think is the bigger risk to your fixed income portfolios?



We agree - you need to focus on both interest rate and credit risk.

Source: Capital Group. Result of a poll of 29,246 respondents that targeted an advisor audience, which was conducted in June 2018.

# Three Actions to Upgrade Bond Portfolios

Help Reduce Portfolio Risk and Lower Equity Correlation



**1**

Upgrade to  
True Core and  
Take Advantage  
of Higher  
Income Potential



**2**

Rethink High  
Yield Without  
Giving Up  
Income



**3**

Buy Inflation  
Protection

# What is "True Core"?

## Balance

- ✓ Acts as a ballast in an overall portfolio to complement equity risk
- ✓ Provides elements of all four key roles of fixed income:
  - Diversification from equities
  - Income
  - Inflation protection
  - Capital preservation

## Discipline

- ✓ Aims to provide dependable outcomes
- ✓ Maintains a high-quality, diversified portfolio
- ✓ Avoids style drift

## Consistency

- ✓ Focuses on risk-adjusted results
- ✓ Utilizes multiple levers
- ✓ Seeks to deliver excess returns (net of fees) through all market cycles

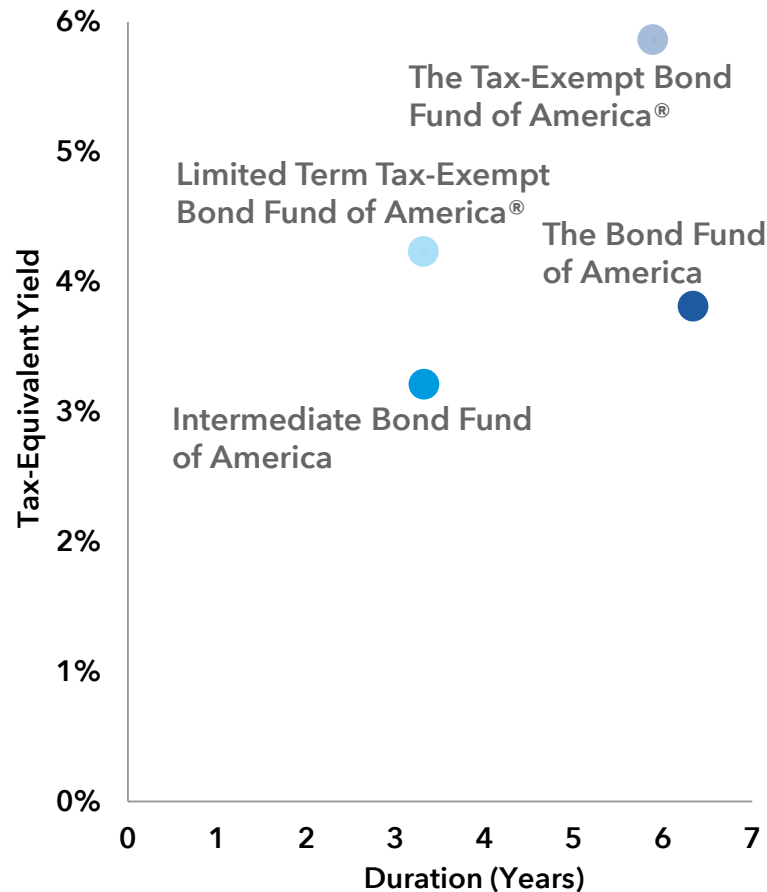
# Important Information

**Figures shown are past results for Class F-2 shares and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Share prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. Fund results shown are at net asset value with all distributions reinvested. Class F-2 shares do not pay an upfront or deferred sales charge. For current information and month-end results, visit [americanfunds.com](http://americanfunds.com).**

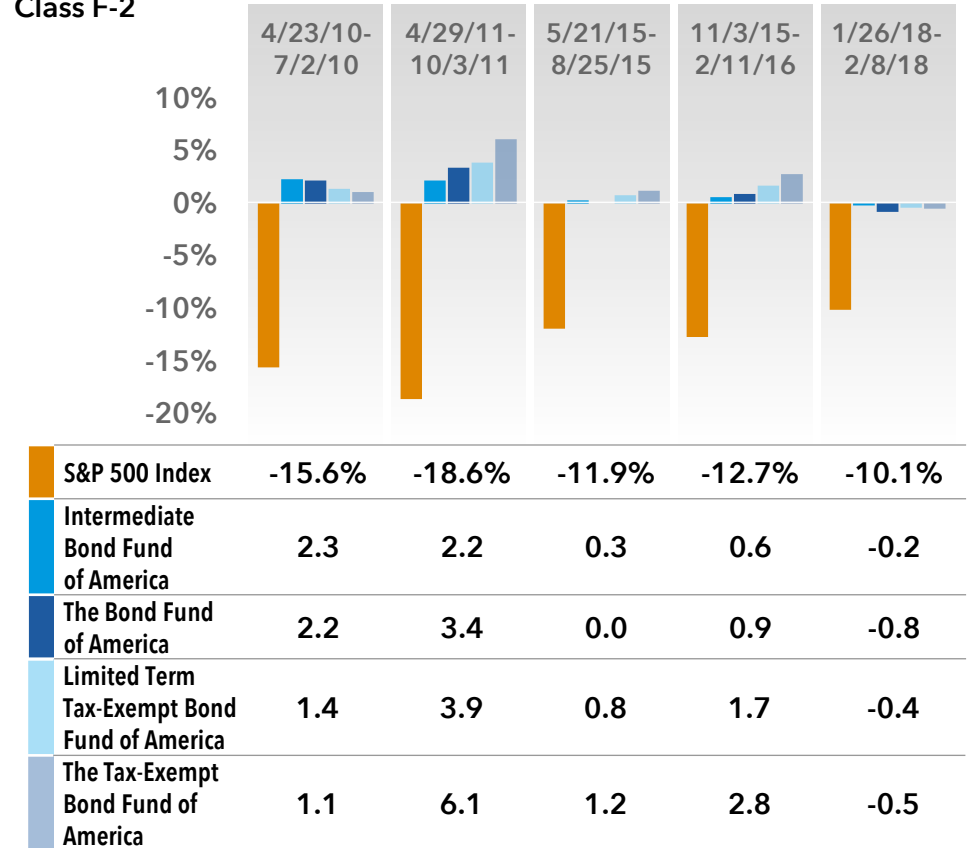


# Action: Upgrade to American Funds for True Core

## AF Core Funds' High-Quality Bias Has Helped When Equities Declined



Cumulative Returns During Recent Market Corrections (%)  
Class F-2

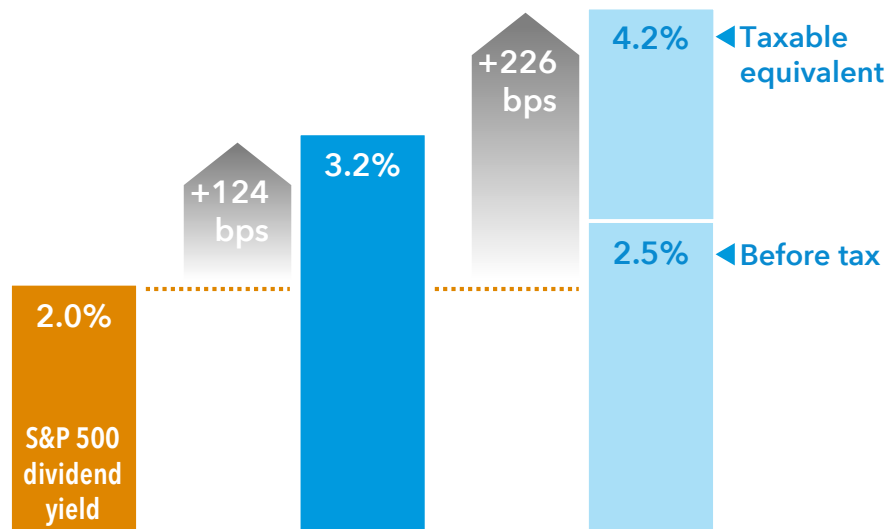


Source: Capital Group, Morningstar. As of 6/30/2018. Dates shown for market corrections are based on price declines of 10% or more (without dividends reinvested) in the unmanaged S&P 500 with 50% recovery between declines for the earlier four periods shown. The most recent period is still in correction phase as the S&P 500 has not reached the 1/26/18 market high or gone below the 2/8/18 market low as of 6/30/18. The returns of the fund and index are based on total returns. There have been periods when the funds have lagged the index, such as in rising equity markets. Yields shown above reflect average yield to maturity. Taxable-equivalent yield-to-maturity assumptions are based on a federal marginal tax rate of 37%, the top 2018 rate. In addition, we have applied the 3.8% Medicare tax.

# Action: Favor Short-Term True Core Funds Given Yields

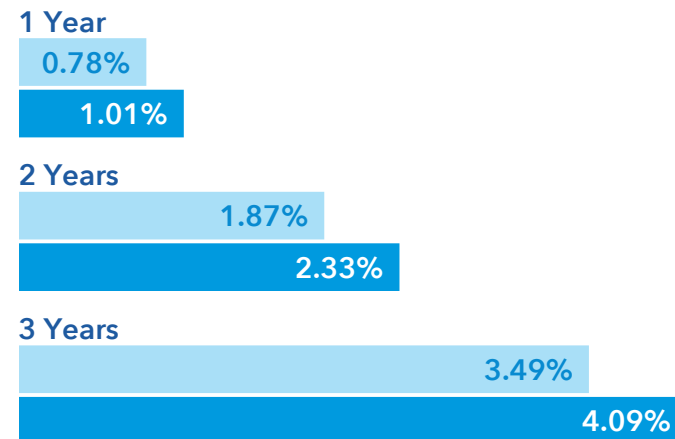
## Focus on High-Quality Bonds; Don't Give Up Daily Liquidity

Yield to maturity across short-term funds versus S&P 500 dividend yield

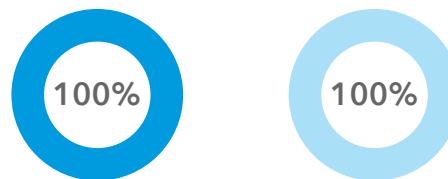


■ Intermediate Bond Fund of America  
■ Limited Term Tax-Exempt Bond Fund of America

Interest rate increase needed for investor to lose money



Percent investment grade












Source: Capital Group, Bloomberg. Investment-grade percentages as of 6/30/2018.

For Intermediate Bond Fund of America, American Funds Limited Term Tax-Exempt Bond Fund, all data for YTM on the left is as of 6/30/2018. Taxable equivalent yield: Based on a federal marginal tax rate of 37%, the top 2018 rate. In addition, we have applied the 3.8% Medicare tax. This equates to a combined 40.8% marginal tax rate on investment income for taxpayers in the highest tax bracket.

Interest rate breakeven estimates on right are calculated using the yield-to-worst on the portfolio as of 6/30/2018, less the loss isolating purely interest rates rising, less the loss from how duration changes as rates rise, plus the gain on the value of the bond as its maturity declines over time. These calculations assume a parallel shift in the yield curve and no change in spreads to Treasuries.

# Action: Rethink High Yield Without Giving Up Income

## Diversify High Yield Exposure Through Municipals and Emerging Markets Debt

	Bloomberg Barclays U.S. High Yield Index	High-Income Municipal Bonds <sup>1</sup>	Emerging Markets Debt <sup>2</sup>
Yield (%)	6.7 	7.3 <sup>3</sup> 	7.1 
Correlation to S&P 500	0.63 	-0.10 	0.41 
Investment Grade (%)	0 	57 	66 
Average Duration	3.9	6.8	5.7

Yields shown above reflect average yield to maturity. Correlations shown are 3-year correlations.

<sup>1</sup>Statistics shown are for American High-Income Municipal Bond Fund. Correlation calculated using Class F-2 shares.

<sup>2</sup>Yield, investment grade percentage and average duration shown for American Funds Emerging Markets Bond Fund (“fund”). Because the fund does not have three years of history, its benchmark correlation is shown: a blend of 50% J.P. Morgan GBI-EM Global Diversified Index and 50% J.P. Morgan EMBI Global Diversified Index.

<sup>3</sup>Tax-equivalent yield to maturity assuming the top federal marginal tax rate for 2018 of 37%, plus the 3.8% Medicare tax.

Source: Capital Group, Bloomberg Index Services, Ltd., Morningstar. As of June 30, 2018.

# Action: Buy Inflation Protection

## Hedge Your Portfolio With American Funds Inflation Linked Bond Fund®

### Why Buy Treasury Inflation-Protected Securities (TIPS)?

- TIPS protect purchasing power
- As a U.S. Treasury Security, TIPS provide diversification from equities
- Higher wages and tightening labor markets should lead to higher inflation
- Late-cycle fiscal stimulus should put upwards pressure on inflation
- We believe market-based expectations for inflation make TIPS valuations attractive

### Why Choose American Funds Inflation Linked Bond Fund (ILBF)?

- Top-decile results vs. peers based on total return over five years in Morningstar's Inflation-Protected Bond category, which contains 227 funds<sup>1</sup>
- 5th percentile Morningstar peer rank for information ratio since inception<sup>1</sup>
- Pure-play inflation
- No scope creep
- No high-yield bonds

<sup>1</sup>Source: Morningstar. F-2 Share Class, as of June 30, 2018. Class F-2 share ranking percentiles are based on hypothetical data.

# American Funds That Can Upgrade Your Bond Portfolio

## Seek to Reduce Portfolio Risk and Lower Equity Correlation

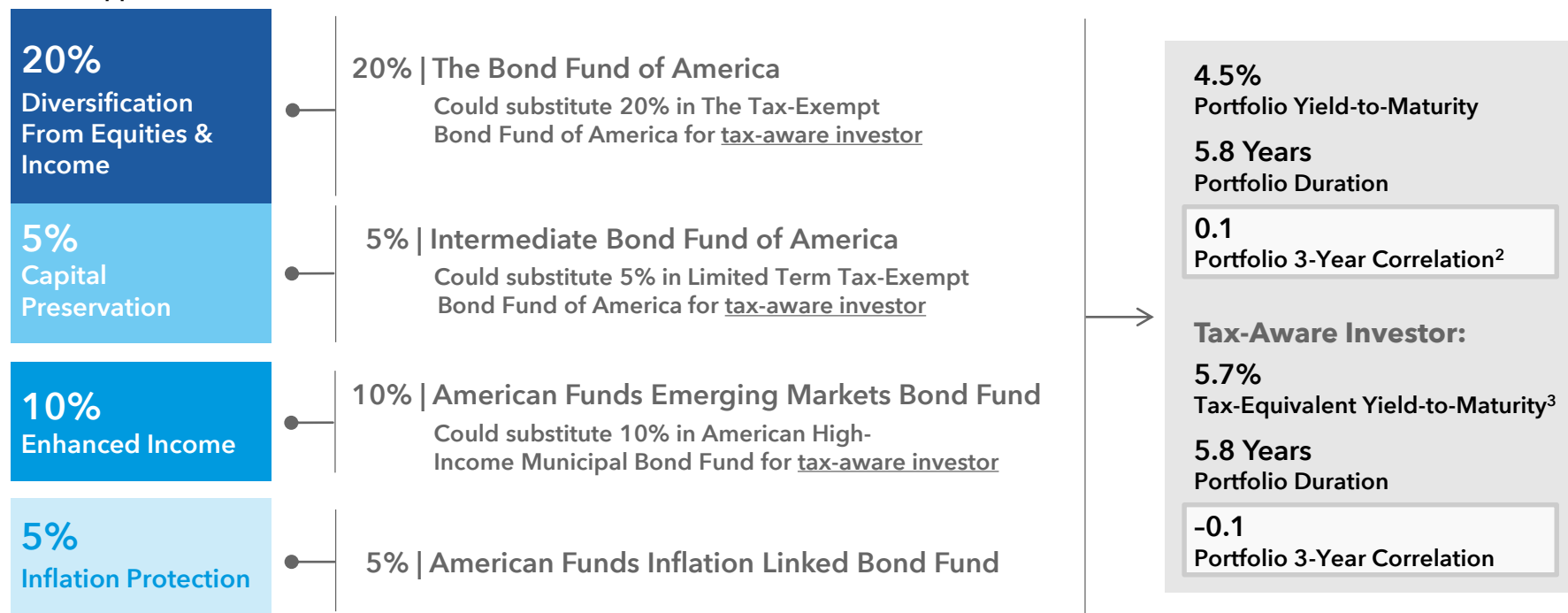
Take Action		Buy: Taxable	Buy: Tax-Exempt
<b>1</b> Upgrade to True Core and Take Advantage of Higher Income Potential	<b>20%</b> Diversification From Equities and Income	Bond Fund of America <u>ABNFX</u> (F-2) <u>ABNDX</u> (A)	The Tax-Exempt Bond Fund of America <u>TEAFX</u> (F-2) <u>AFTEX</u> (A)
	<b>5%</b> Capital Preservation	Intermediate Bond Fund of America <u>IBAFX</u> (F-2) <u>AIBAX</u> (A)	Limited Term Tax-Exempt Bond Fund of America <u>LTEFX</u> (F-2) <u>LTEBX</u> (A)
<b>2</b> Rethink High Yield Without Giving Up Income	<b>10%</b> Enhanced Income	American Funds Emerging Markets Bond Fund <u>EBNFX</u> (F-2) <u>EBNAX</u> (A)	American High-Income Municipal Bond Fund <u>AHMFX</u> (F-2) <u>AMHIX</u> (A)
<b>3</b> Buy Inflation Protection	<b>5%</b> Inflation Protection	American Funds Inflation Linked Bond Fund <u>BFIGX</u> (F-2) <u>BFIAX</u> (A)	

# How to Upgrade Your Bond Portfolio

## A Balanced Approach to Your Fixed Income Allocation

Assumption: Fixed income = 40% of a client's portfolio

### Model Approach<sup>1</sup>



Data is a weighted average of the funds in the model approach and is as of June 30, 2018. U.S. equity index proxies used are Standard & Poor's 500 Composite Index. Correlations based on F-2 share class results.

<sup>1</sup>The model approach is hypothetical and for illustrative purposes only. Allocations, holdings, yields and other data shown do not reflect an actual portfolio. Advisors should tailor client recommendations to their individual circumstances.

<sup>2</sup>Because American Funds Emerging Markets Bond Fund does not have three years of history, its benchmark correlation is used in this calculation: a blend of 50% J.P. Morgan GBI-EM Global Diversified Index and 50% J.P. Morgan EMBI Global Diversified Index.

<sup>3</sup>Taxable-equivalent-rate assumptions are based on a federal marginal tax rate of 37%, the top 2018 rate. In addition, we have applied the 3.8% Medicare tax.

# Appendix

# American Funds Investment Results

## Average Annual Total Returns for Periods Ended 6/30/18

Figures shown are past results for Class F-2 shares and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Share prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. For current information and month-end results, visit [americanfunds.com](http://americanfunds.com).

Fund (Class F-2)	Returns (%)				Gross Expense Ratio (%)	SEC Yields (%) Gross Net	12-Month Distribution Rate (%)
	1 Year	5 Years	10 Years	Lifetime			
<b>Intermediate Bond Fund of America</b>	<b>-0.61</b>	<b>1.16</b>	<b>2.17</b>	<b>4.76</b>	<b>0.38</b>	<b>2.65   2.65</b>	<b>1.60</b>
Bloomberg Barclays U.S. Government/Credit (1-7 years, ex BBB) Index	-0.48	1.16	2.40				
<b>The Bond Fund of America</b>	<b>-0.65</b>	<b>2.39</b>	<b>3.20</b>	<b>7.67</b>	<b>0.36</b>	<b>3.03   3.03</b>	<b>2.30</b>
Bloomberg Barclays U.S. Aggregate Index	-0.40	2.27	3.72				
S&P 500 Index	14.37	13.42	10.17				
<b>American Funds Emerging Markets Bond Fund<sup>1</sup></b>	<b>-1.61</b>	<b>-</b>	<b>-</b>	<b>4.04</b>	<b>1.04</b>	<b>6.90   6.90</b>	<b>6.48</b>
Bloomberg Barclays U.S. High Yield Index	2.62	5.51	8.20				
<b>American Funds Inflation Linked Bond Fund<sup>2</sup></b>	<b>1.53</b>	<b>2.04</b>	<b>-</b>	<b>0.36</b>	<b>0.49</b>	<b>5.04   5.04</b>	<b>1.39</b>

<sup>1</sup>Fund inception date was April 22, 2016. Investment results reflect reimbursements, without which the results would have been lower. The investment adviser is currently reimbursing a portion of other expenses for American Funds Emerging Markets Bond Fund. This reimbursement will be in effect through at least March 1, 2019. The adviser may elect at its discretion to extend, modify or terminate the reimbursement at that time. Please see the fund's most recent prospectus for details.

<sup>2</sup>Fund inception date was December 14, 2012.

The SEC yield reflects the rate at which the fund is earning income on its current portfolio of securities, while the distribution rate reflects the fund's past dividends paid to shareholders. Accordingly, the fund's SEC yield and distribution rate may differ. Annualized 30-day yield is calculated in accordance with the SEC formula. We offer a range of share classes designed to meet the needs of retirement plan sponsors and participants. The different share classes incorporate varying levels of advisor compensation and service provider payments. Class F-2 shares were first offered on August 1, 2008. Class F-2 share results prior to the date of first sale are hypothetical based on Class A share results without a sales charge, adjusted for typical estimated expenses. Please see [americanfunds.com](http://americanfunds.com) for more information on specific expense adjustments and the actual dates of first sale.

Investment results assume all distributions are reinvested and reflect applicable fees and expenses. Expense ratios are as of each fund's prospectus available at the time of publication. When applicable, investment results reflect fee waivers and/or expense reimbursements, without which results would have been lower. Please see [americanfunds.com](http://americanfunds.com) for more information.

Sources: Bloomberg Index Services, Ltd., Morningstar, Standard and Poor's.



# American Funds Investment Results

## Average Annual Total Returns for Periods Ended 6/30/18

Figures shown are past results for Class F-2 shares and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Share prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. For current information and month-end results, visit [americanfunds.com](http://americanfunds.com).

Fund (Class F-2)	Returns (%)			Gross Expense Ratio (%)	SEC Yields (%) Gross Net	12-Month Distribution Rate (%)	Tax-Equivalent SEC Yield (%) Gross   Net	Tax-Equivalent Distribution Rate (%)
	1 Year	5 Years	10 Years					
<b>Limited Term Tax-Exempt Bond Fund of America</b>	<b>0.84</b>	<b>1.84</b>	<b>3.17</b>	<b>0.42</b>	<b>1.87   1.87</b>	<b>2.20</b>	<b>3.16   3.16</b>	<b>3.72</b>
Bloomberg Barclays Municipal Short-Intermediate 1-10 Years Index	0.50	2.05	3.19					
<b>The Tax-Exempt Bond Fund of America</b>	<b>2.23</b>	<b>3.74</b>	<b>4.47</b>	<b>0.41</b>	<b>2.41   2.41</b>	<b>3.08</b>	<b>4.07   4.07</b>	<b>5.20</b>
Bloomberg Barclays Municipal Bond Index	1.56	3.53	4.43					
<b>American High-Income Municipal</b>	<b>4.67</b>	<b>5.66</b>	<b>5.67</b>	<b>0.50</b>	<b>3.33   3.33</b>	<b>3.87</b>	<b>5.63   5.63</b>	<b>6.54</b>

Investment results assume all distributions are reinvested and reflect applicable fees and expenses. Expense ratios are as of each fund's prospectus available at the time of publication. When applicable, investment results reflect fee waivers and/or expense reimbursements, without which results would have been lower. Please see [americanfunds.com](http://americanfunds.com) for more information.

The pretax yield that a taxable bond would need to be equal to that of a tax-free municipal bond. Tax-equivalent yield = tax-free municipal bond yield / 1 – tax rate. (Based on a federal marginal tax rate of 37%, the top 2018 rate. In addition, we have applied the 3.8% Medicare tax.)

The SEC yield reflects the rate at which the fund is earning income on its current portfolio of securities, while the distribution rate reflects the fund's past dividends paid to shareholders. Accordingly, the fund's SEC yield and distribution rate may differ. Annualized 30-day yield is calculated in accordance with the SEC formula. We offer a range of share classes designed to meet the needs of retirement plan sponsors and participants. The different share classes incorporate varying levels of advisor compensation and service provider payments.

**Thank you.**

# Important Information

**Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing. This material must be preceded or accompanied by a summary prospectus or prospectus for the funds being offered.**

# Important Information

If used after September 30, 2018, this material must be accompanied by the current American Funds quarterly statistical update.

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# Important Information

Investment allocations may not achieve fund objectives. There are expenses associated with the underlying funds in addition to fund-of-funds expenses. The funds' risks are directly related to the risks of the underlying funds as described below.

Investing outside the United States involves risks, such as currency fluctuations, periods of illiquidity and price volatility, as more fully described in the prospectus. These risks may be heightened in connection with investments in developing countries. The return of principal for bond funds and for funds with significant underlying bond holdings is not guaranteed. Fund shares are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings. Investments in mortgage-related securities involve additional risks, such as prepayment risk, as more fully described in the prospectus. Higher yielding, higher risk bonds can fluctuate in price more than investment-grade bonds, so investors should maintain a long-term perspective. While not directly correlated to changes in interest rates, the values of inflation-linked bonds generally fluctuate in response to changes in real interest rates and may experience greater losses than other debt securities with similar durations.

The use of derivatives involves a variety of risks, which may be different from, or greater than, the risks associated with investing in traditional cash securities, such as stocks and bonds.

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Bloomberg Barclays U.S. Government/Credit 1-7 Years ex BBB Index is a market-value weighted index that tracks the total return results of fixed-rate, publicly placed, dollar-denominated obligations issued by the U.S. Treasury, U.S. government agencies, quasi-federal corporations, corporate or foreign debt guaranteed by the U.S. government, and U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity and quality requirements, with maturities of one to seven years, excluding BBB-rated securities. Bloomberg Barclays U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market. Bloomberg Barclays Municipal Short-Intermediate 1-10 Years Index is a market-value-weighted index that includes investment-grade tax-exempt bonds with maturities of one to 10 years. Bloomberg Barclays Municipal Bond Index is a market-value-weighted index designed to represent the long-term investment-grade tax-exempt bond market. Bloomberg Barclays U.S. Corporate High Yield Index covers the universe of fixed-rate, non-investment-grade debt. The Bloomberg Barclays U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury.

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We offer a range of share classes designed to meet the needs of retirement plan sponsors and participants. The different share classes incorporate varying levels of advisor compensation and service provider payments. The market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index. There have been periods when the fund has lagged the index.

Income from municipal bonds may be subject to state or local income taxes and/or the federal alternative minimum tax. Certain other income, as well as capital gain distributions, may be taxable.

# Important Information

Although the target date funds are managed for investors on a projected retirement date time frame, the fund's allocation strategy does not guarantee that investors' retirement goals will be met. American Funds investment professionals manage the Target Date Fund's portfolio, moving it from a more growth-oriented strategy to a more income-oriented focus as the fund gets closer to its target date. The target date is the year in which an investor is assumed to retire and begin taking withdrawals. Investment professionals continue to manage each fund for 30 years after it reaches its target date.

## **Methodology for calculation of tax-equivalent yield:**

Based on 2018 federal tax rates. Taxable equivalent rate assumptions are based on a federal marginal tax rate of 37%, the top 2018 rate. In addition, we have applied the 3.8% Medicare tax. Thus taxpayers in the highest tax bracket will face a combined 40.8% marginal tax rate on their investment income. The federal rates do not include an adjustment for the loss of personal exemptions and the phase-out of itemized deductions that are applicable to certain taxable income levels.

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