



# Allocation update for UBS American Funds® Model Portfolios

As of July 29, 2022

## Making portfolios personal<sup>SM</sup>



### Enhancements to the American Funds Model Portfolios

As part of the ongoing active management of our multi-asset portfolio solutions, the Portfolio Solutions Committee (PSC) and Capital Solutions Group (CSG) regularly review portfolio exposure and conduct research. A key objective of the ongoing monitoring and research is to assess each portfolio's combination of underlying funds in an effort to ensure alignment with the corresponding investment objective. Following CSG's most recent review, the PSC has approved enhancements to some of the portfolios to continue to best position them to achieve their objectives.

#### Summary of enhancements

One of the key differentiators of the American Funds Model Portfolios is the recognition and implementation of the unique roles fixed income can play in the context of an entire portfolio. Recognizing the benefits provided by bond funds offer helpful insights when pairing with equities to align risk and exposure to meet the model's objective. They include:

- **Diversification:** Owning bonds with a low correlation to equities can result in lower portfolio volatility – particularly during times of equity market stress and volatility.
- **Income:** Delivering income can be central to the objective of the model. Overall return can be enhanced through high-income strategies with higher volatility and/or equity correlation, as well as relatively stable yields through high-quality fixed income investments.
- **Inflation protection:** Bonds directly linked to the Consumer Price Index can help to protect an investor's purchasing power.
- **Capital preservation:** A fixed income allocation should help protect principal in most market environments.

With this foundational framework in mind, the PSC identified updates to several model portfolios and reconfirmed current allocations to others. The updated allocations reflect the investment team's thinking in seeking to ensure each model portfolio is best positioned to meet its objective.

#### Key Themes of Enhancements

- Fixed Income strategic allocation research identified an opportunity to refine the mix of fixed income roles across portfolio objectives. The resulting enhancements serve to both increase flexibility across fixed income sectors and broaden the sources of return seeking income.
- Modestly reducing volatility in the more conservative models by slightly decreasing equity and reallocating risk to respective fixed income allocations in aggregate.
- Opportunity to improve the drawdown potential of the preservation models by increasing allocations to shorter duration fixed income.

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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Summary of underlying fund changes as of July 29, 2022

Model portfolio allocations

Difference

■ Increase of 1%+  
■ Decrease of 1%+

	Model portfolio allocations			Model portfolio allocations			Difference			Difference		
	Growth	Growth and income	Income and preservation	Growth	Growth and income	Income and preservation	Growth	Growth and income	Income and preservation	Growth	Growth and income	Income and preservation
	Tax-Aware Moderate Growth	Tax-Aware Moderate Growth and Income	Conservative Income and Growth	Tax-Aware Moderate Income	Conservative Income	Tax-Aware Conservative Income	Tax-Aware Moderate Growth	Tax-Aware Moderate Growth and Income	Conservative Income and Growth	Tax-Aware Moderate Income	Conservative Income	Tax-Aware Conservative Income
<b>Growth allocation (%)</b>	<b>40</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
SMALLCAP World Fund*	10	5	-	-	-	-	-	-	-	-	-	-
The Growth Fund of America*	20	-	-	-	-	-	-	-	-	-	-	-
New Perspective* Fund*	-	5	-	-	-	-	-	-	-	-	-	-
AMCAP Fund*	10	-	-	-	-	-	-	-	-	-	-	-
<b>Growth-and-income allocation (%)</b>	<b>50</b>	<b>55</b>	<b>20</b>	<b>40</b>	<b>10</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fundamental Investors*	15	15	-	-	-	-	-	-	-	-	-	-
Capital World Growth and Income Fund*	25	20	5	15	-	5	-	-	-	-	-	-
The Investment Company of America*	10	-	-	-	-	-	-	-	-	-	-	-
Washington Mutual Investors Fund <sup>SM</sup>	-	20	-	15	-	-	-	-	-	-	-	-
American Mutual Fund*	-	-	15	10	10	15	-	-	-	-	-	-
<b>Equity-income allocation (%)</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>-</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
The Income Fund of America*	-	-	10	-	10	-	-	-	-	-	-	-
<b>Balanced allocation (%)</b>	<b>-</b>	<b>-</b>	<b>15</b>	<b>-</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-4</b>	<b>-</b>	<b>-4</b>	<b>-</b>
American Funds Global Balanced Fund <sup>SM</sup>	-	-	5	-	-	-	-	-	-4	-	-	-
American Balanced Fund*	-	-	10	-	5	-	-	-	-	-	-4	-
<b>Fixed income allocation (%)</b>	<b>-</b>	<b>-</b>	<b>55</b>	<b>-</b>	<b>75</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>4</b>	<b>-</b>
American Funds Multi-Sector Income Fund <sup>SM</sup>	-	-	15	-	5	-	-	-	4	-	5	-
The Bond Fund of America*	-	-	20	-	20	-	-	-	-	-	-	-
American Funds Strategic Bond Fund <sup>SM</sup>	-	-	10	-	10	-	-	-	-	-	-1	-
Intermediate Bond Fund of America*	-	-	10	-	25	-	-	-	-	-	5	-
Short-Term Bond Fund of America*	-	-	-	-	15	-	-	-	-	-	-5	-
<b>Tax-exempt fixed income allocation (%)</b>	<b>10</b>	<b>35</b>	<b>-</b>	<b>60</b>	<b>-</b>	<b>80</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>0</b>
American High-Income Municipal Bond Fund*	5	20	-	20	-	15	5	5	-	5	-	-
The Tax-Exempt Bond Fund of America*	5	15	-	20	-	20	-5	-5	-	-5	-	-5
Limited Term Tax-Exempt Bond Fund of America*	-	-	-	15	-	25	-	-	-	-5	-	-
American Funds Short-Term Tax-Exempt Bond Fund*	-	-	-	5	-	20	-	-	-	5	-	5

# American Funds® Conservative Income and Growth Model Portfolio

**Objective:** Seeks a combination of current income and long-term growth of capital, and as a secondary objective, conservation of capital.

## Our approach:

- Increase allocation to American Funds Multi-Sector Income Fund to broaden and diversify sources of return in pursuit of income.
- Reduce American Funds Global Balanced fund allocation, which modestly reduces equity exposure and global core fixed income.
- The resulting enhancements seek to increase yield while modestly decreasing expected volatility and improving the drawdown potential, consistent with the model's objective.

## Expected portfolio impact

- ⬆️ Yield
- ⬆️ Income diversification
- ⬆️ Equity exposure
- ⬆️ Volatility

Funds	Category	Current target allocations (%) (as of Dec. 7, 2021)	Allocation change (%)	New target allocations (%) (as of July 29, 2022)
Capital World Growth and Income Fund	Growth and income	5		5
American Mutual Fund	Growth and income	15		15
The Income Fund of America	Equity income	10		10
American Funds Global Balanced Fund	Balanced	9	-4	5
American Balanced Fund	Balanced	10		10
American Funds Multi-Sector Income Fund	Fixed income	11	4	15
The Bond Fund of America	Fixed income	20		20
American Funds Strategic Bond Fund	Fixed income	10		10
Intermediate Bond Fund of America	Fixed income	10		10

# American Funds® Conservative Income Model Portfolio

**Objective:** Seeks to provide current income and preservation of capital.

## Our approach:

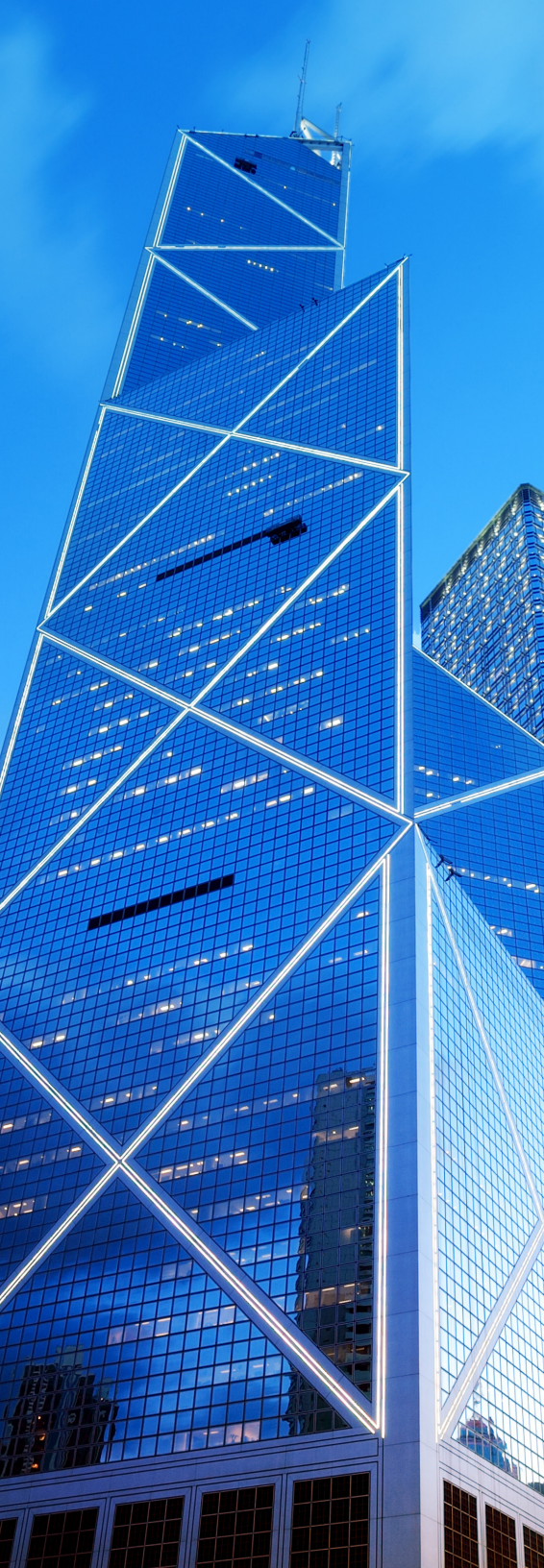
- Introduce a new allocation to American Funds Multi-Sector Income fund, which serves to broaden and diversify sources of return seeking income through exposure to high-yield, investment-grade credit, securitized bonds and emerging markets debt.
- Reduce allocation to American Balanced Fund, modestly decreasing equity and core fixed income exposure.
- Increase exposure to The Intermediate Bond Fund of America in pursuit of increased yield in the model, while reducing allocation to Short-Term Bond Fund of America.
- The resulting enhancements seek to increase yield and improve the drawdown potential, while modestly reducing expected volatility, consistent with the model's objective.

## Expected portfolio impact

- ▲ Fixed income diversification
- ▲ Yield
- ▼ Equity exposure
- ▼ Volatility

Funds	Category	Current target allocations (%) (as of Dec. 7, 2021)	Allocation change (%)	New target allocations (%) (as of July 29, 2022)
American Mutual Fund	Growth and income	10		10
The Income Fund of America	Equity income	10		10
American Balanced Fund	Balanced	9	-4	5
American Funds Multi-Sector Income Fund	Fixed income		5	5
The Bond Fund of America	Fixed income	20		20
American Funds Stratgetic Bond Fund	Fixed income	11	-1	10
Intermediate Bond Fund of America	Fixed income	20	5	25
Short-Term Bond Fund of America	Fixed income	20	-5	15





## Tax-Aware model portfolio enhancement themes

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Consistent with the foundational research conducted on the unique role that fixed income adds to a portfolio, the PSC identified updates to several model portfolios and reconfirmed current allocations to others. The updated allocations reflect the investment team's thinking in seeking to ensure each model portfolio is best positioned to pursue its objective. Further details for each portfolio are included below:

- Reducing exposure to core municipal bonds and shifting towards high-yield, intermediate and short-duration municipal bonds to help provide equity diversification, while seeking to increase overall portfolio yield and expected portfolio return. High-yield municipal bonds have distinct equity diversification characteristics compared to their taxable counterparts.
- Adding or increasing allocations to shorter duration municipal bonds in most conservative portfolios in pursuit of capital preservation through lowering expected portfolio volatility, shortening duration and improving expected drawdown.

# American Funds® Tax-Aware Moderate Growth Model Portfolio

**Objective:** Seeks long-term growth primarily through exposure to equities, with a modest allocation to tax-exempt fixed income to provide diversification from equities.

## Our approach:

- Introduce allocation to American High-Income Municipal Bond Fund in pursuit of greater total return potential while still providing equity diversification and seeking to maintain the portfolio's risk profile. The Portfolio Solutions Committee expects this may improve portfolio yield as well.
- Gain exposure to flexible credit quality profile and unique characteristics of high yield municipal bonds.
- Increase diversification by lowering exposure to Tax-Exempt Bond Fund of America.

## Expected portfolio impact

- ↑ High-yield fixed income
- ↑ Diversification
- ↑ Yield

Funds	Category	Current target allocations (%) (as of July 24, 2020)	Allocation change (%)	New target allocations (%) (as of July 29, 2022)
SMALLCAP World Fund	Growth	10		10
The Growth Fund of America	Growth	20		20
AMCAP Fund	Growth	10		10
Fundamental Investors	Growth and income	15		15
Capital World Growth and Income Fund	Growth and income	25		25
The Investment Company of America	Growth and income	10		10
American High-Income Municipal Bond Fund	Fixed income		5	5
The Tax-Exempt Bond Fund of America	Fixed income	10	-5	5

# American Funds® Tax-Aware Moderate Growth and Income Model Portfolio

**Objective:** Seeks to provide current income, a portion of which is exempt from regular federal income tax, and long-term growth of capital and income.

## Our approach:

- Increase allocation to American High-Income Municipal Bond Fund to provide greater total return potential while still providing equity diversification and generally seeking to maintain the portfolio's risk profile.
- Lowering exposure to The Tax-Exempt Bond Fund of America.
- The resulting enhancements are designed to increase duration, yield, provide a more flexible credit quality profile and exposure to the unique characteristics of high yield municipal bonds, consistent with the model's objectives.

## Expected portfolio impact

↑ High-yield fixed income

↑ Diversification

↑ Yield

Funds	Category	Current target allocations (%) (as of April 30, 2021)	Allocation change (%)	New target allocations (%) (as of July 29, 2022)
SMALLCAP World Fund	Growth	5		5
New Perspective Fund	Growth	5		5
Fundamental Investors	Growth and income	15		15
Capital World Growth and Income Fund	Growth and income	20		20
Washington Mutual Investors Fund	Growth and income	20		20
American High Income Municipal Bond Fund	Fixed income	15	5	20
The Tax-Exempt Bond Fund of America	Fixed income	20	-5	15

# American Funds® Tax-Aware Moderate Income Model Portfolio

**Objective:** Seeks to provide current income, a portion of which is exempt from regular federal income tax, and, secondarily, preservation of capital.

## Our approach:

- Research indicated increasing allocation to American High-Income Municipal Bond Fund, adding American Funds Short-Term Tax-Exempt Bond Fund while reducing exposure to The Tax-Exempt Bond Fund of America and Limited Term Tax-Exempt Bond Fund of America.
- Seeks to improve the portfolio's yield and expected return while marginally increasing volatility.
- Duration unchanged and increased exposure to below-investment-grade bonds.

## Expected portfolio impact

- ⬆️ High-yield fixed income
- ⬆️ Diversification
- ⬆️ Yield

Funds	Category	Current target allocations (%) (as of June 30, 2020)	Allocation change (%)	New target allocations (%) (as of July 29, 2022)
Capital World Growth and Income Fund	Growth and income	15		15
Washington Mutual Investors Fund	Growth and income	15		15
American Mutual Fund	Growth and income	10		10
American High-Income Municipal Bond Fund	Fixed income	15	5	20
The Tax-Exempt Bond Fund of America	Fixed income	25	-5	20
Limited Term Tax-Exempt Bond Fund of America	Fixed income	20	-5	15
American Funds Short-Term Tax-Exempt Bond Fund	Fixed income		5	5



# American Funds® Tax-Aware Conservative Income Model Portfolio

**Objective:** Seeks to provide current income, a portion of which is exempt from regular federal income tax, and preservation of capital.

## Our approach:

- Research indicated increasing allocation to American Funds Short-Term Tax-Exempt Bond Fund and reducing allocation to The Tax-Exempt Bond Fund of America.
- Designed to decrease duration and portfolio volatility while potentially reducing yield and expected return.

## Expected portfolio impact

- ✓ Maximum drawdown
- ✓ Volatility

Funds	Category	Current target allocations (%) (as of April 30, 2021)	Allocation change (%)	New target allocations (%) (as of July 29, 2022)
Capital World Growth and Income Fund	Growth and income	5		5
American Mutual Fund	Growth and income	15		15
American High-Income Municipal Bond Fund	Fixed income	15		15
The Tax-Exempt Bond Fund of America	Fixed income	25	-5	20
Limited Term Tax-Exempt Bond Fund of America	Fixed income	25		25
American Funds Short-Term Tax-Exempt Bond Fund	Fixed income	15	5	20



## Rebalancing and reallocation process

The PSC and CSG have established protocols and risk monitoring processes that may lead to asset allocation shifts or underlying fund changes. Below are brief overviews of these processes:

### Reallocation – Research-based portfolio changes:

- **Long-term strategic fund reallocation:** Research-driven enhancements to underlying asset and fund allocations to ensure alignment with the corresponding investment objectives. Research-driven reallocation decisions are not driven by market movements.

### Rebalancing – Market-driven portfolio changes:

- **Underlying fund allocation rebalance:** Normal market movement may prompt rebalancing back to target allocations.
  - Quarterly if the underlying fund allocations drift more than 1% from target allocations.
  - Discretion to rebalance intra-quarter if the underlying fund allocations drift more than 3% from target allocations.
- **Strategic allocation ranges rebalance:** Examine persistent crossing of a portfolio's strategic allocation range by monitoring thresholds, including equity versus fixed income and U.S. versus non-U.S. exposure, due to the flexibility exhibited by the underlying funds. Please see further information on this process below.

The strategic asset allocation ranges support a robust and disciplined risk management approach. The goal is to ensure that each portfolio remains well positioned to deliver specific investor objectives. The strategic asset allocation ranges are not rigid asset class limits. Rather, they provide asset class monitoring thresholds. If a portfolio falls outside of a monitoring threshold, CSG implements the following governance protocol:

- CSG will initiate a detailed research review to analyze the reasons and drivers of a portfolio's exposure change.
- If the exposure persists outside of the established threshold, CSG will present rebalancing options and recommendations to the PSC for consideration and approval. The rebalancing options may include:
  - An underlying fund allocation change that would bring the asset allocation back within the strategic asset allocation range threshold.
  - Rationale for a no-action exception to leave the asset allocation outside the strategic asset allocation range threshold and continuation of rigorous monitoring.

The PSC decides which actions to take so the portfolios continue to pursue investor objectives.

# Important disclosures and information

**For financial professionals only. Not for use with the public.**

**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.**

Model portfolios are provided to financial intermediaries who may or may not recommend them to clients. The portfolios consist of an allocation of funds for investors to consider and are not intended to be investment recommendations. The portfolios are asset allocations designed for individuals with different time horizons, investment objectives and risk profiles. Allocations may change and may not achieve investment objectives. If a cash allocation is not reflected in a model, the intermediary may choose to add one. Capital Group does not have investment discretion or authority over investment allocations in client accounts. Investors should talk to their financial professional for information on other investment alternatives that may be available. In making investment decisions, investors should consider their other assets, income and investments. Visit [capitalgroup.com](http://capitalgroup.com) for current allocations.

Actual underlying fund allocations may vary. There are expenses associated with the underlying funds in addition to any fees charged by the intermediary.

The model's 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.

Small-company stocks entail additional risks, and they can fluctuate in price more than larger company stocks.

The use of derivatives involves a variety of risks, which may be different from, or greater than, the risks associated with investing in traditional securities, such as stocks and bonds. (American Funds Emerging Markets Bond Fund, American Funds Multi-Sector Income Fund, American Funds Strategic Bond Fund)

American Funds Strategic Bond Fund may engage in frequent and active trading of its portfolio securities, which may involve correspondingly greater transaction costs, adversely affecting the fund's results.

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.

Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds.

Fund shares of U.S. Government Securities Fund are not guaranteed by the U.S. government.

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.

Investments in mortgage-related securities involve additional risks, such as prepayment risk, as more fully described in the prospectus.

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.

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