



AMERICAN  
FUNDS®

From Capital Group

The Capital Advantage<sup>SM</sup>

More From the Core

## Capital Idea: Expect More From the Core.

Core equity strategies, such as U.S. large cap, have been trending passive as investors believe that the high efficiency of developed markets makes obtaining excess return difficult. The mixed track record of the average fund has bolstered this perception. However, not all funds are average. Our research shows that there is a class of investment manager whose large-cap equity strategies have delivered greater excess return than their peers or indexes. A variety of traits are associated with membership in this select group, including low fund expense ratios, high manager ownership at the firm level, high manager tenure and low turnover. Ultimately, we believe that two key characteristics set some investment fund managers apart – a commitment to low costs and a set of experienced portfolio managers whose incentives are aligned with those of investors. Over the periods we studied, an investment in this group, on average, would have meaningfully improved portfolio outcomes – resulting in greater returns (on both an absolute and risk-adjusted basis), higher Sharpe ratios and less downside capture.

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Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Multiple Perspectives. One Approach.®

Low-cost investing is not the exclusive province of passive strategies.

## Investors Don't Have to Settle for Average

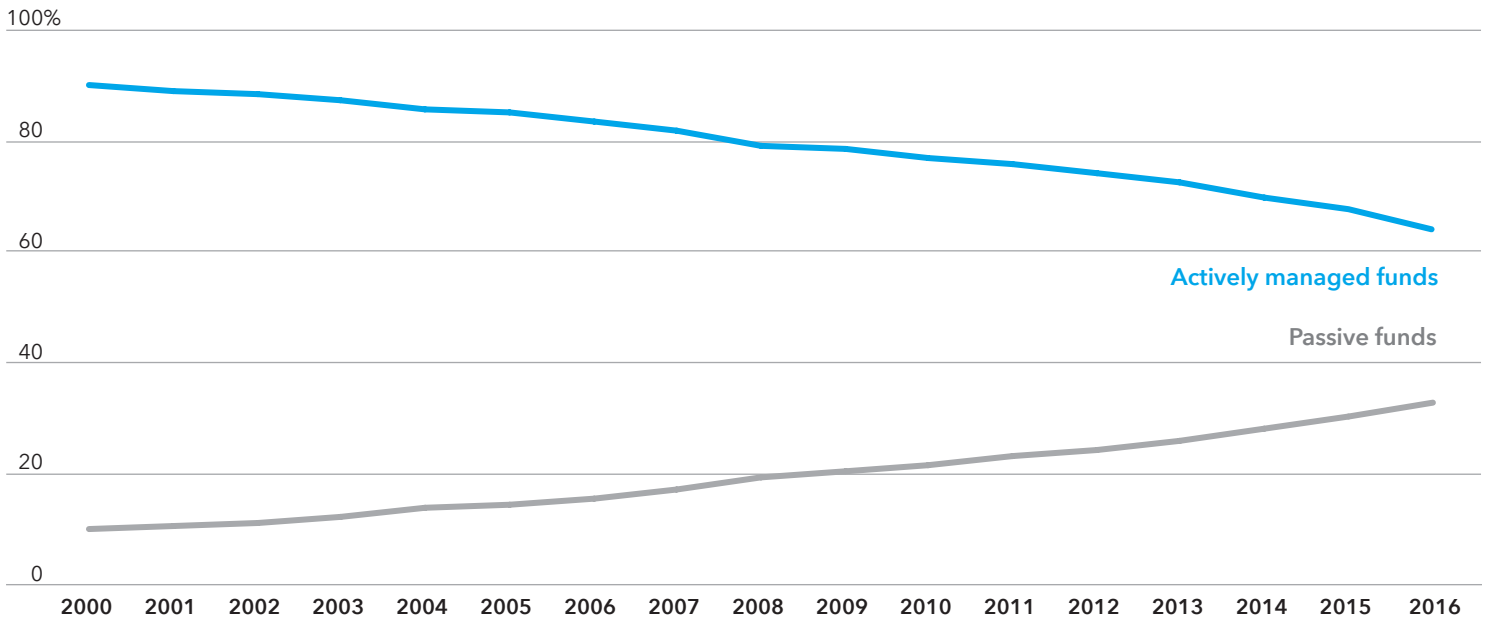
In the last 10 years, there has been a significant movement toward passive strategies in large-cap equity based on a belief that active management has been unable to outpace indexes over the long term. Passive strategies' low costs also have attracted investors. The trend has accelerated with the growth of exchange-traded funds (ETFs).

A major reason for the growth of passive investing is the increasing popularity of the "efficient market hypothesis," which states that in highly efficient markets such as the U.S., all relevant information is already reflected in share prices, making it extremely difficult for actively

managed funds to outpace market indexes. Indeed, our research shows that the average active fund has been unable to outpace benchmarks over the long term. However, we believe that the focus on the average results of all active funds has obscured the reality that some of them have been able to frequently beat their benchmarks over medium- and long-term periods. In addition, low-cost investing is not the exclusive province of passive strategies. Indeed, we believe that low-cost investing is part of the reason some funds have outpaced indexes frequently.

### The Industry Trend Has Been Toward Passive Investing

Percentage of Total U.S. Assets in Active and Passive Strategies



Source: Morningstar. Total U.S. equity assets include U.S. open-end mutual funds and exchange-traded funds (excludes money market fund and funds of funds). Includes obsolete funds.

## Higher Returns in Core Equity Can Make a Big Difference

Many advisors and institutional investors are taking a hybrid approach to what we call core equity (developed-market large cap). They are dedicating a part of their large-cap equity to passive strategies to get total market exposure for diversification and low tracking error. The other part tends to go to narrower tactical strategies based on specific geographies (e.g., Japan) or sectors (e.g., biotechnology) in an effort to seek excess return. These allocations are coupled with alternative investments that seek a combination of diversification, alpha and inflation protection.

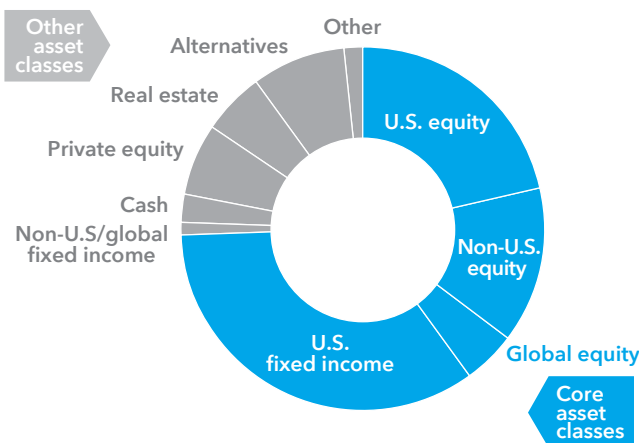
However, we believe that, rather than “swinging for the fences” in small parts

of their portfolios, investors should seek broad, large-cap mandates that can deliver consistent “singles and doubles” over the long run.

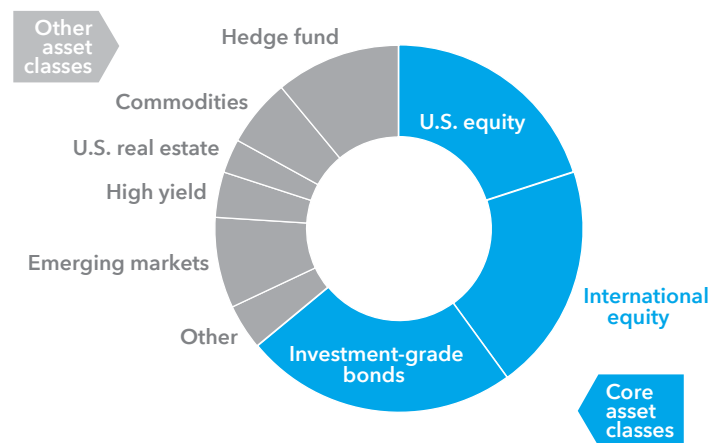
Because large-cap equity is such a large part of most portfolios, adding consistent incremental return there can have significant benefits for investors over time. The key is to find a set of traits associated with funds that historically have provided “the best of both worlds” of passive and active – a track record of excess return but with relatively low cost and less downside capture.

### Today’s Portfolio Construction

**Institutional example:  
Top 200 defined benefit plans**



**Advisory example:  
Portfolio model from large advisory firm**



Source for institutional example: *Pensions & Investments*. Data as of September 30, 2015.  
Source for advisory example: Capital Group.

“[F]irms with the highest levels of manager tenure, manager retention, and ownership of mutual fund shares also have delivered better outcomes for investors. The same is true of firms that offer funds with lower expense ratios.”

2014 Morningstar U.S. Mutual Fund Industry Stewardship Survey

## Traits Investors Can Use to Seek More From the Core

We sought to identify equity fund traits associated with a track record of outpacing indexes over long periods. We studied 20 years of large-cap equity fund returns over various rolling periods. A number of traits appeared to be important, including low expenses and high manager tenure. Two traits that we believe should be incorporated into the fund selection process stood out in our analysis.

**Low expense ratios:** Funds with lower expense ratios tended to outpace indexes more often. This tendency makes sense, as funds with lower expense ratios have a lower bar to clear to beat indexes.

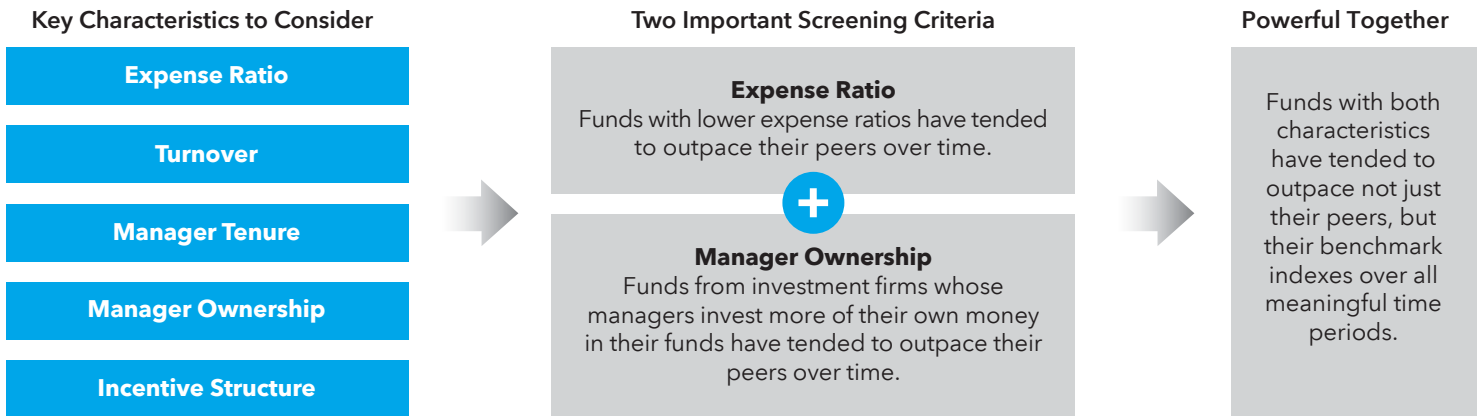
**High manager ownership:** Funds whose managers had invested more dollars

into their funds also tended to outpace more often. If managers are invested in their own funds, their interests are better aligned with investors’.

Importantly, these two factors don’t exist in isolation. They are linked to other traits that we believe add value. More experienced managers may have higher ownership levels because they have had more time to build up assets. We also believe that manager ownership is just one factor in aligning managers’ interests with those of investors. Rewarding managers for long-term results can encourage them to take a long-term perspective that we feel is more appropriate for the average investor.

### Characteristics of Core Funds That Added Value

Two Screens Can Help Sharpen Your Search



## Seek Funds That Have Low Expenses and High Ownership

We found that low cost and high manager ownership meaningfully improved the average outcomes for investors over the periods we analyzed.

Although expense ratio is a widely known metric, investors may be less familiar with manager ownership. The U.S. Securities and Exchange Commission requires mutual fund companies to disclose the amounts that portfolio managers have invested in the funds they manage. We reviewed 20 years of returns for U.S. and foreign large-cap funds. Although we used Morningstar style categories in this research, it's important to recognize there are other approaches to portfolio construction. Investors should also consider the potential benefits of global and multi-asset funds, and funds that are managed to specific investor objectives.

We ranked the funds into quartiles based on their level of expense ratios or firm-level manager ownership. To reduce survivorship bias, we included "dead funds" in our analysis. As a rule of thumb,

the top quartile of manager ownership roughly corresponded with firms that had 55% or more assets in the fund family complex in which at least one portfolio manager had invested a minimum of \$1 million. The lowest cost quartile of domestic funds had expense ratios of less than .98%; for foreign funds, the number was 1.08%. Expense ratios for institutional and advisory share classes would typically be lower than the expense ratios identified under this methodology.

We also looked at funds belonging to both quartiles – those that had the highest manager ownership and lowest expense ratios: 116 U.S. and 25 international funds fell into this category. We found that both traits meaningfully improved average outcomes for investors over the periods we analyzed.

### Look for Funds That Meet Two Key Criteria

Large-Cap Equity Funds With Low Expense Ratios and High Manager Ownership



	Total fund universe	Lowest cost quartile	Highest manager ownership quartile	Both low cost and high ownership
U.S. equity	2,547 funds	574	487	96
International equity	650 funds	149	137	25

Source: Capital Group, based on Morningstar data. Domestic funds are those in the Morningstar Large Value, Large Blend and Large Growth categories. International funds are those in the Morningstar Foreign Large Value, Foreign Large Blend and Foreign Large Growth categories. Size of quartiles varies because those funds in the Morningstar database that did not include an expense ratio or firm-level investment ownership were excluded from the analysis.

Large-cap funds with low expense ratios and high manager ownership outpaced indexes more frequently.

## A Screened Equity Core Can Improve Success Rates Versus Indexes

The two traits we studied significantly improved success rates. The portfolio of large-cap funds with low expense ratios and high manager ownership outpaced indexes more frequently than other active funds in the periods we analyzed.

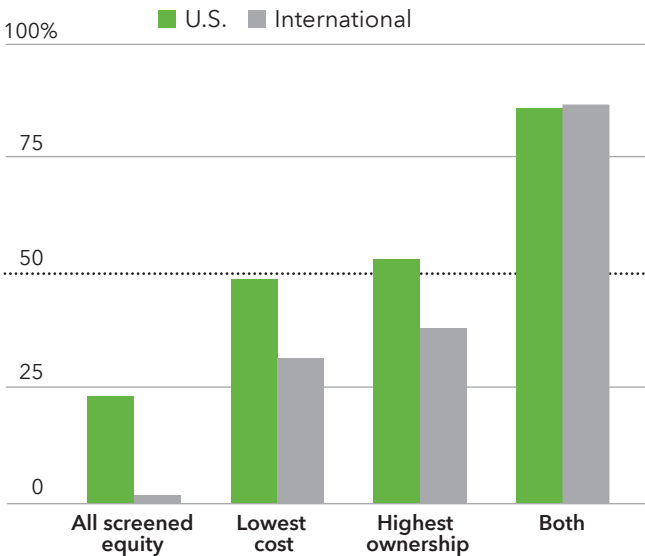
Each trait when used on its own boosted the success rate; portfolios of the lowest cost quartile of funds and the highest ownership quartile of funds each beat their indexes more frequently. However, the portfolio of funds in both quartiles – those with the lowest expense ratios and the highest ownership – did even better

in our analysis. U.S. large-cap funds in both quartiles, on average, outpaced the S&P 500 Index in 72% of rolling five-year periods and 86% of rolling 10-year periods. International large-cap funds in both quartiles outpaced the MSCI All Country ex USA Index in 84% of the five-year periods and 87% of the 10-year periods. Together, these screens significantly boosted success rates over the periods we studied. Because large-cap equity occupies such a large part of most portfolios, higher success rates can result in substantial gains.

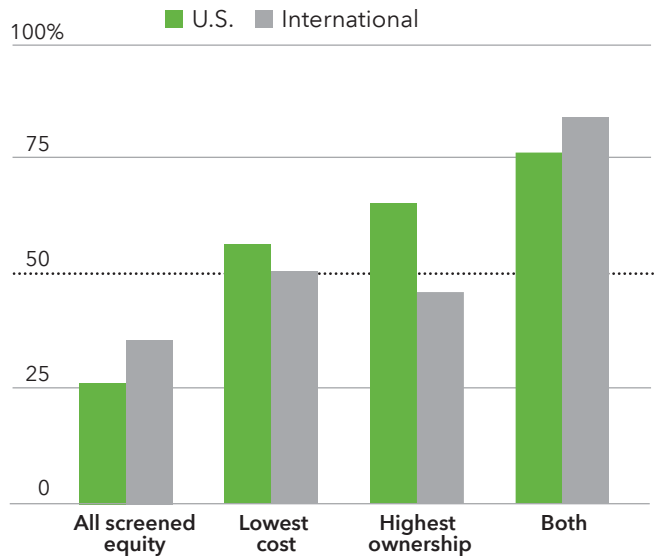
### Two Steps Raised the Success Rate

Success Rates in Large-Cap Equities (Net of Fees)

Percent of monthly 10-year rolling periods in which the category of funds collectively outpaced indexes



Percent of monthly 5-year rolling periods in which the category of funds collectively outpaced indexes



Source: Capital Group, based on Morningstar data. Based on monthly returns from January 1997 to December 2016. U.S. funds are those in the Morningstar Large Value, Large Blend and Large Growth categories. U.S. index is S&P 500. International funds are those in the Morningstar Foreign Large Value, Foreign Large Blend and Foreign Large Growth categories. International index is MSCI ACWI ex USA. The indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index. Unless otherwise indicated, all distributions were reinvested.

Higher alpha at the core of a portfolio can benefit investors.

## A Screened Equity Core Can Generate Higher Risk-Adjusted Results

The two traits also were associated with greater average risk-adjusted returns over the periods we studied. In our analysis, we compared the returns of a group of U.S. and international large-cap equity funds belonging to both the least expensive and highest ownership quartiles with the S&P 500 Index and the MSCI ACWI ex USA Index, respectively.

Funds in both the least expensive and highest ownership quartiles collectively generated greater average returns than indexes and other equity funds.

Over rolling five-year periods, the average return for U.S. funds in both quartiles was 106 basis points higher than the S&P 500. The average return for international funds in both quartiles was 53 basis points higher than the MSCI ACWI ex USA.

The portfolio of least expensive, highest ownership funds generated meaningfully greater alpha (a measure of risk-adjusted results) than other equity funds. Thus, in this example, investors would have achieved greater alpha and returns versus its peers.

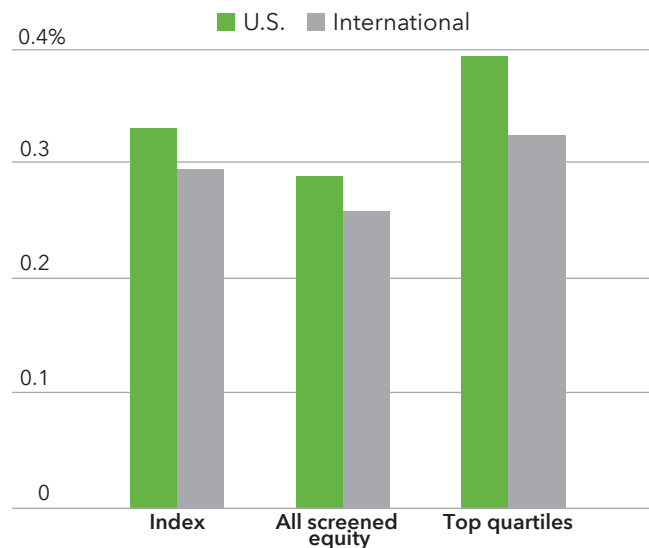
### Two Fund Traits Were Associated With Greater Risk-Adjusted Results

Alpha and Sharpe Ratio in Large-Cap Equity

Average Rolling 5-Year Alpha



Average Rolling 5-Year Sharpe Ratio



Source: Capital Group. Based on averages of rolling 5-year periods of monthly returns (net of fees) from January 1997 to December 2016. U.S. funds are those in the Morningstar Large Value, Large Blend and Large Growth categories. International funds are those in the Morningstar Foreign Large Value, Foreign Large Blend and Foreign Large Growth categories. "Top quartiles" data reflects an equally weighted portfolio of funds belonging to both the lowest expense ratio and highest ownership quartiles during the periods studied. The indexes were the S&P 500 and MSCI ACWI ex USA. The indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index. Past results are not predictive of results in future periods.

The screened equity core outpaced the index portfolio by an average of 79 basis points per year in this study.

## A Screened Equity Core Can Powerfully Benefit Portfolios

Investing in funds with high ownership and low costs could have significantly improved portfolio outcomes on a range of key metrics. We looked at the same 20 years of rolling returns for two hypothetical core portfolios, each consisting of a 50/50 allocation to U.S. and international large-cap equity.

First, we analyzed a passive index portfolio. Next, we analyzed a portfolio consisting entirely of the 116 U.S. large-cap funds and 25 international large-cap funds in the aforementioned Morningstar categories with the lowest expense ratios and highest ownership (what we call the “screened equity core”).

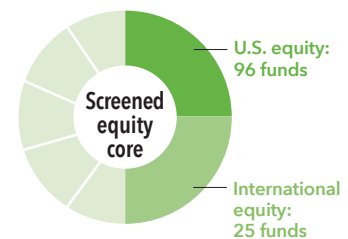
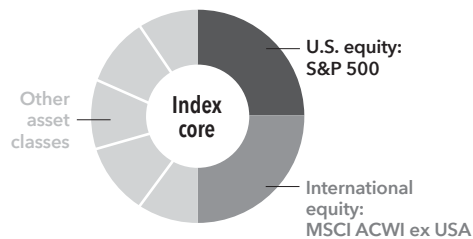
Based on the average of rolling 5-year periods we studied, the screened equity core portfolio registered, relative to the index portfolio:

- Higher returns
- Higher Sharpe ratio
- Higher upside capture

Specifically, the screened equity portfolio’s average return was 79 basis points higher than the index portfolio’s. In short, the screened equity core generated greater risk-adjusted returns relative to the index core.

### A Screened Equity Core Would Have Made a Meaningful Difference

Average of Rolling Monthly 5-Year Core Portfolio Results (1997-2016)



Annualized results			Difference vs. indexes
Returns	5.16%	6.00%	+0.84%
Standard deviation	15.89	16.13	+0.24
Up capture	100.00	103.92	+3.92
Down capture	100.00	101.03	+1.03
Alpha	0.00	0.77	+0.77
Beta	1.00	1.01	+0.01
Sharpe ratio	0.32	0.37	+0.05

Source: Capital Group. Hypothetical results are based on averages of rolling 5-year periods of monthly returns from January 1997 to December 2016. The components of each allocation can be found in the Methodology section of the Appendix. Past results are not predictive of results in future periods. These sample portfolios exclude fixed income allocations typical of core portfolio holdings. Portfolios were rebalanced monthly. The index core represents an equally divided allocation between the S&P 500 Index and the MSCI ACWI ex USA Index. The indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.



## Why It Matters: The Potential for Greater Wealth

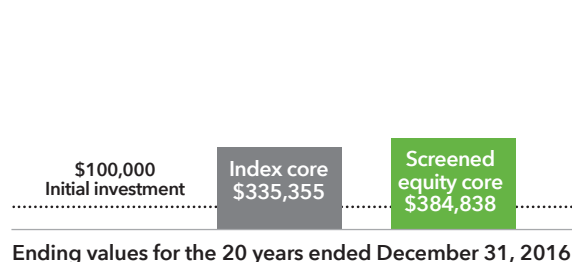
The bottom line: Investors would have created more wealth with an equity core in this hypothetical example.

Over the life cycle of an investor, incremental gains in large-cap equity can make a big difference in retirement outcomes, which is why fund selection is so important in the core. To illustrate this concept, we studied what would have happened had a 45-year-old invested \$100,000 in January 1997 in two portfolios, each consisting of a 50/50 allocation to U.S. and international large-cap equity. One portfolio consisted entirely of indexes. The other portfolio was made up entirely of the screened funds belonging to both the highest ownership and lowest cost quartiles. After a 20-year period, the screened portfolio would have grown to \$380,281 – 13% more wealth than the index portfolio.

We also studied the impact for a retiree over the same period, assuming that in January 1997, a 65-year-old began with a \$500,000 nest egg. We assumed that this person would make a 4% initial withdrawal (increasing by 3% each year). Although past results are not predictive of results in future periods, the screened equity core would have generated 29% more wealth in retirement. Historically, using the two screens we have outlined would have meaningfully improved outcomes during the accumulation and retirement income phases of the life cycle relative to an index approach.

### Accumulation Phase: Age 45 to 65

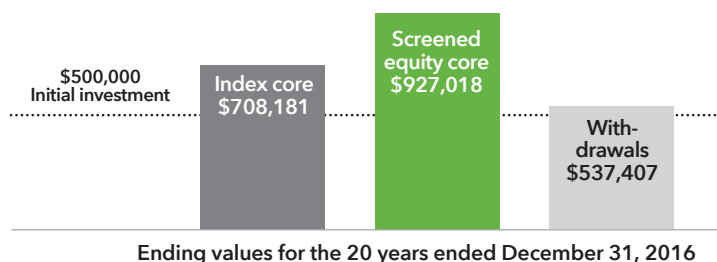
**Hypothetical example:** A 45-year-old starts an investment plan with a \$100,000 lump sum investment and holds it until age 65.



Average annual return	6.2%	7.0%
% greater wealth compared with index portfolio	–	14.8

### Retirement Income Phase: Age 65 to 85

**Hypothetical example:** A 65-year-old retiree starts with a \$500,000 nest egg and initially withdraws 4% per year, increasing 3% annually, until age 85.



Average annual return	6.3%	7.2%
% greater wealth compared with index portfolio	–	30.9

Data from published sources calculated internally. Hypothetical results assume reinvestment of all dividends. For the retirement income hypothetical illustration, the average annual return and ending investment values for all three investments takes into account withdrawals. Past results are not predictive of results in future periods. The constituents of each allocation can be found in the Methodology section of the Appendix on page 12. These sample portfolios exclude fixed income allocations typical of core portfolio holdings. Portfolios were balanced monthly. The index core represents an equally divided allocation between the S&P 500 Index and MSCI ACWI ex USA. The indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

A screened equity core can have significant benefits over a passive core.

## Summary: Expect More From the Core

Large-cap equity occupies the biggest slice of most portfolios; because of its significant size, improving results there can have meaningful benefits to investors. The key question, however, is how to find equity funds that are more likely to deliver excess return with the diversification and low costs that investors associate with passive strategies.

Looking at the averages of the rolling five-year time periods we studied, two fund traits – low expense ratios and high manager ownership – were associated with:

- Higher returns
- Lower downside capture ratio
- Higher average Sharpe ratios
- Higher alpha

We believe that investors should consider incorporating both traits into their fund selection process. A screened equity core can have significant benefits over a passive core. We believe investors should seek out broad, large-cap strategies with the potential to achieve excess return over medium- and long-term periods.

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## Capital at the Core

At Capital, we believe that large-cap equity funds with flexible mandates can deliver value for investors – if they are supported by global research and backed by experienced managers who take a long-term perspective and whose incentives are aligned with those of investors. Importantly, each of the nine American Funds in the Morningstar universe we studied were in the top quartiles of expense ratios and manager ownership.

Looking at the metrics in our study, a 50/50 U.S. and international equity portfolio made up of these nine American Funds would have delivered outcomes that were superior to the index portfolio. Over the five-year periods we studied,

this American Funds portfolio would have generated, on average:

- 169 basis points more return
- 201 basis points more alpha
- 1,025 basis points less in downside capture
- 108 basis points less in standard deviation

Although past results are not predictive of results in future periods, an initial \$100,000 investment in the American Funds portfolio would have generated 36% more wealth than the index portfolio during the 20-year accumulation scenario we studied. We believe these results demonstrate The Capital Advantage from American Funds.

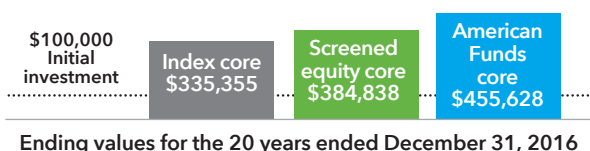
“[A]s one of the world’s largest active stock managers, [American Funds] very visibly accomplishes what index-fund proponents claim cannot be done: outperform year after year, decade after decade.”

**Morningstar**, January 30, 2014

Figures shown are past results for Class A 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. Unless otherwise indicated, fund results shown are at net asset value with all distributions reinvested. If the funds' sales charge had been deducted, the results would have been lower. For current information and month-end results, visit [americanfunds.com](http://americanfunds.com).

## Accumulation Phase: Age 45 to 65

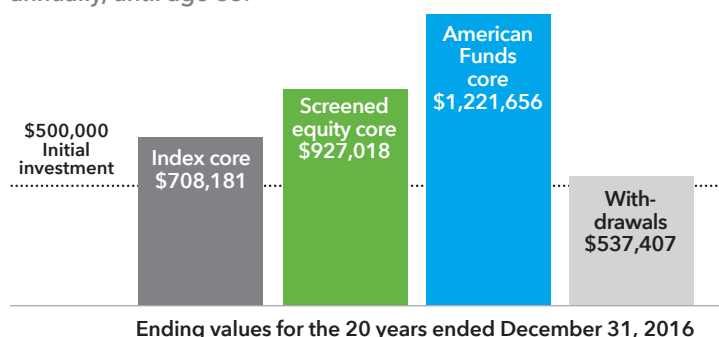
**Hypothetical example:** A 45-year-old starts an investment plan with a \$100,000 lump sum investment and holds it until age 65.



Average annual return	6.2%	7.0%	7.9%
% greater wealth compared with index portfolio	–	14.8	35.9

## Retirement Income Phase: Age 65 to 85

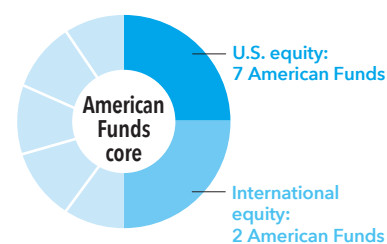
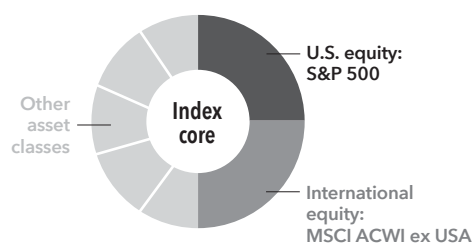
**Hypothetical example:** A 65-year-old retiree starts with a \$500,000 nest egg and withdraws 4% per year, increasing 3% annually, until age 85.



Average annual return	6.3%	7.2%	8.2%
% greater wealth compared with index portfolio	–	30.9	72.5

## An American Funds Core Would Have Delivered Higher Returns and Lower Volatility

Average of Rolling Monthly 5-Year Core Portfolio Results (1997–2016)



Results	Index core	Screened equity core	American Funds core	Difference vs. indexes
Results	5.16%	6.85%	6.85%	+1.69%
Standard deviation	15.89	14.82	14.82	-1.07
Up capture	100.00	98.06	98.06	-1.94
Down capture	100.00	89.75	89.75	-10.25
Alpha	0.00	2.01	2.01	+2.01
Beta	1.00	0.92	0.92	-0.08
Sharpe ratio	0.32	0.43	0.43	+0.11

Data from published sources calculated internally. Hypothetical results assume reinvestment of all dividends. For the retirement income hypothetical illustrations (top tables), the average annual return and ending investment values for all three investments take into account withdrawals, and portfolios were rebalanced monthly. For the equity core allocation, hypothetical results are based on averages of rolling 5-year periods of monthly returns from January 1997 to December 2016, and portfolios were rebalanced monthly. The index core represents an equally divided allocation between the S&P 500 Index and MSCI ACWI ex USA. The indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index. The American Funds core represents a 50% allocation to seven equally weighted U.S.-focused American Funds and a 50% allocation to two equally weighted foreign-focused American Funds. The constituents of each allocation can be found in the Methodology section of the Appendix on page 12. These sample portfolios exclude fixed income allocations typical of core portfolio holdings. Past results are not predictive of results in future periods.

## Methodology

### Compiling the Fund Universe

The database built to represent the universe of both large-cap domestic and large-cap foreign funds drew from Morningstar's U.S. Open-End Large Value, Large Blend and Large Growth U.S. and Foreign categories, with live and dead funds combined to eliminate survivorship bias. For live funds, only the oldest share class was used. For dead funds with multiple share classes, the median monthly returns were used. For fee-related illustrations that include dead funds with multiple share classes, the median expense ratios were used. Investment results are shown at net asset value. If a sales charge had been deducted, results would have been lower. Unless otherwise indicated, all distributions were reinvested. This screening resulted in seven qualifying domestic American Funds (AMCAP Fund, The Growth Fund of America, The New Economy Fund, American Mutual Fund, Fundamental Investors, The Investment Company of America and Washington Mutual Investors Fund) and two qualifying foreign American Funds (EuroPacific Growth Fund and International Growth and Income Fund). Funds are identified as domestic or foreign based on Morningstar categories. A number of the U.S.-focused American Funds can invest some assets in non-U.S. securities; likewise, the two foreign-focused American Funds can invest some assets in U.S.-issued securities.

### Tracking Least Expensive Quartile/Highest Manager Ownership

In conducting our research, we searched Morningstar's database for large-cap actively managed funds that were in both the lowest quartile ranked by expense ratio and the highest quartile ranked by manager ownership at the firm level. For this analysis we relied on Morningstar Direct data analysis software.

Least expensive quartile was calculated using annual report Net Expense Ratio (NER) for all observed Morningstar categories for the 20-year period indicated. For funds with missing expense ratios, gaps between two available data points were filled in using linear interpolation. Linear interpolation is a statistical method used to estimate the values between two known data points in a time series.

Highest manager ownership quartile was calculated using weighted averages of Morningstar screens of manager holdings at the firm level. Each fund was assigned the weighted average of its firm manager holding. Funds without values were excluded from the quartile rankings.

The combination of least expensive NER and highest manager ownership quartiles (the screened equity core) was the result of a cross-section of the two screens. Only those funds with both the lowest expense ratios and the highest manager ownership were included.

Investors who wish to identify funds that ranked in the least expensive quartile by NER can rely on the following rule of thumb:

The least expensive quartile of funds ranked by net expense ratio for Class A shares roughly corresponded with those reporting expenses below 1.00% for large-cap domestic funds and below 1.08% for large-cap foreign funds. Expense ratios for institutional and advisory share classes would be approximately 25 basis points lower, or below 0.75% for large-cap domestic funds and below 0.83% for large-cap foreign funds.

Investors who wish to identify funds that ranked in the top quartile by manager ownership can rely on the following rule of thumb:

The top quartile of funds ranked by manager ownership roughly corresponded with firms that had 54% or more assets in the fund family complex in which at least one fund manager had invested a minimum of \$1 million.

The Securities and Exchange Commission requires that mutual funds disclose all fees and expenses in a standardized table published in the front portion of the fund prospectus. The SEC also requires that a fund disclose in its statements of additional information (SAI) certain information about its portfolio managers, including ownership of securities in the fund. Ownership disclosure is made using the following seven ranges: none; \$1 to \$10,000; \$10,001 to \$50,000; \$50,001 to \$100,000; \$100,001 to \$500,000; \$500,001 to \$1,000,000; and over \$1,000,000.

Morningstar tracks manager ownership as a percentage of assets at the firm level. This information can be found using Morningstar Direct software, which can be downloaded by visiting [global.morningstar.com/direct](http://global.morningstar.com/direct) and clicking on "Download Morningstar Direct."

Advisors seeking to incorporate manager ownership as part of their fund screening criteria can take the following steps using Morningstar Direct. Start by creating a new open-end fund advanced search and defining a universe. For example, for the broad large-cap domestic fund universe, select U.S., then Large Value, Large Blend and Large Growth; to avoid duplication, screen for the oldest share class available.

With the universe selected, the snapshot page will show a set of default screens, including "Annual Report Net Expense Ratio." It is necessary to manually add a field for manager ownership. Under Available Data Points, select "Firm % Assets Manager Investment Over \$1 million." This selection will allow you to sort the chosen fund universe by both the expense ratio and manager ownership fields. Due to the dynamic nature of the Morningstar database, results for the Morningstar Large U.S. and International universes may change.

## Working With Indexes

Market indexes referenced in this material are defined as follows:

MSCI All Country World ex USA Index is a free float-adjusted market capitalization-weighted index that is designed to measure results of more than 40 developed and emerging equity markets, excluding the United States. Results reflect dividends gross of withholding taxes through December 31, 2000, and dividends net of withholding taxes thereafter.

Standard & Poor's 500 Composite Index is a market capitalization-weighted index based on the average weighted results of 500 widely held common stocks.

The market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index. There have been periods when funds have lagged the index. Past results are not predictive of results in future periods.

## Glossary

**Alpha** is a measure of the difference between a portfolio's actual returns and its expected results, given its level of risk as measured by beta. A positive alpha figure indicates the portfolio has performed better than its beta would predict. In contrast, a negative alpha indicates the portfolio has underperformed, given the expectations established by beta.

**Beta** is a relative measure of a fund's sensitivity to market movements over a specified period of time. The beta of the market (represented by the benchmark index) is equal to 1; a beta higher than 1 implies that a fund's return was more volatile than the market. A beta lower than 1 suggests that the fund was less volatile than the market.

**Capture ratio** reflects the annualized product of fund versus index returns for all months in which the index had a positive return (upside capture) or negative return (downside capture).

**Investment success rate** is the percentage of time a fund (or a group of funds) has outpaced its relevant index (or peer group) over rolling periods.

**Sharpe ratio** uses standard deviation and excess return to determine reward per unit of risk. The higher the number, the better the portfolio's historical risk-adjusted performance.

**Standard deviation** (annualized, based on monthly returns) is a common measure of absolute volatility that tells how returns over time have varied from the mean. A lower number signifies lower volatility.

## Investment Disclosure

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.

The oldest share class designation used in the screening process does not reflect the recent Morningstar methodology change for funds inception prior to 12/31/2015, as it is based on a previously existing database of Morningstar fund identifiers. Funds inception after that date are identified with Morningstar's new methodology.

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# American Funds Investment Results

Figures shown are past results for Class A 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. Results shown below reflect the deduction of the 5.75% maximum sales charge with all distributions reinvested. For current information and month-end results, visit [americanfunds.com](http://americanfunds.com).

## Results as of December 31, 2016

Funds	Inception Date	Average Annual Total Returns (%)				Expense Ratio (%)
		1 Year	5 Years	10 Years	Lifetime	
<b>Growth Funds</b>						
AMCAP Fund <sup>®</sup>	5/1/67	2.78	12.94	6.97	11.24	0.67
EuroPacific Growth Fund <sup>®</sup>	4/16/84	-5.13	5.58	2.02	10.26	0.83
The Growth Fund of America <sup>®</sup>	12/1/73	2.22	13.68	6.30	13.24	0.66
The New Economy Fund <sup>®</sup>	12/1/83	-3.68	13.20	6.46	10.66	0.78
New Perspective Fund <sup>®</sup>	3/13/73	-4.00	9.83	5.14	11.83	0.77
New World Fund <sup>®</sup>	6/17/99	-2.11	3.15	2.47	6.78	1.07
SMALLCAP World Fund <sup>®</sup>	4/30/90	-0.32	10.42	4.80	9.06	1.10
<b>Growth-and-Income Funds</b>						
American Funds Developing World Growth and Income Fund <sup>SM</sup>	2/3/14	2.96	—	—	-3.82	1.39
American Mutual Fund <sup>®</sup>	2/21/50	7.58	11.08	6.08	11.49	0.59
Capital World Growth and Income Fund <sup>®</sup>	3/26/93	0.36	8.72	3.78	10.00	0.77
Fundamental Investors <sup>®</sup>	8/1/78	6.08	12.97	6.52	12.18	0.60
International Growth and Income Fund <sup>SM</sup>	10/1/08	-3.72	3.71	—	5.02	0.91
The Investment Company of America <sup>®</sup>	1/1/34	7.99	12.81	5.75	12.02	0.58
Washington Mutual Investors Fund <sup>SM</sup>	7/31/52	6.87	11.99	5.87	11.71	0.58
<b>Equity-Income Funds</b>						
Capital Income Builder <sup>®</sup>	7/30/87	0.75	6.02	3.41	8.96	0.60
The Income Fund of America <sup>®</sup>	12/1/73	4.24	8.07	4.82	10.87	0.56
<b>Balanced Funds</b>						
American Balanced Fund <sup>®</sup>	7/26/75	2.39	9.52	5.89	10.49	0.58
American Funds Global Balanced Fund <sup>SM</sup>	2/1/11	0.32	5.82	—	4.55	0.85

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 the results would have been lower. Please see [americanfunds.com](http://americanfunds.com) for more 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.**

If used after March 31, 2017, this white paper must be accompanied by a current American Funds quarterly statistical update.

# The Capital Advantage<sup>SM</sup>

Since 1931, American Funds, part of Capital Group, has helped investors pursue long-term investment success. Our consistent approach – in combination with The Capital System<sup>SM</sup> – has resulted in a superior long-term track record.

## Aligned With Investor Success

We base our decisions on a long-term perspective, which we believe aligns our goals with the interests of our clients. Our portfolio managers average 27 years of investment experience, including 21 years at our company, reflecting a career commitment to our long-term approach.<sup>1</sup>

## The Capital System<sup>SM</sup>

The Capital System combines individual accountability with teamwork. Funds using The Capital System are divided into portions that are managed independently by investment professionals with diverse backgrounds, ages and investment approaches. An extensive global research effort is the backbone of our system.

## American Funds' Superior Long-Term Track Record

Equity funds have beaten their Lipper peer indexes in 93% of 10-year periods and 98% of 20-year periods. Fixed income funds have beaten their Lipper indexes in 80% of 10-year periods and 80% of 20-year periods.<sup>2</sup> Fund management fees have been among the lowest in the industry.<sup>3</sup>

<sup>1</sup>Portfolio manager experience as of December 31, 2016.

<sup>2</sup>Based on Class F-2 share results for rolling periods through December 31, 2016. Periods covered are the shorter of the fund's lifetime or since the comparable Lipper index inception date (except Capital Income Builder and SMALLCAP World Fund, for which the Lipper average was used). Expenses differ for each share class, so results will vary. 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. Results for certain funds with an inception date after August 1, 2008, also include hypothetical returns because those funds' Class F-2 shares sold after the funds' date of first offering. Please see americanfunds.com for more information on specific expense adjustments and the actual dates of first sale.

<sup>3</sup>On average, our management fees were in the lowest quintile 73% of the time, based on the 20-year period ended December 31, 2016, versus comparable Lipper categories, excluding funds of funds.

Although Class F-2 shares are not available for purchase by retirement plans, their results reflect the investment management experience of American Funds without retirement plan recordkeeping expenses. American Funds offers plan sponsors flexibility in how they pay for plan operating expenses (such as recordkeeping fees) through distinct retirement plan share classes.