

# How fixed income anchors our glide path



**Michelle Black**  
Chair  
Target Date Solutions  
Committee

## Key takeaways

- **Bond funds with purpose:** The Series' fixed income holdings seek to provide diversification from equities, a degree of inflation protection, capital preservation and income depending on the stage of life.
- **The flexibility of multi-asset funds:** Balanced funds empower underlying fund managers to shift between equities and fixed income in response to market conditions.
- **The power of active management:** Bond investing can add value to portfolios through duration, yield curve and credit cycle management.

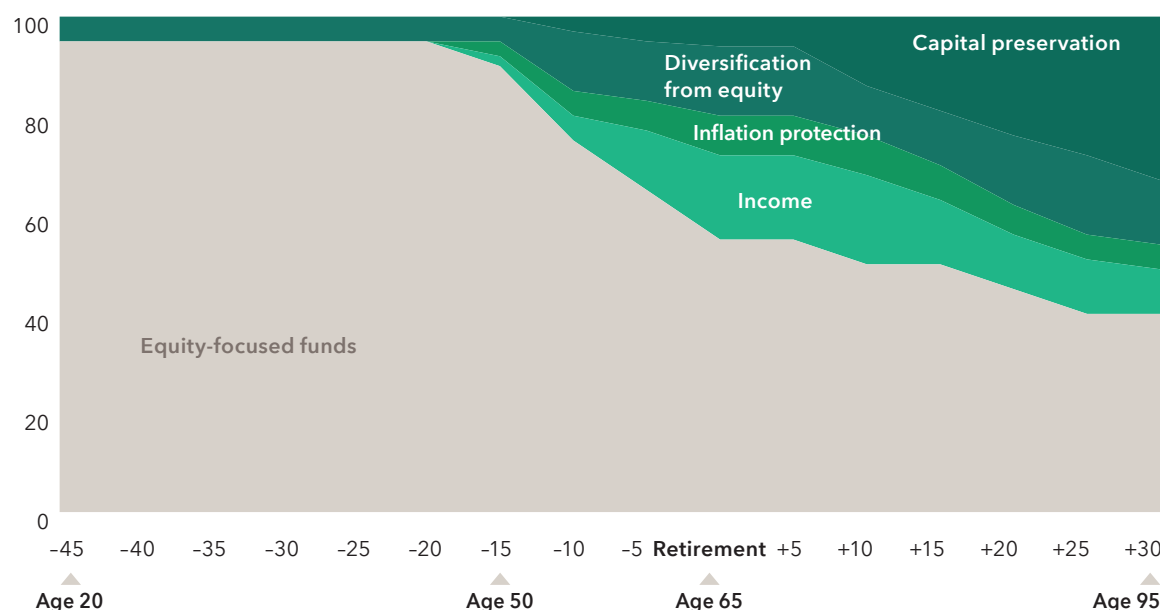


**Wesley Phoa**  
Solutions  
Portfolio Manager

## Our Series features a glide path within a glide path approach

Driven by a philosophy to both build and preserve wealth over a participant's life, the American Funds Target Date Retirement Series adjusts the amount and the type of bonds over time in an effort to generate return and manage risk.

### Fixed income glide path



Target allocations are as of December 31, 2023, and are subject to the oversight committee's discretion. Over the course of the year the Series will be implementing changes such as increasing exposure to New World Fund, decreasing American Funds Global Balanced Fund and adding an allocation to American Funds Emerging Markets Bond Fund. For allocations to the underlying funds as of March 31, 2024, visit [capitalgroup.com](https://www.capitalgroup.com). New target allocations will be reached by December 31, 2024. The investment adviser anticipates assets will be invested within a range that deviates no more than 10% above or below the allocations shown in the prospectus. Underlying funds may be added or removed during the year.

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

## Underlying fund allocations and metrics (%)

Figures shown are past results for Class R-6 shares and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. 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 [capitalgroup.com](http://capitalgroup.com).

Results as of March 31, 2024		Accumulation						Transition				Distribution						Five-year correlation to S&P 500 Index	Average down market return since global financial crisis <sup>†</sup>	30-day gross SEC yield*
Years to and after retirement		45	40	35	30	25	20	15	10	5	Retire	5	10	15	20	25	30			
Age		20	25	30	35	40	45	50	55	60	65	70	75	80	85	90	95			
Capital preservation	Intermediate Bond Fund of America®							3	5	6		6	9	11	13	15	17	0.39	(0.26)	4.95
	Short-Term Bond Fund of America®											5	8	11	13	16	0.39	(2.82)	5.00	
Diversification from equity	U.S. Government Securities Fund®	5	5	5	5	5	5	5	5	5	5	5						0.28	0.43	5.01
	American Funds Mortgage Fund®							5	5	6		6	6	7	9	13	13	0.38	(0.84)	4.89
	American Funds Strategic Bond Fund							2	2	3		3	4	4	5	3	0.39	(2.82)	6.03	
Inflation protection	American Funds Inflation Linked Bond Fund®							2	5	6	8	8	8	7	6	5	5	0.81	(2.08)	9.84
Income	American Funds Multi-Sector Income Fund							2	3	3	4	4	4	3				0.81	(10.99)	6.61
	Capital World Bond Fund®							2	2	2	2	2	2					0.64	(4.28)	4.93
	The Bond Fund of America®								7	8		8	9	10	11	11	9	0.51	(1.33)	5.17
	American High-Income Trust®									3		3	3					0.82	(7.68)	7.47
<b>Total bond funds</b>		5	5	5	5	5	5	10	25	35	45	45	50	50	55	60	60			

The extent to which a fund may contribute to a specified role depends on the portfolio's composition at any point in time.

Source: Capital Group, using data from Morningstar. Data for American Funds is Class R-6 shares. Down market is defined as a cumulative decline of S&P 500 Price Return Index of 10% or more peak to trough. There were nine down market periods over the 10 years ending March 31, 2024. There have been periods when the bond funds have lagged the S&P 500 Index, such as in rising equity markets.

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\*Calculated in accordance with the SEC formula. Yield data as of April 30, 2024.

†Date range for the global financial crisis are from 10/9/07 through 03/9/09.

## The four fixed income roles

The bond funds used in the Series seek to fulfill the four fixed income roles:

- **Diversification:** Early in the glide path, a modest allocation to bonds with low or negative correlation to stocks can help dampen market risk from equities, which make up the bulk of target date assets at the start of a participant's career.
- **Income:** As participants approach retirement, they are more sensitive to market risk and need income generation. They need bonds that can generate strong total returns and good yield with modest risk.
- **Inflation protection:** Inflation-linked bonds can help protect against inflation shocks as the overall equity allocation (a source of potential long-term inflation protection) steadily declines through the typical glide path.
- **Capital preservation:** In retirement, high-quality, low-duration bonds can partially insulate participants from market and interest rate risk, ultimately improving participant outcomes.

Focusing on funds that play specific roles can help avoid the undesirable risks of funds straying from their mandates, such as adding excessive credit risk to a core bond fund (equity diversification) or a short-duration bond fund (capital preservation).

## Glide path within a glide path approach

To support the Series' overall goal of building and preserving wealth, its equity and bond holdings evolve in both amount and type over time. This distinctive glide path within a glide path approach requires an understanding of how bond holdings work in concert with equities.

The four fixed income roles complement the equity allocation objectives, including capital appreciation and equity income, to balance different financial objectives depending on the participant's stage of life.

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### Accumulation phase

Early in the glide path, bonds are used to offset volatility from high allocations to growth-oriented equity, which provides greater appreciation opportunities than fixed income investments. The Series allocates 5% to **U.S. Government Securities Fund**, which provides exposure to bonds and seeks to maintain a low correlation to equities and minimal credit risk.

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### Transition phase

The transition phase features the greatest amount of diversification in the Series across both the number of funds and their objectives. Overall equity exposure is reduced and shifts from a focus on growth to growth and income. In its place, fixed income fund holdings broaden to focus on all four bond roles.

The reduction in the equity exposure allows the Series to move to a diverse set of bond exposures such as high-yield bonds via **American High-Income Trust**. High-yield allocations are viewed as equity-like proxies but give exposure to a different part of the capital structure and, in some cases, to different companies that don't yet have publicly listed equity. **American Funds Multi-Sector Income Fund** is another source of broad bond exposure via its ability to pursue investment opportunities across high yield, investment grade (BBB/Baa and above), emerging markets debt and securitized bonds.

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### Distribution phase

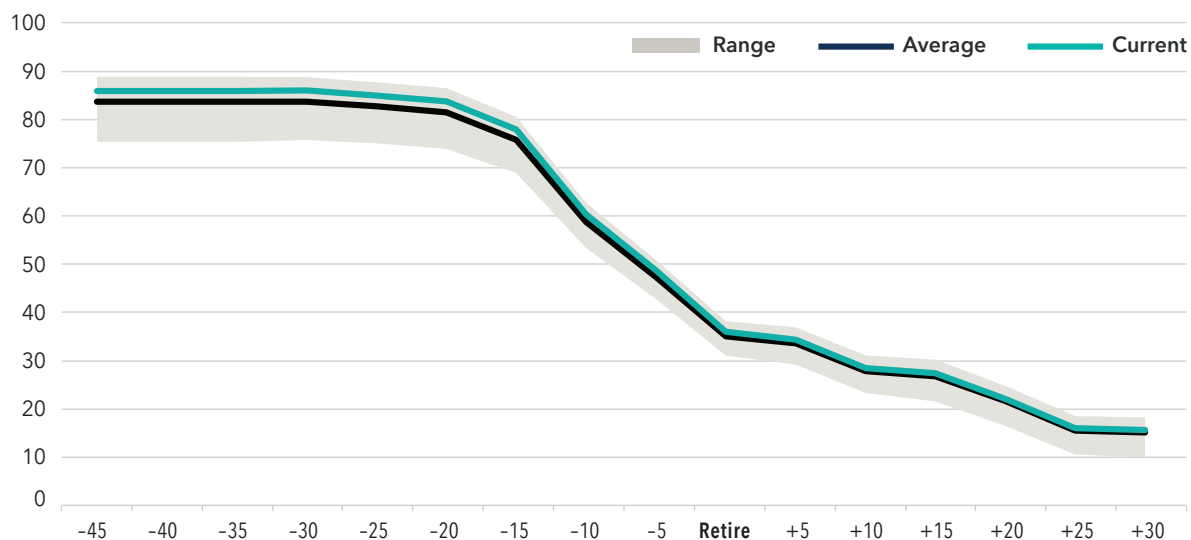
As participants move into retirement, fixed income holdings shift to a focus on capital preservation via higher quality, shorter maturity bond holdings such as those held by **Intermediate Bond Fund of America** and **Short-Term Bond Fund of America**. These funds have quality restrictions that prevent them from venturing in riskier bonds in a "reach for yield." **American Funds Strategic Bond Fund's** duration and income focus allow for greater equity diversification than shorter maturity strategies have tended to provide.

**American Funds Mortgage Fund** sees a growing allocation in the distribution phase as **U.S. Government Securities Fund** winds down its exposure. Like Treasuries, mortgage bonds have also exhibited negative correlation to equities. However, mortgage bonds provide additional income potential relative to Treasuries, which is important when pairing with more preservation-focused bond funds in distribution.

## The flexibility of multi-asset funds

### Asset class flexibility

% of assets in equities



Source: Capital Group using data from Morningstar as of March 31, 2024. Average and ranges of exposure were calculated using the historical quarterly asset mix of each underlying fund since Series inception using data from Morningstar, based on the glide path as it existed on March 31, 2024. The ranges reflect the highest and lowest asset exposure based on the underlying investments' historical asset mixes at each point of the glide path; the average reflects the average asset class exposure under the same parameters. Current asset mixes reflect underlying investment data and the glide path as of March 31, 2024. For underlying investments that did not exist at the inception of the strategies, their lifetime average asset allocation data was used to backfill the time periods prior to underlying investment's inception.

During the transition phase in the decade leading up to retirement and the years immediately afterwards, the allocation between equities and fixed income sees the most significant changes as the balance of risks a participant faces also changes.

Flexibility here is critical, particularly in the fixed income allocation intended to insulate against downside shocks – flexibility to adapt to market conditions by shifting overall exposures, credit quality, duration exposure and geographics.

An example of this can be seen in the way **The Bond Fund of America** had a higher allocation to Treasury bonds heading into the COVID-driven market selloff in early 2020 and then used asset price weakness to buy corporate credit at a lower price.

The underlying managers of bond funds in passive target date series, on the other hand, are contained by the need to track an index. Thus, allocation changes can only happen via strategic, top-down changes by the target date fund managers. But this lacks the nimbleness of fully active approaches where the flexibility is embedded at the underlying fund level, since these top-down changes are discrete fund allocation changes that happen infrequently – they aren't day-to-day decisions happening at the portfolio level.

Additional bond exposure comes from multi-asset funds that allow the Series' overall bond allocation to shift within a disciplined range based on market opportunities. **American Balanced Fund** and **American Funds Global Balanced Fund** fulfill this role, as do **Capital Income Builder** and **The Income Fund of America**. It is worth noting that the bond allocations of these multi-asset funds have distinct roles depending on the fund. The bonds in American Balanced Fund are intended to be equity diversifiers, while the bonds in The Income Fund of America are intended to generate income.

## The power of active management

Active management can add substantial value to fixed income portfolios through duration, yield curve management and issuer selection. The oversight of an active series is also important to make sure bond funds stay true to their objectives within the overall portfolio, especially during periods of market stress.

This isn't just about generating "alpha" in isolation, but also about making sure that each fund plays its desired role or roles as effectively as possible. For example, the most effective way to deliver equity diversification may vary at different times (e.g., long-duration bonds, curve flatteners, buying credit protection).

Passive bond strategies in a target date glide path, on the other hand, may unwittingly increase the credit risk and correlation profile of the bond portfolio. Since bond indexes are marketweighted, they are tilted to the largest and most frequent borrowers. While the Fed may be reaching the end of its tightening cycle, we don't expect a return to the extremely low interest rates, and low interest rate volatility, that prevailed during the era of quantitative easing. Rates are as high as they were nearly two decades ago, volatility remains elevated, and uncertainty continues. In the coming years, we believe prudent bond investors may need to rely more heavily on active management, rather than passively accommodating issuers' borrowing needs. And while we are seeing rising stars outpace fallen angels recently, active management can help to avoid downgrades and defaults when the economy eventually turns.

Moreover, because passive funds are designed to track an index, downgrade risk is not typically mitigated or managed. In contrast, managers of actively managed bond funds can evaluate each issuer's credit risk in an effort to avoid downgrades.

## Q&A with Michelle Black and Wesley Phoa

### Why do you say that fixed income anchors the Series' glide path?

When it comes to target date funds, it seems like the equity allocation gets all the attention. Certainly, there are good reasons for this: Equity is responsible for the bulk of the capital appreciation that determines retirement sufficiency.

But in the critical transition and retirement phases, fixed income plays several essential roles that make target date funds such a powerful tool for retirement savings. Fixed income allows target date funds to adjust to varying risks as participants age. As a result, it's important that financial professionals examine a series' approach to fixed income and understand how it interacts with equity across the glide path.

### How does the Series address inflation protection?

Our research shows that for the accumulation phase, equities can be a useful hedge against inflation risk over long holding periods. In the transition and distribution phases, where the market risk of equities must be balanced by shorter time horizons and the need for downside resilience, we use an allocation to inflation-linked bonds.

The Target Date Solutions Committee, which oversees the Series, has modeled the situations in which U.S. Treasury Inflation-Protected Securities, or TIPS, would be useful in a target date strategy. Their benefit is that they respond in a very predictable and mechanical way to higher inflation: The principal of the bond increases in line with the U.S. Consumer Price Index, resulting in higher coupon payments and a higher principal repayment at maturity. In addition, the repayment at maturity is guaranteed not to be lower than the original principal.

However, investors pay an insurance-like "premium" for this predictability: lower expected returns. Indeed, in recent years, real yields on TIPS have been negative. Moreover, TIPS returns still have a return component in common with nominal bonds: Both TIPS and nominal bond returns are affected by changes in real yields. So it is important to use TIPS thoughtfully, in conjunction with other tools.

## Investment results: Underlying fixed income funds and their benchmarks for periods ending March 31, 2024

Figures shown are past results for Class R-6 shares and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. 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 [capitalgroup.com](http://capitalgroup.com).

### Investment results (Class R-6 shares)

	Inception date	Cumulative returns (%)			Average annual returns (%)				Gross expense ratio (%)
		QTD	YTD	1 year	3 years	5 years	10 years	Lifetime	
<b>Income</b>									
<b>Capital World Bond Fund</b>	08/04/87	-2.16	-2.16	1.17	-4.86	-0.88	0.23	5.26	0.48
Bloomberg Global Aggregate Index		-2.07	-2.07	0.50	-4.73	-1.16	-0.07	-	-
<b>American Funds Multi-Sector Income Fund</b>	03/22/19	1.71	1.71	9.55	1.22	4.09	-	4.17	0.37
<b>The Bond Fund of America</b>	05/28/74	-0.74	-0.74	1.40	-2.19	1.22	2.02	7.08	0.24
Bloomberg U.S. Aggregate Index		-0.78	-0.78	1.70	-2.46	0.36	1.54	-	-
<b>American High-Income Trust</b>	02/19/88	2.39	2.39	11.85	3.62	5.09	4.46	7.64	0.33
Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index		1.47	1.47	11.15	2.19	4.19	4.44	-	-
<b>Inflation protection</b>									
<b>American Funds Inflation Linked Bond Fund</b>	12/14/12	-0.33	-0.33	-1.64	-1.64	2.23	2.23	1.42	0.29
Bloomberg U.S. Treasury Inflation-Protected Securities (TIPS) Index		-0.08	-0.08	0.45	-0.53	2.49	2.21	-	-
<b>Diversification from equity</b>									
<b>U.S. Government Securities Fund</b>	10/17/85	-1.11	-1.11	-0.77	-2.30	0.65	1.42	5.12	0.26
Bloomberg U.S. Government/Mortgage-Backed Securities Index		-0.98	-0.98	0.61	-2.76	-0.17	1.09	-	-
<b>American Funds Mortgage Fund</b>	11/01/10	-1.07	-1.07	0.14	-2.13	0.47	1.49	1.71	0.28
Bloomberg U.S. Mortgage Backed Securities Index		-1.04	-1.04	1.39	-2.84	-0.39	1.12	-	-
<b>American Funds Strategic Bond Fund</b>	03/18/16	-2.05	-2.05	-3.63	-3.36	1.51	-	2.13	0.32
Bloomberg U.S. Aggregate Index		-0.78	-0.78	1.70	-2.46	0.36	1.54	-	-
<b>Capital preservation</b>									
<b>Intermediate Bond Fund of America</b>	02/19/88	-0.16	-0.16	2.15	-0.79	1.44	1.56	4.37	0.26
Bloomberg U.S. Government/Credit (1-7 years, ex BBB) Index		-0.09	-0.09	2.51	-0.89	0.99	1.33	-	-
<b>Short-Term Bond Fund of America</b>	10/02/06	0.52	0.52	3.24	0.27	1.35	1.28	1.67	0.29
Bloomberg U.S. Government/Credit (1-3 years, ex BBB) Index		0.36	0.36	3.24	0.14	1.26	1.19	-	-



## Investment disclosure and index definitions

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the mutual fund prospectuses/summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.

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

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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. Because Class R-6 shares do not include any recordkeeping payments, expenses are lower and results are higher. Other share classes that include recordkeeping costs have higher expenses and lower results than Class R-6.

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. The expense ratios are as of each fund's prospectus available at the time of publication.

**Bloomberg Global Aggregate Index** represents the global investment-grade fixed income markets. **Bloomberg U.S. Aggregate Index** represents the U.S. investment-grade fixed-rate bond market. **Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index** covers the universe of fixed-rate, non-investment-grade debt. The index limits the maximum exposure of any one issuer to 2%. **Bloomberg U.S. Treasury Inflation-Protected Securities (TIPS) Index** consists of investment-grade, fixed-rate, publicly placed, dollar-denominated and non-convertible inflation-protected securities issued by the U.S. Treasury that have at least one year remaining to maturity and have at least \$250 million par amount outstanding. **Bloomberg U.S. Government/Mortgage-Backed Securities Index** measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury and the mortgage-backed pass-through securities of Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. **Bloomberg U.S. Mortgage Backed Securities Index** is a market-value-weighted index that covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). **Bloomberg U.S. Government/Credit (1-7 years, ex BBB) Index** measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury with maturities of one to seven years, excluding BBB-rated securities. **Bloomberg U.S. Government/Credit (1-3 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 three years, excluding BBB-rated securities. **Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Widely used as a measure of inflation, the CPI is computed by the U.S. Department of Labor, Bureau of Labor Statistics. **S&P 500 Index** is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks. **S&P 500 Total Return (TR) Index** is a total return index that reflects both changes in the prices of stocks in the S&P 500 Index as well as the reinvestment of the dividend income from its underlying stocks.

**Quantitative Easing** a monetary policy used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

Allocations may not achieve investment objectives. The risks of the Series are related to the risks of the underlying funds as described herein, in proportion to their allocations. Refer to the risks associated with the underlying funds below.

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

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

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, and include the weighted average expenses of the underlying funds. When applicable, results reflect fee waivers and/or expense reimbursements, without which they would have been lower. Refer to [capitalgroup.com](https://www.capitalgroup.com) for more information.

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