American Funds Target Date Retirement Series®

CAPITAL GROUP® | AMERICAN FUNDS®

How our Target Date Series manages inflation risk

Rich Lang
Multi-Asset Investment Director

Polina Tsybrovska
Product Manager

Insulating participants against the ravages of inflation is an important consideration of any target date series and is increasingly in focus as U.S. inflation returns to levels not seen since peaking at a 14.8% annual rate in March 1980.

Unprecedented monetary policy stimulus, pent-up demand from a pandemic-induced recession and supply chain limitations have led year-over-year inflation to rise well above the Fed's stated 2% target (6.4% as of January 31, 2023).

In this paper, we'll explain how the American Funds Target Date Retirement Series addresses inflation and how this approach may be well tailored for the uncertainty of the current environment.

Underlying fixed income funds (%)

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.

Roles of fixed income
Results as of December 31, 2022

Roles of fixed income	Fund	Accumulation						Transition				Distribution						Five-year correlation to S&P 500*	Average down market return since global financial crisis	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	0.31	0.73	2.29
	Short-Term Bond Fund of America®												5	8	11	13	16	0.32	0.80	3.06
Diversification from equity	U.S. Government Securities Fund®	5	5	5	5	5	5	5	5	5	5	5						0.13	2.35	1.63
	American Funds Mortgage Fund®								5	5	6	6	6	7	9	13	13	0.25	1.23	2.42
	American Funds® Strategic Bond Fund								2	2	3	3	4	4	5	3		0.32	0.80	2.52
Inflation protection	American Funds® Inflation Linked Bond Fund							3	5	6	8	8	8	7	6	5	5	–	-9.97	-2.42
Income	American Funds Multi-Sector Income Fund®							2	3	3	4	4	4	3				–	-9.97	5.61
	Capital World Bond Fund®								2	2	2	2	2					0.56	-2.12	3.18
	The Bond Fund of America®									7	8	8	9	10	11	11	9	0.41	0.39	2.84
	American High-Income Trust®										3	3	3					0.82	-7.35	6.86
Total fixed income funds (%)		5	5	5	5	5	5	10	25	35	45	45	50	50	55	60	60			

† Calculated in accordance with the SEC formula. Yield data as of February 28, 2023.

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. A down market is defined as a cumulative decline of the S&P 500 Price Return Index of 10% or more peak to trough. There were eight down market periods between the end of the bear market caused by the global financial crisis (March 9, 2009) and December 31, 2022. There have been periods when the bond funds have lagged the S&P 500 Index, such as in rising equity markets. The target allocations shown are as of December 31, 2022, and are subject to the oversight committee's discretion. 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/characteristics statement. Underlying funds may be added or removed during the year. Visit capitalgroup.com for current allocations.

* The five-year correlation to the S&P 500 metric measures how closely the underlying funds moved in unison with the S&P 500, ranging from 1 for perfect unity to –1 for perfect opposition. A lower value is desired when diversifying from equities within a portfolio.

Early career: Equities have been an appropriate inflation hedge

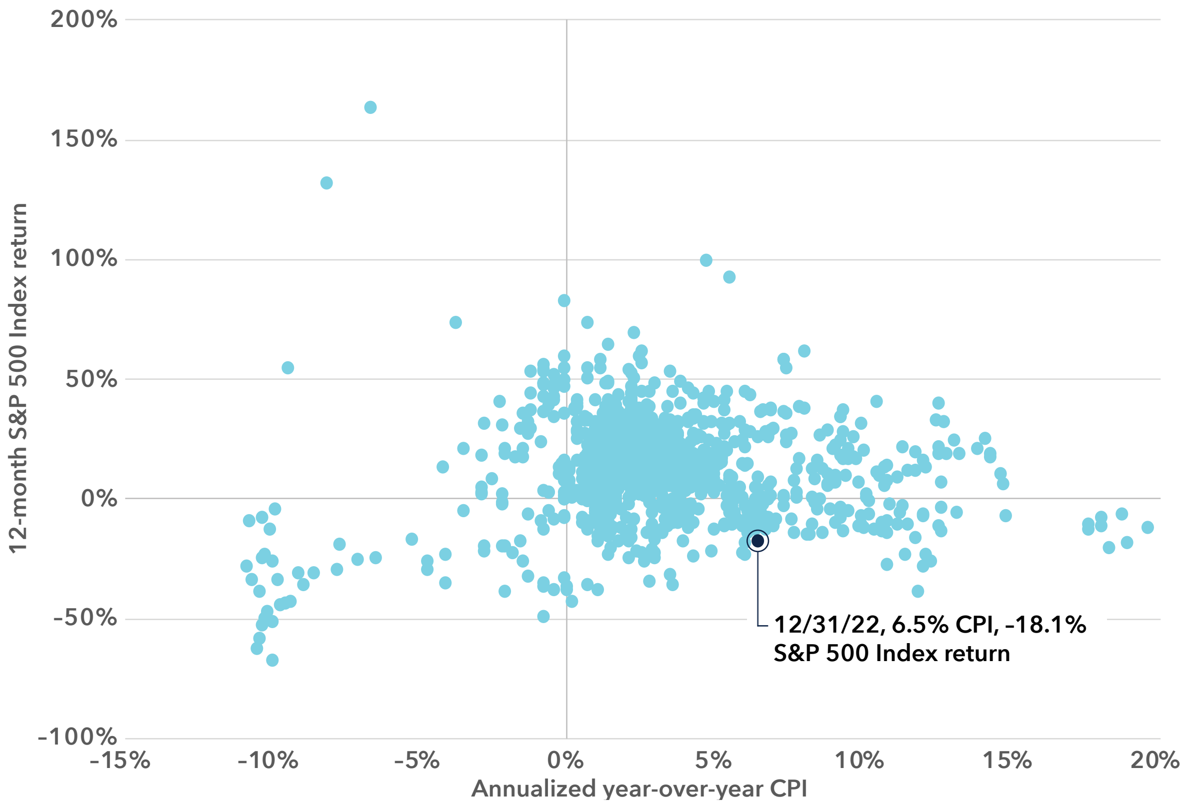
For participants early in their careers, equities have exhibited the ability to consistently outpace inflation over longer investment horizons. We believe meaningful equity early in the glide path is a prudent way to pursue capital appreciation at a rate that has historically outpaced inflation by a significant margin. In fact, since 1928 stock returns, as measured by the S&P 500 Index, have outpaced inflation 100% of the time over rolling monthly 25-year periods by an average annualized margin of 7.5%.

Moreover, while the fixed income allocation used in this phase of our glide path is focused on government securities in the pursuit of downside protection via diversification from equity, there is a modicum of exposure to Treasury Inflation-Protected Securities (TIPS). As of December 31, 2022, the inflation-linked bond exposure of those further-dated vintages is about 1.5% of market value.

Transition and retirement: Dedicated inflation protection becomes more important

While equities have been an appropriate hedge for long-term inflation, history has shown that the link between inflation and equities breaks down over shorter periods, as shown in the chart below. In fact, calendar-year 2022 is a good example of this, with inflation at 6.5% for the year and equities down 18%.

Consumer Price Index (CPI) vs. S&P 500 Index, year-over-year change on a monthly basis, 1928–2022



Source: Capital Group using data from Bloomberg and Morningstar as of December 31, 2022. The inflation measure used is the U.S. Consumer Price Index for All Urban Consumers (CPI-U), non-seasonally adjusted. The CPI-U is a monthly measure of the average change over time in prices paid by consumers for a market basket of consumer goods and services based on the spending patterns of urban consumers.

As a result, the Series phases in a dedicated allocation to American Funds Inflation Linked Bond Fund beginning 15 years to retirement. This increases exposure to TIPS, which have a mechanical connection to inflation, as covered in an article by Capital Group solutions portfolio manager Wesley Phoa.*

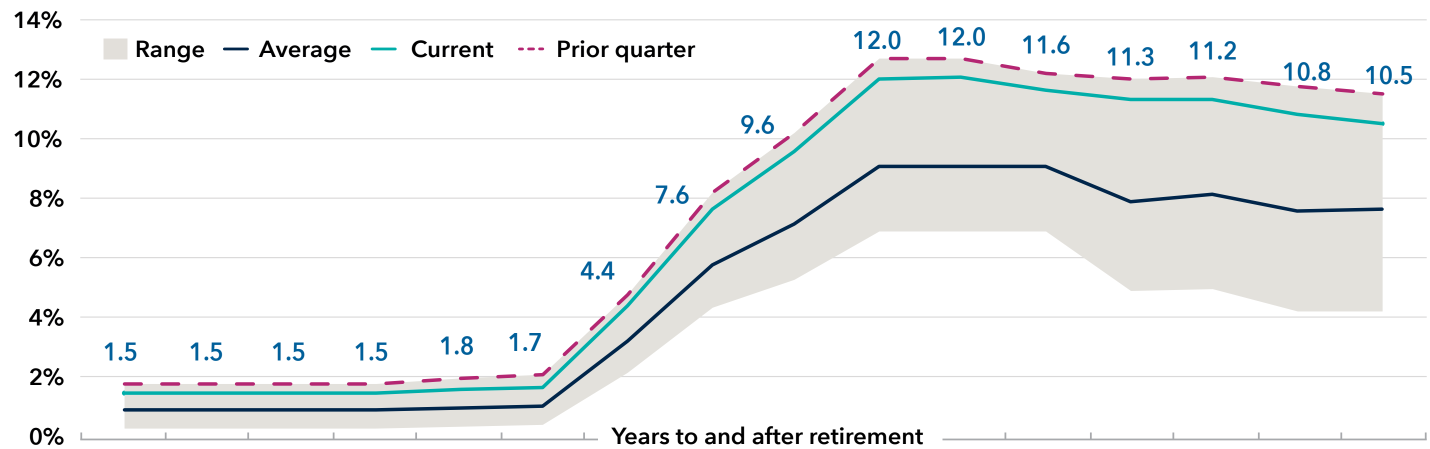
American Funds Inflation Linked Bond Fund is focused on its inflation-protection mandate, avoiding high-yield investments and maintaining a relatively moderate and stable duration profile. Additionally, out-of-benchmark exposures are limited and align with the fund's objective of preserving purchasing power. In July of 2022, the fund's dedicated allocation in the Series increased from 7% to 8% in order to seek better protection for participants from potentially higher frequency of inflationary shocks moving forward.

Another component of our Series is how it enables underlying managers of select fixed income and balanced funds to actively manage their exposure to TIPS based on market conditions and inflation expectations. Moving further into the retirement phase of our glide path, as fixed income exposure increases so does the TIPS allocation range. The illustration below provides some perspective on that flexibility over the last five years.

It's worth noting that other underlying funds besides American Funds Inflation Linked Bond Fund can invest in inflation-protected securities. U.S. Government Securities Fund and Short-Term Bond Fund of America have had as much as 20% of their holdings in TIPS in recent years, as the underlying portfolio managers have favored TIPS depending on market conditions. Other underlying funds, such as The Bond Fund of America, have also historically held meaningful TIPS exposure.

% of our Series in inflation-linked bonds

Five years ending December 2022



	45	40	35	30	25	20	15	10	5	Retire	+5	+10	+15	+20	+25	+30
High	1.8	1.8	1.8	1.8	2.0	2.1	4.8	8.1	10.1	12.6	12.6	12.1	11.9	12.0	11.7	11.4
Low	0.3	0.3	0.3	0.3	0.4	0.4	2.2	4.3	5.3	6.9	6.9	6.9	4.9	5.0	4.2	4.2
Average	0.9	0.9	0.9	0.9	1.0	1.1	3.2	5.7	7.2	9.0	9.1	9.1	7.9	8.1	7.6	7.6
Range	1.5	1.5	1.5	1.5	1.6	1.7	2.6	3.8	4.8	5.7	5.8	5.2	7.0	7.0	7.5	7.2
Current	**1.5**	**1.5**	**1.5**	**1.5**	**1.6**	**1.7**	**4.4**	**7.6**	**9.6**	**12.0**	**12.0**	**11.6**	**11.3**	**11.2**	**10.8**	**10.5**
Prior quarter	1.8	1.8	1.8	1.8	1.9	2.0	4.8	8.1	10.1	12.6	12.6	12.1	11.9	12.0	11.7	11.4

Source: Capital Group using data from Morningstar as of December 31, 2022. 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 December 31, 2022. The Series' glide path changed multiple times prior to that date. Therefore, movements in asset exposure shown in the chart reflect only the changes in the asset mix within the underlying funds from Series' inception to December 31, 2022; the movements do not reflect the historical top-down changes to the glide path over the life of the Series. The ranges reflect the highest and lowest asset exposure based on the underlying funds' historical asset mixes at each point of the glide path; the average reflects the average asset class exposure under the same parameters. For underlying funds that did not exist at the inception of the Series, their lifetime average asset allocation data was used to backfill the time periods prior to underlying funds' inception.

* "What role can TIPS play as inflation heats up?" published August 16, 2021, and available at https://www.capitalgroup.com/institutional/insights/articles/tips-inflation.html

In July 2022, American Funds Strategic Bond Fund was added to the Series, which also reflects a history of meaningful TIPS exposure. The fund seeks to provide flexibility in its ability to invest in most fixed income areas while striving to maintain a low correlation to equities. American Funds Multi-Sector Income Fund was also added to the Series, to which it has not held any exposures to TIPS or inflation-linked bonds to date. The fund aims to pursue income from diversified sources and invest in out-of-benchmark sectors opportunistically in response to market conditions.

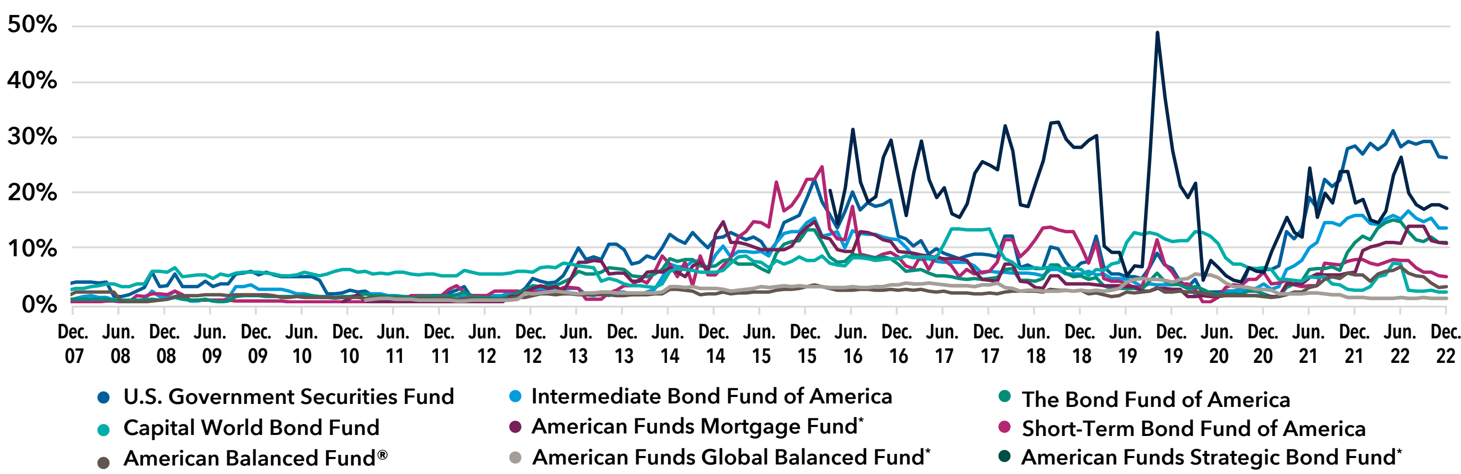
We believe that this underlying flexibility is the best way to manage inflation risk in a dynamic macroeconomic environment like the one we are in now. The graph and table below show how underlying bond funds have used this flexibility over the last five years.

Underlying fixed income and balanced fund managers also have the flexibility to shift the "inflation duration" of their TIPS positioning across the yield curve – that is, increasing or decreasing their short- and long-term TIPS holdings to increase or decrease portfolio sensitivity to changes in inflation.

Many fixed income fund managers feel inflation may persist longer than market expectations. And thus, as shown below, underlying funds continue to maintain meaningful TIPS exposure.

TIPS exposure (%) in underlying bond and balanced funds (excluding American Funds Inflation Linked Bond Fund)

Since Series inception (February 2007 to December 2022)



TIPS exposure (%) in underlying bond and balanced funds

Since Series inception (February 2007 to December 2022)

	American Funds Inflation Linked Bond Fund*	U.S. Government Securities Fund	Intermediate Bond Fund of America	The Bond Fund of America	Capital World Bond Fund	American Funds Mortgage Fund*	Short-Term Bond Fund of America	American Balanced Fund	American Funds Global Balanced Fund*	American Funds Strategic Bond Fund*
High	99.6%	31.2%	16.5%	15.0%	13.3%	14.7%	24.6%	6.4%	5.2%	49.2%
Low	78.0%	0.2%	0.0%	0.1%	1.8%	0.0%	0.0%	0.2%	0.3%	3.6%
Average	89.0%	8.5%	5.0%	4.2%	6.0%	5.3%	4.8%	1.8%	2.1%	19.3%
Range	21.6%	31.0%	16.5%	14.9%	11.5%	14.7%	24.6%	6.3%	4.9%	45.6%
Current	**92.4%**	**26.3%**	**13.5%**	**10.8%**	**1.9%**	**10.7%**	**4.7%**	**2.8%**	**0.8%**	**17.2%**
Prior quarter	92.5%	29.2%	14.7%	11.1%	2.1%	13.9%	5.4%	4.7%	0.8%	17.0%

Source: Capital Group as of December 31, 2022.

* American Funds Inflation Linked Bond Fund, American Funds Global Balanced Fund, American Funds Mortgage Fund and American Funds Strategic Bond Fund have inception dates after February 2007 (December 14, 2012; February 1, 2011; November 1, 2010; and March 18, 2016, respectively). For these funds, the analysis includes data since inception.

Active equity management: Crucial across all phases

Another way active management can bolster inflation protection: Underlying equity fund managers can increase their exposure to certain companies and sectors that have greater pricing power potential in a sustained inflationary environment. While macroeconomic factors may influence these investment decisions, in-depth analysis at the company level is crucial to understanding which could be best positioned to weather higher inflation.

The Series also invests meaningfully in equity-income funds in its near-dated vintages, with the objective of current income (The Income Fund of America®) and growing income (Capital Income Builder®). Dividend payouts can often help investors adjust to inflationary pressures more quickly than bonds, which pay a fixed income amount. And income-focused equities are often focused on industries such as utilities and energy that can more easily adjust to a high-inflation environment.

By using these various tools, both in the equity and fixed income allocations, our Series is designed to continuously address inflation risk and seeks to help participants both build and preserve wealth over their lifetimes, regardless of just how "transitory" this current bout of inflation ultimately is.

Q&A with Raj Paramaguru (Research Director, Capital Solutions Group)

Why doesn't your Target Date Series have dedicated direct commodities exposure to help insulate against inflation pressure?

For one, while there are several ways to get commodities exposure, each is problematic, in our view. Physical delivery and storage can be difficult and expensive. Investing in futures contracts avoids these issues, yet the return is impacted by the contango or backwardation of the futures curve (that is, whether prices are expected to rise or fall in the future, respectively). And while investing indirectly via financial assets tied to commodities indexes is easier, it lacks investment specificity. For example, consider the S&P GSCI, which provides exposure to everything from wheat to cocoa and cattle, in addition to oil and gold. There is also the risk of concentrated exposures due to index-construction methodology.

Second, while commodities have historically done well in periods of high inflation, they have fallen behind other assets in periods of low inflation. Third, over the long term, commodities have lagged equities. Thus, if you are a younger investor, you should consider exposure to the inbuilt inflation-hedge characteristics of equities via indirect exposure to commodities via the shares of energy and materials companies. And finally, we find that for older investors or those in or near retirement, TIPS can help because of its mechanical link between inflation and return.

Your Series has indirect commodities exposure via energy and materials holdings in underlying equity funds. How is this exposure monitored?

There are two levels of monitoring. At the underlying fund level, portfolio managers are conducting research into the economic cycle and individual companies and expressing a view. So, if they expect inflation to increase or remain high, they may invest in the individual stocks sectors best suited to profit from that. Because the underlying equity funds of our Target Date Series are actively managed, the underlying portfolio managers can pivot exposure to these inflation-sensitive areas based on market conditions.

We also have a dedicated team of analysts monitoring exposures for the Series overall. They are looking at underlying holdings, factor exposures and more on an ongoing basis. We know, for example, when our Series has more energy exposure than our peer group.

Investment results — underlying American Funds

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.

			Average annual total returns for Class R-6 shares (%)				
For periods ended December 31, 2022	Inception date	1 year* (%)	5 years	10 years	Lifetime	Expense ratio (%)	Annualized 30-day gross SEC yield (%)†
Fixed income funds							
American Funds Inflation Linked Bond Fund	12/14/12	–11.63	2.42	1.53	1.46	0.30	–2.42
American Funds Mortgage Fund	11/1/10	-9.74	0.46	1.21	1.65	0.24	2.42
American High-Income Trust	2/19/88	-8.84	3.31	3.93	7.49	0.30	6.86
The Bond Fund of America	5/28/74	-12.36	1.01	1.64	7.18	0.20	2.84
Capital World Bond Fund	8/4/87	-17.17	-1.41	-0.15	5.33	0.48	3.18
Intermediate Bond Fund of America	2/19/88	-7.21	1.12	1.11	4.39	0.23	2.29
Short-Term Bond Fund of America	10/2/06	-3.47	0.90	0.82	1.50	0.29	3.06
U.S. Government Securities Fund	10/17/85	-10.67	0.83	1.12	5.24	0.24	1.63
American Funds Strategic Bond Fund	3/1/16	–12.45	2.34	–	2.55	0.32	2.52
American Funds Multi-Sector Income Fund	3/22/19	-10.67	0.83	1.12	5.24	0.24	5.61

* One-year results are cumulative, not annualized.
† The 30-day SEC yield is as of February 28, 2023, and reflects the rate at which the fund is earning income on its current portfolio of securities.

Investment and index disclosures

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

This content, developed by Capital Group, home of American Funds, should not be used as a primary basis for investment decisions and is not intended to serve as impartial investment or fiduciary advice.

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.

Statements attributed to an individual represent the opinions of that individual as of the date published and do not necessarily reflect the opinions of Capital Group or its affiliates. This information is intended to highlight issues and should not be considered advice, an endorsement or a recommendation.

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.

Class R-6 shares were first offered on May 1, 2009. Class R-6 share results prior to the date of first sale are hypothetical based on the results of the original share class of the fund without a sales charge, adjusted for typical estimated expenses. Results for certain funds with an inception date after May 1, 2009, also include hypothetical returns because those funds' Class R-6 shares sold after the funds' date of first offering. For Short-Term Bond Fund of America, shares first sold on November 20, 2009; results prior to that date are hypothetical, except for the period between May 7, 2009, and June 15, 2009, a short period when the fund had shareholders and actual results were calculated. Please see each fund's prospectus for more information on specific expenses.

The market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index. There have been periods when the funds have lagged their respective indexes.

The return of principal for bond funds and 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. 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. 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.

The Ibbotson Large Company Stocks Index is represented by the S&P 500 Index from 1957 to present. From 1926 to 1956, it was represented by the S&P 90 Stock Index.

The S&P 500 Index is a market-capitalization-weighted index that represents approximately 500 widely held common stocks.

The S&P 500 Price Return Index tracks the stock performance of 500 large U.S. companies. It is a price index that does not reflect dividends paid on the underlying stocks.

The S&P GSCI is a composite index of commodity sector returns broadly diversified across the spectrum of commodities. It represents an unleveraged, long-only investment in commodity futures.

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, investment results reflect fee waivers and/or expense reimbursements, without which results would have been lower. Please see capitalgroup.com for more information.

If used after March 31, 2023, this white paper must be accompanied by the most recent American Funds quarterly statistical update.

Capital Client Group, Inc.

The Capital Advantage®

Since 1931, Capital Group, home of American Funds, has helped investors pursue long-term investment success. Our consistent approach — in combination with The Capital System™ — has resulted in superior outcomes.

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 28 years of investment industry experience, including 22 years at our company, reflecting a career commitment to our long-term approach.[1]

The Capital System

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 outcomes

Equity-focused funds have beaten their Lipper peer indexes in 91% of 10-year periods and 99% of 20-year periods.[2] Relative to their peers, our fixed income funds have helped investors achieve better diversification through attention to correlation between bonds and equities.[3] Fund management fees have been among the lowest in the industry.[4]

[1] Investment industry experience as of December 31, 2022.

[2] Based on Class R-6 share results for rolling monthly 10- and 20-year periods starting with the first 10- or 20-year period after each mutual fund's inception through December 31, 2022. 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. Past results are not predictive of results in future periods.

[3] Based on Class R-6 share results as of December 31, 2022. Ten of the 12 taxable fixed income American Funds that have been in existence for the three-year period showed a three-year correlation lower than their respective Morningstar peer group averages. S&P 500 Index was used as an equity market proxy. Correlation based on monthly total returns. Correlation is a statistical measure of how two securities move in relation to each other. A correlation ranges from –1 to 1. A positive correlation close to 1 implies that as one security moves, either up or down, the other security will move in "lockstep," in the same direction. A negative correlation close to –1 indicates that the securities have moved in the opposite direction.

[4] On average, our mutual fund management fees were in the lowest quintile 62% of the time, based on the 20-year period ended December 31, 2022, versus comparable Lipper categories, excluding funds of funds.

Class R-6 shares were first offered on May 1, 2009. Class R-6 share results prior to the date of first sale are hypothetical based on the results of the original share class of the fund without a sales charge, adjusted for typical estimated expenses. Results for certain funds with an inception date after May 1, 2009, also include hypothetical returns because those funds' Class R-6 shares sold after the funds' date of first offering. For Short-Term Bond Fund of America, shares first sold on November 20, 2009; results prior to that date are hypothetical, except for the period between May 7, 2009, and June 15, 2009, a short period when the fund had shareholders and actual results were calculated. Refer to each fund's prospectus for more information on specific expenses.

Lit. No. RPGEWP-030-0423C CGD/TM/9768-S93829 Printed in USA