



AMERICAN  
FUNDS®

From Capital Group

Select Active Advantage

**Build Retirement  
Portfolios That Seek  
Greater Wealth and  
Lower Risk.**



# Executive Summary

In 2014, we published in-depth research demonstrating that shifting a portfolio's core assets to select active managers can improve outcomes for investors. The study showed that investors can use two screens – low expenses and high manager ownership – to narrow the field of active managers in pursuit of higher returns.

We have extended that research with another in-depth study of what happens when investors reach retirement and begin to draw income from their portfolios.

The findings in the following pages show that an active advantage can be even more powerful in retirement.

## 1 | You don't have to settle for average

There is a widely held perception that investors are better off placing the bulk of their portfolios in passive investments and settling for average outcomes. Yet, an abundance of evidence shows that select active managers have delivered higher returns – with reduced volatility – than market indexes over time.

**Key takeaway:** A core portfolio of select active investments can deliver superior outcomes.

## 2 | In core portfolios, two traits raised success rates

Actively managed funds that share two essential characteristics – low expenses and high manager ownership – have tended to give investors an active advantage. **Key takeaway:** Screen for funds with lower expense ratios and high manager ownership.

## 3 | Downside resilience is a key to retirement success

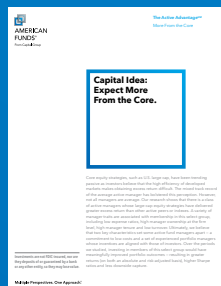
Use a third important trait – downside resilience – when narrowing the field of equity managers for retirement portfolios. **Key takeaway:** Look for active managers with a track record of downside resilience in pursuit of better retirement outcomes.

## 4 | The American Funds Advantage<sup>SM</sup> has been dramatic in retirement

American Funds equity funds have provided investors with clear advantages over market indexes over meaningful time frames. **Key takeaway:** Consider American Funds equity funds for core holdings in retirement portfolios.

### In accumulation: Expect More From Core Investments

Our study published in 2016 concluded that investors can use two criteria – low expenses and high manager ownership – to narrow the field of active managers in pursuit of higher returns.



### In distribution: Key Steps to Retirement Success: How to Seek Greater Wealth and Downside Resilience

Our latest findings demonstrate that an active advantage can be even more powerful in retirement. Further research shows that screening for three traits, including downside capture, can help lead to better retirement outcomes.



# 1 | You Don't Have to Settle for Average

## Search for an Active Advantage

A growing number of voices in the media today proclaim the superiority of passive, or index, investing over active management.

Actively managed funds can't consistently outpace market indexes, they say, so most individuals would be better off investing their assets in passive strategies and accepting average results.

Indeed, actively managed funds on average have beaten their benchmarks less than half the time (see chart below). But there is a problem with averages. The fact that the average person can't dunk a basketball doesn't mean no one can.

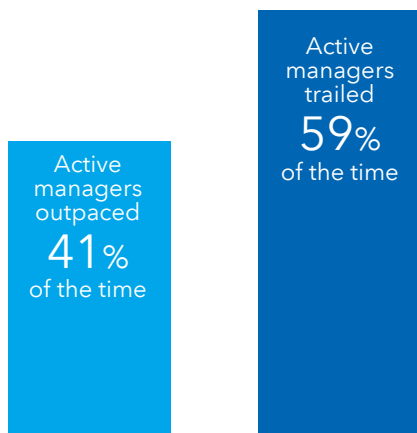
Morningstar and other objective sources have produced research showing that select active managers, including American Funds, have generated higher returns than market indexes over time with reduced volatility.

Choosing the right active managers can have a powerful impact on outcomes for investors. An active advantage can be even more powerful in retirement, when investors are no longer earning a paycheck to provide a cushion during market extremes.

Rather than focusing on short-term results, we believe it is critical for investors to work closely with an advisor who uses a robust due diligence process to identify such select active managers.

### "The average active manager can't beat the index."

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For the 20 calendar years ended December 31, 2015, the universe of U.S. equity active managers, on average, outpaced the S&P 500 about 41% of the time.

### But not all managers are average.

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"[American Funds] very visibly accomplishes what index-fund proponents claim cannot be done: outperform year after year, decade after decade."

— Morningstar, January 30, 2014

## 2 | In Core Portfolios, Two Traits Raised Success Rates

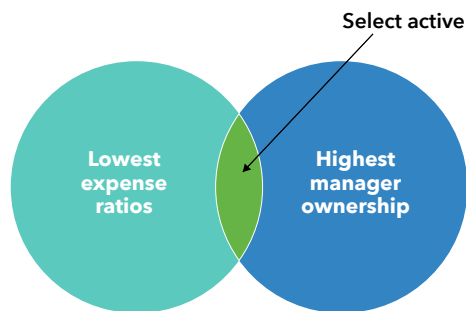
### Research on Improving Manager Selection

Investors can enhance their core portfolios by focusing on active managers of funds that share certain qualities. Our in-depth research showed two criteria should be included in a thorough due diligence process: Look for funds with relatively low expense ratios and investment firms whose managers invest more of their own money into the funds they manage.

While past results are not predictive of results in the future, we found that funds that shared these two characteristics have tended to outpace market indexes and the broader universe of active managers over time.

We looked at four broad categories of actively managed, large-cap equity funds in the Morningstar database and identified those funds that ranked among the least expensive and those funds whose firms ranked among the highest of management ownership. We then focused on the short list of funds that fit both criteria.

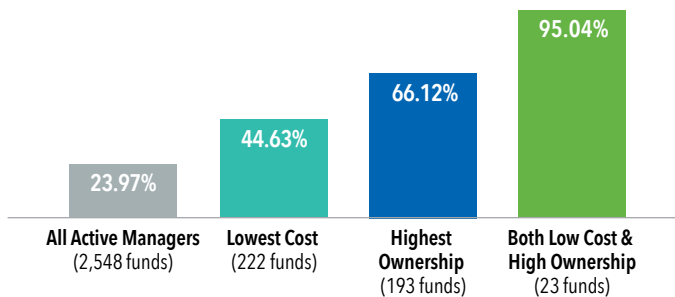
When we compared rolling 10-year annualized returns for various categories of active strategies versus benchmark indexes, we found that the small group of active funds that met both criteria had notably higher success rates over the 20 years ended December 31, 2015. By success rate, we mean the percentage of rolling monthly periods in which the category of active funds outpaced its respective index.



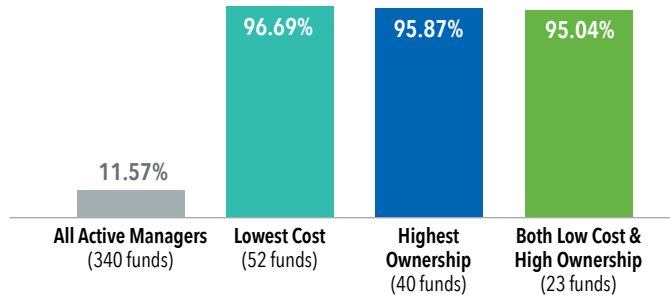
### Look for Funds With Low Expenses and High Manager Ownership

Percentage of monthly rolling 10-year periods in which the category of active funds outpaced indexes (1996-2015)

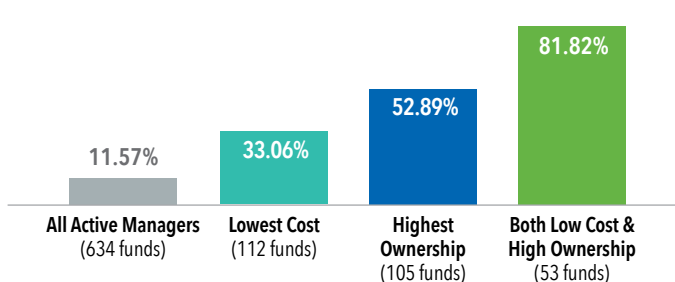
#### U.S. Large Cap



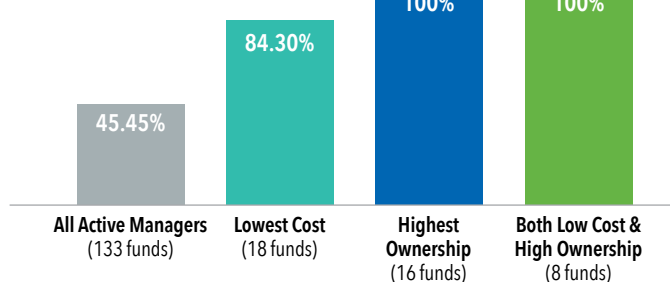
#### Moderate Allocation



#### Foreign Large Cap



#### World Allocation



Source: Capital Group, based on Morningstar data. Domestic funds are those in the Morningstar Open-End Large Value, Large Blend and Large Growth categories. International funds are those in the Morningstar Open-End Foreign Large Value, Foreign Large Blend and Foreign Large Growth categories. Moderate Allocation and World Allocation funds drawn from Morningstar categories of the same name. 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. Morningstar universe as of April 15, 2016. Fee and manager ownership data as of December 31, 2015. Based on monthly returns. See Appendix for methodology and description of fund categories. U.S. index is S&P 500. Foreign index is MSCI All Country World ex USA. Moderate Allocation index is 60% S&P 500 and 40% Barclays U.S. Aggregate indexes. World Allocation index is 60% MSCI All Country World Index and 40% Barclays Global Aggregate 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

Can an active core portfolio help investors achieve better outcomes? To find out, we looked at two hypothetical investment scenarios – one consisting of 50% allocations each to U.S. large-cap and foreign large-cap funds, representing an investor’s typical large-cap equity allocation; the second consisted of 50% weightings each to Moderate Allocation and World Allocation funds. These two Morningstar fund categories respectively represent strategies with a mix of U.S. and global stocks and bonds.

In both scenarios, a hypothetical \$100,000 lump sum was invested in three equity portfolios – an index portfolio, a portfolio of those funds that met the criteria of lower expenses and higher manager ownership, and an American Funds portfolio of funds drawn from

the corresponding Morningstar categories – for the 20 years ended December 31, 2015. As you can see in the chart below, both select active core and American Funds core portfolios outperformed their respective index portfolios across a range of metrics.

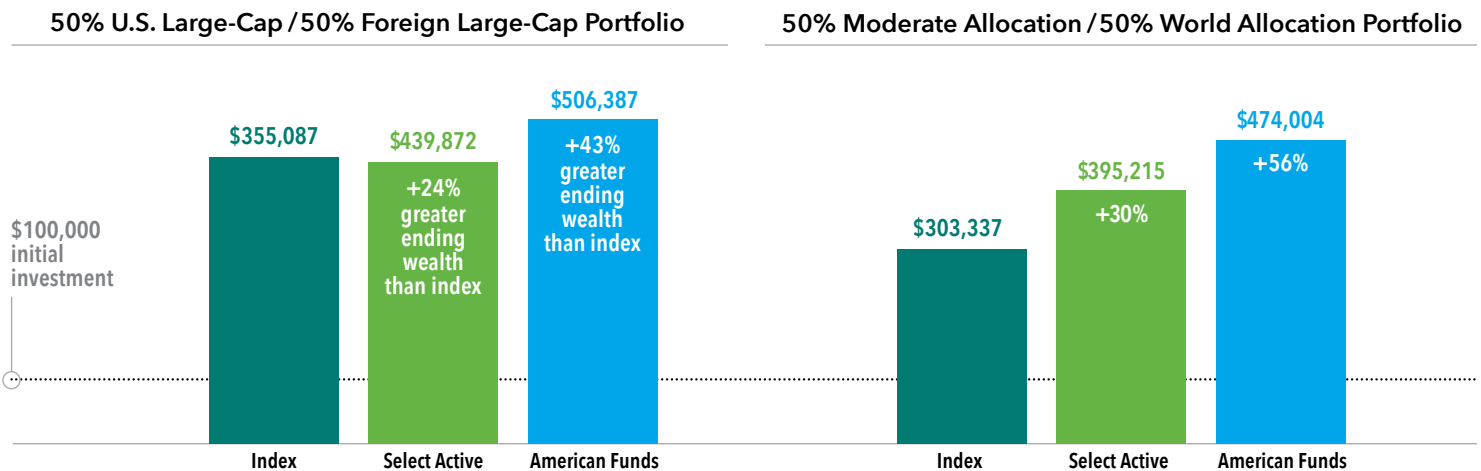
### The bottom line:

- All four active portfolios would have generated better outcomes for investors than their respective index portfolio.
- In the U.S. and foreign large-cap scenario, the American Funds portfolio would have delivered 43% more ending wealth than a comparable index portfolio. In the Moderate and World Allocation scenario, the American Funds portfolio would have produced 56% more wealth than a comparable index portfolio.

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).

## Two Steps Led to Greater Wealth in Accumulation

Growth of a hypothetical lump sum \$100,000 initial investment for the 20 years ended December 31, 2015



Annualized Results						
Returns	6.54%	7.69%	8.45%	5.71%	7.11%	8.09%
Standard deviation	15.66	15.95	14.55	10.23	9.94	9.47
Sharpe ratio	0.33	0.39	0.47	0.36	0.50	0.61

Source: Capital Group, based on Morningstar data. Hypothetical results are based on monthly returns of portfolios from January 1996 to December 2015. The components of each allocation can be found in the Methodology section of the Appendix on page 9. American Funds U.S. Large-Cap funds include AMCAP Fund, American Mutual Fund, Fundamental Investors, The Growth Fund of America, The Investment Company of America, The New Economy Fund and Washington Mutual Investors Fund. American Funds Foreign Large-Cap funds include EuroPacific Growth Fund and International Growth and Income Fund. The index portfolio consists of 50% S&P 500 Index and 50% MSCI All Country World Index ex USA. American Funds Moderate Allocation funds include American Balanced Fund and The Income Fund of America. The American Funds World Allocation funds include American Funds Global Balanced Fund and Capital Income Builder. Past results are not predictive of results in future periods. The index portfolio consists of 60% MSCI All Country World Index and 40% Barclays Global Aggregate Index. Portfolios were rebalanced monthly. The indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index. 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. 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.



# 3 | Downside Resilience Is Key to Retirement Success

## Select Active Funds Have Significantly Outpaced Indexes in Distribution

To meet the complex challenges of retirement, investors will need investments that can provide a sustainable income stream while offering a measure of resilience during market declines.

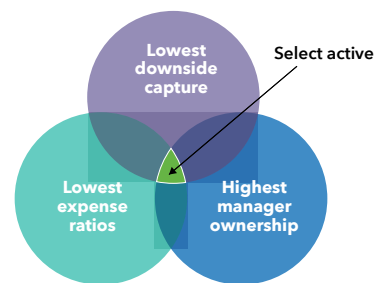
Downside capture ratio compares a fund's return with an index's during periods when the index return was negative. In other words, a lower downside capture ratio indicates that the fund did better in bad markets.

Our research shows that actively managed funds sharing three traits – low downside capture ratio, low expenses and high firm manager ownership – consistently outpaced benchmark indexes and the broader equity fund universe in the distribution phase.

We looked at hypothetical \$500,000 lump sum investments in various categories of large-cap equity strategies, assuming a 4% initial withdrawal, increasing 3% a year for the 20 years ended December 31, 2015.

The charts below show hypothetical success rates for monthly rolling 10-year periods for four broad categories of actively managed funds in the Morningstar database, as well as funds in each category that ranked among those with the best downside capture ratios, lower expense ratios and higher manager ownership.

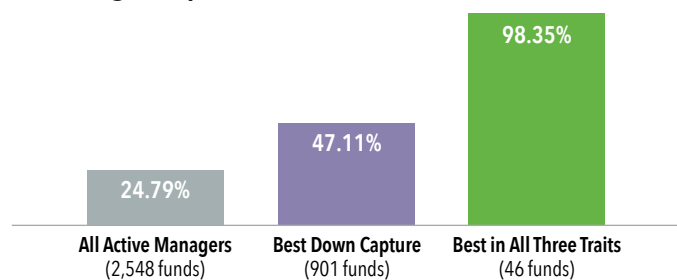
Remarkably, we found that a portfolio of funds possessing all three traits would have had nearly perfect success rates for three of the four categories we studied.



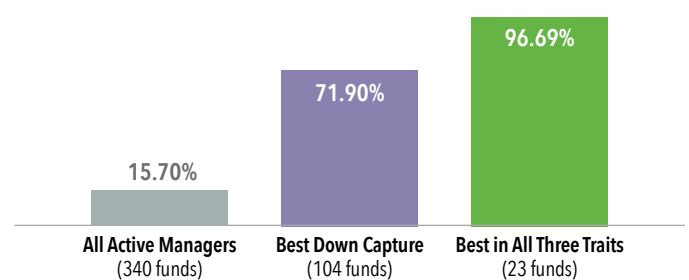
### In Distribution, Look for Funds That Meet Three Key Criteria

Percentage of rolling 10-year periods in which funds outpaced indexes in a withdrawal scenario (1996-2015) \$500,000 initial investment, with 4% initial withdrawal, increasing by 3% annually

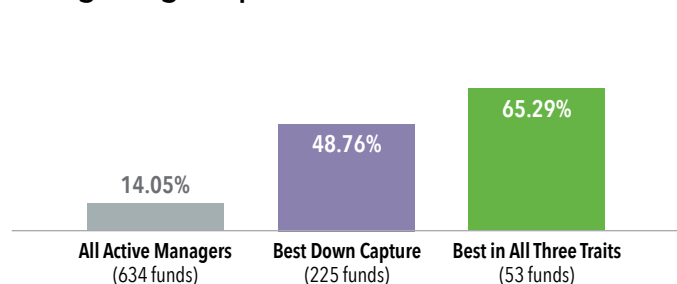
#### U.S. Large Cap



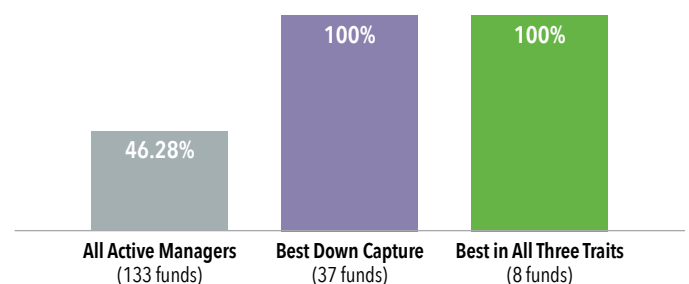
#### Moderate Allocation



#### Foreign Large Cap



#### World Allocation



Source: Capital Group, based on Morningstar data. Based on monthly returns net of fees. Average annualized returns include withdrawals. See Appendix for methodology. U.S. funds are those in the Morningstar Open-End Large Value, Large Blend and Large Growth categories. International funds are those in the Morningstar Open-End Foreign Large Value, Foreign Large Blend and Foreign Large Growth categories. Moderate Allocation and World Allocation funds drawn from Morningstar categories of the same name. Moderate Allocation index is 60% S&P 500 and 40% Barclays U.S. Aggregate indexes. World Allocation index is 60% MSCI All Country World Index and 40% Barclays Global Aggregate Index. U.S. index is S&P 500. Foreign index is MSCI All Country World ex USA. The indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

## Why It Matters: The Potential for Dramatically Better Retirement Outcomes

The key question is, can select active portfolios help investors achieve better outcomes in retirement?

We conducted hypothetical investment scenarios at three different withdrawal rates. The choice of withdrawal rate is dependent on an investor's particular circumstances and goals among other things, and we believe it is best determined through close collaboration with a trusted advisor. However, we believe it is prudent to stress-test portfolios across a variety of withdrawal-rate assumptions.

In all three scenarios we compared results for three retirement portfolios – an index portfolio; a portfolio of select active equity funds composed of 50% Moderate Allocation strategies and

50% World Allocation strategies; and a portfolio of American Funds drawn from those two select active groups. We looked at hypothetical \$500,000 investments at 4%, 5% and 6% initial withdrawal rates, that increased 3% each year for the 20 years ended December 31, 2015.

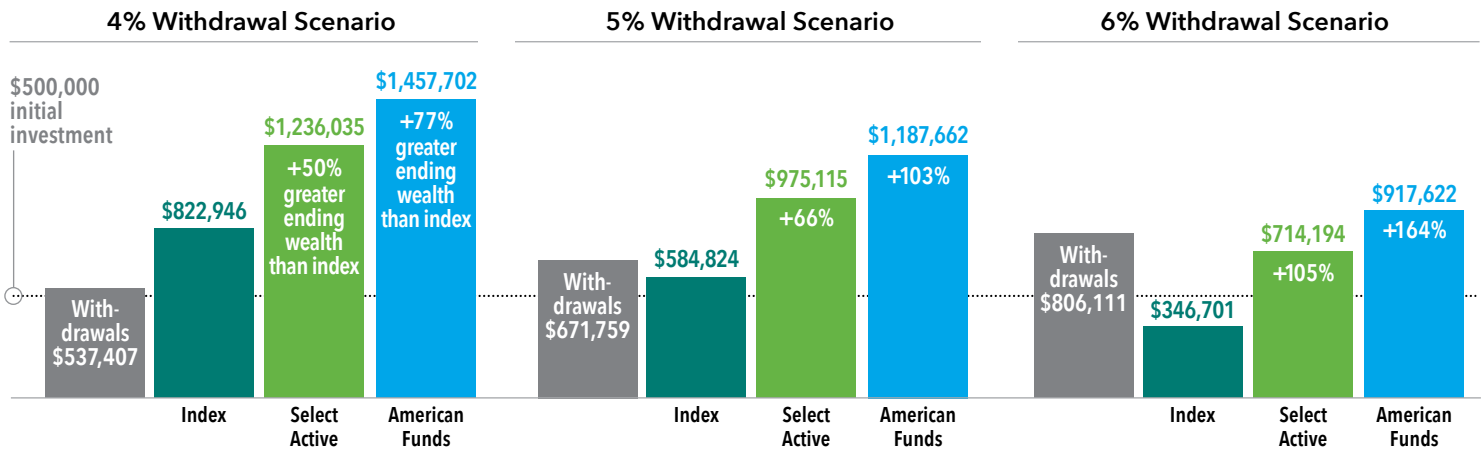
### The bottom line:

- In all three withdrawal scenarios both the select active and American Funds portfolios collectively generated significantly higher wealth than the index portfolio.
- The American Funds portfolio would have created 77% greater wealth than the index portfolio at a 4% initial withdrawal rate, 103% more wealth at 5%; and 164% more at the 6% stress test rate.

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).

## Select Active Portfolios Delivered Greater Wealth and Lower Risk Distribution

Return of a hypothetical \$500,000 initial investment, assuming an initial percentage withdrawal rate, increasing by 3% each year thereafter, for a 50% Moderate Allocation / 50% World Allocation portfolio. For the 20 years ending December 31, 2015



### Annualized Results for 4% Withdrawal Scenario

	Index	Select Active	American Funds
Returns	6.81%	8.28%	8.93%
Standard deviation	15.66	14.59	14.29
Sharpe ratio	0.33	0.43	0.47

Source: Capital Group, based on Morningstar data. Hypothetical results are based on monthly returns of portfolios from January 1996 to December 2015. Average annualized returns include withdrawals. The components of each allocation can be found in the Methodology section of the Appendix. American Funds Moderate Allocation funds include The Income Fund of America and American Balanced Fund. American Funds World Allocation funds include Capital Income Builder and American Funds Global Balanced Fund. American Funds U.S. Large Cap funds include AMCAP Fund, American Mutual Fund, Fundamental Investors, The Growth Fund of America, The Investment Company of America, The New Economy Fund and Washington Mutual Investors Fund. American Funds Foreign Large-Cap funds include EuroPacific Growth Fund and International Growth and Income Fund. The index portfolio for the 50% Moderate Allocation / 50% World Allocation portfolio consists of 60% MSCI All Country World Index and 40% Barclays Global Aggregate Index. The index portfolio for the 50% U.S. Large-Cap/50% Foreign Large-Cap allocations consist of 50% S&P 500 Index and 50% MSCI All Country World Index ex USA. Portfolios were rebalanced monthly. The indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

# 4 | The American Funds Advantage Can Be Dramatic in Retirement

## The American Funds Active Advantage in Retirement

Another factor that plays a critical role in the pursuit of superior retirement outcomes is investment selection. Among other things, investors should consider funds with strong track records in distribution. The tables below show how all 14 equity-focused American Funds would have fared against benchmark indexes in hypothetical drawdown scenarios over rolling monthly 20-year periods. The tables show the percentage of 20-year periods in each fund's lifetime that the fund would have generated a higher ending balance than its index when considering hypothetical \$500,000 initial investments, assuming a 4% initial withdrawal, increasing 3% each year thereafter.

The tables also include median ending balances for all 20-year periods for the funds and their respective indexes. Medians

represent the midpoint of a range of outcomes that include lower and higher values. While past results are not predictive of results in future periods, the historical record shows that American Funds equity funds have provided investors with clear advantages over 20-year distribution periods. Keep in mind that there have been periods when the funds lagged their indexes.

### The bottom line:

- Fourteen of the 14 equity-focused American Funds outpaced their respective benchmark indexes in the majority of rolling periods studied.
- Six of these funds outpaced their benchmarks in 100% of the 20-year periods in the fund's lifetime.

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).

## Equity-Focused American Funds Have Demonstrated an Active Advantage in Distribution

Active success rate is the percentage of time fund led index over rolling monthly 20-year distribution periods for hypothetical \$500,000 initial investments with a 4% initial withdrawal rate, increasing 3% per year

		AMCAP Fund	EuroPacific Growth Fund	The Growth Fund of America	The New Economy Fund	New Perspective Fund	SMALLCAP World Fund
Active success rate		81%	100%	100%	66%	100%	100%
Median ending values for all 20-year periods	Fund	\$1,842,037	\$1,218,159	\$2,206,367	\$1,470,551	\$1,859,648	\$1,218,071
	Index	\$1,299,857	\$446,715	\$1,299,857	\$1,299,857	\$688,493	\$688,493

		American Mutual Fund	Capital World Growth and Income Fund	Fundamental Investors	The Investment Company of America	Washington Mutual Investors Fund	Capital Income Builder	The Income Fund of America	American Balanced Fund
Active success rate		68%	100%	90%	76%	97%	100%	85%	74%
Median ending values for all 20-year periods	Fund	\$1,281,358	\$2,000,953	\$1,802,003	\$1,509,609	\$1,424,958	\$1,343,517	\$1,236,350	\$1,333,065
	Index	\$1,299,857	\$688,493	\$1,299,857	\$1,299,857	\$1,299,857	\$644,631	\$1,049,869	\$1,049,869

Active success rate is the percentage of time a fund has outpaced its relevant index over rolling 20-year periods. Active success rates are based on hypothetical \$500,000 initial investments in each fund at a 4% initial withdrawal rate increasing 3% each year to account for inflation, over rolling 20-year periods since the month end following each fund's inception through 12/31/15 (AMCAP Fund: 5/1/67; EuroPacific Growth Fund: 4/16/84; The Growth Fund of America: 12/1/73; The New Economy Fund: 12/1/83; New Perspective Fund: 3/13/73; SMALLCAP World Fund: 4/30/90; American Mutual Fund: 2/21/50; Capital World Growth and Income Fund: 3/26/93; Fundamental Investors: 8/1/78; The Investment Company of America: 1/1/34; Washington Mutual Investors Fund: 7/31/52; Capital Income Builder: 7/30/87; The Income Fund of America: 12/1/73; and American Balanced Fund: 7/26/75). Results are at net asset value with all distributions reinvested. For each fund's comparable index/index blend, see Appendix, Methodology section, page 10. 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 the indexes. Average relative ending balance when the fund lagged or led the index is the average difference between the fund's ending balance and index portfolio's ending balance for the time periods analyzed.



# Behind the Numbers: The Capital System<sup>SM</sup>

Through the decades, Capital Group's active management has provided clear advantages over index investing. The tables on this page and the next show superior results across multiple investment strategies and time periods. The 17 equity-focused American Funds shown here have consistently outpaced their benchmarks, provided resilience in challenging environments, produced results with less volatility than the broad market and done so at a relatively low cost.

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 are at net asset value with all distributions reinvested. If the funds' maximum sales charge (5.75%) had been deducted, results would have been lower. For current information and month-end results, visit [americanfunds.com](http://americanfunds.com).

## Fund-Specific Active Advantage

Rolling Monthly Periods Ended 12/31/15

Fund and Inception Date	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	30 Years
<b>Growth Funds</b>							
<b>AMCAP Fund® (5/1/67)</b>							
Percentage of time fund outpaced index	52%	53%	53%	72%	81%	82%	92%
Fund annualized return (%)	13.12	12.01	11.89	12.55	13.00	13.22	13.21
Index annualized return (%)	11.41	10.52	10.36	10.72	11.39	12.03	11.94
Difference (%)	1.71	1.49	1.53	1.83	1.61	1.19	1.27
<b>EuroPacific Growth Fund® (4/16/84)</b>							
Percentage of time fund outpaced index	62%	74%	83%	95%	100%	100%	100%
Fund annualized return (%)	12.97	11.32	10.66	10.51	10.10	10.40	11.30
Index annualized return (%)	11.96	9.31	7.73	7.24	6.60	7.05	9.31
Difference (%)	1.01	2.01	2.93	3.27	3.50	3.35	1.99
<b>The Growth Fund of America® (12/1/73)</b>							
Percentage of time fund outpaced index	56%	65%	64%	75%	86%	100%	100%
Fund annualized return (%)	15.58	14.61	14.31	13.88	13.92	14.20	13.81
Index annualized return (%)	12.71	11.83	11.60	11.66	11.83	12.30	11.68
Difference (%)	2.87	2.78	2.71	2.22	2.09	1.90	2.13
<b>The New Economy Fund® (12/1/83)</b>							
Percentage of time fund outpaced index	53%	58%	63%	58%	57%	66%	100%
Fund annualized return (%)	13.55	11.72	10.84	10.29	9.91	10.11	11.51
Index annualized return (%)	12.60	11.30	10.51	9.96	9.72	9.90	11.07
Difference (%)	0.95	0.42	0.33	0.33	0.19	0.21	0.44
<b>New Perspective Fund® (3/13/73)</b>							
Percentage of time fund outpaced index	72%	85%	87%	91%	100%	100%	100%
Fund annualized return (%)	13.75	13.14	13.02	13.14	13.12	13.31	13.12
Index annualized return (%)	10.61	10.19	10.07	10.31	10.24	10.35	10.32
Difference (%)	3.14	2.95	2.95	2.83	2.88	2.96	2.80
<b>New World Fund® (6/17/99)</b>							
Percentage of time fund outpaced index	61%	72%	77%	100%	100%	–	–
Fund annualized return (%)	10.05	10.10	10.93	10.79	8.17	–	–
Index annualized return (%)	5.75	5.27	5.59	5.12	3.91	–	–
Difference (%)	4.30	4.83	5.34	5.67	4.26	–	–
<b>SMALLCAP World Fund® (4/30/90)</b>							
Percentage of time fund outpaced index	60%	60%	54%	52%	60%	100%	–
Fund annualized return (%)	12.72	10.30	9.52	8.60	8.40	9.13	–
Index annualized return (%)	10.06	8.79	8.16	7.89	7.90	7.89	–
Difference (%)	2.66	1.51	1.36	0.71	0.50	1.24	–

## Fund-Specific Active Advantage

Rolling Monthly Periods Ended 12/31/15

Fund And Inception Date	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	30 Years
<b>Growth-and-Income Funds</b>							
<b>American Funds Developing World Growth and Income Fund (2/3/14)</b>							
Percentage of time fund outpaced index	18%	—	—	—	—	—	—
Fund annualized return (%)	-11.03	—	—	—	—	—	—
Index annualized return (%)	-8.54	—	—	—	—	—	—
Difference (%)	-2.49	—	—	—	—	—	—
<b>American Mutual Fund® (2/21/50)</b>							
Percentage of time fund outpaced index	46%	50%	56%	65%	75%	69%	87%
Fund annualized return (%)	12.54	11.85	11.68	11.43	11.54	11.75	12.28
Index annualized return (%)	12.45	11.32	10.98	10.55	10.58	10.83	11.18
Difference (%)	0.09	0.53	0.70	0.88	0.96	0.92	1.10
<b>Capital World Growth and Income Fund® (3/26/93)</b>							
Percentage of time fund outpaced index	79%	87%	95%	100%	100%	100%	—
Fund annualized return (%)	11.89	11.07	10.37	10.25	9.60	10.74	—
Index annualized return (%)	8.50	7.30	6.36	5.60	5.00	6.84	—
Difference (%)	3.39	3.77	4.01	4.65	4.60	3.90	—
<b>Fundamental Investors® (8/1/78)</b>							
Percentage of time fund outpaced index	53%	59%	68%	81%	85%	90%	100%
Fund annualized return (%)	13.99	13.02	12.76	12.44	12.47	12.73	12.26
Index annualized return (%)	13.15	12.05	11.69	11.21	11.26	11.64	11.02
Difference (%)	0.84	0.97	1.07	1.23	1.21	1.09	1.24
<b>International Growth and Income Fund<sup>SM</sup> (10/1/08)</b>							
Percentage of time fund outpaced index	60%	90%	96%	—	—	—	—
Fund annualized return (%)	10.33	9.23	9.65	—	—	—	—
Index annualized return (%)	9.80	7.37	8.05	—	—	—	—
Difference (%)	0.53	1.86	1.60	—	—	—	—
<b>The Investment Company of America® (1/1/34)</b>							
Percentage of time fund outpaced index	54%	58%	64%	66%	71%	76%	98%
Fund annualized return (%)	13.58	12.14	11.77	12.00	12.18	12.46	12.45
Index annualized return (%)	12.45	11.19	10.94	11.16	11.38	11.64	11.39
Difference (%)	1.13	0.95	0.83	0.84	0.80	0.82	1.06
<b>Washington Mutual Investors Fund<sup>SM</sup> (7/31/52)</b>							
Percentage of time fund outpaced index	57%	60%	66%	78%	92%	97%	100%
Fund annualized return (%)	13.13	12.21	11.79	11.65	11.87	12.21	12.78
Index annualized return (%)	12.13	11.05	10.52	10.28	10.38	10.77	11.24
Difference (%)	1.00	1.16	1.27	1.37	1.49	1.44	1.54
<b>Equity-Income Funds/Balanced Funds</b>							
<b>Capital Income Builder® (7/30/87)</b>							
Percentage of time fund outpaced index	67%	78%	84%	100%	100%	100%	—
Fund annualized return (%)	10.35	10.03	9.83	9.87	9.68	9.71	—
Index annualized return (%)	7.54	7.20	7.16	7.03	6.59	7.00	—
Difference (%)	2.81	2.83	2.67	2.84	3.09	2.71	—
<b>The Income Fund of America® (12/1/73)</b>							
Percentage of time fund outpaced index	59%	55%	60%	69%	81%	85%	100%
Fund annualized return (%)	12.01	11.47	11.26	11.45	11.42	11.54	11.45
Index annualized return (%)	10.81	10.48	10.44	10.65	10.78	11.03	10.69
Difference (%)	1.20	0.99	0.82	0.80	0.64	0.51	0.76
<b>American Balanced Fund® (7/26/75)</b>							
Percentage of time fund outpaced index	53%	48%	46%	55%	58%	74%	100%
Fund annualized return (%)	11.26	10.87	10.84	10.94	10.99	11.15	10.91
Index annualized return (%)	10.77	10.51	10.51	10.61	10.63	10.92	10.55
Difference (%)	0.49	0.36	0.33	0.33	0.36	0.23	0.36
<b>American Funds Global Balanced Fund<sup>SM</sup> (2/1/11)</b>							
Percentage of time fund outpaced index	91%	100%	—	—	—	—	—
Fund annualized return (%)	7.82	9.30	—	—	—	—	—
Index annualized return (%)	5.65	6.86	—	—	—	—	—
Difference (%)	2.17	2.44	—	—	—	—	—

Both fund and index annualized returns reflect the average of the average annual total returns for all periods. Data from published sources were calculated internally. Returns are from the first month-end following each fund's inception date through December 31, 2015. For each fund's comparable index/index blend, see the Methodology section of the Appendix.

## Methodology

### Compiling the Fund Universe

The universe of both large-cap domestic and large-cap foreign funds drew from Morningstar's Open-End U.S. and Foreign Large Value, Large Blend and Large Growth categories. The universe of Moderate Allocation and World Allocation funds drew from Morningstar categories of the same name. Both live and dead funds were included in each universe in order 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. Investment results are shown at net asset value. If a sales charge had been deducted, results would have been lower. For fee-related illustrations that include dead funds with multiple share classes, the median expense ratios were used. Due to the dynamic nature of the Morningstar database, results for the Morningstar universe may change.

### Screening Process

Relying on Morningstar Direct data analysis software, we performed screens for one or more of the following criteria: downside capture ratio, expense ratio and manager ownership at the firm level.

To screen for downside capture ratio, we analyzed statistics for all rolling three-year periods in the years under study. Three-year periods were chosen because many funds that "died" did so in the first five years of their lives; therefore, using rolling periods of greater than three years would have excluded many dead funds from our study. For each rolling three-year period, we ranked all funds into quartiles by downside capture, then classified each fund based on which quartile it most frequently belonged to for all those periods.

To screen for expense ratio, we calculated quartiles based on averages of annual report Net Expense Ratios (NER) for all observed Morningstar categories for the 20-year period indicated. For funds with missing expense ratios, we filled in gaps between two available data points using linear interpolation, a statistical method used to estimate the values between two known data points in a time series.

To screen for manager ownership, we calculated quartiles using weighted averages of the midpoints of Morningstar ranges 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.

Which screens we used and how we implemented them depended on which investment phase we were examining and how many funds qualified overall.

### For the Accumulation Phase (the Illustrations on Page 3):

We searched Morningstar's database using NER and firm manager ownership screens exclusively. Among large-cap domestic and large-cap foreign funds, we sought the top quartile of low NER and high manager ownership – funds at the intersection of those two groups. Among both Moderate Allocation and World Allocation funds, we sought the top two quartiles (50%) of low NER and high manager ownership. (Using the top quartile alone would have yielded an insufficient number of funds for our study to be meaningful.) We created an equally weighted portfolio of qualifying funds.

The screening for large-cap domestic resulted in seven qualifying American Funds: AMCAP Fund, American Mutual Fund, Fundamental Investors, The Growth Fund of America, The Investment Company of America, The New Economy Fund and Washington Mutual Investors Fund. The screening for large-cap foreign resulted in two qualifying 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 qualifying 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.

The screening for the Moderate Allocation category resulted in two qualifying American Funds: The Income Fund of America and American Balanced Fund. The screening for the World Allocation category also resulted in two qualifying American Funds: Capital Income Builder and American Funds Global Balanced Fund.

### For the Distribution Phase (the Illustrations on Pages 4 and 5):

Here we used a two-step screening process, beginning with the downside capture ratio. Across each fund category, we sought the top two quartile grouping of funds with low downside capture ratio. Using this subset, we then screened for low NER and high manager ownership – the intersection of those two groups – seeking the top quartile for large-cap domestic funds and the top two quartiles (50%) for large-cap foreign, Moderate Allocation and World Allocation funds. (Again, the number of quartiles used depended on the number of qualifying funds.) We created an equally weighted portfolio of qualifying funds.

The screening for large-cap domestic resulted in seven qualifying American Funds: AMCAP Fund, American Mutual Fund, Fundamental Investors, The Growth Fund of America, The Investment Company of America, The New Economy Fund and Washington Mutual Investors Fund. The screening for large-cap foreign resulted in two qualifying American Funds: EuroPacific Growth Fund and International Growth and Income Fund.

The screening for the Moderate Allocation and World Allocation categories resulted in two qualifying American Funds apiece: The Income Fund of America and American Balanced Fund, and Capital Income Builder and American Funds Global Balanced Fund, respectively.

### **Detailed Information About Manager Ownership and NER Screens**

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.

### **Information About Indexes**

Market indexes referenced in this material are defined as follows:

Barclays Global Aggregate Index represents the global investment-grade fixed-income markets. Barclays U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market. Barclays U.S. Government/Credit 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 more than one year. Citigroup World Government Bond Index represents a comprehensive measure of the total return results of the government bond markets of more than 20 countries meeting certain market capitalization requirements. MSCI All Country World 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. Results reflect dividends gross of withholding taxes through December 31, 2000, and dividends net of withholding taxes thereafter. 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. MSCI All Country World Small Cap Index is a free float-adjusted, market capitalization-weighted index that is designed to measure results of smaller capitalization companies in both developed and emerging equity markets. Results reflect dividends net of withholding taxes. MSCI EAFE (Europe, Australasia, Far East) Index is a free float-adjusted, market capitalization-weighted index that is designed to measure

developed equity market results, excluding the United States and Canada. Results reflect dividends net of withholding taxes. MSCI World Index is a free float-adjusted, market capitalization-weighted index that is designed to measure results of more than 20 developed equity markets. Results reflect dividends net of withholding taxes. Standard & Poor's 500 Index is a market capitalization-weighted index based on the average weighted results of 500 widely held common stocks. S&P Global <\$1.2 Billion Index includes only stocks in developed countries.

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 the index. Past results are not predictive of results in future periods.

### **Fund Benchmark Indexes and Index Blends**

The 17 American Funds equity-focused funds used in our analysis on pages 7 and 8 (and the relevant indexes/index blends with which they were compared) are as follows:

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 (Standard & Poor's 500 Index); EuroPacific Growth Fund and International Growth and Income Fund (MSCI All Country World ex USA Index); New Perspective Fund, New World Fund and Capital World Growth and Income Fund (MSCI All Country World Index); SMALLCAP World Fund (MSCI All Country World Small Cap Index); Capital Income Builder and American Funds Global Balanced Fund (60% MSCI All Country World and 40% Barclays Global Aggregate indexes); and The Income Fund of America and American Balanced Fund (60% Standard & Poor's 500 and 40% Barclays U.S. Aggregate indexes). All relevant indexes listed are funds' primary benchmarks, with the exception of Capital Income Builder and The Income Fund of America. The primary benchmark for Capital Income Builder is Standard & Poor's 500 Index; for The Income Fund of America, they are Standard & Poor's 500 and Barclays U.S. Aggregate indexes.

Some of these indexes lack sufficient history to have covered the lifetime of certain funds; therefore, comparable indexes were used for those periods. For American Balanced Fund, 60% Standard & Poor's 500 and 40% Barclays U.S. Government/Credit indexes were used for the period July 31, 1975 (month-end following the fund's inception on July 26, 1975), through December 31, 1975. Results for this index blend and the index blend that was subsequently used (60% Standard & Poor's 500 and 40% Barclays U.S. Aggregate indexes) were rebalanced monthly. For Capital World Growth and Income Fund, results for the MSCI All Country World Index reflect dividends gross of withholding taxes for the period March 31, 1993 (month-end following the

fund's inception on March 26, 1993), through December 31, 2000, and net of withholding taxes thereafter. For New World Fund, results for the MSCI All Country World Index reflect dividends gross of withholding taxes for the period June 30, 1999 (month-end following the fund's inception on June 17, 1999), through December 31, 2000, and net of withholding taxes thereafter. For EuroPacific Growth Fund, the MSCI EAFE (Europe, Australasia, Far East) Index was used for the period April 30, 1984 (month-end following the fund's inception on April 16, 1984), through December 31, 1987; results for the index reflect dividends net of withholding taxes. Results for the MSCI All Country World ex USA Index, which was subsequently used, reflect dividends gross of withholding taxes from January 1, 1988, through December 31, 2000, and dividends net of withholding taxes thereafter. For New Perspective Fund, the MSCI World Index was used for the period March 31, 1973 (month-end following the fund's inception on March 13, 1973), through December 31, 1987; results for the index reflect dividends net of withholding taxes. Results for the MSCI All Country World Index, which was subsequently used, reflect dividends gross of withholding taxes from January 1, 1988, through December 31, 2000, and dividends net of withholding taxes thereafter. For SMALLCAP World Fund, the S&P Global <\$1.2 Billion Index was used for the period April 30, 1990 (fund's inception), through May 31, 1994. Results for the MSCI All Country World Small Cap Index, which was subsequently used, reflect dividends net of withholding taxes. For Capital Income Builder, 60% MSCI World and 40% Citigroup World Government Bond indexes were used for the period July 31, 1987 (month-end following the fund's inception on July 30, 1987), through December 31, 1987; results for the MSCI World Index reflect dividends net of withholding taxes. From January 1, 1988, through December 31, 1989, 60% MSCI All Country World and 40% Citigroup World Government Bond indexes were used; results for the MSCI All Country World Index reflect dividends gross of withholding taxes. From January 1, 1990, and thereafter, 60% MSCI All Country World and 40% Barclays Global Aggregate indexes were used; results for the MSCI All Country World Index reflect dividends gross of withholding taxes from January 1, 1988, through December 31, 2000, and net of

withholding taxes thereafter. Results for this index blend and the index blend used prior to it were rebalanced monthly. For The Income Fund of America, 60% Standard & Poor's 500 and 40% Barclays U.S. Government/Credit indexes were used for the period November 30, 1973 (fund's inception date), through December 31, 1975. Results for this index blend and the index blend that was subsequently used (60% Standard & Poor's 500 and 40% Barclays U.S. Aggregate indexes) were rebalanced monthly.

Active success rate data on pages 7 and 8 were calculated using geometric linking of net-of-fee monthly returns from Morningstar. The American Funds and index returns were calculated internally in the same manner using monthly returns.

## Glossary

**Active 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.

**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 generated results better than its beta would predict. In contrast, a negative alpha indicates the portfolio has lagged, given the expectations established by beta.

**Downside capture ratio** reflects the annualized product of fund versus index returns for all months in which the index had a negative return.

**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.

# 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. For current information and month-end results, visit [americanfunds.com](http://americanfunds.com).

## Results as of June 30, 2016

Funds	Inception Date	1 Year	Average Annual Total Returns (%)			Expense Ratio
			5 Years	10 Years	Lifetime	
<b>Growth Funds</b>						
AMCAP Fund <sup>®</sup>	5/1/67	-7.01	10.22	7.09	11.22	0.67
EuroPacific Growth Fund <sup>®</sup>	4/16/84	-15.07	0.94	3.01	10.31	0.83
The Growth Fund of America <sup>®</sup>	12/1/73	-5.00	9.81	6.29	13.20	0.65
The New Economy Fund <sup>®</sup>	12/1/83	-14.16	8.95	7.10	10.59	0.78
New Perspective Fund <sup>®</sup>	3/13/73	-7.54	6.43	6.05	11.89	0.75
New World Fund <sup>®</sup>	6/17/99	-11.80	-0.64	4.46	6.88	1.04
SMALLCAP World Fund <sup>®</sup>	4/30/90	-13.83	5.27	5.55	9.00	1.07
<b>Growth-and-Income Funds</b>						
American Funds Developing World Growth and Income Fund <sup>SM</sup>	2/3/14	-13.67	–	–	-4.66	1.32
American Mutual Fund <sup>®</sup>	2/21/50	0.45	9.61	6.70	11.50	0.58
Capital World Growth and Income Fund <sup>®</sup>	3/26/93	-8.95	4.93	4.73	10.00	0.77
Fundamental Investors <sup>®</sup>	8/1/78	-1.64	9.45	6.64	12.12	0.60
International Growth and Income Fund <sup>SM</sup>	10/1/08	-15.76	0.37	–	4.98	0.91
The Investment Company of America <sup>®</sup>	1/1/34	-1.30	10.06	6.02	12.01	0.58
Washington Mutual Investors Fund <sup>SM</sup>	7/31/52	0.12	10.13	6.31	11.68	0.58
<b>Equity-Income Funds</b>						
Capital Income Builder <sup>®</sup>	7/30/87	-2.09	5.52	4.82	9.13	0.59
The Income Fund of America <sup>®</sup>	12/1/73	-0.63	7.16	5.69	10.91	0.55
<b>Balanced Funds</b>						
American Balanced Fund <sup>®</sup>	7/26/75	0.17	8.47	6.47	10.53	0.58
American Funds Global Balanced Fund <sup>SM</sup>	2/1/11	-3.42	4.61	–	4.96	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.**

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. Small-company stocks entail additional risks, and they can fluctuate in price more than larger company stocks. Higher yielding, higher risk bonds can fluctuate in price more than investment-grade bonds, so investors should maintain a long-term perspective.

If used after September 30, 2016, this brochure must be accompanied by a current American Funds quarterly statistical update.



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# The American Funds 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 22 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.

## Superior Long-Term Track Record

Our equity funds have beaten their Lipper peer indexes in 91% of 10-year periods and 95% of 20-year periods. Our fixed-income funds have beaten their Lipper indexes in 58% of 10-year periods and 58% of 20-year periods.<sup>2</sup> Our fund management fees have been among the lowest in the industry.<sup>3</sup>

<sup>1</sup> Portfolio manager experience as of December 31, 2015.

<sup>2</sup> Based on Class A share results for rolling periods through December 31, 2015. 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). Although Class A shares are available for purchase by retirement plans only in limited instances, their results reflect the investment management experience of the 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 eight distinct retirement plan share classes. Expenses differ for each share class, so results will vary.

<sup>3</sup> On average, our management fees were in the lowest quintile 68% of the time, based on the 20-year period ended December 31, 2015, versus comparable Lipper categories, excluding funds of funds.