



AMERICAN FUNDS®

From Capital Group

Select Active Advantage

## Selecting Funds That Have Delivered Better Retirement Outcomes

Certain Active Funds Have Significantly Outpaced Indexes in Distribution

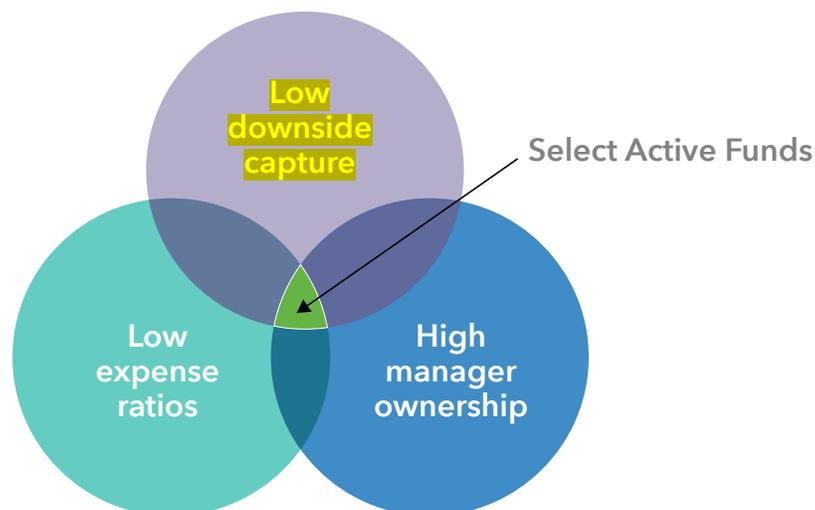
To meet the financial challenges of retirement, investors will need investments that can provide a sustainable income stream while demonstrating relative resilience during market declines.

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 declining 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.

### Funds That Met Three Criteria Outpaced Indexes and Active Peers in Our Research

Each trait added value on its own for our study, but the combination was particularly powerful in boosting results versus indexes



Source: Morningstar database of large-cap actively managed funds. Across each fund category, we ranked the funds by downside capture, net expense ratios and manager ownership.

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

## Success With Three Traits

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, 2014.

The charts below show success rates for monthly rolling 10-year periods for four broad categories of actively managed funds in the Morningstar database. It also shows results for actively managed funds

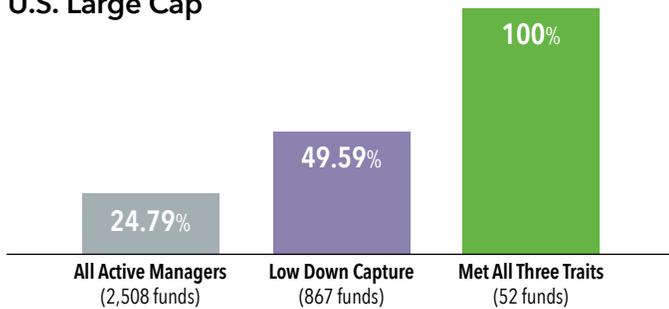
within the categories that had low downside capture, as well as funds that ranked among those with the three traits of low downside capture ratios, low expense ratios, and high manager ownership.

Remarkably, we found that a portfolio of funds possessing all three traits would have had close to 100% success rates for three of the four categories we studied.

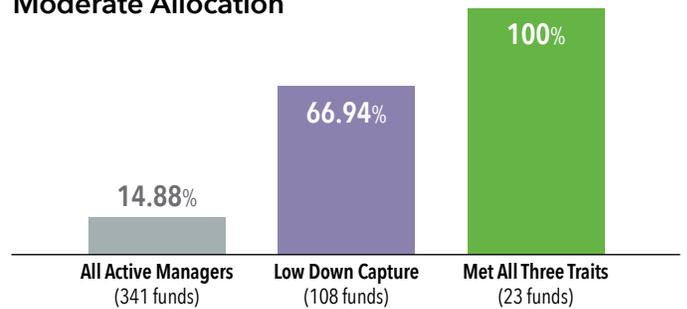
### In distribution, look for funds that meet three key criteria

Percentage of rolling 10-year periods in which funds outpaced indexes in a withdrawal scenario (1995-2014) \$500,000 initial investment, with 4% initial withdrawal, increasing by 3% annually

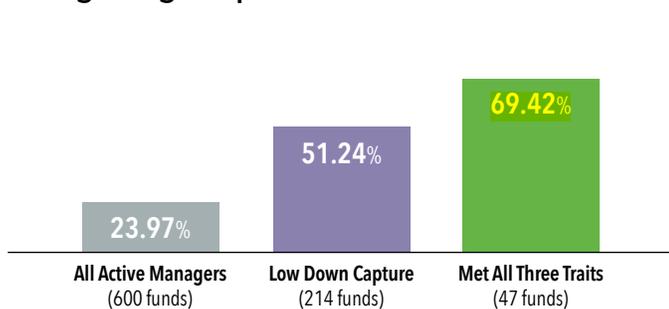
#### U.S. Large Cap



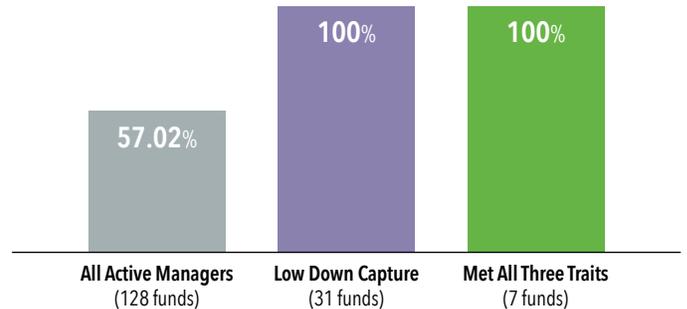
#### Moderate Allocation



#### 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 methodology section. U.S. Large Cap funds are those in the Morningstar Open-End Large Value, Large Blend and Large Growth categories. Foreign Large Cap 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.

# The Potential for Greater Wealth

## The American Funds Advantage Has Been Dramatic in Retirement

Select active managers, including American Funds, have generated higher returns than market indexes over time. High manager ownership, low expense ratios and low downside capture are three screens that identified the funds that produced superior results.

While withdrawal rates are best decided on in accordance with investor goals and objectives in collaboration with a trusted advisor, we compared results for three retirement portfolios at three different withdrawal rates.

We viewed an index portfolio, a portfolio of select active funds and a portfolio of the American Funds found in the select active group.

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, 2014. The analysis shows that each American Funds portfolio delivered superior results versus the index and select active portfolios, demonstrating greater resilience and wealth creation at higher withdrawal rates.

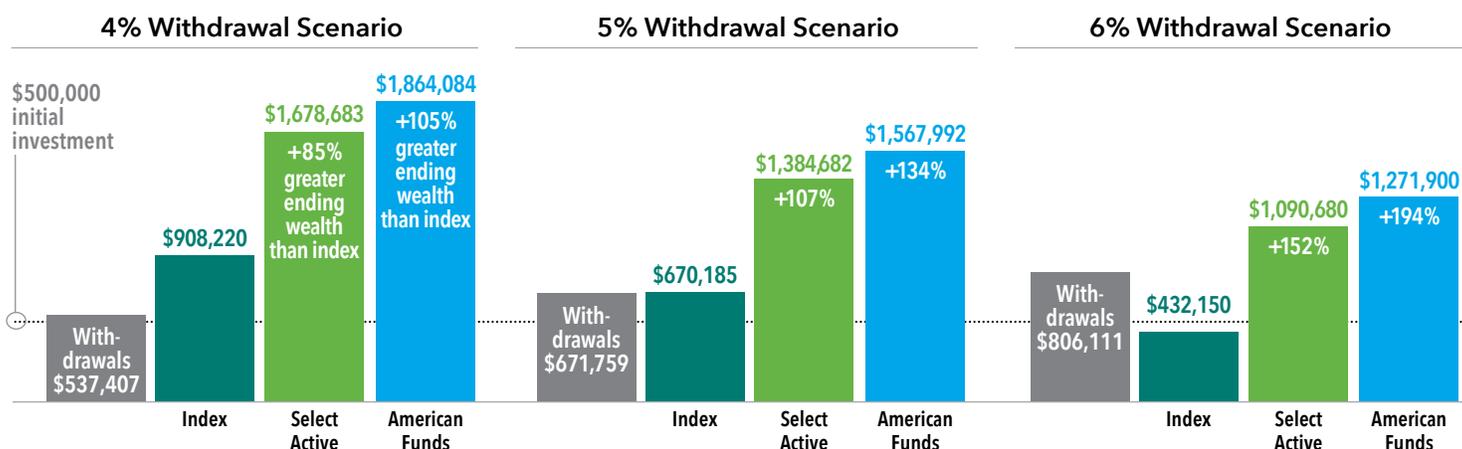
### The bottom line:

- 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 105% greater wealth than the index portfolio at a 4% initial withdrawal rate, 134% more wealth at 5%; and 194% more at the 6% 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 showed resilience during downturns and delivered greater wealth

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, 2014



### Annualized Results for 4% Withdrawal Scenario

	Index	Select Active	American Funds
Average Annual Returns	7.15%	9.50%	9.93%
Standard deviation	10.17	9.06	9.32
Sharpe ratio	0.43	0.71	0.73

Source: Capital Group, based on Morningstar data. Hypothetical results are based on monthly returns of portfolios from January 1995 to December 2014. 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 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. Portfolios were rebalanced monthly. The indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

## Methodology

We used a two-step screening process, beginning with the downside capture ratio. Across each fund category, we sought the lowest two quartiles of funds, ranked by downside capture ratios. Using this subset, we then screened for low net expense ratios 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. (Using the top quartile alone for some Morningstar categories would have yielded an insufficient number of funds for our study to be meaningful.)

The screening for large-cap domestic resulted in six qualifying American Funds: AMCAP Fund, American Mutual Fund, Fundamental Investors, The Growth Fund of America, The Investment Company of America 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.

## 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 September 30, 2015

Funds	Inception date	Average annual total returns (%)				Expense Ratio
		1 year	5 years	10 years	Lifetime	
<b>Growth funds</b>						
AMCAP Fund®	5/1/67	-6.89	12.28	6.80	11.23	0.68
EuroPacific Growth Fund®	4/16/84	-10.70	2.96	4.40	10.57	0.83
The Growth Fund of America®	12/1/73	-5.33	11.24	6.27	13.24	0.65
<b>Growth-and-income funds</b>						
American Mutual Fund®	12/21/50	-8.24	9.65	5.91	11.41	0.59
Fundamental Investors®	8/1/78	-7.24	10.33	6.58	12.02	0.61
International Growth and Income®	10/1/08	-17.02	2.82	–	5.60	0.91
The Investment Company of America®	1/1/34	-10.02	9.96	5.52	11.95	0.59
Washington Mutual Investors Fund <sup>SM</sup>	7/31/52	-9.29	10.96	5.71	11.61	0.58
<b>Equity income funds</b>						
Capital Income Builder®	7/30/87	-9.61	5.41	4.65	9.02	0.59
The Income Fund of America®	12/1/73	-9.61	7.11	5.26	10.83	0.55
<b>Balanced funds</b>						
American Balanced Fund®	7/26/75	-5.85	8.85	5.88	10.47	0.59
American Funds Global Balanced Fund®	2/1/11	-10.99	–	–	4.05	0.89

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. 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 December 31, 2015, this brochure must be accompanied by a current American Funds quarterly statistical update.