

Heathcote Meet the Manager Roadshow  
Fixed Income: Spotting opportunity amid uncertainty

February 2024

**FOR PROFESSIONAL INVESTORS ONLY**

Capital Group is represented in Australia by its member  
Capital Group Investment Management Limited (ACN 164 174 501)



Upgrade your fixed income to  
a world leader.



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**Capital Group's organisational structure:** Capital Group manages equity assets through three investment groups. These groups make investment and proxy voting decisions independently. Fixed income investment professionals provide fixed income research and investment management across the Capital organisation; however, for securities with equity characteristics, they act solely on behalf of one of the three equity investment groups.

Where applicable, fixed income assets are managed by Capital Fixed Income Investors. All asset values in USD, unless otherwise specified.

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# Fixed income at Capital Group

# One of the world's largest investment managers

Capital Group's employee ownership and focus on delivering consistent, positive results for long-term investors has helped make us one of the largest investment managers in the world

## Our fixed income credentials



**50 years**

investing since 1973



**242**

Investment professionals



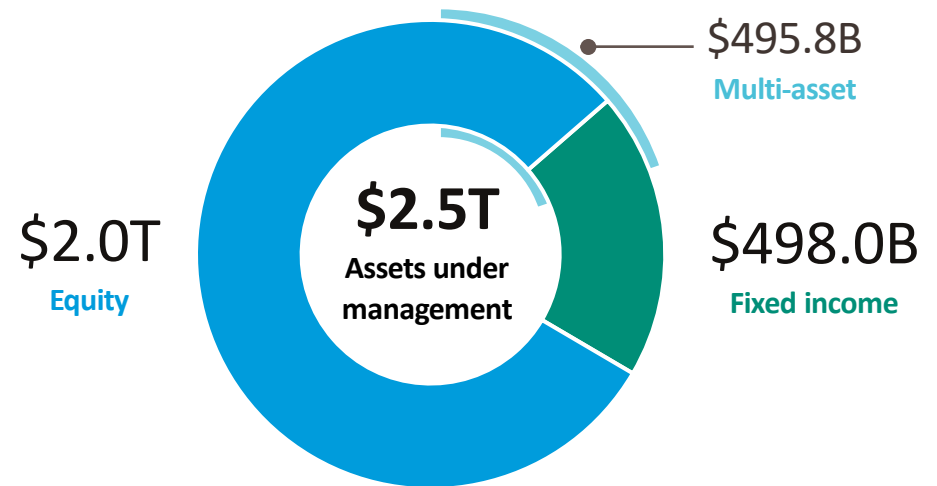
**26 years**

average investment experience of our fixed income portfolio managers

## Aligned with investor success

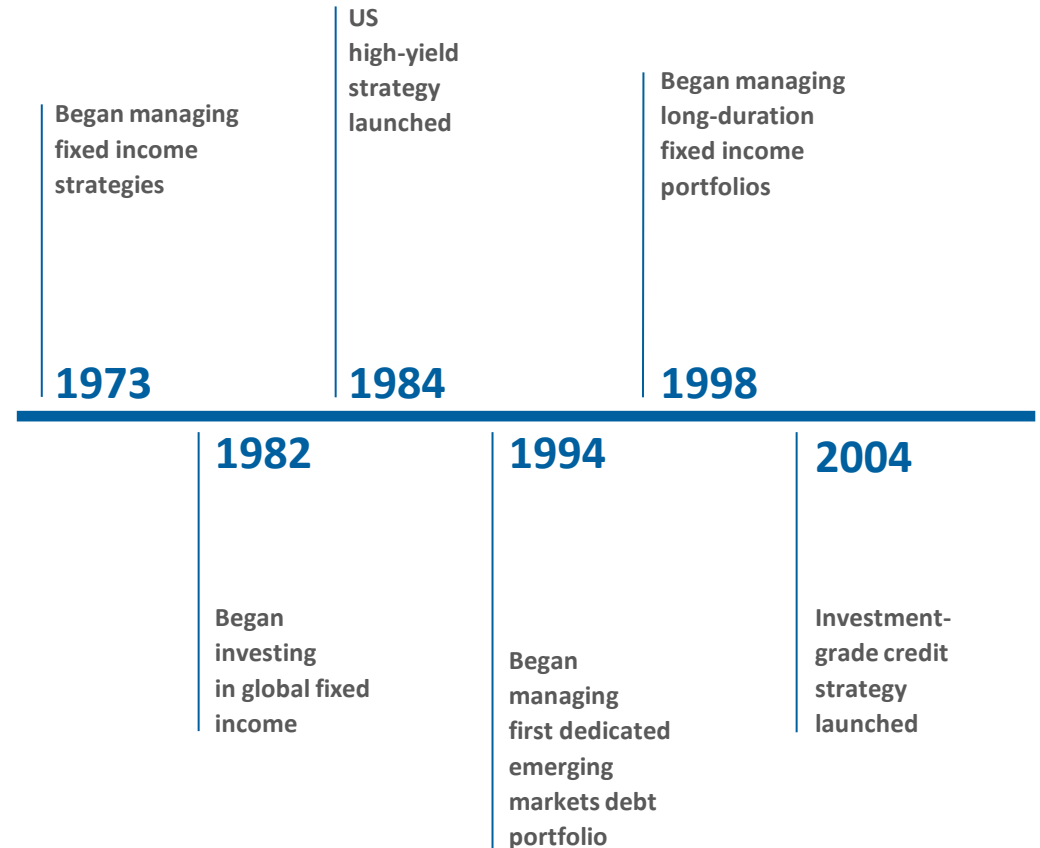
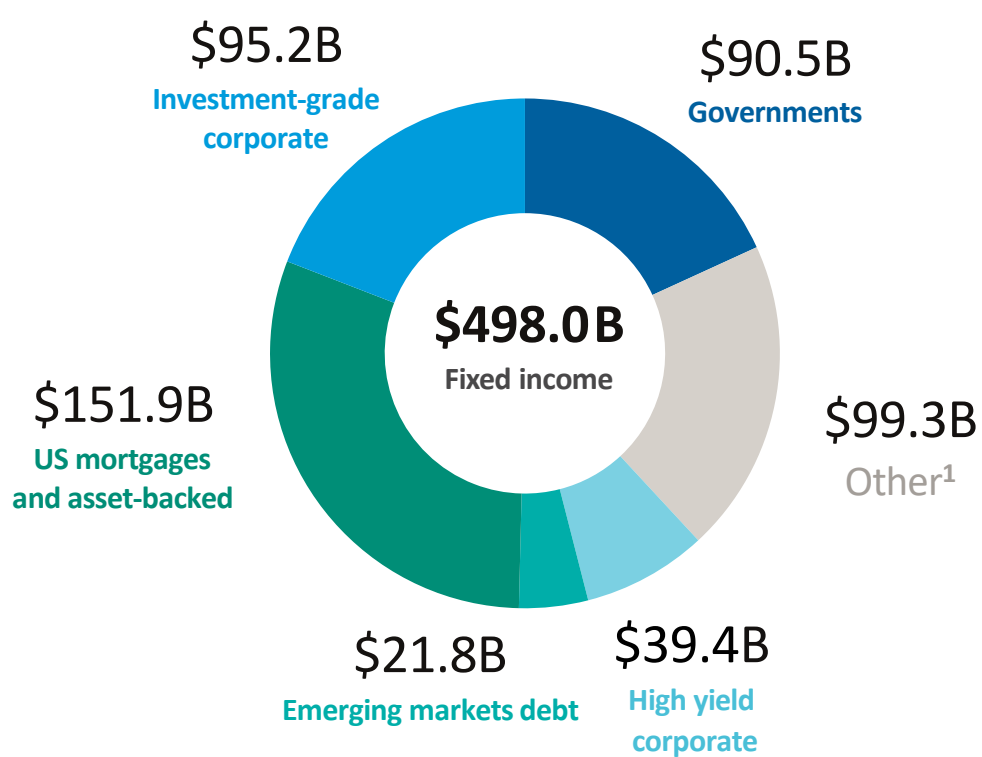
Multiple portfolio managers offer high conviction investing with natural diversification

Employee ownership provides long-term stability and alignment with clients



Assets under management are preliminary for 31 December 2023.

# A 50-year history of investing in fixed income









Assets under management are preliminary for 31 December 2023

1. Mainly comprises money markets and US municipals.

# Built on experience

An experienced team of dedicated fixed income professionals

	Total	Average years of experience	
		In the industry	With Capital Group
 Portfolio managers	34	26	17
 Research analysts	57	14	6
 Trading professionals	42	20	13
 Macro analysts	17	22	10
 Risk and quantitative analysts	14	14	6
 Investment services professionals	36	19	6
 Other fixed income professionals	42	15	7
 Total fixed income professionals	242		

Data as of 31 December 2023. Years of experience as at 31 December 2023.

'Trading professionals' includes traders, trading analysts and Head of Global Fixed Income Trading.

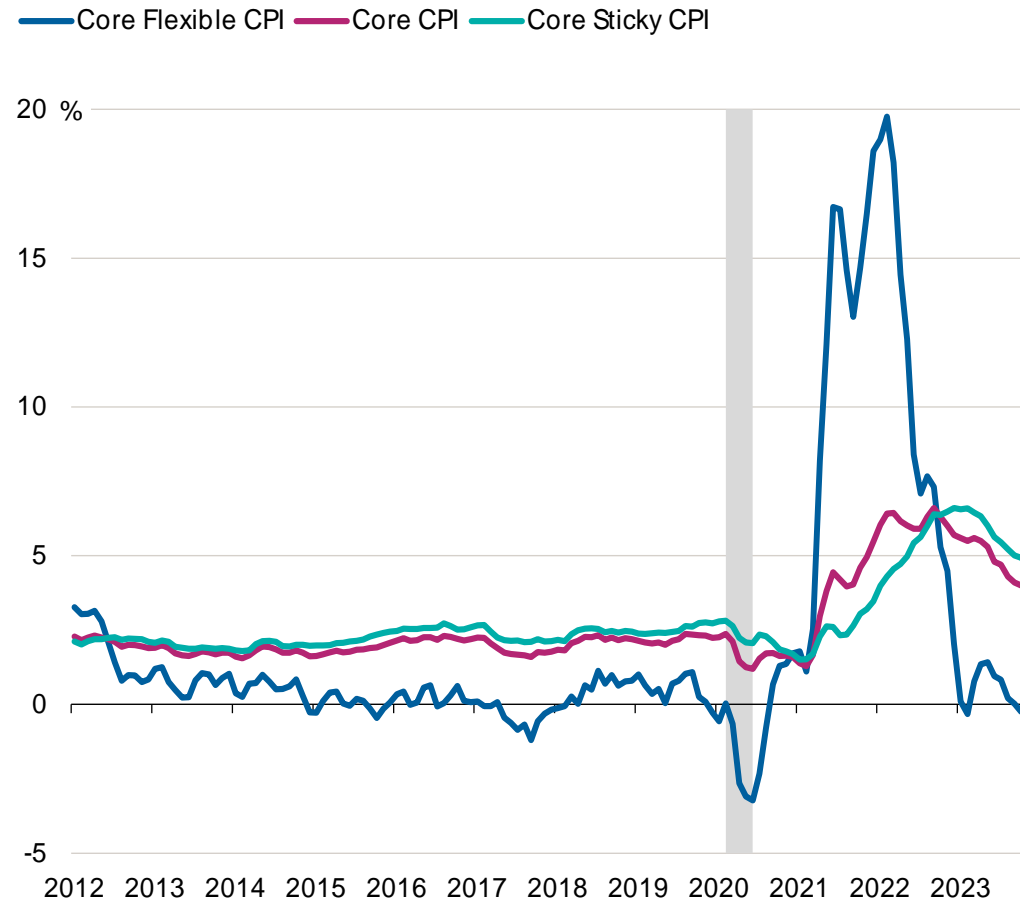
'Investment services professionals' includes Investment Specialists and Investment Product Management associates.

'Other fixed income professionals' includes portfolio and derivatives strategists, research associates and business management.

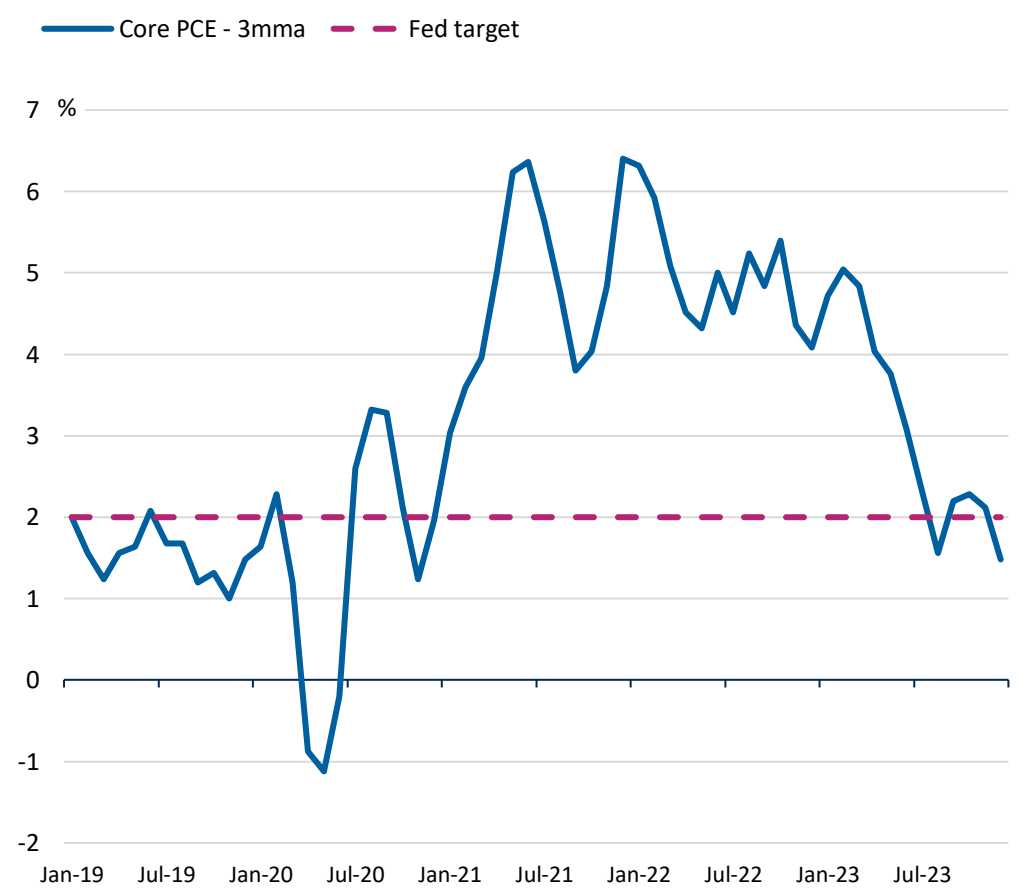
# Fixed income market outlook

# Inflation is moderating around the world, with the US leading the way

**US inflation split by flexible and sticky measures<sup>1</sup>**



**Fast-moving indicators are now below 2%<sup>2</sup>**

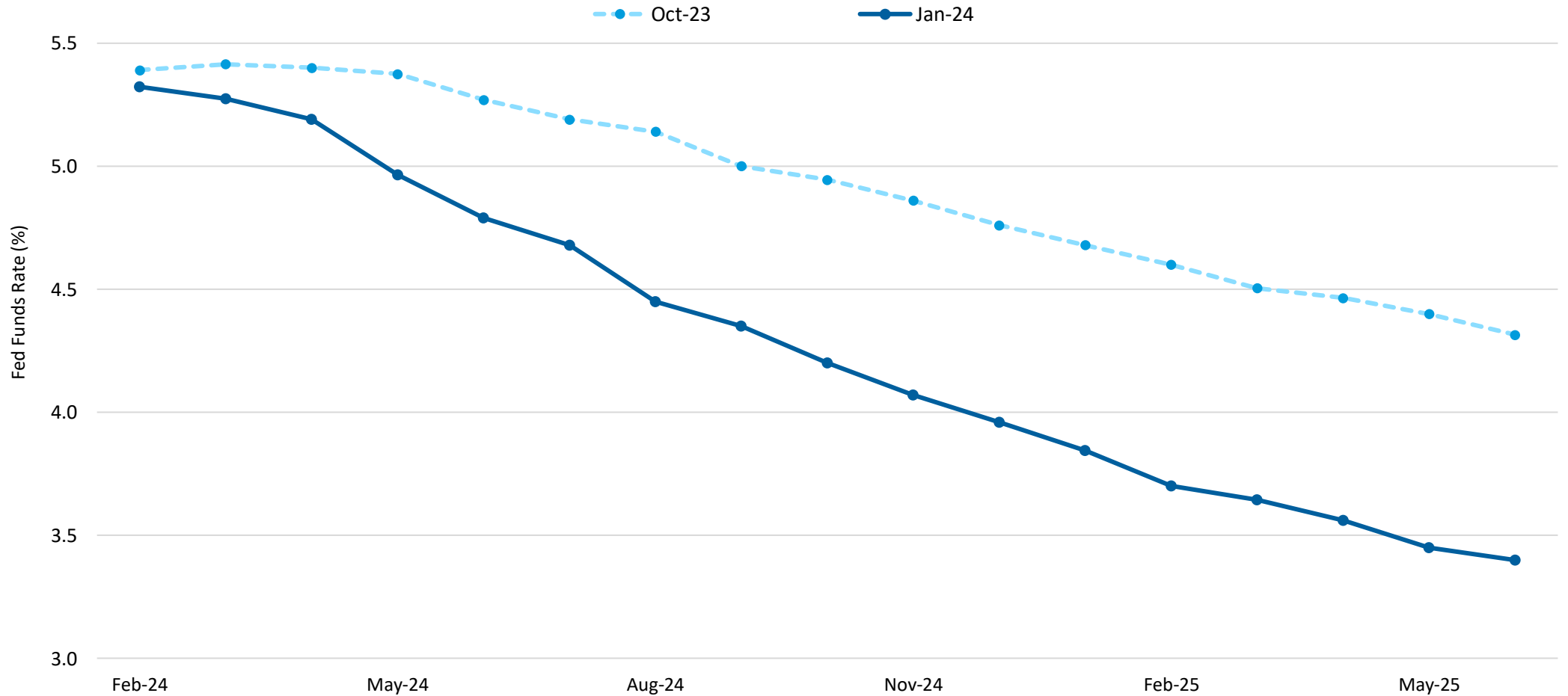


1. Data as at 30 November 2023. Source: Atlanta Fed. Sticky CPI measures include goods and services less sensitive to the economic cycle, while flexible CPI measures include those whose prices change more frequently  
 2. Data as at 29 December 2023. Sources: Bloomberg. Represented by core Personal Consumption Expenditures Price Index (3-month moving average)  
 CPI: consumer price index. Fed: US Federal Reserve



# The Fed appears to be shifting from rate hikes to rate cuts

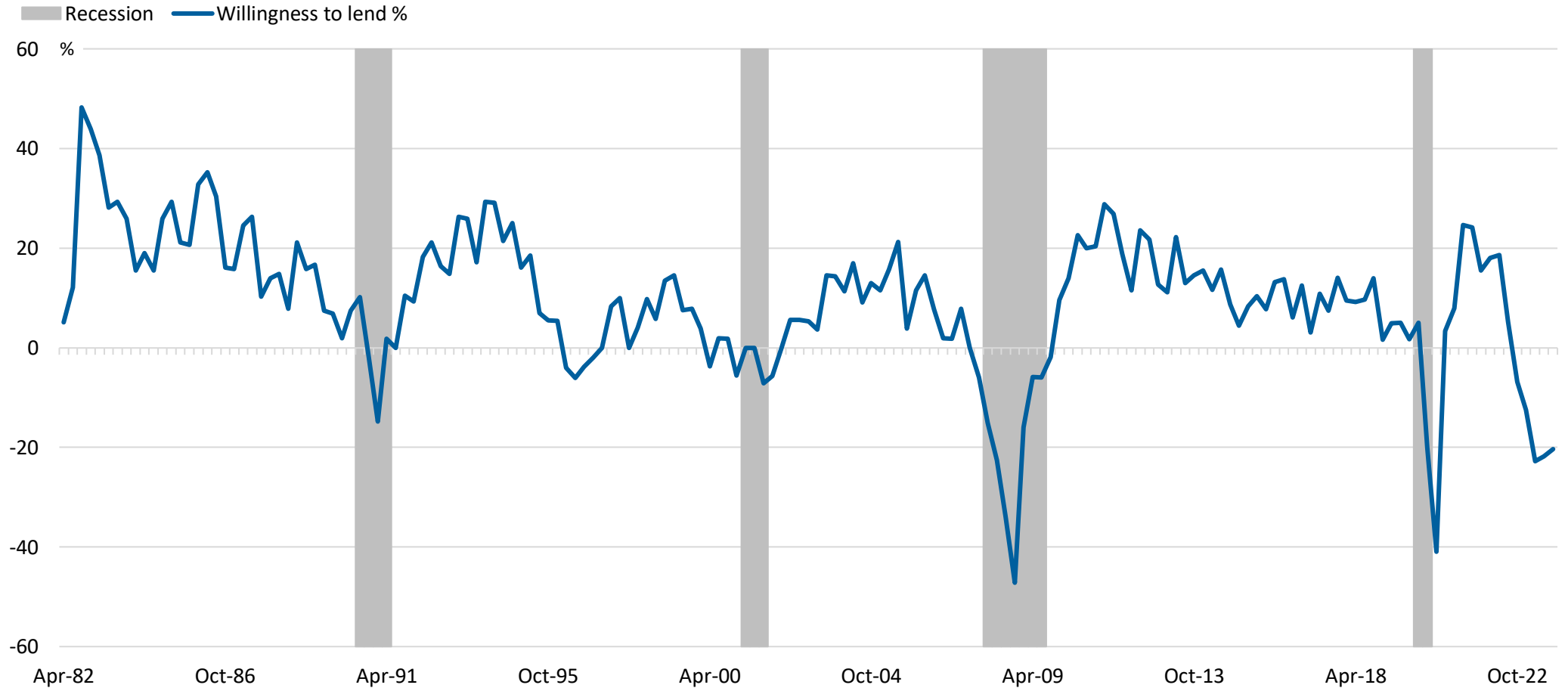
Market-implied expectations of Fed Funds Rate



Data as at 31 January 2024. Source: Bloomberg.

# A potentially more uncertain macro environment than consensus views suggest

## US lending standards historically have never been this tight without a recession



Data as at 1 October 2023. Source: Federal Reserve Economic Data (FRED)

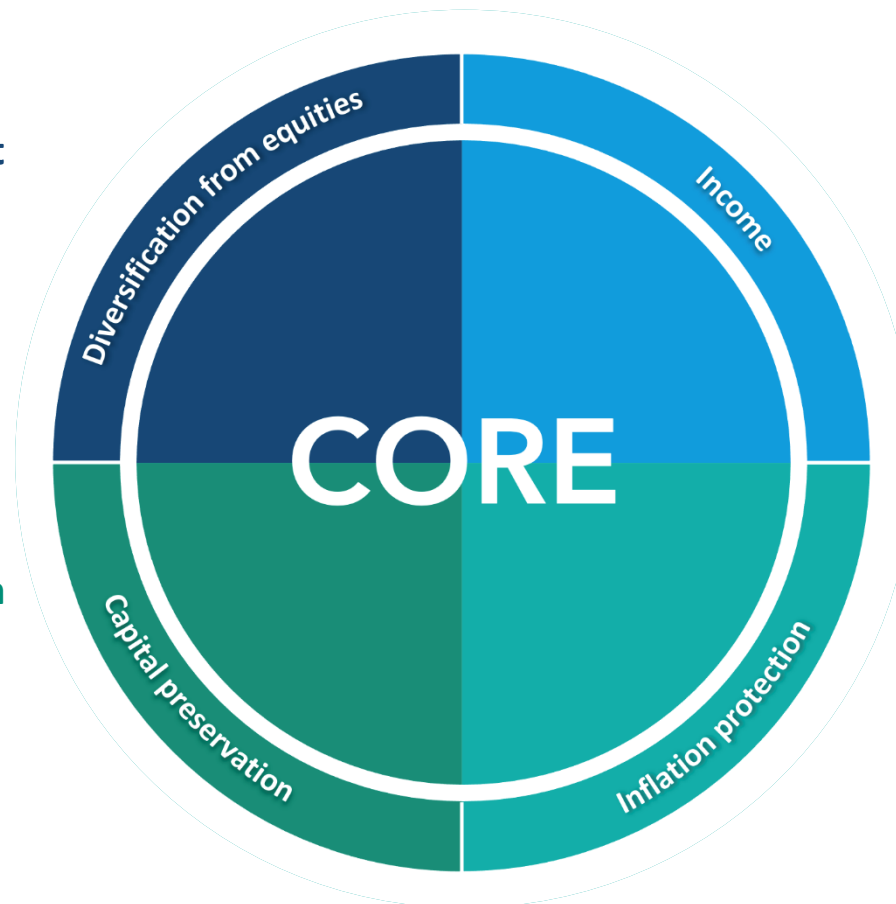
What does this mean for investors?

# In today's environment, the role of fixed income within a broader portfolio remains critical

How can the four roles of fixed income help with current market challenges?

- Ballast is especially important during periods of elevated uncertainty

- High-quality and shorter term bonds can help dampen volatility from ever-present macro risks



- Income is back, which at current level has driven strong total returns

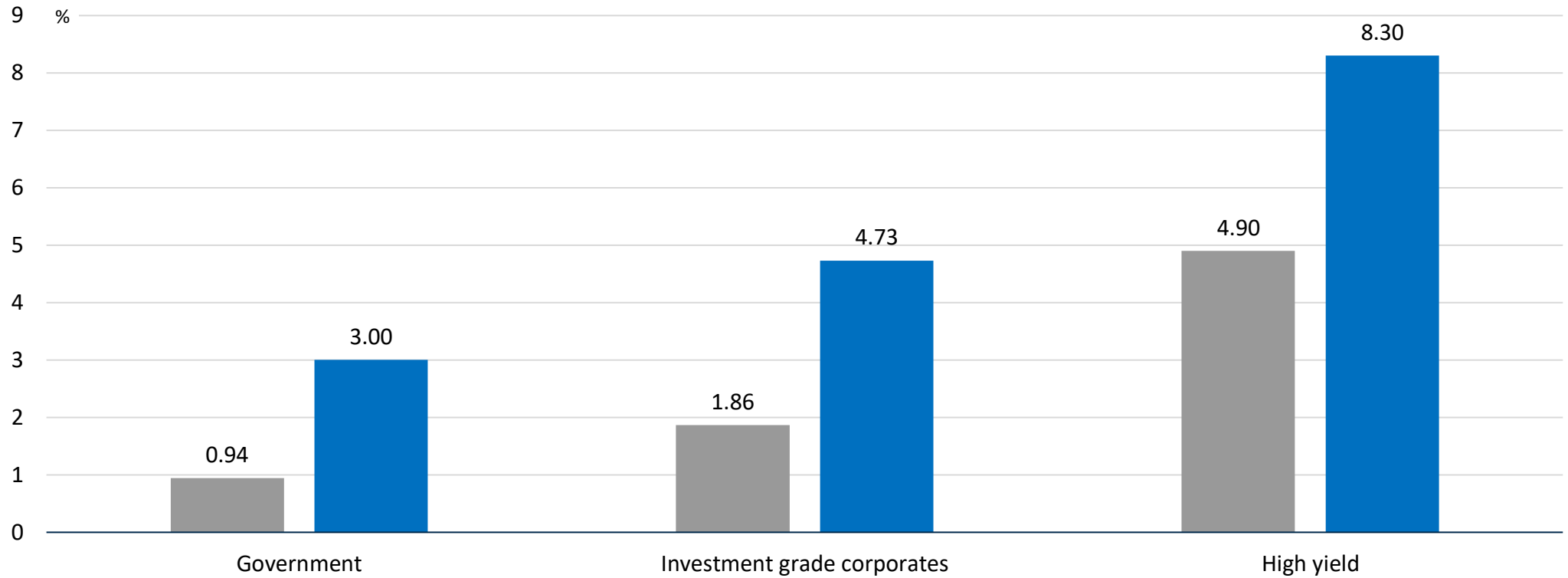
- Potential inflation protection characteristics can help hedge portfolios

Past results are not a guarantee of future results.

# The 'I' is back in fixed income

## Yield on global bonds

■ Dec-21 ■ Jan-24



### Past results are not a guarantee of future results.

Data as at 31 January 2024 and is in USD terms.

Sovereigns: Bloomberg Global Aggregate Sovereigns Index

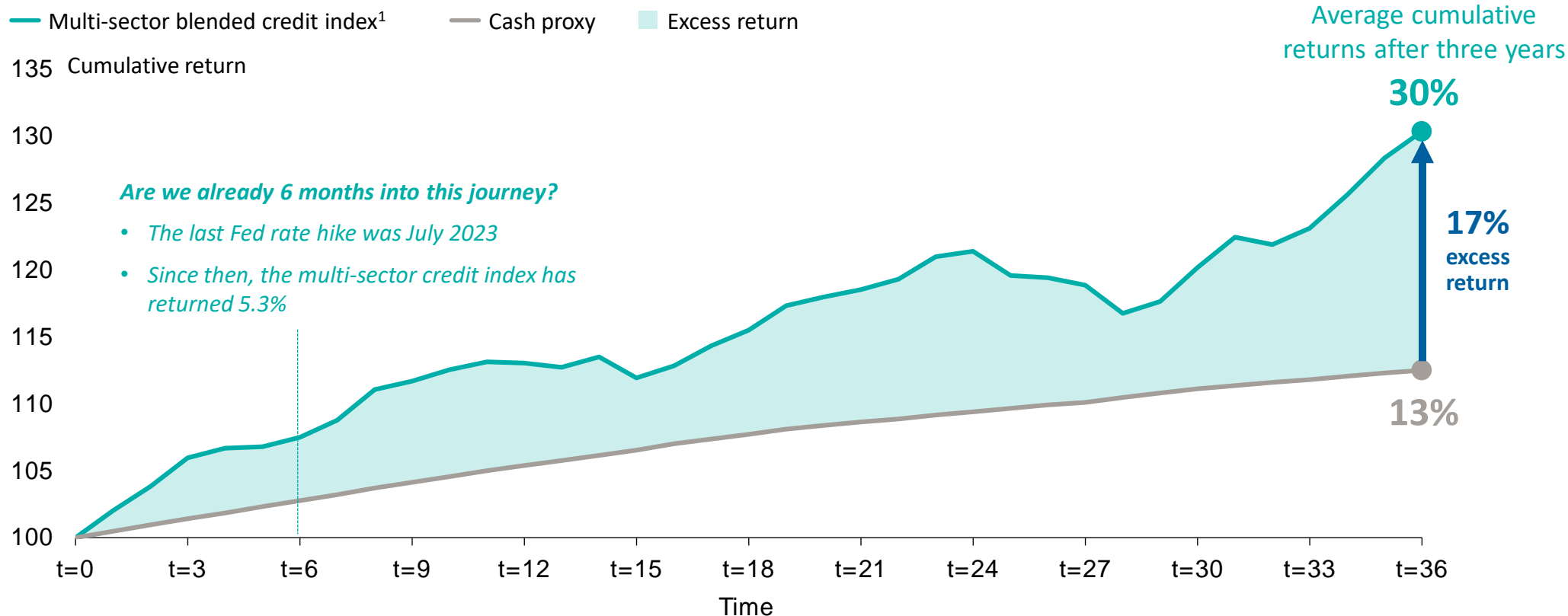
Investment grade corporates: Bloomberg Global Aggregate Corporate Index

High yield: Bloomberg Global High Yield Index

Source: Blomberg

# Historically, rate cuts have provided a positive tailwind for bonds

## Average cumulative returns from investing at the peak of the fed funds rate in previous hiking cycles



**Past results are not a guarantee of future results. Investors cannot invest directly in an index. Data shown is based on Capital Group Multi-Sector Income Fund (LUX), in which Capital Group Multi-Sector Income Fund (AU) is invested.**

As at 31 January 2024. Source: Bloomberg. Fed: US Federal Reserve.

1. Shown as an illustration of the 'neutral' asset allocation of Capital Group Multi-Sector Income Fund (LUX) (MSI): 45% Bloomberg US High Yield 2% Issuer Capped Index, 30% Bloomberg US Corporate Investment Grade Index, 15% JPMorgan EMBI Global Diversified Index, 8% Bloomberg Non-Agency CMBS Ex AAA Index, 2% Bloomberg ABS Ex AAA Index.

Cash proxy: JPMorgan USD three-month Cash Index

Rate cycles captured: 1994-95, 1999-2000, 2004-06, 2015-18

# Putting ideas into action

# Capital Group Multi-Sector Income Fund (AU)

Combines the power of 4 income generating sectors to pursue resilient income



## 1. Diversified income

Combines the power of 4 income-generating sectors

**6.6%**

Yield-to-worst

## 2. Flexible strategy

Can tilt exposure in changing markets

**±10-20%**

sector tilts<sup>1</sup>

**± 2 yrs**

active duration

## 3. Balanced risk profile

Strategically allocates to high quality and higher-yielding sectors

**BBB**

average credit rating<sup>2</sup>

## Investment objective

Seeks to provide a high level of current income. Its secondary objective is capital appreciation.

Invests generally in corporate high yield bonds, corporate investment grade bonds, emerging market bonds and mortgage and asset backed securities. May opportunistically invest in other sectors, including US government debt, municipal debt and non-corporate credit, in response to market conditions.

Key facts	Strategy <sup>3</sup>	Fund
Inception date	March 2019	June 2023
Size	US\$ 13.8 bn	A\$ 21.0 m

### Past results are not a guarantee of future results.

Data as at 31 December 2023, unless otherwise stated. Yield to worst and average credit rating are based on Capital Group Multi-Sector Income Fund (LUX), in which Capital Group Multi-Sector Income Fund (AU) is invested.

1. The sector tilts indicate the typical upper and lower range limits for each sector from their respective neutral allocation. 'Neutral allocation' reflects the allocation under normal market conditions.

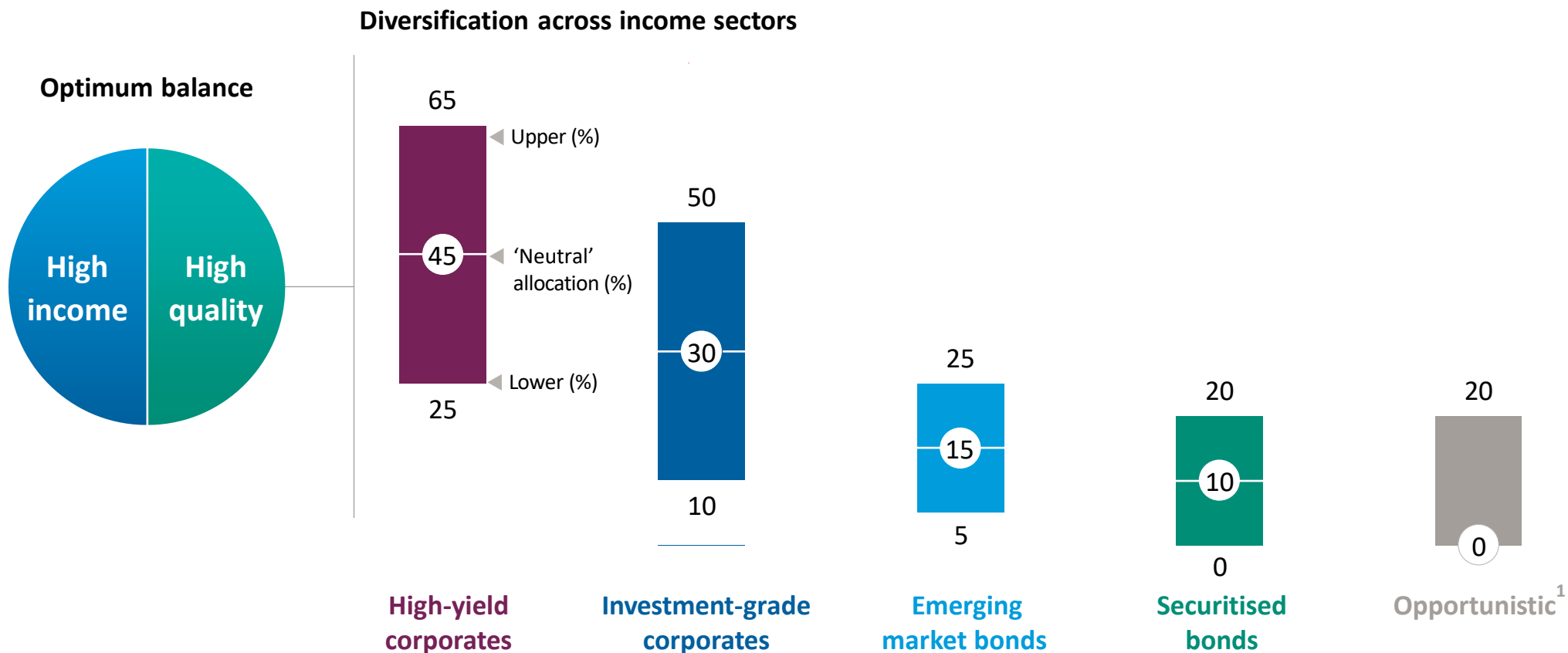
2. Average credit quality is calculated using the higher of Moody's / S&P / Fitch ratings (CG's internal ratings are used if NR (not rated)).

3. Based on the composite of the strategy.



# Portfolio flexibility helps capture value while balancing risks

Actively-managed portfolio that combines fundamental research with top-down sector allocation



High quality refers to investment-grade bonds while High income refers to high-yield bonds.

The allocations illustrated indicate the typical range within which a sector will be represented. 'Neutral allocation' reflects the allocation under normal market conditions.

1. The managers have the option to invest in other areas in an opportunistic way if they identify particularly attractive opportunities, but this typically remains a small part of the overall allocation. This may include, but is not limited to, US government debt, municipal debt and non-corporate credit, in response to market conditions.

# Experience and multiple perspectives

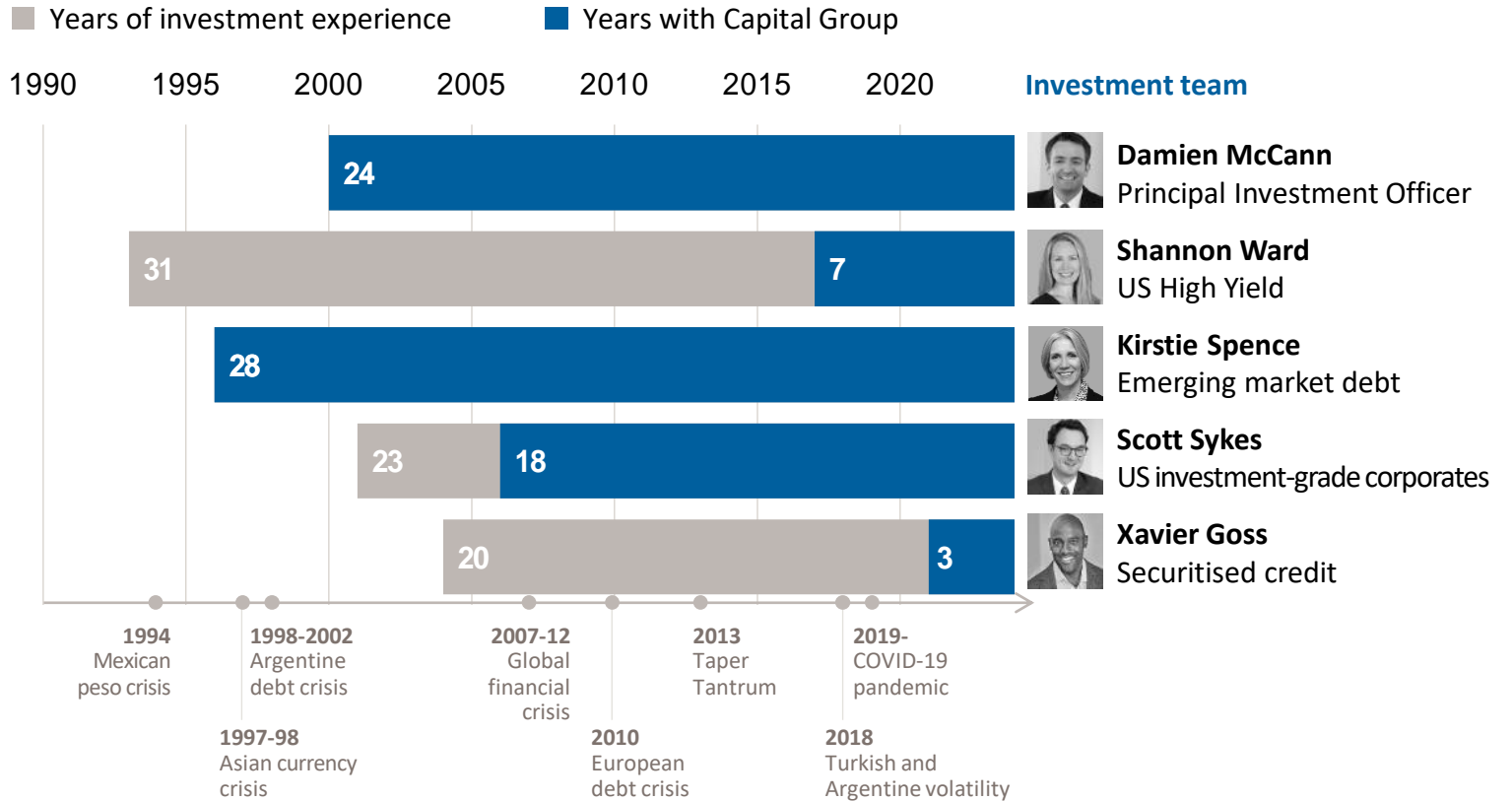
## Capital Group Multi-Sector Fixed Income strategy (MSI)

### Multiple managers

Portfolios are divided into segments, combining individual decision-making with the diversification of a team

### 25 years

Average investment experience of the portfolio managers

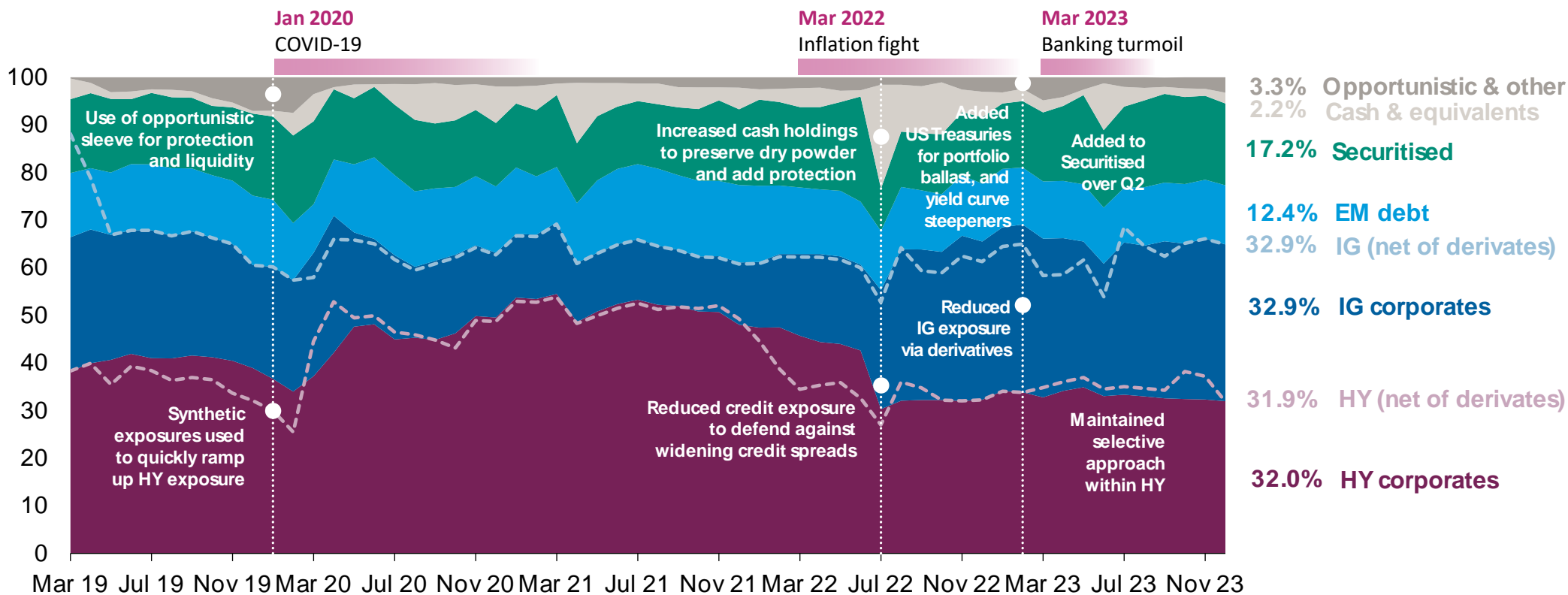


Reflects investment team as at 31 December 2023. Manager responsibilities may have changed since that date. Years of experience as at 31 December 2023.

# Flexibility to navigate different market conditions

Dynamic allocation seeks to capture relative value across sectors

## Historical portfolio composition of MSI strategy (%)

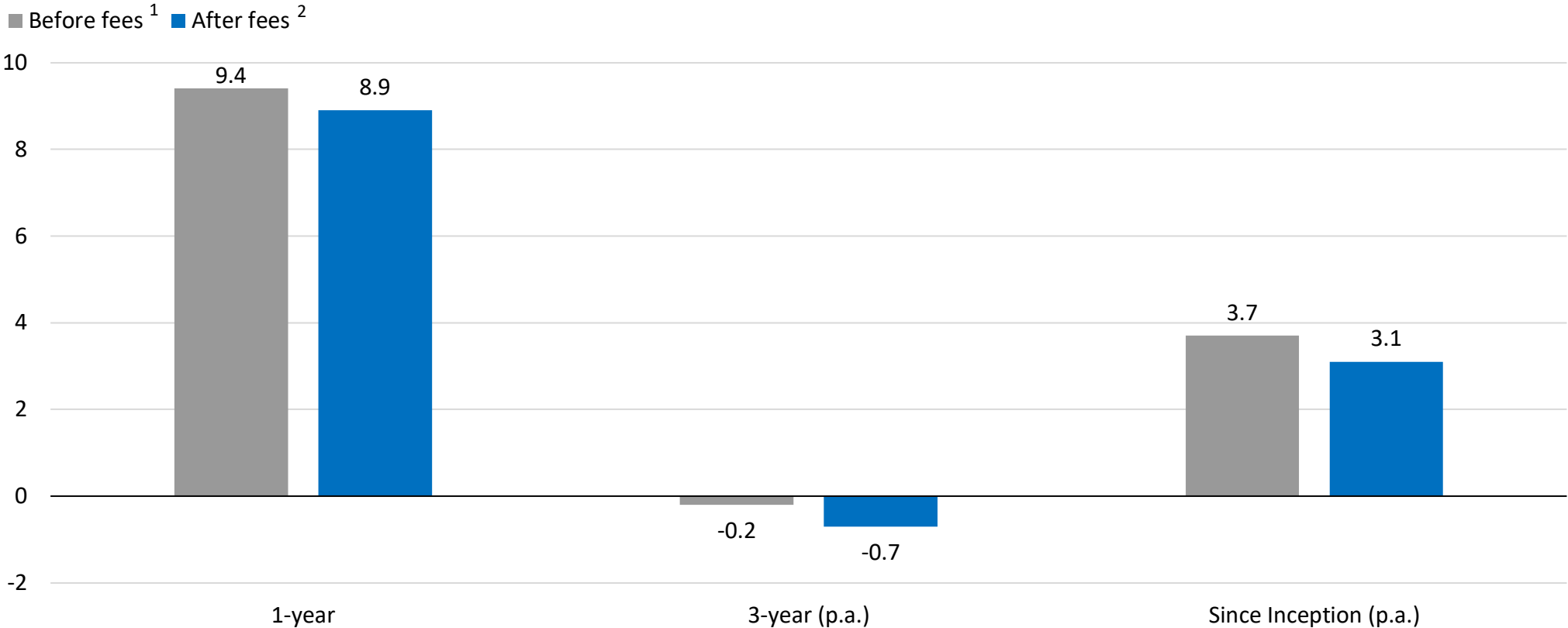


Data as at 31 December 2023 for a representative account of the strategy. Sources: Bloomberg, Capital Group

Cash & equivalents includes short-term securities, accrued income and other assets less liabilities. It may also include investments in money market or similar funds managed by the investment adviser or its affiliates that are not offered to the public. The "other" category may include equities, warrants, convertibles, preferreds, interest rate swaps and credit default swap indices. Opportunistic includes corporate not rated, US Treasuries, municipal bonds, non-corporate credit and other debt instruments. IG: investment grade. HY: high yield.

# Capital Group Multi-Sector Fixed Income strategy

Investment results as at 31 December 2023 in AUD terms



**Past results are not a guarantee of future results. American Funds are not registered for sale outside of the United States.**

Lifetime: 22 March 2019 – 31 December 2023. Results prior to Capital Group Multi-Sector Income Fund (AU)'s (CGMSIAU) launch on 6 June 2023 are derived from the American Funds Multi-Sector Income Fund (AF MSI) from 22 March 2019. CGMSIAU and AF MSI are managed by the same team of managers and have the same investment strategy and risk profile. CGMSIAU's underlying portfolio, Capital Group Multi-Sector Income Fund (LUX), applies ESG and norms-based screens and a carbon target, which do not apply to AF MSI.

Returns for the Australian fund (based on the AF MSI) prior to 6 June 2023 are proxy-hedged from US\$ to A\$. We have applied a passive currency-hedging overlay based on 1-month currency forward rates on the returns for the AF MSI to create the proxy-hedged-to-A\$ returns.

1. Returns are before fees and expenses. Provisional.  
 2. Returns are after management fees and expenses.

# In summary



## Macro

Inflation is moderating and central banks have pivoted to be more 'dovish'.  
The economy remains resilient, but recession risks should not be ignored.



## Investment implications

Defensive allocations are more important than ever.  
Elevated yields + potential rate cuts present an unprecedented opportunity in fixed income.



## Putting it into action

Capital Group Multi-Sector Income Fund (AU)

- Balance income generation and defensive characteristics
- Active and flexible to navigate an uncertain environment

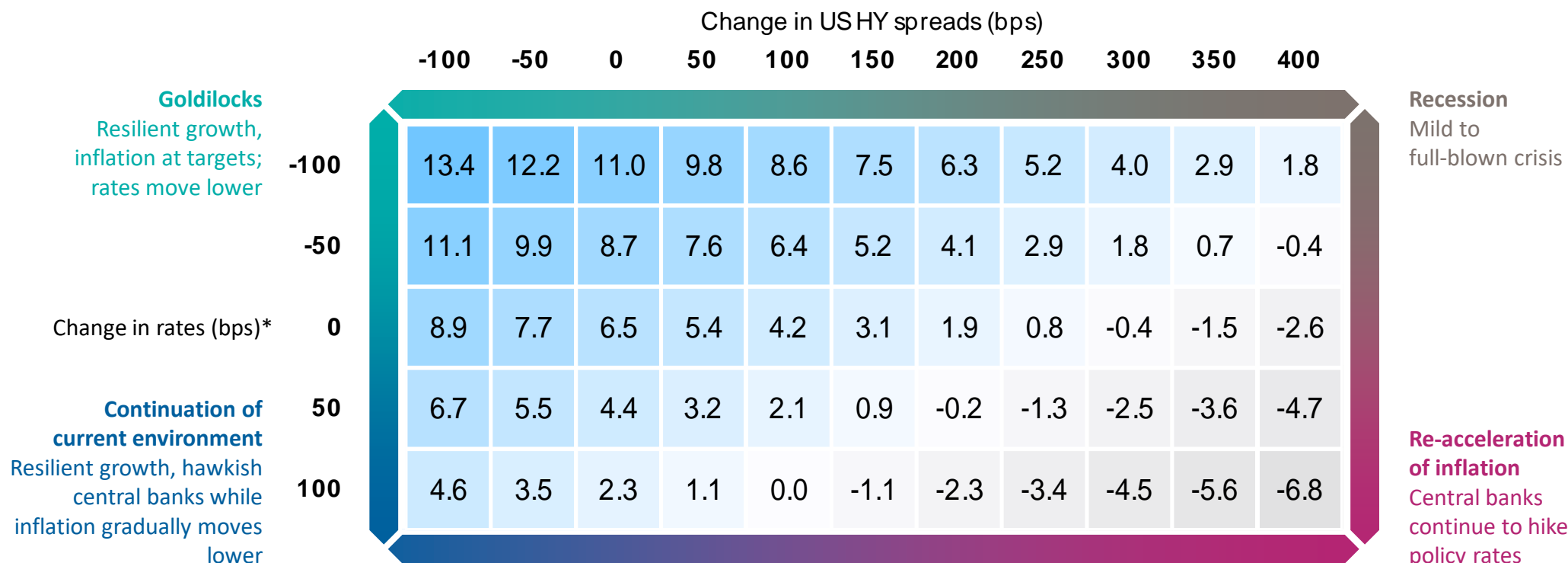
**Past results are not a guarantee of future results.**

# Appendix

# How MSI could potentially fare under various scenarios

Scenario analysis suggests attractive yields today can provide a good buffer against interest rate rises and credit spread widening

Hypothetical MSI returns (%) across rate and spread scenarios including 1-year carry



Hypothetical returns shown for illustrative purposes only and are not a guarantee of future returns. Data is based on Capital Group Multi-Sector Income Fund (LUX), in which Capital Group Multi-Sector Income Fund (AU) is invested.

\* Proxied by US 10-year treasuries

Data as at 31 December 2023. Source: BlackRock Aladdin

Based on Capital Group Multi-Sector Income Fund (LUX) (MSI), in US dollar terms, before fees and expenses. The figures include 1-year carry, which measures the projected return of a security over one year (due to both market value changes and reinvested cash flows) assuming the yield curve and portfolio composition remain unchanged. Projections are based on changes to select factors (rates and spreads) and assumptions about the behaviour of other factors (such as performance of other sectors represented in the MSI portfolio) based on historical data. The scenarios do not represent all possible outcomes and the analysis does not take into account all aspects of risk. US HY: Bloomberg US HY corporate index. Bps: basis points.

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