

Opportunities in an evolving asset class

As emerging markets mature, it opens up the potential for these countries to issue local currency debt, in turn building out a valuable sub-asset class for investors. With each of these countries at different stages of monetary and fiscal cycles at any given time, an investment in the local currency bonds could offer an attractive risk-reward trade-off for investors seeking diversification.

Emerging market local currency debt enables investors to better capitalise on one of the key benign forces shaping developing economies: domestic inflationary pressure that was once these countries' Achilles' heel has generally been steadily reduced. At the same time, economic development and the establishment of domestic pension systems allow for a growing and more stable domestic buyer base. These factors provide plenty of scope for both real and nominal bond yields to fall, in turn generating potential value for long-term investors.

Why this strategy?

Structural diversification is designed to help the portfolio adapt to multiple economic scenarios. We believe the long-term opportunity merits a strategic allocation for investors.

Portfolio fit

For investors looking to enhance their portfolio with higher yields, diversified sources of return from local currency investments - primarily in emerging market government with the flexibility to invest in corporates and quasi-sovereigns - can complement a broader portfolio.

Key characteristics

Capturing the full potential of an evolving market

The local currency market is still evolving so we avoid being driven by benchmark composition. The portfolio can invest in corporates, inflation-linked bonds and non-index countries to capture the full potential of the market.

Decades of emerging market debt experience

Highly experienced team with an average of 28 years of experience in emerging markets. The team is multi-disciplined, which helps create a diversified portfolio.

Research-driven philosophy

On-the-ground, fundamental research is the beating heart of our investment process. Investment analysts signal their best ideas by investing in them, and managers consider global macro analysis when constructing the portfolio.

Objective

Seeks to provide a high level of long-term total return, of which current income is a significant component, by investing primarily in local currency denominated government and corporate bonds.

Index

JPMorgan GBI-EM Global Diversified Total Return

Currency flexibility

Local currency 50-100%
US\$ 0-50%, of which:
0-20% hard currency bonds
0-30% local hedged to hard currency

Sources of excess return

USD

Vehicles

Available as a separate account and Luxembourg-domiciled UCITS fund

From a stable fixed income manager



Past results are not a guarantee of future results. Invested capital is at risk; the fund aims to achieve a positive return over the long term although there is no guarantee this will be achieved over that or any time period.

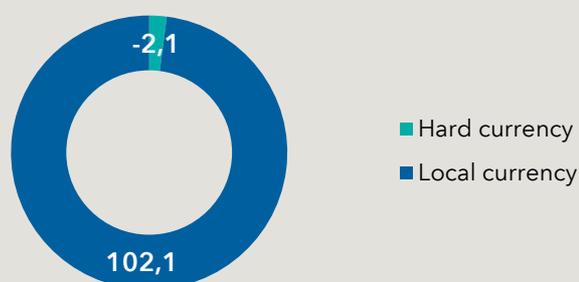
All information and opinions as at 30 June 2021 and attributed to Capital Group, unless otherwise stated. Capital's fixed income assets are managed by Capital Fixed Income Investors. All values in USD.

Our top priorities as we build the portfolio

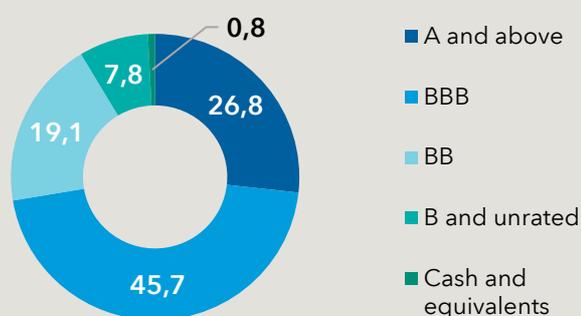
- Find diversified opportunities among attractively priced markets based on fundamental research
- Seek high real yields, which are rare globally
- Benefit from structural currency appreciation as markets mature

Statistical overview	Portfolio	Index
Effective duration (years)	5.2	5.2
Yield to worst (%)	6.5	4.9
Average coupon (%)	6.4	5.2
Option-adjusted spread (bps)	64	9
Issues	161	283
Issuers	47	23
3-year / lifetime tracking error	2.1 / 2.4	
5-year / lifetime information ratio	0.8 / 0.5	

Sector exposure, %



Ratings exposure, %¹



Data reflects Capital Group Emerging Markets Local Currency Debt Fund (LUX). Inception: 10 August 2010. Figures may not total 100 due to rounding. Sources: Capital Group, JPMorgan

1. Rating based on the higher rating of S&P, Moody's and Fitch for the highest-weighted issue. Where all the rating agencies have issued 'Not Rated' ('NR'), a Capital Group rating is used.

The investment team reflects the current portfolio manager team as at 30 June 2021. Years with Capital as at 31 December 2020. Manager responsibilities may have changed since that date.

For more information please contact your local sales team or visit capitalgroup.com

Risk factors you should consider before investing:

- This material is not intended to provide investment advice or be considered a personal recommendation.
- The value of investments and income from them can go down as well as up and you may lose some or all of your initial investment.
- Past results are not a guide to future results.
- If the currency in which you invest strengthens against the currency in which the underlying investments of the fund are made, the value of your investment will decrease. Currency hedging seeks to limit this, but there is no guarantee that hedging will be totally successful.
- The Prospectus – together with any locally-required offering documentation – set out risks, which, depending on the fund, may include risks associated with investing in fixed income, derivatives, emerging markets and/or high-yield securities; emerging markets are volatile and may suffer from liquidity problems.

A dedicated emerging market debt team (experience with Capital Group, industry)

Portfolio managers



Robert Neithart
(33, 33)



Kirstie Spence
(25, 25)



Luis Freitas de Oliveira
(27, 32)

Portfolio strategist



Arjun Madan
(5, 23)

EMD analysts



Sol Barauskas
(12, 12)



Robert Burgess
(5, 29)



Tom Reithinger
(7, 10)



Thomas Kontchou
(3, 7)



Debbie Leow
(3, 14)



Holger Siebrecht
(5, 13)



Franz Lathuillierie
(2, 18)



Sarah Leshner Carvalho
(2, 14)



Barseg Kouredjian
(8, 14)



Koon Chow
(1, 19)

Traders



Neil Campbell
(25, 27)



Alastair Gilmour
(4, 17)



Javier Martinez Mariscal
(2, 16)



Brian Klingenberg
(31, 31)



James Gorrod
(21, 23)



Juli Loh
(<1, 14)

Risk and Quantitative Solutions Group

We aim to ensure our bond portfolios deliver predictable outcomes and take a multi-layer approach to managing risks. One element that sets us apart is our Risk and Quantitative Solutions Group (RQS), which integrates independent risk analysts into the investment process. Tasked with contributing to superior long-term fixed income results through rigorous risk discipline and quantitative analysis, the RQS provides positioning, scenario analysis and risk analytics for the overall portfolio.

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