




AMERICAN
FUNDS®

From Capital Group

DC Insights
The Active AdvantageSM
Participant Case Study

Get More From the Core Investments in Your DC Plan Lineups.

- 
- CLARITY IN SCOPE/
SPECIFICATIONS
 - CONSISTENCY IN PROCESS
(admin process)
 - PROPOSAL EVALUATION
CRITERIA
(selection)

Multiple Perspectives. One Approach.®

“[Firms] with the highest levels of manager tenure, manager retention and ownership of mutual fund shares also have delivered better outcomes for investors. The same is true of firms that offer funds with lower expense ratios.”

– 2014 Morningstar U.S. Mutual Fund Industry Stewardship Survey

Screening for the Right Core Retirement Plan Lineup

Financial professionals generally agree that when choosing core investments for a retirement plan, it’s important to look for funds and managers sharing certain qualities. These could include low expense ratios, low portfolio turnover, high manager tenure, high firm-level manager ownership and long-term manager incentive programs.

Although past results aren’t predictive of results in future periods, our research indicates that funds sharing the following two (non-results-oriented) characteristics tended to outpace market indexes:

- Low expenses
- High firm-level manager ownership

Furthermore, while it may well be true that the “average” active investment manager can’t beat the indexes, it stands to reason that not all active managers are “average.” In fact, as our research also proves, some core equity investment managers – American Funds among them – have distinguished themselves by a proven record of consistently outpacing broad market returns.

As this case study will demonstrate, selecting the right actively managed equity funds for a retirement plan “core” lineup can, over the long term, help participants pursue their long-term investment objectives.

Key characteristics to consider

Expense ratio	○
Portfolio turnover	
Manager tenure	
Firm manager ownership	○
Incentive structure	

Two important screening criteria

Expense ratio Funds with lower expense ratios have tended to outpace benchmarks over time.
Firm manager ownership Investment firms whose managers invest more of their own money in their funds have tended to outpace benchmarks over the long term.

Low Cost, High Ownership Has Led to Better Results

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

– Morningstar, January 2014

Since a majority of assets typically go to plan core funds, it only makes sense that selection of the core funds – typically comprising U.S. and international large-cap equity funds – should be based on prudent quantitative and qualitative criteria.

To test different approaches to core investment selection (see chart below), we considered three hypothetical portfolios:

Portfolio 1: Index Core

An equal mix of the S&P 500 Index, representing U.S. large-cap equities, and the MSCI ACWI ex USA Index, representing international equities

Portfolio 2: Screened Active Core

An equal mix of all actively managed mutual funds in both the lowest cost and highest firm-level ownership quartiles

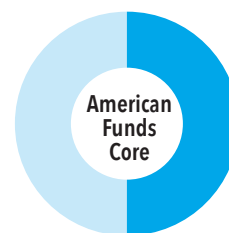
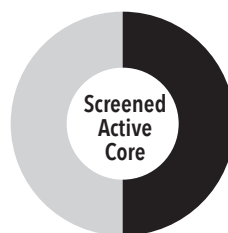
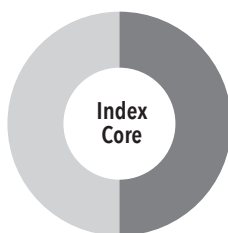
Portfolio 3: American Funds Core

Seven equally weighted U.S.-focused American Funds for half the portfolio, and two equally weighted international-focused American Funds for the other half of the portfolio, all of which are also found in the Screened Active Core funds (low-cost and high-ownership quartiles):

- U.S.-focused American Funds:
 - AMCAP Fund®
 - American Mutual Fund®
 - Fundamental Investors®
 - The Growth Fund of America®
 - The Investment Company of America®
 - The New Economy Fund®
 - Washington Mutual Investors FundSM
- International-focused American Funds:
 - EuroPacific Growth Fund®
 - International Growth and Income FundSM

An active equity core would have made a meaningful difference

Figures shown on this and the following pages are past results for American Funds Class A shares and are not predictive of results in future periods. Current and future results may be lower or higher than those shown here. Returns shown at net asset value (NAV) have all distributions reinvested. If a sales charge had been deducted, the results would have been lower. Share 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 americanfunds.com.



Components					
50% U.S. equity	S&P 500	92 funds		7 American Funds	
50% international equity	MSCI ACWI ex USA	20 funds		2 American Funds	
Annualized results 1995-2014			vs. Index		vs. Index
Returns	5.73%	6.78%	+1.05%	7.89%	+2.16%
Standard deviation	16.25	16.20	-0.05	15.13	-1.12
Up capture	100.00	102.57	+2.57	98.76	-1.24
Down capture	100.00	98.14	-1.86	88.25	-11.75
Alpha	0.00	1.00	+1.00	2.14	+2.14

Data from published sources was calculated internally. Hypothetical results are based on average monthly returns for rolling five-year periods of monthly returns from January 1, 1995 through December 31, 2014. Past results are not predictive of results in future periods. Portfolios were rebalanced monthly. Please note: These sample portfolios exclude fixed-income allocations typical of core portfolio holdings. Portfolio details, including definition of terms, can be found on pages 7 and 8.

Participants who invested in the active portfolios could have retired earlier or benefited from greater accumulation.

The Potential for Greater Accumulation and Income

Accumulation phase: Ages 45-65

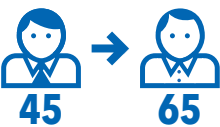
To illustrate our research, consider a hypothetical employee who, at age 45, rolls over \$85,000* into a new employer’s plan and then invests \$500 each month for the 20 years ended December 31, 2014, in each of the three portfolios, as described on the previous page.

As the chart below illustrates:

- Both actively managed portfolios (Screened Active Core and American Funds Core) would have accumulated more than the Index Core portfolio.
- The American Funds Core portfolio would have accumulated nearly 15% more than the Screened Active Core and 31% more than the Index Core.

Participant accumulation phase

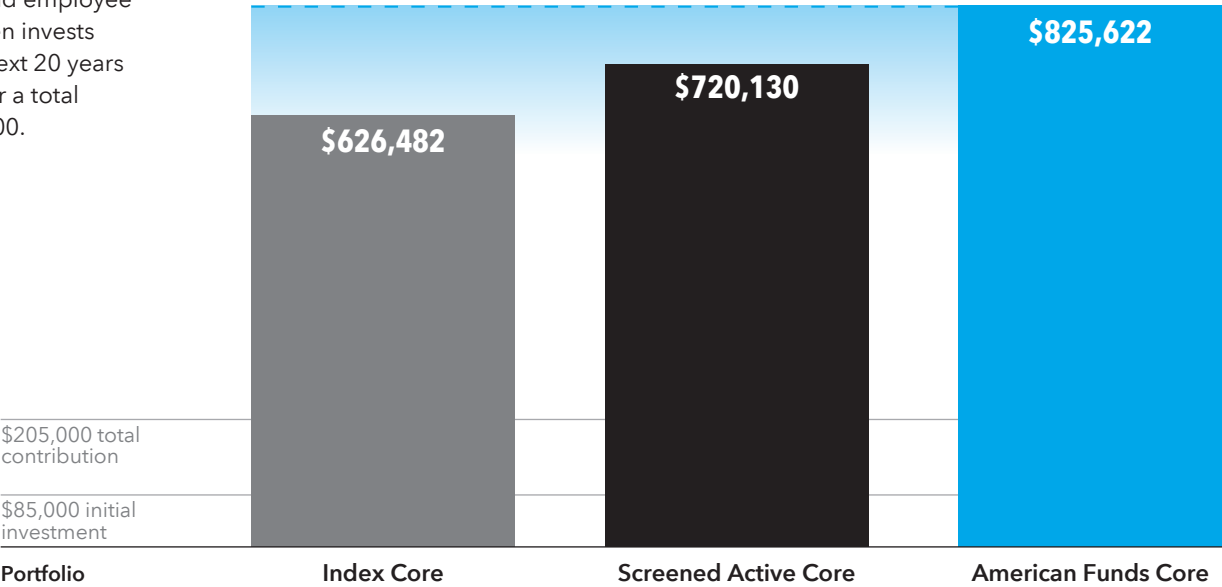
Hypothetical 45-year-old employee rolls over \$85,000,* then invests \$500 each month for next 20 years through 12/31/2014 for a total contribution of \$205,000.



\$205,000 total contribution

\$85,000 initial investment

Portfolio growth from January 1, 1995 through December 31, 2014



Past results are not predictive of results in future periods. Portfolio details can be found in the Methodology section on page 7.

* Represents a hypothetical account value from a prior employer’s plan, based on average account balance of 40- to 50-year-old. Source: EBRI 2012.

Retirees who invested in actively managed portfolios could have received more annual income.

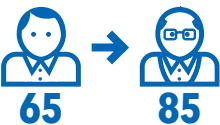
Retirement income phase: Ages 65-85

Let's also assume that this same hypothetical participant retires at age 65 and elects to take an annual withdrawal of 5% in the first year and increase that dollar amount by 3% (cost of living) in each of the subsequent years through December 31, 2014.* To compare the results of each portfolio, we started with the ending accumulation balances (on page 4). As the chart below demonstrates:

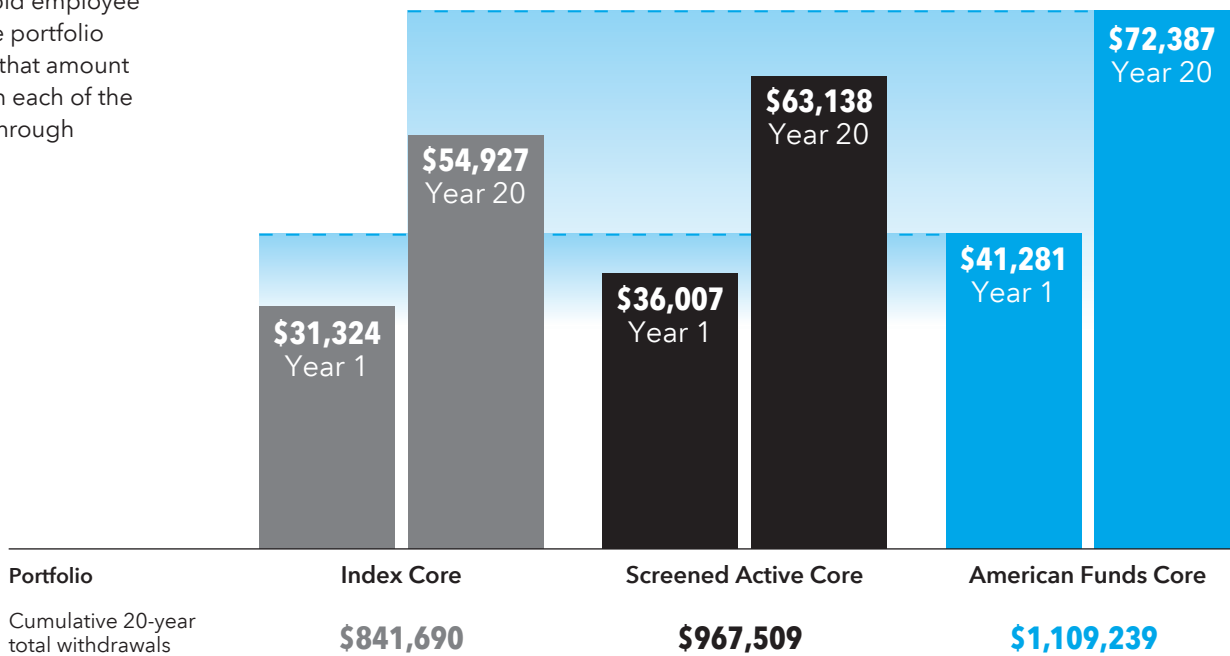
- Both actively managed core portfolios would have delivered more retirement income than the Index Core portfolio.
- By 2014, the annual withdrawal from the American Funds Core, as shown in the chart below, would have risen to \$72,387. The American Funds Core portfolio would have distributed \$9,249 more than the Screened Active Core and \$17,460 more than the Index Core in 2014.
- This translates into a substantial difference over 20 years. Cumulative withdrawals from the American Funds Core, as shown in the table below, would have exceeded \$1.1 million, as compared to the \$841,690 from the Index Core.

Participant retirement income phase

Hypothetical 65-year-old employee withdraws 5% from the portfolio in 1995 and increases that amount by 3% (cost of living) in each of the subsequent 19 years through 12/31/2014.



Annual withdrawals in Year 1 (1995) vs. Year 20 (2014)



* Portfolios were rebalanced monthly. Portfolio details can be found on pages 7 and 8. Due to data availability limitations, this case study uses the same time frame for both accumulation and distribution phases.

After 20 Years of Withdrawals, Account Continued to Grow

Although past results aren't predictive of results in future periods, the chart below illustrates what would have been left in each portfolio after 20 years of withdrawals.

The American Funds Core portfolio would have \$2.6 million left – 44% more than in the Screened Active Core portfolio and two times more than in the Index Core portfolio.

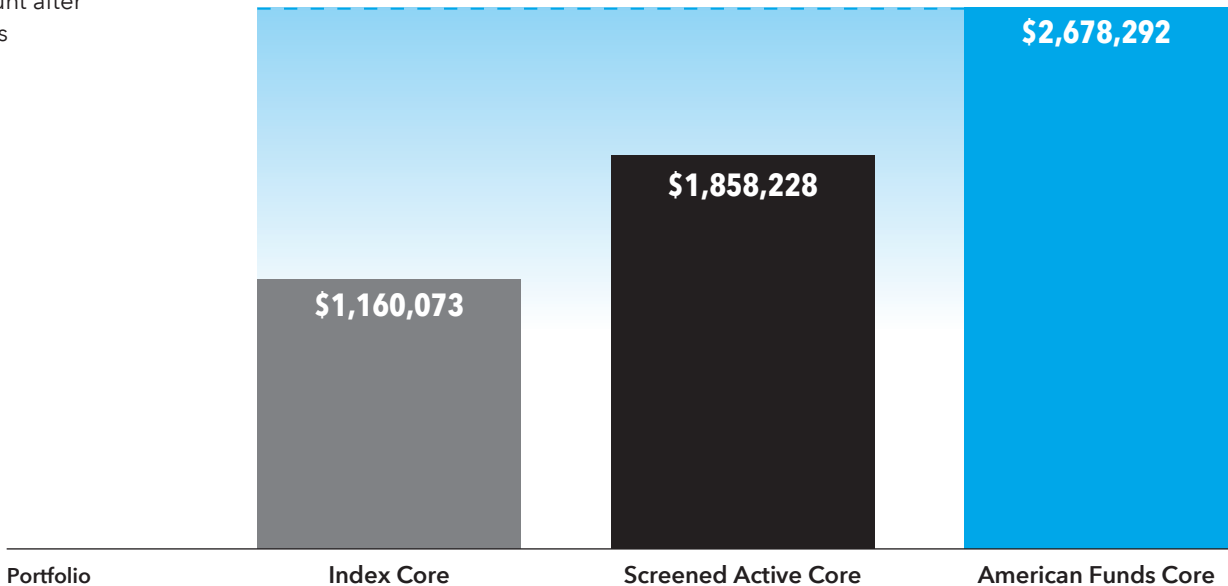
At this point, the retiree could continue making the scheduled withdrawals for the rest of his/her life and, beyond that, leave a legacy for beneficiaries. If withdrawals had not been taken, the American Funds Core account value would have been nearly \$6 million.

Participant account remainder

What's left in the account after 20 years of withdrawals



Balance remaining in account on January 1, 2015



For more information about how to put American Funds and our retirement plan solutions and services to work, call (800) 421-9900.

This hypothetical illustration assumes that the stated balances are left following annual withdrawals over the 20-year period ended December 31, 2014. Portfolio details can be found in the Methodology section on page 7.

Methodology

Assumes all dividends were reinvested.

Compiling the fund universe

The database built to represent the universe of both large-cap domestic and large-cap foreign funds drew from Morningstar's U.S. Open-End Large Value, Large Blend and Large Growth U.S. and Foreign categories, with live and dead funds combined 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. This screening resulted in seven qualifying domestic American Funds (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) and two qualifying foreign 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 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.

Tracking least expensive quartile and highest manager ownership quartile

In conducting our research, we searched Morningstar's database for large-cap actively managed funds that were in both the lowest quartile ranked by expense ratio and the highest quartile ranked by manager ownership at the firm level. For this analysis we relied on Morningstar Direct data analysis software. Least expensive quartile was calculated using annual report Net Expense Ratio (NER) for all observed Morningstar categories for the 20-year period indicated. For funds with missing expense ratios, gaps between two available data points were filled in using linear interpolation. Highest manager ownership quartile was calculated using weighted averages of Morningstar screens 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. The combination of least expensive NER and highest manager ownership quartiles (the screened active core) was the result of a cross-section of the two screens. Only those funds with both the lowest expense ratios and the highest manager ownership were included. Investors who wish to identify funds that ranked in the least expensive quartile by NER can rely on the following rule of thumb: The least expensive quartile of funds ranked by net expense ratio for Class A shares roughly corresponded with those reporting expenses below 0.99% for large-cap domestic funds and below 1.10% for large-cap foreign funds. Expense ratios for institutional and advisory share classes would be approximately 25 basis points lower, or below 0.74% for large-cap domestic funds and below 0.85% for large-cap foreign funds. Investors who wish to identify funds that ranked in the top quartile by manager ownership can rely on the following rule of thumb: The top quartile of funds ranked by

manager ownership roughly corresponded with firms that had 55% or more assets in the fund family complex in which at least one fund manager had invested a minimum of \$1 million. 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 million; and over \$1 million.

Morningstar tracks manager ownership as a percentage of assets at the firm level. This information can be found using Morningstar Direct software, which can be downloaded by visiting global.morningstar.com/direct and clicking on "**Download Morningstar Direct.**" Advisors seeking to incorporate manager ownership as part of their fund screening criteria can take the following steps using **Morningstar Direct**. Start by creating a new open-end fund advanced search and defining a universe. For example, for the broad large-cap domestic fund universe, select U.S., then Large Value, Large Blend and Large Growth; to avoid duplication, screen for the oldest share class available. With the universe selected, the snapshot page will show a set of default screens, including "Annual Report Net Expense Ratio." It is necessary to manually add a field for manager ownership. Under Available Data Points, select "Firm % Assets Manager Investment Over \$1 million." This selection will allow you to sort the chosen fund universe by both the expense ratio and manager ownership fields. Due to the dynamic nature of the Morningstar database, results for the Morningstar Large US and International universes may change.

Working with indexes

Market indexes referenced in this brochure are defined as follows:

- 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.
- Standard & Poor's 500 Composite Index is a market capitalization-weighted index based on the average weighted results of 500 widely held common stocks.

The market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index. There have been periods when funds have lagged the index. Past results are not predictive of results in future periods.

Results as of June 30, 2015

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. Results shown below reflect deduction of the maximum sales charge of 5.75%. Share 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 americanfunds.com.

	Average annual total returns			
Growth funds	1 year	5 years	10 years	Expense ratio
AMCAP Fund	1.31%	16.53%	7.99%	0.68%
EuroPacific Growth Fund	-5.17	8.45	6.72	0.83
The Growth Fund of America	1.92	15.12	7.74	0.66
The New Economy Fund	2.56	17.36	9.54	0.79
Growth-and-income funds				
American Mutual Fund	-1.32	13.42	6.93	0.59
Fundamental Investors	0.35	14.56	8.19	0.61
International Growth and Income Fund	-12.80	8.28	7.52*	0.91
The Investment Company of America	-1.61	14.23	6.81	0.59
Washington Mutual Investors Fund	-2.56	14.93	6.58	0.58

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.

*The figure reflects an annualized lifetime return from the fund's inception date of October 1, 2008, through the date shown above.

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 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.

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 for more information.

This material must be preceded or accompanied by a summary prospectus or prospectus for AMCAP Fund, American Mutual Fund, EuroPacific Growth Fund, Fundamental Investors, The Growth Fund of America, International Growth and Income Fund, The Investment Company of America, The New Economy Fund and Washington Mutual Investors Fund.

If used after September 30, 2015, this material must be accompanied by a current American Funds Class A share quarterly statistical update.

Glossary

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

Capture ratio reflects the annualized product of fund versus index returns for all months in which the index had a positive return (upside capture) or negative return (downside capture).

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.