

Capital International – Global Equity

Quarterly portfolio review and commentary

Executive summary

- Global stocks fell sharply, hurt by Europe's debt crisis, worries over the global economy and the oil spill in the Gulf of Mexico.
- Series A units of the portfolio declined 8.09% in the second quarter, compared with an 8.34% decline in the MSCI World Index.
- The Canadian dollar had mixed results in the second quarter, strengthening sharply versus the euro but losing some ground to the U.S. dollar and the Japanese yen. Currency translation exerted a negative effect on many of the fund's euro-denominated holdings.

Global stocks fell sharply, with a sovereign debt crisis in Europe and monetary tightening in China casting a shadow over the world's economic prospects. The euro fell against most major currencies, while many European equity markets suffered double-digit losses.

Energy stocks declined the most, affected by the Deepwater Horizon oil rig explosion in the Gulf of Mexico, the largest oil spill in history. Materials stocks also saw heavy falls as commodities prices declined amid worries over demand among emerging markets such as China.

What helped

As equity markets suffered a marked sell-off, the portfolio's holding of cash helped stem investment losses.

Individual holdings that helped portfolio results over the quarter included Novo Nordisk, a Danish pharmaceutical company and leader in diabetes care; AstraZeneca, a global biopharmaceutical company; SOFTBANK, a mobile phone company that distributes Apple's iPhone and iPad in Japan; HTC Corp., a Taiwan-based manufacturer of smartphones based on the Android operating system; and Apple, the U.S.-based creator of the highly popular iPhone and iPad.

What hurt

The energy, financials and materials sectors suffered the steepest declines, although the fund had a smaller weighting in each of these sectors compared to the MSCI World Index, which helped returns relative to the index.

Specific holdings that declined during the quarter included: Google, a U.S.-based website search engine company; Corning, a U.S.-based producer of specialty glass and ceramics; Sonic Healthcare, an Australian medical diagnostic services company; Telefónica, a telecommunications firm based in Spain with holdings across Latin America; and Nokia, a mobile phone manufacturer based in Finland.

Currency

The Canadian dollar had mixed results during the quarter. It strengthened almost 5% versus the euro but weakened slightly versus the yen and U.S. dollar. The fund's euro-denominated holdings hurt portfolio returns when translated into Canadian dollars. However, not all European stocks fared poorly as a result of euro weakness. This portfolio tends to invest in large multinationals that manufacture and distribute their products and services globally, meaning that they have exposure to multiple currencies.

Long-term perspective

Global growth remained positive in the second quarter, but could stall as governments remove support measures implemented during the downturn. Despite these challenges, the fund's managers are continuing to find investment opportunities in well-run companies with global outlooks and ambitions. They are focusing on finding those companies that may provide value over the next several years, rather than gains in the next few months. This portfolio has proven consistent in its ability to outpace both the average global equity fund and the MSCI World Index over various periods since the portfolio's inception in 2002.

Portfolio description

Capital International – Global Equity is a core portfolio, and is complementary to other style-specific mandates (e.g., growth or value mandates).

Investment objective

The objective of the portfolio is long-term growth of capital through investments primarily in common stocks, including growth-oriented stocks, on a global basis. Future income is a secondary objective.

Other portfolio characteristics

- Built from bottom-up stock selection by each portfolio manager and/or research analyst.
- May invest in emerging markets.
- May buy currency forwards to manage risk and implement investment strategies.
- Permitted to hold cash, cash equivalents and debt securities when desirable.

Portfolio managers

	Years in profession	Years with Capital
Carl M. Kawaja	23	18
Robert W. Lovelace	24	24
Dina N. Perry	32	18

A portion of assets is managed by 34 research analysts, who average 13 years of industry experience.

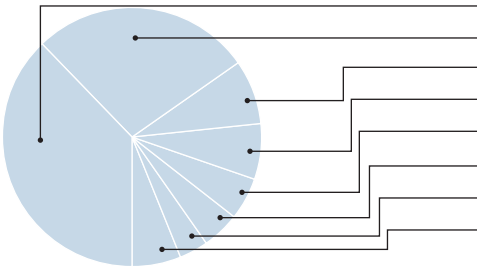
As of December 31, 2009.

Top 25 equity holdings	
	% of net assets
Novo Nordisk	2.0%
Samsung Electronics	1.5
EMC	1.5
Google	1.4
Corning	1.4
Telefónica	1.3
AstraZeneca	1.3
Verizon	1.2
ASML Holding	1.2
lululemon athletica	1.2
Schneider Electric	1.1
Holcim	1.1
Koninklijke KPN	1.1
Pernod Ricard	1.1
Walt Disney	1.1
Roche	1.1
JPMorgan Chase	1.0
SOFTBANK	1.0
Novartis	1.0
Union Pacific	1.0
Yahoo!	1.0
Time Warner	1.0
European Aeronautic Defence and Space Co.	1.0
Fairfax Financial Holdings	0.9
Pfizer	0.9

Portfolio characteristics	
Assets (\$ mil) ¹	\$904.09
Number of holdings	196
Dividend yield	2.30%
Portfolio turnover rate	22.04%
Trading expense ratio ²	0.08%
Average market cap (\$ bil):	
Capital International – Global Equity	\$49.11
MSCI World Index	\$57.87
Price to earnings:	
Capital International – Global Equity	15.82
MSCI World Index	14.42
Price to book:	
Capital International – Global Equity	2.06
MSCI World Index	1.67

Country diversification	
	% of net assets
United States	38.1%
United Kingdom	7.8
Japan	5.5
France	5.1
Germany	5.0
Switzerland	4.8
Canada	3.9
Netherlands	2.8
Spain	2.5
Australia	2.4
Denmark	2.2
Republic of Korea	1.7
China	1.6
Taiwan	1.4
Italy	1.3
Belgium	1.2
Hong Kong	1.2
Mexico	1.0
Singapore	1.0
India	0.7
Brazil	0.6
Norway	0.6
Sweden	0.5
Ireland	0.4
Turkey	0.4
Finland	0.3
Russian Federation	0.3
Austria	0.2
South Africa	0.1

Regional diversification	
	% of net assets
United States	38.1%
Europe ex-UK	26.8
Emerging markets	7.8
United Kingdom	7.8
Japan	5.5
Pacific Basin ex-Japan	4.6
Canada	3.9
Cash and cash equivalents & other assets less liabilities ³	5.5
Total investments	100.0%



Sector diversification	
	% of net assets
Information technology	15.6%
Consumer discretionary	15.0
Industrials	12.7
Health care	10.8
Financials	10.4
Consumer staples	7.9
Materials	7.5
Telecommunication services	6.5
Energy	6.2
Utilities	1.5
Fixed income	0.4
Cash and cash equivalents & other assets less liabilities ³	5.5
Total investments	100.0%

¹ For combined series. ² As of December 31, 2009. ³ Cash and cash equivalents include short-term investments.

Total returns (%) as of June 30, 2010													
Series	Cumulative			Annualized					Calendar year				
	3 mo	YTD	1 yr	2 yr	3 yr	4 yr	5 yr	Since inception*	2009	2008	2007	2006	2005
A	-8.09	-8.35	3.18	-7.29	-9.93	-3.54	-0.84	2.81	16.16	-27.87	-3.44	17.37	12.10
B	-8.14	-8.42	3.01	-7.43	-10.06	-3.67	—	-4.63	16.00	-27.96	-3.57	—	—
D	-7.97	-8.11	3.70	-6.83	-9.48	-3.06	-0.35	3.27	16.75	-27.52	-2.96	17.95	12.66
F	-7.83	-7.84	4.32	-6.30	-8.95	-2.49	0.22	3.85	17.40	-27.09	-2.37	18.57	13.23
H	-7.81	-7.78	4.48	-6.14	-8.80	-2.33	0.41	0.84	17.64	-26.98	-2.22	18.85	13.53

*Series A: November 1, 2002; Series B: March 31, 2006; Series D: November 1, 2002; Series F: November 1, 2002; Series H: May 3, 2004

Attribution analysis

Q2 2010	Companies	Sectors	Countries
Major contributors	Novo Nordisk AstraZeneca SOFTBANK	Energy Financials Industrials	United Kingdom Denmark Taiwan
Major detractors	Google Corning Sonic Healthcare	Consumer staples Utilities Information technology	United States Japan Netherlands

Sector changes

Since June 30, 2009	% of net assets
Largest increase:	
Consumer discretionary	3.0%
Financials	1.4
Materials	1.3
Largest decrease:	
Fixed income	-2.5%
Information technology	-2.4
Cash and cash equivalents	-2.2

Country changes

Since June 30, 2009	% of net assets
Largest increase:	
United States	2.2%
Canada	0.9
Singapore	0.8
Largest decrease:	
Brazil	-1.5%
Australia	-0.5
Taiwan	-0.4

Holdings changes

Since March 31, 2010
New:
Steel Dynamics
Intel
Avago Technologies
Eliminated:
National Bank of Greece
Venture Corp.
News Corp.

Commissions, service fees, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Unless otherwise indicated, data as of June 30, 2010.

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