

Capital International – Growth and Income

Quarterly portfolio review and commentary

Executive summary

- Series A units of the portfolio declined by 7.91%, while the S&P/TSX Composite Index lost 5.51% in the second quarter.
- Stock markets worldwide fell in May and June, with declines in most major sectors.
- The portfolio's exposure to global stocks, especially those denominated in euros, hurt portfolio returns.

Investor optimism gave way to renewed fears about slowing economic growth, leading to negative returns for equities as investors retreated to government securities. The U.S. economy appeared to enter a soft patch, while growth in Europe was downgraded as governments sought to cut spending in the wake of the euro area's debt crisis. Fears of a slowdown in China added to concerns, since its economy has become a major driver of global economic activity.

What helped

- Amid the declines, one strong area was gold, which spiked during the quarter. Barrick Gold and New Gold both made solid contributions to portfolio returns.
- Other strong contributors were Gerdau Ameristeel, BFI Canada and Cenovus Energy.
- Among financial companies, which were generally down, two insurance companies in the portfolio stood out with positive returns: Intact Financial, and Industrial Alliance Insurance and Financial Services.

What hurt

- The information technology sector fell sharply, dragged down by Research In Motion, which fell short of its first-quarter revenue guidance. RIM, which is among the portfolio's largest holdings, revealed that shipments for its BlackBerry devices had fallen off in advance of the release of Apple's iPhone 4 and new Android-based smartphones.
- Other top holdings in the portfolio that hurt returns were National Bank of Canada and Pengrowth Energy Trust. Energy declined more than the overall market as investors fretted over the spill in the Gulf of Mexico and the potential financial impact of a moratorium on deepwater drilling.
- Steep declines from holdings in the materials sector also contributed to poor results, including Potash Corp. of Saskatchewan, Inmet Mining and Labrador Iron Mines Holdings.
- Many of the fund's European stocks hurt returns, especially those from the euro zone, since the euro lost about 5% to the Canadian dollar over the quarter.

Long-term perspective

Despite the challenges in global stock markets this quarter, the case for investing in a carefully selected mix of Canadian and non-Canadian equities remains intact. The difficulties in Europe have had the silver lining of creating attractive valuations, especially when compared to many Canadian companies. Furthermore, an increasing number of

companies are initiating or increasing dividends, from Europe to North America and Asia, including emerging markets. Even certain information technology companies have begun to apply their cash flow toward dividends rather than share buyback programs. While dividends may take longer to grow in the heavily regulated financial sector, certain insurance companies, offer a healthy and growing source of dividends.

In the energy sector, portfolio managers are seeing a shift away from oil, which requires expensive, labour-intensive and often risky extraction and refining services, as well as infrastructure for distribution. Shale gas production has jumped in North America, with both large and small companies making this an area of focus. The Capital International – Growth and Income portfolio is well positioned to take advantage of potential growth in this sector.

Portfolio description

Capital International – Growth and Income's strong emphasis on Canadian securities complements a core global equity portfolio like Capital International – Global Equity.

Investment objective

The objective of this portfolio is long-term growth of capital and income through investments primarily in equity or equity-type securities.

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.
- While having a strong emphasis on Canadian issuers, may also invest globally.

Portfolio managers

	Years in profession	Years with Capital
Lionel M. Sauvage	22	22
Alan J. Wilson	25	19

A portion of assets is managed by three research analysts, who average 28 years of industry experience.

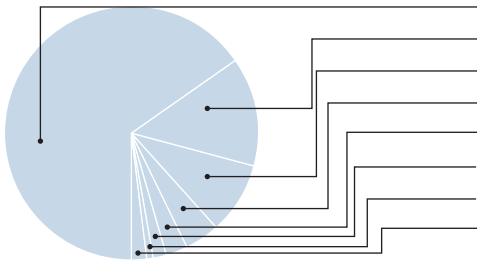
As of December 31, 2009

Top 25 holdings	
	% of net assets
Cenovus Energy	4.4%
Toronto-Dominion Bank	4.4
Intact Financial	3.9
Enbridge	3.6
Industrial Alliance Insurance and Financial Services	3.4
Research In Motion	3.1
National Bank of Canada	2.7
Pengrowth Energy Trust	2.5
Barrick Gold	2.5
Fort Chicago Energy Partners	2.3
Royal Bank of Canada	2.3
Rogers Communications	2.2
Royal Dutch Shell	2.2
Talisman Energy	2.0
Potash Corp. of Saskatchewan	1.7
Gerdau Ameristeel	1.6
Procter & Gamble	1.5
Viterra	1.5
Uranium Participation	1.5
Manulife Financial	1.4
Centerra Gold	1.4
CIBC	1.4
Labrador Iron Ore Royalty Trust	1.4
Nestlé	1.3
Target	1.2

Portfolio characteristics	
Assets (\$ mil) ¹	\$59.42
Number of holdings	93
Dividend yield	3.22%
Portfolio turnover rate	44.68%
Trading expense ratio ²	0.30%
Average market cap (\$ bil):	
Capital International – Growth and Income	\$35.39
S&P/TSX Composite Index	\$24.49
Price to earnings:	
Capital International – Growth and Income	14.69
S&P/TSX Composite Index	15.10
Price to book:	
Capital International – Growth and Income	1.94
S&P/TSX Composite Index	1.95

Country diversification	
	% of net assets
Canada	64.8%
United States	15.0
United Kingdom	4.2
Japan	3.8
Switzerland	2.9
France	2.4
Germany	1.3
Malaysia	1.1
Australia	1.0
Netherlands	0.7
Taiwan	0.6
Finland	0.3
India	0.2

Regional diversification	
	% of net assets
Canada	64.8%
United States	15.0
Europe ex-UK	7.6
United Kingdom	4.2
Japan	3.8
Emerging markets	1.9
Pacific Basin ex-Japan	1.0
Cash and cash equivalents & other assets less liabilities ³	1.7
Total investments	100.0%



Sector diversification	
	% of net assets
Financials	25.3%
Energy	16.6
Materials	14.7
Information technology	8.6
Consumer staples	7.7
Telecommunication services	7.7
Industrials	6.2
Utilities	5.1
Health care	3.2
Consumer discretionary	2.6
Fixed income	0.6
Cash and cash equivalents & other assets less liabilities ³	1.7
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	-7.91	-5.46	6.36	-9.77	-7.73	-1.04	—	-1.86	19.97	-30.78	6.93	—	—
B	-7.95	-5.53	6.21	-9.89	-7.87	-1.18	—	-2.00	19.81	-30.90	6.76	—	—
D	-7.80	-5.22	6.90	-9.32	-7.28	-0.55	—	-1.38	20.58	-30.48	7.49	—	—
F	-7.68	-4.99	7.41	-8.85	-6.77	-0.02	—	-0.86	21.25	-30.04	7.96	—	—
H	-7.63	-4.87	7.69	-8.67	-6.60	0.18	—	-0.66	21.46	-29.94	8.25	—	—

*March 31, 2006 (Series A, B, D, F and H)

Attribution analysis

Q2 2010	Companies	Sectors	Countries
Major contributors	Gerdau Ameristeel Barrick Gold New Gold	Financials Energy	Malaysia Australia
Major detractors	Research in Motion Potash Corp. of Saskatchewan Viterra	Materials Information Technology Consumer Discretionary	Canada United States France

Sector changes

Since June 30, 2009	% of net assets
Largest increase:	
Financials	6.5%
Telecommunications services	1.9
Materials	1.7
Largest decrease:	
Fixed income	-8.5%
Cash and cash equivalents	-4.5
Consumer discretionary	-2.0

Country changes

Since June 30, 2009	% of net assets
Largest increase:	
Canada	4.7%
United States	4.0
Japan	1.3
Largest decrease:	
France	-2.8%
United Kingdom	-2.4
Netherlands	-0.9

Holdings changes

Since March 31, 2010
New:
Talisman Energy
TELUS
Philip Morris International
Eliminated:
EnCana
IESI-BFC
UnitedHealth Group

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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