

Your guide to talking to clients about SMAs



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Evolution of financial vehicles

The first stocks were traded in the early 1600s

Modern mutual funds appeared in 1924

SMAs were introduced in the 1970s

The first index fund appeared in 1971

Capital Group's first separately managed account appeared in 1974

ETFs appeared in 1993

What is an SMA and who is it for?

A separately managed account is a professionally managed portfolio of individual securities selected by an investment manager and owned by the end investor. SMAs are typically available through platforms maintained by large financial firms and are solicited and serviced by those firms' financial professional networks.

Your clients may already use other types of asset bundles, such as mutual funds or exchange-traded funds (ETFs). Each client has specific needs, and the appropriate strategy means finding the investment vehicle (or vehicles) that best suit their goals. SMAs are for clients who want more control. Good candidates for SMAs are clients who are tax-sensitive, who want to avoid certain holdings or who want to see exactly which stocks they own.

SMAs at a glance



Tax efficiency

Allow investors to be taxed only on realized gains. In addition, because SMAs contain individual securities, they enable investors to offset capital gains at their request by selling investments that can produce a capital loss through tax-loss harvesting.



Customization

Help investors fine-tune their portfolios to manage concentrations or avoid specific types of businesses as agreed to by the investment manager.



Transparency

Offer visibility into exactly what assets a client owns.

Capital Group's SMA history

Jonathan Bell Lovelace founded Capital Group in 1931. Forty years later, when it was time for the founding members to retire – including Mr. Lovelace – they pioneered a private client approach, with investment solutions that offered customization as well as tax awareness. The entity that is now Capital Group Private Client Services started offering separately managed accounts in 1974.

How SMAs differ from mutual funds

SMAs are a powerful tool for high-net-worth clients because they offer potential tax advantages, customization and control. Your clients' specific needs will help determine whether SMAs, mutual funds or both best suit their portfolios.

	Separately Managed Account	Mutual Fund
Ownership	Investor owns individual securities	Investor owns shares in a pool of securities commingled with assets of other investors
Portfolio holdings	May allow restrictions and is generally more concentrated than funds	Identical for all investors
Holdings disclosure	Daily visibility – transactions are seen as they occur	Capital Group follows a quarterly holdings disclosure schedule
Tax basis	Begins when investor purchases the individual securities	May include embedded capital gains from months or years before the investor bought shares
Tax management	Financial professional or investor may choose to tax-loss harvest at the individual security level	Under the control of the fund portfolio manager(s)
Results reporting	Returns calculated monthly (no intra-month returns) and generally available five days after month-end	Daily net asset value reporting; returns available on a daily basis
Minimum investment (Capital Group)	Typically \$100,000 for equity SMAs and \$250,000 for fixed income SMAs*	\$250
Regulatory disclosure	Form ADV	Prospectus
Fees	Asset manager only charges the management fee. Fees generally do not vary widely among managers. Investors are subject to additional fees. See page 5 for additional information about fees.	Expense ratios, which may include management fees and other fees such as 12b-1. May include loads. Wide dispersion among managers. Capital Group has some of the lowest fees [†]

* The stated minimums may vary by sponsor and program.

[†] On average, Capital Group's fund management fees were in the lowest quintile 63% of the time, based on the 20-year period ended December 31, 2021, versus comparable Lipper categories, excluding funds of funds.

Note: This list is not exhaustive. Additional regulatory differences may exist.

Why offer SMAs?

62%

of financial advisors use SMAs. Among advisors under 40, 70% use SMAs. 56% of advisors who use SMAs **plan to increase their usage** over the next two years.

Broadridge Financial Solutions, Inc., ESG and SMA Usage Primed to Increase as Financial Advisors Service Next-Generation Investor Demand, New Broadridge Study Finds, April 19, 2021.

You want the right tools for the right clients. Mutual funds and ETFs can help you serve specific client needs. SMAs can add to your array of investment tools to help serve your clients.

SMAs have specific benefits because they:

Can deliver on your value proposition

Since SMAs highlight professional management, they underline your ability to offer your clients more human-centered wealth management capabilities.

Differentiate you from other financial professionals

SMAs' specific attributes may appeal to the high-net-worth clients you're looking to attract.

Allow for flexibility

Since SMAs may be able to be customized to avoid certain holdings, they may appeal to clients who are interested in greater control over their assets.

How to talk with clients about SMAs

Clients should know that SMAs:

- Mean they own the underlying assets, giving them more control over tax harvesting and investment choices.
- Typically have minimum investments of approximately \$100,000 to \$250,000, but vary by sponsor and program.
- Typically have an all-in or “wrap” fee, to be paid by the investor, which includes an investment management fee, a sponsor fee, a brokerage commission for trades executed by the sponsor and other administrative fees.
- May offer record-keeping challenges, given the greater number of transaction reports that come from owning individual securities.

How can SMAs address client needs?

SMAs offer solutions for clients who want more control over their holdings. SMAs are private portfolios of investments designed for clients typically seeking the following:

	Tax efficiency	Customization	Transparency
Consider asking	Are tax considerations keeping you from making allocation changes you would otherwise make?	Do you have any specific investment areas you’d like to avoid?	Would you prefer greater visibility into your holdings?
Mention	SMAs allow clients to sell specific assets for tax harvesting.	Note that because SMAs are often customizable, they allow for targeted changes in allocation.	Highlight that SMAs allow clients to see what they’re holding on a daily basis.
	 <p>See hypothetical case study 1 Managing tax impacts</p>	 <p>See hypothetical case study 2 Fine-tuning holdings</p>	 <p>See hypothetical case study 3 Visibility into assets</p>

Hypothetical case study 1

Tax efficiency: Managing tax impacts

55%

of high-net-worth investors feel it's more important to minimize **the impact of taxes** than it is to pursue the highest possible return.

U.S. Trust, 2017 U.S. Trust Insights on Wealth And Worth® Survey.



The client

Jennifer M. has a sizable stock portfolio and worries that her income and capital gains taxes could significantly diminish her investment upside.

A potential solution

By shifting to an SMA, Jennifer can sell poorer performing stocks as a way to reduce her taxes now or offset future gains.

SMAs offer clients greater control, which gives them more opportunities to manage tax impacts through:



Tax-loss harvesting over time

SMAs allow clients to sell specific securities, harvesting gains and losses for immediate or future benefit.



Balancing short- and long-term gains

SMAs give clients the ability to sell holdings to manage differing tax rates on short- or long-term gains.



Charitable giving

SMAs mean clients can donate particular, appreciated holdings, benefitting both the recipient and the client.

Hypothetical case study 2

Customization: Fine-tuning holdings

Of financial professionals who use environmental, social and governance (ESG) products, 81% plan to increase their usage over the next two years as investors actively seek out these products.



The client

Sarah G. is interested in aligning her investing strategy with her values. She's hoping to avoid investing in companies that have what she considers unethical business practices.

A potential solution

With an SMA, Sarah may be able to customize her holdings to avoid particular types of holdings. This can be particularly useful for clients who lean toward sustainable investing.

Broadridge Financial Solutions, Inc., *ESG and SMA Usage Primed to Increase as Financial Advisors Service Next-Generation Investor Demand*, New Broadridge Study Finds, April 19, 2021.

61% of financial professionals

use products that focus on ESG factors.

Broadridge Financial Solutions, Inc., *ESG and SMA Usage Primed to Increase as Financial Advisors Service Next-Generation Investor Demand*, New Broadridge Study Finds, April 19, 2021.

Hypothetical case study 3

Transparency: Visibility into assets

SMA's offer daily holding disclosures, allowing investors to monitor portfolio holdings and any changes as they happen.



The client

Sam H. is actively engaged in his investing strategy, and wants to have visibility into exactly what he owns and how it's performing.

A potential solution

Using an SMA, Sam is able to see information on the specific assets he owns, and monitor any changes, while still getting the potential benefits of professional management and diversification.

56% of affluent Americans

are taking a self-directed approach to investing all or some of their assets.

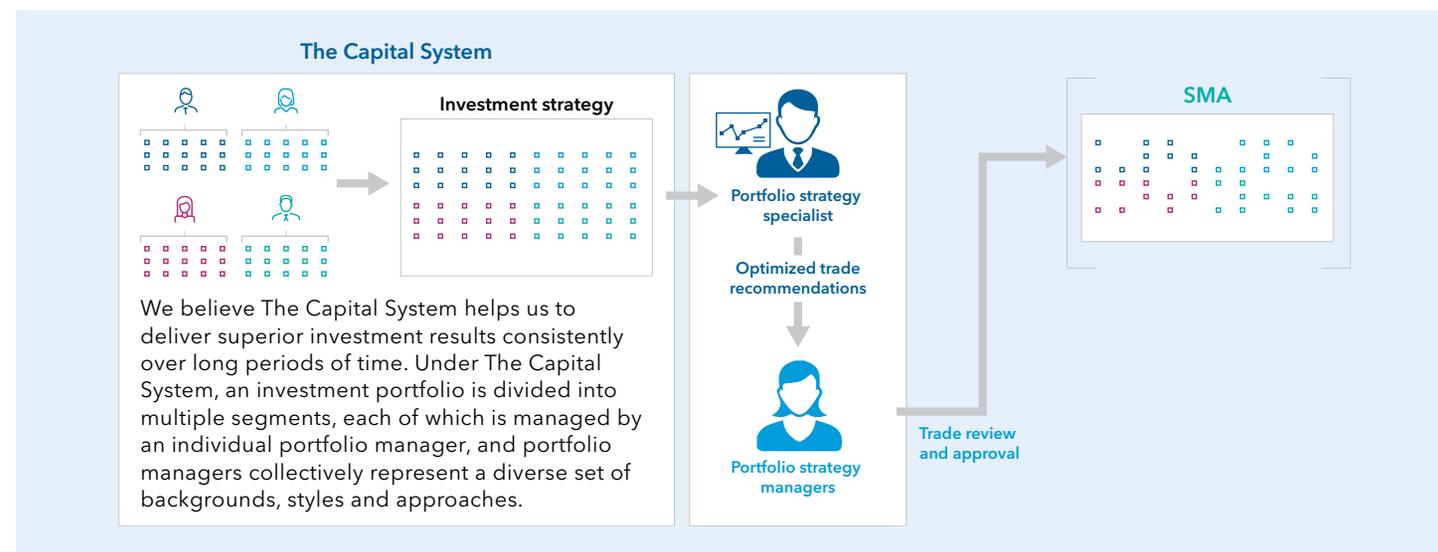
Bank of America, *Bank of America Study Finds Nearly Half of Affluent Americans Getting Their Financial Lives in Order During the Pandemic*, April 6, 2021.

The Capital Group SMA investment process

Many Capital Group SMAs use the same strategy as its corresponding Capital Group mutual fund.

A repeatable, scalable system

The SMA investment process is designed to provide the risk-return profile of a given strategy in an SMA format (vehicle). In line with The Capital SystemSM, the starting point is the investment convictions of portfolio strategy managers and analysts. A risk model is used to identify the characteristics of the underlying convictions. Then a combination of human decision-making by the portfolio strategy managers* and quantitative, systematic approaches is used to express the investment convictions in the SMA.



How it works:

- The SMA portfolio is optimized to have fewer holdings.
- The SMA seeks to capture the risk and return characteristics of the investment strategy while seeking to reduce return dispersion among vehicles.
- The risk model seeks to represent the risk characteristics of the investment strategy.
- The goal is for the resultant portfolios to appropriately reflect the investment strategy's convictions.
- The SMA portfolio is rebalanced periodically to help reduce risk and minimize tracking errors between the SMA and the strategy.

*While not responsible for managing the portfolio, portfolio strategy managers optimize the portfolio in seeking to replicate the strategy's risk and return profile in the SMA.

Capital Group offerings

Capital Group had a market presence of \$34.9 billion in retail SMA assets under advisement as of December 31, 2021.

Check with your home office to see what Capital Group offerings are available.

Strategy	Focus
Domestic equity	
Capital Group U.S. EquitySM (inception 1974)	Allocation to domestic equity
Capital Group U.S. CoreSM Similar to The Investment Company of America [®] (inception 1934) ¹	U.S. growth and income equity allocation
Capital Group U.S. GrowthSM Similar to AMCAP Fund [®] (inception 1967) ¹	A disciplined approach to growth investing
Capital Group U.S. Income and GrowthSM Similar to Washington Mutual Investors Fund SM (inception 1952) ¹	A disciplined approach to growth-and-income investing
Capital Group U.S. Flexible GrowthSM Similar to The Growth Fund of America [®] (inception 1973) ¹	A flexible approach to growth investing
Capital Group U.S. Flexible Growth and IncomeSM Similar to Fundamental Investors [®] (inception 1978) ¹	A flexible approach to growth-and-income investing
Capital Group U.S. Conservative Growth and IncomeSM Similar to American Mutual Fund [®] (inception 1950) ¹	Managed for conservative growth and income investing
International/global equity	
Capital Group International EquitySM Similar to International Vantage Fund SM (inception 2011) ¹	Focused on developed international
Capital Group International GrowthSM Similar to EuroPacific Growth Fund [®] (inception 1984) ¹	A diversified approach to international growth
Capital Group Global EquitySM Similar to Global Insight Fund SM (inception 2011) ¹	Globally flexible, high-conviction portfolio
Capital Group Global GrowthSM Similar to New Perspective Fund [®] (inception 1973) ¹	A flexible approach to global growth
Capital Group World Dividend GrowersSM (inception 2012)	A global approach to dividend investing
Fixed income	
Capital Group Core BondSM (inception 1996)	Core fixed income allocation
Capital Group Short Municipal^{SM 2} (inception 2017)	Short-term tax-exempt fixed income allocation
Capital Group Intermediate Municipal^{SM 2} (inception 2017)	Intermediate tax-exempt fixed income allocation
Capital Group Long Municipal^{SM 2} (inception 2017)	Long-term tax-exempt fixed income allocation

¹ "Similar" funds share the same investment objective and portfolio managers with the respective SMA.

² New accounts may require more than 4-8 weeks to be fully invested.

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