Quarter highlights

- The fund’s overall duration and yield-curve positioning had a strong positive impact on returns as the managers were positioned to benefit from a steepening in the curve.

- The selection of mortgage-related securities weighed on relative results.

- Sector positioning was a drag on relative returns.

Market review

U.S. fixed income securities generated mixed returns through the quarter, with Treasuries retreating while spread sectors delivered positive results. Longer term Treasury yields rose as investors reassessed the extent to which the Federal Reserve would likely cut rates amid fading fears of a severe slowdown in economic activity. Downside risks also abated given the “phase one” U.S./China trade deal and the U.K. general election result, which provided some clarity regarding Brexit. The yield on the 10-year bond rose back above 1.90% from a low for the quarter just above 1.50%. This was the highest level since late-July. The yield curve steepened, with the difference between three-month bills and 10-year bond yields moving decisively back into positive territory for the first time since late-May. In contrast to nominal Treasuries, Treasury Inflation-Protected Securities (TIPS) gained as break-even rates rose.

Corporate bonds advanced as spreads to Treasuries tightened amid strong demand for both investment-grade (BBB/Baa and above) and high-yield debt. Among notable new issues, AbbVie raised $30 billion to help finance its $83 billion takeover of Allergan. This marked the biggest deal so far this year, overtaking the $20 billion and $19 billion raised by IBM and Bristol-Myers Squibb, respectively, in May.

Economic data helped alleviate fears that U.S. economic activity may be slowing. The economy expanded at an annualized pace of 2.1% in the third quarter, a slight improvement on the 2.0% rate recorded in the second quarter. Labor market indicators remain strong with low unemployment and strong monthly job gains. Manufacturing continues to languish while activity in the services sector accelerated modestly. While retail sales rose less than forecast in November, hopes for holiday-season sales were boosted when December’s University of Michigan’s consumer sentiment index rebounded to its highest reading since May.

The Federal Reserve cut rates for the third time this year in October, lowering its target range to between 1.5% and 1.75%. At its December meeting, the Fed indicated that rates would likely remain at current levels through 2020 and that it would wait for a persistent move up in inflation before considering an increase.

Portfolio review

The fund’s overall duration and yield-curve positioning had a strong positive impact on returns. The managers were positioned to benefit from a steepening in the curve. With yields on longer dated securities rising over the quarter and shorter-dated bond yields declining, this positioning had a positive impact on results.

The selection of mortgage-related securities weighed on relative results.

Sector positioning was a drag on relative returns. With credit spreads tightening, the fund’s lower-than-index allocations to mortgage-related securities hindered relative results. However, this was partly offset by nonbenchmark holdings in Treasury Inflation-Protected Securities, which help lift relative results as break-even rates increased through the quarter.

continued on back
Long-term perspective

The fund invests primarily in debt obligations that are guaranteed or sponsored by the federal government. These include Treasury bonds and notes, the direct debt of federal agencies and a variety of agency mortgage-backed obligations. A fundamental component of the fund’s investment strategy has been to maintain a high-quality portfolio to serve as a hedge against economic uncertainties that could impact other portions of fund investors’ individual portfolios.

Figures shown are past results and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Share prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. Fund results shown are at net asset value with all distributions reinvested. For current information and month-end results, visit capitalgroup.com.

Class F-2 share returns for periods ended 12/31/19

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Total returns (%)</th>
<th>Average annual total returns (%)</th>
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<tbody>
<tr>
<td>U.S. Government Securities Fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>QTD</td>
<td>YTD</td>
<td>1 year</td>
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<td>10 years</td>
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<td>Fund lifetime (Since 10/17/85)</td>
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</table>

Bloomberg Barclays U.S. Government/Mortgage–Backed Securities Index  
-0.19 6.63 6.63 3.28 2.45 3.07 –

Fund expense ratio: 0.36%†

†The expense ratio is as of the fund’s prospectus available at the time of publication.

The return of principal for bond funds and 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. Fund shares are not guaranteed by the U.S. government.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectus and summary prospectus, which can be obtained from a financial professional and should be read carefully before investing. American Funds Distributors, Inc., member FINRA.

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Class F-2 shares were first offered on August 1, 2008. Class F-2 share results prior to the date of first sale are hypothetical based on Class A share results without a sales charge, adjusted for typical estimated expenses. Please see capitalgroup.com for more information on specific expense adjustments and the actual dates of first sale.

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