ESG
September 2024

CAPITAL GROUP®

Stewardship report 2024

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Our approach to investment stewardship

FOREWORD

At Capital Group, our mission is to improve people's lives through successful investing.

The core of this is our distinctive investment approach, The Capital System™. Deep, fundamental research and the diverse perspectives of our investment professionals lie at the heart of The Capital System and make it one of our most durable and valuable assets. For many decades, it has enabled us to focus on delivering superior long-term investment results to our clients.

We believe superior investment results are achieved by identifying investment opportunities globally through deep research and analysis. Engaging with management teams and spending time on location, when possible, help to drive operational understanding and allow us to make informed investment decisions. The Capital System combines independence and teamwork. While analysts and portfolio managers collaborate and share insights, each invests independently according to their strongest convictions. The resulting portfolios are a diverse collection of investment convictions, not just one portfolio manager's perspective. This approach creates the potential for portfolios to fare well in a variety of market conditions.

We strongly believe long-term investing aligns with client goals, and our culture and compensation structure reinforce that focus. We typically hold investments in our equity-focused mutual funds significantly longer than our industry peers. We also have a strong sense of responsibility as stewards of our shareholders' investments.

In 2023, we held more engagements between our environmental, social and governance (ESG) and investment teams and companies than ever before. We covered nearly 40 distinct investment issues, with topics ranging from access and affordability of products to water management.

For the second year running, we sent letters to portfolio companies where we had concerns about their governance post proxy voting season so we could better understand their approach. This year, we prioritized engagement on the issues we know we will be asked to vote on again, such as individual director election and compensation, which led to productive dialogues.

We again saw a significant increase in the number of environmental and social shareholder proposals this year. We observe proposals becoming increasingly prescriptive in nature. Capital Group takes a case-by-case approach in voting each shareholder resolution. Common reasons for us deciding that a proposal does not warrant support are that the company is already undertaking the requested action, that the company's disclosures, policies or practices already meet our guideline expectations, or that we believe the proposal is too prescriptive. However, we continue to engage companies on many of the issues raised in these proposals.

Over the past year, we continued to invest in our people, data and technology to support our approach to ESG integration. For example, we've added additional climate resources and data to support our research and analysis. We continued our focus on working one-on-one with portfolio managers to share ESG insights. In partnership with the investment team, we also expanded our monitoring process in fixed income and refreshed our ESG investment frameworks. We're eager to share our progress and continued commitment to stewardship, and how we are continually striving to meet our clients' needs and expectations in this area.

Regards,

Martin Romo
Chairman and Chief Investment Officer of Capital Group

What stewardship means to us

At Capital Group, successful investing means generating superior long-term investment outcomes for our clients. We believe this is only possible with a focus on engagement with the companies and issuers in which we invest. That is why engagement and proxy voting together represent one of the three components of our process for integrating material ESG issues into our investment approach, The Capital System.

We believe our long-term investment approach allows our investment professionals to have meaningful relationships with management teams, which provides us with the opportunity to ask direct questions on the ESG issues of greatest concern. Our analysts evaluate management structures, financial strength, products and services, supply chains, resource use, business practices and future earnings forecasts, among other relevant considerations. We identify investment opportunities through deep analysis – analyzing material risks and opportunities is a crucial aspect of how we assess an issuer's long-term potential to generate value.

Our investment and stewardship approach is reflected by our average holding period for the companies in which we invest.

Average holding period of our equity-focused American Funds® range of mutual funds

3.3 years*

Peers hold their investments

1.9 years*

Our three-part ESG integration process

Research & Investment Frameworks reflect material ESG considerations in 25+ sectors.

Engagement & Proxy Voting involves engaging with issuers on material ESG risks and opportunities and voting proxies in the best interest of our clients.

Monitoring Process uses available third-party data to flag a subset of investments in certain asset classes[†] for further research and review.

[†]As of December 31, 2023, monitoring applies to corporate and sovereign holdings.

*Source: Capital Group. On average, the equity-focused American Funds range of mutual funds hold their investments for 3.3 years, whereas their peers hold their investments for 1.9 years, based on the equal-weighted blended averages across each of the 20 equity-focused American Funds' respective Morningstar categories as of December 31, 2023. Fixed income funds are not included in this calculation due to the differing nature of trading in the asset class versus equity investing.

Our commitments and industry initiatives

Capital Group supports a range of efforts by industry-related groups to advance the role of stewardship as an integral part of the investment process.

We are members and active participants in a number of organizations and initiatives, and we contribute by speaking at and attending events and participating in working groups. We also engage in dialogues with standard setters such as the International Accounting Standards Board (IASB) and the U.K. Financial Reporting Council (FRC) to improve accounting transparency. We also respond to consultations and engage with regulators and policymakers on key policy proposals, whether directly or through trade associations.

Capital Group Governance and Stewardship Initiative (GSI)

Governance issues have always been a key priority at Capital Group. In 2020, we formed a working group, the Governance and Stewardship Initiative (GSI). This investor-led group is a team of ten experienced Capital Group professionals, which aims to advance strong corporate governance and to drive long-term shareholder value. The initiative commissions primary research to help inform our investment decisions, stewardship activities with portfolio investments and proxy guidelines.

2022 — **Net Zero Asset Managers initiative (NZAM)**
Capital Group is a signatory.

2021 — **United Nations Global Compact (UNGC)**
Capital Group is a participant and commits to integrating the ten principles on human rights, labor rights, the environment and anti-corruption into our business operations.

2020 — **Task Force on Climate-related Financial Disclosures (TCFD)**
Capital Group reports against the TCFD recommendations.

2016 — **International Financial Reporting Standards Foundation (IFRS)**
Capital Group is a member of the International Sustainability Standards Board (ISSB) Investor Advisory Group.

2010 — **Principles for Responsible Investment (PRI)**
Capital Group is a signatory.

As of December 31, 2023.

Governance and Stewardship Initiative research topics during 2023 included:

- **Nonfinancial metrics in executive pay** – As nonfinancial metrics become more widespread, we researched the market to understand the current trends and the appropriateness of these metrics in driving long-term value.
- **The case for a separate independent board chair** – Some companies continue to argue for a combined board chair and CEO. We researched the materiality of how a combined board chair and CEO may affect the dynamics of the board and what mitigation steps we may look to for instances where the role is combined.

Engagement

Why we engage

We are committed to providing better investment outcomes for our investors and engage regularly with the companies and issuers in which we invest. By engaging with companies on important issues, we seek to better understand potential risks to our investments and gain a better understanding of management teams, as well as their values, strategies and stances on key issues.

We generally encourage disclosure on matters that we believe can impact the company's ability to generate long-term returns, and we share best practices observed in a given sector that may be relevant to the company.

How we engage

It is our preference to engage with companies directly, leveraging these relationships to encourage positive outcomes. Many of our engagements are face-to-face meetings or, where this is not possible, video calls, to help ensure full debate and interaction. We have relationships with companies and issuers on a global basis and tend to meet with C-suite management, heads of sustainability, board chairs and investor relations personnel. Reflecting our long-term approach, we act as partners to our investee companies and seek to better understand their approach to material ESG issues.

Achievements in 2023

In 2023, we continued to enhance the specificity with which we track our ESG engagements by introducing the option to record specific outcomes that we seek to achieve for each company engagement. For the second consecutive year, we also increased our proactive outreach to issuers following proxy voting season with engagement letters, which were sent to over 450 companies globally, focusing on where we had voted against management or where we had identified a governance practice that is a potential cause for concern. This year, the Global Stewardship and Engagement (GSE) team designed a new proactive engagement approach for the post-proxy season period that prioritized engagement on issues we knew we would be asked to vote on again.

Over the course of the year, we continued to invest in our people, data and technology to support our approach to ESG integration and engagement with issuers. We added additional climate resources and data to support our research and analysis. In partnership with the investment group, we expanded our monitoring process in fixed income and refreshed our ESG research & investment frameworks.

Ongoing dialogue and engagement

360
portfolio managers and investment analysts

20,000+
meetings held in 2023 as part of fundamental investment research

650+
companies engaged on ESG topics during 2023

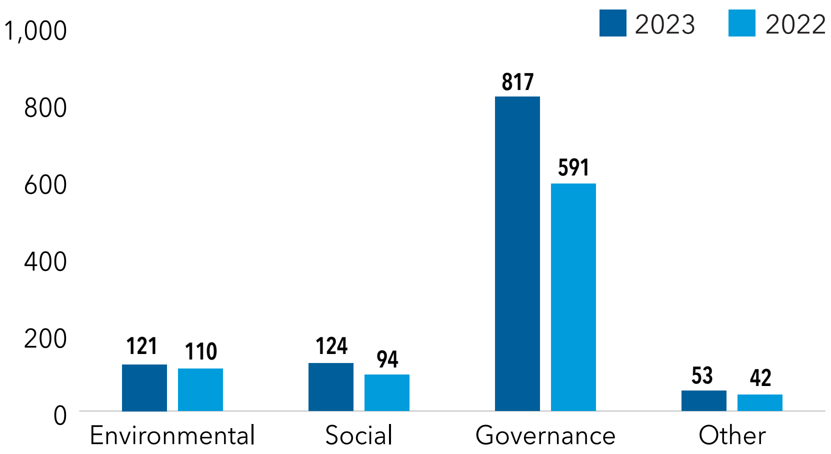
45+
person dedicated ESG team, including our ESG Research & Investing team and Global Stewardship & Engagement (GSE) team

As of December 31, 2023.

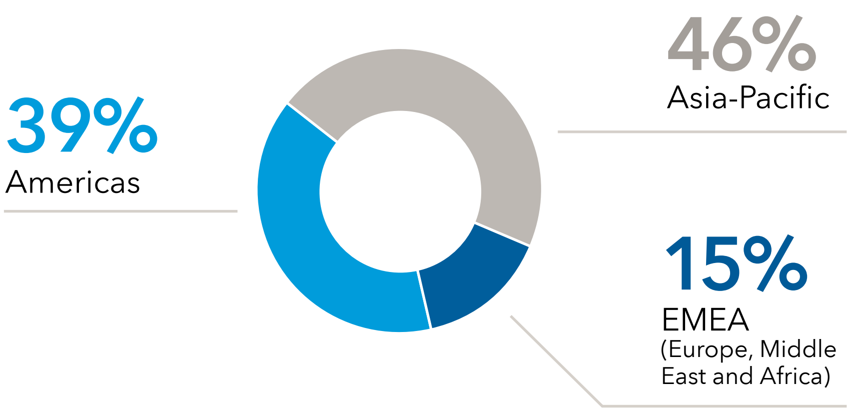
What we engaged on in 2023

During the year, we recorded 1,115 ESG engagements with companies and issuers, including 245 engagements specifically on social and environmental issues.

Engagements by category 2022 vs. 2023



Engagements by region 2023



As of December 31, 2023.

1,100+

ESG engagements in 2023

Our top five engagement topics for the year, by frequency, were:

- Board composition and leadership
- Executive compensation
- Corporate actions and capital allocation
- AGM†-related matters
- Management quality and accountability

†annual general meeting

ENGAGEMENT CASE STUDY

Tracking governance improvements in Mexico

One element of our three-part ESG integration process is monitoring our corporate (equity and debt) and sovereign holdings against available third-party data to surface external views of potentially material ESG risks, as well as issuers in violation of international norms. Importantly, our perspectives are not built on monitoring results alone; to ensure we also have a forward-looking perspective, our investment decisions are underpinned by fundamental research and engagement. This was demonstrated through how governance concerns – which we consider to be particularly material for sovereigns – were analyzed for Mexico.

Our sovereign monitoring process identified that several of Mexico's governance scores, as measured by the World Bank's Worldwide Governance Indicators for 2021,* were comparably lower than peers.

In the first quarter of 2023, six Capital Group analysts and portfolio managers went on a research trip to Mexico to meet with government entities (the central bank, Ministry of Finance and state-owned enterprises), as well as corporates and political analysts. During these meetings, one of our fixed income analysts discussed material risks and opportunities facing the sovereign, including recent governance-related developments:

- A more stable regulatory environment following a failed attempt by President López Obrador to defund the electoral commission.
- Draft initiatives to facilitate nearshoring** investment, such as tax benefits for worker training and reskilling.

Following the trip, one of our fixed income analysts noted what they viewed as a moderation in governance-related risks due to:

- Resistance to executive overreach by institutions such as independent regulators and the judicial system.
- A geopolitical need to maintain regional cohesion and set effective policy.

These improvements reinforced our fixed income analyst's positive view of Mexico, which they believe will reflect positively on the issuer's macroeconomic outlook and its governance scores over the long term.

This engagement helped our investment analysts better understand the sovereign issuer's progress in addressing the governance issues flagged in our monitoring process.

The case study illustrates how we undertake proxy voting in practice.

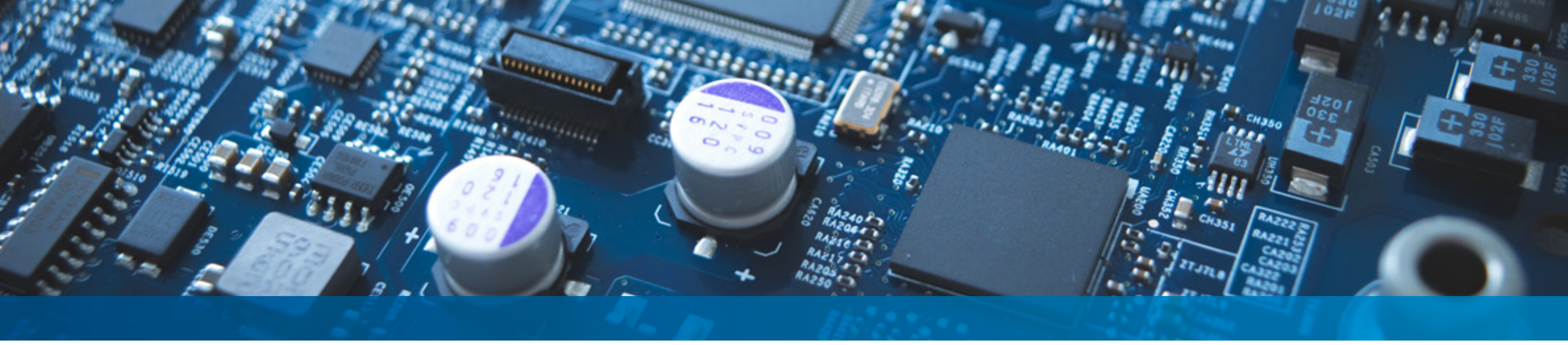
This information should not be interpreted as an offer or recommendation to buy any securities.

This case study reflects our analyst's view at the time of review and remains subject to change.

As of September 21, 2023. Source: Capital Group.

*World Bank's Worldwide Governance Indicators for 2021.

**Nearshoring is the practice of transferring a business operation to a nearby country in preference over a more distant one. For example, some U.S. companies may establish operations in Mexico given its geographical proximity in preference over more distant countries in the world.



ENGAGEMENT CASE STUDY

Human capital management at Tokyo Electron

Our ESG and investment analysts view human capital, including Diversity, Equity & Inclusion (DE&I), as a material ESG topic across most companies and sectors. For example, we have a consistent set of metrics on human capital across our sector-specific ESG investment frameworks. We also regularly engage with companies on this topic.

Tokyo Electron is one of the world's largest semiconductor equipment vendors. The company has acknowledged that its ambitions for pursuing corporate growth are "enabled by people, and [its] employees both create and fulfill company values." Tokyo Electron has also stressed that key to its human resource management (HRM) are TEL Values,* motivation-oriented management and diversity, equity and inclusion.† As part of the company's global DE&I initiatives, it has established targets for the ratio of female managers.

In October 2023, three of our Global Stewardship & Engagement analysts engaged with Tokyo Electron to gain a better understanding of several of the company's ESG initiatives, including its efforts around human capital.

On DE&I, the company flagged the challenges around enhancing gender diversity, given most of its employees are engineers and noting that female engineers represent a limited talent pool in Japan. The company also highlighted:

- The CEO is encouraging select engineers to shadow him, to get a better sense of the firm's long-term vision and their own career paths.
- Implementation of cross-departmental projects and a global exchange program for engineers at domestic sites and overseas subsidiaries to foster enhanced collaboration.
- Better support of work-life balance by offering benefits such as remote working, technical training sessions to improve efficiency via digital transformation and other IT capabilities, to foster improved employee satisfaction.

Our GSE analysts believe Tokyo Electron demonstrates a strong commitment to human capital by offering its employees various opportunities to challenge themselves and reach their full potential. The company also has two female board directors — one with an engineering background — bringing its board's gender diversity to over 30%. Our GSE analysts believe this has positively contributed to the company's global DE&I initiatives. In recognition of these and other recent enhancements, Tokyo Electron also placed first in the Stakeholder Capitalism Ranking in Forbes Japan's "Inclusive Company Ranking 100."‡ Our GSE analysts believe these efforts could support the company in pursuing its corporate growth plans at a global level.

The case study illustrates how we undertake proxy voting in practice.

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As of November 2023. Sources: Capital Group, Tokyo Electron, unless stated otherwise. *Tokyo Electron summarizes its company values and codes of conduct as "TEL Values." †Source: Tokyo Electron Integrated Report 2023. ‡Source: Forbes Japan, October 25, 2023.

ENGAGEMENT CASE STUDY

Climate disclosure and emissions reporting at ConocoPhillips

Climate change is one of the ESG topics we view as material across many companies and sectors, for which we have a consistent set of metrics across our ESG investment frameworks, and on which we regularly engage with companies. Navigating the energy transition is a key strategic and operational challenge for oil exploration and production (E&P) companies. For stakeholders to understand how well-positioned these companies are to respond to climate-related risks and opportunities, key points to consider include:

- The ambition of the companies' emission-reduction targets.
- The quality of climate disclosures.
- The strength of corporate governance around climate-related matters.

These emission-reduction targets and initiatives form part of our sector-specific ESG Research & Investment Framework for Energy.

ConocoPhillips is a U.S.-based oil E&P company, with a globally diversified asset portfolio. Our analysts have been engaging with ConocoPhillips for several years, most recently on climate-related topics. In November 2023, two analysts from our ESG team met with ConocoPhillips to discuss the company's climate strategy and reporting practices.

The analysts learned that ConocoPhillips is:

- Tracking emissions at a more granular level, relative to peers, and linking mitigation mechanisms to tangible emissions reductions, allowing investors to better understand and track the company's climate strategy.
- Actively seeking to improve reporting standards, working with peers to define key factors for achieving operational net zero, while accounting for the multidimensional challenges associated with climate change and energy demand.

From the engagement, our analysts gained comfort that ConocoPhillips has best-in-class reporting practices on emissions reductions and climate strategy disclosure.

The company has also acknowledged our suggestions for further improvements. In particular, our analysts have asked to see enhanced disclosure around linking capital allocation decisions to emission-reduction mechanisms. Our ESG analysts will continue to monitor the company's progress on this and other efforts around its climate strategy.

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This case study reflects our analyst's view at the time of review and remains subject to change.

As of November 2023. Sources: Capital Group, ConocoPhillips.

Proxy voting

Why we vote

Capital Group believes exercising our proxy voting rights for the entities in which we invest is fundamental to fulfilling our obligations to investors. Our approach is made more powerful by the fact that our proxy voting is led by our investment professionals.

A measure of how critical proxy voting is to the fulfillment of our duties as responsible stewards of client assets is that we do not outsource these voting responsibilities or research to external firms. Votes are reviewed by at least one member of the Global Stewardship and Engagement (GSE) team and the investment group.

Our proxy voting guidelines

Our voting guidelines represent our general approach to considering proxy ballot items. These guidelines are reviewed and maintained by our Guidelines Committee, which comprises investment professionals from each of Capital Group's equity divisions and one individual from the fixed income division.

During proxy voting season, our investment professionals and the GSE team keep a note of new or emerging issues, or areas where we feel our guidelines may need updating. We typically update our voting guidelines as part of an annual cycle.

How we vote

Proxy voting decisions are made in-house by each of the three separate equity investment divisions based on what they believe are the long-term interests of our clients. Proxy analysis is first conducted by the GSE team, applying guidelines and taking into account engagement and company-specific research.

High-profile or contentious proxies, or proxies where there is a difference of opinion, are escalated to the appropriate Proxy Committee in each investment division, comprising senior, experienced investors, which has the final authority.

What we voted on in 2023

In 2023, we voted at 2,124 annual, extraordinary and special general meetings* (AGMs, EGMs and SGMs) on behalf of our clients.

Our commitment to rigorous global research and individual accountability means that only the highest conviction ideas make it into our portfolios. As such, our starting point is generally to be supportive of management. In 2023, we voted against approximately 5% of proposals put forward at AGMs and SGMs. Proxy voting reports detailing how Capital Group has voted are available to clients on request.

2,100+

AGMs, EGMs and SGMs at which Capital Group voted (proxy) on behalf of clients in 2023

Proxy voting statistics for calendar year 2023

	Meetings voted	Proposals voted	Votes for	Votes against
TOTAL	2,124	25,474	24,051 **94.4%**	1,301 **5.1%**
Americas	954	10,895	10,171 **93.4%**	630 **5.8%**
Asia-Pacific	578	4,476	4,159 **92.9%**	311 **7.0%**
EMEA	592	10,103	9,721 **96.2%**	360 **3.6%**

Number of votes for/against may exceed total number of proposals voted, due to split voting by divisions on the same resolution. Numbers may not total to 100 due to abstained votes.

As of December 31, 2023. EMEA – Europe, the Middle East and Africa. Voting statistics are an aggregated blend of votes for all three investment units at the ballot level; abstentions are omitted. Source: Capital Group.

*Annual general meeting = AGM; Extraordinary general meeting = EGM; Special general meeting = SGM.

PROXY VOTING CASE STUDY

Corporate governance and board composition at Shin-Etsu

The need for strong corporate governance practices is largely consistent across sectors. Such practices are key to balancing the interests of a company's stakeholders, including its long-term shareholders. This is also an area of focus for the corporate governance reforms in Japan.

Based in Japan, Shin-Etsu Chemical is one of the world's largest chemical companies. Corporate governance concerns at Shin-Etsu have historically centered on board composition and effectiveness, in particular:

- Lack of gender diversity
- Low number of outside directors
- Large board size
- Long director tenure

A number of Capital Group investment analysts have been engaging with Shin-Etsu for several years on these topics. The company has taken steps over the last five years to address governance issues, including:

- The introduction of an executive officer system. (This separation of business execution and oversight can help boost board effectiveness.)
- Halving the board size from 22 to 11.*
- Increasing external board members from 18% to 45%.

In 2022, Capital Group's Global Stewardship & Engagement (GSE) team sent post-season engagement letters to Shin-Etsu on our voting actions and followed up with further engagement to better understand the company's plans for improvement on its board, including outside directors and gender diversity.

Following the engagement letter, Shin-Etsu acknowledged the concerns and noted its steady progress on board composition, particularly on board effectiveness. In April 2023, the company announced the appointment of its first female board director. In May 2023, the company announced the removal of an internal director and long-tenured employee, enhancing the board independence and adhering to the Japan Corporate Governance Code. In June 2023, the company also published comments by its long-tenured outside directors detailing how they contribute to the governance of the company, thereby demonstrating the company's emphasis on board quality.

The investment analysts consider these to be key improvements in Shin-Etsu's corporate structure, which they believe could help reduce governance risk.

The case study illustrates how we undertake proxy voting in practice.

This information should not be interpreted as an offer or recommendation to buy any securities.

This case study reflects our analyst's view at the time of review and remains subject to change.

*Shin-Etsu Chemical annual reports and disclosures.

As of July 7, 2023. Sources: Capital Group, Shin-Etsu.

PROXY VOTING CASE STUDY

Escalation at a European financial services company

As an active investment manager, we value ongoing engagement with our investee companies in advancing the long-term interests of our clients. Engagement on board composition and director elections is of particular importance, as we believe a company's board of directors can play a key role in the success of the company. We believe overall board independence, is essential to good corporate governance, and we will often give specific attention to situations where a board has a high number of directors with links to management, relative to market norms. This includes situations where executive directors constitute a significant proportion of the board.

Our investment analysts and the GSE team have been monitoring the board of a European financial services company, where half of the board (four out of eight directors) are executive directors as of December 2023. As well as reviewing the independence of the non-executive director cohort, the GSE team has continued to evaluate whether this board model is functioning in a way that ensures proper oversight of, as well as support for, the running of the business. Our GSE team believes it is important to assess whether the board's business benefits from the presence of the four executive directors in its composition. Also, shareholders often look to the non-executive directors to provide balance within board discussions, ensure conflicts are being managed and contribute diverse perspectives.

In 2023, the GSE team arranged an engagement with the company to test these points. This was prompted by the company's disclosures around director attendance, which indicated that two of the directors had attended a maximum of 60% of the board's five board meetings (and potentially fewer) during the previous financial year. The disclosures did not specify which of the directors had this lower attendance rate. Therefore, it was unclear whether there might be an issue with non-executives not being present to contribute, or if the board was not in practice benefiting from strong executive presence in all its meetings.

Following the engagement, the GSE team shared feedback with the company that disclosures around director attendance could be made more granular. The GSE team confirmed that, in the absence of greater clarity, Capital Group could – as set out in our proxy voting guidelines – consider voting against the re-election of any director(s) we held accountable for not addressing a systemic issue of this nature. Our GSE analysts plan to monitor how the company will improve disclosure on this matter in the coming years and take action if necessary.

The case study illustrates how we undertake proxy voting in practice.

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This case study reflects our analyst's view at the time of review and remains subject to change.

As of December 14, 2023. Source: Capital Group.

PROXY VOTING CASE STUDY

Compensation policies and board structure at a Canadian metals and mining company

Over the past decade, one of our equity investment analysts had concerns about the governance structure of a gold and copper producer based in Canada that has an executive chair, in addition to a CEO.

Multiple meetings have been held with the company to understand this dynamic and how the company is managed, and in parallel, to understand how the board carries out its non-executive role overseeing the management team. Given how these different roles appear to be exercised within the company, the analyst remained unconvinced as to the value the role of executive chair brings to the board, as opposed to an independent, non-executive chair, which many of the company's peers have appointed. We see no evidence that this current structure with an executive chair and separate CEO generates sufficient additional value for the company to justify the materially higher quantum of pay accorded to the executive chair role (versus the level of fees usually paid to a non-executive board chair). This has resulted in one of our equity units voting against the "say-on-pay" resolution as far back as 2013.

Ahead of the 2023 AGM, the equity investment analyst wrote to the company to outline their concerns and meet with management to discuss succession planning and the remuneration level for the executive chair, which did not appear to be aligned with company and individual performance. From the engagement, our analyst concluded that the company continues to be unresponsive to our concerns and that compensation practices would not likely change.

Our concerns were escalated at the 2023 AGM by voting against the lead independent director and all Compensation Committee members, in addition to votes against the "say on pay" and the re-appointment of the executive chair.

The case study illustrates how we undertake proxy voting in practice.

This information should not be interpreted as an offer or recommendation to buy any securities.

This case study reflects our analyst's view at the time of review and remains subject to change.

As of May 9, 2023. Source: Capital Group.

Learn more about our ESG approach and explore our latest research and insights ⟶

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