CAPITAL GROUP®

UK Stewardship Report

2023

Foreword

At Capital Group, our mission is to improve people's lives through successful investing. Our investment approach is based on deep analysis of a company's financial, business and risk indicators, including environmental, social and governance (ESG) issues.

An important part of our analysis is understanding how a company impacts its community, customers, suppliers and employees. We have found that companies that are proactive and forward-thinking about these relationships are good strategic planners and can often provide attractive investment opportunities.

In 2022, we were more proactive with companies and issuers on governance issues. Last year, for the first time, we sent letters to portfolio companies where we had either "voted against management" at shareholder meetings or where we required specific information so we could better understand their approach. We are encouraged by the response rate and have included several examples in this report to provide insight into how we engage with company managements.

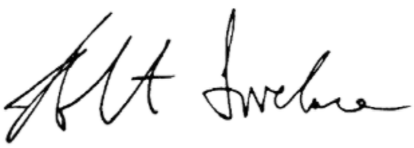
In proxy voting, we saw an unprecedented number of environmental and social shareholder proposals in 2022. We determined our votes by considering investment materiality, coupled with the company-specific circumstances. These assessments also inform our ongoing dialogue and discussion on these issues with companies. We believe that company management teams can benefit from understanding our perspectives, and we, in turn value their insights on how they address environmental and social challenges and opportunities. Importantly, engagement and proxy voting are done in partnership with our investment professionals.

Over the past year, we continued investments in our people, data and technology to better integrate ESG into our investment process, The Capital System™. We've enhanced ESG- tools to aid our investment professionals and have introduced an "integration lead" role, a critical resource that works alongside principal investment officers and portfolio managers to support the integration of ESG into investment decisions. We also continued to refine our monitoring process, voting guidelines and sector analysis.

Capital Group was first accepted as a signatory to the UK Stewardship Code in 2021, making this our third Stewardship Report submission. We continue to receive valuable feedback from the UK's Financial Reporting Council on how to improve our submission, and this year's report reflects that input.

We're eager to share our progress and continued commitment to ESG integration and stewardship, and how we are continually striving to meet our clients' needs and expectations in this area.

Regards,



Robert W Lovelace

Vice Chair & President of The Capital Group Companies, Inc.

On behalf of the ESG Oversight Group

Introduction

Introduction to the UK Stewardship Code

The UK Stewardship Code 2020 came into effect on 1 January, 2020, and is published by the independent regulator, the Financial Reporting Council.

It sets out 12 principles of good stewardship practice for institutional investors (asset owners, asset managers and service providers).

Its aim is to encourage active engagement between investors and the companies they invest in to help ensure that both act in the best interests of the ultimate beneficiaries (i.e. shareholders). This is Capital International Limited's response to the Financial Reporting Council's UK Stewardship Code 2020.

This report describes our approach to investing and how we believe that it incorporates each of the 12 principles of good stewardship. This document was reviewed and approved at a meeting of Capital International Limited's board of directors on 17 March, 2023.

Regards,

Hamish Forsyth

President of Capital International Limited

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Principle 01

Principle 01

Our purpose

Our mission is to improve people's lives through successful investing. To us, successful investing means generating superior long-term outcomes for our clients. After all, corporations, governments, pension and retirement plans, and non-profit organisations rely on us, and trust us, to protect and grow their assets and help to meet their financial needs. It's fundamental to what Capital Group stands for that we do this with integrity and in a sustainable way that benefits all our stakeholders.

Our investment philosophy

- **Long-term investment horizon**

  Our investment philosophy centres on taking a long-term view and providing stability and management continuity to our investors. Capital Group's investment professionals seek to identify securities that can do well over several years. By using fundamental analysis, paying close attention to valuations and integrating material ESG considerations, which tend by nature to materialise over the long term, we turn our in-depth research into investment decisions.

- **Discipline and expertise**

  It takes discipline and expertise to invest for the long term. The majority of our portfolio managers and analysts have witnessed several market cycles and have been with Capital for many years. This means they have the perspective and knowledge required to navigate volatile markets.

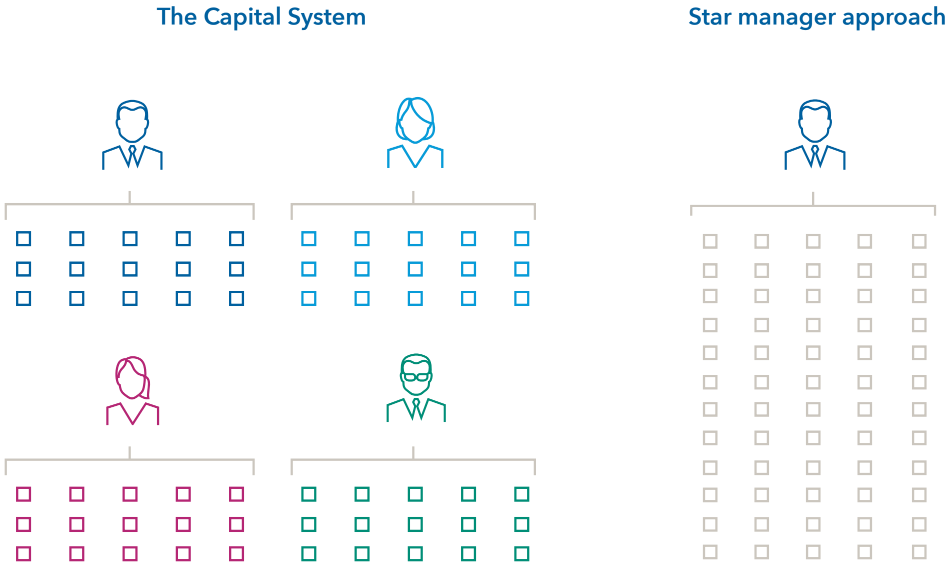
Our investment strategy

We have a distinctive way of managing money called The Capital System. It's about incorporating the highest conviction investment ideas of multiple managers with different investing styles and complementary strengths into a single fund or client account. The aim is to increase the diversity of investment ideas and reduce volatility.

The benefits of our multimanager approach can be boiled down to simple maths: it's far easier for four managers to track 30 of their highest conviction ideas, than it is for one manager to track 120 (for example). This innovative system means individual managers have greater capacity for deep dives into investment ideas and results in portfolios that are a diverse collection of ideas, not just one manager's perspective. This has become a defining feature of our success. Distinct in the market and diverse in its strategy, The Capital System has stood the test of time and helped many of our investment vehicles generate superior outcomes.

The Capital System

Multiple managers bring a stronger mix



Our investment culture

At the heart of Capital Group's culture is a set of values nurtured by multiple generations of associates. These values shape our decision-making and the way we interact with investors and one another. They include the following:

- **Accountability**
  We hold ourselves and each other accountable. We act with conviction because our judgments are based on rigorous analysis.
- **Consistency**
  We believe in our consistent approach, defined by the seasoned experience of our investment professionals, our strong track record and our mutual focus on long-term investor success.
- **Integrity**
  We value absolute integrity in our people and our relationships. That means we work towards transparency, communicating openly and candidly.
- **Respect**
  We respect individuals, teams and communities, so we act with empathy, care and humility. Respect also defines our collaborative spirit and our desire to create a workplace in which all associates can bring their true, best selves to work.

- **Collaboration**

  The day-to-day activities of most business areas involve discussing, sharing, bouncing ideas off one another, and weighing the pros and cons.

- **Humility**

  Our focus is on the investor, not ourselves.

- **Long-term focus**

  We make investment and business decisions with long-term value in mind, even though it might mean giving up a strong short-term benefit.

- **Rigorous analysis**

  We often take time to make decisions because multiple inputs are gathered. The end result, however, is usually more effective because outstanding issues have been resolved and associates have bought in to the decision.

Our business model

At Capital Group, investment management has always been the core of our business. We are one of the largest privately held investment management organisations in the world. Capital Group is owned by a broad group of more than 400 key investment professionals, senior business leaders and recent retirees, with no individual owning more than 2.5%.

Capital Group manages more than USD 2.196 trillion (as of 31 December, 2022) in actively managed equity, fixed income and multi-asset investment portfolios through funds and segregated accounts worldwide, serving institutions, financial intermediaries and individual investors globally.

Ensuring investment beliefs, strategy and culture enable effective stewardship

We believe the best way to ensure our investment beliefs, strategy and culture enable effective stewardship is to educate our associates about how these elements tie together and form part of our long-term strategy.

We discuss the details of our ESG-related training below in response to Principle 2 (under the heading **Training**).

Serving the best interests of clients and beneficiaries

Capital Group has a long-term approach to delivering investment results, and in turn to stewardship. This is evidenced by the fact that the average holding period of our American Funds is 4.3 years – over double the length of our peers' holding period.[1] On average, the equity-focused American Funds hold their investments for 4.3 years, whereas their peers hold their investments for 1.9 years (compared to 3.9 years and 1.6 years, respectively for 2021). This is not a coincidence as our deep research, regular dialogue with companies, and diversity of thought tend to lead us towards companies focused on creating long-term value. We understand that the enduring profitability and growth of a company is directly tied to its relationships with customers, employees, suppliers, regulators and the environment in which it operates. As long-term investors, we have developed relationships with management teams, which provides us an opportunity to ask direct questions and tackle issues of greatest concern. Our ESG team, in partnership with investment professionals, held ESG-specific engagements with more than 502 companies, which demonstrates how our commitment matches our stewardship activities with our investment horizon.

In addition, we have performed numerous client outreach programs throughout the year to better understand our clients' needs, including our Global ESG Study. This is covered in more detail under Principle 2. We have also tailored elements of our proxy voting approach and guidance in response to client feedback, enabling us to provide more region-specific guidance. This is detailed further in Principles 7 and 12.

[1] As of 31 December, 2022.

2022 Outcomes

We use a combination of quantitative and qualitative studies to capture client insights and perceptions of Capital Group to ensure we are serving our clients' best interests. These include brand tracking studies conducted by Broadridge and NMG across a range of brand attributes, as well as marketing campaign metrics to track the effectiveness of our client communications so we can optimise the way in which we engage with clients and align to their preferences.

Sales and marketing share data from Broadridge continues to show the European market is leading a shift towards funds with more of an ESG focus, driven by market sentiment and regulation. Capital Group has been thoughtful in how we have responded to these changing dynamics, building substantial ESG infrastructure so we can scale and meet our clients' needs.

Through our Luxembourg-based UCITS umbrella, we converted two Sustainable Finance Disclosure Regulation (SFDR) Article 8 funds in June 2022 and launched a new fund as Article 8 in November 2022. We also worked on formalising our process for evaluating client-specific ESG customization for segregated accounts globally. Capital Group continues to review potential opportunities for launching new funds to further strengthen its ESG offering. Data from the Broadridge Fund Brand 50 2022 survey also shows that Capital Group has improved its overall brand ranking in Europe and is ranked above average for a number of brand metrics including client-orientated thinking and the stability of the investment management team.

Since 2021, we conduct proprietary research on an annual basis – the ESG Global Study – which surveys client attitudes towards ESG. We review the results of these studies on a regular basis and seek to leverage their insights to further aid us in serving the best interests of our clients and beneficiaries across many areas of the business including product development, marketing, client service and investment operations.

One key finding from our ESG Global Study showed that investors are frustrated with the inconsistent quality and accessibility of ESG data and ratings. The respondents acknowledged that this is hampering their ability to adopt, incorporate and implement ESG. This finding very much resonates with us. We continue to enhance and develop our proprietary tools and investment frameworks to support our fundamental research and analysis, which enables us to address the challenge of superficial scoring systems and a lack of consistent and reliable ESG data. We have also enhanced our reporting for clients to provide more transparency across various ESG data points, ranging from engagement and proxy voting statistics to specific case studies demonstrating our stewardship approach.

Principle 02

Principle 02

Governance:

Capital Group is 100% employee-owned, with a leadership structure and decision-making process that differs from publicly listed companies. Instead of a single, individual voice, we have opted for a collaborative approach.

The **Capital Group Board of Directors and Management Committee** are responsible for defining and executing the long-term strategy of the firm, including considering ESG risks and opportunities when designing product offerings to address client needs, as well as effecting Capital's own corporate goals.

Capital Group's subsidiary **Capital Research and Management Company's (CRMC) Board of Directors** is responsible for investment management activity on behalf of CRMC's clients. In fulfilling this responsibility, CRMC Board acts through investment policy, investment oversight and proxy voting committees and the investment and operations teams. This activity considers material climate-related investment risks and opportunities on behalf of CRMC's clients. The Boards of CRMC's affiliated investment advisers are similarly responsible for considering material climate-related investment risks and opportunities on behalf of their clients.

Capital Group's committee approach reflects our desire to foster a collaborative, inclusive culture. We believe that we can make better decisions when ideas are aired among leaders with different perspectives. This approach has served us well in all manner of business environments; it allows us to involve associates in the decision-making process, helping to ensure we ground decisions in the long-term interests of our investors, clients and associates.

Organisational structure:

Capital Group has a robust governance structure in place that enables oversight and accountability for effective stewardship within the organisation. The structure of our ESG resources reflects our integrated approach to ESG:

Investment Group: More than 110 portfolio managers and 240 in-house equity and fixed income analysts are the frontline engine for integrating ESG considerations into our investment process. They are responsible for evaluating all relevant financial and non-financial factors – such as material ESG issues – as part of their fundamental research. Within Capital Group, these individuals have the most in-depth knowledge and understanding of our portfolio companies.

ESG team: Capital Group has a dedicated 45-person ESG team,[2] led by the global head of ESG. This team is responsible for driving the implementation of ESG initiatives across Capital Group. Team members have experience in research, issuer engagement, proxy voting, and client reporting. Within the global team, over 30 specialists are responsible for partnering with the Investment Group to support the integration of material ESG considerations into our investment process in the following ways:

- The 15-person **ESG Research & Investing team** partners with the Investment Group to produce thematic research that provides insight into key ESG themes and issues that are material and often under-researched.
- The 15-person **Global Stewardship & Engagement (GSE)/Proxy team** works alongside the Investment Group in executing our stewardship efforts, including proxy voting activities, as well as engaging on governance or proxy voting related issues.

The remaining specialists primarily focus on sourcing third-party data to support assessments of ESG matters, executing our ESG monitoring process and performing client reporting.

These teams are further supported by select individuals from departments such as Investment Group Technologies, Quantitative Research Analytics (QRA), the Fundamental Research Group (FRG) and the Capital Strategy Research (CSR), who are dedicated to various global ESG efforts.

Our investment professionals, ESG R&I and GSE team associates are based in North America, Europe and Asia. The size and experience of these teams are listed below:[3]

Team/function	Number of individuals	Average tenure at Capital Group (years)	Average industry experience (years)
ESG team	15	3	13
GSE team	15	4	12
Portfolio managers	116	22	28
Analysts	242	8	14

[2]As of 31 December, 2022.

[3] Team composition, years of experience and years with Capital Group as of 31 December, 2022.

Capital Group Management Committee: The Capital Group Management Committee is responsible for ensuring the effective execution of Capital Group's business strategy. This includes being actively involved in setting our ESG mission and vision, formalising that vision into the Capital Group long-term strategy, as well as providing resources and funding to achieve those outcomes.

ESG Oversight Committee: The ESG Oversight Committee is responsible for (a) setting Capital Group's vision for ESG and (b) overseeing the successful execution of all related programs. Membership includes CGC vice chair and president, members of the CGMC, head of Sustainability, global head of ESG and senior leaders from across our investment, operating and client groups[4]:

[4] As at 31 December, 2021. Source: Capital Group.

Alan Berro
Los Angeles
32 years at Capital Group, Portfolio Manager, Chair – ESG Oversight Committee

Hamish Forsyth
London
30 years at Capital Group, President – Capital International Limited

Walt Burkley
Los Angeles
23 years at Capital Group, Senior Counsel

Jessica Ground
London
2 year at Capital Group, Global Head of ESG

Riley Etheridge
Los Angeles
5 years at Capital Group, President – Wealth Management Client Group

Guy Henriques
London
3 year at Capital Group, President of Europe and Asia Client Group

Jody Jonsson
Los Angeles
32 years at Capital Group, Portfolio Manager, President of Capital Research and Management Company, Member of Capital Group Management Committee

Rob Lovelace – Chair
Los Angeles
37 years at Capital Group, Portfolio, Manager, Vice Chair & President of The Capital Group Companies, Inc., Member of Capital Group Management Committee

Tom Lloyd
Los Angeles
19 years at Capital Group, Research Director for Quantitative Research and Analytics

David Polak
New York
17 years at Capital Group, Global Investment Director – ESG

Heather Lord
Los Angeles
7 years at Capital Group, Global Head of Strategy & Innovation, Senior Vice President – ESG & Sustainability Co-chair

Caroline Randall
London
17 years at Capital Group, Portfolio Manager, Member of Capital Group Management Committee

The ESG Oversight Committee meets monthly to approve the ESG strategy and review progress. In addition, policies or decisions that have investment implications, such as proxy guidelines and policies for dealing with data gaps, are reviewed and approved by our Investment Policy Group and Investment Group Oversight.

Global head of ESG: Engages with Capital Group's investment groups and a broad set of clients, companies, issuers and governance bodies on the topic of Capital Group's approach to ESG integration and ESG strategy. Both the ESG and GSE/Proxy teams report to the global head of ESG. In addition to her role at Capital, she is also a board member of the Investor Forum and the Takeover Panel.

Issuer Oversight Committee (IOC): This group reviews issuers that present elevated ESG-related risks that may affect portfolio holdings, with a focus on those that may conflict with existing global standards, including (for corporates) guidelines from the United Nations Global Compact and the Organisation for Economic Co-operation and Development (OECD). The committee determines if an issuer has violated these standards and taken appropriate action to remediate any concerns that may present material investment risk. Issuers are either deemed to be eligible for investment, placed on a watchlist with further engagement, or deemed to be ineligible. On a regular basis, the committee reviews issuers where outstanding issues remain. The committee comprises senior investment professionals from each of Capital Group's four investment units, and representatives from Legal, ESG Research and Distribution. More detail on the IOC can be found under Principle 7.

Workforce diversity: Our differences make us better. This simple affirmation summarizes a powerful idea at the core of our beliefs relative to diversity, equity and inclusion (DE&I). Across Capital Group, we build diverse teams within a culture that promotes a sense of belonging, where associates can bring their true, best selves to work. A variety of backgrounds and life experiences provide different perspectives, which we believe leads to better ideas and results for the people we serve.

Our DE&I strategy is designed to increase representation of women and underrepresented groups at all levels of the organisation, and to build an environment in which all associates feel they belong. The representation goals we're striving for as an enterprise are the aggregation of objectives set within individual business units, each of which is at a different starting point.

We've made progress on representation since introducing specific objectives in 2018 and set aspirational representation goals to achieve by 2025. We stated previously that one of our goals is to increase representation of Black/African American associates in the U.S. to at least 10% and increase representation of Black/African American senior managers (including investment professionals) to at least 7% by 2025. We are pleased that we are making positive progress in this regard, with 10.5% of our U.S. workforce and 4.8% of our senior managers identifying as Black/African American. Globally, we aspire to increase representation of senior manager women to at least 40% by 2025. Currently, 34.7% of senior managers are women.

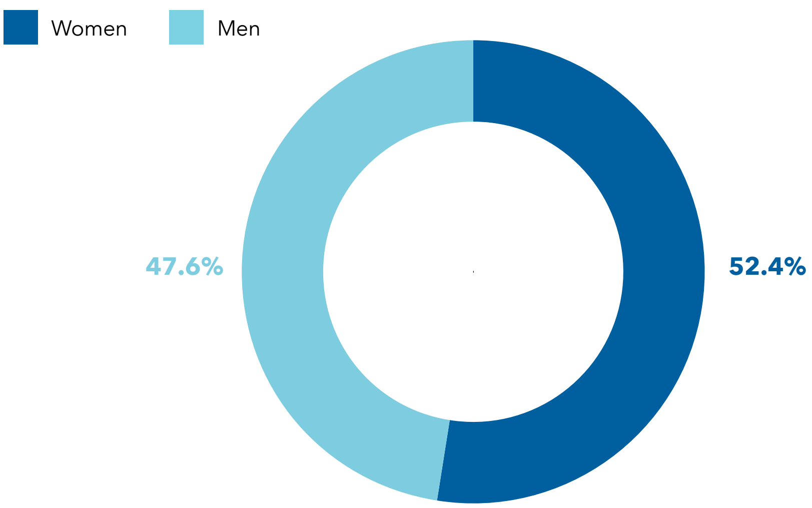
We are actively engaged in the 10,000 Black Interns initiative, and in 2022, we welcomed 28 young, enterprising students to our London office for a six-week programme that provides first-hand experience in the asset management industry. Additionally, we sponsored the inaugural 2022 Black Women in Asset Management (BWAM) Conference, an event for professionals in investment management to meet, expand their networks, learn from insightful leaders and each other. In 2023 we have become institutional members of BWAM and look forward to continuing meaningful engagement with this group for years to come.

The power of diverse teams is only realized when all associates feel a sense of belonging that empowers them to achieve their full potential. We measure this via our continuous listening strategy through periodic engagement surveys, leadership connection sessions, and external benchmarking from the likes of McKinsey & Company and LeanIn.org's "Women in the Workplace", Pensions & Investments "Best Places to Work in Money Management" and the Human Rights Campaign's Corporate Equality Index. Additionally, Capital Group was recently upgraded to Disability Confident Employer Level 2 status. The Disability Confident scheme is a UK-government-run program that helps employers recruit and retain great employees by identifying employers who are committed to inclusion and diversity.

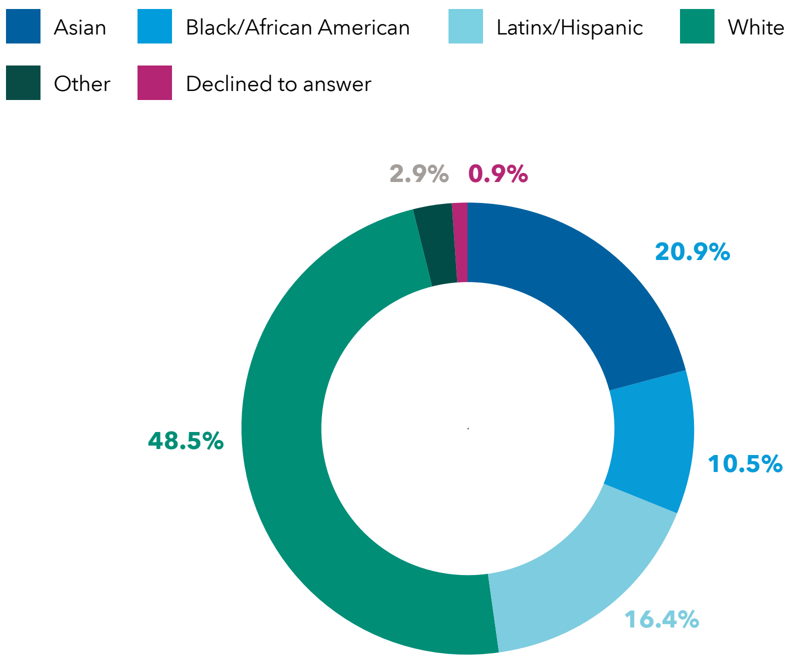
We continue to encourage change beyond our walls. Our global Equity & Justice Donation program provides a new way to impact non-profit organisations that are dedicated to achieving equity and justice based on race, gender and sexual orientation. Developed in partnership with Capital Communities, the Equity & Justice Donation program enables participating associates to direct an annual single donation fully funded by Capital Group, to eligible non-profit groups. In 2022, over $6M was donated to over 800 organisations through this program.

Please refer to our **Global Citizenship Report** and Update on **DE&I website** for more details.

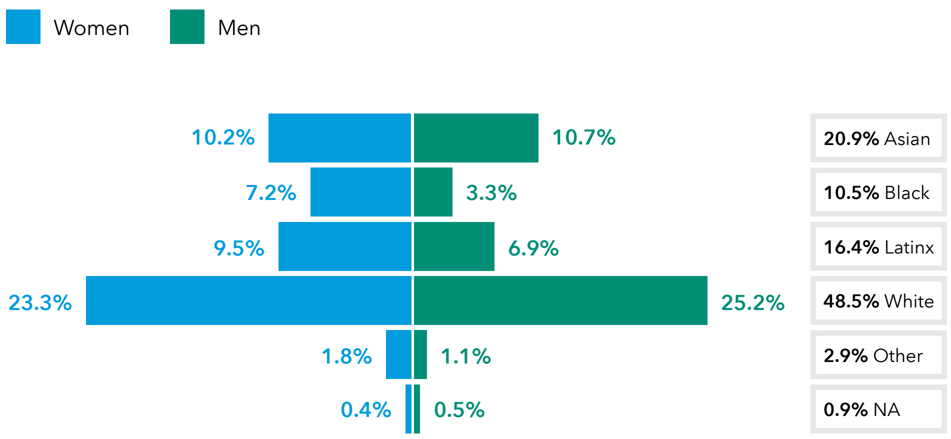
2022 Representation data: Gender (global)



Race/ethnicity[5] (U.S.)



Intersectional representation (U.S.)



[5] Includes American Indian or Alaskan Native, Native Hawaiian or Other Pacific Islander, and Two or More Races. Data as of 31 December, 2022. Totals may vary from sum of individual components due to rounding.

Capital Group UK-specific data

In 2020 and 2021, Capital Group's London-based associates participated in an anonymous survey to self-identify on several key demographic categories. Learning more about the richness of diversity within our associate population helps to ensure we support and enable them to thrive.

Ethnicity[6]	% of associate population	# of associates
White	55.4%	283
Asian or Asian British	11.2%	57
Black, Black British, Caribbean, or African	6.7%	34
Mixed or multiple ethnic groups	3.5%	18
Other ethnic group	1.4%	7
Prefer not to answer	1.0%	5
Did not participate	20.9%	107

[6] Capital aligned to the UK government's census and its list of ethnic groups.

Gender[7]	% of associate population	# of associates
Women	50.8%	265
Men	49.2%	257

[7] Gender data are collected annually.

Workday Self-ID

In the fall of 2022, we enhanced the ability for associates to provide and/or update data contained in their personal profile. Self-identification allows each associate to describe themselves using a range of specific demographics, helping to provide a rich understanding of the diversity within Capital. Where legally permissible and ensuring General Data Protection Regulation (GDPR) compliance, demographics now include locally relevant race/ethnicity options, sexual orientation, gender identity, religion, and pronouns. With this expanded effort, office and region-specific demographic surveys will no longer be administered.

Self-identification is voluntary and confidential, and this information will not be used in any employment decisions.

Incentives

Capital Group's investment decisions are based on the long-term prospects of a business. Material ESG issues tend to have an impact over a medium- to long-term horizon and are, therefore, a natural focus for investment professionals in their research and analysis.

Salary

We use industry-specific and global surveys to ensure our compensation remains highly competitive. Additionally, salaries are typically stable and modest relative to total compensation.

The investment bonus

- **Quantitative component**

  Based on results over eight -, five-, three-, and one-year periods, with increasing weight placed on each successive measurement period. This incentivizes investment professionals to focus on long-term performance.

- **Qualitative component**

  Recognises investment professionals' contributions to the overall investment process, including the time spent developing proprietary ESG research.

Profit sharing

Participation in the annual profit-sharing program is based on recent and long-term contributions to our business, including investment results, the investment process and operational effectiveness. Work done to support ESG integration forms part of this assessment.

KPIs

ESG is a key strategic priority in Capital Group's long-term strategy and KPIs exist for various groups as it relates to our ESG activities:

- **ESG/GSE team: The team has clear quantitative and qualitative KPIs that relate back to our strategy. The strategy is agreed by the ESG Oversight Committee annually and the KPIs are monitored in our monthly meetings. The strategy is then cascaded down to the sub-teams and individuals. Examples include** contribution to the development of the firm's ESG integration approach and stewardship activities (e.g. through building proprietary ESG tools, conducting ESG research with investment professionals, identifying additive ESG data, engagements, building a partnership with investors, quality proxy voting research, low operational errors).
  Investment professionals: while there are no explicit KPIs linked to ESG/sustainability, their compensations are evaluated taking into account investment results over eight-, five-, three-, and one-year periods, with greater emphasis on the longer periods. In making investment decisions, we assess ESG factors alongside financial and other business indicators.

To the extent ESG considerations are viewed to potentially affect long-term results, they are evaluated by our investment professionals. Given that achieving superior, long-term returns is our goal, managers are rewarded for their results and not the level of assets they manage.

- **Senior leaders:** Senior leaders across the firm have clearly articulated goals related to Diversity, Equity & Inclusion (DE&I) with specific objectives in their leadership performance reviews. From 2021, a DE&I performance objective was expected for all associates.

2022 Outcomes

Throughout 2022, we continued to build out our resources to enhance the execution and depth of our ESG activities:

Research & investment frameworks: We continued to expand the datasets used in our proprietary data platform, Ethos, and populate all 32 sector-specific investment frameworks with data. This was made available in April 2022. More detail on our investment frameworks can be found under Principle 7.

ESG research: We continue to deepen the integration between the ESG team and the Investment Group. The ESG team continues to publish research internally and shares this on a range of forums, for instance we published pieces on the **investment implications for some of the most carbon-intensive sectors** and the rise of **sustainable aviation fuels**.

Monitoring process: Following progress made in 2021 to automatically generate ESG monitoring flags in equities, corporate debt, and sovereign issuers in our proprietary Ethos platform, last year we focused on: 1) sharing investment analysts' insights from the monitoring process with PM holders to foster discussion about material risks and opportunities, 2) enhancing platform resiliency to ensure that we are able to use the data and insights in expanded ways and 3) identifying those companies and issuers flagged to the IOC in Ethos, to ensure that committee and analyst views about potentially significant ESG risks are more widely accessible by investors. More detail on our monitoring process can be found under Principles 6 and 7.

Engagement: We continued to refine our operating model for engagement, setting clear expectations for ESG and GSE analysts and investment analysts on engagement, building quality with shared targets and enhancing the specificity with which we track outcomes. As part of our efforts to continue enhancing ESG, stewardship and engagement practices at Capital Group, in 2022 we created a head of ESG engagement role. As a member of the ESG Leadership team, the head of ESG engagement has responsibility for and oversight of all environmental, social and governance-related engagements with portfolio companies and issuers. She partners closely with both the team of engagement and stewardship analysts with sector coverage, as well as with our Global Stewardship and Engagement team, to ensure that engagement priorities and processes are coordinated and well executed across the team. Key areas of focus in 2022 included: 1) increasing proactive outreach to portfolio companies; 2) increasing transparency to clients and other stakeholders via more detailed reporting on engagements and 3) building capacity within the ESG team on engagements.

To increase proactive outreach, following proxy season, we sent engagement letters to several portfolio companies in key markets where we either voted against management or identified a topic during proxy season that we felt would be helpful to discuss ahead of the 2023 season. In 2022, this included more than 200 companies across the U.S., EMEA, and Japan. Letters were, in many cases, a catalyst for constructive discussion on areas where our views may differ from management.

We also made improvements to our internal ESG Tracker, a proprietary system to enable our teams to log, categorize and track all company and issuer engagements in a single repository, including meeting notes, documents and specified engagement objectives. Enhancements under review for the year included: 1) improvements to system logic and 2) making certain fields and data points mandatory in order to provide an effective audit trail. The ESG Tracker is discussed in further detail under Principle 9 below.

Capacity-building activities included an intensive offsite focused on best practices; ongoing one-on-one coaching of associates; and formal and informal trainings on thematic topics.

Proxy voting: Specific technology improvements we made during the year included enhancements to our proxy voting platform, in partnership with ISS, based on experience gained during the previous proxy season. This includes the ability to enter and track vote rationales more easily for client and regulatory reporting purposes, as well as changes to allow system users to navigate proxy votes and voting decisions assigned to them more easily.

This year, we also developed a proprietary tool to help us assess audit and accounting quality at portfolio companies, with the aim of identifying companies with a heightened risk of an accounting restatement. This was developed in conjunction with our Global Accounting Analysis team, and distils multiple factors and data points into a single, proprietary audit and accounting risk 'score'. Scores above a certain threshold can be used to identify candidates for engagement. Due to the availability of comparable data, this process is currently only being applied to companies in the United States.

Training: The ESG team continues to provide in-house training and facilitates learning discussions across Capital Group on an ongoing basis. For our equity and fixed income analysts, these discussions focus on the specific ESG issues relevant to their respective asset classes and sectors in which they make investment decisions. This information is then further incorporated into the process to update our ESG investment frameworks. Investment analysts received training in Ethos frameworks as we launched with live data in order to help them better understand this tool.

Ahead of the proxy voting season, the Global Stewardship & Engagement (GSE) team delivers additional training to equity investment professionals on governance and proxy issues. In 2022, we increased the amount of onboarding training that we give to new investment associates to ensure that they are familiar with our processes. For portfolio managers we focused on key meetings with fund boards.

In addition, Capital's Educational Assistance Program (EAP) provides funding for all employees to partake in accredited professional development courses, including those centred on ESG and stewardship practice. Associates across the business also have access to ESG training materials via our in-house learning platform, Degreed.

We are happy to provide training to help our clients enhance their understanding of ESG, and to keep them informed of the ESG-related activities and initiatives that we undertake, including recent developments. We have previously held in-house training sessions with some of our clients sharing practical insights into ESG integration as well as how proxy voting decisions are made.

Sustainability & Social Responsibility: The Sustainability & Social Responsibility team (SSR) was formed in 2022 to bring together Capital Group's efforts around Environmental Stewardship, Charitable Giving, and Social Impact. Key aspects of Capital Group's SSR strategy include championing economic inclusion and financial education, making our business operations more sustainable, and empowering associates to donate and engage with causes they care about. This includes measuring and reporting on the greenhouse gas (GHG) emissions associated with Capital Group's business operations and working to achieve our goal of reducing our corporate emissions by 25% by 2025 (relative to a 2019 baseline) across Scope 1, Scope 2, and Scope 3 (business travel).

ESG team build-out: We continued to build out the ESG team and our capabilities, also by creating a number of new roles including global head of engagement, ESG sector research director, Climate and Investment Group ESG integration leads, and additional ESG sector analysts, as well as ESG product specialists. The formation of these roles shows our commitment to ESG and our practice of effective stewardship.

The **ESG team** works closely with the Investment Group to identify ESG risks and opportunities and support the integration of material ESG into our investment process. Specifically, this work includes assisting in the further development of our proprietary sector-specific investment frameworks and tools and executing our ESG monitoring process. The ESG team also partners with the Investment Group to produce thematic research that provides insight into key ESG themes and issues that are material and under-researched. The ESG team also provides training to investment analysts, with the aim of keeping them apprised of emerging trends and best practice. Our ESG integration leads serve as the key point of contact for portfolio managers, to support the effective integration of ESG considerations in investment decisions; our ESG analysts work with investment analysts to identify sector-specific material ESG issues. Finally, collaboration also occurs for our engagement activities when the topic of discussion includes ESG issues – while these are led by our investment professionals, they will typically also involve the ESG analysts for environmental and social issues.

The **Global Stewardship & Engagement (GSE) team** – works alongside the Investment Group in executing our stewardship efforts, including proxy voting activities, as well as engaging on governance or proxy voting-related issues. During proxy season, initial voting guidance on routine matters is created by the GSE team and shared with the Investment Group for their input. Contentious and significant votes receive additional scrutiny from senior investment professionals via a system of Proxy Committees (see Principle 12).

Principle 03

Principle 03

Code of Ethics:

Capital Group has a Code of Ethics (includes standards for personal conduct) which is intended to help associates observe exemplary standards of integrity, honesty and trust, in order to ensure that our own interests are never placed ahead of the interests of our clients. Areas of focus under the Code include:

- Associates holding directorships in companies/outside business interests/affiliations;
- Personal account dealing (and associates' participation in IPOs);
- Acceptance and extension of gifts and entertainment;
- Safeguarding material non-public information to prevent market abuse and insider trading; and
- Dealings with brokers, including rules against accepting favours or other special treatment.

Key policies support these principles, including rules prohibiting insider dealing, restricting personal trading, political contributions, and business-related gifts and entertainment. Capital Group also has rules that require the disclosure of personal and other interests, which may lead to associates being excluded from voting decisions. The Code of Ethics is reviewed and attested to quarterly by all associates, globally.

Conflicts & Special Review Committee:

From time to time, mutual funds that are managed by Capital Group may vote proxies issued by, or vote on proposals sponsored or publicly supported by,

1. a client with substantial assets managed by Capital Group
2. an entity with a significant business relationship with Capital Group, or
3. a company with a director who also sits on the board of our U.S. mutual funds on its board

(Each of these is referred to as an "Interested Party"). Other persons or entities may also be deemed an Interested Party if facts or circumstances appear to give rise to a potential conflict.

Capital has developed procedures to identify and address instances where a vote could appear to be influenced by such a relationship. In 2022, prior to a final vote being cast, the relevant Proxy Committee's voting decision for proxies issued by Interested Parties is reviewed by a Special Review Committee (SRC) of the investment division voting the proxy. The SRC includes senior investment, as well as legal and compliance, professionals. The applicable Investment Committees of the funds (and the Joint Proxy Committee of the U.S. mutual funds) may periodically review issues if escalated by the SRC.

If a potential conflict is identified according to the procedure above, associates in the GSE team will provide the SRC with a summary of pertinent information. This will include any relevant communications with the Interested Party, the rationale for the voting decision, and information on the organisation's relationship with the Interested Party. The SRC will evaluate the information provided and determine whether the decision was in the best interests of fund shareholders. It will then accept or override the voting decision or determine alternative action.

For the 2023 proxy season, we plan to change the review process to obtain an independent voting recommendation from a third-party fiduciary when a potential conflict is identified. The third party will be instructed to vote based on Capital's proxy voting guidelines. We have found that the voting of potentially conflicted votes at arms' length in this way is a best practice in the industry. We are exploring vendors and will report on our findings in subsequent reports.

2022 Outcomes

A breakdown of the SRC's work during Calendar Year (CY) 2022 is below:

Total number of meetings voted by Capital Group	Number of meetings reviewed by Capital's SRC	Number of meetings reviewed due to potential director conflict of interest	Number of proposals reviewed by SRC	Number of SRC reviewed proposals where Capital Group supported management
2,128	37 (1.73% of total)	15	495	448

The overlap of standard proposals, including director elections, say on pay and incentive plans remained relatively consistent in comparing meetings flagged for SRC review in 2022 to 2021. In all cases, each SRC determined there were no conflicts and that the votes cast were in the best interest of the funds.

Case study: Special Review Committee process in action

Capital Group is a shareholder in a U.S. large-cap health care company, which is also a client where we manage institutional pension fund money on their behalf. As a result, voting for their Annual General Meeting was captured by our Special Review Committee (SRC) process for review as a potential conflict of interest. The SRC reviewed the voting recommendations of the three divisional Proxy Committees, and noted that all three contained multiple votes against management, either voting against at least one management proposal, or supporting shareholder proposals (i.e. against management). The SRC was satisfied that the presence of votes against management evidenced that the company was not being given any preferential or exceptional treatment, and also noted that voting was in line with our usual voting guidelines. The SRC therefore and approved the voting action as appropriate.

Principle 04

Principle 04

Market risk work:

At Capital Group, we recognise the need to be prepared, insofar as possible, for risk events that threaten the stability of financial markets. To this end, we use scenario analysis via our Night Watch group, in which several investment professionals and economists participate, to gain a deep understanding of market disruptions, assessing the risks and opportunities that arise during times of extreme crisis.

Since 2021, the Night Watch group has expanded its reach to encourage more members of the Investment Group to feel comfortable starting their own Night Watch investigations. In 2022 we shared the learnings from the Night Watch. Please see **link** to Scenario-Driven Adaptation to Emergent Risks published in the Journal of Portfolio Management. [8]

2022 Outcomes

In 2022, the Night Watch group focused on various macroeconomic events and their potential geopolitical, economic and market implications. Areas of examination include geopolitical risks in the South China Sea and the impacts of the Russia/Ukraine conflict.

Case study: The Night Watch team and COVID-19

In 2022, the Night Watch group continued to focus on COVID-19 and its economic, market, and health implications. Beyond closely reviewing recession and recovery scenarios and consulting sector experts to inform possible outcomes, the group continued to update their COVID Tracker. This tracker included medical data such as regional case rates, hospitalizations, and fatalities; economic data, such as mobility indices and high-frequency activity indices, as well as regional epidemiological models.

As the pandemic conditions improved and new sources of data became available, obsolete dashboard items were retired and new, relevant data points were added. This allowed us to update the unique monitoring requirements of the scenario analyses.

As the situation evolved, the team maintained dialogue with the Investment Group on the investment implications through the publication of data and group-wide calls. Over time, the emphasis shifted to maintaining a balance between risks and opportunities, particularly those created by longer term structural shifts catalysed by the pandemic. For example, beneficiaries of changing work patterns or the composition of consumer demand.

[8] Julian N. Abdey, Jared S. Franz and Wesley K. Phoa; The Journal of Portfolio Management Novel Risks 2022, 48 (10) 258-275; DOI: https://doi.org/10.3905/jpm.2022.1.419

Systemic risk

We engage with industry stakeholders and policymakers on a regular basis to advance well-functioning markets. This includes providing responses to consultation requests, surveys, and meeting with regulators to express concerns or support for policies and practices in relation to strong governance or responsible investment. Capital Group also actively shares best practices across the industry by participating in several global and regional associations. We use our voice as investors to contribute to setting high standards of industry practice.

We are currently a member of the governance associations and initiatives listed below. We are active participants in these organisations and contribute by speaking at and attending events, working on collaborative engagement initiatives and participating in working groups. We also engage in dialogues with standards setters such as the International Accounting Standards Board (IASB) and the Financial Services Agency of Japan to improve accounting transparency.

Organisation name	Function	Capital Group involvement	Membership start
International Financial Reporting Standards (IFRS)	The foundation is a not-for-profit, public interest organisation established to develop high-quality, understandable, enforceable, and globally accepted accounting and sustainability disclosure standards. The standards are developed by the foundation's two standard-setting boards, the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB).	Capital Group is a Sustainability Alliance-tier member, as well as a member of the ISSB Investor Advisory Group (IAG), which comprises a diverse grouping of major global investors who recognise the need for consistent, comparable and reliable disclosure of material and decision-useful ESG information.	Participant since 2016, signed in 2017

Organisation name	Function	Capital Group involvement	Membership start
Asian Corporate Governance Association (ACGA)	An independent, non-profit membership organisation dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia.	Steven Watson, portfolio manager at Capital Group, is vice chair of the ACGA.	2003
International Corporate Governance Network (ICGN)	An investor-led organisation with a mission to promote effective standards of corporate governance and investor stewardship worldwide.	Capital Group is part of the ICGN's Shareholder Rights Committee.	2005
Council of Institutional Investors (CII)	A non-profit association of pension funds, other employee benefit funds, endowments and foundations with combined assets that exceed USD 4 trillion. The Council advocates effective corporate governance and strong shareowner rights.	Capital Group is one of the CII's associate members.	2004
Harvard Law School Institutional Investor Forum (HIIF)	The Forum aims to contribute to discourse, policymaking and education with respect to institutional investors and issues of interest to them. The forum is supported by a broad group of investors in the U.S. and other jurisdictions.	Capital Group is a member of the HIIF Advisory Council.	2020

Organisation name	Function	Capital Group involvement	Membership start
The Investor Forum (UK)	The forum's purpose is to position stewardship at the heart of investment decision-making by facilitating dialogue, creating long-term solutions and enhancing value.	Capital Group is a founding member of the Investor Forum; Jessica Ground, global head of ESG at Capital Group, serves on the board.	2014
Eumedion Corporate Governance Forum	The forum's objective is to maintain and further develop good corporate governance and sustainability performance based on the responsibility of institutional investors established in the Netherlands.	Capital Group is a member of Eumedion's investment committee.	2015
Farm Animal Investment Risk and Return (FAIRR)	A collaborative investor network that raises awareness of the ESG risks and opportunities brought about by intensive animal agriculture. The FAIRR Initiative engages in proactive dialogues with investors, companies and stakeholders around key issues, such as deforestation, water scarcity, working conditions and public health.	Capital Group is an Investor Member of the FAIRR Initiative.	2021
CDP (formerly the Carbon Disclosure Project)	A global non-profit organisation advocating for the transparency and disclosure of carbon emissions by organisations and companies.	Capital Group is an investor signatory of CDP.	2021

Organisation name	Function	Capital Group involvement	Membership start
Investor Stewardship Group (ISG)	An investor-led effort to establish a framework of basic investment stewardship and corporate governance standards for U.S. institutional investor and boardroom conduct.	Capital Group is a member of the Governance Advisory Council.	2021
Canadian Coalition for Good Governance (CCGG)	A corporate governance organisation that promotes the interests of institutional investors and promotes good governance practices in Canadian public companies.	Capital Group is a member of the CCGG.	2021
30% Club Japan	The 30% Club is a global campaign taking action to increase the proportion of women in key decision-making bodies of companies, including the board of directors.	Capital Group is a member of the 30% Club Japan and serves on the Investor Committee.	2021
Ceres	A non-profit organisation aimed at advancing leadership among investors, companies and capital market influencers to drive solutions and take action on the world's most pressing sustainability issues.	Capital Group is a member of the Ceres Investor Network.	2022
Glasgow Financial Alliance for Net Zero (GFANZ)	A global coalition of leading financial institutions committed to accelerating the transition to a zero-emissions economy by 2050.	Capital Group is a signatory of Net Zero Asset Managers Initiative (NZAMI), part of the Glasgow Financial Alliance for Net Zero.	2022

2022 Outcomes

In 2022, noting the significant opportunity presented by the Exposure Drafts of the International Sustainability Standards Board (ISSB) for consistent, comparable, and relevant disclosures on material sustainability-related risks and opportunities faced by public companies, we collaborated with other members of the Sustainable Markets Initiative (SMI) and Asset Manager and Asset Owner (AMAO) Taskforce to deepen investor engagement with the consultations surrounding the ISSB drafts. We partnered with SMI to host two roundtable discussions with members of the ISSB and institutional investors. Those discussions focused on the opportunities and challenges to the ISSB becoming a global baseline for sustainability disclosure and salient debates regarding the contents of the draft climate standards. The sessions offered an opportunity to encourage deeper investor participation in the consultation through public comment.

Involvement in industry initiatives

We are signatories to several agreements:

UN Principles for Responsible Investment (PRI)

Capital Group has been a signatory to the PRI since 2010. The PRI comprises a set of principles designed to provide a framework of best practices for responsible investment. We believe that our integration and engagement approach is consistent with the PRI, to which we report annually for compliance. The 2021 PRI results were released, with Capital Group scoring well above median in all the six applicable modules. As a reminder, PRI scores are based on self-reported information, which is not verified by the PRI or otherwise.

Task Force on Climate-related Financial Disclosures (TCFD)

We have been proud supporters of the Task Force on Climate-related Financial Disclosures (TCFD) since November 2020. The TCFD is a set of recommendations for consistent climate-related financial risk disclosures by organisations that provide information to investors.

As a supporter of the TCFD, we routinely encourage issuers to start and continue to improve their TCFD disclosures. TCFD disclosures are valuable inputs in our process to better assess a company's climate strategy and its exposure to climate-related risks and opportunities.

We also seek to improve on our own reporting in-line with the TCFD recommendations. In our most recent **TCFD report**, we defined our governance structure; demonstrated action on three core climate risks and opportunities to CG as a business; reported firm-wide weighted average carbon intensity (WACI) at an asset class level; and outlined our climate-related risk processes. At a product-level, we produce on-demand client Carbon Footprint Reports which aim to give clients an understanding of the climate exposure of portfolios. These reports disclose the fund's WACI, carbon footprint and fossil fuel exposure, along with a breakdown of carbon emissions by sector.

International Sustainability Standards Board (ISSB)

Capital Group is a supporter of the International Sustainability Standards Board (ISSB). We are a member of the ISSB's Investor Advisory Group (IAG), which comprises of a diverse grouping of major global investors who recognise the need for consistent, comparable, and reliable disclosure of material ESG information. As IAG representatives, we regularly provide input into and support for initiatives to support the development of stronger investor-relevant ESG disclosure in global capital markets. We hosted two meetings for ISSB in 2022, and as of 2022, over 1,000 unique portfolio companies reported SASB metrics.

UN Global Compact (UNGC) and the Sustainable Development Goals (SDGs)

In June 2021, Capital Group became a participant of the UN Global Compact (UNGC) and committed to act in support of the UN Sustainable Development Goals (SDGs). These goals have become widely adopted by companies (including asset managers) worldwide. In 2022, our Global Citizenship & Sustainability report aligned to our priority **SDGs**.

Net Zero Asset Managers Initiative (NZAMI)

In June 2022, Capital Group joined NZAMI, a consortium of asset managers around the world who are seeking to understand how companies are responding to the implication of the Paris Agreement, an international treaty on climate change. In doing so, we have committed to partnering with clients on their own decarbonization goals.

Local stewardship codes

Capital Group is a signatory to the following stewardship codes, which aim to enhance the quality and documentation of engagement with companies. Our responses to each code are available on our website.

- Japan Stewardship Code (first signed 2014; most recently 2020)
- Hong Kong Stewardship Code (signed 2019)
- UK Stewardship Code (first signed 2010; most recently in 2021, we were approved by the Financial Reporting Council (FRC) as a signatory to the UK Stewardship Code 2020)

2022 Outcomes

Capital Group is engaged with key policymakers globally to understand their objectives and goals. As part of this ongoing exchange, we bring our thought leadership on opportunities and challenges with ESG risk integration, our experience in relation to the current market landscape and our clients' needs and preferences, as well as our expertise on the most appropriate ways to engage with companies and stakeholders to address impacts and ensure long-term viable results. We participate in a number of targeted meetings with regulatory authorities and policymakers in the United States, European Union, United Kingdom and hold exchanges with local authorities in Europe and in Asia. We also engage via our trade associations across key jurisdictions globally and help shape a robust and consistent industry messaging on ESG integration and appropriate policy measures.

In addition, in 2022 we responded to the following consultations either directly via our own submitted response or via feedback we shared with our trade associations:

- Monetary Authority of Singapore's Disclosure and reporting guidelines for retail ESG funds
- Canadian Investment Funds Standards Committee (CIFSC)'s Responsible Investment Identification Framework
- ISSB's exposure drafts on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Disclosure and IFRS S2 Climate-related Disclosures
- European Commission targeted consultation on the functioning of the ESG rating market in the European Union and on the consideration of ESG factors in credit ratings
- U.S. Securities & Exchange Commission (SEC) consultation on The Enhancement and Standardization of Climate-Related Disclosures for Investors
- SEC consultation on Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social and Governance Investment Practices
- SEC consultation on Investment Company Names
- GFANZ Consultation on Measuring Portfolio alignment
- SWIPRA survey on corporate governance
- European Commission questionnaire on ESG ratings
- EUROSIF survey on climate data and indicators
- ESMA consultation ESG Fund Name Rules
- European Supervisors (ESAs) Survey on Greenwashing

Climate risk:

As a global investor, we believe the impact of climate change creates risks and opportunities across different sectors. And the longer the investment horizon, the greater the potential impacts. Those that do not anticipate changing industry trends and regulatory developments are at risk of a higher cost of capital, more expensive regulation, or redundant assets.

Physical and transition risks and growth opportunities will impact issuers differently, depending on their sector, global footprint, current state of readiness and ability to mitigate. To effectively integrate these considerations into our investment process, we have built more than 30 sector-specific ESG frameworks that help us evaluate the materiality of climate change and its consequences for each sector, as well as provide a mechanism for monitoring potentially higher risk issuers. More detail on our investment frameworks can be found under Principle 7.

Utilising those investment frameworks, our ESG analysts have identified a number of material transitional and physical risks and opportunities that impact the sectors they cover. The below table shows examples of what our investment professionals believe to be potentially material climate-related risks and opportunities by sector. We focus on the financial implications of risks and opportunities faced by the companies in which we invest. Our tool Ethos enables us to assess how companies are managing these risks and opportunities at a security level. In addition to providing emissions data, it also indicates any targets an issuer has set, and for some sectors, how much low-carbon energy they consume.

Top climate-related risks and opportunities

Sector		Financial risk/opportunity	Metrics monitored
Energy	Short term	**Regulation aimed at reducing emissions** may lead to additional costs for high-emitting projects; and a focus on operational emissions.	GHG emissions intensity, methane flaring
	Short to medium term	**Opportunities for those that transition to producing lower carbon or renewables/alternative energy sources,** leading to increased market share from low-carbon products and services, and increased revenue.	Energy and carbon prices Composition of reserves
	Medium to long term	**Shifts in demand** as electrification increases, leading to decreased prices and reduced profitability for conventional energy sources. These impacts can affect not only industry, but also energy-producing countries where taxes on oil and gas are an important share of national budgets. **Stranded assets** from carbon pricing and other policies focused on encouraging an energy transition. A significant shift to low-carbon fuels could render existing infrastructure uneconomic and therefore, a financial loss.	Energy and carbon prices, electric vehicle (EV) sales
Utilities	Short term	**Market imbalances:** The shift from fossil fuels to renewable energy can contribute to energy price volatility, especially in times of grid, weather, and fuel supply disruptions. **Threats to established business models** as legacy industries face high costs to decarbonise, competition from new technologies and growing risk of climate-related litigation.	GHG emissions intensity, composition of reserves, energy and carbon prices
	Short to medium term	**Opportunities for those that transition to renewables/alternative energy sources early,** leading to increased market share from low-carbon products and services, and resulting in increased revenue. **Stranded assets:** A significant shift to renewable energy sources could render existing power infrastructure such as coal power plants uneconomic and therefore, a financial loss.	Renewable energy capacity, energy and carbon prices
	Medium to long term	**Opportunities from increased electrification** leading to increases in electricity demand. **Water stress**, leading to work disruptions and a decrease in production, can result in increased costs and decreased revenue.	EV sales, electricity demand Freshwater withdrawal and water-stress profile

Sector		Financial risk/opportunity	Metrics monitored
Transportation	Short term	**Increased decarbonisation requirements from regulators,** resulting in the need for new equipment purchases or retrofits, and increased capital expenditure.	GHG emissions intensity of transportation fleets, capital expenditure for low/zero-emissions equipment
	Short to medium term	**Regulatory obligations to lower emissions from use-phase of new automobiles,** leading to increased implementation of low/zero-emission technologies and resulting in increased spending on R&D and capital expenditure. Companies that cannot compete with zero-emissions vehicles risk market share loss and increasing regulatory costs. **Opportunity to optimise productivity through energy and resource efficiency,** resulting in short-term increases in capital expenditure and longer term savings on operating expenses.	CO2 emissions intensity of new vehicles sold, regulatory controversies Energy and resource intensity, carbon prices
	Medium to long term	**Damage to transportation infrastructure assets by extreme weather events,** leading to operational disruptions, repair costs or asset impairment from events such as flooding and fires.	Strategic response to assets at risk
Metals and mining	Short term	**Market pressure on carbon-intensive and substitutable commodities,** leading to changes in commodity portfolio mix and impairment of long-lived assets, resulting in a change in company valuation. **Increased decarbonisation requirements from regulators,** leading to pressures to decarbonise operations and portfolio, and resulting in additional regulatory compliance costs. **Opportunity to increase revenue** through more low-carbon metals and energy-efficient products that help lower customers' carbon footprint.	Exposure to hydrocarbons, carbon prices Emission profile and reduction targets, regulatory controversies
	Short to medium term	**Opportunity to optimise productivity through energy and resource efficiency,** resulting in short-term increases in capital expenditure and longer term savings on operating expenses. **Greater demand for metals that are relevant to the energy transition** including copper, rare-earth elements, lithium, cobalt and nickel used in wiring, electrical components and batteries.	Energy and resource intensity Commodity mix
	Medium to long term	**Increased water scarcity in water-stress regions,** leading to work stoppages and decreased production capacity, and decreased revenues.	Freshwater withdrawal and water-stress profile
Construction materials	Short to long term	**Increased environmental compliance requirements,** resulting in structural demand for low-intensity products or products that help buildings and other infrastructure assets lower energy consumption.	Product mix
	Medium to long term	**Opportunity to optimise productivity through energy and resource efficiency,** resulting in short-term increases in capital expenditure and longer term savings on operating expenses. **Increased decarbonisation requirements from regulators,** leading to pressure to innovate and reduce product carbon intensity, and resulting in increased spending on research and development and cost of goods sold.	Energy, carbon and resource intensity Regulatory controversies
Food and beverages	Short to long term	**Extreme weather events** leading to reduced crop yields and production, and resulting in increased costs and decreased revenue. **Supply chain reconfigurations** stemming from changes in raw materials, energy inputs and transportation networks driven by the need to decarbonise. **Increased decarbonisation requirements from regulators,** resulting in increased costs for carbon-intensive producers. **Changes in consumer preferences** as consumers become more conscious of their environmental impact, affecting traditional industries.	Asset prices, strategic response to assets at risks Emission profile and reduction targets Carbon prices Consumer demand
	Medium to long term	**Chronic water shortages and changing rainfall patterns,** affecting commodity production and pricing, and resulting in increased costs and decreased revenue.	Water-stress profile
Financials	Short term	**Regulatory risk** from new requirements on sustainable investing, and climate disclosure.	Environmental and social metrics, exposure to carbon-related assets New regulatory requirements
	Short to medium term	**Increased demand for financing the transition,** leading to increased revenue from sustainable finance products and services. **Shifting client and regulatory demands around ESG** leading to new considerations for integrating material ESG issues into investment and lending processes, and new demand for products and services focused on ESG considerations.	Share of green finance

We are building tools to enable portfolio managers to view information on climate-related risk and opportunities at the fund, portfolio, and security-level in portfolio management systems. This includes the ability to view carbon intensity, as well as issuer net zero targets. We also use third-party tools to conduct climate scenario analysis to better understand potential investment impacts from transition and physical risks to our portfolios.

Currently, there is no "house view" on climate change scenario modelling; however, we are investing in research to identify and assess climate-related risks. Several teams have come together in a cross-functional effort to identify and evaluate climate risks and opportunities across our investment strategies. This will enable us to have detailed conversations with the organisations in which we invest in to discuss their response to the climate-related risks and opportunities they face.

Please refer to our **TCFD Report** for more information.

2022 Outcomes

Climate change: In 2022, a group of investment professionals looked to better understand carbon and climate-related data and metrics. The group helped to shape the best way to use this information so that it can be additive to the investment process, including understanding the relevant tools that could be used to interpret the data. The group also helped to determine our engagement areas on climate, based on materiality.

In 2022, we held 90 engagements with companies on climate. The ESG team partnered with investment professionals, seeking to gain insights on companies' climate approaches to understand how companies are managing long-term risk. Objectives varied by company and included seeking to deepen our understanding of the companies' approach on climate; sharing industry best practice; and encouraging greater disclosure on climate impacts. Through these conversations, our investment analysts gained a better understanding of how companies are managing climate risks and opportunities; and gained insights from engagement feedback into the investment process.

Case study: ISSB consultation

The International Sustainability Standards Board (ISSB), established at COP26 to develop a comprehensive global baseline of sustainability disclosures for the capital markets, launched a consultation on its proposed standards to set out general sustainability and climate-related disclosure requirements in March 2022.

Capital Group welcomed the opportunity to provide feedback to the ISSB consultation and provided its support for the design and implementation of globally converging ESG reporting standards, with the goal of comparable and relevant inputs for our investment process. We agreed with the ISSB's premise that sustainability risks and opportunities can be material to investors, and that consistent, comparable, and relevant disclosures on material sustainability-related risks and opportunities faced by public companies will serve investors. The ISSB's Exposure Drafts make significant progress towards advancing the vision of comparable investor-relevant sustainability data.

We particularly appreciate some characteristics of the drafts, such as the reliance on market standards and enterprise value. We shared our view that the final draft should encourage companies to disclose why they opt not to disclose against specific minimum requirements on a "comply or explain" basis. We also felt that the final draft should further guide companies on the practicalities of reporting connected information, as well as provide guidance on a structured format for better clarity on how scenario analysis, risks and opportunities, and metrics/targets relate to one another, and to which parts of the business each refers. We shared our view that requiring corporate disclosure of material Scope 3 GHG emissions set constructive and widely adopted parameters for climate-related disclosures and is in-line with the recommendations of TCFD.

Case study: Letter to SEC on climate disclosure proposal

In June 2022, we made a submission to the SEC on its proposal to enhance and standardise climate-related disclosures.

We agreed with the SEC that climate-related information can be material, and that consistent, comparable, and reliable disclosures on material climate-related risks faced by public companies would serve both investors and capital markets.

We were pleased that the proposed rule draws from the Task Force on Climate-related Financial Disclosures ("TCFD"), the leading global standard for material climate-related disclosures. TCFD is the preeminent disclosure framework embraced not only by issuers but also increasingly by regulators around the world. In addition, with the endorsement of the International Accounting Standards Board and through the formation of the International Sustainability Standards Board, the TCFD recommendations are being leveraged as a global baseline of sustainability-related financial disclosures.

We argued that larger companies should disclose Scope 3 information to the extent material, subject to a safe harbour. As long-term investors seeking superior results for our clients, in our bottom-up security analysis, we find that Scope 3 GHG emissions data offer key insights into how a company is managing material climate-related risks and opportunities in the energy transition. A company's mix of Scope 1, Scope 2 and Scope 3 GHG emissions will vary based on its operating model and, importantly, as the SEC points out, there exists a substitutional relationship between Scope 1 and Scope 3 GHG emissions.

Principle 05

Principle 05

Ensuring stewardship reporting is fair, balanced and understandable

To ensure our stewardship reporting is fair, balanced and understandable, it is reviewed by internal legal and compliance in advance of final submission to FRC. We aim to produce impartial reporting that takes account of both negative and positive aspects in a way that is accessible to all levels of reader sophistication. Our legal and compliance teams help us determine where we have not done this, and how we might improve in these areas. We use detailed case studies where appropriate to illustrate how we have acted in the best interests of our clients and provide data to support this where necessary.

Independent assurance

The Capital Group Internal Audit team is independent of the day-to-day operations of the company and is responsible for providing independent and objective perspective over the appropriateness, adequacy and effectiveness of systems and controls operating in the organisation. Control weaknesses identified by our Internal Audit team are communicated to senior leadership, Audit Committee and senior stakeholders.

We elected to use our internal team to provide assurance on our stewardship reporting, as we deem that their holistic understanding of risks across the organisation and comprehensive view on the global enterprise-wide ESG activities put them in an appropriate position to provide an opinion about quality and consistency of our approach and delivery, also presented in the UK Stewardship report.

Same as the prior year, our Internal Audit team advocated for an agile process, whereby they worked closely with the ESG team to verify that each element of the report was aligned to the proper application of the Stewardship Code principles and that the feedback (Outcome Letter dated September 2022) communicated by the FRC was duly considered.

Internal Audit conducted an assessment which included the review of controls in place for the collection and presentation of accurate and reliable information within the UK Stewardship Code report as well as the evaluation of the quality of disclosures made (fair, balanced and understandable) to describe the Capital Group stewardship of the twelve principles set out by the UK Financial Reporting Council. Controls assessed included verification of information reported versus source documentation, data mapping process, review and sign-off obtained prior to report submission.

The assessment considered written policies and procedures established by the ESG Client Stakeholder and Engagement team to produce the UK Stewardship Code report. The assessment approach included: 1) interviews with the ESG team to identify any changes to processes and controls; 2) verification of statements, facts and data for accuracy; and 3) reporting the results of any observations or recommendations for improvement to senior management.

Internal Audit concluded that the Stewardship Code report describes fairly the application by Capital Group of the twelve principles and the specific information required under those principles as of March 2023. In addition, feedback from the FRC Outcome Letter dated September 2022 was addressed, notably increasing examples of case studies to report the activities and outcomes (including collaborative engagement), as well as disclosing the geographical breakdown of our client base. As part of our continuous improvement agenda, we continue to further enhance our procedures and controls in partnership with Internal Audit, to ensure that the statements, facts, and data are complete and accurate.

2022 Outcomes

Stewardship code report construction: As part of our 2022 Report writing process, we iterated our process to take into account recommendations made by our Internal Audit team at the conclusion of last year's process. These recommendations included:

- Further enhancing the process for the provisioning of Assets Under Management breakdown figures to improve accuracy and consistency across publicly available reports (e.g. UK Stewardship Code, TCFD, etc.)
- Further enhancing the review process for the validation of data disclosed in the report to create a clear audit trail of verifications performed against the book of record source

In response to this, the team enhanced controls through implementation of a data mapping process in order to ensure that accurate data points could be systematically captured and available for a variety of reporting purposes.

Proxy voting guidelines refresh: Responsibility for voting guidelines rests with the Guidelines Committee, a group comprised of investment professionals, supported by members of the GSE team and Legal. The Guidelines Committee again convened in the second half of the year, after completion of peak voting proxy seasons for most Western markets. The Guidelines Committee met with all members to:

- Look back at the previous proxy season to distil lessons learned and emerging themes
- Develop a research agenda to inform potential changes to guidelines
- Coordinate with Capital's Corporate Governance Initiative (CGI) on its research agenda

Last year, in response to specific client feedback, we introduced supplementary proxy voting guidelines for the EMEA and APAC regions, to supplement our global voting policy. These regional guidelines go into more detail than the high-level global policy and are more closely aligned to local market regulation and corporate governance norms in these regions. They also allow portfolio companies to better understand how Capital Group typically views the most common voting issues in their region. This approach proved successful and, this year, we have introduced similar detailed guidance for the Americas, including the United States, Canada and Brazil.

Areas of focus for this year also included our approach to voting in relation to auditors (see proxy voting section in Principle 2 above), and refinements to our process for evaluating shareholder proposals, with an enhanced focus on materiality.

As in previous years, the Guidelines Committee presented the updated guidelines to the Joint Proxy Committee of the American Funds board (JPC) for comment, and then the unit Investment Committees for final approval.

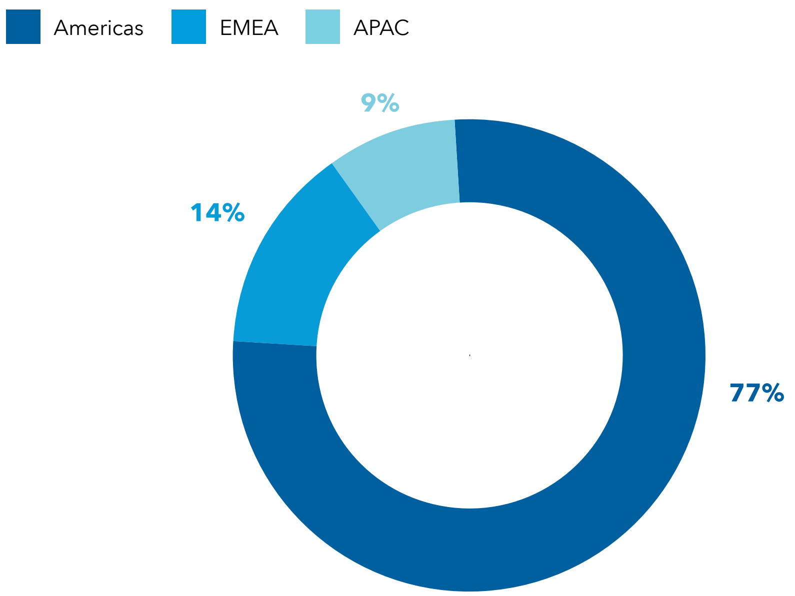
Principle 06

Principle 06

The charts below provide a breakdown of our assets under management by geography of investments, by asset class and by client type.

Breakdown of AUM by geography of investments[9]

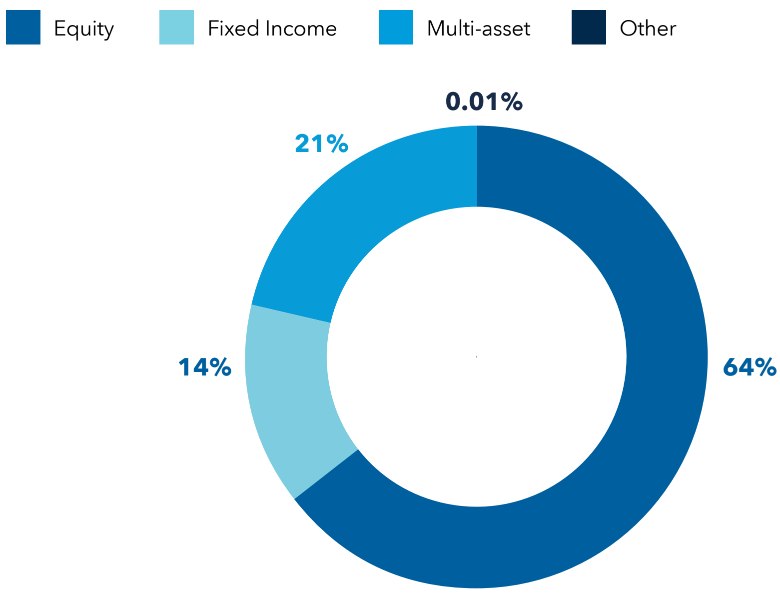
Region	AUM in USD trillions	% of firm AUM
Americas	1.68	77%
EMEA	0.32	14%
APAC	0.19	9%
Total firm AUM	**2.19**	**100%**



Breakdown of AUM by asset class[9]

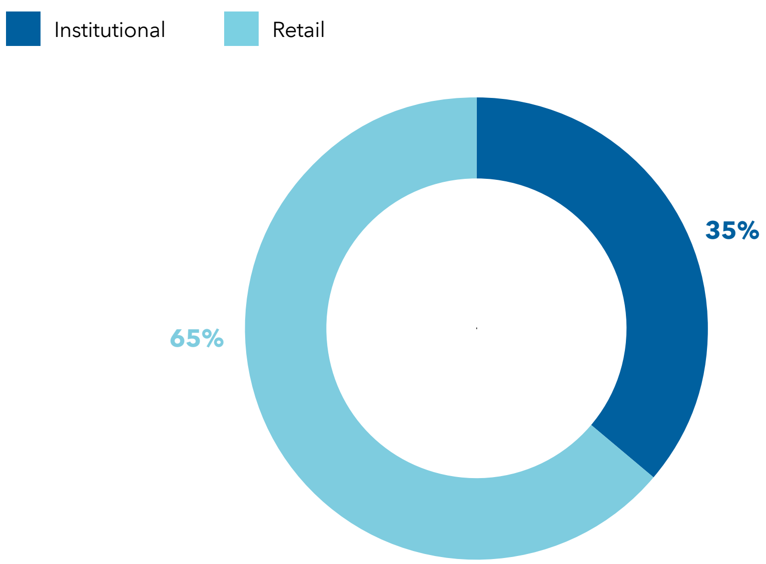
Asset class	AUM in USD trillions	% of firm AUM
Equity	1.41	64%
Fixed Income	0.31	14%
Multi-asset	0.46	21%
Other	<0.0001	<0.01%
Total firm AUM	**2.19**	**100%**

[9] Source: Capital Group. As at 31 December, 2021.



Breakdown of AUM client type[10]

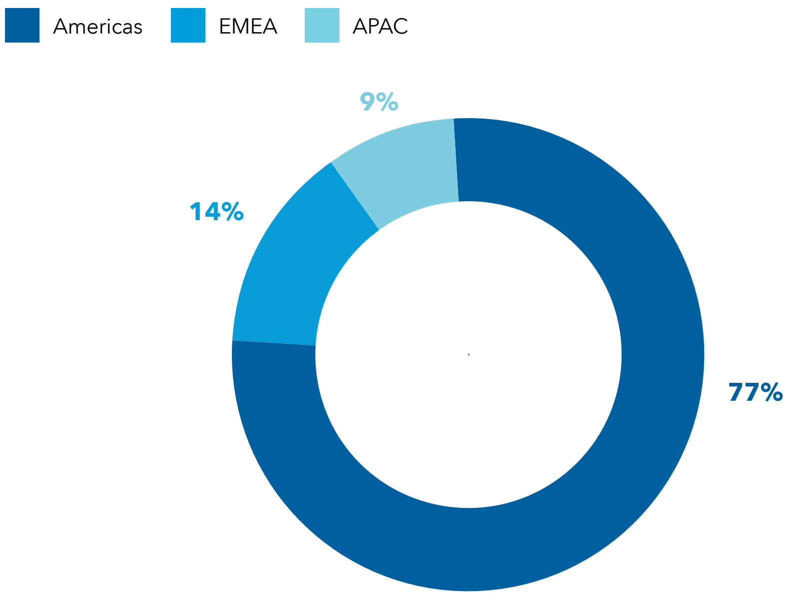
Client type	AUM in USD trillions	% of firm AUM
Institutional	0.78	35%
Retail	1.41	65%
Total firm AUM	**2.19**	**100%**



[10] Source: Capital Group. As at 31 December, 2021.

Breakdown of AUM by client domicile[11]

Region	AUM in USD trillions	% of firm AUM
Americas	2.15	98%
EMEA	0.019	1%
APAC	0.027	1%
Total firm AUM	**2.19**	**100%**



[11] Source: Capital Group. As at 31 December, 2021.

Time horizon:

For equities, our typical investment horizon is three to four years, with many investments held much longer. This is aligned with our long-term investment philosophy. We will consider different investment time horizons, including long-term scenarios that go beyond our typical investment horizon.

Stewardship communication methods:

We currently offer our clients a range of ESG-related reports as listed below:

Climate-related: For equity and corporate bond portfolios, we produce quarterly fund-level carbon footprint reports. This includes details on whether the climate impact is attributed to sector weighting. We also provide information on our group-level approach to climate change in our TCFD Report.

Monitoring process: For equity and corporate and sovereign bond portfolios, we produce a quarterly ESG monitoring process chart showing the percentage of issuers, and top 10 issuers by portfolio weight, that are flagged by our monitoring process (where data are available) and subject to an elevated level of research and review by our investment analysts and ESG team.

Proxy voting: Where we have voting authority, we produce detailed quarterly proxy voting reports which cover the shareholder meetings held during the period in respect of securities held by our clients and provide details on how the votes have been cast. Report formats are available which show votes cast for and against management, plus abstentions, with the reasoning behind these decisions and an overall statistical summary of all votes cast. Furthermore, we produce an annual, firm-level proxy voting slide containing high-level statistics and breakdowns of voting activities.

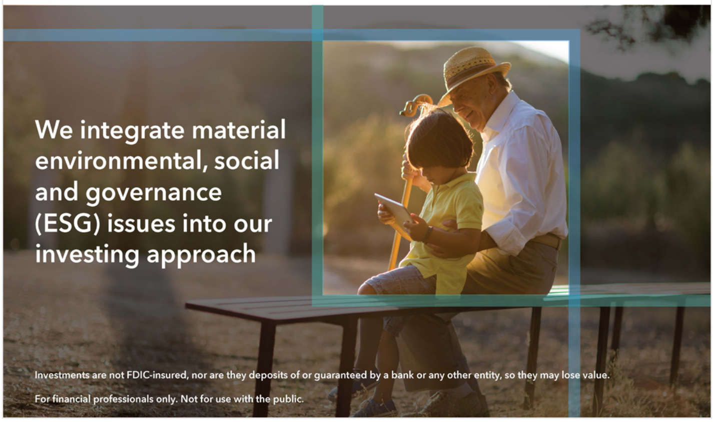
Quarterly ESG Insights: While not portfolio-specific, this report provides high-level statistics and a breakdown of the number of firm-wide engagements held and the environmental, social, and governance issues discussed, as well as by objective type. The report also includes examples, often by region, of how our ESG team has partnered with investment analysts to address specific E, S and, G issues. It provides a spotlight on recent ESG thought leadership and research that we have published.

Quarterly ESG insights

Environmental, Social and Governance

Quarterly Insights
This report covers the quarter to December 31, 2022

CAPITAL GROUP®



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

For financial professionals only. Not for use with the public.

ESG Engagement at Capital Group

Q4 2022

Overview

At Capital Group, we believe in engaging on issues, including ESG ones, that could affect a company's ability to generate value for shareholders.

ESG-specific engagements are conducted by the ESG team in collaboration with our investors/investment professionals, who are directly accountable for integrating material ESG considerations into the investment process, with the ESG team providing support and deep knowledge.

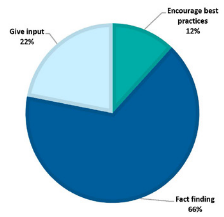
The majority of our engagements are carried out in face-to-face meetings or, where this is not possible, by video call to ensure full debate and interaction.

We have long-standing relationships with company management on a global basis, so we meet with C-suite management, board chairs and investor relations personnel.

Regional summary by numbers

Capital Group conducted 259 ESG engagements with issuers in Q4 2022	
Americas	107
EMEA	41
Asia	111

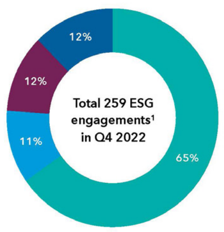
Engagement by objective



As of December 31, 2022. EMEA: Europe, the Middle East and Africa. Figures may not total 100 due to rounding.
Capital Group 2

Capital Group issue-specific ESG engagements

Q4 2022



Our ESG engagement activities cover issues that span the full spectrum of environmental, social and governance topics. The specific issues on which we engage are jointly determined by portfolio managers, analysts, the ESG team and the companies themselves. Engagement issues are prioritized based on the materiality of the issue for a company and the industry in which it operates.

Environmental issues	
Climate change	22
Natural resources	5
Pollution & waste	1
Green solutions	2
Total	**30**

Governance issues	
Board-related	63
Executive compensation	49
AGM-related	7
Shareholder interests	50
Total	**169**

Social issues	
Employee welfare	16
Diversity and inclusion	1
Products and consumer protection	9
Human rights	2
Total	**28**

Multiple issues[2]	
Total	**32**

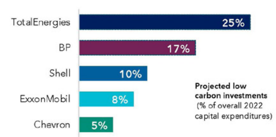
Data as of December 31, 2022. Data covers October 1, 2022 to December 31, 2022. Source: Capital Group. Figures may not total 100 due to rounding.
[1]In a single engagement, Capital Group may discuss multiple E, S and G categories of issues. In these instances, the above reflects the type of issue that was primarily discussed with the company. In addition, the total number of engagements reflects multiple engagements that were conducted with the same company.
[2]Broad ESG discussions that did not emphasize any particular E, S or G issue.

Capital Group 3

Capital Group ESG insights

Spotlight: Both energy security and energy transition are fueling opportunities

Decarbonization prominent in European supermajors' spending



Governments are helping drive the clean energy transition

Inflation Reduction Act
- **$369B** clean energy spending
- Purchase incentives for households for clean energy technologies

REPowerEU
- Estimated **€210B** in new investments toward clean energy
- Designed to eliminate EU dependance on Russian fossil fuels by 2030

GX Plan
- Estimated **¥150T** public and private decarbonization investments
- Nuclear capacity is core to the plan

Energy security is a strategic priority for many countries in the wake of the Russia-Ukraine war. For investors, upheaval in global energy is having a similarly profound impact.

Some oil companies, for example, generated hefty profits as crude oil prices touched multiyear highs. Brent crude prices seem likely to remain elevated (the U.S. Energy Information Administration has forecast $93 a barrel at year-end 2023). Supermajors have also been helped by sky-high European natural gas prices after Russia turned off its supply.

Despite the dash for fossil fuels and corresponding boost to profits, we are in a pivotal period when demand for fossil fuels may be peaking* and the clean energy transition accelerates. New legislation across the world is helping direct the equivalent of hundreds of billions of dollars of capital toward clean energy in coming years.†

"Though renewables are a lower return business today, there is a clear risk that failure to invest in infrastructure now results in energy firms being disrupted and abandoned by some of their investor base," says Matthew Wolf, an equity investment analyst. And the renewables opportunity goes beyond solar and wind.

Government incentives should also help advance clean hydrogen, sparking innovation across industries. "Decisions that energy firms are now making in regard to hydrogen and other renewables will shape their prospects in the coming decades," adds Wolf.

The information provided is not intended to be comprehensive or to provide advice.

Source (left chart): InfluenceMap, September 2022. Sources (right chart): Cabinet Public Affairs Office, Japan; European Commission; U.S. Congress. *U.S. Energy Information Administration forecast from its December 2022 Short-Term Energy Outlook. † Forecasts based on the IEA's 2022 World Energy Outlook Stated Policies Scenario.

Capital Group 4

Fund-level engagement report: In 2022, we identified a select number of Luxembourg funds to pilot our fund-level engagement statistics report. This report provides high-level statistics and breakdowns of the number of companies and issuers engaged, along with the type of engagement by specific environmental, social and governance issues. We are also currently in the process of developing a scalable solution to enable fund-level reporting across all vehicles, which will be available globally in July 2023.

How we seek clients' views on our stewardship activities

Our clients' articulation of their stewardship expectations is of paramount importance to us, and expectations are advancing in all of our geographies every year. Client demands are most sophisticated in the institutional market outside of the U.S. Here, we rely on our client directors and investment directors who meet with clients regularly to obtain specific feedback. Feedback is then included in subsequent activities. We believe this is the best approach to ensure we understand the needs of our clients. This is an important reason for our continued maintenance of our UK Stewardship Code signatory status, for example, which is in direct response to expectations from our institutional client base. In other markets we have built reports for clients in response to their local stewardship reporting needs.

In 2021, we conducted our first ever ESG Global Study, designed to gather client views and inform our ongoing ESG efforts. The Capital Group ESG Global Study was commissioned for a second year in 2022. The survey was separated into two chapters this year. Chapter 1, which we released early in 2022, focused primarily on the key drivers and challenges influencing ESG adoption. Chapter 2, which we released later in 2022, focuses on ESG product insights, including attitudes to sustainable investing.

How assets have been managed in line with clients' stewardship and investment policies

We review all client investment requirements before agreeing to manage client assets. This review will consider stewardship and investment policies where these are provided. Our aim is to ensure that we can meet all of the client requirements before we consider managing their assets. Any potential lack of alignment will be reviewed by our Legal team. If we are unable to align with asset owner policies, we will discuss with the asset owner before agreeing to manage their assets.

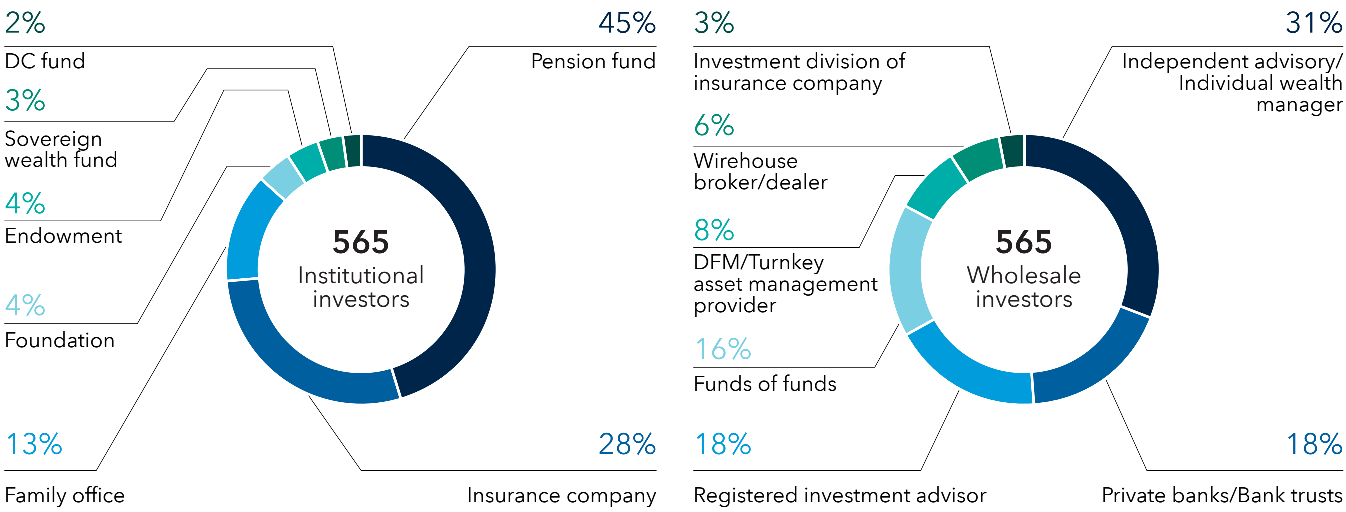
We use direct feedback to ensure that our reporting on stewardship activities is fit for purpose. This helps us to ensure that our stewardship activities are meeting fast-changing client expectations.

Due diligence questionnaires (DDQ) and requests for information (RFI) are effective methods of cross-checking that our client evaluations are fit for purpose. We are most often able to answer these questions with existing materials.

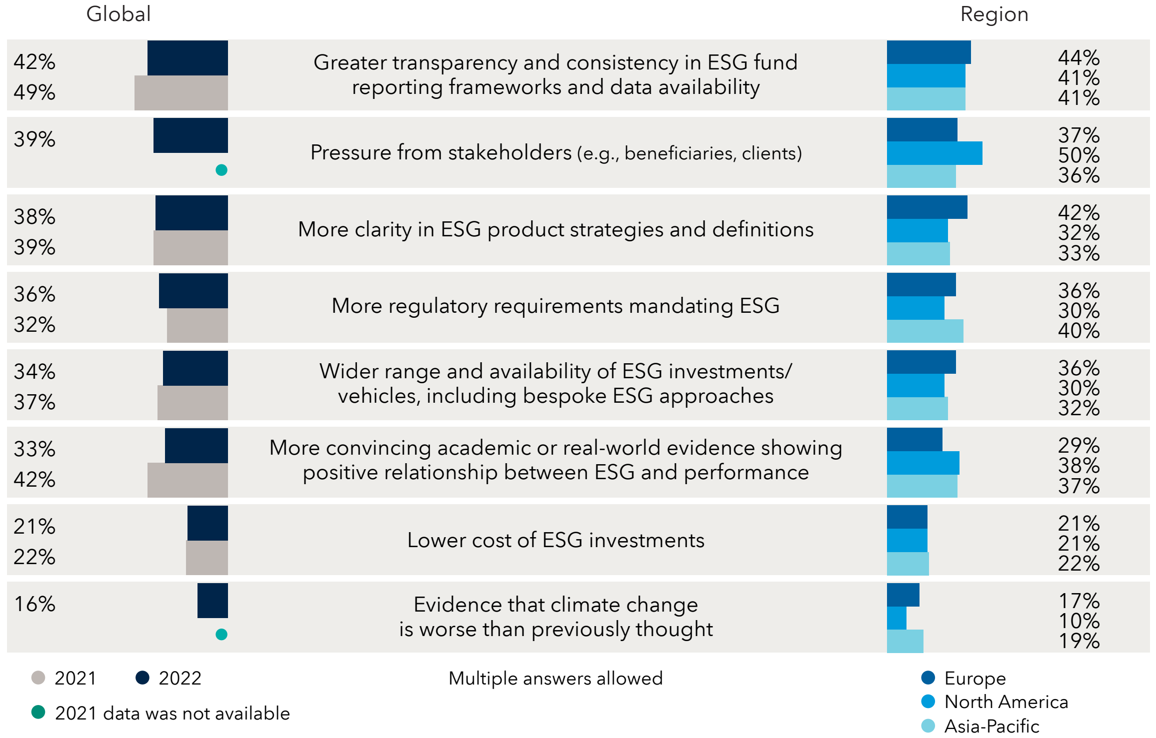
Where we do not have existing material, we work with internal teams across the organisation to help deliver on client expectations.

Feedback from this outreach and other avenues had a direct impact on how we shape our stewardship activity throughout the year, including influencing the development of our proxy voting guidelines for the APAC region – this is discussed further in Principle 12.

The majority of our institutional study sample were pension funds and insurance companies, whilst the majority of wholesale investors in our sample were independent advisors and private banks.

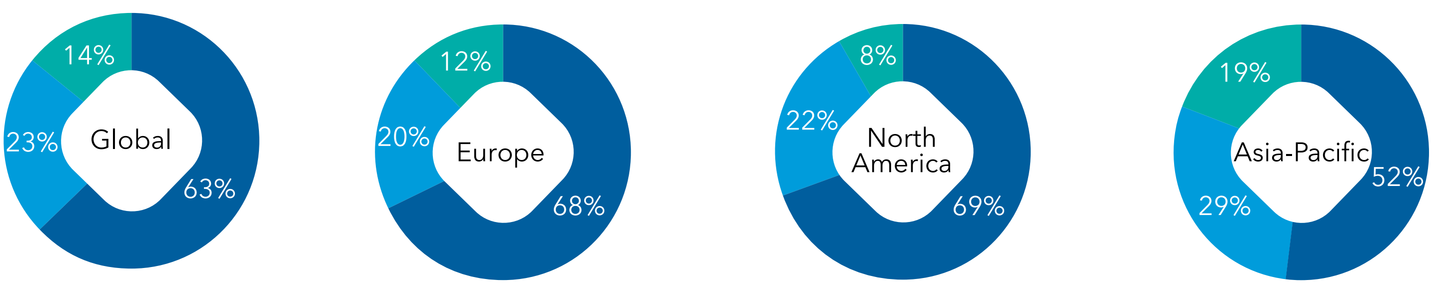


The ESG Global Study illustrated that clients would like greater ESG transparency and consistency.



Which of the following factors would encourage your organization to increase its ESG focus? (Select up to three answers.)

ESG investors have a strong bias toward active strategies.



Active funds
Passive funds
Hybrid instruments (e.g., active ETFs)

What is your preferred approach to integrating ESG? Data may not equal 100% due to rounding.

2022 Outcomes

ESG Global Study: A key tool in understanding our clients' views on stewardship activities during the year was our ESG Global Study. The study gathered the views of 1,130 global investors via an extensive online survey.

The sample includes 565 global institutional investors (pension funds, family offices, insurance companies, sovereign wealth funds, endowments, foundations defined contribution funds) and 565 global wholesale investors (funds of funds, discretionary fund managers, private banks, wirehouse broker-dealers, registered investment advisors, independent advisory, investment division of insurance companies). Investors were based in 17 countries and regions from Europe (50%), Asia-Pacific (32%) and North America (18%). The sample also includes ESG users/adopters (89%) and ESG non-users/non-adopters (11%).

ESG adoption is on the rise, fuelled by client demand and a desire to make an impact. As ESG momentum continues to gain steam, investors are refining and evolving their strategies. This can be seen in implementation, where investors are moving away from basic screening methods towards more targeted and sophisticated strategies, including thematic and impact investing. ESG integration remains the top implementation strategy — suggesting investors are taking a holistic approach as they look to comprehensively embed ESG into the investment process. Nearly two-thirds of respondents prefer active funds to integrate ESG. We are continuing with our strategy to integrate ESG into our investment process and this report highlights many of the steps that we are taking to improve our approach.

As investors become more knowledgeable and familiar with ESG, they are becoming more cognisant of the challenges. Data challenges continue to be a critical issue that manifests throughout the investment process. Difficulties with the quality and accessibility of data and inconsistent ratings are hampering the ability of investors to adopt, incorporate and implement ESG. These issues also present themselves to fixed income investors who identify a lack of standardisation across ESG bond ratings as the top barrier to implementation. Such difficulties are compounded by the fact that investors face an information overload with the proliferation of ESG data. We are making significant investments in improving our own ESG data and, importantly, the messaging of ESG data to clients.

One-third of investors say ongoing ESG education and training from their employer would help with ESG analysis and implementation. This skills gap presents an opportunity for asset managers to forge closer ties with investors through the provision of educational materials and resources. In addition to increasing the ESG thought leadership content available on our external website, we intend to deliver training and presentations on our ESG approach and learnings with select clients.

The full text of our Study can be found **here**.

In 2023, we will conduct a similar exercise. In addition to tracking the year-on-year change in key drivers and challenges influencing ESG adoption, this year's Global Study will also explore: 1) Fixed income and ESG in more detail and 2) the challenges of regional ESG definitions and labelling variations. The Global Study will also examine topical issues such as the energy crisis and how the rotation from growth to value has impacted demand for sustainable funds.

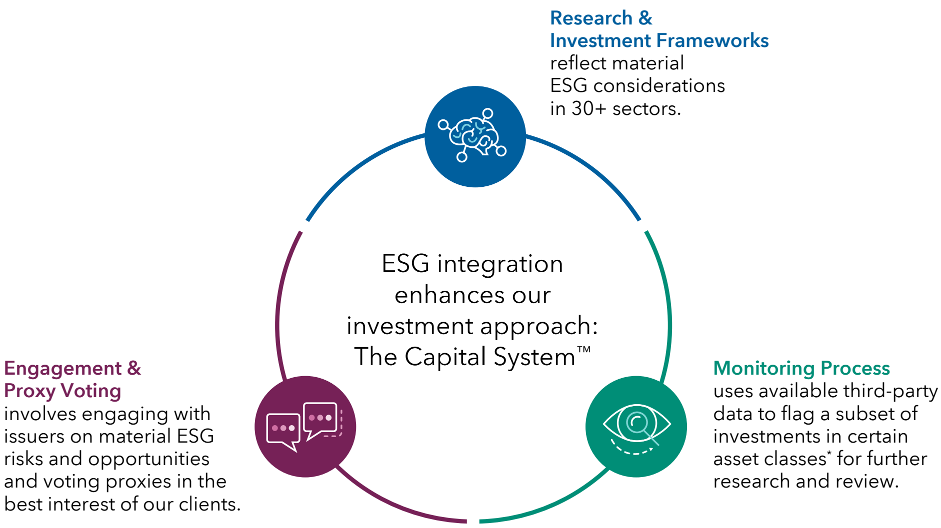
Stewardship Reporting: Alongside our full report responding to the UK Stewardship Code, we publish a more compact version of the report for global client consumption, highlighting some of the most important elements of our full report while meeting client needs in different markets. The abridged Global Stewardship Report can be found **here**.

Principle 07

Principle 07

Capital Group is committed to integrating ESG into how we invest and how we run our own firm. We are backing up our commitment with significant investments. As we learn, we will continue to refine and innovate just as we have with our broader, larger investment process, The Capital System. It is our view that ESG integration enhances our fundamental, bottom-up research, due diligence and engagement efforts which plays to our strengths as an organisation that has emphasized responsible stewardship of the money that investors entrust to us. This is supported by the findings from our 2022 ESG Global Study, which found that 63% of our institutional investors and 55% of our wholesale investors chose ESG integration as their preferred method of ESG implementation.

The analysis of material ESG risks and opportunities is being integrated into The Capital System through mutually reinforcing components:



*As of December 31, 2022, monitoring applies to corporate and sovereign holdings.

Research & Investment Frameworks: To integrate ESG issues into The Capital System, our equity and fixed income investment analysts developed more than 30 sector-specific, proprietary ESG investment frameworks. These frameworks help our investment professionals analyse what they believe are the most material ESG issues that could affect their investment thesis. The frameworks are refreshed regularly based on our in-house research, combining analysis from our team of ESG experts with learnings from our other two ESG integration components, engagement and monitoring. As discussed under Principle 2, these frameworks are housed in our proprietary ESG research tool, Ethos.

The investment framework refreshes are conducted during cross-unit sector meetings, hosted by an investment analyst covering each sector, and supported by the ESG analyst for that sector. The research process uses a broad spectrum of resources, including expert ESG networks and third-party ESG raw data providers. During these regular reviews, analysts consider various factors to draw out new, intensifying, or sometimes diminishing risks and opportunities.

Examples of sources include external frameworks such as SASB/ISSB, research and benchmarks from non-profit organisations such as the Ellen MacArthur Foundation, Capital Group's own thematic ESG research, and specialist industry bodies. No single source dominates; rather the discussion is wide-reaching and balanced, with the aim of bringing together views from within Capital, and not relying on third-party data.

Monitoring Process: We monitor our equity and corporate bond holdings, as well as sovereign bond issuers where data are available. The monitoring process involves reviewing our holdings against third-party data from a range of providers to surface external views of potentially material ESG risks, as well as companies in violation of international norms. Low-rated issuers are flagged for review by the Investment Group. Issuers that present elevated ESG-related risks that may affect portfolio holdings are reviewed by our Issuer Oversight Committee (IOC).

The IOC adds an additional layer of review to our monitoring process and provides a forum for review of issuers that present elevated ESG risks that may affect portfolio holdings. The IOC is comprised of senior investment professionals from each of Capital Group's four investment units, as well as representatives from the ESG, Distribution, and Legal teams. The committee meets regularly to review Capital Group's current and potential exposure to certain flagged issuers, as well as to emerging ESG risks. The committee makes firm-wide eligibility (or ineligibility) determinations for each issuer it reviews; it also recommends companies for intensive engagement where appropriate. This process is continually refined with learnings from our other ESG Research and Engagement.

Asset class-specific monitoring approaches:
Corporate monitoring process (equities and bonds) draws on multiple third-party ESG data providers and flags issuers that present potentially higher ESG risk across any of the below six indicators. These indicators capture materially lower ESG performance relative to peers, heightened governance risk and potential violations of international norms via the UN Global Compact.

For each flagged holding, analysts document ESG risks and escalate relevant issues for additional scrutiny and dialogue.

Third party ESG data source	Scoring range	Capital Group flag threshold	Measures
MSCI UN Global Compact	Pass, Fail, or Watchlist	Fail	Violations of global norms (human rights, labor rights, environment, bribery/corruption
MSCI ESG absolute score	Scale of 0-10	<3	Performance on material ESG issues relative to MSCI universe
MSCI ESG adjusted score	Scale of 0-10	<1	Performance on material ESG issues relative to industry peers
MSCI governance score	Scale of 0-10	<2	Variety of traditional governance factors; flags align with Captial Group's proxy guidelines
Sustainalytics ESG score	Scale of 0-10	>50	Exposure to and management of ESG risks
MSCI and Sustainalytics agreement score	Scale of 0-10; Scale of 0-100	MSCI <4; Sustainalytics >35	Data providers agree on view of moderate ESG risk
Did not participate	20.9%	107	107

Sources: Capital Group, MSCI, Sustainalytics.

Sovereign monitoring process helps us identify issuers that may present higher ESG risks and merit additional scrutiny. In our experience, ESG issues as they relate to sovereign bonds are relevant for country analysis and can affect our evaluation of the risk premium for sovereign bonds, particularly in emerging markets. A true understanding of the ESG-related risk does not necessarily mean we will not invest in a particular country, but it helps us price the risk accordingly.

- **We draw on three external data sources:**
  - **Environmental:** The Notre Dame Climate Adaptation Initiative
  - **Social:** UN Human Development Index
  - **Governance:** World Bank's Worldwide Governance Indicators

We develop quantitative scores, where data is available, for sovereign issuers in our investable universe using raw data from these scores. Indicators measure ESG issues such as climate preparedness (E), life expectancy (S) and civil and political freedoms (G). Issuers are evaluated on:

1. a gross national income-relative basis, to better understand how well a country manages ESG risk relative to their wealth and available resources, and
2. an absolute basis.

Issuers with the lowest scores in both categories are flagged for additional analyst review.

We continue to evaluate methodologies and data providers as we look to expand the monitoring process to other asset classes, including structured products.

Members of our compliance, risk management and internal audit staff conduct periodic assessments on the design and operating effectiveness of the firm's ESG activities and key controls. This includes compliance with internal processes and procedures as well as with the regulatory landscape in the jurisdictions in which we operate.

Engagement & Proxy Voting: We believe dialogue, ongoing engagement and proxy voting are stronger tools than exclusion when it comes to achieving sustainable long-term results. Engagements are conducted by the ESG team in collaboration with our investment professionals as a way to help minimize risks to our investments. We engage management teams on topics that are informed by our research, investment frameworks, voting and monitoring process, and we document the objectives of our conversations with management and the extent to which those objectives have been met.

Voting proxies is an integral part of our investment process. We have an investment professional-led approach to proxy voting and do not outsource this important responsibility; we determine our own votes for each investment unit and, as a principle, seek to vote in all regular shareholder meetings where we are not otherwise restricted. We use external proxy research agencies as a raw data source, and every proxy where we are eligible to vote is analysed by the GSE team and the investment group – further detail on our process is provided under Principle 12. As an active investment manager, we tend to invest in organisations whose management we support, but we will vote against management if we feel it is in the best long-term interests of our investors. Ultimately, we will divest if we believe engagement is not producing the positive outcomes necessary to create and sustain long-term value.

Please note that integration does not differ across asset classes or geographies. Whether equity or fixed income, we follow the process outlined above although we cannot normally vote on fixed income investments.

2022 Outcomes

At Capital Group, we believe that diverse and inclusive teams generate better ideas and make better decisions. In 2021 we wrote a letter to a number of companies encouraging them to promote diversity across their organisations, consistent with local market practices, and disclose more on this topic. More recently we have had a number of follow-up engagements with companies in specific regions or countries where a clear lack of diversity has been identified.

Case study: Human capital thematic engagement

Fujitsu is a Japan-based multinational company providing information and communications technology services and equipment. One of our equity investment analysts believes that Fujitsu would benefit from a robust human capital strategy to attract and retain staff in the competitive technology industry. Without it, workforce attrition could impact long-term growth. In addition, technology tends to be a male-dominated industry. The analyst contends that companies should build diverse, purpose-driven cultures to foster innovation.

Over the past 12 months, a group of our equity analysts and portfolio managers engaged with Fujitsu in four separate meetings. Our engagement sought to better understand how Fujitsu's management team thinks about attracting and retaining talent, including diverse talent. Particular attention was paid to how policies might impact the company's future growth and cost structure.

Fujitsu subsequently confirmed that its ambition to increase the proportion of female managers to at least 10% for financial year 2022, compared with 8% in 2019. This target applies on a consolidated basis to all Fujitsu Group Companies globally. In addition, Fujitsu is implementing major changes in work style. It will allow employees to work from home and from cities outside its key office locations. Management emphasizes that the goal of this program is not cost savings but to create a flexible and productive work environment to attract top talent.

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

The group builds and disseminates knowledge on high-priority governance matters that are material to long-term shareholder value. GSI's findings are intended for investment group members to inform investment decision-making. They also can be used to inform ESG policies, proxy voting guidelines, issuer engagement priorities, and external thought leadership. The team is led by representatives from each of the equities and fixed income units and includes representatives from the Legal & Compliance and Global ESG teams. GSI may partner with additional teams, such as the Fundamental Research Group, the Quantitative Research & Analytics department, and the Capital Strategy Research department.

GSI researched the following topics during 2022:

- Audit Quality Risk – Data gathered on large U.S. companies GSI examined factors that signal the potential quality of an audit and an auditor's objectivity and identified the factors that are most highly correlated with audit failure. The team suggested ways to apply findings to existing policy and engagement protocols to improve risk management.
- Climate Shareholder Proposals – GSI assessed these proposals through the lens of Capital Group's investment specialists, as well as public positions on climate risk. The team proposed a framework for evaluating these proposals and suggested enhancements to Capital Group's existing proxy voting guidelines.
- Racial Equity Audits – GSI examined these audits and their value to investors. The team identified signals that could be used to assess a company's DE&I-related risks proposed a framework for evaluating a company's risk exposure and identified the potential usefulness of a racial equity audit.

Case study: GSI paper audit quality risk

Capital Group places great emphasis on financial statements that are fair and accurate representations of a company's condition. Aggressive accounting and weak financial controls create punctuated risks for investors that are mitigated by having robust, independent audits. While there are audit standards, government oversight bodies have found that many audits are ineffective, prompting some countries to adopt auditor rotation rules to keep fresh eyes on company practice. The auditor's primary goal is to obtain reasonable assurance about whether the financial statements are free from material misstatements, whether due to error or fraud, to express an opinion on the financial statements, and evaluate internal controls. Auditors who fail to identify erroneous or fraudulent financial statements expose market participants to poor investment outcomes.

Capital Group's Governance Stewardship Initiative (GSI) partnered with internal groups to research audit quality. The purpose of this research was to determine if auditor data were predictive of restatements, or audit failure. Our findings indicate the best indicators of future restatements are: 1) past restatements, 2) excessive fees paid to the auditor, and 3) heavy reliance on fee revenue from a single issuer. We found that auditor tenure is not predictive of future restatements, thus used alone is not a strong control for audit quality.

Capital Group identified issuers exposed to all three indicators and initiated engagement to better understand the relationship between Audit Committees and auditors. These engagements serve to strengthen our understanding of the risks and opportunities with poor audit quality. Further, internal accounting specialists created an internal Audit Quality Risk dashboard to support the investment group in identifying companies with potential risk of poor audit quality.

Case study: Climate change engagement with Vale

Climate change is a material risk and opportunity in our mining sector investment framework. Issuers with high exposure to energy-intensive downstream processing and large production capabilities have higher operational emissions, which can impact the sustainability of multiples and earnings streams with the introduction of carbon pricing in relevant jurisdictions. Mining companies that offer a product with lower carbon footprints may see increasing customer demand.

Over the years, Capital Group has engaged with Vale on various issues ranging from board independence to governance structures to remediation of historical dam issues. In December 2022, two of our equity investment analysts and the ESG analyst covering metals and mining continued our ongoing engagement with the company with a focus on understanding how Vale is seeking to manage climate-related risks and reduce operational emissions.

Through the engagement, we learned that to meet Vale's 2030 emission reduction target, the company has been focused on increasing its renewable energy consumption. The company is now sourcing 89% of its electricity from renewable sources which has contributed to a reduction of its Scope 2 emissions. To address its Scope 1 emissions, Vale is evaluating a range of technological options to reduce emissions from its fleet, railways, and pelletizing activities. Vale is also planning to increase the production of pellets and briquettes, which may lead to a short-term increase in its Scope 1 and 2 emissions, but should help reduce its Scope 3 emissions. The company also highlighted challenges to implementation – particularly with electrification at its mines – and the infrastructure and transmission required.

Our investment analysts and ESG analysts came away with a better understanding of Vale's key emissions reduction levers to reach its 2030 targets (electrification, switch to renewables, fleet), strengthening our conviction that managing climate risks and opportunities are a strategic priority. We plan to monitor how Vale's pellet production targets will impact its operational and customer emissions. In future conversations, we will also seek an update on how Vale is tackling the electrification challenges at its sites.

Case study: Climate change engagement with Linde

Linde, the U.S. industrial gas and engineering company, produces and distributes gases for a range of end markets including health care, chemicals and refining. Our research indicates that industrial gas manufacturers have high greenhouse gas (GHG) emissions on both an absolute and intensity basis. For Linde, climate change represents both an opportunity (increasing demand for low- and zero-carbon hydrogen can drive organic growth and valuation premia) as well as a risk (if multiples and earnings are not resilient to carbon pricing in certain jurisdictions, it will impact both Linde and its customers). Capital Group's equity investment and ESG analysts engaged with the company to better understand Linde's medium- and long-term strategy to reduce GHG emissions.

Through the engagement, we learned details about Linde's ambitious and long-term GHG reduction goals for its own operations. Internal visibility on emissions is high, and Linde has embedded GHG improvements into operations. The company has seen significant interest from customers in low- and zero-carbon hydrogen and carbon capture and storage (CCS). Underscoring the importance of emissions reductions to the company, progress against absolute GHG emissions reductions was recently added to management's short-term incentive compensation.

The equity investment analyst and the ESG team developed a better understanding of how Linde plans to meet its GHG reduction goals, across operational and customer emissions.

Case study: Climate change report engagement

Based in Canada, First Quantum Minerals (FMCN) is among the world's top 10 copper producers with production in gold, nickel, zinc, and cobalt. Copper and nickel are key materials used in new renewable energy infrastructure and electric vehicles. Mining these minerals can generate significant GHG emissions relative to other sectors, due to the operation of heavy equipment and energy-intensive processing plants. Our equity analyst believes that climate change due to GHG emissions, and increased regulatory scrutiny, are material, long-term ESG risks for FMCN. The coal-fired power station at the Cobre Panama mine is FMCN's largest source of GHG emissions, presenting an opportunity for FMCN to increase its production of renewable energy.

In January 2022, FMCN published its inaugural **Climate Change Report**, aligned with the TCFD recommendations, setting out its climate strategy as well as targets to reduce its GHG emissions. Our equity analyst engaged with the company seeking an update on progress in building its renewable energy infrastructure, particularly for its operations in Zambia and Panama.

The engagement provided the analyst with a better understanding of FMCN's plans. At the Cobre Panama mine, it intends to reduce its reliance on coal by sourcing alternative supply options, including renewable energy. In Zambia, where over 85% of power is renewable, FMCN is also evaluating the establishment of alternative and renewable sources of power. Our equity analyst also gained clarity on how FMCN intends to meet its target of 30% and 50% reductions of its absolute GHG emissions by 2025 and 2030, respectively. The equity analyst will continue to monitor for company developments.

Case study: Investment framework focused engagement

Buildings and industry account for 50% of total GHG emissions; the majority come from the built environment, where concrete is the most widely used material. Decarbonizing cement, a key ingredient in concrete, is challenging due to highly emitting chemical reactions that occur during the cement manufacturing process. Furthermore, very few alternatives exist with the same strength, resilience and durability. As a result, sustainable product innovation is a key part of our ESG Investment Framework for Chemicals and represents an important opportunity for companies in this sector.

Based in Switzerland, Sika AG is a global leader in construction chemicals. Their products are sold in the construction and industrial sectors. Our investment analyst identified Sika's strategic focus on sustainability: 70% of Sika's products help address Scope 3 emissions for difficult-to-decarbonise industries. Other initiatives included establishing environmental impact reduction targets; acquiring sustainability leaders such as green roofing company, American Hydrotech, Inc. and construction and admixtures systems company, MBCC Group; and developing a complementary concrete recycling system.

Many of Sika's products reduce lifecycle CO_2 emissions (currently by 25-35%) and natural resource consumption in concrete production and use. Our investment analyst believes Sika AG is well-positioned to take advantage of the differentiated opportunities in sustainable products; this could help the company claim market share and find new customers and/or revenue sources. Our investment analyst will continue to monitor for company developments.

How information gathered through stewardship has informed investment decisions

Our investment analysts are central to our engagement with issuers, which ensures that the dialogue contributes to our investment views. Our investment analysts will typically meet with company management several times before making a recommendation to invest client assets with that company. Engagement is an important part of our diligence in monitoring leadership of the businesses in which our clients are invested. Ultimately, we will divest if we believe engagement is not producing the outcomes necessary to create and sustain long-term value, or we may choose to avoid investing in a company altogether if we believe that the risks of the investment outweigh the benefits for our clients.

Case study: Fixed income engagement and avoidance

In fixed income, our investment professionals incorporate a variety of quantitative and qualitative factors to help assess ESG elements. This was demonstrated through our work on a bond issuance by Chile during the year. In 2022, the Republic of Chile became the first country to issue a sustainability-linked sovereign bond (SLB). The bond was linked to Sustainability Performance Targets (SPT), with the bond paying a premium if these were not met. The Key Performance Indicators included an absolute reduction in greenhouse gas emissions and an increase in renewable energy generation. However, unlike many green bonds, proceeds from the sustainability-linked sovereign bond did not have a restriction on use and they were not earmarked for any specific "green" projects.

Our investment analyst participated in an investor call discussing the SLBs with the Republic of Chile in February 2022, and conducted a detailed assessment of the issues. Chile's ESG scores have been among the highest in Latin America. Worldwide Governance Indicators for the year 2020 suggest Chile has one of the highest scores for regulatory quality (1.05 out of 2.5) and government effectiveness (0.98 out of 2.5) across the region. However, our investment analyst expressed concerns given the premium over a generic sovereign bond.

We have investigated valuation differences between ESG-labelled bonds and non-ESG issues. Our research indicates there has been a premium ('greenium') – a spread concession that means investors in ESG-labelled bonds have often earned lower yields than in comparable non-ESG issues. For future issuances, our investment analyst expects that more ambitious SPTs and increased coupon step-ups, could be positive for bondholders. As such, we will continue to monitor SLB issuance from the Chilean government over time.

Case study: Equity divestment

At Capital Group, we believe the work we do to engage with each element of a company's business operations allows us to gain greater contextual understanding around the companies we invest in and forms a key part of our stewardship approach. Being able to identify competitive pressures and advantages is an important part of our stewardship approach, and contributed to our decision to divest from a European machinery company in 2022.

One of our equity investment analysts conducted calls with several customers of the company during the year, following several profit warnings from the company that were attributed to difficulty obtaining parts for certain products. From this research, the analyst determined that the recent margin pressure may have been caused by additional factors. The analyst was also able to assess the customer views on competitors, which had become significantly more positive due to advances in competitor technology.

Ultimately, this work influenced the decision to divest from the company. The combination of qualitative research and a focus on different stakeholders in the value chain is a key part of how Capital Group approaches stewardship of client assets and seeks to generate value.

Our use of service providers

Please note that we only use service providers as one of many research sources, or to aid our execution of proxy votes. We discuss in Principle 8 how we interact with these service providers, including a breakdown of which service providers are used for what purpose, and how we hold them to account if expectations are not met.

Principle 08

Principle 08

A list of service providers we utilise, their relevant products and the length of our relationship with them is below:

Provider	Product	Description/purpose	(Sub-) asset class	Date started
Glass Lewis	Proxy research, Voting	Governance and proxy research	Equities, corporates	2005
ISS	ISS Governance	Governance and proxy research	Equities, corporates	2012
	ISS ESG	Norms-based research, cluster munitions research, climate impact reporting	Equities, corporates	2018, ~2010, 2017
MSCI	MSCI ESG Ratings and raw data	ESG research	Equities, corporates	2018
	MSCI UN Global Compact violators	Norms-based screening research	Equities, corporates	2018
	MSCI Business Involvement Screening Research (BISR)	SRI screening analysis	Equities, corporates	>10 years[12]
Sustainalytics	ESG Risk Rating, Carbon emissions, SFDR, Screening	ESG research	Equities, corporates	2020
Bloomberg	ESG Fundamental Company Data	ESG research	Equities, corporates	2021
Refinitiv	ESG Fundamental Company Data, Green Bond Dataset	ESG research	Equities, corporates	2021
S&P Global	Trucost SDG Data	ESG research	Equities	2021
Just Capital	JUST Annual Rankings	ESG research	Equities, corporates	2021
TruValue Labs	TruValue Spotlight	ESG research	Equities, corporates	2021
CDP	CDP Corporate Dataset	ESG research	Equities	2022
GRESB	GRESB Dataset	ESG research	Equities, corporates	2022
ICE	RiskQ	ESG research	Equities, corporates	2022
Integrum	Integrum-ESG	ESG research	Equities	2021
IHS	Corporate Emissions	ESG research	Equities	2022

Provider	Product	Description/purpose	(Sub-) asset class	Date started
Open Secrets	Lobbying Dataset	ESG research	Equities	2022
Skarn	Emissions Data	ESG research	Equities	2021
EV Volumes	EV Data	ESG research	Equities	2021
Bitsight	Security Ratings	ESG research	Equities	2022
Verisk	Maplecroft	ESG research	Sovereigns	2022
Equilar	Dataset	Governance research	Equities, corporates	2022
Sustainable Investment Institute	SI2 research	ESG research	Equities	2021
Notre Dame	Climate Adaption Index	ESG research	Sovereign bonds	2020
United Nations Development Program	Human Development Index	ESG research	Sovereign bonds	2020
World Bank	Worldwide Governance Indicators	ESG research	Sovereign bonds	2020
Multiple brokers	–	Broker ESG research	All	–

[12] Prior to 2008, we used KLD for SRI screening analysis – KLD was acquired by RiskMetrics in 2009, RiskMetrics was acquired by MSCI in 2010.

Capital Group works with eight-plus standard data vendors and, in total, over 50 different data sources for ESG-specific data fields. Our engagement process with a vendor begins once an analyst identifies a particular field of interest, which leads to understanding the available options for that field and meeting with vendors to understand the methodology, assumptions, delivery structure, and sources utilised. Once a particular vendor is selected, communications move to the market data team to finalise the contractual and legal aspects of obtaining the raw data. After that phase is finished, our Data as a Service team works on onboarding the data to CG systems.

Although the data may be made live for internal usage at this stage, our engagement with vendors does not end here. We continue to work with the vendor for issues related to data governance, data cleansing as well as the observed discrepancies during our validation or user testing stage. Typically, vendors deliver the data file daily or weekly and when those files are onboarded, they undergo the standardised quality assurance process, in addition to manual evaluation by the ESG specialists to ascertain the quality.

2022 Outcomes

Where we have held providers to account

We periodically review the quality of the service-provider organisations' performance and conduct ongoing monitoring and due diligence activities commensurate with the significance of the services offered. For example, we meet with ISS, who help facilitate the delivery of our proxy votes, on a quarterly basis, to discuss the process and raise any issues we may have had with the provision of their service. In addition to the quarterly meeting, we have regular ad hoc communications to support our proxy voting. We also perform a site visit every two years, most recently visiting ISS' Service Center in Norman, Oklahoma in the U.S. in November 2022.

This regular contact helps us determine whether ISS's ability, capacity and authorization meets or indeed exceeds our standards established in the service level agreement. In instances where we feel that the service has not met our standards, such as untimely delivery of proxy votes or insufficient provision of third-party research, we use our quarterly meetings to make our position clear to the provider. An example of actions we have taken during the year with other providers is shown on the next page.

Feedback

We have recently been working with MSCI to obtain the business involvement data for companies using their BISR dataset (Business Involvement Screening Research). During the onboarding of the dataset, we observed a few discrepancies between MSCI's dataset and issuer-reported data (on the issuer websites, and reports). We reviewed the data with our sector specialists before reaching out to the vendor regarding the discrepancies and requesting details on their sourcing and cleaning. We also provided them specific examples where irregularities were observed. We requested further details on their sourcing and cleaning methodologies. After the explanation, we were able to zero in on the issues related to the definition of the specific metric and how MSCI accounts for involvement compared to how it was reported. The vendor's explanation helped us understand the data point more clearly and document the differences for future instances.

Whilst we do not generally rely on ISS research, preferring our own analysis based on primary sources, our own voting guidelines, plus any ongoing engagement, ISS is a key partner for voting technology, including their ProxyExchange and Communicator platforms. This year, we partnered with ISS in a year-long technology project to design and build a customised version of their Communicator voting tool, replacing our in-house system.

The specially customised version of the Communicator voting tool allows us to route upcoming proxy votes to multiple decision-makers within the organisation simultaneously (typically the covering investment analyst within each investment division). It also allows us to track each vote that is escalated to the relevant Proxy Committee for final voting, systematically ensuring we have a majority decision and a quorum. Once voted, positions are automatically aggregated back and validated before we send them into the market via our custodian banks. The new system also allows us to exercise greater ease and agility in preparing more granular vote reporting and voting analysis than before.

Principle 09

Principle 09

We are committed to providing better outcomes for our investors and engage regularly with the companies and issuers in which we invest. We do this to minimize risks to our investments and encourage the responsible allocation and management of capital, as well as to gain a better understanding of management teams and their values, strategy, and stance on key issues.

Where necessary, we provide input and share industry best practices to protect and enhance the value of investments for which we are responsible.

Our intensive research and our long-term average holding periods naturally lead our analysts to develop constructive and enduring relationships with companies and issuers. It is our preference to engage with companies directly, leveraging these relationships to encourage positive outcomes. Our approach is made more powerful by the fact that our engagement and proxy voting is led by our investment professionals, giving consistent messages to companies on areas where we want enhanced disclosure, better alignment to best practices or improved mitigation of ESG risks. We believe our detailed, hands-on, case-by-case approach to engagement serves an especially important role today, when a growing portion of the investment vehicles in our industry are designed to take human judgement out of the equation.

In 2022, the ESG team, in partnership with investment professionals, conducted engagements with over 500 companies specifically on ESG topics. This is in addition to the over 21,000 meetings held by investment professionals as part of the fundamental investment research.

Engagement selection process:

We actively prioritise our research resources towards engagements where we feel we can have the highest impact. While we believe it is important to engage with the issuers where we have significant exposure, we prioritise depth over breadth.

We prioritise companies for ESG engagement based on a range of factors, including:

- The size of our exposure: We prioritise issuers for engagement where Capital Group is a significant holder from either a market value or percent ownership perspective. These engagements are largely focused on how an issuer is performing against our proprietary sector-specific ESG investment framework, supported by company-specific ESG data.

- The company's ESG risk profile and controversy exposure: Issuers are regularly identified for engagement via other parts of our ESG program – most notably:
  - The monitoring process flags issuers which underperform on a range of third-party indicators. For flagged issuers, investment professionals are asked to review the specific issues and the extent to which they are material. Issuers flagged for material ESG issues where we have not yet engaged on the topics are elevated for priority engagement.
  - The Issuer Oversight Committee (IOC) is an extension of the monitoring process. Staffed by senior investment professionals as well as representatives from ESG, Legal, and Distribution, the IOC reviews issuers exposed to severe ESG controversies which may affect portfolio holdings. Where the committee feels that engagement is prudent in order to ensure that any elevated ESG risks are mitigated, it will recommend individual companies for intensive engagements. The committee reviews the progress of these engagements quarterly.
- Opportunities for improvement in thematic areas of focus: Our approach to thematic engagements is twofold:
  - On an annual basis, we select a small number of thematic issues which have been identified in our investment frameworks as being material to a significant portion of our holdings. On these issues, we will articulate our general expectations to portfolio companies and seek to better understand the companies' position on those issues. In 2022, our thematic focus areas were human capital and climate.
  - In addition, we pursue smaller thematic engagements at the sector or topic level, aiming to address issues which may be common across a smaller subset of holdings. These are typically driven by sector-specific research that has been conducted by ESG analysts in partnership with members of our Investment Group.

Proxy-related issues where we feel a company would benefit from greater transparency on our views: The Global Stewardship & Engagement (GSE) team proactively engages with issuers both to share our views on a range of governance topics and following annual general meetings (AGMs). On the latter, based on previous voting decisions and supporting rationale, we engage with companies where Capital Group has voted against management for a variety of reasons, including director elections, dividend pay-outs, and concerns around remuneration practices.

Case study: Issuer Oversight Committee engagement over time

Effective 3 April, 2020, Raytheon Co. and United Technologies Corp. merged to form Raytheon Technologies Corp. (RTX), a multinational aerospace and defence systems provider. Previous engagements with Raytheon focused on establishing a steering committee to outline ESG priorities. The merger presented an opportunity to refocus our efforts and further encourage ESG best practices for the combined entity.

In September 2021, several analysts from Capital Group's investment and ESG teams met separately with management to understand how material ESG issues were being addressed. Discussions were based on an ESG-focused review of the company's policies and practices centred on diversity, equity and inclusion (DE&I), supermajority voting requirements, shareholder proposals, and environmental performance.

Capital Group's Issuer Oversight Committee (IOC) was reviewing the company as reports had flagged the company on allegations of international norms violations related to human rights issues.

In March 2022, Capital Group investment analysts and the ESG team initiated a follow-up engagement with the company, recommended by Investment Operations, to discuss the human rights risks of weapon end-use.

Over the timeframe of our engagement the company has demonstrated improvements across several of the areas reviewed:

- RTX published its first sustainability report in Q4 2021, which included new DE&I disclosures.
- At the 2022 AGM, the company began a two-step, two-year process to eliminate supermajority voting requirements. Stage one has been completed and the final stage is expected to be completed by the 2023 AGM.
- RTX's Human Rights Council has developed a due-diligence approach to assess key risks, including the potential for civilian harm from weapons.

This engagement helped us to better understand the company's progress to address the issues flagged. As part of our overall engagement strategy, we see value in continuing to engage as RTX improves disclosure around human rights policy and sustainability.

Case study: Nestlé scaling sustainable farming across the supply chain

Nestlé is the world's largest food and beverage company, with a diverse portfolio of products ranging from baby food to pet care. Nestlé has faced scrutiny around its environmental footprint, particularly the company's GHG emissions related to food production, traceability of resources in its supply chain, plastic packaging, and deforestation due to using palm oil in its products. Our investment framework on the food industry also identifies those issues as being material. In 2021, Nestlé launched a net-zero roadmap that showed nearly two-thirds of its GHG emissions resulted from agriculture. Nestlé has committed to investing CHF 1.2bn/USD 1.2bn by 2025 to scale sustainable farming across the supply chain.

Given the meaningful exposure to Nestlé and that the issues were identified in the investment framework, in March 2022, a Capital Group equity investment analyst and an ESG analyst met with Nestlé management to discuss its sustainable farming plans and understand how the company will be measuring progress toward the goal of 50% of key ingredients sourced through regenerative agriculture by 2030.

In the meeting, they covered the following:

- Sustainable farming practices that are being piloted, which Nestlé intends to expand at scale through their global network of producers.
- Regenerative agriculture aims to restore the health of the soil, which food production depends on. It enables the soil to store more carbon and water, which has climate benefits and increases crop resilience. It also reduces the need for chemical inputs, which improves farmer livelihoods and is positive for biodiversity.

As a result, our equity analyst believes Nestlé has made a significant financial commitment to reducing its environmental footprint. This gave our analyst confidence that Nestlé is utilizing its research capabilities to implement regenerative farming practices across its supply chain.

If successful, our equity analyst believes it will secure supplies of raw materials for food production for decades to come, which is critical for the size and nature of Nestlé's business. The investment and ESG analysts will continue to engage and monitor the emerging disclosure so that we can assess progress in both measurement and deployment.

Case study: Tokyo Electron developing policies to improve shareholder value

Tokyo Electron is one of the world's largest semiconductor equipment vendors. The company has continued to hold large amounts of cash on its balance sheet, without communicating a clear policy of paying out to shareholders or investing in the business. While one of our equity investment analysts has conviction in the company's ability to grow the business, the analyst believes a stronger payout policy could improve returns for shareholders.

Given our significant position in this company, throughout 2021, the analyst engaged with Tokyo Electron's management team to gain a better understanding of its dividend payout and share buyback policies. The analyst also shared insights into broader market practices, highlighting the higher payout structures of foreign peers. Subsequently the company has highlighted longer term plans to maintain a 50% payout ratio and do buybacks opportunistically.

The company has now increased its free cash flow payouts and improved its communications regarding capital allocation. While management did not change their official dividend payout or shareholder returns policies, they did announce that they will consider share buybacks. Our investment analyst continues to engage with the company on plans to improve returns to shareholders through increasing profitability, productivity, and payout policies that are beneficial to shareholders. We managed to achieve this outcome through the strong relationship built between the equity investment analyst and the management of the company, as well as our long-term position in the company.

Case study – Business unit divestment

Kansai Paint is one of the world's largest paint manufacturers, generating one-third of its profits from automotive paints (or "majority of its profits in emerging markets"). One of our equity analysts has engaged with senior management on a regular basis for several years, sharing best practices across various topics including improvements to internal key performance indicators (KPIs), employee evaluation systems and financial disclosure.

Senior management had expressed an interest in improving the company's capital efficiency and profitability, in an effort to compete more effectively on a global stage. In May 2022, our equity analyst met with senior management to discuss balance sheet optimization and more efficient capital allocation strategies, including business portfolio restructuring, share buybacks and progressive dividends. When discussing operational restructuring, our analyst underscored the importance of responsible execution, noting that consideration should be paid to workforces and community stakeholders affected by a change, particularly if it involves exiting a market completely. If mismanaged, there is reputational risk and potential for financial damage.

Following several years of dialogue with the company on the topic of portfolio optimization, in June 2022, the company announced the sale of its Africa business for $450M to AkzoNobel. Prior to the sale, the company was able to resolve its outstanding operational issues. Following the sale, the company announced a share buyback of 9.5% of total shares outstanding, equating to roughly $400M. Our equity analyst continues to engage in dialogue with the company and monitor for further improvements to shareholder value.

Case study: NVR engagement

NVR, Inc. is an American homebuilding company which also operates mortgage banking and title services businesses. Non-executive director compensation at NVR was not aligned with our views of industry best practice. NVR non-executive directors previously received periodic equity grants, rather than annual grants. Half of those awards would vest based on the three-year return on capital performance (in line with the executive team's grants). Our equity analyst believes a better practice is for non-executive directors to receive awards that are not tied to performance criteria. This encourages independent, long-term oversight and provides consistent compensation, throughout challenging business periods.

We engaged with the company to provide targeted feedback on the non-executive director compensation structure. Consistent with our approach to stewardship, we preferred to first engage directly with the company rather than vote against. Furthermore, non-executive director compensation is generally not offered as a standalone voting item in the U.S.

Throughout the year, the company announced modifications to its corporate governance and compensation policies, citing engagement with shareholders as the reason for doing so. The company has committed to removing the performance metric associated with the non-executive directors' equity grants.

Fixed income-specific considerations:

We take an active and rigorous approach to reviewing bond documents, including indentures and credit agreements, both before investment and on an ongoing basis. Our approach to indenture and covenant evaluation and enforcement is multi-faceted. Our experienced investment team – both analysts and portfolio managers – are our primary "line of defence" in document review and covenant enforcement, with assistance from our internal Legal group.

Additionally, we utilize external inputs, consisting of both research services focused on covenant analysis and external legal advisors that we engage on a situation-specific basis, particularly where we can materially influence the initial drafting of bond covenants or structure. We see an indenture as the key document that defines creditor protections and governance rights, and as such, we seek changes to indenture covenants or bond structure at the time of new issuance, when appropriate. To pursue these amendments, we will negotiate with the underwriter or the company directly. In the event we are unable to get a critical term in the indenture amended prior to new issue placement (after which bondholders have no ability to seek amendments), we will forego investment.

Companies also regularly seek indenture amendments from us as bondholders. We again take an active role in evaluating these amendment requests, often speaking directly with the company management to understand the motivation and implications of the amendment. We will again utilize external legal advisors to assist in negotiating and evaluating amendments sought. When appropriate or necessary, we will participate in "ad hoc" bondholder groups – assisted by outside counsel – to focus on negotiating indenture amendments that address the company's request but continue to protect creditor interests and rights. Amendments sought by the company also generally have attached compensation for creditors and we evaluate the adequacy of the compensation offered in relation to the magnitude and impact of the amendment sought, and will similarly negotiate for a higher fee, when necessary or appropriate.

We see prospectus and transaction documents, and especially covenants, as critical to the "G" of fixed income ESG, and approach document review and enforcement with this in mind. As noted, we believe the indentures and related documents are the most critical source for defining governance rights for bond investors, and therefore take an active role as part of our overall investment process, in reviewing and negotiating these documents. We also see active enforcement of agreed indenture and covenant terms as a critical role we play in bond investing, from an ESG perspective. In the event of covenant disputes with the issuer, our first course of action in addressing the problem is always to partner with management to resolve the issue. But, where this does not adequately protect our rights as bond investors, as outlined in the indenture, we will participate in ad hoc bondholder groups – assisted by outside counsel – to focus on covenant enforcement. When partnering with other investors is not possible or appropriate, we will independently pursue covenant enforcement, including through litigation where necessary, with the sole purpose of preserving the previously negotiated rights and protections granted to bondholders.

In the event an issuer becomes distressed, we take an active role in negotiating restructuring, in an attempt to avoid impairments. A thorough understanding of creditor rights and protections, as defined in the indenture, and collateral value and availability, is the first step to avoiding impairment. As with amendments, in the event of threatened impairment, we will often retain external counsel to assist, and form or participate in an ad hoc bondholder group. Indenture enforcement, which is often necessary in the event of distress, often requires scale – to build a voting bloc, direct the trustee, etc. – which makes working with, and often leading, a group of bondholders necessary in some situations, as we look to protect value for bondholders. We will then work with management and their external advisors, to craft restructuring plans that afford the best possible recoveries for the bond position. This can often be a multi-month or year process, but we assess the expected return/recovery on the bonds, against the current market price of the securities, to determine whether to stay actively engaged in the restructuring process or exit the position.

Case study: Fixed income monitoring

As described above, our fixed income process leads to a differentiated approach to engagement, monitoring, and investment frameworks from our listed equity process. A key element for fixed income, in particular sovereign bonds, is the use of monitoring to flag countries with risks. This was evident during our assessment of Pakistan in 2022.

The country has traditionally had low scores across multiple indicators, indicating water scarcity, weak education system, and weak governance. The country was flagged during our monitoring process and escalated to an investment analyst for further review. The analyst's view is that the risks highlighted by the monitoring flag weigh on the country's growth prospects. While there have been some positive reform efforts in recent years supported by external financial support, implementation has been poor. Upcoming elections will likely further hinder the government's ability to implement improvement measures, in our analyst's view.

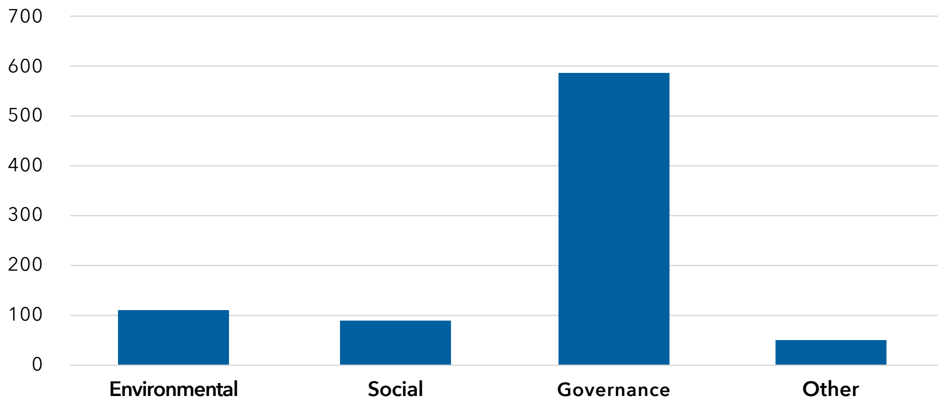
The analyst determined that the potential for positive reforms and significant external financial support may support the case for investing, though a risk premium would be required to make the investment attractive.

Any subsequent investment decisions would depend on continued evidence of improvement of the risks, which our analyst continues to monitor. This continued monitoring is a prime example of how we believe our approach supports our fixed income clients.

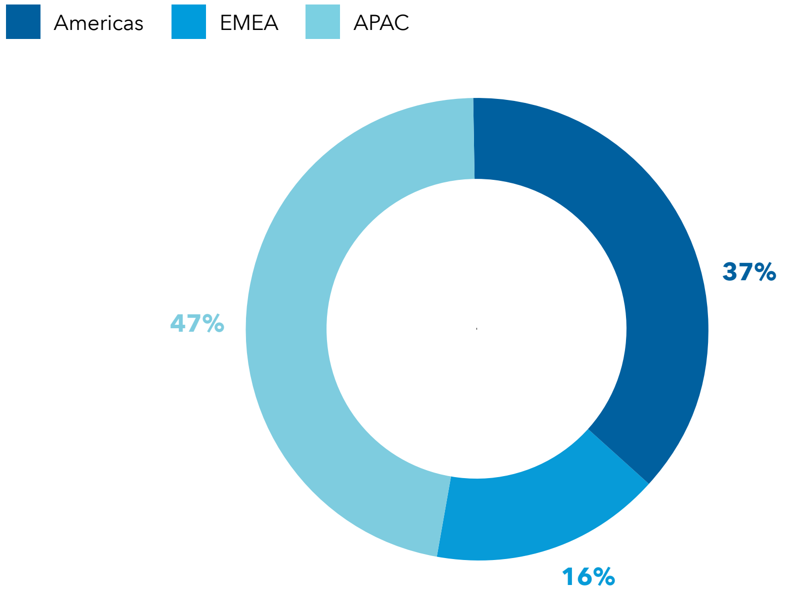
2022 Outcomes

In our Engagement Tracker, we document the ESG engagements held with management teams, including the purpose of the meeting, topics discussed, and whether the objective has been met. The ESG and GSE teams use these records to focus future engagements and monitor company progress. We are continuing to enhance the specificity with which we track our ESG engagements. During 2022, we were able to record 837 unique engagements with companies, including 204 engagements specifically on social and environmental issues.

Engagements by category 2022



Engagements by region, 2022



Overall engagements this year declined versus the previous year, which is primarily due to a reduction in the number of governance-related engagements undertaken by the Global Stewardship & Engagement team, from 660 to 591. This is intentional, as we pivot towards more proactive, targeted engagement with portfolio companies, and target a smaller number of deeper discussions.

Our top 5 engagement topics for the year, by frequency, were:

- Corporate actions and capital allocation
- Board composition and leadership
- AGM-related matters
- Executive compensation
- GHG emissions

One of the ways we increased proactive outreach was through post-season engagement letters to a number of portfolio companies in key markets where we either voted against management or identified opportunities for management to enhance a company's disclosures around remuneration. In 2022, this included more than 200 companies across the U.S., EMEA, and Japan. Letters were, in many cases, a catalyst for constructive engagement on areas where our views may be different from those of management, particularly in relation to compensation. In 2022, we held over 50 engagements with companies on compensation.

Principle 10

Principle 10

We prefer to engage with issuers directly. Given that we are long-term investors, and considering our fundamental research-based approach to investing and global footprint, we find that constructive engagement is most effective when we tackle key issues with companies and their boards candidly and without intermediaries.

However, we do collaborate with other asset managers through our industry memberships on initiatives to improve the framework universally for investors. For example, the UK Investor Forum – of which we are founding members – helps facilitate collective engagement. Through such organisations, we engage alongside other investors in certain limited situations where we believe this will achieve better outcomes for our clients.

2022 Outcomes

We recognise our presence in global markets affords us the opportunity to help mitigate on a variety of market-wide risks, and to leverage our relative expertise to advise relevant bodies on how to work alongside investors to deliver beneficial outcomes for all stakeholders. In line with our evolving process and positioning in the market, during the year, we engaged in several collective engagement efforts, centred on promoting improved market standards and practices in the companies we invest in. This is aligned with the approach detailed in Principle 4. Below are two examples of collective engagement letters which we signed during the year under review as part of these efforts, and a third example showing how we work with industry bodies on market issues.

Case study: Collective Engagement Spotlight

We are connected to other shareholders through various national, regional and global forums that facilitate collective discussion. One such initiative that we have been a part of is the Farm Animal Investment Risk and Return (FAIRR) Initiative.

During the year, we co-signed an investor letter to the UN Food and Agricultural Organisation (UN FAO), asking the UN FAO to develop a roadmap for decarbonisation of the agriculture and land-use sector. This collaborative engagement was coordinated by FAIRR, and the letter was signed by investors representing over $18 trillion in assets. The goal of this communication was to request that the FAO produce a global roadmap to meet climate, nature and nutrition goals. The comparison is the International Energy Agency (IEA), which has shown leadership in the publication of its Net Zero roadmap, and which has a significant impact on the energy transition.

The letter was sent to the FAO in June 2022, and was met with positive publicity in news outlets such as **Reuters** and the **BBC**. Subsequently, in November 2022, at COP27, the UN FAO announced its intention to develop a global roadmap for agriculture, with the aim of launching this by COP28. A corresponding **Reuters article** mentions the essential role investors played in encouraging the FAO to undertake this work.

Case study: Collective engagement linked to previous efforts

At Capital Group, we recognise the value and impact of connecting with other stakeholders on topics which are important to us and of using our position to engage positively with a variety of groups. This is demonstrated by our work with the Asian Corporate Governance Association (ACGA) and a letter written to regulators this year.

ACGA is an independent, non-profit membership organisation dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia. Capital Group joined ACGA in 2003 as one of its earliest members and has maintained a position on its board. The Japan Working Group (JWG) launched a new initiative in early 2022 to address the lack of representation of women on Japanese boards for the Tokyo Stock Exchange (TSE) Prime Market, which is well below other developed markets at 9.3% as of 30 June, 2022. As members of ACGA, Capital Group were co-signatories in a letter addressed to the Financial Services Agency (FSA) and TSE, which had two aims: 1) proposing changes to the listing rules to phase in a greater portion of women directors on the boards of TSE Prime companies by 2030; and 2) suggesting more ambitious targets to be included in the next two revisions to the Japan Corporate Governance Code in calendar years 2024 and 2027.

The letter aligns with previously established engagement priorities which we referred to in last year's Stewardship Report, such as our thematic engagement on board diversity, and was well received by both organisations due to it being non-binding in its ask and coming from an industry body with a long-standing association with the TSE and FSA. We will continue to monitor developments on the matter and seek to proactively communicate where appropriate with the TSE.

Case study: UK Secondary Capital Raising Review

During the period under review, Capital Group fed into the UK Secondary Capital Raising Review (SCRR), led by Mark Austin, looking at improving capital raising processes for publicly traded companies in the UK. The SCRR made a number of recommendations, including easing of pre-emption requirements, a relaxation of prospectus disclosure requirements for existing issuers, proposals for speeding up timetables and reducing costs associated with rights issues, increasing retail participation and digitisation of securities.

Capital Group provided input via its membership of the FCA Listing Authority Advisory Panel, a non-statutory panel which advises the FCA on policy issues relating to issuers of securities. The panel of representatives from major global asset managers provided a formal response to the review sharing its view that the duration, cost and complexity (most notably disclosure and documentation obligations) of secondary capital raises should be reduced to deliver more efficient and de-risked processes that leverage technological advances, where possible. This response was the result of insightful and constructive contributions between members and the panel will continue to work closely with the FCA as the regulatory landscape continues to evolve.

Principle 11

Principle 11

Our escalation strategy is tied into our investment professional-led approach to stewardship. If direct engagement with management has failed and we wish to retain an investment in the company concerned, we will consider whether any other options are available to achieve a better outcome for our investors. This action can take many forms, including holding additional meetings with management to discuss concerns, or raising the matter with non-executive directors or the company's advisers. This may also include voting against a resolution put to shareholders. We believe it is important to inform management of the reasons behind any decision to vote against management or abstain on a vote.

We will consider escalating a specific engagement when we observe a lack of progress towards our stated objective, in-line with our commitment to effective stewardship. Engagement on governance issues such as board composition, dividend payouts or executive pay can be escalated by voting against specific proposals at the shareholder meeting. Further escalation is possible by voting against the election of members of the board. Other situations may require different forms of escalation such as writing letters to the board, additional meetings with non-executive directors, or seeking views of other stakeholders. We will weigh the potential benefits of such action for our clients and consider on a case-by-case basis whether escalation is likely to contribute towards our objective and better outcomes.

Given the investment analyst-led nature of our processes, we are able to leverage their assessment of issues to help determine which issues require escalation from our usual approach. Our investment analysts will meet with company management often several times before making a recommendation to invest client assets with that company. Engagement is an important part of our diligence in monitoring leadership of businesses in which our clients are invested. Ultimately, if we believe engagement is not producing the outcomes necessary to create and sustain long-term value, we will divest. Our escalation process does not differ between funds, assets or geographies.

2022 Outcomes

We continue to iterate our escalation process, taking into account factors such as board diversity, external market conditions and our own internal guidelines. For example, repeated negative votes on compensation plans can lead to potential votes against the Remuneration Committee Chair. We take a similar approach to instances where board diversity does not meet our expectations, aiming to first engage and then potentially escalate to voting against the head of the Nomination Committee for example.

The case studies detailed below demonstrate how we have tailored our approach to escalation based on the issue, as well as the various methods by which we may escalate our actions.

Case study: Equity divestment

Our investment process relies on our high-conviction approach to selecting which companies we invest in. Investment professionals regularly assess their levels of conviction, which are built up over time through a mosaic of factors identified through fundamental analysis. Reducing or even divesting from holdings with low conviction is considered just as important as investing in higher conviction companies, as the preservation and prudent stewardship of our clients' capital is at the heart of every decision we make. Our decision to divest from a European electronics company during the year was informed by these tenets.

Our investment analyst had invested in the company several years ago, predicated on a thesis that included strong leadership and direction from the executive team which would help to transform the company's profile and elevate its growth trajectory. The company was previously a relatively minor domestic player, and our investment analyst determined that the executive team could partner with the board to unlock greater value in the company.

However, during the year, the company made an abrupt change to its executive leadership team, with no prior warning to investors. Our investment analyst spoke with the company board and the outgoing executive at length, in an effort to gain greater clarity on what transpired. During the discussions, it became clear that the two parties had significant differences of opinion regarding how to proceed that became intractable. This was not the first executive departure that happened under similar circumstances. Our analyst made the decision to divest from the company, citing the uncertainty of the company's trajectory and potential corporate governance issues as the rationale. The combination of ongoing assessment alongside decisive action is a vital part of how our investment analysts seek to generate long-term outcomes.

Case study: Escalation

The investment analysts and the GSE team collaborate closely on matters concerning corporate governance, including in instances where companies receive shareholder proposals from other shareholders. This was the case at a European luxury goods company during 2022. The company received proposals from another shareholder to add new directors to the board at the annual general meeting (AGM).

The company has previously had governance issues, including a dual-class share structure. Our investment analyst believes that unequal voting rights are typically not in the best interests of common shareholders and that the economic stake of each shareholder should match their voting power. The shareholder requested that the company appoint a representative of minority shareholders to represent the interests of the minority shareholder and proposed one candidate. The company recommended that shareholders vote against the proposed candidate put forward by the shareholder and proposed an alternative candidate.

Given the complex nature of the situation and the need to understand the views of both the company and the shareholder, the GSE team engaged with the investment group and the company's chair and investor relations team to discuss the nature of the proposals. Calls were also arranged with the shareholder proponent to hear their arguments. Our investment analyst was able to hear more detail regarding the context and arguments behind both the proponent's and company's views and this informed our analysis. The voting decision itself was escalated to our second-opinion provider who is a senior investor with corporate governance expertise and Proxy Committees (more details can be found under Principle 12).

Ultimately, the discussions led our investment analyst to believe that none of the candidates proposed by either the proponent or the company were fit to be able to represent us, as minority shareholders. The analysts shared these views with the company and some of our equity investment units voted against both candidates. The candidate proposed by the company received majority support to represent minority shareholders. However, the analysts are still in dialogue with the company, monitoring progress on governance issues. The analysts will potentially escalate further at subsequent AGMs if there are not commensurate changes aligned with our discussions with the company.

Case study: Nippon Telegraph and Telephone (NTT): Improving alignment with shareholders through better corporate governance

NTT is one of the largest integrated telecommunications companies in Japan. One of our equity analysts believes that whilst NTT has a strong business model, alignment with shareholders could be enhanced through several corporate governance improvements:

- Pursuing more predictable shareholder returns through a stronger dividend policy
- Creating more clarity around capital allocation
- Improving board composition and addressing potential issues related to overboarding

Several Capital Group investment analysts have had engagements with NTT over the last several years. Discussions during those engagements included:

- Encouraging the company to set a clear policy emphasizing steady dividend growth
- Sharing their view that NTT should prioritise shareholder returns rather than debt reduction by keeping leverage at an optimal level

Following our engagement and escalation efforts, NTT has recognized the importance of dividend growth, and in 2022, the company increased their year-on-year dividend per share by 9-10%. The management confirmed their intention to speak to the new board about not accelerating debt reduction. As more conservative board members are replaced, the board may be open to maintaining debt. Furthermore, a new independent director was appointed to the board, which suggests that our engagement helped to enhance the board’s diversity of experience. Our investment analyst will continue to engage on board composition.

Case study: Escalation example at a successful regional bank

Capital Group has been a long-term shareholder in a successful regional bank. The bank has a unique culture and strategy which has enabled its success, driven by two co-founders. Succession planning for the long-serving core management team, and in particular the co-founders, is therefore critical in our view. The bank had been reluctant to share a formal succession plan; however, the 40-year-old bank president was widely regarded as the unofficial CEO successor for some time. She signed a contract in July 2021 naming her co-CEO, which stated that if the other co-CEO (and co-founder) were to be incapacitated, she would be named sole CEO or be entitled to severance.

In December 2021, the co-founder had a medical issue and went on leave. Despite the contract, the board refused to grant the co-founder sole CEO title and she subsequently resigned, taking a multi-million-dollar severance payment. The stock reacted very poorly to the news. The board appeared unprepared, with a weak succession planning process. We noted that five of the eight independent directors had served on the board for 37 years, versus a sector average of eight years elsewhere. Several directors were in their mid-80s, and no new directors had been appointed for seven years.

Capital Group analysts have engaged with the lead independent director, as well as the incoming CEO. During engagement, the analyst expressed concerns about a variety of issues, including recent shareholder value destruction, as well as the lack of technology experience on the board.

Capital Group voted against six directors at the 2022 shareholder meeting, including the other co-founder, and all directors on the compensation, nomination, governance, and audit committees. Capital Group also voted against the stock plan and the say-on-pay vote, due to concerns that the compensation plan lacked a maximum cap for stock grants, and the compensation committee had removed a cap for the short-term CEO bonus.

At the AGM, five directors received less than 90% support, and the say-on-pay vote only received only 56% support.

The company has since released a statement indicating that it would reinstate short-term compensation caps. They also appointed a new director in 2022, who has significant financial and technology experience.

Principle 12

Principle 12

Proxy voting overview:

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.

In 2022, we voted at more than 2,100 annual 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 2022, we voted against approximately 7% of proposals put forward at AGMs and SGMs.

Proxy voting operations:

We aim to vote all proxies on behalf of clients in accounts for which Capital Group has proxy voting authority wherever possible. In a very small percentage of markets where share-blocking is applied, we may choose not to vote on account of our desire to retain the right to sell shares. Although most of our funds and institutional clients are voted by us on a case-by-case basis in reference to our own voting guidelines, we do have segregated accounts that vote in accordance with their own policy.

To confirm we have received all shares for which we are eligible to vote, our GSE team partners with internal account set-up teams, custodian banks and our voting service provider, to ensure voting authority is established during the account set-up process. Further, a periodic reconciliation is performed on account activities to validate the completeness and accuracy of changes to accounts where we have rights to vote shares which runs in conjunction with our securities lending program detailed below. Any discrepancies are followed up with our custodian and remediated on a case-by-case basis.

In line with these principles, we exercise our clients' right to vote in all markets where there are no legal restrictions or liabilities that we cannot undertake. For example, in recognition of the Office of Foreign Asset Control (OFAC) sanction list applying to certain Russian companies and directors, we abstain from voting on companies where an element is subject to the OFAC sanction list. In Argentina, we are mindful of the potential liabilities associated with our shareholding, and refrain from voting at annual meetings to avoid subjecting our shareholders to potential excessive liability. As a matter of course, our team has put powers of attorney (POAs) documentation in place, for those markets that do not allow proxy voting, in order to be able to have our votes accepted at annual and extraordinary general meetings of shareholders. POAs are put into place in perpetuity, for 99 years, five years, or one year, depending on the market. These are largely for countries that have not signed the Hague Convention or implemented portions of the Hague Convention.

Specific client requirements:

With respect to certain investments, accounts managed by Capital Group may individually or collectively be subject to direct holding limits, or indirect holding limits by virtue of a proxy voting limit, in each case as prescribed by applicable law or regulation. On occasion and subject to appropriate legal analysis and regulatory oversight, it might be possible to increase investment in companies subject to these limits by unilaterally constraining our ability to vote certain shares in such companies. In such cases, Capital Group would not vote all of the shares attributable to its investment in order to respect such arrangements.

In addition to our own voting approach, clients with a segregated mandate can request a custom voting policy that matches their desired approach or recommendations, which may differ from our own internal approach.

Voting platform:

In 2022, Capital did not outsource the execution of our internal proxy voting principles to any third-party advisory service. Capital uses Institutional Shareholder Services (ISS) ProxyExchange as the company's voting platform. ISS is a leading provider of proxy voting products and services to participants in the global financial markets. In addition to our proprietary proxy voting, governance and executive compensation research, Capital may utilize research provided by ISS, Glass-Lewis & Co. or other third-party advisory firms on a case-by-case basis. As part of the agreement with ISS, Capital provides policy positions on many common proxy proposals in order to streamline analysis. However, Capital does not, as a policy, automatically follow the voting recommendations provided by external providers, and automated standing instructions to vote in a certain way are never issued.

Proposal evaluation process:

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

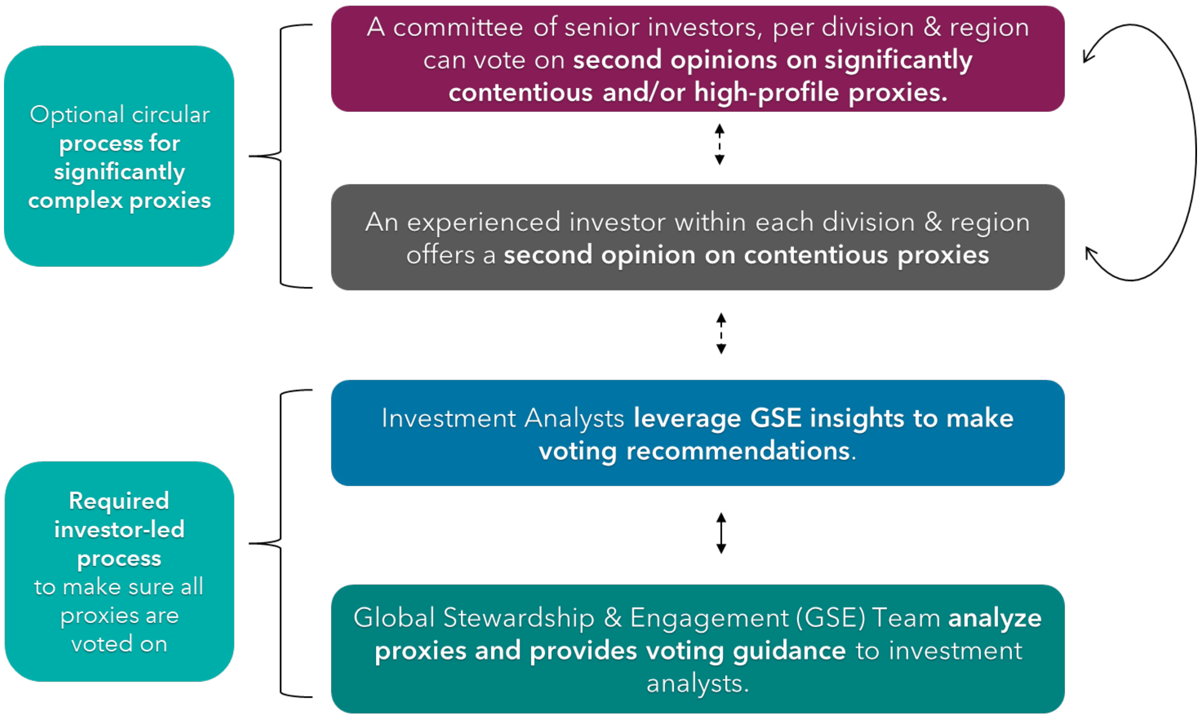
Our process is designed to benefit from multiple decision-makers whose collective experience brings a breadth of knowledge to specific proxy voting issues. All proxy voting decisions are made in-house by each of the three separate equity investment divisions based on what they believe are the long-term interests of our clients. This is well aligned with The Capital System described under Principle 1 and is a key part of our differentiated approach to stewardship.

Proxy analysis is first conducted by the Global Stewardship and Engagement team, by applying our voting guidelines and conducting company-specific research. This is then shared with one or more of the division's investment analysts familiar with the company and industry to come to an initial voting recommendation. If there is disagreement, a second opinion can be provided by an investment analyst or other individual with experience in corporate governance and proxy voting matters within the appropriate investment division. High-profile or contentious proxies, or proxies where there is a difference of opinion, are escalated to the appropriate Proxy Committee, which has the final authority on every vote.

The Proxy Committees are typically comprised of senior investment professionals from each division within a particular region, who leverage their deep understanding of corporate governance issues. They provide for discussion on certain proxy items and review overall proxy voting for their investment divisions throughout and after the season.

They also review overall proxy voting for their investment divisions throughout and after the season. These findings feed into considerations for the guidelines process which the Proxy Committees review before they are approved by the investment committees of each division.

Double-sided arrows indicate that communication between parties flows both ways. For example, if the senior investment professional who provides a second opinion disagrees with, or needs clarification on, an element the analyst has put forward, they can liaise directly with the analyst.



When evaluating proxy proposals relating to ESG issues, we assess how material the issue is, the nature of the request itself, and the company's current disclosure and performance in relation to the issue with a focus on industry best practices, the specific circumstances at each individual company and the company's current policies and practices. We typically support greater disclosure of environmental- and social-related information where material, as such information can help us better assess the long-term value of a company.

Where we vote against proposals or against management, our rationale is centred around our assessment of the proposal and the company context. Examples of our rationale for voting against management proposals include:

- CEO compensation is too generous
- Overboarded director was flagged by internal guidelines
- The proposed share dilution is too high
- Additional disclosures in relation to GHG emissions and gender pay gaps would be beneficial for shareholders

In instances where we have voted against management, but resolutions have passed at the AGM, we have continued to engage with companies in subsequent meetings to address any issues raised. The case studies shown in our response to Principle 11 are good examples of this, combining our escalation approach with continual monitoring of our portfolio companies.

We do not generally issue statements or campaign publicly on issues and we would only requisition a shareholder meeting or submit a shareholder resolution in exceptional circumstances.

The proxy voting procedures and principles applied by each of the entities listed below can be found **here**:

- Capital Bank and Trust Company
- Capital Group Investment Management Pte. Ltd.
- Capital Group Private Client Services, Inc.
- Capital International, Inc.
- Capital International Asset Management (Canada), Inc.
- Capital International K.K.
- Capital International Limited
- Capital International Management Company Sàrl
- Capital International Sàrl
- Capital Group UK Management Company Ltd
- Capital Research and Management Company

Capital Research and Management Company (CRMC) U.S. mutual funds and ETFs: We disclose how we voted (for, against or abstain) for all issuers held in the American Funds® and ETFs managed by CRMC for each 12-month period ending June 30. The annual disclosures are usually published in the autumn for the prior period.

Capital International Limited (CIL), Capital Group UK Management Company Ltd, and Capital International Management Company Sàrl (CIMC) managed accounts and Capital Group Luxembourg Funds: We disclose how we vote (for, against or abstain) on all our proxy votes and provide the rationale for votes against management, shareholder proposals and other votes that we deem significant for funds and institutional accounts managed by CIL and CIMC. Reports are published for each Luxembourg fund managed by CIMC. Both CIMC and CIL publish individual reports for segregated accounts in aggregate.

Capital Bank and Trust Company (CB&T), Capital Group Private Client Services, Inc. (CGPCS) and Capital International, Inc. (CII) funds and accounts: Upon client request, for each of CB&T, CGPCS and CII, we will provide reports of proxy voting records (for, against or abstain) in relation to the securities held in the funds and/or accounts for which such entity has proxy voting authority.

Capital International Asset Management (Canada), Inc. (CIAM) Capital Group Funds (Canada): We disclose how we voted (for, against or abstain) for equity securities held by the mutual funds managed by CIAM for each 12-month period ending June 30.

Capital International Sàrl (CISA) and Capital Group Investment Management Pte. Ltd. (CGIMPL): Upon client request, we will provide reports of proxy voting records (for, against or abstain) as they relate to the securities held in the accounts for which CISA or CGIMPL, as applicable, has proxy voting authority.

Capital International K.K. (CIKK) managed accounts (Japan): We disclose how we voted on all our proxy votes (for, against or abstain) and provide the rationale for votes against management, shareholder proposals and other votes that we deem significant for all companies in portfolios managed by CIKK.

For voting in relation to markets in the Americas region, Europe, Middle East and African region (EMEA) and the Asia-Pacific region (APAC), we have developed additional voting guidance to address regional differences in either local market regulation or standards of corporate governance best practice.

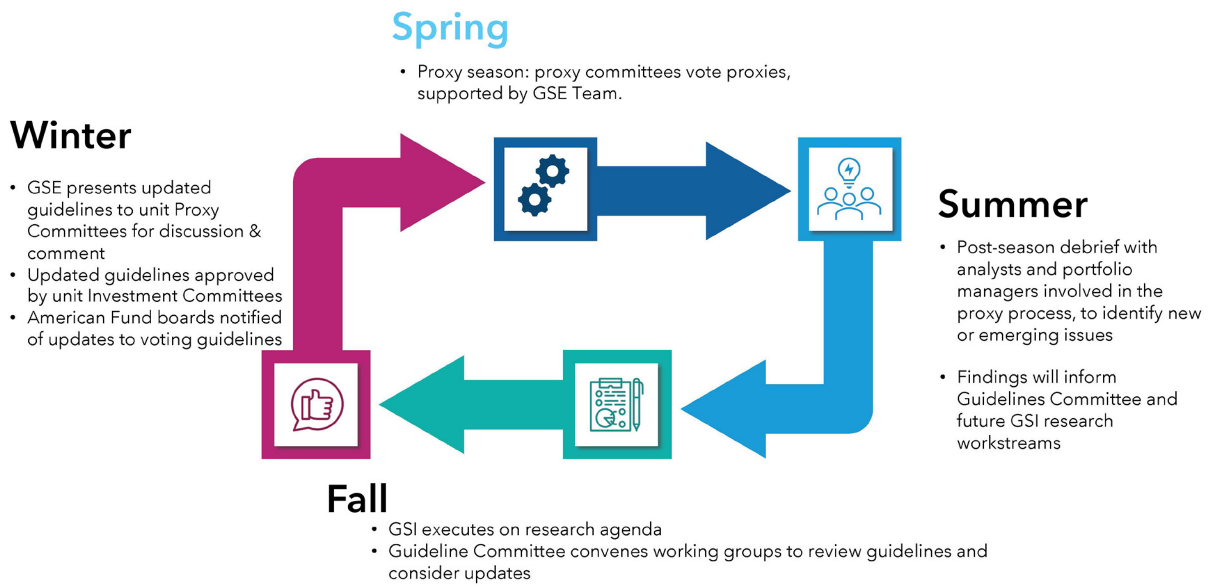
In the event of a material difference between the regional guidance and our Proxy Voting Procedures and Principles, the latter shall prevail.

Proxy voting guidelines update cycle

Responsibility for the formulation and updating of our proxy voting guidelines rests with the Guidelines Committee, a group comprised of senior investment professionals, supported by senior representatives from Legal and the Global Stewardship & Engagement (GSE) team.

We typically update our voting guidelines as part of an annual cycle. 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. Key themes may be researched further by our Governance & Stewardship Initiative (GSI). Recent examples include research on how to assess climate proposals and Racial Equity Audits (REAs), as well as research looking at the correlation between auditor tenure and risk of material restatements in the United States.

The Guidelines Committee typically convenes in October and may form working groups to consider specific issues in more detail, or call-in regional expertise for proposed changes in certain markets (e.g. Japan). Final draft recommendations are socialized internally and shared for comment with key stakeholders, including Legal, divisional Proxy Committees, and the Joint Proxy Committee of the American Fund boards (JPC). Final approval is then sought from the divisional Investment Committees, typically early in the new year, in time for the following AGM season.



Securities lending

Certain accounts may participate in securities lending programmes either under Capital Group's oversight or under client direction for segregated portfolios.

Where an account participates in securities lending under Capital Group oversight and there is a shareholder voting opportunity, the GSE team identifies and recalls shares on a case-by-case basis to vote on material items such as mergers and acquisitions, environmental and social shareholder proposals, high executive compensation, or when the meeting is contested or there is activist involvement. When lending securities, Capital Group retains a portion of a holding in order to register a vote on all proxies.

Proxy voting statistics for calendar year 2022

	Meetings voted	Proposals voted	Votes for	Votes against	Votes against management
Total	2,128	27,290	24,929	1,896	1,825
			91.3%	6.9%	6.7%
Americas	988	12,137	10,598	1,119	1,158
			87.3%	9.2%	9.5%
Asia	506	4,452	4,059	378	363
			91.2%	8.5%	8.2%
EMEA	634	10,071	10,272	399	304
			96.0%	3.7%	2.8%

Vote for/against numbers may exceed total number of proposals voted, due to split voting by divisions on the same resolution.

Proxy voting reporting

Clients can ask for proxy voting reports detailing how Capital Group has voted. Where we vote in favour of a proposal or recommendation by management, in the vast majority of cases, our support will be based on explanations provided by management, and our belief that the resolution is put forward in the best interests of the company and its investors. In such instances, we typically will not give a specific disclosure explaining our vote. However, in exceptional circumstances (such as with respect to significant votes or particularly controversial proposals), we will look to give a specific rationale as part of our voting disclosures, explaining the reasoning for supporting the vote. Where we vote against a proposal or recommendation by management, we will typically disclose a rationale for that vote as part of the voting record disclosure described above. A vote rationale will also be given on all Capital Group votes relating to all shareholder proposals.

In some instances, clients investing in segregated accounts may independently exercise their proxy voting in the portfolios we manage. In such cases, the proxy votes will be directed by the client.

In line with the requirements under Shareholder Rights Directive II (SRD II), we have expanded our public disclosure of voting reports. We provide public voting reports for Capital Group accounts that fall under the scope identified by SRD II, which contain vote decisions and voting rationales for significant votes where appropriate.

Our full voting record of proxy voting disclosures can be found here for **European funds** and here for **American funds**. These records include our voting actions, including votes withheld where applicable.

2022 Outcomes

As part of our regular guidelines update cycle, we undertook a number of enhancements to our proxy voting guidelines for the period under review. Effective March 2022, we have consolidated various proxy voting policies that we had at the Capital Group affiliate level or at fund group level, into one single policy, with global applicability. In response to feedback from investment professionals located in regions outside of the United States and from clients, in addition to the global proxy voting policy, we created supplementary regional voting guidance for overseas markets. These take into account differing regulations and market practices on corporate governance in these regions. Areas that are addressed by these changes include:

- regional variations in approach to capital issuances (pre-emptive rights, dilution)
- board and director independence criteria
- auditor rotation, and;
- ratios of fixed to variable compensation.

We hope that these changes will prove useful to portfolio companies in particular, to help them understand how Capital typically views these issues.

In 2022, for the Global Policy, we added specific language in relation to the number of commitments that we believe may be appropriate for individuals serving on boards. This language clarifies that we take into account varying levels of board complexity and individual director capacity when assessing how "overboarded" an individual is.

As referenced elsewhere (see Principle 8), this year we partnered with ISS in a year-long technology project to design and build a customised version of their Communicator Voting Tool, which allows us to route upcoming proxy votes to multiple decision makers within the organisation simultaneously (typically the covering investment analyst within each investment division). The new platform also allows us to prepare much more granular vote reporting for clients than was previously possible, including voting by investment division, or across single or multiple funds, as well as enabling more detailed analysis of our vote data and voting patterns.

We also developed a dashboard, based on this data, to allow us to monitor our voting patterns (such as the ratio of votes for and against management, and support for shareholder proposals) in real time.

Case study: D.R. Horton: Improvements in compensation policy

Compensation policies are important to align the interests of management teams and shareholders and to reward long-term value creation. D.R. Horton is one of America's largest homebuilders and historically, the company's compensation policy has not been aligned with our analyst's views of best-in-class due to the large disparity that exists between the CEO and chair compensation, relative to other employees. There has also not been a cap on short-term awards. The peer group benchmarking is primarily against industry peers, which we felt was lacking companies of comparable sizes, as most of those companies had a much smaller market capitalization.

As a result of this policy, for the last three years, the CEO's average pay was double that of the median for the peer group the company used, primarily homebuilding companies. In addition, uncapped bonuses resulted in multi-million-dollar payouts to the CEO and executive chair.

Capital Group's Proxy Committees had voted against a 2021 say-on-pay proposal. The GSE analyst and the investment analyst covering this company met with D.R. Horton to discuss the quantum of executive pay and our voting. Our analysts also provided feedback on improving the benchmarking exercise for executive pay by using cross-industry comparisons.

In March 2022, D.R. Horton announced changes to its compensation policy. This new version reduced disparity between CEO and chair compensation and other employees. It introduced a hard dollar cap on short-term awards. The company is also working with a consultant to expand its peer benchmarking, potentially including comparisons with Fortune 100 companies.

Case study: Escalation due to remuneration concerns

As part of our proxy voting process, the GSE/Proxy team analyses all management proposals, including director elections and executive remuneration items, through a variety of lenses, including our own guidelines and assessing companies against peers to help inform our decision-making process.

In the case of this British media company, in 2022, the Remuneration Committee applied upward discretion for the period covering 2021, by reducing the performance period of the long-term incentive plan from three years to one year. This meant that the two years negatively impacted by the pandemic were excluded. New metrics were introduced for these years. Our investment analysts believe such practice is not appropriate as executives should not be rewarded if performance metrics are not achieved. Therefore, our Proxy Committees did not support the remuneration proposal at the 2022 Annual General Meeting, for the second consecutive year, as the company applied a similar upward discretion in the previous year. For this reason, the remuneration proposal was defeated at those AGMs.

Where companies fail to address concerns regarding their practices, we utilise a variety of escalation strategies, including targeted engagement, voting against committee chairs and, in extremis, potential divestment. In this case, a letter was sent to the company outlining our votes, as part of our post-season engagement outreach at the end of the year 2022. Our analysts are looking forward to engaging with the company to address these concerns and will consider escalating the issue further if it persists by voting against the chair of the Remuneration Committee.

Case study: Ceridian HCM – Removing evergreen provision from equity plan

Ceridian HCM, a publicly traded U.S. company, is a provider of human resources software and services. We have identified some areas where our analysts believed the pay structure was not aligned with shareholders' interests.

Capital Group has engaged with the company over recent years to express concerns over the use of the evergreen provision. Evergreen provisions allow for the automatic increase of shares available for issuance in an equity plan each year without the need for shareholder approval. These provisions are favoured by some newly public companies in high-growth industries, but are concerning to long-term-oriented shareholders as they carry risk of excessive dilution. In this case, the company's evergreen provision allowed them to increase their share reserve by up to 3% of shares outstanding per year over the 10-year life of the equity plan.

Our analyst's suggestion in this instance was to encourage the company to commit to a sunset of the provision, instead of allowing it to continue over the remainder of the equity plan's life.

At Ceridian, we voted against the company's advisory say-on-pay proposal in 2020 and 2021 and indicated concerns about the evergreen provision.

Effective 1 April, 2022, the board approved a revision to the equity incentive plan to remove the evergreen provision. Ceridian is now aligned with our analyst's view that industry best practice is for companies to present an AGM ballot item requesting a specific allotment of shares to use in their equity plan every few years, allowing shareholders an ongoing opportunity to assess the potential for dilution.

Case study: Vale — Encouraging board diversity to improve governance and oversight

There have been long-running concerns about Vale's corporate governance centred on the quality of the board of directors in terms of independence, qualification/experience, and diversity. Before November 2020, Vale's corporate structure allowed for a small number of large shareholders to control the company. However, some board positions were filled by representatives of controlling shareholders who, in our analyst's view, lacked appropriate industry or corporate experience.

Our investment group and members of the ESG team have held regular discussions with Vale since 2015 about unifying the share structure and eliminating differential voting rights. Following the change in Vale's shareholder agreement in November 2020, Capital Group's Proxy Committee voted in support of the appointment of four outside directors to the board at the 2021 AGM. However, we also voted against the re-election of some of the non-independent directors.

In early April 2022, we met with Vale to understand their approach to board independence. At the AGM on 29 April, 2022, eight independent directors and one female director were appointed to the board, which now has a majority of independent directors.

In August 2022, we met with Vale again to provide feedback on their board refreshment plans.

Moving forward, our investment analysts would like Vale to increase board diversity — particularly female and international directors — which they believe is key, given the global nature of its business and importance of appropriate governance and oversight of operations.

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All data as at 31 December, 2022, in U.S. dollar terms and attributable to Capital Group, unless otherwise stated.

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