

ESG at Capital Group





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 and business indicators, including environmental, social and governance (ESG) issues. An important part of this analysis is understanding how a company impacts its community, customers, suppliers and employees. We have found that companies that are proactive and forward-thinking around these relationships can often provide attractive investment opportunities.

All of us are learning how best to navigate the dynamic ESG landscape. Company management teams benefit from understanding the impacts of ESG risks and opportunities and responding in a way that creates long-term value.

In 2021, we made significant investments in our people, data and technology to better integrate ESG into our investment process, The Capital System^{sst}. We expanded our ESG team, developed new proprietary technologies and refined our internal ESG frameworks and guidelines. We continue to see the benefits of fully integrating our ESG team into our Investment Group.

We are expanding the level and detail of our engagement with the companies in which we invest. Engagement and dialogue play significant roles in helping us understand how management teams are responding to these challenges and opportunities. We're communicating proactively on issues that we view as material. We're meeting with more companies and discussing more ESG issues than ever before. We are also leveraging data to strengthen our dialogue and track our activity more effectively.

Even as ESG factors and approaches evolve, we are striving to meet our clients' needs in this area in a way that reflects Capital Group's core values. This iteration of our stewardship report demonstrates our continued commitment to stewardship and ESG integration.

Regards,

Robert W. Lovelace

On behalf of the ESG Oversight Group

What stewardship means to us

At Capital Group, successful investing means generating superior long-term outcomes for our clients, and we don't believe this is possible without a focus on engagement with the companies and issuers in which we invest. That's why engagement and proxy voting together make up one of three tightly woven components of our approach to integrating ESG into our multiple-manager investment process, The Capital System, along with our proprietary investment frameworks and monitoring process. Our investment and stewardship approach is reflected well by our average holding period for companies in which we invest.

Average holding period of equity-focused American Funds®

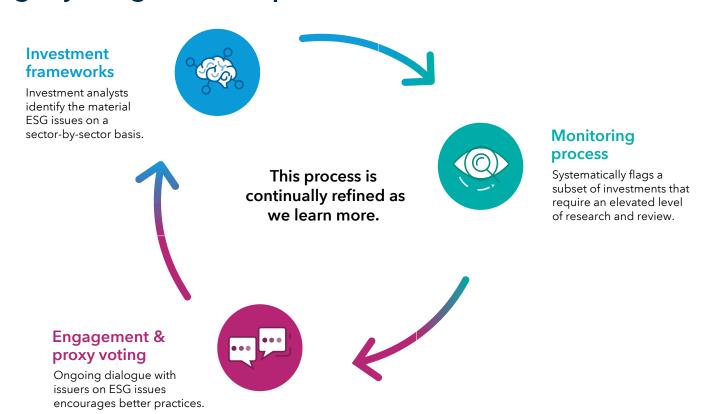
3.9 years

Peers hold their investments

.6 years

(compared to 2.9 years and 1.9 years, respectively, for 2020)

Our ESG approach features three tightly integrated components



For illustrative purposes only. American Funds are not registered for sale outside of the United States.

*As of December 31, 2021. Sources: Capital Group, Morningstar. On average, our equity-focused US mutual funds held their investments for 3.9 years, whereas their peers held their investments for 1.6 years. Based on the equal-weighted blended average across each of the 20 American Funds' respective Morningstar active categories.



Why we engage

We are committed to providing better outcomes for our clients, as well as society more broadly. By engaging with companies on important issues, we can reduce risks to our investments and encourage the responsible allocation and management of capital across the investment community. At the same time, we can gain a better understanding of management teams, as well as their values, strategies and stance on key issues. Where necessary, we advocate for change to help sustain and grow the investments for which we are responsible.

After all, we believe dialogue, ongoing engagement and proxy voting are stronger tools than exclusion when it comes to achieving sustainable long-term results. Simply walking away from an organization or industry with ESG issues does not enable us to influence change, but would only maintain the status quo.

How we engage

Most of our engagements are face-to-face meetings or, where this is not possible, video calls, to ensure full debate and interaction. We have access to companies on a global basis and tend to meet with C-suite management, board chairs and investor relations personnel. Reflecting our long-term approach, we act as partners to our investee companies and seek to influence inclusion of material ESG scenarios within their decisionmaking framework.

In 2021, we further enhanced our engagement process by establishing goals and milestones, holding challenging dialogues to improve issuer results and disclosure, and monitoring the results of engagement. We are also engaging on one or two themes every year that have broad applicability across sectors. We share our ESG perspective with issuers through letters and face-to-face meetings with issuer management and/or board members.

Ongoing dialogue and engagement

investment professionals

20,000+

meetings held in 2021 as part of fundamental investment research

companies engaged on **ESG** topics

ESG team members with a collective average of 12 years' industry experience

Global Stewardship and Engagement team members with a collective average of 13 years' industry experience

As of December 31, 2021.

What we engaged on in 2021

In 2021, we developed and deployed a centralized ESG Tracker that enables all team members to systematically store relevant information in a location that can be easily accessed by anyone who requires it. During the year, we were able to record 965 unique engagements with companies (724 in 2020), with engagements on social and environmental issues in 2021 almost double the number in 2020.

If engagement doesn't work

If direct engagement with management has failed and we wish to retain an investment in the company concerned, we will consider other actions, including escalation. 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. Our escalation process does not differ between funds, assets or geographies.

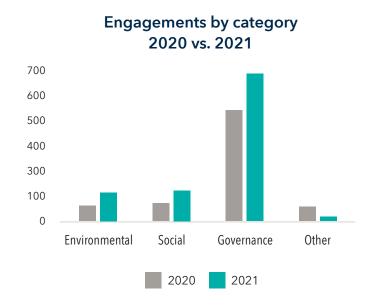
Ultimately, we will divest if we believe engagement is not producing the outcomes necessary to create and sustain long-term value. We may choose to avoid investing in a company altogether if we believe that the risks of the investment outweigh the benefits for our clients.

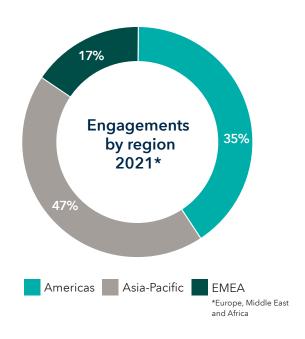
965

We store and track information on all engagements. During the year, we recorded 965 unique engagements.

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

- Shareholder rights
- Board composition and leadership
- Discussion of annual meeting agenda items
- Executive compensation
- Climate change





^{*}Totals may not reconcile due to rounding.



How we vote

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

A measure of how critical proxy voting is to fulfillment of our duties as a responsible steward of clients assets is that every vote is looked at by our investment group and Global Stewardship and Engagement (GSE) analysts. Our voting activity is not outsourced to external firms.

In 2021, we voted at more than 2,100 annual and special general meetings (AGMs 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 2021, we voted against approximately 8% of proposals put forward at AGMs and SGMs.

Proxy voting statistics for calendar year 2021

	Meetings voted	Proposals voted	Votes for	Votes against	Votes against management
TOTAL	2,140	27,761	24,878 89.6%	2,227 8.0%	2,164 7.8%
Americas	982	11,880	10,334 87.0%	960 8.1%	1,052 8.9%
Asia-Pacific	497	4,206	3,824 91.0%	375 8.9%	369 8.8%
EMEA	661	11,675	10,720 91.8%	892 7.6%	743 6.4%

Number of votes for/against may exceed total number of proposals voted, due to split voting by divisions on the same resolution. Votes against management includes shareholder proposals, where a vote for the proposal is effectively a vote against management.



Stewardship in practice

Capital Group is a participant of the United Nations Global Compact, and we are supporting the UN Sustainable Development Goals (SDGs). These goals have become the most widely adopted framework that companies (including asset managers) use to address the world's most pressing needs. We have mapped our own investment frameworks and business operations to the SDGs. Thus we were able to identify the SDGs with the highest overlap with the material issues identified in our ESG investment frameworks and business operations. We are then reporting our engagement activity, where appropriate, against these SDGs.



We have linked our stewardship activity to these five SDGs where relevant.



Achieve gender equality and empower all women and girls.



Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.



Reduce inequality within and among countries.



Ensure sustainable consumption and production patterns.



Take urgent action to combat climate change and its impacts.

The content of this publication has not been approved by the United Nations and does not reflect the views of the United Nations or its officials or member states.



The following selection of case studies illustrates how we undertake engagement in practice. This information should not be interpreted as an offer or recommendation to buy any securities.

- Board diversity thematic engagement
- Fixed income engagement and avoidance
- Equity divestment
- Fixed income engagement and monitoring
- Escalation at Chevron
- U.S. grocery company engagement



Board diversity thematic engagement



During 2021 we engaged extensively on the theme of diversity. Capital Group has always believed that diverse perspectives lead to better investment outcomes, a view which has shaped our investment philosophy. Building a diverse and inclusive culture leads to better ideas, better business solutions and better opportunities to attract and retain talent. While we are on our own journey to continually improve our internal diversity and racial equity, it is consistent with our fiduciary duty as shareholders to understand companies' approaches to diversity, equity and inclusion, and engage with them on the topic where there is an opportunity for improvement.

In 2020 we conducted proprietary research into DE&I disclosures and standards around the world. Our research led to updates to our ESG policy and an opportunity to engage with companies in which we invest.

Capital Group Vice Chair and President Rob Lovelace wrote to about 1,500 companies to outline our expectation that the companies we invest in have a clearly articulated DE&I policy and gender diversity on their boards. The letter was sent to all companies in which we were invested in the U.S., Canada, Japan, Australia, New Zealand and developed markets in Europe.

We subsequently escalated our engagement with approximately fifty companies, which did not have any board gender diversity, through meetings by our investment analysts and ESG analysts.

We have been encouraged to see progress from a number of companies on this aspect. Thirteen companies with which we escalated engagement have since appointed at least one female director, and a further 12 assured us that a search was underway to address the lack of board gender diversity.



Fixed income engagement and avoidance

The combination of internal analyst expertise and proactive company engagement is a fundamental strength of Capital Group and allows us to deliver on stewardship priorities that help safeguard our clients' interests. This was evidenced in our decision not to invest in an asset-backed security (ABS) issuance for aircraft debt during the year.

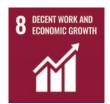
Our analyst engaged in a plane-by-plane discussion to talk through the outlook, risks, lessee quality, lease terms and plane collateral quality of every single plane with the issuer. The analyst views it as important to understand every plane and also to make it clear to the issuer and bankers that we are looking closely at every single plane when Capital Group decides to invest in these bonds. During the analyst's review of the offering memorandum, the analyst noted a highlighted risk with a particular end user of one of the aircraft, which was not mentioned during live discussions.

The plane type specified in the memorandum was allegedly used by a country's government (through the country's domestic airline that leased the plane) to transport military weapons for use in a civil war. This was flagged as a potential violation of international law and has attracted scrutiny from other countries and international bodies.

The analyst considered that the issuer and the bank had opportunities to bring this to the analyst's attention as an FYI, and to present their views on the matter and why they were still including it in the trust. This did not happen, and as a result, the analyst chose not to participate in the issuance. The analyst's own heightened due diligence, combined with a proactive and rigorous engagement approach, helped minimize risk and exposure for our clients.



Equity divestment



A significant part of our investment process revolves around revising our investment convictions in light of new information and events. Reducing or even divesting from holdings with low conviction is considered just as important as investing in higher conviction companies. Stewardship activities form a vital part of informing these decisions, as was evinced by our decision to divest from a UK company during the year.

We had previously participated in the company's IPO as shareholders, with our investment analyst deciding to monitor some governance-related flags throughout the course of investing. Highlighted governance flags included a limited free float, minority shareholder dilution at the time of IPO and concerns around the management team's approach. Our analyst's rationale was that partnering with the management team as shareholders could help steer the company towards better corporate governance practices.

Unfortunately, during the course of our investment, the company failed to improve its corporate governance practices, which exacerbated some of the issues that the company faced during the course of our investment. Our analyst took the decision during the year to divest from the company, citing governance issues and changes to the company's fundamentals as reasons. The combination of financial analysis and qualitative assessments for our investments is a key part of our investment process, and when there are changes to these elements, we take the necessary steps to safeguard our clients' investments.



Fixed income engagement and monitoring

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 and bonds with both risks and opportunities. This was evident during our assessment of a country in Sub-Saharan Africa during the year.

The country has traditionally had low scores across multiple governance indicators, including government effectiveness, rule of law and control of corruption. The country was flagged for monitoring and escalated to an investment analyst for review.

The analyst found evidence of governance improvements to mitigate the risks. Examples included a strong anti-corruption drive, with multiple high-ranking, well-connected officials and family members of the former presidency incarcerated or under prosecution, the government clawing back previously embezzled funds, and the government privatizing state-owned enterprises, potentially reducing the scope for corruption and patronage.

Any subsequent investment decisions would depend on continued evidence of governance improvement, which we continue to monitor. A primary reason for this is that our analysts determined that a risk premium to other comparable sovereign investment opportunities is demanded as part of an investment decision. This continued monitoring and engagement on a macro and micro basis is a prime example of how we believe our approach benefits our fixed income clients.



Escalation at Chevron



Capital Group has engaged with Chevron for several years, with a focus on its energy transition strategy. In a meeting last year, and subsequent follow-ups, Capital Group's head of ESG investing and ESG senior manager challenged Chevron to a) bring more clarity to its energy transition strategy and b) set medium- and longer-term targets for emissions reduction. Chevron subsequently announced additional targets in its March climate strategy.

The company outlined three action areas: 1) lower carbon intensity in a cost-efficient manner; 2) increase renewables and offsets in support of its business; and 3) invest in low-carbon technologies to enable commercial solutions.

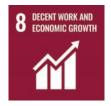
As part of its efforts to reduce upstream emissions intensity, Chevron set targets for 2028 to reduce CO₂ emissions for oil, gas and methane from 2016 levels. While these were an improvement on its previous 2023 targets, setting medium-terms goals does not give investors a clear pathway to long-term expectations.

At the 2021 AGM, a shareholder proposal was put forward requesting that Chevron issue an audited report on how reduced fossil fuel demand would affect the company's financial position and underlying assumptions. Our team's analysis of the proposal recommended that we vote in favor of the shareholder proposal, echoing concerns we had raised in our meetings with the company. In particular, under current reporting, the company's longest impact analysis of an aggressive transition scenario covered 10 years and ran through 2030 - not 30, 40 or 50 years - when the operating environment is generally expected to look significantly different.

Ultimately, our investment divisions respectively chose to vote in favor of the shareholder proposal, which received 47.8% support from shareholders at the AGM. We will continue to monitor events closely and to engage with the company.



U.S. grocery company engagement





We recognize that our role in the market, as long-term, established investors, allows us the opportunity to proactively engage with companies to help promote good governance practices. An example of this can be found in our engagement with Grocery Outlet. After operating for a number of years with private equity involvement, the company went public in mid-2019. As is typical with early-stage companies, Grocery Outlet's governance profile contains a number of protective measures, such as a classified board, supermajority vote requirements, an evergreen provision in the equity plan and a lack of shareholder rights provisions (written consent, special meetings, proxy access, etc.).

In early 2021, the company proactively reached out to the Global Stewardship and Engagement (GSE) team in order to solicit our feedback on how to think about evolving their governance structure. Both the CEO and the independent chair joined the call. (Capital Group was represented by members of the GSE team, as well as one of the analysts covering the company.)

During the engagement, the company noted that they understood their current governance structure was not "best practice" and that they were thinking of themselves as being on a three-to-five-year "roadmap" to make improvements. The GSE team suggested taking early steps such as removing the supermajority vote requirements and declassifying the board, as well as removing or sunsetting the evergreen provision, and considering publishing EEO-1 data* in line with Capital Group's expectations around DE&I. The GSE team is continuing to monitor the outcomes of this engagement and hopes to see more formal commitment to implement some of these changes over the coming year.

^{*}U.S. Equal Employment Opportunity Commission. The EEO-1 Component 1 report is a mandatory annual data collection that requires all private sector employers with 100 or more employees, and federal contractors with 50 or more employees meeting certain criteria, to submit demographic workforce data, including data by race/ethnicity, sex and job categories.



capitalgroup.com

Capital Group manages equity assets through three investment groups. These groups make investment and proxy voting decisions independently. Fixed income investment professionals provide fixed income research and investment management across the Capital organization; however, for securities with equity characteristics, they act solely on behalf of one of the three equity investment groups.

Statements attributed to an individual represent the opinions of that individual as of the date published and may not necessarily reflect the view of Capital Group or its affiliates. While Capital Group uses reasonable efforts to obtain information from third-party sources which it believes to be reliable, Capital Group makes no representation or warranty as to the accuracy, reliability or completeness of the information. The material is of a general nature, and not intended to provide investment, tax or other advice, or to be a solicitation to buy or sell any securities. It does not take into account your objectives, financial situation or needs. Before acting on the information you should consider its appropriateness, having regard to your own investment objectives, financial situation and needs.

This communication is issued by Capital International Management Company Sàrl ("CIMC"), 37A avenue J.F. Kennedy, L-1855 Luxembourg, unless otherwise specified, and is distributed for information purposes only. CIMC is regulated by the Commission de Surveillance du Secteur Financier ("CSSF" - Financial Regulator of Luxembourg) and is a subsidiary of the Capital Group Companies, Inc. (Capital Group).

In the UK, this communication is issued by Capital International Limited (authorised and regulated by the UK Financial Conduct Authority), a subsidiary of the Capital Group Companies, Inc. (Capital Group).

In Switzerland, this communication is issued by Capital International Sàrl (authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA)), a subsidiary of the Capital Group Companies, Inc.

In Asia ex Japan, this communication is issued by Capital International, Inc., a member of Capital Group, a company incorporated in California, United States of America. The liability of members is limited.

In Australia, this communication is issued by Capital Group Investment Management Limited (ACN 164 174 501 AFSL No. 443 118), a member of Capital Group, located at Level 18, 56 Pitt Street, Sydney NSW 2000 Australia.

All Capital Group trademarks are owned by The Capital Group Companies, Inc. or an affiliated company in the US, Australia and other countries. All other company and product names mentioned are the trademarks or registered trademarks of their respective companies.

© 2022 Capital Group. All rights reserved.