UK Stewardship Code Report

2025

Foreword

At Capital Group, our mission is to improve people's lives through successful investing. Core to our success is our distinctive investment approach, The Capital System™. It rests on three pillars that are deeply ingrained in our investment philosophy and culture. Across asset classes, we believe in collaborative research to yield deeper insights; diverse perspectives from multiple portfolio managers and analysts; and a long-term view to decision-making.

While The Capital System has evolved over time, a constant has been our ability to include diverse viewpoints. We believe having multiple managers in a portfolio better positions us to deliver the strong results investors seek. For each portfolio, we build a team of managers with different but complementary styles, viewpoints and experiences. Each invests part of the portfolio in their strongest convictions. Managers exchange ideas, but make their own investment decisions.

Additionally, our analysts don't just conduct research and make recommendations, they also have the opportunity to invest in their strongest convictions. As a result, portfolios reflect the best ideas of many people. Each manager's approach is expected to fare differently in different market conditions, adding another layer of diversification to the portfolio.

We believe that collaboration among portfolio managers, analysts, economists, quantitative and ESG research teams generates deeper insights. This allows us to develop and stress test our best ideas across asset classes and both sides of the balance sheet – improving our ability to deliver superior investment results and understand risk.

Furthermore, engaging with management teams and spending time on location, when possible, help drive operational understanding to support investment decision-making. In 2024, our ESG and investment teams continued to hold constructive engagements with companies, covering more than 30 distinct investment issues, with topics ranging from biodiversity and ecological impacts to product quality and safety.

Our case-by-case practice of engagement continues to focus on gaining a better understanding of and exploring the issues that are material to the delivery of superior long-term results for our clients and beneficiaries. Ultimately, we explore the issues that we believe could have a meaningful impact on the long-term value of an investment.

The Capital System at its core relies on collaborative research, diverse perspectives and a long-term view to power our pursuit of superior long-term investment results and support our commitment to the responsible stewardship of our clients' assets.

Thank you for taking the time to learn more about Capital Group.

Regards,

Martin Romo

Chairman and Chief Investment Officer of Capital Group

Introduction

Introduction to the UK Stewardship Code

This is Capital Group's response to the Financial Reporting Council's UK Stewardship Code 2020, which came into effect on 1 January 2020 and is published by the independent regulator, the Financial Reporting Council.

The Code 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 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 26 March 2025, as the relevant local representative body approving on behalf of Capital Group.

At a high level, we continue to evolve our approach to stewardship, especially as we work to support the pillars of Capital Group's Long-Term Strategic Plan, which we launched in June 2024. Additionally, this past year we refined our monitoring process and continue to develop our data capabilities to meet investors' evolving and deepening needs.

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

Regards,

Hamish Forsyth

President of Capital International Limited

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Principle 1

Principle 1

Our purpose, investment philosophy, strategy and culture

Capital Group's approach to the topics covered by Principle 1 has not materially changed since this was outlined in our UK Stewardship Code Report 2024. In accordance with the Interim Reporting Measures set out by the FRC, we are therefore providing no additional disclosures in this report on Principle 1 Context and refer back the 2024 report, which can be found here. The relevant information is outlined on pages 6 to 9.

Our long-term investment horizon continues to be evidenced by an average holding period in our American Funds (3 years) than is materially longer than the relevant industry average (2.1 years) (both figures as at 31 December 2024).

2024 activities and outcomes

As we previewed in our 2024 report, 2024 saw the launch of three new funds in our Luxembourg-based UCITS fund range: an equity, a corporate bond and a multi-asset fund that seek to benefit from the opportunities created as we shift to a more sustainable world for future generations. These funds, which are now called the Future Generations funds, have several distinctive characteristics that set them apart from Capital Group's other funds, notably employing a proprietary eligibility process which permits investments only in companies and issuers that demonstrate material or increasing alignment with at least one of the UN Sustainable Development Goals (UNSDGs) and which are deemed to be managing material environmental, social and governance (ESG) risks appropriately. The funds offer rich and diverse investment opportunities across seven sustainable investment themes; and enable access to a broad investable universe, whereby the portfolio managers will consider companies making demonstrable efforts to increase positive alignment with the UNSDGs as well as those viewed as already aligned.

We also have an evaluation process of client-specific ESG customisation for segregated accounts to ensure that we can deliver The Capital System and meet clients' expectations in any one account.

Principle 2

Principle 2

Governance

Capital Group has a robust governance structure in place.

The **Capital Group Board of Directors and Capital Group Management Committee (CGMC)** are responsible for setting and communicating the long-term strategy of the firm, including goals related to ESG and stewardship, as well as those affecting Capital Group's own corporate sustainability goals.

Capital Group's subsidiary **Capital Research and Management Company's (CRMC) Board of Directors (and related subsidiary boards)** is responsible for investment management activity on behalf of CRMC's clients. In fulfilling this responsibility, the CRMC board acts through investment policy, investment oversight and proxy voting committees and the investment and operations teams.

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 investors, clients and associates.

ESG Management Committee: This group oversees the integration of ESG into our investment process and reviews our ESG strategy with the CGMC throughout the year. The group comprises a subset of our board, our global head of ESG and several senior leaders from across our business groups.

Issuer Oversight Committee (IOC): This group reviews a subset of issuers that present elevated ESG-related risks that may affect portfolio holdings, with a focus on those that may conflict with existing global norms standards, including (for corporates) guidelines from the United Nations Global Compact (UNGC) 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. 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 Client teams. More detail on the IOC can be found under Principle 7.

Proxy Committees: Each equity investment unit has its own proxy voting committee, which is made up of investment professionals within each unit. The proxy voting committees discuss certain proxy items and retain final authority for voting decisions made by such unit. They also review voting activity throughout and at the end of the proxy season and have oversight of governance-related fundamental research projects, the findings of which may be considered for future updates to proxy voting procedures and principles.

ESG resources

Investment Group: More than 120 portfolio managers and 220 in-house analysts work to integrate material ESG considerations into their investment decision-making to help generate long-term value. As part of their fundamental investment research, they evaluate ESG-related and other issues that could impact a company's ability to generate long-term returns. Decisions are based on a holistic view of each issuer that incorporates the long-term prospects of the individual entity, as well as the context of markets, industries and geographies in which the issuer operates.

ESG team: Capital Group has a dedicated 43-person ESG team,[1] led by the global head of ESG and ESG Leadership Team, that partners with investment professionals on integrating ESG considerations into the investment process. Team members have experience in areas such as research and thought leadership, issuer engagement, proxy voting, ESG regulations, ESG data and reporting.

Within the global team, 30 specialists, each with distinct roles and areas of specialisation, are responsible for partnering with the Investment Group to:

- Produce thematic and sector-focused research that provides insight into key ESG themes and issues that are material.
- Execute our stewardship efforts, including analysing proxies and engaging companies, both in partnership with investors.
- Employ an evidence-based approach to the analysis of ESG risks and opportunities using data-driven tools.

An additional 12 specialists provide leadership and expertise on areas including our ESG Monitoring Process, ESG data and operations, and supporting client, product, industry and regulatory needs, as well as ESG content development and thought leadership.

Data and technology: We made significant investments in data and technology to help ensure the Investment Group has access to various traditional and alternative data sources. Over 20 engineers, data scientists and product developers supported the ESG team to build our in-house tool, Ethos, to help enable investment analysts to identify areas of ESG risk and conduct rigorous security-level analyses and peer comparisons. We have also invested in portfolio management tools and technology to enable portfolio managers to assess ESG risks and opportunities at the fund, portfolio and security levels.

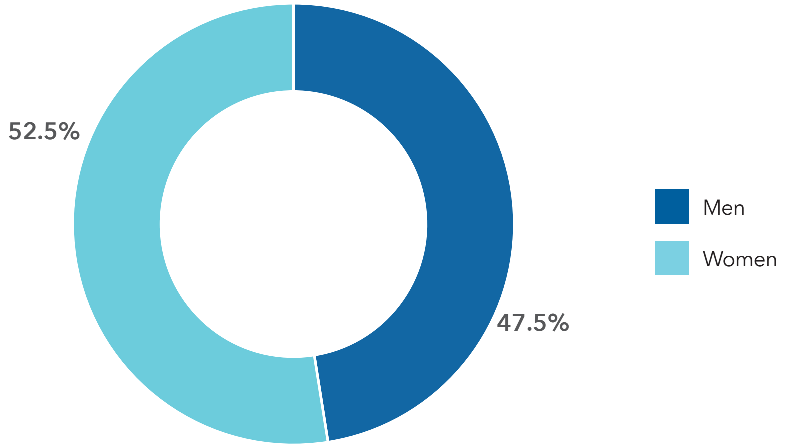
Team/function	Number of individuals	Average tenure at Capital Group (years)	Average industry experience (years)
ESG analysts responsible for partnering with Investment Group	30	5	14
Portfolio managers	126 (122 equity- and fixed income-specific)	21	27
Investment analysts	237 (222 equity- and fixed income-specific)	7	14

[1] As at 31 December 2024.

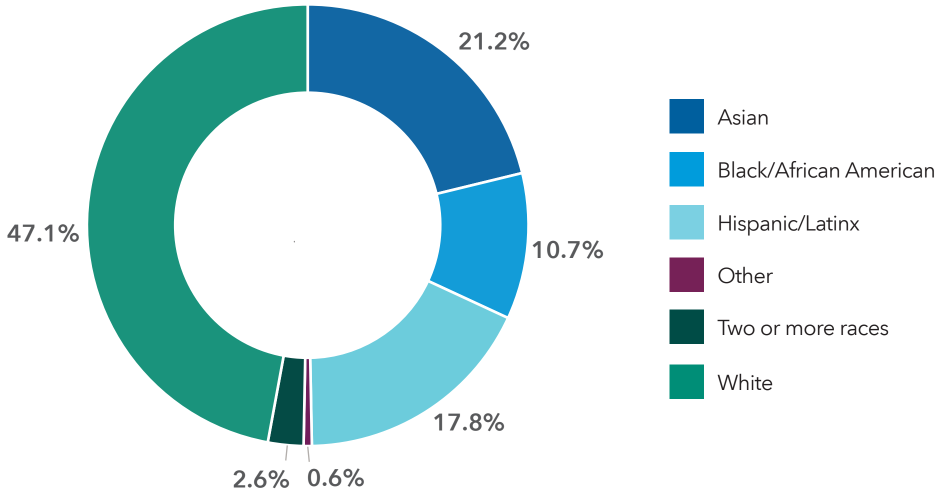
Workforce diversity

In our UK Stewardship Code Report 2024, we included a section on workforce diversity, which incorporated certain representation data as at 31 December 2023 (see pages 16 to 19). We have set out below equivalent data as at 31 December 2024. Further information on our approach to workforce diversity can be found in the relevant section of Capital Group's website.

Gender (global)

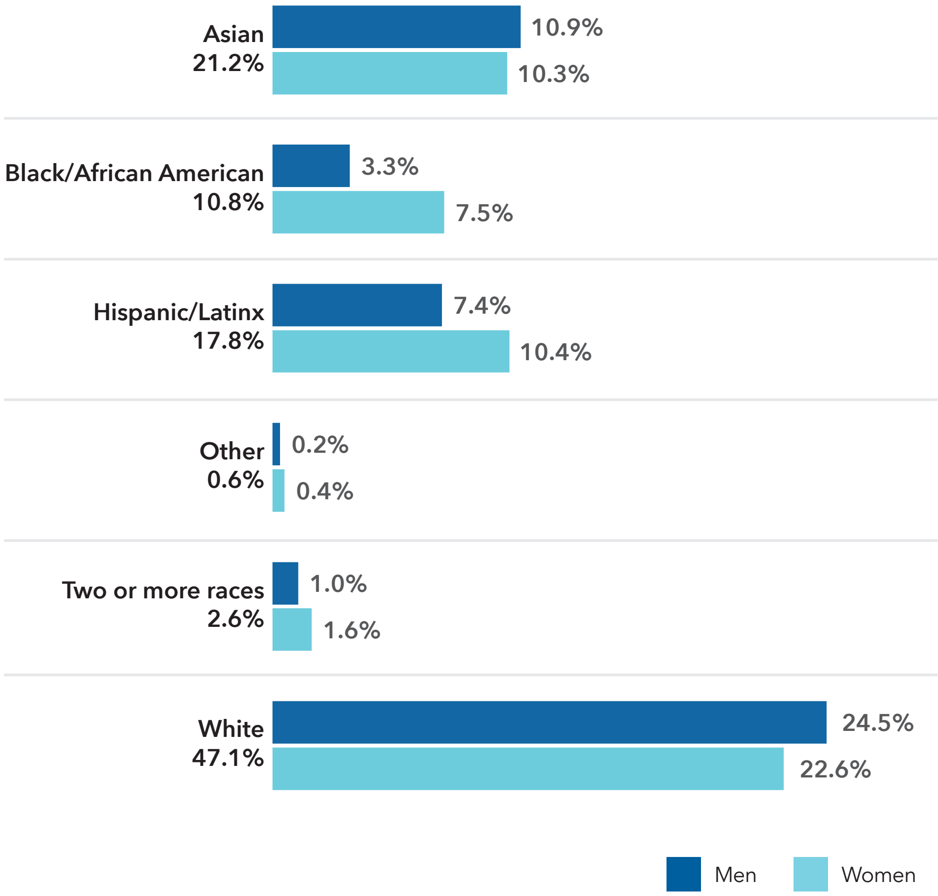


Race/ethnicity[2] (US)



[2] Other includes American Indian or Alaskan Native, Native Hawaiian or Other Pacific Islander, and Two or more races. Data as at 31 December 2024. Totals may vary from sum of individual components due to rounding.

Intersectional representation (US)



Ethnicity (UK, based on voluntary self-identification by associates)

Ethnicity[3]	% of associate population
White	29.3%
Asian or Asian British	8.3%
Black, Black British, Caribbean or African	5.3%
Mixed or multiple ethnic groups	2.0%
Other ethnic group	1.3%
No response	53.9%

[3] Capital aligned to the UK government's census and its list of ethnic groups. Percentage does not total 100% due to rounding.

Gender identity (UK, based on voluntary self-identification by associates)

Gender identity	% of associate population
Do not wish to disclose	0.5%
Man	20.8%
Non-binary	0.0%
None of the above	0.0%
Woman	22.1%
No response	56.5%

Sexual orientation (UK, based on voluntary self-identification by associates)

Sexual orientation	% of associate population
LGBTQ+ sexual orientation (bisexual, gay, lesbian, none of the above, pansexual, queer, questioning)	3.5%
Heterosexual or straight	37.0%
I do not wish to disclose	1.3%
No response	58.2%

Incentives

Capital Group's approach to incentives has not materially changed since this was outlined in our UK Stewardship Code Report 2024. In accordance with Interim Reporting Measures 1 and 2 set out by the FRC, we therefore refer back that report, with the relevant section covered under Principle 2 on pages 19 and 20.

Principle 3

Principle 3

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 on its board who also sits on the board of our US mutual funds.

(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. Each equity investment division of Capital Group has a Special Review Committee (SRC) of senior investment professionals and legal and compliance professionals with oversight of potentially conflicted matters.

If a potential conflict is identified according to the procedure above, the SRC will take appropriate steps to address the conflict of interest. These steps may include engaging an independent third party to review the proxy, using Capital Group's proxy voting procedures and principle and provide an independent voting recommendation to Capital Group for vote execution. Capital Group will generally follow the third party's recommendation, except when it believes the recommendation is inconsistent with our fiduciary duty to clients. Occasionally, it may not be feasible to engage the third party to review the matter due to compressed time frames or other operational issues. In this case, the SRC will take appropriate steps to address the conflict of interest, including reviewing the proxy after being provided with a summary of any relevant communications with the Interested Party, information on the organisation's relationship with the Interested Party and any other pertinent information.

2024 activities and outcomes

A breakdown of the SRC's work during the calendar year 2024 is below:

Total number of meetings voted by Capital Group	**2,103**
Number of meetings reviewed by Capital's SRC	**29**
Number of meetings reviewed due to familial relationship	2
Number of meetings reviewed due to potential director conflict of interest	17
Number of meetings reviewed due to client relationship	5
Number of meetings reviewed due to business relationship	5

Case study: Special Review Committee process in action

Capital Group is a shareholder of a US large-cap industrial company that was identified by our process for potential conflict of interest with The Capital Group Companies, Inc. or its affiliates. Accordingly, proxy voting for the company's annual meeting of shareholders was reviewed under our Special Review Committee process.

The company's name was provided to an independent third party, which reviewed the company's proxy statement. The independent third party interpreted Capital Group's Proxy Voting Procedures and Principles and provided an independent voting recommendation to Capital Group for vote execution, including voting against members of the safety committee of the company's board of directors for material failures in committee oversight, ongoing history of product safety and safety culture concerns.

Capital Group conducted an internal review to verify that the voting recommendation aligned with a reasonable interpretation of the applicable principles and processed the vote according to the voting recommendation.

Principle 4

Principle 4

Market and systemic 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, a multidisciplinary research team 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. The Night Watch came into effect to engage in scenario-planning around severe downside events, and to help Capital Group identify and mitigate against market-wide and systemic risks. It brings together members of our investment team to evaluate macro, political and other market-moving events, for example significant political elections, of which we saw a number in 2024. A case study on the Night Watch's work around the US election cycle in November 2024 can be found below.

The Night Watch's activities form part of the work of a broader function within Capital Group called Capital Strategy Research (CSR). A key role of CSR continues to be to compile and maintain focused sets of information and data – collated in what is referred to internally as the CSR MacroHub – which are intended to inform our investors about important topics and trends relevant to their investment decision-making.

Building on existing functions and practices, we also continue to evolve and strengthen our independent market-risk monitoring and reporting functions, in support of Capital investment results and our risk governance and oversight process.

2024 activities and outcomes

We have discussed in previous UK Stewardship Code reports the Audit Quality Risk proprietary tool implemented by the CSR team. This year, the team introduced a new tool to help investors identify suspicious patterns in companies' reporting: The Cash Flow Quality Tracker. Cash is the simplest asset to audit, yet auditors have often been misled by companies over the years. To address this, the CSR team developed a tool to help investors identify companies with exceptional free cash flow compared to their industry and global peers. This tool enables investors to spot potential signs of cash flow manipulation. The team also provided a set of recommendations and specific methodologies for calculating cash flow metrics. Additionally, they suggested ways to assess whether these accounting tricks affect the market's perception of the company and its performance.

In 2024, CSR also enhanced its Financial Quality Score tool, which is a fundamental framework that enables investors to evaluate companies across more than 80 finance-related metrics on a monthly basis. Covering a universe of over 17,000 companies, each company is scored relative to this universe. The CSR team has improved the framework by developing an online tool to replace the previous Excel-based document. This new tool is more user-friendly, making it easier for investors to identify outliers and significant risks that may require further investigation.

The CSR team also introduced easy to digest weekly summaries for investors covering a range of macroeconomic and political topics, including but not limited to:

- Tensions on the Korean Peninsula
- Impact of AI boom in some sectors (detailed in the case study below)
- Impact of middle east tension on oil prices
- The economic challenges for an incoming UK government
- The impact of US Customs and Border Protection
- Mexican Election opening doors to constitutional reform
- Potential Economic and Market Implications of French Legislative Election
- Chinese Housing Market
- The UK's Brexit Impact on Inflation.

Collectively, these tools enable our investment professionals to bring new perspectives on potential market level risks into their fundamental analysis.

Case study: The Night Watch team and the 2024 US election cycle

In 2024, the Night Watch group focused on the 2024 US election cycle presenting the possibility of a significant shift in political leadership, potentially leading to policy changes that could impact investment sectors and portfolios. The Night Watch team analysed the implications of a potential Trump victory, which was expected to bring in a significantly different approach to administration.

The team provided a detailed analysis of the proposed policy changes and their impact across different sectors and the macroeconomic environment. They focused on specific sectors that would be most affected, either positively or negatively. The analysis found that the aerospace and defence sector would likely benefit from increased defence spending to promote domestic and foreign military sales, while the banking sector could see advantages from reduced regulation and capital requirements. Conversely, the industrial sector might suffer due to lower immigration, potentially resulting in labour shortages and pushing firms towards automation.

The team also examined the macroeconomic implications of a Trump victory. They anticipated that the net positive effects of increased aerospace/defence spending and deregulation would boost the country's GDP, and immigration restrictions would reduce unemployment. However, they also expected a mix of inflationary and deflationary effects across different sectors and higher interest rates, depending on monetary policy.

Additionally, the team analysed the impact of the proposed new tariffs and tax regime, foreign policies with key international players such as China, Europe, Taiwan, North Korea, and Russia, as well as the potential effects of repealing bills like the Infrastructure Investment and Jobs Act and the Inflation Reduction Act. In this ever-changing political and economic landscape, the work of the Night Watch team helps our investors to better understand potential risks and prepare for changing conditions.

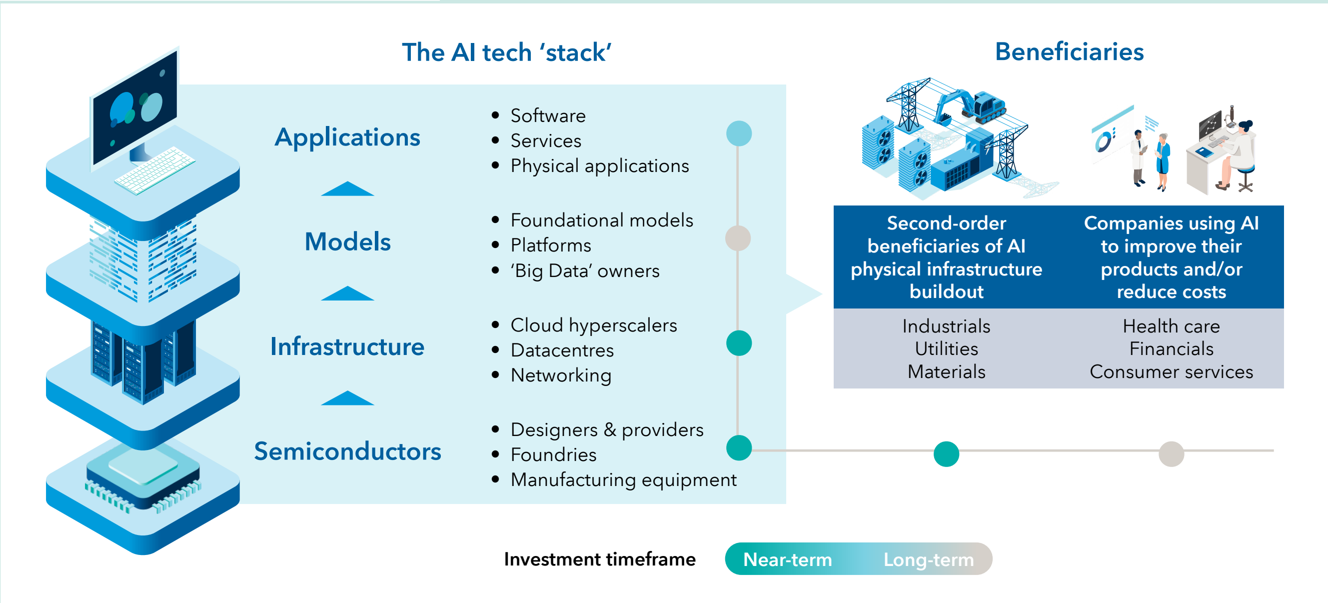
Systemic risk in focus – The evolution of Artificial Intelligence (AI)

2024 activities and outcomes

AI's impact on the economy and society has preoccupied many corporate leaders, government policymakers and investors in 2024.

Artificial intelligence was therefore a major point of discussion among some of our investment analysts this year. They debated whether the massive capital expenditure is justified by end market demand and if it can be monetised, particularly given that the rate of improvement for fundamental components is decelerating. Some investment analysts believe the answer is yes, arguing that while short-term impacts of new mega trends are often overestimated, their long-term effects are usually underestimated. An equity investment analyst who covers the sector sees AI scaling much faster than previous technology trends like traditional cloud infrastructure. But one of our macro economists equally sees a need for experimentation so enterprises can determine how to use AI for competitive advantage, meaning that high capital expenditure is a necessity in the early stages, with the gains on investment being fully realised later on.

The question for investors is then where current spending is most likely to pay off. The starting point for this is understanding what is enabling AI workloads, the layers of which have been summarised by one equity analyst into a four-layer technology stack (outlined in the below graphic). Understanding the AI supply chain has enabled investors to focus on identifying successful companies at each layer of the stack, and also pinpoint the sectors that will benefit from the increasing demand for resources needed to build out AI infrastructure (an example of which is explored under Principle 7).



Our ESG team has in parallel monitored closely the overlapping global efforts to establish AI-related regulation. While the EU was the first to establish rules for the development, use, and sale of AI systems in the European Union, which entered into force in August 2024, it might take some time for other countries to decide on their regulatory approach. Companies are left having to comply with a fragmented and widespread web of regulation, with boards forced to act as "arbitrators" within their respective companies until the legal environment is more clearly set. We therefore expect AI expertise to be in demand as boards refresh their composition over time.

The ESG team also looked closely at the main AI governance risks that investors should monitor and that boards and management should be focused on overseeing to avoid exposing themselves to legal and regulatory risks. The below graphic captures the output of their research in this area.

This is not a hallucination (or is it?): Corporate governance-related AI risks

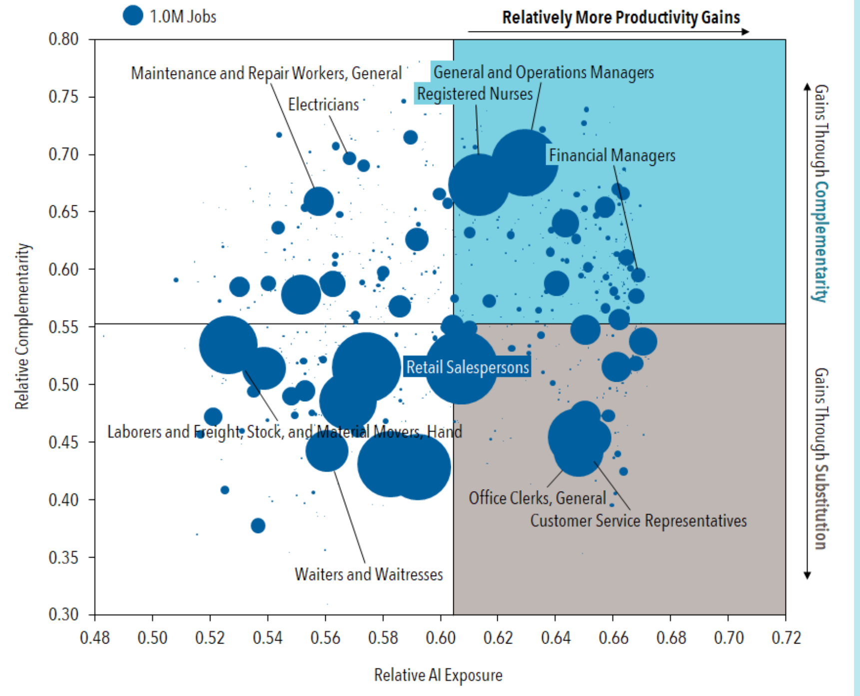
	Example of risk
Hallucination	AI models can make incorrect decisions and predictions – perhaps due to the limitation of datasets used in training.
Intellectual property	There are legal uncertainties and risks associated with the outputs of generative AI that has been trained on text, images and other data that is copyrighted or patented.
Regulation	Keeping up with fast-moving and, in some cases, divergent global regulations can create compliance challenges.
Stakeholder misalignment	Corporate leadership, boards and workforces may not have the expertise or experience to judge the merits of AI and its alignment with corporate strategy.
Bias	AI models can have implicit bias due to the limitations of datasets or interpretation of results.

Case study: AI efficiency opportunities not evenly distributed across sectors

Considering the significant recent growth in AI technologies, in 2024 Capital Group's CSR team examined the impact of AI on the labour market.

It was observed that, since 2000, the US labour share in domestic corporate business had already fallen from 65% to 55.4% (as at Q3 2024) and if left to natural forces, it may decline further. The historical decline is due to many factors such as technological progress, increased globalisation, decreased unionisation and greater power of mega-firms.

We found that AI will put middle skill workers, especially clerical support workers, more at risk because their jobs are relatively exposed to AI but the technology is considered comparatively less complementary to their tasks. The sectors that have more of their labour concentrated in clerical support – Finance & Insurance, Real Estate & Rental, and Leasing – therefore have higher potential productivity gains, relatively speaking, from the substitution of labour with AI-driven solutions. This could be compared to other industries such as Education and Health Care & Social Assistance, where AI is seen as more complementary to existing roles and where the complementarity itself may drive productivity gains.



Source: Bureau of Labor Statistics, CG Analysis using the classifications of Felten et al. (2021) and Pizzinelli et al. (2023)

It is anticipated that 5 to 6 million clerical support jobs could be lost over the medium- to long-term, which exceeds what can reasonably be absorbed by the industries with the highest job openings/unemployed ratios.

AI will also create many new jobs, though, as technologies can reinstate labour demand by creating new tasks in which labour has a comparative advantage. Whether AI creates sufficient new jobs depends on many factors and potential interventions that influence labour share. Investors therefore need to consider the potential risks of changes in tax policy, trade policy, antitrust enforcement, and unionisation. These interventions might help reinstate demand for labour in new jobs or prevent losses in existing ones. Examples of relevant interventions, and the types of companies that are potential winners and losers are if enacted, are highlighted in the below graphic.

Examples of Intervention:	Winners	Losers
• ***Tax Policy*** – change the relative price of investment	Low dependence on Fixed Investment	High dependence on Fixed Investment
• ***Trade Policy*** – reshoring beyond "critical" industries	More domestic labor/inputs	More foreign labor/inputs
• ***Anti-trust*** – enforcements pick up, firms get separated	Organic growers	Inorganic growers
• ***Unionization*** – organized labor movements gain steam	Few "low skill" employees	Many "low skill" employees

Source: BBRE

This work of the CSR team helps investors think through the investment implications of AI, prompting them to look at the composition of companies' workforces as part of their fundamental research and integrate the potential risks of targeted pro-labour interventions into their thinking.

Promoting well-functioning financial markets

We engage with industry stakeholders and policymakers on a regular basis to advance well-functioning markets. This includes providing responses to consultation requests and surveys, whether directly or through trade associations, 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 members and active participants in the following organisations and initiatives, and we contribute by speaking at and attending events and participating in working groups. We also engage in dialogues with standards setters such as the International Accounting Standards Board (IASB) to improve accounting transparency.

(Important note: The table below includes a selection of the groups with which Capital Group is involved. It is not an exhaustive list. Please refer to our website for the full list of our signatories and memberships.)

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.	A Capital group portfolio manager is Chair of the ACGA.	2003
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
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.	2014
International Financial Reporting Standards (IFRS)	The foundation is a not-for-profit, public interest organisation established to develop high-quality, comprehensible, 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, 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
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

Signatory agreements

Capital Group supports a range of efforts by industry-related groups to advance the role of stewardship as an integral part of the investment process. As such, we are signatories to several agreements. While these efforts can yield valuable insights, our investment decisions are grounded in investment materiality, based on rigorous research and analysis, and aimed at delivering superior long-term results for our clients.

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. The principles are voluntary and aspirational and acknowledge that responsible investment is a process that must be tailored to fit each organisation's investment strategy, approach and resources. We believe that our integration and engagement approach is consistent with the PRI.

International Sustainability Standards Board (ISSB)

Capital Group has long been a supporter of both the Sustainability Accounting Standards Board (SASB) Standards and the Task Force on Climate-related Financial Disclosures (TCFD), which have both been merged into ISSB, a subsidiary of the International Financial Reporting Standards (IFRS) Foundation. We encourage disclosure of material ESG risks and opportunities faced by portfolio companies and recognise the compliance and operational burdens that companies face in navigating different reporting regimes. As such, as a baseline, we welcome and encourage disclosure aligned to the ISSB standards, subject to a company's judgement on which elements of the standards are material to their business. In 2024, Capital Group engaged in consultations across multiple jurisdictions to promote the adoption of ISSB sustainability disclosure (see case study below). To learn more about our approach, please refer to our latest TCFD report on our website.

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

In June 2021, Capital Group became a participant of the UNGC. These goals have become widely adopted by companies (including asset managers) worldwide. We also support the UN SDGs through our business practices. Please refer to our most recent annual report on our website.

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.

- UK Stewardship Code (first signed in 2010)
- Japan Stewardship Code (first signed in 2014)
- Hong Kong Stewardship Code (first signed in 2019)

2024 activities and 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 integration and stewardship, our experience of 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 ensure long-term viable results. We participate in a number of targeted meetings with regulatory authorities and policymakers in the United States, European Union and United Kingdom, and we 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 2024 we responded to the following consultations either directly via our own submitted response or via feedback we shared with our trade associations. We note that in 2024 there has been a slightly lower level of consultations compared to previous years as it has been an election year in many jurisdictions.

- Australian Treasury's exposure draft legislation for the introduction of the climate-related financial disclosure regime.
- China's Ministry of Finance (MOF) consulted on a draft standard on Sustainability Disclosure Standard for Business Enterprises – Basic Standard.
- Japanese FSA Consultation on Disclosure of Cross-shareholdings.
- Consultations relating to the adoption of international sustainability disclosure standards (see below case study), including:
  - Brazilian Securities and Exchange Commission (CVM) public consultation for CBPS Technical Pronouncement No. 02 – Climate-Related Disclosures.
  - Canadian Sustainability Standards Board consultation on its exposure drafts on Sustainability Disclosure Standards 1 and 2.
  - Consultation of the Reserve Bank of India about climate risk disclosures for banks.
  - Sustainability Standards Board of Japan's issuance of Exposure Drafts of Sustainability Disclosure Standards to be applied in Japan.
  - Korean Sustainability Standards Board's issuance of Exposure Draft of the Korean Sustainability Disclosure Standards.
  - Public consultation of the Swiss Federal Council proposing amendments to the Code of Obligations on sustainability reporting obligations for companies.
  - Public consultation on the Principle of Thailand Sustainability Disclosure Roadmap regarding International Sustainability Standards (ISSB Roadmap).
- UK Green taxonomy consultation.
- UK Sustainable Disclosure Requirements for portfolio management services.
- Engagement with the UK FRC as part of its planned Stewardship Code review.
- HKEX Corporate Governance Code consultation.

Case study: Consultations on the adoption of the International Sustainability Standards Board (ISSB)'s sustainability disclosure standards

In 2023, the IFRS Foundation published the first in a set of sustainability disclosure standards intended to provide a high-quality, comprehensive global baseline focused on the needs of investors and the financial markets. As a member of the ISSB's Investor Advisory Group, we strongly support the ISSB standards, which we believe should serve as a global reporting baseline.

In 2024, various jurisdictions globally initiated similar market-level consultations to establish sustainability reporting requirements for corporates, focusing on the content, scope, and format of these requirements. In our capacity as a global investor in long-term equity and fixed income assets, Capital Group provided direct responses to consultations in Brazil, India, Japan, South Korea, Thailand, Canada and Switzerland on these matters, highlighting how such reporting requirements could benefit investors. In our letters, we expressed our support for the ISSB Standards (currently S1 and S2) for the following reasons:

- A "global baseline" reduces the reporting burden on companies.
- Investment managers require material sustainability-related information to make investment decisions in the best interest of their clients.
- ISSB Standards have been designed to meet the needs of global investors; they are industry specific, market informed and incorporate existing market standards, the Taskforce on Climate-related Financial Disclosure (TCFD) and the Sustainability Accounting Standards Board (SASB).

Many of those jurisdictions have subsequently incorporated all requirements of IFRS S1 and IFRS S2 into national law, with some additional jurisdiction-specific options that certain entities may apply.

Case study: FRC's review of the UK Stewardship Code

In February 2024, the UK Financial Reporting Council (FRC), which is responsible for the UK Stewardship Code, confirmed that it was undertaking a fundamental review of the Code. It indicated that it would start by seeking views from industry stakeholders on whether the Code was being used in a manner that drives better stewardship outcomes.

In the following months, the FRC itself and other prominent industry groups convened various discussions with asset managers, asset owners and other stakeholders to understand their views. Representatives of Capital Group were active participants in this phase of the review, attending three different sessions at which we shared our views (alongside our peers) on issues including how the practice of stewardship has evolved since the launch of the 2020 version of the Code, and our experience of reporting against certain of the Code's Principles. Amongst other things, we raised where the framing of certain expectations might have led to unintended consequences, including the perception of a growing friction between investors and companies. As a member of the FRC's Stakeholder Insight Group, we also contributed to the discussions held in that forum as the FRC reflected on the review process.

In July 2024, the FRC announced that it would focus on five key themes during a second phase of review before launching a formal consultation on changes to the Code. Capital Group was again active in contributing to this second phase, participating in two further sessions where the FRC's approach to and definition of stewardship were explored in detail. This engagement supported the FRC to launch its formal consultation in November 2024, to which Capital Group responded.

Case study: HKEX Corporate Governance Code consultation

In 2024, The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited (HKEX), published a consultation paper outlining proposed enhancements to the Corporate Governance Code and related Listing Rules.

Capital Group submitted a response to the consultation. We supported the overall direction and objectives of the consultation paper and agreed with most of the proposed changes, but we shared some suggestions on a number of the specific topics raised by the consultation:

- While we are supportive of the requirement to appoint a lead independent director in the absence of an independent board chair, HKEX should provide guidance on how roles, responsibilities and authorities differ between board chair and LID, especially when the board chair is conflicted or has a dominant influence over the board.
- Training requirements for directors, being a positive step, should not be overly prescriptive on hours or topics.
- In order to enhance the credibility and usefulness of the required board skills matrix disclosure, issuers should provide explanatory notes to explain their skills mapping process.
- The cap on the number of directorships a director can hold should be lowered immediately (i.e. without a transition period), but that different types of directorships should be treated differently based on their nature and complexity.
- The minimum cooling-off period for directors to be treated as independent should be extended from two to three years.
- In relation to the requirement that the Nomination Committee should have at least one director of a different gender, a clearer definition of diversity should be provided. (We also suggested that HKEX consider a requirement for the Nomination Committee to be chaired by an independent non-executive director, which we believe is crucial for promoting diversity across the board and the senior management.)
- While we support the Mandatory Disclosure Requirement on dividend policy, the scope should be widened to include share repurchases as a consideration within a company's capital allocation policy.

HKEX received more than 200 submissions and performed both a qualitative and quantitative assessment to decide on the outcome. They have taken on board the majority of the suggestions highlighted above. However, HKEX decided to implement the reform over time rather than with immediate effect and maintained the hard cap on overboarding to 6 directorships. The new requirements will apply to issuers in respect of financial years commencing on or after 1 July 2025.

Principle 5

Principle 5

Ensuring stewardship reporting is fair, balanced and understandable

To ensure our stewardship reporting is fair, balanced and understandable, it is reviewed by various internal teams (including legal and compliance team and marketing). We aim to produce accurate and impartial reporting that takes account of both negative and positive aspects in a way that is accessible. Our internal review 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. This applies to both client reporting delivered throughout the year and the drafting of this UK Stewardship Code report.

Independent assurance of this report

We have drawn again on the Capital Group Internal Audit team for assurance of the completeness and accuracy of this report. The 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 continued to use our Internal Audit 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 conduct the necessary review of what is presented in the UK Stewardship Code report.

Same as in prior years, 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 accurately presented and aligned to the proper application of the Stewardship Code principles.

Internal Audit conducted an assessment which included reviewing of process for collecting and presenting accurate and reliable information within the UK Stewardship Code report as well as the evaluation of the completeness of disclosures made in the report to satisfy the twelve principles set out by the UK Financial Reporting Council. Their review included verification of the review and sign-off obtained prior to report submission.

The assessment considered procedures established by the ESG 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 at March 2025 (including how these requirements are impacted by the FRC's interim reporting requirements). As part of our continuous improvement agenda, as recommended by Internal Audit, we continue to further enhance our procedures and controls to ensure that the statements, facts and data are complete and accurate.

2024 activities and outcomes

Stewardship Code report construction: As part of the writing process for this report, we took into account recommendations made by our Internal Audit team following their review of the 2024 report and how source information was gathered and reviewed. Specifically, we implemented on Internal Audit's recommendation a peer review process for validating that the data included in the report is accurate and aligns to the source data, which we consider will help to mitigate the risk of inaccurate and hence misleading information in the report.

Wider review of policies – proxy voting procedures and principles refresh: Responsibility for reviewing and potentially updating our proxy voting procedures and principles rests with the Guidelines Committee, a group comprising investment professionals, supported by members of the GSE team and Legal. As discussed in more detail in Principle 12, the Guidelines Committee again convened in the second half of 2024, after completion of peak voting proxy seasons for most Western markets. The Guidelines Committee met to:

- Look back at the previous proxy season to distil lessons learned and emerging themes.
- Review issues emerging from the firm's governance research agenda (including those discussed under Principle 7).
- Develop a review programme to inform potential changes to proxy voting procedures and principles.

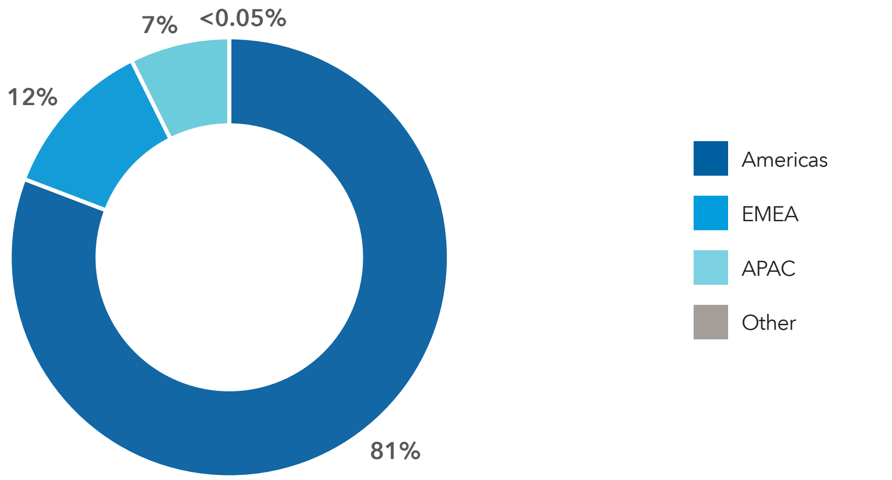
This resulted in the updates highlighted under Principle 12.

Principle 6

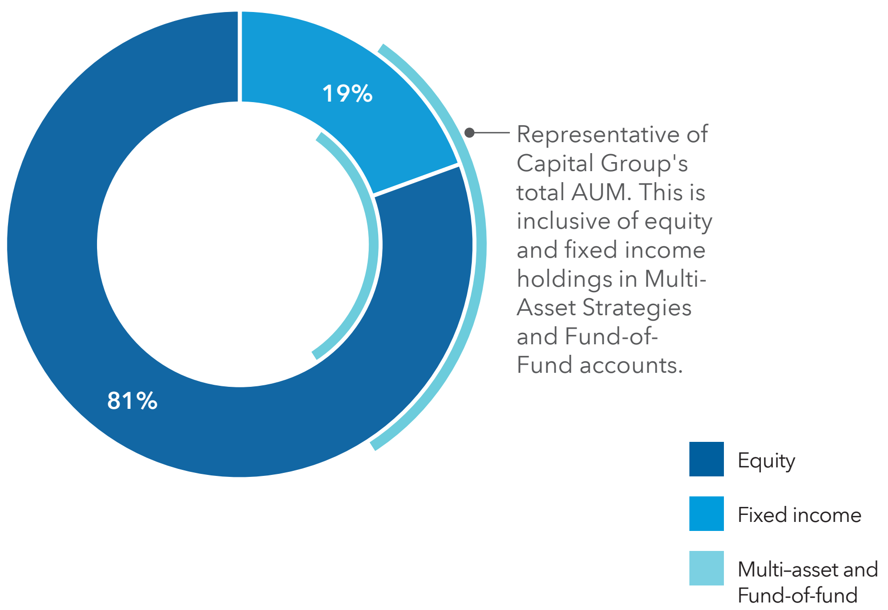
Principle 6

As at December 2024, Capital Group's Assets Under Management totaled $2.8 trillion. The charts below provide a breakdown of our assets under management by geography of investments, by asset class, and by client distribution channel type.

Capital Group AUM by geography of investments, %

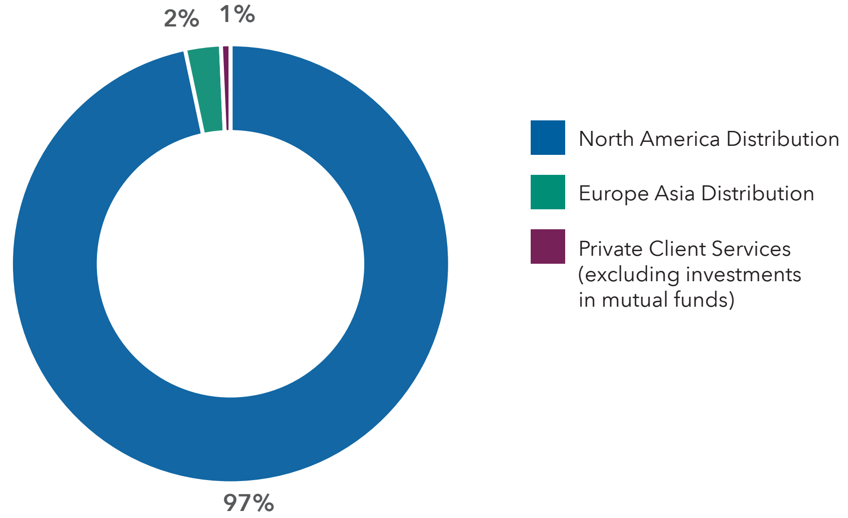


Capital Group AUM by broad asset class, $tn

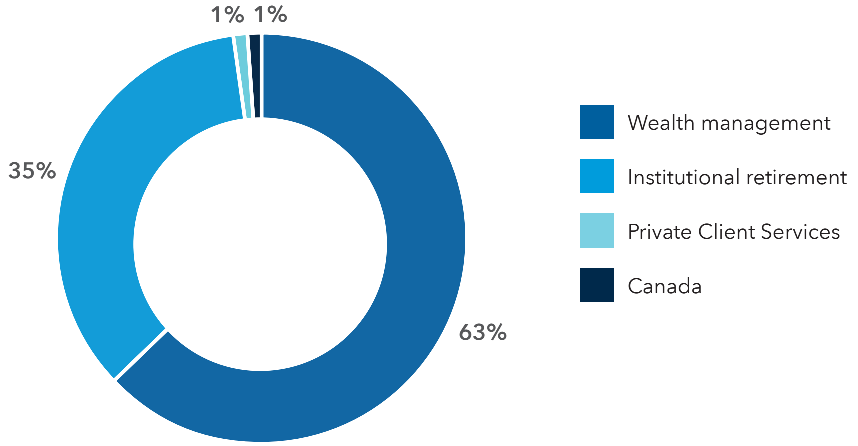


All data as at 31 December 2024.
Source: Capital Group.

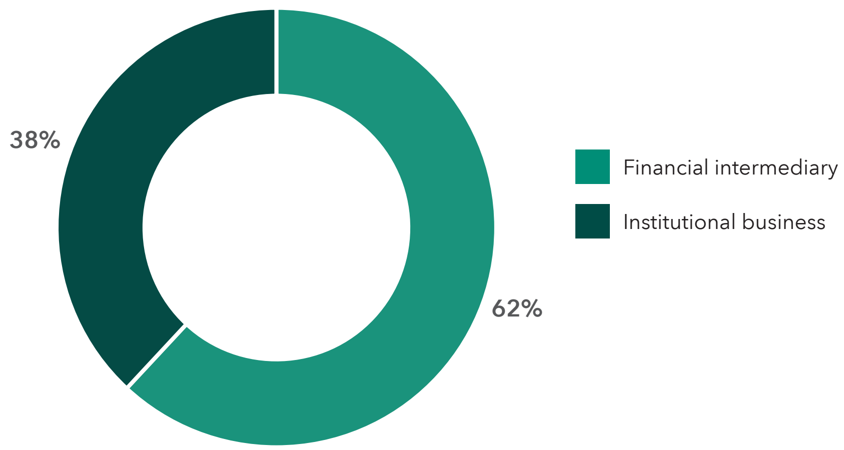
AUM by Capital Group distribution channel, %



AUM by North American client group channel, %



AUM by Europe and Asia client group channel, %



All data as at 31 December 2024.
Source: Capital Group.

Time horizon

As a firm we have an enduring commitment to taking a long-term perspective. For equities, our average holding period is three years, but our investment horizon is typically much longer. This is ingrained in our investment approach and culture — from seamless leadership succession planning to rewarding managers more for their long-term investment results. We believe that this long-term view aligns our goals with those of our investors, curbs excessive short-term risk-taking and offers greater potential for positive investment outcomes.

Stewardship communication methods

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

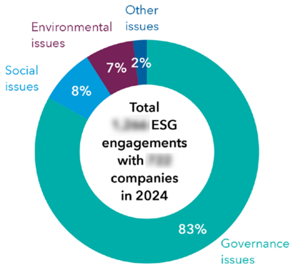
- **Climate-related:** We produce, upon request quarterly portfolio-level carbon footprint reports containing climate-related metrics – including financed emissions, weighted average carbon intensity (WACI) and climate Value-at-Risk (Climate VaR) – for a number of our investment portfolios. At the firm level, we provide information on how we consider climate-related risks and opportunities in our TCFD report.
- **Monitoring process:** We produce quarterly monitoring slides for a number of our equity, fixed income and multi-asset portfolios, which show a subset of portfolio holdings flagged by our ESG monitoring process, described in Principle 7 (based on available third-party data for holdings to which this monitoring process applies).
- **Engagements:** We produce quarterly portfolio-level ESG engagement reports for a number of our equity, fixed income and multi-asset portfolios, across various vehicle types (e.g., Luxembourg-domiciled funds, segregated accounts). These reports provide a high-level breakdown of engagements by E, S and G issues. We also provide information on our firm-level approach to engagement in our Stewardship Report.
- **Proxy voting:** Where we have voting authority, we produce 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. More information on our voting activity can be found in Principle 12 of this report. We also provide information on our firm-level approach to proxy voting in our Stewardship Report.

2024 activities and outcomes: Extract from an ESG engagement report

DEEPER DIVE: ESG integration – engagement & proxy voting

ESG integration: engagement in numbers

Our engagement activities cover issues that span a broad 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 prioritised based on the materiality of the issue for a company and the industry in which it operates.



Environmental issues	
Climate change	[illegible]
Pollution & waste	[illegible]
Natural resources	[illegible]
Green solutions	[illegible]
Total	[illegible]

Governance issues	
Board-related	[illegible]
Shareholder interests	[illegible]
Executive compensation	[illegible]
Annual general meeting-related	[illegible]
Total	[illegible]

Social issues	
Products and consumer protection	[illegible]
Employee welfare	[illegible]
Diversity and inclusion	[illegible]
Human rights	[illegible]
Total	[illegible]

Other issues	
Total	[illegible]

Data as at 31 December 2024.
Donut chart: 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
The 'Other' category consists of broad ESG discussions without a specific focus on a single E, S or G issue.

Capital Group ESG@CG.4368410_656 26

How we seek clients' views on our stewardship activities and manage assets in line with clients' stewardship and investment policies

Our clients' stewardship expectations are important to us. We gather ongoing feedback through our ESG investment directors and Global Stewardship & Engagement (GSE) Leadership who regularly meet with clients, as well as our Client Relations team. Where appropriate, 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.

Before agreeing to manage client assets, we review all client-specific investment requirements – including any stewardship and investment policies provided – to ensure that we are comfortable managing the portfolio in line with the client's needs. Any potential lack of alignment will be reviewed by our Legal team. If we are unable to align with client policies, we will discuss with the client before agreeing to manage their assets.

We also participate in industry forums such as the ISSB Investor Advisory Group and Asian Corporate Governance Association (both of which are discussed in more detail under Principle 10) which allow us additional venues to keep a fresh understanding of asset owner perspectives.

In 2021, we commissioned our first Capital Group 'ESG Global Study', designed to understand investor attitudes and adoption trends for ESG. Conducted for a fourth year in 2024 this study has become an important part of our engagement with clients on ESG issues, challenges and opportunities.

We also receive requests from institutional clients for more detailed reporting on stewardship-related matters, to which we often provide bespoke responses.

2024 activities and outcomes

ESG Global Study: In 2024 Capital Group commissioned its annual ESG Global Study for the fourth year running. This comprehensive survey collects the views from more than 1,130 institutional and wholesale investment professionals across the globe and has become an important part of our engagement with clients on stewardship and a broad range of other ESG topics.

Among the key findings in the 2024 survey, it was clear that ESG adoption, as measured by the percentage of respondents that use ESG in their investment approach, had held steady at an all-time high of 90%. According to the study, this commitment to ESG is driven primarily by the need for investors to comply with regulatory requirements and to manage financially material ESG risks. Receding concerns about greenwashing may also have contributed to the high ESG adoption level. In 2024, approximately four in 10 (42%) global investors thought greenwashing was prevalent within the asset management industry – the lowest level since our study started in 2021. Regulations and enforcement actions have helped allay concerns, according to respondents.

AI – which is a topic we have reviewed extensively in 2024 (see Principle 4) – also featured prominently as a theme in the survey results with more than half of respondents planning to use this emerging technology to enhance their analysis of ESG data. Automated reporting and synthesising legislation changes across various jurisdictions were other areas identified where AI is expected to help professional investors.

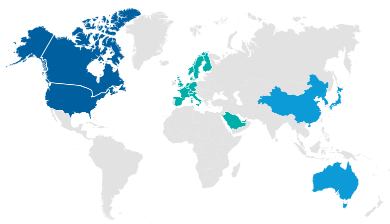
However, while AI offers potential data solutions, it also introduces new ESG investment risks. The AI boom has brought potential risks associated with the technology into sharp relief. Six out of 10 respondents see the social impact of AI as the most material social issue over the next 12 months. In particular, data protection and privacy, were cited by three-quarters of respondents as posing the most material AI-related risk for investment. Labour rights and job displacement were viewed as another material social risk related to AI. Respondents also identified AI's high electricity consumption as a concern with more than half of respondents viewing energy consumption and greenhouse gas emissions from AI as a material ESG investment risk over the next two to three years. About a quarter of respondents also point to AI-induced pollution and e-waste issues as a key risk.

Given the evolving complexity of the ESG landscape, it is perhaps not surprising that investors are opting for multi-thematic strategies that provide broad exposure to the ESG waterfront. Half of all respondents expect to increase allocations to multi-thematic ESG strategies over the next two to three years, compared to 42% who plan to increase exposure to single thematic ESG strategies. Diversification and potential for better risk-adjusted returns were identified as core benefits of multi-thematic strategies, according to the study. We plan to conduct a similar exercise in 2025 as we continue to track the year-on-year change in key drivers and challenges influencing ESG adoption, as well as analysing some of the most pressing topical issues in the ESG investment landscape.

Extract from 2024 ESG Global Study

Sample breakdown

1,130 global investors
24 countries/regions



North America	EMEA
18%	**50%**
12% U.S.	8% Benelux*
5% Canada	5% France
	5% Germany
	5% Italy
	5% Middle East†
	5% Nordics‡
	5% Spain
	5% Switzerland
	5% U.K.

Asia-Pacific
32%
5% Australia
5% China
5% Hong Kong
5% Japan
5% Singapore
5% South Korea

*Belgium, Netherlands and Luxembourg
†Kuwait, Saudi Arabia and UAE
‡Norway, Denmark, Finland and Sweden

Totals may not reconcile due to rounding.

		2024	2023
Institutional	Insurance company	37%	30%
	Pension fund	32%	43%
	Family office	14%	13%
	Foundation	8%	5%
	Endowment	6%	5%
	Sovereign wealth fund	5%	4%
Intermediaries	Private banks/Bank trusts	28%	20%
	Independent advisory/Individual wealth manager	28%	29%
	Fund of funds	13%	17%
	Registered investment advisor	12%	17%
	DFM*/Turnkey asset management provider	9%	9%
	Wirehouse broker/dealer	9%	7%

Totals may not reconcile due to rounding.
*Discretionary fund manager

What value can ESG add?

Our approach to ESG is driven by a belief that including non-financial factors within investment analysis leads to better decision-making.	Agree	56%
	Neutral	32%
	Disagree	13%
Over the long term, ESG funds will deliver at least the same or similar investment performance to traditional funds.	Agree	42%
	Neutral	36%
	Disagree	22%
Over the long term, ESG funds will deliver stronger investment performance than traditional funds.	Agree	28%
	Neutral	40%
	Disagree	33%

Totals may not reconcile due to rounding.

Allocation changes to ESG thematic strategies over next 2–3 years

		Overall	North America	Asia-Pacific	EMEA
Single-thematic ESG strategies	Increase	42%	23%	38%	50%
	Maintain at current level	43%	47%	51%	38%
	Decrease	4%	8%	4%	4%
	We do not allocate	11%	23%	8%	9%
Multi-thematic ESG strategies	Increase	50%	30%	55%	55%
	Maintain at current level	35%	40%	34%	34%
	Decrease	5%	6%	3%	5%
	We do not allocate	10%	24%	8%	6%

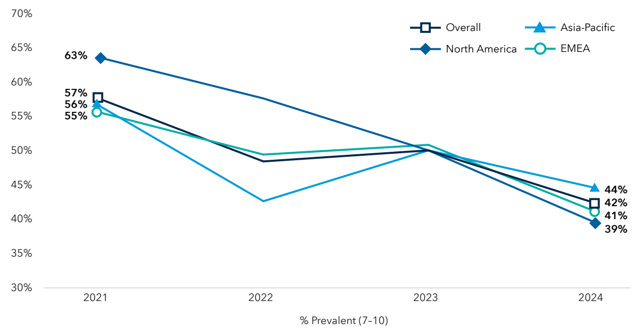
Totals may not reconcile due to rounding.

Perceived benefits of multi-thematic strategies over single-thematic strategies

	Overall	Region	
Diversification/lower concentration risk	64%	North America	64%
		Asia-Pacific	61%
		EMEA	66%
Potential for better risk-adjusted returns	50%	North America	46%
		Asia-Pacific	54%
		EMEA	49%
Broader ESG impact	49%	North America	49%
		Asia-Pacific	55%
		EMEA	46%
More efficient method of accessing multiple ESG themes	37%	North America	35%
		Asia-Pacific	38%
		EMEA	37%
Lower volatility	31%	North America	39%
		Asia-Pacific	28%
		EMEA	32%
Reduced style bias	31%	North America	21%
		Asia-Pacific	30%
		EMEA	35%
Adaptability to changing market conditions	28%	North America	32%
		Asia-Pacific	26%
		EMEA	28%

Each number represents the combined percentage of respondents that chose the given answer as their first, second or third choice.

Perceived prevalence of greenwashing within asset management since 2021



Share of respondents that perceive greenwashing as prevalent in the asset management industry. Rated on a scale of 0–10 where 0 = Not prevalent at all, and 10 = Extremely prevalent.

% Agree		"Greenwashing is not getting worse, the investment industry is just getting better at detecting it."	% Disagree	
Overall	40%		18%	Overall
Asia-Pacific	46%		18%	Asia-Pacific
EMEA	40%		15%	EMEA
North America	32%		25%	North America

Top approaches to incorporating ESG in investments

	2024	2023	2022	2021
ESG integration	58%	60%	59%	67%
Negative screening/exclusion	54%	52%	40%	55%
Thematic ESG investing	53%	49%	49%	50%
Best in class and/or positive screening	48%	41%	41%	55%
Impact investing	44%	45%	47%	41%

Multiple answers allowed.

Most important investment themes when selecting ESG funds

Energy transition	67%
Climate change	52%
Health and well-being	29%
Sustainable cities and communities	25%
Responsible consumption	23%
Clean water and sanitation	22%
Education and information access	21%
Digital rights (i.e., privacy, data protection, freedom of expression)	14%
Financial inclusion	14%
Biodiversity	13%
Diversity, equity and inclusion (DE&I)	10%

"Social issues are being overlooked in the debate on climate change."

% Agree	
47%	Overall
56%	Asia-Pacific
45%	EMEA
36%	North America

Each number represents the combined percentage of respondents that chose the given answer as their first, second or third choice.

Top considerations when determining if investments make positive contribution to sustainability

47%	Alignment of investee companies' products and services with the UN SDGs
44%	ESG performance of investee companies' operations (assessed using third-party ESG scores or frameworks)
41%	Alignment of investee companies' products and services with third-party taxonomies (e.g., EU green taxonomy, SDI Asset Owner Platform)
37%	Evidence of investee companies' transition to greater social/environmental sustainability and/or progress toward sustainability targets (e.g., Paris Agreement/Net Zero)
32%	Proprietary calculation of net positive vs. negative sustainability contribution of investee companies' products and services and/or operations

Each number represents the combined percentage of respondents that chose the given answer as their first or second choice.

Principle 7

Principle 7

Integration of stewardship and investment

As highlighted in the description of Capital Group's investment approach under Principle 1, we believe that the very nature of The Capital System ensures that capital entrusted to the firm is consistently stewarded – in the sense of being thoughtfully allocated, managed and overseen – to create long-term value for clients and beneficiaries.

Our investment philosophy is based on doing what we believe is right for the investors who are our clients and beneficiaries. The Capital System is rooted in three core pillars that inherently contribute to the stewardship of their capital.

- **Collaborative research:** We identify investment opportunities through deep analysis, supported by close collaboration among portfolio managers, investment analysts, economists, quantitative research and the ESG team. Analysing material risks and opportunities (including market and systemic risks discussed under Principle 4) is a crucial aspect of how we assess an issuer's long-term potential to generate value.
- **Diverse perspectives:** Leveraging the best ideas of multiple investment professionals helps us pursue more consistent results across market cycles with less volatility. For each portfolio, we build a team of managers with different but complementary styles, viewpoints and experiences. Portfolios reflect the best thinking of many investment professionals instead of one star manager. Each manager's approach is expected to fare differently in different market conditions – adding another layer of diversification to the portfolio. Risks are independently monitored to ensure they are intentional and properly sized. We also analyse qualitative and quantitative criteria and historical results to understand how managers and portfolios generated results under various market conditions.
- **Long-term view:** Managers are discouraged from engaging in short-term thinking. Investing with a long-term view helps align our goals with those of investors, with investors' long-term interests driving our decision-making. As described under Principle 2, our culture and compensation structure reinforce that focus – longer measurement periods mean more time for well-researched high-conviction investments to perform well.

Keeping in close contact with management teams and spending time on location, when possible, help drive deep operational understanding and inform all our investment decisions. As discussed in more detail under Principle 9, our investment analysts conducted 21,000 meetings with companies in 2024.

Our investment analysts do not just conduct research and make recommendations, they typically also have the opportunity to actually invest in their highest conviction ideas. Most funds have research portfolios managed by analysts. This serves to integrate even more deeply into the investment process the work that the investment analysts do getting to know the portfolio companies in their coverage.

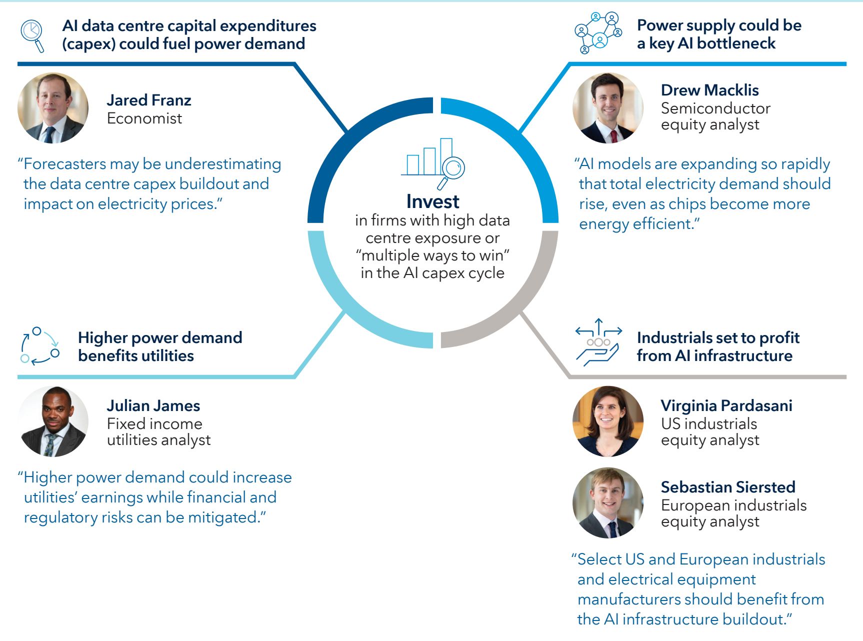
How information gathered through stewardship has informed investment decisions

Below are case studies demonstrating how Capital Group has integrated stewardship and investment through the research and investment process described above.

Case study: Finding opportunities in data centre infrastructure

Analysts from across Capital Group have sought to identify companies that might benefit from the anticipated buildout of data centres to support the increasing use of AI. This built on the collaborative work done by investors and the CSR and ESG teams on the AI-related trends to monitor, which were explored in the systemic risk section under Principle 4.

Bringing these different perspectives together helped to generate actionable views on investment opportunities, as demonstrated in the graphic below.



Recognising the implications of the AI-related demand for additional power, our ESG team explored this year what it will take to fully decarbonise data centers to meet the ambitious net zero targets set by the "hyperscalers" building the data centres. The companies' actions in this area will provide important insight into how they plan to allocate capital expenditures budgets going forward.

There are two key levers to decarbonising data centers: (1) sourcing carbon-free energy and (2) improving energy efficiency. Sourcing carbon-free energy is the ultimate path to reaching zero emissions but requires additional generation and transmission capacity which could take years. Hyperscalers are already the largest corporate purchasers of renewable energy. To speed up the transition to carbon free energy, nuclear power and large-scale battery storage are two opportunities experiencing significant growth.

The second lever, energy efficiency, is where we are observing frequent breakthroughs. While total data center power consumption is expected to grow due to the massive compute requirements to train models, there are still important efficiency gains underway that will mitigate how much power is needed – for example, new technologies that reduce the power consumption of GPUs (the essential processing technology for AI) and compute memory and storage. The transition to liquid cooling from air cooling can reduce total data center power consumption yet further. Each of these technology breakthroughs represents a potential area of growth and investment opportunity.

For investors, this research is valuable as it unpicks the different paths to decarbonising data centers and highlights other potential opportunities for investment growth.

Case study: Analysis and engagement around short seller attack

A French-listed testing company held by a Capital Group equity unit in 2024 was subject to allegations from a short seller in June about its financial reporting. The short seller published reports in which it claimed that the company's financial statements could contain material overstatements of profits, cash balances and other asset values, and questioned aspects of the company's financial ties to its controlling shareholder.

The covering investment analyst partnered with an accounting analyst in Capital Group's CSR team (whose role is discussed in more detail under Principle 4) and the relevant governance analyst in the ESG team to review the allegations. They concluded that improvements in line with best practice could potentially be made to the company's governance, reporting and internal controls, which they subsequently sought to raise with the company. Following an initial conversation with the CEO, the investment analyst and the governance analyst took up an opportunity to engage with members of the company's board through a specially convened session at the 2024 European Investor Day to better understand their position on these issues. At this session, the board outlined plans to strengthen certain governance arrangements, including through the appointment of an additional non-executive director.

The company's investor relations team later sought our feedback on the plans laid out by the board, in particular on the potential profile of the additional director, as well as on the anticipated approach to dealing with related party transactions involving the controlling shareholder. We encouraged the company to consider candidates with non-executive experience from other public companies, ideally experience serving on another board's Audit Committee. At the time of writing, the search for a suitable appointment by the company remains underway, and the stock continues to be held by Capital Group's equity unit.

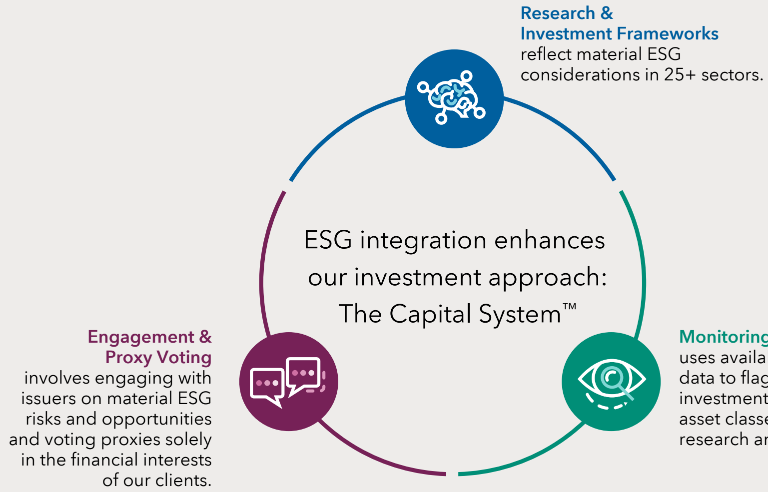
ESG integration

As can be seen in the above case studies, we analyse material ESG issues as a part of our investment research to better understand long-term risks and opportunities as we strive to maximise investment returns for our investors. We seek to invest in issuers well-positioned for the future. ESG issues can impact the value of an investment over several years or decades, a timeframe that naturally aligns with our long-term orientation.

At Capital Group, the integration of ESG considerations into our investment approach enhances our investment research, due diligence and engagement efforts and is not a separate "add-on." Investment analysts and portfolio managers are responsible for integrating ESG into The Capital System.

Our integration of ESG builds on our bottom-up investment research and analysis and is centred on three components: research and investment frameworks, a monitoring process, and engagement and proxy voting (see the graphic below for more detail). We have been intentional about creating a process where each component informs the next, enabling us to continuously refine our approach. Activities and outcomes relating to research and the use of our investment frameworks, and also the monitoring process, are outlined below. The engagement and proxy voting component is discussed in detail under Principles 9 and 12.

ESG integration: Our three-part process



*As at 31 December 2024, monitoring applies to corporate, sovereign and select municipal bond holdings.

Research & Investment Frameworks

Our equity and fixed income analysts have – in partnership with our ESG team – developed sector-specific, proprietary ESG investment frameworks. Spanning more than 25 corporate sectors and three securitised sectors, each framework is intended to help our investment professionals examine material long-term ESG issues that could affect their investment theses. External inputs such as the International Sustainability Standards Board's (ISSB) standards are valuable; however, our framework is based on our proprietary research and our analysts' and ESG team's extensive experience.

The frameworks are reviewed periodically to ensure they remain relevant. Our in-house ESG team facilitates this process, partnering with investment professionals to reflect emerging and evolving environmental, social and governance topics. ESG research and our corporate investment frameworks are also supported by monitoring, engagement and proxy voting.

2024 activities and outcomes

Governance-related research projects: Governance issues have always been a key priority for Capital Group's investors. In 2024, we continued the tradition of an investor-led group of analysts exploring various topical questions with the aim of advancing strong corporate governance and driving long-term shareholder value. The primary research conducted was intended to inform our investment decisions, stewardship activities with portfolio investments, and proxy procedures and principles.

This year, the issues that the group focused on included the following:

- **One-time awards for CEOs** – We explored the prevalence and effectiveness of one-time awards for CEOs (both retention grants and so-called "mega block grants"), and the extent to which they align with the interests of long-term investors. Our findings led us to propose some additional language in our global proxy voting procedures and principles.
- **Use of leverage by companies and the potential impact on executive compensation** – We also explored the relationship between companies with significant changes in leverage and executive compensation metrics which may be particularly sensitive to such changes.
- **Executive compensation practices in Hong Kong** – Finally, we undertook research to deepen our understanding of Hong Kong's executive compensation practices, identify potential areas where improved effectiveness would benefit shareholders, and develop a framework for effective engagement on this topic. Based on our findings, we plan to initiate engagement at both the company and market level in the region, including direct engagement with regulators, to encourage greater transparency.

Thematic research on long-term trends: These governance-related research projects were complemented by a number of thematic in-depth research undertaken by other members of the ESG team, one of which is outlined in the below case study.

Case study: Future food trends

In 2024, our ESG team published its analysis of trends in the global food system. This faces a multidecade period of upheaval, with the need to transition to more sustainable and resilient food production method while feeding a growing global population.

For long-term investors, structural changes across the value chain will present both opportunities and risks as innovations disrupt various food-related industries.

Among the innovations that we are now monitoring on are:

Seed innovation – we expect seed-related innovations to have an essential role in raising overall crop yields, enabling greater crop resilience or nutritional value. Looking ahead, we think some seed innovators will be in a sweet spot for growth: operating in a high-margin business with long-term growth drivers and potential for significant expansion of the total addressable market.

Lower-impact fertilisers – chemical fertilisers and pesticides have been the enabling technology for agriculture's sharply higher productivity in the last century, but production of nitrogen-based fertilisers is incredibly energy-intensive. Meanwhile, growing recognition of the detrimental environmental and health impacts of chemical fertilisers and pesticides are acting as a headwind on usage. Regulators in some regions are paying closer attention to this and focusing on guidelines designed to limit or halt usage. Development of fertilisers (and agricultural practices) that lower greenhouse gas (GHG) emissions is still nascent, but we think it will be one of agriculture's key innovations in the next decade.

Precision agriculture – the idea of precision agriculture is that farmers can optimise their operations with geolocation, sensors, robotics, drones and software, among other technologies. In 2024, one of our equity investment analysts met with senior management at one of the many firms currently directing significant capital expenditure toward their precision agriculture businesses, and she found that farmers using precision agriculture products had seen greater productivity and improved crop yields. New advances in precision agriculture, such as ambitious use of artificial intelligence, could drive even more efficient resource allocation and yield improvements.

Regenerative farming – this is an outcome-based approach which, through cover crops, multicropping and elimination of inorganic pesticides and fertilisers, improves soil health, biodiversity and climate impact of agriculture. Farmers switching from a conventional to a regenerative approach could (after a few transitional years with potentially reduced output) reap a 15–25% return on investment, based on an analysis conducted by Boston Consulting Group.* Our research found that Nestlé is one of the companies that is helping move regenerative farming into the mainstream. One of our equity investment analysts takes the view that this could help the company secure its supply of key inputs for food production for decades to come, while also kickstarting more widespread adoption in the food industry.

Alternative proteins – awareness of the potentially negative impacts of meat consumption on the well-being of humans, animals and/or the environment has led to increased consumption of plant-based meats and dairy. Sales of meat substitutes doubled in five years to reach an estimated US$10 billion in 2023. Unsurprisingly, many firms are vying to establish themselves in the alternative protein market and several brands have struggled to meet the early growth projections. For selective long-term investors, some of the more interesting opportunities may arise outside of those firms producing alternative burgers and other finished products.

Waste management and reduction – the reuse and recycling of waste from the food industry can create opportunities. Consumer and commercial demand for sustainable food production and packaging is encouraging a wave of new research and development. Food waste can become a much more widely used input (feedstock) for alternative proteins, animal feed, fertilisers, biofuels, bioplastics and even clothing. Regulation is generating additional tailwinds. The UK, Japan and European Union have drafted, or already implemented, new regulations on GHG emissions for food waste reporting. We expect fuel created from food waste could play a role in helping decarbonise some types of transportation, utilities and certain other sectors blighted by high GHG-emissions.

*Doug Petry et al., rep., *Cultivating Farmer Prosperity: Investing in Regenerative Agriculture* (Boston Consulting Group, OP2B, May 2023).

Monitoring Process

We monitor our corporate equity, corporate bond and sovereign bond holdings against available data from third-party providers to surface external views of potentially material ESG risks, as well as corporate issuers that may be in violation of international norms. For municipal bonds, we use third-party data to surface external views about potentially material physical climate risks for a subset of our municipal bond holdings. Monitoring our investments against third-party data helps us guard against confirmation bias. Our proprietary monitoring methodologies and thresholds use these external data to help us identify instances where our analysis and investment views differ from the market. Issuers that do not meet our thresholds are flagged for further analysis by our investment professionals.

Our in-house ESG research tool, Ethos, alerts the relevant investment professionals to the issues flagged by third parties. The investment professionals are required to resolve these flags in a timely manner. This will involve an assessment of the materiality of the identified flag, its impact on the investment thesis (if any) and an update on any engagement efforts. Responses are housed on Ethos, arranged by issuer, which is accessible to members of the Investment Group and the ESG team. On a regular basis, the ESG team conducts a review to assess where further insight and details may be needed. The Issuer Oversight Committee acts as an extension of our monitoring process for areas of elevated ESG risk that may affect portfolio holdings. Importantly, our perspectives are built on a long-term view, engagement and detailed analysis – never on monitoring results alone.

Asset class-specific approaches to monitoring: At Capital Group, we recognise that different asset classes require different approaches to ESG integration. Our monitoring process is designed to utilise unique methodologies for different investment universes to help us take a thoughtful approach to ESG.

- **Equities and corporate bonds:** Our process for monitoring equities and corporate bonds draws on third-party ESG data and flags issuers that present potentially higher ESG risk across any of the five select indicators. These indicators include materially lower ESG performance relative to peers, heightened governance risk and potential violations of international norms via the UN Global Compact and OECD guidelines.
- **Sovereign bonds:** Our current monitoring process for sovereign bonds draws on raw scores from three data sources – the Notre Dame Global Adaptation Initiative climate vulnerability index (environmental), UN Human Development Index (social) and World Bank's Worldwide Governance Indicators (governance) – to monitor and flag holdings across the sovereign universe. We measure the raw ESG score for each country on a weighted basis in which governance factors outweigh environmental and social factors. This weighting reflects the relative materiality of E, S and G risks according to our sovereign analysts' views.

  Issuers are evaluated on (1) an absolute basis as well as (2) a gross national income-adjusted basis to better understand how well a country manages ESG risk relative to their wealth and available resources. Issuers with the lowest scores in both categories are flagged for additional analyst review.

- **Municipal bonds:** Our monitoring process for municipal bonds focuses on physical climate risks and their potential impact for a subset of our investments. We use third-party data from Intercontinental Exchange (ICE) Climate to surface external views about potentially material physical climate risks. Our monitoring process applies to obligors in select sectors (excluding tobacco, corporates, housing and gas, as well as escrowed bonds) that exceed 0.25% of the assets of certain American Funds, which are Capital Group's US-based mutual funds. Obligors are flagged for having an elevated score in flood, hurricane, wildfire or overall climate risks.

2024 activities and outcomes

Update to ESG monitoring process for corporate equity and corporate bonds: As noted above, we currently monitor for potentially material ESG risks across our corporate equity, corporate bond and sovereign bond investments. We review our methodologies regularly to ensure they remain fit for purpose, and in 2024 we updated our corporate equity and corporate bond monitoring process. This update stemmed from a recent methodology review that highlighted opportunities for enhancement, particularly around the materiality of the flags we used.

Our original methodology leveraged six indicators. As part of the update, one existing indicator was removed, one new indicator was added, and the risk threshold within an existing indicator was changed. By doing so, we sought to ensure that we continued to capture the most material metrics as part of the monitoring process and removed metrics that are less insightful. The addition of the new indicator also improved transparency for clients on OECD Guidelines flags relating to companies in the fund they hold.

Case study: Evolving improvements in governance – Egypt

In 2023, Egypt faced a combination of record inflation, unsustainable debt and an overvalued currency, as a result of unsustainable policies. IMF support was contingent on some long-promised reforms.

Our sovereign monitoring framework has shown a gradual deterioration in Egypt's governance indicators, such as "voice and accountability" and "political stability and absence of violence". These indicators also fell below the average score in the region.

In March 2024, the Central Bank of Egypt hiked rates by 600 basis points and allowed its currency to fall by 60%. The significant exchange rate and monetary policy adjustments not only help move the country's real policy rate into positive territory, but also reflect a notable improvement in government effectiveness and regulatory quality.

With signs of improving governance, amongst other factors, we have increased our conviction in Egypt.

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

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 multifaceted. 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 utilise 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 utilise 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 we 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 seek to be proactive in negotiating restructuring, in an attempt to avoid impairments. Gaining 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 support management and their external advisors in the development of restructuring plans to help ensure the best possible recoveries for the bond position. This can often be a multi-month or multi-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.

Our use of service providers

As we only use service providers as one of many research sources, or to aid our execution of proxy votes, we discuss how we interact with these service providers under Principle 8.

Principle 8

Principle 8

Capital Group works with various data vendors who provide us with a large data set taken from multiple sources. Examples of the data providers we utilise and a brief description of purpose is listed below:

Type of vendor	Examples of vendors	Description
Governance and proxy research[1]	• Institutional Shareholder Services (ISS) • Glass Lewis & Co • Equilar	Supplemental research utilised for the purposes of aiding in proxy voting and engagement on corporate governance issues.
Proxy vote execution	• Institutional Shareholder Services (ISS)	Vote execution platform and reporting services.
Company research data	• MSCI • Bloomberg • S&P Global • Just Capital • CDP • GRESB • Integrum • IHS Markit • Open Secrets • Skarn • Auquan	ESG data providers utilised to augment proprietary research on corporate issuers for greater insights. We also utilise various brokers.
Sovereign research data	• Notre Dame • World Bank • United Nations Development Programme	ESG data providers utilised to augment proprietary research and monitoring on sovereigns.

[1] Note: As a policy, we do not utilise the recommendations of proxy advisors in our voting activity.

Vendor onboarding and evaluation

Our engagement process with a vendor begins bottom-up, based on the needs of our analysts for the purpose of research, monitoring, voting and engagement. Once an analyst identifies a particular field of interest, a process is undertaken involving our ESG data specialists who survey the market to understand 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 who meets our research needs, the market data team finalises the contractual and legal aspects of obtaining the raw data. Then, our engineering team works on onboarding the data to Capital Group's 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 data files daily, weekly or monthly, and such files undergo the standardised quality assurance process, in addition to manual evaluation by the ESG team to ascertain the quality. Any errors observed are reported to the vendor and we track the time it takes for the vendor to remediate such errors.

2024 activities and outcomes

Feedback: We continue to meet with ISS, who helps to 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 performed a site visit in December 2024 to ISS' Service Center in Norman, Oklahoma in the US, which also functions as their disaster recovery site. We perform a site visit every two years.

This regular contact helps us determine whether ISS's ability, capacity and authorisation meet or indeed exceed 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.

Where we have held a provider to account: Over 2024, MSCI launched a consultation and gathered feedback from over 30 global investment institutions on the proposed definition and scope of the "Controversial Weapons – Any Tie" field. This field is used by Capital Group in conjunction with others to inform certain screening criteria in our Article 8 mutual funds, and where material and relevant, is also used by Capital Group's investment and ESG analysts to feed into their research of issuers. The proposed definitional change had the potential to impact data inputs to our proprietary research as well the investable universe for our Article 8 Funds. As such, it was important for Capital Group to engage with MSCI to understand the scope and timeline of the proposed change, and to offer our feedback.

Over 2024, Capital Group submitted responses to the consultation, encouraging MSCI to retain the current scope and definition of the Controversial Weapons data fields, and to provide further transparency behind the methodology and rational for amendments. This was based on our preference to use a more nuanced approach in the definition of controversial weapons that considers intentionality, whereas MSCI's proposed change would have categorised all controversial weapons, including nuclear weapons and their carriers, under a single category. Our preferred approach and recommendation also allows us to maintain the granularity needed to identify and analyse each individual component within this category. We also encouraged other asset managers to respond as part of the consultation. Finally, on the topic of timeline, we encouraged MSCI to allow more runway time ahead of any proposed data changes and provide us with building blocks of the factor/metric to keep our granular methodology in case required, such that we had adequate time to make internal adjustments and review any data changes to ensure smooth transitions.

While this consultation is an example of specific engagements with MSCI on data topics, we would note our long-standing relationship with MSCI which allows us to maintain a close and open line of communication with them - this forms part of our stewardship approach with regards to data and service providers. For example, MSCI notify us when they plan to change schema, which allows us to make operational adjustments and manage any impact to client accounts.

MSCI confirmed that, as a result of this review and consultation with industry players, it would retain the current scope of the field in question and provide more transparency behind the methodology and the rationale for the certain factor aggregations. MSCI also confirmed that they would update their data hierarchy structure for Military Weapons and publish a guide on the sector to delineate approaches and definitions of weapon types.

Case study: Agility in the fast-paced ESG data landscape

Our ESG and Market Data teams are constantly on the lookout to ensure our research and data providers meet our evolving and deepening needs. The surge in new services, providers, and tools makes it both exciting and challenging to find those that truly add value to our investment research processes.

In 2024, we added nine new datasets to our repertoire. Some replaced existing providers due to better technology or broader coverage, while others introduced exciting new sources that were previously unavailable.

One notable project was reassessing how we source and analyse ESG news for the companies in our portfolios. ESG newsflow can be a helpful and differentiated input for understanding how companies manage relationships with key stakeholders and identifying early indicators of material issues. While have numerous methods of accessing company news, we seek to draw on a diverse base to keep a broad perspective.

Our review led us to a welcome new source - Auquan. Auquan uses a blend of news sources, powered by an AI engine, to deliver the most relevant news. After thorough testing, its algorithm proved exceptional in filtering out 'noise' and highlighting relevant news items, effectively translating non-English sources, and providing topic categorisation.

Data from Auquan is now integrated into our internal ESG research tool, Ethos. Ethos consolidates all ESG data in one convenient place to enable peer group comparison, enhancing our ability to monitor ESG topics efficiently. It serves as one of several inputs that assist analysts across Capital Group in evaluating the impact of ESG factors and newsflow on the success of companies in our portfolios.

Principle 9

Principle 9

Engagement within our investment approach

Our intensive research approach and our long average holding periods naturally lead our analysts to develop constructive and enduring relationships with companies and issuers. At the heart of these relationships is a practice of detailed, case-by-case engagement on issues that are material to the delivery of superior long-term investment results for our clients and beneficiaries.

We believe this practice of engagement serves an especially important role within the investment process. By engaging with executives and non-executives on important issues, we can both better understand and explore potential risks to our investments. We can also gain a better understanding of management teams, as well as their strategies and stances on key issues and how they are overseen by boards of directors.

We will generally engage in direct dialogue with companies privately. We believe this is an effective and constructive approach to understanding how companies and issuers are managing material risks and opportunities, including those that are ESG-related.

Case study: Dialogue on operational and corporate developments

A betting and gaming company held by Capital Group equity units in 2024 implemented a number of operational and other changes during the year. These included the transition to a new Group Chief Financial Officer (which followed the retirement of a long-serving Chief Operating Officer), as well as switching its primary listing from the London Stock Exchange to the New York Stock Exchange in May.

Capital Group's equity units each maintained a close dialogue with the company through these changes to understand management and board perspectives on such changes. Some investors attended the company's Investor Day in New York City in September, where operational plans to grow the business – both in the US and globally – were presented.

Capital Group's equity units, joined by members of the Global Stewardship & Engagement (GSE) team (a group of specialists within the ESG team who are responsible for partnering with investors on governance and proxy matters), discussed the company's plans to evolve certain governance arrangements in connection with the primary listing change. To assist investors with reviewing the plans and provide constructive input where feedback was sought from the company, GSE involvement came from both its EMEA and Americas regional teams. This allowed us to leverage relevant market-specific expertise to enhance investors' understanding of the changes and provide views on matters including executive compensation and the evolving composition of the board relative to market practices on both side of the Atlantic.

ESG-related engagement

As outlined under Principle 7, and as the above case study demonstrates, our ESG philosophy is to ensure that the integration of material ESG considerations enhances our general engagement efforts with companies and issuers, rather than being a separate "add-on." Our approach is made more powerful by the fact that our engagement on ESG-related issues is conducted by our ESG team in collaboration with our investment professionals, giving consistent messages to companies and solely focused on areas relevant to the investment case.

In this way, ESG engagement is used as a tool for generating investment-relevant insights, with direct dialogue an extension of investment and ESG analysts' ongoing research and monitoring efforts.

We may use engagement to encourage disclosure on matters that we believe can impact the company's ability to generate long-term returns, and we may share examples of effective management practices observed in a given sector that may be helpful to the company. The purpose of all of our engagement activities is to facilitate a better understanding of companies' approach to issues that are relevant to the investment case in order to protect and grow the value of our investments, for the benefit of clients and beneficiaries. It is not intended to set conditions for our support of the company.

Case study: Nippon Television Holdings

Nippon Television Holdings is a Japan-based commercial broadcast television company, providing programmes through a national network system. It also operates publication and entertainment businesses.

Strong governance practices are key to balancing the interests of a company's long-term shareholders. Capital allocation has been an area of focus for corporate governance reforms in Japan. However, the Broadcasting Act of Japan states that foreign shareholders of broadcasters should control less than 20% of voting rights. This created some uncertainty around payment of dividends on shares owned by a foreign investor in excess of the 20% limit that are nonvoting. Separately, cross-shareholding[1] has been common practice for Japanese companies. It has faced increased scrutiny, with concerns it may potentially hinder corporate management from acting in the interests of all shareholders.

One of our investment analysts and an equity portfolio manager have I engaged with the firm since October 2023. Discussions have focused on better understanding the company's capital allocation policy – especially of not paying dividends to foreign shareholders that exceed the 20% limit for voting rights as stated by the Broadcasting Act of Japan. Our team highlighted the challenges created for global investors given the uncertainty around dividend payments to foreign shareholders. Nippon Television clarified that the law does not prohibit companies from paying dividends to foreign investors without voting rights, and that it would be technically feasible to do so under the current market infrastructure.

In February 2024, Nippon Television announced a proposal to pay dividends to all foreign shareholders, regardless of their voting rights. This aims to support the company's "Capital Efficiency Plan," which includes a total shareholder yield target of 30% while maintaining a policy of sustainable and stable shareholder returns. During a follow-up engagement with our team in February 2024, the firm stated that this decision was informed by feedback from foreign institutional investors, including Capital Group. The company is also gradually selling down its cross-shareholding business worth more than ¥200 billion.

Our team will continue to monitor developments in its approach to capital allocation decision-making and the unwinding of its cross-shareholding business.

[1] A practice where one publicly listed company holds a significant number of shares in another.

Selection and prioritisation of ESG engagement targets

With the above in mind, we determine which companies and issuers we should prioritise for ESG-related engagement based on a range of factors, including:

- **Issues identified through a company's proxy**

  The GSE team engages proactively and on a responsive basis to discuss a range of governance topics that relate to proposals put forward at annual or extraordinary general meetings (AGMs/EGMs). Often using our voting decisions and supporting rationale as a starting point, we prioritise engagement with companies where Capital Group has identified potential issues that we wish to explore in more detail to understand better the company's approach.

  In keeping with the partly thematic approach that we take generally to engagement, where we have identified common areas of discussion, we will consider exploring these through a series of engagements with multiple portfolio companies in order to establish a more rounded view of the relevant topic.

  On a more individual company basis, we will also consider engaging with companies where an investment unit voted against management to discuss the issues involved. These issues might include capital-related items and/or concerns around remuneration practices.

- **ESG-related factors that investment professionals have identified as material to the delivery of superior long-term investment results**

  The ESG team works closely with the Investment Group to understand what issues may be relevant to their decision-making, and where engagement may help them to explore and gain a better understanding of a company's approach. In keeping with this investor-led process, we may prioritise issuers for engagement where Capital Group is a significant holder from either a market value or percent ownership perspective. Where the ESG team and the relevant members of the Investment Group consider it appropriate, these engagements may focus on how an issuer is approaching specific environmental or social issues which investment professionals view as financially material.

- **Exposure to ESG risks/controversies**

  Issuers are regularly identified for engagement via other parts of our ESG programme, most notably, the following:

  - Eligibility assessments for companies and issuers to be considered for inclusion in our Future Generations funds. Assessments may identify factors on which our understanding and views may be enhanced through engagement. Companies and issuers may also be classified as demonstrating increasing alignment with a particular UNSDG (sometimes referred to as "transitioners"), in which case engagement may be used as a tool for monitoring such alignment.
  - The monitoring process, which flags issuers that 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), which consists of senior investment professionals as well as representatives from ESG, Legal and Distribution, and which reviews certain issuers exposed to elevated ESG-related risks that may affect portfolio holdings. Where the committee feels that engagement may be prudent to help mitigate our understanding of any such risks, it will recommend individual companies for engagements. The committee reviews the status of these engagements quarterly.

- **Opportunities for enhancing our understanding and discussing best practices, particularly in thematic areas of focus**

  Our approach to thematic engagements is twofold:

  - There are particular thematic issues that have been identified in our ESG investment frameworks as being material to a significant portion of our holdings. On these issues, we may use engagement at an individual company or issuer level to share examples of effective management practices in the industry we have observed and discuss the companies' approach to the issues. The principal aim of these engagement activities is to better understand plans to manage key risks and opportunities where we believe they are or could be financially material over the long term.
  - In addition, we may pursue smaller thematic engagements at the sector or topic level, aiming to explore 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.

Case study: Engagement with Netflix, Inc. on compensation

Netflix is a US-based entertainment service provider with over 260 million paid memberships worldwide.

The company's variable executive compensation structure previously allowed executives to choose between significant cash payouts (not tied to performance metrics) and options without vesting periods. This posed potential risks of misalignment between the interests of management and shareholders. Executive compensation is also a key consideration in our ESG Investment framework for media and entertainment firms, as appropriate alignment of executive incentives with stakeholder interests can, in our view, help firms seek better long-term results.

Compensation has therefore been a theme in discussions between Netflix and our investment and GSE analysts. In August 2022, our analysts raised concerns around the magnitude of the firm's executive pay, and provided feedback on how the compensation structure might better align with long-term shareholder interests. In September 2023, our analysts discussed Netflix's updated compensation structure. The company's adoption of Performance Share Units (equity awards which vest upon achieving predetermined company performance goals) for incentive pay was viewed favourably. Our analysts also noted that, if total shareholder return was used as a metric, above-median benchmarking could be appropriate.

In January 2024, our analysts noted that two-thirds of PSUs were vesting over a short performance period (within just 1 to 2 years), so discussed how this aspect of the plan was developing. Netflix has been receptive to our analysts' perspectives on compensation, recognising the need to implement better guardrails in its compensation structure. Our analysts will continue to monitor Netflix's executive compensation structure.

Case study: Holding flagged due to material ESG issue

Following the release of the final report on the Grenfell Tower fire public inquiry in September, one of our ESG analysts met with an Irish building products company held during 2024 that had been involved in the inquiry. The purpose of the engagement was to discuss the potential implications of the findings from the perspective of ongoing reputational, legal, and regulatory risks.

The final report on the inquiry concluded a seven-year investigation into the tragic 2017 fire in the UK that claimed 72 lives. Only 5% of its insulation was (unbeknown to the company at the time) used in the building, and the inquiry's final report commented that the insulation used in the building played an immaterial role in the cause of the fire. Despite this, the company has continued to face reputational and headline risks related to findings in the inquiry, which (amongst other things) highlighted certain misleading marketing practices connected to the sale of the relevant insulation product.

We learnt from the engagement that, despite ongoing negative headlines, the company's relationships with UK customers, manufacturing facilities, and local communities where they operate remain strong. Moreover, while calls for the company to be banned from winning UK government contracts have thus far had a limited impact on the business, the company is also focused on maintaining constructive relationships with the government going forward. In light of this, the analyst continues to have confidence in the robustness of the company's management of the situation.

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

Case study: Capital allocation-related engagement with Kansai Paint Co Ltd

Japan-based Kansai Paint is one of the world's largest paint manufacturers, generating one-third of its profits from automotive paints and half of its profits from emerging markets, primarily India.

Striking the right balance between retaining earnings to reinvest in the company and returning to shareholders with a clear capital allocation policy will, in our view, be critical for long-term value creation. A Capital Group investment analyst and a portfolio manager have been engaging with Kansai Paint of the governance around its capital allocation for several years. In April 2020, Kansai Paint began efforts to optimise its balance sheet and increase payout to improve return on capital.

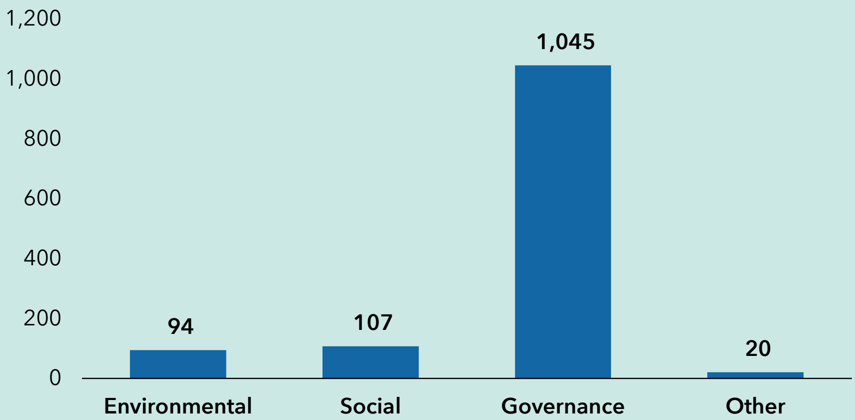
In February 2024, Kansai Paint issued JP¥100B worth of convertible bonds, which caused an estimated equity dilution of 7–8%, raising doubt among investors about management credibility. A Capital Group investment analyst then engaged with Kansai Paint's CFO and head of strategy. Our analyst highlighted prevailing market practices relating to capital allocation and where the company's own policies might differ. One such market practice discussed was creating shareholder value by facilitating free cash flow (FCF) payout through buybacks.

In May 2024, Kansai Paint announced several improvements to its capital-allocation approach, notably: (i) a policy whereby 100% of FCF would be returned to shareholders in the absence of any merger and acquisition activity; and (ii) an intention to execute share buybacks "at an early stage" to minimise concerns about dilution by the issuance of convertible bonds. The company went on to announce a significant share buyback in May 2024, representing 40 million shares (19% of total shares issued).

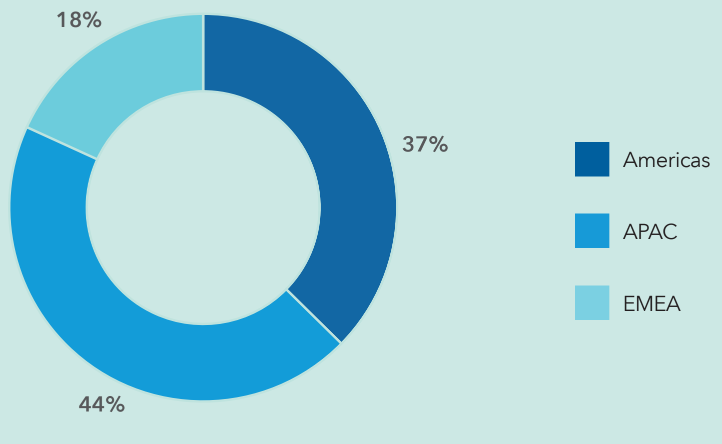
2024 activities and outcomes

In 2024, Capital Group's investment professionals, and those supporting them, held 21,000 meetings as part of their fundamental investment research. Within this, the ESG team (in partnership with investment professionals) conducted more than 1,250 engagements with over 700 companies on ESG-related topics. We continue to focus, where appropriate, on bottom-up targeted engagement with portfolio companies to discuss live issues we consider material to delivering returns to shareholders, and we favour a smaller number of more detailed discussions over a larger number of high-level interactions. More detail on our ESG-related engagements can be found below.

Engagements by category, 2024



Engagements by region, 2024



Source: Capital Group. As at 31 December 2024.

Top 5 primary engagement topics during 2024, by frequency

- Board composition and leadership
- Executive compensation
- Corporate actions and capital allocation
- Management quality and accountability
- Ownership, control, and shareholder rights protections

These topics broadly mirror the topics discussed in 2023, with some notable variation. Management quality and accountability has continued to rise in prominence, driven by this remaining an important topic of discussion with our investments in Asia. "AGM-related matters" has been replaced in the top 5 this year (by Ownership, control, and shareholder rights protections), largely due to refinements in how we are capturing engagements around companies' shareholder meetings. Instead of classifying these in broad-brush terms as AGM-related, we have increasingly sought to distil the specific issues discussed and record these in a more granular way.

Letter outreach: Beyond the engagements outlined above, we again sought to increase proactive outreach with portfolio companies through post-proxy season engagement letters. In 2024, we took a more targeted approach of sending letters to companies where we had identified a governance practice that is a potential cause for concern (in relation to which we may or may not have voted against during the 2024 proxy season). The governance matters we focused on this year were the extent of public company commitments amongst directors in the US; the provision of diverse perspectives amongst boards in Asia; and the continuing use of higher thresholds for the disapplication of pre-emption rights for share issuance authorities in the UK (the latter of which was a follow-on from the letter outreach we undertook in 2023). Letters were sent to more than 160 companies across the US, EMEA and Japan and, in a number of cases, was a catalyst for constructive engagement on areas where our views may be different from those of the company.

Enhancements to ESG engagement tracking: Looking at the ESG team's broader engagement programme, we continued to enhance our proprietary tracking tool for documenting the ESG-related engagements held with companies and issuers. In particular, changes were made to the note-taking template for surfacing key information and insights, which we saw as contributing over the remainder of the year to a clearer articulation of investment-relevant takeaways for readers. From 2024 onwards, these readers include all relevant investment professionals, who are now able to access ESG-related engagement notes through their own research platform.

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 interact with companies and their boards candidly and without intermediaries.

We target any collaboration with other asset managers on initiatives to improve the framework universally for investors, predominantly through our industry memberships (details of which are discussed under Principle 4). Through such industry-level initiatives, we will engage relevant stakeholders alongside other investors where we believe this will achieve better investment outcomes for our clients.

Case study: ISSB Investor Advisory Group

Capital Group has been a long running supporter of the ISSB and its predecessors, recognising the need for consistent, comparable and reliable disclosure of material and decision-useful ESG information through the ISSB reporting standards. We invest in thousands of companies across dozens of markets; consistent disclosure enables us as investors to better understand how companies are managing risks, adapting business models, and taking advantage of opportunities relative to global peers.

In our capacity as a member of the ISSB Investor Advisory Group, we had the opportunity to host their in-person meeting in London in December 2024. The group convenes four times a year either remotely or in person to discuss developments and adoption of ISSB standards across jurisdictions globally.

Capital Group continues view ISSB standards as helpful in streamlining disclosures to what matters most to investors, and we have contributed to consultations to encourage adoption of ISSB across markets (which were discussed under Principle 4). As at December 2024, 16 jurisdictions had finalised decisions on adopting or using the ISSB standards, and adoption was in progress in a further 14 jurisdictions.

The Advisory Group has also been focused on the interoperability between the ISSB standards and the European Sustainability Reporting Standards (ESRS), highlighting the role investors can play in helping to bring clarity to companies. We hear often from portfolio companies that the variety of different standards, frameworks and expectations on ESG issues can be confusing to navigate and resource-intensive to comply with.

The continuing importance of the Sustainability Accounting Standards Board (SASB) standards has also been a topic of focus. The standards still form an important basis for sector-specific work being carried for ESRS reporting, so continuing to revise them in parallel to the adoption of the ISSB standards remains a top priority for the ISSB.

Case study: Collective engagement on Japan cross shareholdings

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.

In 2024, the ACGA formed a working group of members and other interested investors to discuss the issue of Japanese companies' so-called "strategic shareholdings". These often exist to form business relationships between group companies and their suppliers as well as customers and have often been criticised as an inefficient use of capital, an inhibitor of corporate reforms and at times a source of anti-competitive behaviour by businesses.

Capital Group took part in this working group and co-signed a letter to underscore the benefit to shareholders if companies were to accelerate the further reduction of these shareholdings, which we believe in principle should be zero for most companies. In this letter, the working group provided key recommendations on the divestment of strategic shareholdings in a manner that would advance governance practices and help companies achieve sustainable long-term growth.

Those recommendations included a general policy of no (zero percent) strategic shareholdings, and if any were to be retained that the board of directors and audit board members play a stronger role in the oversight of strategic shareholdings. Moreover, we recommended improved disclosure on the state of strategic shareholdings, on how the board oversees them and their plans for the proceeds from these divestments.

Principle 11

Principle 11

Advancing engagement

Our approach to advancing issues with companies and issuers is tied into our investment professional-led approach to stewardship. Given the investment analyst-led nature of our processes, we are able to leverage their assessment of issues to help determine which matters require particular attention to drive long-term value creation. Much of our interaction with companies and issuers, including where this is ESG-related, does not have a specific objective other than to understand material risks and opportunities. We do not condition our investment on the company making changes or an expectation that they will undertake certain actions. In line with our commitment to effective stewardship, we will consider advancing a specific engagement when we observe a lack of company action or responsiveness over a sustained period on an issue previously discussed with the company that we believe could materially impact its ability to deliver returns to shareholders. Such action is not commonly required. That said, we will weigh the potential benefits of advancing an issue and consider on a case-by-case basis whether this is likely to contribute towards better outcomes for our clients and beneficiaries. Our process in this respect does not differ between funds, assets or geographies.

Engagement is an important part of our diligence in monitoring the leadership teams of businesses in which our clients are invested and fostering constructive dialogue. We may meet with management to discuss concerns, or (depending on the nature of the issue) raise the matter with non- executive directors or the company's advisers. We may also determine that, in order to protect and grow the value of our investment, it is appropriate to vote against a resolution put to shareholders, share our views with company boards or seek views of other stakeholders. Ultimately, if we believe engagement is not producing the outcomes necessary to create and sustain long-term value, we will divest.

Case study: Developments following letter-writing programme on capital raising authorisations

In November 2022, the UK Pre-Emption Group issued a new version of its Statement of Principles, implementing the recommendations of the Secondary Capital Raising Review. The Statement of Principles provides that shareholders support disapplication of pre-emptive rights resolutions of up to 20% of the share capital in aggregate (previously 10% in aggregate).

Our proxy voting procedures and principles state that we will generally support a resolution to authorise the issuance of equity, with disapplication of the pre-emption rights up to 10 percent of the issued share capital, provided that any amount above five percent is to be used for the purposes of an acquisition or a specified capital investment. This is due to the potential for a larger issuance of shares to non-shareholders to unduly dilute the holdings of existing shareholders. Having identified an increasing number of companies seeking authorisation to issue up to 20% of issued share capital without pre-emption rights attached, we decided to communicate our views on this issue through letters to and engagements with portfolio companies (this letter-writing programme was referred to in last year's report).

Many companies acknowledged our stance but chose to maintain their requests at such level. However, some companies, including a British aerospace manufacturing company, concluded that seeking authorisation for the new higher ceiling was not necessary for their business needs. At their 2024 AGM, they reverted to the lower level of 10% in aggregate.

Case study: Divestment after engagement on CEO transition

While managers collaborate and share insights, each invests independently according to their strongest convictions. One of the equity analysts covering the healthcare sector decided to sell her shares in a US health insurance company due to loss of conviction.

In early 2024, the analyst expressed a bearish outlook on the company, primarily due to concerns regarding management's ability to meet long-term guidance. The analyst highlighted that despite attractive attributes, such as low valuation and good dividend yield, she had lost conviction in the company's leadership, particularly following the announcement of a CEO transition. The former CEO was set to be succeeded by an incoming CEO who lacked direct health plan experience. This change raised concerns about the company's strategic direction and its ability to navigate a challenging utilisation environment.

The analyst anticipated a guidance cut in conjunction with the CEO transition, as the company had not adequately accounted for increased utilisation pressures in its bids. She then had conversations with the Board Chair, which heightened her concerns about the company's future guidance.

Despite the low valuation potentially offering a rebound opportunity, the analyst concluded that the risks associated with the company's management transition and operational challenges outweighed the potential for a positive sentiment shift. As a result, she decided to sell her shares in the company and increased her position in another healthcare company, which she believed had better mechanisms to handle the current challenges in the healthcare sector.

Case study: Review and engagement leading to divestment

During much of 2024, members of one of Capital Group's equity investment units maintained a shareholding in a UK home furnishings company.

Both the investment unit and GSE had begun to monitor the company's oversight and control environment more closely in 2023 when certain audit issues came to light ahead of the company's AGM, which required the company to delay the publication of its annual report and accounts and weighed on the share price. GSE and the relevant covering analyst also identified at this time potential concerns about the speed of board refreshment at the company and the impact this might be having on board oversight.

Discussions in relation to the investment continued into 2024, with the investment analyst meeting with the Executive Chairman in April, and then with the Executive Chairman, the CEO and the CFO in June. The company's share price continued to decline over the course of the second quarter and into the third quarter of the year. Following further review, the investment analyst concluded that the company's approach was not conducive to resolving the issues they saw as key to a long-term share price recovery. As part of this review, the investment analyst and the GSE analyst discussed that there had still been no board refreshment, which they considered might have brought fresh thinking to the issues the board was grappling with. As a result, the investment analyst decided to sell the shares they were holding in the company.

Principle 12

Principle 12

Proxy voting

Capital Group's approach to proxy voting operations – including our proxy voting process, Guidelines Committee review cycle, and the interaction of proxy voting and securities lending – has not materially changed since this was outlined in our UK Stewardship Code Report 2024. In accordance with the Interim Reporting Measures set out by the FRC, we are therefore providing no additional disclosures in this report on Principle 12 Context and refer back the 2024 report, which can be found here. The relevant information is outlined on pages 91 to 94.

Proxy voting statistics for calendar year 2024

	Meetings voted	Proposals voted	Votes with management	Votes against management	Abstentions
Total	2,103	25,135	23,885	1,132	118
			95.03%	4.50%	0.47%
Americas	958	10,750	10,190	517	43
			94.79%	4.81%	0.40%
APAC	613	4,941	4,646	290	5
			94.03%	5.87%	0.10%
EMEA	532	9,444	9,049	325	70
			95.82%	3.44%	0.74%

Proxy voting reporting

Proxy voting reports detailing how Capital Group has voted are available to clients on request. Where we vote in line of management recommendation, in the vast majority of cases, we typically will not give a specific disclosure explaining our vote. Where we vote against management recommendation, 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 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.

2024 activities and outcomes

Proxy voting procedures and principles update: As part of our regular guidelines-update cycle, we undertook a number of enhancements to our proxy voting principle for the period under review. As a result of GSE and investor research, it was proposed that we introduce external language in our proxy voting procedures and principles highlighting the factors we take into account when analysing one-time grants, namely: quantum, vesting criteria, vesting needs of the company.

In the Americas, this year focused on refinements to our approach to reviewing director independence and aligning our principles to our EMEA and APAC principles in supporting virtual AGMs.

In EMEA, we updated our principles on multiple classes of stock, clarifying our general opposition to proposals that would perpetuate differential voting rights but otherwise aligning the principles more closely with those applicable globally. Moreover, following the changes to the controlling shareholder regime in the UK Listing Rules, we maintained a general expectation that key arrangements with controlling shareholders should still be disclosed to minority shareholders. Finally, we extended our principles on financial reporting/auditors to non-financial reporting and associated assurance provision, given the increasing number of European markets requiring shareholder approval of non-financial reporting and the appointment of assurance providers.

The focus in APAC this year has been on clarifying our existing approach and reflecting local regulation changes, aiding clarity and consistency. In Japan, in alignment with regulatory requirements and the local corporate governance code, we updated our policy to specify our expectation for key committees to be majority independent and for stock options not to be granted to internal statutory auditors. In China, we made clear that we expect a clear rationale to be provided when internal funds/profits are used to fund employee stock purchase plans. In India, we also set the expectation that companies should offer a clear justification for how an extension of employee stock option entitlements to employees of group affiliates will benefit the company itself and the company's shareholders.

ISS enhancements: Since the initial launch of our internal voting platform in 2022, enhancements have periodically been made to the system used by the GSE team for compiling its voting guidance and communications with the Investment Group. This has been done to enable more efficient operations, as well as to make the Investment Group experience – on which our investor-led process relies – more user friendly. In 2024, changes have been implemented in the system to ensure better record-keeping and more detailed tracking of meeting status changes for audit purposes.

N-PX filings enhancements: Effective from 1 July 2024, the Securities and Exchange Commission amended the N-PX disclosure requirements. Funds are now required to report the number of shares they loaned out and did not recall for voting. Throughout the year, we collaborated closely with our vote execution provider ISS to ensure this information could be made publicly available and we now fully report securities on loan in our N-PX filings. In 2024, securities lending activity did not significantly impact our ability to vote proxies.

Case study: Proxy voting on UK remuneration policy renewal

As European companies expand their global footprint and employee base beyond their home market, and in particular hire senior leaders internationally, we are observing that non-US companies with significant US operations increasingly see a need for greater flexibility in their executive remuneration policies than they have sought in the past. Many are now looking to set pay structures and levels in a way that allows them to compete more effectively with their US counterparts for talent.

This was the case for a UK multinational pharmaceutical and biotechnology company in 2024. As part of its remuneration policy renewal, the company proposed increasing the CEO's maximum annual variable pay from 900% to 1,150% of base salary, citing the need to remain competitive in the global pharmaceuticals market.

Ahead of their 2024 AGM, two of our equity investment units arranged separate engagements with the company to better understand their rationale for the increase of variable compensation. The board presented a compelling case for its need to implement a pay increase to address pay positioning relative to US peers, in addition to managing internal pay compression. It became clear that local market norms around remuneration are becoming less relevant for the company due to the global nature of its business. 40% of senior leaders are now based in the US, and 40% of its revenues come from that market.

After considering many factors including those mentioned above, and the clear and comprehensive case made by the board for the proposed approach, both investment units supported the approval of the remuneration policy. Capital Group will continue to monitor how the policy is implemented to ensure it provides strong alignment between executive pay and company performance.

Note on our proxy voting-related case studies: 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 organisation; however, for securities with equity characteristics, they act solely on behalf of one of the three equity investment groups.

Case study: Proxy voting on AI related shareholder proposal

The 2024 proxy season saw a rise in AI-related shareholder proposals. As the technology and regulatory landscape evolves, investors are requesting for greater transparency around AI governance to understand how companies are managing headline risks and opportunities.

At their 2024 AGM, a US multinational technology conglomerate received a shareholder proposal requesting it to disclose the risks to the company and the public from misinformation and disinformation generated by generative AI, and how it plans to remediate harms and track the effectiveness of its remediation efforts.

On reviewing the proposal, relevant Capital Group investors considered the materiality of the issue for the company and the extent of the company's disclosures to date. Two of our equity investment units supported the proposal, with one deeming it a reasonable ask. In particular, in light of the fact that the company had been asked by the European Commission to provide information to it on how risks linked to generative AI were being mitigated, the relevant investors considered it would not be excessively onerous for the company to make its response public. However, one Capital Group equity investment unit with a holding in the company did not support the proposal, as it took the view that the company has been among the most cautious with respect to ensuring accuracy of AI generated information and was already incentivised to disclose material information on this issue.

The proposal received 17.6% support from shareholders, perhaps reflecting a similar mix of views across the company's shareholder base.

Case study: Proxy voting on on capital allocation in Japan

Shin-Etsu Chemical, based in Japan, is one of the world's largest chemical companies.

Despite the company's excellent track record in profit growth, Shin-Etsu's capital allocation has been an area of concern for one of our equity investment analysts. Shin-Etsu has long maintained a net cash balance sheet and cross-shareholdings with financial institutions, and it has lacked sufficient shareholder payout policies and disclosures.

Capital Group has investment professional-led proxy voting procedures and principles reflecting local market practices and expectations. In Japan, we consider voting against management proposals if the total net profit payout in dividends and share buybacks is below 50%. In 2022, one of Capital Group's equity investment units voted against the company's dividend proposal as the investment analyst viewed the company's capital allocation policy, which was to deliver a payout ratio of around 35% plus flexible buybacks, as insufficient, due to high levels of cash on the balance sheet and strong cash flow. Since then, the analyst has engaged with the company on this topic and shared best practices on how to improve disclosures on its capital allocation policy to shareholders.

Shin-Etsu subsequently started using return on capital as one of their key performance indicators, instead of just profit growth. The company also clarified its payout policies and raised its payout target from ~30% to ~40% (as at 2024). In addition, Shin-Etsu started repurchasing shares when they viewed their shares being undervalued by the market. They also made two large repurchases from cross-shareholding financial institutions to improve return on equity.

Our investment analyst continues to engage with the company on corporate governance-related issues and views enhanced disclosure of the company's capital allocation policies as beneficial to understanding the company's risks and opportunities and its long-term value drivers. The relevant equity investment unit supported the dividend proposal at the company's 2024 AGM.

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All data as at 31 December 2024, in US dollar terms and attributable to Capital Group, unless otherwise stated.

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