CAPITAL GROUP™

Task Force on Climate-related Financial Disclosures (TCFD) report

For calendar year 2023

Contents

TCFD alignment

As a privately-owned asset manager, Capital Group considers climate-related risks and opportunities from three vantage points:

Investment management: As an asset manager who makes investments on behalf of our clients in securities that may be exposed to material climate-related risks and opportunities;

Client needs: As a business that needs to evolve its product offerings to meet the changing needs of its clients, particularly in jurisdictions where regulators are increasingly governing climate issues;

Corporate sustainability: As a company that strives to manage its business operations in a sustainable manner.

Recognising each of these perspectives raises important and distinct considerations with respect to climate-related risks and opportunities, we have sought to call out which of the three focus areas we are referring to throughout the report.

Capital Group has supported Sustainability Accounting Standards Board's (SASB) standards and the Task Force on Climate-related Financial Disclosures (TCFD) since 2020, which have both been merged into the International Sustainability Standards Board (ISSB), a subsidiary of the International Financial Reporting Standards (IFRS) Foundation. In June 2023, the ISSB issued the global sustainability reporting standards IFRS S1 and IFRS S2. Capital Group is supportive of this development and intends to incorporate these standards into its corporate sustainability reporting in the coming years.

This report has been prepared based on the Recommendations of the TCFD for the period from 1 January to 31 December 2023, on behalf of The Capital Group Companies, Inc. and its subsidiaries (collectively, "Capital Group").

TCFD Recommendations		Our response	Pages
Governance Disclose the organisation's governance around climate-related risks and opportunities.	a) Describe the board's oversight of climate-related risks and opportunities. b) Describe management's role in assessing and managing climate-related risks and opportunities.	• We have described our governance structures for climate-related risks and opportunities spanning our three focus areas: **investment management, client needs** and **corporate sustainability.**	5-6
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning, where such information is material.	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long terms. b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	• For **investment management**, we have identified climate-related risks and opportunities across material sectors in which we invest. We also describe our approach to climate-related scenarios analysis. • To address **client needs**, we identify the actions we have taken to respond to shifting client demands in Europe and Asia. • Our strategy with respect to **corporate sustainability** is discussed in our annual DE&I & Sustainability Report.	7-14
Risk management Disclose how the organisation identifies, assesses, and manages climate-related risks.	a) Describe the organisation's processes for identifying and assessing climate-related risks. b) Describe the organisation's processes for managing climate-related risks. c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	• We outline the actions we take to identify, assess and manage climate-related risks in our **investment management.** • We integrate climate risk as a topic into our Europe and Asia Risk Register.	15-24
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities, where such information is material.	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities, in line with its strategy and risk management process. b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks. c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	• For **investment management**, we disclose climate-related metrics at the group and fund levels. • For our **corporate sustainability** approach, we disclose climate-related metrics and targets related to our operations.	25-31

A message from our CEO

At Capital Group, we exist for our clients. Every decision we make, whether it relates to the companies we invest in, the solutions we offer or how we run our own company, begins with our clients' interests in mind. Understanding climate-related risks and opportunities is essential for anyone focused on long-term investment outcomes, which is why we're committed to the Task Force on Climate-related Financial Disclosures (TCFD). In this report, we share how climate considerations factor into our investment process, select product offerings and global business operations.

The year 2023 was the warmest in our planet's recorded history, with average temperatures climbing 1.18°C higher than the 20th century average. Rising sea levels and changing weather patterns are leading to greater incidents of extreme natural events, including storms, floods and drought. In addition to their immediate and often tragic effects on millions of people, these catastrophes have the capacity to disrupt global food and energy production, trade routes and industrial activity.

At the same time, the world's transition from fossil fuels to low- or zero-carbon energy sources is gaining pace, albeit in a non-linear way. Higher interest rates, inflation and geopolitical events all present headwinds to the transition. Despite these challenges, investments in low-carbon energy surged 17% in 2023 to $1.77 trillion,* and the year ended with the historic COP28 agreement signed by nearly 200 countries that are committed to accelerating their efforts.

Our primary objective in meeting clients' needs is to deliver superior investment results over the long term. In doing so, considering the impact of climate change on companies as a part of our fundamental investment research cannot be ignored. Current investments in the energy transition remain short of the estimated $4.5 trillion needed by early 2030s to limit global warming to 1.5°C.** This clearly presents an opportunity for disciplined and innovative companies that will deliver the products and services to enable change. Capital Group is both a potential investor in these companies and potential consumer of their products as we work to manage our own operations sustainably.

I invite you to learn more in the pages that follow and offer my sincere thanks for your interest in Capital Group.

Sincerely,

Mike Gitlin
Capital Group President and Chief Executive Officer

*Source: BloombergNEF.

**Source: International Energy Agency, as at September 2023.

Governance

Progress this year

- CRMC reviewed key climate milestones, including engagement and climate scenarios analysis.
- We clarified expectations and best practices on ESG integration with portfolio managers and analysts.
- The Capital Group board of directors reviewed and provided input on progress towards Capital Group's corporate greenhouse gas emissions-reduction goals.

A description of governance structure for climate-related risks and opportunities

In 2023, we continued to evolve and invest in the firmwide governance and functional teams responsible for the business decisions and practices related to each of the three areas through which we consider climate-related risks and opportunities at Capital: **investment management, client needs and corporate sustainability**. The following highlights the governance model we are working toward. By evolving our governance structures and strengthening our teams, we aim to continue to deepen firmwide knowledge on sustainability issues, ensure appropriate communication and collaboration, and support effective and efficient decision-making.

Firmwide governance

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 environmental, social and governance (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. This activity considers material climate-related investment risks and opportunities on behalf of CRMC's clients and helps ensure ESG is being integrated into the investment process.

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.

An abridged organisation chart is included below.

Figure 1: Governance structures for climate-related risks and opportunities.

Capital Group Board & Management Committee
Board and Management Committee are responsible for overseeing Capital Group's long-term strategy, including climate-related risks and opportunities.

CRMC Board of Directors (and related subsidiary boards)
Oversees Capital Group's investment advisers, which includes responsibility for how material climate-related investment risks and opportunities are considered in the investment process.

*Environmental, social and governance (ESG) considerations.

Functional responsibilities

Investment Group: More than 120 portfolio managers and 220 in-house equity and fixed income 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 it operates.

ESG team: Capital Group has a dedicated 45-person ESG team,* led by the global head of ESG, that partners with investment professionals on integrating ESG considerations into the investment process. This global team is responsible for driving the implementation of ESG initiatives across Capital Group. Team members have experience in research, issuer engagement, proxy voting and ESG regulations. Within the global team, over 30 specialists are responsible for partnering with the Investment Group in the following ways:

- The 13-person **ESG Research team** partners with the Investment Group to produce thematic and sector-focused research that provides insight into key ESG themes and issues that are material and often under-researched. The team also partners with the Investment Group and the Global Stewardship & Engagement/Proxy team to engage companies on environmental and social issues.
- The 17-person **Global Stewardship & Engagement (GSE)/Proxy team*** works alongside the Investment Group in executing our stewardship efforts, including proxy voting activities, as well as engaging on governance or proxy voting-related issues.
- The three ESG integration leads serve as dedicated counterparts for portfolio managers, helping to deepen the understanding of material ESG risks and opportunities across portfolios. They also lead in the development of tools to deliver portfolio-level ESG data and insights.

The remaining ESG specialists primarily focus on the building of our proprietary tools and monitoring processes, sourcing third-party data to support assessments of ESG issues, as well as supporting client and regulatory needs, reporting and ESG content development and thought leadership.

Sustainability & Social Responsibility (SSR) team: The SSR team was formed in 2022 to bring together Capital Group's efforts around corporate sustainability and community engagement. With respect to climate-related risks and opportunities, the SSR team measures and reports on the greenhouse gas (GHG) emissions associated with Capital Group's business operations and works with relevant business units to make progress towards our goal of reducing our corporate GHG emissions by 25% by 2025 (relative to a 2019 baseline) across Scope 1, Scope 2 and Scope 3 (business travel) emissions.† The global head of SSR is responsible for overseeing and managing progress towards our emissions reduction goal.

*As at 31 December 2023.

**Fundamental investment research involves evaluating investments in an attempt to measure their intrinsic value, by examining related economic, financial and other qualitative and quantitative factors.

†Scopes 1 and 2 emissions, mostly from energy use at our sites globally and Scope 3 emissions from business travel.

Strategy

Progress this year

- Conducted climate scenarios analysis.
- ESG integration leads met regularly with portfolio managers of Article 8 funds*.
- Introduced climate-related criteria into three funds already offered in the market.
- Released details of our Net Zero Asset Managers initiative (NZAM) commitment.

We seek to manage climate-related risks and opportunities throughout our investment management practices to help us deliver superior investment outcomes over the long term and provide the products and services our clients demand, in line with regulatory expectations.

In 2023, our investment analysts, with support from our ESG team, refreshed our 29 sector-specific investment frameworks, which are key to helping us identify the physical and transition risks and opportunities impacting the sectors they cover. Physical climate risk was an area of focus where we have seen increased relevance/materiality (for certain sectors and asset classes) and are improving our ability to track it through new data sources. We also ran a climate scenarios analysis on select portfolios and introduced climate-related criteria into three of our Luxembourg funds,** resulting in a total of six funds with climate-related criteria.

Investment management: Climate-related risks and opportunities

Sector-level investment impacts

Physical and transition risks and opportunities impact issuers differently, depending on their sector, global footprint, current state of readiness and ability to mitigate. To help effectively integrate these considerations into our investment process, we have 29 sector-specific ESG research frameworks.

Using those investment frameworks, our ESG research analysts, in partnership with investors, have identified the material transition and physical climate risks and opportunities that impact the sectors they cover (refer to Table 1 on next page).† The risks and opportunities identified broadly align with the following TCFD-aligned categories:

- **Policy and legal** – risks and opportunities associated with the creation of new climate-related policies and regulatory regimes
- **Technology** – risks and opportunities associated with emerging or new technologies related to the transition to a low-carbon economy
- **Market** – opportunities associated with asset-allocation shifts or market signals as a result of climate-related change
- **Products and services** – opportunities associated with new products and services linked to climate-related change
- **Resource efficiency** – opportunities associated with the move to more efficient processes
- **Reputation** – risks and opportunities associated with shifts in consumer preferences and company reputation
- **Physical: acute** – risks associated with the increased severity and frequency of extreme weather events
- **Physical: chronic** – risks associated with long-term changes in precipitation and weather patterns

*Article 8 is a classification under Sustainable Finance Disclosure Regulation (SFDR): The regulation lays down harmonized rules for financial market participants on transparency with regard to the integration of sustainability risks and the provision of sustainability-related information for financial products. The SFDR classification is related to European Union's regulation and is not equivalent to approval or recognition as an ESG fund by regulators in Asia Pacific.

**Capital Group's Luxembourg SICAV funds are offered to clients in Europe and Asia.

†Sectors included in this summary are those identified by the TCFD as most exposed to climate risks. For each of the risks, we have outlined the type of risk, associated time horizon, relevance to our investment thesis and the metric and data used to monitor this risk or opportunity. TCFD, "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures," October 2021.

Table 1 shows examples of the potentially material climate-related risks and opportunities for each sector identified by our investment professionals. We focus on the financial implications of the risks and opportunities faced by the companies and issuers in which we invest.

Table 1: Top climate–related risks and opportunities in selected sectors.

Sector	Time frame	Financial risk/opportunity	Metrics monitored
Energy	Short term	**Emissions management** is integral for operational efficiency. Regulatory and societal pressure to reduce emissions remains a challenge for energy companies and could lead to additional costs for high-emitting projects. **Methane measurement and reduction** programs provide opportunity to achieve greater efficiency.	GHG emissions (intensity & absolute) Methane targets and initiatives
	Short to medium term	**Opportunities for those that transition to producing lower carbon or renewables/alternative energy sources** potentially leading to increased market share from low-carbon products and services. **Water usage.** Oil and gas companies use significant volumes of water in extraction and refining. Sustainable water use is therefore important in avoiding disruptions and maintaining license to operate.	Emissions reductions targets, energy and carbon prices Water use metrics
	Medium to long term	**Shifts in demand** as electrification increases, potentially leading to decreased prices and reduced profitability for conventional energy sources. These impacts can affect not only industry, but also energy-producing countries where taxes on oil and gas are an important share of national budgets.	Energy and carbon prices
Utilities	Short term	**Emissions management.** Intensifying climate change concerns in North America and ongoing EU decarbonisation policies could lead to elevated regulatory and market risk. **Market imbalances.** The shift from fossil fuels to renewable energy can contribute to energy price volatility, especially in times of grid, weather and fuel-supply disruptions. Upgrading electricity networks will be crucial to increase electrification and enhance grid stability. **Threats to established business models** occur as legacy industries face high costs to decarbonise, competition from new technologies and growing risk of climate-related litigation.	GHG emissions (intensity & absolute), emissions targets, energy and carbon prices
	Short to medium term	**Water usage.** Utilities companies are reliant on significant and stable quantities of water to operate. Sustainable water use is important in avoiding disruptions and maintaining license to operate. **Opportunities for those that transition to renewables/alternative energy sources early,** leading to potential for increased market share from low-carbon products and services.	Total water withdrawal and consumption intensity, freshwater withdrawal % Renewable energy capacity, energy and carbon prices
	Medium to long term	**Opportunities from increased electrification** leading to increases in electricity demand. **Physical climate risk.** Future climatic conditions are set to worsen, with acute and chronic physical risks, such as drought, heatwaves and wildfires increasing in frequency and intensity. Utilities may face reduced operating capacities, shutdowns or costly mitigation and/or management strategies to maintain supply.	Electricity demand, physical climate hazard metrics
Transportation	Short term	**Regulatory and market demands to lower emissions.** Transportation services with lower emissions may offer market share opportunities and pricing power.	CO_2 emissions intensity of vehicles/ fleets, GHG emissions (intensity & absolute)
	Short to medium term	**Regulatory obligations to lower emissions from use-phase of new automobiles** lead to increased implementation of low-/zero-emission technologies and result in increased spending on R&D and capital expenditure. Companies that cannot compete with zero-emissions vehicles in some regions risk market share loss and increasing regulatory costs. **Opportunity to optimise productivity through energy and resource efficiency,** resulting in short-term increases in capital expenditure but potentially longer term savings on operating expenses.	CO_2 emissions intensity of new vehicles sold Energy and resource intensity, carbon prices
	Medium to long term	**Potential damage to transportation infrastructure assets by extreme weather events,** leading to operational disruptions, repair costs or asset impairment from events such as flooding and fires.	Strategic response to assets at risk

Table 1: Top climate–related risks and opportunities in selected sectors (continued).

Sector	Time frame	Financial risk/opportunity	Metrics monitored
Metals and mining	Short term	**Market pressure on carbon–intensive and substitutable commodities,** leading to changes in commodity portfolio mix and impairment of long–lived assets, resulting in a change in company valuation. **Increased decarbonisation requirements from regulators,** leading to pressures to decarbonise operations and portfolio, and resulting in additional regulatory compliance costs. **Opportunity to increase revenue** through more low–carbon metals and energy–efficient products that help lower customers' carbon footprints.	GHG emissions (intensity & absolute), fossil and renewable energy consumption Emission reduction targets, regulatory controversies
	Short to medium term	**Opportunity to optimise productivity through energy and resource efficiency,** resulting in short–term increases in capital expenditure and longer term savings on operating expenses. **Greater demand for metals that are relevant to the energy transition,** including copper, rare–earth elements, lithium, cobalt and nickel used in wiring, electrical components and batteries.	Energy and resource intensity Commodity mix
	Medium to long term	**Increased water scarcity in water-stress regions,** leading to work stoppages and decreased production capacity, as well as decreased revenues.	Freshwater withdrawal and water-stress profile
Construction materials	Short to long term	**Emissions management.** Proactive management of emissions important to decrease growing regulatory risks. Materiality varies by geography. **Opportunities for clean tech innovation.** Buildings currently account for one-third of global GHG emissions, companies that can innovate to provide products with greater energy efficiency will benefit from regulatory tailwinds focused on the decarbonisation of buildings. **Resource management and material circularity.** Efficient use of energy and resources (water, waste) at the production level can increase operating efficiency and contribute to lower emissions. Increasing the use of recycled raw materials can improve supply chain resiliency. Pressure to source less-carbon-intensive materials, which are typically more expensive, can create cost pressure on companies and impact profitability (e.g., green steel).	GHG emissions (intensity & absolute), emission-reductions target, fossil and renewable energy use Market share of products that reduce energy and water use, R&D/Sales, waste recycled
Food and beverages	Short to long term	**Extreme weather events** leading to reduced crop yields and resulting in increased costs and decreased revenue. **Supply chain reconfigurations** stemming from changes in raw materials, energy inputs and transportation networks driven by the need to decarbonise. **Increased decarbonisation requirements from regulators,** resulting in increased costs for carbon-intensive producers. **Changes in consumer preferences** as consumers become more conscious of their environmental impact, affecting traditional industries.	Asset prices, strategic response to assets at risks Emission profile and reduction targets Carbon prices Consumer demand
	Medium to long term	**Chronic water shortages and changing rainfall patterns,** affecting commodity production and pricing, and resulting in increased costs and decreased revenue.	Water-stress profile
Financials	Short term	**Regulatory risk** from new requirements on sustainable investing and climate disclosure.	Environmental and social metrics, exposure to carbon-related assets New regulatory requirements
	Short to medium term	**Fossil fuel finance risk.** Regulators are increasingly focusing on potential asset impairment from climate risk. Financing carbon-intensive activities may also lead to reputational and litigation risk. **Increased demand for financing the transition,** leading to increased revenue from sustainable finance products and services. **Shifting client and regulatory demands** around environmental, social and governance (ESG), leading to new considerations for integrating material ESG issues into investment and lending processes, and new demand for products and services focused on ESG considerations. **Physical climate risk.** Insurers are exposed to climate change both directly via their exposure to natural catastrophe products and indirectly through their risk-transfer activities for carbon-intensive businesses and reputational risk.	Exposure to fossil fuel Green finance* products, e.g., ESG bond issuance Climate targets and commitments Monetary losses attributable to natural catastrophe by type/geography

*Green financing is to increase level of financial flows (from banking, micro-credit, insurance and investment) from the public, private and not-for-profit sectors to sustainable development priorities.

ESG integration informs investment decisions

ESG integration continues to be a focus at Capital Group. In 2023, we reinforced best practices on ESG integration with investment analysts and portfolio managers. We also established a model for our three ESG integration leads to meet with portfolio managers annually and serve as their dedicated points of contact. In 2023, our integration leads engaged in over 100 one-on-one meetings with portfolio managers to discuss: 1) how they think about ESG considerations (including climate-related risks and opportunities) when investing, 2) additional support or resources they might need, 3) relevant ESG risks and themes in their portfolios, and 4) the firm's ESG integration process more generally. The ESG integration leads also met regularly with the portfolio managers of our Article 8 funds (including on the topic of carbon, where relevant).

Climate scenario analysis

In 2023, we implemented technical capabilities to undertake scenario analysis and assessed Capital Group holdings to understand exposure to the physical impacts and transition risks of climate change.

Using a broad suite of company climate metrics, physical science and economic models, and financial-impact modelling from MSCI, we evaluated three climate scenarios:

1. **Orderly transition** to limit warming to 2°C: Climate policies are deployed early and become gradually more stringent. Physical and transition risks are relatively subdued.
2. **Delayed transition** to limit warming to 2°C: Climate policies are delayed until the 2030s, requiring faster emissions reductions in later years at a higher cost, and with increased physical risks.
3. **Hothouse world scenario** (BAU): Only currently implemented climate policies are preserved, and emissions continue to rise, with high physical risks, and associated social and economic impacts.

Results from the analysis showed that the physical risks from climate change are material. The effects of extreme heat on labour productivity, as well as coastal flooding and other weather hazards were the biggest impact drivers for physical risk. Food, utilities and industrial companies are most exposed to physical risks. Energy, materials and utility companies are most exposed to transition risks due to their carbon intensity.

Climate damage estimates modeled by the Network for Greening the Financial System (NGFS) range from –3% of global GDP by 2050 in an orderly transition, –5% in a delayed transition, and –6% in a Hothouse World scenario. Countries in the Global South, which are more vulnerable to weather extremes and have less adaptive capacity are exposed to more severe damages (–9% impact to GDP in Africa and –7% to Latin America in the Hothouse World). However, global markets, supply chains and migration would spread these impacts beyond borders.

Scenario analysis provided a helpful starting point and framework for our analysts to understand climate risk and potential first-order impacts to companies and portfolios. However, it is, by design, a broad and limited view, not accounting for how companies could adapt and for the secondary impacts to markets from the energy transition (e.g., changes in commodity prices for critical minerals). Results are also highly influenced by key input variables such as interest rates and technology costs, which cannot be predicted. Finally, climate change is prone to tail events with complex dynamics that could bring cascading effects with unpredictable political, social and economic consequences.

Our team will continue using scenario analysis and other analytical frameworks to understand potential financial impacts from climate change on our companies and portfolios.

Issuer reporting

We encourage climate and other ESG-related disclosure that are principles-based, driven by materiality to the long-term value of the investment and based on widely adopted standards.* Capital Group has long supported SASB standards and the TCFD, which have both been merged into the ISSB. We believe it would be helpful and appropriate for issuers to make climate-related disclosures aligned to the ISSB-issued global sustainability reporting standards IFRS S1 and IFRS S2.

Ultimately, these disclosures should increase transparency and investor understanding of climate change – and the induced risks and opportunities that companies face. They should include an assessment of materiality and, among other things, reporting of Scope 1, Scope 2 and (as appropriate) Scope 3 emissions.

Shifting client demands

Client trends

Capital Group's annual ESG Global Study is designed to gather investor perspectives on environmental, social and governance attitudes and adoption trends. The study was commissioned for a third year in 2023 and is becoming a regular and important part of our engagement with clients on ESG issues, challenges and opportunities.

The survey collected views from more than 1,130 institutional and wholesale investment professionals across Europe, North America and Asia-Pacific.

Key findings in 2023 showed that global ESG adoption, measured by the percentage of surveyed investment professionals that use ESG in their investment approach, had risen to a new high of 90%. The modest increase, up 1% versus our 2022 study, is not surprising as global adoption becomes widespread. The more significant observation was the divergence of regional results. Adoption in Europe and Asia continued to rise, while adoption in North America declined from 79% to 75%, mostly attributable to the U.S. where adoption fell from 74% to 69%.

*Standards such as the International Sustainability Standards Board's (ISSB) sustainability disclosure standards and TCFD.

Regional ESG adoption rates

75%
North America

93%
Europe, Middle East & Africa

93%
Asia-Pacific

✓ **26%**
say ESG is **central** to their investment approach*

✕ **8%**
say they are yet to be convinced by ESG*

*Based on global survey responses.

The results also indicated that investors continue to favour active strategies to integrate ESG. Nearly half of respondents believe active management can offer more effective stewardship and engagement, alongside a more forward-looking view of company ESG profiles. Investors also cited the ability of active managers to generate alpha*, with a third of investors pointing to outperformance of index benchmarks as a reason to use active strategies.

Top 3 reasons investors favour active investing for ESG

47% More effective stewardship and **engagement**

47% More **forward-looking** investment view

33% To **outperform** indexes

Climate change remains top of mind among investors targeting secular growth investment themes. More than 7 in 10 (71%) believe the green energy transition is the most important theme. Investors also pointed to the importance of holding transitioning companies in their portfolios. As well as accelerating the transition to a green future, investors think transitioning companies offer compelling investment opportunities.

Policy outlook

Areas related to ESG are continuing to receive increased regulatory focus around the globe, with climate regulations at the forefront. The extent and content of regulatory actions vary – in some cases in a substantial way. We continue to monitor these developments closely.

In the United States, California's Climate Corporate Data Accountability Act (SB 253), Greenhouse Gases: Climate-related Financial Risk Act (SB 261) and Voluntary Carbon Market Disclosures Act (AB 1305) were signed into law in October 2023. SB 253 requires companies to publicly disclose Scopes 1 and 2 emissions annually beginning in 2026, and all Scope 3 categories starting in 2027. SB 261 requires companies to biennially report climate-related financial risks and measures adopted to reduce such risks, starting in January 2026.

*Alpha is a measure of an investment portfolio's performance against a certain benchmark, usually a stock market index.

AB 1305 requires, among other things, companies that purchase or use voluntary carbon offsets and that make certain environmental claims to publicly disclose details of the carbon offsets project, including offset type and specific protocols used to estimate emissions reductions, among other details, beginning in 2024. Similar legislations are under consideration in other states.

In Europe and Asia, asset managers are required to manage and disclose material climate-related risks, as well as negative externalities. (This includes a wide range of disclosures from ones related to investment strategy and risk management to stewardship and engagement with portfolio companies.) In the UK, the Financial Conduct Authority (FCA) has built upon existing TCFD requirements by creating the climate disclosure regime. Other examples of core regulations include: in the EU, the Sustainable Finance Disclosure Regulation (SFDR), which will soon be reviewed, the Corporate Sustainability Reporting Directive (CSRD), the European Securities and Markets Authority (ESMA) fund name rules, and the upcoming Corporate Sustainability Due Diligence Directive on which political agreement was reached recently and publication is pending; in Asia, the Hong Kong Securities and Futures Commission's circular on the management and disclosure of climate-related risks by fund managers, the Monetary Authority of Singapore (MAS) Guidelines on Environmental Risk Management and the Korean Financial Supervisory Services (FSS) disclosure standards for ESG funds. The Australian Treasury has recently issued a draft legislative proposal that would introduce mandatory climate-related disclosures for registered schemes, which includes asset managers and funds meeting certain thresholds.

As the ESG investment and regulatory landscape evolves across the globe, we have taken a considered and deliberate approach in our response. Our aim is to ensure that the decisions we make are in the best interests of our clients and in compliance with local regulations.

Enhancing our product offering for our clients

To enhance our offering to clients in Europe and Asia, we have continued to expand our range of Sustainable Finance Disclosure Regulation (SFDR) Article 8 funds, through our Luxembourg fund umbrella.*

Having converted two funds in June 2022 and launched a new fund as Article 8 in November 2022, we converted three additional fixed income funds and one global equity fund in the second half of 2023. In terms of total assets under management, as at the end of 2023, the Article 8 fund range now represents over half of the total assets of our Luxembourg fund umbrella.

These funds apply specific ESG and norms-based exclusions (including the exclusion of some thermal coal, oil sands and Arctic oil companies).†

As momentum behind sustainable investing continues to build, we will continue to devote considerable resources to help ensure we are meeting current and future client and regulatory expectations.

*Capital Group's Luxembourg SICAV funds are offered to clients in Europe and Asia.

†We use MSCI's Thermal Coal – Maximum Percentage of Revenue factor, which identifies the maximum percentage of revenue (either reported or estimated) that a company derives from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It does not account for revenue from metallurgical coal; coal mined for internal power generation (e.g., in the case of vertically integrated power producers); intracompany sales of mined thermal coal; and revenue from coal trading. We exclude companies that generate more than 10% of their revenue from these activities.

Arctic Oil – Maximum Percentage of Revenue: This factor identifies the maximum percentage of revenue (either reported or estimated) greater than 0% that a company derives from Arctic oil production. The definition of Arctic is geographical and includes production activities north of the 66.5 latitude. This factor includes offshore or onshore oil production.

Oil Sands – Maximum Percentage of Revenue: This factor identifies the maximum percentage of revenue (either reported or estimated) greater than 0% that a company derives from oil sands extraction for a set of companies that own oil sands reserves and disclose evidence of deriving revenue from oil sands extraction. This factor does not include revenue from non-extraction activities (e.g., exploration, surveying, processing, refining); ownership of oil sands reserves with no associated extraction revenues; revenue from intracompany sales.

Net Zero Asset Managers initiative

In 2023, we released detail of our Net Zero Asset Managers initiative (NZAM) commitment. We are taking a client-led approach to net zero. We are committing funds in regions – specifically Europe and Asia-Pacific – that are seeing greater client demand for investments with sustainability considerations.

Our commitment represents approximately 29% of Capital Group's assets under management for clients based in Europe and Asia-Pacific, which accounts for less than 1% of Capital Group's total assets under management.

Assets committed to be managed in line with net zero are composed of the following:

1. Segregated accounts where Europe and Asia-Pacific clients have opted in to the net zero commitment.
2. Capital Group funds with explicit carbon targets or climate-related constraints. These products are on the market in Europe and Asia-Pacific. Further detail can be found on the NZAM website: Capital Group – The Net Zero Asset Managers initiative.

Corporate sustainability strategy

We are taking steps to make our global operations more sustainable. Our corporate sustainability strategy strives to reduce operational emissions through renewable energy, energy-efficient site design and the reduction of travel-related emissions (where possible), while offsetting emissions we cannot reduce. Please refer to our annual DE&I and Sustainability Report for more information about the strategies undertaken to reduce our corporate GHG emissions. Please refer to the Metrics section of our TCFD report for our GHG emissions reporting and to the Appendix for our voluntary carbon market disclosure.

Risk management

Progress this year

- Invested further in our data and technology capabilities in 2023 to better integrate ESG data (including climate data) and insights into the investor workflow.
- Monitoring certain asset classes, based on available third-party data, for material ESG considerations, including climate risks.
- Conducted thematic climate engagement with issuers we've identified as exposed to high climate risks.

We look at the management of climate-related risks through our fiduciary role as an asset manager that seeks superior investment outcomes for our clients

Fundamental research: Climate considerations that have the potential to affect investment outcomes are incorporated into fundamental research, which informs our investment decisions.

Investment frameworks: Our investment frameworks help us identify and monitor material climate considerations across sectors.

Monitoring: We monitor our equity, corporate and sovereign (government) bond holdings for material ESG issues, including climate-related risks.

Engagement and Proxy Voting: Investment frameworks inform our engagement process and enable us to have meaningful dialogue with organisations to understand the relevant climate risks and opportunities.

Data and tools: We rely on data providers to give us relevant and up-to-date climate-related information on issuers and portfolios.

Risk register: We maintain risk and control registers for our European and Asian entities, through which physical and transitional elements of climate risk are documented and assessed.

Fundamental research

As active investors, we are attuned to the risks and opportunities that come with the carbon transition and incorporate the latest developments in policy, science and technology in our investment theses. Both our ESG team and Investment Group conduct deep fundamental research on a range of material issues to help make informed investment decisions.

Select highlights from 2023 include research on how water stress is impacting electric utilities in Europe, the electric vehicle (EV) race between Europe and China, and the potential for hydrogen in road transport.

Case studies

The following thematic case studies demonstrate how we have researched climate-related risks and opportunities as a part of our investment approach.

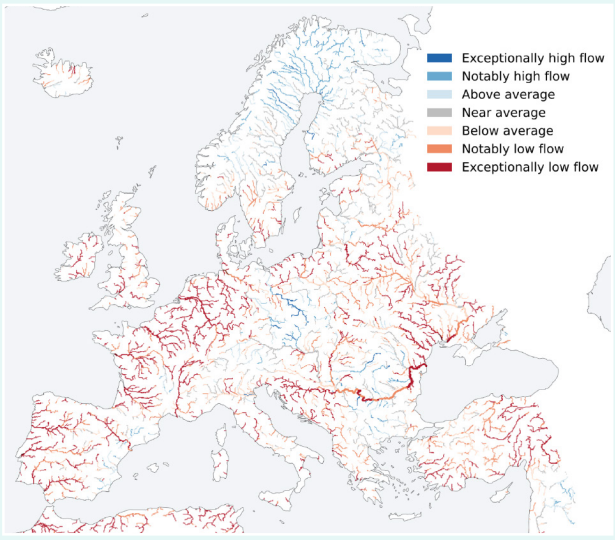
Case study: European utilities – assessing water scarcity and drought risk

In 2022, hydropower accounted for 12% of total European power generation – down 14% compared to the previous five-year average. Likewise, nuclear power (previously accounting for 25%) fell by 16%. Both drops were in part due to water stress.

As large users of water – whether for hydro generation or for cooling thermal plants using nuclear or fossil fuels – utility companies are exposed to significant water stress risk that can adversely impact electricity generation and amplify supply volatility. Deteriorating climate conditions could be costly for utility companies, as they would increase competition for water resources (between industry, agriculture, energy and cities) and companies may face reduced operating capacities, temporary shutdowns or costly migration and/or management strategies to maintain supply.

We assessed the exposure and risk profile of the hydropower and thermal assets (both nuclear and fossil fuel) of seven major European utilities by using asset-level data in combination with the Aqueduct global water-stress risk mapping tool. Water-stress risk exposure of 635 hydro assets showed that a significant proportion of European hydro capacity is located in areas of high water stress; this is a structural risk that cannot be mitigated. Similarly, a number of thermal assets reliant on freshwater for cooling are located in high-risk regions.

European rivers experienced a sixth-consecutive year of below-average flows in 2022 (Figure 2), leading to the driest year on record. The year 2022 was also the hottest on record for Europe, at 1.4°C above the average. This is not an anomaly. Average temperatures across Europe for the latest five-year period have been around 2.2°C above the pre-industrial era. A prolonged lack of snow and rainfall that continued throughout the winter of 2022 and into 2023 has compounded the issue, with run-of-river hydro plants running below optimal capacity and hydro reservoirs remaining well below historical levels.



Although the impacts of water stress on electricity production and company earnings have been marginal to date, our research demonstrates the scale of potential future impacts to European utility companies from exposure to water risks.

Figure 2: Monthly average river discharge anomalies for August 2022. Source: Copernicus Emergency Management Service/ European Centre for Medium-Range Weather Forecasts.

Case study shown for illustrative purposes only.

As at September 2023.

Case study: The global EV race heats up

China has surpassed Japan as the top global automobile exporter, a feat that was unimaginable a decade ago. Several of China's leading electric vehicle (EV) makers are charging into Europe's market, marking an early litmus test of demand in developed markets for Chinese EVs.

China now accounts for 60% of global EV production. Buoyed by strong government financial support, China's early-mover advantage leaves it well placed to dominate EV production and battery technology. Some of our auto investment analysts place European car makers three years behind China and Tesla in EV product lineups. Chinese EV brands such as BYD, Li Auto and XPeng rank among the top in the world by sales and are growing in popularity not just amongst domestic consumers but in several European and Asian markets.

The European Union (EU) is waking up to the challenges posed by its dependence on China and is likely to consider this against the backdrop of potential geopolitical risks. The auto industry is a major contributor to overall European economic growth and jobs. The commission will have to carefully weigh the interests of its key member states, namely France and Germany, the two countries with the most vested interests.

European automakers are arguably facing the most challenging and complicated business environment in their history. They are at significant cost disadvantages and will require substantial investment if they are to catch up and compete with China's EV makers and Tesla.

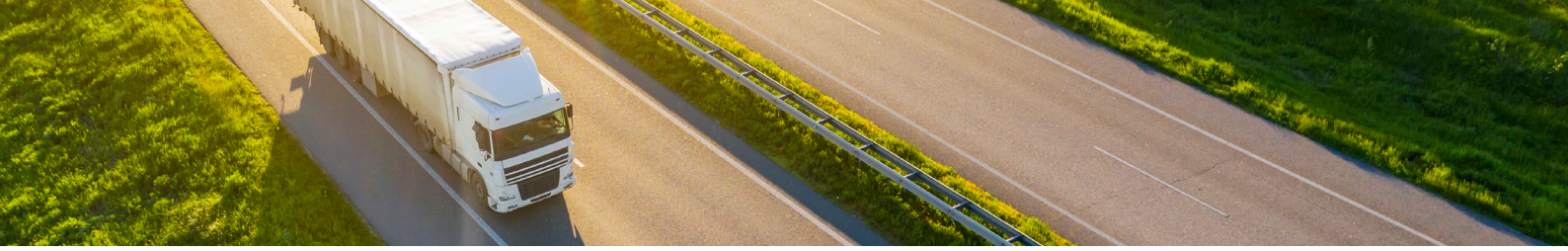
Automakers have taken notice and are not sitting idle: Volkswagen, Mercedes-Benz, BMW and Stellantis have all unveiled significant investments in EVs over the next few years. Companies unable to compete alone may well join forces, as they have in the past – the most likely partnerships being between European and Chinese companies.

The global push to reduce dependence on traditional combustion engines, the surge of innovation in EV battery technology and software, as well as achieving competitive labour costs, are making the auto industry a challenging place to invest. Despite the initial headway made by China, many of its domestic auto manufacturers are losing money. The rush to drive down costs and prices may force lesser-capitalised EV makers out of business, and we could see a wave of consolidation.

Until then, the low valuations and technology advancements of these legacy-holding European automakers could provide an attractive entry point for investors. But, in the wake of the EV revolution, it is not certain the global dominance of European brands will last.

Case study shown for illustrative purposes only.

As at November 2023.



Case study: Hydrogen in decarbonising road transportation

Road transportation is one of the largest individual contributors to global greenhouse gas emissions. Around the world, legislative measures are being passed to phase out the sale of non-zero-emissions vehicles – the sector is under increasing pressure to decarbonise, fast. Hydrogen is being considered to be a vehicle fuel due to its high energy density, allowing for greater range, faster refuelling and low weight burden onboard, in addition to producing little-to-no tailpipe emissions.

Despite these alluring properties, when compared to battery electric vehicles (BEVs), clean hydrogen is a less energy-efficient route to decarbonise vehicles due to energy losses along the hydrogen supply chain. As a result, hydrogen likely has its most promising applications where electrification via BEV is less suitable.

Battery electrification is an efficient, zero-emissions route for decarbonising vehicles that already has significant uptake and momentum around the world today. However, our research into the suitability of battery electrification for heavy-duty vehicles found that for many typical heavy-duty vehicles, the batteries required would likely be prohibitively large, with long charging times, and would place huge demand on the power grid. This is where hydrogen has potential to come into play.

Heavy-duty vehicle manufacturers around the world are developing hydrogen-based trucks, with some already on the road today. However, for clean hydrogen fuel to become a viable solution to heavy-duty truck operators, costs across the hydrogen-fuel value chain must come down. This requires increase in scale and utilisation at all stages of the hydrogen-fuel value chain.

Truck manufacturers and industrial oil and gas companies are working in collaboration to roll out vehicles and infrastructure concurrently to enable a fully industrialised and suitably scaled supply chain for hydrogen trucks in the near future. Hydrogen production costs are also poised to be helped significantly by the Inflation Reduction Act (IRA) Production Tax Credits in the U.S.

A future with a hydrogen-fuelled heavy-duty trucking industry would imply a significant increase in demand for clean hydrogen, far surpassing the amount produced today. Crucially, there must also be corresponding increased investment in renewables, electrification and upgrading of the power grid to ensure supply of enough low-cost renewable electricity for clean hydrogen production.

Case study shown for illustrative purposes only.

As at December 2023.

Investment frameworks

Capital Group's proprietary, sector-specific ESG investment frameworks, spanning 29 corporate sectors and three structured products sectors, help our investment professionals examine material long-term ESG issues that could affect their investment theses.

The frameworks are reviewed periodically to ensure they remain relevant. Our in-house ESG research supports this process, partnering with investment professionals to examine emerging and evolving ESG topics in depth. ESG research and our corporate investment frameworks also support or are supported by monitoring, engagement and proxy voting.

The energy transition is a structural shift. To monitor this, we have included a set of standard data points for all sectors in Ethos. This includes information on company emissions, data and climate targets, including alignment to the Science Based Target initiatives. In addition, the sectors that are most exposed to the energy transition will have bespoke metrics. For example, the investment framework we use to evaluate automobiles includes several metrics to help analysts evaluate electric vehicle (EV) uptake and how companies are managing EV lifecycle emissions in their operations and supply chains.

Monitoring

We monitor our equity holdings and corporate and sovereign bond holdings, where data are available. The monitoring process involves reviewing our corporate (equity and fixed income) and sovereign holdings against third-party data from a range of providers to surface external views of potentially material ESG risks, as well as issuers in violation of international norms. Issuers that do not meet our thresholds are flagged for review by our investment professionals. Additionally, Capital Group's Issuer Oversight Committee (IOC) reviews a subset of issuers presenting elevated ESG-related risks that may affect portfolio holdings.

For example, we draw on the Notre Dame Global Adaptation Initiative's Climate Vulnerability Index to evaluate sovereigns' exposure, sensitivity and capacity to adapt to climate risks. This enables our sovereign debt analysts to evaluate a country's risk profile related to climate.

>50%

financed emissions engaged on climate change

Engagement and Proxy

In 2023, we held more than 75 engagements* with companies on climate-related issues. Objectives varied by company and included deepening our understanding of the companies' approach on physical and transition risk, as well as encouraging greater disclosure on how they are managing the energy transition. Climate-related risks are identified as potentially financially material in several of our sector investment frameworks and we aim to focus our engagements on companies where this is viewed as a risk that is material to the long-term value of the investment. Our learnings from these engagements help inform both investment perspectives and proxy voting.

When evaluating proxy proposals related to climate, we consider their materiality to the company and ability to generate long-term value for the company's business model and specific operating context. We generally favour transparency as it allows our investment professionals to better understand a company's risks and opportunities and its long-term value drivers.

Additionally, as a supporter of the Task Force on Climate-related Financial Disclosure (TCFD), we generally support proposals requesting that issuers start and/or continue to improve their TCFD disclosures. If, in our analysts' judgement, there is a lack of progress around material climate issues raised despite our engagement with the company regarding the same, we may consider supporting a relevant shareholder proposal if it is otherwise appropriate.

Data and tools

We invested further in our data and technology capabilities in 2023 to better integrate ESG data and insights (including climate-related data and insights) into the investor workflow. Investment analysts and portfolio managers can now view relevant investment frameworks, monitoring and engagement information at a fund, portfolio or security level in their research and portfolio management tools, with links to our proprietary ESG research tools for additional details.

Capital Group works with more than 10 data vendors, leveraging more than 50 data sources and nearly 300 data metrics for ESG data to feed into our proprietary ESG research tools.[†]

Among our ESG data providers, an example of a climate-related dataset would be Science Based Targets initiative's company participation data on whether a company has committed and set science-based targets. Additional examples include CDP's[‡] indication of whether a company has conducted climate scenario analysis and MSCI's company data on percent of revenue derived from oil and gas.

Our process with a vendor starts once a Capital Group analyst identifies a particular data point of interest, which leads to understanding the available options for information and meeting with vendors to discuss the methodology, assumptions, delivery structure and sources utilised. We continue to work with the vendor for issues related to data governance and data cleaning, as well as the observed discrepancies during our validation or user testing stage. Engagement with vendors is ongoing, occurring as and when data users have questions or observe discrepancies.

*Reporting period: Calendar year 2023.

[†]Year to 31 December 2023.

[‡]CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

Enterprise risk management

Capital Group has a risk-management process whereby business areas, as the first line of defence, are responsible for identifying significant risks inherent in the business cycle and to implement appropriate measures to monitor and manage these risks. Risk Management and Compliance teams support the business areas as the second line of defence through ongoing monitoring of the regulatory environment, as well as monitoring and oversight of identified risks and through various other risk assessment activities. Capital Group seeks to address and mitigate identified risks through its compliance policies and other internal controls which make up its control environment. As the third line of defence, Internal Audit provides further assurance on the design and operating effectiveness of internal systems and controls.

Capital Group maintains risk and control registers for each of its European and Asian subsidiary entities, through which the risks and associated controls related to physical and transitional elements of climate risk are documented and assessed. Capital Group has also established a risk-appetite statement and a key risk indicator monitoring process at the Europe and Asia regional levels. Climate and Sustainability risk is considered one of the key risks under this framework and is monitored and reported to Risk Management at least annually. Capital Group's subsidiaries in Europe and Asia may be exposed to corporate Climate and Sustainability risks through increasing expectations of clients, regulators and accounting standard setters (e.g., IFRS) for companies like Capital Group to measure and monitor their GHG emissions and other impacts and to achieve carbon reduction and other environmental goals. The Sustainability and Social Responsibility team is responsible for measuring and reporting on operational GHG emissions and working with relevant internal business units to deliver on Capital Group's emissions reduction goals. The risk and control registers, risk-appetite statement and progress on key risk indicators associated with climate and sustainability activities are monitored by Risk Management and reported to the relevant regional risk committee, executive leadership and the boards and governance committees of Capital Groups European and Asian subsidiary entities.

The results from relevant risk and control validation assessments are reported to the relevant Capital Group subsidiary boards and governance committees.

Case studies

The following company case study examples demonstrate how we have managed climate-related risks throughout our investment process.

Case study: ConocoPhillips

Leading on climate strategy disclosure and emissions reporting

ConocoPhillips is a U.S.-based oil exploration and production (E&P) company, with a globally diversified asset portfolio. Navigating the energy transition is a key strategic and operational challenge for E&P companies. For stakeholders to understand how well-positioned these companies are to respond to climate-related risks and opportunities, key points to consider include the ambition of the companies' emission-reduction targets, the quality of climate disclosures and the strength of corporate governance around climate-related matters. These emission-reduction targets and initiatives form part of Capital Group's sector-specific ESG Investment Framework for Energy.

Our analysts have been engaging with ConocoPhillips for several years, most recently on climate-related topics. In November 2023, two analysts from our ESG team met with ConocoPhillips to discuss the company's climate strategy and reporting practices. The analysts learned that ConocoPhillips is tracking emissions at a more granular level, relative to peers, and linking mitigation mechanisms to tangible emissions reductions, allowing investors to better understand and track the company's climate strategy. They also learned the company is actively seeking to improve reporting standards, working with peers to define key factors for achieving operational net zero, while accounting for the multidimensional challenges associated with climate change and energy demand.

From the engagement, our analysts gained comfort that ConocoPhillips has best-in-class reporting practices on emissions reductions and climate-strategy disclosure. The company has also acknowledged our suggestions for further improvements. In particular, our analysts have asked to see enhanced disclosure around linking capital-allocation decisions to emission-reduction mechanisms. They will continue to monitor the company's progress on this and other efforts around its climate strategy.

Case study shown for illustrative purposes only. This information has been provided solely for informational purposes and is not an offer, or solicitation of an offer, or a recommendation to buy or sell any security or instrument listed herein.

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

Case study: HSBC

Progress update on positioning as a climate-transition leader

HSBC is one of the largest banking organisations in the world, providing financial products and services to clients in developed and emerging markets. Like many banks, HSBC has committed to achieving net zero by 2050. However, it has significant exposure to more carbon-intensive industries in emerging-market economies due to its large Asia-focused business, making decarbonisation particularly complex. Additionally, recognising the need for significant increases in the finance required to fund the global energy transition, the bank is keen to position itself as an advocate and partner for clients, supporting them on their own decarbonisation journeys and driving new business for the bank. To allow investors sufficient insight into the robustness of HSBC's approach and progress on these areas, effective disclosure is important.

In July 2023, one of Capital Group's ESG analysts and an investment analyst engaged with HSBC to discuss progress on the implementation and publication of its group-level climate transition plan and engagement with its clients to better understand their clients' own transition plans and to help with their implementation. HSBC shared that a bank-wide climate transition plan was on track to be delivered, which would provide further visibility to its investors on the company's overall climate transition strategy. The company also shared that, for certain high-emitting sectors, a recent client engagement model was piloted, which scored clients on their own transition plans. This would be expanded to help inform relevant decisions and activities across the bank's business as well as provide a top-down portfolio-level view for HSBC's own risk tolerances and financed emission-reduction targets.

The analysts noted that HSBC's "Net Zero Transition Plan" (since published in January 2024) and client-engagement model could serve as an industry model. The plan emphasises engagement with clients to help finance decarbonisation in areas with the most change ahead, rather than simply divesting.

The analysts will continue to monitor HSBC's disclosures and practices to track its climate strategy implementation and progress. Specifically, they will monitor how HSBC is integrating its climate engagement efforts into the bank's credit-making decisions and portfolio management activities.

Case study shown for illustrative purposes only. This information has been provided solely for informational purposes and is not an offer, or solicitation of an offer, or a recommendation to buy or sell any security or instrument listed herein.

As at January 2024. Sources: Capital Group, HSBC.

Case study: Third-party ESG data vendor

Working to improve data

We work with an ESG data vendor to leverage their estimates on revenue derived from various conventional and unconventional oil sources.

During one of our recent quality-check exercises, we observed that the vendor's dataset indicated a material decline in Arctic oil revenue for one of the major firms in the industry, which prompted us to evaluate the case further with sector experts. Following our evaluation, we contacted the vendor for an explanation.

The vendor's internal investigation led to the discovery that one of the fields for the issuer was incorrectly tagged as non-Arctic, which led to the estimated drop in overall Arctic oil revenue. Following the correction, we had discussions with the vendor on the overall governance process to identify any further opportunity for optimisation. This helped us understand their research process and how we can bolster our testing to complement it.

Case study shown for illustrative purposes only.

As at January 2024.

Metrics

Progress this year

- This year we analysed the emissions performance of our global holdings by applying WACI to our listed equity and publicly traded corporate debt investments.
- Our 2023 operational emissions are 40% lower than our 2019 baseline.*
- In 2023, the onsite solar array that was installed at our San Antonio office went into operation.

We disclose climate-related metrics associated with our investment portfolios. In addition, we are committed to a corporate sustainability strategy that targets a 25% reduction in operational GHG emissions by 2025

We monitor climate metrics at the issuer level and at fund or account levels, and we produce quarterly carbon footprint reports (CFRs) for financial professionals and institutional clients upon request.

In our own business operations, between 2019 and 2023 there was a 40% reduction in our operational emissions.* Our goal is to reduce operational emissions by 25% from our 2019 baseline by 2025. This section includes detailed reporting on our progress towards this goal in addition to other GHG emissions and energy metrics.

Investment management climate-related metrics and targets

Climate metrics applied to our global holdings

In 2023, we looked at the emissions performance of our global holdings by applying weighted average carbon intensity (WACI) to our total investments in listed equity and publicly traded corporate debt.

We have chosen to apply WACI as it provides a measure of a portfolio's exposure to carbon-intensive companies and is applicable across asset classes. With the exception of certain SFDR-Article 8 funds, our funds are not managed to a carbon-emissions target.

WACI is an intensity metric and, as such, does not solely measure carbon emissions but is also impacted by the changes in revenue of companies.† Movements year-on-year are therefore a product of changes in carbon emissions and revenues of companies. Refer to Figure 3 for further detail on the methodology.

Figure 3: WACI methodology

Weighted average carbon intensity is measured using the following equation provided by TCFD in the 2021 implementation report:

$$\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} \times \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issuer's \$M revenue}_i}\right)$$

‡

*Operational emissions include Scope 1, Scope 2 and Scope 3 (business travel) emissions. Compared to 2019 baseline, location-based. (The Scope 2 location-based value reflects emissions from actual use of electricity at each of Capital Group's sites using grid average emission factors tied to each location.)

†Generally, a lower weighted average carbon intensity indicates a lower level of greenhouse gas emissions for a given portfolio.

‡The Scope 1 and 2 emissions revenue intensity for each investment is adjusted for its relative weight in the portfolio. Individual weighted carbon intensities are then added to find the weighted average carbon intensity of the portfolio.

Annual WACI for the period ending on 31 December 2023, is shown in Table 2. WACI decreased in our listed equity holdings and public corporate debt holdings between 2022 and 2024.* For listed equity, these values are below index level while corporate debt is above the index.

The MSCI ACWI (All Country World Index) and the Bloomberg Global Aggregate Corporate Index both provide a relative proxy for global exposure to each asset class and are used as benchmarks (reference indices) for some, but not all, of our funds. Other similar indices may be associated with lower WACI.

*Table 2: Weighted average carbon intensity (WACI) as at 31 December 2023.**

	Weighted average carbon intensity (WACI) (Metric tons of CO_2e per million USD revenue) Scopes 1 & 2			
Portfolio	2022	2023	Data coverage (%)‡ 2022	Data coverage (%)‡ 2023
Capital Group total listed equity†	137	117	99.10%	99.03%
Equity index: MSCI ACWI	161	129	99.62%	99.65%
Capital Group total public corporate debt	298	261	92.42%	93.08%
Corporate debt index: Bloomberg Global Aggregate Corporate Index	223	209	94.67%	96.42%

The information in relation to the index is provided for context and illustration only.

A note on data quality: The figures provided represent our best estimates. Emissions accounting and reporting by companies are still largely voluntary and unregulated. As such, there are significant data gaps. Companies report emissions at irregular intervals and with long lag times. To provide a complete data set we may use data from the latest reporting year available for each company and there may be differences in the reporting year amongst companies. In cases where no data are available for specific metrics, MSCI may use modeled estimates based on industry averages or historical trends. Emissions data are subject to large margins of error and companies frequently revise reporting.

*WACI calculation was built on the Scopes 1 and 2 emissions of the companies in which we invest. We rely on carbon emissions data from MSCI to estimate the carbon emissions and revenue of issuers. Such data may include estimates based on the third-party data provider's own methodologies for certain issuers where there are no reported, reliable carbon-emissions data. If there are no MSCI data for an issuer (reported or estimated), then we exclude such issuer from our WACI calculations.

†Capital Group listed equity refers to equity holdings that are publicly traded on a stock exchange.

‡Data coverage shows the total portfolio weight of investments for which we have been able to match carbon information.

Equity investments in 2023 show greater levels of holdings in low-emitting sectors, such as health care and consumer discretionary, when compared to the MSCI ACWI (refer to Figure 4). Conversely, corporate debt, is invested in higher emitting sectors than the Bloomberg Global Aggregate Corporate Index benchmark, including energy, utilities and materials (refer to Figure 5).

Figure 4: Portfolio emissions for 2023 listed equity alongside portfolio value of the sector. These are compared to the index weightings.*

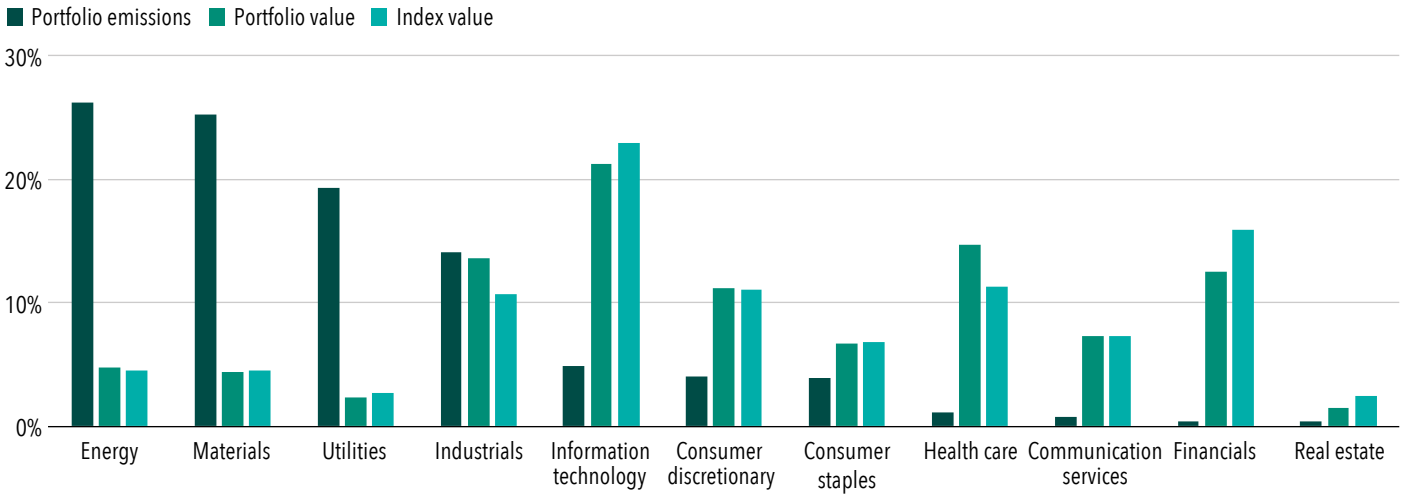
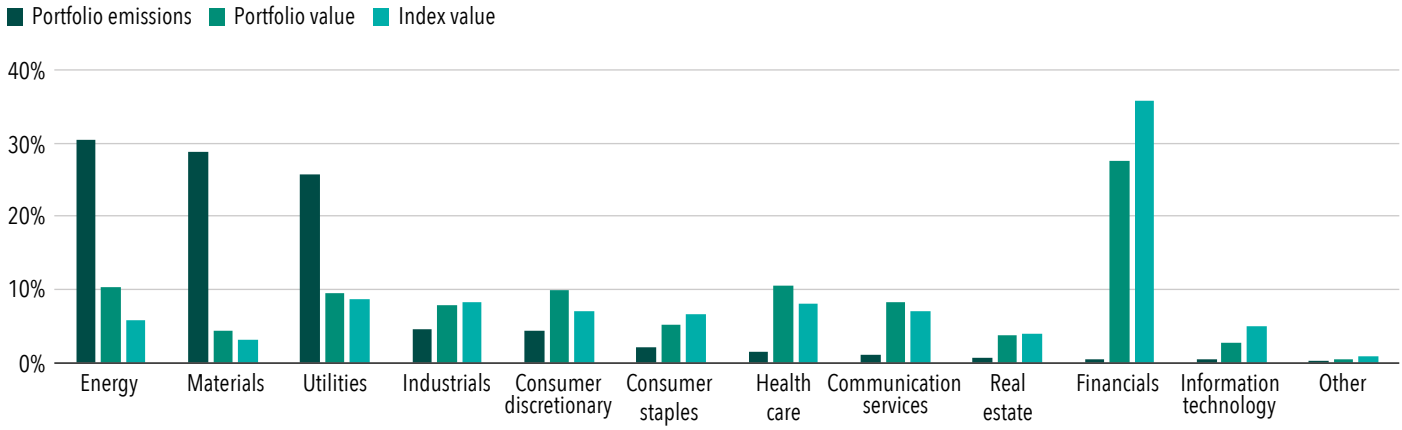


Figure 5: Portfolio emissions for corporate debt in 2023 alongside portfolio value of the sector. These are compared to the index weightings.*



The information in relation to the index is provided for context and illustration only.

*Portfolio emissions are attributed using portfolio value/adjusted enterprise value for equities and fixed income. Portfolio value is as at 31 December 2023. All emissions data are provided by MSCI and are as at 31 December 2023. The benchmark indices used are MSCI All Country World Index for equities and Bloomberg Global Aggregate Corporate Index for fixed income.

While we have shared this sector view, carbon intensity is also an output of the individual companies in which we invest. Our bottom-up investment process means we are well-placed to assess not only current emissions but also the trajectory for emissions and the contribution of individual products and services. We continue to engage with the companies that are most exposed to the energy transition to better understand their resilience.

We are closely monitoring the developments of calculation methodologies and data availability for sovereigns and Scope 3 emissions. In December 2022, the Partnership for Carbon Accounting Financials (PCAF) released new methodologies for the calculation of sovereign emissions. Meanwhile, data on issuer Scope 3 emissions are increasingly being made available, supported by enhanced disclosures at the issuer level and improved modelling capabilities at ESG data providers. At this time, we have not included sovereigns or issuer Scope 3 emissions in our entity carbon calculations, as data availability and methodologies continue to be nascent.

We acknowledge the importance of forward-looking metrics in understanding climate-related risks and opportunities. On page 10 of this report we describe our methodology to integrate climate scenarios into our investment process. We intend to conduct scenario analysis only with respect to select assets under management.

Climate metrics applied to our five largest funds

We produce quarterly fund-level carbon footprint reports, available on demand for clients. These reports disclose several carbon footprint metrics, including WACI.

Table 3 shows a breakdown of the WACI for our five largest funds by assets under management (AUM).* This additional transparency is intended to drive a richer conversation with clients on how climate risks are being managed.

Table 3: Climate-related metrics for the Capital Group organisation's five largest funds by AUM.

Portfolio	Fund WACI	Benchmark WACI†	Difference against benchmark	% Data coverage
The Growth Fund of America®	83	105	–21%	98.6%
American Balanced Fund®	113	105	8%	76.4%
Washington Mutual Investors Fund	104	105	–1%	99.9%
EuroPacific Growth Fund®	109	174	–37%	98.9%
New Perspective Fund®	85	129	–34%	99.5%

For illustrative purposes only. American Funds are not registered for sale outside the US. The information in relation to the index is provided for context and illustration only.

*American Funds are intended only for persons eligible to purchase U.S.-registered mutual funds. The funds represented in the table are not available to investors outside of the United States. All emissions data are provided by MSCI and are as at 31 December 2023.

†Relevant benchmarks: S&P 500 Index for The Growth Fund of America, American Balanced Fund and Washington Mutual Investors Fund; MSCI All Country World Index ex USA for EuroPacific Growth Fund; MSCI All Country World Index for New Perspective Fund. Due to system limitations, we are not able to compare the WACI for American Balanced Fund to its primary benchmarks, the 60%/40% S&P 500 Index/ Bloomberg U.S. Aggregate Index.

Corporate sustainability metrics and targets

This section provides detailed information on the GHG emissions that arise from Capital Group's corporate operations in addition to data on energy consumption and intensity in reference to relevant GRI Standards. Please refer to the Appendix for information on our approach to measuring our emissions and computation methodology.

Operational emissions target

Our operational emissions comprise Scopes 1 and 2 emissions, mostly from energy use at our sites globally, and Scope 3 emissions from business travel. Our emissions-reductions target is to reduce operational emissions by 25% by 2025 relative to our 2019 baseline.

Compared to 2019, we reduced operational emissions (location-based) by 40% driven primarily by improved energy efficiency, increased onsite solar, and reduced travel. In 2022 and continuing in 2023, we expanded our focus on renewable energy by purchasing renewable energy certificates (RECs), or their equivalents, to match our energy consumption at each of our sites globally from the same market where the electricity was consumed. The implementation of this new strategy is the reason for the large reduction in Scope 2 (market-based) emissions. In addition, we are increasing operational efficiencies across our sites, and are planning installation of additional onsite solar energy. Our Scope 3 (business travel) emissions were down 49%. We expect emissions reductions related to travel to normalise in future years. Please see our annual DE&I and Sustainability Report for more detail on our corporate sustainability strategy. Our CY2023 DE&I and Sustainability Report will be available from early August.

GHG emissions metrics

We have broken out our GHG emissions reporting into two components. The first table provides data related to our operational emissions, which we define as Scope 1, Scope 2 and Scope 3 (business travel). The second table covers other Scope 3 emissions, which are estimated. These emissions are related to the procurement and transportation of goods, services and equipment.

Approach to reported values

Figures in the tables have been rounded to the nearest whole number. The percentage figures may not total 100 due to rounding. The GRI codes (GRI 305-1-5, 302-1-4) reference metrics included in the Global Reporting Initiative (GRI) standards. The headlines for tables 4–9 indicate the relevant disclosures for each associated metric.

Table 4: GHG emissions related to business operations – GRI 305-1, 305-2, 305-3 and 305-5

Metric tons of CO_2 equivalents ($MTCO_2e$)	2019	2022	2023	% Change from 2019
Scope 1	1,004	717	1,034	3%
Scope 2 (location-based)	18,123	13,661	12,790	–29%
Scope 2 (market-based)	18,123	15	5	–100%
Scope 3 (business travel)	24,268	13,364	12,348	–49%
Total (location-based)	43,395	27,742	26,172	–40%
Total (market-based)	43,395	14,096	13,387	–69%

Table 5: Other Scope 3 categories (estimated)

$MTCO_2e$	2023
Scope 3 purchased goods & services	230,251
Scope 3 capital goods	3,391
Scope 3 upstream transportation & distribution	1,486
Scope 3 upstream leased assets	1,936

Energy

Capital Group consumed 43,219 megawatt hours (MWh) of energy in 2023 inclusive of electricity, cooling, natural gas and diesel. This is a 25% reduction in energy use by our global facilities in 2023 relative to the baseline year. Most of the energy consumption by our global operations was related to electricity, as shown below. Table 7 includes information on our progress, incorporating renewable electricity into our operations, including onsite solar generation from our offices in Irvine, California, and San Antonio, Texas. Please see our annual DE&I and Sustainability Report for more information on renewable electricity in our corporate operations.

Table 6: Energy consumption – GRI 302-1 and GRI 302-4

% of energy consumption	2019	2023
Electricity	91%	90%
Purchased electricity*	89%	84%
On-site solar consumption	2%	7%
Natural gas and diesel	9%	10%
Total energy consumed (MWh)	57,559	43,219

*This includes purchased cooling, which is <1% of the total.
The percentage figures may not total 100 due to rounding.

Table 7: Renewable electricity – *GRI 302-1*

MWh	2019	2023
On-site solar – electricity generated	1,578	3,635
On-site solar – electricity consumed	1,235	2,834
On-site solar – electricity returned to the grid	343	801
Purchased RECs (or equivalent)	0	36,149
Renewable electricity from the grid	9,963	7,432

Intensity metrics

The following intensity metrics are calculated using location-based values and therefore do not incorporate our purchase of renewable energy certificates (RECs). The square footage reflects occupied square footage for all sites that were occupied in the reporting year, excluding co-working spaces that are outside of our operational control boundary. "Associate" reflects average headcount over the course of the calendar year that ended 31 December 2023.

Table 8: GHG emissions intensity – GRI 305-4

	2019	2023	Units
Facilities GHG emissions per square foot (Scopes 1 & 2)	0.007	0.005	$MTCO_2e$/sq. ft.
Business travel–related GHG emissions per associate	2.95	1.37	$MTCO_2e$/associate

Table 9: Energy intensity – GRI 302-3

	2019	2023	Units
Facilities energy intensity per square foot	0.020	0.015	MWh/sq. ft.

Appendix

GHG emission reporting approach and methodology

Capital Group's corporate GHG emissions metrics are reported in accordance with the expectations of the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition* (GHG Protocol). Following is information regarding our approach to measuring our corporate GHG emissions and computation methodology.

Inventory boundary

Capital Group applies an operational control boundary for purposes of GHG emissions reporting. GHG emissions reporting is for Capital Group and its subsidiaries, including all owned and leased facilities that were active during the reporting period and where Capital Group has operational control.

Base year

Capital Group has chosen 2019 as the baseline year against which we measure our progress toward our emissions-reduction goals. It was the last full year before the COVID-19 pandemic and therefore best reflects normal operations.

GHG emissions methodology

Capital Group measures Scope 1, Scope 2 and select categories of Scope 3 emissions, namely: business travel, purchased goods and services, capital goods, upstream transportation and distribution, and upstream leased assets.

GHGs included in this report are carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O) emissions from electricity and fuel consumption, as well as hydrofluorocarbon (HFC) and hydrochlorofluorocarbon (HCFC) emissions from refrigerants.

Scope 1

Scope 1 emissions include direct emissions arising from stationary combustion of natural gas and diesel fuel, as well as refrigerant losses. Usage data from utility bills or landlord bills are the primary source of data for natural gas. Emissions from diesel and refrigerant losses are calculated based on primary data from use logs and invoices. Emissions factors for Scope 1 emissions were sourced from the UK Department for Environment, Food and Rural Affairs (DEFRA) (IPCC AR5 2014). Onsite solar is tracked through smart meters and utility bills to understand total generation, total Capital Group consumption and what is returned to the electricity grid. This falls under Scope 1 as it is onsite generation with a carbon footprint of zero.

Scope 2

Scope 2 emissions include indirect emissions arising from purchased electricity and purchased cooling. Purchased electricity and cooling activity data are sourced from utility bills or information provided by landlords in leased facilities. Where data are not available, estimates based on square footage are applied. Estimated data were used when computing 0.2% of Scope 2 emissions for the calendar year ended 2023.

In accordance with the GHG Protocol, Capital Group calculates Scope 2 emissions from purchased electricity using both location-based and market-based methods. The location-based method reflects emissions calculated using average emissions factors for the electricity grids at each of Capital Group's sites. The market-based method incorporates contractual instruments in which the organisation procures electricity from specific suppliers or sources, such as the purchase of RECs.

Emission factors used for electricity consumption in the U.S. are sourced from the EPA Emissions and Generation Resource Integrated Database (eGRID 2021 (IPCC AR4 2007)). For UK emissions we use DEFRA 2023 (IPCC AR5 2014). For all other sites, we use the emission factors from the International Energy Agency (IEA 2020) (IPCC AR5 2014). For the market-based method, emission factors are derived from contractual instruments, which, for the calendar year ended 2023, included RECs or their equivalents outside the U.S.

Scope 3

Capital Group's GHG emissions reporting includes relevant categories of upstream Scope 3 emissions. Approaches used to calculate each category of Scope 3 emissions are discussed below.

Business travel

Business travel-related emissions include business air travel, hotel stays, rental cars, personal mile reimbursements, rail and other ground transportation. Emissions are calculated based on booked reservations for air and hotel. Air travel emissions account for cabin class and haul length. The majority of rental car emissions are supplied by the vendors. Emissions related to personal vehicle miles, rail, taxi, small amount of rental car and other ground transportation apply appropriate emission factors to spend data for each category. Air travel and hotel emissions are calculated using DEFRA/Department for Business, Energy & Industrial Strategy (BEIS) 2022 emissions factors. Rail and other ground transportation emissions are calculated using EPA Factors 2023 v. 4.0. Personal vehicle miles use U.S. EPA Emissions Factors 2023 v.4.0 for North America, DEFRA 2023 v4.0 for Europe and the Middle East, and DEFRA/BEIS 2018 factors for the Asia-Pacific region.

Other Scope 3 emissions categories

Capital Group is providing estimates of Scope 3 categories: purchased goods and services, capital goods, upstream transportation and distribution, and upstream leased assets. These categories reflect emissions associated with the procurement of goods, services and equipment by Capital Group for use in business operations. Purchased goods and services comprise most of the transactions for services such as consulting and consumable goods. Indirect business travel-related spend, such as expensed meals and travel booking fees, are reported under purchased goods and services. Capital goods include purchase of furniture and major IT equipment. Transportation and distribution include shipping and employee relocation. Upstream leased assets include equipment rental. These categories of emissions are estimated using the U.S. EEIO Supply Chain GHG Emission Factors for U.S. Commodities and Industries v1.2 2023 and Capital Group's annual procurement spend data.

Global warming potentials (GWPs)

Capital Group is using the GWPs available in Salesforce Net Zero Cloud platform for this calendar year. These are for a 100-year time horizon and come from IPCC AR5 (2014). Certain data sources (e.g., U.S. EPA) still use IPCC AR4 2007 values and those are also documented below for reference.

Greenhouse gas	Symbol/blend	GWP (AR4)	GWP (AR5)
Carbon dioxide	CO_2	1	1
Methane	CH_4	25	28
Nitrous oxide	N_2O	298	265
HCFC-22	$CHClF_2$	Not used	1,760
R404A	R-125/R-143a/R-134a	Not used	3,942.80
R407C	R-32/R-125/R-134a	Not used	1,624.21
R410A	R-32/R-125	Not used	1,923.50

Exclusions

Co-working spaces are outside of our operational boundary and are excluded from the carbon footprint as the associated emissions are considered de minimis (less than 1% of total emissions and square footage).

Capital Group voluntary carbon market disclosure

This disclosure is provided by Capital Group in accordance with California AB 1305. The activities of Capital Group that are in scope of California AB 1305 relate solely to our corporate operations and not to our investment advisory or management services. This disclosure is made as at 20 June 2024.

Overview

Capital Group annually reports its corporate greenhouse gas (GHG) emissions and strategies employed to achieve its emissions reduction goals associated with its operational carbon footprint. Detailed information about our GHG emissions and methodology can be found on pages 29–33 of this report. More information on our corporate sustainability strategy can be found in our annual DE&I and Sustainability Report.

Emissions reduction goals

Capital Group has established a goal of achieving carbon neutrality in our business operations by 2025, including reducing our GHG emissions by 25% by 2025, compared to a 2019 baseline. Our goals include Scope 1, Scope 2 and Scope 3 (business travel) emissions.

Reporting corporate greenhouse gas emissions and progress toward goals

Capital Group measures and reports its GHG emissions and associated progress toward emissions reduction goals in alignment with the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition* (GHG Protocol). Capital Group maintains internal controls and methodology documentation to support accurate disclosures regarding our GHG emissions and progress toward our goals. Our methodology is summarised in the Appendix on pages 32–33 of this report. Our goals have not been verified by the Science Based Targets initiative or any other industry standard. We continue to evaluate and work to advance our corporate sustainability strategy. We have not obtained independent third-party verification of reported GHG emissions data or associated progress toward our emissions reduction goals.

Voluntary carbon offsets

The following table provides details on the projects associated with voluntary carbon offsets purchased or used by Capital Group in the calendar year 2023.

Voluntary carbon offsets purchased or used in calendar year 2023

Project name	Rooftop solar energy, East Africa	Tambopata and Bahuaja-Sonene REDD+	Promoting clean cooking solutions for disadvantaged households
Name of business selling offset	Climate Impact Partners LLC	Climate Impact Partners LLC	Carbon Financial Services LLC
Registry name	Gold Standard	Verra	Gold Standard
Project ID number	5304	1067	6212
Offset project type and site location	Avoidance, Kenya	Avoidance, Peru	Avoidance, Nepal
Protocol to estimate emissions reductions	AMS-III.AR v5.0 Substituting fossil fuel-based lighting with LED/CFL lighting systems	VM0007 REDD+ (Reducing emissions from deforestation and forest degradation in developing countries plus additional forest-related activities)	AMS-II.G. Energy efficiency measures in thermal applications of nonrenewable biomass
Year(s) in which carbon offsets were purchased	2023 and 2024	2023	2023
Year(s) for which carbon offsets were used	2022 and 2023	2022 and 2023	2022

The carbon offsets Capital Group purchased were retired (i.e., removed from the carbon market) on our behalf in the year they were purchased. Capital Group does not sell carbon offsets. No voluntary carbon offsets were used to make claims of emissions reductions for calendar year 2023. As noted above, we have not obtained independent third-party verification of reported GHG emissions data or associated progress toward our emissions reduction goals.

This report includes metrics that are subject to uncertainties resulting from limitations inherent to available data and methodologies. The application of different but acceptable methodological choices can result in different measurements.

Capital Group reserves the right to update its data and methodologies in future reports.

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

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