

Changes to active-passive tax-aware models

As part of the ongoing active management of our multi-asset solutions, Capital Group's solutions investment team regularly conducts strategic and thematic research on the portfolios to ensure alignment with their long-term objectives. The team assessed current portfolio allocations utilizing updated capital markets output and model optimization, considering both quantitative and qualitative criteria. Following the most recent review, research-driven modifications to several models have been approved.

Key themes driving the updated allocation recommendations

- Continue to pursue tax efficiency through the addition of several active Capital Group exchange-traded funds (ETFs). Following these changes six of the seven models will transition to 100% ETFs.
- Increase exposure to global underlying funds to increase exposure to international equities to align exposures with model objectives and with strategic asset allocations.
- Modestly increase growth and capital appreciation oriented exposure, and decrease growth and income exposures in-line with the models' tax-aware objectives while seeking to maintain comparable forward-looking risk/return characteristics.
- Modestly increase overall fixed income exposure across several of the models to maintain volatility characteristics with portfolio objectives as ETFs generally hold less underlying cash than mutual funds.
- Consolidate passive dividend exposure with increases to SCHD – Schwab U.S. Dividend Equity ETF™ and removal of VYM – Vanguard High Dividend Yield Index ETF. SCHD's higher dividend yield, attributed to its greater quality and yield factor exposures resulting from its underlying reference index and portfolio construction process, compensates for lower high yield exposure from CGHM – Capital Group Municipal High-Income ETF, maintaining similar overall model yields.
- Capital Group Active-Passive Tax-Exempt Preservation Model will maintain its allocation to Limited Term Tax-Exempt Bond Fund of America® consistent with its preservation of capital objective.

Newly added ETFs and example of role within models

Asset Class	ETF	Role
Equity	CGMM – Capital Group U.S. Small and Mid Cap ETF	Pursues long-term capital appreciation; small and mid-cap exposure
	CGNG – Capital Group New Geography Equity ETF	Pursues long-term capital appreciation; flexible, non-U.S. equity exposure
	CGGE – Capital Group Global Equity ETF	
	CGCV – Capital Group Conservative Equity ETF	Pursues diversified dividend opportunities to support income, risk-adjusted returns and potentially lower volatility
Fixed Income	CGHM – Capital Group Municipal High-Income ETF	Pursues flexible, return-seeking, higher-yielding tax-exempt income to support portfolio yield and risk-adjusted returns

The resulting changes seek to leverage the tax efficiency advantages of ETFs to achieve the overall desired portfolio characteristics, including key exposures, flexibility and diversification of holdings.

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Allocation updates – Active-Passive Tax-Aware Models

COLUMN DESIGNATIONS:



Increase in allocation



Decrease in allocation

Category	Underlying funds	Capital Group Active-Passive Tax-Aware Moderate Growth Model		Capital Group Active-Passive Tax-Aware Growth and Income Model		Capital Group Active-Passive Tax-Aware Moderate Growth and Income Model		Capital Group Active-Passive Tax-Aware Conservative Growth and Income Model		Capital Group Active-Passive Tax-Aware Moderate Income Model		Capital Group Active-Passive Tax-Aware Conservative Income Model	
		New allocation	Allocation change	New allocation	Allocation change	New allocation	Allocation change	New allocation	Allocation change	New allocation	Allocation change	New allocation	Allocation change
Growth	CGMM – Capital Group U.S. Small and Mid Cap ETF	7%	7%	4%	4%	3%	3%						
Growth	SMALLCAP World Fund®		-8%		-6%		-5%						
Growth	CGGR – Capital Group Growth ETF	21%		4%	-4%	2%							
Growth	CGNG – Capital Group New Geography Equity ETF	3%	3%	2%	2%	2%	2%						
Growth	CGGO – Capital Group Global Growth Equity ETF	12%	6%	10%	4%	6%	1%						
Growth	American Funds® Global Insight Fund		-6%										
Growth	CGGE – Capital Group Global Equity ETF	12%	12%	10%	10%	10%	10%	8%	8%	4%	4%		
Growth and income	CGDV – Capital Group Dividend Value ETF			5%		8%		12%	-1%	12%		6%	
Growth and income	CGDG – Capital Group Dividend Growers ETF			3%	3%	6%	3%	9%	2%	6%	2%	3%	
Growth and income	CGUS – Capital Group Core Equity ETF	7%	-5%	20%		9%	-4%	3%	3%				
Growth and income	Capital World Growth and Income Fund®		-10%		-13%		-10%		-11%		-7%		
Growth and income	CGCV – Capital Group Conservative Equity ETF							4%	4%	4%	4%	5%	5%
Growth and income	American Mutual Fund®								-5%		-5%		-5%
Passive equity	VUG – Vanguard Growth Index Fund ETF	7%											
Passive equity	IWV – iShares Core S&P 500 ETF	3%		5%	-2%	6%	2%						
Passive equity	VT – Vanguard Total World Stock Index Fund ETF	15%		12%		10%		10%		7%		4%	1%
Passive equity	SCHD – Schwab U.S. Dividend Equity ETF™					2%		4%	2%	4%	2%	3%	1%
Passive equity	DGRO – iShares Core Dividend Equity ETF			2%		2%							
Passive equity	VYM – Vanguard High Dividend Yield Index Fund ETF								-2%		-2%		
Tax-exempt fixed income	CGHM – Capital Group Municipal High-Income ETF	6%	6%	10%	10%	17%	17%	23%	23%	19%	19%	13%	13%
Tax-exempt fixed income	American High-Income Municipal Bond Fund®		-5%		-10%		-17%		-23%		-17%		-13%
Tax-exempt fixed income	CGMU – Capital Group Municipal Income ETF	4%		5%		10%		11%		18%		22%	
Tax-exempt fixed income	Limited Term Tax-Exempt Bond Fund of America®												
Tax-exempt fixed income	CGSM – Capital Group Short Duration Municipal Income ETF							3%		10%		25%	
Passive fixed income	VTEB – Vanguard Tax-Exempt Bond Index Fund ETF			4%	1%	4%		5%		6%		5%	
Passive fixed income	MUB – iShares National Muni Bond ETF	3%		4%	1%	3%	-2%	5%		5%		4%	
Passive fixed income	SHM – SPDR Nuveen Bloomberg Short Term Municipal Bond ETF											3%	-2%
Passive fixed income	SUB – iShares Short-Term National Muni Bond ETF							3%		5%		7%	

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