

ESG  
May 2025



# Stewardship report

## For calendar year 2024

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

Advisory services offered through Capital Research and Management Company (CRMC) and its RIA affiliates.  
Capital Client Group, Inc., member FINRA.



# Our approach to investment stewardship

## FOREWORD

**At Capital Group, our mission is to improve people's lives through successful investing.**

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

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

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

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

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

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

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

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

Regards,



Martin Romo  
Chairman and Chief Investment Officer of Capital Group

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## Stewardship at Capital Group

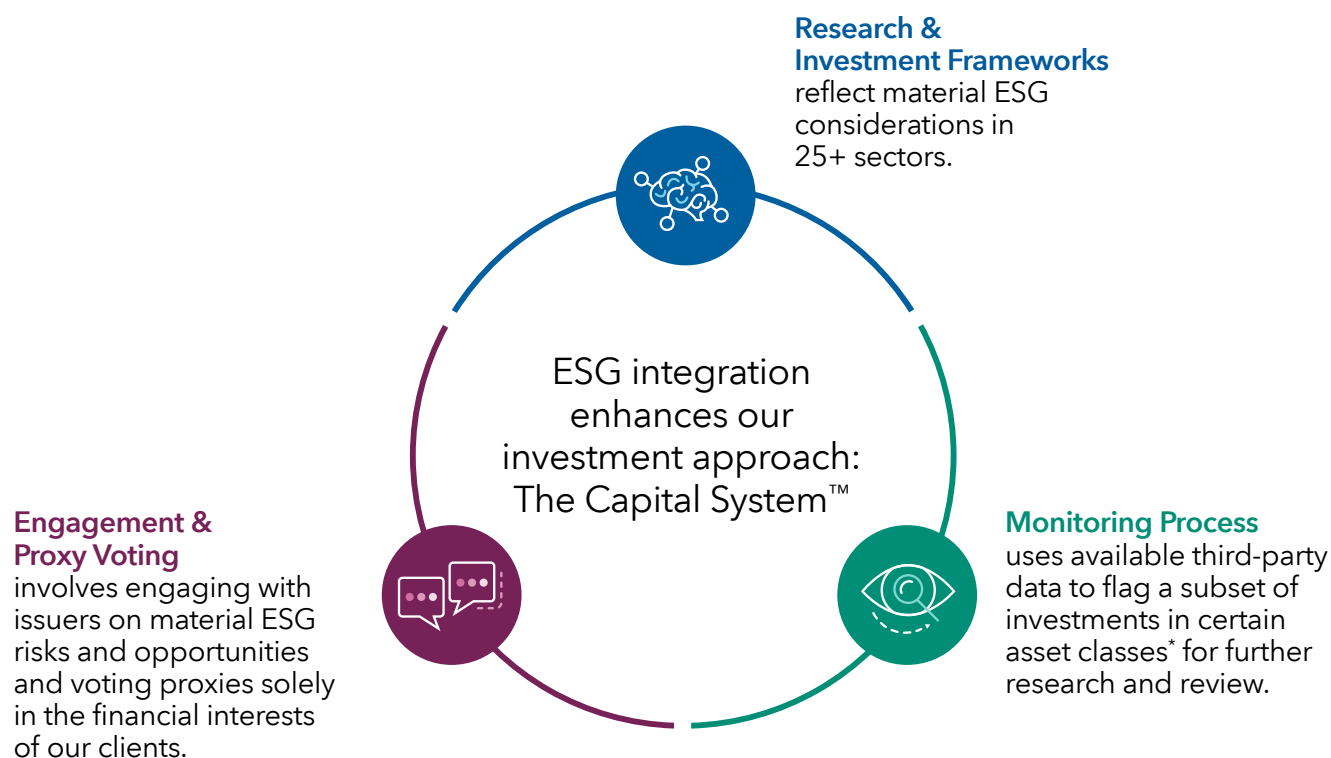
Our investment approach, The Capital System, is rooted in three key pillars: collaborative research, diverse perspectives and long-term view. We believe the very nature of The Capital System ensures that capital entrusted to the firm is consistently stewarded – in the sense of being thoughtfully allocated, managed and overseen – to create long-term value for our clients.

Analyzing material risks and opportunities, including those related to environmental, social and governance (ESG), is a crucial aspect of how we assess an issuer's long-term potential to generate value. At Capital Group, the integration of ESG considerations into our investment approach enhances our investment research, due diligence and engagement efforts and is not a separate "add-on."

Our integration of ESG builds on our bottom-up investment research and analysis and is centered on three components: research and investment frameworks, a monitoring process, and engagement and proxy voting. Our detailed, hands-on, case-by-case practice of engagement with companies and issuers serves an important role in our investment process. By engaging on material issues, we can both better understand and explore potential risks to our investments.

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## ESG integration: Our three-part process



\*As of December 31, 2024, monitoring applies to holdings of corporates (equity and fixed income), sovereign bonds and select municipal bonds.

## Our commitments and industry initiatives

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

We also engage with industry stakeholders and policymakers on a regular basis to advance well-functioning markets. This includes providing responses to consultation requests and surveys, whether directly or through trade associations, and meeting with regulators to express concerns or support for relevant policies and practices. Capital Group shares best practices across the industry by participating in several global and regional associations. We use our voice as investors to contribute to setting high standards of industry practice. We also engage in dialogues with standard setters such as the International Accounting Standards Board (IASB) and the U.K. Financial Reporting Council (FRC) to improve accounting transparency.

Please refer to our [website](#) for the full list of our signatories and industry memberships.

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

- [U.K. Stewardship Code](#) (first signed in 2010)
- [Japan Stewardship Code](#) (first signed in 2014)
- [Hong Kong Stewardship Code](#) (first signed in 2019)

### 2021

**Financial Reporting Council (FRC)** Capital Group is a signatory of the United Kingdom (UK) Stewardship Code and was accepted for the fourth year running in 2024.

### 2020

**Task Force on Climate-related Financial Disclosures (TCFD)** Capital Group reports against the TCFD recommendations.

### 2016

**International Financial Reporting Standards Foundation (IFRS)** Capital Group is a member of the International Sustainability Standards Board (ISSB) Investor Advisory Group.

### 2010

**Principles for Responsible Investment (PRI)** Capital Group is a signatory.

### 2003

**Asian Corporate Governance Association (ACGA)** Capital Group is a long-term active member. One of our portfolio managers is the chair of ACGA.

As of December 31, 2024.

# Engagement

## Why we engage

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

We may use engagement to encourage disclosure on matters that we believe can impact the company's ability to generate long-term returns, and we may share examples of effective management practices observed in a given sector that may be relevant to the company, again with a view to protecting and growing the value of our investments for the benefit of fund shareholders.

## How we engage

We have relationships with companies and issuers on a global basis and tend to meet with C-suite management, heads of sustainability, board chairs and investor relations personnel. We will generally engage in direct dialogue with companies privately. We believe this is an effective and constructive approach to understanding how companies and issuers are managing material risks and opportunities, including those that are ESG-related. Many of our engagements are face-to-face meetings or, where this is not possible, video calls, to help ensure full debate and interaction. Reflecting our long-term approach, we act as partners to our investee companies and seek to better understand their approach to material ESG issues.

### Ongoing dialogue and engagement

**360+**

portfolio managers and investment analysts

**700+**

companies engaged on ESG topics during 2024

**40+**

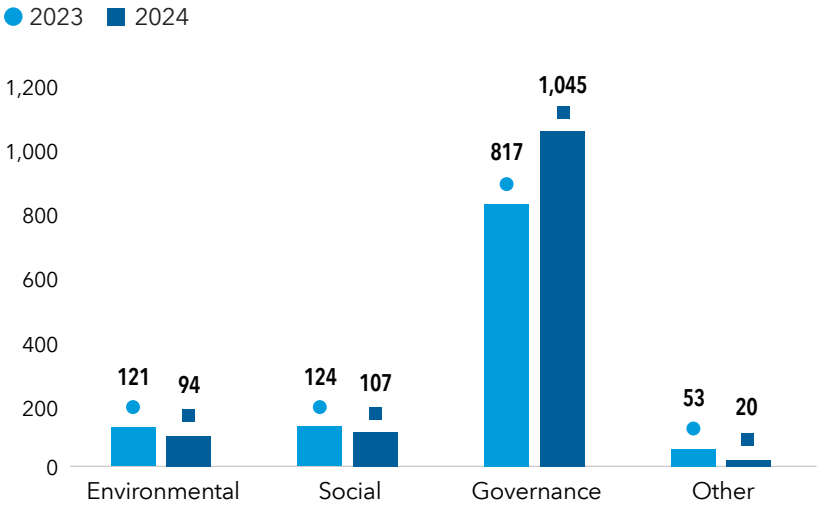
person dedicated ESG team, including our ESG Research & Investing team and Global Stewardship & Engagement (GSE) team

As of December 31, 2024.

# What we engaged on in 2024

During the year, we recorded more than 1,250 ESG engagements with companies and issuers across Asia-Pacific, the Americas and EMEA.

## Engagements by category, 2023 vs. 2024



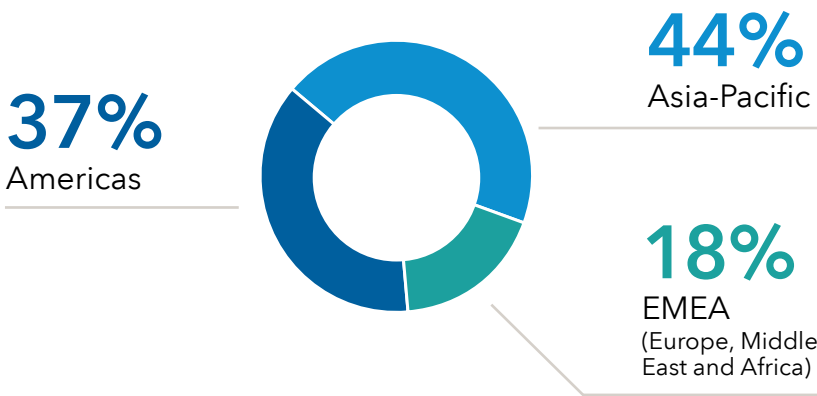
1,250+

ESG engagements in 2024

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

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

## Engagements by region, 2024



As of December 31, 2024.



## ENGAGEMENT CASE STUDY

# Capital allocation-related engagement with Nippon Television

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

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

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

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

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

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The case study illustrates how we undertake engagement in practice.

This information should not be interpreted as an offer or recommendation to buy any securities. This case study reflects our analyst's view at the time of review and remains subject to change.

\*A practice where one publicly listed company holds a significant number of shares in another.  
As of March 2024. Sources: Capital Group, Nippon Television Holdings.



## ENGAGEMENT CASE STUDY

# Engagement with Netflix on compensation

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

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

Compensation has therefore been a theme in discussions between Netflix and our investment and GSE analysts. In August 2022, our analysts raised concerns around the magnitude of the firm's executive pay and provided feedback on how the compensation structure might better align with long-term shareholder interests. In September 2023, our analysts discussed Netflix's updated compensation structure. The company's adoption of performance share units (PSUs<sup>1</sup>) for incentive pay was viewed favorably. Our analysts also noted that, if total shareholder return (TSR<sup>2</sup>) was used as a metric, above-median benchmarking could be appropriate.

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

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<sup>1</sup>PSUs: Equity awards given to executives, which vest upon achieving predetermined company performance goals.

<sup>2</sup>TSR: A metric that captures the total economic gain to shareholders from owning shares in a company. It includes both the appreciation in the share price and any dividends received during the holding period.

As of May 2024. Sources: Capital Group, Netflix.





## ENGAGEMENT CASE STUDY

# Engagement on supervisory board refreshment and litigation resolution at Bayer AG

Bayer AG is a German pharmaceutical and biotechnology company. It operates through three segments: crop science, pharmaceuticals and consumer health. Our biopharma investment framework identifies corporate governance and quality management as key considerations for the sector. Bayer is currently facing challenges, including ongoing litigation following their 2018 acquisition of Monsanto. It has been claimed that Monsanto's weed killer, Roundup, contains glyphosate, a chemical alleged to cause cancer. To help address these issues, Bayer enhanced its supervisory board in 2024 by adding three new members with relevant skills in dispute resolution, investor engagement and integrating scientific expertise.

Members of our ESG team and investment team have engaged with Bayer three times over the past year, most recently in January 2025, to understand the impact of the board refreshment and the steps being taken to resolve ongoing litigation. Bayer explained that it has created a Legal Risk Committee at the supervisory board level to help address the outstanding litigation. It also highlighted that key roles on the Legal Risk and Audit Committees have been strengthened as part of the board refreshment, and oversight of the pharma pipeline development has improved. Once the litigation overhang is resolved, Bayer plans to focus on strengthening board oversight of the crop science business, with improvements planned for 2026 to reinvigorate the sector.

Our ESG analyst noted that last year's updates to the supervisory board appear to have been successful, with new members making significant contributions, including the creation of the Legal Risk Committee. The engagement also confirmed that the company's senior leaders are giving considerable attention to resolving the outstanding litigation. Recognizing the important role that Bayer's board will play in navigating litigation challenges, our ESG analyst will continue to monitor and engage on future board developments.

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# Proxy voting

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## Why we vote

Capital Group believes exercising our proxy voting rights for the entities in which we invest is fundamental to fulfilling our obligations to our clients. Our approach is made more powerful by the fact that we have an investment professional-led voting process. Voting decisions are made independently by each of the three equity investment units based solely on what they believe are the financial interests of our clients.

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## How we vote

Proxy analysis is first conducted by our governance specialists, in accordance with our investment professional-driven proxy voting procedures and principles. These procedures and principles comprise a blend of over-arching governance principles, which have global applicability, supplemented by more detailed regional voting guidance aligned with local market regulation in the Americas, Europe, the Middle East and Africa (EMEA) and Asia-Pacific. We also conduct company-specific analysis as part of our proxy research process. Once completed, our research is shared with one or more of the group's investment analysts familiar with the company to come to a recommendation. If there is disagreement, a second opinion can be provided by a proxy coordinator (an investment analyst or another investment group associate with experience in corporate governance and proxy voting matters). Each equity investment unit's proxy voting committee retains final authority for voting decisions made by such unit. Proxy voting committees are a subcommittee of each unit's investment committee. They have oversight of voting activity in their respective units. Each unit's full investment committee approves the proxy voting procedures and principles.

## What we voted on in 2024

In 2024, we voted at 2,103 annual, extraordinary and special general meetings\* (AGMs, EGMs and SGMs) on behalf of our clients.

Our commitment to rigorous global research and individual accountability means that only the highest conviction ideas make it into our portfolios. As such, our starting point is generally to be supportive of management. In 2024, we voted against approximately 4.5% of proposals put forward at AGMs, EGMs and SGMs. Proxy voting reports detailing how Capital Group has voted are available to clients on request.

# 2,100+

AGMs, EGMs and SGMs at which Capital Group voted (proxy) on behalf of clients in 2024

### Proxy voting statistics for calendar year 2024

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

Number of votes with/against management may exceed total number of proposals voted, due to split voting by divisions on the same resolution. As of December 31, 2024. EMEA – Europe, the Middle East and Africa. Voting statistics are an aggregated blend of votes for all three investment units at the ballot level. Source: Capital Group.

\*Annual general meeting = AGM; Extraordinary general meeting = EGM; Special general meeting = SGM.

Learn more about our ESG approach and  
explore our latest research and insights →

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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.

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