



CLIMATE TRANSPARENCY REPORT 2020

Capital Group

About the Climate-related Disclosure Indicators

Climate has been identified as a top priority for PRI signatories, with over 70% of asset owners reporting this as the most important long-term trend they are acting on.

The FSB Task Force's guidance on climate-related financial disclosure aim to create a single framework for disclosure on assessment and management of climate-related risk. The recommendations, supported by investors representing US\$22 trillion, identify four main disclosures, Governance, Strategy, Risk Management, Metrics and Targets, and include specific guidance for asset owners and managers.

As a result, the PRI introduced climate-related disclosure indicators that can be used to align with the TCFD recommendations in the 2020 PRI Reporting Framework.

About this report

This report is an export of only the climate-related indicators from the 2020 Reporting Framework response. The full Public Transparency Report is available here (<https://reporting.unpri.org/surveys/PRI-reporting-framework-2020/-9C4D86FB-5A2F-4852-9F8A-1841B9B6AB74/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1>). It shows the responses to all the completed climate indicators, even those you chose to keep private. It is designed for your internal review or – if you wish - to share with your stakeholders.

The PRI will not publish this report on its website if you have designated your 2020 climate reporting as “private”. Otherwise, you will be able to access the Climate Transparency Report of your organisation and that of other signatories on the [PRI website](#) and on the [Data Portal](#).

To easily locate information, there is a **Recommendation index** which summarises the indicators that signatories complete and disclose. The report presents information exactly as it was reported as per signatory preference. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory are presented in this report.

TCFD Recommendations Index

Strategy and Governance - CC			TCFD Recommendation			
Indicator	Reported	Disclosure	Governance	Strategy	Risk Management	Metrics & Targets
SG 01.6 CC	✓	Public				
SG 01.7 CC	✓	Public				
SG 01.8 CC	✓	Public				
SG 01.9 CC	✓	Public				
SG 01.10 CC	✓	Public				
SG 07.5 CC	✓	Public				
SG 07.6 CC	✓	Public				
SG 07.7 CC	✓	Public				
SG 07.8 CC	-	Public				
SG 13.1	✓	Public				
SG 13.2	✓	Public				
SG 13.4 CC	✓	Public				
SG 13.5 CC	✓	Public				
SG 13.6 CC	✓	Public				
SG 13.7 CC	✓	Public				
SG 13.8 CC	✓	Public				
SG 14.1	✓	Public				
SG 14.2	✓	Public				
SG 14.3	✓	Public				
SG 14.6 CC	✓	Public				
SG 14.7 CC	-	Public				
SG 14.8 CC	✓	Public				
SG 14.9 CC	✓	Public				
SG 15.1	✓	Public				
SG 15.2	✓	Public				
SG 15.3	✓	Public				

Symbol	Status
✓	The signatory has completed this sub-indicator
-	The signatory did not complete this sub-indicator.
	This indicator is relevant to the named TCFD recommendation
Within the first column "Indicator", indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.	

ORGANISATIONAL OVERVIEW

This section provides an overview of your organisation. These characteristics are used to define your peer groups.

MAIN CHARACTERISTICS	
Name	Capital Group
Signatory Category	Fund Management - Majority
Signatory Type	Investment Manager
Size	US\$ > 50 billion AUM
Main Asset Class	>50% Listed Equity Internally Managed
Signed PRI Initiative	2010
Region	North America
Country	United States
Disclosure of Voluntary Indicators	97% from 38 Voluntary indicators

Capital Group

Reported Information

Public version

Strategy and Governance

PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

Investment policy

SG 01	Mandatory	Public	Core Assessed	General
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New selection options have been added to this indicator. Please review your prefilled responses carefully.

SG 01.1	Indicate if you have an investment policy that covers your responsible investment approach.
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SG 01 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General
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SG 01.6 CC	Indicate whether your organisation has identified transition and physical climate-related risks and opportunities and factored this into the investment strategies and products, within the organisation's investment time horizon.
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Yes

	Describe the identified transition and physical climate-related risks and opportunities and how they have been factored into the investment strategies/products.
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As a global investor, we believe the impacts of climate change are broad and relevant, creating risks and opportunities across different sectors. With ESG integration, we embed our understanding of climate change into our investment decision making. This enables us to focus on the investment decisions where we see climate change and related issues as material financial factors.

The material climate related risks and opportunities we have identified include:

Risks

- **Climate regulation:** Companies that do not anticipate regulatory developments may be at risk of a higher cost of capital and more expensive regulation which will affect their business models and, ultimately their valuations. We are mindful about the impacts of carbon emission regulations, which have already created winners and losers. According to our analysts, there is enough public concern and political action to affect industry and investment decisions.
- **Stranded assets:** Some of our analysts have started to reallocate a portion of their portfolio according to their exposure to stranded assets, beyond the energy sector. They also engage with management to encourage them to be part of the solution and not part of the problem, especially in the mining sector, as it relates to unsustainable activities like thermal coal.
- **Divestment campaigns:** Whether or not to divest from fossil fuel companies has been considered carefully, and we have taken into account the effectiveness of such an approach and the impact it would have. In the view of some of our analysts, divestment will not lower the global demand for fossil fuels, which is the key to reducing greenhouse gas emissions. The divestment movement will transfer the supply of fossil fuels to less environmentally conscious companies, which may even cause emissions to rise. Therefore, rather than divest, we have to date opted to engage with companies to encourage more climate-friendly action to accompany the transition to a low carbon economy.

Opportunities

- **Energy transition:** The transition towards a low-carbon future will be a slow evolution rather than a revolution. However, this "slow evolution" will impact commodity prices, investments and ultimately, stock prices. We believe companies positioned to benefit from the transition to a low-carbon economy are attractive long-term investments. We invest in companies providing low-carbon solutions such as renewable energy, energy efficiency, water and waste management solutions. In

fixed income we invest in green bonds issued by financial institutions, utility/energy companies and agencies that fund renewable energy projects.

- **Waste management:** The waste management industry has significant growth potential because of its increasing importance. By providing collection and optical sorting systems to food and recycling businesses, waste management companies could benefit from major global trends: expanding environmental regulation, increasing recycling rates, greater automation, urbanisation and rising food consumption.
- **Electric vehicles:** The move towards lower/zero emission vehicles will require significant R&D expenditures. This will ensure that some auto parts companies grow faster than the industry average. To identify opportunities in this field, we look at the proportion of spending on R&D, as a key indicator of which companies are prepared for increasingly restrictive emissions standards.

No

**SG 01.7
CC**

Indicate whether the organisation has assessed the likelihood and impact of these climate risks?

Yes

Describe the associated timescales linked to these risks and opportunities.

In our view, the timescale for climate related opportunities is mostly short or medium term, while opportunities deriving from technological shift could be on a medium to long term timescale. We already invest in companies which we believe are benefiting or will benefit from these opportunities.

For climate related risks, the timescale could be further out. We believe the costs of climate change are limited in the short term but can be expected to rise over the next five to ten years. As long-term investors, our holistic and rigorous in-house research leads us to invest in companies which we think are effectively managing long-term risks, including climate risk.

No

**SG 01.8
CC**

Indicate whether the organisation publicly supports the TCFD?

Yes

No

Explain the rationale

While we have not yet publicly expressed our support for the TCFD, we are closely following its developments. Through our active participation in the Sustainability Accounting Standard's Board (SASB) Investor Advisory Group, we support greater disclosure of ESG-related data, as such information can help us better assess the long-term value of a company. As it relates to climate-related disclosure across companies' governance, strategy, risk management, metrics and targets, TCFD's Implementation Guide extensively references the SASB Standards as a tool for implementing TCFD Recommendations.

**SG 01.9
CC**

Indicate whether there is an organisation-wide strategy in place to identify and manage material climate-related risks and opportunities.

Yes

Describe

The integration of climate related risks is an important part of our research-driven investment process. Capital Group has always invested for the long term on behalf of our clients and incorporated the impact of environmental issues into the decision-making process. As an asset manager, we recognise that clients trust us to invest in a way that helps them to meet their long-term investment objectives. Responsible investing forms an integral part of our bottom-up investment process, reflecting our belief that successful companies are likely to be those that take environmental, social and governance (ESG) issues seriously.

Consistent with our responsible approach to investing, it makes sense for us to be attuned to major sustainability issues, especially as they relate to the environment. With regard to those companies operating in industries about which some analysts might have concerns, we generally favour engagement rather than categorically restricting investment in them. We conduct bi-monthly dedicated ESG calls with analysts and portfolio managers to discuss specific sectors and themes including climate change, and capture examples of ESG integration. Internal and external ESG data forms the basis for the preparation for these calls and referencing our engagement with companies to enrich the discussion.

ESG factors can also be part of a positive investment decision. Our analysts are sometimes able to recommend investing in companies that they believe can deliver superior returns over the long term while providing sustainable environmental benefits. Successful investments have been made in companies that provide renewable energy and irrigation solutions in emerging markets, and in those that deliver energy efficiency benefits. We also follow developments in new technology, such as batteries for energy storage, which could accelerate the transition to a lower carbon economy.

No

SG 1.10 CC Indicate the documents and/or communications the organisation uses to publish TCFD disclosures.

- Public PRI Climate Transparency Report
- Annual financial filings
- Regular client reporting
- Member communications
- Other
- We currently do not publish TCFD disclosures

Governance and human resources

SG 07 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General
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SG 07.5 CC Indicate the roles in the organisation that have oversight, accountability and/or management responsibilities for climate-related issues.

Board members or trustees

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Risk Officer (CRO), Investment Committee

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Other Chief-level staff or heads of departments

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Portfolio managers

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Investment analysts

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Dedicated responsible investment staff

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

External managers or service providers

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Other role, specify (1)

Investment Specialists

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

SG 07.6
CC

For board-level roles that have climate-related issue oversight/accountability or implementation responsibilities, indicate how these responsibilities are executed.

Capital Group has a well-established governance structure that is led by the board of directors. The board provides general oversight of the company, reviews financial results and progress against our business objectives. Members of the Capital Group Management Committee serve as permanent directors and are joined by senior associates who serve on a rotational basis. The Management Committee is responsible for setting and communicating Capital's overall business strategy.

The ESG Oversight Group, reporting to the Management Committee, sets strategic direction and oversight for ESG agenda and key ESG priorities including climate-related issues. Three board members are on the ESG Oversight Group. The board gets updates on ESG strategy and implementation including climate related matters at its regular board meetings.

Capital's Vice Chairman, Robert W. Lovelace is a member of the SASB's Investor Advisory Group that comprises leading asset owners and asset managers who recognize the need for consistent, comparable and reliable disclosure of material and decision-useful ESG information. TCFD's Implementation Guide extensively references the SASB Standards as a tool for implementing TCFD Recommendations.

SG 07.7
CC

For management-level roles that assess and manage climate-related issues, provide further information on the structure and processes involved.

Ten senior leaders comprise the ESG Oversight Group that reports regularly to the Management Committee on ESG matters and policy evolution including climate related issues/ policies.

All members of the ESG Oversight Group are participants on the ESG knowledge sharing distribution list and take part in the bi-monthly ESG sector calls with investment analysts.

ESG issues in asset allocation

SG 13

Mandatory

Public

Descriptive

PRI 1

SG 13.1

Indicate whether the organisation carries out scenario analysis and/or modelling, and if it does, provide a description of the scenario analysis (by asset class, sector, strategic asset allocation, etc.).

- Yes, in order to assess future ESG factors
- Yes, in order to assess future climate-related risks and opportunities

Describe

We developed a framework that maps the ranges of potential temperature changes onto ranges of economic and market outcomes. We have also developed a specific scenario practice that ties major uncertainties to ranges of economic and market outcomes, and initiated a process to incorporate the climate uncertainties into this framework.

- No, our organisation does not currently carry out scenario analysis and/or modelling

SG 13.2

Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between sectors or geographic markets.

We do the following

- Allocation between asset classes
- Determining fixed income duration
- Allocation of assets between geographic markets
- Sector weightings
- Other, specify
- We do not consider ESG issues in strategic asset allocation

SG 13.3 Additional information. [OPTIONAL]

While our analysts typically develop their own proprietary earnings models, we do not have standardized valuation criteria, a mandatory screening process, or an overriding macroeconomic model. Instead, our analysts are empowered to find the financial model they believe best characterizes the industry they cover. In this way, fundamental, bottom-up research drives our firm's investment methodology.

Analysts evaluate companies' management structures, financial strength, resources, products, services, business climate, future earnings and dividends. Such fundamental research is crucial for identifying investment opportunities and risks. This on-the-ground research is combined with comprehensive macro analysis, with our equity and fixed income analysts working together to pool resources.

By identifying the difference between the underlying value of a company and the price of its securities, Capital builds its portfolios on a stock-by-stock basis, regardless of their size or volatility relative to their benchmark. Our focus is on long-term investing, not on short-term market swings. Our analysts look for attractively valued companies that can be core holdings for many years.

Other considerations include an appraisal of social, economic, cultural, political, industry and currency factors - all of which may affect the company's financial condition and outlook

SG 13 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General
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SG 13.4 CC Describe how your organisation is using scenario analysis to manage climate-related risks and opportunities, including how the analysis has been interpreted, its results, and any future plans.

- Initial assessment
- Incorporation into investment analysis

Describe

We look at 2-degree, 4-degree and 6-degree temperature rise scenarios using our in-house framework and analyze the impact on economic and market outcomes. We also look at the implications of incorporating carbon emissions cost into stationary power generation based on a few scenarios: \$0 per ton CO2, \$10 per ton CO2, \$50 per ton CO2, 10% fuel increase and 100% fuel increase. These could help analysts and portfolio managers identify and assess material climate related risks and opportunities, and factor them into investment decisions as part of their fundamental research process.

- Inform active ownership

Describe

Fundamental research is at the heart of what we do and ESG is intrinsic to that process - backed by in-house expertise in engagement and stewardship. Our investment professionals conduct rigorous primary research and construct portfolios from the bottom up by picking companies based on convictions generated by our in-house analysts. These analysts develop deep sector expertise by following the companies in their coverage for many years - and in so doing, build up deep relationships and knowledge of these companies at many levels.

We developed a framework that maps the ranges of potential temperature changes onto ranges of economic and market outcomes, as well as different scenarios assessing implications of carbon cost. We use the outcomes to inform our identification of companies that we engage with on climate change as part of our stewardship activities.

In general, we believe engagement, not exclusion, is a more effective path toward positive impact. When we have a strong conviction regarding a certain stock but have identified potential climate-related risk exposure, we can exercise our influence as an owner to engage with the company's key decision makers to manage the risk over time. We have included climate issues in our voting policy. Many of these issues are reviewed and voted on a case by case basis.

Other

**SG 13.5
CC**

Indicate who uses this analysis.

- Board members, trustees, C-level roles, Investment Committee
- Portfolio managers
- Dedicated responsible investment staff
- External managers
- Investment consultants/actuaries
- Other

**SG 13.6
CC**

Indicate whether your organisation has evaluated the potential impact of climate-related risks, beyond the investment time horizon, on its investment strategy.

Yes

Describe

For equities, our typical investment horizon is three to four years, with many investments held much longer. In our scenario analysis, we will consider different investment time-horizons, including long-term scenarios that go beyond our typical investment horizon.

No

**SG 13.7
CC**

Indicate whether a range of climate scenarios is used.

- Analysis based on a 2°C or lower scenario
- Analysis based on an abrupt transition, consistent with the Inevitable Policy Response
- Analysis based on a 4°C or higher scenario
- No, a range is not used

**SG 13.8
CC**

Indicate the climate scenarios your organisation uses.

Provider	Scenario used	
IEA	<input type="checkbox"/> Beyond 2 Degrees Scenario (B2DS)	
IEA	<input type="checkbox"/> Energy Technology Perspectives (ETP) 2 Degrees scenario	
IEA	<input type="checkbox"/> Sustainable Development Scenario (SDS)	
IEA	<input type="checkbox"/> New Policy Scenario (NPS)	
IEA	<input type="checkbox"/> Current Policy Scenario (CPS)	
IRENA	<input type="checkbox"/> RE Map	
Greenpeace	<input type="checkbox"/> Advanced Energy [R]evolution	
Institute for Sustainable Development	<input type="checkbox"/> Deep Decarbonisation Pathway Project (DDPP)	
Bloomberg	<input type="checkbox"/> BNEF reference scenario	
IPCC	<input type="checkbox"/> Representative Concentration Pathway (RCP) 8.5	
IPCC	<input type="checkbox"/> RPC 6	
IPCC	<input type="checkbox"/> RPC 4.5	
IPCC	<input type="checkbox"/> RPC 2.6	
Other	<input checked="" type="checkbox"/> Other (1)	<div style="background-color: #0070C0; color: white; padding: 2px;">Other (1) please specify:</div> In-house scenarios outlined above
Other	<input type="checkbox"/> Other (2)	
Other	<input type="checkbox"/> Other (3)	

SG 14	Mandatory to Report Voluntary to Disclose	Public	Additional Assessed	PRI 1
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SG 14.1

Some investment risks and opportunities arise as a result of long term trends. Indicate which of the following are considered.

- Changing demographics
- Climate change
- Resource scarcity
- Technological developments
- Other, specify(1)
- Other, specify(2)
- None of the above

SG 14.2

Indicate which of the following activities you have undertaken to respond to climate change risk and opportunity

- Established a climate change sensitive or climate change integrated asset allocation strategy
- Targeted low carbon or climate resilient investments
- Phase out your investments in your fossil fuel holdings
- Reduced portfolio exposure to emissions intensive or fossil fuel holdings
- Used emissions data or analysis to inform investment decision making
- Sought climate change integration by companies
- Sought climate supportive policy from governments
- Other, specify
- None of the above

SG 14.3

Indicate which of the following tools the organisation uses to manage climate-related risks and opportunities.

- Scenario analysis
- Disclosures on emissions risks to clients/trustees/management/beneficiaries
- Climate-related targets
- Encouraging internal and/or external portfolio managers to monitor emissions risks
- Emissions-risk monitoring and reporting are formalised into contracts when appointing managers
- Weighted average carbon intensity
- Carbon footprint (scope 1 and 2)
- Portfolio carbon footprint
- Total carbon emissions
- Carbon intensity
- Exposure to carbon-related assets
- Other emissions metrics
- Other, specify
- None of the above

SG 14 CC**Voluntary****Public****General****SG 14.6
CC**

Provide further details on the key metric(s) used to assess climate-related risks and opportunities.

Metric Type	Coverage	Purpose	Metric Unit	Metric Methodology
Weighted average carbon intensity	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	Monitoring	tonnes CO2e/\$M revenue	Scope 1 and 2 greenhouse gas emissions relative to market cap, weighted according to each company's weight in a portfolio. Calculations are based on ISS carbon emissions data.
Carbon footprint (scope 1 and 2)	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	Monitoring and portfolio reporting	tonnes of CO2e	Absolute scope 1 and 2 greenhouse gas emissions associated with a portfolio. Calculations are based on ISS carbon emissions data.
Portfolio carbon footprint	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	Monitoring and portfolio reporting	tonnes of CO2e	Absolute scope 1 and 2 greenhouse gas emissions associated with a portfolio. Calculations are based on ISS carbon emissions data.
Total carbon emissions	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	Monitoring	tonnes of CO2e	Absolute scope 1, 2 and 3 greenhouse gas emissions associated with a portfolio. Calculations are based on ISS carbon emissions data.
Carbon intensity	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	Monitoring	tonnes CO2e/\$M revenue	Scope 1 and 2 greenhouse gas emissions relative to market cap. Calculations are based on ISS carbon emissions data.
Exposure to carbon-related assets	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	Monitoring	% of portfolio exposed to fossil fuel	Percentage of portfolio's assets invested in fossil reserve owning companies. Calculations are based on ISS carbon emissions data.

**SG 14.8
CC**

Indicate whether climate-related risks are integrated into overall risk management and explain the risk management processes used for identifying, assessing and managing climate-related risks.

- Processes for climate-related risks are integrated into overall risk management
- Processes for climate-related risks are not integrated into overall risk management

Please describe

All of our funds are managed to their investment objectives on a bottom up basis and we do not have top down policies covering risk management.

SG 14.9 CC	Indicate whether your organisation, and/or external investment manager or service providers acting on your behalf, undertake active ownership activities to encourage TCFD adoption.
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Yes

	Please describe
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We actively engage with SASB and its members to encourage companies to use these standards which include TCFD integration.

No, we do not undertake active ownership activities.

No, we do not undertake active ownership activities to encourage TCFD adoption.

SG 15	Mandatory to Report Voluntary to Disclose	Public	Descriptive	PRI 1
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SG 15.1	Indicate if your organisation allocates assets to, or manages, funds based on specific environmental and social themed areas.
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Yes

SG 15.2	Indicate the percentage of your total AUM invested in environmental and social themed areas.
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	%
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9.3

SG 15.3	Specify which thematic area(s) you invest in, indicate the percentage of your AUM in the particular asset class and provide a brief description.
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	Area
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- Energy efficiency / Clean technology
- Renewable energy
- Green buildings
- Sustainable forestry
- Sustainable agriculture
- Microfinance
- SME financing
- Social enterprise / community investing
- Affordable housing
- Education
- Global health
- Water
- Other area, specify

excludes tobacco and alcohol for US investors only

Asset class invested

- Listed equity

Percentage of AUM (+/-5%) per asset class invested in the area

9.3

- Fixed income - SSA
- Fixed income - Corporate (financial)
- Fixed income - Corporate (non-financial)
- Fixed income - Securitised
- Private equity

Brief description and measures of investment

We have had two large listed equity funds since the 1950's offering US investors exposure to blue chip companies which do not produce alcohol and tobacco.

- No