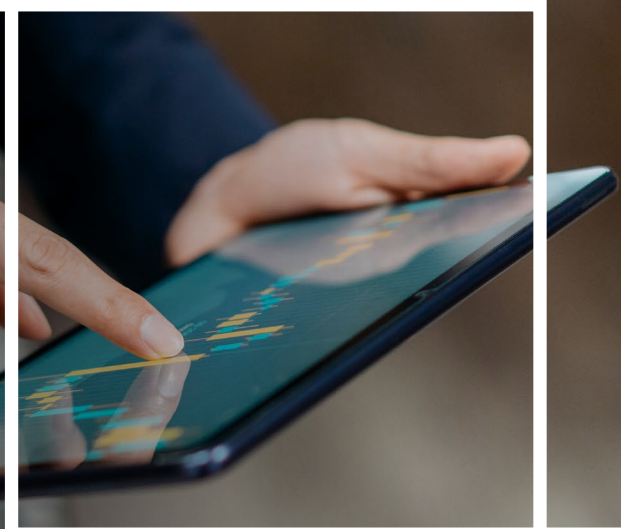
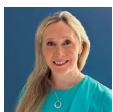


How ESG monitoring of corporates complements investment research



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Key takeaways

- Our corporate monitoring process is designed to identify issuers among our equity and corporate bond holdings for further research and review of potentially material ESG risks.
- We use scores and indicators from third-party ESG data providers to help flag issuers that present potentially elevated ESG risks across five criteria.
- By supporting awareness among our investment professionals of external views of elevated ESG risks, monitoring complements their investment research and analysis while helping guard against confirmation bias.
- Investment decisions are based on a long-term view, engagement and analysis — never on monitoring alone.

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

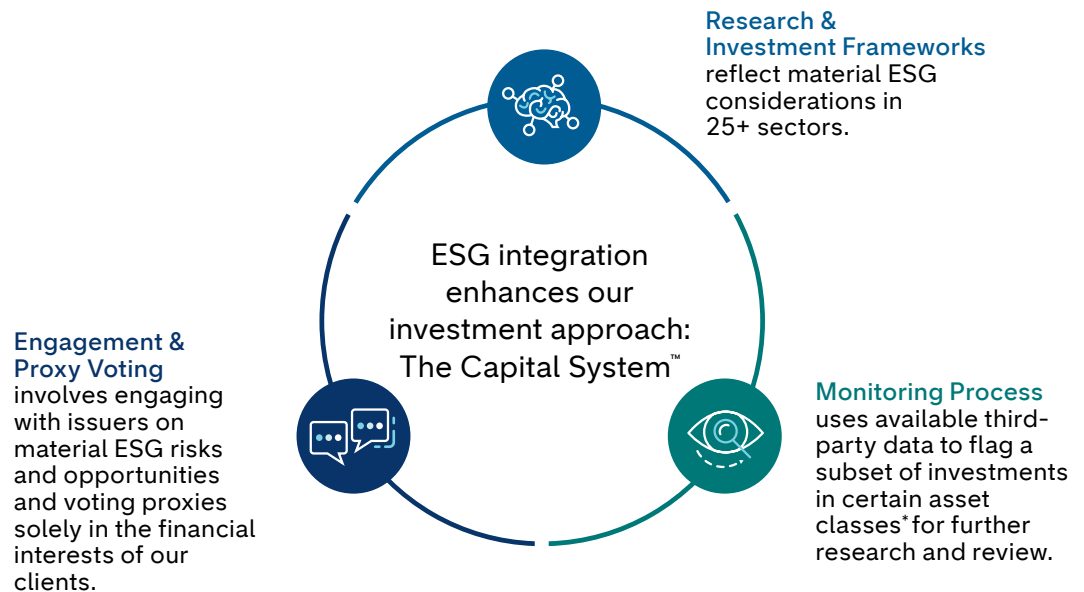
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How monitoring fits into our investment approach

Research has always been at the heart of our investment approach, The Capital System™. With that in mind, we analyze material environmental, social and governance (ESG) issues as a part of our investment research. This helps us better understand long-term risks and opportunities as we strive to maximize results for our clients.

We integrate ESG through three interrelated elements designed to enhance our investment research and analysis: research and investment frameworks, a monitoring process, and engagement and proxy voting.

Monitoring is a key aspect of our three-part ESG integration process



*As of December 31, 2025, monitoring applies to holdings of corporates (equity and fixed income), sovereign bonds and select municipal bonds. Source: Capital Group.

As illustrated in the exhibit above, monitoring is a key aspect of our ESG integration process. Different asset classes require different approaches to monitoring. Our focus here is on the monitoring of potentially material ESG risks for corporate issuers. (We have a different methodology in place for [monitoring sovereign issuers](#) and separately for municipal issuers.)

The primary aim of our corporate monitoring is to identify potentially material ESG risks that merit further investigation. We monitor our corporate equity and bond holdings against available data from third-party providers to surface external views of potentially material ESG risks, as well as issuers that may be in violation of international norms. Monitoring our investments against third-party data helps us guard against confirmation bias. Corporates that do not meet the thresholds within our proprietary methodology are flagged for further analysis by our investment professionals. We draw on our investment professionals' deep knowledge and understanding of the issuer to determine how material the flagged risk is to the investment case.

Monitoring criteria and review process for corporate issuers

Our process for monitoring corporate issuers draws on available scores and indicators from third-party ESG data providers.¹ Indicators represent the broader underlying data from which third-party scores are calculated.

We use five different criteria to monitor and flag holdings in our proprietary methodology. These criteria capture materially lower ESG performance relative to peers, heightened governance risk and potential violations of international norms via the UN Global Compact and Organisation for Economic Co-operation and Development (OECD) guidelines.

The corporate monitoring process flags issuers that present potentially higher ESG risk across any of these criteria for investment analyst review. See the exhibit below for current data sources and criteria.

Our perspectives are built on engagement, detailed analysis and a long-term view — never on monitoring alone. Importantly, we regularly review our ESG monitoring methodologies to ensure they remain fit for purpose.

Corporate monitoring data sources and thresholds

Corporate monitoring criteria	What it measures	Range	Capital Group flag threshold
MSCI UN Global Compact ²	Violations of global norms (human rights, labor rights, environment, bribery/corruption)	Pass, Fail or Watchlist	Fail
MSCI weighted average ESG score	The weighted average of the MSCI scores on material ESG issues	Scale of 0–10	<3
MSCI ESG adjusted score	Performance on material ESG issues relative to industry peers	Scale of 0–10	<1
MSCI governance score	Variety of traditional governance factors; flags align with Capital Group's proxy guidelines	Scale of 0–10	<3
ISS OECD Guidelines	Violations of global norms, in addition to consumer interests, science and technology, competition and taxation	Amber, Green, Red	Red

Footnotes/Important information:

¹Corporate holdings are monitored to the extent they are covered by third-party data providers.

Certain holdings are currently not covered by third-party monitoring providers.

²UN Global Compact Alignment is one of MSCI's ESG Global Norms screens. You may refer to MSCI ESG Controversies and Global Norms Methodology published by MSCI in April 2025. Sources: Capital Group, Institutional Shareholder Services Inc. (ISS) and MSCI.

Corporate monitoring in action

Many clients want to understand how our corporate monitoring process works in practice. We therefore have fund-level disclosure of the results of this process — where data are available — disclosing holdings flagged for in-depth review.

As alluded to earlier, third-party ESG data sources and international norms are used broadly — including among our clients. By also using these sources and norms, our process helps our investment professionals understand how a company is perceived externally and provides useful for instances where our investment views may differ from the market.

Illustrative example: New Perspective Fund® portfolio



Data as of December 31, 2025. The donut chart shows the number of a fund's holdings that fall into the three categories in our monitoring process (flagged, non-flagged and other), and the share of each category's value. The corporate and/or sovereign monitoring process (as applicable) covers 100% of the fund's holdings, which represent 100% of the fund's value, excluding cash and cash equivalents. Our corporate monitoring methodology uses two data providers (MSCI and Institutional Shareholder Services Inc.) and five different criteria to monitor and flag holdings. These criteria capture materially lower ESG performance relative to peers and potential violations of international norms via the UNGC and OECD Guidelines. For sovereign holdings, our proprietary ESG score for an issuer is a weighted average of its raw scores from three data sources: Notre Dame Global Adaptation Initiative Climate Vulnerability Index, United Nations Human Development Index and World Bank Worldwide Governance Indicators. For a subset of our municipal bond holdings, we use third-party data to surface external views about potentially material physical climate risks; to the extent applicable, these flagged municipal holdings are reported on separately and are captured under "other" in the donut chart for purposes of this publication.

The "other" category includes holdings that either do not have available third-party data or that are not currently covered in our corporate, sovereign or muni monitoring process. Totals of the percentage figures of the three categories may not sum to 100% due to rounding. The table shows the largest flagged holdings in the portfolio (at the issuer level), ranked from high to low by portfolio weight (share of the fund's total market value including cash and cash equivalents).

Source: Capital Group.

Two broad lessons from our ESG monitoring of corporates

1. Third-party data sources often focus on tactical, event-driven risks.

Our ESG specialists regularly review monitoring reports completed by investment analysts and portfolio managers. This involves putting key questions to our investment professionals to understand whether the flags raised were considered impactful to their investment theses. We also review flagged companies to better understand trends across industries.

Our reviews so far have highlighted that external flags tend to identify certain areas of consistent underperformance, such as poor human capital management practices or poor risk mitigation around executive compensation structures, as well as events (human rights violations, bribery scandals or conflicts of interest, for example) relatively frequently.

In many cases, we have seen issuers taking appropriate steps to remedy these risks, but those efforts were not yet reflected in (backward-looking) third-party data provider's scores. This underlines the importance of having an ESG integration process that incorporates research and engagement alongside monitoring. In cases where we believed the risks raised were meaningful to the investment thesis, we generally engaged with the issuers on those topics.

2. Investors should view ESG monitoring results as one part of a broader perspective.

Monitoring of relevant scores and indicators from third-party data providers is a key aspect of how we integrate ESG into our investment approach. Even so, there can be limitations. For example, ESG reporting frameworks and practices vary and data can be limited in scope.

Despite these data limitations, monitoring our investments against third-party data helps us guard against confirmation bias. And, crucially, our investment decisions are always based on a long-term view, engagement and analysis — never solely on monitoring results.

Final thoughts

Our ESG integration process is rooted in investment materiality and enhances our investment approach, The Capital System. Monitoring is an important part of how we do this. We are also committed to driving ongoing improvement in all areas of our process, and monitoring is no exception.

We review our corporate monitoring process on a regular basis to ensure it remains fit for purpose. In 2024, for example, we updated our methodology to use the data providers and criteria noted in the table exhibit on page three, following feedback from our investment team. As ESG data grow and mature over time, we will continue to drive our process forward.

Your gateway to all things ESG at Capital Group →

Learn more about our approach, as well as our latest research and investment insights.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the [mutual fund prospectuses and summary prospectuses](#), which can be obtained from a financial professional and should be read carefully before investing.

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