

Update on responsible investing

Capital International and responsible investing

One of the key duties of an investment manager is ensuring that companies held in our portfolios behave responsibly and ethically. This requires frequent evaluation of holdings and not only encapsulates a company's operations but also its methods and values.

At Capital, we strongly believe in the importance of responsible investing. We are a signatory of the United Nations Principles for Responsible Investment (UNPRI), and we comply with the recently-issued Stewardship Code from the UK Financial Reporting Council.

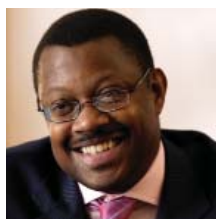
How do we approach Responsible Investing?

Responsible investing — taking into account environmental, social and governance (ESG) issues — is an integral part of our investment process.

Being privately owned, we are able to take a long-term view in both our business decision-making and in our investment decision-making. Our aim is not to simply maximise short-term profits; rather our portfolio managers look for investments that they can hold for many years. As such, the sustainability of the businesses we invest in is very important.

So as well as financial analysis, our investment professionals integrate non-financial factors — which may include environmental, social or governance issues — into their fundamental evaluation of companies and their value.

Capital fixed-income analyst Vantil Charles explains: "If a company has a history of poor equipment maintenance or under-spending, regular machine breakdowns



Vantil Charles

or poor incidence of industrial accidents, such factors can be 'canaries in the coal mine' indicating there may also be underlying weak responsible investing practices."

Engagement with companies is part of our research

Capital International's analysts and portfolio managers engage directly with companies as part of our investment process.

We have around 100 equity and fixed-income analysts who are responsible for researching companies. These analysts and portfolio managers in aggregate make thousands of company visits annually and regularly meet with the boards and management of companies. This provides them with access to engage with companies on issues of concern.

For the most part, our engagement with companies is done privately as we believe this allows us to be more open and frank and achieves the greatest impact. As a result, companies often seek out our views on significant issues, including remuneration arrangements. Likewise, we generally do not favour public confrontation or debating issues in the media.

Capital International researches companies and invests from a global perspective. As a result, our focus on responsible investing informs our investment approach across all developed and emerging markets. ■

Responsible investing in practice

A recent research trip to China saw a group of Capital International analysts visit a range of companies across many cities. As well as company-specific and industry issues, analysts also noticed how environmental and social issues had come to the forefront of the Chinese government's five-year plan and are much higher government priorities than previously.



Carolyn Herzog, one of Capital's fixed-income research analysts who took part in the trip, highlighted two

particular areas in which social and environmental issues are key.

She said: "The Chinese steel industry has notable oversupply and is extremely fragmented with a large number of small, inefficient steel mills. These mills tend to be the most environmentally unfriendly because they are not energy efficient and use a higher quantity of polluting inputs. In an effort to preserve their natural resources and reduce air pollution, the government is forcing small mills to close through market measures such as increased electricity costs."

She continued: "Property prices have skyrocketed over recent years which is making it nearly impossible for the average worker to buy a home in many cities. In an effort to address this, the national government has put pressure on local governments to build more low-cost housing for Chinese people in the average income bracket."

What makes Capital International different

Capital International is part of The Capital Group Companies, a global investment management organisation with 80 years of experience managing portfolios for individuals and institutions.

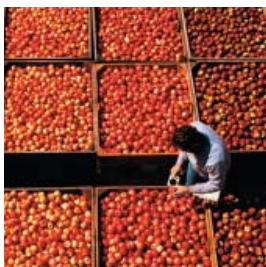
Many of our clients choose Capital International to manage a portion of their assets due to our unique combination of strengths:

A stable organisation



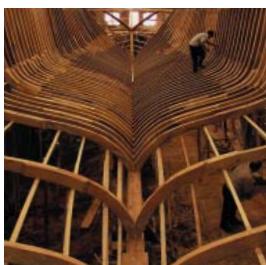
- **Private:** Our organisation has always been privately owned by senior employees, which enables us to manage our business with a long-term view
- **Focused:** Investment management is our only business
- **Experienced investment professionals:** Perspective comes from investing in previous market cycles

Fundamental, globally integrated research



- **Independent and rigorous:** Proprietary research is the basis for identifying multi-year investment opportunities
- **Globally integrated:** Equity and fixed income analysts collaborate to share insights from different perspectives
- **Long-term convictions:** Our analysts get to know companies over many years and often choose to become career analysts

The Multiple Portfolio Manager System



- **Conviction:** Portfolios are divided between individuals, each of whom has full responsibility for managing their portion
- **Diversity:** Balance is achieved through combining individuals with complementary approaches
- **Continuity:** This system, in place for decades, creates a naturally diverse portfolio of high-conviction investments not dependent on one person

All of this is aimed at providing our clients with consistent, superior long-term investment results

How you can contact us

If you're interested in learning how Capital's investment insight can benefit you, please contact Pinnacle Investment Management, our Australian distribution partner.

Phone: 1300 010 311

Email: distribution@pinnacleinvestment.com.au

Website: www.capitalinternational.com.au

All information as at 31 December 2010 unless otherwise stated. The funds mentioned in this document (excluding Capital International Emerging Markets Fund) are sub-funds of either Capital International Fund (CIF), Capital International Portfolios (CIP) or Capital International Portfolios 2 (CIP2). CIF, CIP and CIP2 are umbrella SICAVs and Capital International Emerging Markets Fund (CIEMF) is a SICAV. All are constituted under Part I of the Luxembourg law of 20 December 2002 on collective investment vehicles. Capital International Global Equities Fund (CAGEF) and Capital International Global Equities Fund (Hedged) (CAGEFH) are Australian unit trusts. If past results are shown, the figures are after deduction of all management expenses or costs but assuming no initial sales charge (where relevant), and are not predictive of future results. Any returns shown make no allowance for personal taxation and investors should seek their own tax advice. Returns will vary, and investors may get back less than they originally invested. Exchange-rate changes may cause the value of any foreign currency investments to rise or fall and returns for investors may increase or decrease as a result. Investing for short periods may make losses more likely. These funds are offered only by Prospectus (together, where applicable, with the Simplified Prospectus) or by Product Disclosure Statement, and therefore this information is neither an offer nor a solicitation to buy or sell any securities or to provide any investment service. These documents, together with the latest Annual Report and any documents relevant to local legislation, contain more complete information about the funds, including charges and expenses, and should be read carefully before investing. However, these documents and other information relating to any of the funds will not be distributed to persons in any country where such distribution would be contrary to law or regulation. While Capital International uses reasonable efforts to obtain information from sources which it believes to be reliable, Capital International makes no representation or warranty as to the accuracy, reliability or completeness of the information. This communication is not intended to be comprehensive or to provide investment, tax or other advice. It has been prepared for multiple distributions and does not take account of the specific investment objectives of individual recipients and it may not be appropriate in all circumstances. For CIF, CIP, CIP2 and CIEMF, all literature is available from their registered office or by calling 00800 243 38637 (option 2), and most is available on the website: www.capitalinternationalfunds.com. For CAGEF and CAGEFH, please read the Product Disclosure Statement available at www.capitalinternational.com.au in its entirety before making an investment decision. Interests in CAGEF and CAGEFH are issued by WHTM Capital Management Limited, ABN 29 082 494 362, AFSL 238371. © 2011 Capital International. All rights reserved.

The Capital Group Companies

Capital International

Capital Guardian

Capital Research and Management

Capital Bank and Trust

American Funds