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Capital Research Company

*(A Wholly Owned Subsidiary of Capital
Research and Management Company)*

**Financial statements as of and for the years ended
June 30, 2017 and 2016 and independent auditors'
report**



Company No. FC017708



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INDEPENDENT AUDITORS' REPORT

To the stockholder of Capital Research Company:

We have audited the accompanying financial statements of Capital Research Company (the "Company") (a wholly owned subsidiary of Capital Research and Management Company), which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of income, comprehensive income, stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

September 29, 2017

Capital Research Company

Balance sheets

June 30, 2017 and 2016 (dollars in thousands, except share and par value amounts)

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 52,021	\$ 39,088
Investment securities available for sale	28,990	29,277
Receivables	7,017	10,054
Income tax receivable	41	—
Prepaid expenses	547	430
	<u>88,616</u>	<u>78,849</u>
Total current assets		
	<u>88,616</u>	<u>78,849</u>
Property, at cost:		
Land	38,471	38,471
Buildings	231,909	232,090
Furniture, equipment and software	6,503	7,433
Leasehold improvements	37,531	39,064
	<u>314,414</u>	<u>317,058</u>
Total Property		
	<u>314,414</u>	<u>317,058</u>
Accumulated depreciation and amortization	(139,937)	(136,103)
	<u>174,477</u>	<u>180,955</u>
Property, net		
	<u>174,477</u>	<u>180,955</u>
Other assets, noncurrent:		
Restricted cash	12,341	11,627
Deferred income taxes, net	10,897	10,388
	<u>23,238</u>	<u>22,015</u>
Total other assets		
	<u>23,238</u>	<u>22,015</u>
Total	<u>\$ 286,331</u>	<u>\$ 281,819</u>

(continued)

Capital Research Company

Balance sheets

June 30, 2017 and 2016 (dollars in thousands, except share and par value amounts)

Liabilities and stockholder's equity	2017	2016
Current liabilities:		
Accounts payable and accrued expenses	\$ 4,825	\$ 6,088
Accrued compensation and benefits	9,507	8,936
Income tax payable	2,142	2,262
Total current liabilities	16,474	17,286
Noncurrent liabilities – Income tax payable	1,836	1,137
Total liabilities	18,310	18,423
Stockholder's equity:		
Capital stock, \$10 par value – authorized, 150,000 shares; issued and outstanding, 100,000 in 2017 and 2016	1,000	1,000
Additional paid-in capital	2	2
Retained earnings	270,347	264,601
Accumulated other comprehensive loss, net of taxes	(3,328)	(2,207)
Total stockholder's equity	268,021	263,396
Total	\$ 286,331	\$ 281,819
See notes to financial statements		(concluded)

Capital Research Company

Statements of income

Years ended June 30, 2017 and 2016 (dollars in thousands)

	2017	2016
Operating revenues:		
Research fees	\$ 75,722	\$ 90,744
Other	<u>14,587</u>	<u>14,587</u>
Total operating revenues	<u>90,309</u>	<u>105,331</u>
Operating expenses:		
Compensation and benefits	64,026	74,050
Other expenses – including administrative, information technology, office facilities, professional services and travel expenses	<u>16,334</u>	<u>20,184</u>
Total operating expenses	<u>80,360</u>	<u>94,234</u>
Income from operations	9,949	11,097
Other income, net	<u>1,209</u>	<u>248</u>
Income before income taxes	11,158	11,345
Income taxes	<u>5,412</u>	<u>5,465</u>
Net income	<u>\$ 5,746</u>	<u>\$ 5,880</u>

See notes to financial statements

Capital Research Company

Statements of comprehensive income

Years ended June 30, 2017 and 2016 (dollars in thousands)

	2017	2016
Net income	\$ 5,746	\$ 5,880
Other comprehensive loss:		
Foreign exchange translation adjustments, net of taxes	(1,081)	(1,035)
Net unrealized (loss) gain on investments available for sale arising during the year, net of taxes	<u>(40)</u>	<u>8</u>
Comprehensive income	<u>\$ 4,625</u>	<u>\$ 4,853</u>

See notes to financial statements

Capital Research Company

Statements of stockholder's equity

Years ended June 30, 2017 and 2016 (dollars in thousands)

	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total equity
Balance, June 30, 2015	\$ 1,000	\$ 2	\$ 278,721	\$ (1,180)	\$ 278,543
Cash dividends			(20,000)		(20,000)
Comprehensive income:					
Net income			5,880		5,880
Foreign exchange translation adjustments, net of taxes of \$(662)				(1,035)	(1,035)
Net unrealized gain on investments available for sale arising during the year, net of taxes of \$5				8	8
Balance, June 30, 2016	1,000	2	264,601	(2,207)	263,396
Comprehensive income:					
Net income			5,746		5,746
Foreign exchange translation adjustments, net of taxes of \$(518)				(1,081)	(1,081)
Net unrealized loss on investments available for sale arising during the year, net of taxes of \$(25)				(40)	(40)
Balance, June 30, 2017	<u>\$ 1,000</u>	<u>\$ 2</u>	<u>\$ 270,347</u>	<u>\$ (3,328)</u>	<u>\$ 268,021</u>

See notes to financial statements.

Capital Research Company

Statements of cash flows

Years ended June 30, 2017 and 2016 (dollars in thousands)

	2017	2016
Cash flows from operating activities:		
Net income	\$ 5,746	\$ 5,880
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	8,723	10,434
Amortization of premiums and accretion of discounts on securities, net	576	847
Deferred income taxes	34	(1,357)
Changes in assets and liabilities:		
Receivables	3,037	(2,840)
Prepaid expenses	(117)	251
Other assets	-	3,132
Accounts payable and accrued expenses	(1,293)	1,385
Accrued compensation and benefits	571	1,195
Income tax receivable/payable	538	16,976
Total adjustments and changes	12,069	30,023
Net cash provided by operating activities	17,815	35,903
Cash flows from investing activities:		
Purchases of property	(2,215)	(1,297)
Net (deposits) withdrawals of restricted cash	(714)	2,033
Purchases of investment securities available for sale	(88,869)	(49,517)
Proceeds from maturities of investment securities available for sale	88,515	64,425
Net cash provided by (used in) investing activities	(3,283)	15,644
Cash flows from financing activity – Dividends paid	-	(20,000)
Effects of exchange rate changes on cash	(1,599)	(1,697)
Net increase in cash and cash equivalents	12,933	29,850
Cash and cash equivalents, beginning of year	39,088	9,238
Cash and cash equivalents, end of year	\$ 52,021	\$ 39,088
Supplemental schedule of noncash:		
Investing activities:		
Accrual for purchases of property	\$ 30	\$ -
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$ 4,811	\$ -

See notes to financial statements

Notes to financial statements

Years ended June 30, 2017 and 2016 (dollars in thousands)

1. Summary of significant accounting policies

Nature of operations – Capital Research Company (the “Company”) is a wholly owned subsidiary of Capital Research and Management Company (the “Parent”) and a second-tier subsidiary of The Capital Group Companies, Inc. (“Capital Group”). The Company provides investment research to affiliates. This service represents the Company’s principal source of revenue.

Basis of presentation – The Company’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Estimates – The preparation of the financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. Significant estimates made by management relate primarily to the recognition of certain expense accruals, allocated amounts of postretirement and postemployment benefit costs and plan obligations, and fair value measurements.

Estimates used to measure fair value affect the carrying amount of investments classified as available for sale, and the recognition of impairment charges on certain investments for which estimated fair value has declined below amortized cost.

Foreign currency matters – The Company’s reporting currency is the U.S. dollar. Assets and liabilities of a foreign branch that has a non-U.S. dollar functional currency are translated using the exchange rate prevailing at the balance sheet date. Revenue, expenses, gains and losses for such branches are translated using an average of exchange rates prevailing throughout the fiscal year. Foreign exchange translation adjustments are reported, net of tax, in accumulated other comprehensive (loss) income (“AOCL”) within stockholder’s equity.

Converting foreign-denominated assets and liabilities to the U.S. dollar reporting currency results in transactions gains or losses that are reflected in other income (or expense) in the statement of income.

Cash and cash equivalents – Cash includes demand deposit accounts. Cash equivalents consist principally of shares of government money market funds for which the Parent serves as the investment adviser.

Restricted cash – Restricted cash represents cash held in banks located in the United Kingdom (“U.K.”) to meet capital requirements imposed by the Financial Conduct Authority, an agency in the U.K. that regulates financial services firms and financial advisers.

Depreciation and amortization of property – Depreciation of buildings, furniture, equipment and software is generally computed using the straight-line method over estimated useful lives of 3 to 39 years. Amortization of leasehold improvements is computed using the straight-line method over the estimated life of the related asset or the term of the lease, whichever is shorter.

Investment securities – The Company classifies its investments in debt as available for sale, and these investments are recorded at fair value. Unrealized gains and losses on investment securities are reported, net of tax, in AOCL within stockholder’s equity. Investment securities available for sale are classified as current, without regard to contractual maturities, unless the investments are pledged, held to fulfill statutory requirements or the Company intends to hold the investments for more than one year beyond the balance sheet date.

The specific identification method is used to compute realized gains or losses on the sale of these assets. The effective interest method is used to account for the amortization of premiums and accretion of

discounts on securities. Interest and dividends are recorded when earned and are included in other income (or expense).

The Company evaluates the carrying value of available-for-sale securities for impairment on an annual basis, taking into consideration numerous criteria, including the duration and extent of a decline in fair value. For debt securities, the Company evaluates whether it intends to sell the debt security, if it is more likely than not the Company will be required to sell the debt security prior to recovery, or if a credit loss exists. If a decline is determined to be other than temporary, unrealized losses previously recognized in AOCL are reclassified to other income (or expense) in the statements of income for the amount of the other-than-temporary impairment. At June 30, 2017 and 2016, neither the Company's debt nor equity securities were other than temporarily impaired.

Fair value measurements – The Company measures the fair value of its assets and liabilities for financial reporting or disclosure purposes using methods and assumptions that are appropriate in the circumstances. Under U.S. GAAP, the objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price). To meet this objective, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs, which are evaluated using the following hierarchy:

- Level 1 – Values are based on quoted prices in active markets for identical securities.
- Level 2 – Values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets.
- Level 3 – Values are based on significant unobservable inputs that reflect the Company's determination of assumptions that market participants might reasonably use in valuing the securities.

Income taxes – The Company's results are included in consolidated tax returns filed by Capital Group, and the Company is allocated income taxes based on the separate return method. However, if the Company incurs a loss that is utilized by Capital Group, the loss is characterized as realized and the Company is reimbursed. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using currently enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are subject to a valuation allowance if, in the Company's opinion, it is more likely than not that these benefits will not be realized.

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes* provides that a tax benefit from a tax position may be recognized when, based on the technical merits, it is more likely than not that the position will be sustained upon an examination that is presumed to occur, including resolution of any related appeals or litigation processes. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized upon examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The Company evaluates material tax positions in relevant tax jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition. Guidance in ASC 740 related to uncertain tax positions did not have a material effect on the financial condition or results of operations as of and for the years ended June 30, 2017 and 2016.

The Company recognizes the accrual of interest and penalties on uncertain tax positions in other income (expense). For the years ended June 30, 2017 and 2016, the Company did not recognize any material tax related interest or penalties.

The Company is subject to examination by U.S. federal tax authorities for tax returns filed for the prior three years and by state tax authorities for the prior four years. The time allowed for foreign tax authorities to examine tax returns varies by country.

Postretirement benefits – Capital Group sponsors a plan, the Health and Welfare Benefits Plan for Retirees of the Capital Group Companies, to provide these benefits and the Company is allocated an amount of periodic benefit cost based on actuarial estimates; however, the Company is not allocated a portion of the accumulated benefit plan obligation or plan assets. The expected costs of providing

postretirement health care benefits are recognized during the years that the associates render service to the Company.

Postemployment benefits – Capital Group sponsors two postemployment plans providing short-term disability benefits and parental leave benefits, allocating related costs to the Company. The expected costs of providing these postemployment benefits are recognized during the years that the associates render service to the Company.

Revenue recognition – Revenue from providing research services is recognized during the period in which services are performed. The revenue is determined under an intercompany compensation arrangement, whereby the Parent reimburses the Company for the costs of performing services plus an agreed upon markup.

The Company charges a facilities usage fee for affiliates' use of Company owned office facilities, which is determined using intercompany agreements and is recognized ratably over the term of usage. Such revenue is reported as other revenue on the statements of income.

Operating expenses – The Company receives an allocation of only direct expenses paid for by affiliates within the Capital Group organization, in contrast with indirect expenses. Direct expenses may be described as goods or services received directly by the reporting entity but paid for by an affiliate. Indirect expenses may be described as expenses incurred by an affiliate for purposes of performing a function or service that indirectly benefits the reporting entity. Indirect expenses that are not allocated to the Company include accounting and legal services, talent management and human resources, tax and treasury functions and other general and administrative expenses.

Other income – For the years ended June 30, 2017 and 2016, other income is comprised of interest income of \$341 and \$297, dividend income of \$60 and nil, foreign currency transactions gain (loss) of \$817 and \$(49) and miscellaneous other expense of \$9 and nil, respectively.

Recent accounting pronouncements – In January 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU No. 2016-01 amends certain requirements related to the recognition, measurement, presentation, and disclosure of financial instruments. Under the amendments in this Update, nonpublic companies are not required to disclose the fair value of financial instruments that are not measured at fair value on the balance sheet. The Company early adopted this nonpublic company exemption. The Company is currently evaluating the impact of the future adoption of the remaining provisions of this ASU, which are effective for the fiscal year ending June 30, 2020.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this update supersedes the requirements in Topic 840, *Leases*. ASU No. 2016-02 requires lessees to recognize assets and liabilities arising from most operating leases on the balance sheet. The Company is currently evaluating the impact of the future adoption of this ASU, which is effective for the fiscal year ending June 30, 2021.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance in this update supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification. The Company is currently evaluating the impact of the future adoption of this ASU, which is effective for the fiscal year ending June 30, 2020.

2. Investment securities

Investment securities classified as available for sale and carried at fair value are as follows:

June 30, 2017				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Current assets:				
U.S. Treasury				
Due in one year or less	\$ 28,993	\$ -	\$ 3	\$ 28,990
June 30, 2016				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Current assets				
U.S. Treasury:				
Due in one year or less	\$ 29,215	\$ 62	\$ -	\$ 29,277

For U.S. treasury, the Company considers the severity of a decline in fair value, the duration or both to determine if these securities are other than temporarily impaired. The Company's unrealized losses and fair value of investment securities with unrealized losses that are not deemed to be other than temporarily impaired are as follows:

June 30, 2017		
Less than 12 months		
	Fair value	Unrealized losses
U S Treasury	\$ 28,990	\$ 3

At June 30, 2016, none of the securities held were in a loss position. There were no sales of securities in 2017 or 2016.

3. Fair value disclosures

The following assets are measured at fair value on a recurring basis. The following table shows the categorization of fair value measurements within the fair value hierarchy in accordance with the Company's accounting policy and in accordance with the requirements of ASC 820, *Fair Value Measurement*

June 30, 2017				
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Government money market funds	\$ 52,021	\$ –	\$ –	\$ 52,021
Investment securities available for sale:				
U.S. Treasury	–	28,990	–	28,990
	<u>\$ 52,021</u>	<u>\$ 28,990</u>	<u>\$ –</u>	<u>\$ 81,011</u>
June 30, 2016				
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Government money market funds	\$ 39,088	\$ –	\$ –	\$ 39,088
Investment securities available for sale:				
U.S. Treasury	–	29,277	–	29,277
	<u>\$ 39,088</u>	<u>\$ 29,277</u>	<u>\$ –</u>	<u>\$ 68,365</u>

Transfers in or out of the levels of the fair value measurement hierarchy are recognized based on the beginning fair value of the year in which they occurred. There were no significant transfers of investments between Level 1 and Level 2 during the years ended June 30, 2017 and 2016.

The Company uses the following methods and inputs to establish the fair value of its assets and liabilities. Use of particular methods and inputs may vary over time based on availability and relevance as market and economic conditions evolve.

Government money market funds – Shares of these funds are valued at quoted market prices that represent the published net asset value of the shares serving as the basis for current transactions.

U.S. Treasury – These are valued using benchmark yields and interest rate volatilities.

4. Indemnifications, guarantees, and commitments

Management has reviewed the indemnification provisions of its material contracts. In the normal course of its business, the Company enters into contracts in which it makes representations and warranties as well as standard “hold harmless” indemnifications to counterparties. These agreements include certain real estate leases under which the Company may be required to indemnify property owners for claims arising from the Company’s use of the applicable premises. The obligation amounts of these types of agreements are not explicitly stated; therefore, the overall maximum amount of the obligations cannot be reasonably estimated. However, management believes that it is unlikely that the Company will have to make material payments under these agreements, and no liabilities related to these agreements have been recognized in the Company’s financial statements.

Future minimum operating lease commitments are as follows

Years ending June 30	
2018	\$ 10,407
2019	11,017
2020	11,347
2021	11,687
2022	12,038
Thereafter	3,039
Total	<u>\$ 59,535</u>

Affiliates and others utilize 100% of the leased space and are allocated or charged a proportionate share of the leased costs.

5. Income taxes

The income tax provision (benefit) consists of the following:

	Year ended June 30, 2017	Year ended June 30, 2016
Federal:		
Current	\$ 1,753	\$ 3,071
Deferred	23	(1,312)
	<u>1,776</u>	<u>1,759</u>
State and foreign		
Current	3,625	3,751
Deferred	11	(45)
	<u>3,636</u>	<u>3,706</u>
Total	<u>\$ 5,412</u>	<u>\$ 5,465</u>

The net deferred tax asset consists of the following:

	June 30, 2017	June 30, 2016
Deferred tax assets:		
Accrued compensation and benefits	\$ 2,615	\$ 2,445
Accrued expenses and other	323	503
Depreciation and amortization	6,099	6,102
Unrealized loss on foreign exchange translation	1,935	1,410
Unrealized loss on investment securities available for sale	1	—
Total deferred tax assets	<u>10,973</u>	<u>10,460</u>
Deferred tax liabilities:		
State franchise taxes	76	48
Unrealized gain on investment securities available for sale	—	24
Total deferred tax liabilities	<u>76</u>	<u>72</u>
Net deferred tax asset	<u>\$ 10,897</u>	<u>\$ 10,388</u>

The Company has not established a valuation allowance against the net deferred tax asset, as it has been determined that it is more likely than not that the asset will be realized.

The income tax receivable/payable balances primarily relate to amounts receivable/payable between Capital Group and the Company for jurisdictions in which Capital Group and the Company file a consolidated/combined tax return.

The effective income tax rate differs from the federal statutory rate primarily due to state income taxes and permanent differences between taxable income and financial statement income related to items such as non-deductible expenses.

6. Retirement plans

The Company participates with Capital Group and affiliates in defined contribution retirement plans covering substantially all of its associates. The Company annually contributes up to 15% of each participant's eligible compensation. Contributions for associates residing outside the United States are made to local plans. Total retirement plan expenses were \$2,443 and \$2,508 in 2017 and 2016, respectively.

7. Transactions with affiliates

Research fee revenues include charges to affiliates of \$75,722 and \$90,744 in 2017 and 2016, respectively. Other revenues include facility usage fees charged to affiliates of \$14,587 and \$14,587 in 2017 and 2016, respectively. Receivables at June 30, 2017 and 2016 include \$6,896 and \$9,455, respectively, and accounts payable and accrued expenses at June 30, 2017 and 2016 include \$3,853 and \$4,804, respectively, relating to transactions with affiliates. Receivables at June 30, 2017 and 2016 are primarily related to research fees and accounts payable and accrued expenses at June 30, 2017 and 2016 are primarily related to compensation and employee benefits. Given the significance of the aforementioned related party transactions, the operations of the Company could be materially different if the Company were a stand-alone entity.

8. Accumulated other comprehensive loss

The following table presents before tax changes in AOCL by component for 2017 and 2016:

	Unrealized gains (losses) on available-for- sale investments	Foreign exchange translation adjustments	Total
Balance, June 30, 2015	\$ 50	\$ (1,984)	\$ (1,934)
Other comprehensive income (loss)	13	(1,697)	(1,684)
Balance, June 30, 2016	63	(3,681)	(3,618)
Other comprehensive loss	(65)	(1,599)	(1,664)
Balance, June 30, 2017	\$ (2)	\$ (5,280)	\$ (5,282)

No amounts were reclassified out of AOCL for 2017 and 2016.

9. Subsequent events

The Company has evaluated subsequent events through September 29, 2017, the date the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2017, that require recognition in the Company's financial statements as of and for the year ended June 30, 2017, or disclosure in the notes thereto.

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