

Capital Research Company

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

**Financial statements as of and for the years ended
June 30, 2022 and 2021 and independent auditor's report**



**Overseas company number FC017708 for
UK establishment BR002162**



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INDEPENDENT AUDITOR'S REPORT

To the Stockholder and Board of Directors of
Capital Research Company:

Opinion

We have audited the 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, 2022 and 2021, 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 (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Deloitte & Touche LLP

September 23, 2022

Capital Research Company

Balance sheets

June 30, 2022 and 2021 (dollars in thousands, except share and par value amounts)

Assets	2022	2021
Current assets:		
Cash and cash equivalents	\$ 72,325	\$ 58,849
Receivables	12,832	18,997
Income tax receivable	878	475
Prepaid expenses	561	771
	<u>86,596</u>	<u>79,092</u>
Property, at cost:		
Furniture, equipment and software	244	277
Leasehold improvements	1,501	1,708
	<u>1,745</u>	<u>1,985</u>
Total property	1,745	1,985
Accumulated depreciation and amortization	(1,727)	(1,867)
	<u>18</u>	<u>118</u>
Other assets, noncurrent:		
Restricted cash	18,837	16,577
Deferred income taxes, net	3,330	3,251
	<u>22,167</u>	<u>19,828</u>
Total	<u>\$ 108,781</u>	<u>\$ 99,038</u>

(continued)

Capital Research Company

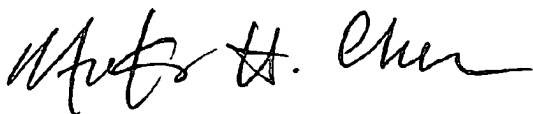
Balance sheets

June 30, 2022 and 2021 (dollars in thousands, except share and par value amounts)

Liabilities and stockholders' equity	2022	2021
Current liabilities:		
Accounts payable and accrued expenses	\$ 8,926	\$ 6,882
Accrued compensation and benefits	13,934	15,394
Income tax payable	268	—
Total current liabilities	23,128	22,276
Stockholder's equity:		
Capital stock, \$10 par value – 150,000 shares authorized; 100,000 shares issued and outstanding in 2022 and 2021	1,000	1,000
Additional paid-in capital	2	2
Retained earnings	85,794	76,543
Accumulated other comprehensive loss, net of taxes	(1,143)	(783)
Total stockholder's equity	85,653	76,762
Total	<u>\$ 108,781</u>	<u>\$ 99,038</u> (concluded)

See notes to financial statements.

On behalf of the Board:



Noriko H. Chen
President

Overseas company number FC017708
for UK establishment BR002162

Statements of income

Years ended June 30, 2022 and 2021 (dollars in thousands)

	2022	2021
Operating revenues:		
Research fees	\$ 148,533	\$ 167,166
Other	<u>—</u>	<u>9,614</u>
Total operating revenues	<u>148,533</u>	<u>176,780</u>
Operating expenses:		
Compensation and benefits	122,784	145,904
Other expenses – including administrative, information technology, office facilities, professional services and travel expenses	<u>14,879</u>	<u>19,786</u>
Total operating expenses	<u>137,663</u>	<u>165,690</u>
Income from operations	10,870	11,090
Other income (loss), net	<u>724</u>	<u>(1,690)</u>
Income before income taxes	11,594	9,400
Income taxes	<u>2,343</u>	<u>2,571</u>
Net income	<u><u>\$ 9,251</u></u>	<u><u>\$ 6,829</u></u>

See notes to financial statements.

Statements of comprehensive income

Years ended June 30, 2022 and 2021 (dollars in thousands)

	2022	2021
Net income	\$ 9,251	\$ 6,829
Other comprehensive (loss) income, net of taxes:		
Foreign exchange translation adjustments	<u>(360)</u>	<u>1,000</u>
Comprehensive income	<u>\$ 8,891</u>	<u>\$ 7,829</u>

See notes to financial statements.

Statements of stockholder's equity

Years ended June 30, 2022 and 2021 (dollars in thousands)

	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total stockholder's equity
Balance, June 30, 2020	\$ 1,000	\$ 2	\$ 259,714	\$ (1,783)	\$ 258,933
Cash dividend			(190,000)		(190,000)
Comprehensive income:					
Net income			6,829		6,829
Foreign exchange translation adjustments, net of taxes of \$298				1,000	1,000
Balance, June 30, 2021	1,000	2	76,543	(783)	76,762
Comprehensive income:					
Net income			9,251		9,251
Foreign exchange translation adjustments, net of taxes of (\$107)				(360)	(360)
Balance, June 30, 2022	<u>\$ 1,000</u>	<u>\$ 2</u>	<u>\$ 85,794</u>	<u>\$ (1,143)</u>	<u>\$ 85,653</u>

See notes to financial statements.

Statements of cash flows

Years ended June 30, 2022 and 2021 (dollars in thousands)

	2022	2021
Cash flows from operating activities:		
Net income	\$ 9,251	\$ 6,829
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	112	6,843
Net loss on disposition of property	–	964
Deferred income taxes	28	2,120
Changes in assets and liabilities:		
Receivables	6,165	(7,900)
Prepaid expenses	210	(296)
Accounts payable and accrued expenses	2,044	(3,852)
Accrued compensation and benefits	(1,460)	2,212
Income tax receivable and payable	(135)	123
Total adjustments and changes	6,964	214
Net cash provided by operating activities	16,215	7,043
Cash flows from investing activities:		
Purchases of property	(12)	(16,866)
Proceeds from disposition of property	–	188,093
Net cash (used in) provided by investing activities	(12)	171,227
Cash flows from financing activity – Dividends paid	–	(190,000)
Effects of exchange rate changes on cash	(467)	1,298
Net increase (decrease) in cash, cash equivalents and restricted cash	15,736	(10,432)
Cash, cash equivalents and restricted cash, beginning of year	75,426	85,858
Cash, cash equivalents and restricted cash, end of year	<u>\$ 91,162</u>	<u>\$ 75,426</u>
Supplemental schedule of noncash investing activities:		
Accrual for purchases of property	\$ –	\$ (3,328)
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$ 2,738	\$ 2,596

See notes to financial statements.

Notes to financial statements

Years ended June 30, 2022 and 2021 (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 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.

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 branch 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 income or loss ("AOCI").

In contrast, transaction gains or losses are reflected in other income (or loss) in the statements of income (or operations) for the conversion of any foreign denominated asset or liability to the Company's functional currency.

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

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.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the balance sheets that sum to the total of the same such amounts shown in the statements of cash flows:

	June 30, 2022	June 30, 2021
Cash and cash equivalents	\$ 72,325	\$ 58,849
Restricted cash included in other assets, noncurrent	18,837	16,577
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	<u>\$ 91,162</u>	<u>\$ 75,426</u>

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.

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.

The Company carries investments in money market funds managed by the Company's Parent using quoted market prices (a Level 1 fair value measurement), which represent the published net asset value of shares that is the basis for current transactions. Investments in the money market funds of \$72,325 and \$58,849 as of June 30, 2022 and 2021 are presented in cash and cash equivalents.

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. A valuation allowance is recorded when it is more likely than not that a portion or all of the deferred tax assets will not be realized.

The deferred tax effects of transactions accounted for in AOCI are recognized in income taxes within the statement of income when the underlying transactions are also recognized in the statement of income.

For each tax position taken or expected to be taken in a tax return, the Company determines whether it is more likely than not that the position will be sustained upon examination based on the technical merits of the position. A position that meets the more likely than not recognition threshold is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. For the years ended June 30, 2022 and 2021, uncertain tax positions did not have a material effect on the financial condition or results of operations.

The Company recognizes the accrual of interest and penalties on uncertain tax positions in other income (or loss). For the years ended June 30, 2022 and 2021, the Company did not recognize 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.

Revenue recognition – Revenue is recognized upon satisfaction of distinct performance obligations, generally promised services, in an amount that reflects consideration that the Company expects to receive for performing those services (the "transaction price"). The Company enters into contracts that can include multiple services, which are accounted for separately if they are distinct. Variable consideration is included in the transaction price, or recognized, when related uncertainties are resolved.

Management uses its judgment when determining (i) the Company's performance obligations under customer contracts, (ii) when performance obligations are satisfied over time and in the application of a method for determining progress towards satisfaction, and (iii) when variable consideration may be recognized.

Research fees – Revenue from providing research services to the Parent is recognized over time, using a time-based method, during the period in which the related performance obligation is satisfied. Such services represent one performance obligation as they are a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. The transaction price is variable as it is determined

under an intercompany compensation arrangement, whereby the Parent reimburses the Company for the costs of performing services plus an agreed upon markup.

Other revenues – The Company charges a facilities usage fee for affiliates' use of Company owned office facilities. Providing such space represents one performance obligation that is satisfied ratably over time as the customer simultaneously receives and consumes the benefits of the services provided by the Company. The transaction price is variable as it depends on the total square footage utilized by the customer. Such revenue is determined using intercompany agreements and is reported as other revenue on the statement of income. During 2021, the Company sold all company-owned property in the United States to Capital Group and so halted these facilities usage charges. See Note 6 for information on the property sale transaction.

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 (loss) – For the years ended June 30, 2022 and 2021, other income (loss) is comprised of interest income of \$7 and \$0, dividend income of \$226 and \$112, capital loss of \$16 and \$5, loss on sale of assets of \$0 and \$964, and foreign currency transaction gain (loss) of \$507 and \$(833), respectively.

Accounting pronouncements adopted – In February 2016, the FASB issued Accounting Standards Update (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 adopted this standard effective July 1, 2021. The adoption of this standard did not have a material impact on the Company's financial statements for the fiscal year ending June 30, 2022.

2. Receivables from contracts with customers

Receivables from contracts with customers at June 30, 2022 and July 1, 2021 were \$11,846 and \$14,378, respectively, and were recorded in receivables on the balance sheet. The Company does not have any significant contract assets or contract liability balances as of June 30, 2022 and July 1, 2021.

3. 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. 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 it is unlikely 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.

4. Income taxes

The net income tax provision consists of the following:

	Year ended June 30, 2022	Year ended June 30, 2021
Federal:		
Current	\$ (4,214)	\$ (3,354)
Deferred	(13)	(58)
	<u>(4,227)</u>	<u>(3,412)</u>
State and foreign:		
Current	6,755	6,024
Deferred	(185)	(41)
	<u>6,570</u>	<u>5,983</u>
Total	<u>\$ 2,343</u>	<u>\$ 2,571</u>

The components of deferred tax assets and deferred tax liabilities consist of the following:

	June 30, 2022	June 30, 2021
Deferred tax assets:		
Accrued compensation and benefits	\$ 4,466	\$ 4,567
Accrued expenses and other	208	211
Depreciation and amortization	163	143
Unrealized loss on foreign exchange translation	329	222
Total deferred tax assets	<u>\$ 5,166</u>	<u>\$ 5,143</u>
	June 30, 2022	June 30, 2021
Deferred tax liabilities:		
State franchise taxes	\$ 13	\$ 24
Deferred foreign tax credit	1,823	1,868
Total deferred tax liabilities	<u>\$ 1,836</u>	<u>\$ 1,892</u>

The Company has not established a valuation allowance against its deferred tax assets as the Company has determined it will, more likely than not, realize the assets.

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

5. 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 \$3,087 and \$3,718 in 2022 and 2021, respectively.

6. Transactions with affiliates

Research fee revenues include charges to affiliates of \$148,533 and \$167,166 in 2022 and 2021, respectively. Other revenues include facility usage fees charged to affiliates of \$0 and \$9,614 in 2022 and 2021, respectively. In February 2021, the Company entered into an agreement to sell certain real property, furniture, equipment, and leasehold improvements with an aggregate total net book value of \$184,064 to Capital Group. The sale completed in February 2021 and the Company received cash in the same amount upon completion of the transaction and thus ceased to charge facility usage fees to affiliates. Receivables at June 30, 2022 and 2021 include \$12,816 and \$17,765, respectively, and accounts payable and accrued expenses at June 30, 2022 and 2021 include \$6,742 and \$4,687, respectively, relating to transactions with affiliates. Receivables at June 30, 2022 and 2021 are primarily related to research fees and accounts payable and accrued expenses at June 30, 2022 and 2021 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.

7. Accumulated other comprehensive loss

The following table presents before tax changes in AOCI by component for 2022 and 2021:

	Foreign exchange translation adjustments
Balance, July 1, 2020	\$ (2,315)
Other comprehensive income	1,298
Balance, June 30, 2021	(1,017)
Other comprehensive loss	(467)
Balance, June 30, 2022	<u>\$ (1,484)</u>

8. Subsequent events

The Company has evaluated subsequent events through September 23, 2022, the date the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2022 that require recognition in the Company's financial statements as of and for the year ended June 30, 2022, or disclosure in the notes thereto.
