

AGREEMENT OF DISCONTINUANCE

AGREEMENT OF DISCONTINUANCE (“Agreement”) between and among American Funds Distributors, Inc. (“AFD”), Capital Research and Management Company (“CRMC”), and the People of the State of California, by and through California Attorney General Edmund G. Brown Jr. (“Attorney General”).

WHEREAS, in the fall of 2003, revelations of market timing and late trading in the mutual fund industry triggered regulatory reviews of these practices, along with a range of distribution-related practices employed on behalf of mutual funds, including directed brokerage and so-called “revenue-sharing” (the practice of compensating retail broker-dealer firms who sell mutual funds shares from revenues or net income of the funds’ investment advisers or distributors);

WHEREAS, the regulatory reviews included investigations by the U.S. Securities and Exchange Commission (“SEC”), NASD (now FINRA), and the Attorney General;

WHEREAS, in 2004, the Attorney General working in cooperation with the SEC commenced an investigation of various organizations including the investment adviser (CRMC) and the principal underwriter and distributor (AFD) of the American Funds, the largest mutual fund family in the state of California and one of the largest in the United States;

WHEREAS, during the joint investigation of the directed brokerage and revenue-sharing practices of American Funds, the SEC and the Attorney General reviewed American Funds’ disclosure and portfolio trading practices;

WHEREAS, at the conclusion of the Attorney General's investigation, AFD and CRMC commenced an action (the "CRMC Action") against the Attorney General in the Superior Court of California under the caption *Capital Research and Management Co. v. Brown*, Case No. BC 330770, seeking (a) a declaratory judgment that the American Funds' disclosures of their directed brokerage and revenue-sharing practices in their prospectuses were accurate and not misleading under federal and state law and (b) an injunction enjoining the Attorney General from commencing or maintaining any enforcement action against CRMC and AFD on the grounds that it was preempted by the National Securities Market Improvement Act of 1996 ("NSMIA");

WHEREAS, later on the same day, the Attorney General commenced an action against AFD and CRMC in the same Court under the caption *People of the State of California v. American Fund Distributors, Inc., et al.*, Case No. BC 330774, alleging that AFD and CRMC violated two of the antifraud provisions of California Corporate Securities Law by failing to accurately disclose in the prospectuses of the American Funds their directed brokerage and revenue-sharing arrangements with retail broker dealers (the "People's Action");

WHEREAS, the Securities and Exchange Commission ("SEC") served AFD and CRMC with a Wells Notice, AFD and CRMC responded to the issues that the SEC raised in the notice, and on October 5, 2007, the staff of the Enforcement Division of the SEC notified AFD and CRMC that the staff had completed their investigation and would make no recommendation that the SEC take any enforcement action against AFD or CRMC with respect to the American Funds' directed brokerage and revenue-sharing practices;

WHEREAS, the actions taken by the Attorney General and various regulatory agencies have resulted directly in positive changes in the mutual fund industry that have benefited fund shareholders, including: repeal by FINRA and the SEC of the rules permitting funds to utilize directed brokerage, adoption by the SEC of rules clarifying use of brokerage to pay for research services, improved disclosure by fund companies and their revenue-sharing arrangements, proposals from the SEC and FINRA for a point of sale document disclosing broker-dealer compensation from all sources, including directed brokerage, adoption by the SEC of the Chief Compliance Officer and Compliance Program rule, improved disclosure of sales charge breakpoints, improved and enhanced disclosure regarding board approval of investment advisory contracts, disclosure of fund expense ratios in fund advertising, and regulatory fines and settlements amounting to hundreds of millions of dollars, much of which will inure directly to the benefit of mutual fund shareholders;

WHEREAS, American Funds eliminated the use of correspondent/clearing arrangements in recognition of mutual fund sales and discontinued the practice of directed brokerage before the rule completely banning the use of directed brokerage was adopted by the SEC;

WHEREAS, American Funds are in the process of enhancing expense disclosures provided to retirement plan participants;

WHEREAS, the management, Rule 12b-1 and other fees charged to the shareholders of the American Funds in aggregate are among the lowest in the industry;

WHEREAS, in 2005, CRMC began waiving 10 percent of the management fees it otherwise would be entitled to receive from the American Funds (“fee waiver”), resulting in aggregate savings to fund shareholders to date of approximately \$1 billion;

WHEREAS, the American Funds have committed to make enhancements to their prospectus disclosures regarding their revenue-sharing practices;

WHEREAS, AFD and CRMC have advised the Attorney General that the American Funds collectively consume more than 100 train-car loads of paper annually in the production of prospectuses and shareholder reports (collectively, “Disclosure Documents”) and that CRMC, at its own expense, will proactively encourage American Funds shareholders to opt out of receiving paper Disclosure Documents and instead receive those documents electronically, at a potential savings to shareholders of up to \$20 million,; to the extent Disclosure Documents are printed in the future, American Funds has committed that they will be printed on recycled paper using soy or other vegetable-based ink;

WHEREAS, AFD has developed and implemented a policy to guide and enhance the supervision and oversight of AFD’s dealer relationship managers in the area of revenue-sharing activities;

WHEREAS, CRMC, at its own costs, on a regular basis conducts independent director seminars for the independent directors of the various American Funds that include sessions to assist them to carry out their duties in the governance of mutual funds;

WHEREAS, AFD has established the AFD Distribution Oversight Committee comprised of several American Funds independent directors, the Committee meets at least annually to discuss relevant distribution-related issues involving the fund industry in

general and the American Funds in particular, and with participation from AFD's senior management, these Committee meetings afford the independent directors the opportunity to review with AFD significant business initiatives and financial results for AFD;

WHEREAS, CRMC has continually developed the American Funds website (www.americanfunds.com) at its own expense to better serve and educate shareholders and currently spends over \$42 million per year;

WHEREAS, in addition to the website expenses, CRMC provides other services and information to shareholders, including: publishing shareholders' newsletters (\$10 million), underwriting hundreds of wholesalers' meetings with shareholders (\$20-30 million) to educate them about basic investment concepts as well as how they relate to the American Funds, and directly providing or assisting intermediaries to provide service to shareholders (\$40 million);

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements set forth herein, the parties hereto agree as follows:

1. CRMC agrees to reimburse two million five hundred thousand US dollars (US \$ 2,500,000) to the Attorney General concurrent with the execution of this Agreement to cover the Attorney General's fees and costs incurred in the CRMC and People's Actions.
2. Upon receipt of the amount specified in paragraph 1 above, counsel of record for the Attorney General shall immediately deliver by email and overnight mail to counsel of record for CRMC and AFD an executed dismissal with prejudice of the claims in the People's Action. Upon receipt of that dismissal, counsel of record for CRMC and AFD shall

immediately deliver by email and overnight mail to counsel of record for the Attorney General an executed dismissal with prejudice of the claims in the CRMC Action.

3. The Attorney General and his agents, insurers, attorneys, affiliated and related entities, assigns, and other representative of any kind or nature, and their predecessors and successors in interest, agree to fully release and discharge AFD and CRMC and its trustees, managing directors, employees, officers, agents, insurers, attorneys, parent corporations, affiliated and related entities, assigns, and other representatives of any kind or nature, and their predecessors and successors in interest, from any and all claims, actions, rights, demands, damages, costs, liabilities of any kind or nature, sounding in tort, contract or any statutory or other theory of liability which the Attorney General now has or has ever had or may hereafter have against them, based upon or directly related to the facts alleged in the CRMC Action and the People's Action, except for the rights and obligations contained in this Agreement.
4. AFD and CRMC and their officers, directors, agents, insurers, attorneys, parent corporations, affiliated and related entities, assigns, and other representative of any kind or nature, and their predecessors and successors in interest, agree to fully release and discharge the Attorney General and his agents, insurers, attorneys, affiliated and related entities, assigns, and other representatives of any kind or nature, and their predecessors and successors in interest, from any and all claims, actions, rights, demands,

damages, costs, liabilities of any kind or nature, sounding in tort, contract or any statutory or other theory of liability which the AFC or CRMC now has or has ever had or may hereafter have against the Attorney General, based upon or directly related to the facts alleged in the CRMC Action and the People's Action, except for the rights and obligations contained in this Agreement.

5. The parties hereto represent and warrant to and agree with each other as follows:
 - a. Each party had the opportunity to receive and has received independent legal advice from attorneys of his or its choice with respect to the advisability of executing this Agreement;
 - b. In connection with the execution of this Agreement, no party has relied upon any statement, representation or promise of any other party not expressly contained herein;
 - c. This Agreement constitutes the entire agreement between the parties hereto and there are no other agreements or understandings between the parties relating to the matters referred to this Agreement;
6. This Agreement may not be amended, canceled, revoked or otherwise modified, and no provisions of this Agreement may be waived, except by written agreement subscribed by all of the parties to be charged with such modification or waiver.

7. The parties hereto acknowledge that by entering into this Agreement, no party admits or acknowledges, or shall be deemed to admit or acknowledge, the existence of any liability or wrongdoing by any party.
8. Each person whose signature is affixed hereto represents and warrants that he is authorized to execute this Agreement on behalf of and to bind the entity or person on whose behalf his signature is affixed.
9. This Agreement may be executed in one or more counterparts, each of which when executed and delivered shall be an original, and all of which when executed shall constitute one and the same instrument.
10. This Agreement may be executed and delivered by e-mail, in which case counsel of record to the parties hereto shall promptly exchange hard copies of the signature pages by overnight mail.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date set forth below.

Date: _____

EDMUND G. BROWN JR.
CALIFORNIA ATTORNEY GENERAL

By: _____
Mark J. Breckler
Senior Assistant Attorney General

Date: _____

CAPITAL RESEARCH AND MANAGEMENT COMPANY

By: _____
Name:
Title

Date: _____

AMERICAN FUNDS DISTIBUTORS, INC.

By: _____
Name:
Title

APPROVED AS TO FORM:

Date: _____

Raoul Kennedy, Esq.

Date: _____

Seth Schwartz, Esq.