



THOMASPARTNERS®

June 30, 2020

# Charles Schwab Investment Management, Inc. ThomasPartners® Strategies Disclosure Brochure

One International Place  
33rd Floor  
Boston, MA 02110  
1-888-431-1430  
[www.thomaspartnersim.com](http://www.thomaspartnersim.com)

**This brochure provides information about the qualifications and business practices of Charles Schwab Investment Management, Inc. If you have any questions about the contents of this brochure, please contact us at 1-888-431-1430. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority. Registration with the SEC does not imply a certain level of skill or training.**

**Additional information about Charles Schwab Investment Management, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Summary of Material Changes (As of March 30, 2020, since prior annual update on March 29, 2019)**

On March 30, 2020, the Charles Schwab Investment Advisory, Inc. (“CSIA”) portfolio management teams that managed the Schwab Managed Portfolios™ (the “SMP Program”), Windhaven® Strategies and ThomasPartners® Strategies and their respective assets will be integrated into CSIM, with CSIM assuming fiduciary responsibilities for the SMP Program, Windhaven Strategies and ThomasPartners Strategies and their respective assets. These changes are described under “Advisory Business”. As a result of these changes, material changes were made throughout the brochure and are summarized as follows:

### **Types of Clients**

- CSIM has updated the types of clients that to which it provides investment advice.

### **Methods of Analysis, Investment Strategy and Risk of Loss**

- CSIM has modified the discussion of its methods of analysis and investment strategies to reflect its new fiduciary responsibilities.

### **Disciplinary Information**

- CSIM has updated this section reflect CSIM's disciplinary history. CSIA and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

### **Other Financial Industry Activities and Affiliations**

- CSIM has modified the discussion of its relationship with affiliates to disclose new and modified relationships.

### **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

- CSIM has modified the discussion to reflect updates to its Code of Ethics and to disclose potential conflicts of interest and mitigation efforts to reduce any such conflicts, including disclosure of conflicts of interest arising out of selecting mutual funds and ETFs managed by CSIM.

### **Brokerage Practices**

- CSIM has updated information pertaining to its trading process for the different types of accounts it manages, the provision of trading services to an affiliate, the use of separate trading groups, the ability of a trading group to aggregate trades and how trade rotation and trade allocation are handled.

### **Voting Client Securities**

- CSIM has updated and modified the description of its proxy voting policy and procedures.

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## Advisory Business

Charles Schwab Investment Management, Inc., a Delaware corporation (“CSIM”), was founded in 1989 as a wholly-owned subsidiary of The Charles Schwab Corporation (“CSC”), a Delaware corporation that is publicly traded and listed on the New York Stock Exchange. CSIM provides advisory services to separately managed accounts (“SMAs”), registered investment companies, which include mutual funds and exchange-traded funds (“ETFs,” and collectively with the mutual funds, “Registered Funds”), collective investment trusts and one non-U.S. pooled investment vehicle. As further described in the “Methods of Analysis, Investment Strategies and Risk of Loss” section, CSIM provides advice about a variety of investments, ranging from equity and fixed income to money market securities and also provides advice as to the selection of investment advisers and pooled investment vehicles for certain clients.

On March 30, 2020, the Charles Schwab Investment Advisory, Inc. (“CSIA”) portfolio management teams that manage the Schwab Managed Portfolios™ (the “SMP Program”), Windhaven® Strategies and ThomasPartners® Strategies were integrated into CSIM from CSIA, with CSIM assuming fiduciary responsibilities for the SMP Program, Windhaven Strategies and ThomasPartners Strategies. CSIA is a wholly owned subsidiary of CSC and an affiliate of CSIM that has been registered as an investment adviser since November 5, 2009.

Prior to March 30, 2020, the Windhaven Strategies were managed by Windhaven Investment Management, a division of CSIA. Windhaven Investment Management, Inc. became a division of CSIA in early 2018 when it merged into CSIA. Prior to the 2018 merger, Windhaven Investment Management, Inc. was founded in 2010 when CSC purchased the assets and intellectual property of Windward Investment Management, Inc., which had been registered as an investment adviser since April 2000 (and registered as Windward Capital Inc. since October 1994).

Prior to March 30, 2020, the ThomasPartners Strategies were managed by ThomasPartners Investment Management, a division of CSIA. ThomasPartners, Inc. became a division of CSIA in early 2018 when it merged into CSIA. Prior to the 2018 merger, ThomasPartners, Inc. was purchased by CSC in December 2012. Prior to this acquisition, ThomasPartners, Inc. traced its roots back to July 1970 under other names, including Shorey-Huntington; during a change in control in 2004, the firm adopted the ThomasPartners name.

On May 26, 2020, CSIM became the investment adviser, and assumed fiduciary responsibility, for the USAA Managed Portfolios - UMP® (the “UMP Program”), which includes UMP Wrap and UMP Custom strategies, and its assets. This is as a result of the acquisition of the assets of USAA Investment Management Company (“USAA IMCO”) by an affiliate of CSIM and the subsequent assignment of USAA IMCO’s investment advisory agreements to Charles Schwab & Co., Inc. (“Schwab”), with Schwab becoming the wrap fee sponsor, and CSIM becoming the manager, of the UMP Program. Prior to May 26, 2020, the UMP Program was managed by USAA IMCO, a registered investment adviser.

On July 1, 2020, CSIM will become the investment adviser and assume fiduciary responsibility, for the Wasmer Schroeder Strategies. This is as a result of the acquisition of the assets of Wasmer, Schroeder & Company, LLC (“Wasmer”) by CSIM and the subsequent assignment of Wasmer’s investment advisory agreements to CSIM. Prior to July 1, 2020, the Wasmer Schroeder Strategies were managed by Wasmer, a registered investment adviser.

This brochure relates to the portfolio management services that CSIM provides for the ThomasPartners Strategies. For the ThomasPartners strategies, CSIM utilizes a proprietary process to

help guide investment decisions. The ThomasPartners Strategies offer two types of investment approaches: strategies that focus primarily on equity securities, and strategies that blend equities and fixed income. For the equity portion of both types of strategies, CSIM invests primarily in dividend paying stocks from companies that it believes have the ability to grow their dividends. Most of the investments are in large-cap U.S.-based stocks, with lesser allocations to mid- and small-cap common stocks, international common stocks (in the form of American Depositary Receipts and ordinary shares), and domestic Master Limited Partnerships (“MLPs”) or Real Estate Investment Trusts (“REITs”). Investments may also include mutual funds and exchange-traded funds (“ETFs”). For the fixed income portion of the strategies, CSIM invests directly and indirectly (typically through ETFs) in U.S. treasuries, agencies, corporate and/or municipal bonds, high yield bonds, bank loans, and other fixed income sectors deemed appropriate by the ThomasPartners Strategies portfolio management team.

Clients in the ThomasPartners Strategies include Direct Clients (as defined below), those who have enrolled in asset-based wrap fee and similar programs offered through broker-dealers (“Wrap Fee Programs”), and clients where CSIM acts as a sub-adviser. In addition, upon the request of its affiliate Charles Schwab Trust Company (“CSTC”), CSIM may offer access to some of its ThomasPartners Strategies to CSTC in connection with the management of trust assets.

The Wrap Fee Programs in which ThomasPartners Strategies are made available include the Managed Account Access® and Managed Account Connection® programs (the “Managed Account Programs”) sponsored by Charles Schwab & Co., Inc (“Schwab”). Information relating to CSIM’s participation in non-Schwab Wrap Fee and similar Programs is included in the “Other Financial Industry Activities and Affiliations” section of this brochure. CSIM receives compensation from the program sponsors for the investment management services it provides.

Clients may impose reasonable restrictions on the management of their account(s) subject to approval by CSIM. See the “Investment Discretion” section of this brochure for details on potential investment restrictions.

If a client imposes a restriction on an equity security in the equity portion of the balanced strategies, the assets of the restricted equity will typically be allocated across the remaining equity securities in the equity portion of the portfolio. There may be times when the assets from the restricted security are allocated across all remaining securities in the strategy, not just those within the equity portion. In this case, this allocation will result in a higher allocation to fixed income proportional to a client’s restriction. If a client restricts an ETF in the fixed income allocation of the balanced strategies, that security will be substituted with a similar ETF to gain the desired asset class exposure. Any restriction placed by a client with whom CSIM has a direct relationship through its investment advisory agreement (“Direct Client”) on their portfolio will not adjust the allocation to fixed income as noted above in the balanced strategies.

For clients who do not invest in the ThomasPartners Strategies through a wrap fee program account, the ThomasPartners Strategies philosophy of dividend growth is implemented using equity securities, ETFs, REITs, MLPs, and mutual funds, as noted earlier, but the percentage of client assets allocated to fixed income assets will vary based on the client’s investment objectives or risk tolerance.

CSIM may also provide model portfolios to sponsors of certain advisory programs and platforms and other financial intermediaries (“Sponsors”) on a non-discretionary basis. In these arrangements, the sponsors have the ultimate decision making and discretionary responsibility for the determination of which securities are to be purchased and sold for their account and effect all security

transactions in connection with such determinations. CSIM does not have any transparency into which securities were ultimately purchased or sold or the ending portfolio weighting of the accounts of such advisory programs. In addition, CSIM has no specific knowledge of the sponsor's clients or their circumstances. CSIM provides model portfolios to its affiliate, Charles Schwab Trust Company ("CSTC"), in connection with the management of trust assets. CSIM is not responsible for determining which securities to buy or sell for CSTC; however, the Multi-Asset SMA Trading Group is responsible for executing trades as instructed by CSTC. There may be differences between the model portfolios provided to Sponsors, CSTC, and the portfolios CSIM manages for its own discretionary clients that follow the same or a similar investment strategy. These differences may result from various factors, including but not limited to: cash availability, investment restrictions, timing of transactions, account size, holding limits, tax considerations and trade execution. As a result, the performance of CSIM's discretionary advisory client portfolios and that of a model portfolio following the same or similar investment strategy may differ. For more information regarding transactions involving model portfolios, see the section entitled "Brokerage Practices".

As of December 31, 2019, CSIM managed approximately \$479,902,028,402 on a discretionary basis and approximately \$26,393,701,775 on a non-discretionary basis. As of December 31, 2019, the SMP Program, Windhaven Strategies and ThomasPartners Strategies had approximately \$43,931,257,088 assets under management on a discretionary basis.

## Fees and Compensation – ThomasPartners Strategies

Pursuant to an agreement between CSIM and Schwab, Schwab pays all costs and expenses incurred by CSIM in connection with the ThomasPartners Strategies offered through the Managed Accounts Programs sponsored by Schwab and other services provided by CSIM to Schwab, plus an additional amount based on a fixed percentage of such costs and expenses. Schwab also provides CSIM with human resources, legal, compliance, and other administrative and technological support services. The portion of the costs and expenses paid by Schwab for the work done by CSIM may be adjusted from time to time as more or fewer resources are required.

CSIM participates as a portfolio manager in the Managed Account Programs offered by Schwab. More specific information about the Managed Account Programs and the fees paid by clients who participate in the Managed Account Programs appears in Schwab's Disclosure Brochure for those programs, which is provided to program clients directly by Schwab. CSIM does not enter into agreements directly with Managed Account Program clients and so does not receive direct compensation from or negotiate fees with them.

### Direct Client Fees

For Direct Client accounts, CSIM will charge an annual investment management fee ("Fee") on a quarterly basis as follows: 1% on assets up to \$2 million; 0.75% on assets between \$2 million and \$5 million; and 0.60% on assets greater than \$5 million. Unless the Fee is paid directly by the client, the client's custodian will deduct the Fee from the client's account for payment to CSIM. Existing Direct Clients may pay more or less than new Direct Clients.

Exceptions to the fee schedule above are made at CSIM's discretion. Management fees are discounted for Schwab and its affiliates' employees. Fees for Wrap Fee Programs or other programs and relationships in which CSIM acts as an adviser or sub-adviser can differ from those above.

Direct Client accounts may be combined for Fee breakpoint purposes as requested by the client and subject to approval by CSIM. Individual Retirement Accounts ("IRAs"), Roth IRAs and Education IRAs, as well as Simplified Employee Pension IRAs ("SEP-IRAs"), Savings Incentive Match Plan for Employees IRAs ("SIMPLE IRAs"), and other personal retirement accounts generally may be aggregated for this purpose. However, other retirement plan accounts subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), may not be combined for Fee breakpoint purposes unless they have identical account registrations. The accounts that may be aggregated are subject to negotiation (except ERISA accounts) and must be requested by the client for CSIM's approval.

For those Direct Clients who are not custodied at Schwab, CSIM primarily uses Schwab for pricing when valuing client assets for Fee calculation purposes. If Schwab does not provide a price, then pricing from another custodian will be used. For Direct Clients custodied at Schwab, Schwab is responsible for the valuation and CSIM is responsible for the Fee calculations.

If the investment advisory agreement between those Direct Clients not custodied at Schwab and CSIM is terminated, CSIM's compensation will be calculated on a pro-rata basis for the last quarter as provided above using the value of the portfolio assets as of the day prior to the date of termination.

For Direct Client Fees, CSIM will charge the Fee in arrears, after the end of each quarter, by applying the annual rate to account balances on the last day of the preceding quarter and then dividing by four. In case of cash flows into or out of these accounts which would result in at least a \$100 Fee adjustment, the Fee will be prorated.

For the accounts of some clients referred to CSIM through a solicitor's agreement (i.e., an agreement by which CSIM agrees to pay a fee for such referrals), the annual rate upon which the Fee is calculated may be up to 0.25% or 25 bps higher than those shown above and is reflected in the applicable investment advisory agreement entered into with such clients. Fees are not negotiable for these clients, except in rare circumstances.

### Additional Costs

In addition to the Fee described above, clients may incur additional costs, which include fees charged by the client's custodian for account maintenance, and may also include transaction fees, commissions, mark-ups and mark-downs, or brokerage fees ("Brokerage Fee") on the purchase and sale of securities in their accounts. Such costs will be paid directly from clients' accounts to the broker-dealer who completes the purchase or sale. For those clients that have selected Schwab as their custodian, Schwab will waive all of its trading commissions, if any, on those accounts managed by CSIM. Please note that Schwab's waiver does not extend to any other non-Schwab Brokerage Fees.

ETFs and mutual funds held in the ThomasPartners Strategies are subject to operating expenses and fees as set forth in the prospectuses of those funds. These fees and expenses are paid by the funds but ultimately are borne by clients as fund shareholders, and are in addition to the ThomasPartners Strategies fee. Clients pay the operating expense ratio ("OER") of ETFs used in the portfolios, which affects the performance of the ThomasPartners Strategies accounts. CSIM may also provide access to certain ETFs, mutual funds, or classes of funds that a client might normally not be qualified to purchase. If an account terminates, these investments may be liquidated or exchanged for the share class corresponding to the size of the client's individual investment in the fund.

Information relating to CSIM's brokerage practices is included in the "Brokerage Practices" section of this brochure.

## Performance-Based Fees and Side-by-Side Management

Not applicable.

### Types of Clients

Clients of ThomasPartners Strategies primarily include individuals, trusts, estates, charitable organizations, retirement plans, pension and profit-sharing plans, state or municipal government entities and other corporations, business entities, or investment advisers. Certain accounts subject to ERISA are not eligible for the ThomasPartners Strategies on the Managed Account Platforms or for programs sponsored by other brokers (“Broker/Custodian-Related Programs”). The minimum investment required to open an account in a ThomasPartners Strategy is at least \$100,000 per account. The minimum investment required for a Direct Client in ThomasPartners Strategies is at least \$500,000.

If the market value of a client account falls below this specified minimum due to withdrawal of assets from the account, clients may be required to deposit additional money or securities to bring the account up to the required minimum, and CSIM reserves the right to discontinue management of the account. Exceptions to this policy are made at CSIM’s discretion. For clients requesting tax gain/loss harvesting, there is a minimum gain or loss per security in order for CSIM to implement this request.

Clients who invest in the ThomasPartners Strategies through the Managed Account Programs or for programs sponsored by other brokers (“Broker/Custodian-Related Programs”), or other arrangements by which CSIM acts as sub-adviser to clients’ accounts may be subject to a different minimum.

### Methods of Analysis, Investment Strategies and Risk of Loss

In managing discretionary client accounts and providing recommendations to non-discretionary clients, CSIM uses various investment strategies and methods of analysis, as described below. This section also contains a discussion of the primary risks associated with these investment strategies, although it is not possible to identify all of the risks associated with investing and the particular risks applicable to a client account will depend on the nature of the account, its investment strategy or strategies and the types of securities held. Where available, please refer to the applicable prospectus or other offering documents for a more detailed discussion of strategies and risks involved with your particular account.

While CSIM seeks to manage accounts so that risks are appropriate to the return potential for the strategy, it is often not possible or desirable to fully mitigate risks. Any investment includes the risk of loss and there can be no guarantee that a particular level of return will be achieved. Clients should understand that they could lose some or all of their investment and should be prepared to bear the risk of such potential losses.

Clients should be aware that while CSIM does not limit its advice to particular types of investments, client mandates may be limited to certain types of securities (e.g., equities) or to the recommendation of investment advisers or pooled investment vehicles and may not be diversified. Unless specifically discussed with a client, the accounts managed by CSIM are generally not intended to provide a complete investment program for a client or investor and CSIM expects that the assets it manages typically do not represent all of the client’s assets. Clients are responsible for appropriately diversifying their assets to guard against the risk of loss.

CSIM receives a broad range of research from a wide variety of sources that includes Schwab-affiliated entities, other brokers, and independent research providers, including issuers and trading partners. CSIM may use written reports prepared by recognized analysts who are specialists in the industry and may use computer-based models to assist in portfolio management. CSIM may also use statistical and other information published by third-party data providers, industry, and government, information gathered at meetings of professionals within the industry, and its own research of investment trends.

CSIM creates diversified portfolios that primarily consist of ETFs and/or mutual funds in a single account for several SMA strategies, such as the SMP Program and Windhaven Strategies, and also for certain pooled investment vehicles. In addition, CSIM also provides portfolio management for ThomasPartners Strategies, which invests primarily in dividend-paying stocks and fixed income investments, and pooled investment vehicles that invest in a variety of equity and fixed income securities. Each SMA strategy or pooled investment vehicle maintains a cash component which may be invested in Schwab Cash Vehicles (as defined later in this brochure), a money market fund, an ETF, or similar cash instruments. The guidelines for asset allocations for each SMA strategy or pooled investment vehicle differ from the others. However, certain pooled investment vehicles may have substantially equivalent strategies. In such circumstances, the guidelines for multiple pooled investment vehicles may be substantially similar. There may be times when CSIM is investing in the same ETF or mutual fund for different SMA strategies or pooled investment vehicles; however, although certain SMA strategies share portfolio management personnel, each SMA strategy has a separate portfolio management team making investing decisions and the SMA portfolio management teams are different than the ones investing for pooled investment vehicles.

### Methods of Analysis and Investment Strategies

ThomasPartners Strategies use both quantitative and qualitative techniques to identify attractive securities for equity investments, which include both foreign and domestic companies with market capitalizations in excess of \$1 billion and in many cases, companies with histories of annual dividend growth. REITs and MLPs are also considered.

Particular attention is paid to a company’s current dividend policy as well as its potential to increase its dividend in the future. The companies are then analyzed with respect to:

- Business quality;
- Returns on capital;
- Free cash flow generation and capital intensity;
- Balance sheet strength; and
- Valuation.

Finally, a discounted cash flow analysis and/or other appropriate valuation techniques are used to develop intrinsic value estimates for the companies identified through the methods above. Companies that are deemed undervalued are recommended to the portfolio management team for inclusion in the portfolio. Portfolio decisions will also incorporate the proposed company’s impact on the overall portfolio’s dividend yield and income growth potential.

ThomasPartners Strategies’ portfolio management team will allocate a portion of certain accounts to fixed income ETFs in its balanced strategies and may also allocate a portion of certain accounts to fixed income securities, including fixed income ETFs, for Direct Clients. For fixed income investments, ThomasPartners Strategies’ portfolio management team uses a combination of top-down and sector research in their analysis of the fixed income markets. The



macro, top-down analysis provides a framework and understanding of the current economic environment. The sector analysis seeks to identify the relative opportunities within fixed income. The fixed income sectors that are considered include U.S. treasuries, government-sponsored enterprises, agencies, corporate and/or municipal bonds, high yield, bank loans, and other fixed income sectors deemed appropriate by ThomasPartners Strategies' portfolio management team.

#### **Risk of Loss**

There are inherent risks to investing in strategies managed by CSIM, including the ThomasPartners Strategies. The following list of risks does not purport to be a complete enumeration or explanation of the risks involved in those strategies. As the strategies develop and change over time, clients and investors may be subject to additional and different risk factors. No assurance can be made that profits will be achieved or that substantial losses will not be incurred.

#### **Management Risks**

CSIM applies its investment techniques and risk analyses in making investment decisions or recommendations for its clients, but there can be no guarantee that they will produce the desired results. In addition, there is no guarantee that a strategy based on historical information will produce the desired results in the future and, if market dynamics change, the effectiveness of the strategy may be limited. Each strategy runs the risk that investment techniques will fail to produce the desired results. There also can be no assurance that all of the key personnel will continue to be associated with the firm for any length of time.

#### **Investment Risks**

Investments in securities, including ETFs and mutual funds and the securities that they in turn invest in, involve various risks, including those summarized below. In addition, each ETF and mutual fund has its own investment style, which may involve risks different from those described below. Clients and prospective clients should be aware that investing in securities involves risk of loss that clients should be prepared to bear.

#### **Risk of Dividend Cuts**

Companies may cut their dividends causing investors to sell the stock and the price to fall.

#### **MLP Risks**

MLPs are limited partnerships that are publicly traded and which have the tax benefits of a limited partnership. Investments in MLP securities (units) involve risks that differ from an investment in common stock. Holders of the units of MLPs have more limited control and limited rights to vote on matters affecting the partnership. For example, unit holders may not elect the general partner or the directors of the general partner, and they have limited ability to remove a MLP's general partner. MLPs may issue additional common units without unit holder approval, which would dilute existing unit holders. In addition, conflicts of interest may exist between common unit holders, subordinated unit holders, and the general partner of a MLP, including a conflict arising as a result of incentive distribution payments. As an income producing investment, MLPs could be affected by increases in interest rates and inflation. There are also certain tax and related risks associated with an investment in units of MLPs, including that MLPs may convert to a C-Corporation. This conversion could cause a cut in distributions as well as an adverse tax event for long-time owners of the MLP.

#### **ETF General Risks**

ETFs in which the strategies may invest involve certain inherent risks generally associated with investments in a portfolio of underlying securities, including the risk that the general level of the underlying

security prices may decline, thereby adversely affecting the value of each unit of the ETF. Moreover, an ETF may not fully replicate the performance of its benchmark index because of the temporary unavailability of certain securities in the secondary market or discrepancies between the ETF and the benchmark index with respect to the weighting of securities or the number of securities held. Investing in ETFs carries the risk of capital loss. ETFs are not guaranteed or insured by the FDIC or any other government agency. You can lose money investing in ETFs.

ETFs in which the strategies invest have their own fees and expenses as set forth in the prospectuses. These fees and expenses lower investment returns. Although ETFs themselves are generally classified as equities, the underlying holdings of ETFs can include a variety of asset classes, including but not limited to equities, bonds, foreign currencies, physical commodities, and derivatives. A full disclosure of the specific risks of ETFs is located in the respective prospectus of each fund.

ETFs may have exposure to derivative instruments, such as futures contracts, forward contracts, options, and swaps. There is a risk that a derivative may not perform as expected. The main risk with derivatives is that some types can amplify a gain or loss, potentially earning or losing substantially more money than the actual cost of the derivative; or that the counterparty may fail to honor its contract terms, causing a loss for the ETF. Use of these instruments may also involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk, and the risk that an ETF could not close out a position when it would be most advantageous to do so.

#### **Mutual Fund Risks**

Mutual fund managers may base investment decisions for funds on historical information. There is no guarantee that a strategy based on historical information will produce the desired results in the future. In addition, if market dynamics change, the effectiveness of that kind of strategy may be limited. Either of these risks may cause the investment strategy of a particular fund to underperform its benchmark or similar funds. Mutual funds in which the strategies invest have their own fees and expenses as set forth in the fund prospectuses. These fees and expenses lower investment returns.

Mutual funds may have exposure to derivative instruments, such as futures contracts, forward contracts, options, and swaps. There is a risk that a derivative may not perform as expected. The main risk of derivatives is that some types of derivatives can amplify a gain or loss, potentially earning or losing substantially more money than the actual cost of the derivative, or that the counterparty may fail to honor its contract terms, causing a loss for the fund. Use of these instruments may also involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk, and the risk that a fund could not close out a position when it would be most advantageous to do so.

The value of mutual funds can be impacted by the movement of large positions in and out of a particular fund. Clients may collectively account for a large portion of the assets in certain mutual funds. A decision by CSIM to buy or sell some or all of a particular fund where ThomasPartners Strategies clients hold a significant portion of that fund may negatively impact the value of that fund.

#### **Market/Systemic Risks**

Financial markets rise and fall in response to a variety of factors, sometimes rapidly and unpredictably. Markets may be impacted by economic, political, regulatory and other conditions, including economic sanctions and other government actions. In addition, the occurrence of global events, such as war, terrorism, environmental disasters, natural disasters, and epidemics, may also negatively

affect the financial markets. As with any investment whose performance is tied to these markets, the value of an investment in the fund will fluctuate, which means that an investor could lose money over short or long periods.

#### **Asset Allocation/Strategy/Diversification Risks**

Asset allocation decisions may result in more portfolio concentration in a certain asset class or classes, which could reduce overall return if the concentrated assets underperform expectations. The more aggressive the strategy selected, the more likely the portfolio will contain larger weights in riskier asset classes, such as equities. The asset classes in which the strategies seek investment exposure can perform differently from each other at any given time (as well as over the long term), so the strategy will be affected by its allocation among the various asset classes. Depending on market conditions there may be times where diversified strategies perform worse than less diversified strategies.

#### **Trading/Liquidity Risks**

A particular investment may be difficult to purchase or sell or may become difficult to sell after being purchased for a client account. CSIM may be unable to sell securities on behalf of a client at an advantageous time and/or price due to then-existing trading market conditions.

#### **Large Investment Risks**

CSIM clients may collectively account for a large portion of the assets in certain securities, MLPs, ETFs, or REITs. A decision by CSIM to buy or sell for its clients' accounts some or all of a particular security, MLP, ETF, or REIT where clients hold a significant portion of such security, MLP, ETF, or REIT may negatively impact the value of that security.

#### **Counterparty Risks**

There may be a risk of an executing broker failing to deliver securities, especially due to the large volume of step-out transactions with broker-dealers other than the program sponsor or client-selected broker-dealer/custodian for the Windhaven Strategies and ThomasPartners Strategies. This may result in a loss to the client. CSIM will attempt to mitigate trading counterparty risk through its broker selection program described in "Brokerage Practices."

#### **Custodian Risks**

Schwab, or a broker-dealer custodian chosen by the client, is a Securities Investor Protection Corporation ("SIPC") member brokerage firm and maintains SIPC protection. SIPC offers protection of up to \$500,000, including a \$250,000 limit for cash, if a member brokerage firm fails. SIPC covers most securities such as stocks, bonds, ETFs, and mutual funds, but does not protect against market loss.

#### **Tax Risks**

ThomasPartners Strategies are not designed to address specific tax objectives.

Tax treatment of dividends under federal and state law may change over time. Ongoing investment income, capital gains, capital losses, and miscellaneous deductions for some MLPs and certain commodity and currency ETFs, are reported annually on the Schedule K-1, and when MLPs are sold in a taxable account, proceeds will be reported on Form 1099-B. The Schedule K-1 is mailed separately to clients each year and needs to be included in the clients' income tax return. In cases where the entity generating the Schedule K-1 files for a tax extension beyond April 15, clients may receive their Schedule K-1 after the due date for their income tax return. Individual taxpayers who do not request a filing extension

may need to file an amended federal and/or state tax return if they receive their Schedule K-1 after filing their original return. Also, gains and losses associated with some commodities may be taxed differently than standard short-term and long-term capital gains and losses. Clients should consult a professional tax advisor for help with their unique situations.

#### **Tax Gain/Loss Harvesting Risks**

Clients are able to request limited tax gain or loss harvesting opportunities in their accounts. CSIM can accommodate tax gain/loss harvest requests. The request is subject to CSIM approval, and CSIM reserves the right to decline the request if, in its discretion, the security or market changes are such that the requested action is not or is no longer appropriate for tax harvesting. There is no guarantee that a client tax gain/loss harvesting request will reduce, defer, or eliminate the tax liability generated by a client's investment portfolio in any given tax year. Clients should consult a professional tax advisor for help with their unique situations.

There are several investment-related risks associated with client-requested tax gain/loss harvesting. There is potential that the gain/loss request may: (i) negatively affect the overall performance of a client's portfolio; (ii) prevent a client's account from being included in large block trades; instead, the account will be traded separately afterward, which could result in an execution price better or worse than the execution price of the large block trade; (iii) result in a temporary overweight and/or underweight of certain sectors, securities, and/or cash in a client's portfolio; and (iv) result in disallowed tax losses since CSIM will not consider transactions 30 days prior to its harvesting transactions and will only consider transactions 30 days following its harvesting transactions in the identified account, since CSIM will not consider any other account that the client may have. CSIM may repurchase securities after tax gain harvesting or after the end of the tax loss "wash sale" period at a price higher than that for which they were sold. Securities sold for the purpose of tax loss may or may not be repurchased by CSIM following the 30-day wash sale period. CSIM cannot prevent wash sales that may occur in other accounts besides the one in which the harvest was requested as a result of the requested gain/loss harvesting activity.

A wash sale is the sale at a loss and purchase of the same or substantially similar security within 30 days of each other. If a wash sale transaction occurs, the Internal Revenue Service may disallow or defer the loss for current tax reporting purposes. More specifically, the wash sale period for any sale at a loss consists of 61 calendar days: the day of the sale, the 30 days before the sale, and the 30 days after the sale. The wash sale rule postpones losses on a sale if replacement shares are bought around the same time.

CSIM will harvest gains and/or losses at the security level only and will not take tax lots into consideration. This means there is potential for a gain to be generated with the sale of the requested security position, despite the security being at a loss overall when combining all tax lots. This may result in partially offsetting the loss being generated and could result in taxes being due on the gains from the sale. This also means that all shares held in this account for the requested security will be sold.

There is the risk that the investment management activity in the client's account subsequent to the tax gain/loss sale may result in additional realized gains or losses that partially or completely offset the losses realized from the tax gain/loss sale requested.



## **Underlying Securities Risks**

### **Equity-Related Risks**

#### **General Risks**

The prices of equity securities, including the value of ETFs or mutual funds that invest in them, REITs, and MLPs will rise and fall. These price movements may result from factors affecting individual companies, industries, or the securities market as a whole. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments. The prices of securities issued by such companies may suffer a decline in response. In addition, the equity market tends to move in cycles, which may cause stock prices to fall over short or extended periods of time.

#### **Large- and Mid-Cap Risks**

Large- and/or mid-cap U.S. stocks, along with mutual funds and ETFs that focus on large- and/or mid-cap segments of the U.S. stock market, bear the risk that they tend to go in and out of favor based on market and economic conditions. However, stocks of mid-cap companies tend to be more volatile than those of large-cap companies because mid-cap companies tend to be more susceptible to adverse business or economic events than larger, more established companies. During a period when large- and/or mid-cap U.S. stocks fall behind other types of investments—bonds or small-cap stocks, for instance—the performance of the portion of the investment strategies invested in large- and/or midcap stocks may lag the performance of these other investments.

#### **Small-Cap and International Risks**

Historically, small-cap and international stocks have been riskier than large- and mid-cap U.S. stocks (also see the “Foreign Investments–Related Risks” section below for additional information). During a period when small-cap and/or international stocks fall behind other types of investments— large- and U.S. mid-cap stocks, for instance—the performance of the portion of the investment strategies invested in small-cap or international stocks may lag the performance of these other investments.

### **Fixed Income–Related Risks**

#### **General Risks**

Bond markets rise and fall daily, and fixed income investments, which generally also include instruments with variable or floating rates (including cash and cash-like investments), are subject to various risks. As with any investment whose performance is tied to bond markets, the value of a fixed income investment, ETF, or mutual fund will fluctuate, which means that the client could lose money.

#### **Interest Rate Risks**

When interest rates rise, bond prices usually fall, and with them the value of an ETF or mutual fund holding the bonds. A decline in interest rates generally causes bond prices to rise, and with them potentially the value of a bond fund or ETF, but could also hurt the performance of an ETF or mutual fund by lowering its yield (which could increase reinvestment risk). The longer the duration of the investments held by an ETF or mutual fund, the more sensitive to interest rate movements its value is likely to be.

#### **Credit Risks**

A decline in the credit quality of a fixed income investment, whether real or perceived, could cause the value of a fixed income security, ETF, or mutual fund to fall. The security, ETF, or mutual fund could lose value if the issuer or guarantor of an investment fails to make timely principal or interest payments or otherwise honor its obligations. The emphasis of a fixed income strategy on relatively

higher credit quality and preservation of capital also could cause a security, ETF, or mutual fund to underperform certain other types of bond investments, particularly those that take greater maturity and credit risks.

#### **High Yield Risks**

Investments in ETFs or mutual funds that hold high yield securities and unrated securities of similar credit quality (sometimes called junk bonds) are subject to greater levels of credit and liquidity risks. High yield securities and the ETF or mutual funds that invest in them may be considered speculative.

#### **Government Securities Risks**

Many U.S. government securities are not backed by the full faith and credit of the United States government, which means they are neither issued nor guaranteed by the U.S. Treasury. Certain issuers of securities, such as the Federal Home Loan Banks (“FHLB”), maintain limited lines of credit with the U.S. Treasury. Securities issued by other issuers, such as the Federal Farm Credit Banks Funding Corporation (“FFCB”), are supported solely by the credit of the issuer. There can be no assurance that the U.S. government will provide financial support to securities of its agencies and instrumentalities if it is not obligated to do so under law.

#### **Bank Loans**

Investments in ETFs or mutual funds that hold bank loans are typically below investment grade credit quality and may be subject to more credit risk, including the risk of nonpayment of principal or interest. Most bank loans are floating rate, whose interest rates are tied to LIBOR or another short-term reference rate, so substantial increases in interest rates may make it more difficult for issuers to service their debt and cause an increase in loan defaults. Bank loans are typically secured by collateral posted by the issuer, or guarantees of its affiliates, the value of which may decline and be insufficient to cover repayment of the loan. Many loans are relatively illiquid or are subject to restrictions on resales, have delayed settlement periods, and may be difficult to value, which could have an adverse impact on the ability of the ETF or mutual fund to sell loans at an advantageous time and/or price. Loans are also subject to maturity extension risk and prepayment risk.

#### **State and Regional Risks**

To the extent that a security, ETF, or mutual fund invests in securities from a given state or geographic region, its value and performance could be affected by local, state, and regional factors, including erosion of the tax base and changes in the economic climate. National governmental actions, such as the elimination of tax-exempt status, also could affect performance. In addition, an ETF or mutual fund may be more sensitive to adverse economic, business, or political developments if a substantial portion of it is invested in municipal securities that are financing similar projects.

#### **Foreign Risks**

Investments in ETFs or mutual funds that hold securities of foreign issuers or securities with credit or liquidity enhancements provided by foreign entities may involve certain risks such as adverse changes in foreign economic, political, regulatory, and other conditions; differing accounting, auditing, financial reporting, and legal standards and practices; differing securities market structures; and higher transaction costs. In addition, sovereign risk, or the risk that a government may become unwilling or unable to meet its loan obligations or guarantees, could increase the credit risk of financial institutions connected to that particular country.

## Foreign Investment–Related Risks

### General Risks

Investments in securities of foreign issuers or ETFs or mutual funds that hold securities of foreign issuers may involve certain risks that are greater than those associated with investments in securities of U.S. issuers. These include risks of adverse changes in foreign economic, political, regulatory, and other conditions; changes in currency exchange rates or exchange control regulations (including limitations on currency movements and exchanges); differing accounting, auditing, financial reporting, foreign taxes, and legal standards and practices; differing securities market structures; differing trading and settlement practices; ownership restrictions; and higher transaction costs.

### Emerging Markets Risks

These and other risks (e.g., nationalization, expropriation, or other confiscation of assets of foreign issuers) are greater for those securities, ETFs, or mutual funds investing in companies tied economically to emerging countries, the economies of which tend to be more volatile than the economies of developed countries.

### Frontier Markets Risks

The risks associated with investing in securities, ETFs, or mutual funds that hold foreign or emerging markets generally are magnified in frontier markets, also known as “next emerging” markets. Some frontier markets may operate in politically unstable regions of the world and may be subject to additional geopolitical/disruption-of-markets risks.

### Geopolitical/Disruption-of-Markets Risks

Geopolitical events may adversely affect global economies and markets and thereby decrease the value of and/or the ease of trading those securities, ETFs, or mutual funds invested in those affected markets. Those events as well as other changes in foreign and domestic economic and political conditions could adversely affect the value of the strategy’s investments.

### Currency Risks

Fluctuations in exchange rates may adversely affect the value of ETFs or mutual funds that hold foreign currency holdings and investments denominated in foreign currencies.

## Other Asset Classes–Related Risks

### Commodities Risks

Commodities involve unique risks that may be distinct from those that affect stocks and bonds, including but not limited to worldwide supply and demand factors, weather conditions, currency movements, and international government policies regarding commodity reserves and choice of currency for commodity pricing. Commodities investments may also involve unique risks inherent to investing in derivatives which may include basis, roll, liquidity, and regulatory risks. A detailed explanation of the risks is available in the prospectus of the respective commodity fund. Commodity pools may be subject to different regulatory requirements than traditional funds governed by the Investment Company Act of 1940.

### Hard Assets Risks

The production and distribution of hard assets, such as precious metals, oil and gas, real estate, and/or agricultural commodities, may be affected by geopolitical and environmental factors and are cyclical in nature. During periods of economic or financial instability, hard asset securities and other instruments may be subject to broad price fluctuations, reflecting volatility of energy and basic materials prices and possible instability of supply of various hard assets. Hard asset

securities, hard asset companies, and other instruments may also experience greater price fluctuations than the relevant hard asset. Therefore, the return on hard assets securities can deviate from that of the hard asset itself.

### Real Estate Risks

Real estate–related investments (and the ETFs or mutual funds that hold them) may be adversely affected by factors affecting the real estate industry, which may include changes in interest rates and social and economic trends. REITs may also be subject to the risk of fluctuations in income from underlying real estate assets, poor performance by the REIT’s manager, prepayments and defaults by borrowers, adverse changes in tax laws, and, with respect to U.S. REITs, their failure to qualify for the special tax treatment granted to REITs under the Internal Revenue Code of 1986 and/or to maintain exempt status under the Investment Company Act of 1940.

### Limitations of Disclosure

The foregoing list of risks does not purport to be a complete enumeration or explanation of the risks involved in CSIM’s strategies. As the strategies develop and change over time, clients and investors may be subject to additional and different risk factors. No assurance can be made that profits will be achieved or that substantial losses will not be incurred.

## Disciplinary Information

Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. and/or Schwab Investments (together, “Schwab” for this section only) reached agreements with the United States Securities and Exchange Commission (“SEC”), the Financial Industry Regulatory Authority (“FINRA”), the Illinois Secretary of State, Securities Department (“Illinois”), and the Connecticut Department of Banking, Securities and Business Investments Division (“Connecticut”) to settle matters related to the Schwab YieldPlus Fund<sup>®</sup> (the “Yield Plus Fund”) and/or Schwab Total Bond Market Fund (the “Bond Fund,” and together with Yield Plus Fund, the “Funds” for this section only).

As part of the SEC settlement, the SEC found that Schwab violated certain investment-related laws and regulations related to the offer, sale and management of the Funds from 2005 through 2008. In particular, the SEC found that Schwab: (1) deviated from the Funds’ concentration policy with respect to investments in non-agency mortgage-backed securities, without shareholder approval; (2) made materially misleading statements and omissions about the Yield Plus Fund and its associated risks before and during the decline of its net asset value (“NAV”); (3) materially understated the Yield Plus Fund’s weighted average maturity (“WAM”) in certain instances; (4) willfully aided and abetted misstatements and omissions appearing in Yield Plus Fund sales materials and other documents; and (5) lacked policies and procedures reasonably designed to prevent the misuse of material nonpublic information about the Yield Plus Fund. Without admitting or denying these allegations, Schwab agreed to pay a total of approximately \$118,944,996 in disgorgement of fees, penalties and interest. The SEC settlement was approved by the U.S. District Court for the Northern District of California on February 16, 2011.

The amount paid by Schwab pursuant to the SEC settlement included approximately \$18,000,000 paid by Schwab in settlement of the FINRA matter in which FINRA made related factual allegations against Schwab and found that Schwab’s conduct violated FINRA’s just and equitable principles of trade and its rules pertaining to communications with the public and supervision.

Schwab also agreed to pay approximately \$8,567,364 in settlement of the Illinois matter, and \$2,800,000 in settlement of the Connecticut matter, in which those states made related factual allegations

against Schwab and found that Schwab's conduct violated Illinois and Connecticut laws and regulations relating to the supervision of its employees and the maintenance of written procedures reasonably designed to comply with securities laws and regulations. The amounts paid to Illinois and Connecticut were included in the settlement with the SEC.

Schwab and certain affiliated entities and individuals (the "Schwab Parties") were named as defendants in a number of Yield Plus Fund-related class action lawsuits filed in the United States District Court for the Northern District of California in 2008. These lawsuits were consolidated into a single class action complaint that alleged violations of state law and federal securities law similar to those described above. The Parties entered into a settlement agreement to settle the plaintiffs' federal securities law claims for approximately \$200,000,000 and the plaintiffs' California law claims for approximately \$35,000,000. On April 19, 2011, the court entered an order granting plaintiffs' and defendants' motions for final approval of the settlement agreements.

## Other Financial Industry Activities and Affiliations

As a wholly owned subsidiary of CSC, CSIM leverages the resources of CSC, Schwab, and their affiliated companies, such as personnel including, but not limited to, its Chief Executive Officer ("CEO") (also CEO of CSIA, an affiliated investment adviser); Chief Compliance Officer ("CCO"); Chief Legal Officer; legal and compliance support; sales, marketing, technology, operations, finance, human resources, and risk management personnel. CSIM pays Schwab for the services of certain employees and for the facilities and equipment necessary to enable it to provide advisory services to clients. CSIM, CSIA and Schwab personnel have reporting relationships to personnel of affiliated entities. These arrangements and others noted below create the potential for conflicts of interest to arise. These potential conflicts of interest are governed by various policies adopted by CSIM. For example, CSIM has adopted policies and procedures reasonably designed to protect against the misuse of information (and mitigate potential conflicts of interest) whether among CSC-affiliated entities or entities or individuals outside of CSC and its affiliates. Other wholly owned subsidiaries of CSC are engaged in investment advisory, brokerage, trust, custody, or banking services.

### Charles Schwab & Co., Inc.

CSIM is under common control with Schwab, which is both a registered broker-dealer and a registered investment adviser, and a wholly-owned subsidiary of CSC. Schwab serves as the principal underwriter for certain Registered Funds managed by CSIM but does not receive any compensation in that capacity. However, Schwab receives recordkeeping, shareholder servicing and other administrative servicing fees from certain Registered Funds managed by CSIM.

CSIM pays Schwab an annual fee to obtain the Schwab Equity Ratings used in its management of the equity strategies for certain Registered Funds. If the Schwab Equity Ratings were no longer available, CSIM would need to significantly alter its methods of analysis for these Registered Funds.

Schwab, which is also an insurance agency, offers certain Registered Funds managed by CSIM as part of its insurance product offerings.

Schwab sponsors, develops, coordinates the calculation of and maintains the Schwab 1000 Index. Pursuant to a licensing agreement between Schwab and CSIM, Schwab grants a license to an ETF ("self-indexing ETF") that is a series of Schwab Strategic Trust and is managed by CSIM, to use the Schwab 1000 Index and related intellectual property at no cost to Schwab Strategic Trust or the

self-indexing ETF. Schwab does not provide recommendations to the self-indexing ETF using the Schwab 1000 Index regarding the purchase or sale of specific securities. In addition, Schwab will not provide any information relating to changes to the Schwab 1000 Index methodology for the inclusion or exclusion of component securities or methodology for the calculation or the return of component securities to the self-indexing ETF, in advance of a public announcement of such changes by Schwab. The Schwab 1000 Index is used by another Registered Fund managed by CSIM. That Registered Fund, like the self-indexing ETF, seeks to track the performance of the Schwab 1000 Index by investing in the constituents of such index or a representative sample of such constituents of the index. Consistent with the self-indexing ETF's exemptive relief, such Registered Fund will not engage in creation unit transactions with the self-indexing ETF.

Investment advisers recommended or selected by CSIM to act as (i) sub-advisers for Registered Funds advised by CSIM, or (ii) investment advisers of mutual funds or ETFs in which the funds-of-funds or SMAs that CSIM advises invest, may have a business relationship with Schwab whereby Schwab has agreed to make mutual funds advised by such investment advisers available through Schwab Mutual Fund OneSource platform. Schwab receives fees from mutual funds and/or their affiliates for the services Schwab provides in connection with Schwab Mutual Fund OneSource. CSIM does not take into consideration whether an adviser participates in these platforms when making its recommendations or selections. Schwab also makes available certain Registered Funds advised by CSIM through its Schwab Mutual Fund OneSource platform.

In its role as sponsor of the SMP Program, CSIM's affiliate, Schwab, sets the target asset allocations for each SMP Program portfolio and creates the parameters that determine mutual fund and ETF eligibility for the SMP Program. Although CSIM does not favor its own Registered Funds, or disfavor any third-party mutual fund or ETF, in its selection of investments or allocation among investments for the SMP Program portfolios, the parameters and eligibility criteria created by Schwab are designed, in part, to favor certain CSIM managed Registered Funds and to disfavor certain third-party mutual funds and ETFs. Schwab has a financial interest in certain Registered Funds because it or its affiliates receive advisory and recordkeeping, shareholder servicing and other administrative servicing fees from those Registered Funds. This results in higher overall compensation to Schwab, CSIM, and the ultimate parent entity, CSC. Schwab also receives fees from third party funds (or their affiliates) in the SMP model portfolios for record keeping, shareholder services, and other administrative services. The aggregate fees Schwab or its affiliates receive from the Registered Funds may be greater than the fees Schwab receives from third party funds.

If a client's account(s) is custodied at Schwab, cash in the account(s), whether as an investment holding, or while awaiting pending investment or distribution, may be invested in: (1) a money market fund that is managed by CSIM or distributed by Schwab; (2) a sweep vehicle sponsored by Schwab Bank; or (3) a Schwab One<sup>®</sup> product (collectively, "Schwab Cash Vehicles"). In addition, Direct Client accounts may also have investments in CSIM managed Registered Funds. This presents a conflict of interest. The CSIM Fees will be adjusted relative to the Schwab Cash Vehicle and CSIM managed Registered Funds for retirement accounts, including IRAs and accounts subject to ERISA. CSIM reserves the right to change the manner in which it makes accommodations, to the extent permitted by applicable law. More information about Schwab Cash Vehicles may be found in clients' brokerage account agreement(s) with Schwab.

CSIM serves as an investment manager on the Windhaven Strategies and ThomasPartners Strategies available in the Managed Account Programs sponsored by Schwab and other programs sponsored by



other firms (“Broker/Custodian-Related Programs”). The Schwab Managed Account Programs include, but are not limited to, the following Schwab wrap fee programs: (i) Charles Schwab & Co., Inc. – Managed Account Access<sup>®</sup>, and (ii) Charles Schwab & Co., Inc. – Managed Account Connection<sup>®</sup>. CSIM receives from the program sponsor a fee for the investment management services it provides for the Windhaven Strategies and ThomasPartners Strategies. Each program sponsor has prepared a brochure which contains detailed information about its wrap fee program, including the wrap fee charged. Copies of each brochure are available from the program sponsor upon request.

Schwab effects securities transactions for clients in the SMP Program, UMP Program, Windhaven Strategies and ThomasPartners Strategies on an agency basis. Windhaven Strategies and ThomasPartners Strategies wrap fee program clients should note that over time only a small portion of transactions, specifically maintenance trades, are executed for their accounts through the program sponsor.

In connection with the SMP Program, SIP, ThomasPartners Strategies and Windhaven Strategies, CSIM provides Schwab with composite performance reporting data resources and support, for which CSIM is paid a fee.

Schwab sponsors the advisory services Schwab Intelligent Portfolios<sup>®</sup> (“SIP”) and Schwab Intelligent Portfolios Premium<sup>™</sup> (“SIP Premium” or the “SIP Premium Program”) (collectively, “Schwab Intelligent Portfolios Solutions<sup>™</sup>”). SIP is an automated discretionary investment advisory service that offers clients a diversified portfolio based on their stated investment objectives and risk tolerance. SIP Premium is a hybrid advisory service that combines financial planning and guidance from Schwab planning consultants with discretionary portfolio management through SIP. SIP portfolios may include ETFs managed by CSIM, for which CSIM receives investment advisory fees. SIP is further described below.

### **Charles Schwab, Hong Kong, Ltd.**

Charles Schwab, Hong Kong, Ltd. has been appointed the Hong Kong representative of Charles Schwab Asset Management (Ireland) Limited (“CSAMIL”) and is authorized by CSAMIL to receive requests from Hong Kong investors for subscriptions, redemptions and exchange of shares of the non-U.S. fund advised by CSIM. Charles Schwab, Hong Kong, Ltd. is a registered securities dealer that is regulated by the Hong Kong securities and futures commission.

### **Pooled Investment Vehicles**

CSIM provides investment advice to a number of Registered Funds and a non-U.S. fund, and may be deemed to control such funds, although CSIM disclaims any control relationship. CSIM also makes recommendations in connection with the management of certain collective investment trusts although Charles Schwab Trust Bank (“CSTB”) retains ultimate investment discretion over those funds.

### **Charles Schwab Investment Advisory, Inc.**

CSIM is under common control with CSIA, a registered investment adviser. CSIM pays CSIA an annual fee to obtain CSIA’s asset allocation models which are used in the management of certain Registered Funds.

CSIA provides portfolio management services to SIP. SIP is an automated discretionary investment advisory service that offers clients a diversified portfolio based on their stated investment objectives and risk tolerance. SIP Premium is a hybrid advisory service that combines financial planning and guidance from Schwab planning consultants with discretionary portfolio management through SIP. SIP portfolios may include Schwab ETFs managed by CSIM, for which CSIM receives investment advisory fees. CSIM

provides CSIA with composite performance reporting data resources and support in connection with the SMP Program, SIP, ThomasPartners Strategies and Windhaven Strategies, for which CSIM is paid a fee. CSIM also provides CSIA with trade execution services for SIP, under an inter-company agreement. CSIM directs these trades to Schwab. In addition, CSIM provides proxy voting services to CSIA under an inter-company agreement. CSIM pays CSIA for the services of certain employees primarily providing sales and marketing services.

### **Charles Schwab Trust Bank**

CSIM is under common control with CSTB. CSIM provides non-discretionary investment management advice to CSTB pursuant to an agreement between CSIM and CSTB with respect to collective investment trusts maintained and advised by CSTB. CSIM also provides CSTB with trading support, at CSTB’s request. CSTB, however, retains the authority to accept or reject CSIM’s recommendations. In addition, CSIM provides administrative and proxy voting services to, and receives compensation from, CSTB. CSTB further provides custodial and other trust services to certain of Schwab’s customers and affiliates. CSTB provides directed trust and custody services to employee benefit or similar types of plans, and makes certain Registered Funds advised by CSIM available to these clients.

### **Charles Schwab Asset Management (Ireland) Limited**

CSIM provides discretionary investment advisory services to CSAMIL, an Irish limited liability management company under common control with CSIM, with respect to a non-U.S. pooled investment vehicle (“non-U.S. fund”) managed by CSAMIL and receives compensation from CSAMIL with respect to the non-U.S. fund.

### **Charles Schwab Trust Company**

CSIM is under common control with CSTC. Upon request from CSTC, CSIM may offer access to some of its model portfolios, SMP Program strategies and ThomasPartners Strategies to CSTC in connection with the management of trust assets. CSIM also provides trading services and proxy voting guidance to CSTC under an inter-company agreement.

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics**

#### **General**

CSIM has adopted a code of ethics (the “Code”) pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended from time to time. The Code sets forth standards of business conduct that reflect CSIM’s fiduciary obligations to its clients and requires CSIM employees to comply with all applicable laws, rules and regulations and promptly report any violation of the Code to a supervisor or CSIM’s CCO or their designee. The Code also requires CSIM’s officers, directors, employees, contractors and any person who is determined to have access to non-public information regarding any client or CSIM (“access persons”) to (i) report, and CSIM to review, personal securities transactions and securities holdings periodically, (ii) pre-clear transactions in covered securities, and (iii) confirm compliance with the provisions of the Code on a periodic basis. Covered securities do not include direct obligations of the U.S. government, high quality short-term debt instruments, investments in non-Schwab affiliated 529 college savings plans,

investment in the Schwab Fund for Charitable Giving, and shares of affiliated and non-affiliated money market funds. The Code may be changed as necessary to remain current with regulatory requirements and internal policies and procedures.

A client or prospective client may obtain a copy of CSIM's Code without charge by calling CSIM at (877) 824-5615.

### **Material Non-Public Information**

The Code prohibits access persons from disclosing portfolio transactions or any other material non-public information to anyone outside of CSIM, except as required to effect securities transactions for clients, and from using material non-public information for personal profit or to cause others to profit. Employees are also prohibited from engaging in deceptive conduct in connection with the purchase or sale of securities for client accounts.

### **Gifts and Business Entertainment**

CSIM access persons may not give or accept gifts or business entertainment that violate applicable laws or create a conflict of interest or the appearance of impropriety.

### **Participation or Interest in Client Transactions**

CSIM or Schwab may recommend that a client purchase securities of CSC, the parent company of both CSIM and Schwab. Certain Registered Funds managed by CSIM may purchase securities in an underwriting in which Schwab participates, to the extent consistent with the Investment Company Act of 1940, as amended, and the rules and regulations thereunder. Schwab, as an insurance agency, may offer to advisory clients of Schwab insurance products that offer Registered Funds managed by CSIM as part of the insurance product offerings.

CSIM has a conflict of interest because it selects ETFs and mutual funds, including Registered Funds, for various client accounts in the UMP Program, SMP Program, ThomasPartners Strategies, Windhaven Strategies and Wasmer Schroeder Strategies and also for certain funds-of-funds. Other affiliates of CSIM may buy or sell the same securities for client accounts. These are all inherent conflicts of interest within and among CSIM, Schwab, and its affiliates. CSIM mitigates these conflicts of interest through its policies and procedures, which include the evaluation of the selection and investment in ETFs and mutual funds, including Registered Funds, consistent with CSIM's fiduciary duty. Subject to Schwab's oversight as the SMP Program sponsor, the investment decision-making processes of CSIM portfolio management teams are separate and independent from Schwab.

Schwab, a related person of CSIM, is a registered broker-dealer that effects securities transactions for its brokerage customers. Schwab may act as a principal or agent in these transactions. In the normal course of the conduct of its business as a broker-dealer, Schwab may enter into purchase and sale transactions in securities that CSIM has recommended to its clients.

CSC, Schwab and CSTB may invest for the benefit of their own accounts in the same securities that CSIM recommends to its clients. These affiliates may buy or sell securities at the same time that CSIM clients are buying or selling the same security and may take positions that are the same or contrary to one that CSIM has recommended. In addition, directors, officers and employees of CSIM may buy or sell for themselves (through personal accounts or through accounts of which they are direct or indirect beneficiaries) securities that are also recommended to, or purchased or sold on behalf of, clients.

### **Personal Trading**

CSIM and its affiliates have established policies and procedures designed to prevent the exchange of information between employees

at each organization relating to securities holdings and possible trades. Additionally, the personal securities transactions of CSIM's access persons are subject to the Code, which is designed to detect and mitigate or prevent conflicts of interest and unlawful practices that may arise in connection with an access person's personal securities transactions. For example, as described above, the Code requires periodic reporting and review of personal securities transactions and securities holdings. Furthermore, the Code requires access persons to obtain prior approval from the compliance department prior to engaging in a security transaction except for certain types of transactions deemed not to present conflicts of interest with CSIM's advisory activities on behalf of its clients ("Exempted Transactions"), such as purchases pursuant to an automatic investment plan. Access persons are restricted from executing personal transactions in securities, except for Exempted Transactions, when they know or should have known at the time that there is a pending "buy" or "sell" order in the same security for any client account. Portfolio managers are subject to a blackout period of 7 calendar days for both when a security is traded, or is expected to be traded on behalf of a client account and after a security has been traded on behalf of a client. In addition, certain access persons are prohibited from realizing a profit from purchasing and selling, or selling and purchasing, the same security on a short term basis. All access persons are also restricted from executing a personal transaction in securities when the access person has material non-public information regarding the security or issuer, including affiliated money market funds. Certain personal transactions in securities may be subject to further review by CSIM's CCO or their designee.

### **Brokerage Practices**

CSIM operates separate trading groups (the "Trading Groups"). The "Equity Registered Funds Trading Group" provides trading support for equity and multi-asset Registered Funds and collective investment trusts. The "Taxable Registered Funds Trading Group" provides trading support to the taxable fixed income Registered Funds. The "Tax-Exempt Registered Funds Trading Group" provides trading support to the tax-exempt fixed income Registered Funds. The "Money Funds Trading Group" provides trading support for those Registered Funds that are money market funds and the non-U.S. fund. The Equity Registered Funds Trading Group, Taxable Registered Funds Trading Group, Tax-Exempt Registered Funds Trading Group and the Money Funds Trading Group are collectively referred to as the "Registered Funds Trading Groups." The "Multi-Asset SMA Trading Group" provides trading support for the SMP Program, Windhaven Strategies, ThomasPartners Strategies, UMP Program, SIP and CSTC. The "Taxable SMA Trading Group" provides support to taxable fixed income Wasmer Schroeder Strategies. The "Tax-Exempt SMA Trading Group" provides support to tax-exempt fixed income Wasmer Schroeder Strategies. Each Trading Group trades solely the products and strategies for which it is designated.

CSIM has established informational barriers and procedures that seek to prohibit the personnel of one Trading Group from communicating or distributing any non-public information related to the trading activities of a product or strategy it supports (including information regarding pending orders for clients), to personnel of another Trading Group, or supporting a product or strategy serviced by that Trading Group. Certain personnel on the Tax-Exempt Registered Funds Trading Group are also part of the Tax-Exempt SMA Trading Group, and are referred to as "Tax-Exempt Personnel." CSIM has adopted procedures governing the trading activities of Tax-Exempt Personnel to ensure they are not communicating or distributing any non-public information related to their trading activities of a product or strategy (including information regarding pending orders for clients) to personnel on either Trading Group that



are not involved in trading for that product or strategy. Furthermore, CSIM has established informational barriers and procedures that seek to prohibit personnel within a Trading Group from communicating or distributing any non-public information related to the trading activities of a product or strategy such personnel support (including information regarding pending orders for clients) to other personnel within the Trading Group that should not be privy to such information.

CSIM generally does not coordinate trading among Trading Groups and, therefore, will at times execute trades for one client from one Trading Group that differ from, or take the opposite side of, trades executed on behalf of another client from another Trading Group. Each Trading Group seeks to obtain best execution on all orders it originates; however, clients serviced by different Trading Groups could receive or appear to receive more favorable outcomes. As noted above, Tax-Exempt Personnel will be aware of trading for accounts serviced by the Tax-Exempt Registered Funds Trading Group and the Tax-Exempt SMA Trading Group. CSIM has adopted procedures requiring such Tax-Exempt Personnel to refrain from coordinating trading for accounts on separate Trading Groups.

CSIM does not aggregate trades or seek opportunities for cross-transactions between client accounts serviced by different Trading Groups. Accordingly, each Trading Group will generally aggregate and allocate orders only among those clients that it services and independently of the other Trading Group.

The following discusses CSIM's trading practices with respect to the Multi-Asset SMA Trading Group. A discussion of the other Trading Groups' trading practices is included in the disclosure brochures for the products and strategies they support.

### **Selecting or Recommending Broker-Dealers – Multi-Asset SMA Trading Group**

CSIM seeks to obtain the best execution for clients' portfolio transactions and will evaluate the quality and cost of services received from broker-dealers/custodians on a periodic and systematic basis. Factors evaluated include execution price, transaction fees, commissions, mark-ups and mark-downs, or brokerage fees ("Brokerage Fees"), promptness and reliability of execution, accuracy of trades, ability to place trades in difficult markets, ability to source liquidity, and confidentiality. In seeking best execution, CSIM considers whether the transaction represents the best qualitative and quantitative execution under the circumstances, which is not solely determined by the lowest brokerage fee available. Brokerage Fees are generally considered to include transaction fees, commissions, or mark-ups and mark-downs on the purchase and sale of securities. CSIM does not consider the receipt of client referrals when selecting or evaluating broker-dealers used for client transactions.

### **Soft Dollars**

CSIM generally will not enter into formal soft-dollar arrangements with brokers to obtain brokerage or research services in exchange for brokerage commissions paid by advised accounts. However, CSIM does receive various forms of eligible proprietary research that is bundled with brokerage services at no additional cost from certain of the brokers with whom CSIM executes equity or fixed income trades. These include brokers CSIM is affiliated with such as Schwab or from participation Broker/Custodian-Related Programs for certain separately managed account strategies. These services or products can typically include: company financial data and economic data (e.g., unemployment, inflation rates and GDP figures), stock quotes, last sale prices and trading volumes, research reports analyzing the performance of a particular company or stock, access to websites that contain data about various securities markets, narrowly

distributed trade magazines or technical journals covering specific industries, products, or issuers, seminars or conferences registration fees which provide substantive content relating to eligible research, discussions with research analysts or meetings with corporate executives which provide a means of obtaining oral advice on securities, markets or particular issuers, short-term custody related to effecting particular transactions and clearance and settlement of those trades, lines between the broker-dealer and order management systems operated by a third party vendor, dedicated lines between the broker-dealer and CSIM's order management system, dedicated lines providing direct dial-up service between CSIM and the trading desk at the broker-dealer, and message services used to transmit orders to broker-dealers for execution. CSIM can use research services furnished by brokers or dealers in servicing all client accounts, and not all services will necessarily be used in connection with the account that paid commissions or spreads to the broker or dealer providing such services.

CSIM does not currently cause a client to pay a higher commission in return for brokerage or research services or products to obtain research or other products or services. Nonetheless, CSIM benefits from its receipt of bundled research because it does not have to produce or pay for the research, products or services. Consequently, CSIM has an incentive to select or recommend a broker-dealer based on its interest in receiving the proprietary research or other products or services.

CSIM will sometimes purchase for clients new issues of securities in a fixed price offering. In these situations, the seller may be a member of the selling group that will, in addition to selling securities, provide CSIM with research services, in accordance with applicable rules and regulations permitting these types of arrangements. Generally, the seller will provide research "credits" in these situations at a rate that is higher than that which is available for typical secondary market transactions.

CSIM has an internal committee to oversee trading practices, and has established policies and procedures applicable to best execution, soft dollars and other client commissions practices. The policies and procedures require CSIM portfolio management to obtain approval from that committee for certain arrangements with a broker to obtain a research product or brokerage services. CSIM is not obligated to direct client transactions to broker-dealers that provide research information. During its last fiscal year, CSIM did not pay commissions to a particular broker-dealer in return for brokerage and research services but, as noted above, CSIM may have executed through "full service" broker dealers at a rate higher than might otherwise be available.

### **Directed Brokerage – ThomasPartners Strategies**

CSIM does not recommend, request, require or permit any ThomasPartners Strategies client to direct CSIM to execute transactions through a specified broker-dealer.

### **Trading Process**

Trade orders for the different strategies CSIM manages (e.g., the Registered Funds, collective investment trusts, Windhaven Strategies, and ThomasPartners Strategies) are generated by each strategy's portfolio management team, on various systems, and may utilize one or more trading strategies (e.g., price at the time of order arrival, market closing price, volume weighted average price over some specified period). Certain trading strategies place relatively greater emphasis on timing, others on speed of execution, while others place greater emphasis on reducing market impact cost. As a result, the speed of trade order fulfillment and the prices achieved for the same security are likely to vary in different programs or strategies and among Trading Groups. Certain strategies or different Trading Groups, which include accounts in programs with different

fee structures, may trade in advance of other strategies or their trades could be completed more quickly, and, in these cases, could achieve different execution on the same or similar securities. In addition, market, regulatory, and/or country limitations (especially in the case of emerging markets) may contribute to differences in security prices.

Generally, for strategies traded by the Multi-Asset SMA Trading Group, CSIM typically performs maintenance trades and strategy trades. Maintenance trades reflect individual activity in a client account, such as initial contributions, additional account contributions, or raising cash for withdrawals (“Maintenance Trades”). Strategy trades impact nearly all client accounts within a strategy and are directed by that strategy’s portfolio management team (“Strategy Trades”).

Clients in the SMP Program and SIP and clients of CSTC, direct CSIM, CSIA and CSTC, as applicable, to use Schwab to effect securities trades for their account. Large share trade orders can occur when there are large daily flows into or out of the program, CSIM reallocates/rebalances clients’ accounts, or CSIM replaces an ETF with another ETF across all applicable client accounts. For these large trade orders, Schwab may solicit bids from other broker-dealers that may act as principal in the transaction, meaning that the other broker-dealer executes the trade in an account in which the broker-dealer has a beneficial ownership interest or may execute a riskless-principal trade where the other broker-dealer buys (sells) a security from (to) a third party (e.g., another customer or broker-dealer).

#### **Aggregation and Allocation of Securities Transactions – Multi-Asset SMA Trading Group**

For the Multi-Asset SMA Trading Group, CSIM will not aggregate trades unless it believes that aggregation is consistent with its duty to seek best execution for affected clients in the aggregate and consistent with the terms of the client’s investment advisory agreement. If the Multi-Asset SMA Trading Group aggregates trades, it can aggregate securities sales or purchases across the strategies and products for which it provides trading services. If trades are not aggregated, clients could pay prices for the transactions that are different from what they might have paid had the trades been aggregated. When aggregating, CSIM can, consistent with its policies and procedures and fiduciary duties, include employee accounts in an aggregated order. CSIM can exclude from aggregation those client accounts that have relevant restrictions or client activity (e.g., withdrawals pending). In addition, CSIM has discretion not to aggregate certain securities in client accounts that could at times be executed through aggregation (e.g., individual bonds). Trade allocation procedures for the Multi-Asset SMA Trading Group are reasonably designed to provide that trade allocations are timely, that no set of trade allocations is accomplished to the unfair advantage of one client over another, and that over time client accounts are treated fairly and equitably, even though a specific trade may have the effect of benefiting one account over another when viewed in isolation.

For ThomasPartners Strategies accounts, nearly all Maintenance Trades are aggregated as part of one or more blocks, but CSIM may also, for Direct Clients, trade securities on an individual basis. CSIM may decide either to send the blocks to the client’s custodian for execution or step out the block to an executing broker as described further below. The method of execution for Maintenance Trades will depend on a variety of factors and will be at the discretion of the Multi-Asset SMA Trade Desk in seeking best execution. Nearly all Strategy Trades are aggregated as part of a block, where permissible, and sent to an executing broker-dealer that accommodates step-out trading.

For ThomasPartners Strategies, certain custodians have restrictions on accommodating step-out trades and as a result, each such respective sponsor’s/custodian’s trade will occur as a separate block in the trade rotation. If trades are not aggregated, clients may pay prices for the transactions that are different from what they may have paid had the trades been aggregated. When aggregating, CSIM may, consistent with its policies and procedures and fiduciary duties, include proprietary and/or employee accounts in an aggregated order. CSIM may exclude from aggregation those client accounts that have relevant restrictions or client activity (e.g., withdrawals pending). In addition, certain securities in client accounts may at times be executed through aggregation, but may not be aggregated at CSIM’s discretion (e.g., individual bonds).

Trading orders that can be only partially filled are generally allocated on a pro rata basis or allocated on some other basis consistent with the goal of giving all clients equitable opportunities over time. CSIM could elect to execute trades in a single aggregated trade over multiple days due to volume, liquidity, or other factors. This could include an aggregated trade that is executed over multiple days, where at the end of each day, whatever portion of the trade has been executed is allocated to client accounts, or it could include an aggregated trade that is executed over multiple days, where the full order is held and not allocated to client accounts until fully executed on the final day. Client accounts will receive the average price for those aggregated trades allocated to their account(s), whether at the end of each day of the trade or when the trade is fully completed. There can be some variations in allocations based on account size and security price due to full share allocation methodology. In some cases, CSIM could execute a trade order at the same time it is executing a different trade order for the same security, with the same or a different broker, to meet account or strategy-specific requirements, in which case the two trades would be treated as distinct trades and may not be subject to pro rata allocation.

When opportunities are limited (collectively, “limited opportunities”), CSIM will generally consider the needs of clients across programs. When it is not practicable to allocate an opportunity across all eligible accounts, CSIM uses various methods to give all accounts using the same trading strategy equitable opportunities for allocation over time. This would result in a limited opportunity being allocated to only some of the eligible accounts.

#### **“Step-Out” Trades – ThomasPartners Strategies**

For ThomasPartners Strategies, CSIM places a significant amount of Strategy Trades with selected broker-dealers other than the program sponsor or client-selected broker-dealer/custodian to the extent that a “step-out” trade from the program sponsor or client selected broker-dealer/custodian will seek to achieve best execution in aggregate over time. CSIM also places step-out Maintenance Trades to the extent that a “step-out” trade will, in CSIM’s opinion, achieve best execution in aggregate over time. Certain program sponsors may have restrictions on accommodating step-out trades which may affect execution quality.

#### **Program Fees – ThomasPartners Strategies**

For Wrap Fee Program clients and Broker/Cutodian-Related Program clients, the fee does not cover Brokerage Fees charged by the step-out brokers, which are fees that are in addition to their wrap fees. This is because clients participating in a Wrap Fee Program pay a single, all-inclusive fee to cover any Brokerage Fees on trades executed by the sponsor, but does not cover Brokerage Fees charged by other broker-dealers. For step-out trades, Brokerage Fees are included in the price of the security and may not be shown separately on a confirmation or statement. The wrap fee or all-inclusive fee described above will not be reduced or offset by these Brokerage Fees. Instead, any additional Brokerage Fees will

reduce the overall return of a Wrap Fee Program Client's account. Regardless of embedded Brokerage Fees, it is the responsibility of CSIM to determine whether the program sponsor or step-out broker can provide best overall execution of any given trade. In addition, Schwab receives remuneration such as liquidity or order flow rebates from a market or firm to which some orders are routed, but its trading practices are designed to achieve best execution.

### **Trade Rotation – Multi-Asset SMA Trading Group**

For the Multi-Asset SMA Trading Group, CSIM has a trade rotation process for Maintenance Trades that it uses among client accounts within a single program or across programs (e.g., within or across the model portfolios, Windhaven Strategies, or ThomasPartners Strategies) to prevent any client from being systematically disadvantaged. For Strategy Trades, if more than one program (e.g., the UMP Program, SMP Program and the Windhaven Strategies) wants to trade securities in the same direction that are similar or the same, the Multi-Asset SMA Trading Group will conduct an analysis and then escalate the findings for further instructions on how to proceed with the trades. Trades done on the same day or on different days are not guaranteed to receive the same trading price. CSIM will review the Multi-Asset SMA Trading Group's rotation procedures at least annually to confirm that they are adequate to prevent any client from being systematically disadvantaged.

### **Trade Errors**

CSIM maintains policies and procedures that address the identification and correction of trade errors. On those occasions when such an error does occur, CSIM will use reasonable efforts to identify and resolve errors as promptly as possible. CSIM will address and resolve errors on a case-by-case basis, in its discretion, based on the facts and circumstances. CSIM is not obligated to follow any single method of resolving errors but will seek to treat all clients fairly in the resolution of trade errors.

### **Model Portfolios**

In model portfolio arrangements with unaffiliated Sponsors, CSIM is ultimately not responsible for determining which securities to buy or sell and is not responsible for executing such trades. CSIM also provides model portfolios to its affiliate, CSTC. CSIM is not responsible for determining which securities to buy or sell for CSTC; however, the Multi-Asset SMA Trading Group is responsible for executing trades as instructed by CSTC. The unaffiliated Sponsors may be buying or selling the same securities that CSIM is buying or selling on behalf of its own clients or its affiliates' clients. As a result, these unaffiliated Sponsors may be in the market at or near the same time as CSIM, which may have an adverse impact on the price CSIM is able to obtain for certain securities for its own clients or its affiliates' clients and may likewise have an adverse impact on the price such unaffiliated Sponsor is able to obtain for such securities.

In connection with model portfolio program Sponsors, CSIM utilizes a trade rotation policy that seeks to execute securities transactions for CSIM's clients and disseminate model portfolios to CSTC and unaffiliated Sponsors in a fair and equitable manner. CSIM can communicate model changes to CSTC and unaffiliated Sponsors in a variety of ways depending on the investment strategy, the advisory program parameters and the advisory agreements. For certain investment strategies, CSIM can provide notification of model portfolio changes on a delayed basis as compared to placing trade orders for CSIM's clients. As a result, certain unaffiliated Sponsors or CSTC can receive notification of model portfolio changes after CSIM has executed at least a portion of trade orders on behalf of its clients. It should be noted that certain portfolio securities will overlap among investment strategies, including those used by CSTC and

unaffiliated Sponsors, and orders for such securities may be placed by the unaffiliated Sponsors' clients concurrently or at a different time that orders placed by the Multi-Asset SMA Trading Group or with the same brokers utilized by the Multi-Asset SMA Trading Group.

### **Review of Accounts**

CSIM periodically reviews client accounts, including Registered Funds, utilizing product-specific review processes. Accordingly, account review may differ across client and product types. CSIM's portfolio managers are generally responsible for the daily management and review of the client accounts under their supervision. Such reviews examine compliance with client's investment objectives and account guidelines, account performance and CSIM's current investment process and practices. Below is a more detailed description of account reviews conducted by CSIM.

Direct Client accounts are typically reviewed on at least an annual basis. The reviews are performed by Client Portfolio Managers and/or the Client Service team members and generally focus on the client's personal financial situation, liquidity needs, and comfort with risk level; a review of account restrictions; an overview of the client's current portfolio; and any questions the client may have on their accounts and strategies. For clients who do not sign a CSIM investment advisory agreement for the ThomasPartners Strategies, account reviews would typically be performed by personnel of the sub-adviser or Wrap Fee Program sponsor. Reviews of accounts custodied at Schwab may be assisted by Schwab personnel. Direct Clients generally receive quarterly written reports, which include the client's investment positions, the performance of their ThomasPartners Strategies account(s), and quarterly newsletter. For certain sub-advised relationships, CSIM may send client statements and other regulatory material to the primary adviser in the client relationship or directly to the client.

### **Client Referrals and Other Compensation**

CSIM may recommend that Windhaven Strategies and ThomasPartners Strategies clients establish brokerage accounts with Schwab, an affiliate registered broker-dealer, to maintain custody of clients' assets and to effect trades for their accounts.

Certain employees of CSIM's affiliates are compensated based on net sales in the Windhaven Strategies and ThomasPartners Strategies. Consequently, these employees may have an incentive to recommend the Windhaven Strategies and ThomasPartners Strategies over other types of accounts.

CSIM may contract with unaffiliated independent solicitors to obtain new Windhaven Strategies and ThomasPartners Strategies clients. Client fees are generally not higher than CSIM's standard Windhaven Strategies and ThomasPartners Strategies fees because of payment to such a solicitor.

Schwab provides CSIM, its affiliate, with access to its institutional trading and operations services, which are typically not available to Schwab clients. Schwab's services include research, brokerage, custody, and access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment. Schwab also makes available to CSIM other products and services that benefit CSIM but may not benefit clients' accounts. Some of these other products and services assist CSIM in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information, and other market data; facilitate



payment of CSIM's Fees from its clients' accounts in the Windhaven Strategies and ThomasPartners Strategies; and assist with back-office support, recordkeeping, and client reporting. Many of these services generally may be used to service all or a substantial number of Wasmer Schroder Strategies, Windhaven Strategies, ThomasPartners Strategies, UMP Program and SMP Program client accounts, including accounts not maintained at Schwab.

Schwab may also provide CSIM with other services intended to help CSIM manage and further develop its business. These services may include consulting, publications and presentations on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange, and/or pay for these types of services to CSIM by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to CSIM.

### **Other Broker/Custodian-Related Programs**

For the ThomasPartners Strategies, CSIM participates in a number of Broker/Custodian-Related Programs sponsored by unaffiliated firms, including programs from TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"), Morgan Stanley Smith Barney LLC, and the Fidelity Wealth Advisor Solutions<sup>®</sup> program. These Broker/Custodian-Related Programs and their affiliates provide CSIM with certain economic benefits and access to products and services not typically available to retail clients as a result of CSIM's participation in their programs. These benefits may include the following products and services:

- access to client account data (such as program client statements and trade confirmations);
- research, pricing and other market data;
- equity trade fee waivers;
- consulting services;
- access to a trading desk serving program clients;
- access to block trading (which provides the ability to bundle securities transactions for execution and then allocate the appropriate shares to program client accounts);
- the ability to have advisory fees deducted directly from program client accounts;
- access to an electronic communications network for client order entry and account information;
- access to mutual funds with no transaction fees and to certain institutional money managers;
- assistance with back-office functions, recordkeeping, and program client reporting; and
- discounts on compliance, marketing, research, technology, and practice management products.

Some of the products and services made available by these custodians through their program benefit program clients; some products and services may benefit CSIM but not the clients. These products or services may assist CSIM in managing and administering client accounts, including accounts not maintained at the custodian. As part of its fiduciary duties to clients, CSIM strives at all times to put the interests of its clients first.

### **Client Referrals from Solicitors**

CSIM may contract with independent solicitors and its affiliate, Schwab (and/or Schwab affiliates), to obtain new ThomasPartners Strategies and Windhaven Strategies clients. For the ThomasPartners Strategies, there are currently two arrangements where terminated solicitors are paid an ongoing fee for client

referrals. No new clients are referred to the ThomasPartners Strategies under these terminated solicitation arrangements. For one solicitor arrangement, client fees in the majority of these accounts are higher than the ThomasPartners Strategy standard fee because of payments to this solicitor.

### **TD Ameritrade Solicitation Arrangement**

As a result of past participation in TD Ameritrade's AdvisorDirect program (the "referral program") for ThomasPartners Strategies, CSIM received client referrals from TD Ameritrade. TD Ameritrade established the referral program as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise CSIM and has no responsibility for CSIM's management of client portfolios or CSIM's other advice or services. CSIM is not participating in the referral program for purposes of receiving client referrals, but it is obligated to pay TD Ameritrade an ongoing fee for each successful client relationship established as a result of past referrals. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to CSIM ("Solicitation Fee"). CSIM will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by CSIM from any of a referred client's family members who hired CSIM on the recommendation of such referred client. CSIM will not charge clients referred to it through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its other clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients.

### **Fidelity Brokerage Services LLC, FMR LLC, and Strategic Advisers, Inc.**

CSIM participates in the Fidelity Wealth Advisor Solutions<sup>®</sup> program (the "WAS Program"), through which CSIM receives ThomasPartners Strategy referrals from Strategic Advisers, Inc. ("SAI"), a registered investment adviser and subsidiary of FMR LLC, the parent company of Fidelity Investments. CSIM is independent and not affiliated with SAI or FMR LLC. SAI does not supervise or control CSIM, and SAI has no responsibility or oversight of CSIM's provision of ThomasPartners Strategies portfolio management or other advisory services. There are two versions of this program, referral fee based and non-referral fee based. Currently, CSIM has no clients in the referral fee-based program and does not receive any new referrals in either program.

### **Custody**

For those ThomasPartners Strategies clients that have selected Schwab as custodian for their account, Schwab, on at least a quarterly basis, will send client account statements detailing account positions and activities during the preceding period.

A portion of client accounts are held in custody by unaffiliated broker-dealers or banks. These unaffiliated broker-dealers or banks will also send client account statements on at least a quarterly basis.

Clients should carefully review these statements, and should compare these statements to any account information provided by CSIM, as the information provided in CSIM's quarterly reports for Direct Clients may vary based on accounting procedures, reporting dates, or valuation methodologies.

Clients may elect to custody their accounts at any custodian of their choosing, subject to the acceptance of CSIM. However, the selection of a custodian may or may not put a client at a disadvantage for getting best execution for their trades.

## Investment Discretion

When clients choose the ThomasPartners Strategies, they sign the custodian's applicable new account paperwork giving CSIM authorization to make trades in their account. This investment management discretion is limited to the purchase and sale of securities and investment of cash, and does not include discretion for distributions of cash or securities (except for limited grants of authority to facilitate withdrawal of money and direct payments to third parties according to clients' instructions). Clients may impose reasonable restrictions on the management of their account, subject to the acceptance of CSIM.

Investments will not exceed the client's funds in the account and a margin balance will not be maintained, unless allowed by CSIM.

Subject to meeting minimum security gain/loss thresholds and CSIM's approval, CSIM can accommodate client requested tax gain/loss harvesting. CSIM reserves the right to decline the request. CSIM will harvest gains and/or losses at the security level only and will not take tax lots into consideration. See the "Tax Gain/Loss Harvesting Risks" section for more details on the risks associated with client tax gain/loss harvesting for the ThomasPartners Strategies.

## Voting Client Securities

The following is a summary of CSIM's Proxy Voting Policy (the "Proxy Policy") concerning proxies voted by CSIM on behalf of each investment advisory client who delegates voting authority to CSIM ("Delegating Client"). The Proxy Policy may be changed as necessary to comply with regulatory requirements and internal policies and procedures. An internal proxy committee (the "Proxy Committee") exercises and documents CSIM's responsibility with regard to voting of client proxies.

To assist CSIM and the overall proxy voting process, CSIM has elected to retain an unaffiliated third party proxy voting service as an expert in the proxy voting and corporate governance area (the "Service"). The services provided by the Service include in-depth research, global issuer analysis and voting recommendations, as well as vote execution, reporting and record keeping. CSIM may retain additional experts in the proxy voting and corporate governance area in the future.

The Proxy Committee has the ultimate responsibility for developing the Proxy Policy to determine how to vote the shares. CSIM's Investment Stewardship Team has the primary responsibility to oversee that voting is carried out consistent with the Proxy Policy. However, portfolio managers to certain fundamentally managed separate account clients, including ThomasPartners Strategies portfolio managers, maintain full discretion to vote the shares held by these clients based on their analysis of the economic impact of the ballot items. Therefore, shares for these separate account clients may be voted differently from those voted solely under the guidance of the Investment Stewardship Team.

As a leading asset manager, it is CSIM's responsibility to use its proxy votes to encourage transparency and corporate governance structures that it believes protect or promote shareholder value. CSIM takes a long-term, measured approach to investment stewardship. CSIM's client-first philosophy drives all of its efforts, including its approach to decision making. In the investment stewardship context, that unfolds through CSIM's efforts to appropriately manage risk by encouraging transparency and focusing on those corporate governance structures that will help protect or promote shareholder value. In general, CSIM believes corporate directors, as the elected representatives of all shareholders, are best

positioned to oversee the management of their companies. Accordingly, CSIM typically supports a board of directors' and management's recommendations on proxy matters but may not always do so.

CSIM invests on behalf of its clients in companies domiciled all over the world. Since corporate governance standards and best practices differ by country and jurisdiction, the market context is taken into account in the analysis of proposals. Furthermore, there are instances where CSIM may determine that voting is not in the best interests of its Delegating Clients (typically due to costs or to trading restrictions) and will refrain from submitting votes.

The Proxy Committee reviews the Service's written proxy voting guidelines (the "Service's Proxy Guidelines") with input from the Investment Stewardship Team. CSIM generally utilizes the Service's Proxy Guidelines to vote. However, CSIM may create custom voting guidelines where its view does not align with the Service's Proxy Guidelines. Further, the Proxy Committee has delegated voting decisions on particular types of votes to the Investment Stewardship Team, and the Investment Stewardship Team may vote differently than the Service's Proxy Guidelines suggest, to the extent they believe it is in the best interest of a Delegating Client. In addition, securities held in fundamentally managed separate accounts will generally be voted on a case-by-case basis by an appropriate portfolio manager for the account.

CSIM has adopted proxy voting principles on key proposals, including election of directors, ratification of auditors, classified boards, majority/cumulative voting, proxy access, independent chair, executive compensation and frequency, equity compensation plans, employee stock purchase plans, re-price/exchange option plans, shareholder rights plans, right to call special meetings, right to act by written consent, supermajority voting, increase in authorized common shares, preferred shares, mergers and acquisitions, environmental and social proposals, and political contributions.

CSIM maintains the following practices that seek to prevent undue influence on its proxy voting activity. Such influence might arise from any relationship between the company holding the proxy (or any shareholder or board member of the company) and CSIM, CSIM's affiliates, a client or client's affiliate, or a CSIM employee.

From time to time, client accounts may hold securities issued by a Registered Fund advised by CSIM or securities issued by CSC, CSIM's parent company. Because CSIM has an inherent conflict of interest with respect to such proxies, CSIM will "echo vote" proxies solicited by a Registered Fund or by CSC, unless otherwise required by law. When required by law or applicable exemptive order, CSIM will also "echo vote" proxies of an unaffiliated mutual fund or ETF. Echo voting means that proxies for CSIM clients will be voted for and against management in the same proportion as proxies are voted by all of the other shareholders of the relevant issuer. Echo voting allows shares held by CSIM to count towards any necessary quorum without otherwise influencing the outcome of a proxy measure.

Where the Proxy Committee has delegated an item to the Investment Stewardship Team or a portfolio manager of a fundamentally managed separate account, CSIM has taken certain steps to mitigate perceived or potential conflicts of interest, including, but not limited to, the following: (i) maintaining a reporting structure that separates employees with voting authority from those with sales or business relationship authority; (ii) reporting of potential conflicts to the Proxy Committee to review the conflict and provide final vote determination; and (iii) defaulting to CSIM's Proxy Policy.

In all cases, proxy issues that present material conflicts of interest between CSIM and/or any of its affiliates, and its clients, will be delegated to the Service to be voted in accordance with CSIM's Proxy Policy which is set each year based on governance criteria and not influenced by any individual issuer or ballot item.



Voting proxies with respect to shares of foreign securities may involve significantly greater effort and corresponding cost than voting proxies with respect to domestic securities due to the variety of regulatory schemes and corporate practices in foreign countries with respect to proxy voting. In consideration of the foregoing issues, the Service uses its best-efforts to vote foreign proxies. As part of its ongoing oversight, the Proxy Committee will monitor the voting of foreign proxies to determine whether all reasonable steps are taken to vote foreign proxies. If the Proxy Committee determines that the cost associated with the attempt to vote outweighs the potential benefits Delegating Clients may derive from voting, the Proxy Committee may decide not to attempt to vote. To preserve liquidity and freedom of action, CSIM will not vote proxies solicited by foreign issuers in countries that impose restrictions on the sale of securities for a period of time before and/or after a shareholder meeting.

Where CSIM has delegated day-to-day investment management responsibilities for a client account to a sub-adviser, CSIM may (but generally does not) delegate proxy voting responsibility to the sub-adviser. However, each sub-adviser to whom proxy voting responsibility has been delegated will be required to review all proxy solicitation material and to exercise the voting rights associated with the securities it has been allocated in the best interest of such Delegating Client. Prior to delegating the proxy voting responsibility, CSIM will review each sub-adviser's proxy voting policy to determine whether it believes each sub-adviser's proxy voting policy is generally consistent with the maximization of the value of CSIM's clients' investments by protecting the long term best interests of a company's shareholders.

Additional information about CSIM's proxy voting practices with respect to the Registered Funds is included in their respective prospectuses and statements of additional information. A client may obtain a copy of CSIM's Proxy Policy, or information regarding how his or her securities were voted, by calling CSIM at 617-960-5300.

Delegating Clients may not direct voting in a particular solicitation. Clients wishing to retain the ability to vote proxies must submit a separate form to their custodian.

## **Financial Information**

CSIM does not require nor solicit prepayment of investment advisory fees from its clients. CSIM (and historically CSIA, Windhaven Investment Management, Inc. and ThomasPartners, Inc.) is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients, nor has CSIM been the subject of a bankruptcy petition at any time during the past ten years.