Schwab Equity Ratings International (the “Ratings”) are assigned to approximately 4,000 stocks traded in approximately 25 to 30 foreign equity markets. Stocks are rated relative to other stocks in the country where the company is headquartered, which is generally the country where the stock is traded and the company conducts its primary business operations. Some international stocks may trade in countries other than the country in which they are headquartered. Stocks are rated using a scale of “A,” “B,” “C,” “D,” and “F.” Schwab’s research outlook is that A-rated stocks, on average, will strongly outperform, and F-rated stocks, on average, will strongly underperform, the average stock in the equities market of the country where the company is headquartered and conducts its business operations, over the next 12 months. The explanation and table on page 2 are included to assist you in using Schwab Equity Ratings International, as one component of your research, to evaluate stocks and investment opportunities.

Schwab Equity Ratings International are based upon a disciplined, systematic approach that evaluates each stock on the basis of a wide variety of investment criteria from four broad perspectives: Fundamentals, Valuation, Momentum, and Risk. This approach attempts to gauge investor expectations, since stock prices tend to move in the same direction as changes in investor expectations. Stocks with low and potentially improving investor expectations tend to receive the best Ratings (“A” or “B” Ratings), while stocks with high and potentially falling investor expectations tend to receive the worst Ratings (“D” or “F” Ratings). From time to time, Schwab may update the Schwab Equity Ratings International methodology. For more on the components of Schwab Equity Ratings International, see Using Schwab Equity Ratings International Component Grades on page 4.

Percentile Rankings Explanation

Each of the approximately 4,000 stocks in the Schwab Equity Ratings International universe is given a composite score derived from several research factors. The assignment of a final Rating depends on how well a given stock scores on each of the factors and then how that stock’s composite score ranks against all other rated stocks within the country where the company is headquartered and conducts its business operations. The result is a stock’s within-country, or “country-neutral,” percentile ranking. The lowest percentile rankings represent the best scores and correspond to the best Ratings grades. For example, in a country with 600 rated stocks, the top six stocks would receive a percentile ranking of 1 and the bottom six stocks would receive a percentile ranking of 100. Stocks ranked in percentile groups 1–10 (the 60 best-ranked stocks) are rated “A” and those in percentile groups 11–30 (the 120 next best-ranked stocks) are rated “B.” The table on page 2 illustrates the percentile rankings and approximate Schwab Equity Ratings International grade distributions.
Who designed the Schwab Equity Ratings International® methodology?

The Schwab Center for Financial Research (“SCFR”) designed the methodology used to create Schwab Equity Ratings International. The SCFR team has decades of collective experience delivering stock selection models to institutional investors, and is focused on adapting its sophisticated research to the needs of Schwab's individual investors. SCFR supports Schwab's investment advice on individual equities, with an emphasis on producing objective, relevant, and useful research for Schwab’s individual investors.

### Schwab Equity Ratings International Distribution

<table>
<thead>
<tr>
<th>Schwab Equity Rating International</th>
<th>Percentile Ranking Distribution Within Country</th>
<th>Schwab Equity Ratings International Distribution Within Country</th>
<th>12-Month Return Outlook</th>
<th>General Buy/Hold/Sell Guidance*</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1–10</td>
<td>Top 10%</td>
<td>Strongly Outperform</td>
<td>Buy</td>
</tr>
<tr>
<td>B</td>
<td>11–30</td>
<td>Next 20%</td>
<td>Outperform</td>
<td>Buy</td>
</tr>
<tr>
<td>C</td>
<td>31–70</td>
<td>Next 40%</td>
<td>Marketperform</td>
<td>Hold</td>
</tr>
<tr>
<td>D</td>
<td>71–90</td>
<td>Next 20%</td>
<td>Underperform</td>
<td>Sell</td>
</tr>
<tr>
<td>F</td>
<td>91–100</td>
<td>Bottom 10%</td>
<td>Strongly Underperform</td>
<td>Sell</td>
</tr>
</tbody>
</table>

*The general buy/hold/sell guidance is relative to other rated equities only. Before considering whether to take any action, an investor should consider whether international equities generally are performing well in comparison to other asset classes and whether other equities in the same region, country, sector, market capitalization group, or style category with the same or better rating may be more appropriate.

### Descriptions for Nonrated Stocks

<table>
<thead>
<tr>
<th>Category</th>
<th>Definition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>NR</td>
<td>Not Rated</td>
<td>Schwab has decided not to publish a rating for this stock due to unusual or extraordinary business circumstances related to this company. Although Schwab generally does not monitor C-, D-, and F-rated stocks for unusual or extraordinary business circumstances, from time to time, a rating of NR may appear for a particular stock.</td>
</tr>
<tr>
<td>NC</td>
<td>Not Covered</td>
<td>This stock is not currently in the Schwab Equity Ratings International universe or is prohibited from coverage for regulatory reasons.</td>
</tr>
</tbody>
</table>
**Investment Ratings Explanation**

**“A” Rating (Strongly Outperform):** If an investor is looking to add a stock to his or her portfolio, A-rated stocks may be the best candidates for consideration.

**“B” Rating (Outperform):** An investor looking to add a stock to his or her portfolio should also consider a B-rated stock, although preference should be given to A-rated stocks.

**“C” Rating (Marketperform):** An investor would not usually consider a C-rated stock for purchase. An investor that has a C-rated stock in his or her portfolio should consider continuing to hold the stock, and might monitor the stock’s ongoing performance and compare the potential benefits of owning a stock with a higher rating.

**“D” Rating (Underperform):** An investor holding a D-rated stock should consider whether it is appropriate to continue to hold that stock in his or her portfolio. An investor would not usually consider a D-rated stock for purchase.

**“F” Rating (Strongly Underperform):** An investor holding an F-rated stock should consider whether it is appropriate to eliminate that stock from his or her portfolio. An investor would not usually consider an F-rated stock for purchase.

**About Schwab Equity Ratings International® Component Grades**

**Fundamentals:** Stocks with superior Fundamentals grades may have the potential for price appreciation, as investors perceive that these companies have the financial strength to potentially grow earnings faster than the average stock. The Fundamentals grade underlying the Schwab Equity Ratings International grade is based on a number of operating performance measures derived from recent financial statement data. Stocks with attributes such as high profitability, quality earnings, and well-managed balance sheets tend to have better Fundamentals grades.

**Valuation:** Stocks with superior Valuation grades may have the potential for price appreciation as investors perceive that the current stock prices of these companies are too low relative to measures of investment value. The Valuation grade underlying the Schwab Equity Ratings International grade is based on a number of value-oriented investment criteria. From a valuation ratio perspective, stocks with attributes such as high levels of sales, income, and cash returned to shareholders, relative to the stock's price, tend to have better Valuation grades.

**Momentum:** Stocks with superior Momentum grades may have the potential for price appreciation as investors become more aware of these companies' improving short-term performance prospects. The Momentum grade underlying the Schwab Equity Ratings International grade is based on several measures of short-term changes in investor expectations. Stocks with attributes such as improving analysts' earnings forecasts and strong price performance tend to have better Momentum grades.

**Risk:** Stocks with superior Risk grades may have the potential for price appreciation as investors perceive that these companies offer an attractive risk-return tradeoff. The Risk grade underlying the Schwab Equity Ratings International grade is based on diverse measures of investment risk. Stocks with strong positions in their product markets and those more widely followed by brokerage firm analysts tend to have better Risk grades.
Using Schwab Equity Ratings International®
Component Grades

The component grades should not be used alone in making investment decisions, but can be used to identify top-ranked stocks with particular investment characteristics (e.g., low-risk, high-momentum).

Each component of Schwab Equity Ratings International receives a letter grade (“A,” “B,” “C,” “D,” or “F”). Component grades are not precisely equivalent to Schwab Equity Ratings International letter grades, but are instead intended to convey an overall picture of a stock’s relative standing on the measures represented by that component. One approach to characterizing the component letter grades might be as follows:

<table>
<thead>
<tr>
<th>Component Grade</th>
<th>Investment Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Superior</td>
</tr>
<tr>
<td>B</td>
<td>Above Average</td>
</tr>
<tr>
<td>C</td>
<td>Average</td>
</tr>
<tr>
<td>D</td>
<td>Below Average</td>
</tr>
<tr>
<td>F</td>
<td>Poor</td>
</tr>
</tbody>
</table>

Special Considerations

What are some special considerations when using the systematic approach of Schwab Equity Ratings International?

Consider the following:

- The quality of the ratings depends on the accuracy of financial data provided by third parties, including companies rated through the approach.

- Any stock selection discipline has its limitations. Given that systematic stock selection approaches cannot capture all the dynamics that affect individual stock returns, Schwab Equity Ratings International may not capture more subjective, qualitative influences on risk and return, such as management changes and pending lawsuits. Furthermore, the ratings may not reflect the possible impact of late-breaking news. Thus, it is important to conduct additional research prior to making a trading decision.

- Schwab Equity Ratings International are generally updated weekly, with the updated ratings published prior to Monday mornings (U.S. time). As a result, ratings may not reflect the possible impact of late-breaking news that has occurred during the current week. Again, investors should always check the news prior to making a trading decision.

- The approach is intended to support long-term, diversified investing and is not appropriate for short-term trading strategies.

- Schwab Equity Ratings International, percentile rankings, and the general guidance are not personal recommendations for any particular investor or client and do not take into account the financial, investment, or other objectives or needs of, and may not be suitable for, any particular investor or client. Before buying, investors and clients should consider whether the investment is suitable for themselves and their portfolio.
Important Disclosures

International investments involve additional risks, which include differences in financial accounting standards, currency fluctuations, political instability, foreign taxes and regulations, and the potential for illiquid markets. Investing in emerging markets may accentuate these risks.

Most of the securities rated by Schwab Equity Ratings International are not registered for offer or sale in the United States. As a result, although you may use Schwab Equity Ratings International to make your own self-directed investment decisions and place your order through Schwab, Schwab representatives are only able to recommend the purchase of shares of international companies which trade on U.S. exchanges as American Depositary Receipts (ADRs). Schwab client service specialists may recommend the continued holding, or sale, of any foreign security.

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Schwab Equity Ratings International utilizes third-party data in the calculation of a rating. While Schwab believes such third-party information is reliable, we do not guarantee its accuracy, timeliness, or completeness. Schwab Equity Ratings International are generally updated weekly, so you should review and consider any recent market or company news before taking any action.

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Stocks may go down as well as up, and investors (including clients) may lose money, including their original investment. Past history is no indication of future performance, and returns are not guaranteed.

For individualized advice, please contact Schwab at 1-877-284-9817.

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CC1598990 (0118-7ZBF) SL330364INTL-D0 (01/16)
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