



**The following disclosure documents are provided for Schwab Intelligent Portfolios®:**

**Charles Schwab & Co., Inc.**

- **Schwab Intelligent Portfolios Disclosure Brochure**

**Charles Schwab Investment Advisory, Inc.**

- **Charles Schwab Investment Advisory, Inc. Disclosure Brochure for Schwab Intelligent Portfolios**
- **Charles Schwab Investment Advisory, Inc. Team Brochure Supplement for Schwab Intelligent Portfolios**

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**Charles Schwab & Co., Inc. Schwab Intelligent Portfolios® Disclosure Brochure**

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This wrap fee program brochure provides information about the qualifications and business practices of Charles Schwab & Co., Inc. ("Schwab"). If you have any questions about the contents of this brochure, please contact us at the phone number above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Schwab's description of itself in this brochure as a registered investment advisor does not imply a certain level of skill or training on the part of Schwab or its representatives. Additional information about Schwab is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Advisory Business**

Schwab Intelligent Portfolios® is an online investment advisory program (the “SIP Program” or the “Program”) sponsored by Charles Schwab & Co., Inc. (“Schwab” or “we”). Schwab has been registered as an investment adviser under the Investment Advisers Act of 1940, as amended, since July 24, 1987.

Schwab is also a wholly owned subsidiary of The Charles Schwab Corporation (“CSCorp”), a Delaware corporation that is publicly traded and listed on the New York Stock Exchange (symbol: SCHW). The Program is available exclusively to clients who open or maintain brokerage accounts at Schwab. Schwab began serving as the Program sponsor on March 30, 2018. Previously, Schwab affiliate Schwab Wealth Investment Advisory, Inc. (“SWIA”), another wholly owned subsidiary of CSCorp, served as the Program sponsor. The “Algorithm” and the various parameters that help determine asset allocations and security selection in the Program—all defined and/or described below—have not changed as a direct result of the change in Program sponsorship.

## **Services, Fees and Compensation**

### **Services**

Schwab Intelligent Portfolios provides automated investment advisory services to clients with at least \$5,000 to invest. Clients will receive a diversified portfolio composed of exchange-traded funds (ETFs), as well as an FDIC-insured cash allocation (the “Cash Allocation”) that is based on the client’s stated investment objectives and risk tolerance. The portfolio of ETFs includes up to 20 asset classes across stocks, fixed income, real estate, and commodities. The Program is designed to monitor a client’s portfolio daily and will also automatically rebalance as needed to keep a client’s portfolio consistent with their selected risk profile unless such rebalancing may not be in the best interest of the client.

Schwab provides administration and related services for the Program. Charles Schwab Investment Advisory, Inc. (“CSIA”), an affiliate of Schwab, provides portfolio management services for Program accounts on a discretionary basis consistent with each client’s chosen investment strategy. Schwab acts as the qualified custodian for Program accounts and provides trade execution, research and related services for Program accounts. The Program is offered online through an interactive website and mobile application (collectively, the “Program Website”). Clients can communicate with Schwab via electronic channels (i.e., email, chat, website or mobile application), Schwab branches and via telephone.

Clients use a web or mobile application to determine whether the Program is appropriate for them and, if so, are asked a series of questions that the Algorithm uses to determine their investment risk profile, receive a recommended portfolio, and select an investment strategy. Clients complete their investment profile online and are asked to carefully consider whether their participation in the Program is appropriate for their investment needs and goals prior to enrollment. Clients can change their investment strategy by going online and completing a new web- or mobile-based investment profile. Clients should periodically review their existing investment risk profile and update it when their goals, risk tolerance or other aspects of their financial situation change.

During the online application process, clients agree that records and disclosures for the Program will be delivered, and agreements will be signed, electronically. This is a requirement both now and in the future. This includes the disclosure brochures, supplements, and other documents relating to clients’ accounts. Each client has an obligation to maintain an accurate and up-to-date email address with Schwab and to ensure that the client has the ability to read, download, print, and retain documents the client receives from Schwab. If a client is unable or unwilling to accept electronic delivery, the client’s enrollment in the Program and their account may be terminated. If a client’s account is terminated, the client will be required to transfer the client’s account assets to another account at Schwab or an account at another custodian; otherwise, the client’s account assets

will be liquidated and proceeds will be sent to the client.

The Program Website allows prospective clients to review information about the Program, including general information on the types of ETFs included as well as information about CSIA's approach to allocating client accounts. Clients may also monitor their portfolio's allocation and activity, monitor their account's performance, and use a goal tracking tool to monitor whether their account is on target to reach their savings or income goal. Clients may also initiate deposits and withdrawals from existing Program accounts or open new Program accounts. Clients give investment discretion to CSIA to manage their account and make trades in their account, and CSIA may therefore initiate or halt trading at its discretion and for any reason, including halting trading under conditions when CSIA believes that continued trading may pose an undue risk of harm to Program accounts.

The Program uses an algorithm (the "Algorithm")—a set of rules embedded in a computer program—to: (1) propose a portfolio based on a client's answers to the online questionnaire; (2) identify portfolio rebalancing opportunities; (3) identify tax-loss harvesting opportunities; and (4) initiate buy/sell orders for the tax-loss harvesting and/or rebalancing opportunities it has identified, as detailed below. The Algorithm is designed to perform a daily review of client accounts and holdings to identify rebalancing and tax-loss harvesting opportunities as well as to initiate buy or sell orders when such opportunities exist; trade orders are then sent to CSIA for review prior to the trade(s) being released for execution. Although the activities described in this paragraph generally take place on a daily basis, there may be rare instances when they do not due to unforeseen circumstances.

Clients will not be allowed to make trades in their account. Clients may request that certain ETFs be excluded from their account, but CSIA is not required to accept account restrictions that it deems unreasonable. A request to exclude certain ETFs from a client's account may result in delays in the management of the account. The client will be notified if the account cannot be managed with the requested investment restrictions. Clients also may request that CSIA use a tax-loss harvesting strategy so that tax losses are generated to offset potential capital gains in their account, subject to meeting minimum balance requirements (currently \$50,000, which is subject to change).

Accounts in the Program are not margin accounts, meaning clients cannot borrow money to buy securities in their Program accounts and use the securities in the accounts as collateral for a margin loan.

### **Investment Strategies**

Using asset allocations and ETF selection parameters determined by Schwab, CSIA has created a number of investment strategies for the Program. The investment strategies consist of diversified portfolios of ETFs combined with the Schwab Intelligent Portfolios Sweep Program ("Sweep Program"), which automatically deposits, or "sweeps," free credit balances to deposit accounts at Charles Schwab Bank ("Schwab Bank"). Each investment strategy is designed to be consistent with a certain combination of investment objectives and risk tolerance. Certain investment strategies are intended for taxable accounts and others for tax-deferred accounts (such as individual retirement accounts). Certain investment strategies are intended for clients who are looking for some level of income generation. Not all investment strategies will be appropriate for or available to all clients. For instance, certain investment strategies will only be available to clients who are enrolled in the Schwab Intelligent Advisory® program, a hybrid advisory service that combines financial planning and periodic guidance from Schwab planning consultants with discretionary portfolio management through the SIP Program. Schwab may add additional investment strategies or modify the parameters for existing investment strategies at any time without prior notice to clients.

## **Selection of ETFs**

The written parameters established by Schwab place limitations on the universe of ETFs that CSIA may select for the Program.

Schwab has ETF selection parameters designed to support its philosophy of low-cost and index-based investing. In support of providing broadly diversified and risk-adjusted portfolios, eligible ETFs must represent well a particular asset class in the portfolio, meet sufficient liquidity standards and be among the lowest cost (in terms of its operating expense or "OER") in their asset class or category. When it comes to replacing an ETF, CSIA also considers the potential impact to clients, such as additional trading costs or other costs.

Eligible ETFs include Schwab ETFs™, which are managed by Charles Schwab Investment Management, Inc. ("CSIM"), an affiliate of Schwab and CSIA. Schwab has instructed CSIA to select or retain Schwab ETFs in the portfolios as long as CSIA determines they satisfy the above factors.

CSIA will generally select both a primary and secondary ETF for each asset class in consideration of, among other things, tax-loss harvesting and requested investment restrictions. In limited circumstances, as determined by CSIA, only one ETF may be used in certain asset classes. In such cases, the tax-loss harvesting feature would not be available for execution in the affected asset class(es). To be eligible for consideration, ETFs designated as the primary ETF in an asset class must have a share price less than a cap that is necessary to enable trading in smaller balance accounts.

Schwab ETFs pay fees to CSIM that are described in "Participation or Interest in Client Transactions" below.

## **Rebalancing**

The rebalancing component of the Algorithm is designed to conduct a daily review of client accounts for rebalancing opportunities. If the allocation of the ETFs in a client's account deviates by more than an amount specified in Schwab's parameters from the recommended asset allocation due to changes in ETF values, the Algorithm will initiate a rebalancing trade order. Program trades are sent to CSIA for review prior to being routed for execution. The Algorithm may also trigger rebalancing in cases when a client makes changes to their investment profile or when a client requests to impose or modify restrictions on the management of their Program account. Program accounts will be rebalanced by buying and selling ETF shares and depositing or withdrawing funds through the Sweep Program. Program monitoring and trading are subject to systems and technology constraints and availability, and while unlikely, may not take place daily.

Accounts below \$5,000 may deviate further than the amount specified in Schwab's rebalancing parameters as well as the target allocation of the selected investment profile. Rebalancing below \$5,000 may impact the ability to maintain positions in selected asset classes due to the inability to buy or sell at least one share of an ETF. For example, withdrawal requests may require entire asset classes to be liquidated to generate and disburse the requested cash.

## **Tax-Loss Harvesting**

Subject to meeting the minimum balance requirement of \$50,000, clients may direct CSIA to employ a tax-loss harvesting strategy. As discussed above, the Algorithm is designed to conduct a daily review of client accounts for tax-loss harvesting opportunities. When the tax-loss harvesting threshold is met, the Algorithm will initiate a tax-loss harvesting trade order for Program accounts. During this process, certain ETFs in the client's account will be sold at a loss to offset potential capital gains (although CSIA does not monitor the type and amount of capital gains). The Algorithm also initiates a buy order to replace the ETFs sold for tax-loss harvesting purposes with the

ETF(s) that CSIA reasonably believes are not substantially similar based upon different ETF indexes used by each ETF.

The performance of the new ETFs may be better or worse than the performance of the ETFs that are sold for tax-loss harvesting purposes. The utilization of losses harvested through the strategy will depend upon the recognition of capital gains in the same or a future tax period, and in addition may be subject to limitations under applicable tax laws. Losses harvested through the strategy that are not utilized in the tax period when recognized generally may be carried forward to offset future capital gains, if any.

Clients should consult with their professional tax advisors or check the Internal Revenue Service (“IRS”) website at [www.irs.gov](http://www.irs.gov) about the consequences of tax-loss harvesting in light of their particular circumstances and its impact on their tax return. Neither the tax-loss harvesting strategy for the Program, nor any discussion herein, is intended as tax advice, and neither Schwab nor CSIA represents that any particular tax consequences will be obtained.

CSIA only monitors for tax-loss harvesting for accounts within the Program. The client is responsible for monitoring their and their spouse’s non-Program accounts (at Schwab or with another firm) to ensure that transactions in the same ETF or a substantially similar security do not create a “wash sale.” A wash sale is the sale at a loss and purchase of the same ETF or substantially similar security within 30 days of each other. If a wash sale transaction occurs, the IRS 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.

The effectiveness of the tax-loss harvesting strategy to reduce the tax liability of the client will depend on the client’s entire tax and investment profile, including purchases and dispositions in a client’s (or client’s spouse’s) non-Program accounts and type of investments (e.g., taxable or non-taxable) or holding period (e.g., short-term or long-term). There is no guarantee that the tax-loss harvesting strategy will reduce, defer or eliminate the tax liability generated by a client’s investment portfolio in any given tax year. Except as set forth below, CSIA and the Algorithm will monitor only a client’s (or a client’s spouse’s) Program accounts to determine if there are unrealized losses for purposes of determining whether to harvest such losses. Transactions outside the Program may affect whether a loss is successfully harvested and, if so, whether that loss is usable by the client in the most efficient manner.

If a client chooses to have tax-loss harvesting for the client’s taxable Program account, CSIA will seek to avoid the wash sale disallowance rule in any other Program account with the client’s social security number as the primary account holder. A client may also request that CSIA monitor the client’s spouse’s accounts or their IRAs in the Program to avoid the wash sale disallowance rule. A client may request spousal monitoring online or via the mobile application. If CSIA is monitoring multiple accounts to avoid the wash sale disallowance rule, the first taxable account to trade an ETF will block the other account(s) from trading in that same ETF for 30 days.

### **Schwab Intelligent Portfolios® Sweep Program**

Each investment strategy involves the Cash Allocation to the Sweep Program. The Cash Allocation will generally range from 6% to 30% of an account’s value to be held in cash, depending on the investment strategy the client selects based on the client’s risk tolerance and time horizon.

The Cash Allocation will be accomplished through enrollment in the Sweep Program, a program sponsored by Schwab. By enrolling in the Program, clients consent to having the free credit balances in their brokerage

accounts swept to deposit accounts (“Deposit Accounts”) at Schwab Bank through the Sweep Program. Schwab Bank is an FDIC-insured depository institution affiliated with Schwab and CSIA.

The Sweep Program is a required feature of the Program. If the cash balances exceed the Cash Allocation for the selected investment strategy, the excess over the rebalancing parameter will be used to purchase securities as part of rebalancing. If clients request cash withdrawals from their accounts, this likely will require the sale of ETF positions in their accounts to bring their Cash Allocation in line with the allocation for their chosen investment strategy. If those clients have taxable accounts, those sales may generate capital gains (or losses) for tax purposes.

The terms and conditions of the Sweep Program and Schwab’s ability to make changes to the Sweep Program or move balances to a new sweep product are set forth in the Schwab Intelligent Portfolios® Sweep Program Disclosure Statement that is made available to clients when they open their accounts. Clients should read this document carefully and retain a copy for their records. Clients grant to Schwab the authority to change the cash investment allocation from the Sweep Program to another cash savings or investment product or vehicle offered by Schwab, an affiliate, or a third party.

In accordance with an agreement with Schwab, Schwab Bank has agreed to pay an interest rate on cash balances in the Sweep Program which will be the greater of either (1) the rate determined by reference to a third-party index (the average national money market deposit account rate for retail deposits at the \$100,000 level based on a survey conducted by RateWatch), or (2) the rate paid on cash balances of \$1,000,000 or more in Schwab’s bank sweep program for brokerage accounts (known as the Bank Sweep feature in Schwab’s Cash Features Program). The current rate for cash in your account and information regarding the rate Schwab Bank pays for the \$1,000,000 cash tier for brokerage accounts, as well as RateWatch’s methodology, can be found at [www.schwab.com/intelligent-cashrate](http://www.schwab.com/intelligent-cashrate).

Under the agreement between Schwab and Schwab Bank, Schwab Bank may change the method of determining the interest rate upon 30 days’ notice to Schwab or upon a regulatory requirement. Schwab will notify clients if it receives such notice from Schwab Bank. The rate may be higher or lower than the interest rates available on other deposit accounts at Schwab Bank or on comparable deposit accounts at other banks. It may also be higher or lower than other cash-equivalent investments, such as money market funds, that are available through Schwab. Schwab does not intend to negotiate for rates that seek to compete with other capital preservation investment options that involve market risk, such as money market funds.

Schwab Bank’s revenue from the Cash Allocation in the Deposit Accounts is dependent upon the difference, or “spread,” between the interest rate Schwab Bank pays to clients on such deposits and the amount it can earn from the extension of loans and the purchasing of investment securities with these deposits as well as the FDIC insurance premiums it pays. Therefore, Schwab Bank’s ability to earn revenue from the Deposit Accounts is affected by the interest rate negotiated with its affiliated broker-dealer, Schwab. This revenue is a component of the overall revenue to Schwab Bank and its affiliates in connection with the Program. Funds in the Deposit Accounts can also benefit Schwab Bank by providing it with increased liquidity, stable funding, and low cost deposits. Schwab Bank intends to use the assets in the Deposit Accounts to fund current and new lending activities and investments.

A portion of the revenue contributed to the Schwab entities from the Program is the revenue earned by Schwab Bank in offering the Deposit Accounts. Schwab Bank will pay Schwab a fee for administrative services provided in support of the Deposit Accounts as disclosed in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement and below in “Participation or Interest in Client Transactions.”



## Fees and Compensation

The Program includes the following services: (i) Schwab's Program administration services, as well as trade execution, custody and related services; and (ii) CSIA's portfolio management services. Clients are not charged an annual Program fee for these services. However, the SIP Program is not free of charge. Clients pay the operating expense ratios of ETFs used in the portfolios, including Schwab ETFs, which affects the performance of SIP Program accounts. Account performance is also affected by the Cash Allocation and the Sweep Program. Schwab and its affiliates earn compensation from certain ETFs used in the portfolios and from the Cash Allocation and Sweep Program, as described elsewhere in this brochure in "Schwab Intelligent Portfolios Sweep Program", "Benefits to Schwab Affiliates" and "Conflicts of Interest and How They Are Addressed."

In programs similar to the SIP Program, clients might expect to pay an annual fee of 0.30% of client assets to reflect the value and cost of these services. While clients are not charged a Program fee for services, due to retirement accounts in the Program, for purposes of IRS rules, Schwab makes a nominal calculation that fully offsets in the amount of 0.30% of the compensation that it or its affiliates receive from ETF transactions in clients' accounts. This includes advisory fees for managing Schwab ETFs™ and fees earned for providing services to third-party ETFs participating in the Schwab ETF OneSource™ program ("ETF OneSource"), if CSIA selects them to include in Program accounts. If this affiliate compensation ever exceeds 0.30% of client assets, Schwab would refund the additional amount to client accounts or use it to pay account administrative expenses. The result is that clients pay no annual Program fee.

Clients do not pay brokerage commissions in the Program to Schwab. However, if CSIA uses a broker-dealer other than Schwab that is acting as principal (for its own account) to buy or sell ETF shares for clients, that broker-dealer accepts the risk of market price and liquidity fluctuations when executing customer orders. The broker-dealer adds a fee, called a "spread," to compensate for this risk. The spread is not shown separately on a client's trade confirmation or account statement. Schwab does not act as principal for ETF trades in the Program and does not receive any part of the spread.

Each ETF, including a Schwab ETF, pays investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees and expenses, as set forth in the ETF prospectus. An ETF pays these fees and expenses, which ultimately are borne by its shareholders. Therefore, CSIM (a Schwab affiliate) will earn fees from Schwab ETFs that are held in Program accounts.

Clients may incur sales charges, redemption fees and other costs, as well as tax consequences, if they redeem or make other transactions in ETFs, mutual funds or other investments in order to fund Program accounts. To the extent that cash used by clients to fund their Program accounts comes from redemptions of mutual fund shares, ETFs or other investments outside of the Program, there may be tax consequences or additional costs from sales charges previously paid and redemption fees incurred.

Pursuant to an agreement between CSIA and Schwab, Schwab pays all costs and expenses incurred by CSIA in connection with the Program and with other research services provided by CSIA, plus an additional amount based on a fixed percentage of such costs and expenses. CSIA does not enter into agreements directly with clients and accordingly does not receive direct compensation from or negotiate fees with them. CSIA does not enter into agreements directly with Program clients and accordingly does not receive direct compensation from or negotiate fees with them.

Schwab provides administrative services to Schwab Bank in support of the operation of the Deposit Accounts; Schwab Bank will pay Schwab an annual per account flat fee for these administrative services. This fee is more

fully described in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement.

The fees that clients pay directly and indirectly in the Program may be more or less than they would pay if they purchased separately the types of services in the Program. Clients may be able to obtain some or all of the types of services available through the Program on a stand-alone basis from other firms. Factors that bear upon the cost of the Program in relation to the cost of the same services purchased separately include, among other things, the type and size of the account (and other accounts that clients may be able to combine to determine fee break points), the historical and expected size or number of trades for an account, types of investments and cash held in the account, and the number and range of supplementary advisory and other services provided to an account.

### **Compensation FC Compensation**

Among Schwab investment professionals, branch-based and phone-based Financial Consultants (“FCs”) are most often responsible for recommending the SIP Program to clients like you. FCs may be Schwab employees or non-employee independent contractors who, with their own employees, operate Schwab Independent Branches pursuant to a franchise agreement with Schwab. The FCs who operate Schwab Independent Branches are known as Independent Branch Leaders (“IBLs”) or, if employed by such IBLs, Independent Branch (“IB”) Representatives. In addition to their base salaries, FCs receive compensation for successfully navigating clients to the SIP Program and other investment advisory programs and for servicing those clients after enrollment in such programs. Although Schwab as a company may earn more or less revenue depending on what products and services an FC recommends and a client purchases, Schwab has designed FC compensation to be neutral. This means that, although compensation varies by the type of program an account is enrolled in, that difference is based on “Neutral Factors.” Neutral Factors include the time, complexity and expertise necessary to understand and recommend a program and to provide ongoing service to a client enrolled in a given program.

As independent contractors, IBLs receive a monthly “Net Payout” from Schwab, which includes amounts earned on assets in investment advisory programs like the SIP Program and assets in commission-based brokerage accounts, and it is from this Net Payout amount that IBLs pay their IB Representative employees. As with FCs, the amounts earned by IBLs and IB Representatives vary by the type of program an account is enrolled in, based on the same Neutral Factors described above. Based on these Neutral Factors, amounts earned by Financial Consultants on assets enrolled in the SIP Program exceed the amounts earned on assets in commission-based brokerage accounts but are less than the amounts earned on assets in some other advisory program accounts.

### **Compensation to Other Schwab Investment Professionals**

Other Schwab employee investment professionals, such as Investment Consultants, Investor Development Specialists, and Participant Investor Concierge Financial Consultants, can also earn additional incentive compensation for educating clients in advisory services, including the Program. For detailed information on the compensation of these and other Schwab investment professionals, please see our website at [schwab.com/compensation](http://schwab.com/compensation).

### **Performance-Based Fees**

Schwab does not receive performance-based fees in connection with referrals to the SIP Program.

### **Side-by-Side Management**

Not applicable. Schwab does not manage or recommend strategies in the SIP Program.

### **Benefits to Schwab Affiliates**

Clients do not pay a Program management fee. However, Schwab affiliates do earn revenue from the underlying

assets in client accounts.

This revenue comes from: (i) revenue earned by Schwab Bank, on the Cash Allocation in the investment strategies; (ii) advisory fees received by CSIM from Schwab ETFs™ that CSIA selects to buy and hold in client accounts; (iii) fees received by Schwab from third-party ETFs in client accounts for services Schwab provides to them as participants in ETF OneSource; and (iv) remuneration Schwab may receive from the market centers where it routes ETF trade orders for execution. More information about these revenues and their benefits to Schwab affiliates is set forth under “Schwab Intelligent Portfolios® Sweep Program” and “Fees and Compensation” above and under “Participation or Interest in Client Transactions” below.

### **Conflicts of Interest and How They Are Addressed**

As noted above, Schwab Bank earns income on the Cash Allocation for each investment strategy. The Cash Allocation is placed in an FDIC insured deposit account at Schwab Bank. The higher the Cash Allocation and the lower the interest rate paid to clients, the more Schwab Bank earns. A lower interest rate means a lower yield on the Cash Allocation. This is a conflict of interest. It is mitigated in part by the way in which Schwab Bank determines the interest rate on cash balances in the Sweep Program by reference to the greater of a third-party index (the average national money market deposit account rate for retail deposits at the \$100,000 level) or the rate Schwab Bank pays on cash balances of \$1,000,000 or more in its sweep program for brokerage accounts. Outside of the Program, clients have access to some cash alternatives that pay a higher yield, although they may not have FDIC insurance. In part because of the revenue Schwab Bank generates from the Cash Allocation (an indirect Program cost), Schwab does not charge an advisory fee for the Program.

Net interest revenue is a major source of revenue for Schwab Bank, including with respect to the Program. Schwab Bank’s net interest revenue is generated by the difference between the interest rate that it can earn extending loans and purchasing investment securities, and the interest rate it pays to clients on their Sweep Program deposits. The difference between the rates earned and paid is the “spread.” Generally an increase in market interest rates will mean that the Program earns more revenue for Schwab Bank because the spread will increase.

Here is an example of how the spread works and the resulting revenue to Schwab Bank. Assume a \$100,000 Program account with a 10% Cash Allocation (\$10,000), which would be a moderate – aggressive investment portfolio allocation. Using market interest rates from the third quarter of 2018, Schwab Bank earned about 2% on an annual basis on the cash it invested net of what it paid to clients in the Program. Schwab Bank would have received about \$200 on that cash deposit annualized. This is two-tenths of one percent (0.2% or 20 basis points) of the total client investment of \$100,000. This example is for illustrative purposes only and does not necessarily reflect the interest rate a particular client at a particular point in time receives or the revenue Schwab Bank earns from that client’s Cash Allocation. We will update this example on a quarterly basis beginning in January 2019, which you can see at [www.schwab.com/intelligent-cashrate](http://www.schwab.com/intelligent-cashrate).

Note also that in the above example Schwab Bank would receive more than 20 basis points on a Cash Allocation above 10% (as part of a more conservative investment portfolio allocation), and less than 20 basis points on a Cash Allocation below 10% (as part of a more aggressive investment portfolio allocation). Historically the spread has increased when market interest rates rose. Since the Program’s inception until September 2018, the overall average spread Schwab Bank received ranged from 1.21% to 1.95%. For more information on how the Sweep Program works, including how to determine current interest rates on the Cash Allocation, please see “Schwab Intelligent Portfolios Sweep Program” above.

Because Schwab and CSIA are affiliated companies, Schwab has an incentive to select and keep CSIA to provide portfolio management services for the Program. Similarly, CSIA has a conflict of interest in selecting Schwab ETFs, which pay compensation to CSIM, and ETFs in ETF OneSource, which pay compensation to Schwab. Schwab has a conflict in that it has instructed CSIA to select or retain Schwab ETFs in the portfolios, but only if Schwab ETFs meet all the criteria noted above in “Selection of ETFs.” CSIA also has a conflict of interest because it selects ETFs that it holds in other client accounts CSIA manages in other Schwab programs.

Asset classes in the Program include both market-cap and fundamentally weighted ETFs. Market-cap weighted ETFs track indices based on the market capitalization of the index’s underlying holdings. Fundamental ETFs weight holdings based on fundamental factors like sales, cash flow, dividend distribution, and buybacks. The Program invests in both market-cap based and fundamentally weighted ETFs with the goal of helping to increase diversification, reduce volatility, and provide better risk-adjusted results over time. Typically, fundamental ETFs have a higher expense ratio than market-cap ETFs. The current method CSIA uses to select fundamentally weighted ETFs is based on asset classification by a third-party provider and, in combination with the selection criteria described above, results in Schwab ETFs being the primary ETF selection for fundamental asset classes in portfolios.

Other than the conflicts of interest described in “Selection of ETFs,” Schwab’s written parameters do not allow CSIA to consider compensation to Schwab or other affiliates in connection with selecting ETFs or managing Program portfolios. CSIA must also follow these written criteria in selecting securities for, and removing securities from, Program portfolios. Schwab reviews CSIA’s performance in providing portfolio management services for the Program. For more information regarding how ETFs are selected for inclusion in portfolios and on the fees earned by Schwab affiliates on ETFs in client accounts, see “Selection of ETFs” and “Fees and Compensation” above.

#### **Account Requirements and Types of Clients**

Clients will complete an investment profile, open their account, and sign their Program contracts electronically. Clients of the Program may include individuals, IRAs and living trusts. Organizations, such as corporations, limited liability companies and limited partnerships, may also participate in the Program as clients. These types of clients may not have the same client experience as individuals or trust clients. Clients that are government entities or clients that are subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), are not eligible for the Program.

Clients must agree to accept electronic delivery of contracts, disclosure documents, prospectuses, statements, and other materials. Assistance from a Schwab representative is available by telephone, email or web chat. Deposits to the account must be made by wire transfer, mobile check deposit, transfer from another account, or through the Schwab MoneyLink® service, which allows clients to make electronic transfers of funds to and from their brokerage account. Clients may be provided the option to fund Program accounts with securities. Clients authorize Schwab (or CSIA to instruct Schwab) to liquidate any securities used to fund Program accounts. Securities may be liquidated at the client’s risk and expense and without taking into account the realization of a taxable gain or a loss that may result.

Neither CSIA nor Schwab will have responsibility for the performance of those securities pending their liquidation.

To be initially invested in an investment strategy, clients must meet all requirements of Schwab to open their Program account and fund it with a minimum of \$5,000. Not all clients or prospects will be appropriate for the

Program. There is also a minimum balance requirement to request that CSIA employ a tax-loss harvesting strategy, and a minimum balance requirement to maintain a tax-loss harvesting strategy.

A client that terminates their advisory agreement or brokerage agreements with Schwab relating to the Program may unenroll from the Program or instruct Schwab to close their account. If the client terminates their enrollment in the Program, the Sweep Program will not apply to the account. That account will have its own sweep feature, which may have terms that are more favorable or less favorable than the Sweep Program. Schwab may terminate a client from the Program for failing to fund their account with the required initial minimum, for failure to maintain a valid email address or for any other reason, in Schwab's sole discretion. Schwab also may terminate a client from the Program if Schwab deems the client's requested investment restrictions to be unreasonable.

Depending on the reason for unenrollment from the program, the client may have the opportunity to resolve the reason for their unenrollment. Upon removal from the program, the client's enrollment in the Sweep Program will terminate and the account will no longer be managed.

### **Retirement Accounts**

Schwab does not and will not render advice on a regular basis pursuant to an arrangement or understanding that such advice shall serve as a primary basis for investment decisions with respect to any retirement account. Schwab and its employees and agents (i) are not fiduciaries as defined under the Internal Revenue Code; (ii) have no investment or other discretion with respect to assets covered by the Program; (iii) will perform no discretionary acts with respect to such assets; (iv) will effect only such transactions as instructed by clients; and (v) will exercise no discretion and provide no advice as to the voting of proxies.

CSIA is the sole fiduciary, as defined under the Internal Revenue Code, in performing investment management services and exercising discretion over the assets managed in any retirement account, subject to such reasonable restrictions as the client may impose.

### **Portfolio Manager Selection and Evaluation**

Schwab has selected CSIA to provide portfolio management services for the Program. Schwab believes that CSIA possesses the requisite expertise to serve in this capacity. Schwab reviews the performance of the investment strategies quarterly through standardized composite performance reporting.

### **Client Information Provided to Portfolio Manager**

At the time a client enrolls in the Program, Schwab provides CSIA with information about that client's chosen investment strategy and any reasonable restrictions applicable to the client's Program account.

Schwab provides updated information to CSIA as necessary thereafter in order for CSIA to provide portfolio management services under the Program.

### **Client Contact With Portfolio Manager**

Clients who wish to contact CSIA can do so by making a request to a Schwab representative by telephone or web chat. Schwab and its representatives are the primary points of contact for clients in the Program.

### **Additional Information**

#### **Risks**

Investing in securities, whether through the Program or otherwise, involves the risk of loss that clients should be

prepared to bear. The specific risks associated with the ETFs comprising the Program portfolios, as well as the risks associated with securities held in those ETFs, are described in detail in the CSIA Schwab Intelligent Portfolios® Disclosure Brochure. The rebalancing aspect of the Algorithm works to maintain asset class diversification for each portfolio within defined parameters.

There are limitations inherent in the use of an Algorithm to manage Program accounts; for instance, the Algorithm is designed to manage Program accounts according to the asset allocation selected for that account and is not designed to actively manage asset allocations based on short-term market fluctuations. The Algorithm is also not designed to consider certain factors such as short-term asset class volatility or individual tax circumstances such as capital gains taxes; rather, its functions consist of proposing a portfolio based on a client's answers to the online questionnaire, identifying opportunities for tax-loss harvesting and rebalancing, and initiating buy/sell orders accordingly.

Investment advisory personnel of CSIA oversee the Algorithm but do not personally or directly monitor each individual Program account.

There is also a risk that the Algorithm and related software used in the Program for strategy selection, tax-loss harvesting and rebalancing and related functions may not perform within intended parameters, which may result in a recommendation of a portfolio that may be more aggressive or conservative than necessary, and trigger or fail to initiate rebalancing and/or tax-loss harvesting trading.

#### **Disciplinary Information**

The SEC and other regulatory agencies and organizations have taken certain disciplinary actions against Schwab for violations of investment-related statutes, regulations, and rules. The matters have been settled, and Schwab has paid fines with respect to certain violations.

1. A disciplinary action initiated by the Financial Industry Regulatory Authority ("FINRA") asserted that, in violation of FINRA Rules 2010 and 3310(a), Schwab failed to implement policies and procedures that were reasonably designed to detect and cause the reporting of suspicious incoming wire transactions occurring in August 2011. Without admitting or denying the findings, Schwab consented to the described sanctions and to the entry of findings. Therefore, in December 2013, Schwab was censured, fined \$175,000 and required to conduct a comprehensive review of the adequacy of its Anti-Money Laundering policies, systems, procedures (written or otherwise), and training with respect to detecting and reporting suspicious incoming wire transfers.
2. A disciplinary action initiated by FINRA asserted that Schwab failed on 44 occasions during the second quarter of 2011 and on 245 occasions during the first half of the 2012 review period to provide written notification disclosing to its customers a call date that was consistent with the disclosed yield to call in violation of SEC Rule 10b-10. Without admitting or denying the allegations, Schwab consented on August 23, 2013, to a censure and a monetary fine of \$12,500.
3. A disciplinary action initiated by the Chicago Board of Options Exchange ("CBOE") alleged that Schwab: (1) violated CBOE Rule 9.21 by disseminating sales literature and failed to withhold the sales literature from circulation prior to incorporating the required changes specified by the CBOE; and (2) violated CBOE Rule 4.2 by failing to adequately supervise its associated persons to assure compliance with Rule 9.21. Without admitting or denying these allegations, Schwab consented to a censure and a monetary fine of \$10,000 on May 29, 2013.
4. In May 2013, the CBOE alleged that from approximately November 8, 2011, through approximately December 7,

2011, Schwab failed to have adequate supervisory procedures to assure compliance with the SEC Rule 14E-4 relating to partial short tender activity. The CBOE accepted Schwab's offer of settlement consisting of a \$10,000 fine and a censure. Schwab neither admitted nor denied the allegations.

5. A disciplinary action initiated by FINRA asserted that Schwab violated Municipal Securities Rulemaking Board ("MSRB") Rule G-14 by: (1) failing to report required information about certain municipal securities transactions to the Real-Time Transaction Reporting System ("RTRS") within 15 minutes of trade time in the first and fourth quarters of 2010; and (2) failing to report the correct yield to RTRS for certain municipal securities transactions in the second quarter of 2010. Without admitting or denying these assertions, Schwab consented to a censure and a fine of \$35,000 on July 26, 2012.
6. Schwab entered into a stipulation and consent agreement with the state of Florida on March 26, 2012, in which Schwab was fined \$1,100,000 and ordered to offer restitution to certain clients for distributing trade confirmations to Florida clients between 2008 and 2011 containing inaccurate information with respect to certain municipal bond, corporate bond and preferred equity security trades, and for failing to have adequate written supervisory procedures with respect to the review of such trade confirmations, in violation of the Florida Administrative Code.
7. Schwab entered into a consent order with the State of Nevada on November 2, 2011, in which Schwab was fined \$10,000 for failing to detect the lack of Nevada state registration of a non-employee investment advisor. Schwab was found to have violated its own procedures and Nevada Administrative Code Section 90.321 for failing to determine that the non-employee was acting as a professional investment advisor at the time the accounts were set up or during the course of his management of the accounts at issue.
8. A disciplinary action initiated by FINRA asserted that Schwab violated Municipal Securities Rulemaking Board Rule G-14 by: (1) failing to report required information about certain municipal securities transactions to the RTRS within 15 minutes of trade time; and (2) failing to report the correct trade execution time to the RTRS for some of these transactions. Without admitting or denying these assertions, Schwab consented to a censure and a fine of \$12,500 on June 17, 2011.
9. In January 2011, Schwab and its affiliate Charles Schwab Investment Management, Inc. ("CSIM") (together, for purposes of this disclosure, "Schwab") reached agreements with the SEC, FINRA, the Illinois Secretary of State, the Illinois Securities Department ("Illinois") and the Connecticut Department of Banking's Securities and Business Investments Division ("Connecticut") to settle matters related to the Schwab YieldPlus Fund® (the "Fund").

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 Fund from 2005 through 2008. In particular, the SEC found that Schwab: (1) deviated from the Fund's concentration policy with respect to investments in non-agency mortgage-backed securities without shareholder approval; (2) made materially misleading statements and omissions about the Fund and its associated risks before and during the decline of its net asset value ("NAV"); (3) materially understated the Fund weighted average maturity ("WAM"); (4) willfully aided and abetted misstatements and omissions appearing in Fund sales materials and other documents; and (5) lacked policies and procedures reasonably designed to prevent the misuse of material nonpublic information about the Fund. Without admitting or denying these allegations, Schwab agreed to pay a total of approximately \$118,944,996 in disgorgement of fees and penalties. As part of the settlement with the SEC, Schwab will also take a number of actions to improve procedures and reinforce Schwab's commitment to its clients. These actions include retaining an independent consultant to conduct a comprehensive review of Schwab's policies,

practices and procedures designed to prevent the misuse of material nonpublic information by or related to Schwab's mutual funds. The SEC settlement was approved by the United States District Court for the Northern District of California on February 16, 2011. Additionally, the SEC has brought related complaints against two former employees of Schwab.

The amount paid by Schwab pursuant to the SEC settlement included approximately \$18,000,000 to be 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 in which Illinois made related factual allegations against Schwab and found that Schwab's conduct violated Illinois Securities Law provisions relating to supervision of securities and advisory activity by employees and to maintenance of written procedures reasonably designed to comply with securities laws and regulations.

Schwab also agreed to pay an amount not to exceed approximately \$2,800,000 in settlement of the Connecticut matter in which Connecticut made related factual allegations against Schwab and found that Schwab violated applicable Connecticut laws and regulations by failing to reasonably supervise its employees.

Schwab and certain affiliated entities and individuals (the "Schwab Parties") were named as defendants in a number of 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. On March 30, 2010, the court granted plaintiffs' motion for summary judgment holding defendants liable for plaintiffs' state law claim regarding changes to the investment policy of the Fund, which plaintiffs alleged were made without shareholder approval in violation of the Investment Company Act of 1940. The Schwab Parties entered into a settlement agreement to settle the plaintiffs' federal securities law claims for approximately \$202,700,000 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 noted above, Schwab is a wholly owned subsidiary of CSCorp, a Delaware corporation that is publicly traded and listed on the NASDAQ (symbol: SCHW). Schwab is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of FINRA. Schwab provides brokerage services to clients located throughout the United States and in some circumstances outside the United States. Incidental to its broker-dealer business, Schwab offers its clients a variety of investment information services and products, including seminars, periodicals, reports, guides, planning tools, brochures and other publications about securities and investment techniques. Schwab also provides certain online data and financial reporting services.

Schwab is also registered as an investment adviser under the Investment Advisers Act of 1940. Schwab provides other investment advisory services in addition to the Program. The SPC service is a nondiscretionary wrap fee program in which clients receive periodic, ongoing advice from a team of representatives. In the Schwab Advisor Network<sup>®</sup>, Schwab makes referrals of investment advisors to investors who are looking for assistance in managing their assets and/or other financial planning activities. Advisors participating in Schwab Advisor Network are independent and not affiliated with Schwab. Investment advisors pay a fee to participate in the Schwab Advisor Network program.

Other programs in which Schwab acts as a registered investment advisor include the Managed Account Select<sup>®</sup> and Managed Account Connection<sup>®</sup> ("MAC") wrap fee programs, Schwab Managed Portfolios<sup>™</sup> ("SMP"), and the



Schwab Intelligent Advisory® program, all sponsored by Schwab and the financial planning services provided through the Schwab Personal Financial Plan™, Schwab Retirement Consultation, and Schwab Equity Compensation Consultation. Separate agreements and disclosure brochures are available for these other investment advisory services and would be provided at the time of referral or purchase.

Schwab does not trade futures and is not a futures commission merchant (“FCM”). However, for our customers who have a desire to trade futures, we have a referral relationship with Charles Schwab Futures, Inc., an FCM that is an affiliate of Schwab.

CSIA also provides portfolio management services in the Schwab-sponsored wrap fee programs, SMP, and MAC. CSIA acts as a separate account manager in MAC through its ThomasPartners Investment Management® (“ThomasPartners”) and Windhaven Investment Management® (“Windhaven”) business divisions. ETFs held in Program accounts may overlap with ETFs held in SMP—ETF accounts and in accounts invested in Windhaven® Strategies in MAC and similar strategies managed through other non-Schwab-sponsored programs. In addition to Schwab and CSIA, other wholly owned subsidiaries of CSCorp are engaged in investment advisory, brokerage, trust, custody, or banking services. CSIM provides advisory and administrative services to certain proprietary mutual funds and exchange-traded funds marketed under the Schwab Funds®, Laudus Funds® and Schwab ETFs™ names. CSIM also serves as a separate account manager in other Schwab wrap fee programs. Performance Technologies, Inc. (also known as Schwab Performance Technologies®) provides portfolio management software to independent registered investment advisors who custody assets at Schwab and also provides certain software and services used in the Program.

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

### **Code of Ethics**

Schwab has a code of ethics adopted pursuant to Rule 204A-1 under the Investment Advisers Act of 1940 (the “Code”). The Code reflects the fiduciary principles that govern the conduct of Schwab, its employees and agents, when we are acting as an investment advisor.

The Code requires that Schwab’s covered representatives comply with applicable federal securities laws, report violations of the Code, and for those deemed “access persons” by virtue of providing investment advice or having access to certain related information, report their personal transactions and holdings in certain securities periodically and get clearance before buying certain securities, including initial public offerings or private offerings. The Code prohibits access persons from disclosing portfolio transactions or any other nonpublic information to anyone outside of Schwab, except as required to effect securities transactions for clients, or from using the information for personal profit or to cause others to profit. Access persons are also prohibited from engaging in deceptive conduct in connection with the purchase or sale of securities for client accounts. The Code is subject to change as necessary to remain current with regulatory requirements and internal business policies and procedures.

A copy of the Code is available at [intelligent.schwab.com](http://intelligent.schwab.com).

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

### **Order Routing and Trade Execution**

In arranging for the execution of non-directed orders for equities and listed options, Schwab seeks out industry-leading execution services and access to the best-performing markets. Schwab routes orders for execution to unaffiliated broker-dealers, who may act as market maker or manage execution of the orders in other market venues, and also routes orders directly to major exchanges. Schwab considers a number of factors in evaluating execution quality among markets and firms, including execution price and opportunities for price improvement,

market depth and order size, the trading characteristics of the security, speed and accuracy of executions, the availability of efficient and reliable order handling systems, liquidity and automatic execution guarantees, the likelihood of execution when limit orders become marketable and service levels and the cost of executing orders at a particular market or firm. Price improvement occurs when an order is executed at a price more favorable than the displayed national best bid or offer. Schwab regularly monitors the execution quality obtained to ensure orders are routed to market venues that have provided high quality executions over time.

Schwab receives remuneration, such as liquidity or order flow rebates, from market venues to which orders are routed, and also pays fees for execution of certain orders. Quarterly information regarding the market venues to which we route orders and remuneration received is available on our website at [www.schwab.com](http://www.schwab.com) or in written form upon request.

Information regarding the specific routing destination and execution time of your orders for up to a six-month period is also available upon request. Schwab may execute fixed income orders for customers as agent or as principal for our own account. In the bond market, there is no centralized exchange or quotation service for most fixed income products. Prices generally reflect activity by market participants or dealers linked to various trading systems. A small number of corporate bonds are listed on national exchanges. Although Schwab seeks access to major trading systems, exchanges, and dealer markets in an effort to obtain competitive pricing, at any given time it is possible that securities could be available through other trading systems, exchanges, or dealers at superior or inferior prices compared to those available at Schwab. All prices are subject to change without prior notice.

### **ETFs**

The ETFs that are eligible for inclusion in the Program are described above under “Selection of ETFs.” Each ETF pays investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees and expenses, as set forth in the ETF prospectus. An ETF pays these fees and expenses, which ultimately are borne by its shareholders. Therefore, CSIM (a Schwab affiliate) will earn fees from Schwab ETFs that are held in Program accounts.

ETFs in the ETF OneSource program are also eligible to be selected for inclusion in the Program. Schwab has established the ETF OneSource program under which ETFs can be traded without a commission on buy and sell transactions. Schwab receives payments from the third-party ETF sponsors or their affiliates participating in ETF OneSource for recordkeeping, shareholder services and other administrative services that Schwab provides to participating ETFs. In addition, Schwab promotes the ETF OneSource program to its customers, and a portion of the fees paid to Schwab offsets some or all of Schwab’s costs of promoting and administering ETF OneSource. Schwab does not receive payment to promote any particular ETF to its customers.

ETF sponsors or their affiliates pay a fixed ETF OneSource program fee to Schwab each year for each ETF participating in ETF OneSource. The program fees vary, but can range up to \$15,000 per year for each participating ETF. ETF sponsors or their affiliates also pay Schwab an asset-based fee based on a percentage of total ETF assets purchased by Schwab customers after the ETF was added to ETF OneSource.

The amount of the asset-based fee can range up to 0.04% annually. Schwab ETFs do not pay any program or asset-based fees to participate in ETF OneSource.

Assets in Program accounts are included in the calculation of the asset-based ETF OneSource fee to be paid to Schwab by an ETF sponsor or its affiliates. Schwab may exclude other assets or other types of transactions from the asset-based ETF OneSource fee paid by an ETF sponsor or its affiliates.

### **Personal Trading**

Schwab monitors the personal securities holdings and trading of Schwab representatives. Schwab reviews accounts of its representatives custodied at Schwab and applicable accounts custodied at other firms. The surveillance program monitors holdings and trades against the Code and other applicable policies. Additionally, Schwab representatives must disclose all securities accounts they own or control after their hire date and review and confirm the accuracy of those accounts on an annual basis during their employment.

### **Brokerage Practices**

Schwab does not select or recommend broker-dealers as part of the SIP Program. Clients agree with Schwab that all brokerage transactions for the SIP Program will be routed to Schwab for execution. For additional details regarding brokerage practices for the SIP Program, please refer to the CSIA Schwab Intelligent Portfolios® Disclosure Brochure.

### **Review of Accounts**

Schwab will contact Program clients at least once a year via electronic channels to ask them to update their information on the Program Website if there have been any material changes. Clients who have experienced material changes to their goals, financial circumstances or investment objectives, or who wish to impose or modify restrictions on the management of their Program accounts, should promptly update their information on the Program Website. Schwab will not change a client's portfolio selection unless the client updates their investment profile through the Program Website.

Program clients receive electronically a separate confirmation of each transaction and an account statement (at least quarterly) detailing positions and activity in their accounts. The statement includes a summary of all transactions made on the client's behalf, all contributions and withdrawals made to or from the account, all fees and expenses charged to the account, and the account value at the beginning and end of the period. The statement may be based upon information obtained from third parties.

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

Schwab FCs and other employees, as well as IBLs and IB Representatives, receive compensation from Schwab as explained in the "Compensation" section above. The SIP Program does not rely upon client referrals from any non-Schwab entity or person.

### **Custody**

Schwab has custody of assets in the SIP Program accounts and will provide an account statement, at least quarterly, for each account. The account statements detail account positions and activities during the preceding period. Clients should review their account statements carefully.

### **Investment Discretion**

The SIP Program consists of discretionary portfolio management through a diversified portfolio of ETFs and a Cash Allocation.

### **Voting Client Securities**

Schwab does not have or accept authority to vote Clients' securities (i.e., proxy voting) in the SIP Program.

### **Financial Information**

Schwab does not require or solicit prepayment of an advisory fee for the Program and is therefore not required to include a balance sheet for its most recent fiscal year. Schwab is not the subject of any financial condition that is reasonably likely to impair its ability to meet its contractual obligations to its clients. Schwab is not the subject

of any bankruptcy petition, nor has it been the subject of any bankruptcy petition at any time during the past 10 years.





November 30, 2018

# Charles Schwab Investment Advisory, Inc. Schwab Intelligent Portfolios® Disclosure Brochure

Charles Schwab Investment Advisory, Inc.  
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San Francisco, CA 94105  
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This brochure provides information about the qualifications and business practices of Charles Schwab Investment Advisory, Inc. (CSIA or "Adviser") as an adviser for the above mentioned strategies. If you have any questions about the contents of this brochure, please contact us at the phone number above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. CSIA's description of itself in this brochure as a registered investment adviser with the SEC does not imply a certain level of skill or training on the part of CSIA or its representatives.

Additional information about CSIA is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Advisory Business

Charles Schwab Investment Advisory, Inc. (“CSIA”) is a wholly owned subsidiary of The Charles Schwab Corporation (“CSCorp”), a Delaware corporation that is publicly traded and listed on the New York Stock Exchange. CSIA is an affiliate of Charles Schwab & Co., Inc. (“Schwab”). As of April 1, 2018, Windhaven Investment Management, Inc. and ThomasPartners, Inc. merged into, and became divisions of, CSIA. In anticipation of this merger, on March 30, 2018, CSIA incorporated the existing ThomasPartners® and Windhaven® portfolio management teams to manage the respective assets and assume fiduciary responsibility for the ThomasPartners and Windhaven Strategies formerly managed by this affiliated investment advisor. CSIA has been registered as an investment advisor since November 5, 2009. Windhaven Investment Management, Inc. was founded in 2010 when CSCorp 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). ThomasPartners, Inc. was purchased by CSCorp in December 2012. Prior to this acquisition, ThomasPartners, Inc. traces 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.

This brochure relates to the portfolio management services that CSIA provides for the Schwab Intelligent Portfolios® program (the “SIP Program”). CSIA also manages portfolios for several other Strategies or Programs, including: Schwab Managed Portfolios™ (“SMP”), Windhaven Strategies, and ThomasPartners Strategies. The SIP Program offers clients a diversified portfolio composed of exchange-traded funds (“ETFs”) as well as an FDIC-insured cash allocation (the “Cash Allocation”) that is based on the client’s stated investment objectives and risk tolerance. The portfolio of ETFs includes up to 20 asset classes across stocks, fixed income, real estate, and commodities. The SIP Program is designed to monitor a client’s portfolio daily and will also automatically rebalance as needed to keep a client’s portfolio consistent with their selected risk profile unless such rebalancing may not be in the best interest of the client.

The SIP Program is sponsored by CSIA’s affiliate, Schwab, which sets investment policy and parameters and also provides trade execution, custody, administrative and related services for the SIP Program as described below.

The SIP Program is also used to provide discretionary portfolio management in Schwab Intelligent Advisory® (the “SIA Program”) sponsored by Schwab. The SIA Program combines the SIP Program with additional financial planning services provided through Schwab. Unless otherwise noted, statements in this brochure about the SIP Program are equally applicable to discretionary portfolio management that occurs in accounts enrolled in the SIA Program. This brochure combined with the Schwab SIP disclosure brochure and the Schwab SIA disclosure brochure (collectively, “the SIP and SIA Brochures”) contain details about the SIP Program and SIA Program, including a description of the automated component (“Algorithm”) of the Program.

Schwab has chosen CSIA to provide portfolio management services to the SIP Program accounts on a discretionary basis consistent with investment policy and parameters developed by Schwab and with clients’ chosen investment strategy, and to direct appropriate trades in clients’ accounts. Schwab acts as the qualified custodian for SIP Program accounts and provides trade routing and/or execution and related services for SIP Program accounts. Some ETFs in the investment strategies are managed by Charles Schwab

Investment Management, Inc. (CSIM), which is also an affiliate of Schwab and CSIA.

Schwab offers the SIP Program online through an interactive website and mobile application (collectively, the “SIP Program Website”). Clients use a web or mobile application to determine whether the SIP Program is appropriate for them and, if so, are asked a series of questions that the Algorithm uses to determine their investment risk profile, receive a recommended strategy, and select an investment strategy. Clients complete their investment profile online and are asked to carefully consider whether their participation in the SIP Program is appropriate for their investment needs and goals prior to enrollment in the Program. Clients can change their investment strategy by going online and completing a new web-based investment profile. Clients should periodically review their existing investment risk profile and update it when their goals, risk tolerance, or other aspects of their financial situation change.

Clients agree to accept electronic delivery of contracts, disclosure documents, prospectuses, statements, and other materials. More information about the SIP Program is available in the Schwab disclosure brochure provided to SIP Program clients.

The SIP Program website allows prospective clients to review information about the SIP Program, including general information on the types of ETFs included, as well as information about CSIA’s approach to allocating client accounts.

Clients may also monitor their portfolio’s allocation and activity, monitor their account’s performance, and use a goal tracking tool to monitor whether their account is on target to reach their savings or income goal. Clients may also initiate deposits and withdrawals from existing SIP Program accounts or open new SIP Program accounts. The investment strategies employed in each SIP Program account are governed by a client’s agreement with Schwab.

In the SIA Program, clients respond to a series of planning-related questions through an interactive SIA website, and a Schwab Planning Consultant provides financial planning advice and recommends an appropriate SIP Program investment strategy or strategies. More information about the SIA Program is available in the Schwab disclosure brochure provided to SIA Program clients.

Clients may impose reasonable restrictions on the management of the account subject to acceptance by CSIA. See the “Investment Discretion” section of this document for details on potential investment restrictions.

In addition, upon the request of its affiliate Charles Schwab Trust Company (“CSTC”), CSIA may provide sub-advisory services to CSTC in connection with the management of trust assets.

CSIA offers several types of separately managed account strategies and manages \$68,811,781,090 on a discretionary basis as of 12/31/2017. CSIA also manages \$14,927,425 on a non-discretionary basis as of 12/31/2017.

## Fees and Compensation

Pursuant to an agreement between CSIA and Schwab, Schwab pays all costs and expenses incurred by CSIA in connection with the SIP Program and other services provided by CSIA to Schwab, plus an additional amount based on a fixed percentage of such costs and expenses. Schwab also provides CSIA 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 CSIA may be adjusted by Schwab and CSIA from time to time as more or fewer resources are required. The SIP Portfolio Management Team serves as a

portfolio manager in the SIP and SIA Managed Account Programs offered by Schwab. More specific information about the Managed Account Programs appears in Schwab's Disclosure Brochures for those programs, which are provided to program clients. CSIA does not enter into agreements directly with Managed Account Program clients and so does not receive direct compensation from or negotiate fees with them. Management fees may be discounted for Schwab employees.

## Additional Costs

As further detailed in the Schwab SIP Brochure, clients are not charged an annual Program Fee; however, the SIP Program is not free of charge. Clients pay the operating expense ratio ("OER") of ETFs used in the portfolios, including Schwab ETFs™ which affects the performance of SIP Program accounts. Account performance is also affected by the Cash Allocation and the Sweep Program (defined below). Schwab and its affiliates earn compensation from certain ETFs used in the portfolios and from the Cash Allocation and Sweep Program described in the Schwab disclosure brochure provided to SIP Program clients. Schwab will waive all of its trading commissions on SIP accounts managed by CSIA. Please note that Schwab's waiver does not extend to any other non-Schwab broker fees, commissions, account fees, or expenses. Information relating to CSIA's brokerage practices is included in the "Brokerage Practices" section of this document.

ETFs held in SIP portfolios are subject to operating expenses and fees as set forth in the prospectuses of the funds. These fees and expenses are paid by the funds but ultimately are borne by clients as fund shareholders. CSIA 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 leaves, these investments may be liquidated or exchanged for the share class corresponding to the size of the client's individual investment in the fund.

## Compensation Earned by CSIA Affiliates

Schwab and its affiliates may receive an investment management fee for managing an affiliated ETF or mutual fund, or other forms of compensation in connection with the operation and/or sale of shares of affiliated or unaffiliated ETFs or mutual funds, to the extent permitted by applicable law.

As detailed below in "Methods of Analysis, Investment Strategies, and Risk of Loss," Charles Schwab Bank ("Schwab Bank") earns income on cash balances participating in the Schwab Intelligent Portfolios® Sweep Program ("Sweep Program"), which presents a conflict of interest. Additional details regarding the Sweep Program can be found in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement and the Schwab SIP Disclosure Brochure.

These conflicts of interest regarding affiliate compensation are mitigated by the fact that, subject to the Parameters defined below, the CSIA investment decision-making process is independent of and separate from Schwab, Schwab Bank, and CSIM.

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

CSIA does not receive or charge any performance-based fees.

## Types of Clients

Pursuant to the enrollment criteria established by Schwab, clients of the SIP Program primarily include individuals, revocable living trusts, and individual retirement accounts ("IRAs"). Government entities and accounts that are subject to the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended, are not eligible for the SIP Program.

To be initially invested in an investment strategy, SIP clients must meet all requirements of Schwab to open their SIP Program account and fund it with a minimum of \$5,000. There is also a minimum balance requirement to employ a tax-loss harvesting strategy, and a minimum balance requirement to maintain a tax-loss harvesting strategy.

Schwab may terminate a client from the SIP Program for failing to fund their account with the required minimum, for withdrawing cash from their account that brings their account balance below the minimum, for failure to maintain a valid email address, or for any other reason, in Schwab's sole discretion. Upon unenrollment from the SIP Program, the client's enrollment in the Schwab Intelligent Portfolios Sweep Program will terminate and the account will no longer be managed.

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

Pursuant to written investment policy and parameters provided by Schwab (the "Parameters"), CSIA has created a number of investment strategies for the SIP Program that consist of diversified portfolios of ETFs combined with the Cash Allocation in a single account. The Cash Allocation is an allocation to the Sweep Program. Each investment strategy is designed to be consistent with a certain combination of investment return objectives and risk tolerances. Certain strategies are intended for taxable accounts and others for tax-deferred accounts. Certain strategies are intended for clients who are looking for a level of income generation. Upon request from Schwab, CSIA may add, remove, or change investment strategies used in the SIP Program.

Schwab sets the Parameters for the Cash Allocation for each investment strategy. These Parameters are set based on a disciplined portfolio construction methodology designed to balance performance with risk management appropriate for a client's goal, investing time frame, and personal risk tolerance, just as with other Schwab managed products. Schwab Bank earns income on the Cash Allocation for each investment strategy. The higher the Cash Allocation and the lower the interest rate paid, the more Schwab Bank earns, thereby creating a conflict of interest for Schwab and for CSIA. The Cash Allocation can affect both the risk profile and performance of a portfolio. To mitigate any conflict, Schwab instructs CSIA to construct the SIP Program strategies consistent with the Parameters. More information about the Selection of ETFs, Cash Allocation, Sweep Program, and Conflicts of Interest and How They Are Addressed can be found in the Schwab disclosure brochure, as well as the Schwab Intelligent Portfolios Sweep Program Disclosure Statement provided to SIP Program clients.

The written Parameters established by Schwab place limitations on the universe of ETFs that CSIA may select for the SIP Program. Schwab has ETF selection parameters designed to support its philosophy of low-cost and index-based investing. In support of providing broadly diversified and risk-adjusted portfolios, eligible ETFs must represent well a particular asset class in the portfolio, meet sufficient liquidity standards and be among the lowest cost (in terms of the OER) in their asset class or category. When it comes to replacing an ETF, CSIA also considers the potential



impact to clients such as additional trading costs or other costs. Eligible ETFs include Schwab ETFs™ which are managed by CSIM, which is an affiliate of Schwab and CSIA. Schwab ETFs pay fees to CSIM that are described in “Participation or Interest in Client Transactions” below. Schwab has instructed CSIA to select or retain Schwab ETFs in the portfolios as long as CSIA determines they satisfy the above factors.

CSIA will generally select both a primary and secondary ETF for each asset class in consideration of, among other things, tax-loss harvesting and requested investment restrictions. In limited circumstances, as determined by CSIA, only one ETF may be used in certain asset classes. In such cases, the tax-loss harvesting feature would not be available for execution in the affected asset class(es). To be eligible for consideration, ETFs designated as the primary ETF in an asset class must have a share price less than a cap that is necessary to enable trading in smaller balance accounts.

CSIA receives a broad range of research from a wide variety of sources that include Schwab-affiliated entities, other brokers, and independent research providers, including issuers and trading partners. CSIA 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. CSIA 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.

CSIA creates diversified portfolios of ETFs combined with a cash investment in a single account several Programs or Portfolios/Strategies, such as Schwab Managed Portfolios™ – ETFs, Windhaven® Strategies, and Schwab Intelligent Portfolios®. In addition, CSIA also provides portfolio management for ThomasPartners® Strategies, which invests primarily in dividend-paying stocks, fixed income securities, and fixed income ETFs. The parameters for asset allocation for each differ from the others. There may be times when clients in different Programs or Portfolios/Strategies are investing in the same ETF; however, each Program or Portfolio/Strategy has a separate portfolio management team making trading and investing decisions.

## General Risks

### Risk of Loss

There are inherent risks to investing in Schwab Intelligent Portfolios, including, but not limited to:

### Management Risks

CSIA 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.

### Model Risks

Schwab Intelligent Portfolios may use quantitative analyses and/or models. Any imperfections, limitations, or inaccuracies in its analyses and/or models could affect its ability to implement strategies. By necessity, these tools make simplifying assumptions that may limit their effectiveness. Models that appear to explain prior market data can fail to predict future market events. Further, the data used in models may be inaccurate, and/or it may not include the most current information available.

### Algorithm Risks

There are limitations inherent in the use of an Algorithm to manage Program accounts; for instance, the Algorithm is designed to manage Program accounts according to the asset allocation selected for that account and is not designed to actively manage asset allocations based on short-term market fluctuations. The Algorithm is also not designed to consider certain factors such as short-term asset class volatility or individual tax circumstances such as capital gains taxes; rather, its functions consist of proposing a portfolio based on a client’s answers to the online questionnaire, identifying opportunities for tax-loss harvesting and rebalancing, and initiating buy/sell orders accordingly. Investment advisory personnel of CSIA oversee the Algorithm but do not personally or directly monitor each individual Program account.

There is also a risk that the Algorithm and related software used in the Program for strategy selection, tax-loss harvesting and rebalancing, and related functions may not perform within intended parameters, which may result in a recommendation of a portfolio that may be more aggressive or conservative than necessary, and trigger or fail to initiate rebalancing and/or tax-loss harvesting trading.

### ETF General Risks

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

### **Market/Systemic Risks**

Equity and fixed income and other global capital markets rise and fall daily. The performance of client investments is, to varying degrees, tied to these markets. When markets fall, the value of a client's investments will fluctuate, which means a client could lose money.

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

The asset allocation decisions can 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 investment strategy selected, the more likely the portfolio will contain larger weights in riskier asset classes, such as equities. The asset classes in which an investment strategy in the SIP Program seeks investment exposure can perform differently from each other at any given time (as well as over the long term), so the investment strategy will be affected by its allocation among the various asset classes. Depending on market conditions, there may be times where diversified portfolios perform worse than less diversified portfolios.

### **Geographic Concentration Risk**

Portfolios concentrated in any one geographic region can be more susceptible to that region's political and economic risk. For example, a portfolio that is concentrated in the United States will be more susceptible to the United States' political and economic risk, as compared to a more globally diversified portfolio.

### **Trading/Liquidity Risks**

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

### **Large Investment Risks**

Clients may collectively account for a large portion of the assets in certain ETFs. A decision by CSIA to buy or sell some or all of a particular ETF or mutual fund where clients hold a significant portion of such 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 for the Windhaven® and ThomasPartners® Strategies. This may result in a loss to the client. CSIA, working with Schwab, will attempt to mitigate trading counterparty risk through its broker selection program included in "Brokerage Practices."

ETFs may have some "product" or "structural" risk associated with underlying derivatives, as they will sometimes provide market exposure through indirect means, like futures, options, and forwards contracts.

### **Custodian Risks**

Schwab 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**

The Program is not designed to address specific tax objectives. There is no guarantee that the tax-loss harvesting strategy in the Program will reduce, defer or eliminate the tax liability generated by a client's investment portfolio in any given tax year. 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.

## **Underlying Securities Risks**

### **Equity-Related Risks**

#### **General Risks**

The prices of equity securities, and thus the value of ETFs or mutual funds that invest in them, 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 stock market, bear the risk that these types of stocks 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 mid-cap U.S. stocks fall behind other types of investments—bonds or small-cap stocks, for instance—the performance of investment strategies focused on large- and/or mid-cap stocks will 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 (see the "Foreign Investment-Related Risks" section below for additional information). During a period when small-cap and/or international stocks fall behind other types of investments—U.S. large- and mid-cap stocks, for instance—the performance of investment strategies focused on 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, 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 raises bond prices, and with them potentially the value of a bond fund or ETF share, 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 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 a portfolio investment fails to make timely principal or interest payments or otherwise honor its obligations. The emphasis of a fixed income strategy on 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 ETFs 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, maintain limited lines of credit with the U.S. Treasury. Securities issued by other issuers, such as the Federal Farm Credit Banks Funding Corporation, 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 therefore 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 and may be difficult to value, which could have an adverse impact on the ability of the ETF or mutual fund to respond to changing market dynamics. 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.

### **Risks Related to Other Asset Classes**

#### **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 Asset 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 asset 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. Real estate investment trusts (“REITs”) may also be subject to the risk of fluctuations in income from underlying real estate assets, poor performance by the REITs’ managers, 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 CSIA’s strategies. As CSIA’s 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**

CSIA (including, historically, Windhaven Investment Management, Inc. and ThomasPartners, Inc.) and its (their) 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**

As a wholly owned subsidiary of CSCorp, CSIA leverages the resources of CSCorp and Schwab, such as personnel, including, but not limited to, its Chief Compliance Officer (“CCO”), Chief Legal Officer, Legal and Compliance support, sales, marketing, operations, and risk management personnel. These relationships or arrangements may create the potential for conflicts of interest to arise. These potential conflicts of interest are governed by various policies adopted by CSIA. For example, CSIA has adopted policies and procedures reasonably designed to protect against the misuse of information (and mitigate potential conflicts of interest) whether among Schwab-affiliated entities or entities or individuals outside of Schwab. Other wholly owned subsidiaries of CSCorp are engaged in investment advisory, brokerage, trust, custody, or banking services.

Pursuant to the Parameters provided by Schwab, CSIA recommends target asset allocations subject to CS&Co. approval and chooses the ETFs for each investment strategy in the SIP Program. Eligible ETFs include Schwab ETFs™ which are managed by CSIM, which is an affiliate of Schwab and CSIA. Schwab ETFs pay fees to CSIM that are described in “Participation or Interest in Client Transactions” below.

Schwab effects securities transactions for clients in the SIP Program on an agency basis.

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

### **Code of Ethics**

CSIA has adopted a written Code of Ethics (the “Code”) pursuant to SEC Rule 204A-1 under the Investment Advisers Act of 1940 (the “Advisers Act”). The Code reflects the fiduciary duty CSIA owes to its clients to avoid activities, interests, and relationships that run contrary to the best interests of CSIA’s clients. All Access Persons (employees and other individuals deemed appropriate by the CCO) are required to place clients’ interests ahead of their own, engage in personal investing that is in compliance with the Code, and avoid taking advantage of CSIA’s position as Adviser. Access Persons are prohibited from using information for personal profit or the profit of others and from disclosing non-public information to anyone except certain designated employees of CSIA and Schwab.

The Code places restrictions on Access Persons making personal investments in securities traded on behalf of clients, in initial public offerings, and in private placements. Access Persons may not engage in deceptive conduct in connection with the purchase or sale of securities for client accounts and are required to: (1) pre-clear certain personal securities transactions; (2) report certain personal securities transactions on a quarterly basis; and (3) provide a detailed summary of certain holdings (initially and annually) that the Access Person has a direct or indirect beneficial interest in. The Code and its requirements are subject to change as necessary to remain current with regulatory requirements and internal business policies and procedures.

A copy of CSIA’s Code is available upon request by calling the number located on the front of this brochure.

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

The written parameters established by Schwab place limitations on the universe of ETFs that CSIA may select for the SIP Program, as described in “Methods of Analysis, Investment Strategies, and Risk of Loss” above. Because Schwab and CSIA are affiliated companies, Schwab has an incentive to select and keep CSIA to provide portfolio management services for the Program. Similarly, CSIA has a conflict of interest in selecting Schwab ETFs, which pay compensation to CSIM, and ETFs in the Schwab ETF OneSource™ program (“ETF OneSource”), which pay compensation to Schwab. Schwab has a conflict in that it has instructed CSIA to select or retain Schwab ETFs in the portfolios, but only if Schwab ETFs meet all the criteria noted above in “Methods of Analysis, Investment Strategies, and Risk of Loss.” CSIA also has a conflict of interest because it selects ETFs that it holds in other client accounts CSIA manages in other Schwab programs.

Each ETF, including a Schwab ETF, pays investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees and expenses, as set forth in the ETF prospectus. An ETF pays these fees and expenses, which ultimately are borne by its shareholders. Therefore, CSIM (a CSIA affiliate) will earn fees from Schwab ETFs that are held in SIP Program accounts.

Schwab has established the ETF OneSource program under which ETFs can be traded without a commission on buy and sell transactions. SIP Program accounts may include ETFs that participate in ETF OneSource. Schwab receives payments from the third-party ETF sponsors or their affiliates participating in ETF OneSource for recordkeeping, shareholder services, and other administrative services that Schwab provides to participating ETFs. In addition, Schwab promotes the ETF OneSource program to its customers, and a portion of the fees paid to Schwab offsets some or all of

Schwab's costs of promoting and administering ETF OneSource. Schwab does not receive payment to promote any particular ETF to its customers.

ETF sponsors or their affiliates pay a fixed program fee to Schwab each year for each ETF participating in ETF OneSource. The program fees vary, but can range up to \$15,000 per year for each participating ETF. ETF sponsors or their affiliates also pay Schwab an asset-based fee based on a percentage of total ETF assets purchased by Schwab customers after the ETF was added to ETF OneSource. The amount of the asset-based fee can range up to 0.04% annually. Schwab ETFs do not pay any program or asset-based fees to participate in ETF OneSource.

Assets in SIP Program accounts are included in the calculation of the asset-based fee to be paid to Schwab by an ETF sponsor or its affiliates. Schwab may exclude other assets or other types of transactions from the asset-based fee paid by an ETF sponsor or its affiliates. Schwab's affiliate Schwab Bank receives income on cash balances in the Schwab Intelligent Portfolios® Sweep Program, as detailed in the "Methods of Analysis, Investment Strategies, and Risk of Loss" section above.

Other affiliates of CSIA, as well as divisions within CSIA, may buy or sell the same securities for client accounts. These are inherent conflicts of interest within and among CSIA, Schwab and its affiliates. CSIA mitigates these conflicts of interest through its policies and procedures and by the fact that, subject to Schwab's oversight as SIP program sponsor, the investment decision-making processes of CSIA portfolio management teams, including those of its Windhaven® and ThomasPartners® business divisions, are separate and independent from each other and from Schwab and its other affiliated portfolio managers.

## Brokerage Practices

CSIA's principal objective in executing client trades is to obtain best execution and to aggregate and allocate trades to achieve fair and equitable treatment of its clients. CSIA has adopted policies and procedures that are designed so that trading practices do not unfairly or systematically favor one client or group of clients or strategies over another and that, over time, accounts are treated equitably.

## Selection of Brokers and Best Execution

CSIA 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, Brokerage Fees (as defined below), promptness and reliability of execution, accuracy of trades, ability to place trades in difficult markets, ability to source liquidity, and confidentiality. In seeking to meet its best execution goal, CSIA considers whether the transaction represents the best qualitative and quantitative execution, which may not be solely determined by the lowest brokerage fee available. "Brokerage Fees" are generally considered to be transaction fees, commissions, or mark-ups and mark-downs on the purchase and sale of securities.

For the SIP program, all brokerage transactions for securities will be routed to Schwab for execution, which may not always obtain as favorable a price as another broker-dealer. Program monitoring and trading are subject to systems and technology constraints and availability and, while unlikely, may not take place daily.

## Soft Dollars

CSIA does not participate in or actively seek out soft dollar arrangements. Due to its affiliation with Schwab, or participation in certain Broker/Custodian-Related Programs, CSIA may receive certain benefits that it would not otherwise receive, if it did not have an established relationship with these companies. These benefits may include trading, custody, reporting, research, technology, software, and related services that assist the firm in managing and administering client accounts. CSIA is not obligated to direct client transactions to broker-dealers that provide research information. All broker-dealers that CSIA utilizes for client transactions are reviewed on a periodic basis using the criteria noted above in "Selection of Brokers and Best Execution."

## Trading Process

Trade orders for different strategies (e.g., the SMP Program, the SIP Program, Windhaven Strategies, and ThomasPartners Strategies) are generated by different investment teams, may be on different systems, and may utilize one or more trading strategies (e.g., price at the time of order arrival, market closing price, and volume-weighted average price over some specified period). Certain trading strategies place relatively greater emphasis on timing, and 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 may vary in different programs or strategies. Certain strategies, which may include accounts in programs with different fee structures, may trade in advance of other trade strategies or may be completed more quickly and, as a result, may 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.

For the SIP Program, clients direct CSIA 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, CSIA reallocates/rebalances clients' accounts, or CSIA 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).

## Trade Aggregation

CSIA 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. CSIA 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 CSIA's discretion (e.g., ThomasPartners Strategies and individual bonds).

CSIA may aggregate securities sales or purchases across investment strategies including Windhaven, ThomasPartners, SMP, and SIP. 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, CSIA may,

consistent with its policies and procedures and fiduciary duties, include proprietary and/or employee accounts in an aggregated order.

## Program Fees

For the SIP Program, in transactions where Schwab uses another broker-dealer acting as principal, the other broker-dealer typically accepts the risk of market price and liquidity fluctuations of executing the transactions. The broker-dealer adds a fee, called a markup or markdown (or “spread”), to compensate for this risk. The spread is not shown separately on a client’s trade confirmation or account statement. Schwab does not act as principal for ETF trades in the SIP Program and does not receive the spread. In transactions where Schwab uses another broker-dealer acting as an agent, the other broker-dealer may charge a fee or commission. This fee or commission is not shown separately on a client’s trade confirmation or account statements. Schwab does not charge a commission itself or receive the third-party broker-dealer’s fee or commission.

Schwab receives remuneration, such as liquidity or order flow rebates, from a market or firm to which orders are routed and also pays fees for execution of certain orders, but its trading practices are designed to achieve best execution. There will be no offset of the SIP Program fee by third-party broker-dealer markups and markdowns or other fees. Instead, these markups and markdowns will reduce the overall return of a client’s account.

## Trade Rotation

CSIA has a trade rotation process that it may use among client accounts within a single program or across programs (e.g., within or across the SMP Program, the SIP Program, Windhaven® Strategies, or ThomasPartners® Strategies) to prevent any client from being systematically disadvantaged. Trades done on the same day or on different days are not guaranteed to receive the same trading price. CSIA will review its rotation procedures at least annually to confirm that they are adequate to prevent any client from being systematically disadvantaged.

## Trade Allocation

Trade allocation procedures are designed to provide that trade allocations are timely, that no set of trade allocations is accomplished to the unfair advantage of one client or group of clients over another, and that over time client accounts are treated equitably, even though a specific trade may have the effect of benefiting one account or group of accounts over another when viewed in isolation.

Trading orders that can only be 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. If a single aggregated trade order is filled at varying prices, client accounts subject to the same strategy generally receive an average price for trades placed through the same broker, or other steps are taken so that all similarly situated accounts receive fair consideration over time. In some cases, the trading desk may execute one trading strategy at the same time it is executing a 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 may be treated as distinct trades and may not be subject to pro rata allocation. There may be some variations in allocations based on account size and security price due to full share allocation methodology. For some strategies, CSIA may elect to execute certain trades over multiple days due to

volume or liquidity or other factors. Upon completion, all clients within the trade will receive the same average price.

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

## Trade Errors

CSIA maintains policies and procedures that address the identification and correction of trade errors. On those occasions when such an error does occur, CSIA will use reasonable efforts to identify and resolve errors as promptly as possible. CSIA will address and resolve errors on a case-by-case basis, in its discretion, based on the facts and circumstances. CSIA 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.

## Review of Accounts

CSIA’s portfolio managers review, at least quarterly, the performance of the SIP Program investment strategies. Schwab contacts clients participating in the SIP Program at least annually via electronic channels to determine whether there have been any changes in their financial situation or investment objectives and whether clients wish to impose any reasonable restrictions on the management of their accounts or reasonably modify existing restrictions. Schwab communicates the information obtained from clients to CSIA as necessary for the management of the account. Schwab Planning Consultants contact clients participating in the SIP Program at least annually to determine whether there have been any changes in their financial circumstances or investment objectives.

## Client Referrals and Other Compensation

CSIA does not make payments to its representatives or other persons for referring clients to the SIP Program. Schwab makes payments to its representatives for referring clients to the SIP Program and SIA Program as detailed in the Schwab SIP disclosure brochure and the Schwab SIA brochure, respectively.

## Other Broker/Custodian-Related Programs

For ThomasPartners Strategies, CSIA participates in a number of Broker/Custodian-Related Programs sponsored by unaffiliated firms. These Broker/Custodian-Related Programs and their affiliates provide CSIA with certain economic benefits and access to products and services not typically available to retail clients as a result of CSIA’s participation in their programs. Some of the products and services made available by these custodians benefit program clients; some products and services may benefit CSIA but not the clients. These products or services may assist CSIA in managing and administering client accounts, including accounts not maintained at the custodian. As part of its fiduciary duties to clients, CSIA strives at all times to put the interests of its clients first.

## Custody

Clients use Schwab as custodian for their SIP account, and Schwab, on at least a quarterly basis, will send SIP Program clients account statements detailing account positions and activities

during the preceding period. Clients should review these statements carefully.

## Investment Discretion

When clients choose SIP Portfolios, they electronically sign the applicable agreements giving CSIA authorization to make trades in their accounts. 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. Investments will not exceed the client's funds in the account and a margin balance will not be maintained. Clients may impose reasonable restrictions on the management of their accounts subject to the acceptance of CSIA.

Subject to meeting minimum balance requirements, a client may also direct CSIA to employ a tax-loss harvesting strategy (according to the Algorithm) in managing the client's taxable account. This means that CSIA will sell ETFs in the client's account at a loss to offset a potential capital gains tax liability (although CSIA does not monitor the type and amount of capital gains). The rebalancing and tax-loss harvesting opportunities may be affected by programming limitations and information clients make available to Schwab. For more information about tax-loss harvesting and rebalancing strategies, please refer to the Schwab brochure, the Schwab website, and mobile applications. In addition, clients may restrict up to three ETFs (limited to one per asset class or sub-asset class) in each SIP Program account. ETFs designated for restriction by clients will be replaced with alternatives selected by CSIA, in which case the client will forego the opportunity for tax-loss harvesting from this asset class.

## Voting Client Securities

CSIA has adopted written proxy voting policies and procedures (the "Policy"). For proxies voted by CSIA on behalf of each client who delegates voting authority to CSIA ("Delegating Clients"), procedures may be changed as necessary to comply with regulatory requirements and internal policies and procedures and are designed to maximize the economic benefit to Delegating Clients.

CSIA has retained a third-party vendor to manage this process and reviews the vendor's voting guidelines no less than annually to determine consistency with the Policy and with CSIA's fiduciary duty to Delegating Clients.

For proxy issues which are deemed by SIP portfolio management to raise significant concerns and which relate to those securities that are managed through the Program, CSIA reviews the analysis and recommendation of the vendor. Examples of factors that could cause a matter to raise significant concerns include, but are not limited to: issues whose outcomes have the potential to materially affect the issuer (ETF/fund) or issuer's sponsor/index provider, and matters which involve broad public policy developments which may materially affect the issuer (ETF/fund). After evaluating all such recommendations, CSIA decides how to vote the shares and will instruct the vendor to vote consistent with its decision.

To address any potential conflicts of interest, CSIA votes proxies of affiliated mutual funds, ETFs, and Schwab stock in the same proportion as the vote of all other shareholders of the mutual fund, ETF, or stock (i.e., "echo vote"), unless otherwise required by law. When required by law, CSIA also "echo votes" proxies of unaffiliated mutual funds, ETFs, or stock. When not required to "echo vote," CSIA delegates to the vendor responsibility for voting proxies.

Program clients can get a copy of the Policy and information about how CSIA has voted their securities in a particular proxy vote by calling CSIA at (415) 667-1910. The information will be provided at no charge.

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

CSIA does not require prepayment of fees and is therefore not required to include a balance sheet for its most recent fiscal year. CSIA (and historically also Windhaven Investment Management, Inc. and ThomasPartners, Inc.) has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.



**The following brochures supplement  
the Charles Schwab Investment Advisory, Inc.  
Disclosure Brochure for Schwab Intelligent portfolios™ and contain  
information about individuals within Charles Schwab Investment Advisory, Inc.**

*Charles Schwab Investment Advisory, Inc.  
211 Main Street  
San Francisco, CA 94105  
Tel: (415) 667-1910*





**Effective March 30, 2018**

## **Brochure Supplement**

**Eva Xu, CFA®**

*Charles Schwab Investment Advisory, Inc.  
Senior Portfolio Manager – Schwab Intelligent Portfolios™  
211 Main St  
San Francisco, CA 94105-1905  
+1 (415) 667-0604  
Eva.Xu@schwab.com*

**This brochure supplement provides information about Eva Xu that supplements the Charles Schwab Investment Advisory, Inc. brochure. You should have received a copy of that brochure. Please contact the Schwab Intelligent Portfolios Team at (855) 694-5208 if you did not receive Charles Schwab Investment Advisory, Inc.'s brochure or if you have any questions about the contents of this supplement.**

**Charles Schwab Investment Advisory, Inc.  
211 Main Street  
San Francisco, CA 94105**

## **Eva Xu, CFA®**

Born 1962

### **Educational Background and Business Experience**

#### **Education**

##### **Post Secondary Education - Completed**

*Date degree conferred: 1995*

*Simon Fraser University*

*Burnaby, Canada*

*Ph.D, Economics*

*Date degree conferred: 1990*

*Simon Fraser University*

*Burnaby, Canada*

*MA, Economics*

*Date degree conferred: 1985*

*Tsinghua University*

*Beijing, China*

*BS, Physics*

#### **Professional Designations**

*CFA Institute*

*Chartered Financial Analyst*

*To obtain the Chartered Financial Analyst® certification, candidates must meet requirements in the areas of education, examination and professional conduct. The education requirement can be met with one of the following: a bachelor's (or equivalent) degree; four years of qualified, professional work experience; or a combination of college and work experience that totals at least four years. Candidates must complete a graduate-level self-study program that includes curricula in the areas of ethics and professional standards, investment tools, asset classes, portfolio management and wealth planning, and they must successfully pass three course exams. Chartered Financial Analyst charter holders agree to abide by the CFA Institute Code of Ethics and Standards of Professional Conduct and its Candidate Responsibility Statement.*

#### **Business Experience**

*The following section displays the business experience of the individual for at least the past 5 years.*

*Dates: 2012 to Present*

*Charles Schwab Investment Advisory, Inc.*

*Senior Portfolio Manager – Schwab Intelligent Portfolios™*

#### **Disciplinary Information**

*This section includes information about legal or disciplinary events reported about this individual, such as formal investigations and disciplinary actions initiated by regulators, certain criminal charges, and/or convictions.*

*This individual has no legal or disciplinary events that are required to be disclosed.*

#### **Other Business Activities - Investment Related**

*This individual has no other investment related business or occupation that is required to be disclosed.*

#### **Outside Business Activities - Other**

*The firm allows employees to engage in certain other outside activities. If the individual is currently involved in any outside business activities that represent 10% or more of his or her time and income, the activities are displayed below:*

*There are no other outside business activities to disclose.*

**Eva Xu, CFA®**

**Additional Compensation**

*This individual does not receive any economic benefit for providing advisory services, other than a regular salary and bonus.*

**Supervision**

*Eva Xu's investment advisory activities are conducted as a part of a Portfolio Management Team and are supervised by the CSIA Asset Management Investment Committee. Eva Xu's activities are also supervised by James Peterson, Chief Investment Officer, Schwab Intelligent Portfolios™ and Schwab Managed Portfolios™. The Investment Professionals are responsible for oversight of client accounts and for managing client accounts in accordance with the client's investment objective. James Peterson can be reached directly by calling the telephone number on the cover of this brochure supplement.*



**Effective March 30, 2018**

## **Brochure Supplement**

### **James Peterson**

*Charles Schwab Investment Advisory, Inc.*

*Chief Investment Officer, Schwab Intelligent Portfolios™ and Schwab Managed Portfolios™*

*9800 Schwab Way*

*Lone Tree, CO 80124*

*+1 (720) 418-4067*

*James.Peterson@schwab.com*

**This brochure supplement provides information about James Peterson that supplements the Charles Schwab Investment Advisory, Inc. brochure. You should have received a copy of that brochure. Please contact the Schwab Intelligent Portfolios Team at (855) 694-5208 if you did not receive Charles Schwab Investment Advisory, Inc.'s brochure or if you have any questions about the contents of this supplement.**

**Charles Schwab Investment Advisory, Inc.  
211 Main Street  
San Francisco, CA 94105**

## **James Peterson**

*Born 1962*

### **Educational Background and Business Experience**

#### **Education**

##### **Post Secondary Education - Completed**

*Date degree conferred: 1990*

*Louisiana State University*

*Baton Rouge, LA*

*Ph.D, Business*

*Date degree conferred: 1985*

*University of Wisconsin - Eau Claire*

*Eau Claire, WI*

*BBA, Business*

##### **Post Secondary Education Attended - No degree conferred**

*Date attendance began: 1980 to Date attendance ended: 1983*

*University of Wisconsin - Madison*

*Madison, WI*

*Computer and Information Sciences*

#### **Business Experience**

*The following section displays the business experience of the individual for at least the past 5 years.*

*Dates: 2018 to Present*

*Charles Schwab Investment Advisory, Inc.*

*Chief Investment Officer, Schwab Intelligent Portfolios™ and Schwab Managed Portfolios™*

*Dates: 2012 to 2018*

*Charles Schwab Investment Advisory, Inc.*

*Chief Investment Officer*

#### **Disciplinary Information**

*This section includes information about legal or disciplinary events reported about this individual, such as formal investigations and disciplinary actions initiated by regulators, certain criminal charges, and/or convictions.*

*This individual has no legal or disciplinary events that are required to be disclosed.*

#### **Other Business Activities - Investment Related**

*This individual has no other investment related business or occupation that is required to be disclosed.*

#### **Outside Business Activities - Other**

*The firm allows employees to engage in certain other outside activities. If the individual is currently involved in any outside business activities that represent 10% or more of his or her time and income, the activities are displayed below:*

*There are no other outside business activities to disclose.*

#### **Additional Compensation**

*This individual does not receive any economic benefit for providing advisory services, other than a regular salary and bonus.*

## **James Peterson**

### **Supervision**

*James Peterson's investment advisory activities are conducted as a part of a Portfolio Management Team and are supervised by the CSIA Asset Management Investment Committee. James Peterson's activities are also supervised by the President of CSIA, Rick Wurster. The Investment Professionals are responsible for oversight of client accounts and for managing client accounts in accordance with the client's investment objective. Rick Wurster can be reached directly by calling the telephone number on the cover of this brochure supplement.*