

Relationship Summary: Broker-Dealer

What you should consider when choosing a brokerage relationship at Schwab.

Charles Schwab & Co., Inc. (Schwab) is a broker-dealer registered with the Securities and Exchange Commission (SEC). The summary below highlights the nature of the brokerage relationship with our clients. Schwab is also an investment adviser registered with the SEC. Our brokerage and investment advisory services and fees differ, and we believe it is important for you to understand those differences. To compare, see a summary of Schwab's investment advisory relationships at www.schwab.com/relationship-summary-ia. For more general information about different financial professionals and investing, including free and simple tools to research firms and their representatives, visit the SEC's website at www.investor.gov/CRS.

We hope you will take the time to read this information and ask questions. We welcome them.



What investment services and advice can you provide me?

We offer a wide range of investment products with no account minimums for most domestic accounts. Our offerings include both affiliated products that are managed by Schwab and unaffiliated investment products that are managed by independent third parties.



- ✓ We offer investment and account recommendations if you would like advice.
- ✓ We will give you advice that is a one-on-one recommendation and specific to you and your situation at that time. As such, a recommendation only applies at the point in time when we provide it to you.
- ✓ The decision to invest will always be yours—we will not place any trades on your behalf without your direction. We do not manage or monitor your brokerage accounts.
- ✓ We also provide Schwab research and other market data, but this type of information will never be a recommendation for you specifically.

For more information about our services, go to www.schwab.com/transparency and read our **Best Interest Disclosure**.

Questions to Ask

- Given my financial situation, should I choose an investment advisory service?
- Should I choose a brokerage service?
- Should I choose both types of services? Why or why not?
- How will you choose investments to recommend to me?
- What is your relevant experience, including your licenses, education, and other qualifications?
- What do these qualifications mean?

What fees will I pay?

If you place a trade, you will pay a commission or transaction fee in some cases. There can also be expenses built into the trade price or the investment itself.

- ✓ The fee you pay is the same whether we recommend an investment to you or not. We earn money from third parties or affiliates on certain products, so we have an incentive to encourage investment in those products.
- ✓ You may also pay account- or transaction-related fees.
- ✓ *You will pay fees and costs whether you make or lose money on your investments. Fees and costs will reduce any amount of money you make on your investments over time. Please make sure you understand what fees and costs you are paying.*



To see more information about our fees, go to www.schwab.com/transparency and read our **Best Interest Disclosure** or go to www.schwab.com/pricing-guide.

Questions to Ask

- Help me understand how these fees and costs might affect my investments.
- If I give you \$10,000 to invest, how much will go to fees and costs, and how much will be invested for me?

What are your legal obligations to me when providing recommendations? How else does your firm make money and what conflicts of interest do you have?

All recommendations for your brokerage account will be made in a broker-dealer capacity unless otherwise expressly stated at the time of the recommendation. *When we provide you with a recommendation*, we have to act in your best interest and not put our interest ahead of yours. At the same time, the way we make money creates some conflicts with your interests.

You should understand and ask us about these conflicts because they can affect the recommendations we provide you. Here are some examples to help you understand what this means. We and our affiliates earn money from:

- ✓ Shareholder service fees paid to us by third-party fund providers and management fees paid to our affiliate adviser by affiliated mutual funds and ETFs, shares of which are held in your accounts.
- ✓ The “spread” on cash in your accounts—i.e., the difference between what we earn and what we pay you in interest.
- ✓ Dealer concessions or markups when trading as principal in your accounts.
- ✓ Insurance companies when you purchase an annuity or other insurance products.

For more information about our conflicts, go to www.schwab.com/transparency and read our Best Interest Disclosure.

Question to Ask

- How might your conflicts of interest affect me, and how will you address them?

How do your financial professionals make money?



Our representatives receive cash payments based on the amount of assets you have with us and the time, complexity, and expertise required to help you with any of our services; specifically, they receive compensation to navigate you to our investment advisory services and service your accounts once enrolled in such services. They do earn more for recommending certain services over others, but what they earn is not directly based on the revenue the firm earns.

For more information on how we pay our representatives, go to www.schwab.com/representative-compensation.

Do you or your financial professionals have legal or disciplinary history?

Yes.

For free and simple tools to research our firm and representatives, visit www.investor.gov/CRS.

Questions to Ask

- As a financial professional, do you have any disciplinary history?
- For what type of conduct?



Where can I find additional information?

For additional information about our investment advisory or brokerage services, go to www.schwab.com/transparency. To request a copy of this relationship summary, call 800-435-4000.

Questions to Ask

- Who is my primary contact person?
- Is he or she a representative of an investment adviser or a broker-dealer?
- Who can I talk to if I have concerns about how this person is treating me?

Relationship Summary: Investment Advisory

What you should consider when choosing an investment advisory relationship at Schwab.

Charles Schwab & Co., Inc. (Schwab) is an investment adviser registered with the Securities and Exchange Commission (SEC). The summary below highlights the nature of investment advisory relationships with our clients. Schwab is also a broker-dealer registered with the SEC. Our brokerage and investment advisory services and fees differ, and we believe it is important for you to understand those differences. To compare, see a summary of Schwab's brokerage relationship at www.schwab.com/relationship-summary-bd. For more general information about different financial professionals and investing, including free and simple tools to research firms and their representatives, visit the SEC's website at www.investor.gov/CRS.

We hope you will take the time to read this information and ask questions. We welcome them.



What investment services and advice can you provide me?

We sponsor several advice programs that provide different services, feature different investments, and have different account minimums and levels of account monitoring. Our affiliates participate in some of these programs as discretionary or non-discretionary Portfolio Managers.



- ✓ For automated advice from a robo-adviser, where our affiliated investment adviser, Charles Schwab Investment Advisory, Inc. (CSIA), monitors and makes the decisions and investments for you: Schwab Intelligent Portfolios® (\$5,000 minimum) or Schwab Intelligent Portfolios Premium™, which combines the robo-adviser with financial planning (\$25,000 minimum).
- ✓ For advice from our affiliate investment adviser, Charles Schwab Investment Management, Inc. (CSIM), or unaffiliated advisers where the advisers monitor and make the investment decisions for you: Schwab Managed Account Services™ (\$100,000 minimum).
- ✓ For accounts managed by CSIM using a particular investment strategy, where the adviser monitors and makes the investment decisions for you: Schwab Managed Portfolios™ (\$25,000 minimum).
- ✓ For complex or specialized needs, a referral to an unaffiliated professional adviser: Schwab

Advisor Network® (\$500,000 minimum).

- ✓ For advice and periodic portfolio reviews from a team of professionals at our affiliated investment adviser, Schwab Private Client Investment Advisory, Inc. (SPCIA), where you make the investment decisions: Schwab Private Client™ (\$500,000 minimum until January '21, then \$1,000,000).
- ✓ For individualized planning advice in a written financial plan with no monitoring: Schwab Financial Planning Services.

To learn more about specific services for each program, go to www.schwab.com/advisory to access the relevant sections of each program Disclosure Brochure: (1) Advisory Business; Types of Clients; or (2) Services, Fees and Compensation; Account Requirements and Types of Clients.

Questions to Ask

- Given my financial situation, should I choose an investment advisory service?
- Should I choose a brokerage service?
- Should I choose both types of services? Why or why not?
- How will you choose investments to recommend to me?
- What is your relevant experience, including your licenses, education, and other qualifications?
- What do these qualifications mean?

What fees will I pay?

We charge a fee for some, but not all, of our advisory services, including asset-based fees and fixed one-time and recurring fees. Some of these fees may be negotiable.

- ✓ Our asset-based or wrapped fees include most transaction costs, and could be higher than fees charged for advisory services that do not include such costs. There are other fees that will apply to your account, such as mutual fund and ETF operating expenses (including management fees paid to CSIM for funds managed by them), costs for trades executed at a firm other than Schwab, and account services fees.
- ✓ The more assets in your accounts, the more money Schwab and its affiliates earn, so we have an incentive to encourage you to invest more assets. We earn money from third parties or affiliates on certain products, including cash, mutual funds, and ETFs held in your accounts, so we have an incentive to encourage such investments.
- ✓ You will pay fees and costs whether you make or lose money on your investments. Fees and costs will reduce any amount of money you make on your investments over time. Please make sure you understand what fees and costs you are paying.



To learn more about specific fees for each program, go to www.schwab.com/advisory to access the relevant sections of each program Disclosure Brochure: (1) Fees and Compensation; or (2) Services, Fees and Compensation.

Questions to Ask

- Help me understand how these fees and costs might affect my investments.
- If I give you \$10,000 to invest, how much will go to fees and costs, and how much will be invested for me?

What are your legal obligations to me when acting as my investment adviser? How else does your firm make money and what conflicts of interest do you have?

All recommendations regarding your advisory account will be in an adviser capacity. When we, CSIA, CSIM, or SPCIA act as your investment adviser, we have to act in your best interest and not put our interest ahead of yours. At the same time, the way we make money creates some conflicts with your interests.

You should understand and ask us about these conflicts because they can affect the recommendations we provide you. Here are some examples to help you understand what this means. We and our affiliates earn money from:

- ✓ Shareholder service fees paid to us by third-party fund providers and management fees paid to CSIM by affiliated mutual funds and ETFs, shares of which are held in your accounts.
- ✓ The “spread” on cash in your accounts—i.e., the difference between what we earn and what we pay you in interest.
- ✓ Fees from third-party advisers participating in our referral service.
- ✓ Other compensation and conflicts that are specific to the different programs.

To learn more about specific conflicts for each program, go to www.schwab.com/advisory to access the relevant sections of each program Disclosure Brochure: Other Financial Industry Activities and Affiliations; Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.

Question to Ask

- How might your conflicts of interest affect me, and how will you address them?

How do your financial professionals make money?



Our representatives include branch-based Financial Consultants and phone-based representatives who help you select the program or service that best meets your needs. They receive cash payments based on factors like the amount of assets you have with us and the time, complexity, and expertise required to help you with any of the services we provide; specifically, they receive compensation to navigate you to our investment advisory services and service your accounts once enrolled in such services. They do earn more for recommending certain services over others, but what they earn is not directly based on the revenue the firm earns.

CSIM and CSIA Portfolio Managers and SPCIA Private Client Advisors receive a fixed base salary and may earn a discretionary bonus based on the financial performance of The Charles Schwab Corporation (CSC). CSIM and CSIA Portfolio Managers also have the potential to participate in

discretionary equity awards. For certain CSIM Portfolio Managers managing strategies within Schwab's Managed Account Services, their discretionary bonus is funded both on the financial performance of CSC and their strategy's performance results or asset growth.

For more information on how we pay our representatives, go to www.schwab.com/representative-compensation.

Do you or your financial professionals have legal or disciplinary history?

Yes.

For free and simple tools to research our firm and representatives, please visit www.investor.gov/CRS.

Questions to Ask

- As a financial professional, do you have any disciplinary history?
- For what type of conduct?



Where can I find additional information?

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Questions to Ask

- Who is my primary contact person?
- Is he or she a representative of an investment adviser or a broker-dealer?
- Who can I talk to if I have concerns about how this person is treating me?



January 1, 2021

Schwab Financial Planning Services Disclosure Brochure

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This 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 1-800-435-4000. 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.

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Advisory Business

Charles Schwab & Co., Inc. (“Schwab”) is a wholly owned subsidiary of The Charles Schwab Corporation (“CSCorp”), a Delaware corporation that is publicly traded and listed on the NYSE (symbol: SCHW). Schwab has been registered as an investment advisor since July 24, 1987.

Schwab offers various fee-based financial planning services described in this brochure (collectively, the “Service”): the Schwab Plan Comprehensive (available beginning April 2019), the Schwab Personal Financial Plan™ (the “PFP”), and the Schwab Equity Compensation Consultation (the “ECC”). A representative of Schwab who specializes in financial planning (the “Specialist”) will work with you to analyze your goals and then provide a written report on the following aspects of financial planning as they relate to your situation (the “Analysis”).

At Schwab’s discretion, based on the complexity of the needs, amount of enrolled assets, client preference, and other factors, some clients might be offered a Schwab Plan Comprehensive, a Schwab Personal Financial Plan, or a Schwab Equity Compensation Consultation.

These financial planning services may include analysis of certain aspects of financial planning as related to your situation, such as retirement needs, education funding, estate planning, or stock option grants, as applicable.

The PFP is a comprehensive financial planning service, with access to other specialized features, as appropriate. The PFP includes a consultation with a Specialist who will analyze your situation and provide a written analysis. The PFP covers general and complex financial planning topics as applicable to you, which may include retirement planning, including Social Security and pension analysis, investment and portfolio planning, estate and legacy planning, charitable giving, and education funding. Additional applicable topics may include an analysis of your current assets and cash flow.

The ECC offers personalized advice on complex executive compensation, including stock option grants and related strategies. Through a detailed discovery process, the ECC helps clients review goals, risk tolerance, and concerns and provides customized guidance based on the client’s situation.

For the Schwab Plan Comprehensive, Specialists use a digital planning tool and consider client answers to questions regarding financial situation, including assets and liabilities, overall goals, and risk tolerance. The planning tool provides the basis for a planning conversation with the client that may include topics as applicable to the client, such as retirement planning, savings, and estate planning.

The Specialist will help you identify and prioritize your goals using information that you have provided. The Specialist will review the Analysis with you, help you prioritize your next steps, and assist you in developing an action plan. You are not obliged to maintain a brokerage account with Schwab in order to receive the Service. The Service suggests a general asset allocation based on your stated risk tolerance, age, investment time horizon, and investment experience.

The Analysis is provided on a discrete basis and at a point in time and does not involve ongoing advice. Therefore, it is important for you to monitor your personal situation and current events, such as changes in tax laws and financial markets. You should consult with your tax advisor or CPA on all tax-related matters and with your attorney on all legal matters before taking any action suggested in your Analysis or financial planning analysis generally.

Schwab has no discretionary authority or responsibility with respect to your brokerage accounts discussed as part of the Analysis. Schwab does not give legal or tax advice. You should carefully consider all relevant factors before deciding how or whether to implement recommendations contained in your Analysis or financial planning analysis generally. After Schwab has presented and explained the Analysis to you, all obligations associated with the Service will end.

If you choose to implement through Schwab any or all of the recommendations based on the Service described above, Schwab may execute transactions for your account as agent or principal as described below, outside of the Service.

Fees and Compensation

Fees

Standard Service fees are as follows: \$300 for a point-in-time Schwab Plan Comprehensive; \$2,000 for the PFP; and \$2,000 for the ECC. For the PFP and ECC, where additional or more in-depth analysis is required, or requested by you, the fee may be higher due to the addition of hourly fees—currently \$150 per hour. If you require additional or more specialized financial planning assistance, additional costs may apply depending on the complexity of your needs.

Discounts or waivers may apply to certain client groups (such as employees of certain businesses and clients of certain independent investment advisors who have a business relationship with Schwab), to clients enrolled in other Schwab investment advisory services, to clients purchasing multiple versions of the Service, as a result of special promotions or marketing campaigns, or otherwise at Schwab’s discretion.

Discounts may also be given to employees of Schwab and its affiliates. The fee is payable when you sign the Financial Planning Services Agreement and return it to Schwab. If you decide to cancel your participation in the Service, you should inform your Specialist within five (5) business days of signing the Financial Planning Services Agreement in order to receive a full refund. An employer, independent investment advisor, or other group may arrange to pay the Service fees on behalf of its employees, clients, or members.

Compensation

Specialists, including Financial Planners, are not compensated for recommending particular investment products or services.

Financial Planner Compensation

Financial Planners receive compensation in the form of a salary and a bonus based on factors such as corporate and individual performance.

Financial Consultant Compensation

As part of delivering the Schwab Plan Comprehensive, Financial Consultants may recommend specific Schwab-sponsored investment advisory programs to clients, as appropriate. However, Financial Consultants are not compensated for referring clients to the Schwab Plan Comprehensive, PFP, or ECC. In addition to their base salaries, Financial Consultants receive compensation for successfully navigating clients to investment advisory programs and for servicing those clients after enrollment in such programs. Schwab as a company may earn more or less revenue depending on what products and services a Financial Consultant recommends and a client chooses. Financial Consultant compensation varies by the type of program or service an account participates in. As detailed in the applicable disclosure brochure for the advisory program, Schwab has designed Financial Consultant compensation to be based on factors that 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.

Performance-Based Fees and Side-By-Side Management

Schwab does not receive performance-based fees in connection with the Service, and side-by-side management is not applicable.

Independent Branch Leaders

Independent Branch Leaders (“IBLs”) and Independent Branch representatives (“IB representative”) may refer clients or prospects to the Schwab Plan Comprehensive, PFP, or ECC. For any referrals made by the IBL or an IB representative in his/her branch, the IBL will receive a one-time payment based on the fee paid for the plan and the tenure of the branch (ranging from 185% to 50% of the amount paid).

Benefits to Schwab Affiliates

As a result of discussions related to the Schwab Plan Comprehensive, the PFP, or the ECC, clients may be recommended certain advisory offerings sponsored by Schwab, and enrollment in such offers would result in revenue to Schwab and its affiliates.

Conflicts of Interest and How They Are Addressed

Specialists and Schwab representatives, such as Financial Consultants, are subject to training, supervision, regulatory requirements, and internal policies and controls that are reasonably designed so that clients are recommended only to those advisory offers that are appropriate for them in light of their financial circumstances.

In addition, as detailed in the "Compensation" section above, Specialists, including Planning Consultants, are not compensated for recommending particular investment products or services, including any advisory offerings sponsored by Schwab.

Types of Clients

The Service is available to investors in need of in-depth, one-time personalized financial planning.

Methods of Analysis, Investment Strategies, and Risk of Loss

The methods of analysis that Schwab uses to produce the Analysis, and to inform the Specialist's discussion of the Analysis, include the creation of personal financial statements (i.e., current cash flow statement, projected cash flow, current net worth, projected net worth statement, and Monte Carlo analysis, which is described below) based on the information you provide through statements and conversations. The accuracy of the information you provide is crucial to the usefulness of the Analysis.

The Analysis is based on the information you provide and on the static assumptions—e.g., fixed return rates and fixed life expectancies. In reality these variables will not be static—market fluctuations will affect overall asset performance, and uncertain life expectancies may cause clients to outlive their resources or fail to accumulate necessary resources.

Monte Carlo analysis is a statistical method that helps assess the effect of these risks by randomizing return rates, which helps analyze the risk of market fluctuations.

Monte Carlo analysis is a projection of the future that attempts to represent the majority of all possible outcomes under a given set of inputs, and does not represent the full universe of all possible futures. Monte Carlo analysis is not a guarantee of future outcomes.

Exercising and/or selling equity compensation may create additional tax consequences. You should consult with your tax advisor or CPA on all tax-related matters. Failure to exercise options prior to expiration may result in forfeiture of value. Equity compensation such as stock options and restricted stock is subject to market fluctuation which could lead to loss of value.

Disciplinary Information

The SEC and other regulatory agencies and organizations have taken certain disciplinary actions against us 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 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 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 MSRB 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. (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 agreed to take a number of actions to improve procedures and reinforce Schwab’s commitment to its clients. These actions included 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 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. Although the judgment was subject to a potential appeal and further proceedings on damages, 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

Schwab is primarily engaged in business as a broker-dealer, is registered as a broker-dealer under the Securities Exchange Act of 1934, and is a member of FINRA. We provide brokerage services to clients located throughout the United States and, in some circumstances, outside the United States. Incidental to our broker-dealer business, we offer our 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 and insurance. We also provide certain online data and financial reporting services.

Schwab is also registered as an investment advisor under the Investment Advisers Act of 1940. In addition to the Service, Schwab provides other investment advisory services. The Schwab Private Client Advisory service is offered through Schwab’s affiliated registered investment advisor Schwab Private Client Investment Advisory, Inc. Other programs in which Schwab acts as a registered investment advisor include the Schwab Managed Portfolios™ (“SMP”), Managed Account Select® and Managed Account Connection® wrap fee programs sponsored by Schwab. Schwab also sponsors Schwab Intelligent Portfolios Solutions™ an investment advisory service that can include both financial planning and periodic guidance from Schwab planning consultants and discretionary portfolio management. Schwab also makes referrals to unaffiliated independent investment advisors through the Schwab Advisor Network®.

Schwab is a Futures Commission Merchant and offers futures trading to qualified clients.

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

Code of Ethics

Schwab has a code of ethics adopted pursuant to SEC Rule 204A-1 under the Investment Advisers Act of 1940 (the “Code”). The Code is intended to reflect the fiduciary principles that govern the conduct of covered representatives when they are acting in an investment advisory capacity. The Code requires that covered representatives comply with applicable federal securities laws; report violations of the Code; and, for those deemed “access persons” by virtue of their involvement in 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 private offerings. The Code prohibits access persons from disclosing portfolio transactions or any other nonpublic information to anyone outside of Schwab or its affiliates, 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 upon request.

Participation or Interest in Client Transactions

Schwab does not effect securities transactions as part of the Service.

Personal Trading

Schwab monitors the personal securities holdings and trading of its 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, Schwab’s Compliance Manual, and other applicable policies. Additionally, covered 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 for client transactions as part of the Service.

Review of Accounts

The Service is not ongoing and does not include periodic review of clients' financial situations. As described in "Advisory Business," clients of the Service receive a written Analysis, the contents of which vary according to clients' particular financial situations and according to the type of Service selected by the client.

Client Referrals and Other Compensation

Schwab has entered into an agreement (the "Referral Agreement") with USAA Investment Management Company ("USAA IMCO") under which Schwab will pay USAA IMCO based on a percentage of the assets in Schwab accounts attributable to a referral by USAA IMCO, including assets in accounts discussed as part of the Analysis. Under the Referral Agreement, Schwab will pay USAA IMCO an annual percentage amount of 0.15% (or 15 basis points) of asset balances of applicable accounts.

Custody

Schwab does not take custody of client assets or securities in connection with the Service, which is available to people who do not have a Schwab brokerage account.

Investment Discretion

Schwab does not have or accept investment discretion over client accounts as part of the Service.

Voting Client Securities

Schwab does not have or accept authority to vote clients' securities (i.e., proxy voting) as part of the Service.

Financial Information

Schwab does not require or solicit prepayment of the Service fee 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.

