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?

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?
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Schwab Managed Account Services™ Disclosure Brochure for Clients of Independent Investment Advisors

Charles Schwab & Co., Inc. Disclosure Brochure for the Managed Account Services Wrap Fee Program

SEC File No. 801-29938 Disclosure Brochure

This wrap fee program brochure provides clients of independent investment advisors with 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 your advisor directly, or Schwab Alliance at 1-800-515-2157. 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.

Additional information about Schwab is also available on the SEC's website at www.adviserinfo.sec.gov.

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Services, Fees and Compensation

This brochure describes the following managed account programs sponsored by Charles Schwab & Co., Inc. ("Schwab") for you as a client of an independent investment advisor, bank or trust company ("advisor"): the Managed Account Select® ("Select") program and the Managed Account Access® ("Access") program (Select and Access are each referred to as a "program," collectively referred to as "programs"). Schwab also sponsors other wrap fee programs with separate disclosure brochures that are available upon request.

The programs allow you to select one or more money managers (MMs) with the assistance of your advisor. In each program, an MM manages your investment portfolio on a discretionary basis pursuant to a stated investment strategy.

The Select program consists of MMs that are unaffiliated with Schwab. These MMs are evaluated and monitored by Charles Schwab Investment Advisory, Inc. (CSIA), an affiliate of Schwab.

The Access program includes MMs that are unaffiliated with Schwab as well as MMs that are affiliated with Schwab. Charles Schwab Investment Management, Inc. (CSIM), an affiliate of Schwab, manages strategies in the Access program through its ThomasPartners Investment Management® ("ThomasPartners®") and Windhaven Investment Management® ("Windhaven®") business divisions. These strategies are referred to herein, respectively, as the ThomasPartners® Strategies and Windhaven® Strategies.

Fees. Clients pay a single asset-based fee to participate in a program. The fee covers services provided by Schwab, including custody, execution of transactions by Schwab and program administration, and the discretionary asset management services provided by the MMs. The fee does not cover trades executed by broker-dealers other than Schwab. In addition to the program fee, Schwab may receive separate compensation for some transactions and services as described below. The program fee is separate from the fee charged by your advisor. Clients of the programs may include individuals, trusts, charitable organizations, pension and profit-sharing plans, corporations and other business organizations.

The programs are sponsored by Schwab. In the Select program, CSIA assists with MM and strategy selection, conducts an operational evaluation of MMs, monitors the MMs' performance periodically and provides MM research for use by your advisor and you. In the Access program, CSIA conducts operational evaluations of unaffiliated MMs. Schwab provides custody, execution, reporting, program administration and related services for accounts under both programs; in rendering execution services, Schwab generally will route orders for equity securities to third-party broker-dealers. Schwab is a full-service financial services company, offering securities and brokerage services, investment guidance and a full range of investment and financial products.

MM Asset Management Services

Your selection of an MM to manage your account is subject to the acceptance by the MM. An MM may decline to manage your account based on your investment objectives, financial situation, requested investment restrictions or other matters. If the MM accepts management of your account, the MM will provide discretionary investment advisory services and will be responsible for all investment decisions in your account. You authorize the MM you select to manage your assets on a discretionary basis by purchasing and/or selling individual stocks, bonds, money market instruments, money market funds, or other instruments as and when the MM determines appropriate without your approval of each transaction. In managing your account, the MM will employ the investment strategy you have selected for your account. Each MM (and its investment strategies) is described in the MM's Form ADV brochure ("MM brochure"), its MM Profile (in the case of Select MMs—see "Information About MMs,") and any other material the MM may give to you. The MM's discretionary authority will remain in full force and effect, even if you become incompetent or disabled, unless revoked or terminated by you in a written notice to Schwab. You should not attempt to place trades in your account unless and until you terminate your MM's authority by giving Schwab at least two business days' notice. Upon termination of your account, MMs are not authorized to withdraw or transfer any money, securities or other property either in your name or otherwise, except as necessary to pay for or execute transactions in your account.

In completing your client account application, you will provide information about yourself and your investment objectives. You will have the opportunity to impose reasonable restrictions on the management of your account. You may request that specified securities or categories of securities not be purchased for your account, but your MM may decline your requested restriction if your MM deems it unreasonable. You will not be able to impose restrictions on individual holdings in a mutual fund or exchange-traded fund. The MM managing your account is responsible for implementing and monitoring any restrictions you place on the management of your account. Schwab will forward to any MM you designate a copy of your client account application, as well as any restrictions you want to impose on your account. Accounts with investment restrictions may perform differently than accounts without restrictions; performance may be lower or higher for accounts with restrictions than those without restrictions. Since the MM's performance composite typically does not include accounts with restrictions, if your account has restrictions the performance of your account may be different than the MM's performance composite.

Working with your advisor, you may have the opportunity to instruct the MM to realize gains or losses in your account for tax reasons. This may include the sale of positions with unrealized losses/gains above a certain amount or the sale of specified securities. The MM will use reasonable efforts to implement your request to harvest tax losses or gains.

Schwab will effect transactions in your account only as instructed by you, any MM appointed by you, or your advisor (if you have granted your advisor trading authority, your advisor has agreed with Schwab not to effect trades in a managed account while an MM has discretionary authority over the account). In any and all transactions effected by or through Schwab in your account, Schwab is acting exclusively as a broker-dealer, and not as an advisor. Any MM you select is responsible for managing your account under the relevant program in a manner consistent with that MM's stated investment strategy, subject to any reasonable restrictions imposed by you. Schwab is not responsible for the MM's performance or adherence to its investment style, your investment objectives or your restrictions.

You may contact an MM directly, although it is generally expected that you will direct questions concerning your account to your advisor. You may change MMs or investment strategies at any time by written notice to Schwab. An MM also may terminate a relationship with you at any time upon 30 days' notice to you, your advisor and Schwab.

Advisor Services and Responsibilities

Your Advisor's Role. Your advisor assists you in determining whether a particular program is appropriate for you. Your advisor will also assist you in determining your investment objectives and asset allocation, and which MMs and strategies to select for your accounts in the programs. Your advisor is also responsible for ongoing monitoring and review of each MM's performance, your asset allocation and your investment objectives. In both programs, your advisor is responsible for reviewing the MM's investment strategy, performance, disciplinary record and other due diligence information.

In the Select program, Schwab makes available to your advisor CSIA research in the form of quarterly MM Profiles and Reviews to assist your advisor in the due diligence process. In the Access program, neither Schwab nor CSIA generates research regarding the MMs for use by you or your advisor.

By recommending any program to you, your advisor is responsible for determining that the particular program is appropriate for you. Schwab will not determine whether any program is appropriate for you. Your advisor is also responsible for advising you on the selection of MMs to manage your accounts in the programs.

Although Schwab determines the MMs participating in the programs, the decision to select an MM is solely yours, with the advice of your advisor. Schwab will not recommend MMs to you and is not responsible for your decision to participate in either program or for your choice of MM.

Change in Your Circumstances

If material changes occur to your financial circumstances or investment objectives, or you wish to impose or modify restrictions on the management of your account, it is your responsibility to promptly inform your advisor. Your advisor will respond to your questions and periodically discuss with you whether the management of your account continues to reflect your investment objectives and financial requirements. Your advisor will communicate such information as necessary to the MM managing your account.

Schwab's Execution Services

The program fee covers execution of equity orders, including exchange-traded funds ("ETFs"), by Schwab, as well as execution of fixed income orders by Schwab on an agency basis. Additional costs may apply to the execution of orders by Schwab as principal in fixed income securities in the Select program. "Principal trades" are trades in which a firm like Schwab may sell securities from its own account to a client account or may purchase securities for its own account from a client account. When Schwab or another firm acts as principal for its own account, it accepts the risk of market price and liquidity fluctuations when executing customer orders, and may profit from dealer markups and markdowns.

Equity Order Routing and Execution

Because the program fee covers execution of orders in equity securities only when executed through Schwab, many MMs place most of their orders for the purchase or sale of equity securities (including ETFs) with Schwab.

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, 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 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.

Execution of Transactions in Fixed Income Securities

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.

Fixed income securities generally trade in dealer markets, but some corporate bonds also trade on national securities exchanges. If a fixed income security is traded in the dealer markets, Schwab will generally execute an order as principal unless the MM directs Schwab to execute the order as agent. (Schwab will not execute principal transactions in fixed income securities for affiliated MMs in the Access program.) The principal transactions include a dealer markup or markdown by Schwab (not included in the program fee). If an MM places an order for fixed income securities with Schwab, Schwab will seek the best price reasonably available at that time by searching our Schwab BondSource® (SBS) electronic inventory and trading system. Schwab uses SBS, except on rare occasions (e.g., for very large orders), in an effort to achieve a better price for clients. SBS accesses an extensive inventory of fixed income securities from Schwab, and a network of hundreds of other broker-dealers whose fixed income inventories are included in SBS.

MMs have the ability to place orders for fixed income securities with dealers other than Schwab. Most MMs managing fixed income and bond ladder investment strategies have advised Schwab that they anticipate placing most of their fixed income orders with dealers other than Schwab, which may include a markup or markdown by those dealers (not included in the program fee).

When an MM buys a new bond issue for your account through Schwab acting as principal, Schwab receives a syndicate fee (also known as a dealer concession) which ranges from less than 0.01% to 2.0% of the par value, or face amount, of the bond, depending on the particular bond issue. The dealer concession is a standard custom and practice regarding payment to syndicate members for distributing, and for providing certain operational services associated with, new issues. Schwab as a dealer receives the same amount for any given new issue as other dealers participating in the same tier of the syndicate, and every new issue buyer (the customer) pays the same price no matter from which dealer a purchase is made.

In the programs, MMs will generally execute fixed income transactions with dealers other than Schwab (although MMs are not precluded from executing transactions with Schwab, and Schwab is not precluded from acting as principal in those transactions). Clients will be responsible for any related transaction costs, including, but not limited to, markups or markdowns charged by such other broker-dealers.

Execution of Transactions in Mutual Funds

Schwab will execute all trades in mutual funds in your account. Mutual funds in a program strategy are limited to those fund families with which Schwab has an agreement pursuant to which Schwab renders administrative and shareholder services, generally the funds in Schwab's Mutual Fund Marketplace®. Eligible mutual funds in the programs offer their shares to clients in the programs on a no-load or load-waived basis and may charge Rule 12b-1 (distribution) and/or shareholder servicing fees. Mutual fund shares are purchased at their current net asset value, which means the net asset value next computed after a fund receives an order. Although you will not pay any sales loads or transaction fees on the mutual fund shares purchased for your account, certain funds impose redemption fees if shares are not held for a minimum time period. If you fund your account with mutual fund shares, any mutual funds that are not consistent with the then-current selection of funds in your chosen strategy will be sold and any applicable redemption fees will be deducted from the proceeds, as stated in the prospectus for each fund. All investments in mutual funds are subject to the terms of the relevant fund's prospectus, including associated fees. You will receive prospectuses when the funds are initially purchased for your account.

Trades Through Other Broker-Dealers

The program fee covers commissions or other execution charges for equity trades routed by Schwab. However, the program fee does not cover commissions or execution charges that may be assessed for trades that an MM places with a broker-dealer other than Schwab or markups or markdowns that may be charged by those other broker-dealers on principal trades for fixed income securities. Such commissions may be in addition to or included in the price you receive for your transactions, but in either case are in addition to, and will not reduce or offset, the program fee. Instead, they will reduce the overall return of your account. Schwab incurs costs in processing trades that an MM executes through other broker-dealers, which are covered by the program fee.

Because program fees cover execution through Schwab, MMs will have an incentive to execute most transactions in equity securities through Schwab. However, an MM may execute equity trades through other broker-dealers, including if an MM reasonably believes that another broker-dealer will provide better execution, net of any additional resulting transaction charges, than would be the case if the transaction were executed through Schwab. The MM is responsible for meeting its best execution obligations to you when the MM places trades with Schwab or another broker-dealer. You should review carefully the MM's trading for your account. If your MM will be executing most or all of its trades through broker-dealers other than Schwab, you may be incurring some redundant costs by paying both the program fee (which includes transaction costs for trades routed through Schwab) and the additional costs of trades placed with other broker-dealers. For important information about the frequency and cost of trades executed through broker-dealers other than Schwab, please contact your advisor.

Some MMs with equity strategies may place most of their trades with other broker-dealers, especially MMs with small-cap or preferred strategies. With regard to fixed income and bond ladder strategies, most MMs will generally place transactions with other dealers acting as principal. Such dealers will receive a markup or markdown that is not included in the program fee, just as they would if the transaction were placed through Schwab or another dealer acting as agent rather than as principal.

In addition to cost considerations, an MM may consider various other factors in its best execution analysis as described in the MM brochure, including the liquidity of the security and the need for timely execution. Other broker-dealers may provide an MM with brokerage and research services, as disclosed in the MM brochure. To be eligible to receive a trade from an MM for your account, the other broker-dealer must have an agreement with Schwab under which Schwab will clear and settle transactions executed by that broker-dealer, or the MM must have agreed to use an electronic system to issue settlement instructions to Schwab for trades executed by other broker-dealers. This is described in more detail under the heading "Prime Brokerage, Step-In and Trade-Away Services" in your Schwab account application agreement.

Aggregation of Transactions

Your MM may aggregate or bunch transactions for your account with transactions for other clients for execution purposes under appropriate circumstances. For these purposes, other clients may include other clients of the same MM under another Schwab bundled fee program. In addition, if an MM executes trades with another broker-dealer (as described above), other clients may include additional clients of the MM not participating in any Schwab program or service. This practice will not ordinarily affect or otherwise reduce the costs charged to your account for those transactions. The transactions (as well as any expenses incurred in transactions effected through other broker-dealers) will be allocated according to the MM's policies governing aggregation and allocation of transactions. These policies may require your MM to assign to your account the average price resulting from the aggregated trades. Partial fills of a block security transaction may be allocated by your MM among clients' accounts randomly, pro rata based on the size of the account, or under some other policy adopted by your MM. Your MM's trade allocation policies may result in certain clients paying higher or lower prices for securities than may otherwise have been obtained if the transactions had been executed separately. Additional information about an MM's policies for aggregation and allocation may be contained in the MM brochure.

Transactions may be executed for your account through Schwab at different times, in different markets and at less advantageous prices than applicable to trades for other clients of your MM with the same investment strategy. An MM may have policies and procedures that determine when it will send trades in the Select or Access programs to Schwab in relation to sponsors of other separately managed account programs or other broker-dealers selected by the MM. The MM may include disclosures about its policies and procedures in the MM brochure.

Some MMs, such as the overlay manager for a Diversified Portfolio, may manage accounts based on recommendations or a model portfolio received from another MM (the "model provider"). In such cases, trades for your account may be placed by an MM at different times, and may be executed in different markets and at less advantageous prices, than trades for accounts with the same investment strategy managed directly by the model provider. These differences may result from the application of the model provider's policies and procedures in addition to the MM's trading policies and procedures.

Custody

Schwab acts as sole custodian for all assets in client program accounts and performs all custodial functions customarily performed for securities brokerage accounts, including but not limited to crediting of interest and dividends on account assets. You will retain ownership of all cash, securities, and other instruments in your account. The program fee compensates Schwab for these services. If you have accounts and assets at Schwab that are not in the programs, any fees you are charged for the maintenance of such accounts, for custody of assets, and for other account-related services will be separate from and in addition to your program fee.

Reporting

Schwab will send you a monthly account statement detailing positions and activity in your account during the preceding month. The statement will include a summary of all transactions made on your behalf, all contributions and withdrawals made to or from your account, all fees and expenses charged to your account, and the value of your account at the beginning and end of the period. The statement may be based upon information obtained from third parties. Schwab believes that the data obtained from these third parties is accurate, but has no independent means of verifying and cannot guarantee such accuracy. You also will receive a separate confirmation of each transaction, unless you elect to receive a quarterly report containing confirmation information for trades occurring during that calendar quarter. By signing the Schwab account application, you authorize Schwab to provide trading and other information about your account to the MM managing your account, your advisor, and third parties designated by them. Schwab is not responsible for reviewing transactions in or the value of your account.

Schwab will make available to your advisor information about your account, including positions and activity. In general, the information is intended to facilitate your advisor's monitoring of your account, including the MM's performance. Performance information will be provided by a third party. Schwab believes that the data obtained from the third party is accurate, but does not independently verify, and is not responsible for, its accuracy. Your advisor also may receive additional reports.

Program Fee

Schwab charges an asset-based fee for the services provided by Schwab and the MMs. The maximum fee charged for the programs is set forth in the table below. The fees may be negotiable based on a number of factors that may result in a particular client paying a fee greater or less than the standard fees. The exact fee you will pay is specified in your Schwab account application and any amendments thereto. Schwab may change the fee schedule applicable to your account by notice to you in accordance with your account application and your Schwab account agreement.

Standard Program Fee Schedule for Managed Account Select® and Managed Account Access®

Dollar Value of Assets in Program Accounts	Equity Strategies Tier Annual Rate	Index-Based Strategies Tier Annual Rate	ThomasPartners® Strategy Tier Annual Rate	ETF-Based Strategy Tier Annual Rate	Fixed Income and Corporate Bond Ladder Strategies Tier Annual Rate	Municipal Bond Ladder Strategy Tier Annual Rate
First $250,000	1.00%	0.65%	0.65%	0.75%	0.65%	0.35%
Next $250,000 (over $250K up to $500K)	0.85%	0.65%	0.65%	0.75%	0.65%	0.35%
Next $500,000 (over $500K up to $1M)	0.80%	0.60%	0.50%	0.65%	0.60%	0.35%
Next $1 million (over $1M up to $2M)	0.75%	0.55%	0.50%	0.50%	0.55%	0.30%
Next $3 million (over $2M up to $5M)	0.70%	0.50%	0.45%	0.50%	0.50%	0.30%
Assets over $5 million	0.65%	0.45%	0.45%	0.50%	0.45%	0.25%

Your account is assigned to a fee schedule based on the type of investment strategy you have chosen for your account, as shown in the column headings in the table above. Diversified Portfolios, master limited partnership, options-based, and balanced strategies are subject to the Equity fee schedule. Preferred stock and convertible bond strategies are subject to the Fixed Income fee schedule. The program fee is expressed as an annual rate. The program fee is tiered—i.e., as the market value of your program account reaches a higher breakpoint, as set forth above, the assets within each breakpoint are charged a lower fee. Schwab will calculate your monthly program fee by multiplying the daily value of the assets in your account for each calendar day in the month by the applicable daily fee rate (i.e., the annual rate divided by the number of days in that year) and then adding together the fee for each calendar day in the month. On the first business day of each month, Schwab invoices your program account for the prior month using actual asset values. Because the program fee is billed to your account monthly rather than yearly, the fee you pay on an annual basis may be higher than the annual rate due to the effects of compounding.

Account Grouping

Program accounts may be grouped together to achieve lower fee breakpoints when they have the same address of record and are subject to the same fee schedule or have the same category of investment strategy (i.e., equity strategies). Each type of investment strategy within the following strategy categories has a separate fee schedule for this purpose: Equity, Index-Based, and ThomasPartners; ETF-Based; Fixed Income and Corporate Bond Ladders; and Municipal Bond Ladders. Accounts in each of these strategy categories are referred to as an "Account Group." An Account Group may also include accounts of the beneficial owner's (1) spouse; (2) parents, grandparents and great-grandparents; (3) children, grandchildren, great-grandchildren and their spouses; (4) siblings and their spouses; and (5) an individual whose relationship to the beneficial owner, while not listed in the foregoing, is similar to one of the enumerated relationships. Schwab calculates account grouping fees in the programs by totaling the market value of client accounts within the Account Group and charging those accounts according to the applicable fee schedule. Schwab charges the combined assets in account grouped managed accounts with equity strategies in the following order according to the applicable fee schedule, if any: (i) accounts with Equity strategies; (ii) accounts with Index-Based strategies; and (iii) accounts with ThomasPartners strategies. The fee is then allocated on a pro rata basis to each account in that Account Group. Each account's pro rata amount is calculated by computing the market value of each account as a percentage of the total market value of all accounts within the Account Group.

Schwab automatically groups all eligible accounts opened using the same application form. The account holder must request any others be added to the Account Group. Individual Retirement Accounts ("IRAs"), Roth IRAs, and Education IRAs, as well as Simplified Employee Pension IRAs ("SEP-IRAs"), Savings Incentive Match Plan for Employees IRAs ("SIMPLE IRAs"), and other personal retirement accounts may be aggregated for this purpose. However, other retirement plan accounts subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), as well as charitable remainder trusts, may only be aggregated with accounts that have identical account registrations.

MM Compensation

Under Schwab's agreements with the MMs in both programs, Schwab pays each MM for the discretionary investment advisory service it provides. The fees paid by Schwab to MMs range between 0.20% and 0.40% of assets under management through the programs for ETF strategies, between 0.25% and 0.40% for index-based strategies, between 0.25% and 0.60% for equity investment strategies (excluding index-based, including Diversified Portfolios), between 0.15% and 0.50% for fixed income investment strategies, and pursuant to an agreement between CSIM and Schwab, Schwab pays all costs and expenses incurred by CSIM plus an additional amount that is fixed as a percentage of such costs and expenses. The MM's fee rate will generally become lower as total program assets managed by the MM reach certain levels, although some MMs may be paid on a fee schedule that does not include breakpoints. MMs may pay Schwab in order to participate in seminars organized by Schwab and attended by Schwab representatives, clients or advisors doing business with Schwab Advisor Services™ (AS), which serves independent investment advisors and includes the custody, trading and support services of Schwab. MM participation in these seminars is not required by Schwab.

Services Covered by the Program Fee

The program fee covers the MM's asset management services, as well as the following services provided by Schwab: (1) execution of transactions in equity securities, ETFs, exchange-traded notes (ETNs) and agency transactions in fixed income securities; (2) custody of account assets; (3) program administration; and (4) monthly account statements.

The program fee covers trade execution for transactions in equity securities executed through Schwab. It does not include (1) execution of transactions in fixed income securities by Schwab as principal or (2) execution of transactions in securities by other broker-dealers.

Other Charges and Compensation

Trades in fixed income securities executed by Schwab as principal and trades executed with other broker-dealers will involve transaction charges in addition to the program fee. When Schwab (in the case of fixed income securities) or another broker-dealer executes a trade as principal, Schwab or the other dealer will realize the customary dealer profits or losses on the trade. If the other broker-dealer is acting as principal, that broker-dealer may include a markup or markdown in the price at which the transaction is affected. Schwab also will charge a markup or markdown on transactions executed as principal in fixed income securities in both programs. When a trade is executed by your MM with another broker-dealer, you may pay additional compensation to that broker-dealer, which may include markups, markdowns, commissions, and dealer profits. Any dealer profit, commission, markup or markdown on principal trades will be separate from and in addition to, and will not reduce or otherwise offset, the program fee for your account.

The program fee does not cover certain costs or charges imposed by third parties, such as odd-lot differentials, third-party mutual fund transaction fees on mutual funds transferred into a program account and then liquidated, certain contingent short-term redemption fees, American Depositary Receipt fees, exchange fees, and transfer taxes mandated by law. Schwab also may impose additional charges for special services elected by you or an MM, including without limitation periodic distribution fees, electronic fund and wire transfer fees, certificate delivery fees, and reorganization fees. Schwab and The Charles Schwab Corporation ("CSCorp") also may receive indirect economic benefits, in addition to the program fee, if assets in your accounts are held as cash balances earning Schwab One® taxable interest or if trades are executed by a market center in which CSCorp owns an interest.

If you choose a strategy that invests in open-end mutual funds, closed-end funds, or ETFs, (collectively, "Funds"), you may in effect be paying two fees for asset management or investment services. You will pay your pro rata share of a Fund's fees. Funds pay investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees and expenses. The Fund bears these fees but you ultimately bear your share of these fees as a Fund shareholder. Mutual fund fees are disclosed in the fund's annual and semiannual report or other materials, which may be available on the fund's website or through your advisor. You also will pay the program fee on assets invested in closed-end fund or ETF strategies. Mutual funds available through one of the strategies in the programs may also be available directly from the mutual funds pursuant to the terms of their prospectuses and without paying the program fee (although some such mutual funds may be designed specifically for use with the MM's managed account strategy and may not be available otherwise). Closed-end funds and ETFs in the programs are available outside the program without paying the program fee, subject to applicable transaction charges. You also will pay the program fee on assets invested in closed-end fund or ETF strategies.

MMs that have affiliated funds ("MM Affiliated Funds") in their strategies may have a conflict of interest in deciding whether to purchase and hold shares of those funds in client accounts, because MMs or their affiliates may earn fees from those funds. MM Affiliated Funds may pay the MM and/or their affiliates for investment advisory, administrative and transfer agency services, as well as shareholder and other fund services (collectively, "Fund Services"). Certain MM Affiliated Funds developed for use with an MM's separate account strategies may have arrangements whereby they do not pay any advisory or administrative fees to the Fund manager or sponsor. Please refer to the Fund's prospectus and statement of additional information for more information on fees.

It is possible that MM strategies that use Funds may buy, hold or sell shares of mutual funds or ETFs that are affiliated with Schwab ("Schwab Affiliated Funds"). Schwab or its affiliates may receive fees and other compensation from Schwab Affiliated Funds for Fund Services. In addition, Funds (or their affiliates) that are available in the Schwab Mutual Fund Marketplace® ("MF Marketplace") or Mutual Fund OneSource® ("MF OneSource") services pay Schwab fees for recordkeeping, shareholder services and/or other administrative services, and also may pay Schwab fees for additional services or opportunities, such as education and events. Third-party ETF sponsors or their affiliates may make payments to Schwab for ETF-related opportunities, such as education, events and reporting. Schwab does not receive payment to promote any particular ETF to its customers.

Even if you do not choose a strategy that invests in Funds, it is possible that your MM may decide to buy an ETF for your account with cash that is awaiting investment. This might occur with a subsequent contribution by you to your account after account opening or during the 30-day wash-sale period with respect to sale proceeds resulting from a tax harvesting request. Please see "Investment in Affiliated and Other Funds."

The program fee also does not cover services provided by your advisor. In your contract with your advisor, you have agreed to pay a fee for the advisor's services. The advisor's fee is additional to and separate from the program fee, even though the advisor's fee may also be paid from your account in the program.

Payment of Program Fees and Other Charges

Program fees are deducted from your account in the month following the month for which the fees were incurred. Other charges are deducted from your account when they are incurred. The program fee and other charges are payable from free credit balances, if any, in your account. If there are no free credit balances in your account, Schwab may redeem money market fund shares in your account to cover the charges or notify you to deposit additional funds into your account. Schwab reserves the right to liquidate at any time a portion of the other assets in your account to cover the program fee or other charges. Liquidation may affect the relative balance of your account and also may have tax consequences. Schwab may withhold any tax to the extent required by law, and may remit the tax to the appropriate governmental authority.

Valuation

For purposes of calculating the program fee, Schwab will value a security listed on a national securities exchange, as of the valuation date, at the closing or last sale price on the principal market where the security is traded. If you have an investment strategy that uses options, Schwab will not take into account any negative valuation arising from an option position held in your account. Schwab will value any other securities or investments in your account in a manner determined in good faith to reflect fair value. The actual prices at which you could buy or sell the securities may be different from the prices used to calculate the fee.

Any such valuation is not a guarantee of the value of the assets in your account. In computing the value of securities in your account, Schwab may use a pricing service or other independent evaluator, as well as other independent sources. While Schwab believes these sources to be reliable, Schwab does not verify them or guarantee their accuracy.

Amount of Fees

The program fee may be more or less than you would pay if you purchased separately the types of services included in the programs. You may be able to obtain some or all of the types of services available through the programs on a stand-alone basis through Schwab or other firms. For example, you could separately purchase execution services from Schwab, and you could choose to either pay a commission for each transaction or pay an asset-based fee that would cover all transactions. Similarly, you could separately contract with an MM to manage your assets, although the MM's minimum account size for accounts outside the programs may be higher than the minimum for program accounts, and the MM may charge a different fee.

Depending upon the circumstances, the total of any separately paid charges may be higher or lower than the program fee. Factors that bear upon the cost of the programs in relation to the cost of the same services purchased separately include, among other things, the type and size of your account (and other accounts that you may be able to combine to determine fee breakpoints), the historical and expected size or number of trades for your account, and the number and range of supplementary advisory and other services provided to your account. The program fee also may be higher or lower than the fees charged by other firms for comparable services. An investment strategy available through the programs may be similar to a mutual fund managed by the same MM, and the operating expenses of such a mutual fund may be lower or higher than the program fee.

The Windhaven® Strategies and ThomasPartners® Strategies are available through the Access program and are similar to strategies that may be available in programs maintained by other brokerage firms.

Schwab offers another managed account platform—Managed Account Marketplace® ("Marketplace")—in which Schwab and the participating MMs each assess separate charges for their services rather than a bundled fee. The services of Schwab and the MMs in Marketplace may cost less (or more) in total than in the programs. Like the programs, Marketplace includes brokerage, custody and related services by Schwab, and discretionary management by an MM to accounts opened and maintained by Schwab. More MMs are available in Marketplace than in the programs. Schwab does not act as a program sponsor in Marketplace, which means, among other things, that you and your advisor are responsible for negotiating your own fee and contractual arrangements with the MMs for the management of your account. Schwab does not screen or evaluate MMs in Marketplace.

MMs that have MM Affiliated Funds in their strategies may have a conflict of interest in deciding whether to purchase and hold shares of those Funds in client accounts, because MMs or their affiliates may earn fees from those Funds. See "Other Charges and Compensation."

Investment in Affiliated Money Funds

Cash in your account may be invested in a money market fund sponsored by Schwab, CSIM or another affiliate of Schwab (an "Affiliated Money Fund"), as long as the amount of cash to be invested satisfies the Affiliated Money Fund's minimum investment requirement. CSIM or another affiliate of Schwab serving as investment advisor to an Affiliated Money Fund will receive advisory fees from the Affiliated Money Fund as set forth in the Affiliated Money Fund's prospectus. CSIM or other affiliates of Schwab also may receive other compensation from the Affiliated Money Fund for shareholder servicing, accounting, recordkeeping, expense management and other administrative services (see the prospectus and statement of additional information for the Affiliated Money Fund for more information). If you have a retirement account managed by CSIM, Schwab will offset (reduce) the total Access program fee applicable to your account by an amount determined by multiplying the highest "Expense Ratio" for any Affiliated Money Fund (eligible for retirement accounts in Access) by the amount of assets in your account invested in your chosen Affiliated Money Fund. (The "Expense Ratio" for each Affiliated Money Fund is the ratio that results from dividing the amount of fees received by Schwab and its affiliates from the Affiliated Money Fund by the Affiliated Money Fund's total assets.)

Funds Awaiting Investment or Pending Distribution

Schwab earns interest, generally at money market rates, on aggregate cash balances held in Schwab's bank accounts, which include assets in accounts enrolled in Select or Access that are awaiting investment or pending distribution. Funds awaiting investment include both cash that you have deposited into your account and uninvested amounts held in your account as a result of an authorized transaction. Schwab may earn interest on such amounts through the beginning of the second business day following the deposit or transaction in question. Schwab may earn interest on assets pending distribution from your account beginning on the day the assets are debited from your account and continuing until the distribution check is presented for payment, the timing of which is beyond Schwab's control.

Negative Yield for Cash and Cash Investments

Please note that any cash or cash investments in your account will result in a negative yield to the extent the program fee exceeds the rates of return for Schwab One® interest or for an Affiliated Money Fund chosen as a cash sweep vehicle for your account. Please ask your advisor about current rates on cash and cash investments for your account.

Compensation for Services Outside the Programs

Schwab and its affiliates and their employees and agents benefit from the compensation you pay to Schwab under the programs. To the extent that you use other products or services Schwab offers, Schwab benefits from this additional compensation.

Certain Schwab representatives may receive incentive compensation from Schwab based on the amount of new assets that AS clients place into Schwab's managed account programs, including Access and Select. These Schwab representatives meet with AS advisors but do not meet with their clients. No compensation is paid to AS advisors under this arrangement.

Schwab receives compensation from the Funds that participate in MF Marketplace. Certain funds or fund families pay a flat fee to compensate Schwab for activities related to Schwab's sponsorship of the MF Marketplace and providing brokerage services to Schwab's brokerage customers.

Mutual funds participating in MF OneSource service pay Schwab an asset-based annual fee, which usually equals 0.40% of the average fund assets held at Schwab but may be as high as 0.45%. The fee may be subject to a monthly minimum that generally does not exceed $2,000 and applies beginning with the seventh full month after the fund is made available for purchase at Schwab.

Mutual Fund companies are segmented into relationship tiers based on a combination of their fund assets held at Schwab and the fees paid to Schwab. This tiered structure may lead to conflicts, as fund companies that are in the top tiers will have greater access to Schwab representatives and advisors that custody their clients' assets at Schwab. However, these tiers will not impact or influence selection of any fund on the Mutual Fund Select List or other tools and lists prepared by Schwab.

Other funds that participate in the MF Marketplace (those that are made available with a transaction fee) pay Schwab a low, annual asset-based fee, typically 0.10% annually of the average fund assets held at Schwab, although the fee can range up to 0.25% annually. Some of these funds pay Schwab a set dollar amount per customer account in lieu of the low, asset-based fee, typically $20 per account, but which can range up to $25 per account annually (a "per-position fee").

Schwab's affiliate, CSIM, serves as investment advisor to the Schwab ETFs™, which compensate CSIM out of the applicable operating expense ratios.

The compensation Schwab pays to MMs with ETF strategies may be based in part on Schwab's consideration of whether the Funds in those strategies are in MF OneSource, because Schwab receives remuneration from the Funds as described in the prior paragraph. To the extent Schwab pays an MM more than Schwab would if the MM did not use OneSource Funds in its strategy, this could create an economic incentive for the MM to use OneSource Funds instead of Funds that are not in a OneSource program (e.g., transaction fee funds).

If you do not meet the Schwab money market fund's minimum investment (see "Investment in Affiliated Money Funds"), cash in your account will be held as a free credit balance in your designated cash feature. (Schwab money market funds are the only cash sweep features available to retirement accounts enrolled in the Programs.) As a registered broker-dealer, Schwab may benefit from the possession or use of any free credit balances in your account, subject to restrictions imposed by law.

Risk and Taxes

All investments involve the risk (the amount of which may vary significantly) that investment performance can never be predicted or guaranteed and that the value of your portfolio will fluctuate due to market conditions and other factors—see "Certain Risks." You should understand that all or a portion of your securities may be sold either at the initiation of or during the course of the management of your account under the programs. You should also understand that investments in ETFs by tax-exempt accounts may generate income that is subject to the unrelated business income tax. You are responsible for paying any unrelated business income tax liability associated with your account as well as the timely filing of the applicable tax forms with the Internal Revenue Service (IRS). You are responsible for all tax liabilities arising from such transactions, and you are encouraged to seek the advice of a qualified tax professional.

You may choose the cost basis method for calculating gains and losses on securities transactions in your account for tax purposes. If you do not choose the method, Schwab will calculate your gains and losses using the FIFO (First In, First Out) cost basis method for all securities except mutual funds, which means the first shares acquired of a particular security are the first shares that will be sold. The Average Cost method will be used for mutual funds although lots are sold in a FIFO manner. When an MM sells a security, the cost basis method used to calculate your gains and losses cannot be changed after your trade settles. Your MM's trading authorization includes the ability to select the tax lots they sell in your account. This is known as "versus purchase trading." When an MM places a trade and does not select a lot, the cost basis method listed on your account will be used to calculate your gain/loss.

If you choose to instruct your MM to employ a tax gain/loss harvesting strategy, the actual tax liability will depend on your entire tax and investment profile, including purchases and dispositions in your (or your spouse's) accounts outside of the programs 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 gain/loss harvesting strategy will reduce, defer, or eliminate the tax liability generated by your investment portfolio in any given tax year. Schwab does not represent that any particular tax consequence will be obtained, and you should consult with your professional tax advisors about the consequences of tax gain/loss harvesting in light of your particular circumstances.

Termination of Participation in the Programs

You may terminate your participation in the programs at any time upon written notice to Schwab without penalty, subject to the payment of any fees incurred and allowing at least five business days for Schwab to process your termination instruction. Once your authorizations granted to your MM have been terminated, your account will be charged Schwab's then-current fees and other applicable charges for accounts managed by your advisor at Schwab, and you and your advisor will be responsible for managing your account. If you also terminate your authorizations granted to your advisor, your account will become enrolled in the Schwab independent investor service and will be subject to the fees and commissions applicable to that service unless Schwab notifies you otherwise; you will then be solely responsible for managing your account.

If you terminate the MM for a managed account with a fixed income strategy that holds proprietary shares in a mutual fund developed for use with separate account strategies, your shares in that mutual fund will be liquidated by the MM. You will not have the option of retaining those shares. If you terminate an account with a strategy that uses certain classes of no-load or load-waived shares, you may no longer be eligible to hold those shares, in which case your shares will be converted to an eligible share class that may have sales loads and/or transaction fees.

Depending on current market conditions, if you terminate an MM for a fixed income strategy and direct the sale of the bonds in your account, the MM may need additional time to sell your bonds (particularly municipal bonds). In this situation, your advisor will inform you and give you the option of (1) allowing the MM to have additional time to sell your bonds, and the program fee will continue to apply to assets that remain in your account during this process; or (2) holding the bond in an account that is not managed by the MM and waiting until the bond matures or directing the sale of it yourself at some later date (without the MM's execution capabilities). There can be no assurance as to how long it might take to sell your bonds, and the sale price may be substantially lower than the price which you paid or the price at which the bond was previously traded.

Depending on the size of your account, some bonds may be purchased for your account by fixed income MMs in positions that are smaller than marketable round lots (sometimes called "odd lots"). If you have an odd lot bond, it may be more difficult to sell than a round lot, and the sale price may be substantially lower than the price which you paid or the price at which the position previously was valued. If you decide to terminate your participation in a program and do not plan to hold the odd lot until maturity, it may be advisable for you to direct the sale of the odd lot when you terminate your program participation, as the MM may be able to obtain a better price for it than Schwab or another broker-dealer.

Funding and Adding Securities to Your Account

You may fund your account with, and add to your account, cash, certain mutual fund shares, ETFs, stocks, bonds, or Real Estate Investment Trusts ("REITs"), but Schwab reserves the right to decline to accept particular securities or require you to wait a specific period before depositing certain securities. In addition, ThomasPartners® Strategies will accept master limited partnerships ("MLPs"). You cannot fund your account with certain securities, including foreign securities (other than American Depositary Receipts or, for ThomasPartners Strategies, some foreign ordinary shares), restricted securities, or most open-end mutual fund shares. In addition, ThomasPartners Strategies and Windhaven® Strategies will not accept warrants, rights and units. When funding your account with securities or depositing securities to your account, you should bear in mind that the MM you designate may decide to sell all or a substantial portion of such securities and that you will be responsible for any tax liabilities resulting from such trans-actions, as well as any contingent short-term redemption fees resulting from the sale of mutual fund shares you deposited in your account. Certain MMs will only accept certain types of securities for account funding, such as investment-grade municipal bonds for municipal bond ladder strategies.

Withdrawing or Selling Securities From Your Account

You may be able to request that certain securities be withdrawn or sold from your account. For strategies that involve options, withdrawals or sales of securities may not be permitted because there may be callable options outstanding on the securities in the account. Exceptions could include when the withdrawal or sale is required by court order.

If the market value of your account falls significantly below the specified minimum due to your withdrawal of securities from the account, Schwab may require you to deposit additional money or securities to bring the account up to the required minimum, or Schwab reserves the right to unenroll the account from the program.

Account Requirements and Types of Clients

Types of Clients

The programs are intended for clients seeking discretionary management of their account for a bundled fee. Clients of the programs may include individuals, trusts, incorporated and non-incorporated organizations, and pension and profit-sharing plans.

Account Minimums

Minimum account sizes apply to each investment strategy in the program. The minimum account size for certain types of strategies is generally as follows: $100,000 for equity and MLP strategies; $250,000 for fixed income strategies (including bond ladder strategies) and balanced strategies; and a range from $150,000 to $650,000 for Diversified Portfolios in Select. The minimum for a particular strategy can vary significantly from those described in the preceding sentence. Your advisor can determine for you the exact minimum for a particular strategy. Additional contributions to accounts managed by certain MMs may be subject to minimum amount requirements so that additional contributions of less than the minimum requirement will be held as cash or cash investments and earn interest or be invested in a money market fund as specified by you in your account application.

If the market value of your account falls significantly below the specified minimum due to your withdrawal of assets from the account, Schwab may require you to deposit additional money or securities to bring the account up to the required minimum, or Schwab reserves the right to unenroll the account from the program.

Portfolio Manager Selection and Evaluation

Select Services

CSIA is responsible for MM evaluation and research services. The MMs and investment strategies in the Select program have been determined by Schwab, with the assistance of its affiliate, CSIA, to be appropriate for clients whose asset allocation, investment objectives, risk tolerance and time horizon, as determined with the advice of their advisor, warrant the MM's investment strategy. You and your advisor are responsible for the determination of your asset allocation, investment objectives, risk tolerance and time horizon, as well as whether a particular MM (and their investment strategy) is appropriate for you.

Before an MM and its investment strategy is selected to participate in the Select program, Schwab, with CSIA's assistance, performs a comprehensive review of the MM and its investment strategy, as more fully described below. To be included in Select, an MM must meet the program's business criteria, which include the program's MM fee structure, the program's account minimums, utilization by the MM of the program's portfolio management system, execution by the MM of Schwab's standard MM service agreement and other factors.

In determining whether to recommend to Schwab that an MM and its investment strategy be included in or terminated from Select, CSIA, as the current research provider, evaluates information from both quantitative and qualitative analyses. CSIA's review includes assessing information about the MM and its investment strategy collected from third-party sources and information received directly from the MM through on-site visits, interviews, and/or questionnaires.

For its quantitative analysis, CSIA uses a proprietary scoring system that combines multiple characteristics into a single score which represents the expected future relative performance rank of the MM's investment strategy within its style category. The characteristics considered generally include (i) past performance adjusted for risk and style effects and measured over multiple, non-overlapping time horizons; (ii) assets under management; (iii) cash inflows; and (iv) a returns-based measure of active share, which is a measure of dissimilarity to a benchmark index (for equity strategies only). In its qualitative analysis, CSIA generally considers a variety of investment criteria, including:

- Historical style consistency
- Appropriateness of the strategy for the style category
- The MM's investment strategy and adherence to it
- Diversity of investment approach versus other strategies in Select
- Stability of management and ownership structure
- Governance program of the management company
- Quality of composite return information

As part of its qualitative analysis, CSIA evaluates the MM's operational infrastructure, compliance program, trade procedures and internal control environment to assess the MM's overall operational competency.

CSIA evaluates each MM's investment strategy no less than annually based on the factors described above, except that operational due diligence is performed generally at least once every two years. Changes within an MM's organization or operations that, in CSIA's judgment, warrant review before the regular annual review will be reviewed at that time by CSIA. As a result of these reviews, an MM's investment strategy may be terminated from Select or put on a watchlist (which is available to your advisor). If an MM's investment strategy is put on a watchlist, it will be monitored more closely over a specified time period; it will still be available for new accounts but may ultimately be removed from the program if no improvement occurs. Schwab reserves the right to terminate an MM's investment strategy from Select at any time for any reason.

Schwab or an MM may remove the MM's investment strategy from a program under circumstances where that MM will no longer manage new accounts in the programs that hold that investment strategy. If this happens with an investment strategy that you have chosen, Schwab will inform you and your advisor as soon as practicable. Your advisor will advise you on whether to select a new investment strategy or MM that is available through one of the programs, switch your account to an account outside the programs for management by the same MM (if that MM's investment strategy is available through one of Schwab's other managed account services), or take any other action. It is also possible that Schwab and an MM may agree to move a particular investment strategy from one program to the other. If this happens with an investment strategy you have chosen, Schwab will notify your advisor but Schwab will not notify you. Your account will automatically become a managed account in the other program, subject to the same fees, with no action required on your part. If you want to know whether your strategy changes programs, you should ask your advisor to keep you informed of any such changes. If your chosen investment strategy moves from Select to Access, Schwab will no longer provide research or other information regarding the strategy.

You also may have the option of keeping an existing account under the management of an MM that is not available to new client accounts under either program, subject to the agreement of that MM to continue providing its investment strategy under the program to existing clients and your agreement that Schwab is not responsible for monitoring that MM's performance or providing information on that MM. In that case, you would pay the same fees (unless the MM and Schwab agree to a change in fee schedule) and would receive many, but not all, of the same services as before.

Diversified Portfolios

The Select program also includes Diversified Portfolios, which are also known as multi-strategy portfolios. A Diversified Portfolio strategy includes several component investment strategies ("Component Strategies"), such as large-cap equity, small-cap equity, and fixed income strategies. You can have a Diversified Portfolio strategy in a single account, with a minimum account size (generally $350,000, but the minimum may be as low as $150,000 or as high as $650,000) that is typically less than if you opened separate accounts for each strategy. The Diversified Portfolio strategies currently have several different asset allocations composed of varying percentage allocations of the available Component Strategies ("Asset Allocations"). Some of the Asset Allocations have bond holdings that are tax-exempt, and some have bond holdings that are taxable. SCFR developed these Asset Allocations to accommodate clients with different risk profiles, time horizons, and tax status. Your advisor will help you decide whether a Diversified Portfolio strategy is appropriate for you, and, if so, will help you choose which Asset Allocation is appropriate for you.

The structure of a Diversified Portfolio strategy typically involves an MM acting as "overlay manager," as well as other MMs who provide model investment portfolios or research for the Component Strategies to the overlay manager ("Sub-MMs"). (The Sub-MMs may or may not be available on a stand-alone basis in Select.) The functions of an overlay manager will vary depending on the Diversified Portfolio strategy. Sometimes the overlay manager may have all the trading responsibility for all the Component Strategies, sometimes the Sub-MMs may have all the trading responsibility (which is often the case with fixed income strategies), and sometimes the overlay manager and the Sub-MMs may allocate trading responsibility among themselves depending on the type of trading activity. Examples of the different trading activities which may be allocated among the overlay manager and the Sub-MMs include: initial implementation of your portfolio, subsequent changes to your portfolio based on changes to the Sub-MMs' model portfolios, re-balancing your portfolio to bring it within the guidelines of the Asset Allocation, trading caused by cash withdrawals initiated by you, tax harvesting requests initiated by you, and liquidations requested by you.

The overlay manager is authorized to make adjustments if one or more of the Component Strategies in your portfolio become over- or underweighted from the Asset Allocation as a result of market appreciation or depreciation. Such adjustments will generally be made by the overlay manager when the proportion of equity securities to fixed income securities varies by 5 or more percentage points from the Asset Allocation and when the proportion of one of the Component Strategies varies by more than 10 percentage points from the Asset Allocation. As a result of these potential allocation adjustments, the performance of a Component Strategy in a Diversified Portfolio account may differ from the performance of that Component Strategy in a separate account.

The overlay manager may also monitor your Diversified Portfolio account to make sure your investment restrictions are implemented across all Component Strategies. For taxable accounts, the overlay manager will generally monitor and avoid wash sales.

The following overlay managers—Nuveen Asset Management, LLC ("Nuveen") and Parametric Portfolio Associates LLC ("Parametric")—and the Sub-MMs for their Diversified Portfolio strategies were selected by Schwab for the Select program based on a number of factors, including the following: (i) the reputation, historical performance and organizational stability of the overlay managers and the Sub-MMs; (ii) the overall performance of the Diversified Portfolio strategies based on the combined performance of the Component Strategies (calculated on a hypothetical basis); (iii) the fact that most of the Sub-MMs are affiliates of the overlay manager and have pre-existing working relationships with the overlay manager in other multi-strategy portfolios; (iv) many of the Sub-MMs for the Diversified Portfolio strategies were already in the Select program on a stand-alone basis and have already gone through the selection and review process described under "Select Services"; and (v) the Sub-MMs and overlay managers met Schwab's business criteria for multi-strategy portfolios in the Select program, including the MM fee structure, account minimums, utilization of the program's portfolio management system and execution of Schwab's service agreement. If Schwab (with the Research Provider's assistance) had conducted a wider search for the Sub-MMs and Component Strategies that comprise the Diversified Portfolio strategies, it is possible that other Sub-MMs or Component Strategies could have been chosen that would have been ranked higher by the Research Provider than those selected. The Research Provider has evaluated each Sub-MM and Component Strategy based on factors such as investment performance, style adherence, and organizational stability, and will continue to monitor the Sub-MMs, and Diversified Portfolios on at least an annual basis.

A Sub-MM may be terminated and replaced by the overlay manager and Schwab without your approval. Similarly, Schwab and the overlay manager may also agree to change the percentages of the Asset Allocation without your approval. If you have a Diversified Portfolio account in which a Sub-MM is terminated and replaced, or if the percentages of the Asset Allocation are changed, you will be notified by Schwab as soon as reasonably practicable.

About CSIM

CSIM is an affiliate of Schwab whose personnel also act as portfolio managers for the Windhaven® Strategies, the ThomasPartners® Strategies, and the Schwab Managed Portfolios™ wrap fee program. CSIM also manages strategies similar to the Windhaven Strategies and ThomasPartners Strategies on platforms sponsored by firms other than Schwab. CSIM has potential conflict of interest in managing different strategies that may use or consider the use of the same securities—e.g., ETFs in the Windhaven Strategies, Schwab Managed Portfolios and Affiliated Funds.

Access Services

The minimum account size for certain MMs is generally lower in the Access program than if you engaged the MM directly for discretionary investment management services. CSIA does evaluate some aspects of unaffiliated Access MMs' operational infrastructure, compliance program, trade procedures, and internal control environment. Unlike the Select program, CSIA does not perform a comprehensive review of the MM and its investment strategy as described above. There can be no assurance that the investment strategies in the Access program would be selected for the Select program if they were subjected to the Select screening process and were otherwise eligible (Schwab affiliates are not eligible to participate in the Select program). Schwab does not recommend or endorse any MMs in Access to you or your advisor, whether affiliated with Schwab or not. Schwab does not offer advisors any incentive to allocate assets to an MM affiliated with Schwab.

In addition to strategies that buy, hold and sell individual securities, the Access program includes MMs who create and maintain strategies that buy, hold and sell Funds for clients on a discretionary basis. These strategies may include mutual funds that are available through MF Marketplace service; in addition, some of the Funds may be MM Affiliated Funds or Schwab Affiliated Funds. See "Other Charges and Compensation." With the exception of the Windhaven Strategies and ThomasPartners Strategies, MMs in Access that manage Fund strategies are not affiliated with Schwab. Schwab does not influence an MM's selection of Funds for client accounts.

Schwab makes no representation as to whether any MM or investment strategy in the Access program is appropriate for you. You and your advisor are responsible for determining whether any investment strategy or any MM in the Access program is appropriate for you in light of your asset allocation, investment objectives, risk tolerance and time horizon. You and your advisor are also responsible for the determination of your asset allocation, investment objectives, risk tolerance and time horizon.

Schwab does not monitor the style adherence or performance of MMs in the Access program. However, Schwab reserves the right to remove an MM or its investment strategy from the Access program at any time for any reason.

Information About MMs

Each MM's brochure provides information about that MM. For each of your accounts, you will receive the brochure of the MM you designate to manage that account before the MM begins managing it. The MM has discretion as to whether or not to accept the management of your account.

Additional information about an MM in the Select program and its investment strategy is available in its MM Profile; Schwab and CSIA prepare the MM Profiles for strategies in Select based on information obtained from the MMs and third-party sources that Schwab and CSIA believe to be reliable. The MM Profile describes the MM, its investment strategy and past performance information. MM Profiles are available to your advisor. The accuracy and completeness of the MM data contained in the MM Profiles are the responsibility of the MM. The MM Profiles for Select strategies are updated quarterly based on information obtained from the MMs and third-party sources.

Non-Exclusive Relationship

Schwab and its affiliates may perform, among other things, research, brokerage, asset management, and similar services for other clients and receive asset-based fees for such services. The advice given and the actions taken for a particular client may differ from the advice given or the timing and nature of action taken for other clients' accounts. Transactions in a specific security may not be accomplished for all clients' accounts at the same time or at the same price.

In managing your account, an MM may purchase or sell securities in which the MM, Schwab or their officers, directors, employees or representatives, directly or indirectly, have or may acquire a position or interest.

The MMs, Schwab or their affiliates may, in the course of business, obtain material nonpublic or other confidential information that, if disclosed, might affect an investor's decision to buy, sell or hold a security. The MMs, Schwab, and their affiliates are restricted from disclosing or using this information under applicable law, and are under no obligation to disclose the information to any client or use it for any client's benefit.

Client Information Provided to Portfolio Managers

By signing the Schwab account application, you authorize Schwab to provide trading and other information about your account to the MM managing your account and third parties designated by the MM. In addition, your advisor will communicate such information as necessary to the MM managing your account. Examples of information communicated by your advisor to your MM may include investment restrictions, tax harvesting instructions, and updates to the information you provide in your account application.

Additional Information

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 agreement.

Other Financial Industry Activities and Affiliations

Schwab is primarily engaged in business as a broker-dealer and spends most of its time on that business. 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 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. As sponsor of the Select and Access programs, Schwab is acting as both a registered investment advisor and broker-dealer. Schwab provides investment advisory services outside of the context of the Select and Access programs. With Schwab Advisor Network®, Schwab makes referrals of registered 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.

Schwab also acts as a registered investment advisor for other programs, including Schwab Managed Portfolios™ (a mutual fund and ETF wrap fee program), Schwab Private Client™ (investment advisory and brokerage services) and Schwab Intelligent Portfolios Solutions™ (automated discretionary managed account programs), and when we provide financial planning services through the Schwab Personal Financial Plan™, Schwab Retirement Consultation, and Schwab Equity Compensation Consultation.

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

Schwab Affiliates

Schwab is a wholly owned subsidiary of CSCorp, a Delaware corporation that is publicly traded and listed on the NASDAQ (symbol: SCHW).

Other wholly owned subsidiaries of CSCorp are engaged in investment advisory, brokerage, trust, custody or banking services. CSIA is an affiliate of Schwab that provides research and decision-making tools to Schwab for use by Schwab clients, including the Schwab Mutual Fund OneSource Select List® and Schwab ETF Select List®. In addition to managing the Windhaven® Strategies and ThomasPartners® Strategies, CSIM also 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 is an affiliate of Schwab that is described under the heading "About CSIM."

In addition, Schwab has several affiliates and/or units engaged in various aspects of the retirement plan business. Schwab Bank provides custodial and other trust services to Schwab customers and affiliates in relation to retirement plans, including 401(k) plans. The Schwab Corporate & Retirement Services division provides custodial services and administrative and recordkeeping support to Schwab corporate customers and their employees in connection with retirement and stock option plans and the monitoring of trading in employee accounts.

Schwab Bank is a subsidiary of CSCorp that offers deposit accounts, mortgage and home equity line of credit lending products, and credit card products to both Schwab brokerage clients and other clients who have no relationship with Schwab.

Code of Ethics and Participation or Interest in Client Transactions

Code of Ethics

Schwab has various ethical standards, including 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 fiduciary principles that govern the conduct of Schwab and its supervised persons in those situations where Schwab acts as an investment adviser as defined under the Investment Advisers Act of 1940 in providing investment advice to clients. As a general matter, the Code requires that Schwab's supervised persons comply with applicable federal securities laws, report violations of the Code, and (for supervised persons who are deemed "access persons" by virtue of their involvement in providing investment advice or access to certain related information) report their personal transactions and holdings in certain securities periodically and get pre-clearance before buying certain securities, including a private offering. The Code prohibits supervised 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. Supervised 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 Schwab's Code is available on request.

Schwab has imposed policy restrictions on all personnel with respect to transactions for their own accounts and accounts over which they have control or a beneficial interest. These include restrictions on employee purchases of stocks on the "Restricted List," which includes securities for which Schwab is engaged in certain activities involving public offerings. Employee trading restrictions also prohibit unacceptable trading practices such as front running, crossing trades with customers, and insider trading.

Review of Accounts

Your advisor is responsible for ongoing monitoring of your asset allocation and investment objectives, and each MM's performance. Schwab does not conduct periodic reviews of client accounts. If material changes occur to your financial circumstances or investment objectives, or you wish to impose or modify restrictions on the management of your account, you should promptly notify your advisor.

MMs monitor and review their clients' accounts pursuant to their own compliance and supervisory systems of account review. Schwab does not participate in and is not responsible for such review.

Schwab's Participation or Interest in Client Transactions

Consistent with applicable law and regulation, Schwab may execute principal trades for fixed income securities in the programs; Schwab will not execute equity trades as principal and will not execute fixed income trades as principal for accounts managed by affiliated MMs. Schwab will execute principal transactions for your fixed income account only when an MM believes you will receive at least as favorable execution as would be the case were the transaction executed through another dealer. Schwab executes orders in fixed income securities from MMs as principal. Schwab may receive compensation in connection with such transactions in the form of a dealer markup or markdown. Such compensation is separate from and in addition to, and will not reduce or otherwise offset, the program fee for your account. Please refer to "Schwab's Execution Services" under "Services, Fees and Compensation" for more information.

Schwab also may effect agency cross trades with accounts in the programs (except Access accounts managed by CSIA) to the extent permitted by applicable law and regulations and Schwab's internal policies. "Agency cross trades" are transactions in which Schwab acts as broker for the parties on both sides of the transaction. Schwab may receive compensation from the client on the other side of the transaction (the amount of which may vary). Thus, Schwab may have a potentially conflicting division of loyalties and responsibilities. If Schwab effects an agency cross transaction for your account, the confirmation for the transaction will disclose that Schwab acted as agent for both buyer and seller in the transaction. The compensation received by Schwab from the other client is in addition to the program fee described above. While such compensation, in theory, could create a potentially conflicting division of loyalties and responsibilities, all transactions under the programs are directed by the MM, and Schwab will be acting solely as a broker-dealer in connection with such trades.

If your MM buys new-issue bonds through Schwab acting as a dealer, Schwab receives a customary selling concession for providing distribution and operational services, which ranges from less than 0.01% to 2% of the par value, or face amount, of the bond, depending on the product. The percentage rate of the selling concession may differ not only between different new-issue offerings, but also between different series and bond maturities within a single offering.

Schwab has entered into a fixed income dealer agreement with J.P. Morgan Securities Inc. and Piper Jaffray & Co. to purchase from those firms, and sell to our clients acting as principal, certain new-issue fixed income securities from offerings in which those firms act as an underwriter or a selling group member. Pursuant to those agreements, Schwab receives a portion—and, in some cases, all—of the relevant selling concession. The percentage of the selling concession received by Schwab depends upon the type of offering, the type of security, and the underwriting syndicate's arrangement with the issuer. Although Schwab's aggregate compensation for a particular offering increases with the number of securities in the offering that Schwab sells to its clients, the pro rata selling concession Schwab receives in an offering does not vary based upon the number of securities sold to its clients.

Schwab may offer discounts or preferential prices on materials and services ordinarily offered by Schwab through the programs or in its capacity as a broker-dealer to advisors whose clients are brokerage customers of Schwab.

Additionally, from time to time, Schwab offers certain of its employees the option of participating in incentive programs relating to referrals of potential investors to investment management firms which have participated or are participating in Schwab Advisor Network®, which may include advisors or MMs participating in the programs.

Financial Information

Schwab does not require or solicit prepayment of the program 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.

Certain Risks

Investments in securities, both generally and in the context of the investment strategies available through the Select and Access programs, involve various risks, including those summarized below. In addition, each MM's investment style may involve risks different from or in addition to those summarized below. The profile for each Select MM includes several measures of volatility and other risk factors for that MM based on its past management of accounts; these may not necessarily indicate future risks. Please review the brochure and, for Select MMs, the MM Profile for each MM that you are considering for additional relevant disclosures.

Systematic or Market Risk. Equity, Fixed Income, and other global capital markets rise and fall daily. The performance of client investments are, 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.

Model Risk. MMs 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.

Management Risk. MMs generally make investment decisions for particular investment strategies using historical information. There is no guarantee that an investment strategy based on historical information will produce the desired results in the future. In addition, if market dynamics change, the effectiveness of that kind of strategy may be limited. Either of these risks may cause the investment strategy of a particular MM to underperform its benchmark (where a benchmark has been specified) or similar investment strategies managed by different MMs. There also can be no assurance that all of the key personnel will continue to be associated with the MM for any length of time.

Equity Risks

General. The prices of equity securities rise and fall daily. 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 Risk. Investment strategies that focus on large- and/or mid-cap segments of the stock market involve 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 investments in bonds or small-cap stocks.

Small-Cap, Micro-Cap and International Risk. Historically, small-cap, micro-cap and international stocks have been riskier than large- and mid-cap stocks. Stock prices of smaller companies may be based in substantial part on future expectations rather than current achievements and may move sharply, especially during market upturns and downturns. Small-cap and micro-cap companies themselves may be more vulnerable to adverse business or economic events than larger, more established companies. International companies may carry additional risks, such as currency fluctuation and the potential for less liquid markets, and may be more vulnerable to geopolitical factors than U.S. companies. Investing in emerging markets may accentuate these risks. During a period when small-cap, micro-cap and/or international stocks fall behind other types of investments—bonds or large-cap stocks, for instance—the performance of investment strategies focused on small-cap, micro-cap or international stocks will lag the performance of bonds or large-cap stocks. Another risk that pertains to micro-cap stocks involves the low volumes of trades. Since micro-cap stocks tend to trade in low volumes, any size of trade can potentially have a large percentage impact on the price of the stock.

Preferred Securities Risks

Deferral and Omission Risk. Preferred securities may include provisions that permit the issuer, at its discretion, to defer or omit distributions for a stated period without any adverse consequences to the issuer. In certain cases, deferring or omitting distributions may be mandatory. If you own a preferred security that is deferring its distributions, you may be required to report income for tax purposes although you have not yet received that income.

Credit and Subordination Risk. Credit risk is the risk that a security in your account will decline in price or the issuer of the security will fail to make dividend, interest, or principal payments when due because the issuer experiences a decline in its financial status. Preferred securities are generally subordinated to bonds and other debt instruments in a company's capital structure in terms of having priority to corporate income, claims to corporate assets, and liquidation payments, and therefore will be subject to greater credit risk than more senior debt instruments.

Interest Rate Risk. Interest rate risk is the risk that preferred securities will decline in value because of changes in market interest rates. When market interest rates rise, the market value of such securities will generally fall. Preferred securities with longer periods before maturity may be more sensitive to interest rate changes.

Call, Reinvestment, and Income Risk. During periods of declining interest rates, an issuer may be able to exercise an option to redeem its issue at par earlier than scheduled, which is generally known as call risk. If this occurs, the MM for the strategy may be forced to reinvest in lower-yielding securities. This is known as reinvestment risk. Preferred securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem an obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer, or in the event of regulatory changes affecting the capital treatment of a security. Another risk associated with a declining interest rate environment is that the income from your portfolio may decline over time when the MM invests the proceeds from new share sales at market interest rates that are below your portfolio's current earnings rate.

Liquidity Risk. Certain preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. government securities. Illiquid securities involve the risk that the securities will not be salable at the time desired by the MM or you or at prices approximating the value at which those securities are valued in your account.

Limited Voting Rights Risk. Generally, traditional preferred securities offer no voting rights with respect to the issuer unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may elect a number of directors to the issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights. Hybrid-preferred security holders generally have no voting rights.

Special Redemption Rights Risk. In certain varying circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. For instance, for certain types of preferred securities, a redemption may be triggered by a change in U.S. federal income tax or securities laws. As with call provisions, a redemption by the issuer may negatively impact the return of the security held in your account.

Tax Risk. Dividends from certain preferred securities may not be eligible for the corporate dividends-received deduction or for treatment as qualified dividend income.

Fixed Income Risks

General. Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Income may be subject to the Alternative Minimum Tax (AMT), and capital appreciation from discounted bonds may be subject to state or local taxes. Capital gains are not exempt from federal income tax.

Interest Rate Risk. When interest rates rise, bond prices usually fall, and with them the value of your portfolio.

State and Regional Factors. To the extent that your fixed income portfolio is invested 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, your portfolio 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. Your portfolio may also have more exposure to the risks of a given issuer than a diversified bond fund.

Credit Risk. A decline in the credit quality of a fixed income investment, whether real or perceived, could cause the value of your fixed income portfolio to fall. Your portfolio could lose money 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 your portfolio to underperform certain other types of bond investments, particularly those that take greater maturity and credit risks. Municipal securities may have greater risks than taxable bonds.

Convertible Bonds. Convertible bonds are subject to the risks of both stocks and bonds and are not suitable for all investors. These bonds can fluctuate in value with the price changes of the company's underlying stock, while also being subject to interest rate and credit risk. Issuers of convertible bonds may not be as financially strong as those issuing securities with higher credit ratings; their ability to pay interest or principal may be more vulnerable to changes in the economy. Convertible bonds are often issued by smaller companies and may be more volatile than securities issued by larger companies.

High-Yield Risk. Investments in 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 bonds generally have a higher risk of default. Therefore, they generally pay a higher yield than investment-grade bonds. High-yield securities may be considered speculative.

Maturity Risk. The MM's duration and maturity decisions will affect the value of your fixed income portfolio. To the extent that the MM anticipates interest rate trends imprecisely, your portfolio could miss yield opportunities or its value could fall.

Tax Risk. If tax-exempt securities purchased in your portfolio are later deemed to be taxable, a portion of your portfolio's income could be taxable. Any defensive investments in taxable securities could generate taxable income. Investments in ETFs by tax-exempt accounts may generate income that is subject to the unrelated business income tax. You are responsible for paying any unrelated business income tax liability associated with your account as well as the timely filing of the applicable tax forms with the IRS. Also, some types of municipal securities produce income that is subject to the AMT. You should consult your tax advisor about the potential effects of the AMT on your tax situation.

Liquidity Risk. Some bonds, particularly municipal bonds, may be difficult to sell, and the last quoted price for a bond may be based on the last price at which the bond was traded, which may not accurately reflect the current market price. If you are enrolled in a fixed income strategy and are terminating your account, withdrawing funds from your account, or otherwise taking action that may require the sale of one or more bonds in your account, the MM may need additional time to sell your bonds, especially if you own a small amount of bonds of one or more issuers. There can be no assurance as to how long it might take to sell your bonds, and the sale price may be substantially lower than the price you paid or the price at which the bond was previously traded.

Default Risk. A bond issuer may be unable to make interest or principal payments, thereby resulting in a default. If this happens, the bond may have little or no value.

Corporate and Municipal Bond Ladder Strategy Risks

Bond ladder strategies are generally subject to the same risks as listed under "Fixed Income Risks" above. In addition, depending on the types and amounts of securities within your ladder, a bond ladder strategy may not ensure adequate diversification of your investment portfolio. If you include callable bonds within your ladder, these bonds may be called prior to maturity and you may be unable to reinvest the principal in a similar bond issue. A called bond may alter the schedule of principal and interest payments within your ladder. Finally, for municipal bond ladders, tax-exempt bonds are not necessarily a suitable investment for all persons. Information related to a security's tax-exempt status (federal and in-state) is obtained from third parties, and Schwab does not guarantee its accuracy. Tax-exempt income may be subject to the AMT. Capital appreciation from bond funds and discounted bonds may be subject to state or local taxes. Capital gains are not exempt from federal income tax. You and your advisor must evaluate whether a municipal bond ladder and the securities held within it are consistent with your investment objectives, risk tolerance, and financial circumstances.

ETF Risks

Shares of ETFs trade on the secondary market, and cannot be directly purchased from or redeemed by the Fund. Shares of ETFs may trade above or below their NAV. The per-share NAV of an ETF is generally calculated at the end of each business day, and will generally fluctuate with changes in the market value of the ETF's holdings. The market prices of shares of ETFs, however, will generally fluctuate continuously throughout the trading day in accordance with the relative supply of, and demand for, the shares on the exchange on which such shares are listed, which may not correlate with NAV. The trading price of shares of an ETF may deviate significantly from the ETF's per-share NAV during periods of market volatility. Price differences may be due to the fact that supply and demand forces at work in the secondary trading market for shares of an ETF are closely related to, but not identical to, the same forces influencing the prices of the securities held by the ETF. ETFs are subject to secondary market trading risks. Shares of an ETF will be listed for trading on an exchange; however, there can be no assurance that an active or liquid trading market for them will develop or be maintained. There can be no assurance that the requirements of the exchange necessary to maintain the listing of the ETF shares will continue to be met or will remain unchanged.

Generally ETFs are created using direct exposure to the securities in the index (stocks, bonds, etc.). However, some ETFs provide market exposure through indirect means such as futures, options, or structured products. In the case of a structured product, there may be counterparty risk associated with the issuers of the product.

Options Risks

Options carry a high level of risk and are not suitable for all investors. Certain requirements must be met to trade options through Schwab. Please read the options disclosure document titled "Characteristics and Risks of Standardized Options" as published by the Options Clearing Corporation by visiting http://www.optionsclearing.com/about/publications/character-risks.jsp.

Covered calls provide downside protection only to the extent of premiums received, and prevent any profitability above the strike price of the call. Purchasing puts helps provide downside protection in falling markets, but limit upside participation to the extent of premiums paid. Supporting documentation for any claims or statistical data is available on request. Any Commissions, taxes and transaction costs are not included in this discussion, but can affect final outcome and should be considered. Please contact a tax advisor for the tax implications involved in these strategies. Multiple-leg option strategies typically involve multiple commissions. For Select accounts, all trading expenses, including those related to options, are included in the asset-based program fee that is charged to client accounts. Option collar strategies may underperform in strong rising markets.

Master Limited Partnership (MLP) Risks

Non-Diversification Risk. MLPs are generally natural resources–sector companies. As a result, strategies that invest in MLPs will lack sector diversification. Further, there are a limited number of publicly traded MLPs from which the MM may select.

Market Risk. An investment in an MLP is subject to the risk that the price will fluctuate based on factors such as conditions, events, or developments in the market, sector, and company. At times, the market price of an MLP may be correlated with the equities markets, but at other times, it may not be so correlated.

Commodity Price Risk. The value of an investment in an MLP and the amount of distributions it makes may depend on the prices of the underlying commodity, such as oil or natural gas. Many MLPs are sensitive to changes in the prevailing level of commodity prices.

Macroeconomic Risk. A general economic downturn may negatively impact energy demand, trigger a reduction in exploration and production activity, and adversely affect an MLP. Macroeconomic factors may also cause a decline in the equities markets generally, including the prices of MLP units.

Interest Rate Sensitivity Risk. MLPs have shown sensitivity to interest rate movements. When interest rates are increasing, MLPs can experience upward pressure on their yields to stay competitive with other securities that are interest rate sensitive. Because MLPs can be viewed as yield-based investments, at times their prices have been correlated with the bond markets.

Liquidity Risk. There can be no assurance that MLP units will have an established trading market, adequate trading volumes, or sufficient liquidity. Units in MLPs are particularly attractive for retail investors but have not proven to attract significant institutional interest. The lack of institutional interest in MLPs may affect liquidity and price efficiency.

MLP Operating Risk. The price of units in an MLP and the cash flows it generates and distributes to unit holders are subject to various risks associated with the business and activities conducted by the MLP, which vary based on the MLP's applicable sector or sub-sector, including the following:

- Changes in applicable commodity prices
- A decline in the production or a decrease in the volume of oil, gas, and other commodities
- Reduced applicable oil and gas drilling activity
- Natural decline in the production of wells and mines in the MLP's area of operation
- Incorrect estimates of reserve quantities and anticipated revenues
- Disruptions in the supply of and demand for oil, gas, and other natural resources, which can be affected by various factors such as seasonality, weather conditions, catastrophes, environmental incidents, and acts of terrorism
- Dependence on key suppliers, contract operators, lessors, lessees, and customers and the loss or unprofitability of important contracts
- Geographic concentration and dependence on particular fields, mines, and reserves
- Competition, including the availability of alternative energy sources and changing technology
- Increased operating costs
- Labor shortages, equipment challenges, and related difficulties
- Increased regulation and heightened regulatory enforcement, including potential environmental liability and climate change laws
- Dependence on the general partner and key personnel

Capital Access Risk. Because MLPs pay out most of their operating cash flows, they rely on capital markets for access to equity and debt financing in order to fund organic growth projects and acquisitions and make targeted distributions. If market conditions limit an MLP's access to capital markets, the MLP's distribution growth prospects could be at risk. MLPs may also face increased costs of capital and at times may have significant interest costs and other debt burdens. Covenants and other restrictions imposed by an MLP's lenders may limit its growth.

Growth Risk. Because MLPs distribute most of their available cash flows and are under pressure to grow their distributions, they generally need to make acquisitions. Difficulties experienced by an MLP in obtaining acquisition financing may slow its growth. Additionally, an MLP may face challenges in making acquisitions on acceptable terms due to competition. Acquisitions and growth initiatives are also subject to construction, integration, and implementation risks.

Distribution Risk. Most MLPs establish minimum quarterly distribution amounts they intend to pay based on certain assumptions, and seek to grow those amounts. However, those assumptions may prove to be incorrect and are subject to significant risks and uncertainties. As a result, the actual amount of distributions made to unit holders may be less than the minimum quarterly distribution amounts. In addition, the amount of distributions that an MLP makes is based on its distributable cash flows, which will be affected by changes in the MLP's revenues, expenses, capital expenditures, and reserves and by determinations made by the general partner. Thus, at times, distributions made by an MLP may be less than anticipated. An MLP may issue additional units or incur indebtedness in order to raise capital to make distributions, which could decrease the amount of distributions it can make in the future. The general partner and/or its affiliates may own subordinated units, which receive distributions after the minimum distribution amounts and arrearages are paid to the common unit holders. However, those subordinated units are convertible into common units upon achievement of certain dividend levels. The conversion of the subordinated units may adversely affect the amount of future distributions that are paid per common unit.

Conflicts of Interest Risk. MLPs are controlled by their general partners. MLPs are not governed by a board of directors. Unit holders have limited voting rights and very little say in the management or operation of the MLP. Unit holders do not elect the general partner or its board of directors. It is very difficult for unit holders to remove or replace the general partner. Although the general partner has a duty to act in the best interests of the MLP, the general partner also has duties to its owners. As a result of these relationships, conflicts of interest may arise between the MLP and its unit holders on the one hand and the general partner and its owners on the other hand. The general partner may make decisions or take actions that may be detrimental to the MLP and its unit holders. For example, the general partner is entitled to make decisions that will affect the amount of distributions that the MLP makes to unit holders (such as acquisitions and growth initiatives or the issuance of additional units), which will impact not only whether the general partner will receive incentive distributions but also the amount of those distributions. The general partner may have the right to reset or modify the minimum quarterly distribution amounts or cancel the MLP's distribution policy. The general partner may be able to transfer its incentive distribution rights, which may cause the general partner not to be as highly motivated to increase the amount of distributions the MLP makes. It is also possible that the general partner or its owners may engage in other businesses or take actions that compete against the MLP. An MLP's partnership agreement may contain provisions that restrict or eliminate certain duties of the general partner and limit the general partner's liability to the MLP. The general partner may have a limited call right to require the unit holders to sell their units at unattractive prices.

Tax Risk. MLPs are generally taxed as partnerships, meaning that their income, gains, losses, and expenses are passed through to their unit holders, who receive a Schedule K-1 each year. MLPs can pass through their deductible depreciation or depletion expenses, which causes a portion of the distributions to consist of a return of capital, with the remaining balance classified as taxable income. While this feature provides potential tax benefits, it also creates burdensome tax reporting obligations to unit holders. Unit holders may be subject to state and local taxes (in addition to federal taxes) on the MLP's income allocable to them. It is possible that, at times, unit holders may recognize their share of the MLP's taxable income without receiving distributions in amounts equal to such share of income or in amounts sufficient to cover the taxes owed on such income. Many MLPs pay distributions in amounts that exceed their net income, often significantly so. As a result, a portion of distributions made to unit holders is classified as return of capital, not as an income distribution or return on capital. Such portion reduces the unit holder's tax basis in the units and results in a larger gain upon sale. A significant amount of the distributions are subject to recapture and taxed as ordinary income upon sale of the MLP units. An investment in an MLP may not be ideally suited for an IRA or other tax-exempt or tax-deferred account because some of the benefits of tax-deferred distributions may not be fully realized and some of the income allocable to the account may be subject to unrelated business income tax. Investments in MLP funds also can have varying tax consequences. Moreover, the tax treatment of MLPs could be subject to potential legislative, judicial, or administrative changes or differing interpretations. A change in an MLP's business or other actions taken or not taken by an MLP could cause the MLP to lose its status as a partnership for tax purposes, which may cause the MLP to pay federal income tax on its income at the corporate tax rate. If an MLP were classified as a corporation for tax purposes, the amount of cash available for distribution would be reduced, and part or all of the distributions might be taxed as dividend income. Investors should consult with their tax advisors before investing in MLPs or MLP funds.

Regulatory Risk. The profitability of MLPs may be adversely affected by changes in the regulatory environment. The businesses, operations, and assets of most MLPs are heavily regulated by federal and state governments. Increased regulation can dramatically increase an MLP's operating costs. Applicable environmental laws provide for civil penalties and regulatory remediation, thus adding to an MLP's potential exposure.

Additional information on risks specific to the MM can be found in each MM's brochure.

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