

# 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](http://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](http://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](http://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](http://www.schwab.com/transparency) and read our **Best Interest Disclosure** or go to [www.schwab.com/pricing-guide](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://www.investor.gov/CRS).

#### Questions to Ask

- As a financial professional, do you have any disciplinary history?
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### Where can I find additional information?

For additional information about our investment advisory or brokerage services, go to [www.schwab.com/transparency](http://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?



May 26, 2020

# Schwab Advisor Network<sup>®</sup> Disclosure Brochure

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

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

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## Advisory Business

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

Schwab refers clients (“Clients,” once referred) to third-party investment advisors through the Schwab Advisor Network® (the “Service”). Advisors who participate in the Service (“Advisors”) are independent of, and not affiliated with, Schwab. These Advisors offer investment management and, in some cases, financial planning services to investors, typically in the communities served by Schwab’s branch offices. Information that you provide us about your investment objective, annual income, liquid net worth, total net worth, federal tax rate percentage, age, investment knowledge, investment experience, occupation, number of dependents and other nonpublic information about you and your account(s) will be shared by Schwab with any Advisor to whom we refer you.

The Service provides referrals only and terminates once we have referred you to an Advisor. The Service is not a referral to or recommendation of specific investments that an Advisor may recommend to you, including the Advisor’s proprietary products. It is up to you and your Advisor to determine what types of investments are right for you. Any tax, estate planning, accounting, legal or other advice or services other than investment management and any financial planning as described in this document are beyond the scope of the Service, and Schwab makes no representation regarding the Advisor’s ability to perform any of those other services. Those services are strictly a matter between you and your Advisor. If an Advisor refers you to a third party for any services, this, also, is strictly between you and the Advisor and is beyond the scope of the Service.

You are solely responsible for the selection and oversight of your Advisor and for monitoring your Advisor’s performance. You can monitor performance in a variety of ways, including promptly reviewing your account statements and trade confirmations, meeting periodically with your Advisor to discuss your investment and any financial planning objectives, and withdrawing your Advisor’s discretionary or other authority if you are dissatisfied with your Advisor. Some Advisors use third-party advisors and/or vendors for some or all of their clients’ investment and account servicing needs. Schwab does not undertake any duty to evaluate any such third parties and has no responsibility for them or their services. You and your Advisor have the sole responsibility for evaluating and monitoring any such third parties.

Before accepting you as a client, an Advisor will be responsible for helping you determine whether discretionary investment management and, if applicable, financial planning services is or are appropriate for you. Schwab is not responsible for evaluating, monitoring or overseeing an Advisor’s management of your account, any financial planning services provided by your Advisor or the Advisor’s investment performance or service levels. The attendance of a Schwab representative at any of your meetings with an Advisor does not alter your sole responsibility for selecting and monitoring your Advisor. Any attendance by a Schwab representative or follow-up with you after the initial referral is intended only to assist you in finding an Advisor who may be compatible with your needs.

Schwab has no discretionary authority or control with respect to your account, and will effect only those transactions that we understand to have been instructed by you or your Advisor. We will act solely as a broker-dealer, and not as an investment advisor, with respect to transactions for your account during such time as you have engaged an Advisor. We are not an “investment manager” or otherwise a fiduciary within the meaning of the Employee Retirement Income Security Act of 1974, as amended, with respect to your account as a result of the Service. Under the Service, Schwab will not provide investment advice or recommendations to buy or sell securities or other property on a regular basis pursuant to an arrangement or understanding that such advice or recommendations shall serve as the primary basis for investment decisions for your account.

## Participating Advisor Eligibility Criteria

Schwab uses eligibility criteria shown below, among other factors, to help determine which Advisors to admit to the Service. Schwab may modify or waive criteria for Advisors on a case-by-case basis. Additionally, from time to time, Schwab may, without notice, change the eligibility criteria for Advisors participating in the Service. The Advisor eligibility criteria are as follows:

**1. Fee-Based.** The Advisor must provide predominantly fee-based (as opposed to commission-based) investment advisory services. The Advisor’s compensation for any advisory services, including financial planning services, to Clients must be exclusively fee-based. “Fee-based” refers to fees that are hourly, are a fixed dollar amount, are based on assets under management or consist of performance fees based on a share of capital gains or appreciation in the Client’s account. Advisors may charge performance-based fees only if permitted to do so under applicable state and federal law and regulation.

**2. Investment Experience.** All aspects of the investment management services the Advisor provides to Clients will be rendered by and/or supervised and reviewed by representatives of the Advisor (collectively, “Advisory Supervisors”) who are, and have been at all times during the past seven (7) years, actively managing Securities Portfolios (as defined below) in individual accounts on a fee basis either (i) as an investment advisor representative (as defined in rules of the SEC) for the entire seven-year period; or (ii) as an investment advisor representative for the most recent eighteen (18) months and, for the five and one-half (5½) years immediately prior thereto, as a securities portfolio manager, financial planner, certified public accountant, registered representative of a full-service broker-dealer, or bank trust officer; or (iii) in such manner as Schwab in its sole discretion determines qualifies. A Securities Portfolio is an account in which at least half of its value consists of securities, including cash and cash equivalents.

All aspects of the financial planning services provided by Advisors who provide financial planning services to Clients will be rendered by and/or supervised and reviewed by a person who has: (i) at least three (3) years of experience providing comprehensive financial planning services as a CERTIFIED FINANCIAL PLANNER™ (CFP®) or a Personal Financial Specialist (CPA-PFS); (ii) ten (10) years of experience providing comprehensive financial planning services—those services typically include investment planning, retirement planning and employee benefits, personal income tax planning, estate planning or protection/insurance planning; or (iii) other qualifying experience, as determined by Schwab in its sole discretion.

**3. Assets Under Management.** An Advisor generally must have at least \$250 million in assets under management upon commencing participation in the Service.

**4. Education.** At least one Advisory Supervisor must have (i) the Chartered Financial Analyst® (CFA®), CFP® CPA-PFS, Chartered Investment Counselor (CIC), Certified Investment Management Analyst (CIMA) or such other comparable professional designation as Schwab may deem acceptable; or (ii) ten (10) years of experience managing investments in securities.

**5. Licensing and Registration.** An Advisor must be registered as an investment advisor with the SEC or must be a financial institution that is not required to be registered with the SEC and is subject to oversight by federal and/or state regulatory authorities. Schwab makes no representation about any Advisor’s compliance with or exclusion or exemption from any state’s or other jurisdiction’s investment advisor requirements.

Participation in the Service is not open to any and all investment advisors that satisfy the eligibility criteria described above. As described in “Participation or Interest in Client Transactions,” Schwab also considers its business relationship outside of the Service in deciding whether to admit particular advisors to the Service. We do not limit participation in the Service to Advisors with the best historical investment performance or client service levels among their peers.



## **Investment Performance**

Schwab does not track the investment performance of accounts managed by Advisors for Clients. It is your responsibility, and not Schwab's, to measure your investment performance. One good way to do this is to measure your performance against your own financial objectives. You must make sure that any Advisor you select has a clear understanding of your goals and attitudes toward risk. As a general rule, investors who seek higher returns must assume greater risks of loss of their principal. Historical investment performance results achieved by an Advisor are no guarantee of future performance. Nonetheless, an Advisor's historical performance should be examined over several market cycles, and in both up and down markets. Past results should be compared to market indices such as the S&P 500® Index and those of other money managers. The market index or other measure you select for comparison should reflect your own individual objectives and tolerance for risk.

## **Termination**

Your agreement with your Advisor should provide that you may terminate your investment advisory arrangement at any time without penalty. This means that if you have prepaid advisory fees, you should receive a pro rata refund if you terminate. In addition, your Advisor cannot assign responsibility for managing your assets to anyone else without your prior consent.

Advisors may terminate their participation in the Service at any time by giving us written notice. Similarly, we may terminate an Advisor's participation in the Service at any time, and we are not required to provide you notice that we have done so. Advisors will be required to continue to pay us the fees described in "Other Financial Industry Activities and Affiliations," in accordance with the terms of their agreements with us even after the termination of their agreements with Schwab.

Most Advisors to whom we may refer you will request that you grant them trading authority or discretionary authority over your account. If you give your Advisor discretionary authority, you authorize your Advisor to act as your agent and attorney-in-fact to instruct us to buy and sell securities or other investments for you without first consulting with you on each transaction. If you give your Advisor trading authority without discretion, you authorize your Advisor to act as your agent and attorney-in-fact to instruct us to buy and sell securities or other investments for you, but your Advisor must consult with you before giving us such instruction. This is a matter between you and the Advisor. We will be authorized to follow the trading orders of the Advisor concerning your account. This will allow the Advisor to act for you in the same manner and with the same force and effect as if you had acted for yourself with respect to transactions for the account and anything else necessary or incidental to purchases and sales for the account. When authorized by you in writing, the Advisor also may transfer money, securities or other property from your account to you or to an account of identical registration at another financial institution. In limited cases, if the Advisor is willing to do so and has provided you with the necessary disclosures, and if Schwab agrees to allow it, you may authorize the Advisor to disburse assets (including money) from your account to third parties. However, many Advisors are unwilling to instruct transfers to third parties, and Schwab may decline to allow this type of authority over Client accounts. Any authorization you give your Advisor which you request us to honor will remain in effect until you notify us in writing that you are terminating the authorization or we notify you that we will no longer honor it.

## **Fees and Compensation**

### **Fees**

We will not charge you for the Service. However, as explained in "Other Financial Industry Activities and Affiliations," Advisors pay a fee to Schwab to participate in the Service, and Schwab receives additional compensation from trading activity in Schwab accounts managed by your Advisor.

You will pay fees to your Advisor in accordance with the terms and conditions agreed to by you and your Advisor. Advisory fees may vary according to several factors, including, but not limited to, the account size, type and servicing requirements. Advisory fees may be negotiable with some Advisors. If you maintain a Schwab account for custody of your assets managed by an Advisor, you may authorize us to deduct the Advisor's advisory fee from your account, but you are not required to do so. The fees Advisors pay to Schwab to participate in the Service may give Advisors an incentive to encourage you to hold assets in custody at Schwab (or require you to do so as a condition to managing your account) and to authorize Schwab to deduct the advisory fee from your account.

### **Compensation**

Financial Consultants ("FCs") are Schwab representatives who are compensated for successful referrals through the Service. Financial Consultants may be Schwab employees or non-employee independent contractors who, with their own employees, operate Schwab Independent Branches pursuant to a franchise agreement with Schwab. Financial Consultants who operate Schwab Independent Branches are known as Independent Branch Leaders ("IBLs") or, if employed by such IBLs, Independent Branch ("IB") Representatives.

In addition to their base salaries, FCs receive compensation for successfully navigating clients through the Service and other investment advisory programs and for servicing those clients after successfully recommending such programs. Schwab as a company may earn more or less revenue depending on what products and services an FC recommends and a client chooses. FC compensation varies by the type of program or services an account participates in. Schwab has designed FC compensation to be based on factors that include the time, complexity and expertise necessary to understand and recommend a program and to provide ongoing service to a client enrolled in a given program.

As independent contractors, IBLs receive a monthly "Net Payout" from Schwab, which includes amounts earned on assets in accounts referred through the Service and assets in commission-based brokerage accounts, and it is from this Net Payout amount that IBLs pay their IB Representative employees. As with FCs, the amounts earned by IBLs and IB Representatives vary by the type of program in which an account participates.

Amounts earned by Financial Consultants on assets in accounts referred through the Service exceed the amounts earned on assets in commission-based brokerage accounts.

For detailed information on the compensation of Financial Consultants and other Schwab representatives, please visit our website at [www.schwab.com/compensation](http://www.schwab.com/compensation).

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

Schwab does not receive performance-based fees in connection with the Service.

### **Types of Clients**

The Service is available to clients who hold Schwab brokerage accounts. Certain types of retirement accounts, including but not limited to Company Retirement Accounts, are not eligible. Clients may include individuals, institutions, pension plans, trusts, estates, charitable organizations, corporations, and other entities other than government entities.

The Service is generally appropriate for clients seeking discretionary management of their accounts that is more personalized than what might be available in, for example, a discretionary wrap fee program. The Service is also generally appropriate for clients looking for an Advisor who can combine discretionary management with financial planning services. Schwab currently requires its representatives to refer only those Clients who plan to invest at least \$500,000 within six months of their referral. This minimum amount may exceed the



Advisor's own minimum requirement for accepting new clients. An Advisor also may require that you commit a minimum amount of funds to their management before agreeing to manage your account.

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

Schwab does not recommend or effect securities transactions or investment strategies as part of the Service. As explained in "Advisory Business," Schwab seeks to refer clients to Advisors whose strategies match the clients' particular goals, objectives and risk tolerance. Every investment strategy, including those involving the trading of securities, involves the risk of loss, which clients should be prepared to bear.

### **Disciplinary Information**

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

1. A disciplinary action initiated by the Financial Industry Regulatory Authority ("FINRA") asserted that, in violation of FINRA Rules 2010 and 3310(a), Schwab failed to implement policies and procedures that were reasonably designed to detect, and cause the reporting of, suspicious incoming wire transactions occurring in August 2011. Without admitting or denying the findings, Schwab consented to the described sanctions and to the entry of findings. Therefore, in December 2013, Schwab was censured, fined \$175,000, and required to conduct a comprehensive review of the adequacy of its anti-money laundering policies, systems, procedures (written or otherwise), and training with respect to detecting and reporting suspicious incoming wire transfers.

2. A disciplinary action initiated by FINRA asserted that Schwab failed on 44 occasions during the second quarter of 2011 and on 245 occasions during the first half of the 2012 review period to provide written notification disclosing to its customers a call date that was consistent with the disclosed yield to call, in violation of SEC Rule 10b-10. Without admitting or denying the allegations, Schwab consented on August 23, 2013, to a censure and a monetary fine of \$12,500.

3. A disciplinary action initiated by the Chicago Board Options Exchange ("CBOE") alleged that Schwab: (1) violated CBOE Rule 9.21 by disseminating sales literature and failed to withhold the sales literature from circulation prior to incorporating the required changes specified by the CBOE; and (2) violated CBOE Rule 4.2 by failing to adequately supervise its associated persons to assure compliance with Rule 9.21. Without admitting or denying these allegations, Schwab consented to a censure and a monetary fine of \$10,000 on May 29, 2013.

4. In May 2013, the CBOE alleged that from approximately November 8, 2011, through approximately December 7, 2011, Schwab failed to have adequate supervisory procedures to assure compliance with SEC Rule 14E-4 relating to partial short tender activity. The CBOE accepted Schwab's offer of settlement consisting of a \$10,000 fine and a censure. Schwab neither admitted nor denied the allegations.

5. A disciplinary action initiated by FINRA asserted that Schwab violated Municipal Securities Rulemaking Board ("MSRB") Rule G-14 by: (1) failing to report required information about certain municipal securities transactions to the Real-Time Transaction Reporting System ("RTRS") within 15 minutes of trade time in the first and fourth quarters of 2010; and (2) failing to report the correct yield to RTRS for certain municipal securities transactions in the second quarter of 2010. Without admitting or denying these assertions, Schwab consented to a censure and a fine of \$35,000 on July 26, 2012.

6. Schwab entered into a stipulation and consent agreement with the state of Florida on March 26, 2012, in which Schwab was fined \$1,100,000 and ordered to offer restitution to certain clients for distributing trade confirmations to Florida clients between 2008 and 2011 containing inaccurate information with respect to certain municipal

bond, corporate bond and preferred equity security trades, and for failing to have adequate written supervisory procedures with respect to the review of such trade confirmations, in violation of the Florida Administrative Code.

7. Schwab entered into a consent order with the state of Nevada on November 2, 2011, in which Schwab was fined \$10,000 for failing to detect the lack of Nevada state registration of a non-employee investment advisor. Schwab was found to have violated its own procedures and Nevada Administrative Code Section 90.321 for failing to determine that the non-employee was acting as a professional investment advisor at the time the accounts were set up or during the course of his management of the accounts at issue.

8. A disciplinary action initiated by FINRA asserted that Schwab violated MSRB Rule G-14 by: (1) failing to report required information about certain municipal securities transactions to the RTRS within 15 minutes of trade time; and (2) failing to report the correct trade execution time to the RTRS for some of these transactions. Without admitting or denying these assertions, Schwab consented to a censure and a fine of \$12,500 on June 17, 2011.

9. In January 2011, Schwab and its affiliate Charles Schwab Investment Management, Inc. (together, for purposes of this disclosure, "Schwab") reached agreements with the SEC, FINRA, the Illinois Secretary of State, the Illinois Securities Department ("Illinois") and the Connecticut Department of Banking's Securities and Business Investments Division ("Connecticut") to settle matters related to the Schwab YieldPlus Fund® (the "Fund").

As part of the SEC settlement, the SEC found that Schwab violated certain investment-related laws and regulations related to the offer, sale and management of the Fund from 2005 through 2008. In particular, the SEC found that Schwab: (1) deviated from the Fund's concentration policy with respect to investments in non-agency mortgage-backed securities, without shareholder approval; (2) made materially misleading statements and omissions about the Fund and its associated risks before and during the decline of its net asset value ("NAV"); (3) materially understated the Fund weighted average maturity ("WAM"); (4) willfully aided and abetted misstatements and omissions appearing in Fund sales materials and other documents; and (5) lacked policies and procedures reasonably designed to prevent the misuse of material nonpublic information about the Fund. Without admitting or denying these allegations, Schwab agreed to pay a total of approximately \$118,944,996 in disgorgement of fees and penalties. As part of the settlement with the SEC, Schwab agreed to take a number of actions to improve procedures and reinforce Schwab's commitment to its clients. These actions included retaining an independent consultant to conduct a comprehensive review of Schwab's policies, practices and procedures designed to prevent the misuse of material nonpublic information by or related to Schwab's mutual funds. The SEC settlement was approved by the United States District Court for the Northern District of California on February 16, 2011. Additionally, the SEC has brought related complaints against two former employees of Schwab.

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

Schwab also agreed to pay approximately \$8,567,364 in settlement of the Illinois matter in which Illinois made related factual allegations against Schwab and found that Schwab's conduct violated Illinois Securities Law provisions relating to supervision of securities and advisory activity by employees and to maintenance of written procedures reasonably designed to comply with securities laws and regulations.

Schwab also agreed to pay an amount not to exceed approximately \$2,800,000 in settlement of the Connecticut matter in which Connecticut made related factual allegations against Schwab and found

that Schwab violated applicable Connecticut laws and regulations by failing to reasonably supervise its employees.

Schwab and certain affiliated entities and individuals (the “Schwab Parties”) were named as defendants in a number of Fund-related class action lawsuits filed in the United States District Court for the Northern District of California in 2008. These lawsuits were consolidated into a single class action complaint that alleged violations of state law and federal securities law similar to those described above. On March 30, 2010, the court granted plaintiffs’ motion for summary judgment holding defendants liable for plaintiffs’ state law claim regarding changes to the investment policy of the Fund, which plaintiffs alleged were made without shareholder approval in violation of the Investment Company Act of 1940. Although the judgment was subject to a potential appeal and further proceedings on damages, the Schwab Parties entered into a settlement agreement to settle the plaintiffs’ federal securities law claims for approximately \$202,700,000 and the plaintiffs’ California law claims for approximately \$35,000,000. On April 19, 2011, the court entered an order granting plaintiffs’ and defendants’ motions for final approval of the settlement agreements.

### Other Financial Industry Activities and Affiliations

Schwab is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of FINRA. We provide brokerage services to clients located throughout the United States and in some circumstances outside the United States. Incidental to our broker-dealer business, we offer our clients a variety of investment information services and products, including seminars, periodicals, reports, guides, planning tools, brochures and other publications about securities and investment techniques. We also provide certain online data and financial reporting services.

Schwab is also registered as an investment advisor under the Investment Advisers Act of 1940. In addition to the Service, Schwab provides other investment advisory services. The Schwab Private Client™ service is a non-discretionary wrap fee program in which clients receive periodic, ongoing advice from a team of Schwab representatives. Other programs in which Schwab acts as a registered investment advisor include the Schwab Managed Portfolios™ (“SMP”), Managed Account Select® and Managed Account Connection® wrap fee programs sponsored by Schwab and the financial planning services provided through the Schwab Personal Financial Plan™ and Schwab Equity Compensation Consultation. Schwab also sponsors Schwab Intelligent Portfolios Solutions™, an automated discretionary investment advisory service that can include financial planning and periodic guidance from Schwab planning consultants.

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

Advisors pay a fee to Schwab to participate in the Service (the “Participation Fee”). The Participation Fee is calculated as a percentage of the assets in referred Clients’ accounts that are maintained in custody at Schwab (“Schwab Accounts”). For assets in Clients’ accounts that are maintained at, or transferred from Schwab to, another custodian (“Non-Schwab Accounts”), Advisors pay Schwab a one-time Non-Schwab Custody Fee. The Participation Fee generally has the effect of the Advisor sharing with Schwab a portion of the fees that it charges you. The Non-Schwab Custody Fee applies if your Advisor establishes or transfers custody of the assets it manages for you with or to a custodian other than Schwab. Advisors also pay Schwab Participation Fees (and Non-Schwab Custody Fees to the extent applicable) on assets in accounts of Clients’ spouses, children and other family members who live with them at the same address (“Household Members”) who engage the Advisor at any time after Schwab’s referral; this may also include assets in trusts for which the Client or a Household Member is the settlor or trustee. We are entitled to receive the Participation Fee or Non-Schwab Custody Fee from your Advisor whether or not you pay your advisory fees to the Advisor. These fees are described in more detail below.

The Participation Fee is paid to Schwab for as long as you remain a

Client of the Advisor and a Schwab Account remains open and is managed by the Advisor. The Participation Fee is calculated as a percentage of the value of the assets in the Schwab Accounts of the Client and any Household Members that are managed by the Advisor. That percentage is calculated as follows: within each asset tier below, the average daily balance in the Schwab Accounts during the quarter is multiplied by one quarter of the applicable percentage rate.

First \$2 Million	0.25% (25 basis points)
Next \$3 Million	0.20% (20 basis points)
Next \$5 Million	0.15% (15 basis points)
Amount over \$10 Million	0.10% (10 basis points)

The Non-Schwab Custody Fee is a percentage of the value of the assets in, or transferred to, a Non-Schwab Account. Because of the Non-Schwab Custody Fee, Advisors will have an incentive to encourage you to maintain your assets in custody with Schwab, rather than another custodian, which is likely to result in Schwab receiving compensation for securities transactions in addition to the fees paid by the Advisor. If the Non-Schwab Custody Fee applies, your Advisor will be required to disclose to Schwab the amount of assets in or transferred to your Non-Schwab Account. This may be information that Schwab would not otherwise have and which your Advisor would otherwise not disclose to Schwab.

If the assets held in a Schwab Account include alternative investments that are not listed on a national exchange or the NASDAQ and that are generally illiquid and/or for which there is no formal trading market, Schwab will generally use the value of such assets as reported to Schwab by the Advisor or a third party, such as the issuer of the investment, to calculate applicable Non-Schwab Custody Fees and Participation Fees.

In some instances, Schwab may waive or reduce the Participation Fee or Non-Schwab Custody Fee or negotiate a different arrangement with a particular Advisor. For certain Advisors, negotiated Participation Fees and Non-Schwab Custody Fees may constitute a higher percentage of the advisory fee than the levels described above, but are payable for a shorter duration of time. In other cases, negotiated Participation Fees and Non-Schwab Custody Fees may be based on, among other things, the total amount of custody or trading business placed by the Advisors’ Clients with Schwab. In these cases, the fees will be set below the non-negotiated levels described above, if specified thresholds of custody and trading business are attained. Additionally, in some cases the fee may cease to be due after a period of time (rather than remaining payable for as long as a Schwab Account remains open).

In deciding whether to allow an Advisor to participate in the Service, Schwab also considers the business relationship the Advisor has as a client of our Schwab Advisor Services business unit. Schwab Advisor Services provides custody, trading, technology, administrative and other support to independent investment advisors who suggest, recommend or direct their clients to hold their assets managed by the advisors in accounts at Schwab. All Advisors that participate in the Service are clients of Schwab Advisor Services. Additionally, an Advisor’s participation in the Service may, in part, depend on the amount and profitability to Schwab of the assets in, and trades placed for, the Advisor’s Clients’ accounts maintained at Schwab. An Advisor’s participation may also be contingent upon the Advisor directing to Schwab for custody a specified amount of assets in its Clients’ accounts not referred through the Service within a specified time period. This type of arrangement may add to the Advisor’s incentive to encourage you to maintain your account at Schwab rather than with another custodian.

The compensation received by Schwab from Advisors, both from within and outside of the Service, creates a potential conflict of interest for Schwab both when we select Advisors to participate in the Service and when we refer Clients like you to those Advisors. Schwab addresses these conflicts in several ways, including: (1) establishing the Service participation criteria described in “Advisory Business,” and securing Advisors’ agreement to adhere to those criteria before admission into the Service and on a yearly basis thereafter; (2) establishing a governance council which, among its other duties, reviews and approves or rejects participa-

tion in the Service by advisors requesting exceptions to the participation criteria; and (3) conducting supervisory review of Service referrals for consistency with Schwab policies and guidelines relating to the Service.

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

### **Code of Ethics**

Schwab has a code of ethics adopted pursuant to SEC Rule 204A-1 under the Investment Advisers Act of 1940 (the "Code"). The Code reflects the fiduciary principles that govern the conduct of Schwab, its employees, independent contractors, and such independent contractors' employees when we are acting as an investment advisor, such as when we refer you to an Advisor through the Service. The Code requires that Schwab's covered representatives comply with applicable federal securities laws, report violations of the Code, and for those deemed "access persons" by virtue of providing investment advice or having access to certain related information: report their personal transactions and holdings in certain securities periodically and get clearance before buying certain securities, including initial public offerings or private offerings. The Code prohibits access persons from disclosing portfolio transactions or any other nonpublic information to anyone outside of Schwab, except as required to effect securities transactions for clients, or from using the information for personal profit or to cause others to profit. Access persons are also prohibited from engaging in deceptive conduct in connection with the purchase or sale of securities for client accounts. The Code is subject to change as necessary to remain current with regulatory requirements and internal business policies and procedures. A copy of the Code is available upon request.

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

Advisors participating in the Service may suggest brokers to you, including Schwab, for brokerage, custody and other products and services for which you would compensate the broker. Advisors have agreed with Schwab not to induce Clients to transfer their accounts from Schwab or to establish brokerage or custody accounts at other custodians except when their fiduciary duties to Clients would require doing so.

Unless you direct them to the contrary, participating Advisors are likely to use Schwab to execute transactions for your account since the total fees for executing trades paid by your account will generally be less. Advisors are, however, not required to use Schwab to execute trades for your account. You may direct your Advisor to use a different brokerage firm, but Schwab may charge a fee for clearance and settlement of any trade executed through a different brokerage firm and held in custody by Schwab, in addition to the fees charged by the different brokerage firm.

As a broker-dealer, Schwab earns compensation from the products and services available through Schwab, including execution of trades in investments such as stocks, bonds, and mutual funds and the sale of insurance products. When you or your Advisor use Schwab to execute transactions, Schwab or one of its affiliates will earn compensation from you and/or a third party.

The compensation earned by Schwab from trades placed and securities held in Client accounts that are managed by Advisors contributes to the potential conflict of interest described in "Other Financial Industry Activities and Affiliations."

### **Personal Trading**

Although Schwab does not recommend buying or selling particular securities as part of the Service, Schwab nevertheless monitors the personal securities holdings and trading of its representatives. Schwab reviews such accounts custodied at Schwab and applicable accounts custodied at other firms. The surveillance program monitors holdings and trades against the Code, Schwab's Compliance Manual, and other applicable policies. Additionally, Schwab representatives must disclose all securities accounts they own or control after their hire date and review and confirm the accuracy of those accounts on an annual basis during their employment.

## **Brokerage Practices**

Schwab does not select or recommend broker-dealers as a part of the Service. As explained in "Other Financial Industry Activities and Affiliations" and "Participation or Interest in Client Transactions," the Non-Schwab Custody Fee and other elements of Schwab's written agreement with Advisors create an incentive for them to custody Client accounts at Schwab.

## **Review of Accounts**

As explained in "Advisory Business," the Service terminates once a referral is made and does not include ongoing review of referred Clients, their accounts or their investments.

The frequency of communications between you and your Advisor will depend upon the terms and conditions of the investment advisory agreement between the two of you. Most Advisors have agreed to provide Clients with quarterly investment performance reports and to offer to meet quarterly with Clients to discuss any changes in the Clients' investment objectives or financial situation. Advisors have also agreed to meet at least annually with Clients to review the investment performance of the Clients' accounts. If you open a Schwab Account, we will furnish you (and, if you authorize us to, your Advisor) with account statements and confirmations of all transactions initiated and effected for your account with or through Schwab. If you have a Schwab Account, you will receive account statements at least quarterly, which will indicate security purchases and sales; interest, dividends and other earnings; additions to and withdrawals from the account; fees and other charges; and account value. It is your responsibility to review all confirmations and account statements promptly and to communicate directly with your Advisor if you have any concerns about the management of your account.

## **Client Referrals and Other Compensation**

Schwab receives compensation from Advisors participating in the Service, as explained in "Other Financial Industry Activities and Affiliations." Schwab has also entered into an agreement (the "Referral Agreement") with USAA Investment Management Company ("USAA IMCO") under which Schwab will pay USAA IMCO based on a percentage of the assets in Schwab accounts attributable to a referral by USAA IMCO, including assets in accounts referred through the Service. Under the Referral Agreement, Schwab will pay USAA IMCO an annual percentage amount of 0.15% (or 15 basis points) of asset balances of applicable accounts.

## **Custody**

Schwab will provide an account statement, at least quarterly, for each Schwab Account managed by your Advisor as long as the Schwab Account holds a position or balance. You should review your account statement carefully. Your Advisor will also receive a copy of this account statement.

## **Investment Discretion**

Schwab does not have or accept discretionary authority to manage accounts on Clients' behalf as part of the Service.

## **Voting Client Securities**

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

## **Financial Information**

Schwab does not require or solicit prepayment of any fee in connection with the Service 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.

