

Business Trust Division – The Charles Schwab Bank

Report on The Charles Schwab Bank's description of its Business Trust Division and on the suitability of the design and operating effectiveness of its controls

For the period from January 1, 2019 through December 31, 2019



Dear Plan Sponsor or Trustee Client:

We at Charles Schwab believe in presenting our services with clarity and transparency as part of our purpose to champion every client's goals with passion and integrity.

As part of this commitment, we have engaged Deloitte & Touche LLP ("Deloitte") to conduct an annual examination of the key controls of our Business Trust Division within Charles Schwab Bank (formerly known as Charles Schwab Trust Company). Our goal for this examination is to help us ensure that the controls in place with Business Trust are operating effectively so that we can continue to provide you with the highest quality service possible.

Enclosed are the findings from Deloitte's 2019 examination. We encourage you to read the accompanying report and discuss any questions or issues with your retirement plan Record-keeper or Schwab Client Service Manager. We hope you will find this report informative and a reflection of our commitment to you.

Thank you for allowing us the opportunity to serve you and your participants.

A handwritten signature in black ink that reads "Mark Coffrini". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mark Coffrini
Senior Vice President
Charles Schwab Bank

CHARLES SCHWAB BANK
Business Trust Division

TABLE OF CONTENTS

Section 1: Independent Service Auditors' Report.....	1
Section 2: Management's Assertion.....	4
Section 3: Description of the Business Trust Division's System	7
Applicability of the Report	8
Scope and Objective of the Report.....	8
Relevant Aspects of Internal Control	8
Processing Description and Controls.....	15
Complementary Subservice Organization Controls (CSOC).....	30
Complementary User Entity Controls	31
Section 4: Information Provided by Independent Service Auditors	33
Section 5: Other Information Provided by the Service organization	60
Business Continuity Plan	61
Compliance Oversight.....	61
Affiliates.....	63
Bonding and Insurance Coverage	65

Section 1: Independent Service Auditors' Report



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The Charles Schwab Bank
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Scope

We have examined the description of the system of The Charles Schwab Bank (the “Bank” or the “Service Organization”) and its Business Trust Division (BTD), related to trust and custody services provided to Third Party Administrators, independent Record-keepers, and other employee benefit plan user entities throughout the period from January 1, 2019 through December 31, 2019 (the “description”), and the suitability of the design and operating effectiveness of controls included in the Description to achieve the related control objectives also included in the Description, based on the criteria identified in Section 2 (the “Assertion”). The controls and control objectives included in the Description are those that management of BTD believes are likely to be relevant to user entities’ internal control over financial reporting and the Description does not include those aspects of the system of BTD that are not likely to be relevant to user entities’ internal control over financial reporting.

The information in the cover letter on Schwab’s letterhead preceding the table of contents and the information in Section 5 of the report, “Other Information Provided by the Service Organization” that describes the Service Organization’s, Management Response to Testing Exceptions, Business Continuity Plan, Compliance Oversight, Affiliates and Bonding and Insurance is presented by management of the Service Organization to provide additional information and is not a part of the Service Organization’s description of its system made available to user entities during the period from January 1, 2019 to December 31, 2019. Information about the Service Organization’s, Management Response to Testing Exceptions, Business Continuity Plan, Compliance Oversight, Affiliates, Bonding and Insurance and Cover Letter has not been subjected to the procedures applied in the examination of its description of the system and of the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description of the system, and accordingly, we express no opinion on it.

The Service Organization uses the Information Technology Organization of Charles Schwab & Co., Inc. (“Schwab IT”) to provide information technology systems management and support, network, and data center support, and SEI Global Services, Inc. (SEI) for hosting of Trust 3000 system and for data processing and trust accounting services (“subservice organizations”). The Description in Section 3 includes only the controls and related control objectives of the Service Organization and excludes the control objectives and related controls of the subservice organizations. The description also indicates that certain control objectives specified by BTD can be achieved only if complementary subservice organization controls assumed in the design of the Service Organization’s controls are suitably designed and operating effectively, along with the related controls at BTD. Our examination did not extend to controls of the subservice organizations or their functions, and we have not evaluated the suitability of the design or operating effectiveness of such complementary subservice organization controls.

The Description indicates that certain control objectives specified in the Description can be achieved only if complementary user entity controls contemplated in the design of the Service Organization's controls are suitably designed and operating effectively, along with related controls at the Service Organization. Our examination did not extend to such complementary user entity controls and we have not evaluated the suitability of the design or operating effectiveness of such complementary user entity controls.

Service Organization's Responsibilities

In Section 2, the Service Organization has provided an assertion about the fairness of the presentation of the Description and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the Description. The Service Organization is responsible for preparing the Description and its assertion, including the completeness, accuracy, and method of presentation of the Description and the assertion, providing the services covered by the Description, specifying the control objectives and stating them in the Description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria stated in the assertion, and designing, implementing, and documenting controls that are suitably designed and operating effectively to achieve the related control objectives stated in the Description.

Service Auditors' Responsibilities

Our responsibility is to express an opinion on the fairness of the presentation of the Description and on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the Description, based on our examination. Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA). Those standards require that we plan and perform our examination to obtain reasonable assurance about whether, in all material respects, based on the criteria in management's assertion, the Description is fairly presented and the controls were suitably designed and operating effectively to achieve the related control objectives stated in the Description throughout the period from January 1, 2019 to December 31, 2019. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

An examination of a description of a service organization's system and the suitability of the design and operating effectiveness of controls involves:

- Performing procedures to obtain evidence about the fairness of the presentation of the Description and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description, based on the criteria in management's assertion.
- Assessing the risks that the description is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives stated in the Description.
- Testing the operating effectiveness of those controls that management considers necessary to provide reasonable assurance that the related control objectives stated in the Description were achieved.
- Evaluating the overall presentation of the Description, suitability of the control objectives stated therein, and suitability of the criteria specified by the service organization in its assertion.

Inherent Limitations

The Description is prepared to meet the common needs of a broad range of user entities and their auditors who audit and report on user entities' financial statements and may not, therefore, include every aspect of the system that each individual user entity may consider important in its own particular environment. Because of their nature, controls at a service organization may not prevent, or detect and correct, all misstatements in processing or reporting transactions. Also, the projection to the future of any evaluation of the fairness of the presentation of the Description, or conclusions about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives, is subject to the risk that controls at a service organization may become ineffective.

Description of Tests of Controls

The specific controls tested and the nature, timing, and results of those tests are listed in Section 4.

Opinion

In our opinion, in all material respects, based on the criteria described in the Service Organization's assertion in Section 2 of the report:

- a. The Description fairly presents the system related to the BTM system that was designed and implemented throughout the period from January 1, 2019 to December 31, 2019.
- b. The controls related to the control objectives stated in the Description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period January 1, 2019 to December 31, 2019 and subservice organizations and user entities applied the complementary controls assumed in the design of the Service Organization's controls throughout the period January 1, 2019 to December 31, 2019.
- c. The controls operated effectively to provide reasonable assurance that the control objectives stated in the Description were achieved, throughout the period January 1, 2019 to December 31, 2019 if complementary subservice organization controls and complementary user entity controls assumed in the design of the Service Organization's controls operated effectively throughout the period January 1, 2019 to December 31, 2019.

Restricted Use

This report, including the description of tests of controls and results in Section 4, is intended solely for the information and use of management of the Service Organization, user entities of the Service Organization's system related to the BTM system during some or all of the period January 1, 2019 to December 31, 2019, and their auditors who audit and report on such user entities' financial statements or internal control over financial reporting and have a sufficient understanding to consider it, along with other information including information about controls implemented by user entities themselves, when assessing the risks of material misstatement of user entities' financial statements. This report is not intended to be and should not be used by anyone other than these specified parties.



February 27, 2020

Section 2: Management's Assertion

Assertion by Management of Charles Schwab Bank

For the period from January 1, 2019 to December 31, 2019

We have prepared the description of the system of Charles Schwab Bank (the “Bank” or the “Service Organization”) and its Business Trust Division (BTD), related to trust and custody services (description) provided to Third Party Administrators, independent Record-keepers, and other employee benefit plan user entities during some or all of the period from January 1, 2019 to December 31, 2019, and their user auditors who have a sufficient understanding to consider it, along with other information, including information about controls implemented by user entities of the system themselves, when assessing the risks of material misstatements of user entities’ financial statements.

BTD uses the Information Technology Organization of Charles Schwab & Co., Inc. (“Schwab IT”) to provide information technology systems management and support, network, and data center support, and SEI Global Services, Inc. (SEI) for hosting of Trust 3000 system and for data processing and trust accounting services. The description includes only the control objectives and related controls of BTD and excludes the control objectives and related controls of the subservice organizations. The description also indicates that certain control objectives specified by BTD can be achieved only if complementary subservice organization controls assumed in the design of BTD’s controls are suitably designed and operating effectively, along with the related controls at BTD. The description does not extend to controls of the subservice organizations.

The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls assumed in the design of BTD’s controls are suitably designed and operating effectively, along with related controls at the service organization. The description does not extend to controls of the user entities.

Description Criteria

We confirm, to the best of our knowledge and belief, that:

1. The description fairly presents the BTD system made available to user entities of the system during some or all of the period from January 1, 2019 to December 31, 2019, for processing their transactions. The criteria we used in making this assertion were that the description:
 - a. Presents how the system made available to user entities of the system was designed and implemented to process relevant transactions, including, if applicable:
 - i. The types of services provided including, as appropriate, the classes of transactions processed.
 - ii. The procedures, within both automated and manual systems, by which those services are provided, including, as appropriate, procedures by which transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared for user entities of the system.
 - iii. The information used in the performance of procedures, including, if applicable, related accounting records, whether electronic or manual, and supporting information involved in initiating, authorizing, recording, processing, and reporting transactions; this includes the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities.

- iv. How the system captures and addresses significant events and conditions.
 - v. The process used to prepare reports or other information provided to user entities of the system.
 - vi. Services performed by a subservice organization, if any, including whether the carve-out method or the inclusive method has been used in relation to them.
 - vii. The specified control objectives and controls designed to achieve those objectives including as applicable, complementary user entity controls assumed in the design of the service organization's controls.
 - viii. Other aspects of our control environment, risk assessment process, information and communications (including the related business processes), control activities, and monitoring activities that are relevant to the services provided.
- b. The description includes relevant details of changes to BTD's system during the period covered by the description when the description covers a period of time.
 - c. The description does not omit or distort information relevant to the service organization's system, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities of the system and their user auditors and may not, therefore, include every aspect of the system that each individual user entity of the system and its auditor may consider important in its own particular environment.
2. The controls related to the control objectives stated in the description were suitably designed and operated effectively throughout the period from January 1, 2019 to December 31, 2019, to achieve those control objectives, provided that subservice organizations and user entities applied the controls contemplated in the design of the service organization's controls. The criteria we used in making this assertion were that:
- a. The risks that threaten the achievement of the control objectives stated in the description have been identified by BTD.
 - b. Controls identified in our description would, if operating as described, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved.
 - c. The controls were consistently applied as designed, including whether manual controls were applied by individuals who have the appropriate competence and authority.

Section 3: Description of the Business Trust Division's System

Applicability of the Report

The Charles Schwab Bank's (the "Bank") Business Trust Division (BTD) is a service provider of trustee and custodial services to sponsors of defined contribution, defined benefit, and other qualified retirement plans and nonqualified benefit plans (each, a "plan"); individual retirement account holders; and other clients (collectively, "Clients"). BTD works together with various record-keepers (each, a "Record-keeper", such term including both external Record-keepers and Schwab Retirement Plan Services, Inc., an affiliate of the Bank) to provide nondiscretionary, directed trustee, and/or custodial services to clients throughout the United States.

This report provides information on BTD's controls relevant to its operational, client service, and technology support of Client accounts. This report does not address the controls of any other division of the Bank or of BTD's registered broker-dealer affiliate, the Schwab Broker-Dealer.

The information in this document should be taken into consideration by Clients and their independent auditors when making assessments of BTD's control risk and its applicability to Clients' accounts. Certain other control objectives associated with the applicable Client and/or Record-keeper processing systems may be defined by the Client and/or Record-keeper and should be achieved solely by such Client and/or Record-keeper.

Scope and Objective of the Report

This description of the system of BTD has been prepared to provide clients and their independent auditors with information about the control features of certain administrative and operations functions provided by BTD for clients.

This report has been prepared taking into consideration the guidance contained in the American Institute of Certified Public Accountants' Statement on Standards for Attestation Engagements No. 18, *Reporting on Controls at a Service Organization* of the American Institute of Certified Public Accountants.

As this description is intended to focus on features that may be relevant to the internal controls associated solely with BTD's retirement plan and other employee benefit plan client accounts, it does not encompass all aspects of the services provided or procedures followed by BTD in servicing clients.

Relevant Aspects of Internal Control

Internal control is a process—affected by an entity's board of directors (the "Board"), management, and other personnel—and consists of five interrelated components:

1. **Control Environment:** The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
2. **Risk Assessment:** The entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
3. **Monitoring:** The entire process must be monitored and modifications made as necessary. In this way, the systems react dynamically, changing as conditions warrant.

4. **Information and Communication:** Surrounding these activities are information and communication systems. These enable the entity's people to capture and exchange information needed to conduct and control its operations.
5. **Control Activities:** Control policies and procedures must be established and executed to help ensure that the actions identified by management are necessary to address risks to achievement of the entity's control objectives.

1. Control Environment

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for other components of internal control, providing discipline and structure.

The control environment has a pervasive influence on the way business activities are structured, objectives are established, and risks are assessed. It also influences controls and monitoring procedures. An entity's history and managerial culture influences the control environment. Effectively controlled entities strive to have competent people, instill an enterprise-wide attitude of integrity and control consciousness, and set a positive "tone at the top." These entities establish controls, which foster shared values and teamwork in pursuit of the Service Organization's objectives.

This is accomplished by establishing controls surrounding the processing of information and by developing policies, which promote adherence to the requirements of the control environment. The elements of the control environment include:

- A. Organizational structure
- B. Assignment of authority and responsibility
- C. Management's philosophy and operating style
- D. Participation of those charged with governance
- E. Human resources' policies and procedures
- F. Communication of integrity and ethical values

A. Organizational Structure

The Bank, a federal savings association, is a wholly owned subsidiary of The Charles Schwab Corporation ("Schwab"), a nationwide financial services provider and holding company. The Bank was authorized to conduct business by the Office of the Comptroller of the Currency (OCC) as a national bank on February 4, 2003. The Bank converted to a national thrift and savings association, was authorized to conduct business, and was granted trust powers by the Office of the Thrift Supervision on November 9, 2007. BTD's Senior Vice President reports to the President of the Bank. BTD also operates as part of the Advisor Services enterprise of the Bank.

Management Structure and Practices—BTD's business, operations, and risk management environment are managed by the BTD management team, and the Bank, including BTD, and its affiliates use the corporate risk management departments of the Schwab Broker-Dealer to provide support for various risk management activities. BTD management is composed of the following Bank officers:

- Senior Vice President
- Vice President, Client Services
- Vice President, Operations
- Vice President, Relationship Management and Business Development and/or

- Other account administrative and operational personnel approved by the Board or the Senior Vice President, as applicable

In addition to supporting the functions of the management committees, BTD management oversees various business, operations, regulatory, and risk management activities. BTD's business structure includes the Business Trust Client Services Department, responsible for client service relationship and reporting functions; the Business Trust Operations Department, responsible for cash management and securities operations functions; and the Business Trust Administration Department, responsible for various account administration tasks, monitoring compliance with regulatory and corporate policies, and providing business support of risk management, audit, and other control functions.

B. Assignment of Authority and Responsibility

The control environment is greatly influenced by the extent to which individuals recognize their accountability. This holds true from the staff level to the Chief Executive Officer, who has responsibility for activities within an entity, including internal controls. The extent of accountability includes assignment of authority and responsibility for operating activities, and establishment of reporting relationships and authorization protocols. Policies describing the business practices, knowledge and experience of key personnel, and resources are communicated to personnel for carrying out duties.

C. Management's Philosophy and Operating Style

The purpose and values of the Bank focus on putting the Clients' needs first. Seeing the business "through Clients' eyes" helps earn the Clients' trust as they strive daily to fulfill their purpose and act according to their values, which are:

- Serve clients in an ethical, empathetic, and proactive way
- Innovate constantly to improve the Client experience
- Respect fellow employees and reinforce the power of teamwork
- Be good stewards of the resources entrusted to us—client assets, our brand, and stockholder value

Management fosters employee engagement by encouraging employees to bring forth ideas and solutions. BTD's executives interact frequently with managers and staff across all departments frequently. Recurring staff meetings are held to share company's performance and information across the organization. Annual employee surveys monitor employee engagement and the survey results are used to ensure the Bank's overall corporate philosophy and corporate purpose are reinforced.

D. Participation of Those Charged with Governance

Board of Directors and Committee Structure

BTD's business, operations, and risk management environment are overseen by Schwab's Board. To assist in these responsibilities, the Board has established the Bank Fiduciary Committee and the Audit and Compliance Committee. The Board has also empowered certain Bank management to establish other committees as the needs arise (with oversight by the Fiduciary Committee). Bank management has established the Bank Management Committee, and the Business Trust Administrative Committee (BTAC).

Interaction with Schwab's Parent Company and Affiliates

The Bank may contract or make other arrangements with Schwab, Charles Schwab & Co. Inc. (the "Schwab Broker-Dealer"), and their affiliates and subsidiaries for the provision of services to BTB and its accounts, except where such arrangements are prohibited by law or regulation. In addition and in response to its corporate, regulatory, and legal environment, Schwab has established specific policies related to BTB's interaction with its parent company and affiliates.

Bank Fiduciary Committee

The Fiduciary Committee is responsible for overseeing the administrative and operational matters of BTB and certain other businesses of the company. The committee is composed of at least three directors, one of whom serves as the Committee Chair. Each member of the committee serves at the pleasure of the Board and until a successor is appointed.

There are no fewer than four regular meetings of the Fiduciary Committee each year and the chair may call additional meetings. Minutes of meetings are taken and circulated to all members of the committee, designated members of Schwab's management, and the Board.

Responsibilities of the Fiduciary Committee include, but are not limited to, the following:

- Reviewing and approving proposed policies and procedures and recommending their acceptance to the Board. The Bank's Senior Vice President responsible for BTB, under the direction of the Board, establishes and maintains BTB's policies and procedures and the associated records and reports required by statute, regulation, or policy to demonstrate compliance with policies and procedures.
- Receiving reports of all key business indicators, new accounts, account reviews, and issue resolution.
- Reviewing and giving final approval of acceptance of new business. Acceptance of routine accounts, as defined by the Bank or Fiduciary Committee policy, may be delegated to the BTB's senior vice president or his/her delegates.

E. Human Resources' Policies and Procedures

BTB uses the Corporate Human Resources and Employee Benefits Department of Schwab to provide support for personnel recruitment, employee benefits, and employee-related activities. The hiring practices of BTB are designed to ensure that new employees are qualified for their job responsibilities. The Talent Acquisition Department and the hiring director and/or manager of the department requiring the position are involved in the sourcing and selection process. Hiring policies include minimum education and experience requirements, completion of reference, background and credit investigation checks, and execution of confidentiality agreements.

Once hired, employees participate in an onboarding program that includes compliance and regulatory training, as well as access to organization-specific training and resources. Training of personnel is accomplished through supervised on-the-job training, professional seminars conducted by outside educators, professional designation course work, and internal courses developed by BTB. Employees are encouraged to pursue professional designations through the American Society of Pension Professionals & Actuaries, if appropriate.

Certain positions require completion of specific training. For example, client services managers are required to be proficient in their knowledge of the rules and regulations of the Internal Revenue Code related to retirement plans and the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The department manager is responsible for ensuring that all personnel have completed appropriate training and for encouraging training and development to continue to qualify personnel for their functional responsibilities.

F. Communication of Integrity and Ethical Values

Schwab has a documented Code of Business Conduct and Ethics (the “Code”), which applies to employees of Schwab and its subsidiaries and affiliates, including BTB. The Code outlines key areas of ethical conduct for employees, including, but not limited to, an employee’s obligations with respect to conflicts of interest and confidentiality of client information. The Code prohibits employees from disclosing confidential information about Schwab or its clients to anyone, unless specifically authorized to do so according to Schwab policy or client consent. Employees are not permitted to engage in outside business or other activities that conflict or otherwise interfere with their duties and responsibilities. Schwab employees are required, on an annual basis, to complete Business Code of Conduct training.

2. Risk Assessment

Risk Management Program

BTB uses Schwab’s Risk Management Program to evaluate areas of possible administrative and operational risk. The program includes the production of Risk and Control Self-Assessment Reports and Plan of Supervision documents for certain functional areas. These documents identify areas of possible risk, associated control points, and management review and reporting processes to ensure the identification and mitigation of functional risk. The Risk and Control Self-Assessment Report and Plan of Supervision documentation is reviewed by senior management to ensure that all areas of concern are included in the risk management process. Risk management reporting has also been established to highlight areas where exceptions occur and the status of clearance of each exception.

Schwab management presents and discusses the risk management program with the Board on an ongoing basis for its input and oversight.

Bank Management Committee

The Bank Management Committee is a committee whose purpose is to oversee certain daily business and operations activities of the Bank and for informing the Board of material committee actions. The primary functions of the Bank Management Committee with respect to BTB include:

- Reviewing technology and operational risk through the Bank
- Reviewing new technologies, vendors, platforms, and operations systems and their risk assessments before implementation/engagement
- Reviewing new products and services for approval

3. Monitoring

Internal Audit Program

The primary role of the Internal Audit Department (IAD) is to help the Board and executive management protect the assets, reputation, and sustainability of the organization. The IAD of Schwab and its subsidiaries (the "Corporation") provide independent and objective assessments to determine whether all significant risks and risk functions are identified, appropriately reported to the Board and executive management, and adequately controlled as well as to challenge executive management to improve the effectiveness of governance, risk management, and internal controls.

The IAD does not operate or manage any business function but acts as a third line of defense to identify, measure, monitor, and report the risks of the Corporation. Assessments made by the IAD represent an independent and objective viewpoint on the effectiveness of controls. It is management and the Board's ultimate responsibility to conclude whether the control is adequate to meet its strategic, operational, compliance, and financial reporting objectives and requirements. The IAD provides management and the Board critical information about its independent assessment regarding the design, effectiveness, and sustainability of controls. Management and the Board are the final decision makers regarding appropriate action to address issues identified by the IAD.

As part of the annual internal audit planning process, a risk assessment is conducted to assist in the development of the Internal Audit Plan. The Annual Risk Assessment identifies the inherent risks due to the nature of the business, related processes, and an assessment of management control risk including the preliminary evaluation of design and effectiveness of internal controls to determine the overall residual risk rating at the major process level. Based on the results of the risk assessment, the draft annual audit plan is prepared. The results of the risk assessment and the finalized annual audit plan are shared with executive management followed by a presentation at the Audit Committee meeting for approval. The risk assessment is updated quarterly to incorporate changes in significant risk factors, market conditions, laws, regulations, industry trends, and updates to management control risks based on results of recently completed audits.

Subservice Organizations

BTD monitors the subservice organizations through various methods, including obtaining the service auditor reports of the subservice organizations, service level agreements, and informal meetings. The service auditor reports are reviewed to ascertain adequate controls are in place and operating effectively. BTD monitors the subservice organizations through these reports, as well as other activities required by Schwab's Vendor Management program. BTD obtains the SOC 1 reports for each subservice organization and reviews these reports as part of their oversight of the subservice organizations.

BTD utilizes subservice organizations to perform certain services. The accompanying descriptions below includes only policies, procedures, and monitoring activities of BTD and does not include policies, procedures and activities of various service organizations. The subservice organizations include:

- Charles Schwab & Co. Inc., Information Technology Organization ("Schwab IT") – provides information technology systems management and support, network, and data center support.
- SEI Global Services, Inc. (SEI) – hosts the Trust 3000 system and performs data processing and trust accounting services.

Administrative and Operations Policies

The Bank develops its administrative and operational policies based on (i) Fiduciary and other regulations promulgated by federal banking regulators with respect to directed trust and custody activities, as primarily defined by Regulation 9 of the Office of the Comptroller of the Currency; (ii) Internal Revenue Code regulations, including those applicable to employee benefit plans; (iii) ERISA; and (iv) other federal and state regulations applicable to activities in its trust department.

To support compliance with these standards and with BTD's service and product model, the Bank's policies define policy and standards for all account activities within BTD and between affiliates. The laws and regulations to which BTD account activities and associated products and organization are subject are also referenced in the policies.

Adherence to applicable policies and procedures is monitored through management review. Initial account review and other ongoing account oversight tasks have been designed to evaluate account administration and support operations for compliance with the account and other applicable authorizing documents, corporate policies and procedures, and applicable regulatory requirements. Results of the assessments are communicated to BTD management and the Fiduciary Committee. In addition, account activities are subject to a continuous internal audit program.

BTD management submits the Bank policies applicable to BTD's client account administration and support operations to the BTAC and the Fiduciary Committee on an annual basis for their input and oversight.

4. Information and Communication

Management is involved with day-to-day operations and is able to provide personnel with an understanding of their individual roles and responsibilities pertaining to internal controls. This includes the extent to which personnel understand how their activities relate to the work of others and the means of escalating incidents to a higher level within the Bank. Schwab's management believes that open communication channels help ensure escalated incidents reported are acted upon.

BTD communicates significant events and individual roles and responsibilities over services and controls in a timely manner to employees. Methods of communication include orientation and training programs for newly hired employees, continuing education and training programs, periodic meetings summarizing significant events and changes during the period, use of electronic mail to communicate time-sensitive messages and information, and internal websites.

5. Control Activities

The control activities that assist in carrying out management's directives are described in Section 3 and Section 4 of this report. The control objectives and related control activities are included in Section 4, and may not be stated in Section 3 to avoid repetition. However, they are, nevertheless, an integral part of the description of controls for BTD.

Processing Description and Controls

Overview

BTD, either directly or indirectly through the Bank's affiliates and/or agents, provides operations, administrative, and client service support for Client accounts. Depending on product offering, business strategy and policies, acceptability of the form of agreements, adequacy of facilities to support assets held, and duties specifically defined under its Client agreements, the Bank acts in the capacity of trustee, custodian, sub-custodian, or agent. The Bank, acting as a directed trustee, custodian, sub-custodian, or agent, will exercise no investment management decision-making authority with respect to any of its Client accounts. The Bank, through BTD, provides support for two business channels: *Retirement Business Services* and *Retirement Plan Services*.

- Retirement Business Services offer trustee services, custody of account assets, and trading and cashing services through BTD and works with various external, independent Record-keepers who provide retirement plan recordkeeping, compliance, and/or consulting services to clients.
- Retirement Plan Services provide a bundled offering of trustee services, custody of account assets, and trading and cashing services through BTD and recordkeeping and plan compliance and consulting services performed by the Schwab affiliate, Schwab Retirement Plan Services, Inc.

For the purposes of describing BTD's processing and control environment, the term "Record-keeper" refers to both external, independent Record-keepers and to Schwab Retirement Plan Services, Inc.

For each account, the Client or Record-keeper provides instructions to BTD for the following:

- To post cash receipts, including plan contributions, into BTD's systems
- To accept and invest cash through security purchases and sales
- To distribute account assets to the plan participants or to transfer account assets to successor trustees or custodians
- To perform other necessary cash and security-related processing functions (including income processing)
- To report accounting activity to the Client and Record-keeper

In addition, the Bank, when acting as a directed trustee appointed to such capacity by a plan fiduciary, provides trustee oversight with respect to Client accounts in accordance with the terms of the applicable trust agreement.

Cash and securities operations processing and client relationship activities are conducted in accordance with established policy and procedural guidelines that have been adopted by BTD management. BTD management uses management information and reporting system and other statistical reporting tools to support monitoring of key control and performance measurements.

Business Trust Administrative Committee

The Business Trust Administrative Committee ("BTAC") is a management committee whose purpose is to oversee BTD's trust administrative, client service, and operational activities and for informing the Board,

Fiduciary Committee, and Bank Management Committee, where applicable, of material committee actions.

Bank Fiduciary Committee

The primary functions of the Bank Fiduciary Committee include (i) reviewing and approving standard policies and procedures related to the administration of BTD accounts and account assets, (ii) reviewing and overseeing the resolution of significant client account-related and fiduciary-related issues or exceptions that have been escalated to management for appropriate action plans or ongoing monitoring, and (iii) reviewing and acceptance of accounts presented by BTD employees who are responsible for the review of new account documentation prior to acceptance and conversion of new accounts.

Business Trust Client Services and Trust Administration

BTD is responsible for servicing trust and custody accounts, including providing account administrative oversight and daily client service support to Clients and Record-keepers.

The BTD Client Services and Conversions teams' responsibilities include the following:

- New account acceptance, documentation, and conversion
 - Receipt of Client account opening documents, including the applicable trust or custody account agreement and required corporate resolutions
 - Coordination of Client account acceptance processes, including review and acceptance of account documentation and agreements and acceptance of accounts by the BTAC and Fiduciary Committee
 - Direct setup of new accounts on BTD's systems
 - Oversight of acceptance and setup of new assets on BTD's systems
 - Oversight of account transfers from other financial services providers to BTD
- Directing the processing of Client and Record-keeper directives
- Client reporting
- Closing account documentation and processing
 - Review and acceptance of closing account documentation and required corporate resolutions
 - Review and acceptance of transfer instructions from successor trustee or custodian
 - Oversight of account transfer activity to the successor trustee or custodian
 - Direct the close out of the accounts on BTD's systems
- The Trust Administration team's responsibilities include the following:
 - Daily client servicing and trust administration

- Account administrative oversight
- Oversight of BTD compliance with account documentation, ERISA, and other applicable laws and regulations
- Ongoing review of account documentation and activity

New Account Acceptance and Conversion

The BTAC reviews new accounts prior to acceptance and maintains records of such acceptance for delivery to the Fiduciary Committee. Assets are reviewed and approved by BTD management. The Business Trust Conversions team works with Clients, Record-keepers, Advisors and prior trustees and custodians to coordinate all activities associated with new account documentation, account setup on BTD's systems, and asset transfers to BTD. Accounts are set up on BTD's systems to record all activity with respect to assets held directly by BTD and to "shadow account" and report for assets held in self-directed brokerage accounts at the Schwab Broker-Dealer or at external broker-dealers.

The Conversions team reviews all required account-related documents to confirm their receipt and that they correctly appoint and reflect the Bank as trustee, custodian, or sub-custodian as applicable. BTD's standard agreements for directed employee benefits trust and custody relationships are reviewed for adequacy by BTD management and by internal legal counsel and, where necessary, external legal counsel. Nonstandard agreements may also be accepted for certain accounts. BTD uses procedures developed by BTD management with input from the Bank's legal and compliance departments, to evaluate the acceptability and adequacy of language in any custom agreements and other documents.

The Conversions team also works with the prior trustee or custodian(s) and the Business Trust Operations teams to review and accept the account assets to be transferred to the Bank and, with respect to assets to be held self-directed brokerage accounts, to the Schwab Broker-Dealer, and to transfer the accepted assets from the prior custodian(s). The acceptance of assets is based on the ability of the Bank and/or the Schwab Broker-Dealer, as applicable, to hold the assets in accordance with applicable federal and state laws and regulations, including ERISA; to register the assets in the name of the Bank; to custody and safeguard the assets; and to execute purchase and/or sale transactions of the security (or to work with the security issuer to perform these functions on behalf of BTD in an acceptable manner).

Account Modifications

Modifications to existing accounts include changes and updates to account details on file and may include plan name change, advisor updates, Third-Party Administrator (TPA) switches, and capacity changes. TPA switches occur when a plan sponsor chooses to change administrators. Capacity changes occur when a plan sponsor chooses to change the service capacity from a trustee account to a custodian account or vice versa. These are the two most common and major account modifications, which occur on an ad-hoc basis, while other account modifications are minor and occur less frequently. Modifications to existing accounts are updated based upon a client directive. The Conversions team is responsible for initiating and validating client directed account modification requests once the operations teams have executed the requests.

Daily Client Servicing and Trust Administration

The Business Trust Client Services and Trust Administration teams provide daily client service and account administrative support for Clients and Record-keepers and Advisors.

Business Trust Client Services team maintains service support call centers in Phoenix, Arizona; and Austin, Texas, for Record-keepers, Clients, and/or other Client-authorized parties, including plan auditors and advisors for whom assigned client service representatives perform the following:

- Field questions
- Follow-up on requests for information
- Perform research
- Coordinate modifications to account documents
- Provide input on account-related activities
- Monitor outstanding fee invoices and account overdrafts
- Review and submit directives for processing¹
- Business Trust Administration team performs account administrative tasks, including the monitoring of certain nonstandard account-related activities and documentation. In addition, the Business Trust Administration team completes account reviews for all new, incoming accounts for which BTAD acts as directed trustee within 90 days after acceptance and funding. The incoming account review process includes review of account documentation and identification and tracking of account-related issues of concern for discussion with Clients or Record-keepers. Business Trust Administration team also reviews all material additions or changes to Client account documents received thereafter related to accounts for which the Bank acts as directed trustee. The results of all such reviews are then presented to BTAD management on a periodic basis, including to the BTAC.

Client Reporting

The Bank, directly or through its designated agents, prepares and delivers BTAD account statements of plan holdings and transaction activity to each Client generally on a monthly or quarterly basis and on an annual fiscal year basis. Statements are made available to Clients online and, if requested, are delivered in using secure removable media storage (CD's).

On a monthly and/or quarterly basis, depending on the type of account and the provisions of the applicable trust or custody agreement, the Bank, directly or through its designated agents, prepares Client account statements for the applicable reporting period. The statements include, but are not limited to, a listing of asset holdings in the account and a statement of transactions and other account activities. The statements are ordinarily prepared on a cash accounting, settlement-date basis; the statement format, frequency, and delivery requirements for each account are maintained on BTAD systems.

¹ This function is not included within the scope of this report. Descriptions of the systems, policies, procedures, and control objectives related to this function have been intentionally excluded from this report, and any information provided is for information purposes only.

Each step of the statement production process and the content of the statements, including asset valuation and transaction data, are monitored for completeness and timeliness. The account statements are uploaded to applicable Schwab websites for controlled access by authorized Clients, Record-keepers, or other parties.

On an annual basis, the Bank, directly or through its designated agents, prepares the certified annual BTD trust account statements for the period ending with each plan's fiscal year end. The certified annual statement includes the listing of assets held in the account, a statement of transactions and other account activities. Other management reports, including, where required, reports to support preparation by a Client or its agent of the Department of Labor (DOL) mandated Form 5500 tax return for the applicable plan. In some cases, by agreement with the Client and where allowed by applicable law and/or the underlying trust or custody agreement, the Bank may prepare the annual account statement based on a period other than the fiscal year for the applicable plan.

Closing Account Processing²

Upon receipt of a notice of account termination from a Client or Record-keeper, Business Trust Client Services team coordinates the collection and/or preparation of required closing account documents, the transfer of assets from the Bank to the successor trustee or custodian appointed by the Client, and the termination of the account on BTD's systems.

BTD uses a procedure, developed by management with input by the Bank's legal and compliance departments, to evaluate and implement all activities associated with the closing of the account and transfer of account assets from the Bank.

The Client Services teams work with the successor trustee or custodian and Business Trust Operations teams to transfer account assets to the successor trustee or custodian. Where required, the Client Services teams instruct the Operations teams (i) to liquidate the assets and transfer cash to the successor trustee or custodian or (ii) to transfer physical certificates and other documents to allow safe transfer and reregistration of securities to the successor titleholder.

Upon completion of asset transfers, the Client Services teams monitors the account for 60 days for trailing income or expenses after which a request is made to operations to close the account on BTD's systems.

Business Trust Operations

Business Trust Operations team is responsible for the handling of cash management and securities operations functions on behalf of BTD's accounts.

The Business Trust Operations teams' responsibilities include the following:

- Review and acceptance of new account assets
- Asset custody and control

² This area is not included within the scope of this report. Descriptions of the systems, policies, procedures, and control objectives related to this area have been intentionally excluded from this report, and any information provided is for information purposes only.

- Transfer of assets processing
- Cash receipt/contribution processing
- Cash disbursements processing/tax withholding/remittance and reporting
- Trade order processing
- Trade confirmation/affirmation and securities settlement
- Asset pricing
- Coordination of alternative investment acceptance and valuation directives received from Clients and Record-keeper
- Corporate actions processing, including income processing
- Asset trade and position, suspense account, and cash reconciliation with applicable banks, issuers, transfer agents, depositories, sub-custodians, etc.

Asset Custody and Control

The Bank maintains custody of account assets through various custodians and depositories, including, but not limited to, the Schwab Broker-Dealer (mutual funds and internally held self-directed brokerage accounts); mutual fund transfer agents (mutual funds); the DTC (equities, mortgage-backed, and other fixed-income securities); insurance companies (guaranteed contracts and insurance policies); State Street Bank and Trust Company (unitized accounts and collective investment trusts); and external broker-dealers (externally held self-directed brokerage accounts). These relationships are reviewed on an ongoing basis to confirm that the quality and extent of services are adequate for the Bank's needs.

Account assets are held primarily in book entry form. If necessary, physical certificates are held in custody in fireproof storage facilities at the Bank or at the Schwab Broker-Dealer. The Bank's facilities used for storage of physical securities are accessible only by designated BTD employees. Records of physical securities placed into or removed from storage are maintained on designated logbooks. Any security removed from storage is returned no later than at the end of each business day. Periodic reconciliations/counts are performed by Business Trust Operations Control team.

Business Trust Asset Operations team is responsible for receipt and delivery of physical securities, the processing of maintenance entries, securities reregistration, and the transfer of securities between accounts, as instructed by the Client or Record-keeper. Physical securities are received via certified or registered mail. Securities being processed are maintained under appropriate control at all times. Securities delivered to external custodians are sent by an insured party. Confirmation of receipt is determined through a review of the custodian account records accessed online, on statements received from the custodian, or via direct written confirmation back from the custodian. The Bank and the Schwab Broker-Dealer, as the Bank's primary sub-custodian for most mutual funds and self-directed brokerage accounts, including Schwab's Personal Choice Retirement Accounts®, are each responsible for monitoring that all securities that they have delivered to a transfer agent are registered accurately. Follow-up is required if the security is not returned within 30 days, and mail loss affidavits are prepared if a security is lost in transit to or from the transfer agent.

Asset lists from applicable BTB systems, reported on a security, account, or location code basis, are used by BTB to reconcile the security positions recorded on BTB's systems with the positions held at each custodian/depository and to research and resolve any discrepancies.

The reconciliations of security positions between custodians or depositories and BTB's systems are performed on a scheduled basis defined for each custodian or depository.

Transfer of Assets Processing

Business Trust Asset Operations team is responsible for incoming and outgoing transfer of assets associated with new account conversions, account terminations, account distributions, and self-directed brokerage account activities in accordance with Client or Record-keeper instructions and applicable industry requirements. Asset Operations team coordinates the handling of both manual and electronic transfer of assets working with the Clients and applicable trustees, custodians, depositories, insurers, mutual funds, and other transfer agents (collectively, "custodians").

Assets are received or transferred in both book entry and physical form. Asset Operations team works closely with applicable custodians to confirm the accurate transfer of assets to be held in the underlying customer account and reregistration of title into or out of the Bank's name, regardless of whether the assets are to be held by the Bank or a sub-custodian or depository appointed by the Bank, including the Schwab Broker-Dealer, DTC, etc. Upon verification of the transfer into or out of applicable Bank-registered omnibus or house account(s), the Schwab Broker-Dealer, or other sub-custodian or depository for any specific securities, Asset Operations team updates the applicable account records in BTB's systems.

Cash Receipt/Contribution Processing

Business Trust Cash Operations team is responsible for reviewing and processing incoming cash receipts, including plan contributions, into Client accounts in accordance with Client or Record-keeper instructions. Cash receipts are received in the form of checks, Automated Clearing House (ACH), and wire transfers. Physical checks are restrictively endorsed by the designated Cash Operations team and deposited to a demand deposit account at the Bank.

Cash Operations team coordinates the processing of cash receipts and contributions, receives cash allocation instructions from the Clients and/or Record-keepers, and posts the cash transactions into BTB's systems. Cash Operations team maintains all related relevant records for audit purposes.

Cash Disbursements Processing/Tax Withholding and Reporting

Business Trust Cash Operations team is responsible for reviewing and processing disbursements from the Client accounts in accordance with Client or Record-keeper instructions. Client disbursements include plan benefit distributions, lump-sum distributions, hardship withdrawals, participant loans, transfer of accounts in the form of cash, pass-through dividends, and other miscellaneous payments. Cash disbursement directives are received in the form of written instructions or in electronic data format for more efficient processing through BTB's systems.

Business Trust Client Services team receives the disbursement instructions and performs an authorized party review prior to approving the directives and directing cash operations to execute the directives. Production of checks is performed by InnoVest, pursuant to the terms of a servicing agreement between InnoVest and the Bank.

The Bank serves as tax withholding agent for account disbursements that require federal and/or state tax withholding. As each disbursement is processed, Cash Operations team transfers the taxes withheld from each account into applicable omnibus tax liability accounts established by the Bank for each federal and state tax agency. Cash Operations team remits the aggregated amount of taxes withheld in the tax liability accounts and associated to each federal and state tax agency on a regularly scheduled basis, as required by applicable federal and state laws. Reconciliations are performed on a required basis to each federal or state tax agency to confirm that the total amounts withheld from BTB's client accounts during the reporting period equal the aggregate amounts remitted to the applicable tax agencies. Cash Operations team prepares and mails individual Internal Revenue Service (IRS) Information Returns (i.e., 1099 Forms) as required to payees, including plan participants and beneficiaries, and as defined for various types of income and other payments. Cash Operations team also files the corresponding payee tax information annually, via either magnetic tape or paper filing, with the applicable tax agencies.

All checks are produced using controlled electronic data systems that format and generate checks with appropriate bank account information and authorized signatures.

Business Trust Cash Operations team processes outgoing wire requests received from Clients and Record-keepers. Upon receipt of written instructions, Cash Operations team instructs the applicable bank, via the Bank's proprietary cash management services platform, to wire out the specific amount of funds. Each outgoing wire instruction record is reviewed and approved by a second authorized BTB employee before release of the wire instruction to the Bank. The Bank also uses ACH capabilities with its banks through the Federal Reserve System, allowing BTB to transfer funds more efficiently.

Trade Order Processing

Business Trust Assets Operations team is responsible for reviewing and processing trade orders in Client accounts in accordance with Client, Record-keeper, or authorized investment manager instructions. Trade directives are processed for both "daytime" order processing and "late-day" order processing (i.e., via the Bank's Same Day Exchange (SDE) Program).

Trade orders are generally submitted electronically by the Record-keepers through various entry points into Schwab systems such as SFTP (Secure File Transfer Protocol) and or website (SRC.com, SAC.com) A small number of trade orders are submitted to Business Trust Client Services team by the Record-keeper via email. Client trade files are routed into and automatically reviewed and approved (or rejected) by the Schwab Transaction Approval and Reconciliation System (STAR), BTB's trade order handling system, based on previously developed system validations.

Rejected trade orders are escalated to clients for review and handling. Client Services team reviews all manually delivered trade orders to validate that the trade orders were submitted and approved by parties previously authorized in writing by the client. Any electronically delivered trade orders that have been rejected by STAR are communicated to the client to determine course of action.

Approved trade orders for mutual funds and collective trust funds scheduled for daytime order processing through STAR are received, processed, and delivered to applicable mutual fund transfer agents and bank collective trust fund issuers, either directly or indirectly via the National Securities Clearance Corporation (NSCC), prior to published securities market close hours ("Market Close").

Approved trade orders scheduled for late-day order processing through STAR (via the SDE Program) are received by the Record-keepers prior to Market Close. The approved trade orders are delivered to the Bank after Market Close for subsequent delivery to the applicable mutual fund transfer agents and bank

collective trust fund issuers. These are either delivered directly or via the NSCC, prior to deadlines applicable to each transfer agent, issuer, or NSCC. The SDE Program allows eligible Clients to reallocate current investments between program-eligible securities held in Client accounts at the current day's closing asset value on both the sell- and purchase-side transactions. BTD delivers the trade orders on behalf of Clients to mutual fund transfer agents or the NSCC in the evening hours after Market Close in accordance with the terms of services agreements between each mutual fund family or collective trust fund issuer, as applicable, and the Bank and/or the Schwab Broker-Dealer.

For both daytime and SDE Program trading, the STAR system automatically reviews each trade order file and individual record loaded into the system; validates file-specific requirements and basic account/security identification data; and cash availability for purchase trade orders and asset share/unit availability for sale trade orders. Trade orders that pass all system edit checks, including cash or share/unit availability, are automatically approved by the STAR system for delivery to applicable transfer agents or the Schwab Broker-Dealer. Trade order records that are rejected from system edit checks are identified by the STAR system as exceptions, and the Asset Operations team reviews and resolves the exceptions.

Upon approval in the STAR system, mutual fund and collective trust fund trades are aggregated by the STAR system for delivery via various trade order mechanisms to the applicable mutual fund transfer agents or Bank collective trust fund issuers or to the Schwab Broker-Dealer, acting as sub-custodian with respect to certain assets, for further delivery by the Schwab Broker-Dealer to the fund transfer agents or issuers. These trade order processes at both BTD and the Schwab Broker-Dealer include electronic order delivery through the NSCC FundServ system and via other electronic links to various other transfer agents.

Approved trade orders for other publicly traded securities are aggregated by the STAR system and trade order reports are generated. Asset Operations team places the security trades included on the trade order reports through various Schwab Broker-Dealer trading desks for execution on the applicable market exchange and settlement through the DTC and other custodians and depositories. After execution of the trade orders by the Schwab Broker-Dealer trading desks, but before settlement, Asset Operations team enters the trade records into the Depository Trust and Clearing Corporation (DTCC) Institutional Delivery System (IDS), which is linked into and subsequently automatically posts the trade transaction into BTD's systems.

Approved trade orders for non-publicly traded or "closely held" securities, including guaranteed insurance contracts, proprietary mutual funds, collective trust funds not traded through the NSCC, private limited partnerships, closely held stocks, etc., that have been reviewed and accepted by the Bank for holding at either the Bank or the Schwab Broker-Dealer (i) are aggregated, where possible, on the STAR system, and individual trade tickets are generated or (ii) delivered directly to Asset Operations team for manual trade order document preparation. In either case, delivery of trade orders to issuers and transfer agents is directly coordinated by Asset Operations based on each issuer's individual order delivery requirements, including via telephone call, fax, and or postal service.

Trade Confirmation/Affirmation and Securities Settlement

When a DTCC-eligible trade order is executed, Asset Operations team affirms the trade using automated affirmation reporting capabilities of the IDS system accessed through BTD's systems. The IDS reporting process allows BTD to compare IDS trade information with DTCC information received from the trade counterparty. Asset Operations team affirms the trades for an account after receipt of authorization from a Client or Record-keeper.

While the Bank uses primarily DTCC for settlement and custody of most equity and fixed-income securities, pursuant to Client or Record-keeper direction, Asset Operations team may settle some DTCC eligible securities in another manner, including through the Schwab Broker-Dealer, for reasons of cost or convenience.

Mutual funds and securities not eligible for settlement through DTCC are generally settled (i) through the Bank's subcustodial accounts at the Schwab Broker-Dealer in nominee accounts for the benefit of the Bank, acting as directed trustee or custodian for its plan accounts, or (ii) physically to the Bank or the Schwab Broker-Dealer. Securities not registered in street name are not available for resale until they have been reregistered in the Bank's or the Schwab Broker-Dealer's nominee name.

Asset Operations team reconciles and settles trades to Client accounts through the Schwab Broker-Dealer, other custodians and depositories, or directly with transfer agents or securities issuers on the applicable settlement date (i.e., generally the day following trade date (T+1) for mutual funds and collective trust funds and two days following trade date (T+2), the contract settlement date, for most other marketable securities, including equities and fixed-income securities). For other securities, payments or proceeds are credited or debited to Client accounts upon actual settlement. Asset Operations team receives or delivers securities versus payment or proceeds via book entry or physical exchange on actual settlement date. IDS provides for automated securities settlement on the contractual settlement date.

Asset Operations team does not affirm or accept settlement of trades, except those properly authorized by the party with responsibility over investment management of the account and for which funds for payment are available or reasonably expected to be available on settlement date.

On settlement date, all trades are electronically posted to Client accounts on BTB's systems. The positions, cash, and trade data recorded on both BTB's systems and the systems of the applicable sub-custodians and depositories are used in the reconciliation processes described below.

Asset Pricing

Business Trust Asset Operations team is responsible for pricing of positions and trades that are maintained on BTB's systems and that are included in data files delivered to each Record-keeper on a daily basis.

Asset Position Pricing on BTB's Systems

The pricing of all securities on BTB's systems is required in order to report asset values on Client accounts. Securities are priced electronically on BTB's systems using data provided by various pricing vendors used either directly by the Bank or by the Schwab Broker-Dealer or, as directed by the Client, based on individual security valuations prepared by and received from independent third-party valuation firms.

Mutual fund, collective trust fund, and money market fund securities are generally priced on a daily basis, and other publicly traded (primarily equity) securities are priced on other frequencies. Guaranteed contracts and other insurance products and securities issued by other banks are generally manually priced on a monthly basis or updated based on individual issuer account statements provided by the issuer or the Client to BTB on a periodic basis. When pricing vendors, issuers, or Clients are unable to provide daily or month-end prices, as applicable, by reporting deadlines, Asset Operations team may manually obtain and update asset pricing.

Non-publicly traded securities, where prices are not easily or readily available from standard pricing sources, are generally priced on an annual basis based on receipt of valuation reports produced by independent third-party valuation firms. BTD requests direction from each Client as to whether the Client will obtain and provide the valuation report to BTD or will direct BTD to obtain a valuation report from the independent third-party valuation firm. Upon receipt of the valuation report, Asset Operations team updates the asset pricing on BTD's systems, generally after the valuation date, and provides the valuation report to the Client. At the Client's direction, insurance policies, which are non-publicly traded, may be priced at a value of \$1.

Delivery of Asset Position Pricing Data to Clients and their Agents

Each evening, the Bank generates electronic data files that contain account asset position and pricing records maintained on BTD's systems for delivery to Record-keepers and other authorized recipients, including investment managers and outside trustees. The Bank transmits the electronic data files electronically to the Record-keepers and other recipients as requested by the client. The Record-keepers and other recipients use the position and transaction records to support updates to their internal recordkeeping and investment management systems and to provide data for their reconciliation processes.

Income Processing

Income Processing

Business Trust Asset Operations team is responsible for overseeing the processing of dividends and interest income that are due and payable to Client accounts on payable date, investigating underpayments and overpayments, and processing due bills and claims for income. Interest income is recorded to accounts on a cash accounting basis once the income is credited to the Bank by custodians and depositories. Income is recorded to accounts on the ex-date.

For securities held at depositories, information on expected payments is received from the depositories to BTD's systems. For physical securities, a printout of the income map is generated by the system and compared to information provided by the paying agent. The amount of income collected is subsequently reconciled to the income maps in the system to identify and resolve differences prior to posting into the applicable accounts on BTD's systems.

Income paid on non-publicly traded securities, including guaranteed contracts, is recorded based upon the amounts reflected in the statements or other communications received periodically from the security issuer or the Client.

Processing of Client Directives

BTD receives account-related directives from the Client and/or Record-keeper and reviews and executes the directives (i) in accordance with the terms of the applicable trust or custody agreements and the requirements of the banking and securities industry and (ii) based on the requirements of ERISA and other applicable federal and state laws and regulations and the guidelines defined in DOL Field Assistance Bulletin (FAB) 2004-03, where applicable. Business Client Services teams are responsible for ensuring that all account transaction directives are authorized and delivered to Business Trust Operations teams or other parties for execution and posting to BTD's systems.

Delivery of Asset Accrual Data to Clients and Record-keepers

Every business day, BTB's systems generate, for delivery to Record-keepers and other authorized outside recipients, including investment managers and outside trustees, electronic data files that contain the account asset income accrual data.

The Bank transmits the data files electronically to the Record-keepers and other recipients through various means. The Record-keepers and other recipients use these accrual records to support updates to their internal recordkeeping and investment management systems posting and batch processes.

Corporate Actions Processing

Asset Operations team uses BTB's systems to generate reports of both mandatory corporate actions (including stock splits, reorganizations, mergers, etc.) and voluntary corporate actions. The corporate actions are reported based on notifications provided to BTB's systems vendor by a series of industry pricing and servicing vendors.

The Asset Operations and Client Services teams coordinate and support the process of notifying clients and Record-keepers of corporate actions generally associated with employer securities or individual equity securities held in Client accounts. Asset Operations team processes corporate actions based either on the response received from the Clients or Record-keepers or on the published default action assigned by the security issuer. After notification to the Client, BTB does not monitor or notify the Client of expired corporate actions, tender offers, conversion rights, etc. Asset Operations team posts corporate action activity on BTB's systems and files all corporate actions-related documentation for audit purposes.

Asset Trade and Position and Cash Reconciliation Processing

Business Trust Operations Control team reconciles security trades positions and BTB's overall cash position. The team prepares reconciliation reports, highlight and escalate exceptions for resolution, and research and document each exception item. BTB management reviews and approves the reconciliation materials.

Trade and Position Reconciliation

Reconciliations of mutual funds, collective trust funds, and money market funds are performed on the STAR system by reconciling data from BTB's systems with corresponding data from the Schwab Broker-Dealer's systems (or with trade data provided by other participating brokers' and banking systems or the NSCC) on a daily basis on the day after trade date (T+1). The STAR system has a complex electronic trade-matching protocol that allows the Operations Control team to concentrate its efforts on exceptions. The reconciliations of trades and positions for non-mutual fund securities in custody at DTCC, the Schwab Broker-Dealer, or other broker-dealers are generally performed on a daily basis. The reconciliations of trades and positions for guaranteed contracts and other non-publicly traded securities in custody at various insurance companies, transfer agents, and fund companies are performed on no less than a monthly or quarterly basis.

Reconciliations of equities and other publicly traded non-mutual fund securities are performed by reconciling data from BTB's systems with data from the systems of the various custodians, including the DTCC. BTB's systems provide electronic reconciliation functionality via data links between the systems of BTB and each custodian. Position reconciliations and trade reconciliations are performed each day on T+1.

Reconciliations of non-publicly traded securities are generally performed by reconciling data from BTB's systems with corresponding data from account statements provided by security issuers.

Suspense Account Reconciliation

Operations Control creates a monthly report for escalation to management of all outstanding items in a suspense account based on dollars and days-aged. Operations teams perform daily reviews of suspense accounts. Exception items ("breaks") are reviewed and cleared by Operations teams as needed.

Cash Reconciliation

Business Trust Operations Control team prepares daily cash reconciliation reports, comparing the total of all cash-related activity posted to BTB's systems to the total cash balances held by the Bank on a daily basis. To support the reconciliation process, Operations Control team maintains various supporting documents and reports.

Operations Control team works with Asset Operations and Cash Operations team to resolve any out-of-balance items as soon as possible. BTB management performs the final supervisory review on a daily basis.

Description of Business Trust Accounting System

The following is a listing of BTB's key trust accounting system and their relationships to Record-keepers, brokers, and depositories/custodians:

SEI Trust 3000

SEI Global Services, Inc. (SEI) provides data processing and trust accounting system services to BTB. BTB maintains an ongoing vendor due diligence process for overseeing SEI's performance against agreed-upon service levels and reviews SEI's service auditor's report on an annual basis to identify any issues with respect to the SEI's published internal control objectives for the following SEI Trust 3000 system applications:

SEI Trust 3000 Trust Accounting System: Trust accounting system that provides numerous application processing services is hosted and supported by SEI in a service bureau capacity. The system is the official Books and Records of the BTB.

Periodic Check Issuance and Customer Tax Reporting Systems

InnoVest provides data processing and disbursement and tax reporting system services to BTB. Periodic Check Issuance and Customer Tax Reporting Systems: Disbursement systems that allow BTB to process lump-sum and periodic distributions and related tax reports (e.g., IRS Form 1099-R) and to report taxable distributions to government tax agencies. These systems, all of which are hosted and supported by InnoVest in a service bureau environment electronically, interface with BTB's systems.

STAR System

The Bank maintains the STAR system that processes electronically received trade orders, cash receipts and wires, distributions and disbursements, and other operational transactions received from Clients or Record-keepers. Each Record-keeper electronically transmits trade orders from their recordkeeping system(s) to the STAR system for trade execution and settlement each day. STAR is also used by BTB to

(i) return trade confirmation and position information back to the Record-keeper, (ii) electronically deliver approved trade orders to the Schwab Broker-Dealer and the NSCC, and (iii) manually deliver approved trade orders to the security exchanges and other securities issuers and transfer agents. STAR also automates portions of BTD's reconciliation and cash settlement activities.

System Security and General Segregation of Duties

System privileges have been granted only to authorized personnel and/or employees of the Bank and its affiliates in accordance with Schwab-defined policies and as approved and periodically reviewed by BTD management. Access to BTD client data on Schwab's systems and wide area network is protected on users' terminals via password controls (both at the personal computer and the individual systems' application levels, as applicable). Key standards within the Schwab IT password policy for user accounts are:

- Passwords must be a minimum of eight characters in length.
- The password must contain at least three out of four of the following categories:
 - Uppercase characters
 - Lowercase characters
 - Number
 - Non-alphanumeric characters
- Passwords must be changed every 90 days to a new and unique password.
- Depending on the system, incorrect password attempts will result in the user account being suspended from access.
- Users must not be able to construct passwords that are identical passwords they have previously employed in the last six times they have changed their password. Selections for new passwords are checked against the history and rejected if there is a match.

In accordance with the Identity and Access Management policy set at the firm, the business actively manages and oversees various aspects of system security and segregation of duties.

For systems access, business owners are required to create templates restricting access as required. On a periodic basis templates are reviewed for accuracy and updated along with annual attestations. System entitlement definitions are communicated to a central SOD (segregation of duties) team who leverage a tool to identify conflicts based on pre-defined rules. All conflicts are either remediated or justified by the business as an acceptable risk.

Systems Strategy

BTD has outsourced certain portions of its IT needs, including engaging third parties to host and support the majority of BTD's systems. In addition to proprietary development efforts, external software development firms having proven expertise in the development of financial applications may be engaged to provide development support.

Schwab maintains a wide area network for computer-based systems applications, including word processing and spreadsheet software, disbursements processing applications, and the STAR system.

Schwab's IT teams are responsible for installing network connections and maintaining network equipment. The network is supported by an uninterrupted power source and backed up nightly, with data discs shipped to off-site storage on a daily basis. Authorized personnel perform network monitoring and maintenance.

Systems Oversight

Schwab's Systems Technology teams maintain a staff of professionals to oversee BTD's systems, including participating in the management of critical systems vendors. Because many of the operational and support tasks for production systems fall to the Bank's vendors, day-to-day management of these relationships is extremely important. Schwab's Systems Technology teams also work with BTD management to define requirements for new development efforts and for updates to existing systems. Once requirements have been defined, the design, development, and quality assurance testing of new applications and updates are the responsibility of the systems team with the participation, support, and oversight by BTD management and employees.

Systems Development Process

Requests for system enhancements managed by either Schwab IT or BTD management are submitted through the IT team for development, either internally or by external systems vendors. All requests are channeled through the following process:

- Project request
- Technical assessment
- Business assessment
- Application programming
- Testing
- Management review
- Implementation

System enhancements are not released into production until the appropriate testing, sign-off, and documentation steps related to the development effort are complete. These application change management processes and controls are within the scope of this report. Controls related to production migration access is included in the IT services' SOC 1 Report. Changes made to the related infrastructure including the system software and databases are included in the Charles Schwab & Co., Inc. Information Technology Organization ("Schwab IT") SOC 1 Report³. Schwab IT provides IT services to BTD as a subservice organization and these are not covered in the scope of this report.

³ This service is not within the scope of this report. Descriptions of the systems, policies, procedures, and control objectives related to this service have been intentionally excluded from this report and any information provided is for information purposes only.

Complementary Subservice Organization Controls (CSOC)

Business Trust Division (BTD) Service Organization's controls related to trust and custody services provided to Schwab's retirement plan and other employee benefit plan client accounts cover only a portion of overall internal controls for each user entity of Schwab's Information Technology Organization (IT). It is not feasible for the control objectives related to trust and custody services to be achieved solely by BTD. Therefore, each user entity's internal control over financial reporting must be evaluated in conjunction with Schwab's IT organization's controls and the related tests and results described in Section 4 of this report, taking into account the related complementary subservice organization controls expected to be implemented at the subservice organization as described below.

Table 1 - Subservice Organizations

Schwab IT Complementary Subservice Organization Controls	Related Control Objective
Schwab's Information Technology (IT) organization is responsible for administering and maintaining logical security over the infrastructure upon which the BTD applications are hosted.	10
Schwab's Information Technology (IT) organization is responsible for maintaining infrastructure in accordance with Schwab's change management standards.	11
Schwab's Information Technology (IT) organization is responsible for maintaining physical security over its data center in which the servers used to host the BTD applications.	Related control objectives excluded from the scope of BTD SOC 1 report. They are fully addressed by controls at carved-out subservice organizations ⁵
Schwab's Information Technology (IT) organization is responsible for backup and recovery procedures.	
SEI Complementary Subservice Organization Controls	Related Control Objective
SEI is responsible for administering and maintaining logical security over the infrastructure upon which the BTD applications are hosted.	10
SEI is responsible for maintaining infrastructure in accordance with Schwab's change management standards.	11
SEI is responsible for maintaining physical security over its data center in which the servers used to host the BTD applications.	Related control objectives excluded from the scope of BTD SOC 1 report. They are fully addressed by controls at carved-out subservice organizations ⁵
SEI is responsible for backup and recovery procedures.	

⁵ These objectives are not within the scope of this report. Descriptions of the systems, policies, procedures, and control objectives related to this service have been intentionally excluded from this report. Our examination did not extend to the controls of the aforementioned subservice organization. These services are covered in the Schwab IT and SEI services' SOC 1 Reports.

Table 2 - Vendors

Table 2 below contains service providers for which BTB's controls alone are sufficient to meet the needs of user entities' internal control over financial reporting (that is, achievement of the control objectives in Section IV are not dependent on the service provider's controls). Therefore, these service providers are classified as "vendors" and the scope of the report does not include controls and related control objectives of the following vendors.

Vendor Name	Type of Services Provided
InnoVest	Check printing and mailing

Complementary User Entity Controls

Processing of transactions for BTB's Client accounts and BTB's associated internal control environment represent a portion of the overall internal control environment associated with each account. It is not feasible for the control objectives relating to the processing of transactions to be solely achieved by BTB. The operations and systems controls provided by each Client and Record-keeper should be evaluated in conjunction with BTB's controls and testing summarized in the following section of this report.

This section highlights internal control responsibilities that BTB assumes will be present and operating effectively and which were included within the design of the controls described in this report. In order for Clients to rely on the reported controls, each Client and Record-keeper should evaluate its internal controls to determine if the following controls are functioning effectively.

Furthermore, the following list of controls is intended to address only those controls anticipated in the interface and communication between each Client, Record-keeper, and the Bank; they do not purport to be, and are not, a complete listing of the controls that provide a basis for the assertions underlying the plan's financial statements for each Client.

Complementary user entity controls	Relevant company control objective
Information provided to BTB by the Client or Record-keeper is complete and accurate.	2, 4, 6, 7, 9
Controls over physical and logical access to the Bank's systems via terminals at Client or Record-keeper locations are established, monitored, and maintained by the Client or Record-keeper	10
Timely written notification of changes to account documents, preselected account investments, investment managers, or other material account-related information is communicated to BTB.	7, 9
Timely written notification of changes to individuals authorized to instruct the Bank on behalf of the Client or Record-keeper is communicated to BTB.	11
Timely review of reports provided by the Bank of BTB account assets and related transactions is performed by the Client or Record-keeper, and	4, 9

Complementary user entity controls	Relevant company control objective
written notice is provided to BTD of discrepancies as compared to the Client's or Record-keeper's own records.	
Timely notification to the Bank of changes in related parties for purposes of identifying party in interest and prohibited transactions.	1, 2
Instructions and information provided to BTD from the Client or Record-keeper are in accordance with the provisions of the account agreement or other applicable governing agreements or documents between the Bank and the Client.	2, 4, 6, 7, 9
<p>Each Client or its Record-keeper, as an authorized agent of the Client, is responsible for establishing procedures for delivering the following processing directives to BTD in a complete, authorized, and timely manner and in accordance with the applicable Client account documents (including applicable trust or custody agreements and/or services agreement(s) signed by the Bank and the Client and/or Record-keeper, as applicable):</p> <ul style="list-style-type: none"> <li data-bbox="272 924 732 951">· Instructions to modify account data <li data-bbox="272 982 1081 1010">· Directives to post contributions and loan repayments to accounts <li data-bbox="272 1041 1105 1098">· Directives to distribute loan proceeds, lump-sum and benefit distributions, and other account disbursements <li data-bbox="272 1129 1105 1186">· Directives to initiate investment transactions, including the purchase and/or sale of securities <li data-bbox="272 1218 1105 1274">· Directives to close out accounts and to transfer account assets to successor trustees or custodians 	1, 2, 4, 6, 7, 9

Section 4: Information Provided by Independent Service Auditors

Introduction

This report on the description of the system is intended to provide user entities and their auditors with information for their evaluation of the effect of a service organization on a user entity's internal control relating to Business Trust Division (BTD) controls over system description throughout the period January 1, 2019 to December 31, 2019.

This section presents the following information provided by BTD:

- The control objectives specified by the management of BTD.
- The controls established and specified by BTD Management to achieve the specified control objectives.

Also included in this section is the following information provided by Deloitte & Touche LLP:

- A description of the tests performed by Deloitte & Touche LLP to determine whether BTD's controls were operating with sufficient effectiveness to achieve specified control objectives. Deloitte & Touche LLP determined the nature, timing, and extent of the testing performed.
- The results of Deloitte & Touche LLP's tests of controls.

Our examination was conducted in accordance with the American Institute of Certified Public Accountants' (AICPA) Statement on Standards for Attestation Engagements No. 18 (SSAE 18). SSAE 18 is inclusive of the following: (1) AT-C 105, *Concepts Common to all Attestation Engagements*; (2) AT-C 205, *Examination Engagements*; and (3) AT-C 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*. Our testing of BTD's controls was restricted to the control objectives and related control activities listed in this Section 4 and was not extended to controls described in Section 3 but not included in Section 4, or to controls that may be in effect at user organizations or subservice organizations.

It is each user's responsibility to evaluate the information included in this report in relation to internal control in place at individual user entities and subservice organizations to obtain an understanding and to assess control risk at the user entities. The controls at user entities, subservice organizations, and BTD's controls should be evaluated together. If effective user entity or subservice organizations controls are not in place, BTD's controls may not compensate for such weaknesses.

Control Environment Elements

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for other components of internal control, providing discipline and structure. In addition to the tests of design, implementation, and operating effectiveness of controls identified by BTD, our procedures included tests of the following relevant elements of BTD's control environment:

- Organizational structure
- Assignment of authority and responsibility
- Management's philosophy and operating style
- Participation of those charged with governance
- Human resources' policies and procedures
- Communication of integrity and ethical values

Such tests included inquiry of the appropriate management, supervisory, and staff personnel; observation of BTD's activities and operations, inspection of BTD's documents and records, and re-performance of

the application of BTD’s controls. The results of these tests were considered in planning the nature, timing, and extent of our testing of the control activities described in this section.

Tests of Operating Effectiveness

Our tests of the controls were designed to cover a representative number of transactions throughout the period from January 1, 2019 to December 31, 2019. In determining the nature, timing and extent of tests we considered, (a) the nature and frequency of the controls being tested, (b) the types of available evidential matter, (c) the nature of the control objectives to be met, (d) the assessed level of control risk, (e) the expected effectiveness of the test, and (f) the results of our tests of the control environment.

Description of testing procedures performed

Deloitte & Touche LLP performed a variety of tests relating to the controls listed in this section throughout the period from January 1, 2019 to December 31, 2019. Our tests of controls were performed on controls as they existed during the period of January 1, 2019 to December 31, 2019 and were applied to those controls relating to control objectives specified by BTD.

In addition to the tests listed below, ascertained through multiple inquiries with management and the control owner that each control activity listed below operated as described throughout the period. Tests performed are described below:

Test	Description
Corroborative Inquiry	Conducted detailed interviews with relevant personnel to obtain evidence that the control was in operation during the report period and is accompanied by other procedures noted below that are necessary to corroborate the information derived from the inquiry.
Observation	Observed the performance of the control during the report period to evidence application of the specific control activity.
Examination of documentation/Inspection	If the performance of the control is documented, inspected documents and reports indicating performance of the control.
Reperformance of monitoring activities or manual controls	Obtained documents used in the monitoring activity or manual control activity and independently reperformed the procedures. Compared any exception items identified with those identified by the responsible control owner.
Reperformance of programmed processing	Input test data, manually calculated expected results, and compared actual results of processing to expectations.

Reliability of information produced by the Service Organization

We performed procedures to evaluate whether the information provided by the service organization, which includes (a) information provided by the service organization to the service auditor in response to ad hoc requests from the service auditor (e.g., population lists); (b) information used in the execution of a control (e.g., exception reports or transaction reconciliations); and (c) information prepared for user entities (e.g., user access lists), was sufficiently reliable for our purposes by obtaining evidence about the accuracy and completeness of such information and evaluating whether the information was sufficiently precise and detailed for our purposes. Information we utilized as evidence may have included, but was not limited to:

- Standard “out of the box” reports as configured within the system
- Parameter-driven reports generated by BTB’s systems
- Custom-developed reports that are not standard to the application such as scripts, report writers, and queries
- Spreadsheets that include relevant information utilized for the performance or testing of a control
- Prepared analyses, schedules, or other evidence manually prepared and utilized by BTB

Our procedures to evaluate whether this information was sufficiently reliable included obtaining evidence regarding the accuracy and completeness included procedures to address (a) the accuracy and completeness of source data and (b) the creation and modification of applicable report logic and parameters. While these procedures were not specifically called out in the test procedures listed in this section, they were completed as a component of our testing to support the evaluation of whether or not the information is sufficiently precise and detailed for purposes of fully testing the controls identified by BTB.

Reporting on results of testing

The concept of materiality is not applied when reporting the results of tests of controls for which deviations have been identified because Deloitte & Touche LLP does not have the ability to determine whether a deviation will be relevant to a particular user entity. Consequently, Deloitte & Touche LLP reports all deviations.

#1. Controls provide reasonable assurance that new and modified accounts are authorized and set up completely, accurately, and timely in accordance with the terms and conditions of account opening documents, including the governing trust or custody agreements or client instructions

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>1A—The Business Trust Administrative Committee (“BTAC”) accepts new accounts in accordance with the requirements of the BTAC, using the Account Opening Wizard on SRC.Schwab.com and the Bank’s published policies, and such acceptance is subsequently ratified by the Fiduciary Committee of the Bank’s Board (“Board”). Actions that are exceptions to the standard process are reviewed at a BTAC monthly meeting to confirm they follow BTAC Charter and Trust Policies Manual.</p>	<p>Inquiry – Made inquiries of the Sr. Team Manager, Advisor Transition Services, regarding procedures and controls in place for the acceptance of new accounts.</p> <p>Inspection – For a sample of new accounts, obtained and inspected the corresponding meeting minutes and account approval reports to ascertain that the selected accounts were approved by the BTAC and subsequently ratified by the Fiduciary Committee of the Board to confirm they follow BTAC Charter and Trust Policies Manual.</p>	<p>No exceptions noted.</p>

#1. Controls provide reasonable assurance that new and modified accounts are authorized and set up completely, accurately, and timely in accordance with the terms and conditions of account opening documents, including the governing trust or custody agreements or client instructions

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>1B—Business Trust Conversion and Client Service employees ascertain through inspection of the accounts set up, that new accounts are set up completely and accurately in BTD’s trust accounting and trade order handling systems (SEI Trust 3000 and STAR) in accordance with the account opening documents, including the Client agreements, prepared by the Client.</p>	<p>Inquiry – Made inquiries of the Senior Team Manager - Advisor Transition Services, regarding procedures and controls in place to completely and accurately setup accounts on BTD’s trust accounting (SEI Trust 3000) and trade order handling (STAR) systems per client agreements.</p> <p>Observation – Observed Business Trust Operations employees review a sample new account for the complete and accurate setup in BTD’s trust accounting and trade order handling systems in accordance with the account opening documents.</p> <p>Inspection – For a sample of new accounts, obtained and inspected the corresponding ‘Charles Schwab Bank Custody Trust Account Opening Checklist’ used to monitor the account setup process, and ascertained that the Conversions Team reviewed the account for complete and accurate setup per client agreements as indicated by sign-off on the form by a conversion analyst.</p>	<p>No exceptions noted.</p>
<p>1C—Business Trust Administrations employees review the account opening documents within 90 days after the account has been newly funded for trust accounts to ascertain that required documents have been received from incoming clients completely and accurately. Exceptions noted are entered into and tracked by BTD’s exception tracking system to resolution.</p>	<p>Inquiry – Made inquiries of the Team Manager, Operations Control, regarding the procedures and controls in place for the complete, accurate, and timely review of newly funded accounts. In addition, inquired regarding process of monitoring and escalation of exceptions identified.</p> <p>Inspection – For a sample of newly funded trust accounts, ascertained through inspection of the ‘Newly Funded Account Review Checklist’ that the account was reviewed by the Business Trust Operations employees within 90 days after the account was funded. Any exceptions noted were followed up, and tracked to resolution.</p>	<p>No exceptions noted.</p>

#1. Controls provide reasonable assurance that new and modified accounts are authorized and set up completely, accurately, and timely in accordance with the terms and conditions of account opening documents, including the governing trust or custody agreements or client instructions

Controls Specified by BTB	Testing Performed by D&T	D&T Test Results
<p>1D—Business Trust Client and Conversions team employees ascertain through inspection of the accounts modified by the Operations team, that accounts modified are updated completely and accurately in BTB’s trust accounting and trade order handling systems (SEI Trust 3000 and STAR) in accordance with client instructions.</p>	<p>Inquiry – Made inquiries of the Senior Team Manager - Advisor Transition Services, regarding procedures and controls in place to ascertain that account modifications are made completely, accurately, and timely, and per the client authorization within the client instruction documents.</p> <p>Inspection – For a sample of modified accounts, obtained the corresponding email approval sent from the Business Trust Client and Conversion Team to the Asset Operations team, and ascertained that the conversions team reviewed the account modification for complete, timely and accurate modification per client’s instructions.</p> <p>Reperformance – For a sample of modified accounts, observed the account details within SEI and ascertained that the account had been accurately modified per client instructions.</p>	<p>No exceptions noted.</p>

#2. Controls provide reasonable assurance that investment purchase and sale instructions received from clients are authorized and processed accurately, completely, and timely.

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>2A— For TPAs requesting to trade on behalf of client accounts, the Advisor Transition Services Team reviews the client account file to confirm that there is an information services agreement between the Record-keeper and the bank.</p>	<p>Inquiry – Through corroborative inquiries with Team Manager - Advisor Transition Services, ascertained that procedures and controls are established for verification of Record-keeper Information Service Agreements.</p> <p>Inspection – For each selected sample, obtained the confirmation and attached implementation timeline sent by the Advisor Transition Services Team to the TPA (Record-keeper) and confirmed an Information Services Agreement was on file between BTD and the Record-keeper. Additionally, obtained the corresponding Information Service Agreement (ISA) to ascertain that BTD is authorized to receive trade instructions from the new Record-keeper on behalf of the client and that the ISA had been signed-off by appropriate personnel.</p>	<p>No exceptions noted.</p>
<p>2B—The Advisor Transition Services Team ascertains that the Record-keeper’s electronic trade file setup has been completed and tested for accurate trade order delivery.</p>	<p>Inquiry – Through corroborative inquiries with Team Manager - Advisor Transition Services, ascertained that procedures and controls are established for the setup of Record-keepers to submit electronic trade instructions.</p> <p>Inspection – For each sample selected, obtained evidence that the ISA was on file for the new Record-keeper and that the electronic trade file setup was completed as it was tested for accurate trade order delivery. For any exceptions, confirmed that the issue was followed up on and resolved prior to the execution of trade orders submitted by the new Record-keeper.</p>	<p>No exceptions noted.</p>

#2. Controls provide reasonable assurance that investment purchase and sale instructions received from clients are authorized and processed accurately, completely, and timely.

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>2C— Business Trust Client Services employees assigned to each account review the signature on the manual trade order received from the retirement plan client or its Record-keeper, to ascertain that it is from an authorized party. This is performed prior to forwarding the authorized trade orders/directives to the support team for processing in BTD’s trade order handling system (STAR). The Trade Support Team reviews manual trades entered as evidenced by their sign-off on the Trade Audit Report.</p>	<p>Inquiry – Made inquiries of the Team Manager - Operations regarding the procedures and controls in place for the review of manual trades.</p> <p>Inspection – For a sample of manual trades, obtained and inspected the corresponding Trade Audit Report and ascertained that the Trade Support Team had compared the signature on the manual trade order received from the retirement plan client or its Record-keeper, to the authorized signatory on file, as evidenced by their sign-off on the Trade Audit Report.</p> <p>Reperformance – For a sample of manual trades, inspected the corresponding manual trade directive and the corresponding retirement plan client or its Record-keeper’s authorization signature list, and ascertained that each directive was from an authorized source.</p>	<p>No exceptions noted.</p>
<p>2D—On a daily basis, trade orders are processed in BTD’s trade order handling system (STAR) timely, in accordance with published trade delivery deadlines configured within the system, including those for BTD’s Same Day Exchange (SDE) Program and/or market exchange deadlines</p>	<p>Inquiry – Made inquiries of the Senior Staff - Business Systems Analyst, regarding procedures and controls in place for the execution of trades.</p> <p>Observation – Observed the Senior Staff - Business Systems Analyst, submit a sample of trades in the trade order handling system (STAR) test environment before and after the system cutoff time per the specifications. Ascertained that trade orders were processed in STAR according to the SDE program specifications and/or market exchange deadlines. In addition, observed with the Software Contractor the software versions of the test and production environments, and ascertained that the test environment software is the same as production.</p>	<p>No exceptions noted.</p>

#2. Controls provide reasonable assurance that investment purchase and sale instructions received from clients are authorized and processed accurately, completely, and timely.

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>2E— Multiple times a day, manual trade orders are input into BTD’s trade order handling system (STAR) by one authorized Business Trust employee, and the entries are reviewed for accuracy and completeness by a second authorized employee. Exceptions are monitored through resolution.</p>	<p>Inquiry – Made inquiries of the Team Manager - Operations regarding procedures and controls in place for the complete and accurate processing, review of trades, and the follow-up and resolution of exceptions identified during review.</p> <p>Inspection – For a sample of manual transactions, obtained and inspected the corresponding manual trade directive and ascertained that trades were reviewed for accuracy and completeness by a BTD representative independent from the representative who entered the trade. Ascertained that no variances existed in the samples selected for examination.</p>	<p>No exceptions noted.</p>
<p>2F— On a daily basis, trade orders that are rejected by BTD’s trade order handling (STAR) system are reviewed and processed through resolution by designated Business Trust Operations employees.</p>	<p>Inquiry – Made inquiries of Team Manager - Operations regarding procedures and controls in place for automated posting of electronically received trades and the process of clearing trade exceptions.</p> <p>Observation – For a sample of test transactions within the production environment, observed that test trades with errors were rejected and reflected within the Trade Audit Report.</p> <p>Inspection – For a sample of days and trade exceptions, obtained and inspected the Trade Audit Reports and ascertained each report had been reviewed and signed-off by BTD management. Additionally, selected a sample of rejected trades from each report and obtained supporting documentation validating each rejected trade was reviewed and resolved/cleared by a Trade Support Team employee as evidenced by their sign-off.</p>	<p>No exceptions noted.</p>

#2. Controls provide reasonable assurance that investment purchase and sale instructions received from clients are authorized and processed accurately, completely, and timely.

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>2G—On a daily basis, business Trust Operations employees review the completeness and accuracy of equity/stock trades initiated at broker-dealers other than Schwab through BTD’s trust accounting system (SEI Trust 3000, which is linked to the DTCC ID system) or through counterparty confirmation with the security issuers. Discrepancies are monitored through resolution.</p>	<p>Inquiry – Made inquiries of the Team Manager - Operations regarding procedures and controls in place for the review of stock/equity trades.</p> <p>Inspection – For a sample of dates, obtained and inspected the supporting documentation to ascertain that Business Trust Operations employees reviewed the equity/stock trades for completeness and accuracy initiated at broker-dealers other than Schwab, and monitored discrepancies through resolution.</p>	<p>No exceptions noted.</p>

#3. Controls provide reasonable assurance that securities' positions and cash balances are reconciled completely, accurately, and timely.

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>3A—Operations team employees reconcile client securities' positions at depositories, sub-custodian, issuers, or transfer agents on a periodic, regularly scheduled basis to BTD's trust accounting system (SEI Trust 3000), based on the type of security, frequency of trading, and method of trading and reconciliation. Management monitors for timely resolution of out-of-balance items.</p>	<p>Inquiry – Made inquiries of the Senior Team Manager - Operations and Team Lead - Operations, regarding procedures and controls in place for the complete, accurate, and timely reconciliation of client security positions to BTD's trust accounting system.</p> <p>Inspection – For a sample of security types and days, months, and quarters (depending on the frequency of trading and reconciliation), obtained and inspected associated reconciliation documentation and ascertained reconciliation was performed and out-of-balance items were reviewed and resolved timely by Management as evidenced by sign-off.</p>	<p>No exceptions noted.</p>
<p>3B—The Ops Control Recon and Reporting team employees reconcile client cash balances held on deposit at Charles Schwab Bank and other financial institutions to BTD's trust accounting (SEI Trust 3000) completely and accurately and on a daily basis. Management monitors for timely resolution of out-of-balance items.</p>	<p>Inquiry – Made inquiries of the Senior Team Manager - Operations, regarding procedures and controls in place for complete, accurate, and timely reconciliation of client cash balances to BTD's trust accounting system and the monitoring of out-of-balance items through resolution.</p> <p>Inspection – For a sample of days, obtained and inspected associated cash reconciliation reports and ascertained that daily cash reconciliations were performed. Ascertained that variances were reviewed and resolved timely as evidenced by the sign-off from BTD management.</p>	<p>No exceptions noted.</p>

#4. Controls provide reasonable assurance that corporate actions are authorized, recorded, and processed completely, accurately, and timely and that investment income is processed completely, accurately, and timely.

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>4A—BTB’s trust accounting system (SEI Trust 3000) performs income payment calculations as investment income rates are published, and the Business Trust Operations employees review differences above the threshold between the rate provider and BTB’s trust accounting system to resolution. BTB management monitors for timely resolution of out-of-balance items.</p>	<p>Inquiry – Made inquiries of the Team Manager - Operations, regarding procedures and controls in place for complete, accurate, and timely processing of investment income payments to client accounts and resolving payment discrepancies between SEI Trust 3000 and the rate provider.</p> <p>Observation – Observed an Operations team employee perform rate reconciliations, date, and sign-off on reports to indicate review.</p> <p>Inspection – For a sample of months, obtained and inspected the reconciliations and ascertained that investment income payment differences above the threshold between SEI Trust 3000 and the rate providers were researched and cleared, and that out-of-balance items are monitored by management for timely resolution.</p>	<p>No exceptions noted.</p>
<p>4B—Business Trust Operations employees review corporate actions (mandatory and voluntary) generated from the DTC system via TSO to ascertain that they are executed completely, accurately, and timely in SEI Trust 3000 system according to mandated instructions (mandatory actions) or client instructions (voluntary actions), and sign-off by an Operations team employee.</p>	<p>Inquiry – Made inquiries of the Sr. Specialist - Operations regarding procedures and controls in place for the identification and recording of corporate actions.</p> <p>Reperformance – For a sample of mandatory actions, ascertained complete, accurate, and timely execution of action by inspecting updates within SEI Trust 3000. Noted per inspection of the corporate action calendar, and per inquiry with the Sr. Specialist – Operations, that there were no voluntary actions during the audit period.</p> <p>Inspection – For a sample of days, obtained and inspected the ‘Daily Equity Reconciliation Checklist’ and ascertained that review of complete, accurate, and timely execution of corporate actions was performed by BTB operations as indicated by sign-off on the checklist.</p>	<p>No exceptions noted.</p>

#5. Controls provide reasonable assurance that access to the trust vault is authorized and that assets added or removed from the vault are completely and accurately recorded in the vault records.

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>5A—Access to the vault requires two authorized individuals, limited to the Business Trust Operations group commensurate with the employees’ job responsibilities. Quarterly review of the access personnel is performed by Risk Analysis Team.</p>	<p>Inquiry – Made inquiries of the Sr. Team Manager - Operations regarding procedures and controls in place for recording assets in the vault.</p> <p>Observation – Observed that access to the vault was restricted and required two keys to be opened. Ascertained that two authorized individuals are required to be present to open the vault. In addition, observed that an access log is maintained and entered into for assets entry or retrieval.</p> <p>Inspection – For a sample of vault access logs, ascertained that the visits were by Business Trust operations only, or were accompanied by authorized personnel. For a sampled quarter, obtained evidence of vault user access review and ascertained that it was reviewed by the Risk Analysis Team as evidenced by the sign-offs from management. Further noted that discrepancies, if any, were investigated and monitored through resolution.</p>	<p>No exceptions noted.</p>
<p>5B— On a quarterly basis, Business Trust Operations Control Recon Team employees complete periodic vault inventories to validate that the addition to or removal of physical securities and other records from the vault are complete, accurate, and approved by vault personnel. The Business Trust Operations (Manager and Director) signs off on the reconciliation report.</p>	<p>Inquiry – Made inquiries of the Sr. Team Manager - Operations regarding procedures and controls in place for performing inventory reviews for the completeness and accuracy of assets stored in the vault.</p> <p>Inspection – For a sampled quarter, inspected a vault inventory review that included a comparison of the master inventory file to the access log and ascertained that the review was performed by the Team Manager - Operations and approved by the Managing Director - Operations as indicated by their sign-off. No discrepancies were noted by the Team Manager - Operations for the sampled quarter reviewed.</p>	<p>No exceptions noted.</p>

#6. Controls provide reasonable assurance that cash receipts are recorded to client accounts completely, accurately, and timely.

Controls Specified by BTB	Testing Performed by D&T	D&T Test Results
<p>6A— On a daily basis, cash receipts that are manually received are input into BTB’s processing system (STAR) and Cash Receipts template by one Operations team employee. Entries are reviewed and approved for accuracy, completeness, and timeliness by a second employee.</p>	<p>Inquiry – Made inquiries of the Team Manager – Cash Management and Managing Director - Operations, regarding procedures and controls in place for the timely, complete, and accurate processing and subsequent review of manual cash receipts in STAR.</p> <p>Observation – For a sample of cash receipts, observed Cash Operations associate enter a cash receipt into the template and load the template into STAR.</p> <p>Inspection – For a sample of cash receipts, obtained and inspected the corresponding Payment Detail Report used to monitor and track cash receipts, and ascertained the corresponding STAR screenshots to ensure matching dollar amounts. Reviewed Payment Detail Reports and confirmed each was approved by another Operations team member for accuracy, completeness, and timeliness.</p> <p>Reperformance – For a sample of cash receipts, compared cash amounts and date of entry in STAR to check deposit amounts and check receipt date to ascertain that STAR had been updated completely, accurately, and timely.</p>	<p>No exceptions noted.</p>

#6. Controls provide reasonable assurance that cash receipts are recorded to client accounts completely, accurately, and timely.

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>6B— Daily reports of electronically received cash receipts that reject for incomplete or inaccurate posting to client accounts are reviewed and approved for processing by a Cash Operations team lead or delegate and variances between SEI Trust 3000 (UPI Report) and STAR are monitored through resolution. UPI items over \$2 million are reviewed by Cash Operations Team Lead or delegate.</p>	<p>Inquiry – Made inquiries of the Team Lead, Operations, regarding procedures and controls in place for the daily review of rejected cash receipts, and resolution of processing exceptions.</p> <p>Observation – For a sample of rejected cash receipts, observed that the inaccurate or incomplete cash receipts are rejected as expected and that such items are captured within the unprocessed items (UPI) report for review and resolution.</p> <p>Inspection – For a sample of days, obtained and inspected associated UPI reconciliation reports and ascertained that reports have been reviewed and signed-off by Cash Operations team lead or delegate. In addition, for a sample of unreconciled electronically received cash receipts, ascertained that the receipts had been monitored to resolution. If a UPI item was over \$2 million, ascertained it was reviewed by a Cash Operations Team Lead or delegate.</p> <p>Reperformance – For a sample of days and wires, ascertained that timely resolution of discrepancies was performed by comparing the date of entries and wire amounts from the UPI report to the STAR system.</p>	<p>No exceptions noted.</p>

#7. Controls provide reasonable assurance that cash disbursements are authorized and recorded completely, accurately, and timely to client accounts and tax withholdings are recorded completely and timely.

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>7A— Client Services employees assigned to each account ascertain through comparing authorized signature on the authorized party list, that the email signature on each manual disbursement or distribution instruction received from a Record-keeper or client is that of an authorized Record-keeper or client party. Client Service employee reviews directive against the authorized party signer list and forwards electronic copy of directive via e-mail to Distribution Team Mailbox for processing.</p>	<p>Inquiry – Made inquiries of the Senior Manager of Client Services regarding procedures and controls in place for review and approval of manual disbursement directives.</p> <p>Inspection – For a sample of disbursements, inspected the associated client directive for evidence of approval by a client service representative and authorization by the Client or Record-keeper. Further, ascertained that the Client Services employees had reviewed the disbursement for authorization against the authorized party signer list as indicated by their sign off. Electronic copies were the provided to the Distribution Team Mailbox for processing.</p>	<p>No exceptions noted.</p>
<p>7B—On a daily basis, disbursement and distribution instructions that are manually received are input into BTD’s disbursement system (CTR Pay) by one Operations employee and the entries are reviewed for accuracy, timeliness, and completeness by a second employee. Exceptions are monitored through resolution</p>	<p>Inquiry – Made inquiries of the Team Lead, Operations and the Team Manager, RBS Distributions regarding procedures and controls in place for the complete, accurate, and timely processing and secondary review of manual disbursement instructions. Inquired of the procedures for monitoring exceptions noted through resolution.</p> <p>Inspection – For a sample of manual disbursements, inspected disbursement documentation for evidence of processing by one Operations employee and secondary review for completeness, timeliness, and accuracy by another. Further noted that exceptions, if any, were monitored through resolution.</p> <p>Reperformance – For a sample of manual disbursements, ascertained through comparison of disbursements in the CTR Pay system to directives, that the disbursements were entered completely and accurately within the CTR Pay disbursement system.</p>	<p>No exceptions noted.</p>

#7. Controls provide reasonable assurance that cash disbursements are authorized and recorded completely, accurately, and timely to client accounts and tax withholdings are recorded completely and timely.

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>7C—On a daily basis, Operations team employees compare the totals of printed checks, wires, and ACH disbursements processed to that day’s final check registers and disbursement system totals to ascertain complete, accurate, and timely processing. Exceptions are monitored through resolution.</p>	<p>Inquiry – Made inquiries of the Team Manager - RBS Distributions, and Team Lead - Operations, regarding procedures and controls in place for reconciliation and approval of total outgoing amounts to that day’s final check registers and disbursement system totals to ascertain complete, accurate, and timely processing. Inquired of procedures to monitor exceptions through resolution.</p> <p>Inspection – For a sample of days, inspected the associated end-of-day balancing checklist utilized for reconciliation, for evidence of review and approval by Operations team employees. Further noted that exceptions, if any, were monitored through resolution.</p> <p>Reperformance – For a sample of days, compared the gross outgoing amounts to that day’s final check registers and disbursement system totals.</p>	<p>No exceptions noted.</p>

#7. Controls provide reasonable assurance that cash disbursements are authorized and recorded completely, accurately, and timely to client accounts and tax withholdings are recorded completely and timely.

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>7D— Operations team employees compare the totals of the taxes withheld with the amount remitted on a daily and annual basis within SEI Trust 3000 and CTR Pay to facilitate the accurate, complete, and timely delivery of taxes for reporting to the IRS. This process is reviewed quarterly based on the monthly reconciliations by Tax Operations Analysts.</p>	<p>Inquiry – Made inquiries of the Team Lead - Operations regarding procedures and controls in place for the reconciliation of total taxes withheld with the amount remitted on a daily and annual basis.</p> <p>Observation – For a sample of days, observed an Operations Team employee process the daily tax reconciliation sheets.</p> <p>Inspection – For a sample of days, obtained and inspected daily tax reconciliation sheets. Ascertained that reconciliation had been performed with variances itemized and followed up as evidenced by sign-offs by the Operations team employees and notes on the reconciliation reports. In addition, for a sample of quarters, obtained and inspected the quarterly tax remittance documentation and ascertained that it had been reviewed and approved by the Team Lead of Operations, and remitted timely.</p>	<p>No exceptions noted.</p>

#8. Controls provide reasonable assurance that investment prices are posted timely, completely, and accurately using data obtained from outside pricing sources.

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>8A—On a daily basis, Business Trust Operations employees (i) review price variance reports to ascertain that prior-day price changes for assets in BTD’s trade order handling system (STAR) are within a predefined threshold and (ii) correct the incorrect asset prices that fall outside the predefined threshold.</p>	<p>Inquiry – Made inquiries of the Team Manager of Operations regarding procedures and controls in place for the review of prices and for the monitoring of variances that fall outside of the predefined threshold.</p> <p>Observation – Observed a sample of prices for assets that were outside the predefined threshold in SEI Trust 3000 and ascertained that the transactions were reflected within the Daily Pricing Variance Report. Compared the price of the sampled assets to an external source to ascertain that the asset price was accurate.</p> <p>Inspection – For a sample of days, obtained and inspected the Daily Pricing Variance Report and ascertained that Business Trust Operations employees had reviewed the price variances outside the predefined threshold as evidenced by their sign-off, and monitored the variances through resolution.</p> <p>Reperformance – For a sample of assets, compared the asset price in the Daily Pricing Variance report to the asset price in an external source and ascertained that the sample asset prices were accurately reflected on the Daily Price Variance report.</p>	<p>No exceptions noted.</p>

#8. Controls provide reasonable assurance that investment prices are posted timely, completely, and accurately using data obtained from outside pricing sources.

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>8B— On a monthly basis, Business Trust Operations employees review unpriced securities reports and enter missing securities prices on BTD’s systems (SEI Trust 3000). Business Trust Operation managers review the unpriced report monthly for completeness and accuracy of the prices obtained.</p>	<p>Inquiry – Made inquiries of the Team Manager - Operations regarding procedures and controls in place for identifying and obtaining prices for unpriced securities.</p> <p>Observation – Observed the generation of the Unpriced Securities Report, and for a sample of unpriced securities in SEI Trust 3000, inspected the report to ascertain that the unpriced securities were included within the report.</p> <p>Inspection – For a sample of months, obtained and inspected the associated Unpriced Securities Report and ascertained review was performed and variances were monitored to resolution, as evidenced by sign-off by a Business Trust Operations Manager.</p>	<p>No exceptions noted.</p>

#9. Controls provide reasonable assurance that account statements are complete and communicated to clients in a timely manner.

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>9A—Conversion Team employees ascertain that client account statement information is set up on BTD’s trust accounting system (SEI Trust 3000) according to client instructions, by inspecting the system settings and comparing the information to the Client instructions.</p>	<p>Inquiry – Made inquiries of the Senior Team Manager - Advisor Transition Services, regarding procedures and controls in place to set up account statements completely and accurately per the authorized client instructions.</p> <p>Inspection – For a sample of new accounts, ascertained statements were made available to the Clients via the Schwab Retirement Center website per New Account Setup Form. For a sample of new accounts, inspected "New Account Setup Form" and ascertained “Plan Year End” date selected by the client is stated on the form. Also inspected SEI screenshot for selected accounts, and ascertained that statement frequency configurations are properly set up in SEI.</p>	<p>No exceptions noted.</p>
<p>9B—Schwab Technology delivers a data file of the posted transaction activity for each client account to clients or their Record-keeper and/or advisor for review and monitors that the delivery process is complete on a daily basis. If the critical process on the automated data production schedule fails to complete within a predefined window, alerts are generated and Production Support Staff is notified. Exceptions are monitored through resolution.</p>	<p>Inquiry – Made inquiries with Senior Manager, Software Applications Engineering and Manager, RBS Transition Services regarding procedures and controls in place for the automated process of providing daily transaction activity.</p> <p>Observation – Observed the configurations of the batch jobs that run to send data files of the posted transaction activity to client accounts and ascertained that the batch jobs are configured to run daily. In addition, for a sample of clients and days, observed the Daily Return File was available on the http://www.schwabinstitutional.com/ website</p> <p>Inspection – For a sample of clients and days, inspected daily transaction activity job logs and ascertained that the transaction file had been generated. Further noted that exceptions, if any, were monitored through resolution.</p>	<p>No exceptions noted.</p>

#9. Controls provide reasonable assurance that account statements are complete and communicated to clients in a timely manner.

Controls Specified by BTB	Testing Performed by D&T	D&T Test Results
<p>9C—Schwab Technology delivers a data file of the statements for each client account to BTB’s statement hosting vendor and monitors that the delivery process is complete per client instructions. If the critical process on the automated data production schedule fails to complete within a predefined window, alerts are generated and Production Support Staff is notified. Exceptions are monitored through resolution.</p>	<p>Inquiry – Made inquiries of Senior Manager, Software Application Engineering regarding procedures and controls in place for the automated process of providing clients with transaction activity per the Client instructions. Inquired of procedures to monitor jobs to resolution.</p> <p>Observation – For a sample of client accounts, observed the configuration of clients within BTB and ascertained each was configured to have a statement file generated per the Client instructions and made available via the http://www.schwabinstitutional.com/ website. Additionally, obtained an example of a job failure and the corresponding email chain from failure notification to success.</p> <p>Inspection – For a sample of client accounts and statement periods, inspected the system job logs and ascertained that the jobs had been completed successfully to post the statements on http://www.schwabinstitutional.com/ website. Further noted that exceptions, if any, were monitored through resolution.</p>	<p>No exceptions noted.</p>

#10. Controls provide reasonable assurance that logical access to STAR and SEI Trust 3000 systems is restricted to authorized individuals.

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>10A—Upon hire or transfer, the user’s manager approves the nature and extent of user-access privileges, including privileged-level access, for new and modified user access to STAR (including BETA privileges if necessary) and SEI Trust 3000 systems, prior to access being provisioned.</p>	<p>Inquiry – Made inquiries of the Senior Specialist—Operations Control, regarding procedures and controls in place for granting and deleting/disabling access to STAR and SEI Trust 3000.</p> <p>Inspection – For a sample of new users, including administrative accounts created for STAR and SEI Trust 3000, obtained and inspected the access forms associated with each new account and ascertained that each account was approved by the users’ manager/supervisor prior to access being granted and that access was commensurate with the user’s job responsibility per the organization chart.</p>	<p>No exceptions noted.</p>
<p>10B—Upon termination of employee or contactor, the system administrator removes user access from in-scope systems per the Information Security Policy.</p>	<p>Inquiry – Made inquiries of the Senior Specialist—Operations Control regarding procedures and controls in place for deleting/disabling access to STAR and SEI Trust 3000.</p> <p>Inspection – Ascertained through inspection of user access listings that no terminated employees or contractors have active STAR and SEI Trust 3000 user accounts. For a sample of terminated users, obtained and inspected corresponding help desk tickets and ascertained that access was removed in a timely manner.</p>	<p>No exceptions noted.</p>

#10. Controls provide reasonable assurance that logical access to STAR and SEI Trust 3000 systems is restricted to authorized individuals.

Controls Specified by BTD	Testing Performed by D&T	D&T Test Results
<p>10C—Password parameters, including minimum length and age, complexity, history, and account lockout for in-scope systems, have been configured per the Information Security Policy.</p>	<p>Inquiry – Made inquiries of the Contractor— Software Engineering regarding procedures and controls in place for defined security parameters.</p> <p>Observation – Observed Schwab’s Information Security Policy for defined security password requirements.</p> <p>Inspection – Inspected the SSO configuration for STAR and the password parameters for the Windows Active Directory and ascertained that the password settings meet the parameters outlined in the security policy, including length, age, complexity, history, and account lockout.</p>	<p>No exceptions noted.</p>
<p>10D—End-user accounts to STAR and SEI Trust 3000 are authenticated through the use of unique user IDs.</p>	<p>Inquiry – Made inquiries of the Senior Manager - Software Applications Engineering regarding procedures and controls in place for unique user logins.</p> <p>Inspection – Obtained and inspected the user lists for the STAR and SEI Trust 3000 and ascertained that user names are unique and that system/generic accounts were used for system processing functions.</p>	<p>No exceptions noted.</p>
<p>10E—On an annual basis, the user managers review user access to STAR and SEI Trust 3000 to determine if all accounts are commensurate with employees’ job responsibilities. Inappropriate users are disabled and the reviews are documented.</p>	<p>Inquiry – Made inquiries of the Senior Manager - Software Applications Engineer, regarding procedures and controls in place for the user access reviews and the monitoring of exceptions through resolution.</p> <p>Inspection – Obtained and inspected the user access review for SEI Trust 3000 and STAR for a sample period and ascertained that a review had been performed timely. For a sample of users identified for removal, ascertained that access was removed by comparing the users identified for removal to the active user reports for STAR and SEI Trust 3000.</p>	<p>No exceptions noted.</p>

#10. Controls provide reasonable assurance that logical access to STAR and SEI Trust 3000 systems is restricted to authorized individuals.

Controls Specified by BTB	Testing Performed by D&T	D&T Test Results
<p>10F—Management maintains a template-based assignment of system access privileges that results in appropriate segregation of user access and duties for processing in BTB’s trust accounting (SEI Trust 3000) and trade order handling (STAR, including BETE privileges) systems. Templates extracted from the systems are reviewed annually by relevant template business owners as evidenced through sign-offs.</p>	<p>Inquiry – Made inquiries of the Senior Team Manager of Operations regarding procedures and controls in place regarding template-based assignment of system access privileges that result in segregation of user access and duties.</p> <p>Inspection – Obtained and inspected documentation supporting annual STAR and SEI Trust 3000 template review and ascertained that such templates have been reviewed and approved by relevant template business owners. Through inspection of the template review and inquiry with management, ascertained that duties related to potential conflict areas have been segregated.</p>	<p>No exceptions noted.</p>

#11. Controls provide reasonable assurance that changes to application systems are approved, tested, and documented prior to implementation into production.

Controls Specified by BTB	Testing Performed by D&T	D&T Test Results
<p>11A—For the SEI Trust 3000 system and STAR (including BETE), systems development and maintenance procedures are followed by the BTB technology group for changes to the application, including documentation of requirements, design specifications, testing, and approvals prior to implementation</p>	<p>Inquiry – Made inquiries of the Senior Staff-Tech Solutions and Senior Manager - Software Applications Engineer regarding procedures and controls in place for developing and maintaining the SEI Trust 3000 and STAR (including BETE) applications.</p> <p>Inspection – For a sample of system changes, ascertained a change ticket, design specifications, business requirements, segregation of duties, and testing sign-off were available and that the change approval and testing took place prior to the change being implemented.</p>	<p>No exceptions noted.</p>

Section 5: Other Information Provided by the Service organization

The information included in Section 5 is presented by BTB to provide additional information to user entities and is not a part of the company's description of the system. The information in Section 5 has not been subjected to the procedures applied in the examination of the aforementioned description of BTB's system and, accordingly, Deloitte & Touche LLP expresses no opinion on the information contained here within Section 5.

Business Continuity Plan

The Bank, in conjunction with Charles Schwab Corporation and its subsidiaries and affiliates, has established a Business Continuity Plan (BCP). Included in the BCP are emergency action and recovery procedures. The emergency action procedures cover the period immediately following an emergency and focus on ensuring employee safety and assessing the nature of the emergency so that the appropriate course of action can be determined. The recovery procedures cover the period following the decision to relocate up until recovery is completed and focus on recovering the business at the predesignated relocation site, redirecting communications, and establishing contact with internal and external clients. The recovery procedures also cover systems and networking contingency plans to ensure continued access to Schwab systems.

Schwab has contracted with SunGard, an external service bureau, for disaster recovery services. Such services provide access to data recovery systems and other related systems necessary to retrieve the Company's archived data that supports both the operations of client plans and BTB's internal operations. Off-site testing is performed annually at a designated SunGard location. BCPs have been developed internally and are reviewed quarterly. Schwab employs a dedicated team led by a professional business continuity planner.

Compliance Oversight

The Bank provides BTB with compliance services, and BTB management has also assigned certain compliance and risk management monitoring functions to the Managing Director of Trust Administration. The goal of BTB's administrative, client services, and operations activities, and of the Bank's compliance and risk management policies, is for BTB to comply with (i) federal and state banking and other laws and regulations to which the Bank is subject to, including ERISA, the IRS Code, the Gramm-Leach-Bliley Act, the Bank Secrecy Act (including the USA Patriot Act), etc.; and (ii) the Bank's policies that apply to BTB and associated BTB procedures. Designated BTB management and compliance managers review BTB's marketing and communication materials and monitor BTB's compliance with corporate policy and any banking or securities regulations (and associated policies) that apply to the Bank directly or indirectly through Schwab and its subsidiaries, including the Schwab Broker-Dealer. The Managing Director of Trust Administration, working with the Bank's legal and compliance departments, also monitors compliance with required federal banking and other applicable laws and regulations.

The ERISA promulgated by the DOL is the major law directly applicable to employee benefit plans, covering most private sector retirement plans. Under ERISA, a fiduciary is required to discharge its duties solely in the interest of a plan's participants and beneficiaries, and for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering a plan. Generally, ERISA fiduciaries are required to discharge their duties (1) in accordance with documents or instruments governing a plan; (2) with the care, skill, prudence, and diligence of a prudent person familiar with such matters acting in like capacity; and (3) by diversifying assets of a plan to minimize the risk of large losses. In addition, plan fiduciaries are forbidden from engaging in certain "prohibited transactions, as defined by ERISA.

With respect to applicable Client accounts, the Bank complies with the major provisions of ERISA, which establishes the responsibilities applicable to the Bank as a fiduciary, as follows:

- Section 402 requires employee benefit trusts to be established and maintained in accordance with a written plan. BTD carries out third-party directives according to the applicable account documents and various services agreements between the Bank and the Client and/or the Record-keeper, where applicable.
- Section 406 prohibits the Bank or any of its affiliates from making a loan to an employee benefit plan for which the Bank or any affiliate provides services or acts as a trustee, custodian, or agent. The making of a loan to an employee benefit plan where the Bank or an affiliate acts in these roles is prohibited in Schwab's policies and procedures.
- Section 411 requires the fiduciary to ensure that the background of personnel employed in fiduciary services is suitable to the nature of account activities.

The DOL has also provided guidance regarding the duties of "directed trustees" of retirement plans in Field Assistance Bulletin (FAB) 2004-03, particularly with respect to the holding and acquisition of employer stock held in a plan. FAB 2004-03 concludes that the trustee of a plan is a fiduciary to a plan, but the duties of a directed trustee are significantly narrower than those of a discretionary trustee (including a trustee with investment authority).

With respect to applicable Client accounts for which the Bank acts as directed trustee, the Bank's policies are written to comply with the following terms of FAB 2004-03:

- A directed trustee is subject to the "proper" directions of a named fiduciary.
- A directed trustee must not, consistent with its fiduciary obligations, follow a direction if the directed trustee "knows or should know" that a direction from a named fiduciary (i) is not made in accordance with the terms of the plan or (ii) is contrary to ERISA.
- Plan fiduciary direction is consistent with the terms of the plan if (i) the documents under which the plan is established or operated do not prohibit the direction and (ii) if the documents are ambiguous, clarification is obtained from the fiduciary responsible for interpreting the plan, which interpretation may be relied upon by the directed trustee.
- A directed trustee (i) can satisfy its obligations to avoid prohibited transactions by obtaining written representations that the plan maintains and follows procedures to identify prohibited transactions, and if prohibited, the applicable individual or class exemption and (ii) may rely on these representations, unless it knows that these are false.
- A directed trustee does not have an independent obligation to determine the prudence of every transaction or to duplicate the work of the plan fiduciaries; the obligation to question market transactions involving publicly traded stock on prudence grounds is limited and is based on whether the information possessed by the directed trustee is nonpublic or public.

The Managing Director of Trust Administration and the Bank's compliance and legal departments submit reports on compliance, legal, and regulatory activity to the Fiduciary Committee of the Bank's Board and Schwab's risk management departments on an as-needed or as-requested basis for their input and oversight.

Affiliates

Investments with Affiliates

Generally, Reg 9 prohibits banks and trust companies from investing fiduciary funds in their own stock, unless such an investment is specifically permitted by the instrument creating the relationship, by court order, or by local law. However, since the Bank will not accept any investment management discretion with respect to Client accounts, except to the extent any Client account invests as a participating trust in the Bank's collective trust funds, this prohibition generally does not apply⁶.

Under the ERISA, the purchase within a Client account of the Bank's (or the parent's or an affiliate's) stock would normally be a prohibited transaction because ERISA prohibits the sale or exchange of property between a qualified retirement plan and a party in interest. However, the DOL has issued guidance indicating that a purchase of a custodian's stock by a qualified retirement plan may not be a prohibited transaction if the purchase is a "blind" purchase or sale of the securities and is through an exchange where neither buyer nor seller (nor the agents of the buyer and seller) knows the identity of the other party involved. The DOL guidance emphasizes that the custodian in such transactions must not have any discretionary authority or control over the assets of the plans in question.

If employees with account responsibilities receive instruction to effect or accept such investments where there is any doubt that the transaction does not meet the requirements of ERISA, OCC, Reg 9, where applicable, or other applicable law, the situation is referred to his/her manager, senior trust administration, and/or compliance management, and/or the Schwab Office of Corporate Counsel, and the directions are not to be followed until any questions are resolved.

Transactions with Affiliates

BTD's policy is to not charge a separate fee to a Client account for services rendered by a Charles Schwab Corporation affiliate on behalf of the account. In such case, with the exception of any brokerage commissions and other associated transaction fees for individual equity transactions processed through the Schwab Broker-Dealer, charges for services by affiliates may be properly incurred and included in BTD's fee structure provided that they are charged by the affiliate to BTD and not to the Client account. This policy does not preclude an affiliate from having a direct contract with a Client that does not involve BTD's services.

Transactions with the Schwab Broker-Dealer

BTD has retained the Schwab Broker-Dealer, its registered broker/dealer affiliate, to provide certain corporate and account operations and other administrative support services to BTD in connection with BTD and its employees and BTD's Client accounts. The services provided by the Schwab Broker-Dealer to the Bank include, but are not limited to, the following:

- Various corporate administration services, including legal, audit, compliance, and risk management oversight

⁶ In such case, the Bank acts as investment manager with respect to the collective trust funds strictly in accordance with the investment objectives and guidelines defined in the applicable Declaration of Trust documents for each of the CTFs.

- Employee benefits and human resources services, including payroll processing and benefits administration
- Sale of Bank trust and custody services to clients
- Corporate finance, product development, product management, and project management services
- IT services, including network and systems support, for BTB's trust accounting system(s)
- Operational services, including contribution posting, distribution processing, and trade delivery processing, on behalf of clients, using BTB's trust accounting system(s)
- Assisting Schwab internal and independent auditors, as appropriate

Transactions with Schwab Retirement Plan Services, Inc.

The Bank has retained Schwab Retirement Plan Services, Inc., its recordkeeping affiliate, to provide certain account operations and other administrative support services to BTB in connection with plan accounts established on behalf of joint clients of BTB and the recordkeeping affiliate. The services provided by Schwab Retirement Plan Services, Inc. include, but are not limited to, the following:

- Direct service support to clients on behalf of BTB
- Account conversions from prior trustees and custodians to BTB
- Setup of unitized portfolio accounting for specific clients with external custodians and fund accountants
- Preparation and delivery of annual certified trust account statements to certain clients
- Assisting Schwab internal and independent auditors as appropriate

Transactions with Charles Schwab Investment Management Inc.

The Bank has retained CSIM, its investment company affiliate, to provide certain fund administration and vendor support services to BTB in connection with the CTFs. The services provided by CSIM include, but are not limited to, the following:

- Assisting the Bank in carrying out its obligations to the CTFs under their Declaration of Trust and Participation Agreement documents
- Assisting in the preparation and maintenance of the books and records of the CTFs
- Accounting, credit, legal, finance, compliance, research, or communications services, which may be required or requested by BTB from time to time
- Vendor management of CTF custodians, fund accountants, and investment subadvisors
- Preparation of daily available cash balance projections with respect to the CTFs
- Provision of financial, yield, unitized value, and other CTF-related information to other entities as instructed by BTB
- Trade execution and settlement support for trading of financial futures, cash equivalents, exchange-traded funds, and other securities
- Coordination of custodian's preparation of annual financial statements for the CTFs and support of BTB's independent audit of the financial statements

- Provision of financial information and reports to regulatory agencies, as required

Bonding and Insurance Coverage

Schwab maintains insurance coverage against major risks on behalf of itself and its wholly owned subsidiaries and affiliates, including the Bank. Policies include a blanket errors and omissions bond; financial institution blanket bond, including employee fidelity bond; and directors' and officers' liability coverage. Insurance companies, which Schwab management believes to be financially sound, provide coverage at levels that Schwab considers reasonable given the size and scope of the operations of Schwab and its subsidiaries and affiliates.

All employees are bonded against theft or dishonesty in an amount determined by Schwab management, but not less than what is required by applicable law or regulation. In addition, as a condition of engagement by a Schwab affiliate, applicable service providers must maintain appropriate and adequate insurance to protect account property held in their custody. Refusal of a bonding company to issue a bond for an employee is cause for dismissal. Schwab management may waive the bonding requirement for service providers who do not normally handle or have access to account investments.

Schwab maintains appropriate insurance against fire, theft, accident, and other loss in an amount adequate to protect Bank premises and employees and to adequately protect accounts from loss by reason of account investments being held on Bank premises or through the action or inaction of Bank employees.

The Schwab Insurance Department reports on insurance coverage to the Board on an annual basis for its input and oversight.

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