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Schwab Private Client™ Disclosure Brochure

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

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

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Services, Fees and Compensation

Services

Schwab Private Client™ (“SPC”) is a fee-based program that combines ongoing non-discretionary investment advice with trade execution, asset custody and other brokerage services. These services are delivered by a team of investment professionals and are available to all Schwab accounts that you enroll in SPC as part of a single Portfolio—that is, a group of accounts whose assets are considered together for advice-giving and fee-calculation purposes.

During your enrollment in SPC, we will meet with you in person or by phone—approximately once per quarter—to review your financial situation and your Portfolio. Your first review will typically include a printed summary and action plan listing our specific buy and sell recommendations for your accounts. Subsequent reviews may refer to a previous summary rather than a newly created summary, depending on your individual circumstances.

Your SPC representatives include a Financial Consultant who is generally responsible for establishing and maintaining client relationships and a Portfolio Consultant who is generally responsible for making buy and sell recommendations. Portfolio Consultants are supported by an Associate Portfolio Consultant who assists clients with day-to-day needs such as opening new accounts, placing trades, and answering general questions about Schwab services. We refer to these representatives as your “SPC Representatives.” The composition of the team working with you, and the exact role played by any member, may change over time depending on Schwab’s practice model or your needs and preferences.

The provision of non-discretionary investment advice within SPC, including but not limited to Portfolio reviews, recommendations about how to allocate assets and whether to buy, sell or hold particular securities in accounts enrolled in SPC, is delivered exclusively by Schwab Private Client Investment Advisory, Inc., an affiliate of Schwab and a registered investment advisor (“SPCIA”). Portfolio Consultants, Associate Portfolio Consultants, Portfolio Consulting Fixed Income Specialists, and other SPC Representatives who provide investment advice to SPC accounts are employees of SPCIA (“SPCIA Representatives”).

Schwab acts solely as the sponsor of SPC and as a broker-dealer and custodian with respect to assets and transactions in the accounts enrolled in SPC. SPCIA acts as the investment advisor on accounts enrolled in SPC pursuant to an agreement with Schwab. For more information about the role of SPCIA and SPCIA Representatives, please see the SPCIA Disclosure Brochure.

To help you keep your Portfolio aligned with your goals during the time between your Portfolio reviews, you will receive quarterly reports. These updates include a range of recent account activity, portfolio analysis and investment performance information for your SPC-enrolled accounts.

Acting as a broker-dealer, Schwab is the sole custodian for all billable assets (defined below) in SPC accounts and performs all custodial functions customarily performed for securities brokerage accounts, including crediting of interest and dividends on account assets. The SPC Fee described below compensates Schwab, in part, for these services. If you have Schwab accounts that are not enrolled in SPC, any fees you are charged for the maintenance of or custody of assets in those accounts, or for other account-related services, will be separate from and in addition to the SPC Fee.

Neither Schwab, nor SPCIA, nor any SPC Representative exercises investment discretion or control of any kind over your accounts, and SPC does not include investment supervisory services or investment management of the enrolled accounts. This means that all trading decisions are made by you, and that you may decline to take SPCIA’s recommendations. You may place trades on your own without consulting your SPC Representatives. You are responsible for monitoring your own accounts and determining when and if to buy, hold or sell securities based on changes in your circumstances, in your portfolio, and in the market. We will not stop or change any trade orders that you place on your own, nor will we actively monitor your trading in between scheduled Portfolio reviews, or your use of margin, cash management, banking, bill pay or other account features offered as a convenience to you in your enrolled accounts.

Schwab and SPCIA do not act as investment managers within the meaning of the Employee Retirement Income Security Act (“ERISA”) with respect to any IRA or other retirement account that you enroll in SPC. Although SPCIA will make investment recommendations, you are free to disregard those recommendations. You may place trade orders and invest on your own, choosing to follow SPCIA’s advice, your own views, or any other advice or information you receive from others. You are under no obligation to execute any buy or sell recommendations through Schwab.

By entering into the Schwab Private Client Agreement (the “Agreement”), you provide your general consent for Schwab to trade with you in a principal capacity. At the time SPCIA recommends and you place an order for which Schwab will be acting as principal, SPCIA will disclose to you that Schwab is acting as principal, the price of the security and any other applicable important information about the security. At the time of the trade, you have the ability to decline any recommendation and to withhold your consent to Schwab placing the trade on your behalf and acting as principal. You also may withdraw your general consent by contacting SPCIA. This serves as a disclosure to you under Securities and Exchange Commission rules about principal trading under the Investment Advisers Act of 1940. Your trade confirmations for executed buy and sell orders will also indicate whether Schwab acted as principal on a specific transaction. Schwab trades only as agent, and not as principal, in any IRA or other retirement account enrolled in SPC, regardless of whether the trade is recommended by SPCIA or not. Principal trading and agency trading, and the differences between the two, are explained in “Fixed Income Securities” beginning on page 10.

As a feature of SPC, accounts enrolled in SPC can have their uninvested cash, or “free credit balances,” automatically swept into the Schwab Cash Reserves™ fund (SWSXX), a money market fund that generally may pay a higher yield than certain other cash sweep options such as Schwab One® Interest and Schwab Bank Sweep. You may, however, ask your SPC Representative for another cash sweep option for which your account may be eligible.

Please note that if the current cash sweep option in one or more of your SPC-enrolled accounts is the Schwab Government Money Fund™ (SWGXX) or a municipal money market fund, enrollment in SPC will not change that election, although you may select the Schwab Cash Reserves fund or another sweep option by calling your SPC Representative. Otherwise, the cash sweep feature will be set to the Schwab Cash Reserves fund generally within one week of enrollment of the account(s), unless you instruct your SPC Representative not to do so. The designation of the Schwab Cash Reserves fund is considered a request for a prospectus. It is an indication of interest only, and you are not obligated to buy any

shares and you may select another option. If the Schwab Cash Reserves™ fund becomes your cash sweep alternative, you will receive the fund prospectus after your accounts are enrolled in SPC or after your first sweep investment in the fund. Please read the prospectus carefully. If your enrollment in SPC is terminated at any time for any reason and if, at that time, you are not otherwise eligible for the Schwab Cash Reserves fund as your cash sweep feature, without further notice or consent Schwab may redeem your shares in the fund and invest or deposit the proceeds in a replacement cash sweep feature for which you are eligible. A different cash sweep feature may apply to your non-SPC accounts.

Fees

The SPC Fee described below covers all equity trade commissions in your enrolled accounts, all transaction fees on purchases and sales of mutual fund shares and all markups, markdowns and commissions on trades in fixed income investments.

All other trade orders and services are subject to Schwab's standard commissions, charges and fees. In particular, the SPC Fee does not cover the costs listed below, which may apply to assets in your enrolled accounts to which the SPC Fee also applies, and to transactions in your accounts that SPCIA may recommend.

- Fees charged by mutual fund companies, unit investment trusts ("UITs"), closed-end funds and other collective investment vehicles, including, but not limited to, sales loads (a portion of which are paid to Schwab) and/or charges and short-term redemption fees.
- Short-term redemption fees charged by Schwab for funds that participate in the Schwab Mutual Fund OneSource® Service. Funds themselves may also charge a short-term redemption fee, likewise not covered by your SPC Fee.
- The bid-ask spread received by UBS—which manages execution and order routing for most types of equity and options trade orders placed by Schwab clients—when it acts as principal in executing equity orders. The bid-ask spread, which is the difference between the price at which a buyer offers to buy and a seller offers to sell the same security, is reflected in the net price at which a trade order is executed. See "Participation or Interest in Client Transactions" beginning on page 9 for details about this arrangement.
- Fees relating to services provided by broker-dealers other than Schwab for transactions executed or effected by or through them that settle into or from your enrolled accounts. You will be responsible for paying any commissions and other fees or compensation charged by other broker-dealers in connection with such transactions.
- Custody and/or transaction fees on "Alternative Assets" that you transfer to Schwab. For purposes of your enrollment in SPC, "Alternative Assets" include, but are not limited to, non-publicly traded limited partnership and limited liability company interests, private company common stock, shares of exchange funds, shares of hedge funds and funds of funds, shares of private equity funds and funds of funds, shares of managed futures funds, interests in real estate funds, and other non-publicly traded investments that Schwab, in its sole discretion, determines.
- Commissions on options trades.
- Fees to offset processing costs incurred by Schwab for the exchange of securities for equity, options, or other covered security sell transactions.
- Transfer taxes, odd-lot differentials, certificate delivery fees, reorganization fees, fees required by law, and any other fees or charges similar to those described above.

If you are interested in a complete list of Schwab's charges and fees, please see the *Charles Schwab Pricing Guide for Individual Investors*, which is available online at www.schwab.com/pricing or by asking us for a hard copy.

The SPC Fee is calculated by looking at all assets in your Portfolio except cash balances, money market fund shares, mutual fund shares upon which a sales charge has been or will be paid to Schwab and other non-billable assets. Billable and non-billable assets are described in detail immediately below.

Billable assets consist of the following:

- Equities, including, but not limited to, common stock, preferred securities (including convertible preferred stock before conversion), restricted stock, master (publicly traded) limited partnership shares or units, American Depositary Receipts, foreign ordinary shares, and any rights or warrants on equities;
- Funds that trade on an exchange, including, but not limited to, exchange-traded funds and any closed-end funds;
- Unit Investment Trusts;
- Billable fund shares consisting of all mutual fund shares except money market fund shares or other "non-billable fund shares" described below. Billable fund shares include, but are not limited to, shares of Schwab-affiliated mutual funds, shares of no-load mutual funds, shares of mutual funds on which Schwab charges a transaction fee and any mutual fund shares upon which a sales charge has been paid to another broker-dealer or a financial services firm other than Schwab;
- Fixed Income Investments, including fixed income securities, such as U.S. Treasury and federal agency securities, securities of government sponsored enterprises ("GSEs"), corporate bonds and medium-term notes, zero-coupon bonds, commercial paper, municipal bonds, bank certificates of deposit ("CDs"), asset-backed securities (including collateralized mortgage obligations), convertible debt securities, fixed income market-linked investments that are tied to currency, fixed income or equity indices (such as equity-linked CDs, TIERS and ELKS);
- Alternative Assets (including, but not limited to, non-publicly traded limited partnership and limited liability company interests, private company common stock, shares of exchange funds, shares of hedge funds and funds of funds, shares of private equity funds and funds of funds, shares of managed futures funds, interests in real estate funds and other non-publicly traded investments that Schwab, in its sole discretion, determines) for which Schwab receives a valuation at least quarterly and that you purchased: (i) through Schwab without a sales charge paid to Schwab; or (ii) through another broker-dealer or a financial services firm other than Schwab whether or not a sales charge was paid to such broker-dealer or other financial services firm; and
- Assets purchased on margin or through other extensions of credit by Schwab or its affiliates will be considered for purposes of calculating the SPC Fee. The SPC Fee will not, however, be charged on debit balances in your accounts or on proceeds from "short sales" (meaning securities that you sell that you have borrowed but do not own).

Non-billable assets include, but are not limited to:

- Cash Balances, consisting of money that is awaiting investment, which may include money earning interest through Schwab One® Interest or Schwab Bank Sweep and that is in your account as a result of a liquidation of securities or a dividend payment;
- Non-billable Fund Shares, consisting of any money market fund shares, mutual fund shares upon which a sales charge has been or will be paid to Schwab and any other mutual fund shares that Schwab, in its sole discretion, determines will not be subject to the SPC Fee;
- Alternative Assets you purchased through Schwab with a sales load paid to Schwab and/or for which Schwab receives a valuation less frequently than quarterly; and
- Other Investments, including, but not limited to, options, insurance, annuities, and direct investments in commodities and commodity futures.

The SPC Fee is billed in arrears and calculated as a percentage of the billable assets in your enrolled accounts. The annual percentage rate (“APR”) starts at 0.75% for individual equities and mutual funds (except fixed income open-ended funds) and 0.50% for fixed income investments, including open-ended bond mutual funds, and goes down from there depending on the total assets in your enrolled accounts. Please see the table below for details. There is a quarterly minimum fee equal to the lesser of: (a) \$1,000; or (b) the quarterly fee that would result from applying a 1.6% APR to the total billable assets in your enrolled accounts (the “Quarterly Minimum”). SPCIA’s compensation for providing investment advice to SPC clients is described in the SPCIA Brochure and does not vary depending on the percentage of billable assets in a particular Asset Category (defined below) or the types of individual securities comprising either Asset Category—either at the Portfolio level or in aggregate across all SPC accounts. SPCIA Representatives’ compensation also will not vary depending on what they recommend that you buy or sell.

On a daily basis, the total value of your billable SPC assets are multiplied by the daily pro rata portion (i.e., 1/365, or 1/366 in a leap year) of the APR (each a “Daily Total Amount”). For the last business day of the quarter and any subsequent non-business days, the Daily Total Amount is assumed to be equal to the Daily Total Amount for the second-to-last business day of the quarter. The Daily Total Amounts for each quarter are added together to make the “Quarterly Total Amount.” If the Quarterly Total Amount (plus any Managed Account Services™ [“MAS”] or Schwab Managed Portfolios [“SMP”] fees for clients whose MAS or SMP accounts are grouped together with SPC accounts for purposes of meeting the Quarterly Minimum and calculating the Quarterly Maximum) is greater than the Quarterly Minimum, you will pay the Quarterly Total Amount for that quarter; otherwise, you will pay the Quarterly Minimum.

Billable Assets per Asset Category	Asset Category	
	Equities, Funds That Trade on an Exchange (i.e., ETFs), Unit Investment Trusts (UITs), Billable Fund Shares (Except Fixed Income Open-Ended Funds) and Alternative Assets	Fixed Income Investments (Including Billable Open-Ended Fund Shares of Fixed Income Funds)
	Annual Percentage Rate	
Amounts up to \$500,000	0.75%	0.50%
Next \$500,000 (more than \$500K up to \$1M)	0.70%	0.48%
Next \$1 million (more than \$1M up to \$2M)	0.65%	0.45%
Next \$3 million (more than \$2M up to \$5M)	0.60%	0.40%
Next \$5 million (more than \$5M up to \$10M)	0.45%	0.30%
Assets over \$10 million	0.30%	0.15%

The SPC Fee will impact the overall performance—both total return and yield—of your enrolled accounts, which is why performance figures for your Portfolio in your written quarterly report are calculated net of the SPC Fee. You should consider the impact of the SPC Fee on, for example, income-producing securities and on the performance of mutual funds for which you will also be paying fees and charges.

Some of the features of SPC may be available from Schwab outside of SPC for separate fees or in bundles as part of other services. Depending on the size of the respective fees and the features you intend to use (including the amount and type of trading in your accounts and the type of advice you seek), a different Schwab service, or some combination of different Schwab services, might be less expensive or better suited for you than SPC. See the comparison of services immediately below, and please call Schwab if you are unsure whether SPC is right for you.

SPC	Schwab Managed Portfolios™	Schwab Managed Account Services™	Commission-Based Brokerage Relationship
<p>Ongoing, customized non-discretionary advice from a dedicated team covering multiple accounts and product types</p> <p>All equity and fixed income security trades in enrolled accounts included</p> <p>Fee starts at 0.75% (equities) and 0.50% (fixed income) on billable assets</p> <p>\$1,000 per quarter minimum, capped with a 1.60% annual percentage rate</p>	<p>Ongoing discretionary management of a broadly diversified mutual fund or exchange-traded fund portfolio in a single account</p> <p>Most transaction costs included</p> <p>Fee starts at 0.50%</p>	<p>Ongoing discretionary management of one or more accounts by one or more separate money managers</p> <p>Each account focuses on a particular investing style and asset type (e.g., small-cap equity, municipal fixed income)</p> <p>Most transaction costs included</p> <p>Fee starts at 0.95% for Windhaven Portfolios™, 1.35% for equity strategies, 0.65% for fixed income strategies and 1.10% for Diversified Portfolios</p>	<p>See the <i>Charles Schwab Pricing Guide for Individual Investors</i> for transaction pricing and other fees; for example: online equity commissions of \$8.95 per executed trade</p>

From time to time, Schwab may reduce or eliminate the SPC Fee for particular clients or groups of clients as a result of individual negotiations or promotional offers.

The SPC Fee is separate from any fee you might pay for MAS or SMP or other wrap fee programs sponsored by Schwab. Accounts enrolled in MAS and SMP are not subject to the SPC Fee, but certain MAS and SMP accounts may be grouped together with SPC accounts for purposes of meeting the Quarterly Minimum and calculating the Quarterly Maximum.

Compensation

The compensation of SPC Representatives does not vary based on the securities they recommend to you. The compensation of SPCIA Representatives, who provide investment advice to SPC accounts, is described in more detail in the SPCIA Disclosure Brochure. Financial Consultants are compensated for enrolling accounts in SPC.

Financial Consultants may be Schwab employees (“FCs” and Local Market FCs or “LMFCs”) or non-employee independent contractors who, with their own employees, operate Schwab Independent Branches pursuant to a franchise agreement with Schwab. Financial Consultants who operate Schwab Independent Branches are known as Independent Branch Leaders (“IBLs”) or, if employed by such IBLs, Independent Branch Services Financial Consultants (“IBS-FCs”). LMFCs are Schwab employees who manage and work in Schwab branches in places where Schwab has recently decided to expand its branch presence.

FC Compensation

The so-called “Service” compensation factor pays the FC an amount, subject to a minimum, designed to reflect the approximate annual revenue to Schwab attributed to clients in their “Practice”—i.e., clients for whom they are the primary point of contact with Schwab—which includes both SPC clients and other Practice clients. FCs receive more compensation depending on whether a client accepts certain recommendations made by the FC, including the recommendation to enroll in SPC as opposed to maintaining a purely commission-based brokerage relationship or enrolling in a different fee-based service. An FC also earns additional compensation for serving clients enrolled in SPC, which reflects the additional time the FC spends with those clients.

Service Compensation

	Products/Services	Compensation
Non-Fee-Based	Stocks Options Bonds Certificates of Deposit Exchange-Traded Funds High Yield Investor Checking High Yield Investor Savings	0.0028% of assets
	All Mutual Funds All Money Funds All Other Cash Charitable Gift Accounts Fixed and Variable Deferred Annuities ¹ Margin Balances ²	0.0350% of assets
Fee-Based	Assets in accounts enrolled in SPC or Schwab Advisor Network® where FC does not provide ongoing service	0.0350% of assets
	Assets in accounts enrolled in Schwab Managed Portfolios, Schwab Managed Account Select®, or Schwab Managed Account Connection™ ³	0.0595% of assets
	Assets enrolled in SPC where FC provides ongoing service	0.0770% of assets

¹ Applicable to insurance-licensed representatives only.

² Margin compensation applies only to margin balances greater than \$5,000 but not greater than 10% of a client’s margin buying power.

³ Note that if an account enrolled in the Schwab Managed Portfolios, Schwab Managed Account Select or Schwab Managed Account Connection wrap fee program is grouped together with SPC accounts for purposes of meeting the Quarterly Minimum and calculating the Quarterly Maximum, then the Managed Account assets will be measured for compensation purposes at the SPC compensation rate shown in the table above.

FCs also receive so-called “Sales” compensation when clients—both within and outside their Practices—bring net new assets to Schwab, enroll in fee-based services like SPC. For example, an FC’s Sales compensation for an SPC enrollment ranges from 0.09% to 0.21% of the assets enrolled, depending on the FC’s payout rate. In contrast, an FC receives only from 0.0375% to 0.0875% of net mutual fund purchases (excluding money market funds), again depending on payout rate. Schwab may cap the amount of Sales compensation that an FC earns from any one client.

Sales Compensation

	Compensation (Depending on the FC's Payout Rate)
Mutual Funds	0.0375% to 0.0875% of Net Mutual Fund purchases—excludes money market funds
Advice Referrals—SPC, Schwab Advisor Network®, Schwab Managed Portfolios™, Schwab Managed Account Select®, Schwab Managed Account Connection™	0.09% to 0.21% of Net Advice Enrollments
Referrals to all Schwab Managed Portfolios or Windhaven Portfolios™	\$38 to \$88 for clients who are new to Schwab Managed Portfolios or Windhaven Portfolios; limited to one credit per client
Financial Planning Services	\$135 to \$315 for converted referral to Personal Financial Plans or Equity Compensation Consultations \$68 to \$158 for converted referrals to Retirement Consultations

FCs can earn additional compensation through the Circle of Excellence program by ranking in the top 50% among their peers in terms of sales credits and asset consolidation.

LMFC Compensation

The assets in accounts assigned to LMFC Practices are divided into two categories: (1) "Advised Assets," meaning assets in accounts enrolled in SPC or in a discretionary wrap fee program or accounts managed by an independent third-party investment advisor to whom the client was referred through the Schwab Advisor Network service; and (2) "Non-Advised Assets," consisting of assets not in the Advised Asset category, including stocks, bonds, mutual funds, and ETFs, as well as payment for providing cash management services.

Each month, Schwab calculates and applies an Advised Asset revenue rate and a Non-Advised Asset revenue rate to the assets in accounts assigned to the LMFC's Practice. The two revenue rates are calculated by looking at 12-month trailing assets and revenue from all accounts assigned to all LMFC Practices. This is done by dividing the adjusted revenue amount for each asset category by the associated assets and excluding certain revenues not earned at an individual account level. Schwab then applies these revenue rates to the daily average assets in each category in accounts assigned to the LMFC, yielding an adjusted revenue figure for each asset category. The revenue rates change monthly, but the Advised Asset revenue rate is higher because Schwab generally generates more revenue on Advised Assets. This is due to the asset-based fees paid for advisory services and other revenue generated by the underlying assets in the enrolled accounts, such as shareholder servicing fees paid to Schwab by certain mutual funds. An LMFC, therefore, earns more money by successfully recommending that clients enroll or open an account in the SPC service or another product in the Advised Asset category.

Other non-SPC Representatives, such as Investor Development Specialists, Prospect Development Specialists and Participant Services Financial Consultants, can earn additional incentive compensation for helping to enroll clients in fee-based advice services, including SPC.

Representatives, both within and outside of SPC, who demonstrate exceptional performance during the year may also be eligible to earn an annual trip through the Chairman's Club program. If you are interested in a detailed description of all SPC Representatives' compensation, please visit our website at http://www.schwab.com/public/schwab/nn/compensation_advice/disclosures/representatives_compensation or ask us for a hard copy.

IBL and IBS-FC Compensation

The assets in accounts assigned to IBLs are divided into two categories: (1) "Advised Assets," meaning assets in accounts enrolled in SPC or in a discretionary wrap fee program or accounts managed by an independent third-party investment advisor to whom the client was referred through the Schwab Advisor Network service; and (2) "Non-Advised Assets," consisting of assets not in the Advised Asset category, which include stocks, bonds, mutual funds, and ETFs, as well as payment for providing cash management services.

Each month Schwab calculates and applies an Advised Asset revenue rate and a Non-Advised Asset revenue rate to the assets in accounts assigned to all Schwab Independent Branches. The two revenue rates are calculated by looking at 12-month trailing assets and revenue from all Schwab Independent Branch accounts. This is done by dividing the adjusted revenue amount for each asset category by the associated assets, subtracting certain product-level expenses and excluding certain revenues not earned at the individual account level. Schwab then applies these revenue rates to the daily average assets in each category in accounts assigned to individual Schwab Independent Branches, yielding an adjusted revenue figure for each asset category. The revenue rates change monthly, but the Advised Asset revenue rate is higher because Schwab generally generates more revenue on Advised Assets. This is due to the asset-based fees paid for advisory services and other revenue generated by the underlying assets in the enrolled accounts, such as shareholder servicing fees paid to Schwab by certain mutual funds. An IBL, therefore, earns more money by successfully recommending that a client enroll or open an account in SPC or another product in the Advised Asset category.

After adding together the adjusted revenue figures for Advised Assets and Non-Advised Assets, Schwab then applies a multiplier based on the tenure of the IBL. Finally, Schwab deducts certain monthly fees and expenses from the total adjusted revenue amount that the IBL owes to Schwab under the franchise agreement. This results in a Net Payout for the month.

IBS-FCs receive a salary paid by the IBL and, as determined by the IBL as their employer, may be eligible for a bonus based on a percentage of either their salary or the IBL's Net Payout.

The criteria used by the IBL to determine the amount of the bonus may include such factors as net new assets, net new clients acquired through the efforts of an IBS-FC, or the portion of the Net Payout attributable to clients serviced by an IBS-FC.

Account Requirements and Types of Clients

SPC is available to individuals, trusts or estates, and corporations or other businesses in their eligible Schwab brokerage accounts. Eligible accounts include IRAs and retirement accounts for retirement plans that include only self-employed individuals and their spouses. Other types of retirement plan accounts are excluded from SPC, as are offshore trust accounts, pledged asset accounts and charitable gift accounts. Estate, conservatorship and guardianship accounts, while eligible for SPC, may not be combined with other accounts for purposes of calculating the SPC Fee.

SPC is intended for clients who want a non-discretionary, fee-based relationship in which Schwab provides periodic investment advice and portfolio planning in addition to brokerage services. SPC is not intended for clients who want or need someone else to manage their investments on a discretionary basis. It is generally not intended for day trading or highly active trading, or trading in mutual funds based on market timing. Another Schwab service may be better for investors who want a simple, set mutual fund portfolio, money market funds, underwritten offerings (e.g., initial public offerings), or for investors with high cash balances or insufficient assets in their enrolled accounts. Schwab currently imposes an initial enrollment minimum of \$500,000. Certain clients with lower amounts of enrolled assets—e.g., due to withdrawal of assets from SPC accounts or enrollment in SPC during a time when a lower asset minimum was in place—may remain enrolled in the program.

Portfolio Manager Selection and Evaluation

SPCIA and SPCIA Representatives serve as the sole portfolio managers in SPC. Because SPC is a non-discretionary service, and because SPC clients may place unsolicited trade orders and decline trade recommendations made by their SPCIA Representatives, Schwab does not evaluate SPCIA Representatives on the basis of the performance of particular SPC accounts or groups of SPC accounts. Schwab does monitor SPCIA Representatives for compliance with applicable advice policies and guidelines, as described in “Participation or Interest in Client Transactions” beginning on page 9. SPCIA Representatives are supervised for compliance with substantially similar advice policies and guidelines adopted by SPCIA.

Client Information Provided to Portfolio Managers

SPC Representatives have access to the information that you have disclosed to Schwab. SPCIA and SPCIA Representatives serve as the sole non-discretionary portfolio managers in the SPC service.

Client Contact With Portfolio Managers

You are free to contact your SPC Representatives at any time during normal business hours. As described in “Services” beginning on page 1, scheduled meetings with your SPCIA Representatives generally take place once per quarter.

Additional Information

Advisory Business

Schwab provides the SPC service through its dual role as registered investment advisor and broker-dealer. In addition to SPC, Schwab provides other investment advisory services. In the Schwab Advisor Network® Schwab makes referrals of investment advisors to investors who are looking for assistance in managing their assets and/or other financial planning activities. Advisors participating in the Schwab Advisor Network are independent and not affiliated with Schwab. Investment advisors pay a fee to participate in the Schwab Advisor Network program. Other programs in which Schwab acts as a registered investment advisor include the SMP and MAS wrap fee programs sponsored by Schwab and the financial planning services provided through the Schwab Personal Financial Plan™ Schwab Retirement Consultation, and Schwab Equity Compensation Consultation (all three of which are also provided exclusively by SPCIA). An SPC Representative may recommend one of these services to you. Schwab earns additional fees or compensation if you elect to enroll in or purchase one of them,

and your SPC Representative may earn additional compensation, as described in “Compensation” beginning on page 4. A separate agreement and disclosure brochure is available for these other investment advisory services and would be provided to you at the time of referral or purchase.

Performance-Based Fees and Side-by-Side Management

The SPC Fee is not performance-based. In other words, it is not based on a share of capital gains or capital appreciation of the assets in SPC accounts. Likewise, SPC Representatives do not receive performance-based compensation for providing SPC services.

Methods of Analysis, Investment Strategies and Risk of Loss

The SPCIA Representatives assigned to your enrolled accounts will provide you with advice based on your individual circumstances and needs. They follow specific advice policies and guidelines (either Schwab policies and guidelines adopted by SPCIA or separate policies and guidelines specifically formulated for, and adopted by, SPCIA) which indicate, subject to an exceptions process, the universe of securities that are recommendable. The Schwab Center for Financial Research (“SCFR”), a division of Charles Schwab & Co., Inc., provides substantial input into the advice policies and guidelines followed by SPCIA Representatives. SCFR’s research is based on quantitative, qualitative, technical, and fundamental analysis. This includes, for example, Schwab proprietary methods for evaluating and rating stocks and mutual funds. SCFR analysis considers the evaluation of both risk and return and maintaining minimum levels of diversification. An SPCIA committee reviews, approves, and amends the advice policies and guidelines that SPCIA Representatives follow. SPCIA Representatives may supplement the research provided by SCFR with additional sources of information, which may include, among other resources, financial newspapers, periodicals and/or research reports prepared by third parties made available to Schwab Representatives and clients.

Investment strategies recommended to SPC clients may be a combination of long-term strategies (securities held for at least a year) and short-term strategies (securities held for less than a year) based on principles of asset allocation, risk tolerance, client preference, and diversification. These strategies do not include active trading, short sales in SPC accounts, or certain complex option strategies. The investment strategies recommended within SPC, like all securities investments, involve a risk of loss that SPC clients must be prepared to bear.

Disciplinary Information

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

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

2. A disciplinary action initiated by the Financial Industry Regulatory Authority (“FINRA”) asserted that Schwab violated Municipal Securities Rulemaking Board Rule G-14 by: (1) failing to report required information about certain municipal securities transac-

tions to the Real-Time Transaction Reporting System ("RTRS") within 15 minutes of trade time; and (2) failing to report the correct trade execution time to the RTRS for some of these transactions. Without admitting or denying these assertions, Schwab consented to a censure and a fine of \$12,500 on June 17, 2011.

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

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

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

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

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

Schwab and certain affiliated entities and individuals (the "Schwab Parties") were named as defendants in a number of Fund-related class action lawsuits filed in the United States District Court for the Northern District of California in 2008. These lawsuits were consolidated into a single class action complaint that alleged violations of state law and federal securities law similar to those

described above. On March 30, 2010, the court granted plaintiffs' motion for summary judgment holding defendants liable for plaintiffs' state law claim regarding changes to the investment policy of the Fund, which plaintiffs alleged were made without shareholder approval in violation of the Investment Company Act of 1940. Although the judgment was subject to a potential appeal and further proceedings on damages, the Schwab Parties entered into a settlement agreement to settle the plaintiffs' federal securities law claims for approximately \$202,700,000 and the plaintiffs' California law claims for approximately \$35,000,000. On April 19, 2011, the court entered an order granting plaintiffs' and defendants' motions for final approval of the settlement agreements.

4. A disciplinary action initiated by the New York Stock Exchange ("NYSE") asserted that Schwab: (a) submitted inaccurate electronic blue sheets in violation of NYSE Rules 410A and 401; and (b) failed to properly supervise the preparation of its electronic blue sheets in violation of NYSE Rule 342. Effective January 5, 2006, the NYSE approved a stipulation of facts and consent to penalty ("Stipulation") between Schwab and the NYSE Division of Enforcement. Without admitting or denying guilt, Schwab consented to the Stipulation that it violated the foregoing rules and regulations. As part of the Stipulation, Schwab consented to a censure and a fine of \$300,000. Schwab also agreed to conduct a validation of all required blue-sheet data elements and notify the NYSE in writing that it has completed the validation.

5. A disciplinary action initiated by the NYSE asserted that Schwab: (a) violated NYSE Rules 342(a) and (b) in that Schwab failed to establish and maintain appropriate procedures for supervision and control, including a separate system of follow-up and review, with respect to certain business activities relating to protection of customer assets in accounts managed by non-employee investment advisors and carried by Schwab; and (b) violated Section 17(A) of the Securities Exchange Act of 1934 and Rules 17A-4(b)(4) and 17A-4(f) thereunder and NYSE Rule 440 by failing to preserve and maintain certain electronic communications in the required format and for the required retention periods. Effective October 17, 2005, the NYSE approved a stipulation of facts and consent to penalty ("Stipulation") between Schwab and the NYSE Division of Enforcement. Without admitting or denying guilt, Schwab consented to the Stipulation that it violated the foregoing rules and regulations. As part of the Stipulation, Schwab consented to a censure and a fine of \$1 million. Schwab also undertook: (a) to retain an outside consultant to conduct a review of its policies and procedures with respect to the disbursement of funds from accounts managed by investment advisors; (b) to have the consultant provide a report to the NYSE's Division of Enforcement within 120 days of the date the decision becomes final; and (c) to submit to the NYSE a written representation setting forth the implementation of the recommendations contained in the consultant's report within 60 days of the report's issuance.

6. On September 14, 2004, the SEC issued an order instituting public administrative and cease-and-desist proceedings pursuant to Sections 15(b) and 21B of the Securities Exchange Act of 1934 ("Exchange Act") and Sections 9(b) and 9(f) of the Investment Company Act of 1940 ("Investment Company Act"), making findings, imposing remedial sanctions and issuing a cease-and-desist order as to Schwab ("Order"). Schwab consented to entry of the Order without admitting or denying the SEC's findings made in the Order. The SEC found that from at least January 2001 through October 2003, Schwab engaged in a practice that enabled certain mutual fund shareholders to place mutual fund orders after the time the funds calculated their net asset values ("NAV") for that day. Specifically, Schwab allowed clients of investment advisors to place substitute mutual fund orders after 4:00 p.m. Eastern time

("ET"), the time as of which those funds calculated their NAV. The order substitutions were permitted when one of these clients' original pre-4:00 p.m. ET mutual fund orders was rejected by Schwab's computer system because it could not be processed as submitted. The SEC found that this practice violated Rule 22c-1(a) under the Investment Company Act and Schwab's own internal policy requiring any orders Schwab received after 4:00 p.m. ET to get the next day's fund price. These substitute orders were not made pursuant to any improper agreements between Schwab personnel and the investment advisor or the investment advisor's clients. The SEC imposed on Schwab the following sanctions: (1) that Schwab cease and desist from committing or causing any violations and any future violations of Rule 22c-1(a) under the Investment Company Act; (2) censure of Schwab; and (3) imposition of a civil money penalty in the amount of \$350,000.

7. A disciplinary action initiated by the NYSE asserted that during the time period between approximately February 1997 and September 2003, Schwab: (a) violated NYSE Rule 346(f) by having persons associated with it without permission of the NYSE that Schwab knew, or through the exercise of reasonable care should have known, were subject to statutory disqualification; (b) violated NYSE Rule 351(a)(5) by failing to promptly report to the NYSE certain arrests, arraignments, indictments, convictions, guilty pleas and/or contest pleas to criminal offenses, other than minor traffic violations of employees; (c) violated NYSE Rule 342 by failing to reasonably supervise its business in order to ensure compliance with federal securities laws and NYSE rules relating to associations with statutorily disqualified individuals and reporting to the NYSE of events related to employee criminal matters. Effective July 8, 2004, the NYSE approved a stipulation of facts and consent to penalty ("Stipulation") between Schwab and the NYSE Division of Enforcement. Without admitting or denying guilt, Schwab consented to the Stipulation that it violated NYSE rules. As part of the Stipulation, Schwab agreed to censure and a fine of \$250,000. Schwab also agreed to: (a) retain an outside consultant within 30 days of the decision to perform a review and prepare a report; (b) have the consultant provide a report to the NYSE's Division of Enforcement and Schwab's Board of Directors within 120 days from the date the decision becomes final; and (c) submit to the NYSE a written representation setting forth the implementation of the recommendations contained in the report within 60 days of the report's issuance.

8. A disciplinary action initiated by the National Association of Securities Dealers ("NASD") asserted that: (a) during the period August 14, 2002, through March 25, 2003, Schwab violated Municipal Securities Rule Making Board Rules G-17 and G-30(a) when it relied solely on the bids provided by a broker's broker to determine the fair market value in the liquidation of six municipal security positions for customers; (b) the prices paid to the customers and received by Schwab were below the fair market value for the security in amounts ranging from 6.57% to 38.57%; and (c) Schwab failed to ensure that the transactions were executed at aggregate prices that were fair and reasonable. Effective June 28, 2004, the NASD approved a letter of acceptance, waiver and consent ("AWC") from Schwab. Without admitting or denying guilt, Schwab agreed to censure and a fine of \$30,000 and was required to pay \$30,869.25 plus interest in restitution to the customers. Schwab agreed to provide a copy of its updated written supervisory procedures as they relate to the determination of the fair market value of municipal securities being bought or sold from a public customer to the NASD within 90 days of the acceptance of the AWC.

Other Financial Industry Activities and Affiliations

Schwab is a wholly owned subsidiary of The Charles Schwab Corporation ("CSCorp"), a Delaware corporation that is publicly traded and listed on the NYSE (symbol: SCHW). In addition to being registered as an investment advisor under the Investment Advisers Act of 1940, Schwab is also registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of FINRA. We provide brokerage services to clients located throughout the United States and in some circumstances outside the United States. Incidental to our broker-dealer business, we offer our clients a variety of investment information services and products, including seminars, periodicals, reports, guides, planning tools, brochures and other publications about securities and investment techniques. We also provide certain online data and financial reporting services.

Schwab does not trade futures and is not a Futures Commission Merchant. However, for our customers that have a desire to trade futures, we have a referral relationship with a Schwab affiliate. Per the terms of the referral relationship, Schwab receives a portion of the commissions that Schwab clients pay that company.

Other wholly owned subsidiaries of CSCorp are engaged in investment advisory, brokerage, trust, custody, or banking services. As described above, SPCIA provides non-discretionary portfolio management to SPC accounts. The role of SPCIA and SPCIA Representatives in SPC is described in more detail in the SPCIA Disclosure Brochure.

CSIM provides advisory and administrative services to certain proprietary mutual funds marketed under the Schwab Funds® and Laudus Funds® names, which may be recommended to you as part of the SPC service. The potential conflicts created by this arrangement, and the steps taken by Schwab to address those conflicts are described in "Participation or Interest in Client Transactions."

CSIM also serves as one of the money managers in the Managed Account Connection™ ("Connection") and Managed Account Access® ("Access") wrap fee programs sponsored by Schwab on the MAS platform. Connection and Access client accounts are managed by CSIM or other money managers. In managing Connection and Access client accounts on a discretionary basis, CSIM uses Schwab Equity Ratings® research provided by Schwab as well as, among other things, CSIM's own specialized software models to screen stocks for potential inclusion or exclusion in client accounts.

Charles Schwab Investment Advisory, Inc. ("CSIA") is a registered investment advisor and an affiliate of Schwab that provides research and decision-making tools to Schwab for use by Schwab clients, including the *Mutual Fund OneSource Select List*®. CSIA personnel also act as portfolio managers for Schwab Managed Portfolios™ – Mutual Funds and Schwab Managed Portfolios – ETFs, which are wrap fee programs sponsored by Schwab that invest in mutual funds and exchange-traded funds, respectively.

Windhaven Investment Management, Inc. ("Windhaven™") is another affiliate of Schwab that provides services as a discretionary money manager in the Connection and Access wrap fee programs. Windhaven also provides discretionary investment advisory services to institutional clients outside of Schwab's wrap fee programs and to clients in programs maintained by other brokerage firms.

In addition, Schwab has several affiliates and/or units engaged in various aspects of the retirement plan business. Charles Schwab Trust Company ("CSTC"), a California-chartered trust company,

provides custodial and other trust services to Schwab customers and affiliates in relation to retirement plans, including but not limited to 401(k) plans. The Schwab Corporate & Retirement Services division provides custodial services and administrative and recordkeeping support to Schwab corporate customers and their employees in connection with retirement and stock option plans and the monitoring of trading in employee accounts.

Charles Schwab Bank ("Schwab Bank") is a subsidiary of CSCorp that offers deposit accounts and mortgage and home equity line of credit lending products to both Schwab brokerage clients and other clients who have no relationship with Schwab. SPC clients may be introduced to Schwab Bank products by SPC Representatives, who receive compensation for such introductions as described in "Compensation" beginning on page 4.

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

Code of Ethics

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

Participation or Interest in Client Transactions

In addition to the SPC Fee, Schwab and its affiliates (with the exception of SPCIA) earn money or receive benefits in other ways when executing or effecting recommendations that you may choose to implement as a result of advice you receive in SPC. In some cases, compensation is paid to Schwab by a third party, and these fees may be ultimately borne by you as a shareholder or investor. Financial Consultants may also receive compensation when you purchase one of the investments or products below after the Financial Consultant has recommended it or introduced you to it. Their compensation is described in "Compensation" beginning on page 4. The extra compensation earned by Schwab, or by a Financial Consultant, creates a potential conflict of interest. As described in the SPCIA Disclosure Brochure, SPCIA earns no such additional compensation.

The compensation received by Schwab and its affiliates and described below creates a potential conflict of interest when an SPC Representative recommends to you or discusses with you one of these securities or products as part of the SPC program. Schwab addresses these conflicts in a variety of ways, including

monitoring for compliance with the Code and establishing security- and product-specific advice policies and guidelines that SPC Representatives must follow when making recommendations. Recommendations made by SPC Representatives, including recommendations to enroll in SPC and to buy or sell securities within SPC, are supervised by SPC Representatives' direct managers and by a Central Supervision Team for compliance with Schwab's advice policies and guidelines.

Supervisors who oversee SPC Representatives review a variety of factors generally once per quarter, including, but not limited to, client suitability information, asset allocation data and internal notes to verify that both the SPC service itself and the security recommendations made within the service are suitable. Daily supervisory functions, including review of trading activity, portfolio construction, verbal, written and electronic client correspondence, money movement, product sales and referrals, and new account enrollments, are conducted by a Central Supervision Team.

SPCIA Representatives' activities are reviewed in a substantially similar manner as described above. Please see the SPCIA Disclosure Brochure for more detail on the supervision of SPCIA Representatives.

Equity, ETF and Option Trade Execution

Pursuant to an agreement between CSCorp and UBS Capital Markets, L.P. and UBS Securities LLC (collectively, "UBS"), UBS manages the execution of most types of equity, ETF, and options trade orders for which customers have not provided specific instructions, and order routing services for most types of directed orders.

Exchanges and broker-dealers frequently offer rebates for customer orders routed to them for execution. Although Schwab does not receive rebates or other payments from UBS, part of the consideration CSCorp received for the sale of its capital markets business to UBS in 2004 related to the services agreements with UBS and Schwab's commitments to route most types of equity, ETF, and listed options orders through UBS.

UBS routing and execution services are subject to Schwab's execution quality standards for seeking best execution. In certain circumstances, Schwab itself may route orders directly to a market for execution. Schwab considers a number of factors in evaluating execution quality, including execution price and opportunities for price improvement, market depth and order size, the trading characteristics of the security, the speed and accuracy of executions, the availability of efficient and reliable order handling systems, and service levels and the cost of executing orders at a particular market or firm. Price improvement occurs when an order is executed at a price more favorable than the displayed national best bid or offer, and may be available for stocks and ETFs traded on the exchanges and dealer markets and for listed options. Schwab regularly monitors the execution quality provided by UBS and the various markets to which UBS and Schwab may route orders, to ensure orders are routed to markets that have provided high-quality executions over time.

Under a separate agreement between UBS and Schwab, UBS makes available to Schwab shares in initial public offerings ("IPOs") and new issue secondary offerings that are lead-managed and underwritten by UBS. Schwab, in turn, makes these shares available to eligible clients who have subscribed to IPO access. To be eligible for IPO access, Schwab clients must meet an asset threshold in their Schwab accounts and must participate in certain Schwab client segments or services, including SPC. Schwab receives one-third of UBS's customary syndicate fee, or dealer concession, on sales of these new issues to Schwab clients.

Mutual Funds

When clients invest in a mutual fund in a Schwab account, Schwab receives compensation from mutual fund companies for the recordkeeping, shareholder services and other administrative services that Schwab provides to shareholders of the funds. These shareholder services include transaction processing, settlement of trades, dividend distribution, record maintenance, and distribution of statements, confirmations, prospectuses, and other regulatory shareholder documents. To the extent that any part of the fees described below are paid out of fund assets, those amounts are included in the fund's operating expense ratio ("OER"), which means they are indirectly borne by the fund's shareholders.

Schwab Mutual Fund OneSource® Service and Other No-Transaction-Fee Funds

Through Schwab Mutual Fund OneSource, Schwab offers a selection of no-load and load-waived mutual funds. Schwab receives remuneration for the shareholder services provided to these funds and other no-transaction-fee funds it makes available (collectively, "NTF funds").

To compensate Schwab for various shareholder services, NTF funds pay Schwab an asset-based annual fee, which usually equals 0.40% of the average fund assets held at Schwab but may be as high as 0.45%. The fee may be subject to a monthly minimum that generally does not exceed \$2,000 and applies beginning with the seventh full month after the fund is made available for purchase at Schwab. When adding a new fund to Schwab's NTF platform, NTF funds also pay Schwab a one-time establishment fee, which Schwab may waive. The amount of this fee generally does not exceed \$10,000 for the first fund added and \$1,000 for each new fund after that.

Transaction-Fee Funds ("Fee Funds")

Schwab charges a transaction fee (which is waived in SPC accounts) for the purchase or sale of certain funds that are not included in the Schwab Mutual Fund OneSource program.

Some Fee Funds pay Schwab an annual fee usually equal to \$20, but sometimes as high as \$30, per customer position, typically subject to a quarterly minimum of \$7,500 per fund. Rather than paying a per-customer account fee, some Fee Funds choose instead to pay Schwab an asset-based maintenance fee of up to 0.25% annually of the average assets held at Schwab.

When adding a new fund to Schwab's platform, Fee Funds also pay Schwab a one-time establishment fee, which Schwab may waive. The amount of this fee generally does not exceed \$10,000 for the first fund added and \$2,000 for each new fund after that.

Load Funds

When clients purchase or redeem shares of a load fund through Schwab, either a front-end or back-end sales charge (a "sales load") may be assessed.

Schwab will receive all or a portion of any front-end sales load that clients are charged on the purchase of fund shares, the amount of which is described in the prospectus.

Generally, Schwab does not allow the purchase of back-end load funds, but as an accommodation to its customers, will custody shares and process redemption transactions for shareholders. Schwab does not receive any portion of the sales charge in connection with the purchase or redemption of shares of back-end load funds, the amount of which is also set forth in the fund's prospectus.

Load funds also pay Schwab fees for shareholder services out of their distribution and/or servicing plans (Rule 12b-1 plans), the amounts of which are determined by the funds' boards of trustees and disclosed in their prospectuses. Shareholder service fees paid

to Schwab pursuant to a Rule 12b-1 plan are included in the fund's OER and are indirectly borne by the fund's shareholders.

Schwab may also receive from load funds, for additional account maintenance services, annual per-account fees typically referred to as networking or sub-accounting fees and most often equal to \$6.

Schwab Affiliate Funds

Schwab currently has two affiliated mutual fund families: Schwab Funds® and Laudus Funds® (collectively, "Schwab Affiliate Funds"). Schwab's affiliate, CSIM, serves as investment advisor to both fund families. These Schwab Affiliate Funds pay CSIM a fee for investment advisory services, the amount of which is described in the funds' prospectuses.

All Schwab Funds and Laudus Funds are part of Schwab's Mutual Fund OneSource® platform. Consequently, like unaffiliated Mutual Fund OneSource and NTF mutual funds, the Schwab Funds and Laudus Funds pay Schwab an asset-based fee for the shareholder services that Schwab provides.

Schwab Funds have adopted a shareholder servicing plan pursuant to which they may pay fees for shareholder services ranging from 0.02% to 0.25% annually on all funds except the Schwab Target Funds and Schwab® Monthly Income Funds. Also pursuant to this plan, some Schwab Money Market Funds may pay Schwab an additional 0.15% annually for administrative services Schwab provides to shareholders invested in Sweep and Premier Sweep Shares of the funds. Laudus Funds pay a fee ranging up to 0.40% annually for the shareholder services that Schwab provides, of which all or a portion may be paid from the funds' Distribution and Shareholder Service Plan (Rule 12b-1 plan). These fees are part of the funds' OER and are indirectly borne by the funds' shareholders.

In aggregate, the fees Schwab receives from Schwab Affiliate Funds are greater than the compensation Schwab receives from unaffiliated fund companies participating in the Schwab Mutual Fund OneSource service.

Sponsorship and Educational Opportunities

In addition to the fees described above, Schwab may earn additional compensation from certain mutual funds for the administrative services Schwab provides in connection with various marketing opportunities. The amount of such fees varies depending on the type and number of opportunities in which the fund participates.

Recommendations by SPC Representatives to purchase or sell mutual fund shares are subject to Schwab's mutual funds advice policies and guidelines, which state that "buy" recommendations are restricted to funds on one of Schwab's recommendable lists of funds. Although Schwab does not explicitly consider compensation in the selection of funds for any recommendable list, by design, the majority of mutual funds on the recommendable lists are no-load, no-transaction-fee funds that are part of the Schwab Mutual Fund OneSource Service, with some prominence given to Schwab Affiliate Funds. Schwab and its affiliates generally earn more money when clients purchase and hold OneSource and Schwab Affiliate Funds. SPCIA Representatives' mutual fund recommendations are subject to substantially similar advice policies and guidelines adopted by SPCIA.

Exchange-Traded Funds ("ETFs")

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

Fixed Income Securities

Schwab may act as agent or principal in executing trades in fixed income securities in client accounts. Acting as an agent means Schwab executes trades on behalf of clients but does not own the

securities being traded. Acting as principal means Schwab sells securities directly to clients, either by owning or acquiring at the time of the trade securities that sell on the secondary market or by participating in selling groups or entering into distribution agreements that allow us to acquire inventory of new-issue securities. Schwab does not act as both principal and agent simultaneously in the same transaction. When Schwab acts as agent in an SPC account, any commission is waived or otherwise covered by the SPC Fee. As noted above in “Services” beginning on page 1, starting on May 31, 2011, we will no longer trade as principal—acting only as agent—for fixed income trades in any IRA or other retirement account enrolled in SPC.

When we sell clients a fixed income security from our own account or purchase from clients a fixed income security into our own account, the price clients pay or receive reflects the bid-ask spread at which the order is executed. Likewise, when we sell you new-issue securities, Schwab receives a customary placement fee or selling concession for providing distribution and operational services, which ranges from less than 0.01% to 2% of the par value, or face amount, of the security, depending on the product. The percentage rate of the placement fee or selling concession may differ not only between different new-issue offerings, but also between different series and maturities within a single offering.

Schwab has entered into a fixed income dealer agreement with J.P. Morgan Securities LLC (“J.P. Morgan”) to purchase from J.P. Morgan, and sell to our clients acting as principal, certain new-issue fixed income securities from offerings in which J.P. Morgan acts as an underwriter or a selling group member. Pursuant to this agreement, Schwab receives a portion—and, in some cases, all—of the relevant selling concession. The percentage of the selling concession received by Schwab depends upon the type of offering, the type of security, and the underwriting syndicate’s arrangement with the issuer. Although Schwab’s aggregate compensation for a particular offering increases with the number of securities in the offering that Schwab sells to its clients, the portion of the selling concession Schwab receives in an offering does not vary based upon the number of securities sold to its clients. Schwab also makes available to its clients certain research on fixed income markets and the economy that is independently created and published by J.P. Morgan.

Structured Products

Schwab makes available to its clients various structured products, including principal-protected notes, structured certificates of deposit and buffered notes. Schwab receives a one-time dealer or sales concession, which is built into the purchase price, when clients buy a structured product. The amount of the concession typically ranges from approximately 1.0% to 3.5% of the par value, or face amount, depending on the structured product.

Schwab 529 College Savings Plan and Learning Quest® Education Savings Program

The Schwab 529 College Savings Plan and Schwab Learning Quest Education Savings Program are education investment programs administered by the State of Kansas pursuant to Section 529 of the Internal Revenue Code. These plans are managed by American Century Investment Management, Inc. (“American Century”). Schwab serves clients who invest in both the Schwab 529 Plan, which Schwab continues to make available, and the Schwab Learning Quest program, which Schwab no longer makes available to new clients.

The portfolios available under the Schwab 529 Plan are selected by American Century as the Program Manager and are based on asset allocation models devised by Schwab and composed of mutual funds selected by American Century. These funds must meet criteria set forth in an agreement between Schwab and

American Century. The portfolios include NTF funds and Schwab Affiliate Funds. Schwab receives a fee from American Century for providing services to Schwab clients invested in the Schwab 529 Plan based on total assets held in the Schwab 529 Plan, other than Schwab Affiliate Funds.

The Learning Quest program is composed of American Century Funds and Vanguard Funds selected by American Century as the Program Manager. Schwab receives a fee from American Century for providing services to Schwab clients invested in Learning Quest, which is based on the total assets held in the Schwab Learning Quest plan and the average account size.

Annuities

Schwab has annuity selling agreements in place with several insurance companies, which pay Schwab a commission for serving as the sales agent and for servicing the annuity contracts. The compensation paid to Schwab varies based upon the insurer and the type of annuity contract sold.

- **Variable Annuities:** Schwab’s compensation generally consists of an annualized “trail” commission, which is calculated and paid monthly or quarterly based on the average asset value of the annuity contracts. The maximum trail commission paid to Schwab is 0.60%.
- **Fixed Annuities:** Generally, Schwab’s compensation is based on a commission percentage of the initial purchase payment amount. The commission rate will vary based on the type of fixed annuity contract purchased. The maximum gross commission payable on a fixed deferred annuity is a 2.50% up-front commission. The typical gross commission payable on a fixed immediate annuity is a 4% up-front commission.

Life Insurance and Long-Term Care Insurance

Schwab has entered into a marketing agreement with SBIA, Inc. (“SBIA”) to offer term life insurance to Schwab customers. SBIA is a managing general agency that has selling agreements in place with several insurance companies. The insurance companies pay commissions directly to SBIA. SBIA pays Schwab a referral fee of 50% of the first-year commissions paid to SBIA, not to exceed 55% of the paid policy first-year premium. Schwab has also entered into an agreement with SBIA to offer long-term care insurance to Schwab clients. SBIA pays Schwab a referral fee of 50% of the first-year commissions paid to SBIA, not to exceed 27.5% of the paid policy first-year premium.

Personal Trading

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

SPC Representatives are prohibited from engaging in activities that violate federal or state securities laws, or rules and regulations of the exchanges or regulatory agencies. These prohibitions include: rules against frontrunning customer orders (i.e., when a Schwab representative buys or sells a security to possibly capitalize on advance knowledge of an imminent customer transaction that is expected to influence the market price, or passing such information to others for that purpose); so-called “shadowing” (i.e., to misuse confidential customer trade information for possible personal benefit); and purchasing shares in initial public offerings.

As described in the SPCIA Disclosure Brochure, SPCIA Representatives are subject to personal trading policies substantially similar to those described above.

Review of Accounts

As explained in “Services,” beginning on page 1, clients meet with their SPC Representatives approximately once per quarter (subject to client availability) for scheduled Portfolio reviews. These reviews are most often conducted by the Portfolio Consultant but may be conducted by other SPCIA Representatives. It is during, and in preparation for, these reviews that your SPC Representatives review the composition and performance of your Portfolio in light of your financial goals and situation.

As explained in “Services,” SPC clients also receive written quarterly reports showing the activity in their SPC Portfolios.

Client Referrals and Other Compensation


The SPC program does not rely upon client referrals from any non-Schwab entity or person. The compensation that Schwab and its affiliates receive in connection with recommendations made to SPC clients is described in “Participation or Interest in Client Transactions” beginning on page 9.

Voting Client Securities

As it does with non-SPC brokerage accounts, Schwab will send you proxy voting materials for securities held in your SPC accounts. Except as otherwise stated here, you (as the holder of the underlying brokerage accounts) have the authority to vote any proxies solicited for securities held in your SPC accounts. However, with respect to routine matters and consistent with applicable rules, if you choose not to vote proxies solicited for securities in your accounts, Schwab may (but is not obligated to) vote those securities as allotted by Schwab in proportion to actual votes cast by Schwab clients holding the same securities who did vote them. A copy of Schwab’s Proxy Voting Policies and Procedures, as well as information about how securities were voted for your SPC accounts, is available upon request.

Financial Information

Schwab does not require or solicit prepayment of the SPC Fee and is therefore not required to include a balance sheet for its most recent fiscal year. Schwab is not the subject of any financial condition that is reasonably likely to impair its ability to meet its contractual obligations to its clients. Schwab is not the subject of any bankruptcy petition, nor has it been the subject of any bankruptcy petition at any time during the past 10 years.

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