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Schwab Advisor Network® 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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Advisory Business

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

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

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

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

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

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

Participating Advisor Eligibility Criteria

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

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

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

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

3. Assets Under Management. An Advisor generally must have at least \$50 million in assets under management upon commencing participation in the Service. However, in certain geographic regions, Advisors participating in the Service may have less than \$50 million in assets under management upon commencing participation in the Service.

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

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

Participation in the Service is not open to any and all investment advisors that satisfy the eligibility criteria described above. As described in "Participation or Interest in Client Transactions" beginning on page 6, Schwab also considers its business relationship outside of the Service in deciding whether to admit particular advisors to the Service. We do not limit participation in the Service to Advisors with the best historical investment performance or client service levels among their peers.

Investment Performance

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

Termination

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

Advisors may terminate their participation in the Service at any time by giving us written notice. Similarly, we may terminate an Advisor's participation in the Service at any time, and we are not required to provide you notice that we have done so. Advisors will be required to continue to pay us the fees described in "Other Financial Industry Activities and Affiliations," beginning on page 5, in accordance with the terms of their agreements with us even after the termination of their agreements with Schwab.

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

Fees and Compensation

Fees

We will not charge you for the Service. However, as explained in "Other Financial Industry Activities and Affiliations," beginning on page 5, Advisors pay a fee to Schwab to participate in the Service, and Schwab receives additional compensation from trading activity in Schwab accounts managed by your Advisor.

You will pay fees to your Advisor in accordance with the terms and conditions agreed to by you and your Advisor. Advisory fees may vary according to several factors, including, but not limited to, the account

size, type and servicing requirements. Some Advisors charge Clients higher fees than they would charge other clients with similar portfolios who are not referred to them through the Service (a "Fee Differential"). Advisors have agreed that if they charge Clients a Fee Differential, they must disclose this fact to you in writing. Advisory fees may be negotiable with some Advisors. If you maintain a Schwab account for custody of your assets managed by an Advisor, you may authorize us to deduct the Advisor's advisory fee from your account, but you are not required to do so. The fees Advisors pay to Schwab to participate in the Service may give Advisors an incentive to encourage you to hold assets in custody at Schwab (or require you to do so as a condition to managing your account) and to authorize Schwab to deduct the advisory fee from your account.

Compensation

Financial Consultants are representatives who are compensated for successful referrals through the Service. Please note that 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 work out of Schwab Independent Branches are known as Independent Branch Leaders ("IBLs") or, if employed by such independent contractors, 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 Component" compensation 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 clients referred to Advisors through the Service. FCs receive more compensation depending on whether a client accepts certain recommendations made by the FC, including the recommendation to hire an Advisor after a referral through the Service.

Service Component 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 Fixed and Variable Deferred Annuities ¹ Margin Balances ²	0.0350% of assets
Fee-Based	Assets in accounts enrolled in Schwab Private Client™ ("SPC") or the Service where FC does not provide ongoing service	0.0350% of assets
	Assets in accounts enrolled in Windhaven Portfolios® Schwab Managed Portfolios™ Schwab Managed Account Select® or Schwab Managed Account Connection™	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 The Proxy Revenue for margin applies only to margin balances in a client's account greater than \$5,000 but not greater than 10% of a client's margin buying power.

FCs also receive so-called “Sales Component” compensation when clients—both within and outside their Practices—bring net new assets to Schwab, hire an Advisor referred through the Service or purchase certain securities or other products. For example, an FC’s Sales Component compensation for a successful Service referral (i.e., one that results in the client hiring the Advisor) 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 Component compensation that an FC earns from any one client.

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.

FCs who demonstrate exceptional performance during the year may also be eligible to earn an annual trip through the Chairman’s Club program.

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, 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 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 making a referral through the Service or successfully recommending that a client enroll in another product in the Advised Asset category.

IBL and IBS-FC Compensation

The assets in accounts assigned to IBLs are divided into two categories: (1) “Advised Assets,” meaning assets in accounts referred to an Advisor through the Service or enrolled in a fee-based investment advisory program like Schwab Private Client, Schwab Managed Portfolios™ or Schwab Managed Account Services™; 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 making a referral through the Service or successfully recommending that a client enroll in another product in the Advised Asset category.

After adding together the adjusted revenue figures for Advised 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.

Performance-Based Fees and Side-by-Side Management

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

Types of Clients

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

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

Methods of Analysis, Investment Strategies and Risk of Loss

Schwab does not recommend or effect securities transactions or investment strategies as part of the Service. As explained in “Advisory Business” beginning on page 1, Schwab seeks to refer clients to Advisors whose strategies match the clients’ particular goals, objectives and risk tolerance. Every investment strategy, including those involving the trading of securities, involves the risk of loss, which clients should be prepared to bear.

Disciplinary Information

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

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

2. 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.

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

4. In January 2011, Schwab and its affiliate, Charles Schwab Investment Management, Inc. (together, for purposes of this disclosure, "Schwab"), reached agreements with the SEC, FINRA, the Illinois Secretary of State, 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.

5. 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.

6. 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.

7. 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.

8. 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.

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

Schwab is also registered as an investment advisor under the Investment Advisers Act of 1940. In addition to the Service, Schwab provides other investment advisory services. The Schwab Private

Client™ service is a non-discretionary wrap fee program in which clients receive periodic, ongoing advice from a team of Schwab representatives. Other programs in which Schwab acts as a registered investment advisor include the Schwab Managed Portfolios™ ("SMP") and Schwab Managed Account Services™ ("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.

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 company not affiliated with Schwab. Per the terms of the referral relationship, Schwab receives a portion of the commissions that Schwab clients pay that company.

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

The Participation Fee is paid to Schwab for as long as you remain a Client of the Advisor and a Schwab Account remains open and is managed by the Advisor. The Participation Fee is calculated as a percentage of the value of the assets in the Schwab Accounts of the Client and any Household Members that are managed by the Advisor. That percentage is the quarterly equivalent of the following annual percentages of the following amounts of the average daily total assets in the Schwab Accounts during the quarter:

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

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

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

In some instances, Schwab may waive or reduce the Participation Fee or Non-Schwab Custody Fee or negotiate a different arrangement with a particular Advisor. For certain Advisors, negotiated Participation Fees and Non-Schwab Custody Fees may constitute a higher percentage of the advisory fee than the levels described above, but are payable for a shorter duration of time. In other cases, negotiated Participation Fees

and Non-Schwab Custody Fees may be based on, among other things, the total amount of custody or trading business placed by the Advisors' Clients with Schwab. In these cases, the fees will be set below the non-negotiated levels described above, if specified thresholds of custody and trading business are attained. Additionally, in some cases the fee may cease to be due after a period of time (rather than remaining payable for as long as a Schwab Account remains open).

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

The compensation received by Schwab from Advisors, both from within and outside of the Service, creates a potential conflict of interest for Schwab both when we select Advisors to participate in the Service and when we refer Clients like you to those Advisors. Schwab addresses these conflicts in several ways, including: (1) establishing the Service participation criteria described in "Advisory Business," and securing Advisors' agreement to adhere to those criteria before admission into the Service and on a yearly basis thereafter; (2) establishing a governance committee which, among its other duties, reviews and approves or rejects participation in the Service by advisors requesting exceptions to the participation criteria; and (3) conducting supervisory review of Service referrals for consistency with Schwab policies and guidelines relating to the Service.

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

Code of Ethics

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

Participation or Interest in Client Transactions

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

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

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

The compensation earned by Schwab from trades placed and securities held in Client accounts that are managed by Advisors contributes to the potential conflict of interest described in "Other Financial Industry Activities and Affiliations" beginning on page 5.

Personal Trading

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

Brokerage Practices

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

Review of Accounts

As explained in "Advisory Business" beginning on page 1, the Service terminates once a referral is made and does not include ongoing review of referred Clients, their accounts or their investments.

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

Client Referrals and Other Compensation

Schwab receives compensation from Advisors participating in the Service, as explained in "Other Financial Industry Activities and Affiliations" beginning on page 5.

Custody

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

Investment Discretion

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

Voting Client Securities

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

Financial Information

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