

**Item 1: Cover Page**

CHARLES SCHWAB INVESTMENT MANAGEMENT, INC.

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**This brochure provides information about the qualifications and business practices of Charles Schwab Investment Management, Inc. If you have any questions about the contents of this brochure, please contact us at 1-800-435-4000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Registration with the SEC does not imply a certain level of skill or training.**

**Additional information about Charles Schwab Investment Management, Inc. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2: Summary of Material Changes** (since March 31, 2011)

- **Item 4.** CSIM no longer offers or manages a fixed-income separately managed account strategy, and therefore, all discussions of this product have been removed from the brochure. There were further changes to Items 5, 8 and 12 to reflect the closure of this product.
- **Item 8.** CSIM has added discussion of additional risks and modified discussion of certain risks currently disclosed in the brochure where CSIM believes that additional disclosure would be beneficial to investors in the current market environment.
- **Item 9.** CSIM has updated the disciplinary disclosure for CSIM relating to the Schwab YieldPlus Fund and Total Bond Market Fund to reflect additional finalized details of the matter.

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## **Item 4: Advisory Business**

### General

Charles Schwab Investment Management, Inc., a Delaware corporation (“CSIM”), was founded in 1989 as a wholly-owned subsidiary of The Charles Schwab Corporation (“CSC”), a publicly held company.

Initially founded to serve as the investment adviser to the Schwab Money Funds, CSIM now provides advisory services to Schwab and other affiliated mutual funds, separately managed accounts participating in a wrap program, exchange-traded funds (“ETFs”), collective trust funds and one non-U.S. fund. As further described in Item 8, CSIM provides advice about a variety of investments, ranging from equity, fixed income to money market securities and also provides advice as to the selection of investment advisers and managed funds for certain clients.

As of December 31, 2011, CSIM managed approximately \$201,533,000,000 on a discretionary basis and approximately \$13,309,000,000 on a non-discretionary basis.

### Managed Account Programs

With respect to separately managed accounts, CSIM participates as a portfolio manager in two managed account programs: the Managed Account Connection<sup>TM</sup> program and the Managed Accounts Access<sup>TM</sup> program (collectively, the “Managed Account Programs”), sponsored by Charles Schwab & Co., Inc., an affiliate of CSIM (“Schwab”). CSIM provides investment advice with respect to four equity strategies that are currently available to new clients: Large Cap Core Strategy, Large Cap Growth Strategy, Small Cap Strategy and Dividend Equity Strategy.

As described further in Item 8, CSIM utilizes a quantitative model to manage equity strategy client accounts; however, clients may request, subject to CSIM’s acceptance, that a particular security or industry be excluded, due to factors such as a concentrated position elsewhere or socially responsible criteria. Clients can also request that a particular security be sold in order to harvest capital gains or losses.

The strategies that CSIM uses to manage client accounts in the Managed Account Programs may also be used to manage funds that Schwab advises. While CSIM advises certain funds utilizing Schwab Equity Ratings similar to the strategies available in the Managed Account Programs, CSIM may rebalance the funds’ holdings more frequently than those in the Managed Account Programs, which are generally rebalanced on a monthly basis. Certain funds have different comparative indices, which may result in a different universe of eligible securities. Furthermore, the funds are registered under the Investment Company Act of 1940, as amended (the “1940 Act”), and CSIM must manage them within the limitations set forth by the 1940 Act. For example, mutual funds may be subject to industry concentration limits or issuer diversification requirements under the 1940 Act and diversification requirements under the United States Internal Revenue

Code. By contrast an account managed for a Managed Account Program client may be significantly less diversified. As an investment adviser in the Managed Account Programs, CSIM receives a portion of the wrap fee that clients pay to Schwab for its services. Please see the disclosure brochure provided by Schwab for additional information about the wrap program.

#### Collective Trust Funds

CSIM provides non-discretionary investment management advice to Charles Schwab Bank (“CSB”), which is an affiliate of CSIM. CSB maintains and advises collective trust funds. CSIM makes recommendations to CSB on a non-discretionary basis relating to portfolio management, investment objectives and guidelines, asset allocation, sub-adviser selection, monitoring and termination, investing in underlying funds, broker selection and such other matters relating to the collective trust funds as CSB may request from time to time. As required by applicable law, CSB retains ultimate investment discretion over the funds and may follow or reject CSIM’s recommendations. CSIM tailors its recommendations to collective trust fund clients based on a fund’s specific investment objectives and investment strategies as set forth in its offering documents. A fund’s offering documents may also impose restrictions on investing in certain securities or types of securities. CSB may also impose additional investment guidelines relating to a specific fund.

#### Non-U.S. Fund

CSIM also provides discretionary investment advisory services to Charles Schwab Asset Management (Ireland) Limited (“CSAMI”), an Irish limited liability management company under common control with CSIM, with respect to certain non-U.S. investment vehicles managed by CSAMI. CSIM tailors its recommendations to the non-U.S. fund based on the fund’s specific investment objectives and investment strategies as set forth in its prospectus. The fund’s prospectus and applicable law may also impose restrictions on investing in certain securities or types of securities.

### **Item 5: Fees and Compensation**

As disclosed in Item 4, CSIM receives a fee from Schwab with respect to the advisory services CSIM provides as an adviser in the Managed Account Programs. Pursuant to an agreement between CSIM and Schwab, CSIM is entitled to receive an annual fee from Schwab, payable monthly, for assets managed under the Large Cap Core Strategy, Large Cap Growth Strategy and Dividend Equity Strategy equal to 0.45% of such assets not in excess of \$100 million, 0.40% of such assets over \$100 million but not in excess of \$250 million, and 0.35% of such assets over \$250 million. For assets managed under the Small Cap Equity Strategy, CSIM is entitled to receive an annual fee equal to 0.50% of such assets not in excess of \$100 million, and 0.40% of such assets over \$100 million. As discussed in Item 4, CSIM manages certain mutual funds utilizing Schwab Equity Ratings similar to the strategies available in the Managed Account Programs. The total

annual operating expenses for those funds will generally be less for an investor than the total Managed Account Program annual fee.

As described in further detail in Schwab's disclosure brochure, the program fee for participation in the Managed Account Programs that clients pay to Schwab covers CSIM's asset management services. The fee also covers trade executions for transactions in equity securities executed through Schwab as agent. The program fee also does not cover certain costs or charges imposed by third parties, including odd-lot differentials, American Depositary Receipt fees, exchange fees and transfer taxes mandated by law. Cash balances in Managed Account Connection are swept into a money market fund managed by CSIM. The program fee does not cover the expenses associated with an investment in the money market fund; however, certain fees to which CSIM would be entitled as the investment manager to the money funds may be rebated to certain clients to comply with the requirements of the Employee Retirement Income Security Act of 1974. CSIM does not provide any tax advice to any Managed Account Program clients.

Pursuant to an agreement between CSIM and CSB, CSIM is entitled to receive a fee from CSB based on the costs incurred by CSIM to provide the services, utilizing a cost allocation methodology agreed upon between CSIM and CSB. The fee is payable monthly to CSIM. Collective trust funds will incur custodian fees, brokerage fees and other transaction costs in connection with purchasing or selling securities recommended by CSIM and may also incur underlying fund expenses. CSIM's fees do not cover the costs of operating the funds in general, such as legal fees, audit expenses, and directors' fees. Pursuant to an agreement between CSIM and CSAMI, CSIM is entitled to receive a fee based on basis points of the assets under management for the non-U.S. fund. The non-U.S. fund will incur similar costs in connection with purchasing or selling securities and similar operating costs.

CSIM does not enter into agreements directly with Managed Account Program clients, collective trust funds or the non-U.S. fund and accordingly does not receive direct compensation from, or negotiate fees with, them.

For additional information relating to CSIM's brokerage practices, please see Item 12 below.

#### **Item 6: Performance-Based Fees and Side-by-Side Management**

Not applicable.

#### **Item 7: Types of Clients**

CSIM generally provides investment advice to individuals, non-profit organizations, pooled investment funds such as registered investment companies and non-U.S. funds, to trustees of collective trust funds, pension and profit sharing plans, retirement plans and business entities such as trusts, corporations and partnerships.

Managed Account Program clients must have a minimum account size of \$100,000 to participate in a CSIM managed equity strategy. This minimum is set by Schwab and not subject to waiver by CSIM.

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

In managing discretionary client accounts and providing recommendations to non-discretionary clients, CSIM uses various different investment strategies and methods of analysis, as described below. This Item also contains a discussion of the primary risks associated with these investment strategies, although it is not possible to identify all of the risks associated with investing and the particular risks applicable to a client account will depend on the nature of the account, its investment strategy or strategies and the types of securities held. Please refer to the applicable prospectus or other offering documents for a more detailed discussion of strategies and risks involved with your particular account.

While CSIM seeks to manage accounts so that risks are appropriate to the return potential for the strategy, it is often not possible or desirable to fully mitigate risks. Any investment includes the risk of loss and there can be no guarantee that a particular level of return will be achieved. Clients should understand that they could lose some or all of their investment and should be prepared to bear the risk of such potential losses.

Clients should be aware that while CSIM does not limit its advice to particular types of investments, mandates may be limited to certain types of securities (e.g., equities) or to the recommendation of investment advisers or managed funds and may not be diversified. The accounts managed by CSIM are generally not intended to provide a complete investment program for a client or investor and, except with respect to pooled investment vehicles, CSIM expects that the assets it manages do not represent all of the client's assets. Clients are responsible for appropriately diversifying their assets to guard against the risk of loss.

### Methods of Analysis and Investment Strategies

#### *Managed Account Equity Strategies*

For its Managed Account Program clients, CSIM uses Schwab Equity Ratings®—Schwab's proprietary stock research methodology—and portfolio optimization techniques to construct a portfolio that seeks to provide diversification and capture performance while managing risk. Schwab Equity Ratings represent Schwab's point-of-view on the 12-month performance outlook for approximately 3,000 of the largest (by market capitalization) stocks of issuers headquartered or incorporated in the U.S. and in certain foreign nations where companies typically locate or incorporate for operational or tax reasons. Stocks are rated using a scale of "A," "B," "C," "D" and "F." Schwab's outlook is that "A" rated stocks, on average, will strongly outperform and "F" rated stocks, on average, will strongly underperform the equities market over the next 12 months. Schwab Equity Ratings are also available to Schwab brokerage account clients.

Utilizing the quantitative model described above, CSIM first identifies a universe of stocks based on the market capitalizations required by a particular strategy. Applying Schwab Equity Ratings, CSIM then typically purchases stocks rated A and B by Schwab Equity Ratings; however, lower-rated stocks may be purchased or held (in the event of a downgrade), in CSIM's discretion. Unrated stocks may also be held, at CSIM's discretion, in the event a previously rated stock becomes unrated. CSIM also takes into consideration other factors, such as sector and industry weightings, liquidity and turnover, seeking to construct a portfolio that it believes is appropriately diversified within the asset class represented by the strategy although, as discussed above, accounts may not be diversified across asset classes. CSIM continues to monitor and adjust the model portfolio while seeking to capture performance and manage overall risk. The model portfolio is generally rebalanced on approximately a monthly basis, which results in securities being bought or sold across all Managed Account Program client accounts.

### *Collective Trust Funds*

CSIM provides non-discretionary investment advice to CSB with respect to collective trust funds that encompass a number of distinct investment strategies that are governed by the funds' offering documents. Such assistance includes periodic evaluation of the performance of third party sub-advisers to the collective trust funds, evaluation of compliance by the sub-advisers with any relevant policies and procedures, including best execution and other broker practices, and recommendations to select or terminate sub-advisers, as appropriate. When providing advice about the selection, monitoring and removal of sub-advisers to CSB, CSIM considers both qualitative and quantitative factors. Quantitative statistics considered include, but are not limited to, risk adjusted results over multiple time periods relative to peer groups and benchmarks, and return patterns in rising and falling markets. The qualitative review includes, but is not limited to, strategy philosophy & process, investment team, firm, institutional experience, portfolio characteristics, and fit with other sub-advisers in a portfolio context.

### *Non-U.S. Fund*

In choosing securities for Schwab U.S. Dollar Liquid Assets Fund, CSIM seeks to maximize current income within the limit of the fund's investment objective, credit, maturity, liquidity and diversification policies. CSIM's credit research department analyzes and monitors the securities that the fund owns or is considering buying. CSIM may adjust the fund's holdings or its average maturity based on actual or anticipated changes in interest rates or credit quality.

### Material Risks

#### *Risks Applicable to Equity and Fixed Income Investments*

- *Investment Risk.* Investments in securities are neither a bank deposit nor insured or guaranteed by the Federal Deposit Insurance Corporation or any other



government agency. Investing in securities is subject to a number of risks, any of which could cause a client to lose money and clients should be prepared to bear the risk of such loss.

- *Management Risk.* CSIM applies its own investment techniques and risk analyses in making investment decisions or recommendations for its clients, but there can be no guarantee that they will produce the desired results. In addition, there is no guarantee that a strategy based on historical information will produce the desired results in the future and, if market dynamics change, the effectiveness of the strategy may be limited.
- *Market Risk.* Equity and bond markets rise and fall daily. The performance of client investments are, to varying degrees, tied to these markets. When markets fall, the value of a client's investments will fluctuate, which means you could lose money.
- *Asset Allocation Risk.* Asset allocation risk is the risk that the allocation of a client's assets among the various asset classes and market segments will cause the client's account to underperform other accounts with a similar investment objective but different allocations.
- *Liquidity Risk.* A particular investment may be difficult to purchase or sell or may become difficult to sell after being purchased for a client account. CSIM may be unable to sell illiquid securities on behalf of a client at an advantageous time or price.
- *Frequent Trading Risk.* CSIM's equity strategies in the Managed Account Programs may result in a client's account buying and selling portfolio securities actively as accounts are rebalanced on a periodic basis. Similarly, CSIM's recommendations to CSB may result in frequent trading by a collective trust fund, depending on the particular fund's investment objective. To the extent a client account or fund engages in frequent trading, its portfolio turnover rate and transaction costs will rise, which may lower performance and may have tax consequences unless the securities are held in a tax-exempt account.
- *Foreign Securities Risk.* Investments in securities of foreign issuers may involve certain risks that are greater than those associated with investments in securities of U.S. issuers. These include risks of adverse changes in foreign economic, political, regulatory and other conditions; changes in currency exchange rates or exchange control regulations (including limitations on currency movements and exchanges); differing accounting, auditing, financial reporting and legal standards and practices; differing securities market structures; and higher transaction costs. These risks may be heightened in connection with investments in emerging markets.

### *Equity Securities Investment Risks*

- *Equity Risk.* The prices of equity securities rise and fall daily. These price movements may result from factors affecting individual companies, industries or the securities market as a whole. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments. The prices of securities issued by such companies may suffer a decline in response. In addition, the equity market tends to move in cycles, which may cause stock prices to fall over short or extended periods of time.
- *Schwab Equity Ratings.* The quality of Schwab Equity Ratings depends on the accuracy of the financial data provided by third parties, including the companies rated through the approach. Any stock selection discipline has its limitations. Given that systematic stock selection approaches cannot capture all of the dynamics that affect individual stock returns, Schwab Equity Ratings may not capture more-subjective, qualitative influences on return and risk such as management changes and pending lawsuits. Furthermore, the ratings may not reflect the possible impact of late-breaking news. The portfolio optimization process used by CSIM for its Managed Account Program clients to assist in constructing a client's portfolio does not assure successful investment. Securities selected with the assistance of the process may be negatively impacted by factors or events not foreseen in developing the process. As a result, you may have a lower return than if your account were managed using another process or strategy.
- *Large- and Mid-Cap Risk.* Both large- and mid-cap stocks tend to go in and out of favor based on market and economic conditions. However, stocks of mid-cap companies tend to be more volatile than those of large-cap companies because mid-cap companies tend to be more susceptible to adverse business or economic events than larger more established companies. During a period when large- and mid-cap U.S. stocks fall behind other types of investments—small-cap stocks, for instance—the fund's large- and mid-cap holdings could reduce performance.
- *Small-Cap Risk.* Historically, small-cap stocks have been riskier than large- and mid-cap stocks. Stock prices of smaller companies may be based in substantial part on future expectations rather than current achievements and may move sharply, especially during market upturns and downturns. Small-cap companies themselves may be more vulnerable to adverse business or economic events than larger, more established companies. During a period when small-cap stocks fall behind other types of investments —large-cap stocks, for instance—a client's small-cap holdings could reduce performance.

### *Fixed Income Investment Risks*

- *Interest Rate Risk.* Interest rates rise and fall over time. Fixed income securities may be paid off earlier or later than expected. Either situation could cause a client's account to hold securities paying lower-than-market rates of interest,

which could hurt the account's value. Below investment-grade bonds (junk bonds) involve greater credit risk, are more volatile, involve greater risk of price declines and may be more susceptible to economic downturns than investment-grade securities.

- *Credit Risk.* A decline in the credit quality of a portfolio investment could cause a client's account to lose money or underperform. A client could lose money if the issuer or guarantor of a portfolio investment fails to make timely principal or interest payments or otherwise honor its obligations. The negative perceptions of an issuer's ability to make such payments could also cause the price of that investment to decline. The credit quality of a portfolio holding can change rapidly in certain market environments and any default on the part of a single portfolio investment could have a negative impact on the value of a client's account.
- *Government Securities Risk.* Many U.S. government securities are not backed by the full faith and credit of the United States government, which means they are neither issued nor guaranteed by the U.S. Treasury. Issuers of securities such as Fannie Mae, Freddie Mac and the Federal Home Loan Banks (FHLB) maintain limited lines of credit with the U.S. Treasury. Other securities, such as obligations issued by the Federal Farm Credit Banks Funding Corporation (FFCB), are supported solely by the credit of the issuer. There can be no assurance that the U.S. government will provide financial support to securities of its agencies and instrumentalities if it is not obligated to do so under law. On September 7, 2008, the U.S. Treasury announced a federal takeover of Fannie Mae and Freddie Mac, placing the two federal instrumentalities in conservatorship. The actions of the U.S. Treasury are intended to ensure that Fannie Mae and Freddie Mac maintain a positive net worth and meet their financial obligations, preventing mandatory triggering of receivership. No assurance can be given that the U.S. Treasury initiatives will be successful.
- *Prepayment and Extension Risk.* An investment in debt securities is subject to the risk that the securities may be paid off earlier or later than expected. Either situation could cause you to hold securities paying lower-than-market rates of interest, which could hurt an account's yield. In addition, rising interest rates tend to extend the duration of certain fixed income securities, making them more sensitive to changes in interest rates. As a result, in a period of rising interest rates, your account may exhibit additional volatility. This is known as extension risk. When interest rates decline, borrowers may pay off their fixed income securities sooner than expected. This can reduce the returns of an account because the account will have to reinvest that money at the lower prevailing interest rates. This is known as prepayment risk.
- *Foreign Investment Risk.* Investments in securities of foreign issuers or securities with credit or liquidity enhancements provided by foreign entities may involve certain risks that are greater than those associated with investments in securities of U.S. issuers or securities with credit or liquidity enhancements provided by U.S.

entities. These include risks of adverse changes in foreign economic, political, regulatory and other conditions; differing accounting, auditing, financial reporting and legal standards and practices; differing securities market structures; and higher transaction costs. In addition, sovereign risk, or the risk that a government may become unwilling or unable to meet its loan obligations or guarantees, could increase the credit risk of financial institutions connected to that particular country.

## **Item 9: Disciplinary Information**

Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. and/or Schwab Investments (together, “Schwab” for this Item 9 only) reached agreements with the United States Securities and Exchange Commission (“SEC”), the Financial Industry Regulatory Authority (“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 “Yield Plus Fund”) and/or Schwab Total Bond Market Fund (the “Bond 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 Funds from 2005 through 2008. In particular, the SEC found that Schwab: (1) deviated from the Funds’ concentration policy with respect to investments in non-agency mortgage-backed securities, without shareholder approval; (2) made materially misleading statements and omissions about the Yield Plus Fund and its associated risks before and during the decline of its net asset value (“NAV”); (3) materially understated the Yield Plus Fund’s weighted average maturity (“WAM”) in certain instances; (4) willfully aided and abetted misstatements and omissions appearing in Yield Plus Fund sales materials and other documents; and (5) lacked policies and procedures reasonably designed to prevent the misuse of material nonpublic information about the Yield Plus Fund. Without admitting or denying these allegations, Schwab agreed to pay a total of approximately \$118,944,996 in disgorgement of fees, penalties and interest. As part of the settlement with the SEC, Schwab will also take a number of actions to improve its policies and procedures regarding, among other things, the protection of non-public information related Schwab’s mutual funds. Schwab retained an independent consultant to conduct a comprehensive review of Schwab’s policies, practices and procedures, including those related to material nonpublic information by or related to Schwab’s mutual funds. The SEC settlement was approved by the U.S. District Court for the Northern District of California on February 16, 2011. Additionally, the SEC brought related complaints against two former employees of Schwab. The SEC has reached settlement with one former employee and the matter relating to the other employee remains open.

The amount paid by Schwab pursuant to the SEC settlement includes approximately \$18,000,000 paid by Schwab in settlement of the FINRA matter in which FINRA made related factual allegations against Schwab and found that Schwab’s conduct violated

FINRA's just and equitable principles of trade and its rules pertaining to communications with the public and supervision.

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

Schwab also agreed to pay an amount not to exceed \$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. The amounts paid to Connecticut were included in the settlement with the SEC.

Schwab and certain affiliated entities and individuals (the "Schwab Parties") were named as defendants in a number of Yield Plus 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 Yield Plus 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 \$200,000,000 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.

#### **Item 10: Other Financial Industry Activities and Affiliations**

*Charles Schwab & Co., Inc.*

CSIM is under common control with Schwab, which is both a registered broker-dealer and a registered investment adviser. Schwab serves as the principal underwriter for certain mutual funds managed by CSIM but does not receive any compensation in that capacity. However, Schwab may receive recordkeeping, shareholder servicing and other administrative servicing fees from the funds.

In addition, as described in Items 4 and 5 above, Schwab is the sponsor of the Managed Account Programs for which CSIM serves as an investment adviser and CSIM receives fees from Schwab for its services. CSIM uses Schwab to execute all brokerage transactions in equity securities for its Managed Account Program clients. Schwab effects these transactions on an agency basis and generally routes orders for equity

securities to another broker-dealer that is not affiliated with Schwab or CSIM. CSIM pays Schwab an annual fee to obtain the Schwab Equity Ratings used in its management of the equity strategies in the Managed Account Programs and for certain mutual funds. If the Schwab Equity Ratings were no longer available, CSIM would need to significantly alter its methods of analysis for these accounts.

Schwab, which is also an insurance agency, offers certain funds managed by CSIM as part of its insurance product offerings. Schwab receives compensation from CSIM for providing certain administrative services related to such insurance products.

Finally, CSIM also pays Schwab for the services of certain employees and for the facilities and equipment necessary to enable it to provide advisory services to clients.

Investment advisers recommended or selected by CSIM to act as sub-advisers for funds advised by CSIM, or investment advisers of funds in which the fund-of-funds that CSIM advises invest, may have a business relationship with Schwab whereby Schwab has agreed to make funds advised by such advisers available on its Schwab OneSource platform in exchange for an asset based annual fee. CSIM does not take into consideration whether an adviser participates in Schwab's OneSource platform when making its recommendations or selections. Schwab also offers certain funds advised by CSIM on its Schwab OneSource platform.

#### *Charles Schwab, Hong Kong, Ltd.*

Charles Schwab, Hong Kong, Ltd. has been appointed the Hong Kong representative of CSAMI and is authorized by CSAMI to receive requests from Hong Kong investors for subscriptions, redemptions and exchange of shares of the non-U.S. funds advised by CSIM. Charles Schwab, Hong Kong, Ltd. is a registered securities dealer that is regulated by the Hong Kong securities and futures commission.

#### *Pooled Investment Vehicles*

CSIM provides investment advice to a number of registered investment companies, including mutual funds and exchange traded funds, and non-U.S. funds and may be deemed to control such funds, although CSIM disclaims any control relationship. CSIM also makes recommendations in connection with the management of certain collective trust funds although CSB retains ultimate investment discretion over the funds.

#### *Charles Schwab Investment Advisory, Inc.*

CSIM is under common control with Charles Schwab Investment Advisory, Inc., a registered investment adviser ("CSIA"). CSIA participates as a portfolio manager in Schwab Managed Portfolios, a managed account program sponsored by Schwab. Pursuant to program parameters established by Schwab, CSIA establishes investment guidelines to create and manage portfolios of mutual funds and exchange traded funds in several strategies. The model portfolios in this program include funds managed by

CSIM, for which CSIM receives investment advisory fees. Schwab, CSIM's affiliate, has a financial interest in the funds because it or its affiliates receive advisory and recordkeeping, shareholder servicing and other administrative servicing fees from the funds. Schwab also receives fees from third party funds (or their affiliates) in the model portfolios for record keeping, shareholder services, and other administrative services. The aggregate fees Schwab or its affiliates receive from the funds may be greater than the fees Schwab receives from third party funds. In connection with the Schwab Managed Portfolios program, CSIM provides Schwab and CSIA with composite performance reporting data resources and support, for which CSIM is paid a fee. CSIM pays CSIA an annual fee to obtain CSIA's asset allocation models which are used in the management of certain mutual funds.

*Windhaven Investment Management, Inc.*

CSIM is under common control with Windhaven Investment Management, Inc., a registered investment adviser ("Windhaven"). Windhaven manages portfolios comprised primarily of exchange-traded funds that are available as part of Schwab's Managed Account Access wrap program. Further, Windhaven serves as an investment subadviser to certain collective trust funds maintained by CSB and monitored by CSIM.

*Charles Schwab Bank*

CSIM is under common control with CSB. As described above, CSIM provides investment advice to CSB pursuant to an agreement between CSIM and CSB with respect to collective trust funds maintained and advised by CSB. CSB, however, retains the authority to accept or reject CSIM's recommendations. In addition, CSIM provides administrative services to, and receives compensation from, CSB. CSB provides custodial and other trust services to certain of Schwab's customers and affiliates. CSB also makes certain mutual funds advised by CSIM available on its pension platforms.

*Charles Schwab Asset Management (Ireland) Limited*

As disclosed above, CSIM provides investment advisory services to, and receives compensation from CSAMI with respect to certain non-U.S. investment vehicles managed by CSAMI.

**Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Code of Ethics

*General*

CSIM has adopted a code of ethics (the "Code") pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended from time to time. The Code sets forth

standards of business conduct that reflect CSIM's fiduciary obligations to its clients and requires CSIM employees to comply with all applicable laws, rules and regulations and promptly report any violation of the Code to a supervisor or CSIM's Chief Compliance Officer. The Code also requires CSIM's officers, directors, employees, contractors and any person who is determined to have access to nonpublic information regarding any client ("access persons") to (i) report, and CSIM to review, personal securities transactions and securities holdings periodically, (ii) pre-clear transactions in covered securities, and (iii) confirm compliance with the provisions of the Code on a periodic basis. Covered securities do not include shares of registered non-affiliated open-end mutual funds, shares of non-affiliated unit investment trusts that invest exclusively in non-affiliated registered open-end investment companies, direct obligations of the U.S. government, high quality short term debt instruments and affiliated money market funds. The Code may be changed as necessary to remain current with regulatory requirements and internal policies and procedures.

#### *Material Non-Public Information*

The Code prohibits employees from disclosing portfolio transactions or any other non-public information to anyone outside of CSIM, except as required to effect securities transactions for clients, and from using the information for personal profit or to cause others to profit. Employees are also prohibited from engaging in deceptive conduct in connection with the purchase or sale of securities for client accounts.

#### *Gifts and Business Entertainment*

CSIM employees may not give or accept gifts or business entertainment that create a conflict of interest or the appearance of impropriety, and are prohibited from accepting gifts and business entertainment from CSIM clients and vendors of more than a *de minimis* value.

A client or prospective client may obtain a copy of CSIM's Code without charge by calling CSIM at (720)785-8453.

#### Participation or Interest in Client Transactions

CSIM or Schwab may recommend that a client purchase securities of CSC, the parent company of both CSIM and Schwab. Certain funds managed by CSIM may purchase securities in an underwriting in which Schwab participates, to the extent consistent with the 1940 Act and the rules and regulations thereunder. Schwab, as an insurance agency, may offer to advisory clients of CSIM insurance products that offer funds managed by CSIM as part of the insurance product offerings.

Certain mutual fund clients to which CSIM provides investment advice are fund-of-funds. CSIM may recommend that these funds allocate a portion of their portfolios to other funds advised by CSIM for which CSIM receives investment advisory fees. CSIM has policies and procedures in place to establish appropriate controls to identify, and to limit use and distribution of, confidential information about the firm, its businesses and



its clients. CSIM does not receive investment management fees from many of the registered fund-of-funds that it manages. For those fund-of-funds that do pay CSIM an investment management fee, the Board of Trustees of such fund meets annually to determine that the amount of the fee is appropriate given the services provided by CSIM. Similarly, CSIM may recommend that certain collective trust funds advised by CSB invest in other collective trust funds advised by CSB.

### Personal Trading

Schwab, a related person of CSIM, is a registered broker/dealer that effects securities transactions for its brokerage customers. Schwab may act as a principal or agent in these transactions. Pursuant to agreements between Schwab and clients participating in the Managed Account Programs, Schwab may effect equity securities transactions for such clients but will only do so on an agency basis. Compensation Schwab receives from Managed Account Program clients is the wrap fee the clients pay to participate in the program. In the normal course of the conduct of its business as a broker/dealer, Schwab may enter into purchase and sale transactions in securities that CSIM has recommended to its clients.

CSC, Schwab and CSB may invest for the benefit of their own accounts in the same securities that CSIM recommends to its clients. These affiliates may buy or sell securities at the same time that CSIM clients are buying or selling the same security and may take positions that are the same or contrary to one that CSIM has recommended. In addition, directors, officers and employees of CSIM may buy or sell for themselves (through personal accounts or through accounts of which they are direct or indirect beneficiaries) securities that are also recommended to, or purchased or sold on behalf of, clients.

CSIM and its affiliates have established policies and procedures designed to prevent the exchange of information between employees at each organization relating to securities holdings and possible trades. Additionally, the personal securities transactions of CSIM's access persons are subject to the Code, which is designed to detect and mitigate or prevent conflicts of interest and unlawful practices that may arise in connection with an access person's personal securities transactions. For example, as described above, the Code requires periodic reporting and review of personal securities transactions and securities holdings. Furthermore, the Code requires certain access persons to obtain prior approval from CSIM compliance prior to engaging in a securities transaction except for certain types of transactions deemed not to present conflicts of interest with CSIM's advisory activities on behalf of its clients ("Exempted Transactions"), such as purchases pursuant to an automatic investment plan. Access persons are restricted from executing personal transactions in securities, except for Exempted Transactions, when they know or should have known at the time that there is a pending "buy" or "sell" order in the same security for any client account. Portfolio managers and credit analysts are subject to a blackout period of 7 calendar days for both when a security is expected to be traded on behalf of a client account and after a security has been traded on behalf of a client. In addition, certain access persons are prohibited from realizing a profit from purchasing

and selling, or selling and purchasing, the same security on a short term basis. All access persons are also restricted from executing a personal transaction in securities when the access person has material non-public information regarding the security or issuer, regardless of whether the access person has received preclearance.

## **Item 12: Brokerage Practices**

### Selecting or Recommending Broker-Dealers

With the exception of the assets under the management of sub-advisers, CSIM is responsible for selecting brokers or dealers to execute transactions for client accounts. Brokerage for the portion of the funds' assets under the management of a particular sub-adviser is allocated by that sub-adviser, subject to the oversight of CSIM. CSIM provides assistance to CSB with respect to policies and procedures relating to the selection and monitoring of collective trust fund brokers; however, the sub-advisers to the collective trust funds make the actual broker recommendation to CSB with respect to any particular transaction. With respect to its Managed Account Program clients, clients direct CSIM to only use Schwab to execute transactions in equity securities. Schwab generally routes orders for equity securities in the Managed Account Programs to another broker-dealer that is not affiliated with Schwab or CSIM.

CSIM seeks to obtain best execution for its clients' portfolio transactions. CSIM considers commission rates along with a number of factors relating to the quality of execution. Considered factors may cover the full range and quality of a broker's service, including, without limitation, value provided, execution capability, commission rate, financial responsibility and responsiveness to CSIM. CSIM may also consider brokerage and research services provided by the broker. CSIM does not take into consideration fund sales when selecting a broker to effect a portfolio transaction; however, CSIM may execute through brokers that sell shares of funds advised by CSIM.

CSIM generally will not enter into soft-dollar arrangements with brokers to obtain third-party research or other services in exchange for brokerage commissions paid by advised accounts. However, CSIM does receive various forms of eligible proprietary research that is bundled with brokerage services at no additional cost from certain of the brokers with whom CSIM executes equity or fixed income trades. These services or products may include: company financial data and economic data (e.g., unemployment, inflation rates and GDP figures), stock quotes, last sale prices and trading volumes, research reports analyzing the performance of a particular company or stock, access to websites that contain data about various securities markets, narrowly distributed trade magazines or technical journals covering specific industries, products, or issuers, seminars or conferences registration fees which provide substantive content relating to eligible research, discussions with research analysts or meetings with corporate executives which provide a means of obtaining oral advice on securities, markets or particular issuers, short-term custody related to effecting particular transactions and clearance and settlement of those trades, lines between the broker-dealer and order management systems operated by a third party vendor, dedicated lines between the broker-dealer and

CSIM's order management system, dedicated lines providing direct dial-up service between CSIM and the trading desk at the broker-dealer, and message services used to transmit orders to broker-dealers for execution.

CSIM does not currently cause a client to pay a higher commission in return for brokerage or research services or products to obtain research or other products or services. If CSIM elected to do so, CSIM would receive a benefit because it would not have to produce or pay for the research, products or services. Consequently, this would create an incentive for CSIM to select or recommend a broker-dealer based on its interest in receiving the research or other products or services.

CSIM may purchase for clients new issues of securities in a fixed price offering. In these situations, the seller may be a member of the selling group that will, in addition to selling securities, provide CSIM with research services, in accordance with applicable rules and regulations permitting these types of arrangements.

CSIM may place orders directly with electronic communications networks or other alternative trading systems. Placing orders with electronic communications networks or other alternative trading systems may enable clients to trade directly with other institutional holders. At times, this may allow clients to trade larger blocks than would be possible trading through a single market maker.

CSIM has established a Trade Management Policy Oversight Committee ("TMPOC") and operational guidelines for Best Execution and for Soft Dollars. In the event CSIM decided to change its current practice, the guidelines require CSIM portfolio management obtain ratification from the TMPOC of any arrangement with a broker to obtain a research product or brokerage services. During its last fiscal year, CSIM did not direct any client transactions to a particular broker-dealer in return for soft dollar benefits but, as noted above, may have executed through "full service" broker dealers at a rate higher than might otherwise be available.

In determining when and to what extent to use Schwab or any other affiliated broker-dealer as a broker for executing orders for funds, CSIM follows procedures, adopted by the funds' Board of Trustees, that are designed to assure that affiliated brokerage commissions (if relevant) are reasonable and fair in comparison to unaffiliated brokerage commissions for comparable transactions.

#### Directed Brokerage

Clients with separate accounts under the Managed Account Programs agree in their account agreements with Schwab that all brokerage transactions for equity securities will be executed by Schwab. As a result, a client may not always obtain as favorable a price or execution as might have been available through another broker-dealer. Not all investment advisers require their clients to direct brokerage. Because Schwab receives a portion of the wrap fee for its brokerage and other services in the Managed Account Programs, CSIM and its affiliates may make more money than if CSIM provided its investment advisory services outside of the Managed Account Programs. Clients should

consider that, depending upon the level of the wrap fee charged by Schwab, the amount of portfolio activity in the client's account, the value of custodial and other services provided by Schwab, the wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately and if CSIM negotiated commissions and sought best price and execution on a transaction by transaction basis.

#### Aggregation and Allocation of Securities Transactions

In certain market circumstances, CSIM may determine that its clients, which include registered investment companies and other advisory clients, are best served by placing one order on behalf of several of them. CSIM will not aggregate transactions if it determines that to do so (i) would be unfair or inequitable in the circumstances; (ii) is impractical; or (iii) is otherwise inappropriate in the circumstances. For Managed Account Program clients, CSIM will only block equity orders with equity orders for other clients in the Managed Account Programs and will not block such orders with clients outside of these programs. Clients may pay higher brokerage costs or otherwise receive less favorable prices or execution if CSIM does not aggregate trades when it has an opportunity to do so.

CSIM's aggregation and allocation guidelines are intended to ensure that trade allocations are timely, that no set of trade allocations is accomplished to unfairly advantage or disadvantage particular clients or types of clients and that, over time, client accounts are treated fairly and equitably, even though a specific trade may have the effect of benefiting one account against another when viewed in isolation. In connection with the aggregation of purchase and sale orders for two or more client accounts, the following requirements must be met:

- (1) CSIM shall not receive additional compensation or remuneration of any kind as a result of aggregating transactions for clients.
- (2) CSIM, for each client, must determine that the purchase or sale of each particular security involved is appropriate for the client and consistent with its investment objectives and its investment guidelines or restrictions.
- (3) Each client that participates in a block trade will participate at the average security price with all transaction costs shared on a pro-rata basis.
- (4) Client account information at CSIM must separately reflect the securities that have been bought, sold and held for each client.

For equity transactions, CSIM's trading department determines whether aggregation is appropriate for orders received on the trading desk. Generally, mutual fund trade orders received at a contemporaneous point in time that contain the same security trading in the same direction (buy/sell) and which utilize the same trading strategy are candidates for potential aggregation. However, such trades will only be aggregated if the trader believes that such aggregation is necessary and consistent with CSIM's duty to seek best execution. Portfolio managers and traders may determine other circumstances where it

may be appropriate to aggregate trades across multiple fund accounts. Portfolio managers and traders may elect to aggregate orders not meeting the above criteria provided that such aggregation is determined to be in the best interest of each client account and consistent with CSIM's duty to seek best execution. Adjustments to the pro-rata allocation may be made to avoid having odd lots of shares held in any client account, or to avoid conflicts with limitations established for a client. Any deviations from the original order, other than adjustments to avoid odd lots or partial executions, must be approved by CSIM's Chief Investment Officer-Equities and reported to CSIM's Chief Compliance Officer.

CSIM portfolio management personnel are responsible for placing orders for fixed income securities transactions with broker-dealers. When orders for the same security for different client accounts are aggregated, they are generally allocated after execution because fixed income transactions are typically conducted in individually negotiated transactions. For money market fund accounts, allocations among similar client accounts are determined with the general purpose of achieving, as nearly as possible, performance and portfolio characteristic parity among such accounts over time. Similar money market accounts furthest from achieving performance and portfolio characteristic parity typically receive priority in allocations. In addition to performance (gross yield), factors considered may include, but are not limited to: (i) capacity available for a particular name or sector; (ii) cash flow / liquidity; (iii) management of maturities; (iv) weighted average maturity (or weighted average life); and (v) duration. Allocations among dissimilar money market fund accounts are generally *pro rata*, subject to adjustments to accommodate specific investment guidelines and portfolio characteristics of client accounts. Additional factors considered may include, but are not limited to: (i) the factors set forth for similar client accounts; (ii) alternative minimum tax; (iii) issuing state; and (iv) tax exempt versus taxable income status. With respect to fixed income funds managed by CSIM, other than money market funds, CSIM portfolio management personnel generally allocated orders for the same security in accordance with an allocation strategy determined prior to placing the order. In the event an order is only partially executed, CSIM may adjust the allocation strategy to take into consideration factors, including, but not limited to, a fund's deviation from its benchmark and cash flow or liquidity. With respect to both money market funds and fixed income funds, CSIM portfolio managers may give priority to a particular fund in circumstances where it is necessary to meet that fund's investment objective.

### **Item 13: Review of Accounts**

#### **Managed Account Programs**

CSIM will review, at least quarterly, the performance of clients' separate accounts measured against their appropriate benchmarks, including the account composite. Schwab will contact clients participating in the Managed Account Connection program, and a client's investment adviser will contact clients participating in the Managed Accounts Access program, at least annually to determine whether there have been any changes in the client's financial situation or investment objectives and whether the client

wishes to impose any reasonable restrictions on the management of the account or reasonably modify existing restrictions. For clients participating in the Managed Account Connection program, Schwab will communicate this information to CSIM's portfolio managers as necessary for the management of the account. For clients participating in the Managed Account Access program, the investment adviser will communicate this information to CSIM's portfolio managers (or Schwab will relay it to CSIM) as necessary for the management of the account. CSIM may also review client accounts as a result of market events or vendor errors.

#### Collective Trust Funds

The portfolio managers and a team of investment professionals are responsible for overseeing the sub-advisers to collective trust funds advised by CSB. CSIM portfolio managers monitor each fund for asset allocation, sub-adviser performance and compliance with the fund's stated investment objectives and guidelines on a daily basis, with additional meetings or reviews on a weekly and monthly basis. CSIM meets with CSB at least quarterly to review sub-adviser performance, provide updates relating to general economic conditions and matters related to the collective trust funds and to propose changes. CSIM portfolio managers also perform reviews on an as needed basis such as to conduct new asset class or sub-adviser searches.

#### Non-U.S. Fund

The portfolio managers and officers of CSIM review the performance of the non-U.S. fund at least quarterly and report on performance to the boards of directors of the non-U.S. fund. These reviews and reports include analysis of adherence to each portfolio's objective and policies, fund performance and other matters relating to CSIM's management of the funds. In addition, CSIM provides information to CSAMI on a monthly basis, including a compliance checklist and performance summary, that is included as part of CSAMI's monthly management report to the board of directors.

### **Item 14: Client Referrals and Other Compensation**

As described in Item 5 above, CSIM receives payments from Schwab in connection with managing separate accounts under the Managed Account Programs. Schwab pays certain of its employees compensation based on the value of certain client or shareholder assets invested during a specified period of time in separate accounts and investment companies managed by CSIM. Consequently, these employees may have an incentive to recommend CSIM advised funds and programs over other types of accounts.

### **Item 15: Custody**

Managed Account Program clients receive quarterly (or more frequent) account statements from Schwab detailing account positions and activities during the preceding period. Account statements will include a summary of all transactions made on behalf of the account, all contributions and withdrawals made to or from the account, all fees and

expenses charged to the account, and the value of the account at the beginning and end of the period. Managed Account Program clients should carefully review any account statements they receive from Schwab.

#### **Item 16: Investment Discretion**

As described in Item 4, subject to CSIM's acceptance, a Managed Account Program client can request that a particular security or industry be excluded, due to factors such as a concentrated position elsewhere or socially responsible criteria. CSIM relies on industry and sector codes from a third party service provider to determine whether a particular security falls within a restricted industry or sector. Consequently, a client may not always agree with how the service provider categorizes a particular security. A client may also request that specific securities be sold for tax management purposes. Managed Account Program clients may also elect to retain proxy voting authority for their accounts. Managed Account Program clients appoint CSIM as the money manager for their accounts in their Schwab Managed Account Services account application. By signing the application, clients designate CSIM to manage their accounts according to the terms and conditions set forth in the Account Application Agreement, which includes trading authority over their accounts, voting proxies and taking other actions regarding investments held in their accounts. Clients wishing to place investment restrictions on their accounts or to retain the ability to vote proxies must submit a separate form to Schwab that may be obtained from their Schwab Financial Consultant who then communicates these restrictions to CSIM. As described in Item 12, all transactions in equity securities for a Managed Account Program client must be executed through Schwab and CSIM does not have discretion to use another broker.

CSIM has investment discretion over the non-U.S. fund pursuant to an investment management agreement between CSAMI and CSIM. As described in Item 4, CSIM manages the fund in accordance with its prospectus. CSAMI and/or the Board of Directors of the fund may also place additional restrictions on CSIM's investment discretion.

#### **Item 17: Voting Client Securities**

The following is a summary of CSIM's Proxy Voting Policy and Procedures (the "Procedures") concerning proxies voted by CSIM on behalf of each investment advisory client who delegates voting authority to CSIM ("Delegating Client"). The Procedures may be changed as necessary to comply with regulatory requirements and internal policies and procedures and are designed to ensure that proxies are voted in the best interest of clients and to reduce potential conflicts of interest. As described in Item 16, Managed Account Program clients can choose to retain the authority to vote proxies with respect to their accounts.

It is CSIM's policy to vote proxies in the manner that CSIM and CSIM's Proxy Committee (the "Committee") believe will maximize the economic benefit to Delegating Clients. To assist CSIM and the overall proxy voting process, CSIM has elected to retain

an independent proxy voting service as an expert in the proxy voting and corporate governance area (the “Service”). The services provided by the Service include in depth research, global issuer analysis and voting recommendations in accordance with the Service’s written proxy voting policies and procedures (the “Service’s Proxy Guidelines”) as well as vote execution, reporting and record keeping services. The Committee has reviewed the Service’s Proxy Guidelines and has determined that they are consistent with the Procedures and CSIM’s fiduciary duty with respect to its clients.

Except under each of the circumstances described below, the Committee will delegate to the Service the responsibility for voting proxies, including timely submission of votes, on behalf of Delegating Clients in accordance with the Service’s Proxy Guidelines. For proxy issues that the Committee or the applicable portfolio manager or other relevant portfolio management staff believe raise significant concerns with respect to Delegating Client accounts, the Committee will decide how to vote proxies on a case-by-case basis by reviewing the analysis and recommendations of the Service and soliciting input from the relevant members of CSIM’s portfolio management staff. After evaluating the issue, the Committee will instruct the Service to vote in a manner consistent with the Committee’s decision.

From time to time, client accounts may hold securities issued by a fund advised by CSIM (an “Affiliated Fund”) or securities issued by The Charles Schwab Corporation (“CSC”), CSIM’s parent company. Because CSIM has an inherent conflict of interest with respect to such proxies, the Committee will “echo vote” proxies solicited by an Affiliated Fund or by CSC, unless otherwise required by law. When required by law or applicable exemptive order, the Committee will also “echo vote” proxies of an unaffiliated mutual fund or exchange traded fund. Echo voting means that proxies for CSIM clients will be voted in the same proportion as proxies are voted by all of the other shareholders of the relevant issuer. Echo voting allows shares held by CSIM to count towards any necessary quorum without otherwise influencing the outcome of a proxy measure.

The Committee has determined that the implementation of the following custom policies is consistent with CSIM’s fiduciary duty to its clients. With respect to shareholder proposals requiring that a company chairman’s position be filled by an independent director, the Committee has instructed the Service to vote with management unless the company does not meet a specified minimum total shareholder return threshold (the “threshold”). In cases where a company fails to meet the threshold, the Committee has instructed the Service to vote the shareholder proposals requiring that the chairman’s position be filled by an independent director in accordance with the Service’s Proxy Guidelines. In cases where a company is a registered investment company, the Committee has instructed the Service to vote with management on such proposal. Additionally, with respect to the election of a director who serves as the governance committee chair (or, in the absence of a governance committee, the chair of the nominating committee), the Committee has instructed the Service to vote for the director in cases where the company chairman’s position is not filled by an independent director and an independent lead or presiding director has not been appointed. With respect to shareholder proposals declassifying a staggered board in favor of the annual election of



directors, the Committee has instructed the Service to vote with management unless the company does not meet the threshold. In cases where a company fails to meet the threshold, the Committee has instructed the Service to vote the shareholder proposals declassifying a staggered board in favor of the annual election of directors in accordance with the Service's Proxy Guidelines.

If the Service does not provide an analysis or recommendation for voting a particular proxy measure or measures CSIM will generally abstain, (1) two members of the Committee, including at least one representative from Portfolio Management, in consultation with the Chair of the Committee or his/her designee may decide how to vote such proxy, or (2) the Committee may meet to decide how to vote such proxy.

Except as described above for proxies solicited by Affiliated Funds or CSC and the exceptions to the Service's Proxy Guidelines, proxy issues that present material conflicts of interest between CSIM and/or any of its affiliates, and its clients, will be voted by the Service in accordance with the Service's Proxy Guidelines.

Voting proxies with respect to shares of foreign securities may involve significantly greater effort and corresponding cost than voting proxies with respect to domestic securities, due to the variety of regulatory schemes and corporate practices in foreign countries with respect to proxy voting. In consideration of the foregoing issues, the Service uses its best-efforts to vote foreign proxies. As part of its ongoing oversight, the Committee will monitor the voting of foreign proxies to determine whether all reasonable steps are taken to vote foreign proxies. If the Committee determines that the cost associated with the attempt to vote outweighs the potential benefits clients may derive from voting, the Committee may decide not to attempt to vote. To preserve liquidity and freedom of action, CSIM will not vote proxies solicited by foreign issuers in countries that impose restrictions on the sale of securities for a period of time before or after a shareholder meeting.

Where CSIM has delegated day-to-day investment management responsibilities to a sub-adviser, CSIM generally does not delegate proxy voting responsibility to the sub-adviser. However, each sub-adviser to whom proxy voting responsibility has been delegated will be required to review all proxy solicitation material and to exercise the voting rights associated with the securities it has been allocated in the best interest of each fund and its shareholders, or other client. Prior to delegating the proxy voting responsibility, CSIM will review each sub-adviser's proxy voting policy to determine whether it believes each sub-adviser's proxy voting policy is generally consistent with the maximization of economic benefits to the fund or other client.

A client may obtain a copy of CSIM's Procedures, or information regarding how his or her securities were voted, by calling CSIM at (720)785-8453.

#### **Item 18: Financial Information**

Not applicable.