



**Effective March 31, 2015**

# **Charles Schwab Investment Advisory, Inc. Schwab Intelligent Portfolios™ Disclosure Brochure**

Charles Schwab Investment Advisory, Inc.  
211 Main Street  
San Francisco, CA 94105  
Tel: (415) 667-1910

This brochure provides information about the qualifications and business practices of Charles Schwab Investment Advisory, Inc. ("CSIA") as an advisor in the Schwab Intelligent Portfolios program. 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. CSIA'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 CSIA or its representatives.

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

# Table of Contents

<b>Advisory Business</b>	1
<b>Fees and Compensation</b>	1
<b>Performance-Based Fees and Side-by-Side Management</b>	1
<b>Types of Clients</b>	1
<b>Methods of Analysis, Investment Strategies, and Risk of Loss</b>	1
<b>General Risks</b>	2
Management Risks	2
Investment Risks	2
Model Risks	2
ETF General Risks	2
Schwab ETFs™ Risks	2
Market/Systemic Risks	2
Asset Allocation/Strategy/Diversification Risks	2
Investment Strategy Risks	2
Trading/Liquidity Risks	2
Large Investment Risks	3
<b>Underlying Securities Risks</b>	3
Equity-Related Risks	3
Fixed Income–Related Risks	3
Foreign Investment–Related Risks	3
Risks Related to Other Asset Classes	4
<b>Limitations of Disclosure</b>	4
<b>Disciplinary Information</b>	4
<b>Other Financial Industry Activities and Affiliations</b>	4
<b>Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading</b>	4
Code of Ethics	4
Participation or Interest in Client Transactions	4
Personal Trading	5
<b>Brokerage Practices</b>	5
<b>Review of Accounts</b>	6
<b>Client Referrals and Other Compensation</b>	6
<b>Custody</b>	6
<b>Investment Discretion</b>	6
<b>Voting Client Securities</b>	6
<b>Financial Information</b>	6

## Advisory Business

CSIA is a wholly owned subsidiary of The Charles Schwab Corporation, a Delaware corporation that is publicly traded and listed on the New York Stock Exchange (symbol: SCHW). CSIA has been registered as an investment advisor since November 5, 2009.

This brochure relates to the portfolio management services that CSIA provides for the Schwab Intelligent Portfolios™ program (the “SIP Program”). The SIP Program offers clients investment strategies that consist of diversified portfolios of exchange-traded funds (also known as ETFs) and a cash allocation in a single account.

The SIP Program is sponsored by CSIA's affiliate, Schwab Wealth Investment Advisory, Inc. (“SWIA”), which sets investment policy and parameters and provides administrative and related services for the SIP Program.

SWIA has chosen CSIA to provide portfolio management services to the SIP Program accounts on a discretionary basis consistent with investment policy and parameters developed by SWIA and with clients' chosen investment strategy, and to direct appropriate trades in clients' accounts. Charles Schwab & Co., Inc. (“Schwab”) acts as the qualified custodian for SIP Program accounts and provides trade routing and/or execution and related services for SIP Program accounts. Some ETFs in the investment strategies are managed by Charles Schwab Investment Management, Inc. (“CSIM”), which is also an affiliate of Schwab, SWIA, and CSIA.

SWIA offers the SIP Program online through an interactive website and mobile application. Clients use a web application to determine whether the SIP Program is appropriate for them and, if so, to select an investment strategy. Clients can change their investment strategy by going online and completing a new web-based assessment.

Clients agree to accept electronic delivery of contracts, disclosure documents, prospectuses, statements, and other materials. Clients can communicate with SWIA via electronic channels (i.e., email, chat, website and mobile application), Schwab branches and telephone. More information about the SIP Program is available in the SWIA disclosure brochure provided to SIP Program clients.

The investment strategies employed in each SIP Program account are governed by a client's agreement with SWIA and by any reasonable restriction(s) on the management of the account that may be requested by a client and accepted by CSIA.

CSIA also provides portfolio management services for the Schwab Managed Portfolios™ (“SMP”) wrap-fee program (“SMP Program”), which is sponsored by its affiliate Schwab. The SMP Program consists of various investment strategies selected by clients and consisting of either mutual funds (“SMP – MFs”) or ETFs (“SMP – ETFs”) bought and sold for clients on a discretionary basis as well as a cash investment. For more information on SMP, please refer to Schwab's SMP disclosure brochure, available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). As of December 31, 2014, CSIA managed approximately \$21,573,000,000 in assets in the SMP Program. CSIA does not manage any assets on a nondiscretionary basis.

## Fees and Compensation

Pursuant to an agreement between CSIA and SWIA, SWIA pays CSIA a fixed annual fee for CSIA's services in the SIP Program, or such other amount as the parties may agree on from time to time.

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

CSIA does not receive performance-based fees.

## Types of Clients

Pursuant to the enrollment criteria established by SWIA, clients of the SIP Program may include individuals, revocable living trusts, and individual retirement accounts (“IRAs”). Business entities, government entities and accounts that are subject to the Employee Retirement Income Security Act of 1974 (“ERISA”), as amended, are not eligible for the SIP Program.

The minimum investment required to open an account in the SIP Program is \$5,000 for all account types. If the market value of a client's account falls below this specified minimum due to a client's withdrawal of assets from the account, SWIA may require that client to deposit additional money or securities to bring the account up to the required minimum, and may instruct CSIA to discontinue management of the account.

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

Pursuant to written investment policy and parameters provided by SWIA (the “Parameters”), CSIA has created a number of investment strategies for the SIP Program that consist of diversified portfolios of ETFs combined with a cash allocation in a single account. The cash portion is an allocation to the Schwab Intelligent Portfolios Sweep Program (“Sweep Allocation”). Each investment strategy is designed to be consistent with a certain combination of investment return objectives and risk tolerances. Certain strategies are intended for taxable accounts and others for tax-deferred accounts. Certain strategies are intended for clients who are looking for a level of income generation. Upon request from SWIA, CSIA may add, remove, or change investment strategies used in the SIP Program.

SWIA sets the Parameters for the Cash Sweep Allocation for each investment strategy. They are set based on a disciplined portfolio construction methodology designed to balance performance with risk management appropriate for a client's goal, investing time frame, and personal risk tolerance, just as with other Schwab managed products. Charles Schwab Bank (“Schwab Bank”) earns income on the Sweep Allocation for each investment strategy. The higher the Sweep Allocation and the lower the interest rate paid the more Schwab Bank earns, thereby creating a potential conflict of interest for SWIA. The cash allocation can affect both the risk profile and performance of a portfolio. To mitigate any potential conflict, SWIA instructs CSIA to construct the SIP Program strategies pursuant to modern portfolio theory and behavioral factors seeking an optimal return goal for a portfolio based on the level of risk an investor is willing to take.

Any ETFs are eligible for inclusion in the SIP Program. However, the written Parameters established by SWIA place limitations on the universe of ETFs that CSIA may select for the SIP Program.

The Parameters require that an ETF be in operation for a certain period of time, have a minimum level of assets, and track its index closely. Also, the difference between the “bid” (the price a buyer is willing to pay for a share of the ETF) and the “ask” (the price a seller wants for that ETF share) must be small. This difference is called the bid-ask spread, and a narrow bid-ask spread usually means that the ETF has a large trading volume.

ETFs that meet these Parameters are then ranked according to their fees and expenses. CSIA generally selects the ETFs with the lowest fees and expenses for inclusion in the portfolios.

Eligible ETFs include Schwab ETFs™ which are managed by CSIM, which is an affiliate of Schwab, CSIA and SWIA. Schwab ETFs pay fees to CSIM that are described in “Participation or Interest in Client Transactions” below.

The percentage of a client account initially invested in Schwab ETFs varies significantly depending on the asset allocation of the investment strategy. Subject to the written Parameters described above, CSIA has discretion to allocate any portion, from none up to 100%, of an investment strategy into Schwab ETFs (excluding the portion in the Sweep Allocation).

CSIA also creates diversified portfolios of ETFs combined with a cash investment in a single account for the SMP Program. The parameters for asset allocation and ETF selection for SMP accounts are established by Schwab and differ from the SIP Program Parameters. There may be times when SIP clients and SMP clients are investing in the same ETF; however, each Program has its own contractual terms of service, different parameters and separate portfolio management teams making trading and investing decisions. The performance of SIP and SMP accounts will differ over time.

CSIA may use written reports prepared by recognized analysts in the industry and may use computer-based models to assist in portfolio management. CSIA may also use statistical and other information published by third-party data providers, industry and government, meetings of professionals within the industry, and research of investment trends.

## **General Risks**

### **Management Risks**

CSIA applies its 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. Each strategy runs the risk that CSIA's investment techniques will fail to produce the desired results. There also can be no assurance that all of CSIA's key personnel will continue to be associated with CSIA for any length of time.

### **Investment Risks**

Investments in securities, including ETFs and the securities that they in turn invest in, involve various risks, including those summarized below. In addition, each ETF has its own investment style, which may involve risks different from those described below. Clients and prospective clients should be aware that investing in securities involves risk of loss that clients should be prepared to bear.

### **Model Risks**

CSIA may use quantitative analyses and/or models. Any imperfections, limitations or inaccuracies in its analyses and/or models could affect its ability to implement strategies. By necessity, these tools make simplifying assumptions that may limit their effectiveness. Models that appear to explain prior market data can fail to predict future market events. Further, the data used in models may be inaccurate and/or it may not include the most current information available.

## **ETF General Risks**

ETFs in which the strategy may invest involve certain inherent risks generally associated with investments in a portfolio of securities, including the risk that the general level of security prices may decline, thereby adversely affecting the value of each unit of the ETF. Moreover, an ETF may not fully replicate the performance of its benchmark index because of the temporary unavailability of certain index securities in the secondary market or discrepancies between the ETF and the index with respect to the weighting of securities or the number of securities held. ETFs in which the strategies invest have their own fees and expenses as set forth in the ETF prospectuses.

ETFs may have exposure to derivative instruments, such as futures contracts, forward contracts, options, and swaps. There is a risk that a derivative may not perform as expected. The main risk with derivatives is that some types can amplify a gain or loss, potentially earning or losing substantially more money than the actual cost of the derivative, or that the counterparty may fail to honor its contract terms, causing a loss for the ETF. Use of these instruments may also involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk, and the risk that an ETF could not close out a position when it would be most advantageous to do so.

## **Schwab ETFs Risks**

The Schwab ETFs that may be included in the SIP Program's investment strategies were launched beginning in November 2009, and some of them even more recently. Accordingly, there is limited data available for CSIA to rely upon when assessing investment risk associated with some of these ETFs. As a result, one or more of the following may occur: (1) poor liquidity in or limited availability of the ETFs, or (2) lack of market depth causing the ETFs to trade at excessive premiums or discounts.

## **Market/Systemic Risks**

Equity and fixed income markets rise and fall daily. The performance of client investments is, to varying degrees, tied to these markets. When markets fall, the value of a client's investments will fluctuate, which means a client could lose money.

## **Asset Allocation/Strategy/Diversification Risks**

The asset classes in which an investment strategy in the SIP Program seeks investment exposure can perform differently from each other at any given time (as well as over the long term), so the investment strategy will be affected by its allocation among the various asset classes. The asset allocation decisions can result in more portfolio concentration in a certain asset class or classes, which could reduce overall return if the concentrated assets underperform CSIA's expectations. The more aggressive the investment strategy selected, the more likely the portfolio will contain larger weights in riskier asset classes, such as equities. Depending on market conditions, there may be times where diversified portfolios perform worse than less diversified portfolios.

## **Investment Strategy Risks**

There are risks associated with the long-term core strategic holdings for each of the investment strategies. The more aggressive the investment strategy selected, the more likely the portfolio will contain larger weights in riskier asset classes, such as equities.

## **Trading/Liquidity Risks**

A particular ETF may be difficult to purchase or sell or may become difficult to sell after being purchased for a client account.

CSIA may be unable to sell ETFs on behalf of a client at an advantageous time and/or price due to then-existing trading market conditions.

### **Large Investment Risks**

SIP Program clients may collectively account for a large portion of the assets in certain ETFs. A decision by CSIA to buy or sell some or all of a particular ETF where SIP Program clients hold a significant portion of that ETF may negatively impact the value of that ETF.

## **Underlying Securities Risks**

### **Equity-Related Risks**

#### **General Risks**

The prices of equity securities, and thus the value of ETFs that invest in them, will rise and fall. 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.

#### **Large- and Mid-Cap Risks**

ETFs that focus on large- and/or mid-cap segments of the stock market bear the risk that these types of 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—bonds or small-cap stocks, for instance—the performance of investment strategies focused on large- and/or mid-cap stocks will lag the performance of these other investments.

#### **Small-Cap and International Risks**

Historically, small-cap and international stocks have been riskier than large- and mid-cap U.S. stocks (see the “Foreign Investment–Related Risks” section below for additional information). During a period when small-cap and/or international stocks fall behind other types of investments—U.S. large- and mid-cap stocks, for instance—the performance of investment strategies focused on small-cap or international stocks may lag the performance of these other investments.

### **Fixed Income–Related Risks**

#### **General Risks**

Bond markets rise and fall daily, and fixed income investments, which generally also include instruments with variable or floating rates, are subject to various risks. As with any investment whose performance is tied to bond markets, the value of a fixed income ETF will fluctuate, which means that you could lose money.

#### **Interest Rate Risks**

When interest rates rise, bond prices usually fall, and with them the value of an ETF holding the bonds. A decline in interest rates generally raises bond prices, and with them potentially the value of an ETF share, but could also hurt the performance of an ETF by lowering its yield. The longer the duration of the investments held by an ETF, the more sensitive to interest rate movements its value is likely to be.

### **Credit Risks**

A decline in the credit quality of a fixed income investment could cause the value of a fixed income ETF to fall. The ETF could lose value if the issuer or guarantor of a portfolio investment fails to make timely principal or interest payments or otherwise honor its obligations. The emphasis of a fixed income strategy on quality and preservation of capital also could cause an ETF to underperform certain other types of bond investments, particularly those that take greater maturity and credit risks.

### **High-Yield Risks**

High-yield securities and unrated securities of similar credit quality (sometimes called junk bonds) are subject to greater levels of credit and liquidity risks. High-yield securities and the ETFs that invest in them may be considered speculative.

### **Government Securities Risks**

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. Certain issuers of securities, such as the Federal Home Loan Banks, maintain limited lines of credit with the U.S. Treasury. Securities issued by other issuers, such as the Federal Farm Credit Banks Funding Corporation, 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.

### **State and Regional Risks**

To the extent that an ETF is invested in securities from a given state or geographic region, its value and performance could be affected by local, state, and regional factors, including erosion of the tax base and changes in the economic climate. National governmental actions, such as the elimination of tax-exempt status, also could affect performance. In addition, an ETF may be more sensitive to adverse economic, business, or political developments if a substantial portion of it is invested in municipal securities that are financing similar projects.

### **Foreign Risks**

Investments in securities of foreign issuers or securities with credit or liquidity enhancements provided by foreign entities may involve certain risks such as 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.

### **Foreign Investment–Related Risks**

#### **General Risks**

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, taxes, and legal standards and practices; differing securities market structures; and higher transaction costs.

### **Emerging Markets Risks**

These and other risks (e.g., nationalization, expropriation, or other confiscation of assets of foreign issuers) are greater for those ETFs investing in companies tied economically to emerging



countries, the economies of which tend to be more volatile than the economies of developed countries.

#### **Frontier Markets Risks**

The risks associated with investing in foreign or emerging markets generally are magnified in frontier markets, also known as “next emerging” markets. Some frontier markets may operate in politically unstable regions of the world and may be subject to additional geopolitical/disruption-of-markets risks.

#### **Geopolitical/Disruption-of-Markets Risks**

Geopolitical events may adversely affect global economies and markets and thereby decrease the value of and/or the ease of trading the ETFs invested in those affected markets. Those events as well as other changes in foreign and domestic economic and political conditions could adversely affect the value of the strategy’s investments.

#### **Currency Risks**

Fluctuations in exchange rates may adversely affect the value of a strategy’s foreign currency holdings and investments denominated in foreign currencies.

#### **Risks Related to Other Asset Classes**

##### **Commodities Risks**

Commodities involve unique risks that may be distinct from those that affect stocks and bonds, including worldwide supply and demand factors, weather conditions, currency movements, and international government policies regarding commodity reserves and choice of currency for commodity pricing.

##### **Hard Asset Risks**

The production and marketing of hard assets, such as precious metals, oil and gas, real estate and/or agricultural commodities may be affected by geopolitical and environmental factors and are cyclical in nature. During periods of economic or financial instability, hard asset securities and other instruments may be subject to broad price fluctuations, reflecting volatility of energy and basic materials prices and possible instability of supply of various hard assets. Hard asset securities, hard asset companies, and other instruments may also experience greater price fluctuations than the relevant hard asset. In periods of rising hard asset prices, such securities or instruments may rise at a faster rate, and conversely, in times of falling hard asset prices, such securities may suffer a greater price decline.

##### **Real Estate Risks**

Real estate-related investments may be adversely affected by factors affecting the real estate industry, which may include changes in interest rates and social and economic trends. Real estate investment trusts (“REITs”) may also be subject to the risk of fluctuations in income from underlying real estate assets, poor performance by the REITs’ managers, prepayments and defaults by borrowers, adverse changes in tax laws, and, with respect to U.S. REITs, their failure to qualify for the special tax treatment granted to REITs under the Internal Revenue Code of 1986 and/or to maintain exempt status under the Investment Company Act.

#### **Limitations of Disclosure**

The foregoing list of risks does not purport to be a complete enumeration or explanation of the risks involved in CSIA’s investment strategies. As CSIA’s investment strategies develop and change over time, clients and investors may be subject to additional and different risk factors. No assurance can be made that profits will be achieved or that substantial losses will not be incurred.

#### **Disciplinary Information**

CSIA has no legal or disciplinary events that it is required to report.

#### **Other Financial Industry Activities and Affiliations**

Pursuant to the Parameters provided by SWIA, CSIA sets the target asset allocations and chooses the ETFs for each investment strategy in the SIP Program.

Eligible ETFs include Schwab ETFs™ which are managed by CSIM, which is an affiliate of Schwab, CSIA and SWIA. Schwab ETFs pay fees to CSIM that are described in “Participation or Interest in Client Transactions” below.

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

##### **Code of Ethics**

CSIA 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 CSIA and its employees when acting as investment adviser. The Code requires that CSIA’s covered employees comply with applicable federal securities laws and report violations of the Code. Covered employees who are deemed “access persons” by virtue of providing investment advice or having access to certain related information must report their personal transactions and holdings in, and obtain clearance before buying, ETFs used in SIP and SMP Program portfolios. The Code prohibits access persons from disclosing SIP and SMP Program transactions or any other non-public information to anyone except certain designated employees of CSIA, SWIA and Schwab. The Code also prohibits access persons from using the information for personal profit or the profit of others. Access persons may not engage 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.

You can get a copy of the Code by calling SWIA at (855) 694-5208.

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

ETFs are eligible for inclusion in the SIP Program, whether they are Schwab ETFs or third-party ETFs. However, the written parameters established by SWIA place limitations on the universe of ETFs that CSIA may select for the Program as described in “Methods of Analysis, Investment Strategies, and Risk of Loss” above.

Each ETF, including a Schwab ETF, pays investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees and expenses, as set forth in the ETF prospectus. An ETF pays these fees and expenses, which ultimately are borne by its shareholders. Therefore, CSIM (a CSIA affiliate) will earn fees from Schwab ETFs that are held in SIP Program accounts.

Schwab has established the Schwab ETF OneSource™ program (“ETF OneSource”) under which ETFs can be traded without a commission on buy and sell transactions. SIP Program accounts may include ETFs that participate in ETF OneSource. Schwab receives payments from the third-party ETF sponsors or their affiliates participating in ETF OneSource for recordkeeping, shareholder services and other administrative services that Schwab provides to participating ETFs. In addition, Schwab promotes the ETF OneSource program to its customers, and a portion of the fees paid to Schwab offsets some or all of Schwab’s costs of promoting and

administering ETF OneSource. Schwab does not receive payment to promote any particular ETF to its customers.

ETF sponsors or their affiliates pay a fixed program fee to Schwab each year for each ETF participating in ETF OneSource. The program fees vary, but can range up to \$250,000 per year for each participating ETF. ETF sponsors or their affiliates also pay Schwab an asset-based fee based on a percentage of total ETF assets purchased by Schwab customers after the ETF was added to ETF OneSource. The amount of the asset-based fee can range up to 0.20% annually. Schwab ETFs™ do not pay any program or asset-based fees to participate in ETF OneSource.

Assets in SIP Program accounts are included in the calculation of the asset-based fee to be paid to Schwab by an ETF sponsor or its affiliates. Schwab may exclude other assets or other types of transactions from the asset-based fee paid by an ETF sponsor or its affiliates.

### Personal Trading

As described above, the Code is designed to detect and prevent conflicts of interest and unlawful practices that may arise in connection with an access person's personal securities transactions. Accordingly, the Code requires access persons to obtain prior approval before placing personal trades for ETFs used in SIP and SMP Program portfolios.

### Brokerage Practices

All brokerage transactions for securities in SIP Program accounts will be routed to Schwab for execution, which may not always obtain as favorable a price as another broker-dealer.

CSIA may aggregate securities sales or purchases (a trade order) among two or more clients within a single strategy and, where possible and as appropriate, like trades across strategies within SIP or across programs. CSIA will not aggregate trades unless it believes that aggregation is consistent with its duty to seek best execution for affected clients in the aggregate and consistent with the terms of the client's investment advisory agreement. CSIA's trading practices (aggregations of trades, allocation of trades, and use of trade rotation and other processes) are designed so that the practices do not unfairly and systematically favor one client over another and that, over time, client accounts are treated equitably.

CSIA excludes from aggregation those client accounts that have relevant investment restrictions or client activity (e.g., withdrawals pending) and, therefore, should not participate in the aggregated trade. CSIA reserves the right to not aggregate transactions when to do so would be (i) unfair under the circumstances; (ii) impractical; or (iii) otherwise inappropriate. CSIA generally allocates trade orders pro rata among clients who participated in the aggregated trade order. CSIA will review its aggregation procedures at least annually to confirm that they are adequate to prevent any client from being systematically disadvantaged as a result of the aggregated transactions.

Trade orders for different programs (e.g., the SMP Program and the SIP Program) are generated by different investment teams and typically on different trading systems and may utilize one or more trading strategies (e.g., price at the time of order arrival, market closing price, volume weighted average price over some specified period). Certain trading strategies place relatively greater emphasis on timing, others on speed of execution, while others place greater emphasis on reducing market impact cost. As a result, the speed of trade order fulfillment and the prices achieved for the same security may vary in different programs or strategies. Certain

trading strategies, which may include accounts in programs with different fee structures, may trade in advance of other trade strategies or may be completed more quickly, and, as a result, may achieve different execution on the same or similar securities. In addition, market, regulatory, and/or country limitations (especially in the case of emerging markets) may contribute to differences in security prices.

Clients in the SIP Program direct CSIA to use Schwab to effect securities trades for their account. Large share trade orders can occur when there are large daily flows into or out of the program, CSIA reallocates/rebalances clients' accounts, or CSIA replaces an ETF with another ETF across all applicable client accounts. For these large trade orders, Schwab may solicit bids from other broker-dealers that may act as principal in the transaction, meaning that the other broker-dealer executes the trade in an account in which the broker-dealer has a beneficial ownership interest, or may execute a riskless-principal trade where the other broker-dealer buys (sells) a security from (to) a third party (e.g., another customer or broker-dealer).

In transactions where Schwab uses another broker-dealer acting as principal, the other broker-dealer typically accepts the risk of market price and liquidity fluctuations of executing the transactions. The broker-dealer adds a fee, called a markup or markdown (or "spread"), to compensate for this risk. The spread is not shown separately on a client's trade confirmation or account statement. Schwab does not act as principal for ETF trades in the SIP Program and does not receive the spread. In SMP transactions where Schwab uses another broker-dealer acting as an agent, the other broker-dealer may charge a fee or commission. This fee or commission is not shown separately on a client's trade confirmation or account statements. Schwab does not charge a commission itself or receive the third-party broker-dealer's fee or commission.

Schwab may receive remuneration such as liquidity or order flow rebates from a market or firm to which orders are routed, but its trading practices are designed to achieve best execution. There will be no offset of the SIP Program fee by third-party broker-dealer markups and markdowns or other fees. Instead, these markups and markdowns will reduce the overall return of a client's account.

CSIA may use a trade rotation process among client accounts within a single program or across programs (e.g., within the SMP Program or within the SIP Program, or across the SMP and SIP Programs) when trades need to be executed over more than one trading day. Trades done on the same day or on different days are not guaranteed to receive the same trading price. CSIA may also use a trade rotation process across programs (SMP and SIP) on a daily basis. CSIA will review its rotation procedures at least annually to confirm that they are adequate to prevent any client from being systematically disadvantaged.

Trading orders that can only be partially filled are generally allocated on a pro rata basis, randomly allocated, or allocated on some other basis consistent with the goal of giving all clients equitable opportunities over time. If a single aggregated trade order is filled at varying prices, client accounts subject to the same trading strategy generally receive an average price for trades placed through the same broker, or other steps are taken so that all similarly situated accounts receive fair consideration over time. In some cases, the trading desk may execute one trading strategy at the same time it is executing a trade order for the same security with the same or a different broker to meet account or strategy-specific requirements, in which case the two trades may be treated as distinct trades and may not be subject to pro rata allocation.

When investment opportunities are expected to be in very limited supply (collectively, “limited opportunities”), CSIA will generally consider the needs of clients across programs. When it is not practicable to allocate an opportunity across all eligible accounts, CSIA uses various methods, such as random allocation and sequencing, to give all accounts using the same trading strategy equitable opportunities for allocation over time. This may result in a limited opportunity being allocated to only some of the eligible accounts.

## Review of Accounts

CSIA’s portfolio managers review, at least quarterly, the performance of the SIP Program investment strategies against their applicable benchmarks. SWIA contacts clients participating in the SIP Program at least annually by email to determine whether there have been any changes in their financial situation or investment objectives and whether clients wish to impose any reasonable restrictions on the management of their accounts or reasonably modify existing restrictions. SWIA communicates the information obtained from clients to CSIA as necessary for the management of the account.

## Client Referrals and Other Compensation

Neither CSIA nor SWIA makes payments to their respective representatives or other persons for referring clients to the SIP Program. Schwab makes payments to its representatives for referring clients to the SIP Program, which are described in a separate Schwab brochure relating to the SIP Program.

## Custody

Schwab has custody of client assets in SIP Program accounts and, at least quarterly, sends SIP Program clients account statements detailing account positions and activities during the preceding period. Account statements include a summary of all transactions made on behalf of the account, all deposits 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. Clients should review these statements carefully.

## Investment Discretion

SWIA has discretionary authority to manage accounts enrolled in the SIP Program, which authority it has granted in turn to CSIA as portfolio manager. This discretionary authority is subject to the reasonable restrictions requested by SIP Program clients and accepted by CSIA or another portfolio manager, as applicable.

Subject to meeting minimum balance requirements, a client may also direct CSIA to employ a tax-loss harvesting strategy in managing the client’s taxable account. This means that CSIA will sell ETFs in the client’s account at a loss to offset a potential capital gains tax liability. The rebalancing and tax-loss harvesting opportunities may be affected by programming limitations and information

clients make available to SWIA. For more information about tax-loss harvesting and rebalancing strategies, please refer to the SWIA brochure, the SWIA website and mobile applications. In addition, clients may restrict up to three ETFs (limited to one per asset class or sub-asset class) in each SIP Program account. ETFs designated for restriction by clients will be replaced with alternatives selected by CSIA, in which case the client will forego the opportunity for tax-loss harvesting from this asset class.

## Voting Client Securities

CSIA has adopted written proxy voting policies and procedures (“Procedures”). For proxies voted by CSIA on behalf of each client who delegates voting authority to CSIA (“Delegating Clients”), procedures may be changed as necessary to comply with regulatory requirements and internal policies and procedures and are designed to maximize the economic benefit to Delegating Clients. CSIA has retained a third-party vendor to manage this process and reviews the vendor’s own written policies no less than annually to determine consistency with the Procedures and with CSIA’s fiduciary duty to Delegating Clients.

For proxy issues deemed by CSIA portfolio management staff to raise significant concerns, CSIA reviews the analysis and recommendation of the vendor. Examples of factors that could cause a matter to raise significant concerns include, but are not limited to: issues whose outcomes have the potential to materially affect a company’s industry, or regional or national economy, and matters that involve broad public policy developments that may materially affect the environment in which the company operates. After evaluating all such recommendations, CSIA decides how to vote the shares and will instruct the vendor to vote consistent with its decision.

To address any potential conflicts of interest, CSIA votes proxies of affiliated ETFs in the same proportion as the vote of all other shareholders of the ETF (i.e., “echo vote”), unless otherwise required by law. When required by law, CSIA also “echo votes” proxies of unaffiliated ETFs. When not required to “echo vote,” CSIA delegates to the vendor responsibility for voting proxies of an unaffiliated ETF in accordance with the vendor’s procedures.

Program clients can get a copy of the Procedures and information about how CSIA has voted their securities in a particular proxy vote by calling SWIA at (855) 694-5208.

## Financial Information

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