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Charles Schwab Investment Advisory, Inc. Schwab Managed Portfolios™ Disclosure Brochure

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This brochure provides information about the qualifications and business practices of Charles Schwab Investment Advisory, Inc. ("CSIA" or "Adviser") as an adviser for the above mentioned strategies. 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 ("SEC") or by any state securities authority. CSIA's description of itself in this brochure as a registered investment adviser with the SEC 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.

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Advisory Business

Charles Schwab Investment Advisory, Inc. (“CSIA”) is a wholly owned subsidiary of The Charles Schwab Corporation (“CSCorp”), a Delaware corporation that is publicly traded and listed on the New York Stock Exchange. CSIA is an affiliate of Charles Schwab & Co., Inc. (“Schwab”). In early 2018, Windhaven Investment Management, Inc. and ThomasPartners, Inc. merged into, and became divisions of, CSIA. In anticipation of this merger, on March 30, 2018, CSIA incorporated the existing ThomasPartners® and Windhaven® portfolio management teams to manage the respective assets and assumed fiduciary responsibility for ThomasPartners and Windhaven Strategies formerly managed by these Schwab affiliated investment advisers. CSIA has been registered as an investment adviser since November 5, 2009. Windhaven Investment Management, Inc. was founded in 2010 when CSCorp purchased the assets and intellectual property of Windward Investment Management, Inc., which had been registered as an investment adviser since April 2000 (and registered as Windward Capital Inc. since October 1994). ThomasPartners, Inc. was purchased by CSCorp in December 2012. Prior to this acquisition, ThomasPartners, Inc. traced its roots back to July 1970 under other names, including Shorey-Huntington; during a change in control in 2004, the firm adopted the ThomasPartners name.

This brochure relates to the portfolio management services that CSIA provides for the Schwab Managed Portfolios™ (the “SMP Program” or the “Program”). CSIA also manages portfolios for several other strategies or programs, including: Schwab Intelligent Portfolios® (“SIP”), Windhaven Strategies, and ThomasPartners Strategies (collectively, “Strategies” or “Programs”). The SMP Program consists of various investment strategies, selected by clients, and consists of either mutual funds (“SMP-MF”) or exchange-traded funds, also known as ETFs (“SMP-ETF”), bought and sold for clients on a discretionary basis, as well as a cash investment. CSIA utilizes a proprietary process and models to help guide investment decisions and seeks to manage portfolio risk. The strategies are broadly diversified across asset classes. Understanding and modeling risk is a research priority. Assets in the SMP Program are primarily invested in exchange-traded funds (“ETFs”) and mutual funds (“Funds”).

Clients may impose reasonable restrictions on the management of their account(s) subject to approval by CSIA. See the “Investment Discretion” section of this document for details on potential investment restrictions.

The SMP Program is a wrap fee program sponsored by CSIA's affiliate Schwab. Information relating to CSIA's participation in Wrap Fee Programs is included in the “Other Financial Industry Activities and Affiliations” section of this document. CSIA receives compensation from the program sponsor for the investment management services it provides. More information about the SMP Program is available in Schwab's Disclosure Brochure for Schwab Managed Portfolios provided to Program clients. In addition, upon the request of its affiliate Charles Schwab Trust Company (“CSTC”), CSIA may offer access to some of its Strategies or Programs to CSTC in connection with the management of trust assets.

CSIA offers several types of separately managed account strategies and manages \$70,583,747,656 on a discretionary basis as of 12/31/2018. CSIA also manages \$5,224,382 on a non-discretionary basis as of 12/31/2018.

Fees and Compensation

Pursuant to an agreement between CSIA and Schwab, Schwab pays all costs and expenses incurred by CSIA in connection with the SMP

Program and other services provided by CSIA to Schwab, plus an additional amount based on a fixed percentage of such costs and expenses. Schwab also provides CSIA with human resources, legal, compliance, and other administrative and technological support services. The portion of the costs and expenses paid by Schwab for the work done by CSIA may be adjusted by Schwab and CSIA from time to time as more or fewer resources are required.

The SMP Portfolio Management Teams serve as portfolio managers in the Managed Account Programs offered by Schwab. More specific information about the Managed Account Programs and the fees paid by Managed Account Program clients to participate in the program appears in Schwab's Disclosure Brochure for this program, which is provided to program clients by Schwab. CSIA does not enter into agreements directly with clients of the SMP Program and so does not receive direct compensation from or negotiate fees with them. Management fees are discounted for Schwab employees.

Additional Costs

In addition to the SMP Program Fee, clients may incur additional costs. Schwab will waive all of its trading commissions on SMP accounts managed by CSIA. Please note that Schwab's waiver does not extend to any other non-Schwab broker fees, commissions, account fees, or expenses. Information relating to CSIA's brokerage practices is included in the “Brokerage Practices” section of this document.

ETFs and mutual funds held in SMP portfolios are subject to operating expenses and fees as set forth in the prospectuses of the funds. These fees and expenses are paid by the funds but ultimately are borne by clients as fund shareholders, and are in addition to an investment management fee charged by Schwab. Clients pay the operating expense ratio (“OER”) of ETFs used in the portfolios, including Schwab ETFs™, which affects the performance of SMP program accounts. Schwab and its affiliates earn compensation from certain ETFs used in the portfolios. CSIA may also provide access to certain ETFs, mutual funds, or classes of funds that a client might normally not be qualified to purchase. If an account leaves, these investments may be liquidated or exchanged for the share class corresponding to the size of the client's individual investment in the fund.

Compensation Earned by CSIA Affiliates

Schwab and its affiliates may receive an investment management fee for managing an affiliated ETF or mutual fund, or other forms of compensation in connection with the operation and/or sale of shares of affiliated ETFs or mutual funds or unaffiliated mutual funds, to the extent permitted by applicable law. The fee arrangements are available in the applicable fund's prospectus.

Cash in client accounts, whether as an investment holding in the portfolio or while awaiting pending investment or distribution, is invested in a money market fund that is managed or distributed by a Schwab affiliate, including funds sponsored by Charles Schwab Investment Management, Inc. (“CSIM”) (which is considered a type of “Schwab Cash Vehicle”). While CSIA does not earn additional compensation from such cash, ETF, or mutual fund investments, Schwab and its other affiliates do. This presents a conflict of interest. Program fees are not charged on the value of the Schwab Cash Vehicle for Managed Account Program clients. More information about Schwab Cash Vehicles may be found in the client's brokerage account agreement(s).

CSIA has adopted policies and procedures and maintains a compliance program designed to help manage such actual and potential conflicts of interest, which include the evaluation of the selection

and investment in affiliated mutual funds or ETF investments consistent with CSIA's fiduciary duty.

Performance-Based Fees and Side-by-Side Management

CSIA does not receive or charge any performance-based fees.

Types of Clients

Clients of the SMP Program primarily include individuals, trusts (including trusts directed by an affiliate), charitable organizations, investment clubs, corporations, and other business organizations. Government entities and certain accounts subject to the Employee Retirement Income Security Act of 1974 ("ERISA") are not eligible for this Program.

The minimum investment required to open an account in SMP-MF and SMP-ETF is \$25,000 for all account types. If the market value of a client account falls below this specified minimum due to withdrawal of assets from the account, clients may be required to deposit additional money or securities to bring the account up to the required minimum, and CSIA reserves the right to discontinue management of the account. For clients requesting tax gain/loss harvesting, there is a minimum gain or loss per security in order for CSIA to implement this request.

Methods of Analysis, Investment Strategies, and Risk of Loss

Using strategic asset allocations and fund selection parameters approved by Schwab, CSIA creates diversified portfolios of mutual funds or ETFs combined with a cash investment in a single account for the SMP Program. Each portfolio is designed so that the strategic asset allocation is consistent with a certain combination of investment objectives and risk tolerance. Within both SMP-MF and SMP-ETF, CSIA may implement limited deviations from the strategic allocation ("tactical allocations"). Also, certain portfolios are intended for taxable accounts and others for tax-deferred accounts. Certain portfolios are intended for clients who are looking for some level of income generation. Each SMP-MF portfolio consists of approximately 5–30 mutual funds. Each SMP-ETF portfolio consists of approximately 7–25 ETFs.

CSIA receives a broad range of research from a wide variety of sources that includes Schwab-affiliated entities, other brokers, and independent research providers, including issuers and trading partners. CSIA may use written reports prepared by recognized analysts who are specialists 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, information gathered at meetings of professionals within the industry, and its own research of investment trends.

CSIA creates diversified portfolios that primarily consist of ETFs in a single account for several Programs or Portfolios, such as Schwab Managed Portfolios™ – ETF, Windhaven® Strategies, and Schwab Intelligent Portfolios®. In addition, CSIA provides portfolio management for ThomasPartners® Strategies, which invests primarily in dividend-paying stocks and fixed income investments. Each Program or Portfolio maintains a cash component which may be invested in Schwab Cash Vehicles, a money market fund, an ETF, or similar cash instruments. The guidelines for asset allocations for each differ from the others. There may be times when

clients in different Programs or Portfolios are investing in the same ETF; however, each Program or Portfolio has a separate portfolio management team making investing decisions.

Risk of Loss

There are inherent risks to investing in Schwab Managed Portfolios, including, but not limited to:

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 investment techniques will fail to produce the desired results. There also can be no assurance that all of the key personnel will continue to be associated with the firm for any length of time.

Investment Risks

Investments in securities, including ETFs and mutual funds and the securities that they in turn invest in, involve various risks, including those summarized below. In addition, each ETF and mutual fund 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

The Schwab Managed Portfolios 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 underlying securities, including the risk that the general level of underlying 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 securities in the secondary market or discrepancies between the ETF and the benchmark index with respect to the weighting of securities or the number of securities held. Investing in ETFs carries the risk of capital loss. ETFs are not guaranteed or insured by the FDIC or any other government agency. You can lose money investing in ETFs.

ETFs in which the strategies invest have their own fees and expenses as set forth in the ETF prospectuses. These fees and expenses lower investment returns. Although ETFs themselves are generally classified as equities, the underlying holdings of ETFs can include a variety of asset classes, including, but not limited to, equities, bonds, foreign currencies, physical commodities, and derivatives. A full disclosure of the specific risks of ETFs is located in the respective prospectus of each fund.

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 of 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 Program may invest in ETFs managed by CSIA's affiliate CSIM. Some of these ETFs may have been recently launched. 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.

Mutual Fund Risks

Mutual fund managers may base investment decisions for funds on historical information. There is no guarantee that a strategy based on historical information will produce the desired results in the future. In addition, if market dynamics change, the effectiveness of that kind of strategy may be limited. Either of these risks may cause the investment strategy of a particular fund to underperform its benchmark or similar funds. Mutual funds in which the strategies invest have their own fees and expenses as set forth in the fund prospectuses. These fees and expenses lower investment returns.

Mutual funds 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 of derivatives is that some types of derivatives 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 fund. 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 a fund could not close out a position when it would be most advantageous to do so.

The value of mutual funds can be impacted by the movement of large positions in and out of a particular fund. Clients may collectively account for a large portion of the assets in certain mutual funds. A decision by CSIA to buy or sell some or all of a particular fund where Program clients hold a significant portion of that fund may negatively impact the value of that fund.

Affiliated Mutual Funds Risks

The value of mutual funds can be impacted by the movement of large positions in and out of a particular fund. Because of the limited universe of mutual funds available, Program clients may also collectively account for a large portion of the assets in certain Schwab-affiliated mutual funds. A decision by CSIA to buy or sell some or all of a particular Schwab-affiliated fund where Program clients hold a significant portion of that fund may negatively impact the value of that fund.

Schwab Equity Ratings® Risks

Some of the Schwab affiliate mutual funds in SMP-MF accounts use Schwab Equity Ratings as a principal means of selecting individual equities. Schwab Equity Ratings is Schwab's proprietary

stock evaluation system and evaluates securities on the basis of three primary factors: fundamentals, valuation, and sentiment.

Certain Schwab-affiliate equity mutual funds have limitations arising from their use of the Schwab Equity Ratings. Given that systematic stock evaluation approaches cannot capture all 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 quality of the ratings depends on the accuracy of financial data provided by third parties, including the companies rated through the approach.

Market/Systemic Risks

Equity and fixed income and other global capital markets rise and fall daily. The performance of a client's 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 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 expectations. The more aggressive the strategy selected, the more likely the portfolio will contain larger weights in riskier asset classes, such as equities. The asset classes in which the strategy seeks investment exposure can perform differently at any given time (as well as over the long term), so the strategy will be affected by its allocation among the various asset classes. Depending on market conditions, there may be times where diversified portfolios perform worse than less-diversified portfolios.

Geographic Concentration Risk

Portfolios concentrated in any one geographic region can be more susceptible to that region's political and economic risk. For example, a portfolio that is concentrated in the United States will be more susceptible to the United States' political and economic risk, as compared to a more globally diversified portfolio.

Trading/Liquidity Risks

A particular investment 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 securities on behalf of a client at an advantageous time and/or price due to then-existing trading market conditions.

Large Investment Risks

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

Counterparty Risks

There may be a risk of an executing broker failing to deliver securities, especially due to the large volume of step-out transactions for the Windhaven® and ThomasPartners® Strategies. This may result in a loss to the client. CSIA, working with Schwab, will attempt to mitigate trading counterparty risk through its broker selection program described in "Brokerage Practices."

ETFs may have some “product” or “structural” risk associated with underlying derivatives, as they will sometimes provide market exposure through indirect means, like futures, options, and forward contracts.

Custodian Risks

Schwab is a Securities Investor Protection Corporation (“SIPC”) member brokerage firm and maintains SIPC protection. SIPC offers protection of up to \$500,000, including a \$250,000 limit for cash, if a member brokerage firm fails. SIPC covers most securities, such as stocks, bonds, ETFs, and mutual funds, but does not protect against market loss.

Tax Risks

The SMP Program is not designed to address specific tax objectives. Ongoing investment income, capital gains, capital losses, and miscellaneous deductions for some ETFs, including, but not limited to, certain commodity and currency ETFs, are reported annually on the Schedule K-1, and when certain commodity ETFs are sold in a taxable account, proceeds will be reported on Form 1099-B. For those limited ETFs (e.g., commodity and currency), the Schedule K-1 is mailed separately to clients each year and needs to be included in the clients’ income tax returns. In cases where the entity generating the Schedule K-1 files for a tax extension beyond April 15, clients may receive their Schedule K-1 after the due date for their income tax return. Individual taxpayers who do not request a filing extension may need to file an amended federal and/or state tax return if they receive their Schedule K-1 after filing their original return. Also, gains and losses associated with some commodities may be taxed differently than standard short-term and long-term capital gains and losses. Clients should consult a professional tax advisor for help with their unique situations.

Tax Gain/Loss Harvesting Risks

Beginning in November 2019, clients will be able to request limited tax gain or loss harvesting opportunities in their account. CSIA can accommodate tax gain/loss harvest requests. The request is subject to CSIA approval, and CSIA reserves the right to decline the request if, in its discretion, the security or market changes are such that the requested action is not or is no longer appropriate for tax harvesting. There is no guarantee that a client tax gain/loss harvesting request will reduce, defer, or eliminate the tax liability generated by a client’s investment portfolio in any given tax year. Clients should consult a professional tax advisor for help with their unique situations.

There are several investment-related risks associated with CSIA’s client-requested tax gain/loss harvesting. There is potential that the gain/loss request may: (i) negatively affect the overall performance of their portfolio; (ii) prevent a client’s account from being included in large block trades; instead, the account will be traded separately afterward, which could result in an execution price better or worse than the execution price of the large block trade; (iii) result in a temporary overweight and/or underweight of certain sectors, securities, and/or cash in a client’s portfolio; and (iv) result in disallowed tax losses since CSIA will not consider transactions 30 days prior to its harvesting transactions and will only consider transactions 30 days following its harvesting transactions in the identified account, since CSIA will not consider any other account that the client may have. CSIA may repurchase securities after tax gain harvesting or after the end of the tax loss “wash sale” period at a price higher than that for which they were sold. Securities sold for the purpose of tax loss may or may not be repurchased by CSIA following the 30-day wash sale period. CSIA cannot prevent wash sales that may occur in other accounts

besides the one in which the harvest was requested as a result of the requested gain/loss harvesting activity.

A wash sale is the sale at a loss and purchase of the same or substantially similar security within 30 days of each other. If a wash sale transaction occurs, the Internal Revenue Service may disallow or defer the loss for current tax reporting purposes. More specifically, the wash sale period for any sale at a loss consists of 61 calendar days: the day of the sale, the 30 days before the sale, and the 30 days after the sale. The wash sale rule postpones losses on a sale if replacement shares are bought around the same time.

CSIA will harvest gains and/or losses at the security level only and will not take tax lots into consideration. This means there is potential for a gain to be generated with the sale of the requested security position, despite the security being at a loss overall when combining all tax lots. This may result in partially offsetting the loss being generated and could result in taxes being due on the gains from the sale. This also means that all shares held in this account for the requested security will be sold.

There is the risk that the investment management activity in the client’s account subsequent to the tax gain/loss sale may result in additional realized gains or losses that partially or completely offset the losses realized from the tax gain/loss sale requested.

Underlying Securities Risks

Equity-Related Risks

General Risks

The prices of equity securities, and thus the value of ETFs or mutual funds 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

Large- and/or mid-cap U.S. stocks, along with mutual funds and ETFs that focus on large- and/or mid-cap segments of the U.S. stock market, bear the risk that they 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/or mid-cap U.S. stocks fall behind other types of investments—bonds or small-cap stocks, for instance—the performance of the portion of the investment strategies invested in large- and/or mid-cap stocks may 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 (also 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 the portion of the investment strategies invested in 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 (including cash and cash-like investments), are subject to various risks. As with any investment whose performance is tied to bond markets, the value of a fixed income investment, ETF, or mutual fund will fluctuate, which means that the client could lose money.

Interest Rate Risks

When interest rates rise, bond prices usually fall, and with them the value of an ETF or mutual fund holding the bonds. A decline in interest rates generally causes bond prices to rise, and with them potentially the value of a bond fund or ETF, but could also hurt the performance of an ETF or mutual fund by lowering its yield (which could increase reinvestment risk). The longer the duration of the investments held by an ETF or mutual fund, 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, whether real or perceived, could cause the value of a fixed income security, ETF, or mutual fund to fall. The security, ETF, or mutual fund could lose value if the issuer or guarantor of an investment fails to make timely principal or interest payments or otherwise honor its obligations. The emphasis of a fixed income strategy on relatively higher credit quality and preservation of capital also could cause a security, ETF, or mutual fund to underperform certain other types of bond investments, particularly those that take greater maturity and credit risks.

High-Yield Risks

Investments in ETFs or mutual funds that hold 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 or mutual funds 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 (“FHLB”), maintain limited lines of credit with the U.S. Treasury. Securities issued by other issuers, such as 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.

Bank Loans

Investments in ETFs or mutual funds that hold bank loans are typically below investment grade credit quality and may be subject to more credit risk, including the risk of non-payment of principal or interest. Most bank loans are floating rate, with interest rates tied to LIBOR or another short-term reference rate; substantial increases in interest rates may make it more difficult for issuers to service their debt and cause an increase in loan defaults. Bank loans are typically secured by collateral posted by the issuer, or

guarantees of its affiliates, the value of which may decline and be insufficient to cover repayment of the loan. Many loans are relatively illiquid or are subject to restrictions on resales, have delayed settlement periods, and may be difficult to value, which could have an adverse impact on the ability of the ETF or mutual fund to sell loans at an advantageous time and/or price. Loans are also subject to maturity extension risk and prepayment risk.

State and Regional Risks

To the extent that a security, ETF, or mutual fund invests 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 or mutual fund 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 ETFs or mutual funds that hold 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 or ETFs or mutual funds that hold 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, foreign taxes, and legal standards and practices; differing securities market structures; differing trading and settlement practices; ownership restrictions; 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 securities, ETFs, or mutual funds 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 securities, ETFs, or mutual funds that hold 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 those securities, ETFs, or mutual funds 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 ETFs or mutual funds that hold foreign currency holdings and investments denominated in foreign currencies.

Other Asset Classes Related Risks

Commodities Risks

Commodities involve unique risks that may be distinct from those that affect stocks and bonds, including, but not limited to, worldwide supply and demand factors, weather conditions, currency movements, and international government policies regarding commodity reserves and choice of currency for commodity pricing. Commodities investments may also involve unique risks inherent to investing in derivatives, which may include basis, roll, liquidity, and regulatory risks. A detailed explanation of the risks is available in the prospectus of the respective commodity fund. Commodity pools may be subject to different regulatory requirements than traditional funds governed by the Investment Company Act of 1940.

Hard Asset Risks

The production and distribution 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. Therefore, the return on hard asset securities can deviate from that of the hard asset itself.

Real Estate Risks

Real estate-related investments (and the ETFs or mutual funds that hold them) 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' manager, 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 of 1940.

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 strategies. As the 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 (including historically Windhaven Investment Management, Inc. and ThomasPartners, Inc.) and its (their) employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

Other Financial Industry Activities and Affiliations

As a wholly owned subsidiary of CSCorp, CSIA leverages the resources of CSCorp, Schwab, and their affiliated companies, such as personnel including, but not limited to, its Chief Executive Officer (also CEO of CSIM, an affiliated investment adviser); Chief Compliance Officer ("CCO"); Chief Legal Officer; legal and compliance support; sales, marketing, technology, operations, finance, human resources, and risk management personnel. In some cases, CSIA personnel, including investment management personnel, have reporting relationships to personnel of other entities, including CSIM. Beginning in January 2020, CSIA investment management personnel will become employees of CSIM, at which time they will continue to provide investment management services to CSIA under an inter-company agreement between CSIA and CSIM. In addition, CSIM employees will provide certain related services to CSIA including securities trade execution. These arrangements create the potential for conflicts of interest to arise. These potential conflicts of interest are governed by various policies adopted by CSIA. For example, CSIA has adopted policies and procedures reasonably designed to protect against the misuse of information (and mitigate potential conflicts of interest) whether among Schwab-affiliated entities or entities or individuals outside of Schwab. Other wholly owned subsidiaries of CSCorp are engaged in investment advisory, brokerage, trust, custody, or banking services.

In its role as sponsor of the Program, CSIA's affiliate, Schwab, sets the target asset allocations for each Program portfolio and creates the parameters that determine mutual fund and ETF eligibility for the Program. Although CSIA does not favor any Schwab-affiliate mutual fund or ETF, or disfavor any third-party mutual fund or ETF, in its selection of investments or allocation among investments for Program portfolios, the parameters and eligibility criteria created by Schwab are designed, in part, to favor certain Schwab affiliate mutual funds and ETFs and to disfavor certain third-party mutual funds and ETFs. This results in higher overall compensation to Schwab, CSIM, and the ultimate parent entity, The Charles Schwab Corporation, though not directly to CSIA.

Schwab effects securities transactions for clients in the SMP Program on an agency basis.

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

Code of Ethics

CSIA has adopted a written Code of Ethics (the "Code") pursuant to SEC Rule 204A-1 under the Investment Advisers Act of 1940 (the "Advisers Act"). The Code reflects the fiduciary duty CSIA owes to its clients to avoid activities, interests, and relationships that run contrary to the best interests of CSIA's clients. All Access Persons (employees and other individuals deemed appropriate by the CCO) are required to place clients' interests ahead of their own, engage in personal investing that is in compliance with the Code, and avoid taking advantage of CSIA's position as Adviser. Access Persons are prohibited from using information for

personal profit or the profit of others and from disclosing non-public information to anyone except certain designated employees of CSIA and Schwab.

The Code places restrictions on Access Persons making personal investments in securities traded on behalf of clients, in initial public offerings, and in private placements. Access Persons may not engage in deceptive conduct in connection with the purchase or sale of securities for client accounts and are required to:

(1) pre-clear certain personal securities transactions; (2) report certain personal securities transactions on a quarterly basis; and (3) provide a detailed summary of certain holdings (both initially and annually) that the Access Person has a direct or indirect beneficial interest in. The Code and its requirements are subject to change as necessary to remain current with regulatory requirements and internal business policies and procedures.

A copy of CSIA's Code is available upon request by calling the number located on the front of this brochure.

Participation or Interest in Client Transactions

CSIA's affiliate, Schwab, sponsors the Program and receives compensation from ETFs and mutual funds held in Program accounts. This compensation is in addition to the explicit asset-based fee that Program clients pay to Schwab. CSIM, another CSIA affiliate, earns compensation from affiliated mutual funds and ETFs held in the Program. Similarly, CSIA has a conflict of interest in selecting Schwab ETFs™ and mutual funds, which pay compensation to CSIM. Program clients receive detailed disclosures about Schwab's and CSIM's Program-related compensation in Schwab's Disclosure Brochure for Schwab Managed Portfolios™

CSIA also has a conflict of interest because it selects ETFs and mutual funds that it holds in other client accounts CSIA manages in other Schwab programs. Other affiliates of CSIA, as well as other divisions within CSIA, may buy or sell the same securities for client accounts. These are all inherent conflicts of interest within and among CSIA, Schwab, and its affiliates. CSIA mitigates these conflicts of interest through its policies and procedures, which include the evaluation of the selection and investment in affiliated mutual fund or ETF investments consistent with CSIA's fiduciary duty. Subject to Schwab's oversight as Program sponsor, the investment decision-making processes of CSIA portfolio management teams are separate and independent from Schwab.

Brokerage Practices

CSIA's principal objective in executing client trades is to obtain best execution and to aggregate and allocate trades to achieve fair and equitable treatment of its clients. CSIA has adopted policies and procedures that are designed so that the trading practices do not unfairly or systematically favor one client or group of clients or strategies over another and that, over time, accounts are treated equitably.

Selection of Brokers and Best Execution

CSIA seeks to obtain the best execution for clients' portfolio transactions and will evaluate the quality and cost of services received from broker-dealers/custodians on a periodic and systematic basis. Factors evaluated include execution price, transaction fees, commissions, mark-ups and mark-downs, or brokerage fees ("Brokerage Fees"), promptness and reliability of execution, accuracy of trades, ability to place trades in difficult markets, ability to source liquidity, and confidentiality. In seeking to meet its best execution goal, CSIA considers whether the transaction represents

the best qualitative and quantitative execution, which may not be solely determined by the lowest brokerage fee available. Brokerage Fees are generally considered to be transaction fees, commissions, or mark-ups and mark-downs on the purchase and sale of securities.

For the SMP Program, all brokerage transactions for securities will be routed to Schwab for execution, which may not always obtain as favorable a price as another broker-dealer. SMP Program monitoring and trading are subject to systems as well as technology constraints and availability and, while unlikely, may not take place daily.

Soft Dollars

CSIA does not participate in or actively seek out soft dollar arrangements. Due to its affiliation with Schwab, or participation in certain Broker/Custodian-Related Programs, and/or other brokers with whom CSIA may trade, CSIA may receive certain benefits that it would not otherwise receive, if it did not have an established relationship with these companies. These benefits may include trading, custody, reporting, research, technology, software, and related services that assist the firm in managing and administering client accounts. CSIA is not obligated to direct client transactions to broker-dealers that provide research information.

Trading Process

Trade orders for different strategies (e.g., the SMP Program, the SIP Program, Windhaven Strategies, and ThomasPartners Strategies) are generated by different portfolio management teams, may be on different 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 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.

For the SMP Program accounts, CSIA typically performs maintenance trades and strategy trades. Maintenance trades reflect individual activity in a client account such as initial contributions, additional account contributions, or raising cash for withdrawal ("Maintenance Trades"). Strategy trades impact nearly all client accounts within a strategy and are directed by the SMP Committees ("Strategy Trades").

For the SMP Program accounts, clients 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).

Trade Aggregation

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 may aggregate securities sales or purchases across investment strategies, including Windhaven, ThomasPartners, SMP, or SIP. If trades are not aggregated, clients may pay prices for the transactions that are different from what they may have paid had the trades been aggregated. When aggregating, CSIA may, consistent with its policies and procedures and fiduciary duties, include proprietary and/or employee accounts in an aggregated order. CSIA may exclude from aggregation those client accounts that have relevant restrictions or client activity (e.g., withdrawals pending). In addition, certain securities in client accounts may at times be executed through aggregation but may not be aggregated at CSIA's discretion (e.g., individual bonds).

Program Fees

For the SMP Program, 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 Brokerage Fee to compensate for this risk. Schwab does not act as principal for ETF trades in the SMP Program and does not receive the third-party's Brokerage Fee. In SMP transactions where Schwab uses another broker-dealer acting as an agent, the other broker-dealer may charge a Brokerage Fee. Brokerage Fees for any trades where Schwab uses another broker-dealer acting as either principal or agent are 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 receives remuneration such as liquidity or order flow rebates from a market or firm to which some orders are routed, but its trading practices are designed to achieve best execution. The SMP Program fee will not be reduced or offset by third-party Brokerage Fees. Instead, any Brokerage Fees will reduce the overall return of a client's account.

Trade Rotation

CSIA has a trade rotation process for Maintenance Trades that it uses among client accounts within a single program or across programs (e.g., within or across the SMP Program, the SIP Program, Windhaven® Strategies, or ThomasPartners® Strategies) to prevent any client from being systematically disadvantaged. For Strategy Trades, if more than one program (e.g., the SMP Program and the Windhaven Strategies) wants to trade securities in the same direction that are similar or the same, the CSIA Trading Team will conduct an analysis and then escalate the findings for further instructions on how to proceed with the trades. Trades done on the same day or on different days are not guaranteed to receive the same trading price. CSIA will review its rotation procedures at least annually to confirm that they are adequate to prevent any client from being systematically disadvantaged.

Trade Allocation

Trade allocation procedures are designed to provide that trade allocations are timely, that no set of trade allocations are accomplished to the unfair advantage of one client over another, and that over time client accounts are treated equitably, even though a specific trade may have the effect of benefiting one account over another when viewed in isolation.

Trading orders that can be only partially filled are generally allocated on a pro rata basis or allocated on some other basis consistent with the goal of giving all clients equitable opportunities over time. CSIA may elect to execute trades in a single aggregated trade over multiple days due to volume, liquidity, or other factors. This could include an aggregated trade that is executed over multiple days, where at the end of each day, whatever portion of the trade has been executed is allocated to client accounts, or it could include an aggregated trade that is executed over multiple days, where the full order is held and not allocated to client accounts until fully executed on the final day. Client accounts will receive the average price for those aggregated trades allocated to their account(s), whether at the end of each day of the trade or when the trade is fully completed. There may be some variations in allocations based on account size and security price due to full share allocation methodology. In some cases, the CSIA Trading Team may execute a trade order at the same time it is executing a different 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 opportunities are limited (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 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.

Trade Errors

CSIA maintains policies and procedures that address the identification and correction of trade errors. On those occasions when such an error does occur, CSIA will use reasonable efforts to identify and resolve errors as promptly as possible. CSIA will address and resolve errors on a case-by-case basis, in its discretion, based on the facts and circumstances. CSIA is not obligated to follow any single method of resolving errors but will seek to treat all clients fairly in the resolution of trade errors.

Review of Accounts

CSIA's portfolio managers review, at least quarterly, the performance of SMP Program investment strategies against their applicable benchmarks. Schwab contacts clients participating in the Program at least annually 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. Schwab communicates the information obtained from clients to CSIA as necessary for the management of the account.

Client Referrals and Other Compensation

As explained in "Fees and Compensation," Schwab compensates CSIA for providing portfolio management services in the Program. CSIA does not make payments to its representatives for referring clients to the SMP Program. Schwab makes payments to its representatives for referring clients to the SMP Program, as described in a separate Schwab Managed Portfolios™ Disclosure Brochure.

Other Broker/Custodian-Related Programs

For the ThomasPartners Strategies, CSIA participates in a number of Broker/Custodian-Related Programs sponsored by unaffiliated

firms. These Broker/Custodian-Related Programs and their affiliates provide CSIA with certain economic benefits and access to products and services not typically available to retail clients as a result of CSIA's participation in their programs. Some of the products and services made available by these custodians through their program benefit clients; some products and services may benefit CSIA but not the clients. These products or services may assist CSIA in managing and administering client accounts, including accounts not maintained at the custodian. As part of its fiduciary duties to clients, CSIA strives at all times to put the interests of its clients first.

Custody

Clients use Schwab as custodian for their SMP Program accounts and Schwab, on at least a quarterly basis, will send clients account statements detailing account positions and activities during the preceding period. Clients should review these statements carefully.

Investment Discretion

When clients choose the SMP Portfolios, they sign the applicable new account paperwork giving CSIA authorization to make trades in their account. This investment management discretion is limited to the purchase and sale of securities and investment of cash, and does not include discretion for distributions of cash or securities.

Investments will not exceed the client's funds in the account and a margin balance will not be maintained.

Clients may impose reasonable restrictions on the management of their account, subject to the acceptance of CSIA. Clients invested in SMP-MF may restrict up to three mutual funds in each Program account. Clients invested in SMP-ETF may restrict up to three ETFs in each Program account. Mutual funds and ETFs designated for restriction by clients will be replaced with alternatives selected by CSIA. Clients who enrolled in SMP-MF prior to July 23, 2010, may also restrict third-party mutual fund families, but not mutual fund families affiliated with CSIA.

Subject to meeting minimum security gain/loss thresholds and CSIA's approval, CSIA can accommodate client-requested tax gain/loss harvesting. CSIA reserves the right to decline the request. CSIA will harvest gains and/or losses at the security level only and will not take tax lots into consideration. See the "Tax Gain/Loss Harvesting Risks" section for more details on the risks associated with client tax gain/loss harvesting for the SMP Program.

Voting Client Securities

CSIA has adopted written proxy voting policies and procedures (the "Policy"). 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 vote the proxies. CSIA reviews the vendor's voting guidelines no less than annually to determine consistency with the Policy and with CSIA's fiduciary duty to Delegating Clients.

For proxy issues deemed by SMP portfolio management to raise significant concerns and which relate to those securities that are managed through the Program, 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 the issuer (ETF/fund) or issuer's sponsor/index provider, and matters which involve broad public policy developments which may materially affect the issuer (ETF/fund). 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 mutual funds, ETFs, and Schwab stock in the same proportion as the vote of all other shareholders of the mutual fund, ETF, or stock (i.e., "echo vote"), unless otherwise required by law. When required by law, CSIA also "echo votes" proxies of unaffiliated mutual funds, ETFs, or stock.

Program clients can get a copy of the Policy and information about how CSIA has voted their securities in a particular proxy vote by asking their Schwab representative or calling CSIA at (415) 667-1910. The information will be provided at no charge.

Delegating Clients may not direct voting in a particular solicitation. Clients wishing to retain the ability to vote proxies must submit a separate form to their custodian.

Financial Information

CSIA does not require prepayment of fees and is therefore not required to include a balance sheet for its most recent fiscal year. CSIA (and historically also Windhaven Investment Management, Inc. and ThomasPartners, Inc.) has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.

