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## **Charles Schwab & Co., Inc. Disclosure Brochure for:**

**Schwab Managed Account Services™ Wrap Fee Program**

**Schwab Managed Portfolios™ Wrap Fee Program**

**Schwab Financial Planning Services**

Charles Schwab & Co., Inc.  
211 Main Street  
San Francisco, CA 94105  
Tel: 1-800-435-4000  
[www.schwab.com](http://www.schwab.com)

This wrap fee program brochure provides information about the qualifications and business practices of Charles Schwab & Co., Inc. ("Schwab"). If you have any questions about the contents of this brochure, please contact us at 1-800-435-4000. 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. Schwab's description of itself in this brochure as a Registered Investment Adviser does not imply a certain level of skill or training on the part of Schwab or its representatives.

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

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## Introduction

Charles Schwab & Co., Inc. (“Schwab,” “we,” or “us”) is a dual registrant investment adviser and broker-dealer. Schwab is registered as an investment adviser with the Securities and Exchange Commission (SEC). Schwab is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC).

Schwab is organized as a California corporation formed in 1971. Schwab is an indirect, wholly owned subsidiary of The Charles Schwab Corporation (“CSCorp.”), a Delaware corporation that is publicly traded and listed on the New York Stock Exchange (symbol: SCHW). Schwab’s principal place of business for its investment adviser is in San Francisco, California and the principal place of business for its broker-dealer is in Westlake, Texas.

Schwab sponsors other wrap fee programs and provides referral services described in separate disclosure brochures, which are available upon request.

## Services, Fees, and Compensation

Schwab offers investment advisory accounts where you are charged a single, bundled “wrap” fee (“fee[s]” or “program fee[s]”) for investment advice, brokerage services, custody services, administrative expenses, and other fees and expenses. Your fee is based on a percentage of the value of your account. You will not be charged a commission for each transaction in your account; exceptions are noted below in “Schwab’s Execution Services,” “Execution of Transactions in Fixed Income Securities,” and “Trades Through Other Broker-Dealers” sections. Because Schwab bundles services into a single program fee, total fees to a client in a wrap fee program may be more than obtaining the services separately. Our investment advisory wrap fee programs have varying investment minimum ranges as detailed under each program description.

This brochure describes the following wrap fee programs sponsored by Schwab for clients of Schwab Investor Services:

- Managed Account Services, which consists of:
  - Managed Account Select® (“Select”)
  - Managed Account Connection® (“Connection”)
- Schwab Managed Portfolios™ (“SMP”)

Accounts enrolled in the Select, Connection, or SMP programs are described as “Managed Accounts” or “Accounts” in this brochure.

This brochure also includes information about fee-based Financial Planning Services offered by Schwab.

## Wrap Fee Programs

### Select

The Select program allows you to select one or more third-party money managers (MMs) to manage your Account pursuant to the MM’s stated investment strategy. The program includes Diversified Portfolios, which are also known as multi-strategy portfolios. Schwab periodically evaluates and monitors the MMs and their investment strategies in the program, including conducting operational and performance evaluations. The MMs in the Select program are not affiliates of Schwab.

### Connection

The Connection program allows you to select one or more strategies managed by Charles Schwab Investment Management, Inc. (“CSIM”), a Schwab affiliate, which does business as Schwab Asset Management. CSIM manages and makes trading decisions in Connection program strategies on a discretionary basis. For detailed information about the strategies that CSIM manages, please see CSIM’s disclosure brochure.

In May 2020, as part of the acquisition of the assets of USAA Investment Services Company (“USAA ISCO”) by Schwab (the “Acquisition”), Schwab became the sponsor, and CSIM became the MM, of the USAA Managed Portfolios—UMP® program (the “UMP Program”), which includes UMP Wrap and UMP Custom strategies that were incorporated into the Connection program. The UMP strategies are closed to new investors. Only clients enrolled in UMP strategy Accounts as of May 26, 2020 can maintain and open new UMP Program Accounts.

In 2019, the Charles Schwab Corporation acquired TD Ameritrade, Inc. (“TD Ameritrade”) and its related businesses, including TD Ameritrade Investment Management, Inc. (“TDAIM”). In September 2023, TD Ameritrade Investing Accounts for which TDAIM provided discretionary services known as Selective Portfolios, were transitioned to Schwab (the “Transition”), at which point Schwab became the sponsor, and CSIM became the MM, of the Selective Portfolios strategies through the Connection program. The Selective Portfolios strategies are closed to new investors. Only clients enrolled in Selective Portfolio strategy Accounts as of September 5, 2023 can maintain and open new Selective Portfolio Accounts.

### Schwab Managed Portfolios

The Schwab Managed Portfolios (“SMP”) program allows you to select a diversified portfolio of either mutual funds (MFs) or exchange traded funds (ETFs) in a single Account. CSIM manages and makes trading decisions in the SMP program portfolio on a discretionary basis. For detailed information about the strategies that CSIM manages, please see CSIM’s disclosure brochure. More details on the program portfolios can be found in the SMP services section below.

## Select and Connection Services

In both the Select and Connection programs, an MM manages the investment portfolio on a discretionary basis in your Managed Account. This means that the MM determines which assets to buy, hold, and sell, subject to any permissible restrictions you may impose on your Account. You pay a fee to participate in each program, which covers services provided by Schwab and the MMs. These include the services of a representative to assist you with evaluating and implementing the programs, the custody of securities in your portfolio, the execution of transactions by Schwab, reporting, the administration of the programs, and the discretionary asset management services provided by the MMs. The fee does not cover trades executed by broker-dealers other than Schwab. In addition to the program fees, Schwab may receive separate compensation for some transactions and services as described below. Clients of the programs may include individuals, trusts, charitable organizations, pension and profit-sharing plans, corporations, and other business organizations.

The representative assisting you is typically a Schwab representative, but may also be, in the case of assets in the non-discretionary Schwab Wealth Advisory™ program (“SWA Program”), employees of Schwab’s affiliated investment adviser, Schwab Wealth Advisory, Inc. (SWAI). This brochure refers to all such representatives collectively as “Schwab Representatives” or “SRs.” For more information about the SWA Program and SWAI products and services, the relevant disclosure brochures are available upon request.

## **MM Asset Management Services**

Your selection of an MM to manage your Account is subject to acceptance by the MM. An MM may decline to manage your Account based on your investment objectives, financial situation, requested investment restrictions, or for other reasons. If the MM accepts your Account, the MM will provide discretionary investment advisory services and will be responsible for all investment decisions in your Account (except for any reasonable restrictions you may impose on the management of your Account, as described below). You authorize the MM you select to manage your assets on a discretionary basis by buying and/or selling individual stocks, bonds, money market instruments, money market funds, or other instruments when the MM determines appropriate without your approval of each transaction. In managing your Account, the MM will employ the investment strategy you have chosen for your Account. The MM’s Form ADV brochure (“MM brochure”) and its profile (“MM Profile”) (see “Information About MMs”) describe each MM and its investment strategies. The MM’s discretionary authority will remain in full force and effect, even if you become incompetent or disabled, unless you revoke or terminate the MM’s authority via notice to Schwab. In your client account application, you agree not to effect trades in your Account while an MM is managing the Account, and Schwab may block you from placing any trades in your Account. You should not attempt to place trades in your Account unless and until you terminate your MM’s authority by giving Schwab at least two business days’ notice. MMs do not have authorization to withdraw or transfer any money, securities, or other property, either in your name or otherwise, except as necessary to pay for or execute transactions in your Account.

In completing your client account application, you will provide information about yourself and your investment objectives.

You will have the opportunity to impose reasonable restrictions on the management of your Account. You may request that specified securities, or categories of securities, not be purchased for your Account, subject to the approval of your MM. Your MM may decline your request if they decide it is unreasonable. You will not be able to impose restrictions on individual holdings in a mutual fund or ETF. The MM managing your Account implements and monitors any restrictions you place on the management of your Account. Schwab will forward a copy of your client account application and any restrictions you want to impose on your Account to any MM you designate. Accounts with investment restrictions may perform differently than Accounts without restrictions; performance may be lower or higher for Accounts with restrictions than for those without restrictions. Since the MM’s performance composite typically does not include Accounts with restrictions, if your Account has restrictions the performance of your Account may be different than the MM’s performance composite; additionally, ongoing or periodic performance monitoring Schwab may conduct on the MM’s performance may not include Accounts with restrictions.

You may have the opportunity to request that the MM realize gains or losses in your Account for tax reasons. This may include the sale of positions with unrealized losses/gains above a certain amount, or the sale of specified securities. You are responsible for ensuring you understand the methodology the MM uses to harvest gains or losses in your Account, the potential risks to the investment and management of your portfolio, potential operational risks, and any tax implications. The MM’s brochures outline these and other risks.

In all trade executions effected by or through Schwab in your Account, Schwab is acting exclusively as a broker-dealer, and not as an investment adviser. Any MM you select is responsible for managing your Account in a manner consistent with that MM’s stated investment strategy, subject to reasonable restrictions you impose. Schwab, as executing broker-dealer, is not responsible for the MM’s performance, its adherence to its investment strategy or your restrictions, its compliance with applicable laws and regulations, or other matters within the MM’s control.

With respect to some of the MM services described above, CSIM’s management of Selective Portfolios Accounts will be different from your experience under TDAIM’s management prior to the Transition.

- You will be able to restrict up to three mutual funds or ETF ticker symbols in each Selective Portfolios Account.
- The automatic tax-loss harvesting feature offered by TDAIM in taxable Accounts utilizing the Selective Portfolios services will no longer be available. Additionally, there will be limits on the number of positions, minimum loss amount and frequency with respect to client-initiated requests for tax-loss harvesting in Selective Portfolios Accounts.
- Fractional shares of ETFs will not be part of CSIM’s Selective Portfolios strategy, and any consolidated fractional positions you have accumulated in your Account will be sold over time and the proceeds reinvested.
- CSIM will not automatically reinvest mutual fund dividends in your Selective Portfolios Account but will instead invest dividend proceeds consistent with the investment strategy for your Selective Portfolios Account.
- Other operational differences under Schwab’s sponsorship and CSIM’s management are described below in the relevant sections.

## **SR Services — Change in Your Circumstances**

An SR will help you determine which programs, strategies, and MMs are appropriate for you. To give you the appropriate advice, your SR will review your financial situation, asset allocation, investment objectives, risk tolerance, and time horizon with you. Not all account types are available to all clients and each account type is subject to investment minimums.

If material changes occur to your financial circumstances or investment objectives, or you wish to impose or modify restrictions on the management of your Account, you should promptly inform an SR.

You should direct questions concerning your Account to an SR, and an SR will facilitate any contact you have with an MM. You may change MMs or investment strategies, or switch an Account from one program to another, at any time by submitting the form prescribed by Schwab for that purpose. An MM also may terminate a relationship with you at any time upon 30 days’ notice to you and Schwab.

## **SMP Services**

### **SMP-MF**

There are 12 mutual fund investment strategies in SMP—six using taxable bond funds and six using municipal bond funds (collectively, “SMP-MF with New Models”). SMP-MF with New Models include five asset groups—domestic equity, international equity, real assets (for example, real

estate, commodities, or other tangible assets as may be appropriate), fixed income, and cash investments—and correspond to six investing goals—conservative income, income with growth, balanced, balanced with growth, growth, and aggressive growth.

SMP-MF initially comprised four allocation models using taxable bond funds and four allocation models using municipal bond funds (collectively, “SMP-MF with Standard Models”). SMP-MF with Standard Models included four asset groups—domestic equity, international equity, bond funds, and cash investments—and corresponded to four risk tolerance levels—aggressive, moderately aggressive, moderate, and moderately conservative. SMP-MF with Standard Models is closed to new enrollments.

#### **Selection of Funds**

CSIM does not select mutual funds for the SMP program from all the mutual funds available to investors. Pursuant to parameters established by Schwab, CSIM selects from a universe of mutual funds that: (1) are managed by CSIM (“Schwab Funds®”); or (2) participate in the Schwab Mutual Fund OneSource® service or otherwise pay shareholder servicing fees to Schwab (collectively, “no-transaction-fee” or “NTF funds”); or (3) are non-retail share classes that meet certain inclusion criteria (“Non-Retail Share Classes”). The “Participation or Interest in Client Transactions” section describes the Non-Retail Share Class inclusion criteria and fees these funds pay to Schwab.

SMP-MF Blend with New Models portfolios target use of Schwab Funds within each asset class with an exposure between 25% and 50% at the asset class level. SMP-MF Blend with Standard Models target use of Schwab Funds within the domestic equity asset class.

While target allocations may vary due to portfolio drift and other reasons described below, CSIM resets the target allocation each year as part of the annual portfolio rebalancing. If an affiliated mutual fund is not available or suitable, CSIM will select a third-party fund. SMP-MF Third Party portfolios are composed entirely of third-party funds. The program strategies are limited to investing in fund families that participate in Schwab's Mutual Fund Marketplace® or have a separate agreement with Schwab where Schwab provides administrative and shareholder services. CSIM has a conflict of interest in the evaluation of the appropriateness or suitability of Schwab Funds for use in the SMP program because CSIM also manages and receives compensation from Schwab Funds, as described in the “Other Financial Industry Activities and Affiliations” and “Participation or Interest in Client Transactions” sections.

SMP-MF Blend with Standard Models use Schwab Funds in U.S. large and small cap and third-party mutual funds within international and fixed income. SMP-MF Blend with New Models use Schwab Funds and third-party mutual funds across all asset classes, with a target of 25%-50% Schwab Funds within each asset class. Where CSIM cannot use Schwab Funds due to investment capacity or inventory, or otherwise does not allow for adequate diversification within that asset class, it will select from eligible third-party mutual funds.

SMP-MF Third-Party with Standard Models and SMP-MF Third Party with New Models only use third-party mutual funds across all asset classes.

CSIM may use Schwab-affiliated index funds where no other actively managed Schwab Funds meet the relevant selection criteria, or to complete a portion of the domestic equity allocation for diversification purposes. As a result of these criteria set by Schwab, the overall universe of available funds is significantly smaller than the universe of available funds CSIM evaluates for the domestic equity allocation of SMP-MF Third Party.

The proportion of an SMP-MF Blend with Standard Models account CSIM initially invests in Schwab Funds varies depending on the model allocation. CSIM has discretion to allocate the domestic equity portion of an SMP-MF Blend with Standard Models account entirely into other actively managed Schwab Funds, entirely into Schwab-affiliated index funds, or into any combination of actively managed and index Schwab Funds. Because of the limited universe of funds available, SMP clients may collectively account for a large portion of the assets in certain Schwab Funds. Program restrictions set a target maximum concentration of program assets within any strategy.

SMP-MF Blend with New Models portfolios are composed of unaffiliated third-party mutual funds (using the same selection process described for SMP-MF Third Party funds) and Schwab Funds and other actively managed Schwab Funds. CSIM may also invest in Schwab Fundamental Index<sup>1</sup> Funds. If CSIM cannot use Schwab Funds® due to insufficient ratings, capacity, or inventory, CSIM will select eligible third-party mutual funds. CSIM uses third-party funds when clients place restrictions prohibiting the use of Schwab Funds®. Alternate funds (i.e., those used when a client has restricted a primary fund) may be actively managed or are passive index mutual funds and are subject to fund eligibility requirements.

#### **Other Considerations in SMP-MF**

CSIM may make tactical allocations across asset classes. In any asset class where there are not sufficient mutual funds that meet CSIM's eligibility criteria, CSIM can substitute third-party ETFs. If a mutual fund later satisfies all investment requirements, CSIM will replace the ETF.

Each year, CSIM considers the likelihood of a significant capital gain distribution associated with each fund in the program. If CSIM expects a significant distribution for a mutual fund, CSIM may purchase an ETF and hold it instead of the fund in certain accounts. CSIM may make such a substitution only for new deposits and only in Accounts invested in a program allocation that includes municipal bond mutual funds or municipal money market funds. After a mutual fund makes a significant distribution, and no later than January 15 of that year, CSIM will then replace the ETF with the mutual fund. Client holdings and investment returns in program Accounts where a substitution took place will vary from other program holdings and returns during the substitution period. Affected clients may also be subject to short-term capital gains tax on the eventual sale of the ETF.

Municipal bond mutual funds that have small allocations to bonds subject to the alternative minimum tax (AMT) are eligible for models using such funds if there are not enough AMT-free mutual funds that meet CSIM's eligibility and selection criteria to adequately diversify the portfolios.

CSIM did not design SMP-MF to address specific tax objectives.

#### **SMP-ETFs**

There are six ETF investment strategies available in SMP. The available strategies include the following: conservative, income with growth, balanced, balanced with growth, growth, and aggressive growth. Schwab may change, add, or remove available investment strategies at any time. Within the investment strategies, CSIM may implement limited deviations from the strategic allocation, which are referred to as tactical allocations.

#### **ETF Selection**

Pursuant to parameters established by Schwab, CSIM does not select ETFs for the SMP program from among all the ETFs available to investors. For SMP-ETF Blend, CSIM first selects Schwab ETFs™. If there are no eligible Schwab ETFs in this population, CSIM will select another eligible ETF. Please see “Participation or Interest in Client Transactions” for a description of the fees that Schwab ETFs pay to CSIM.

<sup>1</sup> Fundamental Index is a registered trademark of Research Affiliates, LLC



### **SMP-ETF Blend Portfolios and Use of Schwab ETFs**

SMP-ETF Blend is built around both a core strategic asset allocation and portfolio tilts (i.e., trades CSIM executes to take advantage of what it believes are limited short-term trading opportunities to outperform the portfolio benchmark). CSIM gives preference to Schwab ETFs, where available, when executing portfolio tilts. However, where no Schwab ETF is available that will allow CSIM to implement its portfolio tilt, CSIM may choose to sell some or all of its allocation to a Schwab ETF and replace it with a third-party ETF to implement a portfolio tilt. In all cases, these substitutions will be temporary and based on the duration of the tactical opportunity.

CSIM can choose to select Schwab ETFs for these portfolios per Schwab parameters. The percentage of an SMP-ETF Blend Account initially invested in Schwab ETFs varies significantly, depending on the model allocation. CSIM has discretion to allocate any portion, up to 100%, of a portfolio into Schwab ETFs.

If a Schwab ETF is otherwise eligible and meets CSIM's criteria for inclusion in SMP-ETF Blend after a client's enrollment, Schwab's program rebalancing rules require CSIM to substitute the Schwab ETF for the third-party ETF at the time of the client's annual rebalancing, even if the third-party ETF's performance is better than the Schwab ETF's performance and/or CSIM otherwise prefers the third-party ETF.

CSIM selects third-party ETFs for the SMP-ETF Blend portfolios and SMP-ETF Third Party portfolios from its list of eligible ETFs. While CSIM may choose to keep existing clients in an ETF that is no longer on the predetermined list of eligible ETFs, CSIM will remove clients from any ETF not on the list once CSIM determines that replacement of the fund is in the best interests of the client. Once CSIM removes an ETF from the list, it will designate a different eligible ETF for use with new investors.

SMP-ETF Third Party is built around both a core strategic asset allocation and portfolio tilts where the Portfolio Manager can take advantage of short-term trading opportunities in market segments perceived as undervalued or overvalued.

### **Other Considerations in SMP-ETFs**

CSIM may rebalance Accounts at any time if the allocation of the ETFs in your Account deviates from certain investment objectives by more than a specified amount from the recommended allocation due to changes in the ETFs' values.

### **Tax-Gain/Loss Harvesting**

Subject to requirements described below, clients can request for CSIM to realize limited tax gain or loss opportunities in an Account on a transaction-specific basis. If CSIM accepts, such a request will result in the sale of specific securities with unrealized losses or gains above certain amounts.

SRs do not provide advice on whether tax gain or loss opportunities are appropriate for clients. Clients decide whether and when to elect this option as well as what securities to select. All such requests are subject to CSIM's approval. Gain/loss opportunities will not be identified on an individual tax lot basis. CSIM will seek to implement such requests to harvest tax losses or gains, but the program design does not seek to achieve a specific tax objective.

Clients must make a new request for each tax-loss harvesting transaction; CSIM will not accept standing requests for tax-loss harvesting in the Account. Requests are subject to a minimum gain/loss amount from the sale of the securities, which CSIM determines in its sole discretion.

For additional details about the tax-loss harvesting feature, please also refer to the CSIM disclosure brochure.

CSIM will sell securities in the client's Account at a gain or loss to offset or lower potential tax consequences (although CSIM does not monitor the type and amount of capital gains/losses). The performance of the new securities may be better or worse than the performance of the securities sold for tax-gain/loss harvesting purposes. The use of gains/losses harvested through the strategy will depend upon the recognition of capital gains/losses in the same or a future tax period and may be subject to limitations under applicable tax laws.

Clients can generally carry forward losses harvested through the strategy that are not used in the tax period when recognized to offset future capital gains, if any. Clients should consult with their professional tax advisors or check the Internal Revenue Service (IRS) website at [irs.gov](https://www.irs.gov) about the consequences of tax-gain/loss harvesting, including impact on their tax return, considering their circumstances. Neither the tax-gain/loss harvesting strategy for the program, nor any discussion herein, is intended as tax advice, and neither Schwab nor CSIM represents that any particular tax consequences will be obtained.

CSIM only considers the Account and security the client requests to determine if there are unrealized gains or losses and whether to harvest such gains or losses, respectively.

A "wash sale" is the sale at a loss and purchase of the same or similar security within 30 days of each other. If a wash sale transaction occurs, the IRS may disallow or defer the loss for current tax reporting purposes. 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 the purchase of replacement shares occurs around the same time.

The effectiveness of the tax-gain/loss harvesting strategy to reduce the tax liability of the client will depend on the client's entire tax and investment profile, including purchases and dispositions in a client's (or client's spouse's) Accounts outside of the program and type of investments (e.g., taxable or nontaxable) or holding period (e.g., short term or long term).

There is no guarantee that the tax-gain/loss harvesting strategy will reduce, defer, or eliminate the tax liability generated by a client's investment portfolio in any given tax year.

Transactions in other Accounts may affect the successful harvest of a gain or loss and, if so, whether the client can use that gain or loss most efficiently. If a client requests tax-gain/loss harvesting for a particular security in an Account, CSIM will seek to avoid the wash sale disallowance rule for only 30 days following the harvesting transaction in the designated Account and not for other time periods or in any other accounts. Clients are responsible for monitoring their and their spouse's other accounts (at Schwab or with another firm) to ensure that transactions in the same ETF or a substantially similar security do not create a wash sale.

### **Select and Connection Program Fees**

Schwab charges the program fee based on a percentage of the asset value of your Account for the services provided by Schwab and the MMs. The following tables show the standard fee schedule expressed as an annual rate. Schwab charges the program fee, including any applicable investment management fee in UMP Custom, to your Account on a quarterly basis. From time to time, Schwab may, at its sole discretion, reduce

or change the applicable fee schedule for particular clients or groups of clients as a result of individual negotiations or promotional offers. Your Schwab account application and any amendments thereto specify the exact fee schedule that will apply to your Account. Schwab may change the fee schedule applicable to your Account by notice to you per your account application and your Schwab account agreement.

Schwab assigns your Account to a fee schedule based on the asset type(s) of the investment strategy you have chosen in each program, as shown in the column headings in the tables below. Program fees are tiered for assets in the same category—i.e., as the market value of your Accounts in the same schedule reaches a higher breakpoint, as set forth below, the charges for assets within each breakpoint schedule are at a lower rate.

In the Select program, there are two different fee schedules for municipal bond ladder strategies. For Accounts enrolled in municipal bond ladder strategies after January 1, 2021, the schedules with higher fees generally apply, which coincided with the launch of the lower cost, affiliated Wasmer Schroeder municipal bond ladder strategies in the Connection program. The lower fee schedules apply to Accounts enrolled in municipal bond ladder strategies before January 1, 2021. If you or someone in your household (i.e., generally, a person with the same last name living at the same address): (1) opened a municipal bond ladder strategy Account before January 1, 2021; and (2) has continuously maintained at least one municipal bond ladder strategy Account since the time of your initial enrollment, the lower fee schedules will apply to new municipal bond ladder strategy Accounts that you enroll in.

Schwab calculates your quarterly program fee by multiplying the daily value of the assets in your Account for each calendar day in the quarter by the applicable daily fee rate (i.e., the annual rate divided by the number of days in that year) and then adding together the fee for each calendar day in the quarter. On the last business day of each quarter, Schwab estimates the value of your Account assets by using the asset values of the Account on the next-to-last business day of that quarter. This brochure refers to this calculation as the “Actual Daily Balance Method.” Because Schwab bills the program fee to your Account quarterly rather than yearly, the fee you pay on an annual basis may be higher than the annual rate due to compounding effects.

The actual daily balance method is different from the method used by USAA ISCO to calculate program fees in the UMP Program, which will result in a higher (or lower) program fee in some circumstances. To reduce the likelihood that you will pay a higher program fee, Schwab does not charge a program fee on cash in UMP Program Accounts, as “Investment in Affiliated and Other Funds” explains below. In a UMP Custom Account, Schwab adds an investment management fee to the program fee. Schwab calculates the investment management fee by multiplying the daily balance of equity holdings (including common stock, Real Estate Investment Trusts, and ETFs with underlying equity exposure) and fixed income holdings (including individual bonds and ETFs with underlying fixed income exposure) by the investment management fee rate for that asset class. Mutual funds, money market funds, or cash balances are not subject to the investment management fee.

For Select or Connection Accounts that are part of SWA households, as defined in the SWA disclosure brochure and SWA advisory agreement, the fees set forth below apply, and these Accounts are grouped with other accounts in the SWA household for the purpose of meeting account minimums for enrollment, and for quarterly fee minimums.

#### **Payment of Program Fees and Other Charges**

Schwab will deduct the program fees from your Account on the last business day of the quarter. Schwab will deduct other charges from your Account as they are incurred. The program fees and other charges are payable from free credit balances, if any, in your Account. If there are no free credit balances in your Account, Schwab will redeem money market fund shares in your Account to cover the charges or notify you to deposit additional funds into your Account. Schwab reserves the right to liquidate at any time a portion of the other assets in your Account to cover the program fee or other charges. Liquidation can affect the relative balance of your Account and also may have tax consequences. Schwab will withhold any tax to the extent required by law, and may remit the tax to the appropriate governmental authority.

Schwab permits the designation of single billing accounts in the programs—i.e., accounts which you designate to pay program fees for other accounts. However, designated billing accounts may not be enrolled in the programs themselves, including Selective Portfolios or the UMP Program.

#### **Valuation**

For the purpose of calculating the program fees, Schwab will value a security listed on a national securities exchange as of the valuation date at the closing or last sale price on the principal market where the security is traded. If you have an investment strategy that uses options, Schwab will not take into account any negative valuation arising from an option position held in your Account.

Schwab will value any other securities or investments in your Account in a manner determined in good faith to reflect fair value. The actual prices at which you could buy or sell the securities may be different from the prices used to calculate the fee. Any such valuation is not a guarantee of the value of the assets in your Account. In computing the value of securities in your Account, Schwab may use a pricing service or other independent evaluator, as well as other independent sources. While Schwab believes these sources to be reliable, Schwab does not verify them or guarantee their accuracy.

#### **Amount of Fees**

The fees for the Select and Connection programs may be more or less than you would pay if you purchased separately the types of services included in the programs. You may be able to obtain some or all of the types of services available through the programs on a stand-alone basis through Schwab or other firms. For example, you could separately purchase execution services from Schwab, and you could choose to either pay a commission for each transaction or pay an asset-based fee that would cover all transactions. Similarly, you could separately contract with an MM to manage your assets, although the MM's minimum account size for accounts outside the Select and Connection programs may be higher than the minimum for program Accounts, and the MM might charge a different fee. Depending upon the circumstances, the total of any separately paid charges may be higher or lower than the fees for the programs. Factors that bear upon the cost of each of the programs in relation to the cost of the same services purchased separately include, among other things, the type and size of your Account (and other Accounts that you may be able to combine to determine fee breakpoints), the historical and expected size or number of trades for your Account, and the number and range of supplementary advisory and other services provided to your Account. The program fee also may be higher or lower than the fees charged by other firms for comparable services. An investment strategy available through the programs may be similar to a mutual fund managed by the same MM, and the operating expenses of such a mutual fund may be lower or higher than the program fee. Strategies managed by CSIM that are available through the Connection program may be similar to strategies that may be available in programs maintained by other brokerage firms. Because CSIM and Schwab are affiliates, Schwab and its affiliates taken together generate more combined revenue if you open a Connection program Account than if you open a Select program Account. This structure creates a potential conflict of interest. Schwab addresses these conflicts



through written parameters designed to promote recommendations in clients' best interest and to detect and deter recommendations that are not in clients' best interest.

**Standard Program Fee Schedules for Connection (Effective April 1, 2022)**

Tier	Tier Chargeable Assets	Equity Strategies Tier Annual Rate	Diversified Strategies Tier Annual Rate	Balanced Strategies Tier Annual Rate	Index-Based Strategies Tier Annual Rate	Fixed Income Strategies Tier Annual Rate*	Municipal Bond Ladder Strategies Tier Annual Rate	Tier	Tier Chargeable Assets	Ultra Short Strategies Tier Annual Rate*
1	First \$500,000	0.90%	0.95%	0.80%	0.40%	0.55%	0.35%	1	First \$20 million	0.15%
2	Next \$500,000 (over \$500K up to \$1M)	0.80%	0.90%	0.70%	0.40%	0.50%	0.35%	2	Next \$10 million (over \$20M up to \$30M)	0.12%
3	Next \$1 million (over \$1M up to \$2M)	0.70%	0.80%	0.60%	0.40%	0.45%	0.30%	3	Next \$20 million (over \$30M up to \$50M)	0.10%
4	Assets over \$2 million	0.50%	0.70%	0.40%	0.35%	0.35%	0.25%	4	Assets over \$50 million	0.08%

\*In the Connection program, taxable bond ladders charges are according to the fixed income fee schedule and Treasury Bond Ladders are charged according to the ultra short fee schedule.

**Standard Program Fee Schedule for Selective Portfolios (Effective September 2023)**

Tier	Tier Chargeable Assets	Core MF Strategies Tier Annual Rate	Core ETF and Opportunistic Strategies Tier Annual Rate
1	First \$100,000	0.90%	0.90%
2	Next \$150,000 (over \$100K up to \$250K)	0.70%	0.75%
3	Next \$250,000 (over \$250K up to \$500K)	0.50%	0.75%
4	Next \$500,000 (over \$500K up to \$1M)	0.30%	0.65%
5	Assets over \$1 million	0.20%	0.50%

**Standard Program Fee Schedule for UMP Wrap (Effective October 1, 2021)**

Tier	Tier Chargeable Assets	UMP MF Wrap Strategies (USAA and Marketplace) Tier Annual Rate	UMP Wrap ETF and Blend Wrap Strategies Tier Annual Rate
1	First \$100,000	0.90%	0.90%
2	Next \$150,000 (over \$100K up to \$250K)	0.70%	0.75%
3	Next \$250,000 (over \$250K up to \$500K)	0.50%	0.75%
4	Next \$500,000 (over \$500K up to \$1M)	0.30%	0.65%
5	Assets over \$1 million	0.20%	0.50%

**Standard Program Fee Schedule for UMP Custom (Effective October 1, 2021)**

Tier	Tier Chargeable Assets	UMP Custom Asset Allocation Strategies			UMP ETF Wrap Strategies	
		Program Fee	Investment Management Fee		Program Fee	Investment Management Fee
		Tier Annual Rate	Equity Holdings Rate	Fixed Income Holdings Rate	Tier Annual Rate	Fixed Income Holdings Rate
1	First \$125,000	1.10%	0.60%	0.25%	0.30%	0.25%
2	Next \$125,000 (over \$125K up to \$250K)	1.00%	0.60%	0.25%	0.30%	0.25%
3	Next \$250,000 (over \$250K up to \$500K)	0.85%	0.60%	0.25%	0.30%	0.25%
4	Next \$500,000 (over \$500K up to \$1M)	0.75%	0.50%	0.20%	0.30%	0.20%

5	Next \$1 million (over \$1M up to \$2M)	0.65%	0.40%	0.15%	0.30%	0.15%
6	Assets over \$2 million	0.50%	0.25%	0.10%	0.20%	0.10%

### Connection Advisory Program Credit

In Individual Retirement Accounts (IRAs) and other retirement accounts enrolled in the Connection program (“Connection Retirement Account(s)”), the program fee will be offset by direct and indirect payments to Schwab, CSIM, or their affiliates generated from the mutual funds, ETFs, or other investments (“Retirement Account Remuneration”). Schwab calculates an advisory program credit monthly to reduce or offset the program fee you may pay to Schwab by the amount of the Retirement Account Remuneration, if any, that Schwab, CSIM, or their affiliates receive as a direct result of investments in your Connection Retirement Accounts, as this brochure further describes. Schwab will typically deposit the monthly advisory program credit to your Connection Retirement Accounts as soon as reasonably practicable, but no later than the 25th of the following month in which Schwab, CSIM, or their affiliates process the payment.

### Standard Program Fee Schedule for Select (Effective January 1, 2021)

Tier	Tier Chargeable Assets	Equity Strategies Tier Annual Rate	Diversified Portfolios Strategies Tier Annual Rate	Balanced and Index- Based Strategies Tier Annual Rate	Fixed Income and Corporate Bond Ladder Strategies Tier Annual Rate	Municipal Bond Ladder Strategies Tier Annual Rate
1	First \$500,000	1.00%	0.95%	0.95%	0.65%	0.45%
2	Next \$500,000 (over \$500K up to \$1M)	0.97%	0.90%	0.90%	0.60%	0.45%
3	Next \$1 million (over \$1M up to \$2M)	0.95%	0.80%	0.80%	0.57%	0.40%
4	Assets over \$2 million	0.75%	0.70%	0.70%	0.45%	0.35%

### Account Grouping

Program Accounts with the same address of record or Social Security number, among other factors, are defined as an “Account Group” and will generally be combined for fee calculation purposes to achieve lower fee breakpoints within each strategy category. Each strategy category has a separate schedule in the Program Fee Schedules. Only Accounts within the same strategy category may be grouped to achieve lower fee breakpoints. Selective Portfolios strategies have multiple fee schedules, however they are considered to be in the same strategy category and therefore Accounts in those strategies may be grouped together to achieve lower fee breakpoints. Similarly, UMP Wrap and UMP Custom strategies have multiple fee schedules, however they are considered to be in the same strategy category and therefore Accounts in those strategies may be grouped together to achieve lower fee breakpoints.

An Account Group may also include Accounts of the beneficial owner's (1) spouse; (2) parents, grandparents, and great-grandparents; (3) children, grandchildren, great-grandchildren, and their spouses; (4) siblings and their spouses; and (5) an individual whose relationship to the beneficial owner, while not listed in the foregoing, is similar to one of the enumerated relationships. Selective Portfolios Accounts and UMP Program Accounts opened initially at Schwab will be subject to the Account Group criteria described above, but Accounts originally opened at TD Ameritrade or USAA ISCO that transferred to Schwab retain the groupings assigned to them prior to the Transition or Acquisition.

For Accounts in a strategy category that are subject to the same fee schedule, Schwab calculates account grouping fees in the programs by totaling the market value of the chargeable assets in client Accounts within the Account Group and charging those Accounts according to the applicable fee schedule. For Accounts in Selective Portfolios or the UMP Program, Schwab calculates account grouping fees—i.e., the program fee and any applicable investment management fee—by totaling the market value of the chargeable assets in client Accounts within the Account Group and charging those Accounts an apportioned rate according to the applicable fee schedule(s). The fee is allocated on a pro rata basis to each Account in that Account Group. Each Account's fee amount is calculated by computing the market value of each Account as a percentage of the total market value of all Accounts within the Account Group.

Individual Retirement Accounts (“IRAs”), Roth IRAs, and Education IRAs, as well as Simplified Employee Pension IRAs (“SEP-IRAs”), Savings Incentive Match Plan for Employees IRAs (“SIMPLE IRAs”), and other personal retirement accounts may be aggregated for this purpose. However, other retirement plan accounts subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), as well as charitable remainder trusts, may only be aggregated with Accounts that have identical account registrations.

### MM Compensation

Under Schwab's agreements with the MMs in both programs, Schwab pays each MM for the discretionary investment advisory services it provides. Schwab pays MMs between 0.35% and 0.50% of assets under management for equity investment strategies and between 0.15% and 0.40% for fixed income investment strategies and balanced and equity index strategies. The fees paid by Schwab to CSIM vary by strategy. For further information about the agreements between Schwab and CSIM, please see CSIM's disclosure brochure. The MM's fee rate will generally become lower as total program assets managed by the MM reach certain levels, although some MMs may be paid on a fee schedule that does not include breakpoints. MMs may pay Schwab to participate in seminars organized by Schwab and attended by Schwab representatives, clients, or investment advisers doing business with Schwab Advisor Services™ (which serves independent investment advisers and includes the custody, trading, and support services of Schwab). MM participation in these seminars is not required by Schwab.

### Services Covered by the Program Fee

The program fee for the Select and Connection programs covers the MM's asset management services, as well as the following services provided by Schwab: (1) execution of transactions in equity securities, ETFs, exchange-traded notes, and agency transactions in fixed income securities; (2) custody of account assets; (3) program administration; (4) monthly or quarterly account statements depending upon activity in your Account; (5) quarterly performance reporting; and (6) the services of an SR relating to program Accounts.

The program fee for the Select and Connection programs covers trade executions for transactions in equity securities executed through Schwab as agent. The program fee for the Select and Connection programs does not include (1) execution of transactions in fixed income securities by Schwab as principal or (2) execution of transactions in securities by other broker-dealers.

The investment management fee in UMP Custom Accounts is separate from and in addition to the program fee. The investment management fee covers the additional services, including expanded oversight, associated with the management of a UMP Custom Account containing one or more investment strategies with underlying assets as described below under the heading “USAA Managed Portfolios—UMP®.”

### SMP Program Fees

Schwab charges a quarterly wrap fee (the “SMP program fee”) that is applied against all assets in SMP program Accounts (“Eligible Assets”). As the market value of an Account reaches a higher breakpoint, as shown in the tables below, the charges for assets within that higher breakpoint category are at a lower rate. Schwab calculates the quarterly SMP program fee by multiplying the daily value of the assets in your Account for each calendar day in the quarter by the applicable daily fee rate (i.e., the annual rate divided by the number of days in that year) and then adding together the fee for each calendar day in the quarter. Because Schwab bills the SMP program fee to your Account quarterly rather than yearly, the fee you pay on an annual basis may be higher than the annual rate due to compounding effects.

Schwab may combine Accounts subject to the same fee schedule in the same billing group with other eligible SMP program Accounts to achieve fee breakpoints in the SMP program fee schedule.

Schwab bills and deducts the SMP program fee from Accounts on the last business day of each calendar quarter, payable from free credit balances, if any, in SMP program Accounts. If there are no free credit balances in an Account, Schwab may redeem money market funds or other fund shares in the Account to cover the charges or notify clients to deposit additional funds in the SMP program Account. For purposes of calculating the SMP program fee, the value of mutual fund shares is based on the NAV of the shares as published the previous day. The value of ETF shares listed on a national securities exchange is based on, as of the valuation date, the closing or last sale price on the principal market where the security trades.

When a SMP program client terminates participation in the SMP program or changes investment strategies in the SMP program at any time, Schwab will charge the amount of the SMP program fee to date for that quarter immediately to the client’s Account to complete service within the existing investment strategy, and a new billing cycle will commence for the new investment strategy.

Schwab may negotiate the SMP program fee for clients with large accounts or with certain preexisting relationships with Schwab, which may result in a client paying a fee that is less than the standard program fee. Schwab may change the fee schedule applicable to your Account by providing notice to you per your Account application and your Schwab account agreement.

### Program Fee: SMP-MF

Schwab has two different fee schedules for SMP-MF Blend and SMP-MF Third Party. For Accounts enrolled in SMP-MF after January 1, 2013, that are not Employee Retirement Income Security Act of 1974 (ERISA)-Type Accounts (as defined below), the schedules with higher fees generally apply. The lower fee schedules apply to Accounts enrolled in SMP-MF before January 1, 2013. If you or someone in your household (i.e., a person with the same last name living at the same address): (1) opened an SMP Account (either SMP-MF or SMP-ETF) before January 1, 2013; and (2) has continuously maintained at least one SMP Account since the time of your initial SMP enrollment (“lower price conditions”), the lower fee schedules will apply to new SMP-MF Accounts that you enroll after January 1, 2013. In addition, the lower fee schedules will apply to all Simplified Employee Pension IRAs, Savings Incentive Match Plan for Employees IRAs, Company Retirement Accounts, Qualified Retirement Plan Accounts, and Schwab Personal Choice Retirement Accounts (collectively, “ERISA-Type Accounts”), regardless of whether they are enrolled in SMP-MF before or after January 1, 2013, and regardless of the household affiliation of their account holders. However, if you enroll an ERISA-Type Account after January 1, 2013, and do not otherwise meet the lower price conditions, the higher fee schedules will apply to any other accounts you enroll in SMP that are not ERISA-Type Accounts.

#### SMP-MF Blend

Schedule for Accounts Enrolled Before January 1, 2013, and ERISA-Type Accounts	
Daily Eligible Assets (excluding cash investments)	Annual Program Fee
First \$250,000	0.50%
Next \$250,000	0.35%
Assets over \$500,000	0.25%

Schedule for Accounts Enrolled After January 1, 2013 (Except ERISA-Type Accounts)	
Daily Eligible Assets (excluding cash investments)	Annual Program Fee
First \$100,000	0.90%
Next \$150,000	0.70%
Next \$250,000	0.50%
Next \$500,000	0.30%
Assets over \$1 million	0.20%

#### SMP-MF Third Party

Schedule for Accounts Enrolled Before January 1, 2013, and ERISA-Type Accounts	
Daily Eligible Assets (excluding cash investments)	Annual Program Fee
First \$250,000	0.50%
Next \$250,000	0.35%
Assets over \$500,000	0.25%

Schedule for Accounts Enrolled After January 1, 2013 (Except ERISA-Type Accounts)	
Daily Eligible Assets (excluding cash investments)	Annual Program Fee
First \$100,000	0.90%
Next \$150,000	0.70%
Next \$250,000	0.50%
Next \$500,000	0.30%
Assets over \$1 million	0.20%

**Program Fee: SMP-ETFs**

Schwab also has two different fee schedules for SMP-ETF Blend and SMP-ETF Third Party. The same criteria for determining whether your Account is subject to the lower or higher fee schedule applies as described above under “Program Fee: SMP-MF.”

**SMP-ETF (Blend and Third Party)**

Schedule for Accounts Enrolled Before January 1, 2013	
Daily Eligible Assets (excluding cash investments)	Annual Program Fee
First \$500,000	0.75%
Next \$500,000	0.65%
Assets over \$1 million	0.50%

Schedule for Accounts Enrolled After January 1, 2013	
Daily Eligible Assets (excluding cash investments)	Annual Program Fee
First \$100,000	0.90%
Next \$400,000	0.75%
Next \$500,000	0.65%
Assets over \$1 million	0.50%
First \$100,000	0.90%

**SMP Advisory Program Credit**

In Individual Retirement Accounts (“IRAs”) and other retirement accounts (“Retirement Accounts”) enrolled in the Program, the Program Fee will be offset by remuneration received through direct and indirect payments to Schwab, CSIM, or their affiliates generated from the mutual funds, ETFs, or other investments (“Retirement Account Remuneration”). Schwab calculates an advisory program credit monthly for purposes of reducing or offsetting the program fee you may pay to Schwab by the amount of the Retirement Account Remuneration, if any, that Schwab, CSIM, or their affiliates receive that is derived as a direct result of investments in your Retirement Account(s) enrolled in the Program, as further described in this brochure. The monthly advisory program credit will typically be deposited to your Retirement Account(s) as soon as reasonably practicable, but no later than the 25th of the following month in which the remuneration is processed by Schwab, CSIM, or their affiliates.

**Services Covered by the SMP Program Fee**

The SMP program fee covers CSIM’s program investment advisory services, including asset management services, as well as the following services provided by Schwab: (1) execution of transactions; (2) custody of Account assets; (3) Program administration; (4) monthly account statements; (5) quarterly performance reporting; and (6) the services of a Schwab investment professional relating to program Accounts.

Schwab pays all costs and expenses CSIM incurs in connection with the SMP program and with other research services CSIM provides, plus an additional amount based on a fixed percentage of such costs and expenses, per an agreement between CSIM and Schwab. CSIM does not enter into agreements directly with SMP clients and accordingly does not receive direct compensation from or negotiate fees with them.

**Other Charges**

The SMP program fee does not cover certain third-party costs or charges, including odd-lot differentials, exchange fees, contingent redemption fees, and transfer taxes as law mandates. Schwab may also impose additional charges for special services program clients elect, including electronic fund and wire transfer fees, certificate delivery fees, and reorganization fees.

In addition to the SMP program fee, each mutual fund or ETF is subject to investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees and expenses related to investments in investment companies, as the prospectuses of the funds outline. The funds pay these fees and expenses but fund shareholders ultimately bear these fees in addition to the SMP program fee. Schwab does not generally deduct these fees and expenses from the program fee. The mutual funds available through the program may be available directly from the funds per the terms of their prospectuses and without paying the program fee, and ETFs are available outside of the program without paying the program fee, subject to applicable commissions and/or transaction charges.

Conversely, the SMP program may provide access to certain mutual funds, ETFs, or classes of funds that SMP program clients may not qualify to purchase outside of the SMP program. If an account leaves the SMP program, Schwab may liquidate these investments or exchange the investments for the share class corresponding to the size of a client’s individual investment in the fund. Further, to the extent that cash used for investment in the SMP program comes from redemptions of mutual fund shares, ETFs, or other investments outside of the SMP program, there may be tax consequences or additional costs from sales charges previously paid and redemption fees incurred. Such redemption fees would be in addition to the SMP program fee on those assets.

The SMP program fee may cost clients more or less than they would pay if they purchased separately the types of services included in the SMP program. Clients may be able to obtain some or all of the types of services available through the SMP program on a stand-alone basis from Schwab or other firms. Factors that bear upon the cost of the SMP program in relation to the cost of the same services purchased separately include, among other things, the type and size of the Account (and other Accounts that clients may be able to combine to determine fee breakpoints), the historical and expected size or number of trades for an Account, and the number and range of supplementary advisory and other services provided to an Account. The SMP program fee also may be higher or lower than the fees charged by other firms for comparable services.

**Shared Wrap Fee Program Services, Fees, and Compensation****Order Routing and Execution****Schwab’s Execution Services**

The program fee covers trade execution costs when Schwab executes your trades on an agency basis. If your selected MM sends your trade orders for execution to a third party other than Schwab, the third party may charge you an additional fee. However, additional costs also apply to the execution of orders when Schwab trades on a principal basis. “Agency trades” are trades where a firm executes a customer’s trade with a third party. “Principal trades” are trades where a firm executes a customer’s trade with the firm as the other party to the trade, from the firm’s account. When Schwab executes a principal trade for its own account, when executing a customer order, Schwab profits from dealer markups and markdowns. See “Execution of Transactions in Fixed Income Securities” section below. For strategies CSIM manages through the Connection program, Schwab will execute equity trades on behalf of CSIM on an agency basis.

**Directed Brokerage for Schwab Personalized Indexing™ (SPI) Strategies in the Connection Program**

Directed brokerage is when an investment advisor requires their clients to direct their trades to a particular broker-dealer. Not all broker-dealers or investment advisers require their clients to direct trades to a particular broker-dealer. If CSIM manages SPI strategies in your Account, you have

agreed in your Account agreement with us to direct CSIM to send all brokerage trades to Schwab to execute. As a result, you may not always obtain as favorable a price or execution as you could have through another broker-dealer. Because Schwab receives a portion of the wrap fee for its brokerage and other services in the SPI Strategies, Schwab and its affiliates typically make more money than if CSIM directs trades to third-party broker-dealers. The client should consider that execution cost could be lower or higher if CSIM negotiated the brokerage fees and sought the best price and execution on a transaction-by-transaction basis rather than directing all orders to Schwab for execution.

#### **Equity Order Routing and Execution**

Because the program fee covers execution of orders in equity securities only when executed through Schwab, many MMs place most of their orders for the purchase or sale of equity securities (including ETFs) with Schwab.

For clients who do not have a directed brokerage agreement with Schwab, Schwab will execute those clients' trades according to its best execution procedures. In arranging for the execution of non-directed orders for equities and listed options, Schwab seeks out industry-leading execution services and access to the best-performing markets. Schwab routes orders for execution to unaffiliated broker-dealers, who may act as market makers or manage execution of the orders in other market venues, and routes orders directly to major exchanges.

Schwab considers a number of factors in evaluating execution quality among markets and firms, including execution price and opportunities for price improvement, market depth and order size, the trading characteristics of the security, speed and accuracy of executions, the availability of efficient and reliable order-handling systems, liquidity and automatic execution guarantees, the likelihood of execution when limit orders become marketable, service levels, and the cost of executing orders at a particular market or firm. Price improvement occurs when an order execution is at a price more favorable than the displayed national best bid or offer. Schwab regularly monitors the execution quality obtained to ensure orders are routed to market venues that have provided high-quality executions over time.

Schwab does not act as principal for equity securities except in limited circumstances such as when executing fractional shares. As an accommodation, Schwab will facilitate the sale of fractional shares of equity securities within your Account by purchasing shares from you on a principal basis at prevailing market rates. Fractional shares, for example, can be created as a result of dividend reinvestment and cannot be sold directly into the market or transferred via an automatic clearinghouse. The program fee covers execution of fractional shares, which will be liquidated at no additional cost to you. Acting as principal on a trade is a conflict of interest because Schwab is on the other side of the transaction from the customer; however, Schwab seeks to mitigate this conflict by not charging additional fees on fractional share trades.

For Select program accounts, Schwab receives payment for liquidity or order flow rebates from market venues to where Schwab routes orders, and also pays fees for execution of certain orders.

Quarterly information regarding the market venues to which we route orders and payment received is available on our website at [schwab.com/legal/order-routing-1](http://schwab.com/legal/order-routing-1) or in written form upon request. Information regarding the specific routing destination and execution time of your orders for up to a six-month period is also available upon request.

#### **Execution of Transactions in Fixed Income Securities**

Schwab may execute fixed income orders for customers as agent or principal for our own account. In the bond market, fixed income securities generally trade in dealer markets, where there is no centralized exchange or quotation service.

Prices generally reflect activity by market participants or dealers linked to various trading systems. It is possible that securities could be available through other trading systems, exchanges, or dealers at superior or inferior prices compared to those available at Schwab. All prices are subject to change without prior notice.

In the Select program, if a fixed income security is traded in the dealer markets, Schwab will execute an order as principal, unless the third-party MM directs Schwab to execute the order as agent. MMs can place orders for fixed income securities with dealers other than Schwab. Schwab charges a markup or markdown for orders executed as a principal. Clients are responsible for any related transaction costs, including, but not limited to, markups or markdowns charged by Schwab and other broker-dealers that are not covered by the program fee.

In the Connection program, Schwab executes fixed income trades on an agency basis because the MM is a Schwab affiliate. Dealers other than Schwab can execute fixed income transactions on an agency or principal basis. If an MM places an order for fixed income securities with Schwab, Schwab will seek the best price reasonably available at that time by searching our Schwab BondSource® (SBS) electronic inventory and trading system. Schwab uses SBS except on rare occasions (e.g., for very large orders) in an effort to achieve a better price for clients. SBS accesses an inventory of fixed income securities from up to hundreds of other broker-dealers.

When an MM buys a new bond issue for your Account through Schwab acting as principal, Schwab receives a syndicate fee (also known as a dealer concession) which ranges from less than 0.01% to 2.0% of the par value, or face amount, of the bond, depending on the particular bond issue. The dealer concession is a standard custom and practice regarding payment to syndicate members for distributing—and providing certain operational services associated with—new issues. Schwab as a dealer receives the same amount for any given new issue as other dealers participating in the same tier of the syndicate.

#### **Execution of Transactions in Mutual Funds**

Schwab will execute all trades in mutual funds in your Account. Mutual funds in the programs offer their shares to clients in the programs on a no-load or load-waived basis and may charge Rule 12b-1 (distribution) and/or shareholder servicing fees. Schwab executes mutual fund share purchases at their current net asset value (NAV), which means the NAV that is next computed after a fund receives an order.

You will not pay any sales loads or transaction fees on the purchase of mutual fund shares for your Account, except for redemption fees if your shares are not held for a minimum time period that a fund imposes on investors. If you fund your Account with mutual fund shares that are not consistent with the current fund selections in your chosen strategy, your mutual funds will be sold and any applicable redemption fees will be deducted from the proceeds, as stated in the prospectus for each fund. All investments in mutual funds are subject to the terms of the relevant fund's prospectus, including associated fees. You will receive prospectuses upon the initial purchase of funds for your Account.

For more information on Mutual Fund Marketplace® please see the "Additional Information" section.

#### **Trades Through Other Broker-Dealers**

The program fee covers commissions or other execution charges for equity trades routed by Schwab to other broker-dealers. However, the program fee does not cover commissions or other execution charges for equity trades routed by an MM to broker-dealers other than Schwab. Such commissions may be in addition to or included in the price you receive for your transactions, but are in addition to the program fee.



Because program fees cover execution through Schwab, MMs will have an incentive to execute most transactions in equity securities through Schwab. However, the MM is responsible for meeting its best execution obligations to you when placing trades with Schwab or another broker-dealer unless you have agreed to a directed brokerage arrangement. When an MM reasonably believes that another broker-dealer will provide better execution (net of any additional resulting transaction charges) than Schwab, the MM should execute equity trades through that broker-dealer. MMs may only place trades for your Account with broker-dealers who have an agreement with Schwab for Schwab to clear and settle transactions that broker-dealer executes or the MM must agree to use an electronic system to issue settlement instructions to Schwab for trades other broker-dealers execute. Your Schwab program enrollment account application agreement describes this in more detail under the heading "Prime Brokerage, Step-In, and Trade-Away Services." For additional information on an MM's best execution policy, please refer to that MM's brochure.

For Accounts in Selective Portfolios and the UMP Program, Schwab permits trades to be executed either through Schwab or through another broker-dealer, which may be different from your experience prior to the Transition or Acquisition and will result in transaction fees not covered by the program fee. You should carefully review the MM's trading for your Account. For important information about the frequency and cost of trades executed through broker-dealers other than Schwab, please go to [schwab.com/assetmanagertradeawaypractices](https://schwab.com/assetmanagertradeawaypractices).

#### **Aggregation of Transactions**

Your MM may aggregate or bunch transactions for your Account with transactions for other clients for execution purposes under appropriate circumstances. For these purposes, other clients may include clients of the same MM under another Schwab bundled fee program. In addition, if an MM executes trades with another broker-dealer (as described above), other clients may include additional clients of the MM not participating in any Schwab program or service. This practice will not ordinarily affect or otherwise reduce the costs charged to your Account for those transactions. The MM will allocate these transactions (as well as any expenses incurred in transactions effected through other broker-dealers) according to its policies governing aggregation and allocation of transactions.

These policies may require your MM to assign to your Account the average price resulting from the aggregated trades. Your MM may allocate partial fills of a block security transaction among clients' Accounts randomly, proportionally based on the size of the individual Account's order to the overall block order size, or under some other policy your MM adopts. Your MM's trade allocation policies may result in certain clients paying higher or lower prices for securities than if the MM executed the transactions separately. Please see the MM's brochure for additional information about an MM's policies for aggregation and allocation.

Your MM may execute transactions for your Account through Schwab at different times, in different markets, and at less advantageous prices than applicable to trades for other clients of your MM with the same strategy. An MM may have policies and procedures that determine when it will send trades in the program to Schwab in relation to sponsors of other separately managed account programs or other broker-dealers the MM selects. The MM may include disclosures about its policies and procedures in its brochure.

Some MMs, such as the overlay manager for a Windhaven® diversified strategy, may manage Accounts based on another MM's (the "model provider") recommendations or model portfolio. In such cases, your MM may place trades for your Account at different times and may execute trades in different markets and at less advantageous prices than trades for Accounts with the same strategy managed directly by the model provider. These differences may result from the application of the model provider's policies and procedures in addition to the MM's trading policies and procedures.

#### **Custody**

Schwab acts as sole custodian for all assets in client program Accounts and performs all custodial functions customarily performed for securities brokerage Accounts, including, but not limited to, crediting of interest and dividends on Account assets. You retain ownership of all cash, securities, and other instruments in your Account. The program fee compensates Schwab for these services. If you have Accounts and assets at Schwab that are not in the programs, fees for the maintenance, custody of assets, and other account-related services will be separate from and in addition to your program fee.

#### **Reporting**

Schwab will send you a monthly or quarterly account statement detailing positions and activity in your Account during the preceding month or quarter. The statement will include a summary of all transactions made on your behalf, all contributions and withdrawals made to or from your Account, all fees and expenses charged to your Account, and the value of your Account at the beginning and end of the period. The statement may be based upon information obtained from third parties. Schwab believes that the data obtained from these third parties is accurate but has no independent means of verifying and cannot guarantee accuracy. You also will receive a separate confirmation of each transaction in monthly or quarterly statements, unless you elect to receive a quarterly report containing confirmation information for trades that occurred during that calendar quarter. Schwab is not responsible for reviewing transactions in, or the value of, your Account.

In 2023, Schwab began calculating investment performance for most Accounts in the program from 1/1/2017 to present. Performance information presented to you for time periods prior to 1/1/2017 was conveyed by a third-party. A third-party may continue to calculate investment performance for some Accounts in the program during 2024. This performance information, whether calculated by a third-party or by Schwab, will be available quarterly. Schwab believes that the data obtained from the third-party is accurate but does not independently verify and is not responsible for its accuracy.

MMs may provide performance information directly to you; however, that information may not be calculated on a uniform and consistent basis. Schwab does not review performance information MMs may provide to you directly and is not responsible for its accuracy.

#### **Investment in Affiliated and Other Funds**

Cash in your Select or Connection Account may be invested in a Schwab Fund, such as a money market fund sponsored or managed by CSIM, subject to eligibility requirements. CSIM or another affiliate of Schwab serving as investment adviser to a Schwab Fund will receive advisory fees from the Schwab Fund as set forth in the Schwab Fund's prospectus. CSIM and other affiliates of Schwab also receive other compensation from the Schwab Fund for shareholder servicing, accounting, recordkeeping, expense management, and other administrative services (see the prospectus and statement of additional information for the Schwab Fund for more information).

If you have an Account invested in a strategy managed by CSIM, Schwab will not charge the Connection program fee for any cash or money market fund assets in that Account.

Your MM may decide to invest cash in your Account that is awaiting investment in an ETF. This might occur with a subsequent contribution by you to your Account after account opening or during the 30-day wash sale period with respect to sale proceeds resulting from a tax-harvesting



request. To the extent assets in your Account are invested in an ETF or money market fund, you will in effect be paying for asset management or investment services at two levels—through the fees charged to the ETF or money market fund by the fund manager or sponsor and through the program fee charged to your Account. In this case, your MM will be receiving compensation for managing your assets where some part of the assets is invested in an investment fund. It is possible that an ETF may be affiliated with Schwab, in which case certain fund fees and expenses may be payable to Schwab or its affiliates for providing services to the fund. If an MM for an equity or fixed income strategy does buy an ETF for your Account, it is possible that the ETF may hold a position in a security that you have restricted from your Account.

Certain MMs with fixed income strategies may invest in mutual funds that have been developed for use with the MMs' separate account strategies. These mutual funds are affiliated with the MMs and generally have arrangements whereby the funds do not pay any advisory or administrative fees to the fund manager or sponsor; however, as an investor in such a fund, you may be subject to fund fees and expenses that are in addition to the program fee, and certain of such fees and expenses may be payable to the MM or its affiliates for providing services to the fund. Any investment restrictions imposed by you on the MM's management of your Account will not apply with respect to investments made by any mutual fund or ETF held in your Account. Upon termination of your participation in a strategy that uses a mutual fund, you may no longer be eligible to hold shares of the mutual fund. Please refer to the mutual fund's prospectus and statement of additional information for more information on fees and related matters.

## **Cash Management**

### **Investments of Cash**

CSIM may invest cash in your Account in a money market fund sponsored by Schwab or managed by CSIM (a "Schwab Money Market Fund™") if the amount of cash satisfies the Schwab Money Market Fund's minimum investment requirement. The fund's prospectus outlines advisory and/or administrative fees CSIM will receive. CSIM and other affiliates may receive other compensation in connection with the operation and/or sale of shares of the Schwab Money Market Fund to the extent applicable law permits, such as investment advisory, administration, and shareholder servicing fees (see the prospectus and statement of additional information for the Schwab Money Market Fund for more information). CSIM can invest the money market funds or cash in your Account into other securities per Schwab parameters. Cash or money market funds that CSIM invests are subject to Program fees, which your quarterly billing statement will reflect. "Participation or Interest in Client Transactions" describes compensation to Schwab and CSIM from Schwab Money Market Funds and other Schwab Funds in detail.

### **Schwab's Cash Features Program**

Schwab offers cash features programs for your uninvested cash, or free credit balance, in your Account: The Schwab® Sweep Money Funds feature, and the Schwab One® Interest feature. Your free credit balance is the uninvested cash in your Account, minus the funds necessary to pay for purchase transactions that are waiting to settle and charges to your Account.

1. **The Money Fund Sweep feature.** This feature automatically invests your free credit balances in and redeems shares out of a Schwab® Sweep Money Fund. Each of the Schwab Money Market Funds is a Schwab® Sweep Money Fund. An investment in a money market fund is not a deposit, is not guaranteed by, is not the obligation of any other bank, and is not FDIC-insured.
2. **The Schwab One® Interest feature.** This feature, which is available on rare exception, pays you interest on your free credit balances. If your Account is eligible for, and you select, the Schwab One Interest feature as your Cash Feature, your free credit balance will remain in your Account and earn interest. A free credit balance in your Account is not a deposit, is not guaranteed by, is not the obligation of any other bank, and is not FDIC-insured. Please see your account statement and the Cash Features Disclosure Statement for the terms and conditions of the Schwab One Interest feature.

### **Funds Awaiting Investment or Pending Distribution**

When your funds are waiting to be deposited in, invested in, or distributed from your Account, Schwab earns interest on that cash prior to such deposit, investment, or distribution. This occurs with (1) funds waiting to be credited to your investment account or (2) funds that have been debited from your Account and are pending receipt by the receiving party or institution. Such interest retained by Schwab shall generally be at money market rates and for periods of time described in the paragraphs immediately below.

Funds awaiting investment or deposit include: (1) amounts deposited by you into your Account; and (2) any other Free Credit Balance held by your Account (which will, after the period described below, automatically be swept into a Schwab® Sweep Money Fund).

With respect to funds awaiting investment or deposit: (1) where such funds are received by Schwab on a business day and before deposit cutoff time for which the funds are deposited, such interest will be earned by Schwab through the beginning of the following business day; (2) where such funds are received on a day which is not a business day, or where such funds are received after the deposit cutoff time, such interest will be earned through the beginning of the second following business day.

When Schwab receives a request for a distribution check from your Account, Schwab generally processes the request within two or three business days (unless the distribution is in connection with an unusual event such as death or divorce, in which case it generally will take longer to process the request). On the same day that the processing is completed, the amount of the distribution check will be debited from your Account. The distribution check will be written and mailed on the following business day.

Schwab will earn interest beginning on the date your Account is debited and ending on the date the check is presented for payment, the timing of which is beyond the control of Schwab. Upon request, Schwab will provide you with a verbal update to determine the status of your outstanding distribution checks.

If you request a Schwab MoneyLink® transfer from your Account to another financial institution: (1) the amount of the transfer will be debited from your Account on the day that the transfer process is commenced; (2) the funds will be received by the other financial institution within one to two business days of the date the transfer process is commenced; and (3) you agree and acknowledge that Schwab will earn interest on that amount beginning on the date your Account is debited and ending on the date the Electronic Fund Transfer is received by the other financial institution and thereby debited from Schwab's bank account.

### **Negative Yield for Cash and Cash Investments**

Any cash or cash investments in your Account will result in a negative yield to the extent the program fee exceeds the rates of return for Schwab One® interest or for an Affiliated Fund chosen as a cash sweep vehicle for your Account. Please ask your SR about current rates on cash and cash investments for your Account.

## Compensation Of SRs

If you are an independent investor, the SR who serves you may be referred to as a Financial Consultant (“FC”), Financial Solutions FC, an Independent Branch Leader (“IBL”) or Independent Branch (“IB”) Representative. If you are enrolled in the SWA Program, you may have an FC, IBL, or IB Representative and/or a Wealth Advisor (WA) acting as your SRs, the last of these being an employee of SWAI. The compensation of FCs, WAs, Investment Consultants (ICs), IBLs, and IB Representatives is described below. These compensation structures create a potential conflict of interest. For detailed information on the compensation of these and other Schwab representatives, please see our website at [schwab.com/representative-compensation](https://schwab.com/representative-compensation).

### Financial Consultants

In addition to their base salaries, Schwab employee FCs receive compensation for successfully navigating clients to the programs and other investment advisory services and for servicing those clients after successfully recommending such programs. Schwab as a company may earn more or less revenue depending on what products and services a Schwab employee FC recommends and a client chooses. Schwab employee FC compensation varies by the type of program or services an account participates in. Schwab has designed Schwab employee FC compensation to be based on factors that include the time, complexity, and expertise necessary to understand and recommend a program and to provide ongoing service to a client enrolled in a given program.

Based on these factors, amounts earned by Schwab employee FCs on assets enrolled in the program exceed the amounts earned on assets in commission-based brokerage accounts and in some other advisory program accounts.

### Financial Solutions FCs

Financial Solutions FCs assess their clients' financial needs, analyze clients' portfolios, make recommendations from the full array of service solutions offered by Schwab, and provide ongoing service to a client enrolled in a given program. In addition to a base salary, Financial Solutions FCs are eligible to earn a bonus that is funded based on Schwab's retail net new assets performance, measured as total inflows minus total outflows of eligible client assets (“net new assets” or NNAs), and determined based on manager discretion, which may include consideration of client satisfaction, service quality, client retention, contributions to the team, and NNAs to Schwab.

### Independent Branch Leaders and Independent Branch Representatives

As independent contractors, IBLs receive a monthly “Net Payout” from Schwab, which includes amounts earned on assets in accounts referred to the programs and other investment advisory services and assets in commission-based brokerage accounts, and it is from this net payout amount that IBLs pay their IB Representative employees. As with Schwab employee FCs, the amounts earned by IBLs and IB Representatives vary by the type of program in which an account participates.

### Wealth Advisors

WAs are not employed by Schwab, but instead by SWAI, an affiliated investment adviser that is primarily in the business of providing non-discretionary investment advice to clients of the SWA Program non-discretionary wrap fee program. WAs provide investment portfolio advice to clients who are enrolled in the SWA Program. They do not receive differential compensation based on the securities that they recommend to enrolled clients. WAs assess their clients' financial needs, analyze clients' portfolios, deliver portfolio advice, and provide periodic portfolio reviews to clients enrolled in the SWA Program. In addition to a base salary, WAs are eligible to earn a bonus that is funded based on Schwab's performance and determined based on manager discretion, which includes consideration of the quality of the representative's interactions with clients, retaining appropriate clients in advised offers, client satisfaction, teamwork, training, professional development, accuracy, and NNAs.

### Investment Consultants

Financial Solutions Branch ICs partner with clients who are invested in SMP or strategies available through the Select and Connection programs. To ensure ongoing suitability of investments, they conduct a periodic, needs-based portfolio assessment and make recommendations from a full array of investment products offered at Schwab. In addition to a base salary, these representatives are eligible to earn a bonus that is funded based on Schwab's retail net new assets performance, measured as total inflows minus total outflows of eligible client assets (“net new assets” or NNAs), and determined based on manager discretion, which may include consideration of the quality of the representative's interactions with clients, client satisfaction, teamwork, training, professional development, and accuracy.

## Compensation for Services Outside the Programs

Trades in fixed income securities executed by Schwab as principal and trades executed with other broker-dealers will involve transaction charges in addition to the program fee. When Schwab (in the case of fixed income securities) or another broker-dealer executes a trade as principal, Schwab or the other dealer will realize the customary dealer profits or losses on the trade. If the other broker-dealer is acting as principal, that broker-dealer may include a markup or markdown in the price at which the transaction is affected. Schwab also will charge a markup or markdown on transactions executed as principal in fixed income securities. When a trade is executed by your MM with another broker-dealer, you may pay additional compensation to that broker-dealer, which may include markups, markdowns, commissions, and dealer profits. Any dealer profit, commission, markup, or markdown on principal trades will be separate from and in addition to, and will not reduce or otherwise offset, the program fee for your account.

Schwab and its affiliates and their employees and agents benefit from the compensation you pay to Schwab under the programs. To the extent that you use other products or services Schwab offers, Schwab benefits from this additional compensation. MMs may have other business relationships with Schwab, separate from the programs, in connection with which the MM compensates Schwab for services. For example, an MM may receive (on behalf of clients or otherwise) research, execution, custodial, referral, pricing, and other services offered by Schwab or an affiliate in the normal course of its financial services business. Schwab does not charge MMs a fee to participate in the programs, but Schwab reserves the right to charge MMs fees in the future. Schwab may have business relationships with certain MMs and their affiliates outside of the programs in which Schwab receives direct or indirect compensation. Funds that are affiliated with an MM may participate in Schwab's Mutual Fund Marketplace® (MFMP) and Mutual Fund OneSource®, in which Schwab receives remuneration from the Funds as described below. Certain MMs or their affiliates may also have business relationships with Schwab Advisor Services in which these firms manage client assets outside of the programs; these relationships generate trading, margin, and other revenue for Schwab in the normal course of its business as a broker-dealer.

Schwab's MFMP gives investors access to a wide range of funds and share classes from different mutual fund companies. When clients invest in a mutual fund in a Schwab account, Schwab receives compensation from certain mutual fund companies for the recordkeeping, shareholder services and other administrative services that Schwab provides to shareholders of the funds. These shareholder services include transaction

processing, settlement of trades, dividend distribution, record maintenance, and distribution of statements, confirmations, prospectuses, and other regulatory shareholder documents.

To the extent that any part of the fees described below are paid out of fund assets, those amounts are included in the fund's operating expense ratio ("OER"), which means they are indirectly borne by the fund's shareholders.

Certain funds or fund families pay a flat platform fee, an asset-based platform fee or a combination of these fee structures to compensate Schwab for activities related to Schwab's sponsorship of the MFMP. This payment to Schwab can be based on any number of factors, such as the level of assets invested in the funds, purchases of the funds over the period, net flows into the funds (gross purchases less redemptions), or other qualitative factors such as Schwab's assessment of the quality of the relationship with fund companies. These platform fees are paid to Schwab in addition to the other shareholder services fee discussed elsewhere in this document. These platform fees equate to an annual fee of 0.10% or less of the average fund assets at Schwab (assuming the flat or tiered platform fee were converted from dollars to an annual asset-based fee). This platform fee is generally paid by the fund advisor or another fund affiliate out of its own resources, and not directly out of fund assets.

Fund companies are segmented into relationship tiers based on a combination of their fund assets held at Schwab and the asset-based and flat fee paid to Schwab. This tiered structure creates conflicts of interests, as fund companies that are in the top tiers will have greater access to Schwab representatives and advisers that custody their clients' assets at Schwab and who in turn may be more likely to recommend funds that are familiar to them. However, these tiers will not impact or influence selection of any fund on the Mutual Fund Select List® or other tools and lists prepared by Schwab and used by Schwab representatives to make recommendations and provide advice.

Schwab entered into a long-term strategic relationship with T. Rowe Price, and under this arrangement, T. Rowe Price makes payments to Schwab in exchange for Schwab promoting certain actively managed T. Rowe Price mutual funds and ETFs to Schwab's clients, and for providing additional mutual fund and ETF marketing support to T. Rowe Price ("Strategic Provider Relationship"). This payment is significant, and will increase over each year of the relationship if Schwab is successful in promoting T. Rowe Price funds, based upon asset growth in the T. Rowe Price Funds at Schwab. Schwab received payments of \$12.4 million from T. Rowe Price for these promotional services during 2023. Payment in 2024 may be higher or lower depending on growth of T. Rowe Price assets at Schwab. This strategic relationship payment is in addition to and separate from payments T. Rowe Price makes to Schwab for shareholder and administrative services.

Because the terms of the arrangement provide a considerable financial benefit to Schwab, this arrangement creates conflicts of interest, as T. Rowe Price will have greater access to Schwab representatives and advisers that custody their clients' assets at Schwab, and Schwab will promote T. Rowe Price mutual funds and ETFs to our clients on Schwab.com and other digital properties. Clients may be more likely to select, and Schwab representatives or advisers that custody their clients' assets at Schwab may be more likely to recommend, funds that are familiar to them and that receive greater promotional support from Schwab.

Through its Mutual Fund OneSource service and other No-Transaction-Fee funds ("NTF funds"), Schwab offers a selection of no-load and load-waived retail and non-retail share classes of mutual funds, including certain institutional share classes that are available with no transaction fee to investors. The compensation Schwab receives from mutual fund companies for shareholder services for OneSource/NTF funds may differ based on when the fund first became available at Schwab or other factors. If a retail, non-retail or institutional share class was first made available on OneSource/NTF, the asset-based annual fee for shareholder services could be up to 0.45%, but typically is 0.40%, which is higher than other share classes. At this standard rate, the fund or fund affiliate pays Schwab \$40 each year for each \$10,000 in fund assets held by an investor for the shareholder services provided by Schwab. In some cases, Schwab applies a minimum monthly fee of \$2,000 per month per NTF funds. This minimum monthly fee is applied starting with the first or seventh full month, depending on when the fund family was added to the platform, after the fund is made available for purchase at Schwab and only if the asset-based fee calculated for the month is less than the minimum monthly fee. When adding a new fund to Schwab's NTF platform, NTF funds also pay Schwab establishment fees. The fee for the first fund that Schwab adds does not exceed US\$25,000 and the fee for each additional fund within a fund family that Schwab adds is US\$3,000.

Outside of the OneSource/NTF service, certain fund companies pay an asset-based fee for shareholder services on institutional share classes made available with no transaction fee ("Institutional NTF" or "INTF") and held by clients of investment advisors and other institutional investors, including certain large retail investors. Fees on new institutional class shares acquired or held at Schwab, are typically 0.17% per year but can range up to 0.19%. At a rate of 0.19%, the fund or fund affiliate pays Schwab \$19 each year for each \$10,000 in fund assets held by an investor for the Shareholder Services provided by Schwab. The asset-based annual shareholder services fee on existing assets converted from transaction fee funds could be up to 0.15%, but typically is 0.12%, while shareholder services fees on existing assets that converted from Schwab Mutual Fund OneSource to INTF could be up to 0.45%, but typically are 0.40%. At rates of 0.12% and 0.40%, the fund or fund affiliate pays Schwab \$12 or \$40 each year for each \$10,000 in fund assets held by an investor for the Shareholder Services provided by Schwab. When adding new INTF funds, the funds also pay Schwab establishment fees. The fee for the first fund that Schwab adds does not exceed US\$25,000 and the fee for each additional fund within a fund family that Schwab adds as NTF is US\$1,000 or US\$2,000 if added transaction fee ("TF").

For institutional share classes made available with a TF that are held by clients of investment advisors and other institutional investors, including certain large retail investors, the asset-based annual fee for shareholder services could be up to 0.25%, but typically is 0.10%. At this standard rate, the fund or fund affiliate pays Schwab \$10 each year for each \$10,000 in fund assets held by an investor for the Shareholder Services provided by Schwab. In some cases, Schwab applies a minimum monthly fee of \$1,000 per month per TF Fund, depending on when the fund family was added to the platform. This minimum monthly fee is applied starting with the first full month after the fund is made available for purchase at Schwab and only if the asset-based fee calculated for the month is less than the minimum monthly fee. When adding a new fund to Schwab's TF platform, TF funds also pay Schwab establishment fees. The fee for the first fund that Schwab adds does not exceed US\$25,000 and the fee for each additional fund within a fund family that Schwab adds is US\$5,000.

When adding a new interval fund to Schwab's OneSource/NTF, INTF or TF platforms, interval funds also pay Schwab establishment fees. The fee for the first interval fund that Schwab adds does not exceed US\$25,000 and the fee for each additional interval fund within a fund family that Schwab adds is US\$25,000.

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

Subject to eligibility requirements, (see “Investment in Affiliated and Other Funds”), cash in your Account will be held as a free credit balance in your designated cash feature. As a registered broker-dealer, Schwab may benefit from the possession or use of any free credit balances in your Account, subject to restrictions imposed by law.

## **Risk and Taxes**

All investments involve the risk (the amount of which may vary significantly) that investment performance can never be predicted or guaranteed and that the value of your portfolio will fluctuate due to market conditions and other factors—see “Certain Risks,” below. You should understand that all or a portion of your securities may be sold either at the initiation of or during the course of the management of your Account under the programs. You are responsible for all tax liabilities arising from such transactions, and you are encouraged to seek the advice of a qualified tax professional. You should also understand that investments in ETFs by tax-exempt Accounts may generate income that is subject to the unrelated business income tax. You are responsible for paying any unrelated business income tax liability associated with your Account as well as the timely filing of the applicable tax forms with the Internal Revenue Service (“IRS”). Program Accounts, especially Accounts with Diversified Portfolios, may have a large number of positions, and trading in those Accounts by the MM can result in a fairly large number of transactions to report for tax purposes, which also may require the assistance of a tax professional. If you choose to instruct your MM to employ a tax gain/loss harvesting strategy, the actual tax liability will depend on your entire tax and investment profile, including purchases and dispositions in your (or your spouse's) Accounts outside of the programs and type of investments (e.g., taxable or non-taxable) or holding period (e.g., short-term or long-term). There is no guarantee that the tax gain/loss harvesting strategy will reduce, defer, or eliminate the tax liability generated by your investment portfolio in any given tax year. Schwab does not represent that any particular tax consequence will be obtained, and you should consult with your professional tax advisors about the consequences of tax gain/loss harvesting in light of your particular circumstances.

## **Termination of Participation in the Programs**

You may terminate your participation in a program at any time upon notice to Schwab without penalty, subject to the payment of any fees incurred and allowing at least five business days for Schwab to process your termination instruction. If you terminate the designated MM on your Managed Account and do not simultaneously appoint a new MM, your Account will no longer be a Managed Account, that is managed on a discretionary basis, subject to the applicable program fee. Unless Schwab notifies you otherwise, your Account will (i) no longer be enrolled in a program and (ii) become subject to the commissions and fees outlined in the *Charles Schwab Pricing Guide for Individual Investors* and your Schwab account agreement. You will then be responsible for the management of your account.

If you terminate the MM for a Managed Account with a fixed income strategy that holds shares in a mutual fund developed for use with that strategy, your shares in that mutual fund will be liquidated by the MM. You will not have the option of retaining those shares. If you terminate an Account with a strategy that uses certain classes of no-load or loadwaived shares, you may no longer be eligible to hold those shares, in which case your shares will be converted to an eligible share class that may have sales loads and/or transaction fees. Depending on current market conditions, if you terminate an MM for a fixed income strategy and direct the sale of the bonds in your Account, the MM may need additional time to sell your bonds (particularly municipal bonds) with the goal to receive a desirable price. In this situation, your SR will inform you and give you the option of (i) allowing the MM to have additional time to sell your bonds, and the program fee will continue to apply to assets that remain in your Account during this process; or (ii) holding the bond in an account that is not managed by the MM and waiting until the bond matures or directing the sale of it yourself at some later date (without the MM's execution capabilities). There can be no assurance as to how long it might take to obtain a desirable price for your bonds or whether a desirable price can be obtained. Depending on the size of your Account, some bonds may be purchased for your Account by fixed income MMs in positions that are smaller than marketable round lots (sometimes called “odd lots”). If you have an odd-lot bond, it may be more difficult to sell than a round lot, and the sale price may be substantially lower than the price which you paid or the price at which the position previously was valued. If you decide to terminate your participation in a program and do not plan to hold the odd lot until maturity, it may be advisable for you to direct the sale of the odd lot when you terminate your program participation, as the MM may be able to obtain a better price for it than Schwab or another broker-dealer.

## **Funding and Adding Securities to Your Account**

You may fund your Account with cash, certain mutual fund shares, ETFs, common stocks, investment-grade bonds, or the shares of certain real estate investment trusts (“REITs”), provided that Schwab reserves the right to decline to accept particular securities or to require you to wait a specific period before depositing certain securities. When funding your Account with securities or depositing securities to your Account, you should bear in mind that the MM you designate may decide to sell all or a substantial portion of such securities and that you will be responsible for any tax liabilities resulting from such transactions, as well as any contingent short-term redemption fees resulting from the sale of mutual fund shares you deposited in your Account. Certain MMs will only accept certain types of securities for account funding, such as investment-grade municipal bonds for municipal bond ladder strategies. Your SR can provide more information regarding eligible securities for funding your Account.

## **Withdrawing or Selling Securities From Your Account**

You may be able to request that certain securities be withdrawn or sold from your Account. For strategies that involve options, withdrawals or sales of securities may not be permitted because there may be callable options outstanding on the securities in the Account. Exceptions could include when the withdrawal or sale is required by court order.

## **Financial Planning Services**

At Schwab's discretion, based on the complexity of the needs, amount of enrolled assets, client preference, and other factors, some clients might be offered a Schwab Plan Comprehensive™, a Schwab Personal Financial Plan (the “PFP”), or a Schwab Equity Compensation Consultation (the “ECC”) (collectively, the “Planning Service”).

These financial planning services may include analyses of certain aspects of financial planning as related to the client's situation, such as retirement needs, education funding, estate planning, or stock option grants, as applicable.

The PFP is a comprehensive financial planning service with access to other specialized features, as appropriate. The PFP includes a consultation with a Schwab representative specializing in financial planning (the “specialist”) who will analyze the client's situation and provide a written analysis. The PFP covers general and complex financial planning topics as applicable to the client, which may include retirement planning, including Social Security and pension analysis, portfolio allocation, estate and legacy planning, charitable giving, and education funding.



The ECC offers personalized advice on complex equity compensation, including stock option grants and related strategies. Through a detailed discovery process, the ECC helps clients review goals, risk tolerance, and concerns, and provides custom guidance based on the client's situation.

For the Schwab Plan Comprehensive, specialists use a digital planning tool and consider client answers to questions regarding financial situation, including assets and liabilities, overall goals, and risk tolerance. The planning tool provides the basis for a planning conversation with the client and may include topics as applicable to the client, such as retirement planning, savings, and estate planning.

During the enrollment process for the Schwab Plan Comprehensive and PFP, clients acknowledge and electronically consent to receive records and disclosures electronically and to sign agreements electronically. This includes delivery of regulatory documents such as the disclosure brochure and the disclosure brochure supplement. Each client has an obligation to maintain an accurate and up-to-date email address and to ensure that he/she has the ability to read, download, print, and retain electronic documents.

The specialist will help the client identify and prioritize goals using information the client provides. The specialist will review the analysis with the client, help prioritize next steps, and assist in developing an action plan. The Planning Service suggests a general asset allocation and relevant action items, as appropriate, based on the client's stated risk tolerance, age, investment time horizon, and investment experience.

The plan also will incorporate sources of information provided by the client in the discovery process. The specialist relies on this information without independent verification. As such, it is the client's responsibility to ensure information is accurate and complete.

The specialist provides the analysis on a discrete basis and at a point in time and does not involve ongoing advice. Therefore, it is important for the client to monitor their personal situation and current events, such as changes in tax laws and financial markets. The client should consult with their tax advisor or certified public accountant on all tax-related matters and with their attorney on all legal matters before taking any action suggested in the analysis or financial planning analysis.

The financial plan will typically consider assets held in the client's Schwab brokerage or advisory accounts (along with assets held outside of Schwab as disclosed by the client); however, Schwab has no discretionary authority or responsibility with respect to the client's brokerage accounts discussed as part of the analysis. Schwab does not give legal or tax advice. The client should carefully consider all relevant factors before deciding how or whether to implement recommendations contained in the analysis or financial planning analysis. Any asset allocation shown in the analysis could differ from the actual allocation provided under other investment advisory services offered by Schwab. After Schwab has presented and explained the analysis to the client, all obligations associated with the Planning Service will end.

If the client chooses to implement through Schwab any or all of the recommendations based on the Planning Service described above, Schwab may execute transactions for the client's account as agent or principal as described below, outside of the Planning Service.

### **Financial Planning Services Fees and Compensation**

#### **Fees**

Standard Planning Service fees are as follows: \$300 for a point-in-time Schwab Plan Comprehensive; \$2,000 for the PFP; and \$2,000 for the ECC.

Discounts or waivers may apply to certain client groups (such as employees of certain businesses and clients of certain independent investment advisors who have a business relationship with Schwab), to clients enrolled in other Schwab investment advisory services, to clients purchasing multiple versions of the Planning Service, as a result of special promotions or marketing campaigns, or otherwise at Schwab's discretion. Schwab may also give discounts to employees of Schwab and its affiliates.

The fee is payable when the client signs the Financial Planning Services Agreement and returns it to Schwab. If the client decides to cancel participation in the Planning Service, they should inform their specialist within five business days of signing the Financial Planning Services Agreement to receive a full refund. An employer, independent investment advisor, or other group may arrange to pay the Planning Service fees on behalf of its employees, clients, or members.

#### **Performance-Based Fees and Side-By-Side Management**

Schwab does not receive performance-based fees in connection with the Planning Service, and side-by-side management is not applicable.

#### **Compensation**

Specialists, including financial planners, do not receive compensation for recommending particular investment products or services.

**Financial Planner Compensation** — Financial planners receive compensation in the form of a salary and a bonus based on factors such as corporate and individual performance.

**FC Compensation** — As part of overall delivery of the the Schwab Plan Comprehensive, FCs may recommend specific Schwab-sponsored investment advisory programs to clients, as appropriate. However, FCs do not receive compensation for referring clients to the Schwab Plan Comprehensive, PFP, or ECC. In addition to their base salaries, FCs receive compensation for successfully navigating clients to investment advisory programs and for servicing those clients after enrollment in such programs. Schwab as a company may earn more or less revenue depending on what products and services an FC recommends and a client chooses. FC compensation varies by the type of program or service an account participates in. As detailed in the applicable disclosure brochure for the advisory program, Schwab designed FC compensation to be based on factors that include the time, complexity, and expertise necessary to understand and recommend a program and to provide ongoing service to a client enrolled in a given program.

**IBL and IB Compensation** — IBLs and IB Representatives may refer clients to the Planning Service for Schwab Plan Comprehensive, PFP, or ECC. For any referrals made by the IBL in their branch, the IBL will receive a one-time payment based on the fee paid for the plan (50% of the amount paid).

Go to [schwab.com/representative-compensation](https://schwab.com/representative-compensation) to learn more about how we compensate our investment professionals.

### **Benefits to Schwab Affiliates**

As a result of discussions related to the Schwab Plan Comprehensive, the PFP, or the ECC, clients may receive recommendations for or learn of certain investment or banking products and services, including advisory offerings sponsored by Schwab, and enrollment in such products, services or offers would result in revenue to Schwab and its affiliates.

## Account Requirements and Types of Clients

### Select and Connection

The Select and Connection programs are intended for clients seeking discretionary management of their Account for a bundled fee. Clients of the programs may include individuals, trusts, incorporated and non-incorporated organizations, and pension and profit-sharing plans. ERISA-Type Accounts are only eligible for certain strategies in the Connection program, and certain ERISA-Type Accounts may, at Schwab's discretion, not be eligible for the program. Minimum Account sizes apply to each investment strategy in the Select and Connection programs. In the Select program, the minimum Account size for an equity strategy is generally \$100,000; the minimum Account size for Balanced, Equity Index, and Fixed Income strategies is generally \$250,000; and the minimum Account size for Diversified Portfolios ranges from \$150,000 to \$650,000.

In the Connection program, the minimum Account size for Equity, Diversified, Balanced, and Index-Based strategies is generally \$100,000; the minimum Account size for Fixed Income strategies is generally \$250,000; and the minimum Account size for Selective Portfolios strategies is generally \$25,000. Within the UMP Program, the minimum Account size for strategies in UMP Wrap is generally \$25,000, and the minimum Account size for strategies in UMP Custom is generally \$500,000.

Some strategies may have higher or lower minimums. From time to time, Schwab may reduce the minimum Account size for groups of clients, including SRs with Accounts in certain programs. Additional contributions to Accounts managed by certain MMs may be subject to minimum amount requirements so that additional contributions of less than the minimum requirement will be held as cash or cash investments and earn interest or be invested in a money market fund as specified by you in your Account application.

If the market value of your Account falls significantly below the specified minimum due to your withdrawal of assets from the Account, Schwab may require you to deposit additional money or securities to bring the Account up to the required minimum, or Schwab reserves the right to unenroll the Account from the program.

### SMP

Clients of the SMP program may include individuals, trusts, charitable organizations, investment clubs, corporations, and other business organizations. ERISA-Type Accounts are only eligible for SMP-MF Third Party, and certain ERISA-Type Accounts may, at Schwab's discretion, not be eligible for the program.

The minimum investment required to open an Account in SMP-MF and SMP-ETFs is \$25,000 for all Accounts. If the market value of a program Account falls below these specified minimums due to withdrawal of assets from the Account, Schwab may require the client to deposit additional money or securities to bring the Account up to the required minimum, and Schwab reserves the right to discontinue management of the Account.

For Retirement Accounts enrolled in the SMP program, Schwab, its employees and agents (i) have no investment or other discretion with respect to assets covered by the program; (ii) will perform no discretionary acts with respect to such assets; (iii) will effect only such transactions as instructed by the MM pursuant to discretionary authority granted by you; and (iv) will exercise no discretion and provide no advice as to the voting of proxies. The MM is the sole fiduciary, as defined under ERISA, in performing investment management services and exercising discretion over the assets managed in your retirement account, subject to such reasonable restrictions you may impose.

### Financial Planning Services

The Planning Service is available to investors in need of in-depth, point-in-time personalized financial planning.

## Portfolio Manager Selection and Evaluation

### Select

Schwab is responsible for MM evaluation and research services in the Select program. Before Schwab selects an MM and its investment strategy to participate in the Select program, Schwab performs a comprehensive review of the MM and its investment strategy. Schwab's review may include an assessment of information about the MM and its investment strategy from third-party sources and information directly from the MM.

Schwab determines which MM investment strategies to include or keep in the Select program by engaging in searches and periodic reviews, which are more fully described below. For Schwab to include an MM in the Select program, an MM must meet the program's business criteria, which include the program's MM fee structure, the program's Account minimums, use by the MM of the program's portfolio management system, execution by the MM of Schwab's standard MM service agreement, and other factors.

Schwab evaluates information from both quantitative and qualitative analyses to determine whether to recommend inclusion or termination of an MM and its investment strategy from the Select program. Schwab's review includes assessing information about the MM and its investment strategy from third-party sources and information directly from the MM through on-site visits, interviews, and/or questionnaires.

For its quantitative analysis, Schwab uses a proprietary rating system that combines multiple model subcomponents into a single rating that represents the expected future relative performance rank of the MM's investment strategy within its Morningstar categorization. The model subcomponents fall into three broad categorizations that include (i) *capability*, which reflects manager skill using past performance; (ii) *characteristics*, which are non-performance based features of a fund; and (iii) *costs*, which considers the impact expenses have on client outcomes.

In its qualitative analysis, Schwab evaluates the MM's operational infrastructure, compliance program, trade procedures, and internal control environment to assess the MM's overall operational competency, and considers a variety of investment criteria, including:

- Historical style consistency
- Appropriateness of the strategy for the style category
- The MM's investment strategy and adherence to it



- Diversity of investment approach versus that of other strategies in the Select program
- Stability of management and ownership structure
- Governance program of the management company
- Quality of composite return information

Schwab evaluates each MM's investment strategy no less than annually based on the factors described above, except that Schwab performs operational due diligence at least once every three years. If Schwab determines it is warranted, it will review changes within an MM's organization or operations before the regular annual review. As a result of these reviews, Schwab may terminate an MM's investment strategy from the Select program or put it on a watchlist. If an investment strategy is put on a watchlist, it will still be available for new Accounts but Schwab may ultimately remove it from the program if no improvement occurs. Schwab reserves the right to terminate an MM's investment strategy from the Select program at any time for any reason.

Compensation Schwab receives from MMs and the underlying investments that MMs use in client Accounts creates a conflict of interest when Schwab evaluates MMs for the Select program. Schwab has an incentive to approve and retain MMs with investment strategies or relationships outside of the program that are the most profitable for Schwab. For example, Schwab has an incentive to include and recommend MMs that use funds that pay us shareholder servicing fees or Schwab Funds because these investments generate additional compensation for Schwab (see sections above "Compensation for Services Outside the Program"). Schwab addresses these conflicts by following the due diligence process described above.

If Schwab removes an MM's investment strategy from the Select program or the MM and Schwab terminate their agreement, that MM will not be available to manage Accounts in the Select program with that investment strategy. If you have chosen an investment strategy or MM that Schwab is removing from the Select program (or the MM is otherwise withdrawing its strategy or participation in the program), Schwab will inform you and your SR as soon as practicable. Your SR will advise you on whether to select a new investment strategy or MM that is available through the Select or Connection program or to take other action.

SRs recommend an MM investment strategy or MMs to you based on various factors including your financial situation, asset allocation, investment objective, risk tolerance, and investment time horizon. When Schwab removes an MM or an MM withdraws its participation in a program, an SR will use the same factors above to base their recommendation of a replacement MM to you.

#### **Diversified Portfolios**

A Diversified Portfolio strategy includes several component investment strategies ("component strategies"), such as large-cap equity, small-cap equity, and fixed income strategies. You can have a Diversified Portfolio strategy in a single Account, with a minimum Account size (generally \$350,000, but it may be as low as \$150,000 and as high as \$650,000), which is typically less than if you opened separate Accounts for each strategy. Diversified Portfolios have several different asset allocations comprised of varying percentage allocations of the available component strategies ("asset allocations"). Some of the asset allocations have bond holdings that are tax exempt, and some have bond holdings that are taxable. Schwab developed these asset allocations to accommodate clients with different risk profiles, time horizons, and tax status. Your SR will help you decide whether a Diversified Portfolio strategy is appropriate for you, and, if so, will help you choose which asset allocation is appropriate for you.

A Diversified Portfolio structure typically involves an MM acting as an "overlay manager." In addition, other MMs provide model investment portfolios or research for the component strategies to the overlay manager ("Component Strategies Managers") The Component Strategies Manager may or may not be available on a stand-alone basis in the Select program. The functions of an overlay manager will vary depending on the Diversified Portfolio strategy. Sometimes the overlay manager may have all the trading responsibility for all the component strategies; sometimes the Component Strategies Managers may have all the trading responsibility (which is often the case with fixed income strategies), and sometimes the overlay manager and the Component Strategies Managers may allocate trading responsibility among themselves depending on the type of trading activity. Examples of the different trading activities that may be allocated among the overlay manager and the Component Strategies Managers include: initial implementation of your portfolio, subsequent changes to your portfolio based on changes to the Component Strategies Managers' model portfolios, rebalancing your portfolio to bring it within the guidelines of the asset allocation, trading caused by cash withdrawals initiated by you, tax-harvesting requests initiated by you, and liquidations requested by you.

The overlay manager is authorized to make adjustments if one or more component strategies in your Account become overweighted or underweighted from the asset allocation as a result of market appreciation or depreciation. Such adjustments will generally be made by the overlay manager when the proportion of equity securities to fixed income securities varies by 5 or more percentage points from the asset allocation or when the proportion of one strategy varies by more than 10 percentage points from the asset allocation. As a result of these potential allocation adjustments, the performance of a component strategy in a Diversified Portfolio Account may differ from the performance of that component strategy in a separate account.

The overlay manager may also monitor your Diversified Portfolio Account to make sure your investment restrictions are implemented across all component strategies. For taxable Accounts, the overlay manager will generally monitor and avoid wash sales.

Schwab selected the following overlay managers—Nuveen Asset Management, LLC ("Nuveen") and Parametric Portfolio Associates LLC ("Parametric")—and the Component Strategies Managers for their Diversified Portfolio strategies were selected by Schwab for the Select program based on a number of factors, including the following: (i) the reputation, historical performance, and organizational stability of the overlay managers and the Component Strategies Managers; (ii) the overall performance of the Diversified Portfolios strategies based on the combined performance of the component strategies (calculated on a hypothetical basis); (iii) the fact that most of the Component Strategies Managers are affiliates of the overlay manager and have pre-existing working relationships with the overlay manager in other multi-strategy portfolios; and (iv) the Sleeve Managers and overlay managers met Schwab's business criteria for multi-strategy portfolios in the Select program, including the MM fee structure, account minimums, use of the program's portfolio management system, and execution of Schwab's service agreement. If the overlay manager had conducted a wider search for the Sleeve Managers and component strategies that comprise the Diversified Portfolio strategies, it is possible that other Component Strategies Managers or component strategies could have been chosen. The overlay managers conduct on-going due diligence of Component Strategies Managers and component strategies for investment performance, style adherence, and organizational stability, among other factors and report the due diligence results quarterly to Schwab.

A Component Strategies Manager may be terminated and replaced by the overlay manager without your approval. Schwab and the overlay manager may terminate and replace a Sleeve Manager or agree to change the percentages of the asset allocation without your approval. If you have a Diversified Portfolio strategy in which a Component Strategies Manager or component strategy is terminated and replaced, or if the percentages of the asset allocation are changed, you will be notified by Schwab as soon as reasonably practicable.

## **Connection**

CSIM, a Schwab affiliate, is currently the only MM available in the Connection program. The investment strategies managed by CSIM in the Connection program, are not subject to the evaluation and ongoing due diligence process Schwab uses for the Select program. Schwab uses an unaffiliated third-party consultant to conduct periodic due diligence reviews, including compliance and operational risk in areas such as governance and organizational structure, of the MM investment strategies.

For detailed information about the strategies CSIM manages, please see CSIM's disclosure brochure.

If you have chosen an investment strategy that is being removed from the Connection program (or the MM is otherwise withdrawing its strategy or participation in the program), Schwab will inform you and your SR as soon as practicable. Your SR will advise you on whether to select a new investment strategy that is available or to take any other action.

## **Selective Portfolios**

The Selective Portfolios strategies available in the Connection program are mutual fund and ETF fund wrap strategies managed in a single Account on a discretionary basis by CSIM. The Selective Portfolios Core Mutual Fund and Core ETF strategies are each available with five asset allocation models with varying percentages that correspond to risk tolerance levels including aggressive, growth, moderate growth, moderate and conservative. The Opportunistic strategies are available with two asset allocation models, aggressive and moderate growth. The Selective Portfolios Core Mutual Fund strategies use mutual funds as the primary investment vehicles with a portion of the Account maintained in cash or cash alternatives. Selective Portfolios Core ETF strategies have asset allocations similar to Core Mutual Fund, but use ETFs as the primary investment vehicle with a portion of the Account maintained in cash or cash alternatives. The Selective Portfolios Opportunistic strategies also use ETFs as the primary investment vehicle with a portion of the Account maintained in cash or cash alternatives.

The Core Mutual Fund and Core ETF model portfolios generally consist of broadly diversified strategic asset allocations. The Opportunistic model portfolios use a tactical asset allocation method with more defined asset classes, and generally involve a more active portfolio management approach compared to the strategic model portfolios. Since strategies using a tactical approach have more frequent trading, they may also have greater tax implications for taxable portfolios. Your SR will help you decide whether Selective Portfolios are appropriate for you, and/or whether a different investment strategy might be appropriate.

## **UMP**

The UMP Program available in the Connection program includes UMP Wrap (a mutual fund and ETF wrap program) and UMP Custom (a unified managed account program). UMP Wrap offers clients a portfolio of investments that may be composed of mutual funds, money market funds, and/or ETFs in a single account that CSIM manages on a discretionary basis. UMP Custom offers clients a portfolio of investments that may be composed of mutual funds, money market funds, ETFs, American depositary receipts (ADRs), and one or more investment strategies with underlying assets including, but not limited to, individual stocks and bonds (each a "sub-strategy"). UMP Custom involves CSIM managing assets on a discretionary basis and acting as the overlay manager, and other MMs for certain sub-strategies providing model investment portfolios or research (each a "sleeve manager") to CSIM. The functions CSIM performs as the overlay manager may vary, although CSIM will have all the trading responsibility for all the sub-strategies.

USAA ISCO selected each sleeve manager for UMP Custom prior to the acquisition. If Schwab (with the research provider's assistance) or CSIM conducted a search for the sleeve managers and sub-strategies available in the UMP Custom strategies, it is possible that Schwab or CSIM might have chosen other sleeve managers and sub-strategies. USAA ISCO evaluated each sleeve manager prior to the acquisition, and CSIM continues to monitor the sleeve managers and sub-strategies at least annually. CSIM and Schwab may terminate and replace a sleeve manager without your approval.

UMP Program strategies are available with seven asset allocation models, each with varying percentages that correspond to risk tolerance levels including very aggressive, aggressive, moderately aggressive, moderate, moderately conservative, conservative, and 100% fixed income ("model portfolios"). Some model portfolios are available only in UMP Custom, and within each model portfolio, the types of assets and services offered will vary between Wrap Program Accounts and Custom Program Accounts. Each model portfolio contains a strategic asset allocation, as well as specific investments to fill the asset allocation.

Please note that although CSIM designs some model portfolios to minimize risk (and therefore offer diminished potential returns on your investment), all investments in securities involve a risk of loss, including the loss of your initial investment. CSIM and Schwab may agree to change the strategic asset allocation percentages of the model portfolios without your approval.

CSIM designed some of the model portfolios for use with taxable Accounts and designed others for use with tax-deferred Accounts. Certain investment strategies in the UMP Program offer model portfolios that invest the fixed income allocation in taxable bonds, investing primarily in bonds whose interest income is subject to federal and state taxes, including but not limited to corporate, government, agency, taxable municipals, and certificates of deposit. Other investment strategies offer model portfolios that invest primarily in bonds whose interest income is exempt from federal taxes as well as potentially state and local taxes, including but not limited to general obligation and revenue bonds. In certain circumstances, tax-exempt bond mutual funds and ETFs can invest in taxable municipal bonds, which will create taxable income. In addition, any capital gains realized create taxable income. The tax-exempt model portfolios also invest in taxable equity investments in the same manner as the taxable model portfolios. Therefore, tax-exempt investment strategies may still be subject to taxation. Your SR will help you decide whether the UMP Program and/or a different investment strategy is appropriate for you.

## **SMP**

Schwab selected CSIM as the SMP program Portfolio Manager. Schwab believes CSIM possesses the requisite expertise to serve in this capacity. Schwab reviews the performance of the SMP program model allocations quarterly through standardized composite performance reporting.

The fact that CSIM and Schwab are affiliates creates a conflict of interest for both firms. Schwab has a potential conflict in selecting and maintaining CSIM as Portfolio Manager for the SMP program. CSIM has a potential conflict in selecting mutual funds and ETFs—some of which

pay greater compensation to CSIM, Schwab, or other affiliates than other eligible mutual funds and ETFs—for the SMP program portfolios. CSIM also has a potential conflict in selecting mutual funds and ETFs that it may use or consider in other Managed Accounts or Schwab Funds® for which CSIM also acts as Portfolio Manager, as “Other Financial Industry Activities and Affiliations” describes in more detail. For more information about how Schwab and CSIM address these conflicts of interest, see the “Brokerage Practices” section.

## **About CSIM**

CSIM is an affiliate of Schwab and acts as the investment manager for certain strategies in the Connection program, the SMP wrap fee program, the Schwab Affiliate Funds, and provides portfolio services for the Schwab Intelligent Portfolios® program (“SIP” or the “SIP Program”). CSIM also manages strategies similar to those available through the Connection program on platforms sponsored by firms other than Schwab. Schwab has a conflict of interest in including an affiliated MM in the Connection program. CSIM has a conflict of interest in managing different strategies that use or consider the use of the same securities. See CSIM’s disclosure brochure.

## **Information About MMs**

Each MM’s brochure provides information about that MM. For each of your Accounts, you will receive the brochure of the MM you designate to manage that Account before the MM begins managing it. The MM has discretion to accept or reject the management of your Account.

Additional information about an MM and its investment strategy is available in its MM Profile for that strategy. The MM Profile describes the MM, its investment strategy, and past performance. Certain MM Profiles may only be available by meeting with an SR. The accuracy and completeness of the MM data contained in the MM Profile are the responsibility of the MM. The MM Profiles for Select program strategies are updated quarterly, based on information obtained from the MMs and third-party sources. While Schwab believes that the information contained in the MM Profiles for the MMs is accurate, Schwab does not guarantee the accuracy, completeness, or timeliness of the information or that using information contained in the MM’s Profile will lead to any particular result. There can be no assurance that the MM calculates performance information on a uniform or consistent basis. Past MM performance is no guarantee of future results.

## **Non-Exclusive Relationship**

Schwab and its affiliates may perform, among other things, research, brokerage, asset management, and similar services for other clients and receive asset-based fees for such services. Schwab and its affiliates and their respective employees and agents may give advice to and take actions for a particular client that differ from the advice given or the timing and nature of action taken with respect to those mutual funds and other clients’ accounts. Transactions in a specific security may not be accomplished for all clients’ accounts at the same time or price.

In managing your Account, an MM may purchase or sell securities in which the MM, Schwab, or their officers, directors, employees, or representatives, directly or indirectly, have or may acquire a position or interest.

The MMs, Schwab, or their affiliates may, in the course of business, obtain material non-public or other confidential information that, if disclosed, might affect an investor’s decision to buy, sell, or hold a security. The MMs, Schwab, and their affiliates are restricted from disclosing or using this information under applicable law and are under no obligation to disclose the information to any client or use it for any client’s benefit.

Investing in securities, whether through the programs or otherwise, involves the risk of loss that you should be prepared to bear. We describe other risks associated with the programs in the “Certain Risks” section.

## **Financial Planning**

Monte Carlo simulations are used to show how variations in rates of return each year can affect the results of a financial plan. A Monte Carlo simulation calculates the results of a financial plan by running it 1,000 times, each time using a different sequence of returns. These multiple trials provide a range of possible results. The percentage of trials that were successful is the probability that the financial plan, with all its underlying assumptions, could be successful. The results using Monte Carlo simulations indicate the projected likelihood of achieving a goal. In analyzing this information, please note that the analysis does not take into account actual market conditions, which may severely affect the outcome of goals over the long-term.

## **Client Information Provided to Portfolio Managers**

### **Select**

By signing the Schwab account application, you authorize Schwab to provide trading and other information about your Account to the MM managing your Account and third parties designated by the MM. In addition, your SR will ensure Schwab communicates such information as necessary to the MM managing your Account. Examples of information Schwab may communicate to your MM include investment restrictions, tax-harvesting instructions, and updates to the information you provide in your account application.

### **Connection / SMP**

At the time a client enrolls in the Connection program or SMP program, Schwab provides CSIM with information about that client’s chosen strategy or portfolio allocation and any reasonable restrictions applicable to the client’s Account. Schwab provides updated information to CSIM as necessary thereafter to notify CSIM of material changes.

## **Client Contact With Portfolio Managers**

### **Select**

Clients may contact an MM directly. However, it is expected that clients will direct questions concerning their Account to an SR, and that any contact they have with an MM will be facilitated by an SR.

## Connection / SMP

Clients who wish to contact CSIM can do so by making a request to a Schwab representative. Schwab and its representatives are the primary points of contact for clients in the programs.

## Additional Information

### Disciplinary Information

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

1. In June 2022, Schwab and its former affiliate Charles Schwab Investment Advisory, Inc. settled a matter with the U.S. SEC related to historical disclosures and marketing of the Schwab Intelligent Portfolios® advisory program.

The SEC found that Schwab, along with its former affiliate, Schwab Wealth Investment Advisory, Inc., violated certain provisions of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), and the rules thereunder, from March 2015 through November 2018. The SEC found that Schwab made false and misleading statements in Form ADV Part 2A brochures about the cash allocations in Schwab Intelligent Portfolios accounts, in particular about:

- Schwab’s conflict of interest in setting the cash allocations;
- the influence of this conflict of interest on the size of the cash allocations; and
- the negative effect of the cash allocations on performance in Schwab Intelligent Portfolios accounts under market conditions where other assets such as equities outperform cash.

The SEC also found that Schwab failed to sufficiently implement compliance policies designed to prevent the publication of misleading statements. Finally, the SEC found that Schwab made similarly misleading statements in advertisements for the Schwab Intelligent Portfolios.

Without admitting or denying these findings, Schwab agreed to pay a total of \$186,536,861 in disgorgement, pre-judgment interest, and civil penalties. Schwab also agreed to engage an independent consultant to:

- review Schwab’s supervisory, compliance, and other policies and procedures designed to ensure that Schwab Intelligent Portfolios’ disclosures, advertising, and marketing communications comply with the requirements of the Advisers Act, and the rules thereunder, and with other applicable federal securities laws with respect to the Schwab Intelligent Portfolios; and
- submit a report to both Schwab and the SEC describing the independent consultant’s findings and making recommendations. Schwab may identify any recommendations that it considers to be unduly burdensome, impractical, or inappropriate and attempt to reach agreement over such recommendations with the independent consultant, and Schwab must ultimately adopt and implement the independent consultant’s final recommendations.

### Other Financial Industry Activities and Affiliations

Schwab holds dual registrations to act as both a broker-dealer and a registered investment adviser.

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

Schwab is also registered as an investment adviser under the Advisers Act. In addition to sponsoring the Select, Connection, SMP, and financial planning services programs, Schwab also acts as a registered investment adviser for other programs, including:

- Schwab Intelligent Portfolios Solutions™ (automated discretionary managed account programs),
- Schwab Wealth Advisory (investment advisory and brokerage services),
- Schwab Advisor Network® (a referral program of investment advisors to investors who are looking for assistance in managing their assets and/or other financial planning activities. Advisors participating in Schwab Advisor Network are independent and not affiliated with Schwab. Investment advisors pay a fee to participate in the Schwab Advisor Network program,
- Retirement Plan Services—Morningstar Investment Management LLC, and
- Schwab Managed Account Services—for clients of independent investment advisors.

### Schwab Affiliates

Schwab is a wholly owned subsidiary of CSCorp.

Other wholly owned subsidiaries of CSCorp. are engaged in investment advisory, brokerage, trust, custody, or banking services.

CSIM is an affiliate of Schwab that we describe under the heading “About CSIM” above. In addition to managing certain strategies in the Connection wrap fee program, CSIM also manages the SMP wrap fee program and provides advisory and administrative services to certain Schwab affiliated funds marketed under the Schwab Funds® and Schwab ETFs™ names.

TD Ameritrade Holding Corporation is a wholly owned subsidiary of CSCorp. TD Ameritrade, Inc. and TD Ameritrade Clearing, Inc., SEC-registered broker-dealers, and members FINRA/SIPC are separate but affiliated companies and subsidiaries of TD Ameritrade Holding Corporation.

TD Ameritrade, Inc. is a registered broker-dealer. TD Ameritrade Clearing, Inc., an SEC-registered clearing broker-dealer, provides clearing and

execution services for securities brokerage businesses. TD Ameritrade Singapore Pte. Ltd. enables retail investors in Singapore to trade the U.S. markets. Clients can trade stocks, ETFs, options, futures, and options on futures using the thinkorswim® trading platform.

CSCorp. provides services to retirement and other employee benefit plans and participants through its separate but affiliated companies and subsidiaries: Charles Schwab Bank, SSB and Charles Schwab Premier Bank, SSB; Charles Schwab & Co., Inc.; Schwab Retirement Plan Services, Inc.; and Schwab Retirement Plan Services Company.

Charles Schwab Trust Bank offers trust and custody products and services.

Schwab Retirement Plan Services, Inc. and Schwab Retirement Plan Services Company provide recordkeeping and related services with respect to retirement plans.

Charles Schwab Futures and Forex LLC is a Commodities Futures Trading Commission-registered futures commission merchant, a member of the Municipal Securities Rulemaking Board, and National Future Association forex dealer member and offers futures and forex trading to qualified clients.

Charles Schwab Bank, SSB is a subsidiary of CSCorp. that offers deposit accounts, mortgage and home equity line of credit lending products, and credit card products to both Schwab brokerage clients and other clients who have no relationship with Schwab.

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

### **Code of Ethics**

Schwab has a code of ethics adopted pursuant to SEC Rule 204A-1 under the Advisers Act (the “Code”). The Code reflects the fiduciary principles that govern the conduct of Schwab employees when Schwab acts as an investment adviser as defined under the Advisers Act. The Code requires that Schwab’s covered representatives comply with applicable federal securities laws, report violations of the Code, and for those deemed “access persons” by virtue of providing investment advice or having access to certain related information, report their personal transactions and holdings in certain securities periodically. The Code prohibits access persons from disclosing portfolio transactions or any other non-public information to anyone outside of Schwab, except as required to effect securities transactions for clients, or from using the information for personal profit or to cause others to profit. Access persons are also prohibited from engaging in deceptive conduct in connection with the purchase or sale of securities for client accounts. The Code is subject to change as necessary to remain current with regulatory requirements and internal business policies and procedures. A copy of the Code is available upon request.

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

### **Select and Connection**

Consistent with applicable law and regulations, Schwab may execute trades for fixed income securities as principal. Schwab will not execute fixed income trades as principal for Accounts managed by affiliated MMs. Schwab will execute fixed income principal transactions only when an MM believes you will receive at least as favorable an execution as would be the case were the transaction executed through another dealer. When Schwab executes orders in fixed income securities as principal, Schwab may receive compensation in connection with such transactions in the form of a dealer markup or markdown. Such compensation is separate from and in addition to, and will not reduce or otherwise offset, the program fee for your Account. Please refer to “Schwab’s Execution Services” under “Services, Fees and Compensation” for more information. As an accommodation, Schwab will facilitate the sale of fractional shares of equity securities within your Account by purchasing shares from you on a principal basis at prevailing market rates. Acting as principal on a trade is a conflict of interest because Schwab is on the other side of the transaction from the customer; however, Schwab seeks to mitigate this conflict by not charging additional fees on fractional share trades. The program fee covers execution of fractional shares, which will be liquidated at no additional cost to you.

Schwab may also effect “agency cross-trades” (except with respect to Accounts managed by CSIM) to the extent permitted by applicable law and regulations and Schwab’s internal policies. Agency cross-trades are transactions in which Schwab acts as adviser to one side of the transaction (in Schwab’s role as program sponsor) and broker for the parties on both sides of the transaction. Schwab may receive compensation from the client on the other side of the transaction (the amount of which may vary). Thus, Schwab may have a potentially conflicting division of loyalties and responsibilities. If Schwab effects an agency cross transaction for your Account, the confirmation for the transaction will disclose that Schwab or its affiliate acted as agent for both buyer and seller in the transaction. The compensation received by Schwab from the other client is in addition to the program fees. While such compensation, in theory, could create a potentially conflicting division of loyalties and responsibilities, all transactions in the programs are directed by the MM, and Schwab will be acting solely as a broker-dealer in connection with such trades.

If your MM buys new issue bonds through Schwab acting as a dealer, Schwab receives a customary selling concession for providing distribution and operational services, which ranges from less than 0.01% to 2% of the par value, or face amount, of the bond, depending on the product. The percentage rate of the selling concession may differ not only between different new-issue offerings, but also between different series and bond maturities within a single offering.

Schwab has entered into distribution agreements for fixed income securities with J.P. Morgan Securities LLC, Piper Jaffray & Co., TD Securities (USA) LLC, and American Veterans Group, PBC to purchase from those firms, and sell to our clients acting as principal, certain new-issue fixed income securities from offerings in which those firms act as an underwriter or selling group member. Pursuant to these agreements, Schwab receives a portion—and in some cases all—of the relevant selling concession. The percentage of the selling concession received by Schwab depends upon the type of offering, the type of security, and the underwriting syndicate’s arrangement with the issuer. Although Schwab’s aggregate compensation for a particular offering increases with the number of securities in the offering that Schwab sells to its clients, the portion of the selling concession Schwab receives in an offering does not vary based upon the number of securities sold to its clients.

### **SMP**

#### **Brokerage Practices**

Clients agree in their Schwab agreement that all brokerage transactions for their Account will be executed by Schwab. As a result, clients may not always obtain as favorable a price or execution as could have been available through another broker-dealer. Not all broker-dealers or investment advisers require their clients to direct trades to a particular broker-dealer (also known as “directed brokerage”). Depending on the amount of fees charged by Schwab, the amount of trading activity in your Account, and the value of the custodial and other services provided by Schwab, the program fee could exceed the aggregate cost of such services if they were to be provided separately and if CSIM negotiated brokerage fees and



sought best price and execution on a transaction-by-transaction basis. For additional details regarding brokerage practices for the program, please refer to the CSIM disclosure brochure.

In addition to the program fee, Schwab and its affiliate CSIM earn compensation from the mutual funds and Schwab ETFs held in SMP program Accounts, as described below. This creates a potential conflict of interest. Schwab addresses these conflicts through written parameters that CSIM must follow in selecting securities for and removing securities from SMP program portfolios, and by reviewing CSIM's performance as SMP program Portfolio Manager. CSIM addresses these conflicts by adhering to written parameters that do not allow it to consider compensation to CSIM, Schwab, or other affiliates or affects in other programs in connection with managing SMP program portfolios.

### **Mutual Funds**

Schwab's Mutual Fund Marketplace (MFMP) provides access to a wide range of funds and share classes from different mutual fund companies. When clients invest in a mutual fund through the program, Schwab receives compensation from mutual fund companies for recordkeeping, shareholder services, and other administrative services that Schwab provides to shareholders of the funds. These shareholder services may include transaction processing, trade settlement, dividend distribution, record maintenance, and distribution of statements, confirmations, prospectuses, and other regulatory shareholder documents. When the fees described below are paid out of fund assets, those amounts are included in the fund's operating expense ratio, which means the fees are indirectly borne by the fund's shareholders.

MFMP provides access to a wide range of funds and share classes from different mutual fund companies. Certain funds or fund families pay a flat platform fee, an asset-based platform fee or a combination of these fee structures to compensate Schwab for activities related to Schwab's sponsorship of the MFMP. This payment to Schwab can be based on any number of factors, such as the level of assets, purchases over a period, net flows into the funds (gross purchases less redemptions), or other qualitative factors, such as Schwab's assessment of the quality of the relationship with fund companies. These platform fees are paid to Schwab in addition to the other shareholder services fee discussed elsewhere in this document. These platform fees equate to an annual fee of 0.10% or less of the average fund assets at Schwab (assuming the flat or tiered platform fee were converted from dollars to an annual asset-based fee.). This platform fee is generally paid by the fund advisor or another fund affiliate out of its own resources, and not directly out of fund assets.

Fund companies are segmented into relationship tiers based on a combination of their fund assets held at Schwab and the asset-based and flat fee paid to Schwab. This tiered structure creates conflicts of interest, as fund companies that are in the top tiers will have greater access to Schwab representatives and advisors that custody their clients' assets at Schwab and who in turn may be more likely to recommend funds that are familiar to them. However, these tiers will not impact or influence selection of any fund on the Mutual Fund Select List® or other tools and lists prepared by Schwab and used by Schwab representatives to make recommendations and provide advice.

Schwab entered into a long-term strategic relationship with T. Rowe Price and under this arrangement, T. Rowe Price makes payments to Schwab in exchange for Schwab promoting certain actively managed T. Rowe Price mutual funds and ETFs to Schwab's clients and for providing additional mutual fund and ETF marketing support to T. Rowe Price. This payment is significant and will increase over each year of the relationship if Schwab is successful in promoting T. Rowe Price funds, based upon asset growth in the T. Rowe Price Funds at Schwab. Schwab received payments of \$12.4 million from T. Rowe Price for these promotional services during 2023. Payment in 2024 may be higher or lower depending on growth of T. Rowe Price assets at Schwab. This strategic relationship payment is in addition to and separate from payments T. Rowe Price makes to Schwab for shareholder and administrative services.

Because the terms of the arrangement provide a considerable financial benefit to Schwab, this arrangement creates conflicts of interest as T. Rowe Price will have greater access to Schwab representatives and advisors that custody their clients' assets at Schwab, and Schwab will promote T. Rowe Price mutual funds and ETFs to our clients on Schwab.com and other digital properties. Clients may be more likely to select, and Schwab representatives or advisors that custody their clients' assets at Schwab may be more likely to recommend, funds that are familiar to them and that receive greater promotional support from Schwab.

### **Schwab Mutual Fund OneSource® Service, Other NTF Funds, and Transaction Fee Funds**

Through its Mutual Fund OneSource® service and other NTF funds, Schwab offers a selection of no-load and load-waived retail and non-retail share classes of mutual funds, including certain institutional share classes that are available with no transaction fee to investors. The compensation Schwab receives from mutual fund companies for shareholder services for OneSource/NTF funds may differ based on when the fund first became available at Schwab or other factors. If a retail, non-retail or institutional share class was first made available on OneSource/NTF, the asset-based annual fee for shareholder services could be up to 0.45%, but typically is 0.40%, which is higher than other share classes. At this standard rate, the fund or fund affiliate pays Schwab \$40 each year for each \$10,000 in fund assets held by an investor for the shareholder Services provided by Schwab. The fee may be subject to a monthly minimum that does not exceed US\$2,000. The fee applies starting with the first or seventh full month, depending on when the fund family was added to the platform, after the fund is made available for purchase at Schwab and only if the asset-based fee calculated for the month is less than the minimum monthly fee. When adding a new fund to Schwab's NTF platform, NTF funds also pay Schwab establishment fees. The fee for the first fund that Schwab adds does not exceed US\$25,000 and the fee for each additional fund within a fund family that Schwab adds is US\$3,000.

Outside of the OneSource/NTF service, institutional share classes are made available with no transaction fee ("Institutional NTF" or "INTF") and held by clients of investment advisors and other institutional investors, including certain large retail investors. The asset-based annual fee for shareholder services on existing assets could be up to 0.45%, but typically is 0.25%. At this standard rate, the fund or fund affiliate pays Schwab \$25 each year for each \$10,000 in fund assets held by an investor for the Shareholder Services provided by Schwab. Fees on new shares acquired or held at Schwab after October 1, 2022 can be up to 0.19%, but typically are 0.17%. At this standard rate, the fund or fund affiliate pays Schwab \$17 each year for each \$10,000 in fund assets held by an investor for the Shareholder Services provided by Schwab. When adding new INTF funds, the funds also pay Schwab establishment fees. The fee for the first fund that Schwab adds does not exceed US\$10,000 and the fee for each additional fund within a fund family that Schwab adds as NTF is US\$1,000 or US\$2,000 if added transaction fee ("TF").

For institutional share classes made available with a TF that are held by clients of investment advisors and other institutional investors, including certain large retail investors, the asset-based annual fee for shareholder services could be up to 0.25%, but typically is 0.10%. At this standard rate, the fund or fund affiliate pays Schwab \$10 each year for each \$10,000 in fund assets held by an investor for the Shareholder Services provided by Schwab. In some cases, Schwab applies a minimum monthly fee of \$1,000 per month per TF fund, depending on when the fund family was added to the platform. This minimum monthly fee is applied starting with the first full month after the fund is made available for purchase at Schwab and only if the asset-based fee calculated for the month is less than the minimum monthly fee. When adding a new fund to Schwab's TF platform, TF funds also pay Schwab establishment fees. The fee for the first fund that Schwab adds does not exceed US\$25,000



and the fee for each additional fund within a fund family that Schwab adds is US\$5,000. The transaction fees are not charged on any funds held in Accounts enrolled in the Schwab sponsored wrap fee programs referenced in this brochure.

Some third-party ETF sponsors or their affiliates make payments to Schwab for ETF-related opportunities, including data and reporting and education and events. Certain ETF sponsors pay Schwab up to \$750,000 annually for access to data and reports. The total amount of fees paid by each ETF sponsor to Schwab for education and events will vary depending on the type and number of opportunities in which the ETF firm participates.

#### **Schwab Funds®**

CSIM serves as investment adviser and/or administrator to the Schwab Funds. These Schwab Funds pay CSIM a fee for investment advisory and/or administrative services, the amount of which is described in the funds' prospectuses.

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

Some Schwab Funds have adopted a shareholder servicing plan pursuant to which they may pay fees to Schwab for shareholder services ranging up to 0.25% annually. Pursuant to its shareholder servicing plan, the Schwab® Government Money Fund may pay Schwab up to an additional 0.10% annually for sweep administrative services Schwab provides to shareholders invested in sweep shares of the Schwab Government Money Fund. Some Schwab Funds do not make any payments to Schwab under a shareholder servicing plan. Many of the Schwab Funds have adopted a unitary fee structure under which a single fee is paid to CSIM, and out of which CSIM pays for certain services provided to the funds; CSIM and its affiliates are entitled to retain any portion of this fee not paid out to a service provider.

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

#### **Sponsorship and Educational Opportunities**

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

#### **ETFs**

In addition to the compensation for reporting services described in "Fees," CSIM also receives compensation from Schwab ETFs selected for program Accounts in the form of the applicable OERs.

Third-party sponsors or their affiliates make payments to Schwab when Schwab provides the third-party sponsors with ETF-related opportunities, such as education, events, and reporting.

Schwab receives payment from third-party active semi-transparent (also known as non-transparent) ETFs or their sponsors for platform support and technology, shareholder communications, reporting, and similar administrative services for third-party active semi-transparent ETFs available at Schwab. This fee will vary, but typically is an asset-based fee of 0.10% per annum of the assets held at Schwab. Neither Schwab's affiliate CSIM nor Schwab's active semi-transparent ETFs pay a separate fee to Schwab for these services described, although CSIM reimburses Schwab, in its capacity as an affiliated financial intermediary of CSIM, for Schwab's costs in providing certain professional, administrative, and support services for the Schwab ETFs.

#### **Addressing Potential Conflicts**

As described above, Schwab has a conflict of interest because of the economic incentive to select Schwab Funds®, NTF funds, and Non-Retail Share Classes. Schwab addresses this conflict in a variety of ways, including establishing written parameters for the SMP program that limit the criteria CSIM may use in selecting mutual funds and ETFs from among those eligible for the SMP program. These criteria do not include the specific or differing amounts of compensation received by Schwab or CSIM. Schwab also monitors its representatives for compliance with the Code and has established advice policies and guidelines that Schwab representatives must follow when recommending and evaluating initial and ongoing program assessment criteria. Schwab representatives are supervised by their direct managers and by a central supervision team for compliance with Schwab's advice policies and guidelines. In order to address potential conflicts of interest identified under ERISA and the parallel provisions of the Internal Revenue Code, ERISA-Type Accounts are eligible only for a single set of model portfolios—SMP-MF Third Party New Models. Schwab representatives may provide owners of ERISA-Type Accounts with educational information about these portfolios but may not recommend them.

#### **Personal Trading**

Schwab monitors the personal securities holdings and trading of Schwab representatives. Schwab reviews accounts of its representatives custodied at Schwab and applicable accounts custodied at other firms. The surveillance program monitors holdings and trades against the Code, Schwab's Compliance Manual, and other applicable policies. Additionally, Schwab representatives must disclose all securities accounts they own or control after their hire date, and review and confirm the accuracy of those accounts on a quarterly basis.

Schwab representatives are prohibited from engaging in activities that violate federal or state securities laws, or rules and regulations of the exchanges or regulatory agencies. These prohibitions include rules against (1) frontrunning customer orders—which is when a Schwab representative buys or sells a security to possibly capitalize on advance knowledge of an imminent customer transaction that is expected to influence the market price; (2) passing such information to others for that purpose, so-called "shadowing"—which means misusing confidential customer trade information for possible personal benefit; and (3) purchasing shares in initial public offerings.

As described in the SWAI disclosure brochure, SWAI representatives are subject to personal trading policies substantially similar to those described above.

#### **Review of Accounts**

##### **Select and Connection**

Schwab will contact clients on a periodic basis in an effort to confirm whether the management of the client's program Account continues to reflect the client's investment objectives and financial requirements and/or whether a different investment strategy might be appropriate. Clients

who have experienced material changes to their financial circumstances or investment objectives, or who wish to impose or modify restrictions on the management of their program Accounts, should promptly inform a SR. The SR is available to consult with you about whether you may want to add or change investment strategies or MMs because of a change in your situation, the MM, or its strategy (such as the departure of a Portfolio Manager).

MMs monitor and review their clients' Accounts pursuant to the MMs' own compliance and supervisory systems of Account review. Schwab does not participate in and is not responsible for such review.

#### **SMP**

Schwab will attempt to contact clients at least once a year in an effort to confirm whether the management of the client's program Account continues to reflect the client's investment objectives and financial requirements and/or whether a different investment strategy might be appropriate. Clients who have experienced material changes to their financial circumstances or investment objectives, or who wish to impose or modify restrictions on the management of their program Accounts, should promptly inform an SR.

If clients have program Accounts enrolled in the SWA Program non-discretionary wrap fee program, and or Accounts enrolled in the SWA Program that are grouped at the clients' request with their program Accounts, then the representative assisting them in this process may also be an employee of Schwab's affiliated investment adviser, SWAI. The Schwab representative may ask the client to complete a form to provide necessary information to the CSIM personnel managing the Account.

Schwab sends program clients an Account statement detailing positions and activity in their Accounts at least quarterly. The statement includes a summary of all transactions made on the client's behalf, all contributions and withdrawals made to or from the Account, all fees and expenses charged to the Account, and the Account value at the beginning and end of the period. The statement may be based upon information obtained from third parties. Clients also receive a separate confirmation of each transaction.

A third party calculates investment performance for program Accounts, and a report containing this performance information is made available to program clients quarterly. Schwab believes that the data obtained from these third parties is accurate but does not independently verify it and is not responsible for its accuracy.

Ongoing investment income, capital gains, capital losses, and miscellaneous deductions for some commodity ETFs are reported annually on the Schedule K-1, and when commodity ETFs are sold in a taxable Account, proceeds will be reported on the Form 1099-B. The Schedule K-1 is mailed separately to affected clients each year and needs to be included in income tax returns. In cases where the entity generating the Schedule K-1 files for a tax extension beyond April 15, affected clients may receive the Schedule K-1 after the due date for their income tax returns.

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 their professional tax advisor for help with their unique situations.

You should also understand that investments in ETFs by tax-exempt Accounts may generate income that is subject to the unrelated business income tax. You are responsible for paying any unrelated business income tax liability associated with your Account as well as the timely filing of the applicable tax forms with the IRS.

### **Financial Planning Services**

The planning service is not ongoing and does not include periodic review of clients' financial situations. As described in "Advisory Business," clients of the planning service receive a written analysis, the contents of which vary according to clients' particular financial situations and according to the type of Service selected by the client.

### **Client Referrals and Other Compensation**

Schwab has an agreement with USAA ISCO (the "Referral Agreement") under which Schwab pays USAA ISCO based on a percentage of the assets in Schwab accounts attributable to a referral by USAA ISCO, including assets in most Select and Connection program Accounts, SMP program Accounts, and the planning service. The referral agreement does not apply to UMP Program Accounts. Under the Referral Agreement, Schwab pays USAA ISCO an annual percentage amount of 0.15% (or 15 basis points) of asset balances of applicable accounts.

The program fee does not cover certain costs or charges imposed by third parties, including odd-lot differentials, third-party mutual fund transaction fees on mutual funds transferred into a program account and then liquidated, certain contingent short-term redemption fees, American Depositary Receipt fees, exchange process fees, and transfer taxes mandated by law. Schwab also may impose additional charges for special services elected by you or an MM, including periodic distribution fees, electronic funds and wire transfer fees, certificate delivery fees, and reorganization fees. Schwab and CSCorp. also may receive indirect economic benefits, in addition to the program fee, if assets in your accounts are held as cash balances earning Schwab One® taxable interest or if trades are executed by a market center in which CSCorp. owns an interest.

If you choose a strategy that invests in closed-end funds, mutual funds, or ETFs (collectively, "Funds"), you may in effect be paying two fees for asset management or investment services. You will pay your pro rata share of a Fund's fees. Funds pay investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees and expenses. The Fund bears these fees, but you ultimately bear your share of these fees as a Fund shareholder. Fund fees are disclosed in the Fund's annual and semiannual report or other materials, which may be available on the Fund's website or through your investment adviser. You also will pay the program fee on assets invested in closed-end funds or ETF strategies. Mutual funds available through one of the strategies in the programs may also be available directly from the mutual funds pursuant to the terms of their prospectuses and without paying the program fee (although most such mutual funds are designed specifically for use with the MM's managed account strategy and are generally not available otherwise). Closed-end funds and ETFs are available outside of the programs without paying the program fee, subject to applicable commissions and/or transaction charges. You also will pay the program fee on assets invested in closed-end funds or ETF strategies.

MMs that have affiliated funds ("MM affiliated funds") in their strategies have a conflict of interest in deciding whether to purchase and hold shares of those Funds in client accounts, because MMs or their affiliates earn fees from those Funds. MM affiliated funds may pay the MM and/or their affiliates for investment advisory, administrative, and transfer agency services, as well as shareholder and other Fund services

(collectively, "Fund Services"). Certain MM affiliated funds developed for use with an MM's separate account strategies may have arrangements whereby they do not pay any advisory or administrative fees to the Fund manager or sponsor. Please refer to the Fund's prospectus and statement of additional information for more information on fees.

It is possible that MM strategies that use Funds will buy, hold, or sell shares of mutual funds or Schwab Funds. ThomasPartners® Strategies and Windhaven® Strategies will not buy Schwab ETFs for retirement accounts. Schwab or its affiliates may receive fees and other compensation from Schwab Funds for Fund Services. In addition, Funds (or their affiliates) that are available in the Schwab Mutual Fund Marketplace or Schwab Mutual Fund OneSource® services pay Schwab fees for recordkeeping, shareholder services, and/or other administrative services, and in some cases, pay Schwab fees for additional services or opportunities, such as education and events. Third-party ETF sponsors or their affiliates may make payments to Schwab for ETF-related opportunities, such as education, events, and reporting. Schwab receives remuneration from third-party active semi-transparent (also known as non-transparent) ETFs or their sponsors for platform support and technology, shareholder communications, reporting, and similar administrative services for third-party active semi-transparent ETFs available at Schwab. This fee will vary, but typically is an asset-based fee of 0.10% per annum of the assets held at Schwab. Neither Schwab's affiliate CSIM nor Schwab's active semi-transparent ETFs pay a separate fee to Schwab for these services described, although CSIM reimburses Schwab, in its capacity as an affiliated financial intermediary of CSIM, for Schwab's costs in providing certain professional, administrative, and support services for the Schwab ETFs.

Even if you do not choose a strategy that invests in Funds, it is possible that your MM may decide to buy an ETF for your Account with cash that is awaiting investment. This might occur with a subsequent contribution by you to your Account after Account opening, or during the 30-day wash sale period with respect to sale proceeds resulting from a tax-harvesting request. Please see "Investment in Affiliated and Other Funds."

## **Financial Information**

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

## **Certain Risks**

Investments in securities, both generally and in the context of the investment strategies available through the Connection, Select, and SMP programs, involve various risks, including those summarized below. In addition, each MM may have its own investment style, which may involve risks different from or in addition to these summaries. The profile for each MM includes several measures of volatility and other risk factors for that MM based on the MM's past management of Accounts; these may not necessarily be indicative of future risks. Please review the brochure and MM profile for each MM that you are considering, which may include additional relevant disclosures.

### **Systematic or Market Risk**

Equity, fixed income, and other global capital 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.

### **Model Risk**

MMs 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.

### **Management Risk**

MMs generally make investment decisions for particular investment strategies using 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 MM to underperform its benchmark (where a benchmark has been specified) or similar investment strategies managed by different MMs. There also can be no assurance that all of the key personnel will continue to be associated with the fund for any length of time.

### **Cybersecurity Risk**

Information security risks for financial institutions are increasing, in part because of the use of the internet and mobile technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, activists, hackers and other external parties, including foreign state actors. Schwab's systems and those of other financial institutions have been and will continue to be the target of cyber attacks, malicious code, computer viruses, ransomware, and denial of service attacks that could result in unauthorized access, misuse, loss, or destruction of data (including confidential client information), Account takeovers, and the unavailability of service or other events. We seek to reduce these risks through controls and procedures we believe are reasonably designed to address these risks. Despite all efforts to ensure the integrity of Schwab's systems, we may not be able to anticipate or implement effective preventive measures against all security breaches of these types, and security breaches that would halt or impair our ability to provide advisory services could still occur. We will respond to breaches with appropriate resources to contain and remediate the cause of the breach and restore operations.

### **System Outages Risks**

System interruptions, errors or downtime can result from a variety of causes, including changes in client use patterns, technological failure, changes to the systems, linkages with third-party systems and power failures and can have a significant impact on Schwab's business and operations. It could take an extended period of time to restore full functionality to the technology or other operating systems in the event of an unforeseen occurrence, which could affect Schwab's ability to manage client assets and deliver advisory services.

## **Equity Risks**

### **General**

The prices of equity securities rise and fall daily. These price movements may result from factors affecting individual companies, industries, or the securities market as a whole. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments. The prices of securities issued by such companies may suffer a decline in response. In addition, the equity market tends to move in cycles that may cause stock prices to fall over short or extended periods of time.

### **Large-Cap and Mid-Cap Risk**

Investment strategies that focus on large- and/or mid-cap segments of the stock market involve 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/or 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 behind the performance of investments in bonds or small-cap stocks.

### **Small-Cap, Micro-Cap, and International Risk**

Historically, small-cap, micro-cap, and international stocks have been riskier than large- and/or mid-cap stocks. Stock prices of smaller companies may be based in substantial part on future expectations rather than current achievements and may move sharply, especially during market upturns and downturns. Small-cap and micro-cap companies themselves may be more vulnerable to adverse business or economic events than larger, more established companies. International companies may carry additional risks such as currency fluctuation and the potential for less liquid markets and may be more vulnerable to geopolitical factors than U.S. companies. Investing in emerging markets may accentuate these risks. International stocks also include American Depositary Receipts (“ADRs”), which may be less liquid than the underlying shares in their primary trading market. During a period when small-cap, micro-cap, and/or international stocks fall behind other types of investments—bonds or large-cap stocks, for instance—the performance of investment strategies focused on small-cap, micro-cap, or international stocks will lag behind the performance of bonds or large-cap stocks. Another risk that pertains to micro-cap stocks involves the low volumes of trades. Since micro-cap stocks tend to trade in low volumes, any size trade can potentially have a large percentage impact on the price of the stock.

### **Dividend Equity Strategy Risk**

Dividend Equity strategies primarily invest in dividend-paying stocks. As a result, performance for these strategies will correlate directly with the performance of the dividend-paying stock segment of the stock market. This may cause these investment strategies to underperform investment strategies that do not limit their investments to dividend-paying stocks. In addition, if stocks held in your portfolio reduce dividends or stop paying dividends, your portfolio's ability to generate income may be adversely affected.

### **Preferred Securities Risks**

#### **Deferral and Omission Risk**

Preferred securities may include provisions that permit the issuer, at its discretion, to defer or omit distributions for a stated period without any adverse consequences to the issuer. In certain cases, deferring or omitting distributions may be mandatory. If you own a preferred security that is deferring its distributions, you may be required to report income for tax purposes although you have not yet received that income.

#### **Credit and Subordination Risk**

Credit risk is the risk that a security in your Account will decline in price or the issuer of the security will fail to make dividend, interest, or principal payments when due because the issuer experiences a decline in its financial status. Preferred securities are generally subordinated to bonds and other debt instruments in a company's capital structure in terms of having priority to corporate income, claims to corporate assets, and liquidation payments, and therefore will be subject to greater credit risk than more senior debt instruments.

#### **Interest Rate Risk**

Interest rate risk is the risk that preferred securities will decline in value because of changes in market interest rates. When market interest rates rise, the market value of such securities will generally fall. Preferred securities with longer periods before maturity may be more sensitive to interest rate changes.

#### **Call, Reinvestment, and Income Risk**

During periods of declining interest rates, an issuer may be able to exercise an option to redeem its issue at par earlier than scheduled, which is generally known as call risk. If this occurs, the MM for the strategy may be forced to reinvest in lower-yielding securities. This is known as reinvestment risk. Preferred securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem an obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer, or in the event of regulatory changes affecting the capital treatment of a security. Another risk associated with a declining interest rate environment is that the income from your portfolio may decline over time when the MM invests the proceeds from new share sales at market interest rates that are below your portfolio's current earnings rate.

#### **Liquidity Risk**

Certain preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. government securities. Illiquid securities involve the risk that the securities will not be salable at the time desired by the MM or you or at prices approximating the value at which those securities are valued in your Account.

#### **Limited Voting Rights Risk**

Generally, traditional preferred securities offer no voting rights with respect to the issuer unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may elect a number of directors to the issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights. Hybrid-preferred security holders generally have no voting rights.

#### **Special Redemption Rights Risk**

In certain varying circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. For instance, for certain types of preferred securities, a redemption may be triggered by a change in U.S. federal income tax or securities laws. As with call provisions, a redemption by the issuer may negatively impact the return of the security held in your Account.

#### **Tax Risk**

Dividends from certain preferred securities may not be eligible for the corporate dividends-received deduction or for treatment as qualified dividend income.

### **Fixed Income Risks**

#### **General**

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks, including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax

ramifications, and other factors. Income may be subject to the AMT, and capital appreciation from discounted bonds may be subject to state or local taxes. Capital gains are not exempt from federal income tax.

#### **Interest Rate Risk**

When interest rates rise, bond prices usually fall, and with them the value of your portfolio.

#### **State and Regional Factors**

To the extent that your fixed income portfolio 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, your portfolio 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. Your portfolio may also have more exposure to the risks of a given issuer than a diversified bond fund.

#### **Government Securities Risk**

Many U.S. government securities are not backed by the full faith and credit of the U.S. 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 and 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.

#### **Credit Risk**

A decline in the credit quality of a fixed income investment, whether real or perceived, could cause the value of your fixed income portfolio to fall. Your portfolio could lose money if the issuer or guarantor of a portfolio investment fails to make timely principal or interest payments or otherwise honor its obligations. The emphasis of a fixed income strategy on quality and preservation of capital also could cause your portfolio to underperform certain other types of bond investments, particularly those that take greater maturity and credit risks. Municipal securities may have greater risks than taxable bonds.

#### **Convertible Bonds**

Convertible bonds are subject to the risks of both stocks and bonds and are not suitable for all investors. These bonds can fluctuate in value with the price changes of the company's underlying stock, while also being subject to interest rate and credit risk. Issuers of convertible bonds may not be as financially strong as those issuing securities with higher credit ratings; their ability to pay interest or principal may be more vulnerable to changes in the economy. Convertible bonds are often issued by smaller companies and may be more volatile than securities issued by larger companies.

#### **High-Yield Risk**

Investments 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 generally have a higher risk of default; therefore, they generally pay a higher yield than investment-grade bonds. High-yield securities may be considered speculative.

#### **Maturity Risk**

The MM's duration and maturity decisions will affect the value of your fixed income portfolio. To the extent that the MM anticipates interest rate trends imprecisely, your portfolio could miss yield opportunities or its value could fall.

#### **Tax Risk**

If tax-exempt securities purchased in your portfolio are later deemed to be taxable, a portion of your portfolio's income could be taxable. Any defensive investments in taxable securities could generate taxable income. Investments in ETFs by tax-exempt accounts may generate income that is subject to the unrelated business income tax. You are responsible for paying any unrelated business income tax liability associated with your Account as well as the timely filing of the applicable tax forms with the IRS. Also, some types of municipal securities produce income that is subject to the federal AMT. You should consult your tax advisor about the potential effects of the AMT on your tax situation.

#### **Liquidity Risk**

Some bonds, particularly municipal bonds, may be difficult to sell, and the last quoted price for a bond may be based on the last price at which the bond was traded, which may not accurately reflect the current market price. If you are enrolled in a fixed income strategy and are terminating your Account, withdrawing funds from your Account, or otherwise taking action that may require the sale of one or more bonds in your Account, the MM may need additional time to sell your bonds, especially if you own a small number of bonds from one or more issuers. There can be no assurance as to how long it might take to sell your bonds, and the sale price may be substantially lower than the price you paid or the price at which the bond was previously traded.

#### **Default Risk**

A bond issuer may be unable to make interest or principal payments, thereby resulting in a default. If this happens, the bond may have little or no value.

#### **Taxable and Municipal Bond Ladder Strategy Risks**

Bond ladder strategies are generally subject to the same risks as listed under "Fixed Income Risks." In addition, depending on the types and amounts of securities within your ladder, a bond ladder strategy may not ensure adequate diversification of your investment portfolio. If you include callable bonds within your ladder, these bonds may be called prior to maturity and you may be unable to reinvest the principal in a similar bond issue. A called bond may alter the schedule of principal and interest payments within your ladder. Finally, for municipal bond ladders, tax-exempt bonds are not necessarily a suitable investment for all persons. Information related to a security's tax-exempt status (federal and in-state) is obtained from third parties, and Schwab does not guarantee its accuracy. Tax-exempt income may be subject to the AMT. Capital appreciation from bond funds and discounted bonds may be subject to state or local taxes. Capital gains are not exempt from federal income tax. You and your investment advisor must evaluate whether a bond ladder and the securities held within it are consistent with your investment objectives, risk tolerance, and financial circumstances.

#### **ETF Risks**

MMs may use ETFs to gain exposure to different asset classes (e.g., stocks, foreign securities, fixed income securities, etc.) in addition to investments in securities. Shares of ETFs trade on the secondary market and cannot be directly purchased from or redeemed by the Fund. Shares



of ETFs may trade above or below their NAV. The per-share NAV of an ETF is generally calculated at the end of each business day and will generally fluctuate with changes in the market value of the ETF's holdings. The market prices of shares of ETFs, however, will generally fluctuate continuously throughout the trading day in accordance with the relative supply of, and demand for, the shares on the exchange on which such shares are listed, which may not correlate with NAV. The trading price of shares of an ETF may deviate significantly from the ETF's per-share NAV during periods of market volatility. Price differences may be due to the fact that supply and demand forces at work in the secondary trading market for shares of an ETF are closely related, but not identical, to the same forces influencing the prices of the securities held by the ETF. ETFs are subject to secondary market trading risks. Shares of an ETF will be listed for trading on an exchange; however, there can be no assurance that an active or liquid trading market for them will develop or be maintained. There can be no assurance that the requirements of the exchange necessary to maintain the listing of the ETF shares will continue to be met or will remain unchanged.

Generally, ETFs are created using direct exposure to the securities in the index (e.g., stocks, bonds, etc.). However, some ETFs provide market exposure through indirect means, such as futures, options, or structured products. In the case of a structured product, there may be counterparty risk associated with the issuers of the product.

### **Options Risks**

Options carry a high level of risk and are not suitable for all investors. Certain requirements must be met to trade options through Schwab. Please read the options disclosure document titled "Characteristics and Risks of Standardized Options," as published by the Options Clearing Corporation, by visiting [www.theocc.com/Company-Information/Documents-and-Archives/Options-Disclosure-Document](http://www.theocc.com/Company-Information/Documents-and-Archives/Options-Disclosure-Document).

Covered calls provide downside protection only to the extent of premiums received and prevent any profitability above the strike price of the call. Purchasing puts helps provide downside protection in falling markets, but limits upside participation to the extent of premiums paid. Supporting documentation for any claims or statistical data is available on request. Any commissions, taxes, and transaction costs are not included in this discussion, but can affect the final outcome and should be considered. Please contact a tax advisor for the tax implications involved in these strategies. Multiple-leg option strategies typically involve multiple commissions. For Select program Accounts, all trading expenses, including those related to options, are included in the asset-based program fee that is charged to client Accounts. Option collar strategies may underperform in strong rising markets.

### **Master Limited Partnership (MLP) Risks**

#### **Non-Diversification Risk**

MLPs are generally natural-resources-sector companies. As a result, strategies that invest in MLPs will lack sector diversification. Further, there are a limited number of publicly traded MLPs from which the MM may select.

#### **Market Risk**

An investment in an MLP is subject to the risk that the price will fluctuate based on factors such as conditions, events, or developments in the market, sector, and company. At times, the market price of an MLP may be correlated with the equities markets, but at other times, it may not be so correlated.

#### **Commodity Price Risk**

The value of an investment in an MLP and the amount of distributions it makes may depend on the prices of the underlying commodity, such as oil or natural gas. Many MLPs are sensitive to changes in the prevailing level of commodity prices.

#### **Macroeconomic Risk**

A general economic downturn may negatively impact energy demand, trigger a reduction in exploration and production activity, and adversely affect an MLP. Macroeconomic factors may also cause a decline in the equities markets generally, including the prices of MLP units.

#### **Interest Rate Sensitivity Risk**

MLPs have shown sensitivity to interest rate movements. When interest rates are increasing, MLPs can experience upward pressure on their yields to stay competitive with other securities that are interest rate sensitive. Because MLPs can be viewed as yield-based investments, at times their prices have been correlated with the bond markets.

#### **Liquidity Risk**

There can be no assurance that MLP units will have an established trading market, adequate trading volumes, or sufficient liquidity. Units in MLPs are particularly attractive for retail investors but have not been proven to attract significant institutional interest. The lack of institutional interest in MLPs may affect liquidity and price efficiency.

#### **MLP Operating Risk**

The price of units in an MLP and the cash flows the MLP generates and distributes to unit holders are subject to various risks associated with the business and activities conducted by the MLP, which vary based on the MLP's applicable sector or sub-sector, including the following:

- Changes in applicable commodity prices
- A decline in the production or a decrease in the volume of oil, gas, and other commodities
- Reduced applicable oil and gas drilling activity
- Natural decline in the production of wells and mines in the MLP's area of operation
- Incorrect estimates of reserve quantities and anticipated revenues
- Disruptions in the supply of and demand for oil, gas, and other natural resources, which can be affected by various factors such as seasonality, weather conditions, catastrophes, environmental incidents, and acts of terrorism
- Dependence on key suppliers, contract operators, lessors, lessees, and customers, and the loss or unprofitability of important contracts
- Geographic concentration and dependence on particular fields, mines, and reserves
- Competition, including the availability of alternative energy sources and changing technology

- Increased operating costs
- Labor shortages, equipment challenges, and related difficulties
- Increased regulation and heightened regulatory enforcement, including potential environmental liability and climate change laws
- Dependence on the general partner and key personnel

#### **Capital Access Risk**

Because MLPs pay out most of their operating cash flows, they rely on capital markets for access to equity and debt financing in order to fund organic growth projects and acquisitions and make targeted distributions. If market conditions limit an MLP's access to capital markets, the MLP's distribution growth prospects could be at risk. MLPs may also face increased costs of capital and at times may have significant interest costs and other debt burdens. Covenants and other restrictions imposed by an MLP's lenders may limit its growth.

#### **Growth Risk**

Because MLPs distribute most of their available cash flows and are under pressure to grow their distributions, they generally need to make acquisitions. Difficulties experienced by an MLP in obtaining acquisition financing may slow its growth. Additionally, an MLP may face challenges in making acquisitions on acceptable terms due to competition. Acquisitions and growth initiatives are also subject to construction, integration, and implementation risks.

#### **Distribution Risk**

Most MLPs establish minimum quarterly distribution amounts they intend to pay based on certain assumptions and seek to grow those amounts. However, those assumptions may prove to be incorrect and are subject to significant risks and uncertainties. As a result, the actual amount of distributions made to unit holders may be less than the minimum quarterly distribution amounts. In addition, the amount of distributions that an MLP makes is based on its distributable cash flows, which will be affected by changes in the MLP's revenues, expenses, capital expenditures, and reserves, and by determinations made by the general partner. Thus, at times, distributions made by an MLP may be less than anticipated. An MLP may issue additional units or incur indebtedness in order to raise capital to make distributions, which could decrease the amount of distributions it can make in the future. The general partner and/or its affiliates may own subordinated units, which receive distributions after the minimum distribution amounts and arrearages are paid to the common unit holders. However, those subordinated units are convertible into common units upon achievement of certain dividend levels. The conversion of the subordinated units may adversely affect the amount of future distributions that are paid per common unit.

#### **Conflicts of Interest Risk**

MLPs are controlled by their general partners. MLPs are not governed by a board of directors. Unit holders have limited voting rights and very little say in the management or operation of the MLP. Unit holders do not elect the general partner or its board of directors. It is very difficult for unit holders to remove or replace the general partner. Although the general partner has a duty to act in the best interests of the MLP, the general partner also has duties to its owners. As a result of these relationships, conflicts of interest may arise between the MLP and its unit holders on the one hand and the general partner and its owners on the other hand. The general partner may make decisions or take actions that may be detrimental to the MLP and its unit holders. For example, the general partner is entitled to make decisions that will affect the amount of distributions that the MLP makes to unit holders (such as acquisitions and growth initiatives or the issuance of additional units), which will impact not only whether the general partner will receive incentive distributions but also the amount of those distributions. The general partner may have the right to reset or modify the minimum quarterly distribution amounts or cancel the MLP's distribution policy. The general partner may be able to transfer its incentive distribution rights, which may cause the general partner not to be as highly motivated to increase the amount of distributions the MLP makes. It is also possible that the general partner or its owners may engage in other businesses or take actions that compete against the MLP. An MLP's partnership agreement may contain provisions that restrict or eliminate certain duties of the general partner and limit the general partner's liability to the MLP. The general partner may have a limited call right to require the unit holders to sell their units at unattractive prices.

#### **Tax Risk**

MLPs are generally taxed as partnerships, meaning that their income, gains, losses, and expenses are passed through to their unit holders, who receive a Schedule K-1 each year. MLPs can pass through their deductible depreciation or depletion expenses, which causes a portion of the distributions to consist of a return of capital, with the remaining balance classified as taxable income. While this feature provides potential tax benefits, it also creates burdensome tax reporting obligations to unit holders. Unit holders may be subject to state and local taxes (in addition to federal taxes) on the MLP's income allocable to them. It is possible that, at times, unit holders may recognize their share of the MLP's taxable income without receiving distributions in amounts equal to such share of income or in amounts sufficient to cover the taxes owed on such income. Many MLPs pay distributions in amounts that exceed their net income, often significantly so. As a result, a portion of distributions made to unit holders is classified as return of capital, not as an income distribution or return on capital. Such portion reduces the unit holder's tax basis in the units and results in a larger gain upon sale. A significant amount of the distributions are subject to recapture and taxed as ordinary income upon sale of the MLP units. An investment in an MLP may not be ideally suited for an IRA or other tax-exempt or tax-deferred account because some of the benefits of tax-deferred distributions may not be fully realized and some of the income allocable to the account may be subject to unrelated business income tax. Investments in MLP funds also can have varying tax consequences. Moreover, the tax treatment of MLPs could be subject to potential legislative, judicial, or administrative changes or differing interpretations. A change in an MLP's business or other actions taken or not taken by an MLP could cause the MLP to lose its status as a partnership for tax purposes, which may cause the MLP to pay federal income tax on its income at the corporate tax rate. If an MLP were classified as a corporation for tax purposes, the amount of cash available for distribution would be reduced and part or all of the distributions might be taxed as dividend income. Investors should consult with their tax advisors before investing in MLPs or MLP funds.

#### **Regulatory Risk**

The profitability of MLPs may be adversely affected by changes in the regulatory environment. The businesses, operations, and assets of most MLPs are heavily regulated by federal and state governments. Increased regulation can dramatically increase an MLP's operating costs. Applicable environmental laws provide for civil penalties and regulatory remediation, thus adding to an MLP's potential exposure.

Additional information on risks specific to the MM can be found in each MM's brochure.





**March 2024**

# **Summary of Material Changes to the Disclosure Brochures (Form ADV, Part 2A)**

**For the following services since March 2023:**

- Schwab Wealth Advisory™
- Charles Schwab & Co., Inc. Disclosure Brochure for:
  - Schwab Managed Account Services™ Wrap Fee Program
  - Schwab Managed Portfolios™ Wrap Fee Program
  - Schwab Financial Planning Services

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## **Introduction**

Charles Schwab & Co., Inc. (“Schwab”) is required under the Investment Advisers Act of 1940 (the “Advisers Act”) to create and provide to clients disclosure brochures for the investment advisory and financial planning services we offer, including: Schwab Wealth Advisory™, Schwab Managed Portfolios™, Schwab Managed Account Services™, and Schwab Financial Planning Services. The Advisers Act also requires that we update our disclosure brochures annually and provide existing clients with a summary of the material changes to the brochure(s) for their service since the date of the last annual update.

This document summarizes the material changes to these disclosure brochures and to the brochures of a Schwab affiliate that participates in the services as portfolio managers. These brochures have also undergone various non-material changes since the last annual revisions were made. Such changes—normally small edits made to enhance clarity or minor updates to numerical values that vary from year to year—are not described below. Unaffiliated third-party portfolio managers participating in these services are responsible for distributing their own summaries separately.

**If you’d like to receive a copy of any of these updated disclosure brochures, please call 1-877-566-9109 (or +1-415-667-8400 when calling from outside the U.S.) or email [updateddisclosures@schwab.com](mailto:updateddisclosures@schwab.com). You can also find copies of our latest disclosure brochures on the website of the United States Securities and Exchange Commission (SEC) at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

Securities, products, and services are not available in all countries and are subject to country-specific restrictions.

## **Schwab Wealth Advisory™**

### **Schwab Wealth Advisory Disclosure Brochure and Schwab Wealth Advisory Disclosure Brochure (For International Clients)**

These brochures, which describe Schwab’s role as the sponsor of the Schwab Wealth Advisory wrap fee

program (“SWA”), have undergone the following changes since March 31, 2023.

- Schwab has combined the formerly separate brochures applicable to U.S. and international clients, respectively, into a single brochure covering both services.
- **Services, Fees, and Compensation.** Schwab has updated this section to reflect the fact that representatives of its affiliate, Schwab Wealth Advisory, Inc. (“SWAI”), provide ongoing advice related to investments in discretionary separately managed accounts in addition to non-discretionary advice in accounts enrolled in SWA.
- **Services, Fees, and Compensation.** The “Schwab Compensation” sub-section has been updated to clarify the different types of compensation that Schwab and its affiliates receive from mutual funds recommended within SWA and to attempt to quantify the amount such compensation.

## **Schwab Wealth Advisory, Inc. Disclosure Brochure**

This brochure describes the role of Schwab’s affiliate, SWAI, as the non-discretionary portfolio manager for accounts enrolled in SWA. For clients with retirement accounts enrolled in SWA, the full text of the updated “Fiduciary Advisor Disclosure” section of the brochure can be found on page 15, as required in order to rely on exemptions from certain prohibited transaction restrictions of the Employee Retirement Income Security Act and the Internal Revenue Code. This brochure has undergone the following changes since March 31, 2023.

- **Advisory Business.** SWAI has updated this section to reflect the fact that its representatives provide ongoing advice related to investments in discretionary separately managed accounts in addition to non-discretionary advice in accounts enrolled in SWA.
- **Methods of Analysis, Investment Strategies, and Risk of Loss.** SWAI has added disclosures to clarify the conflicts of interest that exist between SWAI and Schwab and the clients of SWA, along with a description of the way SWAI mitigates those conflicts.
- **Participation or Interest in Client Transactions.** SWAI has added disclosures to clarify the different

types of compensation that its affiliates receive from mutual funds recommended by SWAI and to attempt to quantify the amount such compensation.

## **Charles Schwab & Co., Inc. Disclosure Brochure for: Schwab Managed Account Services™, Schwab Managed Portfolios™, and Schwab Financial Planning Services**

This brochure, which describes Schwab's roles as the sponsor of the Select, Connection, and Schwab Managed Portfolios ("SMP") wrap fee programs, and the offeror of Schwab Financial Planning Services, has undergone the following changes since March 31, 2023. Charles Schwab Investment Management, Inc. ("CSIM") is the investment manager for accounts enrolled in SMP and Connection.

- Schwab has substantially updated the brochures to combine what were formerly three separate brochures covering Schwab Managed Account Services, SMP, and Schwab Financial Planning Services into one combined brochure.
- Schwab has added disclosures describing the incorporation of the Selective Portfolios accounts into the Connection program, including differences between the way Selective Portfolios accounts are managed by CSIM, versus former manager, TD Ameritrade Investment Management, Inc.
- **Order Routing and Execution (Connection).** Schwab has added disclosures to clarify the conflicts of interest that pertains to the "directed brokerage" arrangement whereby CSIM is required to direct trades to Schwab as broker-dealer. Schwab has also added disclosures to describes how it mitigates this conflict.
- **Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading (SMP).** Schwab has added disclosures to clarify the different types of compensation that Schwab and its affiliates receive from mutual funds purchased in SMP accounts and to attempt to quantify the amount of such compensation.
- **Certain Risks.** Schwab has added disclosures about Cybersecurity Risk and risks from System Outages.

## **Charles Schwab Investment Management, Inc. Disclosure Brochure**

This brochure, which describes the role of Schwab's affiliate, Charles Schwab Investment Management, Inc. ("CSIM"), as the investment manager for the Schwab Intelligent Portfolios® program (the "SIP Program"), has undergone the following material changes since March 31, 2023.

On March 30, 2024, the Charles Schwab Investment Advisory, Inc. ("CSIA") portfolio management teams that managed the SIP Program and the SIP Program assets were integrated into CSIM, and CSIM assumed fiduciary responsibilities for the SIP Program and its assets. Also, in September 2023, CSIM became the investment adviser, and assumed fiduciary responsibility, for the Selective Portfolios strategies and their assets. As a result of these changes, material changes were made throughout the brochure to incorporate the SIP Program and Selective Portfolios.

- **Item 4—Advisory Business.** CSIM has updated the disclosure to reflect the investment management services it provides for clients including those in the SIP Program and Selective Portfolios.
- **Item 8—Methods of Analysis, Investment Strategy and Risk of Loss.** CSIM has modified the discussion of its methods of analysis and investment strategies, and certain risks currently disclosed in the brochure where CSIM believes that additional disclosure would be beneficial to investors in the current market environment and to reflect the SIP Program and Selective Portfolios.
- **Item 9—Disciplinary Information.** CSIM has added a disclosure regarding a disciplinary matter relating to the SIP Program that occurred prior to CSIM assuming fiduciary responsibilities for the SIP Program and its assets.
- **Item 10—Other Financial Industry Activities and Affiliations.** CSIM has modified the discussion of its relationship with affiliates to disclose new and modified relationships.
- **Item 12—Brokerage Practices.** CSIM has updated information pertaining to its trading process for the different types of accounts it manages, the relationships among separate trading groups and portfolio management groups, and how trade rotation and trade allocation are handled.

# **“Fiduciary Advisor Disclosure” Section of the Schwab Wealth Advisory, Inc. Disclosure Brochure**

## **Fiduciary Advisor Disclosure**

This document contains important information about SWAI and how it is compensated for the investment advice provided to you if you have an IRA (as defined in 29 C.F.R. 2550.408g-1(c)(4), which, for example, includes Simplified Employee Pension IRAs and SIMPLE retirement accounts) enrolled in the SWA Program (collectively, “Retirement Accounts”). In providing investment advisory services to Retirement Accounts, SWAI intends to rely on exemptions to the prohibited transaction restrictions of the Employee Retirement Income Security Act (“ERISA”) and the Internal Revenue Code (“IRC”) set forth in sections 408(b)(14) and 408(g) of ERISA and sections 4975(d)(17) and 4975(f)(8) of the IRC and the regulations thereunder. These exemptions are subject to certain conditions, including the requirement that we provide certain disclosures to you. We intend that the disclosures contained in this document will provide the information required to be disclosed under the exemptions. You should carefully consider this information in your evaluation of our investment advice.

SWAI has been selected by you to provide investment advisory services for your Retirement Account. SWAI will be providing these services as a fiduciary advisor, as defined in IRC section 4975(f)(8)(J)(i) and, to the extent applicable, as a fiduciary under ERISA. Through your enrollment of your Retirement Account in the SWA Program, you will have expressly authorized the investment advice arrangement described in the portion of this document titled “Fiduciary Advisor Disclosure.”

## **Compensation of the Fiduciary Advisor and Related Parties**

SWAI is not compensated directly by you for the advice it provides. SWAI receives a fee from Schwab for the investment advice provided to the SWA accounts equal to: (1) the costs and expenses incurred by SWAI in connection with the SWA



Program; plus (2) an additional amount of 10% of those costs and expenses.

Schwab also provides SWAI with human resources, legal, compliance, supervisory, operational and other administrative and technological support services. SWAI is not compensated based on the particular investments recommended or held in Retirement Accounts.

SWAI's affiliate, Schwab, is compensated by you for the broker-dealer services it provides in the SWA Program. This asset-based fee is known as the "SWA Fee" and, effective October 1, 2018, begins at 0.80% of assets (adjusting downward depending on assets in your enrolled accounts), subject to certain exceptions, as detailed in the SWA Disclosure Brochure provided to SWA Clients.

SWAI's affiliate, Schwab, also provides other services in the SWA Program for which it receives compensation. For details on these other services please see the SWA Program Brochure.

SWAI's affiliate, CSIM, also provides investment advisory and/or administrative services to one affiliated mutual fund family, Schwab Funds®, and to a family of affiliated ETFs, Schwab ETFs™, whose funds are available in Retirement Accounts.

When SWAI recommends that you invest your Retirement Account assets in options and you follow that advice, you will pay trade commissions in addition to the SWA Fee. Option trading commissions details are found in the *Charles Schwab Pricing Guide for Individual Investors*, which is available online at [www.schwab.com/pricing](http://www.schwab.com/pricing). This information should be reviewed carefully before you make an investment decision.

When SWAI recommends that you invest your Retirement Account assets in Schwab Funds, and you follow that advice, Schwab may receive compensation from the fund on the amount you invest. These amounts may be indirectly paid by you as part of the operating expense ratio ("OER") of the Schwab Fund. The amounts paid to Schwab for Schwab Funds will vary depending on the particular fund in which you invest. Specific information concerning the fees paid to Schwab by Schwab Funds is available in the SWA Disclosure Brochure and in the applicable fund prospectus and statement of additional information. This information should be

reviewed carefully before you make an investment decision.

When SWAI recommends that you invest your Retirement Account assets in unaffiliated mutual funds and you follow that advice, Schwab will receive compensation from the fund on the amount you invest. These amounts may be indirectly paid by you as part of the OER of the unaffiliated mutual fund. The amounts paid to Schwab for unaffiliated mutual funds will vary depending on the particular fund in which you invest and may range up to 0.45% of the assets held at Schwab. At this rate, the fund or fund service provider pays Schwab up to \$45 per year for each \$10,000 in fund assets held by an investor for the shareholder services provided by Schwab. All of these fees may be subject to monthly or quarterly minimums, and Schwab may receive additional one-time fees to establish a fund at Schwab or additional flat fees for other services provided by Schwab. Specific information concerning the fees paid to Schwab by unaffiliated mutual funds is available in the SWA Disclosure Brochure. This information should be reviewed carefully before you make an investment decision.

Specific information concerning the fees paid to Schwab by unaffiliated ETFs is available in the SWA Disclosure Brochure. This information should be reviewed carefully before you make an investment decision.

When SWAI recommends that you invest your Retirement Account assets in Schwab Funds or Schwab ETFs and you follow that advice, CSIM will receive compensation from the fund on the amount you invest. The amounts paid to CSIM for Schwab Funds and Schwab ETFs will vary depending on the particular fund in which you invest. For certain Schwab Funds and Schwab ETFs, CSIM compensates other fund service providers out of the fees it receives. Specific information concerning the advisory and/or administrative fees paid to CSIM by each Schwab Fund and Schwab ETF is available in the applicable fund prospectus.

Schwab receives shareholder service fees from certain Schwab Funds, as disclosed in the fund prospectus. This information should be reviewed carefully before you make an investment decision.

When SWAI recommends that you enroll your Retirement Account in a Schwab-sponsored advisory

program other than the SWA Program, and you follow that advice, you will pay the explicit asset-based fee in connection with that program. CSIM receives compensation described above from the underlying assets held in your Retirement Account.

In addition to the above, Schwab also receives other fees or compensation, such as fees to offset processing costs incurred by Schwab for the exchange of securities for equity, options, or other covered security sell transactions. A complete list of Schwab's charges and fees appears in the *Charles Schwab Pricing Guide for Individual Investors*, which is available online at [www.schwab.com/pricing](http://www.schwab.com/pricing). This information should be reviewed carefully before you make an investment decision.

### **Consider Impact of Compensation on Advice**

The fees and other compensation that Schwab and other SWAI affiliates receive as a result of assets held in SWA Program Retirement Accounts are a significant source of revenue for these affiliates. You should carefully consider the impact of any such fees and compensation in your evaluation of the investment advice that SWAI provides.

### **Investment Returns**

While understanding investment-related fees and expenses is important in making informed investment decisions, it is also important to consider additional information about your investment options, such as performance, investment strategies and risks. Specific information related to the past performance and historical rates of return of SWA accounts has not been provided to you due to the fact that: (1) the SWA Program is a non-discretionary investment advisory service in which clients can reject SWAI's recommendations or place trades on their own without SWAI's input; and (2) investment advice in SWA accounts does not consist of fixed portfolios or allocations, but is particular, within the limits set by SWAI's advice policies and guidelines, to the needs and circumstances of individual SWA Clients. You can find information on the past and current performance of your Retirement Account by referring to your Schwab Performance Report. For investments with returns that vary over time, past performance does not guarantee how your investment in the same or

similar investment will perform in the future; your investment could lose money.

## **Parties Participating in Development of SWA**

Schwab is the sponsor of SWA and has participated in the development of advice policies and guidelines independently adopted by SWAI and applied to advice given by SWAI to SWA accounts.

In particular, recommendations by SWAI Representatives to purchase or sell mutual fund shares and ETFs are subject to advice policies and guidelines which state that “buy” recommendations are restricted to funds on one of a number of recommendable lists of funds. Although compensation to Schwab and its affiliates was not directly considered in the selection of funds for any recommendable list, the mutual funds on the recommendable lists include no-load and no-transaction-fee funds that are part of the Schwab Mutual Fund OneSource® service, with some prominence given to Schwab Funds®. Schwab and its affiliate, CSIM, generally earn more money when clients purchase and hold OneSource and Schwab Funds.

## **Use of Personal Information**

SWAI will request from you information relating to age, time horizons, risk tolerance, current investments, other assets or sources of income, and investment preferences. This information will be shared with Schwab in order to process trade orders and maintain your SWA accounts. All personal information that SWAI or Schwab collects about you is subject to the CSCorp Privacy Policy, available online at [www.schwab.com/privacy](http://www.schwab.com/privacy).

## **Independent Audit of Advice Arrangement**

SWAI’s advice arrangement for Retirement Accounts is audited annually by an independent auditor for compliance with the requirements of the exemptions and related regulations relied on by SWAI. The auditor furnishes SWAI with a copy of the auditor’s findings within 60 days of its completion of the audit. Within 30 days of the completion of the auditor’s written report, SWAI will furnish you with a copy of the auditor’s report or make the auditor’s report available to you on Schwab’s website. Please

go to [www.schwab.com/auditreportswai](http://www.schwab.com/auditreportswai) for instructions on how to access the auditor's report.

Should you have any questions about SWAI or the information contained in this document, you may contact SWAI at the phone number on the front of this SWAI Disclosure Brochure.





Questions?

Please call 1-800-435-4000.

Clients calling from outside  
the U.S.: +1-415-667-8400.

March 30, 2024

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## Annual Notice

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Please take a moment to ensure your Schwab Managed Account(s) that you are enrolled in are still meeting your financial needs. Just like your personal wellness—financial wellness is dependent on regular check-ups to make sure your account(s) is in good financial shape.

We invite you to review your account(s) and confirm if there are changes you'd like to make at this time.

Things you should consider:

- Have you had any changes in your financial situation or investment objectives?
- Would you like to add, delete, or modify investment restrictions related to your account(s)? You may impose reasonable restrictions subject to the discretion of management.

Please give us a call if you need help reviewing your account or there is something you'd like to discuss or change. Or if you find your financial situation has changed considerably, we can certainly help you explore your investment alternatives. To schedule an appointment, please reach out to your designated Schwab Service Representative or call us at (800) 435-4000. Clients calling from outside the U.S. can reach us at (415) 667-8400.

Otherwise, we'll assume there are no changes in your financial situation, investment objectives, or restrictions, and no further action is required on your part.

**Thank you for investing with Schwab.**

Sincerely,

Schwab Investor Services

1121-16FV



Please note that this notice does not apply to Schwab accounts managed by an independent investment advisor.

Independent investment advisors are not owned by, affiliated with, or supervised by Schwab.

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