

March 31, 2021

# Charles Schwab Investment Management, Inc. Windhaven<sup>®</sup> Strategies Disclosure Brochure

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This brochure provides information about the qualifications and business practices of Charles Schwab Investment Management, Inc. If you have any questions about the contents of this brochure, please contact us at 1-800-423-0155. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Registration with the SEC does not imply a certain level of skill or training.

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

**Summary of Material Changes**  
**(As of March 31, 2021, since prior annual update on March 30, 2020)**

**Advisory Business**

- CSIM has updated the disclosure to reflect the investment management services it provides for the USAA Managed Portfolios – UMP and the Wasmer Schroeder Strategies.

**Other Financial Industry Activities and Affiliations**

- CSIM has modified the discussion of its relationship with affiliates to disclose new and modified relationships.

**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.

**Client Referrals and Other Compensation**

- CSIM has modified the discussion to reflect its relationship with affiliates.

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## Advisory Business

Charles Schwab Investment Management, Inc., a Delaware corporation (“CSIM”) that is doing business as Schwab Asset Management, was founded in 1989 as a wholly-owned subsidiary of The Charles Schwab Corporation (“CSC”), a Delaware corporation that is publicly traded and listed on the New York Stock Exchange. CSIM provides advisory services to separately managed accounts (“SMAs”), registered investment companies, which include mutual funds and exchange-traded funds (“ETFs,” and collectively with the mutual funds, “Registered Funds”), collective investment trusts and one non-U.S. pooled investment vehicle. As further described in the “Methods of Analysis, Investment Strategies and Risk of Loss” section, CSIM provides advice about a variety of investments, ranging from equity and fixed income to money market securities and also provides advice as to the selection of investment advisers and pooled investment vehicles for certain clients.

On May 26, 2020, CSIM became the investment adviser, and assumed fiduciary responsibility, for the USAA Managed Portfolios – UMP® (the “UMP Program”), which includes UMP Wrap and UMP Custom strategies, and its assets. This is as a result of the acquisition of the assets of USAA Investment Management Company (“USAA IMCO”) by an affiliate of CSIM and the subsequent assignment of USAA IMCO’s investment advisory agreements to Charles Schwab & Co., Inc. (“Schwab”), with Schwab becoming the wrap fee sponsor, and CSIM becoming the manager, of the UMP Program. Prior to May 26, 2020, the UMP Program was managed by USAA IMCO, a registered investment adviser.

On July 1, 2020, CSIM became the investment adviser and assumed fiduciary responsibility, for the Wasmer Schroeder Strategies. This is as a result of the acquisition of the assets of Wasmer, Schroeder & Company, LLC (“Wasmer”) by CSIM and the subsequent assignment of Wasmer’s investment advisory agreements to CSIM. Prior to July 1, 2020, the Wasmer Schroeder Strategies were managed by Wasmer, a registered investment adviser.

This brochure relates to the portfolio management services that CSIM provides for the Windhaven Strategies. For the Windhaven Strategies, CSIM utilizes a proprietary process and model to help guide investment decisions and seeks to manage portfolio risk. The investment approach is the result of extensive independent research into the economic, fundamental, and behavioral factors that impact the global capital markets. The strategies are broadly diversified across asset classes. Understanding and modeling risk is a research priority. The Windhaven Strategies portfolio management team believes it is important to look at both returns and the risk taken to achieve those returns. Assets in the Windhaven Strategies are primarily invested in exchange-traded funds (“ETFs”).

Clients in the Windhaven Strategies include those with whom CSIM has a direct contractual relationship through our investment advisory agreement (“Direct Clients”), those who have enrolled in asset-based wrap fee and similar programs offered through broker-dealers (“Wrap Fee Programs”), and clients where CSIM acts as a sub-adviser.

The Wrap Fee Programs in which the Windhaven Strategies are made available include the Managed Account Access® and Managed Account Connection® programs (“the Managed Account Programs”) sponsored by Charles Schwab & Co., Inc. (“Schwab”), an affiliate of CSIM. Information relating to CSIM’s participation in Wrap Fee Programs is included in the “Other Financial Industry Activities and Affiliations” section of this brochure. CSIM receives compensation from the program sponsor for the investment management services it provides.

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

As of December 31, 2020, CSIM managed approximately \$581,447,137,331 on a discretionary basis and approximately \$28,500,839,238 on a non-discretionary basis.

## Fees and Compensation

Pursuant to an agreement between CSIM and Schwab, Schwab pays all costs and expenses incurred by CSIM in connection with the Windhaven Strategies offered through the Managed Accounts Programs sponsored by Schwab and other services provided by CSIM to Schwab, plus an additional amount based on a fixed percentage of such costs and expenses. Schwab also provides CSIM with human resources, legal, compliance, and other administrative and technological support services. The portion of the costs and expenses paid by Schwab for the work done by CSIM may be adjusted from time to time as more or fewer resources are required.

CSIM participates as a portfolio manager in the Managed Account Programs offered by Schwab. More specific information about the Managed Account Programs and the fees paid by clients who participate in the Managed Account Programs appears in Schwab’s Disclosure Brochure for those programs, which is provided to program clients directly by Schwab. CSIM does not enter into agreements directly with Managed Account Program clients and so does not receive direct compensation from or negotiate fees with them.

### Direct Client Fees

For Direct Client accounts, CSIM will charge an annual investment management fee (“Fee”) on a quarterly basis as follows: 1% of assets on the first \$5 million; 0.85% of assets on the next \$5 million; 0.75% of assets on the next \$15 million; 0.60% of assets on the next \$25 million; and 0.50% of assets on amounts over \$50 million. Unless the Fee is paid directly by the client, the client’s custodian will deduct the Fee from the client’s account for payment to CSIM.

Exceptions to the fee schedule above are made at CSIM’s discretion. Management fees are discounted for Schwab and its affiliates’ employees. Fees for Wrap Fee Programs or other programs and relationships in which CSIM acts as an adviser or sub-adviser can differ from those above.

Direct Client accounts may be combined for Fee breakpoint purposes as requested by the client and subject to approval by CSIM. 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 generally may be aggregated for this purpose. However, other retirement plan accounts subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), may not be combined for Fee breakpoint purposes unless they have identical account registrations. The accounts that may be aggregated are subject to negotiation (except ERISA accounts) and must be requested by the client for CSIM’s approval.

For those Direct Clients who are not custodied at Schwab, CSIM primarily uses Schwab for pricing when valuing client assets for Fee calculation purposes. If Schwab does not provide a price, then pricing from another custodian will be used. For Direct Clients custodied at Schwab, Schwab is responsible for the valuation and Fee calculations.

If the investment advisory agreement between those Direct Clients not custodied at Schwab and CSIM is terminated, CSIM’s compensation will be calculated on a pro-rata basis for the last quarter as provided above using the value of the portfolio assets as of the day prior to the date of termination.

For Direct Client accounts not custodied at Schwab, CSIM will charge the Fee in arrears, after the end of each quarter, by applying the annual rate to account balances on the last day of the preceding quarter and then dividing by four. In case of cash flows into or out of

these accounts which would result in at least a \$100 Fee adjustment, the Fee will be prorated. For Direct Client accounts custodied at Schwab, Schwab will calculate and charge the Fee in arrears at the end of each quarter by multiplying the daily value of the assets in the account for each calendar day in the quarter by the applicable daily percentage rate and then adding together the Fee for each calendar day in the quarter.

### **Additional Costs**

In addition to the Fee described above, clients may incur additional costs, which include fees charged by the client's custodian for account maintenance, and may also include transaction fees, commissions, mark-ups and mark-downs, or brokerage fees ("Brokerage Fee") on the purchase and sale of securities in their accounts. Such costs will be paid directly from clients' accounts to the broker-dealer who completes the purchase or sale. For those clients that have selected Schwab as their custodian, Schwab will waive all of its trading commissions, if any, on those accounts managed by CSIM. Please note that Schwab's waiver does not extend to any other non-Schwab Brokerage Fees.

ETFs and mutual funds held in the Windhaven Strategies are subject to operating expenses and fees as set forth in the prospectuses of those funds. These fees and expenses are paid by the funds but ultimately are borne by clients as fund shareholders, and are in addition to the Windhaven Strategies fee. Clients pay the operating expense ratio ("OER") of ETFs used in the portfolios, which affects the performance of the Windhaven Strategies accounts. CSIM may also provide access to certain ETFs, mutual funds, or classes of funds that a client might normally not be qualified to purchase. If an account terminates, these investments may be liquidated or exchanged for the share class corresponding to the size of the client's individual investment in the fund.

Information relating to CSIM's brokerage practices is included in the "Brokerage Practices" section of this brochure.

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

Not applicable.

### **Types of Clients**

Clients of Windhaven Strategies primarily include individuals, trusts, estates, charitable organizations, retirement plans, pension and profit-sharing plans, state or municipal government entities and other corporations, business entities, or investment advisers. The minimum investment required to open an account in a Windhaven Strategy is at least \$100,000 per account. Exceptions to the minimum investment requirement are made at CSIM's discretion.

If the market value of a client account falls below this specified minimum due to withdrawal of assets from the account, clients may be required to deposit additional money or securities to bring the account up to the required minimum, and CSIM reserves the right to discontinue management of the account. Exceptions to this policy are made at CSIM's discretion. For certain clients requesting tax gain/loss harvesting, there is a minimum gain or loss per security in order for CSIM to implement this request.

Clients who invest in the Windhaven Strategies through Schwab's Managed Account Programs or through programs sponsored by other brokers ("Broker/Custodian-Related Programs"), or other arrangements by which CSIM acts as sub-adviser to clients' accounts may be subject to a different minimum.

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

In managing discretionary client accounts and providing recommendations to non-discretionary clients, CSIM uses various investment strategies and methods of analysis, as described

below. This section also contains a discussion of the primary risks associated with these investment strategies, although it is not possible to identify all of the risks associated with investing and the particular risks applicable to a client account will depend on the nature of the account, its investment strategy or strategies and the types of securities held. Where available, please refer to the applicable prospectus or other offering documents for a more detailed discussion of strategies and risks involved with your particular account.

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

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

CSIM receives a broad range of research from a wide variety of sources that includes Schwab-affiliated entities, other brokers, and independent research providers, including issuers and trading partners. CSIM may use written reports prepared by recognized analysts who are specialists in the industry and may use computer-based models to assist in portfolio management. CSIM may also use statistical and other information published by third-party data providers, industry, and government, information gathered at meetings of professionals within the industry, and its own research of investment trends.

CSIM creates diversified portfolios that primarily consist of ETFs and/or mutual funds in a single account for several SMA strategies and certain pooled investment vehicles it manages. CSIM also creates model portfolios that consist of ETFs and/or mutual funds and provides non-discretionary investment advice regarding ETFs and/or mutual funds to its affiliate, TD Ameritrade Investment Management, Inc. ("TDAIM") for SMAs that TDAIM advises. In addition, CSIM also provides portfolio management for ThomasPartners Strategies, which invests primarily in dividend-paying stocks and fixed income investments, and pooled investment vehicles that invest in a variety of equity and fixed income securities. Each SMA strategy or pooled investment vehicle that CSIM manages maintains a cash component which may be invested in Schwab Cash Vehicles (as defined later in this brochure), a money market fund, an ETF, or similar cash instruments. The guidelines for asset allocations for each SMA strategy, pooled investment vehicle, model portfolios or TDAIM-advised SMAs differ from the others. However, certain pooled investment vehicles may have substantially equivalent strategies. In such circumstances, the guidelines for multiple pooled investment vehicles may be substantially similar. There may be times when CSIM is investing in the same ETF or mutual fund for different SMA strategies, pooled investment vehicles, model portfolios or TDAIM-advised SMAs; however, portfolio management personnel make investment decisions based on the investment objectives and parameters set for each SMA strategy, pooled investment vehicle, or model portfolio. CSIM has adopted policies and procedures to address any conflicts of interest that may arise.

### **Methods of Analysis and Investment Strategies**

The Windhaven Strategies portfolios seek capital appreciation over full market cycles while generally maintaining global diversification. Each strategy seeks to achieve its investment objective by obtaining

exposure to a wide variety of asset classes, including but not limited to U.S. and international stocks, fixed income securities, real estate, currencies, and hard assets. The Windhaven Strategies primarily use ETFs to gain exposure to desired allocations. Each strategy is dynamically managed, striving to take advantage of global capital market opportunities while focusing on downside risk management by changing allocations in response to the Windhaven Strategies' portfolio management and research teams' views and market conditions.

To construct the Windhaven Strategies, CSIM employs a proprietary quantitative model combined with macroeconomic research and a disciplined review process to guide investment decisions and manage risk.

#### **Risk of Loss**

There are inherent risks to investing in strategies managed by CSIM, including the Windhaven Strategies. The following list of risks does not purport to be a complete enumeration or explanation of the risks involved in those strategies. As the strategies develop and change over time, clients and investors may be subject to additional and different risk factors. No assurance can be made that profits will be achieved or that substantial losses will not be incurred.

#### **Management Risks**

CSIM applies its investment techniques and risk analyses in making investment decisions or recommendations for its clients, but there can be no guarantee that they will produce the desired results. In addition, there is no guarantee that a strategy based on historical information will produce the desired results in the future, and, if market dynamics change, the effectiveness of the strategy may be limited. Each strategy runs the risk that investment techniques will fail to produce the desired results. There also can be no assurance that all of the key personnel will continue to be associated with the firm for any length of time.

#### **Investment Risks**

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

#### **Model Risks**

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

#### **ETF General Risks**

ETFs in which the strategies may invest involve certain inherent risks generally associated with investments in a portfolio of underlying securities, including the risk that the general level of the underlying security prices may decline, thereby adversely affecting the value of each unit of the ETF. Moreover, an ETF may not fully replicate the performance of its benchmark index because of the temporary unavailability of certain securities in the secondary market or discrepancies between the ETF and the benchmark index with respect to the weighting of securities or the number of securities held. Investing in ETFs carries the risk of capital loss. ETFs are not guaranteed or insured by the FDIC or any other government agency. You can lose money investing in ETFs.

ETFs in which the strategies invest have their own fees and expenses as set forth in the ETF prospectuses. These fees and expenses lower investment returns. Although ETFs themselves are generally

classified as equities, the underlying holdings of ETFs can include a variety of asset classes, including but not limited to equities, bonds, foreign currencies, physical commodities, and derivatives. A full disclosure of the specific risks of ETFs is located in the respective prospectus of each fund.

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

#### **Mutual Fund Risks**

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

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

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

#### **Market/Systemic Risks**

Financial markets rise and fall in response to a variety of factors, sometimes rapidly and unpredictably. Markets may be impacted by economic, political, regulatory and other conditions, including economic sanctions and other government actions. In addition, the occurrence of global events, such as war, terrorism, environmental disasters, natural disasters, and epidemics, may also negatively affect the financial markets. As with any investment whose performance is tied to these markets, the value of an investment in the fund will fluctuate, which means that an investor could lose money over short or long periods.

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

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



### **Geographic Concentration Risk**

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

### **Trading/Liquidity Risks**

A particular investment may be difficult to purchase or sell or may become difficult to sell after being purchased for a client account. CSIM may be unable to sell securities on behalf of a client at an advantageous time and/or price due to then-existing trading market conditions.

### **Large Investment Risks**

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

### **Counterparty Risks**

There may be a risk of an executing broker failing to deliver securities, especially due to the large volume of step-out transactions with broker-dealers other than the program sponsor or client-selected broker-dealer/custodian for the Windhaven Strategies and ThomasPartners Strategies. This may result in a loss to the client. CSIM will attempt to mitigate trading counterparty risk through its broker selection program described in "Brokerage Practices."

### **Custodian Risks**

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

### **Tax Risks**

Windhaven Strategies are not designed to address specific tax objectives.

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

### **Tax Gain/Loss Harvesting Risks**

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

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

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

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

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

### **Underlying Securities Risks**

#### **Equity-Related Risks**

##### **General Risks**

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

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

Large- and/or mid-cap U.S. stocks, along with mutual funds and ETFs that focus on large- and/or mid-cap segments of the U.S. stock market, bear the risk that they tend to go in and out of favor based on market and economic conditions. However, stocks of mid-cap companies tend to be more volatile than those of large-cap companies because mid-cap companies tend to be more susceptible to adverse business or economic events than larger, more established companies. During a period when large- and/or mid-cap U.S. stocks fall behind other types of investments — bonds or small-cap

stocks, for instance – the performance of the portion of the investment strategies invested in large- and/or mid-cap stocks may lag the performance of these other investments.

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

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

## **Fixed Income–Related Risks**

### **General Risks**

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

### **Interest Rate Risks**

When interest rates rise, bond prices usually fall, and with them the value of an ETF or mutual fund holding the bonds. A decline in interest rates generally causes bond prices to rise, and with them potentially the value of a bond fund or ETF, but could also hurt the performance of an ETF or mutual fund by lowering its yield (which could increase reinvestment risk). The longer the duration of the investments held by an ETF or mutual fund, the more sensitive to interest rate movements its value is likely to be.

### **Credit Risks**

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

### **High-Yield Risks**

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

### **Government Securities Risks**

Many U.S. government securities are not backed by the full faith and credit of the United States government, which means they are neither issued nor guaranteed by the U.S. Treasury. Certain issuers of securities, such as the Federal Home Loan Banks (“FHLB”), maintain limited lines of credit with the U.S. Treasury. Securities issued by other issuers, such as the Federal Farm Credit Banks Funding Corporation (“FFCB”), are supported solely by the credit of the issuer. There can be no assurance that the U.S. government will provide financial support to securities of its agencies and instrumentalities if it is not obligated to do so under law.

### **Bank Loans**

Investments in ETFs or mutual funds that hold bank loans are typically below investment grade credit quality and may be subject to more credit risk, including the risk of nonpayment of principal or interest. Most bank loans are floating rate, whose interest rates are tied to LIBOR or another short-term reference rate, so substantial increases in interest rates may make it more difficult for issuers

to service their debt and cause an increase in loan defaults. Bank loans are typically secured by collateral posted by the issuer, or guarantees of its affiliates, the value of which may decline and be insufficient to cover repayment of the loan. Many loans are relatively illiquid or are subject to restrictions on resales, have delayed settlement periods, and may be difficult to value, which could have an adverse impact on the ability of the ETF or mutual fund to sell loans at an advantageous time and/or price. Loans are also subject to maturity extension risk and prepayment risk.

### **State and Regional Risks**

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

### **Foreign Risks**

Investments in ETFs or mutual funds that hold securities of foreign issuers or securities with credit or liquidity enhancements provided by foreign entities may involve certain risks, such as adverse changes in foreign economic, political, regulatory, and other conditions; differing accounting, auditing, financial reporting, and legal standards and practices; differing securities market structures; and higher transaction costs. In addition, sovereign risk, or the risk that a government may become unwilling or unable to meet its loan obligations or guarantees, could increase the credit risk of financial institutions connected to that particular country.

## **Foreign Investment – Related Risks**

### **General Risks**

Investments in securities of foreign issuers or ETFs or mutual funds that hold securities of foreign issuers may involve certain risks that are greater than those associated with investments in securities of U.S. issuers. These include risks of adverse changes in foreign economic, political, regulatory, and other conditions; changes in currency exchange rates or exchange control regulations (including limitations on currency movements and exchanges); differing accounting, auditing, financial reporting, foreign taxes, and legal standards and practices; differing securities market structures; differing trading and settlement practices; ownership restrictions; and higher transaction costs.

### **Emerging Markets Risks**

These and other risks (e.g., nationalization, expropriation, or other confiscation of assets of foreign issuers) are greater for those securities, ETFs, or mutual funds investing in companies tied economically to emerging countries, the economies of which tend to be more volatile than the economies of developed countries.

### **Frontier Markets Risks**

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

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

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



## Currency Risks

Fluctuations in exchange rates may adversely affect the value of ETFs or mutual funds that hold foreign currency holdings and investments denominated in foreign currencies.

## Risks Related to Other Asset Classes

### Commodities Risks

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

### Hard Assets Risks

The production and distribution of hard assets, such as precious metals, oil and gas, real estate, and/or agricultural commodities, may be affected by geopolitical and environmental factors and are cyclical in nature. During periods of economic or financial instability, hard asset securities and other instruments may be subject to broad price fluctuations, reflecting volatility of energy and basic materials prices and possible instability of supply of various hard assets. Hard asset securities, hard asset companies, and other instruments may also experience greater price fluctuations than the relevant hard asset. Therefore, the return on hard asset securities may deviate from that of the hard asset itself.

### Real Estate Risks

Real estate – related investments (and the ETFs or mutual funds that hold them) may be adversely affected by factors affecting the real estate industry, which may include changes in interest rates and social and economic trends. Real Estate Investment Trusts (“REITs”) may also be subject to the risk of fluctuations in income from underlying real estate assets, poor performance by the REIT’s manager, prepayments and defaults by borrowers, adverse changes in tax laws, and, with respect to U.S. REITs, their failure to qualify for the special tax treatment granted to REITs under the Internal Revenue Code of 1986 and/or to maintain exempt status under the Investment Company Act of 1940.

### Limitations of Disclosure

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

## Disciplinary Information

Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. and/or Schwab Investments (together, “Schwab” for this section only) reached agreements with the United States Securities and Exchange Commission (“SEC”), the Financial Industry Regulatory Authority (“FINRA”), the Illinois Secretary of State, Securities Department (“Illinois”), and the Connecticut Department of Banking, Securities and Business Investments Division (“Connecticut”) to settle matters related to the Schwab YieldPlus Fund® (the “Yield Plus Fund”) and/or Schwab Total Bond Market Fund (the “Bond Fund,” and together with Yield Plus Fund, the “Funds” for this section only).

As part of the SEC settlement, the SEC found that Schwab violated certain investment-related laws and regulations related to the offer, sale and management of the Funds from 2005 through 2008. In particular, the SEC found that Schwab: (1) deviated from the Funds’

concentration policy with respect to investments in non-agency mortgage-backed securities, without shareholder approval; (2) made materially misleading statements and omissions about the Yield Plus Fund and its associated risks before and during the decline of its net asset value (“NAV”); (3) materially understated the Yield Plus Fund’s weighted average maturity (“WAM”) in certain instances; (4) willfully aided and abetted misstatements and omissions appearing in Yield Plus Fund sales materials and other documents; and (5) lacked policies and procedures reasonably designed to prevent the misuse of material nonpublic information about the Yield Plus Fund. Without admitting or denying these allegations, Schwab agreed to pay a total of approximately \$118,944,996 in disgorgement of fees, penalties and interest. The SEC settlement was approved by the U.S. District Court for the Northern District of California on February 16, 2011.

The amount paid by Schwab pursuant to the SEC settlement included approximately \$18,000,000 paid by Schwab in settlement of the FINRA matter in which FINRA made related factual allegations against Schwab and found that Schwab’s conduct violated FINRA’s just and equitable principles of trade and its rules pertaining to communications with the public and supervision.

Schwab also agreed to pay approximately \$8,567,364 in settlement of the Illinois matter, and \$2,800,000 in settlement of the Connecticut matter, in which those states made related factual allegations against Schwab and found that Schwab’s conduct violated Illinois and Connecticut laws and regulations relating to the supervision of its employees and the maintenance of written procedures reasonably designed to comply with securities laws and regulations. The amounts paid to Illinois and Connecticut were included in the settlement with the SEC.

Schwab and certain affiliated entities and individuals (the “Schwab Parties”) were named as defendants in a number of Yield Plus Fund-related class action lawsuits filed in the United States District Court for the Northern District of California in 2008. These lawsuits were consolidated into a single class action complaint that alleged violations of state law and federal securities law similar to those described above. The Parties entered into a settlement agreement to settle the plaintiffs’ federal securities law claims for approximately \$200,000,000 and the plaintiffs’ California law claims for approximately \$35,000,000. On April 19, 2011, the court entered an order granting plaintiffs’ and defendants’ motions for final approval of the settlement agreements.

## Other Financial Industry Activities and Affiliations

As a wholly owned subsidiary of CSC, CSIM leverages the resources of CSC, Schwab, and their affiliated companies, such as personnel including, but not limited to, its Chief Executive Officer (“CEO”) (also CEO of CSIA, an affiliated investment adviser); Chief Compliance Officer (“CCO”); Chief Legal Officer; legal and compliance support; sales, marketing, technology, operations, finance, human resources, and risk management personnel. CSIM pays Schwab for the services of certain employees and for the facilities and equipment necessary to enable it to provide advisory services to clients. CSIM, CSIA and Schwab personnel have reporting relationships to personnel of affiliated entities. These arrangements and others noted below create the potential for conflicts of interest to arise. These potential conflicts of interest are governed by various policies adopted by CSIM. For example, CSIM has adopted policies and procedures reasonably designed to protect against the misuse of information (and mitigate potential conflicts of interest) whether among CSC-affiliated entities or entities or individuals outside of CSC and its affiliates. Other wholly owned subsidiaries of CSC are engaged in investment advisory, brokerage, trust, custody, or banking services.

### Charles Schwab & Co., Inc.

CSIM is under common control with Schwab, which is both a registered broker-dealer and a registered investment adviser, and a wholly-owned subsidiary of CSC. Schwab serves as the principal

underwriter for certain Registered Funds managed by CSIM but does not receive any compensation in that capacity. However, Schwab receives recordkeeping, shareholder servicing and other administrative servicing fees from certain Registered Funds managed by CSIM.

CSIM pays Schwab an annual fee to obtain Schwab Equity Ratings and Schwab Equity Ratings International, which are maintained by Schwab and used by CSIM in its management of the equity strategies for certain Registered Funds. If the Schwab Equity Ratings and/or Schwab Equity Ratings International were no longer available, CSIM would need to significantly alter its methods of analysis for these Registered Funds.

Schwab, which is also an insurance agency, offers certain Registered Funds managed by CSIM as part of its insurance product offerings.

Schwab sponsors, develops, coordinates the calculation of and maintains the Schwab 1000 Index. The Schwab 1000 Index ETF and Schwab 1000 Index Fund that are managed by CSIM seek to track the performance of the Schwab 1000 Index by investing in the constituents of such index or a representative sample of such constituents of the index. Schwab does not provide recommendations to the Registered Funds using the Schwab 1000 Index regarding the purchase or sale of specific securities. In addition, Schwab will not provide any information relating to changes to the Schwab 1000 Index methodology for the inclusion or exclusion of component securities or methodology for the calculation or the return of component securities to the Registered Funds, in advance of a public announcement of such changes by Schwab.

CSIM selects and recommends investment advisers to act as (i) sub-advisers for Registered Funds advised by CSIM, (ii) sub-advisers to CSTB collective investment trusts, (iii) investment advisers of mutual funds or ETFs in which CSIM advised Registered Funds or SMAs invest, or (iv) investment advisers to mutual funds or ETFs that are part of model portfolios or are used in TDAIM advised SMAs. Such investment advisers may have a business relationship with Schwab whereby Schwab has agreed to make mutual funds advised by such investment advisers available through Schwab Mutual Fund OneSource platform. Schwab receives fees from mutual funds and/or their affiliates for the services Schwab provides in connection with Schwab Mutual Fund OneSource. CSIM does not take into consideration whether an adviser participates in these platforms when making its recommendations or selections. Schwab also makes available certain Registered Funds advised by CSIM through its Schwab Mutual Fund OneSource platform.

In its role as sponsor of the SMP Program, CSIM's affiliate, Schwab, sets the target asset allocations for each SMP Program portfolio and creates the parameters that determine mutual fund and ETF eligibility for the SMP Program. Although CSIM does not favor its own Registered Funds, or disfavor any third-party mutual fund or ETF, in its selection of investments or allocation among investments for the SMP Program portfolios, the parameters and eligibility criteria created by Schwab are designed, in part, to favor certain CSIM managed Registered Funds and to disfavor certain third-party mutual funds and ETFs.

Schwab has a financial interest in certain CSIM managed Registered Funds because it or its affiliates receive advisory and recordkeeping, shareholder servicing and other administrative servicing fees from those Registered Funds. This results in higher overall compensation to Schwab, CSIM, and the ultimate parent entity, CSC. Schwab also receives fees from third party funds (or their affiliates) in the SMP Program portfolios for record keeping, shareholder services, and other administrative services. The aggregate fees Schwab or its affiliates receive from the CSIM managed Registered Funds may be greater than the fees Schwab receives from third party funds.

If a client's account(s) is custodied at Schwab, cash in the account(s), whether as an investment holding, or while awaiting pending investment or distribution, may be invested in: (1) a money market fund that is managed by CSIM or distributed by Schwab; (2) a sweep

vehicle sponsored by Schwab Bank; or (3) a Schwab One® product (collectively, "Schwab Cash Vehicles"). In addition, Direct Client accounts may also have investments in CSIM managed Registered Funds. This presents a conflict of interest. The CSIM Fees will be adjusted relative to the Schwab Cash Vehicle and CSIM managed Registered Funds for retirement accounts, including IRAs and accounts subject to ERISA. CSIM reserves the right to change the manner in which it makes accommodations, to the extent permitted by applicable law. More information about Schwab Cash Vehicles may be found in clients' brokerage account agreement(s) with Schwab.

CSIM serves as an investment manager for the Windhaven Strategies, ThomasPartners Strategies, UMP Program and Wasmer Schroeder Strategies available in the Managed Account Programs sponsored by Schwab. The Schwab Managed Account Programs include, but are not limited to, the following Schwab wrap fee programs: (i) Charles Schwab & Co., Inc. – Managed Account Access®, and (ii) Charles Schwab & Co., Inc. – Managed Account Connection®. CSIM also serves as an investment manager for the Windhaven Strategies, ThomasPartners Strategies and Wasmer Schroeder Strategies available in programs sponsored by other Broker/Custodian-Related Programs. CSIM receives from the program sponsor a fee for the investment management services it provides for the Windhaven Strategies, ThomasPartners Strategies, UMP Program and Wasmer Schroeder Strategies. Each program sponsor has prepared a brochure which contains detailed information about its wrap fee program, including the wrap fee charged. Copies of each brochure are available from the program sponsor upon request.

Schwab effects securities transactions for clients in the SMP Program, UMP Program, Windhaven Strategies, ThomasPartners Strategies and Wasmer Schroeder Strategies on an agency basis. Windhaven Strategies and ThomasPartners Strategies wrap fee program clients should note that over time only a small portion of transactions, specifically maintenance trades, are executed for their accounts through the program sponsor.

Schwab sponsors the advisory services Schwab Intelligent Portfolios® ("SIP") and Schwab Intelligent Portfolios Premium™ ("SIP Premium"). SIP is an automated discretionary investment advisory service that offers clients a diversified portfolio based on their stated investment objectives and risk tolerance. SIP Premium is a hybrid advisory service that combines financial planning and guidance from Schwab financial planners with discretionary portfolio management through SIP. SIP portfolios may include ETFs managed by CSIM, for which CSIM receives investment advisory fees. SIP is further described below.

In connection with the SMP Program, UMP Program, SIP, ThomasPartners Strategies, Windhaven Strategies and Wasmer Schroeder Strategies, CSIM provides Schwab with composite performance reporting data resources and support, for which CSIM is paid a fee.

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

Charles Schwab, Hong Kong, Ltd. has been appointed the Hong Kong representative of Charles Schwab Asset Management (Ireland) Limited ("CSAMIL") and is authorized by CSAMIL to receive requests from Hong Kong investors for subscriptions, redemptions and exchange of shares of the non-U.S. fund advised by CSIM. Charles Schwab, Hong Kong, Ltd. is a registered securities dealer that is regulated by the Hong Kong securities and futures commission.

### **Pooled Investment Vehicles**

CSIM provides investment advice to a number of Registered Funds and a non-U.S. fund, and may be deemed to control such funds, although CSIM disclaims any control relationship. CSIM also makes recommendations in connection with the management of certain collective investment trusts although Charles Schwab Trust Bank ("CSTB") retains ultimate investment discretion over those funds.

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

CSIM is under common control with CSIA, a registered investment adviser. CSIM pays CSIA an annual fee to obtain CSIA's asset allocation models which are used in the management of certain Registered Funds.

CSIA provides portfolio management services to SIP. SIP is an automated discretionary investment advisory service that offers clients a diversified portfolio based on their stated investment objectives and risk tolerance. SIP Premium is a hybrid advisory service that combines financial planning and guidance from Schwab financial planners with discretionary portfolio management through SIP. SIP portfolios may include Schwab ETFs managed by CSIM, for which CSIM receives investment advisory fees. CSIM provides CSIA with composite performance reporting data resources and support in connection with SIP for which CSIM is paid a fee. CSIM also provides CSIA with trade execution services for SIP, under an inter-company agreement. CSIM directs these trades to Schwab. In addition, CSIM provides proxy voting services to CSIA under an inter-company agreement. CSIM pays CSIA for the services of certain employees primarily providing sales and marketing services.

## **Charles Schwab Trust Bank**

CSIM is under common control with CSTB. CSIM provides non-discretionary investment management advice to CSTB pursuant to an agreement between CSIM and CSTB with respect to collective investment trusts maintained and advised by CSTB. CSIM also provides CSTB with trading support, at CSTB's request. CSTB, however, retains the authority to accept or reject CSIM's recommendations. In addition, CSIM provides administrative and proxy voting services to, and receives compensation from, CSTB. CSTB further provides custodial and other trust services to certain of Schwab's customers and affiliates. CSTB provides directed trust and custody services to employee benefit or similar types of plans, and makes certain Registered Funds advised by CSIM available to these clients.

## **Charles Schwab Asset Management (Ireland) Limited**

CSIM provides discretionary investment advisory services to CSAMIL, an Irish limited liability management company under common control with CSIM, with respect to a non-U.S. pooled investment vehicle ("non-U.S. fund") managed by CSAMIL and receives compensation from CSAMIL with respect to the non-U.S. fund.

## **Charles Schwab Trust Company**

CSIM is under common control with Charles Schwab Trust Company ("CSTC"). Upon request from CSTC, CSIM may offer access to some of its model portfolios, SMP Program strategies and ThomasPartners Strategies to CSTC in connection with the management of trust assets. CSIM also provides trading services and proxy voting guidance to CSTC under an inter-company agreement.

## **TD Ameritrade Investment Management, LLC**

CSIM is under common control with TDAIM. CSIM provides non-discretionary investment management advice to TDAIM pursuant to an agreement between CSIM and TDAIM with respect to certain SMAs advised by TDAIM. TDAIM, however, retains the authority to accept or reject CSIM's recommendations.

## **TD Ameritrade, Inc.**

CSIM is under common control with TD Ameritrade, Inc. ("TDA"), which is both a registered broker-dealer and a registered investment adviser, and a subsidiary of CSC. TDA acts as custodian for certain of CSIM's SMA clients. Also, CSIM participates in a Broker/Custodian-Related Program sponsored by TD Ameritrade Institutional, a division of TDA, and CSIM receives a fee for the investment management services it provides.

TDA receives recordkeeping, shareholder servicing and other administrative servicing fees from certain Registered Funds managed by CSIM that are available through TDA's platform.

CSIM provides model portfolios to TDA. CSIM is not responsible for determining which securities to buy or sell for TDA.

Representatives of TDA receive a payment from TDA for introducing clients to Schwab for services not available through TDA, including the SMP Program, Windhaven Strategies, ThomasPartners Strategies and Wasmer Schroeder Strategies, but excluding the UMP Program. Representatives of TDA receive this payment regardless of whether such clients avail themselves of the Schwab service to which they were introduced.

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

### **Code of Ethics**

#### **General**

CSIM has adopted a code of ethics (the "Code") pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended from time to time. The Code sets forth standards of business conduct that reflect CSIM's fiduciary obligations to its clients and requires CSIM employees to comply with all applicable laws, rules and regulations and promptly report any violation of the Code to a supervisor or CSIM's CCO or their designee. The Code also requires CSIM's officers, directors, employees, contractors and any person who is determined to have access to non-public information regarding any client or CSIM ("access persons") to (i) report, and CSIM to review, personal securities transactions and securities holdings periodically, (ii) pre-clear transactions in covered securities, and (iii) confirm compliance with the provisions of the Code on a periodic basis. Covered securities do not include direct obligations of the U.S. government, high quality short-term debt instruments, investments in non-Schwab affiliated 529 college savings plans, investment in the Schwab Fund for Charitable Giving, and shares of affiliated and non-affiliated money market funds. The Code may be changed as necessary to remain current with regulatory requirements and internal policies and procedures.

A client or prospective client may obtain a copy of CSIM's Code without charge by calling CSIM at (877) 824-5615.

#### **Material Non-Public Information**

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

#### **Gifts and Business Entertainment**

CSIM access persons may not give or accept gifts or business entertainment that violate applicable laws or create a conflict of interest or the appearance of impropriety.

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

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

CSIM has a conflict of interest because it selects ETFs and mutual funds, including Registered Funds, for various client accounts in the UMP Program, SMP Program, ThomasPartners Strategies,



Windhaven Strategies and Wasmer Schroeder Strategies and also for certain funds-of-funds. Other affiliates of CSIM may buy or sell the same securities for client accounts. These are all inherent conflicts of interest within and among CSIM, Schwab, and its affiliates. CSIM mitigates these conflicts of interest through its policies and procedures, which include the evaluation of the selection and investment in ETFs and mutual funds, including Registered Funds, consistent with CSIM's fiduciary duty. Subject to Schwab's oversight as the SMP Program sponsor, the investment decision-making processes of CSIM portfolio management teams are separate and independent from Schwab.

Schwab, a related person of CSIM, is a registered broker-dealer that effects securities transactions for its brokerage customers. Schwab may act as a principal or agent in these transactions. In the normal course of the conduct of its business as a broker-dealer, Schwab may enter into purchase and sale transactions in securities that CSIM has recommended to its clients.

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

#### **Personal Trading**

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

#### **Brokerage Practices**

CSIM operates separate trading groups (the "Trading Groups"). For equity and multi-asset SMA strategies, Registered Funds and collective investment trusts, CSIM has separate portfolio management teams and Trading Groups. For fixed income SMA strategies, Registered Funds, and the non-U.S. Fund, the portfolio managers conduct the trades. Each SMA strategy, Registered Fund, the non-U.S. fund and/or collective investment trust has its designated portfolio

management team and/or Trading Group. A Trading Group may support multiple portfolio management teams. Generally, each Trading Group trades the products and strategies for which it is designated and each portfolio management team provides advice to the products and strategies for which it is designated. However, a Trading Group or portfolio management team may provide services to products and strategies for which it is not the designated portfolio management team or Trading Group. For example, a portfolio management team may determine to use a Trading Group or another portfolio management team that specializes in a particular segment of the financial markets to provide trading services and/or portfolio management for that segment of the financial market within its designated product or strategy. In addition, the head of a Trading Group or portfolio management team has discretion to assign the necessary personnel to trade and/or provide investment advice for a specific strategy.

CSIM has established informational barriers and procedures that seek to prohibit personnel within a Trading Group from communicating or distributing any non-public information related to the trading activities of a product or strategy such personnel support (including information regarding pending orders for clients) to other personnel within the Trading Group that should not be privy to such information. When CSIM personnel are part of two distinct Trading Groups or trade for products and strategies for which they are not the designated Trading Group or portfolio management, CSIM has adopted procedures governing such trading activities to seek to ensure such CSIM personnel are not communicating or distributing any non-public information related to their trading activities of a product or strategy (including information regarding pending orders for clients) to personnel on either a Trading Group or portfolio management team that are not involved in trading for and management of that product or strategy or utilize such non-public information among products or strategies in a manner that is not consistent with policies and procedures.

CSIM generally does not coordinate trading among Trading Groups and, therefore, will at times execute trades for one client from one Trading Group that differ from, or take the opposite side of, trades executed on behalf of another client from another Trading Group. Each Trading Group seeks to obtain best execution on all orders it originates; however, clients serviced by different Trading Groups could receive or appear to receive more favorable outcomes. As noted above, to the extent personnel are aware of trading for accounts serviced by more than one Trading Group, CSIM has adopted procedures requiring such personnel to refrain from coordinating trading for accounts on separate Trading Groups.

Generally, CSIM does not aggregate trades or seek opportunities for cross-transactions between client accounts serviced by different Trading Groups. Accordingly, each Trading Group will generally aggregate and allocate orders only among those clients that it services and independently of the other Trading Group. However, at times a Trading Group that trades for client accounts for which it is not the designated Trading Group may aggregate trades for those client accounts with trades for client accounts for which the Trading Group is the designated Trading Group. A Trading Group will do so only if it is in the best interests of one or more clients to execute their trades on an aggregated basis.

The following discusses CSIM's trading practices with respect to the Windhaven Strategies. A discussion of the other Trading Groups' trading practices is included in the disclosure brochures for the products and strategies they support.

#### **Selecting or Recommending Broker-Dealers**

CSIM seeks to obtain the best execution for clients' portfolio transactions and will evaluate the quality and cost of services received from broker-dealers/custodians on a periodic and systematic basis. Factors evaluated include execution price, transaction fees, commissions, mark-ups and mark-downs, or brokerage fees ("Brokerage Fees"), promptness and reliability of execution, accuracy

of trades, ability to place trades in difficult markets, ability to source liquidity, and confidentiality. In seeking best execution, CSIM considers whether the transaction represents the best qualitative and quantitative execution under the circumstances, which is not solely determined by the lowest brokerage fee available. Brokerage Fees are generally considered to include transaction fees, commissions, or mark-ups and mark-downs on the purchase and sale of securities. CSIM does not consider the receipt of client referrals when selecting or evaluating broker-dealers used for client transactions.

### Soft Dollars

CSIM generally will not enter into formal soft-dollar arrangements with brokers or third parties to obtain brokerage or research services in exchange for brokerage commissions paid by advised accounts. However, CSIM does receive various forms of eligible proprietary research that is bundled with brokerage services at no additional cost from certain of the brokers with whom CSIM executes equity or fixed income trades. These include brokers CSIM is affiliated with such as Schwab or from participation Broker/Custodian-Related Programs for certain separately managed account strategies. These services or products can typically include: company financial data and economic data (e.g., unemployment, inflation rates and GDP figures), stock quotes, last sale prices and trading volumes, research reports analyzing the performance of a particular company or stock, access to websites that contain data about various securities markets, narrowly distributed trade magazines or technical journals covering specific industries, products, or issuers, seminars or conferences registration fees which provide substantive content relating to eligible research, discussions with research analysts or meetings with corporate executives which provide a means of obtaining oral advice on securities, markets or particular issuers, short-term custody related to effecting particular transactions and clearance and settlement of those trades, lines between the broker-dealer and order management systems operated by a third party vendor, dedicated lines between the broker-dealer and CSIM's order management system, dedicated lines providing direct dial-up service between CSIM and the trading desk at the broker-dealer, and message services used to transmit orders to broker-dealers for execution. CSIM can use research services furnished by brokers or dealers in servicing all client accounts, and not all services will necessarily be used in connection with the account that paid commissions or spreads to the broker or dealer providing such services.

Although CSIM does not have arrangements to cause a client to pay higher commissions to obtain soft dollar benefits, CSIM benefits from its receipt of bundled research because it does not have to produce or pay for the research, products or services. Consequently, CSIM has an incentive to select or recommend a broker-dealer based on its interest in receiving the proprietary research or other products or services.

CSIM will sometimes purchase for clients new issues of securities in a fixed price offering. In these situations, the seller may be a member of the selling group that will, in addition to selling securities, provide CSIM with research services, in accordance with applicable rules and regulations permitting these types of arrangements. Generally, the seller will provide research "credits" in these situations at a rate that is higher than that which is available for typical secondary market transactions.

CSIM has an internal committee to oversee trading practices, and has established policies and procedures applicable to best execution, soft dollars and other client commissions practices. The policies and procedures require CSIM portfolio management to obtain approval from that committee for certain arrangements with a broker to obtain a research product or brokerage services. CSIM is not obligated to direct client transactions to broker-dealers that provide research information. During its last fiscal year, CSIM did not pay commissions

to a particular broker-dealer in return for brokerage and research services but, as noted above, CSIM may have executed through "full service" broker dealers at a rate higher than might otherwise be available.

### Directed Brokerage

CSIM does not recommend, request, require or permit any Windhaven Strategies client to direct CSIM to execute transactions through a specified broker-dealer.

### Trading Process

Trade orders for the different strategies CSIM manages are generated by each strategy's portfolio management team and/or Trading Group, on various systems, and may utilize one or more trading strategies (e.g., price at the time of order arrival, market closing price, volume weighted average price over some specified period). Certain trading strategies place relatively greater emphasis on timing, others on speed of execution, while others place greater emphasis on reducing market impact cost. As a result, the speed of trade order fulfillment and the prices achieved for the same security are likely to vary in different programs or strategies and among Trading Groups. Certain strategies or different Trading Groups, which include accounts in programs with different fee structures, may trade in advance of other strategies or their trades could be completed more quickly, and, in these cases, could achieve different execution on the same or similar securities. In addition, market, regulatory, and/or country limitations (especially in the case of emerging markets) may contribute to differences in security prices.

For Windhaven Strategies, ThomasPartners Strategies, the SMP Program, the UMP Program and SIP, CSIM typically performs maintenance trades and strategy trades. Maintenance trades reflect individual activity in a client account, such as initial contributions, additional account contributions, or raising cash for withdrawals ("Maintenance Trades"). Strategy trades impact nearly all client accounts within a strategy and are directed by that strategy's portfolio management team ("Strategy Trades").

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

### Aggregation and Allocation of Securities Transactions

For the SMA strategies, CSIM will not aggregate trades unless it believes that aggregation is consistent with its duty to seek best execution for affected clients in the aggregate and consistent with the terms of the client's investment advisory agreement. If the Trading Group aggregates trades, it can aggregate securities sales or purchases across the strategies and products for which it provides trading services. If trades are not aggregated, clients could pay prices for the transactions that are different from what they might have paid had the trades been aggregated. When aggregating, CSIM can, consistent with its policies and procedures and fiduciary duties, include employee accounts in an aggregated order. CSIM can exclude from aggregation those client accounts that have relevant restrictions or client activity (e.g., withdrawals pending). In addition, CSIM has discretion not to aggregate certain securities in client accounts that could at times be executed through aggregation (e.g., individual bonds). Trade allocation procedures for the SMA strategies are



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

For Windhaven Strategies accounts, nearly all Maintenance Trades are aggregated as part of one or more blocks. CSIM may decide either to send the blocks to the client's custodian for execution or step out the block to an executing broker as described further below. The method of execution for Maintenance Trades will depend on a variety of factors and will be at the discretion of the Trading Group in seeking best execution. Nearly all Strategy Trades are aggregated as part of a block, where permissible, and sent to an executing broker-dealer that accommodates step-out trading.

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

When opportunities are limited (collectively, "limited opportunities"), CSIM will generally consider the needs of clients across programs. When it is not practicable to allocate an opportunity across all eligible accounts, CSIM uses various methods to give all accounts using the same trading strategy equitable opportunities for allocation over time. This would result in a limited opportunity being allocated to only some of the eligible accounts.

### **"Step-Out" Trades**

For the Windhaven Strategies, CSIM places a significant amount of trades with selected broker-dealers other than the program sponsor or client selected broker-dealer/custodians to the extent that a "step-out" trade will, in CSIM's opinion, achieve best execution in aggregate over time. This includes both Maintenance Trades and Strategy Trades. Certain program sponsors may have restrictions on accommodating step-out trades which affect execution quality.

### **Program Fees – Windhaven Strategies**

For Wrap Fee Program clients and Broker/Custodian-Related Program clients, the fee does not cover Brokerage Fees charged by the step-out brokers, which are fees that are in addition to their wrap fees. This is because clients participating in a Wrap Fee Program pay a single, all-inclusive fee to cover any Brokerage Fees on trades executed by the sponsor, but does not cover Brokerage Fees charged by other broker-dealers. For step-out trades, Brokerage Fees are included in the price of the security and may not be shown separately on a confirmation or statement. The wrap fee or all-inclusive fee described above will not be reduced or offset by these Brokerage Fees. Instead, any additional Brokerage Fees will reduce the overall return of a Wrap Fee Program Client's account. Regardless of embedded Brokerage Fees, it is the responsibility of CSIM to determine whether the program sponsor or step-out broker can provide best

overall execution of any given trade. In addition, Schwab receives remuneration such as liquidity or order flow rebates from a market or firm to which some orders are routed, but its trading practices are designed to achieve best execution.

### **Trade Rotation**

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

### **Trade Errors**

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

### **Review of Accounts**

CSIM periodically reviews client accounts, including Registered Funds, utilizing product-specific review processes. Accordingly, account review may differ across client and product types. CSIM's portfolio managers are generally responsible for the daily management and review of the client accounts under their supervision. Such reviews may examine compliance with client's investment objectives and account guidelines, account performance and CSIM's current investment process and practices, as applicable. Below is a more detailed description of account reviews conducted by CSIM.

Direct Client accounts are typically reviewed on at least an annual basis. The reviews are performed by Relationship Managers and/or the Client Service team members and generally focus on the client's personal financial situation, liquidity needs, and comfort with risk level; a review of account restrictions; an overview of the client's current portfolio; and any questions the client may have on their accounts and strategies. For clients who establish and maintain their relationship through their wealth advisor ("Primary Advisor"), sub-adviser or Wrap Fee Program sponsor, account reviews would typically be performed by personnel of the Primary Advisor, sub-adviser or Wrap Fee Program sponsor. Reviews of accounts custodied at Schwab may be assisted by Schwab personnel. Direct Clients generally receive quarterly written reports, which include the client's investment positions, the performance of their Windhaven Strategies account(s), and quarterly newsletter.

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

CSIM may recommend that Windhaven Strategies and ThomasPartners Strategies clients establish brokerage accounts with Schwab, an affiliate registered broker-dealer, to maintain custody of clients' assets and to effect trades for their accounts.

Certain employees of CSIM's affiliates are compensated based on net sales in the Windhaven Strategies and ThomasPartners Strategies. Consequently, these employees may have an incentive to recommend the Windhaven Strategies and ThomasPartners Strategies over other types of accounts.

CSIM may contract with unaffiliated independent solicitors to obtain new Windhaven Strategies and ThomasPartners Strategies clients. Client fees are generally not higher than CSIM's standard Windhaven Strategies and ThomasPartners Strategies fees because of payment to such a solicitor.

Schwab provides CSIM, its affiliate, with access to its institutional trading and operations services, which are typically not available to Schwab clients. Schwab's services include research, brokerage, custody, and access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment. Schwab also makes available to CSIM other products and services that benefit CSIM but may not benefit clients' accounts. Some of these other products and services assist CSIM in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information, and other market data; facilitate payment of CSIM's Fees from its clients' accounts in the Windhaven Strategies and ThomasPartners Strategies; and assist with back-office support, recordkeeping, and client reporting. Many of these services generally may be used to service all or a substantial number of Wasmer Schroder Strategies, Windhaven Strategies, ThomasPartners Strategies, UMP Program and SMP Program client accounts, including accounts not maintained at Schwab.

Schwab may also provide CSIM with other services intended to help CSIM manage and further develop its business. These services may include consulting, publications and presentations on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange, and/or pay for these types of services to CSIM by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to CSIM.

Representatives of TDA receive a payment from TDA for referring clients to Schwab for services not available through TDA, including the SMP Program, Windhaven Strategies, ThomasPartners Strategies and Wasmer Schroeder Strategies, but excluding the UMP Program. Representatives of TDA receive this payment regardless of whether referred clients avail themselves of the Schwab service for which they have been referred.

### **Other Broker/Custodian-Related Programs**

For certain SMA strategies, CSIM participates in a number of Broker/Custodian-Related Programs sponsored by unaffiliated firms. These Broker/Custodian-Related Programs and their affiliates provide CSIM with certain economic benefits and access to products and services not typically available to retail clients as a result of CSIM's participation in their programs. These benefits may include the following products and services:

- access to client account data (such as program client statements and trade confirmations);
- research, pricing and other market data;
- equity trade fee waivers;
- consulting services;
- access to a trading desk serving program clients;
- access to block trading (which provides the ability to bundle securities transactions for execution and then allocate the appropriate shares to program client accounts);
- the ability to have advisory fees deducted directly from program client accounts;
- access to an electronic communications network for client order entry and account information;
- access to mutual funds with no transaction fees and to certain institutional money managers;

- assistance with back-office functions, recordkeeping, and program client reporting; and
- discounts on compliance, marketing, research, technology, and practice management products.

Some of the products and services made available by these custodians through their program benefit program clients; some products and services may benefit CSIM but not the clients. These products or services may assist CSIM in managing and administering client accounts, including accounts not maintained at the custodian. As part of its fiduciary duties to clients, CSIM strives at all times to put the interests of its clients first.

### **Client Referrals from Solicitors**

CSIM may contract with independent solicitors and its affiliate, Schwab (and/or Schwab affiliates), to obtain new ThomasPartners Strategies and Windhaven Strategies clients. Client fees are generally not higher than CSIM's standard Windhaven Strategies fees because of payments to a solicitor.

### **Custody**

For those Windhaven Strategies clients that have selected Schwab as custodian for their account, Schwab, on at least a quarterly basis, will send client account statements detailing account positions and activities during the preceding period.

A portion of client accounts are held in custody by unaffiliated broker-dealers or banks. These unaffiliated broker-dealers or banks will also send client account statements on at least a quarterly basis.

Clients should carefully review these statements, and should compare these statements to any account information provided by CSIM, as the information provided in CSIM's quarterly reports for Direct Clients may vary based on accounting procedures, reporting dates, or valuation methodologies.

Clients may elect to custody their accounts at any custodian of their choosing, subject to the acceptance of CSIM. However, the selection of a custodian may or may not put a client at a disadvantage for getting best execution for their trades.

### **Investment Discretion**

When clients choose the Windhaven Strategies, they sign the custodian's applicable new account paperwork giving CSIM authorization to make trades in their account. This investment management discretion is limited to the purchase and sale of securities and investment of cash, and does not include discretion for distributions of cash or securities (except for limited grants of authority to facilitate withdrawal of money and direct payments to third parties according to clients' instructions). Clients may impose reasonable restrictions on the management of their account, subject to the acceptance of CSIM.

Investments will not exceed the client's funds in the account and a margin balance will not be maintained, unless allowed by CSIM.

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

### **Voting Client Securities**

The following is a summary of CSIM's Proxy Voting Policy (the "Proxy Policy") concerning proxies voted by CSIM on behalf of each investment advisory client who delegates voting authority to CSIM

("Delegating Client"). The Proxy Policy may be changed as necessary to comply with regulatory requirements and internal policies and procedures. An internal proxy committee (the "Proxy Committee") exercises and documents CSIM's responsibility with regard to voting of client proxies.

To assist CSIM and the overall proxy voting process, CSIM has elected to retain an unaffiliated third party proxy voting service as an expert in the proxy voting and corporate governance area (the "Service"). The services provided by the Service include in-depth research, global issuer analysis and voting recommendations, as well as vote execution, reporting and record keeping. CSIM may retain additional experts in the proxy voting and corporate governance area in the future.

The Proxy Committee has the ultimate responsibility for developing the Proxy Policy to determine how to vote the shares. CSIM's Investment Stewardship Team has the primary responsibility to oversee that voting is carried out consistent with the Proxy Policy. The Investment Stewardship Team also conducts research into proxy issues and carries out engagement activities with companies. The Proxy Committee receives reports from the Investment Stewardship Team on these activities. However, portfolio managers of separately managed account clients maintain full discretion to vote the shares held by these clients based on their analysis of the economic impact of the ballot items. Therefore, shares for these separate account clients may be voted differently from those voted solely under the guidance of the Investment Stewardship Team.

As a leading asset manager, it is CSIM's responsibility to use its proxy votes to encourage transparency and corporate governance structures that it believes protect or promote shareholder value. CSIM takes a long-term, measured approach to investment stewardship. CSIM's client-first philosophy drives all of its efforts, including its approach to decision making. In the investment stewardship context, that unfolds through CSIM's efforts to appropriately manage risk by encouraging transparency and focusing on those corporate governance structures that will help protect or promote shareholder value. In general, CSIM believes corporate directors, as the elected representatives of all shareholders, are best positioned to oversee the management of their companies. Accordingly, CSIM typically supports a board of directors' and management's recommendations on proxy matters but may not always do so.

CSIM invests on behalf of its clients in companies domiciled all over the world. Since corporate governance standards and best practices differ by country and jurisdiction, the market context is taken into account in the analysis of proposals. Furthermore, there are instances where CSIM may determine that voting is not in the best interests of its Delegating Clients (typically due to costs or to trading restrictions) and will refrain from submitting votes.

The Proxy Committee reviews the Service's written proxy voting guidelines (the "Service's Proxy Guidelines") with input from the Investment Stewardship Team. CSIM generally utilizes the Service's Proxy Guidelines to vote. However, CSIM may create custom voting guidelines where its view does not align with the Service's Proxy Guidelines. Further, the Proxy Committee may delegate voting decisions on particular types of votes to the Investment Stewardship Team, and the Investment Stewardship Team may vote differently than the Service's Proxy Guidelines suggest, to the extent they believe it is in the best interest of a Delegating Client. Contested director elections, mergers and acquisitions, and most shareholder proposals requesting additional environmental and social disclosures are voted on a case-by-case basis by CSIM's Investment Stewardship Team. In addition, securities held in separately managed accounts may be voted on a case-by-case basis by the portfolio manager for the account.

CSIM has adopted proxy voting principles on key proposals, including election of directors, ratification of auditors, contested directors elections, classified boards, majority/cumulative voting, proxy access,

independent chair, executive compensation and frequency, equity compensation plans, employee stock purchase plans, re-price/exchange option plans, shareholder rights plans, right to call special meetings, right to act by written consent, supermajority voting, increase in authorized common shares, preferred shares, mergers and acquisitions, environmental and social proposals, and political contributions.

CSIM maintains the following practices that seek to prevent undue influence on its proxy voting activity. Such influence might arise from any relationship between the company holding the proxy (or any shareholder or board member of the company) and CSIM, CSIM's affiliates, a client or client's affiliate, or a CSIM employee.

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

Where the Proxy Committee has delegated an item to the Investment Stewardship Team or a portfolio manager of a separately managed separate account, CSIM has taken certain steps to mitigate perceived or potential conflicts of interest, including, but not limited to, the following: (i) maintaining a reporting structure that separates employees with voting authority from those with sales or business relationship authority; (ii) reporting of potential conflicts to the Proxy Committee to review the conflict and provide final vote determination; and (iii) defaulting to CSIM's Proxy Policy.

In all other cases, proxy issues that present material conflicts of interest between CSIM and/or any of its affiliates, and its clients, will be delegated to the Service to be voted in accordance with CSIM's Proxy Policy which is set each year based on governance criteria and not influenced by any individual issuer or ballot item.

Voting proxies with respect to shares of foreign securities may involve significantly greater effort and corresponding cost than voting proxies with respect to domestic securities due to the variety of regulatory schemes and corporate practices in foreign countries with respect to proxy voting. In consideration of the foregoing issues, the Service uses its best efforts to vote foreign proxies. As part of its ongoing oversight, the Proxy Committee will monitor the voting of foreign proxies to determine whether all reasonable steps are taken to vote foreign proxies. If the Proxy Committee determines that the cost associated with the attempt to vote outweighs the potential benefits Delegating Clients may derive from voting, the Proxy Committee may decide not to attempt to vote. In addition, certain foreign countries impose restrictions on the sale of securities for a period of time before and/or after a shareholder meeting. To avoid these trading restrictions, the Proxy Committee instructs the Service not to vote such foreign proxies (share-blocking).

Where CSIM has delegated day-to-day investment management responsibilities for a client account to a sub-adviser, CSIM may (but generally does not) delegate proxy voting responsibility to the sub-adviser. However, each sub-adviser to whom proxy voting responsibility has been delegated will be required to review all proxy solicitation material and to make voting decisions associated with the securities it has been allocated in the best interest of such Delegating Client. Prior to delegating the proxy voting responsibility, CSIM will review each sub-adviser's proxy voting policy to determine whether it believes that each sub-adviser's proxy voting policy is generally consistent with the maximization of the value of CSIM's clients' investments by protecting the long term best interests of a company's shareholders.

Additional information about CSIM's proxy voting practices with respect to the Registered Funds is included in their respective prospectuses and statements of additional information. A client may obtain a copy of CSIM's Proxy Policy, or information regarding how his or her securities were voted, by calling CSIM at 617-960-5300.

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

## **Financial Information**

CSIM does not require nor solicit prepayment of investment advisory fees from its clients. CSIM (and historically CSIA, Windhaven Investment Management, Inc. and ThomasPartners, Inc.) is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients, nor has CSIM been the subject of a bankruptcy petition at any time during the past ten years.