



September 21, 2021

Charles Schwab Investment Management, Inc. Schwab Personalized IndexingTM Disclosure Brochure

Notice: Schwab Personalized Indexing is currently a pilot program available only to certain employees of Charles Schwab Investment Management, Inc. and its affiliates.

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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 1-877-824-5615. 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.

**Summary of Material Changes
(As of September 21, 2021)**

Charles Schwab Investment Management, Inc. is the investment adviser for Schwab Personalized Indexing™ (SPI). SPI is described throughout this brochure.

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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 Schwab Personalized Indexing (SPI), which currently is in a pilot launch and only available to certain employees of CSIM and its affiliates. Each SPI strategy is designed to provide exposure to a client selected equity market segment while seeking to enhance after-tax returns relative to the client's designated index. SPI strategies are benchmarked to a specific index chosen by the client. SPI strategies typically invest directly in an optimized subset of securities that seeks to track the performance of the designated index by attempting to mimic the characteristics of the designated index, such as the designated index's exposure and risk characteristics. SPI strategies invest both in securities included in the designated index and securities that are not included in the designated index.

Clients in SPI are those who have enrolled in asset-based wrap fee and similar programs offered through broker-dealers ("Wrap Fee Programs").

The Wrap Fee Programs in which SPI is made available include the Managed Account Access® and Managed Account Connection® programs ("the Managed Account Programs") sponsored by 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 sponsors 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, CSIM is entitled to receive an annual fee from Schwab, payable monthly, based on strategy and a percentage on all Schwab Managed Account Program assets it manages. 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.

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.

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 SPI primarily include individuals. Accounts subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and tax-exempt/tax-deferred accounts are not eligible for SPI in the Managed Account Programs. The minimum investment required to open an account in SPI is at least \$100,000 per account. Currently, SPI is in a pilot launch and only available to certain employees of CSIM and its affiliates.

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.

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

Each SPI strategy is designed to provide exposure to a client's selected equity market segment while seeking to enhance after-tax returns relative to the client's designated index. SPI strategies are benchmarked to a specific index chosen by the client. SPI strategies typically invest directly in an optimized subset of the securities that seeks to track the performance of the designated index by attempting to mimic the characteristics of the designated index,

such as the designated index's exposure and risk characteristics. SPI strategies invest both in securities included in the designated index and securities that are not included in the designated index. The following is an overview of the SPI designated indexes that a client can choose for its account:

Schwab 1000 Equity. The strategy seeks to track the performance of and mimic characteristics of the Schwab 1000 Index® while enhancing after-tax returns through the use of tax-efficient optimization methodologies. The strategy invests primarily in equity securities. The Schwab 1000 Index is a float-adjusted market capitalization weighted index that includes the stocks of the 1,000 largest publicly traded companies in the United States, with size being determined by market capitalization (total market value of all shares outstanding). CSIM will actively trade holdings for accounts in this strategy in an attempt to enhance after-tax returns through tax-efficient optimization methodologies. While this strategy looks to approximate the pre-tax return and risk characteristics of the Schwab 1000 Index, it will not always be aligned to the index. The securities selected for a client's account can be individually tailored based on a client's investment restrictions and account size, as well as tax attributes of the assets held in the account.

S&P Small Cap 600. The strategy seeks to track the performance of and mimic characteristics of the S&P SmallCap 600® Index while enhancing after-tax returns through the use of tax-efficient optimization methodologies. The strategy invests primarily in equity securities. The S&P SmallCap 600 Index is a float-adjusted market capitalization weighted index that seeks to measure the small-cap segment of the US equity market. The index is designed to track companies that meet specific inclusion criteria to ensure they are liquid and financially viable. CSIM will actively trade holdings for accounts in this strategy in an attempt to enhance after-tax returns through tax-efficient optimization methodologies. While this strategy looks to approximate the pre-tax return and risk characteristics of the S&P SmallCap 600 Index, it will not always be aligned to the index. The securities selected for a client's account can be individually tailored based on a client's investment restrictions and account size, as well as tax attributes of the assets held in the account.

MSCI KLD 400 Social. The strategy seeks to track the performance of and mimic characteristics of the MSCI KLD 400 Social Index while enhancing after-tax returns through the use of tax-efficient optimization methodologies. The strategy invests primarily in equity securities. The MSCI KLD 400 Social Index is a capitalization weighted index of 400 US securities that provides exposure to companies with outstanding Environmental, Social and Governance (ESG) ratings and excludes companies whose products have negative social or environmental impacts. CSIM will actively trade holdings for accounts in this strategy in an attempt to enhance after-tax returns through tax-efficient optimization methodologies. While this strategy looks to approximate the pre-tax return and risk characteristics of the MSCI KLD 400 Social Index, it will not always be aligned to the index. The securities selected for a client's account can be individually tailored based on a client's investment restrictions and account size, as well as tax attributes of the assets held in the account.

SPI strategies may only be held in taxable accounts. CSIM seeks to opportunistically harvest net realized capital losses to provide improved returns over the designated index on an after-tax basis. This is achieved by utilizing tax-efficient optimization methodologies such as tax-loss harvesting, while also accounting for tracking the designated index. Tax-loss harvesting generally means selling a security that has lost value in order to offset capital gains on the investor's tax return. In order to preserve a "harvested" loss CSIM will seek to avoid transactions which may cause a violation of

applicable wash sale rules. Additionally, while CSIM will monitor for wash sales within an SPI account, CSIM does not prevent wash sales in all cases, and as a result wash sales may occur from trading in multiple accounts held by a client, including multiple SPI accounts held by the same client.

Risk of Loss

There are inherent risks to investing in strategies managed by CSIM, including SPI. 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. 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

Investing in securities is subject to a number of risks, any of which could cause a client to lose money and clients should be prepared to bear the risk of such loss. Clients and prospective clients should be aware that investing in securities involves risk of loss that clients should be prepared to bear.

Index-Related Risk

The index providers do not provide any warranty as to the timeliness, accuracy or completeness of any data relating to any index utilized by SPI. Errors relating to the index, including index data, computations and/or construction, may occur from time to time and may not be identified by the index provider for a period of time or at all. Losses resulting from index errors may be borne by client accounts. In addition, market disruptions could cause delays in an index's rebalancing schedule which may result in the index and, in turn, a client account experiencing returns different than those that would have been achieved under a normal rebalancing schedule.

Tracking Error Risk

The SPI strategies seek to track the performance of the designated index by attempting to mimic the characteristics of the designated index, such as the designated index's exposure and risk characteristics, although they may not be successful in doing so. The divergence between the performance of a client's account and the designated index, positive or negative, is called "tracking error." Tracking error can be caused by many factors, such as restrictions imposed by a client on the types of securities held in the account: available loss harvesting opportunities, regulatory, operational, custodial or liquidity constraints; corporate transactions; asset valuations; transaction costs and timing; tax considerations; and index rebalancing. In addition, cash flows into and out of a client account, expenses and trading costs all affect the ability of a client account to track the performance of the index, because the index does not have to manage cash flows and does not incur any costs.

Optimization Tools Risks

There are limitations inherent in the use of an optimization methodology to manage SPI accounts relative to a designated index; for instance, the optimization tools are not designed to account for current market conditions and any short-term market fluctuations. The optimization tools are also not designed to consider certain factors such as individual tax circumstances; rather, its

functions consist of identifying opportunities for tax-loss harvesting and rebalancing relative to the client's designated index, and initiating buy/sell orders accordingly.

There is also a risk that the optimization tools and related software used for SPI accounts may not perform within intended parameters, which may result in a portfolio that does not mimic the characteristics of the designated index, and trigger or fail to initiate rebalancing and/or tax-loss harvesting trading.

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.

Liquidity Risks

Liquidity risk exists when particular investments may be difficult to purchase, sell or value, especially during stressed market conditions. The market for certain investments may become illiquid due to specific adverse changes in the conditions of a particular issuer or under adverse market or economic conditions independent of the issuer. In such cases, a client account with limitations on investments in illiquid securities and the difficulty in readily purchasing and selling such securities at favorable times or prices, may decline in value, experience lower returns and/or be unable to achieve its desired level of exposure to a certain issuer or sector. Further, transactions in illiquid securities may entail transaction costs that are higher than those for transactions in liquid securities. Liquidity risk also includes the risk that market conditions or large redemptions may impact the ability of a client account to meet redemption requests. In order to meet such redemption requests, a client account may be forced to sell securities at inopportune times or prices.

Frequent Trading Risk

CSIM's recommendations may result in frequent trading by SPI client accounts. To the extent CSIM engages in frequent trading, SPI client accounts portfolio turnover rate and transaction costs will rise, which may lower performance and may have tax consequences.

Large Investment Risks

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

Counterparty Risks

There may be a risk of an executing broker failing to deliver securities, especially if there is a large volume of step-out transactions with broker-dealers other than the program sponsor or client-selected broker-dealer/custodian. 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

SPI is not designed to address specific tax objectives. The potential federal income tax consequences of holding, buying, and selling securities are considered as part of the investment services, but CSIM does not consider state or local taxes; foreign taxes, including those applied to dividends and any potential reclaim; federal tax rules applicable to entities; or estate, gift, or generation-skipping taxes. CSIM can implement trades in accounts that may trigger significant tax consequences as they seek to manage the accounts consistently with strategy investment objectives, including, if required, to sell securities used to fund a client's account. CSIM cannot guarantee the effectiveness of its tax-efficient optimization methodologies in serving to reduce or minimize a client's overall tax liability. Additionally, while CSIM will monitor for wash sales within an SPI account, CSIM does not prevent wash sales in all cases, and as a result wash sales may occur from trading in multiple accounts held by a client, including multiple SPI accounts held by the same client. Furthermore, CSIM cannot prevent wash sales that may occur due to client requests that impact trading in a particular SPI account. CSIM considers the ability to harvest losses as part of its tax-efficient optimization methodologies employed for an SPI account. There is no guarantee that the tax-loss harvesting optimization used for SPI will reduce, defer or eliminate the tax liability generated by a client's investment portfolio in any given tax year.

Individual stock positions can experience price declines, possibly below a client's adjusted tax basis in the security (as determined by the tax basis information on record for the client's SPI account). In such instances, losses can be realized in the client's SPI account for tax purposes. In cases where a position is sold to realize a capital loss for tax purposes, the position usually will be replaced with investments CSIM believes will maintain consistent benchmark exposure. In harvesting tax losses, CSIM does not attempt to harvest every tax loss that occurs in the client's SPI account. Furthermore, each specific lot of securities in a client's SPI account—a block of shares bought at a particular time at a particular price—is reviewed and the potential federal income tax burden associated with selling that lot is weighed against the potential investment merits of the sale, such as performance potential, added diversification, and support of risk-management strategies. Once CSIM decides to sell an eligible security, it will attempt to sell the lot(s) that will generate the lowest overall federal income tax burden (or generate a loss for tax purposes) using the tax basis and holding period information on record.

When calculating after-tax returns, CSIM applies the highest U.S. federal tax rates. Applying the highest U.S. federal tax rate may cause the after-tax performance shown to be different than an investor's actual experience. There is a material risk that investors' actual tax rates, the presence of current or future capital loss carryforwards, and other investor tax circumstances may materially and negatively affect the investor's actual returns. Clients should consult a professional tax advisor for help with their unique situations.

Tax Loss Harvesting Risks

There are several investment-related risks associated with tax loss harvesting. There is potential that the tax loss harvesting may: (i) negatively affect the overall performance of a client's portfolio; and (ii) result in a temporary overweight and/or underweight of certain sectors, securities, and/or cash in a client's portfolio, and CSIM will not consider any other account that the client may have, including any other SPI account. CSIM may repurchase securities 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 SPI account to which the tax loss harvesting was applied. Furthermore, CSIM cannot prevent wash sales that may occur due to client requests that impact trading in the account.

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.

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

ESG Risk

Because the MSCI KLD 400 Social strategy utilizes an index that considers certain environmental, social and governance ("ESG") metrics, the strategy may perform differently than strategies that do not screen for ESG attributes. The strategy's use of an index that incorporates ESG considerations in the index construction process may exclude securities of certain issuers for non-investment reasons and therefore the strategy may forgo some market opportunities available to strategies that do not screen for ESG attributes. Additionally, the criteria used to select companies for inclusion in the index that the strategy utilizes may result in exposure to certain sectors and/or types of investments which may adversely impact the strategy's performance depending on whether such sectors or investments are in or out of favor in the market. In addition, there is a risk that the companies identified for inclusion in the index do not operate as expected when addressing ESG issues. ESG is not a uniformly defined characteristic and applying ESG criteria often involves a subjective assessment.

Operational Risks

Client accounts are subject to operational risks arising from various factors, including but not limited to, processing errors, communication failures, human errors, inadequate or failed internal or external processes, fraud by employees or other parties, limitations or failure in systems and technology, changes in personnel and errors caused by third-party service providers. Client accounts which are managed by investment personnel across multiple offices are subject to greater operational risks due to different systems and technology, potential communication failures and personnel changes. CSIM seeks to reduce these operational risks through controls and procedures believed to be reasonably designed to address these risks. However, these controls and procedures cannot address every possible risk and may not fully mitigate the risks that they are intended to address.

Equity Securities Investment Risks

Equity Risk

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

Market Capitalization Risk

Securities issued by companies of different market capitalizations tend to go in and out of favor based on market and economic conditions. In addition, there may be less trading volume in securities issued by mid- and small-cap companies than those issued by larger companies and, as a result, trading volatility may have a greater impact on the value of securities of mid- and small-cap companies. Securities issued by large-cap companies, on the other hand, may not be able to attain the high growth rates of some mid- and

small-cap companies. During a period when securities of a particular market capitalization fall behind other types of investments a client account's performance could be impacted.

Large-Cap Company Risk

Large-cap companies are generally more mature than smaller companies. They also may have fewer new market opportunities for their products or services, may focus resources on maintaining their market share, and may be unable to respond quickly to new competitive challenges. As a result, the securities issued by these companies may not be able to reach the same levels of growth as the securities issued by small- or mid-cap companies.

Mid-Cap Company Risk

Mid-cap companies may be more vulnerable to adverse business or economic events than larger, more established companies and their securities may be riskier than those issued by large-cap companies. The value of securities issued by mid-cap companies may be based in substantial part on future expectations rather than current achievements and their prices may move sharply, especially during market upturns and downturns.

Small-Cap Company Risk

Small-cap companies may be more vulnerable to adverse business or economic events than larger, more established companies and their securities may be riskier than those issued by larger companies. The value of securities issued by small-cap companies may be based in substantial part on future expectations rather than current achievements and their prices may move sharply, especially during market upturns and downturns. In addition, small-cap companies may have limited financial resources, management experience, product lines and markets, and their securities may trade less frequently and in more limited volumes than the securities of larger companies. Further, small-cap companies may have less publicly available information and such information may be inaccurate or incomplete.

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, Schwab 1000 Index Fund and the SPI Schwab 1000 Equity strategy 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 or CSIM 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 or CSIM, 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, accounts of clients that have a direct contractual relationship through an investment advisory agreement with CSIM 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 Individual Retirement Accounts ("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, SPI 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 brokers ("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, SPI 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, SPI 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 SPI. 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 relative to a benchmark and/or peer group, transaction fees, commissions, mark-ups and mark-downs, or brokerage fees ("Brokerage Fees"), promptness and reliability of execution related services, ability to execute trades in difficult market conditions, ability to source liquidity, willingness to use balance sheet, operational efficiency, 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 in 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 SPI 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.

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 SPI accounts, nearly all trades are aggregated as part of one or more blocks, but CSIM may also trade securities on an individual account basis. 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 will depend on a variety of factors and will be at the discretion of the Trading Group in seeking best execution.

When aggregating, CSIM may, consistent with its policies and procedures and fiduciary duties, include proprietary and/or employee accounts in an aggregated order. CSIM may exclude from aggregation those client accounts that have relevant restrictions or client activity (e.g., withdrawals pending). In addition, certain securities in client accounts may at times be executed through aggregation, but may not be aggregated at CSIM's discretion (e.g., individual bonds).

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 SPI, CSIM has the ability to place trades with selected broker-dealers other than the program sponsor. During the pilot launch, CSIM expects to place most trades with the program sponsor.

Program Fees – SPI

For Wrap Fee Program clients, the wrap fee does not cover Brokerage Fees charged by the step-out brokers, which are fees that are in addition to any 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 the wrap fee does not cover Brokerage Fees charged by other broker-dealers. For step-out trades, Brokerage Fees may be 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.

For the Managed Account Programs, the wrap fee covers commissions or other execution charges for equity trades routed by Schwab to other broker-dealers. However, the wrap fee does not cover commissions or execution charges that may be assessed for trades that CSIM places with a broker-dealer other than Schwab. Such commissions may be in addition to or included in the price you receive for your transactions, but in either case are in addition to, and will not reduce or offset, the wrap fee. Instead, they will

reduce the overall return of your account. Schwab incurs costs in processing trades that CSIM executes through other broker-dealers, which are covered by the wrap fee.

Because wrap fees cover execution through Schwab, CSIM may have an incentive to execute most transactions in equity securities through Schwab. CSIM has the ability to execute SPI trades for the Managed Account Programs clients through broker-dealers other than Schwab. During the pilot launch, CSIM expects to place most trades with the program sponsor.

Trade Rotation

CSIM has a trade rotation process that it uses among client accounts within a single strategy or across different strategies to prevent any client from being systematically disadvantaged. 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.

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

Client Referrals and Other Compensation

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

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, SPI, 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, SPI and Wasmer Schroder 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.

Custody

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

Investment Discretion

When clients choose SPI, 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.

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 (877) 824-5615.

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.

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.

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