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# Schwab Wealth Advisory, Inc. Disclosure Brochure

(formerly known as Schwab Private Client Investment Advisory, Inc.  
Disclosure Brochure)

Schwab Wealth Advisory, Inc.  
211 Main Street  
San Francisco, CA 94105  
Tel: 1-888-672-4922  
[www.schwab.com](http://www.schwab.com)

This brochure provides information about the qualifications and business practices of Schwab Wealth Advisory, Inc. ("SWAI"). If you have any questions about the contents of this brochure, please contact us at 1-888-672-4922. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. SWAI's description of itself in this brochure as a Registered Investment Adviser does not imply a certain level of skill or training on the part of SWAI or its representatives.

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

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## Advisory Business

Schwab Wealth Advisory, Inc. ("SWAI") (formerly known as Schwab Private Client Investment Advisory, Inc. ["SPCIA"]) is a wholly owned subsidiary of The Charles Schwab Corporation ("CSCorp"), a Delaware corporation that is publicly traded and listed on the NYSE (symbol: SCHW). SWAI has been registered as an investment adviser since January 1, 2012. This document contains important information about SWAI and how it is compensated for the investment advice provided to Schwab Wealth Advisory™ ("SWA") accounts. You should carefully consider this information in your evaluation of the SWA program and the advice you receive in the program.

SWAI provides non-discretionary portfolio management services for the SWA wrap fee program that is sponsored by its affiliate, Charles Schwab & Co., Inc. ("Schwab"). SWA combines non-discretionary investment advice based on your overall financial picture developed through analysis and discussion of various wealth management topics. SWAI provides periodic recommendations in your SWA account about how to allocate assets and which securities to buy, sell, and hold. You may indicate a preference to avoid investing in certain securities or types of securities but since SWA is a non-discretionary program, you decide whether to implement recommendations received through the SWA program. In addition, SWA includes trade execution, asset custody and other brokerage services for an asset-based fee.

Wealth Advisors, Associate Wealth Advisors, Portfolio Strategists in Fixed Income, Options Specialists and other representatives who provide investment advice to SWA accounts are employees of SWAI ("SWAI Representatives"). SWAI Representatives, in particular phone-based Wealth Advisors, provide periodic recommendations in SWA accounts about how to allocate assets and which securities to buy, sell and hold. Wealth Advisors are supported by an Associate Wealth Advisor who generally assists clients as they join the program, and with ongoing support related to planning and advice interactions. In addition, a team of Services Associates generally assists clients with service needs, such as requests to move money, orientations to Schwab.com, and answering general questions about Schwab services.

Neither SWAI, nor Schwab, nor any SWAI Representative exercises investment discretion or control of any kind over your accounts, and SWA does not include discretionary investment services or investment management of the enrolled accounts. This means that all trading decisions are made by you, and that you may decline to take SWAI's recommendations. You may place trades on your own without consulting your SWAI Representatives. You are responsible for monitoring your own accounts and determining when and if to buy, hold or sell securities based on changes in your circumstances, in your portfolio, and in the market. We will not stop or change any trade orders that you place on your own, nor will we actively monitor your trading in between portfolio reviews, or your use of margin, cash management, banking, bill pay, or other account features offered as a convenience to you in your enrolled accounts.

SWAI and Schwab do not act as investment managers within the meaning of the Employee Retirement Income Security Act ("ERISA") with respect to any individual retirement account ("IRA") or other retirement account that you enroll in SWA. Although SWAI will make investment recommendations, you are free to disregard those recommendations. You may place trade orders and invest on your own, choosing to follow SWAI's advice, your own views, or any other advice or information you receive from others. You are under no obligation to execute any buy or sell recommendations through Schwab.

If SWAI has been selected by you to provide investment advisory services for your IRA (as defined in 29 C.F.R. 2550.408g-1(c)(4), which, for example, includes Simplified Employee Pension IRAs and SIMPLE retirement accounts enrolled in SWA [collectively, "Retirement Accounts"]), SWAI will be providing these services as a fiduciary adviser, as defined in IRC section 4975(f)(8)(J)(i) and, to the extent applicable, as a fiduciary under ERISA. Through your enrollment of your Retirement Account in SWA, you will have expressly authorized the investment advice arrangement described in this document and as detailed in the "Fiduciary Advisor Disclosure" section.

This document contains important information about SWAI and how it is compensated for the investment advice provided to you if you have Retirement Accounts. In addition to the disclosures provided throughout this document, please refer to the "Fiduciary Advisor Disclosure" section for additional information relating to your Retirement Account.

In addition to providing investment advice, SWAI Representatives can work with clients to create a personalized wealth strategy. At SWAI's discretion, some clients might be offered a financial plan and guidance on various wealth management needs. This service relies on the information you provide about your circumstances and is typically provided at a point in time and does not involve ongoing monitoring. While the adviser provides guidance to clients on wealth management considerations, the advice is dependent on the client to provide updates that may require additional considerations and/or changes to the previously provided plan/analysis. Therefore, it is important for you to monitor your personal situation and current events, such as changes in tax laws and financial markets. SWAI does not provide legal or tax advice. You should consult with your tax advisor or CPA on all tax-related matters and with your attorney on all legal matters before taking any action. SWAI has no discretionary authority or responsibility with respect to your brokerage accounts discussed as part of the analysis. You should carefully consider all relevant factors before deciding how or whether to implement recommendations contained in your analysis or financial plan. You are not obligated to use SWAI or Schwab to implement your plan.

Schwab will periodically review SWA accounts to identify mutual fund shares that may be eligible for a tax-free exchange with a lower-cost share class of the same fund and may initiate such exchanges as detailed in the SWA agreement.

SWAI Representatives' investment advice is delivered in periodic conversations in which a client's financial situation and SWA accounts are reviewed, and investment recommendations are made. The compensation of SWAI Representatives does not vary based on the securities that are recommended to clients.

In addition to being employees and investment advisor representatives of SWAI, SWAI Representatives are also associated persons and registered broker-dealer representatives (though not employees) of Schwab in order to access Schwab order-entry and other systems in connection with the investment advice delivered to SWA accounts.

As of December 31, 2021, the assets enrolled in the SWA program amounted to approximately \$146,687,375,253. SWAI acts as a non-discretionary portfolio manager for these assets. SWAI does not manage any assets on a discretionary basis. More information about SWA is available in the SWA Disclosure Brochure provided to SWA clients.

## Fees and Compensation

The SWA fee is detailed in the SWA Disclosure Brochure, which includes additional information regarding fees and expenses that are or are not included in the program fee. Some of the fees that are not covered by the SWA fee include, but are not limited to, option trades, exchange fees, transfer taxes, and odd-lot differentials. A complete list of fees and charges that a client may incur are detailed in the SWA Disclosure Brochure.

Exchange-traded funds (“ETFs”) and mutual funds held in the SWA program 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 SWA fee. Clients pay the operating expense ratio of ETFs and mutual funds used in the program, which affects the performance of the accounts.

Pursuant to an agreement between SWAI and Schwab, Schwab pays SWAI a fee for the investment advice provided to SWA accounts equal to: (1) the costs and expenses incurred by SWAI in connection with SWA; plus (2) an additional amount of 10% of those costs and expenses.

Pursuant to an agreement between SWAI and Charles Schwab Trust Company (“CSTC”), CSTC also pays SWAI a designated recurring flat fee (which is subject to change upon written agreement) to provide sub-advisory services to CSTC. Specifically, upon CSTC’s request, SWAI provides non-discretionary investment recommendations to CSTC on securities held in trust accounts.

SWAI does not enter into agreements directly with SWA clients, Schwab clients, or CSTC clients and accordingly does not receive direct compensation from them or negotiate fees with them.

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

SWAI does not receive performance-based fees in connection with SWA.

## Types of Clients

SWA is available to individuals, trusts and estates, and corporations or other businesses in their eligible Schwab brokerage accounts. Eligible accounts include, but are not limited to, IRAs and retirement accounts for retirement plans that include self-employed individuals and their spouses. Other types of retirement plan accounts are excluded from SWA, as are offshore trust accounts, certain pledged asset accounts, charitable gift accounts, and state and municipal government entities. For a complete list of eligible accounts, please refer to the SWA Disclosure Brochure.

SWA is intended for clients who want a dedicated team to provide a non-discretionary, fee-based relationship in which SWAI provides periodic investment advice and portfolio planning in addition to the brokerage services provided by Schwab. SWA is not intended for clients who want or need someone else to manage their investments on a discretionary basis. It is generally not intended for day trading or highly active trading, or trading in mutual funds based on market timing. Another Schwab service may be more appropriate for investors who want a set mutual fund portfolio, money market funds, underwritten offerings (e.g., initial public offerings), or for investors with high cash balances or insufficient assets in their enrolled accounts. Clients may incur more costs by participating in the wrap fee program than if they received services provided in other areas at Schwab, such as a broker-dealer account. Schwab, as the sponsor of SWA, currently imposes an initial enrollment minimum of \$1 million. Schwab may reduce or waive this minimum in certain situations, including on the basis of individual negotiations or business considerations.

Portfolios with lower enrolled assets (e.g., due to withdrawals or enrollment in SWA during a time when a lower asset minimum was in place) may be allowed to remain enrolled in the program.

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

SWAI bases its non-discretionary investment advice on principles of asset allocation, risk tolerance and diversification, taking into account individual clients’ circumstances and needs. Recommended strategies may include a combination of long-term (in which securities are held for at least five years), intermediate-term (in which securities are held for three to five years), and short-term (in which securities are held for less than three years) strategies. Recommended investments may include, but are not limited to, individual equities, equity and fixed income mutual funds, ETFs, individual fixed income securities, options, and separately managed accounts. SWA-enrolled accounts will not purchase any securities during initial public offering periods.

As detailed in the SWA Disclosure Brochure, unless otherwise requested by the client, accounts enrolled in SWA will have their uninvested cash, or “free credit balances,” automatically swept into the Schwab Government Money Fund™ (SWGXX), a money market fund that may pay a higher yield than certain other cash sweep options, such as Schwab One® Interest and Bank Sweep. Please refer to the SWA Disclosure Brochure for additional information. Clients enrolled in the SWA International program should refer to the SWA International Disclosure Brochure.

Recommendations are subject to advice policies and guidelines adopted by SWAI. Schwab, relying upon research done both internally and by certain affiliates, provides substantial input into the advice policies and guidelines followed by SWAI Representatives. The research is based on quantitative, qualitative, technical, and fundamental analysis. This includes, for example, Schwab’s methods for evaluating and rating stocks, mutual funds, and ETFs. The analysis underlying the advice policies and guidelines and the evaluation and rating of various investments considers the evaluation of both risk and return and maintaining minimum levels of diversification. An SWAI committee reviews, approves, and amends the advice policies and guidelines that SWAI Representatives follow.

In addition, SWAI uses Schwab Equity Ratings® in making recommendations to buy or sell individual stocks. Schwab Equity Ratings is Schwab’s proprietary stock evaluation system and evaluates securities on the basis of multiple factors that currently fall into five categories: sentiment, valuation, growth, stability, and quality.

Consistent with the advice policies and guidelines, SWAI Representatives may supplement their advice with their own sources of information, which may include financial newspapers, periodicals and/or research reports prepared by third parties.

SWAI Representatives will not earn additional compensation when they recommend an affiliated security/product or one that compensates Schwab and its affiliates, but Schwab and other affiliates will. This additional compensation creates a conflict of interest. Please refer to the “Participation or Interest in Client Transactions” section of this document for important information on the compensation Schwab and its affiliates earn.

Investments in securities, including equities, mutual funds, ETFs, bonds, and other fixed income securities, involve various risks, including, but not limited to, those summarized below. As a client’s investment profile develops and changes over time, the client 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.

## **General Risks**

### **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.

### **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 will fluctuate, which means that an investor could lose money over short or long periods.

### **Geographic Concentration Risks**

Investments 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 (U.S.) will be more susceptible to the U.S.'s political and economic risk, as compared to a more globally diversified portfolio.

### **Custodian Risks**

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

### **Cybersecurity Risks**

Information security risks for financial institutions are increasing, in part because of the use of the internet and mobile technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, activists, hackers and other external parties, including foreign state actors. Our systems and those of other financial institutions have been and will continue to be the target of cyber-attacks, malicious code, computer viruses, ransomware, and denial of service attacks that could result in unauthorized access, misuse, loss or destruction of data (including confidential client information), account takeovers, and the unavailability of service or other events. We seek to reduce these risks through controls and procedures believed to be reasonably designed to address these risks. Despite our efforts to ensure the integrity of our systems, we may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, and security breaches could still occur that would halt or impair our ability to provide advisory services. System interruptions, errors or downtime can result from a variety of causes, including changes in client use patterns, technological failure, changes to our systems, linkages with third-party systems and power failures and can have a significant impact on our business and operations. It could take an extended period of time to restore full functionality to our technology or other operating systems in the event of an unforeseen occurrence, which could affect our ability to manage client assets and deliver advisory services. We will respond to breaches with appropriate resources in an effort to contain and remediate the cause of the breach and restore operations.

## **Tax Risks**

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

### **ETF Risks**

ETFs in which the strategy may invest involve certain inherent risks generally associated with investments in a portfolio of underlying securities, including the risk that the general level of underlying security prices may decline, thereby adversely affecting the value of each unit of the ETF. Moreover, an ETF may not fully replicate the performance of its benchmark index because of the temporary unavailability of certain securities in the secondary market or discrepancies between the ETF and the benchmark index with respect to the weighting of securities or the number of securities held. Investing in ETFs carries the risk of capital loss. ETFs are not guaranteed or insured by the FDIC or any other government agency. You can lose money investing in ETFs. ETFs in which the strategies invest have their own fees and expenses as set forth in the ETF prospectuses. These fees and expenses lower investment returns. Although ETFs themselves are generally classified as equities, the underlying holdings of ETFs can include a variety of asset classes, including, but not limited to, equities, bonds, foreign currencies, physical commodities, and derivatives. A full disclosure of the specific risks of ETFs is located in the respective prospectus of each fund. ETFs may have exposure to derivative instruments, such as futures contracts, forward contracts, options, and swaps. There is a risk that a derivative may not perform as expected. The main risk 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.

### **Active Semi-Transparent ETF Risks**

Active semi-transparent ETFs operate differently from other ETFs. Unlike other ETFs, an active semi-transparent ETF does not publicly disclose its entire portfolio composition each business day, which may affect the price at which shares of the ETF trade in the secondary market. Active semi-transparent ETFs have limited public trading history. There can be no assurance that an active trading market will develop, be maintained, or operate as intended. There is a risk that the market price of an active semi-transparent ETF may vary significantly from the ETF's net asset value and that its shares may trade at a wider bid/ask spread and, therefore, cost investors more to trade than shares of other ETFs. These risks are heightened during periods of market disruption or volatility.

**Schwab ETFs™ Risks**

Some of the ETFs managed by Charles Schwab Investment Management, Inc. ("CSIM") may have been recently launched. Accordingly, there is limited data available when assessing investment risk associated with some of these ETFs. As a result, one or more of the following may occur: (1) poor liquidity in or limited availability of the ETFs or (2) lack of market depth, causing the ETFs to trade at excessive premiums or discounts.

**Mutual Fund Risks**

Mutual fund managers may base investment decisions for funds on historical information. There is no guarantee that a strategy based on historical information will produce the desired results in the future. In addition, if market dynamics change, the effectiveness of that kind of strategy may be limited. Either of these risks may cause the investment strategy of a particular fund to underperform its benchmark or similar funds. Mutual funds in which the strategies invest have their own fees and expenses as set forth in the fund prospectuses. These fees and expenses lower investment returns. Mutual funds may have exposure to derivative instruments, such as futures contracts, forward contracts, options, and swaps. There is a risk that a derivative may not perform as expected. The main risk of derivatives is that some types of derivatives can amplify a gain or loss, potentially earning or losing substantially more money than the actual cost of the derivative, or that the counterparty may fail to honor its contract terms, causing a loss for the fund. Use of these instruments may also involve certain costs and risks, such as liquidity risk, interest rate risk, market risk, credit risk, management risk, and the risk that a fund could not close out a position when it would be most advantageous to do so. The value of mutual funds can be impacted by the movement of large positions in and out of a particular fund. Clients may collectively account for a large portion of the assets in certain mutual funds.

**Master Limited Partnership Risks**

Master Limited Partnerships ("MLPs") are limited partnerships that are publicly traded and have the tax benefits of a limited partnership. Investments in MLP securities (units) involve risks that differ from an investment in common stock. Holders of the units of MLPs have more limited control and limited rights to vote on matters affecting the partnership. For example, unit holders may not elect the general partner or the directors of the general partner, and they have limited ability to remove a MLP's general partner. MLPs may issue additional common units without unit holder approval, which would dilute existing unit holders. In addition, conflicts of interest may exist between common unit holders, subordinated unit holders, and the general partner of a MLP, including a conflict arising as a result of incentive distribution payments. As an income producing investment, MLPs could be affected by increases in interest rates and inflation. There are also certain tax and related risks associated with an investment in units of MLPs, including that MLPs may convert to a C-Corporation. This conversion could cause a cut in distributions as well as an adverse tax event for long-time owners of the MLP.

**Environmental, Social and Governance Strategy Risks**

Because environmental, social and governance ("ESG") strategies exclude some securities, ESG-focused products may not be able to take advantage of the same opportunities or market trends as products that do not use such strategies. Additionally, the criteria used to select companies for investment may result in investing in securities, industries, or sectors that underperform the market as a whole. ESG is not a uniformly defined characteristic, and applying ESG criteria involves a subjective assessment.

**Asset Allocation/Strategy/Diversification Risks**

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

**Liquidity Risks**

A particular investment, such as an alternative investment or thinly traded securities, may be difficult to purchase or sell or may become difficult to sell after being purchased. Clients may be unable to sell securities at an advantageous time and/or price due to then-existing trading market conditions.

**Equity Investment—Related Risks****General Risks**

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

**Schwab Equity Ratings® Risks**

Given that systematic stock evaluation approaches cannot capture all the dynamics that affect individual stock returns, Schwab Equity Ratings may not capture more subjective, qualitative influences on return and risk such as management changes and pending lawsuits. Furthermore, the ratings may not reflect the possible impact of late-breaking news. The quality of the ratings depends on the accuracy of financial data provided by third parties, including the companies rated through the approach, as well as the extent to which there is a correlation between the factors used by Schwab Equity Ratings with future returns on the individual stocks rated.

**Large- and Mid-Cap Risks**

Large- and/or mid-cap segments of the stock market (as well as mutual funds and ETFs that focus on these segments) bear the risk that these types of stocks tend to go in and out of favor based on market and economic conditions. However, stocks of mid-cap companies tend to be more volatile than those of large-cap companies because mid-cap companies tend to be more susceptible to adverse business or economic events than larger, more established companies. During a period when large- and mid-cap U.S. stocks fall behind other types of investments—bonds or small-cap stocks, for instance—the performance of investment strategies focused on large- and/or mid-cap stocks will lag the performance of these other investments.

**Small-Cap Risks**

Historically, small-cap stocks have been riskier than large- and mid-cap stocks. Stock prices of smaller companies may be based in substantial part on future expectations rather than current achievements and may move sharply, especially during market upturns and downturns. Small-cap companies themselves may be more vulnerable to adverse business or economic events than

larger, more established companies. During a period when small-cap and/or international stocks fall behind other types of investments—bonds or large-cap stocks, for instance—the performance of investment strategies focused on small-cap or international stocks (or mutual funds or ETFs investing in small-cap or international stocks) will lag the performance of these other investments.

### **Fixed Income Investment—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 security (along with mutual funds or ETFs invested in such securities) will fluctuate, which means that you could lose money.

#### **Interest Rate Risks**

When interest rates rise, bond prices usually fall, and with them the value of a mutual fund or ETF holding the bonds. A decline in interest rates generally raises bond prices, and with them potentially the value of a bond (along with mutual funds or ETFs invested in such securities), but could also hurt the investment performance by lowering its yield. The longer the duration of the bond, the more sensitive to interest rate movements its value is likely to be.

#### **Government Securities Risks**

Treasuries, like all bonds, are subject to interest rate risk. While treasuries are backed by the full faith and credit of the U.S. government, and the U.S. government has never defaulted on its debt, there is no guarantee that it will not do so in the future.

Many U.S. government securities are not backed by the full faith and credit of the U.S. government, which means they are neither issued nor guaranteed by the U.S. Treasury. Certain issuers of securities, such as the Federal Home Loan Banks (“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.

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

The value and performance of fixed income securities issued by a given state or geographic region (along with mutual funds or ETFs invested in such securities) 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, investments (along with mutual funds or ETFs invested in such securities) may be more sensitive to adverse economic, business or political developments if a substantial portion is invested in securities that are financing similar projects.

#### **Credit Risks**

A decline in the credit quality of a fixed income security, whether real or perceived, could cause the value of that security (or a mutual fund or ETF invested in the security) to fall if the issuer or guarantor fails, or it’s suspected that the issuer or guarantor will fail, to make a timely principal or interest payment or otherwise honor its obligations. The emphasis of a fixed income strategy on quality and preservation of capital also could cause a mutual fund or ETF to underperform certain other types of bond investments, particularly those that take greater maturity and credit risks.

### **High Yield Risks**

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

### **Certificate of Deposit Risks**

Certificates of Deposit (“CDs”) are issued by banks and subject to the credit risk of the bank. This risk is mitigated by the amount held that qualifies for Federal Deposit Insurance Corporation (“FDIC”) insurance. If CDs are sold in the secondary market, then they are subject to liquidity risk and interest risk, like any other bond.

### **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 investments (including ETFs or mutual funds investing in such securities) in companies tied economically to emerging countries, the economies of which tend to be more volatile than the economies of developed countries.

#### **Frontier Markets Risks**

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

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

Geopolitical events may adversely affect global economies and markets and thereby decrease the value of and/or the ease of trading those securities (including ETFs or mutual funds investing in such securities) 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 a strategy’s investments.

#### **Currency Risks**

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

### **Other Asset Class Investment—Related Risks**

#### **Commodities Risks**

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

#### **Real Estate Risks**

Real estate–related investments may be adversely affected by factors affecting the real estate industry, which may include changes in interest rates and social and economic trends. Real Estate Investment Trusts (“REITs”) may also be subject to the risk of fluctuations in income from underlying real estate assets, poor performance by the REITs’ 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, as amended.

#### **Options Risks**

Options carry a high level of risk and are not suitable for all investors. Certain requirements must be met to trade options through Schwab. Please read the options disclosure document titled “Characteristics and Risks of Standardized Options” by calling Schwab at 1-800-435-4000 for a current copy or by visiting [www.optionsclearing.com](http://www.optionsclearing.com). Supporting documentation for any claims or statistical data is available on request.

Covered calls provide downside protection only to the extent of premiums received, and prevent any profitability above the strike price of the call. Hedging and protective strategies generally involve additional costs and do not assure a profit or guarantee against loss. Please contact a tax advisor for the tax implications involved in these strategies. Multiple-leg option strategies will involve multiple commissions. Commissions, taxes and transactions costs should be considered.

#### **Disciplinary Information**

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

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

The potential conflicts created by the below arrangements, and the steps taken to address those conflicts, are described in “Participation or Interest in Client Transactions.” Please refer to the SWA Disclosure Brochure for additional detail on how Schwab earns compensation.

#### **CSCorp**

CSCorp provides services to retirement and other employee benefit plans and participants through its separate but affiliated companies and subsidiaries: Charles Schwab Trust Bank, Schwab, and Schwab Retirement Plan Services, Inc. Trust, custody and deposit products and services for retirement and employee benefit plans are available through Charles Schwab Trust Bank, Member FDIC. Brokerage products and services are offered by Charles Schwab & Co., Inc. (Member SIPC). Schwab Retirement Plan Services, Inc. provides recordkeeping and related services with respect to retirement plans. Charles Schwab Bank, SSB, and Charles Schwab Premier Bank, SSB (collectively, the “Affiliated Banks”) also offers deposit accounts and lending products to both Schwab brokerage clients and others who have no relationship with Schwab.

Schwab is a wholly owned subsidiary of CSCorp, a Delaware corporation that is publicly traded and listed on the NYSE (symbol: SCHW). In addition to being registered as an investment adviser under the Investment Advisers Act of 1940, as amended, Schwab is also registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory

Authority (“FINRA”) and SIPC. Schwab provides brokerage services to clients located throughout the United States and in some circumstances outside the United States. Incidental to its broker-dealer business, Schwab offers clients a variety of investment information services and products, including seminars, periodicals, reports, guides, planning tools, brochures and other publications about securities and investment techniques. Schwab also provides certain online data and financial reporting services. Schwab provides SWAI with human resources, legal, compliance, supervisory, operational and other administrative and technological support services.

In its role as sponsor of SWA, Schwab (SWAI’s affiliate) provides trade execution, asset custody and other brokerage services to SWA accounts. Please see the SWA Disclosure Brochure for more information on Schwab’s role in SWA.

In addition to the SWA investment advisory services, Schwab provides other investment advisory services. Schwab refers investors seeking assistance with managing their assets and/or other financial planning activities to third-party investment advisers through the Schwab Advisor Network®. Advisers participating in the Schwab Advisor Network are independent and not affiliated with Schwab. Investment advisers pay a fee to participate in the Schwab Advisor Network program. Schwab services also include sponsorship of Schwab Intelligent Portfolios Solutions™, Schwab Managed Portfolios™ and Managed Account Services™ as well as financial planning. A separate agreement and disclosure brochure are available for these other investment advisory services and would be provided to you at the time of referral or purchase.

SWAI Representatives may also periodically assist non-SWA Schwab brokerage clients with service requests during times of high market activity.

Other wholly owned subsidiaries of CSCorp are engaged in investment advisory, brokerage, trust, custody, or banking services. CSCorp has adopted policies and procedures reasonably designed to protect against the misuse of information, whether among CSCorp–affiliated entities or entities or individuals outside of CSCorp and its affiliates.

#### **Charles Schwab Futures and Forex LLC**

Charles Schwab Futures and Forex LLC is a CFTC-registered Futures Commission Merchant (“FCM”) and NFA Forex Dealer Member and offers futures and forex trading to qualified clients.

#### **CSTC**

Schwab Personal Trust Services are offered to individual investors through CSTC, a Nevada state–chartered retail trust company based in Henderson, Nevada.

#### **CSIM**

CSIM provides advisory and/or administrative services to certain affiliated mutual funds and exchange-traded funds marketed under the Schwab Funds® and Schwab ETFs™ names, which may be recommended to you as part of the SWA program. CSIM acts as investment manager for Schwab Managed Portfolios – Mutual Funds and Schwab Managed Portfolios – ETFs, and for Windhaven® Strategies, ThomasPartners® Strategies, Wasmer Schroeder™ Strategies, and USAA Managed Portfolios – UMP® in the Managed Account Connection® (“Connection”) program.

#### **TD Ameritrade Holding Corporation**

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



separate but affiliated companies and subsidiaries of TD Ameritrade Holding Corporation. TD Ameritrade, Inc. is a dual registered broker-dealer and investment adviser.

TD Ameritrade Clearing, Inc., an SEC-registered clearing broker-dealer, provides clearing and execution services for securities brokerage business. TD Ameritrade Investment Management, LLC is a Registered Investment Adviser. TD Ameritrade Trust Company, a non-depository trust company, provides custody, directed trustee, recordkeeping, plan design support, and plan administration for TD Ameritrade Retirement Plan. TD Ameritrade Singapore Pte. Ltd. and TD Ameritrade Hong Kong Ltd. enable retail investors in Singapore and Hong Kong to trade the U.S. markets. Clients can trade stocks, ETFs, options, futures, and options on futures using the thinkorswim® trading platform.

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

### **Code of Ethics**

SWAI has adopted a code of ethics policy (the “Code”) pursuant to SEC Rule 204A-1 under the Investment Advisers Act of 1940. The Code reflects the fiduciary principles that govern the conduct of SWAI and its Representatives—such as when we make recommendations to SWA accounts. The Code requires that SWAI Representatives comply with applicable federal securities laws and report violations of the Code. All SWAI Representatives are deemed “access persons” by virtue of providing investment advice or having access to certain related information. Therefore, they must report periodically their personal transactions and holdings in certain securities. SWAI Representatives are also prohibited from engaging in deceptive conduct in connection with the purchase or sale of securities for client accounts. The Code is subject to change as necessary to remain current with regulatory requirements and internal business policies and procedures. A copy of the Code is available upon request.

You can get a copy of the Code by asking your SWAI Representatives or calling SWAI at 1-888-672-4922.

### **Gifts and Business Entertainment**

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

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

The Code prohibits SWAI Representatives from disclosing confidential and material non-public information to anyone outside of SWAI, 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.

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

SWAI's affiliate, Schwab, sponsors SWA and receives compensation from certain mutual funds, fixed income securities, and other investments held in SWA accounts. This compensation is in addition to the explicit asset-based fee that SWA clients pay to Schwab. As disclosed under the Fees and Compensation section of this document, SWAI is paid by Schwab and its affiliates for its services. The compensation of SWAI Representatives does not vary based on the securities that are recommended to clients, nor do they receive compensation for any referrals. Schwab and its affiliates (with the exception of SWAI) earn money or receive benefits in other ways when executing or effecting recommendations that you may choose to implement as a result of advice you receive in SWA. This compensation is in addition to the SWA fee and creates a potential conflict of interest. In some cases, compensation is paid to Schwab by a third party, and these fees may be ultimately borne by you as a shareholder or investor.

When an SWAI Representative recommends/refers one of the following securities or products, Schwab and its affiliates receive compensation. SWAI Representatives will not earn additional compensation when they recommend an affiliated security/product or one that compensates Schwab affiliates, but Schwab and other affiliates will. This additional compensation creates a conflict of interest.

Schwab addresses these conflicts in a variety of ways, including monitoring for compliance with the Code and establishing security- and product-specific advice policies and guidelines that SWAI Representatives must follow when making recommendations. Recommendations made by SWAI Representatives, including recommendations to enroll in SWA and to buy or sell securities within SWA, are supervised by SWAI Representatives' direct managers and by a Central Supervision Team for compliance with Schwab's advice policies and guidelines. Supervisors who oversee SWAI Representatives review a variety of factors generally once per quarter, including, but not limited to, client appropriateness, asset allocation data and internal notes to verify that both the SWA program itself and the security recommendations made within the program are suitable. Daily supervisory functions, including review of trading activity, portfolio construction, verbal, written and electronic client correspondence, product sales and referrals are conducted by a Central Supervision Team.

### **Broker-Dealer Order Routing and Execution**

In arranging for the execution of orders for equities and listed options, Schwab seeks out industry-leading execution services and access to the best-performing markets. Schwab routes orders for execution to unaffiliated broker-dealers, who may act as market maker or manage execution of the orders in other market venues, and also routes orders directly to major exchanges.

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

Schwab receives remuneration, such as liquidity or order flow rebates, from market venues to which orders are routed, and also pays fees for execution of certain orders. Quarterly information regarding the market venues to which we route orders and remuneration received is available on our website at [schwab.com/legal/order-routing-1](http://schwab.com/legal/order-routing-1) or in written form upon request.

Schwab executes fixed income orders for SWA customers as agent. In the bond market, there is no centralized exchange or quotation service for most fixed income products. Prices generally reflect activity by market participants or dealers linked to various trading systems. A small number of corporate bonds are listed on national exchanges. Although Schwab seeks access to major trading systems, exchanges, and dealer markets in an effort to obtain competitive pricing, at any given time it is possible that securities could be available through other trading systems, exchanges, or dealers at superior or inferior prices compared to those available at Schwab. All prices are subject to change without prior notice.

## Mutual Funds

When clients invest in a mutual fund in a Schwab account, Schwab receives compensation from certain mutual fund companies for the recordkeeping, shareholder services and other administrative services that Schwab provides to shareholders of the funds. These shareholder services include transaction processing, settlement of trades, dividend distribution, record maintenance, and distribution of statements, confirmations, prospectuses, and other regulatory shareholder documents. To the extent that any part of the fees described below are paid out of fund assets, those amounts are included in the fund's operating expense ratio ("OER"), which means they are indirectly borne by the fund's shareholders. Certain funds sponsors or their affiliates, such as fund advisors, pay a flat fee to compensate Schwab for activities related to Schwab's sponsorship of its Mutual Fund Marketplace® platform. These payments are separate from and in addition to the fees specific to a particular share class that are described below. These flat fees can be based on any number of factors, such as the level of assets, purchases over a period, net flows, or other qualitative factors such as Schwab and the fund's mutual assessment of the quality of the relationship. This flat fee is paid to Schwab in addition to the asset-based fee discussed below. This flat fee is generally paid by the fund advisor or another fund affiliate out of its own resources, and not directly out of fund assets. Mutual fund companies are segmented into relationship tiers based on a combination of their fund assets held at Schwab and the asset-based and flat fee paid to Schwab. This tiered structure may lead to conflicts, as fund companies that are in the top tiers will have greater access to Schwab representatives and advisors that custody their clients' assets at Schwab. However, these tiers will not impact or influence selection of any fund on the Mutual Fund Select List® or other tools and lists prepared by Schwab.

## Schwab's Strategic Provider Relationship

Schwab entered into a long-term strategic relationship with T. Rowe Price. Under this arrangement, T. Rowe Price makes payments to Schwab in exchange for Schwab promoting certain actively managed T. Rowe Price funds to Schwab's clients, and for providing additional marketing support to T. Rowe Price. This payment will be significant and will increase over each year of the relationship if Schwab is successful in promoting T. Rowe Price funds, depending upon asset growth in the T. Rowe Price Funds at Schwab. Schwab expects to receive payments from T. Rowe Price during the first year of the arrangement of between \$8 and \$10 million, but this payment may be higher or lower depending on growth of T. Rowe Price assets at Schwab. This strategic relationship payment is in addition to and separate from payments T. Rowe Price makes to Schwab for shareholder and administrative services.

Because the terms of the arrangement provide a considerable financial benefit to Schwab, this arrangement creates conflicts of interest as T. Rowe Price will have greater access to Schwab representatives and advisors that custody their clients' assets at Schwab, and Schwab will promote T. Rowe Price funds to our clients on Schwab.com and other digital properties. Clients may be more likely to select, and Schwab representatives or advisors that custody their clients' assets at Schwab may be more likely to recommend, funds that are familiar to them. The Strategic Provider Program will not impact selection of any fund on the Mutual Fund OneSource® Select List or other tools and lists prepared by Schwab. In addition, the compensation received by Schwab representatives will not differ based on whether the fund is from a Schwab affiliate, third-party, or strategic provider.

## Schwab Mutual Fund OneSource Service and Other No-Transaction-Fee Funds

Through Schwab Mutual Fund OneSource, Schwab offers a selection of no-load and load-waived mutual funds. Schwab receives

remuneration for the shareholder services provided to these funds and other no-transaction-fee funds it makes available (collectively, "NTF Funds"). To compensate Schwab for various shareholder services, NTF Funds pay Schwab an asset-based annual fee, which usually equals 0.40% of the average fund assets held at Schwab but may be as high as 0.45%. The fee may be subject to a monthly minimum that generally does not exceed \$2,000 and applies starting with the first or seventh full month, depending on when the fund family was added to the platform, after the fund is made available for purchase at Schwab and only if the asset-based fee calculated for the month is less than the minimum monthly fee. When adding a new fund to Schwab's NTF platform, NTF Funds also pay Schwab a one-time establishment fee. The amount of this fee generally does not exceed \$25,000 for the first fund added and \$3,000 for each additional fund within a fund family after that.

Certain institutional share classes pay an asset-based fee ranging from 0.12% to 0.19% per year on shares made available with no transaction fee ("Institutional NTF" or "INTF") that are held by clients of investment advisers and other institutional investors. Fees on new assets range from 0.15% to 0.19% per year, while fees on existing assets in institutional share classes that are converted from transaction fee to INTF pay a fee of 0.12% per year. At a rate of 0.19%, the fund or fund service provider pays Schwab \$19 for each \$10,000 in fund assets for the shareholder services provided by Schwab. Schwab makes more on institutional share classes that participate in INTF than it would if the share class were made available with a transaction fee.

Schwab, as a broker-dealer, has set the initial investment minimum for NTF Funds and Fee Funds (defined below) in the SWA program at \$1. The fund investment minimums applicable to purchases in SWA accounts may differ from the fund investment minimums in Schwab brokerage accounts not enrolled in SWA. Fund companies may request a higher initial investment minimum, in which case that higher minimum will apply to initial purchases in SWA accounts. This means that for the first purchase of a NTF or Fee Fund in an SWA account, the investment minimum will be the higher of either \$1 or the fund company-imposed investment minimum, if any. Keep in mind that there are no transaction fee charges on any funds purchased in SWA accounts. A transaction fee is defined as a trade fee that a brokerage company may charge to purchase or sell a mutual fund. While there are no transaction fees, clients are subject to additional fees as disclosed in the SWA client agreement. However, based on its shareholder servicing arrangements with fund companies, Schwab receives greater compensation from NTF Fund share classes than it receives from comparable investments made in the Fee Fund category.

## Mutual Fund Recommendations

Recommendations by SWAI Representatives to purchase or sell mutual fund shares are subject to Schwab's mutual funds advice policies and guidelines, which state that "buy" recommendations are restricted to funds on one of Schwab's recommendable lists of funds. Although Schwab does not explicitly consider compensation in the selection of funds for any recommendable list, by design, the majority of mutual funds on the recommendable lists are no-load, no-transaction-fee funds that are part of the Schwab Mutual Fund OneSource service, with some prominence given to Schwab Funds®. Schwab and its affiliates generally earn more money when clients purchase and hold funds that participate in the Mutual Fund OneSource service and Schwab Funds.

## Transaction-Fee Funds ("Fee Funds")

Schwab charges a transaction fee (which is waived in SWA accounts) for the purchase or sale of certain funds that are not included in the Schwab Mutual Fund OneSource service or not otherwise included as part of the other NTF Funds described

above. Most Fee Funds pay Schwab a low, annual asset-based fee, typically 0.10% annually of the average fund assets held at Schwab, although the fee can range up to 0.25% annually. At this standard rate of 0.10%, the fund or fund service provider pays Schwab \$10 each year for each \$10,000 in fund assets held by an investor for the shareholder services provided by Schwab. In some cases, Schwab applies a minimum monthly fee of \$1,000 per month per Fee Fund, depending on when the fund family was added to the platform. This minimum monthly fee is applied starting with the first full month after the fund is made available for purchase at Schwab and only if the asset-based fee calculated for the month is less than the minimum monthly fee. Some Fee Funds pay Schwab a set dollar amount per customer account in lieu of the low asset-based fee, typically \$20 per account, but which can range up to \$25 per account annually (a "per-position fee"). When adding a new fund to Schwab's platform, Fee Funds also pay Schwab a one-time establishment fee. The amount of this fee generally does not exceed \$25,000 for the first fund added and \$5,000 for each additional fund within a fund family after that.

### **ETFs**

Third-party ETF sponsors or their affiliates may make payments to Schwab for ETF-related opportunities, such as education and events and reporting. Schwab does not receive payment to promote any particular third-party ETF to its customers. Schwab receives remuneration from third-party active semi-transparent (also known as non-transparent) ETFs or their sponsors for platform support and technology, shareholder communications, reporting, and similar administrative services for third-party active semi-transparent ETFs available at Schwab. This fee will vary, but typically is an asset-based fee of 0.10% per annum of the assets held at Schwab. Neither Schwab's affiliate CSIM nor Schwab active semi-transparent ETFs pay a separate fee to Schwab for these services described, although CSIM reimburses Schwab, in its capacity as an affiliated financial intermediary of CSIM's, for Schwab's costs in providing certain professional, administrative, and support services for the Schwab ETFs™. Schwab's affiliate, CSIM, serves as investment adviser to Schwab ETFs, and receives a fee for its services from the Schwab ETFs.

### **Schwab Funds®**

Schwab currently has one affiliated mutual fund family, Schwab Funds. Schwab's affiliate, CSIM, serves as investment adviser and/or administrator to the Schwab Funds. These Schwab Funds pay CSIM a fee for investment advisory and/or administrative services, the amount of which is described in the funds' prospectuses. All Schwab Funds are part of Schwab's Mutual Fund OneSource® service. Consequently, like unaffiliated Mutual Fund OneSource and NTF mutual funds, certain of the Schwab Funds pay Schwab an asset-based fee for the shareholder services that Schwab provides. Some Schwab Funds have adopted a shareholder servicing plan pursuant to which they may pay fees to Schwab for shareholder services ranging up to 0.25% annually. Pursuant to its shareholder servicing plan, the Schwab Government Money Fund™ may pay Schwab up to an additional 0.10% annually for sweep administrative services that Schwab provides to shareholders invested in sweep shares of the Schwab Government Money Fund. The Schwab Target Funds, Schwab Target Index Funds, Schwab Balanced Fund™, Schwab® Monthly Income Funds, Schwab Equity Index Funds, and Schwab Bond Index Funds do not make any payments to Schwab under a shareholder servicing plan. Many of the Schwab Funds have adopted a unitary fee structure under which a single fee is paid to CSIM, and out of which CSIM pays for certain services provided to the funds; CSIM and its affiliates are entitled to retain any portion of this fee not paid out to a service provider. In aggregate, the fees Schwab receives from Schwab Funds are greater than the compensation Schwab receives from

unaffiliated fund companies participating in the Schwab Mutual Fund OneSource service. When an SWAI Representative recommends a client to affiliated funds, this represents a conflict of interest, as Schwab earns additional compensation if clients purchase and hold affiliated funds.

### **Separately Managed Accounts**

SWAI Representatives can recommend separately managed accounts ("SMAs") to clients including those that are sponsored and/or serviced by Schwab and its affiliates. Schwab and its affiliates earn additional compensation when a client purchases and holds these affiliated SMAs.

### **Referrals by SWAI Representatives**

Although an SWAI Representative may not recommend the following securities or products, they may refer a client to the appropriate party for additional information. While SWAI Representatives will not receive any compensation for these referrals, a conflict of interest is created because Schwab earns additional compensation if clients purchase and hold the security or product. Please refer to the SWA Disclosure Brochure for additional information.

### **Affiliated Banks**

SWA clients may be introduced to certain Affiliated Bank deposit and lending products by SWAI Representatives. Schwab and its affiliates earn additional compensation if clients purchase and hold these deposit and lending products.

### **Schwab 529 Education Savings Plan and Learning Quest® Education Savings Program**

The Schwab 529 Education Savings Plan and Schwab Learning Quest Education Savings Program are education investment programs administered by the State of Kansas pursuant to Section 529 of the Internal Revenue Code. These plans are managed by American Century Investment Management, Inc. ("American Century"). The portfolios available for purchase in the Schwab 529 Plan include American Century, other third-party funds, and Schwab Funds. Schwab receives a fee from American Century for providing services, including customer support and processing of account opening and maintenance requests, to Schwab clients invested in the Schwab 529 Plan. For the portfolios comprised of actively managed funds, this fee is based on total assets held in the Schwab 529 Plan, other than Schwab Funds, less a program cost allocation retained by American Century. Schwab receives no service fee from American Century for assets held in portfolios composed of index or passively managed funds. The Learning Quest program is no longer available for purchase at Schwab, but Schwab receives a fee from American Century for providing services to Schwab clients invested in Learning Quest, including customer support and processing of account opening and maintenance requests. This fee is based on the total assets held by Schwab clients in the Schwab Learning Quest plan and the average account size.

### **Annuities**

Schwab has annuity selling agreements in place with several insurance companies, which pay Schwab a commission for serving as the sales agent and for servicing the annuity contracts. The compensation paid to Schwab varies based upon the insurer and the type of annuity contract sold. Schwab's compensation is based on a percentage of premiums paid by the client or on a percentage of the client's account value. Compensation to Schwab is generally made in the form of an upfront payment only or an upfront payment followed by a "trail commission" which is paid to Schwab for a certain period of time. Although compensation varies significantly among the insurers and the types of annuities, the maximum upfront commission paid to Schwab is 5.50% and the maximum "trail commission" is 1.00%.

For variable annuities, Schwab's compensation generally consists of an annualized commission, which is calculated and paid monthly or quarterly based on the average asset value of the annuity contracts. The maximum annualized variable annuity commission paid to Schwab is 0.50%. As an alternative to commission, at least one company currently compensates Schwab for marketing services. To the extent variable annuity assets are invested in a variable subaccount managed by CSIM, as adviser to the Schwab Funds® and Schwab ETFs™ and an affiliate of Schwab, Schwab and its affiliates earn additional compensation. These Schwab Funds and Schwab ETFs pay CSIM a fee for investment advisory and/or administrative services, the amount of which is described in the funds' prospectuses.

#### **Life Insurance, Disability Insurance and Long-Term Care Insurance**

Schwab has entered into marketing agreements with a managing general agency ("agency") to offer life insurance (term and permanent), disability insurance, and long-term care insurance to Schwab clients. The agency has selling agreements in place with multiple insurance companies. The insurance companies pay commissions directly to the agency. The agency typically pays Schwab a referral fee of 50% of the first year and renewal commissions paid to the agency, net of all chargebacks.

#### **Personal Trading**

Schwab monitors the personal securities holdings and trading of SWAI Representatives. SWAI reviews such accounts custodied at Schwab and applicable accounts custodied at other firms.

The surveillance program monitors holdings and trades against the Code, the Compliance Manual, and other applicable policies. Additionally, SWAI Representatives must disclose all securities accounts they own or control after their hire date and review and confirm the accuracy of those accounts on an annual basis during their employment.

SWAI Representatives are prohibited from engaging in activities that violate federal or state securities laws, or rules and regulations of the exchanges or regulatory agencies. These prohibitions include: rules against front running customer orders (i.e., if an SWAI Representative were to buy or sell a security to possibly capitalize on advance knowledge of an imminent customer transaction that is expected to influence the market price, or were to pass such information to others for that purpose); so-called "shadowing" (i.e., to misuse confidential customer trade information for possible personal benefit); and purchasing shares in initial public offerings.

#### **Brokerage Practices**

Clients with accounts enrolled in SWA agree in writing with Schwab that all brokerage transactions for equity securities will be executed by Schwab, which may not always obtain as favorable a price as another broker or dealer could obtain, depending on the circumstances. Fixed income transactions are executed on an agency basis. Schwab will not charge a mark-up, mark-down, or commission to execute fixed income transactions in your SWA account.

#### **Review of Accounts**

SWAI Representatives review SWA accounts periodically during the year in preparation for and as part of conversations with clients. As part of these reviews, SWAI Representatives evaluate the composition and performance of SWA accounts in light of clients' financial goals, risk tolerance and individual circumstances.

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

As explained in "Fees and Compensation," Schwab compensates SWAI for providing non-discretionary portfolio management

services to SWA accounts. SWAI does not compensate any party for referrals of SWA clients. Schwab compensates certain parties for client referrals into the SWA program. Please refer to the SWA Disclosure Brochure for details on those arrangements.

#### **Investment Discretion**

SWAI does not have or exercise discretionary authority to manage accounts enrolled in SWA.

#### **Voting Client Securities**

SWAI has no discretionary authority over SWA accounts and does not vote client securities in SWA accounts. You will receive your proxies and other solicitation information directly from Schwab, in its capacity as custodian. If you have questions about a particular solicitation, please contact Schwab at 1-800-435-4000.

#### **Custody**

Schwab has custody of client assets in SWA accounts and, at least quarterly, sends SWA clients account statements detailing account positions and activities during the preceding period. Account statements include a summary of all transactions made on behalf of the account, all deposits and withdrawals made to or from the account, all fees and expenses charged to the account, and the value of the account at the beginning and end of the period. You should review these statements carefully.

#### **Financial Information**

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

#### **Fiduciary Advisor Disclosure**

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

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

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

SWAI is not compensated directly by you for the advice it provides. SWAI receives a fee from Schwab for the investment advice provided to SWA accounts equal to: (1) the costs and expenses incurred by SWAI in connection with SWA; plus (2) an additional amount of 10% of those costs and expenses. Schwab also provides SWAI with human resources, legal, compliance, supervisory, operational and other administrative and technological support services. SWAI is not compensated based on the particular investments recommended or held in Retirement Accounts. SWAI's affiliate, Schwab, is compensated by you for the broker-dealer services it provides in SWA. This asset-based fee is known as the "SWA Fee" and, effective October 1, 2018, begins at 0.80% of assets (adjusting downward depending on assets in your enrolled accounts), subject to certain exceptions, as detailed in the SWA Disclosure Brochure provided to SWA clients.

SWAI's affiliate, Schwab, also will be providing other services in SWA for which it will be compensated. These services include: (1) trade execution, asset custody and other broker-dealer services in SWA (collectively, "Broker-Dealer Services"); and (2) recordkeeping, shareholder services and other administrative services that Schwab provides to shareholders of affiliated and third-party mutual funds available to Retirement Accounts (collectively, "Shareholder Services").

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

When SWAI recommends that you invest your Retirement Account assets in options and you follow that advice, Schwab will receive compensation from you in the form of a trade commission that is not covered by the SWA Fee. The amount that will be paid by you is \$0.65 per contract. More information concerning option trading commissions is available in the *Charles Schwab Pricing Guide for Individual Investors*, available online at [www.schwab.com/pricing](http://www.schwab.com/pricing). This information should be reviewed carefully before you make an investment decision.

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

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

Disclosure Brochure. This information should be reviewed carefully before you make an investment decision.

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

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

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

When SWAI recommends that you enroll your Retirement Account in a Schwab-sponsored advisory program other than SWA, and you follow that advice, Schwab will receive compensation from the explicit asset-based fee that you pay in connection with that program and may also, along with CSIM potentially, receive the types of compensation described above from the underlying assets held in your Retirement Account.

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

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

The fees and other compensation that Schwab and other SWAI affiliates receive as a result of assets held in SWA Retirement Accounts are a significant source of revenue for these affiliates. You should carefully consider the impact of any such fees and compensation in your evaluation of the investment advice that SWAI provides. Consider that you may arrange for the provision of advice by another advisor that may have no material affiliation with or receive no compensation in connection with the investments recommended by SWAI.

### **Investment Returns**

While understanding investment-related fees and expenses is important in making informed investment decisions, it is also important to consider additional information about your investment options, such as performance, investment strategies and risks.

Specific information related to the past performance and historical rates of return of SWA accounts has not been provided to you due to the fact that: (1) SWA is a non-discretionary investment advisory service in which clients can reject SWAI's recommendations or place trades on their own without SWAI's input; and (2) investment advice in SWA accounts does not consist of fixed portfolios or allocations, but is particular, within the limits set by SWAI's advice policies and guidelines, to the needs and circumstances of individual SWA clients. You can find information on the past and current performance of your Retirement Account by referring to your Schwab Performance Report.

For investments with returns that vary over time, past performance does not guarantee how your investment in the same or similar investment will perform in the future; your investment could lose money.

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

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

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

#### **Use of Personal Information**

SWAI will request from you information relating to age, time horizons, risk tolerance, current investments, other assets or sources

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

#### **Independent Audit of Advice Arrangement**

SWAI's advice arrangement for Retirement Accounts is audited annually by an independent auditor for compliance with the requirements of the exemptions and related regulations relied on by SWAI. The auditor furnishes SWAI with a copy of the auditor's findings within 60 days of its completion of the audit. Within 30 days of the completion of the auditor's written report, SWAI will furnish you with a copy of the auditor's report or make the auditor's report available to you on Schwab's website. Please go to [www.schwab.com/auditreportswai](http://www.schwab.com/auditreportswai) for instructions on how to access the auditor's report.

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

