



September 30, 2022

# Schwab Wealth Advisory™ Disclosure Brochure

Charles Schwab & Co., Inc. Disclosure Brochure for the Schwab Wealth Advisory Wrap Fee Program (formerly known as the Schwab Private Client™ Wrap Fee Program)

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

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

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

# Contents

|   |    |
|---|----|
| <b>Services, Fees and Compensation</b> . . . . .  | 1  |
| Services . . . . .  | 1  |
| Fees . . . . .  | 2  |
| Compensation . . . . .  | 4  |
| <b>Account Requirements and Types of Clients</b> . . . . .                                      | 4  |
| <b>Portfolio Manager Selection and Evaluation</b> . . . . .                                     | 4  |
| <b>Client Information Provided to Portfolio Managers</b> . . . . .                              | 4  |
| <b>Client Contact With Portfolio Managers</b> . . . . .   | 4  |
| <b>Additional Information</b> . . . . .   | 5  |
| Advisory Business . . . . .   | 5  |
| Performance-Based Fees and Side-by-Side Management . . . . .                                    | 5  |
| Methods of Analysis, Investment Strategies and Risk of Loss . . . . .                           | 5  |
| Cybersecurity Risk . . . . .  | 5  |
| Disciplinary Information . . . . .  | 6  |
| Other Financial Industry Activities and Affiliations . . . . .                                  | 7  |
| Code of Ethics, Participation or Interest in Client Transactions and Personal Trading . . . . . | 8  |
| Code of Ethics . . . . .  | 8  |
| Participation or Interest in Client Transactions . . . . .                                      | 8  |
| Broker-Dealer Order Routing and Execution . . . . .   | 8  |
| Mutual Funds . . . . .  | 9  |
| Strategic Provider Relationship . . . . .   | 9  |
| Schwab Mutual Fund OneSource® Service and Other<br>No-Transaction-Fee Funds . . . . .           | 9  |
| Transaction-Fee Funds (“Fee Funds”) . . . . .   | 9  |
| Schwab Affiliate Funds . . . . .  | 10 |
| Sponsorship and Educational Opportunities . . . . .   | 10 |
| Mutual Fund Recommendations . . . . .   | 10 |
| Exchange-Traded Funds (“ETFs”) . . . . .  | 10 |
| Schwab 529 Education Savings Plan and Learning Quest® Education Savings Program . . . . .       | 10 |
| Annuities . . . . .   | 10 |
| Life Insurance, Disability Insurance and Long-Term Care Insurance . . . . .                     | 11 |
| Personal Trading . . . . .  | 11 |
| Review of Accounts . . . . .  | 11 |
| Client Referrals and Other Compensation . . . . .   | 11 |
| Voting Client Securities . . . . .  | 11 |
| Financial Information . . . . .   | 11 |

## Services, Fees and Compensation

This brochure describes the following wrap fee program sponsored by Charles Schwab & Co., Inc. ("Schwab"): Schwab Wealth Advisory™ ("SWA") (formerly known as Schwab Private Client™ ["SPC"]). Schwab also sponsors other wrap fee programs, for which you can request a copy of their respective brochures.

### Services

SWA is a fee-based program that offers periodic non-discretionary investment advice based on your overall financial picture developed through analysis and discussion of various wealth management topics, financial planning, trade execution, asset custody, and other brokerage services. These services are delivered by a team of investment professionals and are available to all Schwab accounts that you enroll in SWA as part of a single portfolio—that is, a group of accounts whose assets are considered together for advice-giving and fee-calculation purposes (each a "Portfolio").

During your enrollment in SWA, we will periodically meet with you in person, via video conference, or by phone to review your financial situation and your Portfolio. Your initial review will typically cover a summary of your financial situation as well as an action plan listing our specific recommendations for your accounts. Subsequent reviews may refer to a previous summary rather than a newly created summary, depending on your individual circumstances.

Your SWA representatives include a Financial Consultant who is generally responsible for establishing and maintaining client relationships and a Wealth Advisor who is generally responsible for making buy and sell recommendations. 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 Service Associates generally assists clients with service needs, such as requests to move money, orientations to Schwab.com, and answering general questions about Schwab services. We refer to these representatives as your "SWA Representatives." The composition of the team working with you, and the exact role played by any member, may change over time depending on Schwab's practice model or your needs and preferences.

The provision of non-discretionary investment advice within SWA, including but not limited to recommendations about how to allocate assets and whether to buy, sell or hold particular securities in accounts enrolled in SWA, is delivered exclusively by Schwab Wealth Advisory, Inc. ("SWAI"), an affiliate of Schwab and a Registered Investment Adviser. Wealth Advisors, Associate Wealth Advisors, Income and Hedging Team members, including Portfolio Strategists in Fixed Income, and other SWA Representatives who provide investment advice to SWA accounts are employees of SWAI (collectively, "SWAI Representatives"). If you require additional or more specialized financial planning assistance beyond the SWA program, your SWA Representative may refer you to a Schwab financial planning specialist outside of the SWA program at no additional cost.

Schwab acts solely as the sponsor of SWA and as a broker-dealer and custodian with respect to assets and transactions in the accounts enrolled in SWA. SWAI acts as the investment adviser on accounts enrolled in SWA pursuant to an agreement with Schwab. For more information about the role of SWAI and SWAI Representatives, please see the SWAI Disclosure Brochure.

To help you keep your Portfolio aligned with your goals, quarterly reporting will be made available. These updates include a range of recent account activity, portfolio analysis and investment performance information for your SWA-enrolled accounts.

Acting as a broker-dealer, Schwab is the sole custodian for all billable assets (defined below) in SWA accounts and performs all custodial functions customarily performed for securities brokerage accounts, including crediting of interest and dividends on account assets. The SWA Fee described below compensates Schwab, in part, for these services. If you have Schwab accounts that are not enrolled in SWA, any fees you are charged for the maintenance of or custody of assets in those accounts, or for other account-related services, will be separate from and in addition to the SWA Fee.

Neither Schwab, nor SWAI, nor any SWA 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 SWA 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. SWA Representatives may however refer you to another managed account program at Schwab which does provide discretionary investment management. In those cases, the investment manager of your chosen program will exercise discretionary investment services as described in their Disclosure Brochure, but the SWA Representative who referred you will not have any discretionary authority over your selected managed program's account.

Schwab and SWAI do not act as investment managers within the meaning of the Employee Retirement Income Security Act ("ERISA") with respect to any 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.

Schwab trades as agent, and not as principal, in any account enrolled in SWA, regardless of whether the trade is recommended by SWAI or not. Additionally, SWA-enrolled accounts will not purchase any securities during the initial public offering period.

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 Schwab Wealth Advisory Agreement.

As a feature of SWA, accounts enrolled in SWA can have their uninvested cash, or "free credit balances," automatically swept into the Schwab Government Money Fund™ (SWGXX), a money market fund that generally may pay a higher yield than certain other cash sweep options, such as Schwab One® Interest and Bank Sweep.

If your accounts currently have a different sweep feature, you authorize and direct Schwab to establish or change your cash sweep feature to the Schwab Government Money Fund generally within one week of enrollment of the account(s), unless you instruct us not to do so. If your enrollment in SWA is terminated at any time for any reason and if, at that time, you are not otherwise eligible for the Schwab Government Money Fund as your cash sweep feature, Schwab may, without further notice or consent, redeem your shares in the fund and invest or deposit the

proceeds in a replacement cash sweep feature for which you are eligible. A different cash sweep feature may apply to your non-SWA accounts.

## Fees

The SWA Fee described below covers all non-discretionary advice provided through SWA as well as equity trade commissions in your enrolled accounts, all transaction fees on purchases and sales of mutual fund shares and all markups, markdowns and commissions on trades in fixed income investments.

All other trade orders and services are subject to Schwab's standard commissions, charges and fees. In particular, the SWA Fee does not cover the costs listed below, which may apply to assets in your enrolled accounts to which the SWA Fee also applies, and to transactions in your accounts that SWAI may recommend.

- Fees charged by mutual fund companies, unit investment trusts ("UITs"), closed-end funds and other collective investment vehicles, including, but not limited to, sales loads (a portion of which are paid to Schwab) and/or charges and redemption fees.
- Short-term redemption fees charged by Schwab for funds that participate in the Schwab Mutual Fund OneSource® service. Funds themselves may also charge a redemption fee, likewise not covered by your SWA Fee.
- Fees relating to services provided by broker-dealers other than Schwab for transactions executed or effected by or through them that settle into or from your enrolled accounts. You will be responsible for paying any commissions and other fees or compensation charged by other broker-dealers in connection with such transactions.
- Custody and/or transaction fees on "Alternative Assets" that you transfer to Schwab. For purposes of your enrollment in SWA, "Alternative Assets" include, but are not limited to, non-publicly traded limited partnership and limited liability company interests, private company common stock, shares of exchange funds, shares of hedge funds and funds of funds, shares of private equity funds and funds of funds, shares of managed futures funds, interests in real estate funds, and other non-publicly traded investments that Schwab, in its sole discretion, determines.
- Fees on options trades.
- Fees to offset processing costs incurred by Schwab for the exchange of securities for equity, options, or other covered security sell transactions.
- Transfer taxes, odd-lot differentials, certificate delivery fees, reorganization fees, fees required by law, and any other fees or charges similar to those described above.

If you are interested in a complete list of Schwab's charges and fees, please see the *Charles Schwab Pricing Guide for Individual Investors*, which is available online at [schwab.com/pricing](http://schwab.com/pricing) or by asking us for a hard copy.

The SWA Fee is calculated by looking at all assets in your Portfolio except cash balances, money market fund shares, mutual fund shares upon which a sales charge has been or will be paid to Schwab, and other non-billable assets. Billable and non-billable assets are described in detail immediately below.

Billable assets consist of the following:

- Equities, including, but not limited to, common stock, preferred securities (including convertible preferred stock before conversion), restricted stock, master (publicly traded) limited partnership

shares or units, American Depositary Receipts, foreign ordinary shares, and any rights or warrants on equities;

- Funds that trade on an exchange, including, but not limited to, exchange-traded funds ("ETFs") and any closed-end funds;
- Unit Investment Trusts;
- Billable fund shares consisting of all mutual fund shares except money market fund shares or other "non-billable fund shares" described below. Billable fund shares include, but are not limited to, shares of Schwab-affiliated mutual funds, shares of no-load and load-waived mutual funds, shares of mutual funds on which Schwab charges a transaction fee and any mutual fund shares upon which a sales charge has been paid to another broker-dealer or a financial services firm other than Schwab;
- Fixed Income Investments, including fixed income securities, such as U.S. Treasury and federal agency securities, securities of government sponsored enterprises ("GSEs"), corporate bonds and medium-term notes, zero-coupon bonds, commercial paper, municipal bonds, bank certificates of deposit ("CDs"), asset-backed securities (including collateralized mortgage obligations), convertible debt securities, fixed income market-linked investments that are tied to currency, fixed income or equity indices (such as equity-linked CDs, TIERS and ELKS);
- Alternative Assets (including, but not limited to, non-publicly traded limited partnership and limited liability company interests, private company common stock, shares of exchange funds, shares of hedge funds and funds of funds, shares of private equity funds and funds of funds, shares of managed futures funds, interests in real estate funds and other non-publicly traded investments that Schwab, in its sole discretion, determines) for which Schwab receives a valuation at least quarterly and that you purchased: (i) through Schwab without a sales charge paid to Schwab; or (ii) through another broker-dealer or a financial services firm other than Schwab whether or not a sales charge was paid to such broker-dealer or other financial services firm; and
- Assets purchased on margin or through other extensions of credit by Schwab or its affiliates, such as Pledged Asset Line®, will be considered for purposes of calculating the SWA Fee. The SWA Fee will not, however, be charged on debit balances in your accounts or on proceeds from "short sales" (meaning securities that you sell that you have borrowed but do not own).

Non-billable assets include, but are not limited to:

- Cash Balances, consisting of money that is awaiting investment, which may include money earning interest through Schwab One® Interest or Bank Sweep and that is in your account as a result of a liquidation of securities or a dividend payment;
- Non-billable Fund Shares, consisting of any money market fund shares, mutual fund shares upon which a sales charge has been or will be paid to Schwab and any other mutual fund shares that Schwab, in its sole discretion, determines will not be subject to the SWA Fee;
- Alternative Assets you purchased through Schwab with a sales load paid to Schwab and/or for which Schwab receives a valuation less frequently than quarterly; and
- Other Investments, including, but not limited to, options, insurance, annuities, and direct investments in commodities and commodity futures.

The SWA Fee is billed in arrears and calculated as a percentage of the billable assets in your enrolled accounts. The applicable annual percentage rates (each an "APR") are shown in the table below.

There is a quarterly minimum fee equal to the lesser of: (a) \$1,000; or (b) the quarterly fee that would result from applying a 1.60% APR to the total billable assets in your enrolled accounts (the “Quarterly Minimum”). Portfolios subject to the Quarterly Minimum will also be subject to a “Quarterly Maximum” APR of 1.60%. SWAI’s compensation for providing investment advice to SWA clients is described in the SWAI Disclosure Brochure and does not vary depending on the percentage of billable assets in a particular Asset Category (defined below) or the types of individual securities comprising either Asset Category—either at the Portfolio level or in aggregate across all SWA accounts. SWAI Representatives’ compensation also will not vary depending on what they recommend that you buy or sell.

On a daily basis, the total value of your billable SWA assets are multiplied by the daily pro rata portion (i.e., 1/365, or 1/366 in a leap year) of the APR (each a “Daily Total Amount”). For the last business day of the quarter and any subsequent non-business days, the Daily Total Amount is assumed to be equal to the Daily Total Amount for the second-to-last business day of the quarter. The Daily Total Amounts for each quarter are added together to make the “Quarterly Total Amount.” If the Quarterly Total Amount (plus any Schwab Managed Account Services™ [“MAS”] or Schwab Managed Portfolios™ [“SMP”] fees for clients whose MAS or SMP accounts are grouped together with SWA accounts for purposes of meeting the Quarterly Minimum and calculating the Quarterly Maximum) is greater than the Quarterly Minimum, you will pay the Quarterly Total Amount for that quarter; otherwise, you will pay the Quarterly Minimum. However, billing groups that are enrolled in SWA for a partial quarter will not be subject to the Quarterly Minimum; instead, they will be charged the sum of the daily fees for the number of days enrolled.

Schwab has several fee schedules for SWA, as shown below: the “Grandfathered Fee Schedule,” which applies to accounts enrolled before January 1, 2014, and a “Standard Fee Schedule,” which went into effect on October 1, 2018.

SWA accounts subject to the Grandfathered Fee Schedule remained on that schedule even after the Standard Fee Schedule went into effect.

SWA accounts enrolled beginning January 1, 2014, and that were previously subject to a 2014 fee schedule, were moved to the Standard Fee Schedule effective October 1, 2018.

#### Grandfathered Fee Schedule for Accounts Enrolled Before January 1, 2014, or Otherwise Subject to Lower Price Conditions

|   | Asset Category:<br>Equities, Funds<br>That Trade on an<br>Exchange (i.e., ETFs),<br>Unit Investment<br>Trusts (UITs), Billable<br>Fund Shares (Except<br>Fixed Income Open-<br>Ended Funds) and<br>Alternative Assets. | Asset Category:<br>Fixed Income<br>Investments<br>(Including Billable<br>Open-Ended Fund<br>Shares of Fixed<br>Income Funds, but<br>not including fixed<br>income ETFs). |
|---|--|--|
| Billable Assets per<br>Asset Category               | Annual Percentage<br>Rate  | Annual Percentage<br>Rate  |
| Amounts up<br>to \$500,000                          | 0.75%  | 0.50%  |
| Next \$500,000<br>(more than \$500K<br>up to \$1M)  | 0.70%  | 0.48%  |
| Next \$1 million<br>(more than \$1M<br>up to \$2M)  | 0.65%  | 0.45%  |
| Next \$3 million<br>(more than \$2M<br>up to \$5M)  | 0.60%  | 0.40%  |
| Next \$5 million<br>(more than \$5M<br>up to \$10M) | 0.45%  | 0.30%  |
| Assets over<br>\$10 million                         | 0.30%  | 0.15%  |

Note that the Grandfathered Fee Schedule also applies to any accounts you enroll on or after January 1, 2014, if certain conditions are met as described below. Specifically, if you or someone in your household (e.g., generally a person with the same last name living at the same address) (1) opened an SWA account before January 1, 2014, and (2) has continuously maintained at least one SWA account since the time of that initial SWA enrollment (thus meeting “Lower Price Conditions”), the Grandfathered Fee Schedule will apply to new SWA accounts that you enroll on or after January 1, 2014. If you believe that your SWA account qualifies for, but is not receiving, the Grandfathered Fee Schedule pricing, please notify us immediately.

#### Standard Fee Schedule (effective October 1, 2018)

| Billable Assets                                 | Annual Percentage Rate |
|---|------------------------|
| Amounts up to \$1 million                       | 0.80%                  |
| Next \$1 million (more<br>than \$1M up to \$2M) | 0.75%                  |
| Next \$3 million (more<br>than \$2M up to \$5M) | 0.70%                  |
| Assets over \$5 million                         | 0.30%                  |

The SWA Fee will impact the overall performance—both total return and yield—of your enrolled accounts, which is why performance figures for your Portfolio in your quarterly report are calculated net of the SWA Fee. You should consider the impact of the SWA Fee on, for example, income-producing securities and on the performance of mutual funds for which you will also be paying fees and charges. If you believe that there are any discrepancies between the SWA Fee actually charged and the SWA Fee calculated under the applicable fee schedule, please notify us immediately. Although some clients may qualify for discounts, the standard SWA fee is generally not negotiable. From time to time, Schwab may, at its sole discretion, elect to reduce or change the applicable SWA Fee

for particular clients or groups of clients as a result of individual negotiations or promotional offers.

Some of the features of SWA may be available from Schwab outside of SWA for separate fees or in bundles as part of other services. Depending on the size of the respective fees and the features you intend to use (including the amount and type of trading in your accounts and the type of advice you seek), a different Schwab service, or some combination of different Schwab services, might be less expensive or better suited for you than SWA. Please call Schwab if you are unsure whether SWA is right for you.

The SWA Fee is separate from any fee you might pay for MAS or SMP or other wrap fee programs sponsored by Schwab. Accounts enrolled in MAS and SMP are not subject to the SWA Fee, but certain MAS and SMP accounts may be grouped together with SWA accounts for purposes of meeting the Quarterly Minimum and calculating the Quarterly Maximum. It is your responsibility to inform Schwab of all accounts that you are requesting be grouped together for billing purposes and to qualify for any available aggregation discounts.

### **Compensation**

The compensation of SWA Representatives does not vary based on the securities that are recommended to you. Financial Consultants are compensated for enrolling and servicing accounts in SWA.

Financial Consultants ("FCs") may be Schwab employees or non-employee independent contractors who, with their own employees, operate Schwab Independent Branches pursuant to a franchise agreement with Schwab. Financial Consultants who operate Schwab Independent Branches are known as Independent Branch Leaders ("IBLs") or, if employed by such IBLs, Independent Branch (IB) Representatives.

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

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

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

For detailed information on the compensation of Financial Consultants and other SWA Representatives, please visit our website at [schwab.com/representative-compensation](https://schwab.com/representative-compensation).

### **Account Requirements and Types of Clients**

SWA is available to individuals, trusts or 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 only self-employed individuals and their spouses. Eligible accounts also include eligible pledged asset accounts used as collateral for the Pledged Asset Line® offered by Charles Schwab Bank, SSB, or Charles Schwab Premier Bank, SSB (collectively, the "Affiliated Banks"). 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. Certain account types, such as estate, conservatorship and guardianship accounts, while eligible for SWA, may not be combined with other accounts for purposes of calculating the SWA Fee. For more information on pledged asset accounts used as collateral for the Pledged Asset Line offered by the Affiliated Banks, please refer to the Agreement.

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 developed through analysis and discussion of various wealth management topics in addition to brokerage services. 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 better 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. The initial enrollment minimum is \$1,000,000. Schwab may reduce or waive this minimum in certain situations, including on the basis of individual negotiations or business considerations. Portfolio groups 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.

### **Portfolio Manager Selection and Evaluation**

SWAI and SWAI Representatives serve as the sole portfolio managers in SWA. Because SWA is a non-discretionary program, and because SWA clients may place unsolicited trade orders and decline trade recommendations made by their SWAI Representatives, Schwab does not evaluate SWAI Representatives on the basis of the performance of particular SWA accounts or groups of SWA accounts. Schwab does monitor SWAI Representatives for compliance with applicable advice policies and guidelines, as described in "Participation or Interest in Client Transactions." SWAI Representatives are supervised for compliance with substantially similar advice policies and guidelines adopted by SWAI.

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

SWA Representatives have access to the information that you have disclosed to Schwab. SWAI and SWAI Representatives serve as the sole non-discretionary portfolio managers in the SWA program.

### **Client Contact With Portfolio Managers**

You are free to contact your SWA Representatives at any time during normal business hours. As described in "Services," meetings with your SWAI Representatives take place periodically throughout the year.

## Additional Information

### Advisory Business

Schwab provides the SWA program through its dual role as Registered Investment Adviser and broker-dealer. In addition to SWA, 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®. Advisors 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™ SMP, and MAS, as well as financial planning. An SWA Representative may recommend or refer one of these services to you. Schwab earns additional fees or compensation if you elect to enroll in or purchase one of them, and your SWA Representative may earn additional compensation, as described in “Compensation.” 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.

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

The SWA Fee is not performance-based. In other words, it is not based on a share of capital gains, or capital appreciation of the assets in SWA accounts. Likewise, SWA Representatives do not receive performance-based compensation for providing SWA services.

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

The SWAI Representatives assigned to your enrolled accounts will provide you with non-discretionary advice based on your individual circumstances and needs. They follow specific advice policies and guidelines (either Schwab policies and guidelines adopted by SWAI or separate policies and guidelines specifically formulated for, and adopted by, SWAI) which indicate, subject to an exceptions process, the universe of securities that are recommendable. 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. SWAI Representatives may supplement the research provided by Schwab Center for Financial Research with additional sources of information, which may include, among other resources, financial newspapers, periodicals and/or research reports prepared by third parties made available to Schwab Representatives and clients.

Investment strategies recommended to SWA clients may be a combination of long-term strategies (securities held for at least a year) and short-term strategies (securities held for less than a year) based on principles of asset allocation, risk tolerance, client preference, and diversification. These strategies generally do not include active trading, short sales in SWA accounts, or certain complex option strategies. The investment strategies recommended within SWA, like all securities investments, involve a risk of loss that SWA clients must be prepared to bear. Investment risks may include but are not limited to strategy risks, asset allocation risks, market and systemic risks, credit risks, liquidity risks, risks related to the underlying security (e.g., ETFs, mutual funds, equity, fixed income, government securities, high yield securities), risks related to foreign investments (e.g., emerging markets, frontier markets,

currency risks), and risks related to asset classes (e.g., commodities risks, real estate risks). Please see the SWAI Disclosure Brochure for additional information about these risks.

At Schwab's discretion, based on the complexity of the needs, amount of enrolled assets, client preference and other factors, some clients might be referred to Charles Schwab & Co., Inc., a Registered Investment Adviser and affiliate that provides financial planning services. Services for SWA clients may include a Schwab Personal Financial Plan™ or a Schwab Equity Compensation Consultation (collectively, “Schwab Financial Planning Service”), which includes analysis of certain aspects of financial planning as related to your situation (“Analysis”), such as retirement needs, education funding, estate planning, or stock option grants, as applicable. The methods of analysis that Schwab uses to produce the Analysis, and to inform the Analysis, include the creation of personal financial statements (i.e., current cash flow statement, projected cash flow, current net worth, projected net worth statement, and Monte Carlo analysis, which is described below) based on the information you provide through statements and conversations. The accuracy of the information you provide is crucial to the usefulness of the Analysis. The Analysis is based on the information you provide and on the static assumptions—e.g., fixed return rates and fixed life expectancies. In reality these variables will not be static—market fluctuations will affect overall asset performance, and uncertain life expectancies may cause clients to outlive their resources or fail to accumulate necessary resources. Monte Carlo analysis is a statistical method that helps assess the effect of these risks by randomizing return rates, which helps analyze the risk of market fluctuations. Monte Carlo analysis is a projection of the future that attempts to represent the majority of all possible outcomes under a given set of inputs, and does not represent the full universe of all possible futures. Monte Carlo analysis is not a guarantee of future outcomes. Exercising and/or selling equity compensation may create additional tax consequences. You should consult with your tax advisor or CPA on all tax-related matters. Failure to exercise options prior to expiration may result in forfeiture of value. Equity compensation, such as stock options and restricted stock, is subject to market fluctuation, which could lead to loss of value.

Unless otherwise specified, the Schwab Financial Planning Service is typically provided on a discrete basis and at a point in time and does not involve ongoing advice. Therefore, it is important for you to monitor your personal situation and current events, such as changes in tax laws and financial markets. 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 suggested in your Analysis or financial planning analysis generally. Schwab has no discretionary authority or responsibility with respect to your brokerage accounts discussed as part of the Analysis. Schwab does not give legal or tax advice. You should carefully consider all relevant factors before deciding how or whether to implement recommendations contained in your Analysis or financial planning analysis generally.

### Cybersecurity Risk

Information security risks for financial institutions are increasing, in part because of the use of the internet and mobile technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, activists, hackers and other external parties, including foreign state actors. 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.

## Disciplinary Information

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

1. In June 2022, Schwab and its affiliate Charles Schwab Investment Advisory, Inc. (collectively, “Schwab,” for purposes of this matter description only) reached an agreement with the United States Securities and Exchange Commission (“SEC”) to settle a matter related to historical disclosures and marketing of the Schwab Intelligent Portfolios® advisory program (the “Program”).

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

(1) Schwab’s conflict of interest in setting the cash allocations; (2) the influence of this conflict of interest on the size of the cash allocations; and (3) the negative effect of the cash allocations on performance in Program accounts under market conditions where other assets such as equities outperform cash. The SEC also found that Schwab failed to sufficiently implement compliance policies designed to prevent the publication of misleading statements. Finally, the SEC found that Schwab made similarly misleading statements in advertisements for the Program.

Without admitting or denying these findings, Schwab agreed to pay a total of \$186,536,861 in disgorgement, pre-judgment interest, and civil penalties. Schwab also agreed to engage an independent consultant to: (1) review Schwab’s supervisory, compliance, and other policies and procedures designed to ensure that Schwab’s SIP-related disclosures, advertising, and marketing communications comply with the requirements of the Investment Advisers Act of 1940, as amended, and the rules thereunder, and with other applicable federal securities laws with respect to the Program; and (2) submit a report to both Schwab and the SEC describing the independent consultant’s findings and making recommendations. Schwab may identify any recommendations that it considers to be unduly burdensome, impractical, or inappropriate and attempt to reach agreement over such recommendations with the independent consultant, and Schwab must ultimately adopt and implement the independent consultant’s final recommendations.

2. A disciplinary action initiated by the Financial Industry Regulatory Authority (“FINRA”) asserted that, in violation of FINRA Rules 2010 and 3310(a), Schwab failed to implement policies and procedures that were reasonably designed to detect and cause the reporting of suspicious incoming wire transactions occurring in August 2011. Without admitting or denying the findings, Schwab consented to the described sanctions and to the entry of findings. Therefore, in December 2013, Schwab was censured, fined \$175,000, and required to conduct a comprehensive review of the adequacy of its Anti-Money Laundering policies, systems, procedures (written or otherwise), and training with respect to detecting and reporting suspicious incoming wire transfers.
3. A disciplinary action initiated by FINRA asserted that Schwab failed on 44 occasions during the second quarter of 2011 and on 245 occasions during the first half of the 2012 review period to provide written notification disclosing to its customers a call date that was consistent with the disclosed yield to call in violation of SEC Rule 10b-10. Without admitting or denying the allegations, Schwab consented on August 23, 2013, to a censure and a monetary fine of \$12,500.
4. A disciplinary action initiated by the Chicago Board of Options Exchange (“CBOE”) alleged that Schwab: (1) violated CBOE Rule 9.21 by disseminating sales literature and failed to withhold the sales literature from circulation prior to incorporating the required changes specified by the CBOE; and (2) violated CBOE Rule 4.2 by failing to adequately supervise its associated persons to assure compliance with Rule 9.21. Without admitting or denying these allegations, Schwab consented to a censure and a monetary fine of \$10,000 on May 29, 2013.
5. In May 2013, the CBOE alleged that from approximately November 8, 2011, through approximately December 7, 2011, Schwab failed to have adequate supervisory procedures to assure compliance with the SEC Rule 14E-4 relating to partial short tender activity. The CBOE accepted Schwab’s offer of settlement consisting of a \$10,000 fine and a censure. Schwab neither admitted nor denied the allegations.
6. A disciplinary action initiated by FINRA asserted that Schwab violated Municipal Securities Rulemaking Board (“MSRB”) Rule G-14 by: (1) failing to report required information about certain municipal securities transactions to the Real-Time Transaction Reporting System (“RTRS”) within 15 minutes of trade time in the first and fourth quarters of 2010; and (2) failing to report the correct yield to RTRS for certain municipal securities transactions in the second quarter of 2010. Without admitting or denying these assertions, Schwab consented to a censure and a fine of \$35,000 on July 26, 2012.
7. Schwab entered into a stipulation and consent agreement with the state of Florida on March 26, 2012, in which Schwab was fined \$1,100,000 and ordered to offer restitution to certain clients for distributing trade confirmations to Florida clients between 2008 and 2011 containing inaccurate information with respect to certain municipal bond, corporate bond, and preferred equity security trades, and for failing to have adequate written supervisory procedures with respect to the review of such trade confirmations, in violation of the Florida Administrative Code.
8. Schwab entered into a consent order with the State of Nevada on November 2, 2011, in which Schwab was fined \$10,000 for failing to detect the lack of Nevada state registration of a non-employee investment advisor. Schwab was found to have violated its own procedures and Nevada Administrative Code Section 90.321 for failing to determine that the non-employee was acting as a professional investment advisor at the time the accounts were set up or during the course of his management of the accounts at issue.



9. A disciplinary action initiated by FINRA asserted that Schwab violated Municipal Securities Rulemaking Board Rule G-14 by: (1) failing to report required information about certain municipal securities transactions to the RTRS within 15 minutes of trade time; and (2) failing to report the correct trade execution time to the RTRS for some of these transactions. Without admitting or denying these assertions, Schwab consented to a censure and a fine of \$12,500 on June 17, 2011.
10. In January 2011, Schwab and its affiliate Charles Schwab Investment Management, Inc. ("CSIM") (together, for purposes of this disclosure, "Schwab") reached agreements with the SEC, FINRA, the Illinois Secretary of State, the Illinois Securities Department ("Illinois") and the Connecticut Department of Banking's Securities and Business Investments Division ("Connecticut") to settle matters related to the Schwab YieldPlus Fund® (the "Fund").

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 Fund from 2005 through 2008. In particular, the SEC found that Schwab: (1) deviated from the Fund's concentration policy with respect to investments in non-agency mortgage-backed securities without shareholder approval; (2) made materially misleading statements and omissions about the Fund and its associated risks before and during the decline of its net asset value ("NAV"); (3) materially understated the Fund weighted average maturity ("WAM"); (4) willfully aided and abetted misstatements and omissions appearing in Fund sales materials and other documents; and (5) lacked policies and procedures reasonably designed to prevent the misuse of material non-public information about the Fund. Without admitting or denying these allegations, Schwab agreed to pay a total of approximately \$118,944,996 in disgorgement of fees and penalties.

As part of the settlement with the SEC, Schwab agreed to take a number of actions to improve procedures and reinforce Schwab's commitment to its clients. These actions include retaining an independent consultant to conduct a comprehensive review of Schwab's policies, practices, and procedures designed to prevent the misuse of material nonpublic information by or related to Schwab's mutual funds. The SEC settlement was approved by the United States District Court for the Northern District of California on February 16, 2011. Additionally, the SEC has brought related complaints against two former employees of Schwab.

The amount paid by Schwab pursuant to the SEC settlement included approximately \$18,000,000 to be 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 in which Illinois made related factual allegations against Schwab and found that Schwab's conduct violated Illinois Securities Law provisions relating to supervision of securities and advisory activity by employees and to maintenance of written procedures reasonably designed to comply with securities laws and regulations.

Schwab also agreed to pay an amount not to exceed approximately \$2,800,000 in settlement of the Connecticut matter in which Connecticut made related factual allegations against Schwab and found that Schwab violated applicable Connecticut laws and regulations by failing to reasonably supervise its employees.

Schwab and certain affiliated entities and individuals (the "Schwab Parties") were named as defendants in a number of 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. On March 30, 2010, the court granted plaintiffs' motion for summary judgment holding defendants liable for plaintiffs' state law claim regarding changes to the investment policy of the Fund, which plaintiffs alleged were made without shareholder approval in violation of the Investment Company Act of 1940. The Schwab Parties entered into a settlement agreement to settle the plaintiffs' federal securities law claims for approximately \$202,700,000 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

Schwab 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). In addition to being registered as an investment adviser under the Investment Advisers Act of 1940, Schwab is also registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of 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.

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.

Other wholly owned subsidiaries of CSCorp are engaged in investment advisory, brokerage, trust, custody, or banking services. As described above, SWAI provides non-discretionary portfolio management to SWA accounts. The role of SWAI and SWAI Representatives in SWA is described in more detail in the SWAI Disclosure Brochure.

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.

Charles Schwab Investment Management, Inc. ("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 the investment manager for Schwab Managed Portfolios™ – Mutual Funds and Schwab Managed Portfolios – ETFs, and for certain strategies in

the Managed Account Connection® (“Connection”) program. The potential conflicts created by this arrangement, and the steps taken by Schwab to address those conflicts, are described in “Participation or Interest in Client Transactions.”

CSIA is a Registered Investment Adviser and an affiliate of Schwab that provides research and decision-making tools to Schwab for use by Schwab clients, including the Schwab *Mutual Fund OneSource Select List*® and Schwab ETF Select List®. CSIA personnel also act as portfolio managers for Schwab Intelligent Portfolios Solutions™.

In addition, The Charles Schwab Corporation provides services to retirement and other employee benefit plans and participants through its separate but affiliated companies and subsidiaries: Charles Schwab Bank, SSB and Charles Schwab Premier Bank, SSB (collectively, the “Affiliated Banks”); Charles Schwab & Co., Inc.; Schwab Retirement Plan Services, Inc.; and Schwab Retirement Plan Services Company. Trust and custody products and services are offered by Charles Schwab Trust Bank (“Trust Bank”). Brokerage products and services are offered by Charles Schwab & Co., Inc. (Member SIPC). Schwab Retirement Plan Services, Inc. and Schwab Retirement Plan Services Company provide recordkeeping and related services with respect to retirement plans.

The Affiliated Banks offer deposit accounts and lending products to both Schwab brokerage clients and others who have no relationship with Schwab. SWA clients may be introduced to certain Trust Bank and Affiliated Bank products by SWA Representatives, who receive compensation for such introductions as described in “Compensation.” Financial Consultants may also receive compensation in connection with the Pledged Asset Line® offered by the Affiliated Banks.

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

### **Code of Ethics**

Schwab has a code of ethics adopted pursuant to SEC Rule 204A-1 under the Investment Advisers Act of 1940 (the “Code”). The Code reflects the fiduciary principles that govern the conduct of Schwab employees when Schwab acts as an investment adviser—such as when recommending enrollment in the SWA program. The Code requires that Schwab’s covered representatives—including SWA Representatives—comply with applicable federal securities laws, report violations of the Code, and for those deemed “access persons” by virtue of providing investment advice or having access to certain related information, report their personal transactions and holdings in certain securities periodically and get clearance before buying certain securities, including private offerings. The Code prohibits access persons from disclosing portfolio transactions or any other non-public information to anyone outside of Schwab, except as required to effect securities transactions for clients, or from using the information for personal profit or to cause others to profit. Access persons are also prohibited from engaging in deceptive conduct in connection with the purchase or sale of securities for client accounts. The Code is subject to change as necessary to remain current with regulatory requirements and internal business policies and procedures. A copy of the Code is available upon request. SWAI Representatives are subject to a substantially similar code of ethics, described in detail in the SWAI Disclosure Brochure.

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

In addition to the SWA Fee, 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. 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.

Financial Consultants may also receive compensation when you purchase one of the investments or products below after the Financial Consultant has recommended it or introduced you to it. Their compensation is described in “Compensation.” The extra compensation earned by Schwab, or by a Financial Consultant, creates a potential conflict of interest. As described in the SWAI Disclosure Brochure, SWAI earns no such additional compensation.

The compensation received by Schwab and its affiliates and described below creates a potential conflict of interest when an SWA Representative recommends to you or discusses with you one of these securities or products as part of the SWA program. 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 SWA Representatives must follow when making recommendations. Recommendations made by SWA Representatives, including recommendations to enroll in SWA and to buy or sell securities within SWA, are supervised by SWA Representatives’ direct managers and by a Central Supervision Team for compliance with Schwab’s advice policies and guidelines.

Supervisors who oversee SWA 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 appropriate. Daily supervisory functions, including review of trading activity, portfolio construction, verbal, written and electronic client correspondence, money movement, 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. Information regarding the specific routing destination and execution time of your orders for up to a six-month period is also available 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 may receive compensation from 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.

#### **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 client agreement. 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.

#### **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.

### **Schwab Affiliate Funds**

Schwab currently has one affiliated mutual fund family: Schwab Funds® or “Schwab Affiliate Funds.” Schwab’s affiliate, CSIM, serves as investment adviser and/or administrator to the fund family. These Schwab Affiliate 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 Affiliate Funds are greater than the compensation Schwab receives from unaffiliated fund companies participating in the Schwab Mutual Fund OneSource® service.

### **Sponsorship and Educational Opportunities**

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

### **Mutual Fund Recommendations**

Recommendations by SWA 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

Affiliate 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 Affiliate Funds. SWAI Representatives’ mutual fund recommendations are subject to substantially similar advice policies and guidelines adopted by SWAI.

### **Exchange-Traded Funds (“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 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 Affiliate 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 Affiliate 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 Charles Schwab Investment Management, Inc. (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 SWA Representatives. Schwab reviews such accounts custodied at Schwab and applicable accounts custodied at other firms. The surveillance program monitors holdings and trades against the Code, Schwab’s Compliance Manual, and other applicable policies. Additionally, SWA 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.

SWA 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 frontrunning customer orders (i.e., when a Schwab representative buys or sells a security to possibly capitalize on advance knowledge of an imminent customer transaction that is expected to influence the market price, or passing 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.

As described in the SWAI Disclosure Brochure, SWAI Representatives are subject to personal trading policies substantially similar to those described above.

#### **Review of Accounts**

As explained in “Services,” clients meet with their SWA Representatives periodically throughout the year to review their Portfolios. These reviews are most often conducted by the Wealth Advisor but may be conducted by other SWAI Representatives. It is during, and in preparation for, these conversations that your SWA Representatives review the composition and performance of your Portfolio in light of your financial goals and situation.

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

Schwab has entered into an agreement (the “Referral Agreement”) with USAA Investment Services Company (“USAA ISCO”) under which Schwab will pay USAA ISCO based on a percentage of the assets in Schwab accounts attributable to a referral by USAA ISCO, including assets in SWA accounts. Under the Referral Agreement, Schwab will pay USAA ISCO an annual percentage amount of 0.15% (or 15 basis points) of asset balances of applicable accounts.

Representatives of Schwab’s affiliate TD Ameritrade, Inc. receive a payment from TD Ameritrade, Inc. for referring clients to Schwab for services not available through TD Ameritrade, Inc., including SWA and other investment advisory services offered by Schwab. Representatives receive this payment regardless of whether referred clients avail themselves of the Schwab service for which they have been referred.

#### **Voting Client Securities**

As it does with non-SWA brokerage accounts, Schwab will send you proxy voting materials for securities held in your SWA accounts. You, as the holder of the underlying brokerage accounts, have the sole authority to vote any proxies solicited for securities held in your SWA accounts. If you have questions, please contact Schwab.

#### **Financial Information**

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

