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# **Schwab Managed Account Services™ Disclosure Brochure**

**for Clients of Schwab Investor Services**

**Charles Schwab & Co., Inc. Disclosure Brochure for the  
Schwab Managed Account Services Wrap Fee Program**

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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.

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

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## Services, Fees, and Compensation

### Introduction

This brochure describes the following managed account programs sponsored by Charles Schwab & Co., Inc. ("Schwab") for clients of its Schwab Investor Services enterprise: the Managed Account Select® ("Select") program and the Managed Account Connection® ("Connection") program. (Select and Connection are each referred to as a "program"; they are collectively referred to as "programs.") Schwab also sponsors other wrap fee programs with separate disclosure brochures that are available upon request.

The Select program allows you to select one or more money managers ("MMs") to manage your account pursuant to a stated investment strategy. These MMs and their investment strategies are evaluated and monitored by Charles Schwab Investment Advisory, Inc. (CSIA), an affiliate of Schwab. The MMs in the Select program are not affiliated with Schwab.

The Connection program features certain strategies managed by another Schwab affiliate, Charles Schwab Investment Management, Inc. (CSIM). On May 26, 2020, as part of the acquisition of the assets of USAA Investment Services Company ("USAA ISCO") by Schwab and the subsequent assignment of USAA ISCO's investment advisory agreements to Schwab (the "Acquisition"), Schwab became the sponsor, and CSIM became the MM, of the USAA Managed Portfolios—UMP® (the "UMP Program"), which includes UMP Wrap and UMP Custom strategies that were incorporated into the Connection program.

The UMP Program is closed to new enrollments by new clients. Only clients who already had UMP Program accounts as of May 26, 2020, can open new UMP Program accounts.

In each program, an MM manages the investment portfolio in your account (referred to as a "managed account") on a discretionary basis. This means that the MM determines which assets to buy, hold, and sell, subject to any permissible restrictions you may impose on your account. You pay an asset-based fee to participate in each program. The fee covers services provided by Schwab, including the services of a representative to assist you with evaluating and implementing the programs, the custody of securities in your portfolio, the execution of transactions by Schwab and the administration of the programs, as well as the discretionary asset management services provided by the MMs. The representative assisting you is normally a Schwab representative, but may also be, in the case of managed accounts grouped at your request with accounts enrolled in the Schwab Wealth Advisory™ non-discretionary wrap fee program ("SWA"), employees of Schwab's affiliated investment adviser, Schwab Wealth Advisory, Inc. ("SWAI"). Collectively, all such representatives are referred to in this brochure as "SRs." The fee does not cover trades executed by broker-dealers other than Schwab in the Select or Connection programs. In addition to the program fees, Schwab may receive separate compensation for some transactions and services as described below. Clients of the programs may include individuals, trusts, charitable organizations, pension and profit-sharing plans, corporations, and other business organizations.

In the Select program, CSIA selects the MMs and investment strategies, conducts an operational evaluation of MMs, and monitors the MMs' performance periodically, although you are responsible for monitoring individual transactions in your account.

For both programs, Schwab provides custody, execution, reporting, program administration, and related services for client accounts. An SR assists you in determining your investment objectives and asset allocation, the program(s) in which to participate, and which MMs and investment strategies to select for your accounts. After you open a managed account, an SR will review with you the MMs' performance and your asset allocation at least once a year (or more frequently, if necessary due to a change in your situation or investment objectives).

### MM Asset Management Services

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

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

You will have the opportunity to impose reasonable restrictions on the management of your account. You may request that specified securities or, in some cases, categories of securities, not be purchased for your account, but your MM may decline your requested restriction if your MM deems it unreasonable. You will not be able to impose restrictions on individual holdings in a mutual fund or exchange-traded fund. The MM managing your account is responsible for implementing and monitoring any restrictions you place on the management of your account. Schwab will forward to any MM you designate a copy of your client account application, as well as any restrictions you want to impose on your account. Accounts with investment restrictions may perform differently than accounts without restrictions; performance may be lower or higher for accounts with restrictions than for those without restrictions. Since the MM's performance composite typically does not include accounts with restrictions, if your account has restrictions the performance of your account may be different than the MM's performance composite.

You may have the opportunity to instruct the MM to realize gains or losses in your account for tax reasons. This may include the sale of positions with unrealized losses/gains above a certain amount, or the sale of specified securities. You are responsible for understanding the methodology the MM uses for harvesting gains or losses in your account, the potential risks to the investment and management of your portfolio, potential operational risks, as well as any tax implications. These and other risks are outlined in the MM's brochures. The MM will use reasonable efforts to implement your request to harvest tax losses or gains.

With respect to some of the MM services described above, CSIM's management of UMP Program accounts will be different from your experience under the former sponsorship of USAA ISCO prior to the Acquisition.

- You will be able to restrict up to three mutual funds and ETF ticker symbols (in total) in each UMP Program account, including each UMP Custom account, and an additional five individual equity ticker symbols in each UMP Custom account with an asset allocation strategy. However, you will no longer be able to restrict entire industries in UMP Custom accounts.

- There will be limits on the number of positions, minimum loss amount and frequency with respect to requests for tax-loss harvesting in UMP Custom accounts.
- With respect to fractional shares of equities or ETFs, Schwab will instruct CSIM to sell over time any consolidated fractional positions you have accumulated in your UMP Program account and invest the proceeds consistent with CSIM's portfolio strategy for that account.
- CSIM will not reinvest dividends in UMP Program accounts, but will instead invest dividend proceeds consistent with the portfolio strategy for your UMP Program account.

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

You may contact an MM directly, although it is generally expected that you will direct questions concerning your account to an SR, and that any contact you have with an MM will be facilitated by an SR. You may change MMs or investment strategies, or switch an account from one program to another, at any time by submitting the form prescribed by Schwab for that purpose. An MM also may terminate a relationship with you at any time upon 30 days' notice to you and Schwab.

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

Subject to the availability of the programs to certain account types, an SR will help you determine whether either or both of the programs are appropriate for you, as well as assist you in selecting a particular investment strategy and MM. In deciding whether to participate in the programs, you should review with an SR your financial situation, asset allocation, investment objectives, risk tolerance, and time horizon.

If material changes occur to your financial circumstances or investment objectives, or you wish to impose or modify restrictions on the management of your account, you should promptly inform an SR. The SR will respond to your questions and meet with you approximately once a year to discuss whether the management of your account continues to reflect your investment objectives and financial requirements. Your SR will communicate such information as necessary to the MM managing your account.

### **Schwab's Execution Services**

The program fee covers execution of equity orders, including exchange-traded funds ("ETFs"), by Schwab, as well as execution of fixed income orders by Schwab on an agency basis. Additional costs may apply to the execution of orders by Schwab as principal in fixed income securities. "Principal trades" are trades in which a firm like Schwab may sell securities from its own account to a client account or may purchase securities for its own account from a client account. When Schwab or another firm acts as principal for its own account, it accepts the risk of market price and liquidity fluctuations when executing customer orders, and may profit from dealer markups and markdowns. For strategies managed by CSIM through the Connection program, Schwab will execute equity trades on their behalf on an agency basis.

### **Directed Brokerage for Schwab Personalized Indexing™ Strategies in the Connection Program**

If CSIM manages Schwab Personalized Indexing strategies in your account, you have agreed in your account agreement with us that all brokerage transactions in your account will be executed by Schwab. As a result, you may not always obtain as favorable a price or execution as could have been available through another broker-dealer. Not all investment advisers require their clients to direct trades to a particular broker-dealer (also known as "directed brokerage"). Depending on the amount of fees charged by us, the amount of trading activity in your

account, and the value of the custodial and other services provided by us, the wrap fee could exceed the aggregate cost of such services if they were to be provided separately and if CSIM negotiated brokerage fees and sought best price and execution on a transaction-by-transaction basis.

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

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

In arranging for the execution of non-directed orders for equities and listed options, Schwab seeks out industry-leading execution services and access to the best-performing markets. Schwab routes orders for execution to unaffiliated broker-dealers, who may act as market 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.

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

Schwab may execute fixed income orders for customers as agent or as principal for our own account. 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. 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.

Fixed income securities generally trade in dealer markets, but a small number of corporate bonds also trade on national securities exchanges. If a fixed income security is traded in the dealer markets, Schwab generally will execute an order for a Select program account as principal, unless the MM directs Schwab to execute the orders as agent. In the Connection program, any fixed income trades through Schwab are executed on an agency basis (Schwab will not execute principal transactions in fixed income securities for affiliated MMs), while fixed income transactions executed with dealers other than Schwab can be executed on an agency or principal basis. The principal transactions include a dealer markup or markdown by Schwab (not included in the program fee). If an MM places an order for fixed income securities with Schwab, Schwab will seek the best price reasonably available at that time by searching our Schwab BondSource® ("SBS") electronic inventory and trading system. Schwab uses SBS except on rare occasions (e.g., for very large orders) in an effort to achieve a better price for clients. SBS accesses an inventory of fixed income securities from Schwab and up to hundreds of other broker-dealers whose fixed income inventories are included in SBS.

MMs have the ability to place orders for fixed income securities with dealers other than Schwab. Most MMs managing fixed income investment strategies have advised Schwab that they anticipate placing most of their fixed income orders with dealers other than Schwab (which may include a markup or markdown by those dealers not included in the program fee).

When an MM buys a new bond issue for your account through Schwab acting as principal, Schwab receives a syndicate fee (also known as a dealer concession) which ranges from less than 0.01% to 2.0% of the par value, or face amount, of the bond, depending on the particular bond issue. The dealer concession is a standard custom and practice regarding payment to syndicate members for distributing, and for providing certain operational services associated with, new issues. Schwab as a dealer receives the same amount for any given new issue as other dealers participating in the same tier of the syndicate, and every new issue buyer (the customer) pays the same price no matter from which dealer a purchase is made.

In the Select program, MMs will generally execute fixed income transactions with dealers other than Schwab (although MMs are not precluded from executing transactions with Schwab, and Schwab is not precluded from acting as principal in those transactions). Clients will be responsible for any related transaction costs, including, but not limited to, markups or markdowns charged by such other broker-dealers.

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

Schwab will execute all trades in mutual funds in your account. Mutual funds in a program strategy are limited to those fund families with which Schwab has an agreement pursuant to which Schwab renders administrative and shareholder services, generally the funds in Schwab's Mutual Fund Marketplace®. Eligible mutual funds in the programs offer their shares to clients in the programs on a no-load or load-waived basis and may charge Rule 12b-1 (distribution) and/or shareholder servicing fees. Mutual fund shares are purchased at their current net asset value, which means the net asset value next computed after a fund receives an order. Although you will not pay any sales loads or transaction fees on the mutual fund shares purchased for your account, certain funds impose redemption fees if shares are not held for a minimum time period. If you fund your account with mutual fund shares, any mutual funds that are not consistent with the then-current selection of funds in your chosen strategy will be sold and any applicable redemption fees will be deducted from the proceeds, as stated in the prospectus for each fund. All investments in mutual funds are subject to the terms of the relevant fund's prospectus, including associated fees. You will receive prospectuses when the funds are initially purchased for your account.

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

The program fee covers commissions or other execution charges for equity trades routed by Schwab to other broker-dealers. However, the program fee does not cover commissions or execution charges that may be assessed for trades that an MM places with a broker-dealer other than Schwab, or markups or markdowns that may be charged by those other broker-dealers on principal trades for fixed income securities. Such commissions may be in addition to or included in the price you receive for your transactions, but in either case are in addition to, and will not reduce or offset, the program fee. Instead, they will reduce the overall return of your account. Schwab incurs costs in processing trades that an MM executes through other broker-dealers, which are covered by the program fee.

Because program fees cover execution through Schwab, MMs will have an incentive to execute most transactions in equity securities through Schwab. However, an MM may execute equity trades through other broker-dealers, including if an MM reasonably believes that another broker-dealer will provide better execution, net of any additional resulting transaction charges, than would be the case if the transaction were executed through Schwab. The MM is responsible for meeting its best execution obligations to you when the MM places trades with Schwab or another broker-dealer. Some MMs, including CSIM for certain strategies in the Connection program (but not for Schwab Personalized Indexing™ strategies), and including MMs with certain equity strategies, especially

small-cap or preferred strategies, execute most or all of their trades through broker-dealers other than Schwab. In such cases, you are incurring additional costs by paying both the program fees—which cover transaction fees for trades executed through Schwab—and additional costs incurred at other broker-dealers. Additionally, most MMs of fixed income and bond ladder strategies will generally place transactions with other dealers acting as principal. Such dealers will receive a markup or markdown that is not included in the program fee, just as they would if the transaction were placed through Schwab or another dealer acting as agent rather than as principal.

In the UMP Program, Schwab permits trades to be executed either through Schwab or through another broker-dealer, which may be different from your experience under USAA ISCO's sponsorship of the UMP Program and will result in transaction fees not covered by the program fee. Information about the frequency and cost of UMP Program trades executed through broker-dealers other than Schwab will be available at the website noted in the next paragraph.

You should review carefully the MM's trading for your account. For important information about the frequency and cost of trades executed through broker-dealers other than Schwab, please go to [schwab.com/assetmanagertradeawaypractices](http://schwab.com/assetmanagertradeawaypractices).

In addition to cost considerations, an MM may consider various other factors in its best execution analysis as described in the MM brochure, including the liquidity of the security and the need for timely execution. Other broker-dealers may provide an MM with brokerage and research services, as disclosed in the MM brochure. To be eligible to receive a trade from an MM for your account, the other broker-dealer must have an agreement with Schwab under which Schwab will clear and settle transactions executed by that broker-dealer, or the MM must have agreed to use an electronic system to issue settlement instructions to Schwab for trades executed by other broker-dealers. This is described in more detail under the heading "Prime Brokerage, Step-In and Trade-Away Services" in your Schwab account application agreement.

#### **Aggregation of Transactions**

Your MM may aggregate or bunch transactions for your account with transactions for other clients, for execution purposes under appropriate circumstances. For these purposes, other clients may include clients of the same MM under another Schwab bundled fee program. In addition, if an MM executes trades with another broker-dealer (as described above), other clients may include additional clients of the MM not participating in any Schwab program or service. This practice will not ordinarily affect or otherwise reduce the costs charged to your account for those transactions. The transactions (as well as any expenses incurred in transactions effected through other broker-dealers) will be allocated according to the MM's policies governing aggregation and allocation of transactions. These policies may require your MM to assign to your account the average price resulting from the aggregated trades. Your MM may allocate partial fills of a block security transaction among clients' accounts randomly, pro rata based on the size of the account, or under some other policy adopted by your MM. Your MM's trade allocation policies may result in certain clients paying higher or lower prices for securities than may otherwise have been obtained if the transactions had been executed separately. Additional information about an MM's policies for aggregation and allocation may be contained in the MM brochure.

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

Some MMs, such as the overlay manager for a Diversified Portfolio strategy, may manage accounts based on recommendations or a model portfolio received from another MM (the "model provider"). In such cases, trades for your account may be placed by an MM at different times, and may be executed in different markets and at less advanta-

geous prices, than trades for accounts with the same strategy managed directly by the model provider. These differences may result from the application of the model provider's policies and procedures in addition to the MM's trading policies and procedures.

## Custody

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

## Reporting

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

A third party will calculate investment performance for your account. This performance information will be made available quarterly. Schwab believes that the data obtained from the third party is accurate, but does not independently verify and is not responsible for its accuracy.

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

## Program Fee

Schwab charges an asset-based fee for the services provided by Schwab and the MMs. The following tables show the fee schedule expressed as an annual rate; the program fee, including any applicable investment management fee in UMP Custom, is charged to your account on a quarterly basis. From time to time, Schwab may, at its sole discretion, elect to reduce or change the applicable fee schedule for particular clients or groups of clients as a result of individual negotiations or promotional offers. The exact fee schedule that will apply to your account is specified in your Schwab account application and any amendments thereto. Schwab may change the fee schedule applicable to your account by notice to you in accordance with your account application and your Schwab account agreement.

Your account is assigned to a fee schedule based on the asset type(s) of the investment strategy you have chosen in each program, as shown in the column headings in the tables below. In the Connection program, taxable bond ladder strategies are charged according to the same fee schedule as Fixed Income strategies. In the Select program, corporate bond ladder, preferred stock, and convertible bond strategies are charged according to the same fee schedule as Fixed Income strategies, and master limited partnership and options-based strategies are

charged according to the same fee schedule as Equity strategies. The program fee is tiered for assets in the same category—i.e., as the market value of your accounts in the same schedule reaches a higher breakpoint, as set forth below, the assets within each breakpoint schedule are charged a lower rate.

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

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

The Actual Daily Balance Method is different from the method used by USAA ISCO to calculate program fees in the UMP Program, which will result in a higher (or lower) program fee in some circumstances. To reduce the likelihood that you will pay a higher program fee, Schwab will not charge a program fee on cash in UMP Program accounts, as explained below in "Investment in Affiliated and Other Funds."

In a UMP Custom account, an investment management fee is added to the program fee. The investment management fee is calculated by multiplying the daily balance of equity holdings (including common stock, REITs, and ETFs with underlying equity exposure) and fixed income holdings (including individual bonds and ETFs with underlying fixed income exposure) by the appropriate investment management fee rate for that asset class. The investment management fee is not applied to mutual funds, money market funds, or cash balances.

The gross program fee for UMP Program accounts is reduced by the Credit Amount to determine the annual program fee rate paid. The purpose of this Credit Amount for the UMP Program is to lower the program fee by at least the amount of fees received by CSIM for investment management services in connection with the Schwab Affiliate Funds purchased in your UMP Program account (including money market mutual funds), and the amount of the shareholder servicing fees paid to Schwab by mutual funds participating in the Schwab Mutual Fund OneSource® service or that otherwise pay shareholder servicing fees to Schwab (collectively, "No-Transaction-Fee funds" or "NTF funds"). NTF funds used in the UMP Program include USAA Victory Mutual Funds, managed by Victory Capital, from which Schwab may also receive shareholder servicing fees. The Credit Amount will include the pro-rated portion of the compensation Schwab receives from the USAA Victory Mutual Funds held in your UMP Program accounts, but it will not include any compensation received by USAA ISCO or its affiliates.

**Standard Program Fee Schedule for Managed Account Select® (effective January 1, 2021)**

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

**Standard Program Fee Schedules for Managed Account Connection® (effective April 1, 2022)**

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

Tier	Tier Chargeable Assets	Ultra Short Strategies Tier Annual Rate
1	First \$20 million	0.15%
2	Next \$10 million (over \$20M up to \$30M)	0.12%
3	Next \$20 million (over \$30M up to \$50M)	0.10%
4	Assets over \$50 million	0.08%

\*In the Connection program, Taxable Bond Ladders are charged according to the fixed income fee schedule.

**Standard Program Fee Schedule for USAA Managed Portfolios—UMP®**
**UMP Wrap (Effective October 1, 2021)**

Tier	Tier Chargeable Assets	UMP MF Wrap Strategy (USAA and Marketplace)			UMP Blend Wrap Strategy			UMP ETF Wrap Strategy
		Tier Gross Rate	Credit Amount	Tier Annual Rate	Tier Gross Rate	Credit Amount	Tier Annual Rate	Tier Annual Rate
1	First \$100,000	2.00%	1.10%	0.90%	2.00%	1.10%	0.90%	0.90%
2	Next \$150,000 (over \$100K up to \$250K)	1.80%	1.10%	0.70%	1.85%	1.10%	0.75%	0.75%
3	Next \$250,000 (over \$250K up to \$500K)	1.60%	1.10%	0.50%	1.85%	1.10%	0.75%	0.75%
4	Next \$500,000 (over \$500K up to \$1M)	1.40%	1.10%	0.30%	1.75%	1.10%	0.65%	0.65%
5	Assets over \$1 million	1.30%	1.10%	0.20%	1.60%	1.10%	0.50%	0.50%

## Standard Program Fee Schedule for USAA Managed Portfolios—UMP®

### UMP Custom (Effective October 1, 2021)

Tier	Tier Chargeable Assets	UMP Custom Asset Allocation Strategy					UMP Custom 100% Fixed Income Strategy			
		Program Fee			Investment Management Fee		Program Fee			Investment Management Fee
		Tier Gross Rate	Credit Amount	Tier Annual Rate	Equity Holdings Rate	Fixed Income Holdings Rate	Tier Gross Rate	Credit Amount	Tier Annual Rate	Fixed Income Holdings Rate
1	First \$125,000	2.20%	1.10%	1.10%	0.60%	0.25%	1.40%	1.10%	0.30%	0.25%
2	Next \$125,000 (over \$125K up to \$250K)	2.10%	1.10%	1.00%	0.60%	0.25%	1.40%	1.10%	0.30%	0.25%
3	Next \$250,000 (over \$250K up to \$500K)	1.95%	1.10%	0.85%	0.60%	0.25%	1.40%	1.10%	0.30%	0.25%
4	Next \$500,000 (over \$500K up to \$1M)	1.85%	1.10%	0.75%	0.50%	0.20%	1.40%	1.10%	0.30%	0.20%
5	Next \$1 million (over \$1M up to \$2M)	1.75%	1.10%	0.65%	0.40%	0.15%	1.40%	1.10%	0.30%	0.15%
6	Assets over \$2 million	1.60%	1.10%	0.50%	0.25%	0.10%	1.30%	1.10%	0.20%	0.10%

### Account Grouping

Program accounts with the same address of record that are subject to the same fee schedule may be grouped together to achieve lower fee breakpoints. Each strategy category has a separate schedule in the Program Fee Schedules. Only accounts within the same strategy category may be grouped to achieve lower fee breakpoints. Although UMP Wrap and UMP Custom have separate fee schedules, they are considered to be in the same strategy category, and accounts, therefore, may be grouped together to achieve lower fee breakpoints. Accounts in each of the strategy categories are referred to as an “Account Group.” An Account Group may also include accounts of the beneficial owner’s (1) spouse; (2) parents, grandparents, and great-grandparents; (3) children, grandchildren, great-grandchildren, and their spouses; (4) siblings and their spouses; and (5) an individual whose relationship to the beneficial owner, while not listed in the foregoing, is similar to one of the enumerated relationships. UMP Program accounts opened initially at Schwab will be subject to the Account Group criteria described above, but UMP Program accounts originally opened at USAA ISCO and transferred to Schwab as part of the Acquisition retained the groupings assigned to them by USAA ISCO.

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

Schwab automatically groups all eligible accounts opened using the same application form. The account holder must request that any others be added to the Account Group. Individual Retirement Accounts (“IRAs”), Roth IRAs, and Education IRAs, as well as Simplified Employee Pension

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

### MM Compensation

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

### Services Covered by the Program Fee

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

The program fee covers trade executions for transactions in equity securities executed through Schwab as agent (Schwab does not execute equity transactions as principal for either program). The program fee



does not include (1) execution of transactions in fixed income securities by Schwab as principal or (2) execution of transactions in securities by other broker-dealers.

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

### Other Charges and Compensation

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

Schwab has entered into an agreement with USAA ISCO (the “Referral Agreement”) 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 most program accounts. This referral agreement does not apply to UMP Program 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 the programs (with the exception of UMP Program accounts, which are not included) 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.

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

If you choose a strategy that invests in closed-end funds, mutual funds, or ETFs (collectively, “Funds”), you may in effect be paying two fees for asset management or investment services. You will pay your pro rata share of a Fund’s fees. Funds pay investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees and expenses. The Fund bears these fees, but you ultimately bear your share of these fees as a Fund shareholder. Fund fees are disclosed in the Fund’s annual and semiannual report or other materials, which may be available on the Fund’s website or through your investment adviser. You also will pay the program fee on assets invested in closed-end funds or ETF strategies. Mutual funds available through one of the strategies in the programs may also be available directly from the mutual funds pursuant to the terms of their prospectuses and without paying

the program fee (although most such mutual funds are designed specifically for use with the MM’s managed account strategy and are generally not available otherwise). Closed-end funds and ETFs are available outside of the programs without paying the program fee, subject to applicable commissions and/or transaction charges. You also will pay the program fee on assets invested in closed-end fund or ETF strategies.

MMs that have affiliated funds (“MM Affiliated Funds”) in their strategies may have a conflict of interest in deciding whether to purchase and hold shares of those Funds in client accounts, because MMs or their affiliates may earn fees from those Funds. MM Affiliated Funds may pay the MM and/or their affiliates for investment advisory, administrative, and transfer agency services, as well as shareholder and other Fund services (collectively, “Fund Services”). Certain MM Affiliated Funds developed for use with an MM’s separate account strategies may have arrangements whereby they do not pay any advisory or administrative fees to the Fund manager or sponsor. Please refer to the Fund’s prospectus and statement of additional information for more information on fees.

It is possible that MM strategies that use Funds may buy, hold, or sell shares of mutual funds or ETFs that are affiliated with Schwab (“Schwab Affiliated Funds”). ThomasPartners® Strategies and Windhaven® Strategies will not buy ETFs affiliated with Schwab (“Schwab ETFs™”) for retirement accounts. Schwab or its affiliates may receive fees and other compensation from Schwab Affiliated Funds for Fund Services. In addition, Funds (or their affiliates) that are available in the Schwab Mutual Fund Marketplace® (“MF Marketplace”) or Schwab Mutual Fund OneSource® (“MF OneSource”) services pay Schwab fees for record-keeping, shareholder services, and/or other administrative services, and also may pay Schwab fees for additional services or opportunities, such as education and events. Third-party ETF sponsors or their affiliates may make payments to Schwab for ETF-related opportunities, such as education and events and reporting. Schwab does not receive payment to promote any particular 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.

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

### Payment of Program Fees and Other Charges

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

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

## Valuation

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

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

## Amount of Fees

The fees for the Select and Connection programs may be more or less than you would pay if you purchased separately the types of services included in the programs. You may be able to obtain some or all of the types of services available through the programs on a stand-alone basis through Schwab or other firms. For example, you could separately purchase execution services from Schwab, and you could choose to either pay a commission for each transaction or pay an asset-based fee that would cover all transactions. Similarly, you could separately contract with an MM to manage your assets, although the MM's minimum account size for accounts outside the Select and Connection programs may be higher than the minimum for program accounts, and the MM might charge a different fee.

Depending upon the circumstances, the total of any separately paid charges may be higher or lower than the fees for the programs. Factors that bear upon the cost of each of the programs in relation to the cost of the same services purchased separately include, among other things, the type and size of your account (and other accounts that you may be able to combine to determine fee breakpoints), the historical and expected size or number of trades for your account, and the number and range of supplementary advisory and other services provided to your account. The program fee also may be higher or lower than the fees charged by other firms for comparable services. An investment strategy available through the programs may be similar to a mutual fund managed by the same MM, and the operating expenses of such a mutual fund may be lower or higher than the program fee.

Strategies managed by CSIM that are available through the Connection program may be similar to strategies that may be available in programs maintained by other brokerage firms. Because CSIM and Schwab are affiliates, Schwab and its affiliates taken together generate more combined revenue if you open a Connection program account than if you open a Select program account.

MMs that have MM Affiliated Funds in their strategies may have a conflict of interest in deciding whether to purchase and hold shares of those Funds in client accounts, because MMs or their affiliates may earn fees from those Funds. See "Other Charges and Compensation."

## Compensation of SRs

If you are an independent investor, the SR who serves you may be referred to as a Financial Consultant ("FC"), Financial Consultant, Financial Solutions ("Financial Solutions FC") or, if you have been notified of an assignment to a Schwab Independent Branch, an Independent Branch Leader ("IBL") or Independent Branch (IB) Representative. If you are enrolled in SWA, you may have an FC, IBL, or IB Representative and/or a Wealth Advisor ("WA") acting as your SRs, the last of these being an employee of SWAI. The compensation of FCs, WAs, Investment Consultants ("ICs"), IBLs, and IB Representatives is described below. For detailed information on the compensation of

these and other Schwab representatives, please see our website at [schwab.com/representative-compensation](http://schwab.com/representative-compensation).

## Financial Consultants

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

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

## Financial Consultants, Financial Solutions

Financial Solutions FCs assess their clients' financial needs, analyze clients' portfolios, make recommendations from the full array of service solutions offered by Schwab, and provide ongoing service to a client enrolled in a given program. In addition to a base salary, Financial Solutions FCs are eligible to earn a bonus that is determined based on manager discretion, which may include consideration of the quality and frequency of client engagement, client retention, client acquisition, and client satisfaction.

## IBLs and IB Representatives

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

## Wealth Advisors

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

## Investment Consultants

Portfolio Solutions Group Investment Consultants partner with clients who are invested in Schwab Managed Portfolios™ or strategies managed by CSIM that are available through the Connection program. To ensure ongoing suitability of investments, they conduct a periodic, needs-based portfolio assessment and make recommendations from a full array of investment products offered at Schwab. In addition to a base salary, these representatives are eligible to earn a bonus that is funded based on Schwab's performance and determined based on manager discretion, which may include consideration of the quality of the representative's interactions with clients, client satisfaction, teamwork, training, professional development, and accuracy.

## Investment in Affiliated and Other Funds

Cash in your account may be invested in a money market fund sponsored by Schwab or CSIM (an "Affiliated Fund") if the amount of cash to

be invested satisfies the Affiliated Fund's minimum investment requirement. CSIM or another affiliate of Schwab serving as investment adviser to an Affiliated Fund will receive advisory fees from the Affiliated Fund as set forth in the Affiliated Fund's prospectus. CSIM and other affiliates also may receive other compensation from the Affiliated Fund for shareholder servicing, accounting, recordkeeping, expense management, and other administrative services (see the prospectus and statement of additional information for the Affiliated Fund for more information). In UMP Program accounts, Schwab instructs CSIM to allocate cash to the Schwab Government Money Fund™, which has a different objective from the money market fund used in UMP Program accounts before the Acquisition.

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

Your MM may decide to invest cash in your account that is awaiting investment in an ETF. This might occur with a subsequent contribution by you to your account after account opening or during the 30-day wash sale period with respect to sale proceeds resulting from a tax-harvesting request. To the extent assets in your account are invested in an ETF or money market fund, you will in effect be paying for asset management or investment services at two levels—through the fees charged to the ETF or money market fund by the fund manager or sponsor and through the program fee charged to your account. In this case, your MM will be receiving compensation for managing your assets where some part of the assets is invested in an investment fund. It is possible that an ETF may be affiliated with Schwab, in which case certain fund fees and expenses may be payable to Schwab or its affiliates for providing services to the fund. If an MM for an equity or fixed income strategy does buy an ETF for your account, it is possible that the ETF may hold a position in a security which you have restricted from your account.

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

In connection with the Acquisition of the assets of USAA ISCO, Schwab agreed that, subject to its fiduciary duties to UMP Program clients, for a period ending July 21, 2021, it would maintain substantially the same proportion of assets in the UMP Program model allocations in mutual funds for which USAA ISCO's former affiliate, USAA Asset Management Company (now Victory Capital), provides advisory or sub-advisory services. This agreement created a conflict of interest.

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

Schwab earns interest, generally at money market rates, on aggregate cash balances held in Schwab's bank accounts, which include assets in accounts enrolled in the Select or Connection programs that are awaiting investment or pending distribution. Funds awaiting investment include both cash that you have deposited into your account and uninvested amounts held in your account as a result of an authorized transaction. Schwab may earn interest on such amounts through the beginning of the second business day following the deposit or transaction in question. Schwab may earn interest on assets pending distribution from your account beginning on the day the assets are debited from your account and continuing until the distribution check is presented for payment, the timing of which is beyond Schwab's control.

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

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

### **Compensation for Services Outside the Programs**

Schwab and its affiliates and their employees and agents benefit from the compensation you pay to Schwab under the programs. To the extent that you use other products or services Schwab offers, Schwab benefits from this additional compensation. MMs may have other business relationships with Schwab, separate from the programs, in connection with which the MM compensates Schwab for services. For example, an MM may receive (on behalf of clients or otherwise) research, execution, custodial, referral, pricing, and other services offered by Schwab or an affiliate in the normal course of its financial services business. Schwab does not charge MMs a fee to participate in the programs, but Schwab reserves the right to charge MMs fees in the future.

If you do not meet the Schwab money market fund's minimum investment (see "Investment in Affiliated and Other Funds"), cash in your account will be held as a free credit balance in your designated cash feature. As a registered broker-dealer, Schwab may benefit from the possession or use of any free credit balances in your account, subject to restrictions imposed by law.

Schwab may have business relationships with certain MMs and their affiliates outside of the programs in which Schwab receives direct or indirect compensation. Funds that are affiliated with an MM may participate in MF Marketplace and MF OneSource, in which Schwab receives remuneration from the Funds as described below. Certain MMs or their affiliates may also have business relationships with Schwab Advisor Services in which these firms manage client assets outside of the programs; these relationships generate trading, margin, and other revenue for Schwab in the normal course of its business as a broker-dealer.

Schwab 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 receives compensation from the Funds that participate in MF Marketplace. Certain funds or fund families pay a flat fee to compensate Schwab for activities related to Schwab's sponsorship of the MF Marketplace and for providing brokerage services to Schwab's brokerage customers.

Mutual funds in MF OneSource, and some mutual funds participating in MF Marketplace, pay Schwab an asset-based annual fee. For funds participating in MF OneSource, this fee usually equals 0.40% of the average fund assets held at Schwab, but may be as high as 0.45% of the fund assets held at Schwab. At this standard rate, the fund or fund service provider pays Schwab \$40 each year for each \$10,000 in fund assets held by an investor for the shareholder services provided by Schwab. In some cases, Schwab applies a minimum monthly fee of \$2,000 per month per No-Transaction-Fee fund ("NTF Fund"). This minimum monthly fee is applied starting with the first or seventh full month, depending on when the fund family was added to the platform, after the fund is made available for purchase at Schwab and only if the asset-based fee calculated for the month is less than the minimum monthly fee.

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.

Other funds that participate in the MF Marketplace (those that are made available with a transaction fee ["TF Fund"]) 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 TF Fund, depending on when the fund family was added to the platform. This minimum monthly fee is applied starting with the first full month after the fund is made available for purchase at Schwab and only if the asset-based fee calculated for the month is less than the minimum monthly fee. Some of these funds pay Schwab a set dollar amount per customer account in lieu of the low, asset-based fee, typically \$20 per account, but this can range up to \$25 per account annually (a "per-position fee").

## Risk and Taxes

All investments involve the risk (the amount of which may vary significantly) that investment performance can never be predicted or guaranteed and that the value of your portfolio will fluctuate due to market conditions and other factors—see "Certain Risks," below. You should understand that all or a portion of your securities may be sold either at the initiation of or during the course of the management of your account under the programs. You are responsible for all tax liabilities arising from such transactions, and you are encouraged to seek the advice of a qualified tax professional. You should also understand that investments in ETFs by tax-exempt accounts may generate income that is subject to the unrelated business income tax. You are responsible for paying any unrelated business income tax liability associated with your account as well as the timely filing of the applicable tax forms with the Internal Revenue Service ("IRS"). Program accounts, especially accounts with Diversified Portfolios, may have a large number of positions, and trading in those accounts by the MM can result in a fairly large number of transactions to report for tax purposes, which also may require the assistance of a tax professional.

You may choose the cost basis method for calculating gains and losses on securities transactions in your account for tax purposes. If you do not choose the method, Schwab will calculate your gains and losses using the First In, First Out (FIFO) cost basis method for all securities except mutual funds, which means the first shares acquired of a particular security are the first shares that will be sold. The Average Cost method will be used for mutual funds, although lots are sold in a FIFO manner. For Schwab Personalized Indexing™ strategies, Schwab will calculate your

gains and losses using the High Cost Lot (HCLLOT) cost basis method. When an MM sells a security, the cost basis method used to calculate your gains and losses cannot be changed after your trade settles. Your MM's trading authorization includes the ability to select the tax lots they sell in your account. This is known as "versus purchase trading." When an MM places a trade and does not select a lot, the cost basis method listed on your account will be used to calculate your gain or loss.

If you choose to instruct your MM to employ a tax gain/loss harvesting strategy, the actual tax liability will depend on your entire tax and investment profile, including purchases and dispositions in your (or your spouse's) accounts outside of the programs and type of investments (e.g., taxable or non-taxable) or holding period (e.g., short-term or long-term).

There is no guarantee that the tax gain/loss harvesting strategy will reduce, defer, or eliminate the tax liability generated by your investment portfolio in any given tax year. Schwab does not represent that any particular tax consequence will be obtained, and you should consult with your professional tax advisors about the consequences of tax gain/loss harvesting in light of your particular circumstances.

## Termination of Participation in the Programs

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

If you terminate the MM for a managed account with a fixed income strategy that holds shares in a mutual fund developed for use with that strategy, your shares in that mutual fund will be liquidated by the MM. You will not have the option of retaining those shares. If you terminate an account with a strategy that uses certain classes of no-load or load-waived shares, you may no longer be eligible to hold those shares, in which case your shares will be converted to an eligible share class that may have sales loads and/or transaction fees.

Depending on current market conditions, if you terminate an MM for a fixed income strategy and direct the sale of the bonds in your account, the MM may need additional time to sell your bonds (particularly municipal bonds) at a desirable price. In this situation, your SR will inform you and give you the option of (i) allowing the MM to have additional time to sell your bonds, and the program fee will continue to apply to assets that remain in your account during this process; or (ii) holding the bond in an account that is not managed by the MM and waiting until the bond matures or directing the sale of it yourself at some later date (without the MM's execution capabilities). There can be no assurance as to how long it might take to obtain a desirable price for your bonds or whether a desirable price can be obtained.

Depending on the size of your account, some bonds may be purchased for your account by fixed income MMs in positions that are smaller than marketable round lots (sometimes called "odd lots"). If you have an odd-lot bond, it may be more difficult to sell than a round lot, and the sale price may be substantially lower than the price which you paid or the price at which the position previously was valued. If you decide to terminate your participation in a program and do not plan to hold the odd lot until maturity, it may be advisable for you to direct the sale of the odd lot when you terminate your program participation, as the MM may be able to obtain a better price for it than Schwab or another broker-dealer.

## Funding and Adding Securities to Your Account

You may fund your account with cash, certain mutual fund shares, ETFs, common stocks, investment-grade bonds, or the shares of certain real

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

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

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

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

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

### **Types of Clients**

The programs are intended for clients seeking discretionary management of their account for a bundled fee. Clients of the programs may include individuals, trusts, incorporated and non-incorporated organizations, and pension and profit-sharing plans. ERISA-Type Accounts are only eligible for certain strategies in the Connection program, and certain ERISA-Type Accounts may, at Schwab's discretion, not be eligible for the program.

As described above, the UMP Program is closed to new enrollments by new clients. Only clients who already had UMP Program accounts as of May 26, 2020, are able to open new UMP Program accounts.

### **Account Minimums**

Minimum account sizes apply to each investment strategy in the Select and Connection programs. In the Select program, the minimum account size for an Equity strategy is generally \$100,000; the minimum account size for Balanced, Equity Index, and Fixed Income strategies is generally \$250,000; and the minimum account size for Diversified Portfolios ranges from \$150,000 to \$650,000.

In the Connection program, the minimum account size for Equity, Diversified, Balanced, and Index-Based strategies is generally \$100,000; the minimum account size for Fixed Income and Municipal Bond Ladder strategies is generally \$250,000; the minimum account size for Ultra-Short strategies is generally \$10,000,000. Within the UMP Program, the minimum account size for strategies in UMP Wrap is \$25,000, and the minimum account size for strategies in UMP Custom is generally \$500,000. Certain types of securities and asset allocation strategies have higher minimums. From time to time, Schwab may reduce the minimum account size for groups of clients, including SRs with accounts in certain programs. Additional contributions to accounts managed by certain MMs may be subject to minimum amount requirements so that additional contributions of less than the minimum requirement will be held as cash or cash investments and earn interest or be invested in a money market fund as specified by you in your account application.

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

## **Retirement Accounts**

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

## **Portfolio Manager Selection and Evaluation**

### **Select Services**

CSIA is responsible for MM evaluation and research services in the Select program. Before an MM is selected to participate in the Select program, Schwab, with the assistance of its affiliate, CSIA, performs a comprehensive review of the MM and its investment strategy. Schwab's review may include, among other things, assessing information about the MM and its investment strategy collected from third-party sources and information received directly from the MM.

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

In determining whether to recommend to Schwab that an MM and its investment strategy be included in or terminated from the Select program, CSIA evaluates information from both quantitative and qualitative analyses. CSIA's review includes assessing information about the MM and its investment strategy collected from third-party sources and information received directly from the MM through on-site visits, interviews, and/or questionnaires.

For its quantitative analysis, CSIA uses a proprietary scoring system that combines multiple characteristics into a single score which represents the expected future relative performance rank of the MM's investment strategy within its style category. The characteristics considered generally include (i) past performance adjusted for risk and style effects and measured over multiple, non-overlapping time horizons; (ii) assets under management; and (iii) cash inflows. In its qualitative analysis, CSIA generally considers a variety of investment criteria, including:

- Historical style consistency
- Appropriateness of the strategy for the style category
- The MM's investment strategy and adherence to it
- Diversity of investment approach versus that of other strategies in the Select program
- Stability of management and ownership structure
- Governance program of the management company
- Quality of composite return information

As part of its qualitative analysis, CSIA evaluates the MM's operational infrastructure, compliance program, trade procedures, and internal control environment to assess the MM's overall operational competency.

CSIA evaluates each MM's investment strategy no less than annually based on the factors described above, except that operational due diligence is performed generally at least once every three years. Changes within an MM's organization or operations that, in CSIA's judgment, warrant review before the regular annual review will be reviewed at that time by CSIA. As a result of these reviews, an MM's investment strategy may be terminated from the Select program or put on a watchlist. If an MM's

investment strategy is put on a watchlist, it will still be available for new accounts but may ultimately be removed from the program if no improvement occurs. Schwab reserves the right to terminate an MM's investment strategy from the Select program at any time for any reason.

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

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

### **Diversified Portfolios**

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

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

The overlay manager is authorized to make adjustments if one or more Component Strategies in your account becomes over- or underweighted from the Asset Allocation as a result of market appreciation or depreciation. Such adjustments will generally be made by the overlay manager when the proportion of equity securities to fixed income securities varies by 5 or more percentage points from the Asset Allocation or when the proportion of one Strategy varies by more than 10 percentage points from the Asset Allocation. As a result of these potential allocation adjustments, the performance of a Component Strategy in a Diversified Portfolio account may differ from the performance of that Component Strategy in a separate account.

The overlay manager may also monitor your Diversified Portfolio account to make sure your investment restrictions are implemented across all

Component Strategies. For taxable accounts, the overlay manager will generally monitor and avoid wash sales.

The following overlay managers—Nuveen Asset Management, LLC ("Nuveen") and Parametric Portfolio Associates LLC ("Parametric")—and the Sub-MMs for their Diversified Portfolio strategies were selected by Schwab for the Select program based on a number of factors, including the following: (i) the reputation, historical performance, and organizational stability of the overlay managers and the Sub-MMs; (ii) the overall performance of the Diversified Portfolio strategies based on the combined performance of the Component strategies (calculated on a hypothetical basis); (iii) the fact that most of the Sub-MMs are affiliates of the overlay manager and have pre-existing working relationships with the overlay manager in other multi-strategy portfolios; (iv) many of the Sub-MMs for the Diversified Portfolio strategies were already in the Select program on a stand-alone basis and have already gone through the selection and review process described under "Select Services"; and (v) the Sub-MMs and overlay managers met Schwab's business criteria for multi-strategy portfolios in the Select program, including the MM fee structure, account minimums, utilization of the program's portfolio management system, and execution of Schwab's service agreement. If Schwab (with the Research Provider's assistance) had conducted a wider search for the Sub-MMs and Component strategies that comprise the Diversified Portfolio strategies, it is possible that other Sub-MMs or Component strategies could have been chosen that would have been ranked higher by the Research Provider than those selected. The Research Provider has evaluated each Sub-MM for investment performance, style adherence, and organizational stability, among other factors, and will continue to monitor the Sub-MMs and Diversified Portfolios on at least an annual basis.

A Sub-MM may be terminated and replaced by the overlay manager and Schwab without your approval. Similarly, Schwab and the overlay manager may also agree to change the percentages of the Asset Allocation without your approval. If you have a Diversified Portfolio strategy in which a Sub-MM is terminated and replaced, or if the percentages of the Asset Allocation are changed, you will be notified by Schwab as soon as reasonably practicable.

### **USAA Managed Portfolios—UMP®**

The UMP Program available in the Connection program includes UMP Wrap (a mutual fund and ETF wrap program) and UMP Custom (a unified managed account program). UMP Wrap offers clients a portfolio of investments that may be composed of mutual funds, money market funds, and/or ETFs in a single account that is managed on a discretionary basis by CSIM. UMP Custom offers clients a portfolio of investments that may be composed of mutual funds, money market funds, ETFs, ADRs, and one or more investment strategies with underlying assets including, but not limited to, individual stocks and bonds (each a "Sub-strategy"). UMP Custom involves CSIM managing assets on a discretionary basis and acting as the overlay manager, and other MMs for the Sub-strategies providing model investment portfolios or research (each a "Sleeve Manager") to CSIM. The functions CSIM performs as the overlay manager may vary. Although CSIM will have all the trading responsibility for all of the Sub-strategies; it is possible that sometimes the Sleeve Manager(s) may have all of trading responsibility; and sometimes CSIM and the Sleeve Manager(s) may allocate trading responsibility among themselves depending on the type of trading activity.

The Sleeve Managers for UMP Custom were selected by USAA ISCO prior to the Acquisition. If Schwab (with the Research Provider's assistance) or CSIM had conducted a search for the Sleeve Managers and Sub-strategies available in the UMP Custom strategies, it is possible that other Sleeve Managers and Sub-strategies could have been chosen. USAA ISCO has evaluated each Sleeve Manager prior to the Acquisition, and CSIM will continue to monitor the Sleeve Managers and Sub-strategies on at least an annual basis. A Sleeve Manager may be terminated and replaced by CSIM and Schwab without your approval.

UMP Program strategies are available with seven asset allocation models, each with varying percentages that correspond to risk tolerance levels including very aggressive, aggressive, moderately aggressive,

moderate, moderately conservative, conservative, and 100% fixed income ("Model Portfolios"). Some Model Portfolios are available only in UMP Custom, and within each Model Portfolio, the types of assets and services offered will vary between Wrap Program accounts and Custom Program accounts. Each Model Portfolio contains a strategic asset allocation, as well as specific investments to fill the asset allocation. Please note that although some Model Portfolios are designed to minimize risk (and therefore offer diminished potential returns on your investment), all investments in securities involve a risk of loss, including the loss of your initial investment. CSIM and Schwab may agree to change the strategic asset allocation percentages of the Model Portfolios without your approval.

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

### About CSIM

CSIM is an affiliate of Schwab and acts as the investment manager for certain strategies in the Connection program, the Schwab Managed Portfolios™ wrap fee program, and the Affiliated Funds. CSIM also manages strategies similar to those available through the Connection program on platforms sponsored by firms other than Schwab. Schwab has a conflict of interest in including an affiliated MM in the Connection program. CSIM has potential conflict of interest in managing different strategies that may use or consider the use of the same securities—e.g., ETFs in the Windhaven® Strategies, the UMP Program strategies, Schwab Managed Portfolios, and Affiliated Funds.

### Connection Services

CSIM is currently the only Schwab-affiliated MM available in the Connection program. The MM investment strategies in the Connection program, including CSIM, are not subjected to the evaluation and ongoing due diligence process used by Schwab and CSIA for the Select program, but are subject to a periodic due diligence review conducted by an unaffiliated third-party consultant, hired by Schwab, which reviews operational risk in areas such as governance and organizational structure as well as compliance.

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

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

### Information About MMs

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

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

### Non-Exclusive Relationship

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

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

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

### Client Information Provided to Portfolio Managers

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

### Additional Information

#### Disciplinary Information

The SEC and other regulatory agencies and organizations have taken certain disciplinary actions against Schwab for violations of investment-related statutes, regulations, and rules. The 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 primarily engaged in business as a broker-dealer and spends most of its time on that business. Schwab is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of FINRA and SIPC. We provide brokerage services to clients located throughout the United States and, in some circumstances, outside the United States. Incidental to our broker-dealer business, we offer our clients a variety of investment information services and products, including seminars, periodicals, reports, guides, planning tools, brochures, and other publications about securities and investment techniques and insurance. We also provide certain online data and financial reporting services.

Schwab is also registered as an investment adviser under the Investment Advisers Act of 1940. As sponsor of the Select and Connection programs, Schwab is acting as both a Registered Investment Adviser and broker-dealer. Schwab provides investment advisory services outside of the context of the Select and Connection programs. With Schwab Advisor Network®, Schwab makes referrals of investment advisers to investors who are looking for assistance in managing their assets and/or other financial planning activities. Advisors participating in Schwab Advisor Network are independent and not affiliated with Schwab. Investment advisers pay a fee to participate in the Schwab Advisor Network program.

Schwab also acts as a Registered Investment Adviser for other programs, including Schwab Managed Portfolios™ (a mutual fund and ETF wrap program), Schwab Intelligent Portfolios Solutions™ (automated discretionary managed account programs), and Schwab Wealth Advisory™ (investment advisory and brokerage services), and when we provide financial planning services through the Schwab Personal Financial Plan™, Schwab Retirement Consultation, and Schwab Equity Compensation Consultation.

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

### **Schwab Affiliates**

Schwab is a wholly owned subsidiary of CSCorp, a Delaware corporation that is publicly traded and listed on the NYSE (symbol: SCHW).

Other wholly owned subsidiaries of CSCorp are engaged in investment advisory, brokerage, trust, custody, or banking services. CSIA is 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®. In addition to managing certain strategies in the Connection program, CSIM also manages the Schwab Managed Portfolios wrap fee program and provides

advisory and administrative services to certain proprietary mutual funds and exchange-traded funds marketed under the Schwab Funds® and Schwab ETFs™ names.

CSIM is an affiliate of Schwab that is described under the heading “About CSIM.”

In addition, Schwab has several affiliates and/or units engaged in various aspects of the retirement plan business. Charles Schwab Bank, SSB (“Schwab Bank”) provides custodial and other trust services to Schwab customers and affiliates in relation to retirement plans, including, but not limited to, 401(k) plans. The Schwab Corporate & Retirement Services division provides custodial services and administrative and recordkeeping support to Schwab corporate customers and their employees in connection with retirement and stock option plans and the monitoring of trading in employee accounts.

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

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

Schwab has various ethical standards, including a code of ethics adopted pursuant to SEC Rule 204A-1 under the Investment Advisers Act of 1940 (the “Code”). The Code is intended to reflect fiduciary principles that govern the conduct of Schwab and its supervised persons in those situations where Schwab acts as an investment adviser as defined under the Investment Advisers Act of 1940 in providing investment advice to clients. As a general matter, the Code requires that Schwab’s covered persons (including SRs) comply with applicable federal securities laws, report violations of the Code, and (for those persons who are deemed “access persons” by virtue of their involvement in providing investment advice or access to certain related information) report their personal transactions and holdings in certain securities periodically and get pre-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 Schwab’s Code is available on request.

Schwab has imposed policy restrictions on all personnel with respect to transactions for their own accounts and accounts over which they have control or a beneficial interest. These include restrictions on SR purchases of stocks on the “Restricted List,” which includes securities for which Schwab is engaged in certain activities involving public offerings. SR trading restrictions also prohibit unacceptable trading practices such as front running, crossing trades with customers, and insider trading.

### Addressing Potential Conflicts

The compensation of SRs described above creates a potential conflict of interest when an SR recommends to you or discusses with you one of these programs, MMs, or investment strategies available through the programs. Schwab addresses these conflicts in a variety of ways, including monitoring for compliance with the Code and establishing advice policies and guidelines that SRs must follow when making recommendations. SRs are supervised by their direct managers and by a Central Supervision Team for compliance with Schwab's advice policies and guidelines.

Supervisors who oversee SRs review a variety of factors at least once per year, including, but not limited to, client appropriateness, asset allocation data, and internal notes to verify that both the program and investment strategy 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. Centralized Supervisors do not participate in or influence the compensation programs outlined above, and they monitor daily SR overall activity to identify and address any actions that may not be in the best interest of the client.

### Personal Trading

Schwab monitors the personal securities holdings and trading of SRs. Schwab reviews SR 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, SRs 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.

### Review of Accounts

Schwab will contact clients at least once a year in an effort to confirm whether the management of the client's program account continues to reflect the client's investment objectives and financial requirements and/or whether a different investment strategy might be appropriate. Clients who have experienced material changes to their financial circumstances or investment objectives, or who wish to impose or modify restrictions on the management of their program accounts, should promptly inform an SR. The SR is available to consult with you about whether you may want to add or change investment strategies or MMs because of a change in your situation, the MM, or its strategy (such as the departure of a portfolio manager).

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

### Schwab's Participation or Interest in Client Transactions

Consistent with applicable law and regulations, Schwab may execute trades for fixed income securities as principal. Schwab does not act as principal for equity trades in either program and will not execute fixed income trades as principal for accounts managed by affiliated MMs. Schwab will execute fixed income principal transactions only when an MM believes you will receive at least as favorable an execution as would be the case were the transaction executed through another dealer. When Schwab executes orders in fixed income securities as principal, Schwab may receive compensation in connection with such transactions in the form of a dealer markup or markdown. Such compensation is separate from and in addition to, and will not reduce or otherwise offset, the program fee for your account. Please refer to "Schwab's Execution Services" under "Services, Fees and Compensation" for more information.

Schwab may also effect agency cross-trades (except with respect to accounts managed by CSIM) to the extent permitted by applicable law and regulations and Schwab's internal policies. "Agency cross-trades" are transactions in which Schwab acts as adviser to one side of the transaction (in Schwab's role as program sponsor) and broker for the parties on both sides of the transaction. Schwab may receive compensation from the client on the other side of the transaction (the amount of

which may vary). Thus, Schwab may have a potentially conflicting division of loyalties and responsibilities. If Schwab effects an agency cross-transaction for your account, the confirmation for the transaction will disclose that Schwab or its affiliate acted as agent for both buyer and seller in the transaction. The compensation received by Schwab from the other client is in addition to the program fees. While such compensation, in theory, could create a potentially conflicting division of loyalties and responsibilities, all transactions in the programs are directed by the MM, and Schwab will be acting solely as a broker-dealer in connection with such trades.

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

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

### Financial Information

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

### Certain Risks

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

**Systematic or Market Risk.** Equity, Fixed Income, and other global capital markets rise and fall daily. The performance of client investments is, to varying degrees, tied to these markets. When markets fall, the value of a client's investments will fluctuate, which means a client could lose money.

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

**Management Risk.** MMs generally make investment decisions for particular investment strategies using historical information. There is no guarantee that a strategy based on historical information will produce the

desired results in the future. In addition, if market dynamics change, the effectiveness of that kind of strategy may be limited. Either of these risks may cause the investment strategy of a particular MM to underperform its benchmark (where a benchmark has been specified) or similar investment strategies managed by different MMs. There also can be no assurance that all of the key personnel will continue to be associated with the fund for any length of time.

#### **Cybersecurity Risk**

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

#### **Equity Risks**

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

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

**Small-Cap, Micro-Cap, and International Risk.** Historically, small-cap, micro-cap, and international stocks have been riskier than large- and mid-cap stocks. Stock prices of smaller companies may be based in substantial part on future expectations rather than current achievements and may move sharply, especially during market upturns and downturns. Small-cap and micro-cap companies themselves may be more vulnerable to adverse business or economic events than larger, more established companies. International companies may carry additional risks such as currency fluctuation and the potential for less liquid markets, and may be more vulnerable to geopolitical factors than U.S. companies. Investing in emerging markets may accentuate these risks. International stocks also include American Depositary Receipts (ADRs), which may be less

liquid than the underlying shares in their primary trading market. During a period when small-cap, micro-cap, and/or international stocks fall behind other types of investments—bonds or large-cap stocks, for instance—the performance of investment strategies focused on small-cap, micro-cap, or international stocks will lag behind the performance of bonds or large-cap stocks. Another risk that pertains to micro-cap stocks involves the low volumes of trades. Since micro-cap stocks tend to trade in low volumes, any size trade can potentially have a large percentage impact on the price of the stock.

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

#### **Preferred Securities Risks**

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

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

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

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

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

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

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

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

#### **Fixed Income Risks**

**General.** Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks, including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. Income may be subject to the Alternative Minimum Tax (AMT), and capital appreciation from discounted bonds may be subject to state or local taxes. Capital gains are not exempt from federal income tax.

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

**State and Regional Factors.** To the extent that your fixed income portfolio is invested in securities from a given state or geographic region, its value and performance could be affected by local, state, and regional factors, including erosion of the tax base and changes in the economic climate. National governmental actions, such as the elimination of tax-exempt status, also could affect performance. In addition, your portfolio may be more sensitive to adverse economic, business, or political developments if a substantial portion of it is invested in municipal securities that are financing similar projects. Your portfolio may also have more exposure to the risks of a given issuer than a diversified bond fund.

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

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

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

**High-Yield Risk.** Investments that hold high-yield securities and unrated securities of similar credit quality (sometimes called junk bonds) are subject to greater levels of credit and liquidity risks. High-yield securities generally have a higher risk of default; therefore, they generally pay a higher yield than investment-grade bonds. High-yield securities may be considered speculative.

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

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

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

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

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

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

#### **ETF Risks**

MMs may use ETFs to gain exposure to different asset classes (e.g., stocks, foreign securities, fixed income securities, etc.) in addition to investments in securities. Shares of ETFs trade on the secondary market, and cannot be directly purchased from or redeemed by the Fund. Shares of ETFs may trade above or below their NAV. The per-share NAV of an ETF is generally calculated at the end of each business day, and will generally fluctuate with changes in the market value of the ETF's holdings. The market prices of shares of ETFs, however, will generally fluctuate continuously throughout the trading day in accordance with the relative supply of, and demand for, the shares on the exchange on which such shares are listed, which may not correlate with NAV. The trading price of shares of an ETF may deviate significantly from the ETF's per-share NAV during periods of market volatility. Price differences may be due to the fact that supply and demand forces at work in the secondary trading market for shares of an ETF are closely related to, but not identical to, the same forces influencing the prices of the securities held by

the ETF. ETFs are subject to secondary market trading risks. Shares of an ETF will be listed for trading on an exchange; however, there can be no assurance that an active or liquid trading market for them will develop or be maintained. There can be no assurance that the requirements of the exchange necessary to maintain the listing of the ETF shares will continue to be met or will remain unchanged.

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

#### **Options Risks**

Options carry a high level of risk and are not suitable for all investors. Certain requirements must be met to trade options through Schwab. Please read the options disclosure document titled "Characteristics and Risks of Standardized Options," as published by the Options Clearing Corporation, by visiting <http://www.optionsclearing.com/about/publications/character-risks.jsp>.

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

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

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

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

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

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

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

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

**MLP Operating Risk.** The price of units in an MLP and the cash flows the MLP generates and distributes to unit holders are subject to various risks associated with the business and activities conducted by the MLP,

which vary based on the MLP's applicable sector or sub-sector, including the following:

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

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

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

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

**Conflicts of Interest Risk.** MLPs are controlled by their general partners. MLPs are not governed by a board of directors. Unit holders have limited

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

**Tax Risk.** MLPs are generally taxed as partnerships, meaning that their income, gains, losses, and expenses are passed through to their unit holders, who receive a Schedule K-1 each year. MLPs can pass through their deductible depreciation or depletion expenses, which causes a portion of the distributions to consist of a return of capital, with the remaining balance classified as taxable income. While this feature provides potential tax benefits, it also creates burdensome tax reporting obligations to unit holders. Unit holders may be subject to state and local taxes (in addition to federal taxes) on the MLP's income allocable

to them. It is possible that, at times, unit holders may recognize their share of the MLP's taxable income without receiving distributions in amounts equal to such share of income or in amounts sufficient to cover the taxes owed on such income. Many MLPs pay distributions in amounts that exceed their net income, often significantly so. As a result, a portion of distributions made to unit holders is classified as return of capital, not as an income distribution or return on capital. Such portion reduces the unit holder's tax basis in the units and results in a larger gain upon sale. A significant amount of the distributions are subject to recapture and taxed as ordinary income upon sale of the MLP units. An investment in an MLP may not be ideally suited for an IRA or other tax-exempt or tax-deferred account because some of the benefits of tax-deferred distributions may not be fully realized and some of the income allocable to the account may be subject to unrelated business income tax. Investments in MLP funds also can have varying tax consequences. Moreover, the tax treatment of MLPs could be subject to potential legislative, judicial, or administrative changes or differing interpretations. A change in an MLP's business or other actions taken or not taken by an MLP could cause the MLP to lose its status as a partnership for tax purposes, which may cause the MLP to pay federal income tax on its income at the corporate tax rate. If an MLP were classified as a corporation for tax purposes, the amount of cash available for distribution would be reduced and part or all of the distributions might be taxed as dividend income. Investors should consult with their tax advisors before investing in MLPs or MLP funds.

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

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