



March 31, 2023

# Summary of Material Changes to the Charles Schwab & Co., Inc. Advice Services With Morningstar Investment Management LLC Disclosure Brochure (Form ADV Part 2A)

Since March 31, 2022

## Introduction

Charles Schwab & Co., Inc. ("CS&Co") is required under the Investment Advisers Act of 1940 (the "Advisers Act") to create and provide to clients disclosure brochures for the investment advisory services we provide. The Advisers Act also requires that we update our disclosure brochures annually and provide existing clients with a summary of the material changes to the brochure(s) for their service since the date of the last annual update.

**If you'd like to receive a copy of any of these updated disclosure brochures, please call 1-877-566-9109 (or +1-415-667-8400 when calling from outside the U.S.) or email [updateddisclosures@schwab.com](mailto:updateddisclosures@schwab.com). You can also find copies of our latest disclosure brochures on the website of the United States Securities and Exchange Commission (SEC) at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

This document summarizes the material changes the Charles Schwab & Co., Inc. Advice Services With Morningstar Investment Management LLC Disclosure Brochure has undergone since March 31, 2022. This brochure has also undergone various non-material changes since the last annual revisions were made. Such changes—normally small edits made to enhance clarity—are not described below.

- **Services.** Schwab has added disclosures regarding the use of affiliated and third-party funds used in the program.
- **Schwab Affiliates.** Schwab has enhanced its disclosures regarding its current relationships with affiliates.
- **Disciplinary Information.** Schwab has added a disclosure regarding its 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.

Securities, products, and services are not available in all countries and are subject to country-specific restrictions.



Effective Date: March 31, 2023

# **Charles Schwab & Co., Inc. Advice Services With Morningstar Investment Management LLC Disclosure Brochure**

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This brochure provides information about the qualifications and business practices of Charles Schwab & Co., Inc. ("CS&Co"). If you have any questions about the contents of this brochure, please contact us at the phone number above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Schwab's description of itself in this brochure as a registered investment advisor does not imply a certain level of skill or training on the part of Schwab or its representatives.

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

## Contents

Advisory Business .....	2
Fees and Compensation .....	4
Performance-Based Fees and Side-by-Side Management .....	5
Types of Clients .....	5
Methods of Analysis, Investment Strategies, and Risk of Loss .....	5
Cybersecurity Risk. ....	5
Disciplinary Information. ....	6
Other Financial Industry Activities and Affiliations .....	6
Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading .....	7
Brokerage Practices. ....	9
Review of Accounts .....	9
Client Referrals and Other Compensation .....	9
Custody. ....	9
Investment Discretion .....	9
Voting Client Securities .....	9
Financial Information .....	9

## Advisory Business

### About Schwab

Charles Schwab & Co., Inc. ("CS&Co") is a wholly owned subsidiary of The Charles Schwab Corporation ("Schwab"), a Delaware corporation that is publicly traded and listed on the NYSE (symbol: SCHW). CS&Co has been registered as an investment advisor under the Investment Advisers Act of 1940 (the "Advisers Act") since 1987. In addition to the Advice Services described in this Brochure and defined below, CS&Co provides other investment advisory services to individuals and institutions.

There are two different investment advisory services (referred to collectively as the "Advice Services") described in this Brochure. These services are offered by Schwab Retirement Plan Services, Inc. ("SRPS"), an affiliate of CS&Co. These services are made available as features to defined contribution plans (each, a "Plan," and collectively, "Plans") where SRPS is appointed as Plan recordkeeper, within two different service variations (collectively referred to as the "Platforms"): Platform 1 ("Platform 1") and Platform 2 ("Platform 2"), as further described in this Brochure. The first Advice Service described in this Brochure is defined as Managed Account Services (each a "Managed Account Service") where the Plan sponsor or other named fiduciary ("Sponsor") has appointed Morningstar Investment Management LLC ("Morningstar®") as the independent investment advisor to manage assets on a discretionary basis in the Plan accounts of Plan Participants ("Participants"). The second Advice Service described in this Brochure is defined as a Non-Discretionary Advice Service, where the Sponsor has appointed Morningstar Investment Management as the independent investment advisor to provide investment advice on a non-discretionary basis for the Plan accounts of Participants.

The key difference between the two Managed Account Services described in this Brochure relates to the type of investments used within each Platform, as more fully described in the Brochure, and to whether the Managed Account Services are a required feature of the Platform. As a requirement of Platform 1, a Sponsor must elect to make the Managed Account Service available to Plan Participants. Sponsors using Platform 2 may elect either or both the Managed Account Service and the Non-Discretionary Advice Service be made available to Plan Participants within the same Plan. Participants in Plans using Platform 2, where the Sponsor has selected both the Managed Account Service and the Non-Discretionary Advice Service be made available within the same Plan, may elect to receive either the Managed Account Service or the Non-Discretionary Advice Service, but a Participant may not elect both services at the same time. The key difference between the Managed Account Service and the Non-Discretionary Advice Service available in Platform 2 is the type of investment advisory services that Morningstar Investment Management provides to Participants and the respective costs of the services, as described later in this Brochure.

### Platform 1

The Sponsor has selected both Platform 1 and the Managed Account Service on behalf of one or more Plans.

#### Important Information About the Managed Account Service in Platform 1

The Sponsor directs CS&Co and SRPS to make the Managed Account Service available to Plan Participants. Investment options (also referred to as "Funds") in the Managed Account Service in Platform 1 are limited to eligible investments chosen by Sponsors from a list of either index mutual funds or exchange-traded funds ("ETFs") selected and made available by SRPS through Platform 1 (the "List"). CS&Co does not select Funds for the List. The List is provided by SRPS. The List is available through Platform 1, independent of the Managed Account Service. Funds that the

Sponsor selects for the Plan ("Plan Fund Lineup") are used for the purposes of constructing the portfolios for the Plan as part of the Managed Account Service. The Sponsor may make other investment options available in the core lineup to Participants under the Plan, with certain restrictions; however, these other investment options will not be used by Morningstar Investment Management for purposes of constructing the portfolios for the Plan as part of the Managed Account Service for Platform 1, unless on an exception basis as agreed to in advance by SRPS, Morningstar Investment Management, and the Sponsor.

Also as part of Platform 1, the Sponsor may select Schwab Bank Savings ("SBS"), a capital preservation feature for investment of capital preservation allocations within the Managed Account Service. For Plan Sponsors selecting ETFs for their Plan's Fund Lineup, SBS is a required feature of Platform 1. When SBS is selected, a money market deposit account ("MMDA"), a type of savings deposit, is established at Charles Schwab Trust Bank ("Trust Bank"). The MMDA is intended to bear interest at a reasonable rate as determined by Trust Bank prior to the last business day of each calendar month. Please refer to the Schwab Bank Savings Terms and Conditions for additional information.

As part of Platform 1, the Sponsor is currently required to select a minimum of 10 asset categories for its Plan's Fund Lineup. Of these 10 asset categories currently required by the Program, 5 categories are mandated by the Managed Account Service. SBS may be selected as the capital preservation vehicle under Platform 1. Of the remaining four categories mandated by the Managed Account Service, three or more are comprised solely of a Fund managed by an affiliate of Schwab ("Schwab Fund" or "Schwab Funds®"). Neither CS&Co nor SRPS advises Plans on selection of Funds from the List for a Plan's Fund Lineup, but SRPS will provide the Sponsor with tools and information. In each category, if a Schwab Fund is available and the Schwab Fund otherwise meets the eligibility criteria, that Schwab Fund is included as an available Fund under the List for that category. In some categories under the List, a Schwab Fund is one option along with one or more unaffiliated Funds; in other categories under the List, the Schwab Fund is the sole Fund option or options.

Platform 1 features an automatic savings increase for Plans that offer an employee deferral contribution, by which Participants' Plan contribution rates are increased annually in incremental percentages and result in more assets invested within the Participant's Managed Account. The Sponsor determines the annual savings adjustment, up to the Internal Revenue Code limit or a lesser percentage. Participants may opt out of the automatic savings increase feature or elect an alternative savings increase schedule without opting out of the Managed Account Service in its entirety. As part of the Plan's conversion to Platform 1, the Sponsor must provide direction to SRPS with respect to which Participants will be defaulted into the Managed Account Service as provided for under Section 404(c)(5) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and relevant Department of Labor regulations. However, prior to finalizing the conversion to Platform 1, existing Participants may elect to make their own investment selections and not use the Managed Account Service.

Once a Plan is converted to Platform 1, for Plans using an automatic enrollment feature (which means that newly eligible employees are automatically enrolled as provided for under the terms of the Plan), the Managed Accounts in the Plan are structured to be consistent with the qualified default investment alternative ("QDIA") provisions under ERISA. As such, Participants subject to automatic enrollment will be defaulted into the Managed Account Service unless they elect otherwise. However, if the Plan does not use an automatic enrollment feature, then, once a Plan is converted to Platform 1, newly eligible Participants will not be defaulted into the Managed Account Service. In that

event, participation in the Managed Account Service will only occur upon an affirmative election by the newly eligible Participant. Any Participant not using the Managed Account Service may select the Managed Account Service at any time.

Because the Managed Account Service is a mandatory feature of Platform 1, if the Sponsor terminates the Plan's participation in either Platform 1 or the Managed Account Service, the Sponsor will also have terminated the Plan's participation in the other as well. However, as long as the services of more than one unaffiliated investment advisor ("Provider") are available under Platform 1, the Sponsor may elect to change the Provider to provide the Managed Account Service with respect to the Plan without terminating the Plan's participation in the Managed Account Service or Platform 1.

Based on information collected about a Participant, Morningstar Investment Management presents the Participant with a portfolio that allocates the Participant's account balance among the investment options available through the Plan as selected by the Sponsor. The Participant may accept or reject the Managed Account recommendation. If the Participant accepts the Managed Account recommendation, Morningstar Investment Management will instruct Schwab to place the trades necessary to effect that Managed Account. For plans that offer an employee deferral contribution, the Managed Account Service will also recommend a savings rate. It is the Participant's responsibility to monitor the Managed Account received through the Managed Account Service and to review the investment performance of the account.

Plan Participants may terminate their use of the Managed Account Service available in Platform 1 at any time by making their own independent investment selections online through their account at [workplace.schwab.com](http://workplace.schwab.com) or by calling SRPS at 1-800-724-7526.

## Platform 2

SRPS offers the Managed Account Service and the Non-Discretionary Advice Service as optional features to Plans for which it serves as recordkeeper within Platform 2. The Sponsor has selected SRPS as Plan recordkeeper, Platform 2, and either or both the Managed Account Service and the Non-Discretionary Advice Service on behalf of one or more Plans. If the Sponsor terminates the Plan's participation in the Managed Account Service or the Non-Discretionary Advice Service, the other features and options of Platform 2, including the provision of Plan recordkeeping services by SRPS, continue to be available.

Also, as part of Platform 2, the Sponsor may select SBS, a capital preservation feature for investment of capital preservation allocations within the Managed Account Service. When selected, SBS provides Participants with the ability to deposit all or a portion of the funds in their Plan account into a Money Market Deposit Account ("MMDA"), a type of savings deposit, established by the Plan at Charles Schwab Trust Bank ("Trust Bank"). The MMDA is intended to bear a reasonable rate of interest as determined by Trust Bank prior to the last business day of each calendar month. Please refer to the Schwab Bank Savings Terms and Conditions for additional information.

### Important Information About the Managed Account Service and Non-Discretionary Advice Service Available in Platform 2

The Sponsor directs CS&Co and SRPS to make either or both the Managed Account Service and the Non-Discretionary Advice Service available to Plan Participants. Investment options (also referred to as "Funds") in Platform 2 are selected from a list made available by SRPS, as applicable, and will include a wider range of investments (the "Fund Universe") than is available under Platform 1. The Fund Universe is comprised of Schwab Funds®, unaffiliated actively and passively managed mutual funds and collective trust funds, and one or more cash investment options, including SBS. Exchange-traded funds are not available within the Fund Universe.

CS&Co does not select Funds for the Fund Universe; the List is provided by SRPS. The Fund Universe is available in Platform 2, independent of the Advice Services. The Sponsor may request that certain Funds otherwise available in the core lineup not be used by Morningstar Investment Management for purposes of constructing the portfolios for the Advice Services, subject to agreement in advance by Morningstar Investment Management. Neither CS&Co nor SRPS advises Plans on the selection of funds for a Plan's Fund Lineup, but SRPS will provide the Sponsor with tools and information.

If the Sponsor chooses to use the Managed Account Service as the qualified default investment alternative ("QDIA"), the Sponsor must provide direction to SRPS with respect to which Participants will be defaulted into the Managed Account Service as provided for under Section 404(c)(5) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and relevant Department of Labor regulations. However, prior to finalizing the use of the Managed Account Service as the QDIA, existing Participants may elect to make their own investment selections and not use the Managed Account Service.

Based on information collected about a Participant, Morningstar Investment Management presents the Participant with a portfolio that allocates the Participant's account balance among the investment options available through the Plan as selected by the Sponsor. The Participant may accept or reject the Managed Account recommendation. If the Participant accepts the Managed Account recommendation, Morningstar Investment Management will instruct Schwab to place the trades necessary to affect that Managed Account. For plans that offer an employee deferral contribution, the Managed Account Service will also recommend a savings rate. It is the Participant's responsibility to monitor the Managed Account received through the Managed Account Service and to review the investment performance of the account.

Plan Participants may terminate their use of the Non-Discretionary Advice or the Managed Account Service at any time by making their own independent investment elections online through their account at [workplace.schwab.com](http://workplace.schwab.com) or by calling SRPS at 1-800-724-7526.

### Non-Advisory Services Provided by Schwab for the Platforms

Under both Platforms, the Sponsor has selected Trust Bank to provide directed trustee or custodial services to the Plan. CS&Co will affect transactions (including purchase and sale of Fund shares as defined below) with respect to the Plan through an arrangement with Trust Bank as directed trustee or custodian to the Plan. CS&Co, as a registered broker-dealer ("Broker-Dealer"), will affect transactions only at the direction of Morningstar Investment Management. The Broker-Dealer has also agreed, as an accommodation, to facilitate Platform 1 ETFs by participating in fractional share orders so that any investment direction instituted by Morningstar Investment Management requiring the purchase or sale of less than a whole ETF share may be routed for execution as part of a whole share order.

CS&Co as Broker-Dealer has contracted with SRPS to perform certain non-advisory, ministerial services in the Platforms. Pursuant to this agreement, CS&Co's registered representatives collect information about Participants on behalf of Morningstar Investment Management and provide information to Participants about Morningstar Investment Management to facilitate delivery of Morningstar Investment Management's Advice Services. Neither CS&Co nor any of its registered representatives or affiliates acts as an investment advisor by virtue of effecting Fund share transactions or trades. CS&Co does not provide investment recommendations or discretionary asset management for the Advice Services. CS&Co does not engage in ongoing review of, nor does it change or otherwise affect, Morningstar's investment management methodologies. Nor does CS&Co undertake any duty

to screen or monitor the investment performance of either the portfolio recommendations made in the Non-Discretionary Advice Service or any Managed Accounts, or to supervise any services provided by Morningstar Investment Management. Schwab does not prepare, verify, or endorse information or materials prepared or distributed by Morningstar. The Sponsor, and not CS&Co, is responsible for selecting and monitoring Morningstar Investment Management with respect to its investment advisory services provided in the Advice Services to the Plan and Participants. Neither CS&Co nor any of its registered representatives or affiliates acts as an investment advisor by virtue of gathering information for, or facilitating enrollment in, the Advice Services. CS&Co does not, through the Advice Services, render any advice as to the value of, or the advisability of, investing in securities or other property on a regular basis, pursuant to an arrangement or understanding that such advice shall serve as a primary basis for investment decisions in the Advice Services.

CS&Co is not an "Investment Manager" and does not provide "Investment Advice" within the meaning of the Employee Retirement Income Security Act of 1974, as amended, with respect to the Plan or a Participant's account as a result of making the Advice Services available with respect to the Platforms. A fiduciary of the Plan, independent of Schwab, is responsible for selecting and monitoring the investment options available to Participants in the Plan, unless the Participant is participating in a Plan sponsored by Schwab or one of its affiliates, in which case Schwab or one of its affiliates may be responsible for selecting and monitoring investment options available under the Plan. CS&Co will not render any advice to Participants as to the value of, or the advisability of, investing in securities or other property on a regular basis, pursuant to an arrangement or understanding that such advice shall serve as a primary basis for investment decisions for the Participant's account.

### **CS&Co's Investment Advisory Role in the Advice Services**

CS&Co, together with SRPS, has selected Morningstar Investment Management as an independent investment advisor for the Advice Services with respect to the Platforms. The Sponsor appoints Morningstar as the independent investment advisor for either or both of the Managed Account Service and/or Non-Discretionary Advice Service with respect to the Plan, and Participants can also appoint Morningstar Investment Management as the investment manager under ERISA Section 3(38) with respect to the Managed Account Service and 3(21) with respect to the Non-Discretionary Advice Service. CS&Co, together with SRPS, also performs an initial and ongoing review of Morningstar Investment Management's ability to deliver the Advice Services under the Platforms through which a Plan may participate. This review is not Plan- or Participant-specific. These are the only investment advisory services provided by Schwab in the Advice Services.

In the case of either Platform, the Plan Sponsor is CS&Co's client with respect to the Managed Account Service for Participants who are defaulted into Managed Account Services in Platform 1. All Participants in either Platform 1 or Platform 2 who affirmatively elect to use either the Managed Account Service or the Non-Discretionary Advice Service, with respect to their Plan accounts, are clients with respect to the Advice Services.

## **Fees and Compensation**

### **Managed Account Services Under Platform 1 and Platform 2**

SRPS charges an asset-based fee ("Fee") for the Managed Account Services under the Platforms, which is up to 50 basis points (0.50%). The Fee rate is typically calculated on an annual basis, based on the Participant's average daily net assets invested in the Managed Account Service. The Fee is generally

charged on a 90-day cycle, starting from the date the Plan starts using the Managed Account Services. The Sponsor may negotiate the Fee's annualized rate as either a tiered fee schedule, whereby the Fee declines as the Participant's Managed Account balance increases, or as a flat rate that stays the same regardless of the amount of the Participant's account invested in the Managed Account Service. The negotiated amount may be based on factors including, but not limited to, total plan assets, the number of Participants in the Plan, and expected assets under management in the Managed Account Service. More information regarding fees applicable for each Plan utilizing the Managed Account Service is available in applicable fee agreements and other disclosures for the respective Managed Account Service. Participants enrolled in the Managed Service by means of automatic enrollment will receive a 90-day grace period during which the Fee will not apply.

The Sponsor may direct SRPS to deduct the Fee from Participants' Managed Accounts or may pay the Fee, in whole or in part, from unallocated Plan assets or corporate assets. The Fee is deducted from the Participant's account in the Plan or billed, in whole or in part, to the Participant after the close of the 90-day cycle. Assets not included in the Managed Account Service (such as assets in a self-directed brokerage option, which includes Schwab Personal Choice Retirement Account® ["PCRA"], company stock, loan funds, frozen funds, or other investment options available in the core lineup not used by Morningstar Investment Management for purposes of constructing the Managed Accounts for the Managed Account Services) are not included in the Fee calculation. Fund trade restrictions do not affect this Fee. SRPS pays Morningstar Investment Management a level asset-based fee for its provision of investment advisory services. SRPS may also pay additional flat-dollar amounts to Morningstar Investment Management as a fee for infrastructure services and ongoing maintenance of the systems required to support the Advice Services. More information about Morningstar Investment Management is available in the Form ADV Part 2A: Firm Brochure for Morningstar. The Sponsor and any Participant electing the Managed Account Service will also be provided the required documentation of terms and conditions ("Investment Advisory Agreement") by SRPS.

### **Services Covered by the Managed Account Service Fee Under the Platforms**

The Fee covers Morningstar's discretionary investment management services and CS&Co's and SRPS's roles within the Service, as described earlier. Trade orders in Fund shares do not carry a transaction fee for the Managed Account Service. The waiver of such transaction fees in the Managed Account Service is not a feature of the Service or the Platforms. In addition to the Fee, each Fund is subject to investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees and expenses related to investments in the Funds, as set forth in the prospectuses of the Funds. These fees and expenses are paid by the Funds, but ultimately are borne by Fund shareholders (i.e., the Participants), and are in addition to the Fee. Funds available through the Managed Account Service and the Platforms are available for Participants to invest in outside of the Managed Account Service without paying the Fee. Participants may be able to obtain some or all of the types of services available through the Managed Account Service on a standalone basis from Schwab or other firms. The Fee also may be higher or lower than the fees charged by other firms for comparable services.

### **Non-Discretionary Advice Service Platform 2 Fees and Compensation**

The Fee paid by SRPS to Morningstar Investment Management is included in the flat-dollar-amount fee referenced above.



SRPS does not charge an additional fee for the Non-Discretionary Advice Service. The Sponsor has entered into a services agreement ("Services Agreement") with SRPS under which SRPS, as applicable, has agreed that it and its affiliate, Trust Bank, will provide certain recordkeeping and trustee/custodial services, as applicable, to the Plan for a fee. As part of these services, SRPS also offers access to the Non-Discretionary Advice Service to Plan Participants where the Plan Sponsor has elected this Service. The Non-Discretionary Advice Service is optional and made available entirely at the election of the Sponsor, and no additional fee is charged to the Participant or to the Sponsor for the use of the Non-Discretionary Advice Service. More information about Morningstar Investment Management is available in Form ADV Part 2A: Firm Brochure for Morningstar Investment Management. Any Participant electing the Managed Account Service will also be provided the required documentation of terms and conditions ("Investment Advisory Agreement") by SRPS.

As discussed in "Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading," when, at Morningstar Investment Management's direction, Schwab executes transactions as part of the Advice Services in a Fund, Schwab may receive compensation from the Fund on the amount a Participant invests. If this compensation is paid out of Fund assets, any such amounts will be indirectly paid by a Participant as part of the operating expense ratio charged by the Fund. Schwab may also receive compensation from Fund companies and their affiliates on a per-Participant basis. These fees are retained by Schwab (or its affiliates) and not shared with Morningstar Investment Management.

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

CS&Co does not charge any performance-based fees (fees based on a share of capital gains on, or appreciation of, the assets of accounts) in the Advice Services.

## **Types of Clients**

The Advice Services in the Platforms are open to Participants of defined contribution Plans. There is no stated minimum for the Advice Services in the Platforms. The Sponsor has made the decision to utilize SRPS as Plan recordkeeper, either Platform 1 or Platform 2 as the Plan platform, and the Advice Services for its Plan; the respective Advice Services are made available to all Participants in each such Plan.

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

CS&Co does not formulate investment recommendations either on a discretionary or non-discretionary basis with respect to the Advice Services. Please see Form ADV Part 2A: Firm Brochure for Morningstar Investment Management LLC for details on the methods of analysis and investment strategies employed by Morningstar Investment Management. CS&Co, together with SRPS, selected Morningstar Investment Management, an independent investment adviser, for its experience providing investment advisory services. CS&Co, together with SRPS, performs initial and ongoing due diligence and provider review of Morningstar Investment Management as an independent registered investment advice provider available under the Platforms, including review of Morningstar Investment Management's ability to deliver the Advice Services. This review is not Plan- or Participant-specific.

As with any investment whose performance is tied to the markets, the value of any portion of the Participant's account in the Advice

Service's investment in Funds will fluctuate, which means that Participants could lose money invested in their Plan accounts.

The value of the portion of a Participant's account balance in the Advice Services is based primarily on the prices of the underlying Funds that are purchased as part of the Advice Services. In turn, the price of each underlying Fund is based on the value of its securities. Before investing in the Managed Account Service or before receiving the Non-Discretionary Advice portfolio recommendation, Participants should assess the risks associated with the management of the Advice Services recommendation by Morningstar Investment Management, with the underlying Funds in which the Managed Accounts or Non-Discretionary Advice portfolio invest, and with the types of investments made by the Funds and underlying Fund allocation. Diversification and asset allocation strategies do not ensure a profit and cannot protect against losses in a declining market. There is no guarantee any portion of the Participant's Plan account in the Advice Services will provide adequate income at or through such Participant's retirement (or the retirement of a designated beneficiary).

With respect to either Platform 1 or Platform 2 and SBS, the interest rate set by Trust Bank on the MMDA established by the Plan is intended to be a reasonable rate for capital preservation bank deposit vehicles. The interest rate is not guaranteed and may be higher or lower than the interest rates available to Plan Participants making deposits directly with Trust Bank or other depository institutions on comparable accounts, or the yields available with other investments through the Plan. The portion of a Participant's account allocated to SBS is eligible for Federal Deposit Insurance Corporation ("FDIC") insurance up to \$250,000, subject to FDIC rules concerning aggregation of deposit accounts that the Participant holds in the same capacity with Trust Bank. Participants are responsible for monitoring the total amount of deposits that they hold with Trust Bank in self-directed retirement accounts, either directly or through an intermediary such as Charles Schwab & Co., Inc., in order to determine the extent of deposit insurance coverage available to them.

## **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 cyberattacks, 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. 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. We will respond to breaches with appropriate resources in an effort to contain and remediate the cause of the breach and restore operations.

## Disciplinary Information

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

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

As part of the settlement, the SEC found that Schwab, along with its former affiliate, Schwab Wealth Investment Advisory, Inc., violated certain provisions of the Investment Advisers Act of 1940, as amended, and the rules thereunder, from March 2015 through November 2018. The SEC found that Schwab made false and misleading statements in Form ADV Part 2A brochures about the cash allocations in Program accounts, in particular about: (1) Schwab’s conflict of interest in setting the cash allocations; (2) the influence of this conflict of interest on the size of the cash allocations; and (3) the negative effect of the cash allocations on performance in Program accounts under market conditions where other assets such as equities outperform cash. The SEC also found that Schwab failed to sufficiently implement compliance policies designed to prevent the publication of misleading statements. Finally, the SEC found that Schwab made similarly misleading statements in advertisements for the Program.

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

2. A disciplinary action initiated by the Financial Industry Regulatory Authority (FINRA) asserted that, in violation of FINRA Rules 2010 and 3310(a), Schwab failed to implement policies and procedures that were reasonably designed to detect, and cause the reporting of, suspicious incoming wire transactions occurring in August 2011. Without admitting or denying the findings, Schwab consented to the described sanctions and to the entry of findings. Therefore, in December 2013, Schwab was censured, fined \$175,000, and required to conduct a comprehensive review of the adequacy of its anti-money laundering policies, systems, procedures (written or otherwise), and training with respect to detecting and reporting suspicious incoming wire transfers.
3. A disciplinary action initiated by FINRA asserted that Schwab failed on 44 occasions during the second quarter of 2011 and on 245 occasions during the first half of the 2012 review period to provide written notification disclosing to its customers a call date that was consistent with the disclosed yield to call, in violation of SEC Rule 10b-10. Without admitting or denying the

allegations, Schwab consented on August 23, 2013, to a censure and a monetary fine of \$12,500.

4. A disciplinary action initiated by the Chicago Board 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 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.

## Other Financial Industry Activities and Affiliations

CS&Co is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of FINRA and SIPC. Schwab provides brokerage services to clients located throughout the United States and in some circumstances outside the United States. Incidental to Schwab’s broker-dealer business, Schwab offers its clients a variety of investment information services and products, including seminars, periodicals, reports, guides, planning tools, brochures, and other publications about securities and investment techniques. Schwab also provides certain online data and financial reporting services.

CS&Co is also registered as an investment advisor under the Investment Advisers Act of 1940 (the “Advisers Act”). In addition to the Advice Services, Schwab provides other investment advisory services to individuals and institutions. For example, the Schwab Wealth Advisory™ (“SWA”) program is a nondiscretionary wrap fee program in which clients receive periodic advice. In the Schwab Advisor Network®, Schwab makes referrals of investment advisors to investors who are looking for assistance in managing their assets and/or other financial planning activities. Advisors participating in the Schwab Advisor Network are independent and not affiliated with Schwab.

Investment advisors pay a fee to participate in the Schwab Advisor Network program. Other programs in which Schwab acts as a Registered Investment Adviser include the Schwab Intelligent Portfolios Solutions™ program sponsored by Schwab and the financial planning services provided through the Schwab Personal Financial Plan™, Schwab Retirement Consultation, and Schwab Equity Compensation Consultation. Schwab also sponsors managed account programs for clients of its Schwab Investor Services enterprise, including the Managed Account Connection® (“Connection”) program. The Connection program features certain strategies managed by a Schwab affiliate, Charles Schwab Investment Management, Inc. (CSIM). A separate agreement and disclosure brochure is available for these other investment advisory services and would be provided to you at the time of referral or purchase.

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 registered broker-dealer. TD Ameritrade Clearing, Inc., an SEC-registered clearing broker-dealer, provides clearing and execution services for securities brokerage businesses. TD Ameritrade



Investment Management, LLC is a registered investment adviser. TD Ameritrade Singapore Pte. Ltd. enables retail investors in Singapore to trade the U.S. markets. Clients can trade stocks, ETFs, options, futures, and options on futures using the thinkorswim® trading platform.

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's affiliate, Trust Bank, provides bank deposit and lending services, including SBS, described in this brochure, and acts as directed trustee or custodian to retirement and other benefit plans and accounts, such as the Plans using the Platforms.

Charles Schwab Investment Management, Inc. ("CSIM"), an affiliate of CS&Co, serves as investment adviser and/or administrator to the ("Schwab Funds®"). These Schwab Funds pay CSIM a fee for investment advisory and/or administrative services, the amount of which is described in the funds' prospectuses.

All Schwab Funds are part of Schwab's Mutual Fund OneSource service. Consequently, like unaffiliated Mutual Fund OneSource and NTF mutual funds, certain of these funds may pay Schwab an asset-based fee for the shareholder services that Schwab provides.

Some Schwab Funds have adopted a shareholder servicing plan pursuant to which they may pay fees to Schwab for shareholder services ranging up to 0.25% annually. Pursuant to its shareholder servicing plan, the Schwab Government Money Fund™ may pay Schwab up to an additional 0.10% annually for sweep administrative services Schwab provides to shareholders invested in sweep shares of the Schwab Government Money Fund. Some Schwab Funds do not make any payments to Schwab under a shareholder servicing plan. Many of the Schwab Funds have adopted a unitary fee structure under which a single fee is paid to CSIM, and out of which CSIM pays for certain services provided to the funds; CSIM and its affiliates are entitled to retain any portion of this fee not paid out to a service provider.

In aggregate, the fees Schwab receives from Schwab Funds are greater than the compensation Schwab receives from unaffiliated fund companies participating in the Schwab Mutual Fund OneSource service.

CSIM also provides portfolio management services for other strategies offered in MAC. Another affiliate, Charles Schwab Investment Advisory, Inc. ("CSIA"), provides portfolio management services for the Schwab Intelligent Portfolios® program. The Schwab Intelligent Portfolio strategies, certain CSIM-managed strategies in MAC, and similar strategies managed through other non-Schwab-sponsored programs feature portfolios of ETFs that may overlap with ETFs held in SMP-ETF accounts.

In addition to Schwab, CSIA, and CSIM, other wholly owned subsidiaries of Schwab are engaged in investment advisory, brokerage, trust, custody, or banking services. CSIM also provides advisory and administrative services to certain proprietary mutual funds and exchange-traded funds marketed under the Schwab Funds® and Schwab ETFs™ names that are included in Program portfolios. CSIM also serves as a separate account manager in other Schwab wrap fee programs.

The potential conflicts created by the Advice Services, and the steps taken by Schwab to address those conflicts, are described in "Participation or Interest in Client Transactions."

Not all of the relationships, products, and services described above are available through or applicable to plans and participants serviced by RPS.

The Charles Schwab Corporation provides services to retirement and other employee benefit plans and participants through its

separate but affiliated companies and subsidiaries: Charles Schwab Bank, SSB and Charles Schwab Premier Bank, SSB; Charles Schwab & Co., Inc.; Schwab Retirement Plan Services, Inc.; and Schwab Retirement Plan Services Company. Trust and custody products and services are offered by Charles Schwab Trust Bank ("Trust Bank"). Brokerage products and services are offered by Charles Schwab & Co., Inc. (Member SIPC). Schwab Retirement Plan Services, Inc. and Schwab Retirement Plan Services Company provide recordkeeping and related services with respect to retirement plans.

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

### **Code of Ethics**

Schwab has a code of ethics adopted pursuant to SEC Rule 204A-1 under the Advisers Act (the "Code"). The Code reflects the fiduciary principles that govern the conduct of Schwab and its employees when Schwab acts as an investment advisor, such as when advice is delivered through the Advice Services. The Code requires that Schwab's covered employees, including registered representatives who collect information from Participants and assist with enrollment in the Advice Services, comply with applicable federal securities laws, report violations of the Code, and for those deemed "access persons" by virtue of providing investment advice or having access to certain related information, report their personal transactions and holdings in certain securities periodically while getting clearance before buying certain securities, including initial public offerings or private offerings. The Code prohibits access persons from disclosing asset allocation portfolio transactions or any other nonpublic information to anyone outside of Schwab, except as required to effect securities transactions for clients, or from using the information for personal profit or to cause others to profit. Access persons are also prohibited from engaging in deceptive conduct in connection with the purchase or sale of securities for client accounts. The Code is subject to change as necessary to remain current with regulatory requirements and internal business policies and procedures. A copy of the Code is available upon request.

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

CS&Co may receive compensation from the Funds on the amount invested in the Funds selected by the Advice Services. When the Participant accounts in the Advice Services invest in unaffiliated Funds, Schwab may receive compensation from the Fund for shareholder and related services (which may include recordkeeping) provided by Schwab on the amount the Advice Services invests. The amounts paid to CS&Co by unaffiliated Funds will vary depending on the particular Fund in which the Advice Services invests and on the Platform. For Platform 1, the fees typically range from 0.00% to 0.40% of assets annually, but may range up to 0.45% in rare cases. For Platform 2, the fees typically range from 0.00% to 0.50% of assets annually, but may range up to 1.08% in rare cases. These fees may be paid out of Fund assets as part of the operating expense ratio ("OER") of the unaffiliated Fund, and therefore indirectly paid by Participant's accounts.

Schwab may pay or credit a portion of the compensation described above to its affiliates, including Trust Bank and the recordkeeping affiliate providing services for the Plan (SRPS), which use a portion of the compensation received to cover custody, trustee, and recordkeeping fees that would otherwise be charged to the Plans by Trust Bank and SRPS, as applicable. Such compensation may also be paid directly to SRPS, as applicable, and Trust Bank from such mutual funds and their affiliates, calculated pursuant to the terms of the applicable agreements. Trade orders for the Funds are routed to Schwab for handling and execution by Trust Bank, which provides trust or

custodial services to the Plan. As compensation for the services provided to the Plan, Trust Bank may retain credit, interest, or other earnings on aggregate cash balances (collectively, "float") held on deposit at Trust Bank or any third-party bank or other financial institution to facilitate Plan investments or distributions. Trust Bank and SRPS, as applicable, also may receive other compensation as agreed upon with the Sponsor.

When Participant accounts in the Advice Services invest in Schwab Funds®, CSIM receives a management and/or administrative fee from the Fund on the amount of such investment. The management and/or administrative fees paid to CSIM for Schwab Funds will vary depending on the particular Schwab Fund in which Advice Services invests and will vary depending on the Platform. For Platform 1, fees typically range from 0.02% to 0.50% of assets annually. For Platform 2, the management and/or administrative fees typically range from 0.02% to 1.27% of assets annually. In addition, Schwab receives compensation from certain Schwab Funds for recordkeeping, shareholder servicing and other administrative servicing that Schwab provides to Fund shareholders. The amounts paid to Schwab for certain Schwab Funds will vary depending on the particular Fund in which the Managed Accounts invest and on the Platform. For Platform 1, the amounts may range from 0.00% to 0.10% of assets. For Platform 2, the amounts may range from 0.00% to 0.44%. These fees are paid out of Fund assets as part of the OER, and therefore they are indirectly paid by Participants' accounts.

Schwab may pay or credit a portion of the compensation described above to its affiliates, including Trust Bank and the recordkeeping affiliate providing services for the Plan, SRPS, as applicable, which use a portion of the compensation received to cover custody, trustee, and recordkeeping fees that would otherwise be charged to the Plans by Trust Bank and SRPS, respectively.

As noted in "Advisory Business," neither CS&Co nor SRPS recommends purchasing or selling securities pursuant to the Advice Services. The investment options offered through the Plan and included as part of the Fund and portfolios recommendations made by Morningstar Investment Management may include Schwab Funds. The remuneration that CS&Co receives for the shareholder servicing generally is calculated based on the daily aggregate net asset value of certain shares held in CS&Co's customers' accounts. Schwab may also receive compensation from Fund companies and their affiliates on a per-Participant basis. CS&Co receives no compensation as principal underwriter of the Schwab Funds® but receives reimbursement from CSIM (and not from the Funds) for certain corporate, marketing, and sales expenses provided by CS&Co personnel.

Trade orders for the Funds are routed to CS&Co for handling and execution by Trust Bank, which provides trust or custodial services to the Plan. As compensation for the services provided to the Plan, Trust Bank may retain credit, interest, or other earnings on aggregate cash balances (collectively, "float") held on deposit at Trust Bank or any third-party bank or other financial institution to facilitate plan investments or distributions. Trust Bank also may receive other compensation as agreed upon with the Sponsor.

In addition to the fees described above, CS&Co and its affiliates may earn additional compensation from certain exchange-traded funds, mutual funds, and collective investment trusts for the administrative services that Schwab and its affiliates provide in connection with various opportunities to sponsor educational events and conferences. The amount of such fees varies depending on the type and number of opportunities in which the fund participates. More information about these particular fees may be obtained from [www.schwab.com](http://www.schwab.com) or, with respect to the collective trust funds, from the funds directly.

CS&Co does not select the Non-Discretionary Advice portfolios or Managed Accounts and has no discretion or authority to trade in Plan accounts. The Sponsor determines the funds available in the Plan, which may include both Schwab Funds and Non-Affiliated Funds. Morningstar Investment Management, in turn, must select Funds for the Non-Discretionary Advice portfolios or Managed Accounts from among those made available by the Sponsor. The Funds made available by the Sponsor will thus influence the compensation received by CS&Co from the Funds for shareholder servicing and other services. The Funds chosen by the Sponsor may also affect the amount a Participant or the Sponsor pays to CS&Co for Plan recordkeeping and related services.

### **Equity, ETF, and Option Trade Execution**

Schwab routes equity and options orders for execution to unaffiliated broker-dealers, who may act as market makers or manage execution of the orders in other market venues. Schwab also routes orders directly to major exchanges. Schwab may receive remuneration, such as liquidity or order flow rebates, from a market or firm to which orders are routed, but at all times is committed to best execution.

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; 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 provided by the various markets and firms to ensure orders are routed to market venues that have provided high-quality executions over time.

### **Addressing Potential Conflicts**

The discretionary and non-discretionary advice recommendations used in the Advice Services have been developed and are applied by Morningstar Investment Management, not CS&Co or SRPS, as applicable. The amount allocated to a particular mix of Funds and SBS, as applicable in any Advice Service, is determined by Morningstar Investment Management. Moreover, the portion of the Fee paid to Morningstar Investment Management is not determined by the particular mix of Funds in any Non-Discretionary Advice portfolio or Managed Account, or any group of Managed Accounts or Point-in-Time portfolios.

Specific to Platform 1 and 2, Trust Bank has no discretion or authority to determine the percentage of Managed Account assets deposited into SBS. SBS is required to bear a reasonable rate of return under Section 408(b)(4) of ERISA.

Trust Bank intends to use the cash balances in the MMDA to fund current and new lending activities and investments. The profitability on such loans and investments is generally measured by the difference, or "spread," between the interest rate paid on the MMDA and other costs of maintaining the MMDA, and the interest rate and other income earned by Trust Bank on the loans and investments made with the funds in the MMDA. The income that Trust Bank will have the opportunity to earn through its lending and investing activities is expected to be greater than the fees earned by Trust Bank and its affiliates from managing and distributing money market funds, collective trust funds, or other stable value investment options. Trust Bank's discretion to determine the interest rate payable on deposits creates a potential conflict of interest if Charles Schwab Trust Bank acts solely in its own self-interest in establishing such interest rate.

## **Personal Trading**

CS&Co monitors the personal securities holdings and trading of its employees, including its registered representatives involved in the Service. Schwab reviews employee 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, Schwab representatives must disclose all securities accounts they own or control after their hire date and must review and confirm the accuracy of those accounts on an annual basis during their employment.

## **Brokerage Practices**

CS&Co does not select or recommend third-party broker-dealers as part of the Platforms. Pursuant to its agreement with Trust Bank, Schwab acts as broker in connection with processing transactions in Fund shares in the Platforms but not as part of the Fee charged with respect to the Managed Account Service. Transaction fees are waived for purchases and sales of Funds appearing on the List or available in the Fund Universe regardless of whether the Participants use the Advice Services. As noted in "Participation or Interest in Client Transactions," Schwab and its affiliates receive compensation from third-party Funds or their affiliates and Schwab Funds® for various services.

## **Review of Accounts**

### **Managed Account Services in Platform 1 and Platform 2**

Specific to the Managed Account Service, Morningstar Investment Management reviews and may provide instructions and directions to rebalance Participant accounts every 90 days, pursuant to its discretionary authority. Additionally, at least annually, each Participant will receive updated portfolio recommendations to account for being one year closer to retirement.

### **Non-Discretionary Advice in Platform 2**

There is no ongoing review or rebalancing of accounts that receive a Non-Discretionary Advice portfolio on Platform 2.

As noted above, neither Schwab nor SRPS, as applicable, is responsible for the advice or recommendations provided by Morningstar Investment Management. Schwab and its affiliates do not supervise, nor do they monitor, the advice provided by Morningstar Investment Management. The quarterly account statements and periodic trade notices received by Participants in the Advice Services from SRPS reflect the trades made per the instructions provided by Morningstar Investment Management.

Please see Form ADV Part 2A: Firm Brochure for Morningstar Investment Management LLC for details on the review of the Advice Services.

## **Client Referrals and Other Compensation**

The Advice Services do not rely upon client referrals from any non-Schwab entity or person. Schwab receives direct compensation from the Plan or the Sponsor, as described in "Fees and Compensation," and the indirect compensation received by CS&Co and its affiliates is described in "Advisory Business" and "Participation or Interest in Client Transactions." Schwab pays a fee to Morningstar Investment Management in connection with the Advice Services, as also described in "Fees and Compensation."

## **Custody**

Charles Schwab Trust Bank, a qualified custodian, provides directed trustee or custodial services to Plans serviced by SRPS. Sponsors will receive trust or custody statements from Trust Bank and should carefully review those statements.

## **Investment Discretion**

Schwab does not have or accept investment discretion with respect to the Advice Services.

## **Voting Client Securities**

CS&Co does not have or accept authority to vote clients' securities (i.e., proxy voting) as part of the Platforms or the Advice Services.

## **Financial Information**

Schwab does not require or solicit prepayment of the 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.

