

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9171 / January 11, 2011

SECURITIES EXCHANGE ACT OF 1934
Release No. 63693 / January 11, 2011

INVESTMENT ADVISERS ACT OF 1940
Release No. 3136 / January 11, 2011

INVESTMENT COMPANY ACT OF 1940
Release No. 29552 / January 11, 2011

ADMINISTRATIVE PROCEEDING
File No. 3-14184

In the Matter of

**Charles Schwab Investment
Management;
Charles Schwab & Co., Inc.; and
Schwab Investments,**

Respondents.

**ORDER INSTITUTING ADMINISTRATIVE AND
CEASE-AND-DESIST PROCEEDINGS PURSUANT
TO SECTION 8A OF THE SECURITIES ACT OF
1933, SECTIONS 15(b) AND 21C OF THE
SECURITIES EXCHANGE ACT OF 1934,
SECTIONS 203(e) AND 203(k) OF THE
INVESTMENT ADVISERS ACT OF 1940, AND
SECTION 9(f) OF THE INVESTMENT COMPANY
ACT OF 1940, MAKING FINDINGS, AND
IMPOSING REMEDIAL SANCTIONS AND A
CEASE-AND-DESIST ORDER**

I.

1. The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”), and Section 9(f) of the Investment Company Act of 1940 (“Investment Company Act”) against Charles Schwab Investment Management; Charles Schwab & Co., Inc.; and Schwab Investments (“Respondents”).

II.

2. In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”) that the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Sections 15(b) and 21C of the Securities Exchange Act of 1934, Sections 203(e) and 203(k) of the Investment Advisers Act of 1940, and Section 9(f) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

3. On the basis of this Order and Respondents’ Offers, the Commission finds¹ that:

Summary

4. These proceedings arise out of the offer, sale, and management of the Schwab YieldPlus Fund (the “Fund” or “YieldPlus Fund”), a fixed-income mutual fund managed by Charles Schwab Investment Management and marketed and distributed by Charles Schwab & Co., Inc., which suffered a significant decline during the credit crisis of 2007-2008. Respondents: (1) offered and sold the Fund as a cash alternative without adequately disclosing the differences between the Fund and the cash investments with which it was compared, which misled investors; (2) deviated from the Fund’s concentration policy when it invested more than 25% of Fund assets in non-agency mortgage-backed securities without obtaining a shareholder vote as required by statute; (3) made inaccurate statements concerning the Fund while its NAV declined; and (4) failed to establish and implement internal controls reasonably designed to prevent the misuse of material nonpublic information.²

Respondents

5. **Charles Schwab Investment Management, Inc.** (“CSIM”) is a San Francisco-based, wholly-owned subsidiary of the Charles Schwab Corporation. CSIM was incorporated in Delaware in October 1989 and has been a registered investment adviser since January 25, 1990. CSIM manages the assets of registered and unregistered investment companies, including the Fund and other Schwab-branded mutual funds.

¹ The findings herein are made pursuant to Respondents’ Offers and are not binding on any other persons or entities in this or any other proceeding.

² In a related civil proceeding filed by the Commission in the United States District Court for the Northern District of California, CSIM and CS&Co. have consented to pay disgorgement, pre-judgment interest, and civil penalties.

6. **Charles Schwab & Co., Inc.** (“CS&Co.”) serves as the distributor and transfer agent for the Fund. CS&Co. is a registered broker-dealer, transfer agent, and investment adviser. Various CS&Co. employees, including the product development and management group responsible for marketing the YieldPlus Fund and other Schwab funds, provided services to CSIM and the Fund. CS&Co. is a wholly-owned subsidiary of Schwab Holdings, Inc., which in turn is a wholly-owned subsidiary of the Charles Schwab Corporation. CS&Co. was incorporated in California in 1971.

7. **Schwab Investments** is a no-load, open-end management investment company organized as a Massachusetts business trust and is organized as a series investment company registered under the Investment Company Act as of October 26, 1990. The YieldPlus Fund and the Schwab Total Bond Market Fund are series issued by Schwab Investments.

Other Relevant Entities

8. **Charles Schwab Corporation** (“CSC”) is a publicly traded corporation organized under the laws of Delaware and headquartered in San Francisco, California. CSC’s securities are registered under Section 12(b) of the Exchange Act and are listed on the New York Stock Exchange. CSC is the parent company of CSIM and CS&Co.

9. **Schwab YieldPlus Fund** (“YieldPlus Fund” or the “Fund”) is a series of Schwab Investments and an open-end fund organized as a Massachusetts business trust registered under the Investment Company Act. The Fund is managed by CSIM. The YieldPlus Fund had two classes of securities, Investor Shares and Select Shares.

10. **Schwab Total Bond Market Fund** (“Total Bond Fund”) is a series of Schwab Investments and an open-end fund organized as a Massachusetts business trust registered under the Investment Company Act. The Total Bond Fund is managed by CSIM.

Background

11. The YieldPlus Fund, formed in 1999, is an ultra-short bond fund³ that, until mid-2008, primarily invested in mortgage-backed securities (“MBS”), asset-backed securities, and corporate bonds. As recited in its prospectus, the Fund’s investment objective is to seek “high current income with minimal changes in share price.” The YieldPlus Fund’s assets grew significantly after its formation, becoming CSIM’s largest variable net asset value (“NAV”) fund⁴

³ Ultra-short bond funds are fixed-income funds with durations usually less than one year. Unlike maturity, duration is not a measurement of time; instead, duration is a ratio that reflects a fund’s sensitivity to interest rate changes. Ultra-short bond funds generally maintain short durations by investing in fixed income securities with short-term maturities and by using interest rate hedging strategies. See generally http://www.sec.gov/investor/pubs/ultra-short_bond_funds.htm. YieldPlus owned many long-maturity bonds, but the Fund used an interest rate hedging strategy to maintain a low duration and preserve its classification as an ultra-short fund.

⁴ The NAV of a fund is a daily calculation of the fund’s assets per share, minus its liabilities. To calculate a fund’s NAV per share, a fund takes the total current market or fair value of its holdings, subtracts liabilities, and divides by

in 2006. At its peak in 2007, the YieldPlus Fund had \$13.5 billion in assets and over 200,000 accounts, making it the largest ultra-short bond fund in the category. For several years, the Fund was one of the best performing funds in the ultra-short category, first earning a 5-star Morningstar rating in late 2004 for its 3-year performance.

12. The Fund suffered a significant decline during the credit crisis of 2007-2008 that led to declines in some bond valuations. During an eight-month period, the Fund's NAV dropped 28% and its assets under management fell from \$13.5 billion to \$1.8 billion due to redemptions and declining asset values.

Offer and Sale of the YieldPlus Fund

13. From at least 2006 to 2008, CSIM and CS&Co. described the Fund as a cash "alternative" that generated a higher yield with slightly higher risk than a money market fund. Some communications emphasized that the Fund's NAV "may fluctuate minimally." Others stated that the NAV "would fluctuate" but noted that it had fluctuated by only pennies in recent years. The Fund had experienced some volatility from its inception in 1999 through 2002, and then fluctuated by pennies during the next several years. Nevertheless, the statements were misleading because the YieldPlus Fund was not slightly riskier than money market funds, CDs and other cash alternatives to which it was compared. Investments in the Fund are not insured, as are CDs, and the maturity and credit quality of the Fund's securities were significantly different than those of a money market fund. Although the Fund's prospectus informed investors that the Fund was not a money market fund and better explained the differences among these investments, the disclosure was insufficient to remedy the misleading statements and omissions in the offer and sale of the Fund.

14. In 2004, the NASD raised concerns with CS&Co. about advertisements that compared the YieldPlus Fund to money market funds without adequate disclosure of the differences between the products. In response to the NASD's concerns, CS&Co. added the word "slightly" to the advertisements, stating that the Fund was "designed to provide a higher yield with slightly higher risks than a money market fund but with less risk than a long-term bond fund." CS&Co. also added, in some advertisements, a statement that the Fund's "investment value will fluctuate and shares, when redeemed, may be worth more or less than original cost." In its advertisements and other communications, however, it continued to describe the Fund as a cash alternative and did not highlight the differences between the Fund and a money market fund.

15. In 2006, a Commission staff examination included a statement that YieldPlus Fund sales materials did not include balanced disclosure and could mislead investors because they compared the Fund to money market funds without describing the differences between these two investments. Commission staff communicated the conclusion to Schwab Investments, CSIM and CS&Co. In response, CSIM and CS&Co. added additional disclosure in the Fund's prospectus about the differences between the YieldPlus Fund and money market funds but did not include the

the number of shares outstanding. Variable NAV funds are distinguished from money market funds, which have an NAV per share of a \$1.00 that normally does not fluctuate.

additional disclosure in its advertisements and other sales communications until after the Fund's NAV began to decline in 2007.

16. In 2006, a group of high-level executives for CSC and its related entities, referred to as the "Cash Council," held a series of meetings about the many cash alternative products across their operating businesses. Products addressed in the meetings included accounts at Schwab Bank, sweep money market funds, purchased money market funds, and CDs. The Council asked one of its members, and his product placement group at CS&Co., to recommend an "attractive yield product" to be marketed with cash products. They identified the YieldPlus Fund. Following that recommendation, the Council sought to "[m]ake it easier to see information about Yield Plus [sic] on the web, including links to it from pages where we talk about cash and information about it that includes consistently up to date SEC Yield info," and to highlight the Fund's recent limited NAV fluctuation. As a result, various links and content were added to Schwab's website, which typically characterized the Fund as a long-term cash alternative even though it had previously been marketed with short-term and long-term bond funds.

17. Some CS&Co. registered representatives also described the YieldPlus Fund as a cash alternative with minimal price fluctuation when discussing the Fund with investors. Periodically, representatives called customers with fixed-income investments coming due, such as maturing CDs, and highlighted the YieldPlus Fund as an option for investing the proceeds. They emphasized what they described as the Fund's historically narrow NAV fluctuation, and minimized its potential for volatility.

18. As a result of the above, Respondents failed to adequately inform investors about (1) the risks associated with investing in the YieldPlus Fund and (2) the differences between the Fund and other investments.

Understating the Fund's Weighted Average Maturity

19. A fund's weighted average maturity ("WAM") is a measurement of the average length of time until the underlying bonds in a portfolio mature. WAM can be used by investors to evaluate the riskiness of a product; among similar funds, those with a longer WAM generally involve more risk. A fund's duration is different than WAM; duration is a mathematical measure of a fund's sensitivity to interest rate risk, but is not a measurement of time. For the relevant period, the YieldPlus Fund's duration was a lower number than its WAM.

20. Between February 2006 and September 2007, in some communications with investors, Schwab substituted the Fund's duration for its WAM, in some instances without noting the change. The resulting understatement appeared in sales and marketing materials and one Commission filing, a Form N-CSR Annual Report dated August 31, 2007.⁵ In other communications provided to investors during the same period, Respondents reported the Fund's correct WAM. These included various semi-annual and annual reports, which were filed with the

⁵ Respondents voluntarily advised the Commission's Enforcement staff of this issue during the course of the investigation.

Commission and sent to shareholders, and quarterly fact sheets that were posted on Schwab's public website.

21. In early 2006, the YieldPlus Fund's WAM increased significantly to over one to two years in length because of a change in the calculation method used by CSIM's new fund accountant. Investors noticed the change. CSIM and CS&Co. then listed the Fund's duration in place of its WAM in the sales materials, including tables that listed statistics for all Schwab's funds and, internal daily reports. Schwab did not replace WAM with duration for any other fund.

22. In some communications, CS&Co. and CSIM noted the replacement with a footnote indicating that duration, not WAM, was listed. However, in tables on the Schwab.com website, one Commission filing, and two issues of *On Investing* magazine, CS&Co. and CSIM did not include the footnote. As a result, for eighteen months, the website indicated that the average maturity of the Fund's bonds was six months when the Fund's WAM actually ranged from at least 1.3 to 2.2 years.

23. In addition, the duration number that Respondents listed was not accurate. Although the Fund's duration fluctuated from 0.4 to 0.6, CS&Co. and CSIM hard-coded the number "0.5" into some tables and documents instead of updating the information on a daily basis. This inaccurately suggested that the Fund's duration (or WAM, when the footnote was omitted) was constant rather than variable.

Deviations From the Bond Funds' Concentration Policy

24. Section 8 of the Investment Company Act requires that funds' registration statements contain a recital of certain investment policies, including a policy regarding concentration of investments in particular industries. Under Section 13(a)(3) of the Investment Company Act, once a fund recites a concentration policy, it must obtain shareholder approval to "deviate from its policy in respect of concentration of investments in any particular industry or group of industries as recited in its registration statement . . ."

25. To comply with Section 8 of the Investment Company Act, Schwab Investments recited a single concentration policy for the taxable bond funds, including the YieldPlus Fund and the Total Bond Fund. The funds stated in their registration statement that they would not concentrate in any industry. They defined concentration as investing more than 25% of their assets in an industry. Before August 2006, the concentration policy specifically stated: "Based on characteristics of mortgage-backed securities, each fund has identified mortgage-backed securities issued by private lenders and not guaranteed by the U.S. government agencies or instrumentalities as a separate industry for purposes of a fund's concentration policy." Because they identified non-agency MBS as an industry, the YieldPlus Fund and the Total Bond Fund could not invest more than 25% of their assets in non-agency MBS without obtaining shareholder approval under Section 13(a).

26. By early 2006, under CSIM's direction, the YieldPlus Fund deviated from the concentration policy by investing more than 25% of Fund assets in non-agency MBS. Before September 2006, Respondents inconsistently classified several securities in filings with the Commission. If those securities had been consistently treated as MBS, Fund filings would have reflected the deviation from its concentration policy by approximately 2-3% of the Fund's assets. In addition, the Fund also exceeded the concentration limit because it excluded certain categories of non-agency MBS, such as commercial MBS, when it calculated its investment in non-agency MBS.

27. In mid-2006, the Fund increased investments in non-agency MBS because of, among other things, the Fund's portfolio managers' concerns about increasing corporate buy-out activity and the credit risks associated with corporate bonds. In August 2006, CSIM requested that the Schwab Investments board of trustees change the concentration policy to reclassify non-agency MBS such that it would not be an industry to allow more than 25% of Fund assets to be invested in non-agency MBS. Without the shareholder approval required by statute, the board of trustees voted on August 29, 2006, to approve the change. The YieldPlus Fund's investment in non-agency MBS increased after the purported change to 50% of assets in the Fund's portfolio, with nearly all of the MBS being rated AAA. By at least October 2006, the Total Bond Fund also invested more than 25% of its assets in non-agency MBS.

28. Schwab Investments did not follow the required procedure for disclosing the purported change to its registration statement. On September 1, 2006, it filed a Form 497 amending the taxable bond funds' prospectus, but not its registration statement as required by the Investment Company Act. In November 2006, Schwab Investments filed an amendment to its registration statement that reflected the purported change to the concentration policy. Amendments involving material changes, such as a change to a fund's concentration policy, must be filed on Form 485A, which typically are reviewed by Commission staff and become effective after 60 days. Schwab Investments, however, filed the amendment on Form 485B, with certifications that the filing did not contain any material changes. Filings on Form 485B typically are effective immediately and not reviewed by Commission staff. Schwab Investments should have filed on Form 485A.

Misrepresentations During the Fund's Decline

29. As the credit crisis unfolded and bond valuations declined in the summer of 2007, the Fund's NAV began to decline and many investors redeemed their holdings. Unlike money market funds, which can rely on maturing securities to generate cash, only \$675 million, representing 6% of the Fund's over \$11.2 million in assets, were scheduled to mature within the next six months. As a result, the Fund had to sell assets in a depressed market to raise cash to meet redemptions.

30. As the NAV declined, CSIM and CS&Co. held a series of conference calls and issued written materials to investors, independent investment advisers, and CS&Co. registered representatives. CS&Co. representatives also spoke with many individual customers. In these

communications, CSIM and CS&Co. expressed confidence in the Fund; urged investors to have a patient, long-term perspective; and emphasized that most of the Fund's NAV decline represented unrealized, rather than realized, losses.

31. During the decline, CSIM and CS&Co. made a number of material misstatements and omissions concerning the Fund. For example, during two prescheduled conference calls in August 2007, the Fund's then-lead portfolio manager ("Lead Portfolio Manager"), who also was CSIM's Chief Investment Officer for Fixed Income, understated the Fund's redemptions at the time. During the first two weeks of August, investors redeemed almost \$1.2 billion from the Fund, or approximately 10% of Fund assets. During this same two-week period, the YieldPlus Fund sold over \$2.1 billion in portfolio securities—16% of assets—to raise cash to meet redemptions. The Lead Portfolio Manager monitored redemption levels throughout each day and reviewed a detailed summary each evening. During this time period, on August 8, 2007, another Fund portfolio manager sent an email to the Lead Portfolio Manager, the President of CSIM and others saying "we need flows to stabiliz[e]." On August 11, 2007, the Lead Portfolio Manager sent an email to the President of CSIM saying "[i]f the Advisor community starts to bail out, who [sic] has been stable to this point, we will be in trouble." On Sunday, August 12, 2007, the Lead Portfolio Manager sent an email regarding his deletion of information about the Fund's holdings and assets under management information from a Q&A for the Schwab website. In the email, he said, "I don't want anyone to sense that we are having outflows."

32. On August 14, 2007, the Lead Portfolio Manager held a conference call with registered investment advisers to discuss the Fund. During the question and answer portion of the call, an adviser asked him, "how expensive have your redemptions been since the decline?" During his response, the Lead Portfolio Manager said that some advisers had purchased more shares, and "we've got very, very, very slight negative flows over the course of the last week or two." Two days later, on August 16, 2007, the Lead Portfolio Manager held a conference call with CS&Co. registered representatives. In that call, a representative asked "what are the net outflows of the Schwab Yield Plus fund to date?" During his answer, the Lead Portfolio Manager said, "[i]t's not that much. . . . So outflows have been minimal." These statements were false and misleading. The Fund's outflows, which already had required over \$2 billion in asset sales to that point, were not "very, very, very slight" or "minimal." After the conference calls, some CS&Co. representatives communicated the Lead Portfolio Manager's comments to Fund investors.

33. Another example involves a November 2007 internal memorandum that circulated a set of talking points. CSIM and CS&Co. prepared and circulated the talking points to assist CS&Co. representatives in responding to questions about the Fund. Both the President of CSIM and the Lead Portfolio Manager reviewed, and the President approved, the talking points document, which repeated the positive theme, stating, among other things, that "[t]he portfolio management team has confidence in the Fund's strategy" and that "[d]espite the recent spike in bond market volatility, history suggests this is a temporary condition." The talking points document was inconsistent with contemporaneous internal emails discussing the Fund that were sent by the portfolio manager responsible for providing daily updates to management. In one email, a YieldPlus Fund portfolio manager reported to the Lead Portfolio Manager, the President

of CSIM, and other senior executives that raising cash “was like pulling teeth” and that “[I]liquidity is AWFUL ...period.” In a second email, the same portfolio manager reported to the Lead Portfolio Manager that “it[']s not better today and likely won’t be for some time.” In a third email, he reported to the executives that “we are hostage to the market at this point and can’t improve the NAV.” In light of the Fund’s holdings, and the market conditions at the time, CSIM and CS&Co.’s statements were incomplete and misleading.

34. CSIM and CS&Co. made other inaccurate statements and omissions. These included statements that: (1) the Fund was selling securities to raise cash to capitalize on purchasing opportunities in the current market environment and to meet redemptions, when meeting redemptions was the motivation for the sales; and (2) the Fund had a short maturity structure that had mitigated the price erosion experienced by some of the Fund’s peers.

Redemptions by Schwab-Related Funds and Individuals

35. Although CS&Co. and CSIM’s policies broadly prohibited trading on the basis of material nonpublic information, those entities did not have adequate policies and procedures to prevent the misuse of material nonpublic information about the Fund, taking into consideration the nature of their businesses. For example, CSIM and CS&Co. did not have policies in place to review redemptions of Fund shares by all Schwab-related personnel and funds for compliance with the general policy. Moreover, although certain people (such as the Fund’s own portfolio managers) had to obtain pre-approval for personal trades of the Fund’s shares, individuals whose responsibilities provided them with material nonpublic information about the Fund had no pre-approval obligations. CSIM and CS&Co. also failed to maintain appropriate information barriers concerning nonpublic and potentially material Fund information. Finally, CSIM and CS&Co. had no specific policies and procedures governing redemptions by portfolio managers who advised Schwab funds of funds. As a result, several Schwab-related funds and individuals were free under CSIM and CS&Co.’s policies and procedures to redeem their own investments in the Fund during the Fund’s decline.

36. One instance involved Schwab Charitable, a 501(c)(3) public benefit corporation that is not a subsidiary of CSC. On March 5, 2008, Schwab Charitable’s Investment Oversight Committee voted to recommend to its board that the fund redeem its \$91 million investment in the YieldPlus Fund due to the Fund’s poor performance. The recommendation was scheduled for discussion and vote by the Charitable Fund’s board on March 12, 2008, at its next scheduled meeting. On March 7, 2008, however, the fund’s Chief Operating Officer (“COO”) unilaterally decided to redeem the fund’s entire investment before the board approved the decision. Prior to the redemption, the COO had received an email from CSIM that contained a mix of public and nonpublic information regarding the Fund and its recent decline. The email was forwarded to the COO by a CS&Co. employee who had no business reason for receiving it but was a member of Charitable’s Investment Oversight Committee.

37. A second instance involved redemptions in March 2008 by the Schwab Target Date Funds, which are CSIM-managed, fund-of-fund mutual funds with primarily retail investors. The

Target Date Funds' senior portfolio manager served as CSIM's Chief Investment Officer for Equities ("CIO-Equities"). The CIO-Equities had access to two potential sources of nonpublic information regarding the Fund when he accelerated the Target Date Funds' redemptions of their YieldPlus investments. First, he participated in internal meetings between CSIM's President and his direct reports. During these meetings, the Lead Portfolio Manager and other executives discussed the YieldPlus Fund, including nonpublic information about the Fund's redemption levels and plans to satisfy redemptions. Second, the CIO-Equities was a member of Charitable's Investment Oversight Committee, and in that capacity learned that Schwab Charitable intended to redeem its YieldPlus Fund investment. The CIO-Equities informed the CSIM President of his intention to redeem and the CSIM President approved the redemption.

Violations

38. Schwab Investments deviated from the bond funds' concentration policy without obtaining shareholder approval when the YieldPlus Fund and the Total Bond Fund invested more than 25% of their assets in non-agency MBS. Accordingly, Schwab Investments willfully violated Section 13(a) of the Investment Company Act. See In re Charles Schwab Corp. Secs. Litig., 2010 WL 1261705 (N.D. Cal. March 30, 2010) (investing more than 25% in non-agency MBS required shareholder vote). CSIM willfully aided and abetted and caused the violations when it directed the investments in MBS in excess of the YieldPlus Fund's 25% limit, proposed the change to the funds' concentration policy, and directed the Total Bond Fund's investment of over one-third of assets in non-agency MBS.

39. CSIM and CS&Co. willfully violated anti-fraud provisions of the Securities Act, Sections 17(a)(2) and (3), when, as described above, they: (1) made materially misleading statements and omissions about the Fund and its risk before the Fund's NAV declined; (2) made materially misleading statements and omissions during the Fund's NAV decline; and (3) materially understated the Fund's WAM from February 2006 to September 2007 in certain communications.

40. CSIM also willfully violated Section 206(4) and Rule 206(4)-8 of the Advisers Act by materially misstating the Fund's WAM and by making materially false and misleading statements about the Fund during its decline.

41. CSIM and CS&Co. willfully aided and abetted and caused violations of Section 34(b) of the Investment Company Act. CSIM and CS&Co. provided substantial assistance to persons making the misstatements and omissions detailed above that appeared in sales materials filed with NASD or FINRA and, consequently, with the Commission. CSIM and CS&Co. also willfully aided and abetted and caused violations of Section 34(b) of the Investment Company Act by providing substantial assistance regarding (1) a Form N-CSR Annual Report dated August 31, 2007, misstating the Fund's WAM; (2) a Registration Statement stating that the YieldPlus Fund would not invest more than 25% of its assets in non-agency MBS at a time when the Fund exceeded that concentration limitation; and (3) a Form 485B falsely certifying that it contained no material changes when it included the unauthorized change to the funds' concentration policy.

42. CSIM and CS&Co.'s policies and procedures were not reasonably designed, given the nature of their business, to prevent the misuse of material nonpublic information about the Fund by Schwab-related personnel and funds. Accordingly, CSIM and CS&Co. willfully violated Sections 204A of the Advisers Act and 15(g) (formerly Section 15(f)) of the Exchange Act, respectively.

Undertakings

Respondents have undertaken to:

A. Correct all disclosures regarding Schwab Investments' taxable bond funds' concentration policy by reinstating disclosure of a 25% limit on investment in non-agency MBS for purposes of its concentration policy.

B. Retain, at CSIM and CS&Co.'s expense and within 30 (thirty) days of the issuance of this Order, a qualified independent consultant (the "Consultant") not unacceptable to the staff of the Division of Enforcement (the "Staff") to: (1) conduct a comprehensive review of Respondents' policies, practices, and procedures to prevent the misuse of material, nonpublic information by or related to its proprietary mutual funds; (2) determine the adequacy, taking into account and consideration the nature of their businesses and the relationship between them, of such policies, practices, and procedures under Section 15(g) of the Exchange Act and Section 204A of the Advisers Act (with special attention to the findings described in paragraphs 35 through 37 above); and (3) prepare the written reports, referenced below, reviewing the adequacy of each Respondent's policies, practices, and procedures and making recommendations regarding how Respondents should modify or supplement their respective policies, practices, and procedures, to prevent the misuse of material, nonpublic information in compliance with Section 15(g) of the Exchange Act and Section 204A of the Advisers Act. Respondents shall provide a copy of the engagement letter detailing the Consultant's responsibilities to Commission staff;

C. Cooperate fully with the Consultant, including providing the Consultant with access to Respondents' files, books, records, and personnel as reasonably requested for the above-mentioned review, and obtaining the cooperation of respective employees or other persons under Respondents' control;

D. Require the Consultant to report to Commission staff on his/her/its activities as the staff shall request;

E. Permit the Consultant to engage such assistance, clerical, legal or expert, as necessary and at a reasonable cost, to carry out his/her/its activities, and the cost, if any, of such assistance shall be borne exclusively by Respondents;

F. Within ninety (90) days of the issuance of this Order, unless otherwise extended by Commission staff for good cause, Respondents shall require the Consultant to complete the review described in subparagraph B above and prepare a written preliminary report ("Preliminary Report") that: (i) evaluates the adequacy under Section 15(g) of the Exchange Act and Section 204A of the Advisers Act of each Respondent's policies, practices, and procedures, taking into

account and consideration the nature of their businesses and the relationship between them, to prevent the misuse of material, nonpublic information; and (ii) makes any recommendations about modifications thereto or additional or supplemental procedures deemed necessary to remedy any deficiencies described in the Preliminary Report. Respondents shall require the Consultant to provide the Preliminary Report simultaneously to both Commission staff and Respondents;

G. Within ninety (90) days of Respondents' receipt of the Preliminary Report, Respondents shall adopt and implement all recommendations set forth in the Preliminary Report; provided, however, that as to any recommendation that Respondents consider to be, in whole or in part, unduly burdensome or impractical, Respondents may submit in writing to the Consultant and Commission staff, within thirty (30) days of receiving the Preliminary Report, an alternative policy, practice, or procedure designed to achieve the same objective or purpose. Respondents shall then attempt in good faith to reach an agreement with the Consultant relating to each recommendation that Respondents consider to be unduly burdensome or impractical and request that the Consultant reasonably evaluate any alternative policy, practice, or procedure proposed by Respondents. Within fourteen (14) days after the conclusion of the discussion and evaluation by Respondents and the Consultant, Respondents shall require that the Consultant inform Respondents and Commission staff of his/her/its final determination concerning any recommendation that Respondents consider to be unduly burdensome or impractical. Respondents shall abide by the determinations of the Consultant and, within sixty (60) days after final agreement between Respondents and the Consultant or final determination by the Consultant, whichever occurs first, Respondents shall adopt and implement all of the recommendations that the Consultant deems appropriate;

H. Within fourteen (14) days of Respondents' adoption of all of the recommendations that the Consultant deems appropriate, Respondents shall certify in writing to the Consultant and Commission staff that Respondents have adopted and implemented all of the Consultant's recommendations and that Respondents have established policies, practices, and procedures as required by Section 15(g) of the Exchange Act and Section 204A of the Advisers Act that are consistent with the findings of this Order;

I. Within one hundred and eighty (180) days from the date of the certifications described in subparagraph H above, Respondents shall require the Consultant to have completed a review of Respondents' revised policies and procedures and practices and submit a written final report ("Final Report") to Respondents and Commission staff. The Final Report shall describe the review made of Respondents' revised policies, practices, and procedures and describe how Respondents are implementing, enforcing, and auditing the enforcement and implementation of those policies, practices, and procedures. The Final Report shall include an opinion of the Consultant as to whether the revised policies, practices, and procedures and their implementation and enforcement by Respondents and Respondents' auditing of the implementation and enforcement of those policies, practices, and procedures are reasonably adequate under Section 15(g) of the Exchange Act and Section 204A of the Advisers Act;

J. Respondents may apply to Commission staff for an extension of the deadlines described above before their expiration and, upon a showing of good cause by Respondents,

Commission staff may, in its sole discretion, grant such extensions for whatever time period it deems appropriate;

K. To ensure the independence of the Consultant, Respondents shall not have the authority to terminate the Consultant without prior written approval of Commission staff and shall compensate the Consultant and persons engaged to assist the Consultant for services rendered pursuant to this Order at their reasonable and customary rates;

L. Respondents shall require the Consultant to enter into an agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with Respondents, or any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity. The agreement will also provide that the Consultant will require that any firm with which he/she/it is affiliated or of which he/she/it is a member, and any person engaged to assist the Consultant in performance of his/her/its duties under this Order shall not, without prior written consent of Commission staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Respondents, or any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement; and

M. Respondents agree to certify in writing to Commission staff, as of the calendar year ended December 31, 2011, that Respondents have established and continue to maintain policies, practices, and procedures as required by Section 15(g) of the Exchange Act and Section 204A of the Advisers Act that are consistent with the findings of this Order.

N. Certification of Compliance by Respondents: Respondents shall certify, in writing, compliance with the undertakings set forth above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondents agrees to provide such evidence. The certification and supporting material shall be submitted to Robert A. Cohen, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

IV.

In view of the foregoing, the Commission deems it appropriate, and in the public interest, to impose the sanctions agreed to in Respondents' Offers.

Accordingly, pursuant to Section 8A of the Securities Act, Sections 15(b) and 21C of the Exchange Act, Sections 203(e) and 203(k) of the Advisers Act, and Section 9(f) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent CSIM cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and (3) of the Securities Act; Sections 204A and 206(4)

of the Advisers Act and Rule 206(4)-8 promulgated thereunder; and from committing or causing violations and any future violations of Sections 13(a) and 34(b) of the Investment Company Act.

B. Respondent CS&Co. cease and desist from committing or causing any violations and any future violations of Section 17(a)(2) and (3) of the Securities Act and Section 15(g) of the Exchange Act, and from committing or causing violations and any future violations of Section 34(b) of the Investment Company Act.

C. Respondent Schwab Investments cease and desist from committing or causing any violations and any future violations of Section 13(a) of the Investment Company Act.

D. Respondents CSIM and CS&Co. are censured.

E. Respondents shall comply with the undertakings enumerated above.

By the Commission.

Elizabeth M. Murphy
Secretary