



# Schwab Intelligent Portfolios<sup>®</sup> and Schwab Intelligent Portfolios Premium<sup>™</sup>

**The following disclosure documents are provided for Schwab Intelligent Portfolios and Schwab Intelligent Portfolios Premium:**

- **Charles Schwab & Co., Inc. Relationship Summary: Broker-Dealer**
- **Charles Schwab & Co., Inc. Relationship Summary: Investment Advisory**
- **Charles Schwab & Co., Inc. Schwab Intelligent Portfolios Solutions<sup>™</sup> Disclosure Brochure**
- **Charles Schwab Investment Advisory, Inc. Schwab Intelligent Portfolios Disclosure Brochure**

Charles Schwab & Co., Inc.  
211 Main Street  
San Francisco, CA 94105  
Tel: (855) 694-5208  
[intelligent.schwab.com](http://intelligent.schwab.com)

# Relationship Summary: Broker-Dealer

## What you should consider when choosing a brokerage relationship at Schwab.

Charles Schwab & Co., Inc. (Schwab) is a broker-dealer registered with the Securities and Exchange Commission (SEC). The summary below highlights the nature of the brokerage relationship with our clients. Schwab is also an investment adviser registered with the SEC. Our brokerage and investment advisory services and fees differ, and we believe it is important for you to understand those differences. To compare, see a summary of Schwab's investment advisory relationships at [www.schwab.com/relationship-summary-ia](http://www.schwab.com/relationship-summary-ia). For more general information about different financial professionals and investing, including free and simple tools to research firms and their representatives, visit the SEC's website at [www.investor.gov/CRS](http://www.investor.gov/CRS).

We hope you will take the time to read this information and ask questions. We welcome them.



## What investment services and advice can you provide me?

We offer a wide range of investment products with no account minimums for most domestic accounts. Our offerings include both affiliated products that are managed by Schwab and unaffiliated investment products that are managed by independent third parties.



- ✓ We offer investment and account recommendations if you would like advice.
- ✓ We will give you advice that is a one-on-one recommendation and specific to you and your situation at that time. As such, a recommendation only applies at the point in time when we provide it to you.
- ✓ The decision to invest will always be yours—we will not place any trades on your behalf without your direction. We do not manage or monitor your brokerage accounts.
- ✓ We also provide Schwab research and other market data, but this type of information will never be a recommendation for you specifically.

For more information about our services, go to [www.schwab.com/transparency](http://www.schwab.com/transparency) and read our **Best Interest Disclosure**.

### Questions to Ask

- Given my financial situation, should I choose an investment advisory service?
- Should I choose a brokerage service?
- Should I choose both types of services? Why or why not?
- How will you choose investments to recommend to me?
- What is your relevant experience, including your licenses, education, and other qualifications?
- What do these qualifications mean?

## What fees will I pay?

If you place a trade, you will pay a commission or transaction fee in some cases. There can also be expenses built into the trade price or the investment itself.

- ✓ The fee you pay is the same whether we recommend an investment to you or not. We earn money from third parties or affiliates on certain products, so we have an incentive to encourage investment in those products.
- ✓ You may also pay account- or transaction-related fees.
- ✓ *You will pay fees and costs whether you make or lose money on your investments. Fees and costs will reduce any amount of money you make on your investments over time. Please make sure you understand what fees and costs you are paying.*



To see more information about our fees, go to [www.schwab.com/transparency](http://www.schwab.com/transparency) and read our **Best Interest Disclosure** or go to [www.schwab.com/pricing-guide](http://www.schwab.com/pricing-guide).

### Questions to Ask

- Help me understand how these fees and costs might affect my investments.
- If I give you \$10,000 to invest, how much will go to fees and costs, and how much will be invested for me?

## What are your legal obligations to me when providing recommendations? How else does your firm make money, and what conflicts of interest do you have?

All recommendations for your brokerage account will be made in a broker-dealer capacity unless otherwise expressly stated at the time of the recommendation. *When we provide you with a recommendation*, we have to act in your best interest and not put our interest ahead of yours. At the same time, the way we make money creates some conflicts with your interests.

You should understand and ask us about these conflicts because they can affect the recommendations we provide you. Here are some examples to help you understand what this means. We and our affiliates earn money from:

- ✓ Shareholder service fees paid to us by third-party fund providers and management fees paid to our affiliate adviser by affiliated mutual funds and ETFs, shares of which are held in your accounts.
- ✓ The “spread” on cash in your accounts—i.e., the difference between what we earn and what we pay you in interest.
- ✓ Dealer concessions or transaction fees when trading as principal in your accounts.
- ✓ Insurance companies when you purchase an annuity or other insurance products.

For more information about our conflicts, go to [www.schwab.com/transparency](http://www.schwab.com/transparency) and read our Best Interest Disclosure.

### Question to Ask

- How might your conflicts of interest affect me, and how will you address them?

## How do your financial professionals make money?



Our representatives receive cash payments based on the amount of assets you have with us and the time, complexity, and expertise required to help you with any of our services; specifically, they receive compensation to navigate you to our investment advisory services and service your accounts once enrolled in such services. They do earn more for recommending certain services over others, but what they earn is not directly based on the revenue the firm earns.

For more information on how we pay our representatives, go to [www.schwab.com/representative-compensation](http://www.schwab.com/representative-compensation).

## Do you or your financial professionals have legal or disciplinary history?

Yes.

For free and simple tools to research our firm and representatives, visit [www.investor.gov/CRS](http://www.investor.gov/CRS).

### Questions to Ask

- As a financial professional, do you have any disciplinary history?
- For what type of conduct?



## Where can I find additional information?

For additional information about our investment advisory or brokerage services, go to [www.schwab.com/transparency](http://www.schwab.com/transparency). To request a copy of this relationship summary, call 800-435-4000.

### Questions to Ask

- Who is my primary contact person?
- Is he or she a representative of an investment adviser or a broker-dealer?
- Who can I talk to if I have concerns about how this person is treating me?

# Relationship Summary: Investment Advisory

## What you should consider when choosing an investment advisory relationship at Schwab.

Charles Schwab & Co., Inc. (Schwab) is an investment adviser registered with the Securities and Exchange Commission (SEC). The summary below highlights the nature of investment advisory relationships with our clients. Schwab is also a broker-dealer registered with the SEC. Our brokerage and investment advisory services and fees differ, and we believe it is important for you to understand those differences. To compare, see a summary of Schwab's brokerage relationship at [www.schwab.com/relationship-summary-bd](http://www.schwab.com/relationship-summary-bd). For more general information about different financial professionals and investing, including free and simple tools to research firms and their representatives, visit the SEC's website at [www.investor.gov/CRS](http://www.investor.gov/CRS).

We hope you will take the time to read this information and ask questions. We welcome them.



## What investment services and advice can you provide me?

We sponsor several advice programs that provide different services, feature different investments, and have different account minimums and levels of account monitoring. Our affiliates participate in some of these programs as discretionary or non-discretionary Portfolio Managers.



- ✓ For automated advice from a robo-adviser, where our affiliated investment adviser, Charles Schwab Investment Advisory, Inc. (CSIA), monitors and makes the decisions and investments for you: Schwab Intelligent Portfolios® (\$5,000 minimum) or Schwab Intelligent Portfolios Premium™, which combines the robo-adviser with financial planning (\$25,000 minimum).
- ✓ For advice from our affiliate investment adviser, Charles Schwab Investment Management, Inc. (CSIM), or unaffiliated advisers where the advisers monitor and make the investment decisions for you: Schwab Managed Account Services™ (minimums begin at \$100,000).
- ✓ For accounts managed by CSIM using a particular investment strategy, where the adviser monitors and makes the investment decisions for you: Schwab Managed Portfolios™ (\$25,000 minimum).
- ✓ For complex or specialized needs, a referral to an unaffiliated professional adviser: Schwab

Advisor Network® (\$500,000 minimum).

- ✓ For advice and periodic portfolio reviews from a team of professionals at our affiliated investment adviser, Schwab Private Client Investment Advisory, Inc. (SPCIA), where you make the investment decisions: Schwab Private Client™ (\$1,000,000 minimum).
- ✓ For individualized planning advice in a written financial plan with no monitoring: Schwab Financial Planning Services.

To learn more about specific services for each program, go to [www.schwab.com/advisory](http://www.schwab.com/advisory) to access the relevant sections of each program Disclosure Brochure: (1) Advisory Business; Types of Clients; or (2) Services, Fees and Compensation; Account Requirements and Types of Clients.

### Questions to Ask

- Given my financial situation, should I choose an investment advisory service?
- Should I choose a brokerage service?
- Should I choose both types of services? Why or why not?
- How will you choose investments to recommend to me?
- What is your relevant experience, including your licenses, education, and other qualifications?
- What do these qualifications mean?

## What fees will I pay?

We charge a fee for some, but not all, of our advisory services, including asset-based fees and fixed one-time and recurring fees. Some of these fees may be negotiable.

- ✓ Our asset-based or wrapped fees include most transaction costs, and could be higher than fees charged for advisory services that do not include such costs. There are other fees that will apply to your account, such as mutual fund and ETF operating expenses (including management fees paid to CSIM for funds managed by them), costs for trades executed at a firm other than Schwab, and account services fees.
- ✓ The more assets in your accounts, the more money Schwab and its affiliates earn, so we have an incentive to encourage you to invest more assets. We earn money from third parties or affiliates on certain products, including cash, mutual funds, and ETFs held in your accounts, so we have an incentive to encourage such investments.
- ✓ You will pay fees and costs whether you make or lose money on your investments. Fees and costs will reduce any amount of money you make on your investments over time. Please make sure you understand what fees and costs you are paying.



To learn more about specific fees for each program, go to [www.schwab.com/advisory](http://www.schwab.com/advisory) to access the relevant sections of each program Disclosure Brochure: (1) Fees and Compensation; or (2) Services, Fees and Compensation.

#### Questions to Ask

- Help me understand how these fees and costs might affect my investments.
- If I give you \$10,000 to invest, how much will go to fees and costs, and how much will be invested for me?

### What are your legal obligations to me when acting as my investment adviser? How else does your firm make money, and what conflicts of interest do you have?

All recommendations regarding your advisory account will be in an adviser capacity. When we, CSIA, CSIM, or SPCIA act as your investment adviser, we have to act in your best interest and not put our interest ahead of yours. At the same time, the way we make money creates some conflicts with your interests.

You should understand and ask us about these conflicts because they can affect the recommendations we provide you. Here are some examples to help you understand what this means. We and our affiliates earn money from:

- ✓ Shareholder service fees paid to us by third-party fund providers and management fees paid to CSIM by affiliated mutual funds and ETFs, shares of which are held in your accounts.
- ✓ The “spread” on cash in your accounts—i.e., the difference between what we earn and what we pay you in interest.
- ✓ Fees from third-party advisers participating in our referral service.
- ✓ Other compensation and conflicts that are specific to the different programs.

To learn more about specific conflicts for each program, go to [www.schwab.com/advisory](http://www.schwab.com/advisory) to access the relevant sections of each program Disclosure Brochure: Other Financial Industry Activities and Affiliations; Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.

#### Question to Ask

- How might your conflicts of interest affect me, and how will you address them?

### How do your financial professionals make money?



Our representatives include branch-based Financial Consultants and phone-based representatives who help you select the program or service that best meets your needs. They receive cash payments based on factors like the amount of assets you have with us and the time, complexity, and expertise required to help you with any of the services we provide; specifically, they receive compensation to navigate you to our investment advisory services and service your accounts once enrolled in such services. They do earn more for recommending certain services over others, but what they earn is not directly based on the revenue the firm earns.

CSIM and CSIA Portfolio Managers and SPCIA Private Client Advisors receive a fixed base salary and may earn a discretionary bonus based on the financial performance of The Charles Schwab Corporation (CSC). CSIM and CSIA Portfolio Managers also have the potential to participate in

discretionary equity awards. For certain CSIM Portfolio Managers managing strategies within Schwab's Managed Account Services, their discretionary bonus is funded both on the financial performance of CSC and their strategy's performance results or asset growth.

For more information on how we pay our representatives, go to [www.schwab.com/representative-compensation](http://www.schwab.com/representative-compensation).

### Do you or your financial professionals have legal or disciplinary history?

Yes.

For free and simple tools to research our firm and representatives, please visit [www.investor.gov/CRS](http://www.investor.gov/CRS).

#### Questions to Ask

- As a financial professional, do you have any disciplinary history?
- For what type of conduct?



### Where can I find additional information?

For additional information about our investment advisory or brokerage services, go to [www.schwab.com/transparency](http://www.schwab.com/transparency). To request a copy of this relationship summary, call 800-435-4000.

#### Questions to Ask

- Who is my primary contact person?
- Is he or she a representative of an investment adviser or a broker-dealer?
- Who can I talk to if I have concerns about how this person is treating me?



October 22, 2021

# Charles Schwab & Co., Inc. Schwab Intelligent Portfolios Solutions™ Disclosure Brochure

Charles Schwab & Co., Inc. Disclosure Brochure for the  
Schwab Intelligent Portfolios Solutions Wrap Fee Program

Charles Schwab & Co., Inc.  
3000 Schwab Way  
Westlake, TX 76262  
Tel: 1-855-694-5208  
[intelligent.schwab.com](http://intelligent.schwab.com)

This wrap fee program brochure provides information about the qualifications and business practices of Charles Schwab & Co., Inc. ("Schwab"). If you have any questions about the contents of this brochure, please contact us at the phone number above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission 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).

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## Advisory Business

Charles Schwab & Co., Inc. (“Schwab” or “we”) is a wholly owned subsidiary of The Charles Schwab Corporation (“CSCorp”), a Delaware corporation that is publicly traded and listed on the NYSE (symbol: SCHW). Schwab has been registered as an investment advisor under the Investment Advisers Act of 1940, as amended, since July 24, 1987.

Schwab sponsors the advisory services Schwab Intelligent Portfolios® (“SIP” or the “SIP Program”) and Schwab Intelligent Portfolios Premium® (“SIP Premium” or the “SIP Premium Program”) (collectively, “Schwab Intelligent Portfolios Solutions™” or the “Programs”). Schwab also sponsors other wrap fee programs, for which you can request a copy of their brochures. SIP is an automated discretionary investment advisory service that offers clients a diversified portfolio based on their stated investment objectives and risk tolerance. SIP Premium is a hybrid advisory service that combines financial planning and guidance from Schwab Financial Planners (“Financial Planners”) with discretionary portfolio management through the SIP Program.

### Schwab Intelligent Portfolios

Schwab Intelligent Portfolios provides discretionary management through an automated investment advisory service. SIP portfolios consist of a diversified portfolio composed of exchange-traded funds (ETFs), as well as an FDIC-insured cash allocation (the “Cash Allocation”) that is based on the client’s stated investment objectives and risk tolerance. The portfolio of ETFs includes up to 20 asset classes across stocks, fixed income, real estate, and commodities. The SIP Program is designed to monitor a client’s portfolio daily and will also automatically rebalance as needed to keep a client’s portfolio consistent with the selected risk profile.

The SIP Program is offered online through an interactive website and mobile application (collectively, the “Website”). Clients use the Website and answer questions from an online questionnaire that help to determine whether the client is appropriate for the SIP Program. The Website also presents a suggested SIP portfolio based on the client information for clients’ review and approval. Prior to enrollment, clients are asked to carefully consider whether their participation in the SIP Program and whether their selected SIP portfolio are appropriate for their investment needs and goals. Once enrolled, SIP clients can update their investment profile or monitor their accounts’ allocation, activity, and performance through a customized dashboard. Clients should periodically review their investment profile and update it as needed when their goals, risk tolerance, or other aspects of their financial situation change.

Charles Schwab Investment Advisory, Inc. (“CSIA”), an affiliate of Schwab, provides portfolio management services for SIP Program accounts on a discretionary basis consistent with each client’s chosen investment strategy. Schwab acts as the qualified custodian for SIP Program accounts, providing trade execution, research, and related services. Schwab also provides administration and related services for the SIP Program.

The SIP Program uses algorithms (the “Algorithms”)—each algorithm is a set of rules embedded in a computer program: The various Algorithms in the SIP program (1) propose a portfolio based on a client’s answers to the online questionnaire (in the SIP Premium Program, clients may also receive their recommended portfolio from the Financial Planner); (2) identify portfolio rebalancing opportunities; (3) identify tax-loss harvesting opportunities; and (4) initiate buy/sell orders for the tax-loss harvesting and/or rebalancing opportunities it has identified, as detailed below (collectively, the “Rebalancing Algorithms”). Upon clients’ request to initiate recurring withdrawals through the Schwab Intelligent Income® feature as described below (“SII”), an additional algorithm (the “SII Algorithm”) is activated to enable withdrawals while the account assets remain invested through the Program. Except where otherwise indicated, “Algorithms” refer to the Rebalancing Algorithms and the SII Algorithm. The Rebalancing Algorithms are designed to perform a daily review of client accounts and holdings to identify rebalancing and tax-loss harvesting opportunities as well as to initiate buy or sell orders when such

opportunities exist; trade orders are then sent to CSIA for review prior to the trade(s) being released for execution.

Although the activities described in this paragraph generally take place on a daily basis, there may be rare instances when they do not do so.

Clients give investment discretion to CSIA to manage their account and make trades in their account, and CSIA may therefore initiate or halt trading at its discretion and for any reason, including halting trading under conditions when CSIA believes that continued trading may pose an undue risk of harm to accounts. As with similar automated services, clients will not be allowed to make trades in their account(s). Clients may request that certain ETFs be excluded from their account(s) but not all requested restrictions will be processed. Unreasonable restrictions requested including other security types, such as stocks, mutual funds or cash will not be honored. A request to exclude ETFs from a client’s account may result in delays in the management of the account. The client will be notified if the account cannot be managed with the requested investment restrictions. Clients also may request that CSIA use a tax-loss harvesting strategy so that tax losses are generated to offset potential capital gains in their account, subject to meeting minimum balance requirements (currently \$50,000 in an individual SIP or SIP Premium account, but is subject to change). Accounts enrolled in the Programs are not margin accounts, meaning clients cannot borrow money to buy securities in their SIP and SIP Premium Program accounts and use the securities in the accounts as collateral for a margin loan.

### Schwab Intelligent Portfolios Premium

The SIP Premium Program combines the discretionary portfolio management of the SIP Program, as described above, with the additional features of financial planning and ongoing access to guidance from Schwab Financial Planners, as well as to online financial planning tools. SIP Premium Accounts are invested in SIP portfolios and managed on a discretionary basis through the SIP Program. Unless otherwise indicated, descriptions of portfolio management through SIP apply to SIP Premium as well. Schwab also acts as the qualified custodian for SIP Premium Program accounts and provides administration and related services for the SIP Premium Program.

Like SIP, SIP Premium clients can complete an online questionnaire which results in the recommendation of a diversified portfolio based on the clients’ stated investment profile and risk tolerance. Alternatively, SIP Premium clients can receive a recommended portfolio from the Financial Planner based on a review of the clients’ stated investment profile and risk tolerance for the applicable accounts. Upon enrollment, SIP Premium clients receive discretionary management for the selected accounts.

As part of the SIP Premium Program, clients also have access to financial planning through a digital planning tool (“Planning Tool”), which captures information about clients’ current financial situation, such as assets and liabilities and overall goals and risk tolerance. Clients will also receive a financial planning consultation with a Financial Planner, which will be guided by the Planning Tool and which will include wealth management topics applicable to the client’s interests and needs, such as retirement planning, savings, educational funding, credit management, charitable giving, and budget management.

Information about assets held outside of Schwab, if provided, may be considered in developing a financial plan for the client, but information provided about the accounts that the client plans to enroll in SIP Premium will be the primary factor used to determine the appropriate strategy or strategies for those accounts. Although clients will receive financial planning advice on a broad range of subjects and accounts through SIP Premium, only those accounts actually enrolled in SIP Premium (each a “SIP Premium Account”) or SIP will receive discretionary portfolio management through SIP.

Once enrolled, clients can stay connected to their plan and accounts online via a customized dashboard and have online access to the Planning Tool as well as ongoing access to Financial Planners. The



interactive Planning Tool allows clients to explore the impact of changes to their financial plan or situation, such as spending goals, retirement time horizon, or other factors. The Financial Planners will conduct periodic client consultations, generally once a year, to review the online financial plan and subjects covered in prior consultations, as well as any new topics that may have arisen. At any time, clients may also request to schedule a consultation with a Financial Planner. Client consultations will also be used to review any changes to the client's accounts or financial situation that may warrant updating the online financial plan or selected SIP strategies.

Clients are currently required to enroll a combined minimum of \$25,000 in the SIP Premium Program, which can be met through one or more SIP Premium Accounts. Each enrolled SIP Premium Account must meet an initial minimum requirement (currently set at \$5,000). Not all clients will be appropriate for the SIP Premium Program. It is designed for investors who are seeking portfolio management through an automated investing solution, are comfortable with online and mobile access, prefer a non-asset-based fixed advisory fee structure, and who also want to receive ongoing financial planning guidance from Financial Planners as well as an interactive Planning Tool.

If a SIP Premium account no longer meets program eligibility or appropriateness requirements, clients agree that Schwab may, at its sole discretion, unenroll the account from the SIP Premium Program while maintaining the account as a SIP account and continuing discretionary management through the SIP Program, or take other action as may be appropriate for the account.

### **Electronic Delivery**

During the enrollment process for the Programs, clients agree that records and disclosures will be delivered electronically and that agreements will be signed electronically. This includes the disclosure brochures, supplements, and other documents relating to clients' accounts. Each client has an obligation to maintain an accurate and up-to-date email address and to ensure that he/she has the ability to read, download, print, and retain electronic documents. If a client is unable or unwilling to accept electronic delivery, the client's enrollment in the Programs may be terminated. If a client's account is terminated for this reason, the client may be required to transfer the account assets to another account at Schwab or at another custodian, or to have the Account assets be liquidated and the proceeds returned to the client.

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

Using asset allocations and ETF selection parameters determined by Schwab, CSIA has created a number of investment strategies for the Programs. The investment strategies consist of diversified portfolios of ETFs combined with the Schwab Intelligent Portfolios® Sweep Program ("Sweep Program"), which automatically deposits, or "sweeps," free credit balances to deposit accounts at Charles Schwab Bank, SSB ("Schwab Bank"), an affiliate of Schwab and CSIA. Each investment strategy is designed to be consistent with a certain combination of investment objectives and risk tolerance. Certain investment strategies are intended for taxable accounts and others for tax-deferred accounts such as Individual Retirement Accounts (IRAs). Certain investment strategies focus on higher yielding (i.e., interest and dividend) asset classes. Only a subset of these strategies are available to clients who are taking recurring withdrawals through the SII feature. Additional investment strategies or modifications to the parameters of existing strategies may occur at any time without prior notice to clients. Not all investment strategies will be appropriate for or available to all clients.

Investing in securities, whether through the Programs or otherwise, involves the risk of loss that clients should be prepared to bear. The specific risks associated with the ETFs comprising the portfolios, as well as the risks associated with securities held in those ETFs, are described in detail in the CSIA Schwab Intelligent Portfolios Disclosure

Brochure. The Rebalancing Algorithms work to maintain asset class diversification for each portfolio within defined parameters.

There are limitations inherent in the use of Algorithms to manage accounts; for instance, the Rebalancing Algorithms are designed to manage accounts according to the asset allocation selected for that account and are not designed to actively manage asset allocations based on short-term market fluctuations. The Rebalancing Algorithms are also not designed to consider certain factors such as short-term asset class volatility or individual tax circumstances such as capital gains taxes. The SII Algorithm cannot ensure the duration of the SII Withdrawals. Although the SII Algorithm is designed to consider tax implications in the order and amount of withdrawals from various accounts, it is not designed to produce a specific tax result or to ensure that withdrawals will be made in the most tax efficient manner. Clients enrolled in SII should seek guidance from a qualified tax professional on how tax laws apply and the impact of enrollment to their specific circumstances. Investment advisory personnel of CSIA oversee the Algorithms but do not personally or directly monitor each individual account.

There is a risk that the Algorithms and related software used for strategy selection, tax-loss harvesting and rebalancing, and related functions may not perform within intended parameters, which may result in a recommendation of a portfolio that may be more aggressive or conservative than necessary, and trigger or fail to initiate rebalancing and/or tax-loss harvesting trading.

The various Algorithms interact with each other and follow relative prioritization. For instance, if an account is due for a planned withdrawal through the SII feature (as detailed below), the withdrawal will take precedence over any wash sales that the Rebalancing Algorithms may attempt to avoid. This means that if there is a planned withdrawal for the account, there will be a sale of securities as needed to fund the withdrawal even if this results in a wash sale.

### **Selection of ETFs**

The written parameters established by Schwab place limitations on the universe of ETFs that CSIA may select for the portfolios.

Schwab has ETF selection parameters designed to support its philosophy of low-cost and index-based investing. In support of providing broadly diversified and risk-adjusted portfolios, eligible ETFs must represent well a particular asset class in the portfolio, meet sufficient liquidity standards, and be among the lowest cost (in terms of its operating expense or "OER") in their asset class or category. When it comes to replacing an ETF, CSIA also considers the potential impact to clients, such as additional trading costs or other costs.

Eligible ETFs include Schwab ETFs™ which are managed by Charles Schwab Investment Management, Inc. ("CSIM"), an affiliate of Schwab and CSIA. Schwab has instructed CSIA to select or retain Schwab ETFs in the portfolios as long as CSIA determines that they satisfy the above factors.

CSIA will generally select both a primary and secondary ETF for each asset class in consideration of, among other things, tax-loss harvesting and requested investment restrictions. In limited circumstances, as determined by CSIA, only one ETF may be used in certain asset classes. In such cases, the tax-loss harvesting feature would not be available for execution in the affected asset class(es). To be eligible for consideration, ETFs designated as the primary ETF in an asset class must have a share price less than a cap that is necessary to enable trading in smaller balance accounts.

Schwab ETFs pay fees to CSIM that are described in "Participation or Interest in Client Transactions" below.

### **Rebalancing**

The Rebalancing Algorithms are designed to conduct a daily review of client accounts for rebalancing opportunities. If the allocation of the ETFs in a client's account deviates by more than an amount specified in

Schwab's parameters from the recommended asset allocation due to changes in ETF values, the Rebalancing Algorithms will initiate a rebalancing trade order. Program trades are sent to CSIA for review prior to being routed for execution. The Rebalancing Algorithms may also trigger rebalancing in cases when a client makes changes to their investment profile, when a client requests to impose or modify restrictions on the management of their account, or when a deposit or withdrawal is made. Accounts will be rebalanced by buying and selling ETF shares and depositing or withdrawing funds through the Sweep Program. Program monitoring and trading are subject to systems and technology constraints and availability, and while unlikely, may not take place daily.

Accounts below \$5,000 may deviate further than the amount specified by Schwab's rebalancing parameters; they may also deviate from the target allocation of the selected investment profile. Rebalancing below \$5,000 may impact the ability to maintain positions in selected asset classes due to the inability to buy or sell at least one share of an ETF. For example, withdrawal requests may require entire asset classes to be liquidated to generate and disburse the requested cash.

### **"Tax-Loss Harvesting" Feature**

Subject to meeting the minimum balance requirement of \$50,000 per account, clients may direct Schwab (and CSIA through Schwab) to employ a tax-loss harvesting strategy. As discussed above, the Rebalancing Algorithms are designed to conduct a daily review of client accounts for tax-loss harvesting opportunities. When the tax-loss harvesting threshold is met, the Rebalancing Algorithms will initiate a tax-loss harvesting trade order for accounts in the Programs. During this process, certain ETFs in the client's account will be sold at a loss to offset potential capital gains (although CSIA does not monitor the type and amount of capital gains). The Rebalancing Algorithms also initiate a buy order to replace the ETFs sold for tax-loss harvesting purposes with the ETF(s) that CSIA reasonably believes are not substantially similar based upon different ETF indices used by each ETF.

The performance of the new ETFs may be better or worse than the performance of the ETFs that are sold for tax-loss harvesting purposes. The utilization of losses harvested through the strategy will depend upon the recognition of capital gains in the same or a future tax period, and in addition may be subject to limitations under applicable tax laws. Losses harvested through the strategy that are not utilized in the tax period when recognized generally may be carried forward to offset future capital gains, if any.

Clients should consult with their professional tax advisors or check the Internal Revenue Service ("IRS") website at [www.irs.gov](http://www.irs.gov) about the consequences of tax-loss harvesting in light of their particular circumstances and its impact on their tax return. Neither the tax-loss harvesting strategy for the Programs, nor any discussion herein, is intended as tax advice, and neither Schwab nor CSIA represents that any particular tax consequences will be obtained.

CSIA only monitors for tax-loss harvesting for accounts enrolled in the Programs, and clients are responsible for monitoring their and their spouse's other accounts (at Schwab or with another firm) to ensure that transactions in the same ETF or a substantially similar security do not create a "wash sale." A wash sale is the sale at a loss and purchase of the same ETF or substantially similar security within 30 days of each other. If a wash sale transaction occurs, the IRS may disallow or defer the loss for current tax reporting purposes. More specifically, the wash sale period for any sale at a loss consists of 61 calendar days: the day of the sale, the 30 days before the sale, and the 30 days after the sale. The wash sale rule postpones losses on a sale if replacement shares are bought around the same time.

The effectiveness of the tax-loss harvesting strategy to reduce the tax liability of the client will depend on the client's entire tax and investment profile, including purchases and dispositions in a client's (or client's spouse's) accounts outside of the Programs and type of investments (e.g., taxable or non-taxable) or holding period (e.g., short-term or long-term). The tax-loss harvesting strategy is not designed to

ensure that it will reduce, defer, or eliminate the tax liability generated by a client's investment portfolio in any given tax year. The Rebalancing Algorithms will not avoid all wash sales—for instance, in the event that securities need to be sold in order to enable withdrawals, such as for withdrawals made through SII, those sales will take place even if they could result in wash sales. Except as set forth below, CSIA and the Rebalancing Algorithms will monitor only accounts enrolled in the Programs to determine if there are unrealized losses for purposes of determining whether to harvest such losses. Transactions in accounts outside of those enrolled in the Programs may affect whether a loss is successfully harvested and, if so, whether that loss is usable by the client in the most efficient manner.

If a client chooses to have tax-loss harvesting for the client's taxable SIP or SIP Premium account, subject to any sale of securities necessitated by withdrawals, CSIA will seek to avoid the wash sale disallowance rule in any other SIP or SIP Premium account associated with the same primary account holder's Social Security number. If CSIA is monitoring multiple accounts to avoid the wash sale disallowance rule, the first taxable account to sell an ETF at a loss will block the other account(s) from buying in that same ETF for 30 days. Similarly, the first account to buy an ETF will block the other taxable accounts from selling that same ETF at a loss for 30 days.

### **"Schwab Intelligent Income®" Feature**

SII is an optional feature available to SIP and SIP Premium clients who would like to enable recurring withdrawals from their accounts over a specified time period to meet ongoing income needs. The SII feature is not a portfolio strategy. SII is designed to meet income needs through recurring withdrawals and not by generating or harvesting interest and dividends from investments in your SIP or SIP Premium accounts.

Clients who have activated SII have instructed Schwab to make a series of recurring withdrawals (collectively, "SII Withdrawals"). On a recurring basis (typically monthly), cash in one or more of the designated SIP or SIP Premium accounts is transferred into an account of the client's choice. This could be at Schwab, which could include taxable brokerage accounts or an account at Schwab Bank, or at a third-party financial institution. Funds for SII Withdrawals may come from the sale of securities in the account in addition to existing cash in the account. After the SII Withdrawal, the account will be rebalanced as necessary and securities sold to keep the target allocation, including the allocation to cash. The target cash allocation for a SIP or SIP Premium account does not change depending on whether SII is enabled. SII Withdrawals will reduce the amount available for investment in the Programs. Clients should consider these facts when deciding whether to activate SII.

Before SII Withdrawals can begin, clients are asked to use an interactive online planning tool to provide information about their goals for the duration and amount of the recurring SII Withdrawals (collectively, "SII Goals"). Not all SIP and SIP Premium clients will be eligible to activate SII Withdrawals. Clients must generally meet Schwab's then-current requirements, including the likelihood of meeting SII Goals before SII can be enabled for an account.

SIP Premium is focused on overall financial planning whereas the SII feature is focused on withdrawal-related planning in those specific accounts which have activated SII. A SIP Premium financial plan is not required in order to activate SII or receive SII Withdrawals. Accordingly, prior to requesting SII Withdrawals (or modifying SII Goals and SII Withdrawals), clients should consider whether their SII Goals are consistent with their overall financial plan and SIP Premium clients should discuss these topics with their Financial Planners. Because SII and SIP Premium are designed for different purposes, they rely on different inputs and therefore may produce different projections. For instance, the probability of success shown for SIP Premium does not automatically assume planned SII withdrawals (although if you are enrolled in SIP Premium, you or your Financial Planner can manually enter the information). Similarly, the SII goals status does not consider additional information from the SIP Premium financial plan, such as income sources outside of SIP or SIP Premium.

Once SII is enabled for an account, clients have ongoing access to online planning tools which provide current information on the likelihood of meeting the stated SII Goals. At any time, clients can request that Schwab stop the SII Withdrawals or modify the amount, duration, or destination of such SII Withdrawals. Modifications to SII Withdrawals must result in at least a 75% likelihood of meeting SII Goals. Due to factors beyond Schwab's control, including market changes and ad hoc client-initiated withdrawals, the likelihood of meeting the SII Goals may fluctuate and increase or decline over time.

In the event that a client's likelihood of meeting the SII Goals falls below Schwab's then-current thresholds (currently 75% likelihood of meeting SII Goals but subject to change at Schwab's discretion), Schwab will alert the client to consider modifying his/her SII Goals; however, Schwab will generally continue to make the SII Withdrawals unless (1) the client expressly requests to terminate the SII Withdrawals; or (2) there are insufficient assets to fund the SII Withdrawals.

Schwab will consider clients who disregard alerts to modify their SII Goals as having elected to deviate from Schwab's advice. Those clients are responsible for reviewing their SII Withdrawals for consistency with their overall financial plan, and they will stop receiving alerts on the likelihood of meeting their SII Goals.

Clients, and not Schwab, are responsible for making sure that required minimum distributions ("RMDs") will be met through their withdrawals, including but not limited to any SII Withdrawals. Clients should review their RMDs and consult with tax professionals as needed to avoid potential tax penalties for failure to meet RMDs. Although the SII Algorithm considers the tax status of the account(s) which are activated for SII, SII is not designed to consider each client's individual tax circumstances, to meet applicable RMD requirements, to avoid potential tax penalties, or to make SII Withdrawals in the most tax-efficient manner. The SII Algorithm follows a sequence: first, to meet RMDs from SII-enrolled accounts, when known, at the client level; second, to make proportionate withdrawals among tax-deferred and taxable accounts; and third, to make withdrawals from Roth accounts. Once the RMD has been met at the SII client level, RMDs are no longer considered for that calendar year. The SII Algorithm has no visibility into RMD requirements for accounts held outside the Program.

Once an investment strategy is selected for an account, that strategy will continue to apply until an investment profile change triggers an updated investment strategy. This means that the SII Algorithm does not automatically make adjustments for the client's investment profile as he or she ages.

### **Schwab Intelligent Portfolios® Sweep Program**

Each investment strategy involves the Cash Allocation to the Sweep Program. The Cash Allocation will generally range from 6% to 30% of an account's value to be held in cash, depending on the investment strategy the client selects based on the client's risk tolerance and time horizon. The target Cash Allocation for an account does not differ depending on whether SII is enabled on the account.

The Cash Allocation will be accomplished through enrollment in the Sweep Program, a program sponsored by Schwab. By enrolling accounts in SIP or SIP Premium, clients consent to having the free credit balances in their brokerage accounts swept to deposit accounts ("Deposit Accounts") at Schwab Bank through the Sweep Program. Schwab Bank is an FDIC-insured depository institution affiliated with Schwab and CSIA.

The Sweep Program is a required feature of the Programs. If the cash balances exceed the Cash Allocation for the selected investment strategy, the excess over the rebalancing parameter will be used to purchase securities as part of rebalancing. If clients request cash withdrawals from their accounts, either periodically or by enabling SII, this likely will require the sale of ETF positions in their accounts to bring their Cash Allocation in line with the allocation for their chosen investment strategy. If those clients have taxable accounts, those sales may generate capital gains (or losses) for tax purposes.

The terms and conditions of the Sweep Program and Schwab's ability to make changes to the Sweep Program or move balances to a new sweep product are set forth in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement that is made available to clients when they open their accounts. Clients should read this document carefully and retain a copy for their records. Clients grant to Schwab the authority to change the cash investment allocation from the Sweep Program to another cash savings or investment product or vehicle offered by Schwab, an affiliate, or a third party.

In accordance with an agreement with Schwab, Schwab Bank has agreed to pay an interest rate on cash balances in the Sweep Program which will be the greater of either (1) the rate determined by reference to a third-party index (the average national money market deposit account rate for retail deposits at the \$100,000 level based on a survey conducted by RateWatch), or (2) the rate paid on cash balances of \$1,000,000 or more in Schwab's bank sweep program for brokerage accounts (known as the Bank Sweep feature in Schwab's Cash Features Program). The current rate for cash in your account and information regarding the rate Schwab Bank pays for the \$1,000,000 cash tier for brokerage accounts, as well as RateWatch's methodology, can be found at [www.schwab.com/intelligent-cashrate](http://www.schwab.com/intelligent-cashrate).

Under the agreement between Schwab and Schwab Bank, Schwab Bank may change the method of determining the interest rate upon 30 days' notice to Schwab or upon a regulatory requirement. Schwab will notify clients if it receives such notice from Schwab Bank. The rate may be higher or lower than the interest rates available on other deposit accounts at Schwab Bank or on comparable deposit accounts at other banks. It may also be higher or lower than other cash-equivalent investments, such as money market funds, that are available through Schwab. Schwab does not intend to negotiate for rates that seek to compete with other capital preservation investment options that involve market risk, such as money market funds.

Schwab Bank's revenue from the Cash Allocation in the Deposit Accounts is dependent upon the difference, or "spread," between the interest rate Schwab Bank pays to clients on such deposits and the amount it can earn from the extension of loans and the purchasing of investment securities with these deposits as well as the FDIC insurance premiums it pays. Therefore, Schwab Bank's ability to earn revenue from the Deposit Accounts is affected by the interest rate negotiated with its affiliated broker-dealer, Schwab. This revenue is a component of the overall revenue to Schwab Bank and its affiliates in connection with the Programs. Funds in the Deposit Accounts can also benefit Schwab Bank by providing it with increased liquidity, stable funding, and low cost deposits. Schwab Bank intends to use the assets in the Deposit Accounts to fund current and new lending activities and investments.

A portion of the revenue contributed to the Schwab entities from the Programs is the revenue earned by Schwab Bank in offering the Deposit Accounts. Schwab Bank will pay Schwab a fee for administrative services provided in support of the Deposit Accounts as disclosed in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement and below in "Participation or Interest in Client Transactions."

If clients select a Schwab Bank account or another Schwab account to receive the SII Withdrawals, Schwab entities will earn additional revenue from the cash held in those accounts, as described below in "Conflicts of Interest and How They Are Addressed."

## **Fees and Compensation**

### **Schwab Intelligent Portfolios Fees**

The SIP Program includes the following services: (i) Schwab's SIP Program administration services, as well as trade execution, custody, and related services; and (ii) CSIA's portfolio management services. Clients are not charged an annual SIP Program fee for these services. However, the SIP Program is not free of charge. Clients pay the operating expense ratios of ETFs used in the portfolios, including Schwab ETFs™, which affects the performance of SIP Program accounts. Account

performance is also affected by the Cash Allocation and the Sweep Program. Schwab and its affiliates earn compensation from certain ETFs used in the portfolios and from the Cash Allocation and Sweep Program, as described elsewhere in this brochure in “Schwab Intelligent Portfolios® Sweep Program,” “Benefits to Schwab Affiliates,” and “Conflicts of Interest and How They Are Addressed.”

In programs similar to the SIP Program, clients might expect to pay an annual fee of 0.30% of client assets to reflect the value and cost of these services. While clients are not charged a SIP Program fee for services, due to retirement accounts in the SIP Program, for purposes of IRS rules, Schwab makes a nominal calculation that fully offsets in the amount of 0.30% of the compensation that it or its affiliates receive from ETF transactions in clients' accounts. This includes advisory fees for managing Schwab ETFs if CSIA selects them to include in SIP Program accounts. If this affiliate compensation ever exceeds 0.30% of client assets, Schwab would refund the additional amount to client accounts or use it to pay account administrative expenses. The result is that clients pay no annual SIP Program fee.

### **Schwab Intelligent Portfolios Premium® Fees**

The SIP Premium Program fee (“SIP Premium Program Fee”) includes the following services: (i) planning services delivered by the Financial Planners; (ii) ongoing access to financial planning tools; (iii) administration services related to the SIP Premium Program. No portion of the SIP Premium Program Fee is attributable to the discretionary management received through SIP.

SIP Premium accounts combined together for billing purposes are referred to as a SIP Premium Account Group. Beginning March 28, 2019, for each new SIP Premium Account Group, the SIP Premium Program Fee consists of a \$300 initial planning fee (“Initial Planning Fee”) and an ongoing advisory fee (“Ongoing Advisory Fee”). The Ongoing Advisory Fee is \$90 per quarter (or \$30/month charged on a quarterly basis) per SIP Premium Account Group. The Initial Planning Fee is deducted for the initial planning appointment for the preparation of a financial plan. The Initial Planning Fee will not be reflected in the calculation of performance for your account(s). The Ongoing Advisory Fee will begin to accrue after the initial planning appointment and will be pro-rated based on number of days actually enrolled during the quarter. For purposes of allocating the Ongoing Advisory Fee to accounts in the same SIP Premium Account Group on a pro rata basis, Schwab weights asset values across the month for each account enrolled at the end of the month and allocates based on the weighting. The Ongoing Advisory Fee is a flat fee and is \$90 per quarter per SIP Premium Account Group, regardless of the level of assets. Thus, for example, a SIP Premium client with \$250,000 pays the same Ongoing Advisory Fee as a client with \$50,000. However, this also means that the client with fewer invested assets will pay an advisory fee that is a higher percentage of those invested assets. Clients should consider this when making the decision to enroll in SIP Premium.

Beginning April 1, 2019, SIP Premium Account Groups that were in existence as of March 28, 2019, will be charged on a quarterly basis the lower of the following: 1) quarterly fees under the SIP Premium Program Fee schedule; or 2) quarterly fees under the Schwab Intelligent Advisory® Legacy Program Fee schedule, as described below.

The Schwab Intelligent Advisory Legacy Program Fee is an annual rate of 0.28% of total client assets enrolled in SIP Premium, excluding cash (“Legacy Program Fee”). Schwab calculates the Legacy Program Fee by multiplying the daily value of the assets in a client's SIP Premium account(s), excluding cash, for each calendar day in the quarter by the applicable daily fee rate (i.e., the annual rate of 0.28% divided by the number of days in that year) and then adding together the fee for each calendar day in the quarter.

Although some clients may qualify for discounts, the SIP Premium Program fee and the Schwab Intelligent Advisory Legacy Program fee are generally not negotiable.

### **Additional Information Regarding Fees in the Programs**

There is no additional planning or advisory fee for the activation or use of the SII feature or the tax-loss harvesting feature. Clients do not pay brokerage commissions in the Programs to Schwab. However, if CSIA uses a broker-dealer other than Schwab that is acting as principal (for its own account) to buy or sell ETF shares for clients, that broker-dealer accepts the risk of market price and liquidity fluctuations when executing customer orders. The broker-dealer adds a fee, called a “spread,” to compensate for this risk. The spread is not shown separately on a client's trade confirmation or account statement. Schwab does not act as principal for ETF trades in the Programs and does not receive any part of the spread.

Each ETF, including a Schwab ETF, pays investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees and expenses, as set forth in the ETF prospectus. An ETF pays these fees and expenses, which ultimately are borne by its shareholders. Therefore, CSIM (a Schwab affiliate) will earn fees from Schwab ETFs that are held in accounts enrolled in the Programs.

Clients may incur sales charges, redemption fees, and other costs, as well as tax consequences, if they redeem or make other transactions in ETFs, mutual funds, or other investments in order to fund accounts enrolled in the Programs. To the extent that cash used by clients to fund their accounts comes from redemptions of mutual fund shares, ETFs, or other investments outside of the Programs, there may be tax consequences or additional costs from sales charges previously paid and redemption fees incurred.

Pursuant to an agreement between CSIA and Schwab, Schwab pays all costs and expenses incurred by CSIA in connection with the Programs and with other research services provided by CSIA, plus an additional amount based on a fixed percentage of such costs and expenses. CSIA does not enter into agreements directly with clients in the Programs and accordingly does not receive direct compensation from or negotiate fees with them.

Schwab provides administrative services to Schwab Bank in support of the operation of the Deposit Accounts; Schwab Bank will pay Schwab an annual per-account flat fee for these administrative services. This fee is more fully described in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement.

The fees that clients pay directly and indirectly in the Programs may be more or less than they would pay if they purchased separately the types of services in the Programs. Clients may be able to obtain some or all of the types of services available through the Programs on a standalone basis from other firms. Factors that bear upon the cost of the Programs in relation to the cost of the same services purchased separately include, among other things, the type and size of the account (and other accounts that clients may be able to combine to determine fee break-points), the historical and expected size or number of trades for an account, types of investments and cash held in the account, and the number and range of supplementary advisory and other services provided to an account.

### **Compensation**

#### **Financial Consultant Compensation**

Among Schwab investment professionals, branch-based and phone-based Financial Consultants (“FCs”) are most often responsible for recommending the Programs to clients like you. FCs may be Schwab employees or non-employee independent contractors who, with their own employees, operate Schwab Independent Branches pursuant to a franchise agreement with Schwab. The FCs who operate Schwab Independent Branches are known as Independent Branch Leaders (“IBLs”) or, if employed by such IBLs, Independent Branch (“IB”) Representatives.

In addition to their base salaries, FCs receive compensation for successfully navigating clients to the Programs and other investment advisory programs and for servicing those clients after enrollment in such programs. Schwab as a company may earn more or less revenue depending on what products and services an FC recommends and a client chooses.

Schwab has designed FC compensation to be based on factors that include the time, complexity, and expertise necessary to understand and recommend a program and to provide ongoing service to a client enrolled in a given program. FCs' compensation does not vary depending on whether a client enrolls in the SIP or SIP Premium Program.

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

#### **Financial Planner Compensation**

Financial Planners receive compensation in the form of a salary and a bonus based on factors such as corporate and individual performance. Financial Planners' compensation does not vary depending on the specific investment recommendations made to SIP Premium clients.

#### **Compensation to Other Schwab Investment Professionals**

Other Schwab employee investment professionals, such as Investment Consultants, Investor Development Specialists, and Participant Investor Concierge Financial Consultants, can also earn additional incentive compensation for educating clients in advisory services, including the Programs. For detailed information on the compensation of these and other Schwab investment professionals, please see our website at [schwab.com/representative-compensation](http://schwab.com/representative-compensation).

#### **Performance-Based Fees**

Schwab does not receive performance-based fees in connection with referrals to the Programs.

#### **Side-by-Side Management**

Not applicable. Schwab does not manage or recommend strategies in the Programs.

#### **Benefits to Schwab Affiliates**

Schwab affiliates earn revenue from the underlying assets in SIP and SIP Premium accounts.

This revenue comes from: (i) revenue earned by Schwab Bank on the Cash Allocation in the investment strategies; (ii) advisory fees received by CSIM from Schwab ETFs™ that CSIA selects to buy and hold in client accounts; (iii) remuneration Schwab may receive from the market centers where it routes ETF trade orders for execution; (iv) compensation Schwab affiliates such as Schwab Bank receive from the SII feature, which results in additional cash being automatically deposited in Schwab or Schwab Bank accounts on a recurring basis. More information about these revenues and their benefits to Schwab affiliates is set forth under "Schwab Intelligent Portfolios® Sweep Program" and "Fees and Compensation" above and under "Participation or Interest in Client Transactions" below.

#### **Conflicts of Interest and How They Are Addressed**

Schwab does not charge an advisory fee for the SIP Program in part because of the revenue Schwab Bank generates from the Cash Allocation (an indirect cost of the Program). As program sponsor, Schwab sets the Cash Allocation percentage for each of the investment strategies and considers among other factors the expected revenue Schwab Bank earns from the Sweep Program. This is a conflict of interest. Under certain market conditions, the Cash Allocation results in lower overall portfolio performance, for example when other riskier assets outperform cash.

As noted above, Schwab Bank earns income on the Cash Allocation for each investment strategy in the Programs. The Cash Allocation is placed in an FDIC-insured deposit account at Schwab Bank. The higher the Cash Allocation and the lower the interest rate paid to clients, the more Schwab Bank earns. A lower interest rate means a lower yield on the Cash Allocation. This is a conflict of interest, and the written parameters for the Programs do not mitigate this conflict. This conflict of interest is mitigated in part by the way in which Schwab Bank determines the interest rate on cash balances in the Sweep Program by reference to the greater of a third-party index (the average national money market deposit account rate for retail deposits at the \$100,000 level based on a survey conducted by RateWatch) or the rate Schwab Bank pays on cash balances of \$1,000,000 or more in its sweep program for brokerage accounts. Outside of the Programs, clients have access to cash alternatives that pay a higher yield, although they may not have FDIC insurance.

Net interest revenue is a major source of revenue for Schwab Bank, including with respect to the Programs. Schwab Bank's net interest revenue is generated by the difference between the interest rate that it can earn extending loans and purchasing investment securities, and the interest rate it pays to clients on their Sweep Program deposits. The difference between the rates earned and paid is the "spread." Generally, an increase in market interest rates will mean that the Programs earn more revenue for Schwab Bank because the spread will increase.

Here is an example of how the spread works and the resulting revenue to Schwab Bank. Assume a \$100,000 SIP Program account with a 10% Cash Allocation (\$10,000), which is consistent with a moderate-aggressive investment portfolio allocation. Using market interest rates from the fourth quarter of 2020, Schwab Bank earned about 1.21% on an annual basis on the cash it invested net of what it paid to clients in the SIP Program. Schwab Bank would have received about \$121 on that cash deposit annualized. This is 0.121% or 12.1 basis points of the total client investment of \$100,000. This example is for illustrative purposes only and does not necessarily reflect the interest rate a particular client at a particular point in time receives or the revenue Schwab Bank earns from that client's Cash Allocation. Updated examples are available at [www.schwab.com/intelligent-cashrate](http://www.schwab.com/intelligent-cashrate).

Note also that in the above example, Schwab Bank would receive more revenue on a Cash Allocation above 10% (as part of a more conservative investment portfolio allocation) and less revenue on a Cash Allocation below 10% (as part of a more aggressive investment portfolio allocation). Historically, the spread has increased when market interest rates rose. Since the SIP Program's inception through December 2020, the overall average spread Schwab Bank received ranged from 1.11% to 2.10%. For more information on how the Sweep Program works, including how to determine current interest rates on the Cash Allocation, please see "Schwab Intelligent Portfolios Sweep Program," above.

Clients are not required to direct that their SII Withdrawals be custodied at Schwab or Schwab Bank and are free to select a third-party financial institution instead. However, for those clients who have selected for the SII Withdrawals to be deposited into an account custodied at Schwab or Schwab Bank ("Schwab-custodied SII Withdrawals"), this will result in additional revenue to Schwab or Schwab Bank, and this is also a conflict of interest.

Cash sweep alternatives for Schwab-custodied SII Withdrawals are different from the Sweep Program and have different spreads. For example, for Schwab One® Interest and interest paid in a Schwab Bank High Yield Investor Checking® Account, the spread earned by Schwab or Schwab Bank, respectively, has ranged from 0.12% to 2.53% during the period beginning with the SIP Program's inception through December 2020.

Here is an example of how the spread would work in the case of a \$10,000 Schwab-custodied SII Withdrawal deposited into a Schwab Bank High Yield Investor Checking® Account and remaining there, in the full amount, for 30 days. Using market interest rates from the fourth quarter of 2020, Schwab Bank earned about 1.33% or 133 basis points

on an annual basis on the cash it invested net of what it paid to clients. Schwab Bank would have received about \$11 on that cash deposit.

This example is for illustrative purposes only and does not necessarily reflect the interest rate a particular client at a particular point in time receives or the revenue Schwab Bank earns as a result of SII being activated in the account.

Because Schwab and CSIA are affiliated companies, Schwab has an incentive to select and keep CSIA to provide portfolio management services for the SIP Program. Similarly, CSIA has a conflict of interest in selecting Schwab ETFs<sup>SM</sup> which pay compensation to CSIM. Schwab has a conflict in that it has instructed CSIA to select or retain Schwab ETFs in the portfolios, but only if Schwab ETFs meet all the criteria noted above in "Selection of ETFs." CSIA also has a conflict of interest because it selects ETFs that it holds in other client accounts CSIA manages in other Schwab programs.

Asset classes in SIP and SIP Premium accounts include both market-cap and fundamentally weighted ETFs. Market-cap weighted ETFs track indices based on the market capitalization of the index's underlying holdings. Fundamental ETFs weight holdings based on fundamental factors like sales, cash flow, dividend distribution, and buybacks. SIP and SIP Premium accounts are invested in both market-cap based and fundamentally weighted ETFs with the goal of helping to increase diversification, reduce volatility, and provide better risk-adjusted results over time. Typically, fundamental ETFs have a higher expense ratio than market-cap ETFs. The current method CSIA uses to select fundamentally weighted ETFs is based on asset classification by a third-party provider and, in combination with the selection criteria described above, results in Schwab ETFs being the primary ETF selection for fundamental asset classes in portfolios in the Programs.

In connection with ETF selection in the Programs, Schwab's written parameters do not allow CSIA to consider compensation to Schwab or other affiliates other than as described in the "Selection of ETFs" section above. CSIA must also follow these written criteria in selecting securities for, and removing securities from, Program portfolios. Schwab reviews CSIA's performance in providing portfolio management services to SIP and SIP Premium accounts. For more information regarding how ETFs are selected for inclusion in portfolios and on the fees earned by Schwab affiliates on ETFs in client accounts, see "Selection of ETFs" and "Fees and Compensation" above.

Clients should carefully consider these conflicts of interest and their impact on portfolio management prior to enrolling in the Programs.

## Account Requirements and Types of Clients

Not all clients or prospects will be appropriate for the Programs. SIP is designed for investors who are seeking portfolio management through an automated investing solution and who are comfortable with a primarily digital experience. SIP Premium is designed for investors who are seeking portfolio management through an automated investing solution, are comfortable with online and mobile access, prefer a non-asset-based fixed advisory fee structure, and who also want to receive ongoing financial planning guidance from Financial Planners as well as an interactive Planning Tool.

Clients of the Programs may include, but are not limited to, individuals, IRAs, and living trusts. Organizations, such as corporations, limited liability companies, and limited partnerships, may also participate in the SIP Program as a client. These types of clients may not have the same client experience as individuals or trust clients. Clients that are government entities or clients that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), are not eligible for the Programs.

Clients must agree to accept electronic delivery of contracts, disclosure documents, prospectuses, statements, and other materials.

Clients may be provided the option to fund Program accounts with securities. Clients authorize Schwab (or CSIA to instruct Schwab) to liquidate any securities used to fund Program accounts. In the SII feature, Clients authorize Schwab (or CSIA to instruct Schwab) to liquidate any securities needed to fund the SII Withdrawals. Securities may be liquidated at the client's risk and expense and without taking into account the realization of a taxable gain or a loss that may result.

Neither CSIA nor Schwab will have responsibility for the performance of those securities pending their liquidation.

To be initially invested in an investment strategy, clients must meet all requirements of Schwab to open an account in the SIP or SIP Premium Program and fund it with the applicable minimums. SIP clients must establish their accounts with a minimum of \$5,000 in each account. SIP Premium clients must establish their accounts with a combined minimum of \$25,000 in the SIP Premium Account Group and a per-Account minimum of \$5,000. In SIP Premium, discretionary portfolio management begins after enrollment in that program and upon meeting the current account minimum requirement of \$5,000 per account. There is also a minimum balance requirement to request CSIA employ a tax-loss harvesting strategy, and a minimum balance requirement to maintain a tax-loss harvesting strategy. SII has specific requirements (such as likelihood of meeting SII Goals) in order to activate the SII Withdrawals and for clients to continue receiving income needs-related planning guidance related to the SII Goals.

If a client terminates enrollment from the Programs, the Sweep Program will no longer apply to the account. That account will have its own sweep feature, which may have terms that are more favorable or less favorable than those of the Sweep Program.

Schwab may terminate a client from the Programs for failing to fund or maintain their accounts with the applicable minimums, for failure to maintain a valid email address, or for any other reason, at Schwab's sole discretion. Schwab also may terminate a client from the Programs if the client's requested investment restrictions are deemed to be unreasonable. Depending on the reason for the termination, the client may have the opportunity to resolve the reason for the termination. Upon termination from the Programs by either the client or Schwab, the client's enrollment in the Sweep Program will terminate and the account will no longer be managed. Upon deactivation of the SII feature, the client's enrollment in the SIP Program and the SIP Premium Programs remain unaffected. Upon unenrollment from the SIP Program or the SIP Premium Programs, the SII feature will be disabled and the SII Withdrawals will terminate upon notice to the client.

## Retirement Accounts

Schwab and its employees and agents (i) have no investment or other discretion with respect to assets covered by either the SIP Program or the SIP Premium Program; (ii) will perform no discretionary acts with respect to such assets; (iii) will effect only such transactions as instructed by clients; and (iv) will exercise no discretion and provide no advice as to the voting of proxies.

CSIA is the sole fiduciary, as defined under the Internal Revenue Code, in performing investment management services and exercising discretion over the assets managed in any retirement account, subject to such reasonable restrictions as the client may impose.

## Portfolio Manager Selection and Evaluation

Schwab has selected CSIA to provide portfolio management services for the SIP Program. Schwab believes that CSIA possesses the requisite expertise to serve in this capacity. Schwab reviews the performance of the investment strategies quarterly through standardized composite performance reporting.

## SIP Program Selection and Evaluation

Schwab has selected the SIP Program as the vehicle for discretionary management within the SIP Premium Program, which includes Schwab-established parameters and its selection of CSIA to provide portfolio management in SIP accounts and SIP Premium accounts. Schwab reviews the performance of CSIA, and the performance of its own Financial Planners, on a periodic basis.

## Client Information Provided to Portfolio Manager

At the time a client enrolls in the Programs, Schwab provides CSIA with information about that client's chosen investment strategy and any reasonable restrictions applicable to the client's Program account. Schwab provides updated information to CSIA as necessary thereafter in order for CSIA to provide portfolio management services under the Programs.

## Client Contact With Portfolio Manager

SIP or SIP Premium clients who wish to contact CSIA can do so by making a request to a Schwab representative. Schwab and its representatives are the primary points of contact for clients in the Program.

## Additional Information

### Disciplinary Information

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

1. 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.
2. 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.
3. A disciplinary action initiated by the Chicago Board of Options Exchange ("CBOE") alleged that Schwab: (1) violated CBOE Rule 9.21 by disseminating sales literature and failed to withhold the sales literature from circulation prior to incorporating the required changes specified by the CBOE; and (2) violated CBOE Rule 4.2 by failing to adequately supervise its associated persons to assure compliance with Rule 9.21. Without admitting or denying these allegations, Schwab consented to a censure and a monetary fine of \$10,000 on May 29, 2013.
4. In May 2013, the CBOE alleged that from approximately November 8, 2011, through approximately December 7, 2011, Schwab failed to have adequate supervisory procedures to assure compliance with the SEC Rule 14E-4 relating to partial short tender activity. The CBOE accepted Schwab's offer of settlement consisting of a \$10,000 fine and a censure. Schwab neither admitted nor denied the allegations.
5. A disciplinary action initiated by FINRA asserted that Schwab violated Municipal Securities Rulemaking Board ("MSRB") Rule G-14 by: (1) failing to report required information about certain municipal securities transactions to the Real-Time Transaction Reporting System ("RTRS")

within 15 minutes of trade time in the first and fourth quarters of 2010; and (2) failing to report the correct yield to RTRS for certain municipal securities transactions in the second quarter of 2010. Without admitting or denying these assertions, Schwab consented to a censure and a fine of \$35,000 on July 26, 2012.

6. Schwab entered into a stipulation and consent agreement with the state of Florida on March 26, 2012, in which Schwab was fined \$1,100,000 and ordered to offer restitution to certain clients for distributing trade confirmations to Florida clients between 2008 and 2011 containing inaccurate information with respect to certain municipal bond, corporate bond, and preferred equity security trades, and for failing to have adequate written supervisory procedures with respect to the review of such trade confirmations, in violation of the Florida Administrative Code.
7. Schwab entered into a consent order with the State of Nevada on November 2, 2011, in which Schwab was fined \$10,000 for failing to detect the lack of Nevada state registration of a non-employee investment advisor. Schwab was found to have violated its own procedures and Nevada Administrative Code Section 90.321 for failing to determine that the non-employee was acting as a professional investment advisor at the time the accounts were set up or during the course of his management of the accounts at issue.
8. A disciplinary action initiated by FINRA asserted that Schwab violated Municipal Securities Rulemaking Board Rule G-14 by: (1) failing to report required information about certain municipal securities transactions to the RTRS within 15 minutes of trade time; and (2) failing to report the correct trade execution time to the RTRS for some of these transactions. Without admitting or denying these assertions, Schwab consented to a censure and a fine of \$12,500 on June 17, 2011.
9. In January 2011, Schwab and its affiliate Charles Schwab Investment Management, Inc. ("CSIM") (together, for purposes of this disclosure, "Schwab") reached agreements with the SEC, FINRA, the Illinois Secretary of State, the Illinois Securities Department ("Illinois") and the Connecticut Department of Banking's Securities and Business Investments Division ("Connecticut") to settle matters related to the Schwab YieldPlus Fund® (the "Fund").

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

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

The amount paid by Schwab pursuant to the SEC settlement included approximately \$18,000,000 to be paid by Schwab in settlement of the FINRA matter in which FINRA made related factual allegations against Schwab and found that Schwab's conduct violated FINRA's just and equitable principles of trade and its rules pertaining to communications with the public and supervision.

Schwab also agreed to pay approximately \$8,567,364 in settlement of the Illinois matter in which Illinois made related factual allegations against Schwab and found that Schwab's conduct violated Illinois Securities Law provisions relating to supervision of securities and advisory activity by employees and to maintenance of written procedures reasonably designed to comply with securities laws and regulations.

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

Schwab and certain affiliated entities and individuals (the "Schwab Parties") were named as defendants in a number of Fund-related class action lawsuits filed in the United States District Court for the Northern District of California in 2008. These lawsuits were consolidated into a single class action complaint that alleged violations of state law and federal securities law similar to those described above. On March 30, 2010, the court granted plaintiffs' motion for summary judgment holding defendants liable for plaintiffs' state law claim regarding changes to the investment policy of the Fund, which plaintiffs alleged were made without shareholder approval in violation of the Investment Company Act of 1940. The Schwab Parties entered into a settlement agreement to settle the plaintiffs' federal securities law claims for approximately \$202,700,000 and the plaintiffs' California law claims for approximately \$35,000,000. On April 19, 2011, the court entered an order granting plaintiffs' and defendants' motions for final approval of the settlement agreements.

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

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

Schwab is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of FINRA. Schwab provides brokerage services to clients located throughout the United States and in some circumstances outside the United States. Incidental to its broker-dealer business, Schwab offers 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.

Schwab is also registered as an investment advisor under the Investment Advisers Act of 1940, as amended. In addition to the Programs, Schwab provides other investment advisory services. The Schwab Private Client™ service is a non-discretionary wrap fee program in which clients receive periodic, ongoing advice from a team of representatives. 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 advisor include the Managed Account Select® and Managed Account Connection® ("MAC") wrap fee programs and Schwab Managed Portfolios™ ("SMP"), all sponsored by Schwab. Schwab also offers financial planning services provided through the Schwab Personal Financial Plan™, Schwab Retirement Consultation, and Schwab Equity Compensation Consultation. Separate agreements and disclosure brochures are available for these other investment advisory services and would be provided at the time of referral or purchase.

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.

TD Ameritrade Holding Corporation is a wholly owned subsidiary of CSCorp. TD Ameritrade, Inc. and TD Ameritrade Clearing, Inc.,

SEC-registered broker-dealers and members FINRA/SIPC, are separate but affiliated companies and subsidiaries of TD Ameritrade Holding Corporation. TD Ameritrade, Inc. is a dual registered broker-dealer and investment advisor. 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 advisor. TD Ameritrade Trust Company, a non-depository trust company, provides custody, directed trustee, recordkeeping, plan design support, and plan administration for TD Ameritrade Retirement Plan. Charles Schwab Futures and Forex LLC is a CFTC-registered Futures Commission Merchant and an NFA Forex Dealer Member and offers futures and forex trading services. TD Ameritrade Singapore Pte. Ltd. and TD Ameritrade Hong Kong Ltd. enable retail investors in Singapore and Hong Kong to trade the U.S. markets. Clients can trade stocks, ETFs, options, futures, and options on futures using the thinkorswim® trading platform.

In addition to Schwab, CSIM, and CSIA, other wholly owned subsidiaries of CSCorp are engaged in investment advisory, brokerage, trust, custody, or banking services. CSIM provides portfolio management services in the Schwab-sponsored wrap fee programs, SMP, and MAC. ETFs held in Program accounts may overlap with ETFs held in SMP – ETF accounts and in accounts invested in Windhaven® Strategies in MAC and similar strategies managed through other non-Schwab-sponsored programs. CSIM also provides advisory and administrative services to certain proprietary mutual funds and exchange-traded funds marketed under the Schwab Funds®, Laudus Funds®, and Schwab ETFs™ names. Performance Technologies, Inc. (also known as Schwab Performance Technologies®) provides portfolio management software to independent registered investment advisors who custody assets at Schwab and also provides certain software and services used in the Programs.

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

#### **Code of Ethics**

Schwab has a code of ethics adopted pursuant to Rule 204A-1 under the Investment Advisers Act of 1940 (the "Code"). The Code reflects the fiduciary principles that govern the conduct of Schwab, its employees, and agents, when we are acting as an investment advisor, such as when we refer you to, or provide financial planning within, the Programs. The Code requires that Schwab's covered representatives comply with applicable federal securities laws, report violations of the Code, and for those deemed "access persons" by virtue of providing investment advice or having access to certain related information, report their personal transactions and holdings in certain securities periodically and get clearance before buying certain securities, including initial public offerings or private offerings. The Code prohibits access persons from disclosing portfolio transactions or any other non-public information to anyone outside of Schwab, except as required to effect securities transactions for clients, or from using the information for personal profit or to cause others to profit. Access persons are also prohibited from engaging in deceptive conduct in connection with the purchase or sale of securities for client accounts. The Code is subject to change as necessary to remain current with regulatory requirements and internal business policies and procedures. A copy of the Code is available upon request and also available online to clients enrolled in the Programs.

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

##### **Order Routing and Trade Execution**

In arranging for the execution of non-directed orders for equities and listed options, Schwab seeks out industry-leading execution services and access to the best-performing markets. Schwab routes orders for execution to unaffiliated broker-dealers, who may act as market maker or manage execution of the orders in other market venues, and also routes orders directly to major exchanges. Schwab considers a number of factors in evaluating execution quality among markets and firms, including execution price and opportunities for price improvement,



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

Schwab receives remuneration, such as liquidity or order flow rebates, from market venues to which orders are routed, and also pays fees for execution of certain orders. Quarterly information regarding the market venues to which we route orders and remuneration received is available on our website at [www.schwab.com](http://www.schwab.com) or in written form upon request. Information regarding the specific routing destination and execution time of your orders for up to a six-month period is also available upon request. Schwab may execute fixed income orders for customers as agent or as principal for our own account. In the bond market, there is no centralized exchange or quotation service for most fixed income products. Prices generally reflect activity by market participants or dealers linked to various trading systems. A small number of corporate bonds are listed on national exchanges. Although Schwab seeks access to major trading systems, exchanges, and dealer markets in an effort to obtain competitive pricing, at any given time it is possible that securities could be available through other trading systems, exchanges, or dealers at superior or inferior prices compared to those available at Schwab. All prices are subject to change without prior notice.

#### **ETFs**

The ETFs that are eligible for inclusion in the Programs are described above under "Selection of ETFs."

Each ETF pays investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees and expenses, as set forth in the ETF prospectus. An ETF pays these fees and expenses, which ultimately are borne by its shareholders. Therefore, CSIM (a Schwab affiliate) will earn fees from Schwab ETFs™ that are held in SIP and SIP Premium accounts.

Third-party ETF sponsors or their affiliates may make payments to Schwab for ETF-related opportunities such as education and events and reporting. The total amount of the fee paid by each ETF firm will vary depending on the number of opportunities in which the ETF firm participates. Schwab does not receive payment to promote any particular ETF to its customers.

Schwab's affiliate CSIM serves as investment advisor to the Schwab ETFs, which compensate CSIM out of the applicable operating expense ratios. The amount of the fees is disclosed in the prospectus of each ETF. Schwab may receive additional payments from CSIM for educational support, data and reporting, and other services.

#### **Referrals to Other Products and Services**

Financial planning and other ongoing guidance in the SIP Premium Program may result in suggestions of or referrals to other products or services made available by Schwab or its affiliates and from which Schwab or its affiliates earn additional revenue. These include other investment advisory wrap fee programs sponsored by Schwab, checking and savings accounts offered by Schwab Bank, and insurance products from which Schwab earns a portion of the commissions paid pursuant to selling or marketing agreements.

#### **Personal Trading**

Although Schwab does not recommend buying or selling particular securities as part of the Programs, Schwab monitors the personal securities holdings and trading of Schwab representatives. Schwab reviews accounts of its representatives custodied at Schwab and applicable accounts custodied at other firms. The surveillance program monitors holdings and trades against the Code and other applicable

policies. Additionally, Schwab representatives must disclose all securities accounts they own or control after their hire date and review and confirm the accuracy of those accounts on an annual basis during their employment.

#### **Brokerage Practices**

Schwab does not select or recommend broker-dealers as part of the Programs. Clients agree with Schwab that all brokerage transactions for the Programs will be routed to Schwab for execution. For additional details regarding brokerage practices for the Programs, please refer to the CSIA Schwab Intelligent Portfolios® Disclosure Brochure.

#### **Review of Accounts**

If you enroll in the SIP or SIP Premium Program, you will open a Schwab brokerage account, and we will furnish you with account statements and electronic confirmations of all transactions initiated and effected for your account. You will also receive quarterly account statements detailing positions and activity in all your accounts enrolled in the Programs. The statement includes a summary of all securities purchases and sales, interest, dividends and other earnings, all contributions and withdrawals, fees and other charges, and the account value. The statement may be based upon information obtained from third parties. It is your responsibility to review all confirmations and account statements promptly and to communicate directly with us if you have any concerns about the management of your account.

In the SIP Program, Schwab will contact clients at least once a year via electronic channels to ask them to update their information on the Website if there have been any material changes. Clients who have experienced material changes to their goals, financial circumstances, or investment objectives, or who wish to impose or modify restrictions on the management of their Program accounts, should promptly update their information on the Website. Schwab will not change a client's portfolio selection unless the client updates their investment profile through the Website.

In the SIP Premium Program, Financial Planners will conduct periodic client consultations, which generally occur on an annual basis, but which may occur with varying frequency, depending on the client's needs and requests. During those consultations, Financial Planners will review the client's situation, validate the client's financial planning, and review the strategy chosen for the SIP Premium accounts. Clients may update their financial plans online at any time.

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

Schwab FCs and other employees, as well as IBLs and IB Representatives, receive compensation from Schwab as explained in the "Fees and Compensation" section above. Schwab has entered into an agreement (the "Referral Agreement") with USAA Investment Management Company ("USAA IMCO") under which Schwab will pay USAA IMCO based on a percentage of the assets in Schwab accounts attributable to a referral by USAA IMCO, including assets in accounts enrolled in the Programs. Under the Referral Agreement, Schwab will pay USAA IMCO an annual percentage amount of 0.15% (or 15 basis points) of asset balances of applicable accounts.

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

#### **Custody**

Schwab has custody of assets in the SIP and SIP Premium Program accounts and will provide an account statement, at least quarterly, for

each account. The account statements detail account positions and activities during the preceding period. Clients should review their account statements carefully.

### **Investment Discretion**

SIP and SIP Premium clients receive discretionary portfolio management through SIP and a diversified portfolio of ETFs and Cash Allocation.

### **Voting Client Securities**

Schwab does not have or accept authority to vote clients' securities (i.e., proxy voting) in the Programs.

### **Financial Information**

Schwab does not require or solicit prepayment of an advisory fee for the Programs 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.





March 31, 2021

# Charles Schwab Investment Advisory, Inc. Schwab Intelligent Portfolios® Disclosure Brochure

Charles Schwab Investment Advisory, Inc.  
211 Main Street  
San Francisco, CA 94105  
Tel: (415) 667-1910

This brochure provides information about the qualifications and business practices of Charles Schwab Investment Advisory, Inc. (CSIA or "Adviser") as an adviser for the above mentioned strategies. 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 or by any state securities authority. CSIA's description of itself in this brochure as a registered investment adviser with the SEC does not imply a certain level of skill or training on the part of CSIA or its representatives.

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

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## Advisory Business

Charles Schwab Investment Advisory, Inc. (“CSIA”) is a wholly owned subsidiary of The Charles Schwab Corporation (“CSCorp”), a Delaware corporation that is publicly traded and listed on the New York Stock Exchange. CSIA is an affiliate of Charles Schwab & Co., Inc. (“Schwab”). CSIA has been registered as an investment adviser since November 5, 2009.

This brochure relates to the portfolio management services that CSIA provides for the Schwab Intelligent Portfolios® program (“SIP” or the “SIP Program”).

The SIP Program offers clients a diversified portfolio composed of exchange-traded funds (“ETFs”), as well as an FDIC-insured cash allocation (the “Cash Allocation”) that is based on the client’s stated investment objectives and risk tolerance. The portfolio of ETFs includes up to 20 asset classes across stocks, fixed income, real estate, and commodities. The SIP Program is designed to monitor a client’s portfolio daily and will also automatically rebalance as needed to keep a client’s portfolio consistent with their selected risk profile unless such rebalancing may not be in the best interest of the client. The SIP Program is sponsored by CSIA’s affiliate, Schwab, which sets investment parameters and also provides trade execution, custody, administrative and related services for the SIP Program as described below.

The SIP Program is also used to provide discretionary portfolio management in Schwab Intelligent Portfolios Premium® sponsored by Schwab. The SIP Premium Program combines the SIP Program as described above with additional features of financial planning and guidance from a Schwab financial planner (“Financial Planner”) and access to online financial planning tools. In addition, upon clients’ request to initiate recurring withdrawals through the Schwab Intelligent Income™ (“SII”) feature described in the Schwab Intelligent Portfolios Solutions™ disclosure brochure, an algorithm (the “SII Algorithm”) is activated to enable withdrawals while the account assets remain invested through the Program. Unless otherwise indicated, descriptions of portfolio management through SIP apply to SIP Premium, as well. This brochure, combined with the Charles Schwab & Co., Inc. Schwab Intelligent Portfolios Solutions (“Schwab Intelligent Portfolios Solutions”) disclosure brochure, contains details about the SIP Program and SIP Premium Program, including a description of the automated daily review of client accounts and holdings to identify rebalancing and tax-loss harvesting opportunities as well as initiate buy/sell orders that are identified (collectively, the “Rebalancing Algorithms”) of the Program. “Algorithms” refers to the Rebalancing Algorithms and the SII Algorithm unless otherwise indicated.

Schwab has chosen CSIA to provide portfolio management services to the SIP Program accounts on a discretionary basis consistent with investment parameters developed by Schwab and with clients’ chosen investment strategy, and to direct appropriate trades in clients’ accounts. Schwab acts as the qualified custodian for SIP Program accounts and provides trade routing and/or execution and related services for SIP Program accounts. Some ETFs in the investment strategies are managed by Charles Schwab Investment Management, Inc. (“CSIM”), which is also an affiliate of Schwab and CSIA.

Schwab offers the SIP Program online through an interactive website and mobile application (collectively, the “Website”). Clients use the Website and answer questions from an online questionnaire that help determine whether the SIP Program is appropriate for them. The Website also presents a suggested SIP portfolio based on the client information for client’s review and approval. Prior to enrollment, clients are asked to carefully consider whether their participation in the SIP Program and whether their selected SIP

portfolio are appropriate for their investment needs and goals. Once enrolled, SIP clients can update their investment profile or monitor their accounts’ allocation, activity, and performance through a customized dashboard. Clients should periodically review their existing investment risk profile and update it when their goals, risk tolerance, or other aspects of their financial situation change.

Clients agree to accept electronic delivery of contracts, disclosure documents, prospectuses, statements, and other materials. More information about the SIP Program is available in the Schwab Intelligent Portfolios Solutions disclosure brochure provided to SIP Program clients.

The Website allows prospective clients to review information about the SIP Program, including general information on the types of ETFs included, as well as information about CSIA’s approach to allocating client accounts. Clients may also monitor their portfolio’s allocation and activity, monitor their account’s performance, and use a goal tracking tool to monitor whether their account is on target to reach their savings or income goal. Clients may also initiate deposits and withdrawals from existing SIP Program accounts or open new SIP Program accounts. The investment strategies employed in each SIP Program account are governed by a client’s agreement with Schwab.

Like SIP, SIP Premium Program clients may complete an online questionnaire which results in the recommendation of a diversified portfolio based on clients’ stated investment profile and risk tolerance. Alternatively, SIP Premium clients may receive a recommended portfolio from the Schwab Financial Planner based on a review of the clients’ stated investment profile and risk tolerance for the applicable accounts. More information about the SIP Premium Program is available in the Schwab Intelligent Portfolios Solutions disclosure brochure provided to SIP Premium Program clients.

Clients may impose reasonable restrictions on the management of their account(s), such as requesting that certain ETFs be excluded from their account(s), but not all requests will be honored, including those involving restriction of stocks, mutual funds, or cash. See the “Investment Discretion” section of this document for details on potential investment restrictions.

In addition, upon the request of its affiliate Charles Schwab Trust Company (“CSTC”), CSIA may offer CSTC access to SIP in connection with the management of trust assets.

As of December 31, 2020, CSIA managed \$53,743,435,281 on a discretionary basis for the SIP Program.

## Fees and Compensation

Pursuant to an agreement between CSIA and Schwab, Schwab pays all costs and expenses incurred by CSIA in connection with the SIP Program and other services provided by CSIA to Schwab, plus an additional amount based on a fixed percentage of such costs and expenses. Schwab provides CSIA with human resources, legal, compliance, and other administrative and technological support services. The portion of the costs and expenses paid by Schwab for the work done by CSIA may be adjusted by Schwab and CSIA from time to time as more or fewer resources are required. The SIP portfolio management team serves as a portfolio manager in the SIP Program offered by Schwab. CSIA does not enter into agreements directly with SIP clients and so does not receive direct compensation from or negotiate fees with them. Although some clients may qualify for discounts, the SIP Premium Program fee and the Schwab Intelligent Advisory® Legacy Program Fee, described in the Schwab Intelligent Portfolios Solutions™ disclosure brochure, are generally not negotiable.

## Additional Costs

As further detailed in the Schwab Intelligent Portfolios Solutions disclosure brochure, clients are not charged an annual Program Fee; however, the SIP Program is not free of charge. Clients pay the operating expense ratio ("OER") of ETFs used in the portfolios, including Schwab ETFs™ which affects the performance of SIP Program accounts. Account performance is also affected by the Cash Allocation and the Sweep Program (defined below). Schwab and its affiliates earn compensation from certain ETFs used in the portfolios and from the Cash Allocation and Sweep Program described in the Schwab disclosure brochure provided to SIP Program clients. Schwab will waive all of its trading commissions on SIP accounts managed by CSIA. There is no additional planning or advisory fee for the activation or use of the SII feature or the tax-loss harvesting feature. Please note that Schwab's waiver does not extend to any other non-Schwab broker fees, commissions, account fees, or expenses. Information relating to CSIA's brokerage practices is included in the "Brokerage Practices" section of this document.

ETFs held in SIP portfolios are subject to operating expenses and fees as set forth in the prospectuses of the funds. These fees and expenses are paid by the funds but ultimately are borne by clients as fund shareholders. CSIA may also provide access to certain ETFs, mutual funds, or classes of funds that a client might normally not be qualified to purchase. If an account leaves, these investments may be liquidated or exchanged for the share class corresponding to the size of the client's individual investment in the ETF or fund.

## Compensation Earned by CSIA Affiliates

Schwab and its affiliates receive an investment management fee for managing an affiliated ETF or mutual fund, and receive other forms of compensation in connection with the operation and/or sale of shares of affiliated or unaffiliated ETFs or mutual funds, to the extent permitted by applicable law. The fee arrangements are available in the applicable ETF's or fund's prospectus.

As detailed below in "Methods of Analysis, Investment Strategies, and Risk of Loss," Charles Schwab Bank, SSB ("Schwab Bank") earns income on cash balances participating in the Schwab Intelligent Portfolios® Sweep Program ("Sweep Program"), which presents a conflict of interest. Additional details regarding the Sweep Program can be found in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement and the Schwab Intelligent Portfolios Solutions disclosure brochure. Clients should carefully consider these conflicts of interest prior to enrolling in the SIP Program.

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

CSIA does not receive or charge any performance-based fees.

## Types of Clients

Pursuant to the enrollment criteria established by Schwab, clients of the SIP Program primarily include individuals, living trusts, and individual retirement accounts ("IRAs"). Organizations, such as corporations, limited liability companies and limited partnerships, may also participate in the SIP Program as a client. These types of clients may not have the same client experience as individuals or trust clients. Government entities and accounts that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), are not eligible for the SIP Program.

To be initially invested in an investment strategy, clients must meet all requirements of Schwab to open an account in the SIP Program and fund it with the applicable minimums. SIP clients must establish their account with a minimum of \$5,000 in each account. There is also a minimum balance requirement to employ a tax-loss harvesting strategy, and a minimum balance requirement to maintain a tax-loss harvesting strategy.

Schwab may terminate a client from the SIP Program for failing to fund or maintain their account with the required minimum, for failure to maintain a valid email address, or for any other reason, at Schwab's sole discretion. Upon unenrollment from the SIP Program, the client's enrollment in the Schwab Intelligent Portfolios Sweep Program will terminate and the account will no longer be managed.

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

Schwab does not charge an advisory fee for the SIP Program in part because of the revenue Schwab Bank generates from the Cash Allocation (an indirect cost of the Program). As program sponsor, Schwab sets the Cash Allocation percentage for each of the investment strategies and considers among other factors the expected revenue Schwab Bank earns from the Sweep Program. This is a conflict of interest. Under certain market conditions, the Cash Allocation results in lower overall portfolio performance, for example when other riskier assets outperform cash.

Beginning with those Cash Allocation percentages, CSIA designs each SIP model portfolio to be consistent with a certain combination of investment return objectives and risk tolerances. Certain investment strategies are intended for taxable accounts and others for tax-deferred accounts. Certain investment strategies focus on higher-yielding (i.e., interest and dividend) asset classes. Only a subset of these strategies are available to clients who are taking recurring withdrawals through the SII feature. Upon request from Schwab, CSIA may add, remove, or change investment strategies used in the SIP Program.

Schwab Bank earns income on the Cash Allocation for each SIP investment strategy. The higher the Cash Allocation and the lower the interest rate paid, the more Schwab Bank earns, thereby creating a conflict of interest for Schwab and for CSIA.

The written Parameters established by Schwab (the "Parameters") place limitations on the universe of ETFs that CSIA may select for the SIP Program.

Schwab has ETF selection parameters designed to support its philosophy of low-cost and index-based investing. In support of providing broadly diversified and risk-adjusted portfolios, eligible ETFs must represent well a particular asset class in the portfolio, meet sufficient liquidity standards and be among the lowest cost (in terms of the OER) in their asset class or category. When it comes to replacing an ETF, CSIA also considers the potential impact to clients such as additional trading costs or other costs. Eligible ETFs include Schwab ETFs, which are managed by CSIM, which is an affiliate of Schwab and CSIA. Schwab ETFs pay fees to CSIM that are described in "Participation or Interest in Client Transactions" below. Schwab has instructed CSIA to select or retain Schwab ETFs in the portfolios as long as CSIA determines that they satisfy the above factors.

CSIA will generally select both a primary and secondary ETF for each asset class in consideration of, among other things, tax-loss harvesting and requested investment restrictions. In limited circumstances, as determined by CSIA, only one ETF may be used in certain asset classes. In such cases, the tax-loss harvesting

feature would not be available for execution in the affected asset class(es). To be eligible for consideration, ETFs designated as the primary ETF in an asset class must have a share price sufficiently low to enable trading in accounts with lower balances.

CSIA receives a broad range of research from a wide variety of sources that include Schwab-affiliated entities and independent research providers, including issuers. CSIA may use written reports prepared by recognized analysts who are specialists in the industry and uses computer-based models and Algorithms to assist in portfolio management. The SIP portfolio management team has discretion to override the models and Algorithms and decline to trade during unusual market conditions or due to system limitations. CSIA may also use statistical and other information published by third-party data providers, industry, and government; information gathered at meetings of professionals within the industry; and its own research of investment trends.

CSIM provides trade routing and/or execution and related services for SIP through Schwab. There may be times when clients in programs or portfolios/strategies managed by CSIM are investing in the same ETF as SIP. See the "Brokerage Practices" section of this document for details on how conflicts of interest and trading execution are addressed, consistent with CSIA's fiduciary duty.

More information about the Selection of ETFs, Cash Allocation, Sweep Program, and Conflicts of Interest and How They Are Addressed can be found in the Schwab disclosure brochure, as well as the Schwab Intelligent Portfolios® Sweep Program Disclosure Statement provided to SIP Program clients.

## **General Risks**

### **Risk of Loss**

There are inherent risks to investing in Schwab Intelligent Portfolios, including, but not limited to:

### **Management Risks**

CSIA applies its investment techniques and risk analyses in making portfolio management decisions or recommendations for its clients, but there can be no guarantee that they will produce the desired results. In addition, there is no guarantee that a strategy based on historical information will produce the desired results in the future, and if market dynamics change, the effectiveness of the strategy may be limited. Each strategy runs the risk that investment techniques will fail to produce the desired results. There also can be no assurance that all of the key personnel will continue to be associated with the firm for any length of time.

### **Investment Risks**

Investments in securities, including ETFs and mutual funds and the securities that they in turn invest in, involve various risks, including those summarized below. In addition, each ETF and mutual fund has its own investment style, which may involve risks different from those described below. Clients and prospective clients should be aware that investing in securities involves risk of loss that clients should be prepared to bear.

### **Model Risks**

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

## **Algorithm Risks**

There are limitations inherent in the use of an Algorithm to manage Program accounts; for instance, the Rebalancing Algorithms are designed to manage Program accounts according to the asset allocation selected for that account and is not designed to actively manage asset allocations based on short-term market fluctuations. The SII Algorithm is designed to allow eligible clients to make a series of recurring withdrawals for a given period of time, but the SII Algorithm is not designed to ensure the duration of those recurring withdrawals due to factors beyond Schwab's control, including market changes and ad hoc client-initiated withdrawals. The Rebalancing Algorithms are also not designed to consider certain factors such as short-term asset class volatility or individual tax circumstances such as capital gains taxes; rather, its functions consist of proposing a portfolio based on a client's answers to the online questionnaire, identifying opportunities for tax-loss harvesting and rebalancing, and initiating buy/sell orders accordingly. Investment advisory personnel of CSIA oversee the Algorithms but do not personally or directly monitor each individual Program account.

There is also a risk that the Algorithms and related software used in the Program for strategy selection, tax-loss harvesting and rebalancing, recurring withdrawals, and related functions may not perform within intended parameters, which may result in a recommendation of a portfolio that may be more aggressive or conservative than necessary, and trigger or fail to initiate rebalancing and/or tax-loss harvesting trading.

## **ETF General Risks**

ETFs in which the strategy may invest involve certain inherent risks generally associated with investments in a portfolio of underlying securities, including the risk that the general level of underlying security prices may decline, thereby adversely affecting the value of each unit of the ETF. Moreover, an ETF may not fully replicate the performance of its benchmark index because of the temporary unavailability of certain securities in the secondary market or discrepancies between the ETF and the benchmark index with respect to the weighting of securities or the number of securities held. Investing in ETFs carries the risk of capital loss. ETFs are not guaranteed or insured by the FDIC or any other government agency. You can lose money investing in ETFs.

ETFs in which the strategies invest have their own fees and expenses as set forth in the ETF prospectuses. These fees and expenses lower investment returns. Although ETFs themselves are generally classified as equities, the underlying holdings of ETFs can include a variety of asset classes, including but not limited to equities, bonds, foreign currencies, physical commodities, and derivatives. A full disclosure of the specific risks of ETFs is located in the respective prospectus of each fund.

ETFs may have exposure to derivative instruments, such as futures contracts, forward contracts, options, and swaps. There is a risk that a derivative may not perform as expected. The main risk with derivatives is that some types can amplify a gain or loss, potentially earning or losing substantially more money than the actual cost of the derivative, or that the counterparty may fail to honor its contract terms, causing a loss for the ETF. Use of these instruments may also involve certain costs and risks, such as liquidity risk, interest rate risk, market risk, credit risk, management risk, and the risk that an ETF could not close out a position when it would be most advantageous to do so.

## **Market/Systemic Risks**

Equity and fixed income and other global capital markets rise and fall daily. The performance of client investments is, to varying degrees, tied to these markets. When markets fall, the value of a client's investments will fluctuate, which means a client could lose money.

## **Asset Allocation/Strategy/Diversification Risks**

The asset allocation decisions can result in more portfolio concentration in a certain asset class or classes, which could reduce overall return if the concentrated assets underperform expectations. The more aggressive the investment strategy selected, the more likely the portfolio will contain larger weights in riskier asset classes, such as equities. The asset classes in which an investment strategy in the SIP Program seeks investment exposure can perform differently from each other at any given time (as well as over the long term), so the investment strategy will be affected by its allocation among the various asset classes. As noted in the "Methods of Analysis, Investment Strategies, and Risk of Loss" section, under certain market conditions, the Cash Allocation results in lower overall portfolio performance, for example when other riskier assets outperform cash. Depending on market conditions, there may be times where diversified portfolios perform worse than less diversified portfolios.

## **Geographic Concentration Risk**

Portfolios concentrated in any one geographic region can be more susceptible to that region's political and economic risk. For example, a portfolio that is concentrated in the United States will be more susceptible to the United States' political and economic risk, as compared to a more globally diversified portfolio.

## **Trading/Liquidity Risks**

A particular ETF may be difficult to purchase or sell or may become difficult to sell after being purchased for a client account. CSIA may be unable to sell ETFs on behalf of a client at an advantageous time and/or price due to then-existing trading market conditions.

## **Large Investment Risks**

Clients may collectively account for a large portion of the assets in certain ETFs. A decision by CSIA to buy or sell some or all of a particular ETF or mutual fund where clients hold a significant portion of such may negatively impact the value of that security.

## **Counterparty Risks**

There may be a risk of an executing broker failing to deliver securities. This may result in a loss to the client. CSIM, working with Schwab, will attempt to mitigate trading counterparty risk through its broker selection program included in "Brokerage Practices." ETFs may have some "product" or "structural" risk associated with underlying derivatives, as they will sometimes provide market exposure through indirect means, like futures, options, and forwards contracts.

## **Custodian Risks**

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

## **Tax Risks**

The Program is not designed to address specific tax objectives. There is no guarantee that the tax-loss harvesting strategy in the Program will reduce, defer or eliminate the tax liability generated by a client's investment portfolio in any given tax year. Also, gains and losses associated with some commodities may be taxed differently than standard short-term and long-term capital gains and losses.

Clients should consult a professional tax advisor for help with their unique situations.

## **Underlying Securities Risks**

### **Equity-Related Risks**

#### **General Risks**

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

#### **Large- and Mid-Cap Risks**

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

#### **Small-Cap and International Risks**

Historically, small-cap and international stocks have been riskier than large- and mid-cap U.S. stocks (also see the "Foreign Investment-Related Risks" section below for additional information). During a period when small-cap and/or international stocks fall behind other types of investments—U.S. large- and mid-cap stocks, for instance—the performance of the portion of the investment strategies invested in small-cap or international stocks may lag the performance of these other investments.

### **Fixed Income-Related Risks**

#### **General Risks**

Bond markets rise and fall daily, and fixed income investments, which generally also include instruments with variable or floating rates (including cash and cash-like investments), are subject to various risks. As with any investment whose performance is tied to bond markets, the value of a fixed income investment, ETF, or mutual fund will fluctuate, which means that the client could lose money.

#### **Interest Rate Risks**

When interest rates rise, bond prices usually fall, and with them the value of an ETF or mutual fund holding the bonds. A decline in interest rates generally raises bond prices, and with them potentially the value of a bond fund or ETF share, but could also hurt the performance of an ETF or mutual fund by lowering its yield (which could increase reinvestment risk). The longer the duration of the investments held by an ETF or mutual fund, the more sensitive to interest rate movements its value is likely to be.

#### **Credit Risks**

A decline in the credit quality of a fixed income investment, whether real or perceived, could cause the value of a fixed income security, ETF, or mutual fund to fall. The security, ETF, or mutual fund could lose value if the issuer or guarantor of an investment fails to make timely principal or interest payments or otherwise honor its obligations. The emphasis of a fixed income strategy on relatively higher credit quality and preservation of capital also



could cause a security, ETF, or mutual fund to underperform certain other types of bond investments, particularly those that take greater maturity and credit risks.

#### **High-Yield Risks**

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

#### **Government Securities Risks**

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

#### **Bank Loans**

Investments in ETFs or mutual funds that hold bank loans are typically below investment-grade credit quality and may be subject to more credit risk, including the risk of nonpayment of principal or interest. Most bank loans are floating rate, whose interest rates are tied to LIBOR or another short-term reference rate, so substantial increases in interest rates may make it more difficult for issuers to service their debt and cause an increase in loan defaults. Bank loans are typically secured by collateral posted by the issuer, or guarantees of its affiliates, the value of which may decline and be insufficient to cover repayment of the loan. Many loans are relatively illiquid or are subject to restrictions on resales, have delayed settlement periods and may be difficult to value, which could have an adverse impact on the ability of the ETF or mutual fund to sell loans at an advantageous time and/or price. Loans are also subject to maturity extension risk and prepayment risk.

#### **State and Regional Risks**

To the extent that a security, ETF, or mutual fund invests in securities from a given state or geographic region, its value and performance could be affected by local, state, and regional factors, including erosion of the tax base and changes in the economic climate. National governmental actions, such as the elimination of tax-exempt status, also could affect performance. In addition, an ETF or mutual fund may be more sensitive to adverse economic, business, or political developments if a substantial portion of it is invested in municipal securities that are financing similar projects.

#### **Foreign Risks**

Investments in ETFs or mutual funds that hold securities of foreign issuers or securities with credit or liquidity enhancements provided by foreign entities may involve certain risks such as adverse changes in foreign economic, political, regulatory, and other conditions; differing accounting, auditing, financial reporting, and legal standards and practices; differing securities market structures; and higher transaction costs. In addition, sovereign risk, or the risk that a government may become unwilling or unable to meet its loan obligations or guarantees, could increase the credit risk of financial institutions connected to that particular country.

#### **Foreign Investment–Related Risks**

##### **General Risks**

Investments in securities of foreign issuers or ETFs or mutual funds that hold securities of foreign issuers may involve certain risks that are greater than those associated with investments in

securities of U.S. issuers. These include risks of adverse changes in foreign economic, political, regulatory, and other conditions; changes in currency exchange rates or exchange control regulations (including limitations on currency movements and exchanges); differing accounting, auditing, financial reporting, foreign taxes, and legal standards and practices; differing securities market structures; differing trading and settlement practices; ownership restrictions; and higher transaction costs.

##### **Emerging Markets Risks**

These and other risks (e.g., nationalization, expropriation, or other confiscation of assets of foreign issuers) are greater for those securities, ETFs, or mutual funds investing in companies tied economically to emerging countries, the economies of which tend to be more volatile than the economies of developed countries.

##### **Frontier Markets Risks**

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

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

Geopolitical events may adversely affect global economies and markets and thereby decrease the value of and/or the ease of trading those securities, ETFs, or mutual funds invested in those affected markets. Those events as well as other changes in foreign and domestic economic and political conditions could adversely affect the value of the strategy’s investments.

##### **Currency Risks**

Fluctuations in exchange rates may adversely affect the value of ETFs or mutual funds that hold foreign currency holdings and investments denominated in foreign currencies.

#### **Risks Related to Other Asset Classes**

##### **Commodities Risks**

Commodities involve unique risks that may be distinct from those that affect stocks and bonds, including, but not limited to, worldwide supply and demand factors, weather conditions, currency movements, and international government policies regarding commodity reserves and choice of currency for commodity pricing. Commodities investments may also involve unique risks inherent in investing in derivatives, which may include basis, roll, liquidity, and regulatory risks. A detailed explanation of the risks is available in the prospectus of the respective commodity fund. Commodity pools may be subject to different regulatory requirements than traditional funds governed by the Investment Company Act of 1940.

##### **Hard Asset Risks**

The production and distribution of hard assets, such as precious metals, oil and gas, real estate, and/or agricultural commodities, may be affected by geopolitical and environmental factors and are cyclical in nature. During periods of economic or financial instability, hard asset securities and other instruments may be subject to broad price fluctuations, reflecting volatility of energy and basic materials prices and possible instability of supply of various hard assets. Hard asset securities, hard asset companies, and other instruments may also experience greater price fluctuations than the relevant hard asset. Therefore, the return on hard asset securities can deviate from that of the hard asset itself.

##### **Real Estate Risks**

Real estate–related investments (and the ETFs or mutual funds that hold them) may be adversely affected by factors affecting the real estate industry, which may include changes in interest rates

and social and economic trends. Real estate investment trusts (“REITs”) may also be subject to the risk of fluctuations in income from underlying real estate assets, poor performance by the REITs’ managers, prepayments and defaults by borrowers, adverse changes in tax laws, and, with respect to U.S. REITs, their failure to qualify for the special tax treatment granted to REITs under the Internal Revenue Code of 1986 and/or to maintain exempt status under the Investment Company Act of 1940.

### **Limitations of Disclosure**

The foregoing list of risks does not purport to be a complete enumeration or explanation of the risks involved in CSIA’s strategies. As CSIA’s strategies develop and change over time, clients and investors may be subject to additional and different risk factors. No assurance can be made that profits will be achieved or that substantial losses will not be incurred.

### **Disciplinary Information**

CSIA and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client’s evaluation of the company or its personnel.

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

As a wholly owned subsidiary of CSCorp, CSIA leverages the resources of CSCorp, Schwab, and their affiliated companies, such as personnel including, but not limited to, its Chief Executive Officer (also CEO of CSIM, an affiliated investment adviser); Chief Compliance Officer (“CCO”); members of the SIP portfolio management team; Chief Legal Officer; legal and compliance support; sales, marketing, technology, operations, finance, human resources, and risk management personnel. CSIA, CSIM, and Schwab personnel have reporting relationships to personnel of affiliated entities. CSIM employees provide certain related services to CSIA, including securities trade execution, under an inter-company agreement between CSIA and CSIM. CSIM directs these trades to Schwab. Schwab effects securities transactions for clients in the SIP Program on an agency basis. See the “Directed Brokerage” section of this document for details on this arrangement. These arrangements create the potential for conflicts of interest to arise. These potential conflicts of interest are governed by various policies adopted by CSIA. For example, CSIA has adopted policies and procedures reasonably designed to protect against the misuse of information (and mitigate potential conflicts of interest), whether among Schwab-affiliated entities or entities or individuals outside of Schwab. Other wholly owned subsidiaries of CSCorp are engaged in investment advisory, brokerage, trust, custody, or banking services. CSIA has further implemented training, testing, monitoring, and, by participating in and leveraging the resources of CSCorp, conflicts oversight program for the purposes of managing potential conflicts of interest.

Pursuant to the Parameters provided by Schwab, CSIA chooses the ETFs for each investment strategy in the SIP Program. Eligible ETFs include Schwab ETFs™ which are managed by CSIM, which is an affiliate of Schwab and CSIA. Schwab ETFs pay fees to CSIM that are described in “Participation or Interest in Client Transactions” below.

TD Ameritrade Holding Corporation is a wholly owned subsidiary of CSCorp. TD Ameritrade, Inc. and TD Ameritrade Clearing, Inc., members FINRA/SIPC, are separate but affiliated companies and subsidiaries of TD Ameritrade Holding Corporation. TD Ameritrade, Inc. is a dual registered broker-dealer and investment advisor. TD Ameritrade Clearing, Inc. provides clearing and execution services

for securities brokerage business. TD Ameritrade Investment Management, LLC, and TradeWise Advisors, Inc. are registered investment advisors. TD Ameritrade Trust Company, a non-depository trust company, provides custody, directed trustee, recordkeeping, plan design support, and plan administration for TD Ameritrade Retirement plans. TD Ameritrade Futures & Forex LLC is an NFA-registered Futures Clearing Merchant and offers futures and forex trading services. TD Ameritrade Singapore Pte. Ltd. and TD Ameritrade Hong Kong Ltd. enable retail investors in Singapore and Hong Kong to trade the U.S. markets. Clients can trade stocks, ETFs, options, futures, and options on futures using the thinkorswim® trading platform.

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

### **Code of Ethics**

CSIA has adopted a written Code of Ethics (the “Code”) pursuant to SEC Rule 204A-1 under the Investment Advisers Act of 1940 (the “Advisers Act”). The Code reflects the fiduciary duty CSIA owes to its clients to avoid activities, interests, and relationships that run contrary to the best interests of CSIA’s clients. All Access Persons (employees and other individuals deemed appropriate by the CCO) are required to place clients’ interests ahead of their own, engage in personal investing that is in compliance with the Code, and avoid taking advantage of CSIA’s position as Adviser. Access Persons are prohibited from using information for personal profit or the profit of others and from disclosing non-public information to anyone except certain designated employees of CSIA and Schwab.

The Code places restrictions on Access Persons making personal investments in securities traded on behalf of clients, in initial public offerings, and in private placements. Access Persons may not engage in deceptive conduct in connection with the purchase or sale of securities for client accounts and are required to: (1) pre-clear certain personal securities transactions; (2) report certain personal securities transactions on a quarterly basis; and (3) provide a detailed summary of certain holdings (initially and annually) that the Access Person has a direct or indirect beneficial interest in. The Code and its requirements are subject to change as necessary to remain current with regulatory requirements and internal business policies and procedures.

A copy of CSIA’s Code is available upon request by calling the number located on the front of this brochure.

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

The written parameters established by Schwab place limitations on the universe of ETFs that CSIA may select for the SIP Program, as described in “Methods of Analysis, Investment Strategies, and Risk of Loss” above. Because Schwab and CSIA are affiliated companies, Schwab has an incentive to select and keep CSIA to provide portfolio management services for the Program. Similarly, CSIA has a conflict of interest in selecting Schwab ETFs, which pay compensation to CSIM. Schwab has a conflict in that it has instructed CSIA to select or retain Schwab ETFs in the portfolios, but only if Schwab ETFs meet all the criteria noted above in “Methods of Analysis, Investment Strategies, and Risk of Loss.” CSIA mitigates these conflicts of interest through its policies and procedures which include the evaluation of the selection and investment in affiliated investments consistent with CSIA’s fiduciary duty.

Typically, an ETF pays investment advisory fees as set forth in the ETF prospectus, which is ultimately paid for by its shareholders. Additional ETF expenses, including administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees

and expenses, are typically paid for by the adviser. Therefore, CSIM (a CSIA affiliate) will earn fees from Schwab ETFs™ that are held in SIP Program accounts.

Third-party ETF sponsors or their affiliates may make payments to Schwab for ETF-related opportunities such as education and events and reporting. The total amount of the fee paid by each ETF firm will vary depending on the number of opportunities in which the ETF firm participates. Schwab does not receive payment to promote any particular ETF to its customers.

Schwab's affiliate, Schwab Bank, receives income on cash balances in the Schwab Intelligent Portfolios® Sweep Program, as detailed in the "Methods of Analysis, Investment Strategies, and Risk of Loss" section above.

Other affiliates of CSIA may buy or sell the same securities for client accounts. These are all inherent conflicts of interest within and among CSIA, Schwab and its affiliates. Clients should carefully consider these conflicts of interest prior to enrolling in the SIP Program.

## Brokerage Practices

CSIA's principal objective in reviewing CSIM's execution of client trades is to obtain best execution and to aggregate and allocate trades to achieve fair and equitable treatment of its clients. CSIA has entered into an arrangement in which CSIM will perform Maintenance Trades and Strategy Trades, at the direction of CSIA, on behalf of SIP clients. CSIA retains fiduciary oversight for SIP trades and its compliance program is designed to provide oversight of CSIM's trading activities on behalf of SIP consistent with this fiduciary obligation. CSIA and CSIM have adopted policies and procedures that are designed so that the trading practices do not unfairly or systematically favor one client or group of clients or strategies over another and that, over time, accounts are treated equitably.

## Selection of Brokers and Best Execution

CSIA seeks to obtain the best execution for clients' portfolio transactions and will evaluate the quality and cost of services received by CSIM from broker-dealers/custodians on a periodic and systematic basis. Factors evaluated include execution price, transaction fees, commissions, mark-ups and mark-downs, or brokerage fees ("Brokerage Fees"), promptness and reliability of execution, accuracy of trades, ability to place trades in difficult markets, ability to source liquidity, and confidentiality. In seeking to meet its best execution goal, CSIA, as it evaluates CSIM, considers whether a transaction represents the best qualitative and quantitative execution, which may not be solely determined by the lowest brokerage fee available. Brokerage Fees are generally considered to be transaction fees, commissions, or mark-ups and mark-downs on the purchase and sale of securities.

For the SIP Program, all brokerage transactions for securities will be routed to Schwab for execution, which may not always obtain as favorable a price as another broker-dealer. Program monitoring and trading are subject to systems and technology constraints and availability and, while unlikely, may not take place daily.

## Soft Dollars

CSIA does not participate in or actively seek out soft dollar arrangements. Due to its affiliation with Schwab and its affiliated advisers, CSIA may receive certain benefits that it would not otherwise receive, if it did not have an established relationship with these companies. These benefits may include trading, custody, reporting, research, technology, software, and related services that assist the

firm in managing and administering client accounts. CSIA is not obligated to direct client transactions to broker-dealers that provide research information.

## Trading Process

CSIM operates separate trading groups (the "Trading Groups"). For equity and multi-asset SMA strategies including SIP, the Trading Groups conduct trades at the direction of portfolio managers. The SMA strategies have designated Trading Groups. Generally, each Trading Group trades the products and strategies for which it is designated, and each portfolio management team provides advice to the products and strategies for which it is designated. However, a Trading Group or portfolio management team may provide services to products and strategies for which it is not the designated portfolio management team or Trading Group, at the direction of the product's or strategy's designated portfolio management team. For example, a portfolio management team may determine to use a Trading Group or another portfolio management team that specializes in a particular segment of the financial markets to provide trading services and/or portfolio management for that segment of the financial market within its designated product or strategy. In addition, the head of a Trading Group or portfolio management team has discretion to assign the necessary personnel to trade and/or provide investment advice for a specific strategy.

CSIM has established informational barriers and procedures that seek to prohibit the personnel within a Trading Group from communicating or distributing any non-public information related to the trading activities of a product or strategy such personnel support (including information regarding pending orders for clients) to personnel within the Trading Group that should not be privy to such information.

Consequently, CSIM generally does not coordinate trading among Trading Groups and, therefore, will at times execute trades for one client from one Trading Group that differ from, or take the opposite side of, trades executed on behalf of another client from another Trading Group. Each Trading Group seeks to obtain best execution on all orders it originates; however, clients serviced by different Trading Groups could receive or appear to receive more favorable outcomes.

Generally, CSIM does not aggregate trades or seek opportunities for cross-transactions between client accounts serviced by different Trading Groups. Accordingly, each Trading Group will generally aggregate and allocate orders only among those clients that it services, and otherwise independently of the other Trading Group. However, at times a Trading Group that trades for client accounts for which it is not the designated Trading Group may aggregate trades for those client accounts with trades for client accounts for which the Trading Group is the designated Trading Group. A Trading Group will do so only if it is in the best interests of one or more clients to execute their trades on an aggregated basis.

Trade orders for different strategies and for the different Trading Groups may be on different systems, and may utilize one or more trading strategies (e.g., price at the time of order arrival, market closing price, or volume-weighted average price over some specified period). Certain trading strategies place relatively greater emphasis on timing, others on speed of execution, while others place greater emphasis on reducing market impact cost. As a result, the speed of trade order fulfillment and the prices achieved for the same security may vary in different programs or strategies and among Trading Groups. Certain strategies or different Trading Groups, which may include accounts in programs with different fee structures, may trade in advance of other strategies or may be completed more quickly, and, as a result, may achieve different execution on the same or similar securities. In addition, market,

regulatory, and/or country limitations (especially in the case of emerging markets) may contribute to differences in security prices.

For SIP Program accounts, CSIM, at the direction of CSIA, typically performs maintenance trades and strategy trades. Maintenance trades reflect individual activity in a client account, such as initial contributions, additional account contributions, or raising cash for withdrawal (“Maintenance Trades”). Strategy trades impact nearly all client accounts within a strategy and are directed by the SIP Portfolio Management Team (“Strategy Trades”).

For the SIP Program, clients direct CSIA, who in turn directs CSIM, to use Schwab to effect securities trades for their account. Large share trade orders can occur when there are large daily flows into or out of the program, or when client accounts experience large volumes such as rebalancing or tax loss harvesting, or when CSIA changes allocation weights for asset classes or replaces an ETF with another ETF across all applicable client accounts.

For these large trade orders and Strategy Trades, Schwab may solicit bids from other broker-dealers that may act as principal in the transaction, meaning that the other broker-dealer executes the trade in an account in which the broker-dealer has a beneficial ownership interest, or may execute a riskless-principal trade where the other broker-dealer buys (sells) a security from (to) a third-party (e.g., another customer or broker-dealer).

### **Directed Brokerage**

Schwab directs CSIA to execute SIP Program trade orders through Schwab. As a result, SIP Program trade orders may not always obtain as favorable a price or execution as might have been available through another broker.

### **Trade Aggregation**

The Trading Group, on behalf of CSIA, will not aggregate trades unless it believes that aggregation is consistent with CSIA's and CSIM's duty to seek best execution for affected clients in the aggregate and consistent with the terms of the client's investment advisory agreement.

The Trading Group, on behalf of CSIA, may aggregate securities sales or purchases across equity SMA strategies with SIP. If trades are not aggregated, clients may pay prices for the transactions that are different from what they may have paid had the trades been aggregated. When aggregating, CSIM may, consistent with its policies and procedures and the applicable adviser's fiduciary duties, include proprietary and/or employee accounts in an aggregated order.

The Trading Group, on behalf of CSIA, may exclude from aggregation those client accounts that have relevant restrictions or client activity (e.g., withdrawals pending).

### **Program Fees**

For the SIP Program, in transactions where Schwab uses another broker-dealer acting as principal, the other broker-dealer typically accepts the risk of market price and liquidity fluctuations of executing the transactions. The broker-dealer adds a Brokerage Fee to compensate for this risk. Schwab does not act as principal for ETF trades in the SIP Program and does not receive the third party's Brokerage Fee. In transactions where Schwab uses another broker-dealer acting as an agent, the other broker-dealer may charge a Brokerage Fee. Brokerage Fees for any trades where Schwab uses another broker-dealer acting as either principal or agent are not shown separately on a client's trade confirmation or account statements. Schwab does not charge a commission itself or receive the third-party broker-dealer's fee or commission.

Schwab receives remuneration, such as liquidity or order flow rebates, from a market or firm to which some orders are routed, but its trading practices are designed to achieve best execution. Clients will not be compensated or reimbursed for such third-party Brokerage Fees. Instead, any Brokerage Fees will reduce the overall return of a client's account.

### **Trade Rotation**

The Trading Group has a trade rotation process for Maintenance Trades that includes the SIP Program and uses this process among client accounts within a single program or across equity SMA strategies to prevent any client from being systematically disadvantaged. For Strategy Trades, if more than one program (e.g., the SIP Program and other equity SMA strategies) wants to trade securities in the same direction that are similar or the same, the Trading Group will conduct an analysis and then report the outcome to a strategy's portfolio management team. Trades done on the same day or on different days are not guaranteed to receive the same trading price. CSIA will review the Trading Group's procedures at least annually to confirm that the Trading Group's procedures are adequate to prevent any client from being systematically disadvantaged.

### **Trade Allocation**

Trade allocation procedures are reasonably designed to provide that trade allocations are timely, that no set of trade allocations is accomplished to the unfair advantage of one client or group of clients over another, and that over time client accounts are treated equitably, even though a specific trade may have the effect of benefiting one account or group of accounts over another when viewed in isolation.

Trading orders that can only be partially filled are generally allocated on a pro rata basis or allocated on some other basis consistent with the goal of giving all clients equitable opportunities over time. The Trading Group, at the direction of CSIA, may elect to execute trades in a single aggregated trade over multiple days due to volume, liquidity, or other factors. This could include an aggregated trade that is executed over multiple days where at the end of each day whatever portion of the trade has been executed is allocated to client accounts, or it could include an aggregated trade that is executed over multiple days where the full order is held and not allocated to client accounts until fully executed on the final day. Client accounts will receive the average price for those aggregated trades allocated to their account(s), whether at the end of each day of the trade or when the trade is fully completed. There may be some variations in allocations based on account size and security price due to full share allocation methodology. In some cases, the Trading Group may execute strategy trade orders at the same time it is executing a different trade order for the same security with the same or a different broker to meet account or strategy-specific requirements, in which case the two trades may be treated as distinct trades and may not be subject to pro rata allocation.

When opportunities are limited (collectively, “limited opportunities”), the Trading Group will generally consider the needs of clients across programs and will report the outcome to that strategy's portfolio management team. When it is not practicable to allocate an opportunity across all eligible accounts, the Trading Group uses various methods to give all accounts using the same trading strategy equitable opportunities for allocation over time. This may result in a limited opportunity being allocated to only some of the eligible accounts.

## Trade Errors

CSIA and CSIM maintain policies and procedures that address the identification and correction of trade errors. On those occasions when such an error does occur, CSIA and CSIM will use reasonable efforts to identify and resolve errors as promptly as possible. CSIA and CSIM will address and resolve errors on a case-by-case basis, in its discretion, based on the facts and circumstances. CSIA is not obligated to follow any single method of resolving errors but will seek to treat all clients fairly in the resolution of trade errors.

## Review of Accounts

CSIA's portfolio managers review, at least quarterly, the performance of the SIP Program investment strategies. Schwab contacts clients participating in the SIP Program at least annually via electronic channels to determine whether there have been any changes in their financial situation or investment objectives and whether clients wish to impose any reasonable restrictions on the management of their accounts or reasonably modify existing restrictions. Schwab communicates the information obtained from clients to CSIA as necessary for the management of the account. Schwab Financial Planners contact clients participating in the SIP Premium Program generally on an annual basis, but which occur with varying frequency, depending on the client's needs. Clients may update their financial plans online at any time.

## Client Referrals and Other Compensation

As explained in "Fees and Compensation," Schwab compensates CSIA for providing portfolio management services in the Program. CSIA does not make payments to its representatives or other persons for referring clients to the Programs. Schwab makes payments to its representatives for referring clients to the SIP Program and SIP Premium Program, as detailed in the Schwab Intelligent Portfolios Solutions™ disclosure brochure.

Representatives of Schwab's affiliate TD Ameritrade, Inc. receive a payment from TD Ameritrade, Inc. for referring clients to Schwab for services not available through TD Ameritrade, Inc., including introductions to the SIP Program, offered by Schwab. Representatives receive this payment regardless of whether referred clients avail themselves of the Schwab service for which they have been referred.

## Custody

Clients use Schwab as custodian for their SIP account, and Schwab, on at least a quarterly basis, will send SIP Program clients account statements detailing account positions and activities during the preceding period. Clients should review these statements carefully.

## Investment Discretion

When clients choose the SIP Portfolios, they electronically sign the applicable agreements giving CSIA authorization to make trades in their accounts. This investment management discretion is limited to the purchase and sale of securities and investment of cash, and does not include discretion for distributions of cash or securities. Investments will not exceed the client's funds in the account and a margin balance will not be maintained. Clients may impose reasonable restrictions on the management of their account(s), such as requesting that certain ETFs be excluded from their account(s), but not all requests will be honored, including those involving restriction of stocks, mutual funds, or cash.

Subject to meeting minimum balance requirements, a client may also direct Schwab (and CSIA through Schwab) to employ a tax-loss harvesting strategy (according to the Rebalancing Algorithms) in managing the client's taxable account. This means that CSIA will sell ETFs in the client's account at a loss to offset a potential capital gains tax liability (although CSIA does not monitor the type and amount of capital gains). The rebalancing and tax-loss harvesting opportunities may be affected by programming limitations and information clients make available to Schwab.

If a client meets Schwab's then-current requirements, a client may also direct Schwab (and CSIA through Schwab) to make a series of recurring withdrawals (according to the SII Algorithm) in managing the client's account. This means that CSIA may sell ETFs in the client's account in addition to using existing cash in the account to meet the requested withdrawal amounts. Although the SII Algorithm considers the tax status of the account(s) which are activated for SII, SII is not designed to consider each client's individual tax consequences, to meet applicable required minimum distributions ("RMDs"), to avoid all potential tax penalties, or to make SII withdrawals in the most tax-efficient manner.

For more information about tax-loss harvesting and rebalancing strategies and SII, please refer to the Schwab brochure, the Schwab website, and mobile applications. In addition, clients may restrict up to three ETFs (limited to one per asset class or sub-asset class) in each account. ETFs designated for restriction by clients will be replaced with alternatives selected by CSIA, in which case the client will forego the opportunity for tax-loss harvesting from this asset class.

## Voting Client Securities

CSIA has adopted written proxy voting policies and procedures (the "Policy"). For proxies voted by CSIA on behalf of each client who delegates voting authority to CSIA ("Delegating Clients"), procedures may be changed as necessary to comply with regulatory requirements and internal policies and procedures and are designed to maximize the economic benefit to Delegating Clients. CSIA has retained its affiliate, CSIM, to coordinate proxy voting along with a third party vendor who manages the voting process. CSIA reviews the CSIM Proxy Policy no less than annually to determine consistency with the Policy and with CSIA's fiduciary duty to Delegating Clients.

For proxy issues deemed by SIP Portfolio Management to raise significant concerns and which relate to those securities that are managed through the Program, CSIA reviews the analysis and recommendation of the CSIM Proxy Policy. Examples of factors that could cause a matter to raise significant concerns include, but are not limited to: issues whose outcomes have the potential to materially affect the issuer (ETF/fund) or issuer's sponsor/index provider, and matters which involve broad public policy developments which may materially affect the issuer (ETF/fund). After evaluating all such recommendations, CSIA decides how to vote the shares and will instruct CSIM to direct the vendor to vote consistent with its decision.

To address any potential conflicts of interest, CSIA votes proxies of affiliated mutual funds, ETFs, and Schwab stock in the same proportion as the vote of all other shareholders of the mutual fund, ETF, or stock (i.e., "echo vote"), unless otherwise required by law. When required by law, CSIA also "echo votes" proxies of unaffiliated mutual funds, ETFs, or stock.

Clients can get a copy of the Policy and information about how CSIA has voted their securities in a particular proxy vote by calling CSIA at (617) 960-5300. The information will be provided at no charge.

Delegating Clients may not direct voting in a particular solicitation. Clients wishing to retain the ability to vote proxies must submit a separate form to their custodian.

## **Financial Information**

CSIA does not require prepayment of fees and is therefore not required to include a balance sheet for its most recent fiscal year. CSIA has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.