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**Schwab Wealth Investment Advisory, Inc.**

**Schwab Intelligent Portfolios™**

**Disclosure Brochure**

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**This wrap-fee program brochure provides information about the qualifications and business practices of Schwab Wealth Investment Advisory, Inc. ("SWIA"). 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. SWIA'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 SWIA or its representatives. Additional information about SWIA is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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## Services, Fees and Compensation

### Services

Schwab Intelligent Portfolios™ is an advisory program (the “Program”) sponsored by Schwab Wealth Investment Advisory, Inc. (“SWIA”). SWIA is registered as an investment advisor under the Investment Advisers Act of 1940, as amended, and is a wholly owned subsidiary of The Charles Schwab Corporation (“CSCorp”), which is a Delaware corporation that is publicly traded and listed on the NASDAQ (symbol: SCHW). Currently SWIA does not provide investment advisory services outside of the Program.

The Program offers clients investment strategies that consist of diversified portfolios of ETFs in a single account that is managed on a discretionary basis. The investment strategies include an allocation to the Schwab Intelligent Portfolios Sweep Program (the “Sweep Allocation”).

SWIA provides administration and related services for the Program. Charles Schwab Investment Advisory, Inc. (“CSIA”) provides portfolio management services for Program accounts on a discretionary basis consistent with clients’ chosen investment strategy. Charles Schwab & Co., Inc. (“Schwab”) acts as the qualified custodian for Program accounts and provides trade execution and related services for Program accounts. CSIA and Schwab are affiliates of SWIA.

The Program is only offered online through an interactive website and mobile application. Clients can communicate with SWIA and Schwab via electronic channels (i.e., email, chat, website or mobile application), Schwab branches and via telephone.

Clients use a web or mobile application to determine whether the Program is appropriate for them and, if so, to select an investment strategy. Clients complete their assessment online and therefore clients should carefully consider whether their participation in the Program is appropriate for their investment needs and goals. Clients can change their investment strategy by going online and completing a new web or mobile-based assessment.

During the online application process, clients agree that records and disclosures for the Program will be delivered, and agreements will be signed, electronically. This is a requirement both now and in the future. 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 with SWIA and Schwab and to ensure that the client has the ability to read, download, print, and retain documents the client receives from SWIA. If a client is unable or unwilling to accept electronic delivery, the client’s enrollment in the Program and their account may be terminated. If a client’s account is terminated, the client will be required to transfer the client’s account assets to another account at Schwab or an account at another custodian; otherwise, the client’s account assets will be liquidated and a check for the proceeds will be sent to the client.

Clients give investment discretion to CSIA to manage their account and make trades in their account. Clients will not be allowed to make trades in their account. Clients may request that certain ETFs be excluded from their account, but CSIA is not required to accept account restrictions that it deems unreasonable. A request to exclude certain ETFs from a client’s account may result in delays in the management of the account and the client will be notified that 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, which is subject to change).

Accounts in the Program are not margin accounts, meaning clients cannot borrow money to buy securities in their Program account and use the securities in the account as collateral for the loan.

### **Benefits to Schwab Affiliates**

Clients do not pay a Program management fee. However, Schwab affiliates do earn revenue from the underlying assets in client accounts. This revenue comes from: (i) profit earned by Charles Schwab Bank (“Schwab Bank”), a Schwab affiliate, on the Sweep Allocation in the investment strategies; (ii) advisory fees received by Charles Schwab Investment Management, Inc. (“CSIM”), a Schwab affiliate, from Schwab ETFs™ that CSIA selects to buy and hold in client accounts; (iii) fees received by Schwab from third-party ETFs in client accounts for services Schwab provides to them as participants in Schwab ETF OneSource™ (“ETF OneSource”); and (iv) remuneration Schwab may receive from the market centers where it routes ETF trade orders for execution. More information about these revenues and their benefits to Schwab affiliates is set forth below under “Schwab Intelligent Portfolios Sweep Program,” “Fees,” and “Participation or Interest in Client Transactions” below.

### **Potential Conflicts of Interest and How They are Addressed**

SWIA, not Schwab Bank, sets the parameters for the Sweep Allocation in each investment strategy. They are set based on a disciplined portfolio construction methodology designed to balance performance with risk management appropriate for a clients’ goal, investing time frame, and personal risk tolerance, just as with other Schwab managed products. Schwab Bank earns income on the Sweep Allocation for each investment strategy. The higher the Sweep Allocation and the lower the interest rate paid the more Schwab Bank earns, thereby creating a potential conflict of interest. The cash allocation can affect both the risk profile and performance of a portfolio. To mitigate any potential conflict, SWIA instructs CSIA to construct the Program strategies pursuant to modern portfolio theory, which seeks to construct an optimal return goal for a portfolio based on the level of risk an investor is willing to take.

The interest rate paid to depositors participating in the Schwab Intelligent Portfolios Sweep Program (“Sweep Program”) was determined by agreement between Schwab and Schwab Bank. Since they are affiliates, any potential conflict in determining the interest rate has been mitigated by having the rate determined by reference to an index. For more information about the Sweep Allocation in the investment strategies and the profit earned by Schwab Bank, see “Schwab Intelligent Portfolios Sweep Program” below.

Because they are affiliated companies, SWIA has a potential incentive to select and keep CSIA to provide portfolio management services for the Program. Similarly, CSIA has a potential conflict of interest in selecting Schwab ETFs, which pay compensation to CSIM, and ETFs in ETF OneSource, which pay compensation to Schwab. To mitigate this potential conflict, SWIA establishes written objective criteria that do not allow CSIA to consider compensation to Schwab or other affiliates in connection with selecting ETFs or managing Program portfolios. CSIA must also follow these written criteria in selecting securities for, and removing securities from, Program portfolios. SWIA reviews CSIA’s performance in providing portfolio management services for the Program. For more information on the fees earned by Schwab affiliates on ETFs in client accounts, see “Fees” below.

### **Investment Strategies**

Using asset allocations and ETF selection parameters determined by SWIA, CSIA has created a number of investment strategies for the Program. The investment strategies consist of diversified portfolios of ETFs combined with the Sweep Program, which automatically deposits, or “sweeps,” free credit balances to deposit accounts at Schwab Bank. 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). Certain investment strategies are intended for clients who are looking for some level of income generation.

SWIA may add additional investment strategies at any time without prior notice to clients.

### **Selection of ETFs**

Any ETFs are eligible for inclusion in the Program. However, the written parameters established by SWIA place limitations on the universe of ETFs that CSIA may select for the Program.

The parameters require that an ETF be in operation for a certain period of time, have a minimum level of assets, and track its index closely. Also, the difference between the “bid” (the price a buyer is willing to pay for a share of the ETF) and the “ask” (the price a seller wants for that ETF share) must be small. This difference is called the bid-ask spread, and a narrow bid-ask spread usually means that the ETF has a large trading volume.

ETFs that meet these parameters are then ranked according to their fees and expenses. CSIA selects the ETFs with the lowest fees and expenses for inclusion in the portfolios.

Eligible ETFs include Schwab ETFs™, which are managed by CSIM, which is an affiliate of Schwab, CSIA and SWIA. Schwab ETFs pay fees to CSIM that are described in “Participation or Interest in Client Transactions” below.

The percentage of a client account initially invested in Schwab ETFs varies significantly depending on the asset allocation of the investment strategy. Subject to the written parameters described above, CSIA has discretion to allocate any portion, from none up to 100%, of an investment strategy into Schwab ETFs (excluding the portion in the Sweep Allocation).

### **Rebalancing**

Using portfolio management software, CSIA will rebalance a client’s Program account periodically by buying and selling ETF shares and depositing or withdrawing funds through the Sweep Program to return the account to the target asset allocation for the chosen investment strategy. CSIA will use this software to rebalance accounts if the allocation of the ETFs in a client’s account deviates by more than an amount specified in SWIA’s parameters from the recommended asset allocation due to changes in the ETFs’ values. Accounts must have a minimum balance of \$5,000 in order to be rebalanced.

### **Tax-Loss Harvesting**

Subject to meeting the minimum balance requirement of \$50,000, a client may direct CSIA to employ a tax-loss harvesting strategy in managing their taxable account. This means that once the tax loss harvesting threshold is met, CSIA will sell ETFs in the client’s account at a loss to offset potential capital gains, although the type and amount of capital gains will not be monitored by CSIA for this purpose. If a client chooses to have tax-loss harvesting for his or his spouse’s account, CSIA will use portfolio management software to sell one or more ETFs in the client’s account and replace the ETFs with other ETFs that CSIA reasonably believes are not substantially similar based upon different ETF indexes 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 Program, nor any discussion herein, is intended as tax advice, and neither SWIA nor CSIA represents that any particular tax consequences will be obtained.

CSIA only monitors for tax loss harvesting for accounts within the Program. The client is responsible for monitoring their and their spouse’s non-Program 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) non-Program accounts and type of investments (e.g., taxable or non-taxable) or holding period (e.g., short-term or long-term). Except as set forth below, CSIA will monitor only a client’s (or a client’s spouse’s) Program accounts to determine if there are unrealized losses for purposes of determining whether to harvest such losses. Transactions outside the Program may affect whether a loss is successfully harvested and, if so, whether that loss is usable by the client in the most efficient manner. Further, if a client decides to change investment strategies for his or her account, CSIA will not seek to avoid wash sales for ETF transactions caused by that change.

If a client chooses to have tax-loss harvesting for the client’s taxable Program account, CSIA will seek to avoid the wash sale disallowance rule in any other Program account with the client’s social security number as the primary account holder. A client may also request that CSIA monitor the client’s spouse’s accounts or their IRAs in the Program to avoid the wash sale disallowance rule. A client may request spousal monitoring online or via the mobile application. If CSIA is monitoring multiple accounts to avoid the wash sale disallowance rule, the first taxable account to trade an ETF will block the other account(s) from trading in that same ETF for 30 days.

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

Each investment strategy involves the Sweep Allocation to the Sweep Program. The Sweep 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 Sweep Program is a feature of the Program that clients cannot eliminate. The deposit balances at Schwab Bank will not be used to purchase securities for a client’s account unless those balances exceed the Sweep Allocation for the selected investment strategy.

The Sweep Allocation will be accomplished through enrollment in the Sweep Program, a program sponsored by Schwab. By enrolling in the Program, 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 SWIA, Schwab and CSIA.

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 SWIA the authority to change the cash investment allocation from the Sweep Program to another cash savings or investment product or vehicle offered by a Schwab entity or a third party.

In accordance with an agreement with Schwab, Schwab Bank has agreed to pay an interest rate to depositors participating in the Sweep Program that will be determined by reference to an index. Currently, that index is the national average of money market deposit account rates at the \$10,000 level as calculated by RateWatch. The current rate and RateWatch's methodology can be found at [www.rate-watch.com/national-averages](http://www.rate-watch.com/national-averages).

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. This indexed 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 profit from the Sweep Allocation in the Deposit Accounts is dependent upon the difference, or "spread," between the interest rate it pays on such deposits and the amount it earns from the investment of such deposits less the FDIC insurance premiums it pays. Therefore, Schwab Bank's ability to earn profit 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 Program. 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 Program 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."

## Fees

The Program includes the following services: (i) SWIA's Program administration services; (ii) CSIA's portfolio management services; and (iii) Schwab's trade execution, custody and related services. **Clients are not charged and will not be charged a Program fee for these services.**

In similar programs, 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 Program fee for services, due to retirement accounts in the Program, for purposes of IRS rules, SWIA makes a nominal calculation that fully offsets in the amount of 0.30% the compensation its affiliates receive from ETF transactions in clients' accounts. This includes advisory fees for managing Schwab ETFs and fees earned for providing services to third-party ETFs participating in the Schwab ETF OneSource™ program, if CSIA selects them to include in Program accounts. If this affiliate compensation ever exceeds 0.30% of client assets, SWIA would refund the additional amount to client accounts or use it to pay account administrative expenses. **In all cases, the result is that clients pay no Program fee.**



Clients do not pay brokerage commissions in the Program to Schwab. However, when 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 Program 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 will earn fees from Program clients who invest in Schwab ETFs™.

To the extent that cash used by clients to fund their Program accounts comes from redemptions of mutual fund shares, ETFs or other investments outside of the Program, there may be tax consequences or additional costs from sales charges previously paid and redemption fees incurred.

SWIA has an agreement with Schwab whereby Schwab pays SWIA’s expenses. Pursuant to an agreement among SWIA and CSIA, SWIA pays CSIA an annual fee of \$200,000 for CSIA’s services in the Program, which is subject to change. CSIA does not enter into agreements directly with Program clients and accordingly does not receive direct compensation from or negotiate fees with them.

Schwab Bank will pay Schwab a fee for administrative services provided in support of the Deposit Accounts in an amount up to a \$20 annual flat fee for each brokerage account that sweeps into a Deposit Account. 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 Program may be more or less than they would pay if they purchased separately the types of services in the Program. Clients may be able to obtain some or all of the types of services available through the Program on a stand-alone basis from other firms. Factors that bear upon the cost of the Program 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, and the number and range of supplementary advisory and other services provided to an account.

## **Compensation to SWIA Representatives**

SWIA representatives are available by web chat, email or telephone to answer questions about the Program, the investment strategies, the ETFs, and account performance. These representatives do not receive differential compensation for recommending the Program, other products and services, or additional investments in the Program.

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

Clients will open their account, complete a profile assessment, and sign their Program contracts electronically. Clients must agree to accept electronic delivery of contracts, disclosure documents, prospectuses, statements, and other materials. Assistance from a SWIA representative is available by telephone, email or web chat. Deposits to the account must be made by wire transfer, mobile check deposit, or through the Schwab MoneyLink® service, which allows clients to make electronic transfers of funds to and from their brokerage account.



Clients of the Program may include individuals, IRAs and revocable living trusts. Clients that are organizations (such as corporations and partnerships) or government entities, and clients that are subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), are not eligible for the Program.

The minimum investment required to open an account in the Program is \$5,000 for all accounts. If the market value of a Program account falls below \$5,000 due to withdrawal of assets from the account, SWIA may require the client to deposit additional money to bring the account up to the required minimum, and SWIA reserves the right to terminate the account from the Program. 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.

A client that terminates its advisory agreement with SWIA must also close its Program account and instruct SWIA to either (i) liquidate the account assets and send the proceeds to the client or to an account specified by the client, or (ii) transfer the account assets to another account (at Schwab or another custodian). If the client transfers their assets to another account at Schwab, the Sweep Program will not apply to that account. That account will have its own sweep feature, which may have terms that are more favorable or less favorable than the Sweep Program.

SWIA may terminate a client from the Program for withdrawing cash from their account that brings their account balance below the minimum, for failure to maintain a valid email address or for any other reason, in SWIA’s sole discretion. SWIA also may terminate a client from the Program if SWIA deems the client’s requested investment restrictions to be unreasonable. Before terminating a client from the Program, SWIA will provide at least 30 days’ notice. Depending on the reason for the termination, the client may have the opportunity to resolve the reason for their termination. If the client is unable to remedy the reason for their termination and does not make arrangements to transfer the assets in the client’s account to another brokerage account at Schwab or another custodian, then the following will occur: (i) the ETFs in the client’s account will be sold; (ii) the client’s enrollment in the Sweep Program will terminate; (iii) the client will be sent a check for the amount in their account; and (iv) the client’s Program account will be closed.

## **Retirement Accounts**

SWIA does not and will not render advice on a regular basis pursuant to an arrangement or understanding that such advice shall serve as a primary basis for investment decisions with respect to any retirement account. SWIA and its employees and agents (i) are not fiduciaries as defined under the Internal Revenue Code; (ii) have no investment or other discretion with respect to assets covered by the Program; (iii) will perform no discretionary acts with respect to such assets; (iv) will effect only such transactions as instructed by clients; and (v) 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**

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

## **Client Information Provided to Portfolio Manager**

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

## **Client Contact With Portfolio Manager**

Clients who wish to contact CSIA can do so by making a request to a SWIA representative by telephone or web chat. SWIA and its representatives are the primary points of contact for clients in the Program.

## **Additional Information**

### **Risks**

Investing in securities, whether through the Program or otherwise, involves the risk of loss that clients should be prepared to bear. The specific risks associated with the ETFs comprising the Program 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.

### **Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of or the integrity of SWIA or its management persons.

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

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

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

### **Code of Ethics**

SWIA has a code of ethics adopted pursuant to SEC Rule 204A-1 under the Investment Advisers Act of 1940 (the "Code"). The Code reflects the fiduciary principles that govern the conduct of SWIA and its employees and agents when we are acting as an investment advisor. The Code requires that SWIA's covered employees and agents comply with applicable federal securities laws and report violations of the Code. Covered employees and agents who are deemed "access persons" by virtue of providing investment advice or having access to certain related information are prohibited from disclosing Program transactions or any other nonpublic information to anyone except as required to effect securities transactions for clients. The Code also prohibits access persons from using the information for personal profit or the profit of others. Access persons may not engage 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. SWIA also monitors its representatives for compliance with the Code and has established

policies and guidelines that SWIA representatives must follow when assisting clients in the Program. SWIA representatives are supervised by their direct managers for compliance with SWIA's policies and guidelines. A copy of the Code is available at [intelligent.schwab.com](http://intelligent.schwab.com).

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

### **ETF Trade Execution**

Schwab, as broker for Program accounts, routes ETF orders for execution to UBS Securities LLC ("UBS") and other broker-dealers, who may act as market maker or manage execution of the orders in other market venues. Schwab also routes orders directly to all major exchanges and alternative trading systems, including ECNs (electronic trading networks). Schwab may receive remuneration such as liquidity or order flow rebates from a market or firm to which orders are routed, but at all times is committed to best execution.

Schwab considers a number of factors in evaluating execution quality among markets and firms, including execution price and opportunities for price improvement, market depth and order size, the trading characteristics of the security, speed and accuracy of executions, the availability of efficient and reliable order handling systems, liquidity and automatic execution guarantees, and service levels and the cost of executing orders at a particular market or firm. Price improvement occurs when an order is executed at a price more favorable than the displayed national best bid or offer. Schwab regularly monitors the execution quality provided by the various markets and firms to ensure orders are routed to market venues that have provided high-quality executions over time.

### **ETFs**

ETFs are eligible for inclusion in the Program, whether they are Schwab ETFs or third party ETFs. However, the written parameters established by SWIA place limitations on the universe of ETFs that CSIA may select for the Program.

The parameters require that an ETF be in operation for a certain period of time, have a minimum level of assets, and track its index closely. Also, the difference between the "bid" (the price a buyer is willing to pay for a share of the ETF) and the "ask" (the price a seller wants for that ETF share) must be small. This difference is called the bid-ask spread, and a narrow bid-ask spread usually means that the ETF has a large trading volume.

ETFs that meet these parameters are then ranked according to their fees and expenses. CSIA selects the ETFs with the lowest fees and expenses for inclusion in the Program strategies. As described above, CSIM receives advisory fees from Schwab ETFs selected for Program accounts.

ETFs in the ETF One Source™ program are also eligible to be selected for inclusion in the Program. Schwab has established the ETF OneSource program under which ETFs can be traded without a commission on buy and sell transactions. Schwab receives payments from the third-party ETF sponsors or their affiliates participating in ETF OneSource for recordkeeping, shareholder services and other administrative services that Schwab provides to participating ETFs. In addition, Schwab promotes the ETF OneSource program to its customers, and a portion of the fees paid to Schwab offsets some or all of Schwab's costs of promoting and administering ETF OneSource. Schwab does not receive payment to promote any particular ETF to its customers.

ETF sponsors or their affiliates pay a fixed ETF OneSource program fee to Schwab each year for each ETF participating in ETF OneSource. The program fees vary, but can range up to \$250,000 per year for each

participating ETF. ETF sponsors or their affiliates also pay Schwab an asset-based fee based on a percentage of total ETF assets purchased by Schwab customers after the ETF was added to ETF OneSource. The amount of the asset-based fee can range up to 0.20% annually. Schwab ETFs do not pay any program or asset-based fees to participate in ETF OneSource.

Assets in Program accounts are included in the calculation of the asset-based ETF OneSource fee to be paid to Schwab by an ETF sponsor or its affiliates. Schwab may exclude other assets or other types of transactions from the asset-based ETF OneSource fee paid by an ETF sponsor or its affiliates.

## **Personal Trading**

SWIA monitors the personal securities holdings and trading of SWIA representatives. SWIA 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, SWIA 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.

## **Review of Accounts**

SWIA will contact Program clients at least once a year via electronic channels to ask them to update their information on the Program website if there have been any material changes. Clients who have experienced material changes to their financial circumstances or investment objectives, or who wish to impose or modify restrictions on the management of their Program accounts, should promptly update their information on the Program website.

Program clients receive electronically a separate confirmation of each transaction and an account statement (at least quarterly) detailing positions and activity in their accounts. The statement includes a summary of all transactions made on the client's behalf, all contributions and withdrawals made to or from the account, all fees and expenses charged to the account, and the account value at the beginning and end of the period. The statement may be based upon information obtained from third parties.

## **Client Referrals and Other Compensation**

SWIA does not make payments to its representatives or other persons for referring clients to the Program. Schwab makes payments to its representatives for referring clients to the Program, which are described in a separate Schwab brochure relating to the Program.

## **Financial Information**

SWIA does not require or solicit prepayment of the Program fee and is therefore not required to include a balance sheet for its most recent fiscal year. SWIA is not the subject of any financial condition that is reasonably likely to impair its ability to meet its contractual obligations to its clients. SWIA 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.