

Expenses matter.

Even a small difference in costs creates a gap in portfolio value over time.

Just a few basis points? Try over 20%. That's the potential gap in final portfolio value between low cost market cap index funds and the average cost of actively managed funds after 40 years.

Higher expenses eat away at a portfolio's compounding power.

The average cost of an actively managed equity mutual fund is about 0.84% of assets per year, compared to 0.03% to 0.30% for market cap index mutual funds and exchange-traded funds (ETFs).¹ It may not seem like a big difference, but every dollar that goes toward expenses is a dollar that can't compound over time.

For retirement investors, a long horizon amplifies the impact.

Over a 40-year investment horizon, a low cost equity portfolio has the potential to grow 21% more than a comparable portfolio comprised of higher cost investments – a difference of more than \$300,000 (see Figure 1). For young savers, this effect is the most pronounced; the extra 21% could extend portfolio life into retirement.

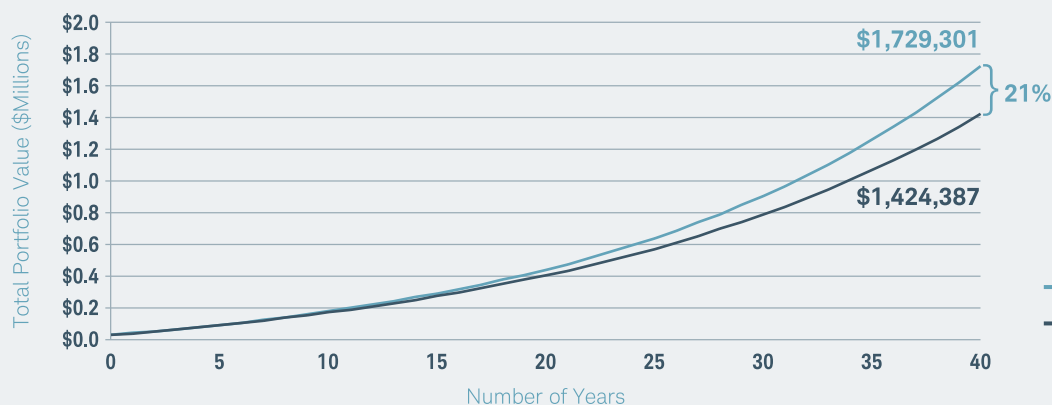
Index and ETF products can lower the overall cost of a portfolio.

Market cap index investments offer an efficient way to get lower cost beta exposure and can help reduce the overall costs of a portfolio. When paired with smart beta and actively managed equity funds for potential alpha exposure, market cap index products can serve as an important part of the foundation in a diversified portfolio.

How compounding affects expenses

Compounding is the engine behind long-term growth, but it also amplifies the effect of expenses. All investors should understand how expenses detract from their portfolio's performance over the long-term.

Figure 1: How basis points add up—a lower cost core portfolio preserves compounding power



Over 40 years, a core portfolio comprised of low cost market cap index investments could grow **21% more** than a higher cost portfolio, even though the difference in expenses is only **0.69% per year**.

— Scenario: Low Fees
— Scenario: High Fees

Source: Charles Schwab Investment Management. This hypothetical example is for illustrative purposes only and assumes an annualized return rate of 6%; an initial investment of \$25,000 with an annual investment of \$10,000; and high fees expense of 0.84% and low fees expense of 0.15%. Hypothetical performance is not representative of any client experience and cannot predict or project the performance of any specific investment product.

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Your source for low cost index products

We strive to be a reliable partner by delivering low cost index-based products – without sacrificing the quality or service you deserve.

Schwab Market Cap Index ETFs	Ticker	Net Operating Expense Ratio
Schwab 1000 Index® ETF	SCHK	0.05%
Schwab U.S. Broad Market ETF™	SCHB	0.03%
Schwab U.S. Large-Cap ETF™	SCHX	0.03%
Schwab U.S. Large-Cap Growth ETF™	SCHG	0.04%
Schwab U.S. Large-Cap Value ETF™	SCHV	0.04%
Schwab U.S. Mid-Cap ETF™	SCHM	0.05%
Schwab U.S. Small-Cap ETF™	SCHA	0.05%
Schwab U.S. Dividend Equity ETF™	SCHD	0.07%
Schwab U.S. REIT ETF™	SCHH	0.07%
Schwab International Equity ETF™	SCHF	0.06%
Schwab International Small-Cap Equity ETF™	SCHC	0.12%
Schwab Emerging Markets Equity ETF™	SCHE	0.13%
Schwab U.S. Aggregate Bond ETF™	SCHZ	0.04%
Schwab Short-Term U.S. Treasury ETF™	SCHO	0.06%
Schwab Intermediate-Term U.S. Treasury ETF™	SCHR	0.06%
Schwab U.S. TIPS ETF™	SCHP	0.05%

Schwab Market Cap Index Mutual Funds	Ticker	Minimum Investment	Net Operating Expense Ratio
Schwab Total Stock Market Index Fund®	SWTSX	None	0.03%
Schwab 1000 Index® Fund	SNXFX		0.05%
Schwab® S&P 500 Index Fund	SWPPX		0.03%
Schwab Small-Cap Index Fund®	SWSSX		0.05%
Schwab International Index Fund®	SWISX		0.06%
Schwab® U.S. Aggregate Bond Index Fund	SWAGX		0.04%
Schwab® Short-Term Bond Index Fund	SWSBX		0.06%
Schwab® Treasury Inflation Protected Securities Index Fund	SWRSX		0.05%

Schwab Target Index Funds	Minimum Investment	Net Operating Expense Ratio ²
Schwab Target Index Funds (2010–2060)	None	0.08%

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Investors should consider carefully information contained in the prospectus, or if available, the summary prospectus, including investment objectives, risks, charges and expenses. You can download a prospectus by visiting www.schwabfunds.com/prospectus. Please read it carefully before investing.

The values of target date funds will fluctuate up to and after the target dates. There is no guarantee the funds will provide adequate income at or through retirement.

Target date funds are built for investors who expect to start gradual withdrawals of fund assets on the target date, to begin covering expenses in retirement. The principal value of the funds is not guaranteed at any time, and will continue to fluctuate up to and after the target date.

Target date funds asset allocations are subject to change over time in accordance with each fund's prospectus.

¹ Source: Schwab Center for Financial Research. As of January 2017.

² The investment adviser and its affiliates have agreed to limit the total annual fund operating expenses (including acquired fund fees and expenses, but excluding taxes and certain non-routine expenses) of the fund to 0.08% for so long as the investment adviser serves as the adviser to the fund. This agreement may only be amended or terminated with the approval of the fund's Board of Trustees.

Operating Expense Ratios as reflected in each fund's prospectus and are subject to change.

Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. ETF shares are bought and sold at market price, which may be higher or lower than the net asset value (NAV).

Alpha—a risk-adjusted measure of performance. Alpha takes the risk of an investment and compares its risk-adjusted performance with that of a benchmark index. The investment's excess return represents its alpha.

Beta—a measure of the volatility, or systematic risk, of a security compared with the entire market. Beta is used in the capital asset pricing model (CAPM), which calculates the expected return of an asset based on its beta and expected returns.

Smart beta—strategic beta strategies attempt to deliver a better risk and return trade-off than conventional market-cap-weighted indexes by using alternative weighting schemes such as fundamental weighting, equal weighting, and low volatility.

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