

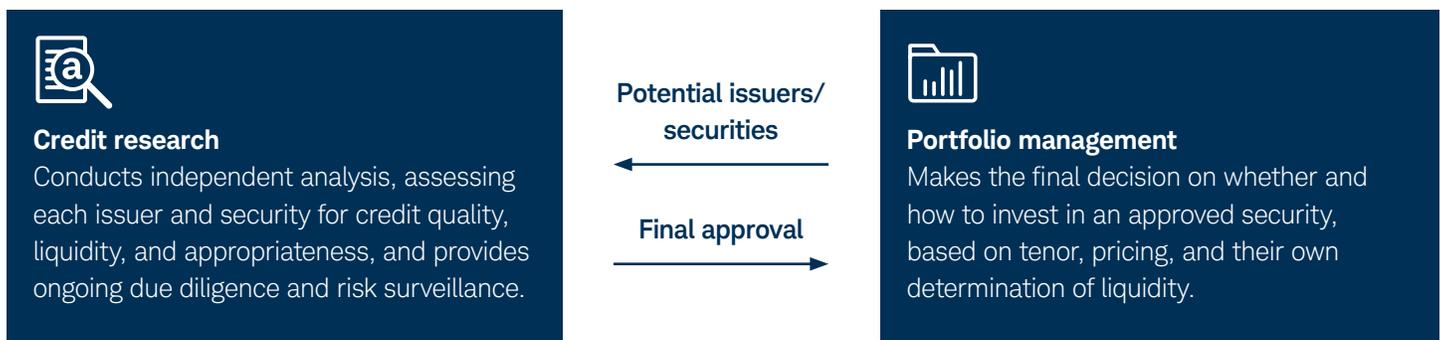
Schwab Money Funds: How we analyze credit risk

Introduction

Money Market Funds follow regulations set forth by the SEC (Rule 2a-7 under the Investment Company Act of 1940, the “Rule”). The Rule’s key provisions govern the maturity, liquidity, quality and diversification of money market fund securities.

Charles Schwab Investment Management (CSIM) has an experienced credit research team who is responsible for ensuring that Schwab Money Funds’ investments represent minimal credit risk. Once an issuer and security have received approval, the portfolio management team makes the final investment decision based on tenor, pricing, and liquidity. While credit and investment decisions are made independently by each team, credit analysts and portfolio managers work closely together.

Collaborative but independent credit research & portfolio management teams



Credit ratings

Under the Rule, money market funds may only invest in “eligible securities” that present minimal credit risk to the fund. As part of making a minimal credit risk determination, the credit research team conducts in-depth analysis of all issuers/ investments and then assigns an internal Schwab credit rating which in turn helps drive exposure and maturity limits. They monitor external credit ratings agency data, but do not rely on that information when assessing credit risk.

Taxable & Municipal Credit research teams

Within the credit research team there are two groups of credit analysts. One group focuses on the analysis of corporations and financial institutions (Taxable Credit) and the other focuses on issuers of municipal market debt (Municipal Credit). Analysts perform both a macro (top down) and an institution-specific (bottom up) analysis of key fundamental components including: financial condition, sources of liquidity, ability to react to future market-wide and issuer-specific events, and competitive position. Analysts are responsible for specific sectors, issuers, regions and types of instruments, conducting on-going due diligence and risk surveillance, which includes monitoring news and markets, attending industry conferences and participating in issuer meetings.



Taxable Credit

Taxable Credit is responsible for approving the financial institutions and corporate issuers which are held in the Schwab Taxable Money Funds, or provide liquidity or credit enhancement for securities held in the Schwab Municipal Money Funds. Credit approval is based on analysis of the quantitative and qualitative metrics of each issuer or guarantor. Financial institutions account for a large proportion of our exposure in the Schwab Taxable Money Funds and CSIM uses an industry standard methodology for evaluating these issuers. It is often called the C-A-M-E-L-S process.

Further, due to the money market industry's global exposure, approved issuers include those domiciled in more than 15 countries. Consequently, analysts must also take into account: more than 15 national economies, related geopolitical risk, monetary conditions, and different accounting and regulatory standards.

Conclusion

We believe our portfolio management and credit research process supports the goals of capital preservation and liquidity. Schwab Money Funds only invest in securities that the credit research team has independently deemed to be of minimal credit risk. The portfolio of securities held in Schwab Money Funds is composed of high-quality, short-term investments which together have a maximum weighted average maturity (WAM) of 60 days or less.

Municipal Credit

Municipal Credit's analytical process is similar to that of Taxable Credit and includes the review of issues specific to US local governmental issuers, such as the strength of the local and regional economy, as well as the issuer's reliance on other levels of government for revenue and regulatory oversight. Consequently, municipal analysts also incorporate an understanding of state governance and its impact on local governments.

Municipal issuers are not required to file financial information with the SEC and typically only release updated financial information annually, six to nine months following their fiscal year end. State and local governments publish their budgets, financial forecasts and other supplementary information on their websites. Municipal Credit reviews this information, as well as local and regional economic trends, such as population and income levels, job growth, and changes in property valuations, to better understand the drivers of an issuer's financial condition.

Additional information

We post all Schwab Money Fund portfolio holdings on a monthly basis on the fifth business day of the month (as of the end of the previous month). The list of portfolio holdings for each fund can be found at: schwabfunds.com/SchwabFunds_Prospectus.

Additional details about specific securities can be found within the Form N-MFP available to the public on the SEC's web site immediately upon filing.

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

You could lose money by investing in the Schwab Money Funds. All Schwab Money Funds with the exception of Schwab Variable Share Price Money Fund seek to preserve the value of your investment at \$1.00 per share, but cannot guarantee they will do so. Because the share price of the Schwab Variable Share Price Money Fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. All Schwab Money Funds with the exception of Schwab Government Money Fund, Schwab U.S. Treasury Money Fund, Schwab Treasury Obligations Fund, Schwab Government Money Market Portfolio, and Schwab Retirement Government Money Fund may impose a fee upon the sale of your shares or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the Schwab Money Funds is not insured or guaranteed by the FDIC or any other government agency. The Schwab Money Funds' sponsor has no legal obligation to provide financial support to the Funds, and you should not expect that the sponsor will provide financial support to the Funds at any time.

Not FDIC-Insured • No Bank Guarantee • May Lose Value

Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab Funds, and Charles Schwab & Co., Inc. (Schwab), Member SIPC, the distributor for Schwab Funds, are separate but affiliated companies and subsidiaries of The Charles Schwab Corporation.

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