

# Schwab Money Funds

## Current Market and Economic Environment Update

Given the volatility of the market and other market conditions resulting from the health crisis we are facing, we are providing this information to assist investors in understanding potential impacts on money market funds. As they have for the past 30 years, Schwab Money Funds continue to seek stability of capital, liquidity and current income. Schwab Money Funds continue to serve as a vehicle for investors to help manage their cash needs.

The following FAQs have been prepared to answer some common questions around money market funds in light of the current market and economic environment.

### How do money market funds manage fund investments?

Money market funds have strict investment guidelines and are governed by SEC Rule 2a-7 (the Rule). The Rule provides specific criteria when selecting securities which are considered "money market fund eligible." These guidelines mandate that money market funds pay particular attention to: credit quality, diversification, and liquidity. The Schwab Money Funds continue to provide transparency to shareholders, which allows them to monitor their investment.

Charles Schwab Investment Management, Inc. (CSIM), the investment adviser for the Schwab Money Funds, employs experienced credit research, portfolio management and risk management teams who adhere to our disciplined and dynamic investment philosophy and processes to meet these money fund investment requirements, while also managing to the ever-changing dynamics of the short term fixed liquidity markets.

As a result of the 2008 Financial Crisis, the Rule was amended. The amendments were designed in part to help strengthen the money market fund industry's ability to withstand market stresses, such as those experienced in 2008 as well as those we are facing today. The amendments also provided investors more transparency into such things as money market fund daily and weekly liquidity reporting, market-based NAVs, portfolio holdings and daily flows, which allow all investors the ability to better monitor their money fund investment.

### How do changes in the federal funds rate affect money market fund yields?

While all money market fund (MMF) yields are directly influenced by changes in the federal funds rate, the type of MMF (prime, government & Treasury, or municipal) will also impact how the yields change. In light of the March 15th rate cut, yields on all MMFs have been generally trending lower.

**Prime MMF Yields:** Typically correlated with the movements of the federal funds rate. As the federal funds rate changes, Prime MMF yields tend to move in tandem. As the federal funds rate falls, Prime MMF yields tend to be higher than the federal funds rate, as the longer Weighted Average Maturities (WAMs) of the Prime MMFs reflect their holdings of higher yielding, longer dated securities.

**Government & Treasury MMF Yields:** Directly impacted by the change in the federal funds rate, and also influenced to a great extent by the supply and demand of Treasury bills issued by the U.S government. Given the recent heavy flows into government and Treasury MMFs, the demand for Treasury bills has increased, contributing to lower yields. Many believe the anticipated new supply resulting from the coronavirus stimulus bill will likely help meet the demand and may provide a lift to Treasury bill yields.

**Municipal MMF Yields:** While changes in the federal funds rate certainly provide direction to the SIFMA Municipal Swap Index (SIFMA Index), the Federal Open Market Committee policy in the municipal MMF world is viewed as a guide, not a certainty. Supply and demand plays a large role in driving municipal MMF yields. In high income tax states such as California and New York, state income taxes act as an additional influence on yields, typically driving them lower than national yields as investors seek additional tax shelters for income. For more information see “Why have yields on Schwab Municipal Money Funds increased?” FAQ below.

## What happens when yields of the underlying investments in a Schwab Money Funds are lower than the funds’ expenses?

In the past Zero Interest-Rate Policy environment, Charles Schwab Investment Management, Inc. waived its advisory fees to maintain a yield of zero or greater for the Schwab Money Funds. We continue to monitor Schwab Money Fund yields and are prepared to waive fees to maintain a yield of zero or greater as necessary. Fee waivers are voluntary and could be discontinued at any time.

## How do negative Treasury yields impact government & Treasury money market funds?

As you can see in the table below, different types of government/Treasury money market funds (MMFs) have different investment strategies.

### Investment Strategies

U.S. Treasury MMFs	U.S. Treasury and Repo MMFs	U.S. Government MMFs
Example: Schwab U.S. Treasury Money Fund - Investor Shares (SNSXX)	Example: Schwab Treasury Obligations Money Fund - Investor Shares (SNOXX)	Example: Schwab Government Money Fund - Investor Shares (SNVXX)
Typically invest in securities backed by the full faith and credit of the U.S. government.	Typically invest in securities backed by the full faith and credit of the U.S. government and repurchase agreements (repos) backed by such investments.	Typically invest in U.S. government securities and other obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities. Includes, obligations that are not fully guaranteed by the U.S. Treasury, such as those issued by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal Home Loan Banks.

Given their investment strategies, negative Treasury yields would be a bigger consideration for U.S. Treasury MMFs. However, it is important to note that while some U.S. Treasury securities may trade with negative yields, there are multiple strategies available for U.S. Treasury MMFs to maintain a yield of zero or greater: U.S. Treasury MMFs can purchase new issue Treasury securities at auction, a source of zero or greater yielding securities; buy Government Agency securities (see below for more details); remain in cash; or invest in longer dated securities (up to 397 days) if desired. The aforementioned new supply of Treasury securities resulting from the stimulus package may also help to lift Treasury yields.

If supply becomes limited, CSIM could consider soft closing one of the Schwab Money Funds to new accounts to limit the inflow of assets.

## Does the Schwab U.S. Treasury Money Fund have the ability to purchase other government or agency securities?

Yes. Based on the fund manager’s view of market conditions for U.S. Treasury securities, Schwab U.S. Treasury Money Fund – Investor Shares (SNSXX) may invest up to 20% of its net assets in:

- (i) Obligations that are issued by the U.S. government, its agencies or instrumentalities, including obligations that are not fully guaranteed by the U.S. Treasury, such as those issued by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal Home Loan Banks
- (ii) Obligations that are issued by private issuers that are guaranteed as to principal or interest by the U.S. government, its agencies or instrumentalities. Obligations that are issued by private issuers that are guaranteed as to principal or interest by the U.S. government, its agencies or instrumentalities are considered U.S. government securities under the rules that govern money market funds

Schwab Money Fund portfolio holdings are updated on the fifth business day of every month (as of the end of the previous month). Portfolio holdings for each fund can be found at: [schwabfunds.com/SchwabFunds\\_Prospectus](https://www.schwabfunds.com/SchwabFunds_Prospectus).

## Is it possible for money market fund yields to be negative?

If the Fed were to lower rates below zero, and we had a negative rate environment, CSIM waiving its fees may be insufficient to maintain a zero or greater yield on the Schwab Money Funds. While the Fed has indicated they have other options to pursue, CSIM continues to work with key industry groups and regulators to analyze options for money market funds in such an environment.

## What are some of the programs launched by the U.S. Federal Reserve that are available to money market funds?

The U.S. Federal Reserve (the Fed) has taken several actions to limit the impact of COVID-19 on money market funds, including the launch of the following programs:

**The Money Market Mutual Fund Liquidity Facility (MMLF)** was established by the Fed to enhance the liquidity and functioning of money market funds. The facility provides a direct avenue for prime and municipal money market funds to raise liquidity by selling eligible securities to eligible financial institutions (banks and broker-dealers). Banks and broker-dealers can then borrow from the Federal Reserve Bank of Boston by pledging the securities purchased from the prime and municipal money market funds as collateral. The securities are sold to the banks and broker-dealers at the funds' amortized cost, so no gain or loss is incurred by the funds when securities are sold.

Eligible securities for this program (with conditions such as rating and maturity) include: U.S. Treasuries & fully guaranteed agencies, securities issued by Government Sponsored Entities (GSEs), short-term municipal debt, Variable Rate Demand Notes (VRDNs), commercial paper (including asset backed commercial paper), and negotiable certificates of deposit (including Yankee CDs).

**The Primary Dealer Credit Facility (PDCF)**, allows primary dealers to borrow from the Fed via the PDCF by pledging collateral. Eligible collateral includes all eligible collateral for pledge in open market operations, plus investment grade corporate debt securities, international agency securities, commercial paper, municipal securities, mortgage-backed securities, and asset backed securities, plus equity securities. The PDCF will be open for at least six months, and longer if needed.

**The Commercial Paper Funding Facility (CPFF)** is structured as a credit facility to facilitate the issuance of commercial paper by eligible issuers. The CPFF allows eligible companies to issue unsecured and asset backed commercial paper directly to the Federal Reserve Bank of New York. The CPFF will stop purchasing commercial paper after March 17, 2021, unless the facility is extended.

Like many other money market funds in the industry, Schwab Prime and Municipal Money Funds are participating in the MMLF.

## Why have yields on Schwab Municipal Money Funds increased?

In the municipal money market fund securities market, variable rate demand obligations (VRDOs) are an important investment option. VRDOs are securities with long maturities, but which, because of their structure, require them to repay principal plus accrued interest within a specific timeframe, usually 1 or 7 days. Approximately 70%-90% of all municipal

money market fund assets are invested in VRDOs. Because of this high concentration, changes in municipal money market fund yields are substantially influenced by changes in the yields of 7-day VRDOs.

Due to recent financial market volatility, many municipal money market funds in the industry re-positioned their portfolios, increasing exposure to cash and daily liquidity in an effort to ensure their ability to meet investors' redemption needs. This was accomplished in large part by selling 7-day VRDOs and buying 1-day VRDOs as well as other securities that mature in one day. This industry wide re-positioning resulted in a large inventory of VRDOs being carried on the balance sheets of broker-dealers who are in the business of remarketing these short-term bonds to money market investors. In an effort to clear the market of this excess inventory, dealers significantly increased the weekly reset rates on these instruments to attract alternate buyers. This, in turn created a yield spike in the remaining VRDO positions owned by municipal money market funds.

These market extremes are well reflected by the changes in the yield of the SIFMA Municipal Swap Index (SIFMA Index) of 7-day VRDOs. The SIFMA Index rose sharply from 1.28% on March 11, 2020 to 5.20% on March 18, 2020. The most current reading released on April 1, 2020 shows a significant easing of this pressure, with the SIFMA Index resetting down to 1.83%. This change indicates an increase in buyers which may bring the market back toward equilibrium over time. It is important to note that these types of yield swings are historically short lived, and have not been sustainable over time.

For a more comprehensive look at the SIFMA Municipal Swap Index, and how supply and demand impact yield movements, please reference [What are the major influences of Municipal MMF Yields.](#)

## How can I check my investments in the Schwab Money Funds?

There has never been an easier way to understand your investment in a money market fund.

CSIM provides the following information daily on all of our money funds at [www.schwabfunds.com](http://www.schwabfunds.com)

1. **Daily Net Asset Value (NAV)** or the value of one share of a mutual fund. NAV is calculated by taking a fund's total assets, subtracting liabilities, and dividing the number of shares outstanding.
  - **Transaction NAV:** NAV is calculated using the amortized cost method of accounting to value fund securities. The value shown here is rounded to two decimal places. Transaction NAV is used when calculating net asset value for all Fund share transactions.
  - **Market-based NAV:** NAV calculated using current market quotes (or an appropriate substitute that reflects current market conditions) to value fund securities, and is shown out to four decimal places. The Fund does not currently transact using its Market-Based NAV.

Please note unlike a traditional stable share price money market fund, the Schwab Variable Share Price Money Fund will not use the amortized cost method of valuation or round the per share NAV to the nearest whole cent and does not seek to maintain a stable share price. As a result, the Fund's share price, which is its NAV, will vary and reflect the effects of unrealized appreciation and depreciation and realized losses and gains.
2. **Daily Flows into and out of our money market funds**
3. **Daily and Weekly Liquid Assets** measuring a fund's ability to meet shareholder redemptions
  - **Daily Liquid Assets:** A money market fund's total cash, direct U.S. government obligations, government agency discount notes with one day or less until maturity, securities maturing or subject to a demand feature payable within one business days, and receivables scheduled to be paid within one business days.
  - **Weekly Liquid Assets:** A money market fund's total cash, direct U.S. government obligations, government agency discount notes with 60 days or less until maturity, securities maturing or subject to a demand feature payable within five business days, and receivables scheduled to be paid within five business days.
4. **Portfolio Holdings on a 30 day "look back" basis**

## What might cause a money market fund to implement liquidity fees or redemption gates?

Money market funds are subject to minimum liquidity requirements that prohibit a fund from acquiring certain types of

securities if, immediately after the acquisition, the fund's investments in weekly liquid assets would be below 30% of the fund's total assets.

Money market fund boards are permitted to impose a liquidity fee on redemptions (up to 2%) or a redemption gate to temporarily restrict redemptions from such fund up to 10 business days (in any 90-day period) in the event that a fund's weekly liquid assets fall below certain designated thresholds because of market conditions or other factors.

All Schwab Money Funds with the exception of the Schwab Government and Treasury Money Funds may impose a liquidity fee or redemption gate if a Fund's liquidity falls below required minimums. The Schwab Funds' Board of Trustees has determined not to subject the Government and Treasury Money Funds to liquidity fees and redemption gates on fund redemptions. Please note that the Board has reserved its ability to change this determination with respect to liquidity fees and/or redemption gates, but only after providing appropriate notice to shareholders.

Daily and weekly liquidity percentages can be found on each fund page on [www.schwabfunds.com](http://www.schwabfunds.com).

Additional information is available on [www.SchwabFunds.com](http://www.SchwabFunds.com) in our [Fees and Gates Brainshark](#).

## If the NYSE closes, will Schwab Money Funds continue to trade?

The Schwab Money Funds have the ability to remain open when the NYSE is closed on any day it would typically be open (as described in the funds' prospectus). In these instances, and in the case that the NYSE is closed due to COVID-19 outbreak or other market developments, the Schwab Money Funds may choose to remain open and continue to accept purchase and redemption orders. Please note, however, that the current market environment remains very fluid, and a decision as to whether to remain open ultimately will be dependent on a careful analysis of facts and circumstances at that given time.

## Definitions

**Weighted Average Maturity (WAM):** For money market mutual funds as per rule 2a-7, the maturity date or Effective Maturity Date of all the debt securities in its portfolio, or the date the interest rate on those securities is reset, or the date those securities can be redeemed through demand, calculated as a weighted average. As a rule, the longer a fund's weighted average maturity, the greater its interest rate risk. Money market funds are required to maintain a weighted average maturity of no more than 60 days.

**Variable Rate Demand Note (VRDNs):** A municipal security which allows holders to sell their security through a put or tender feature, at par value plus accrued interest. The interest rate resets on a periodic basis, the majority of which are weekly but may be daily or monthly. Unless a reference rate and spread is shown parenthetically, the Remarketing Agent, generally a dealer, determines the interest rate for the security at each interest rate reset date. The rate is typically based on the SIFMA Municipal Swap Index.

**Variable Rate Demand Obligations (VRDOs):** Securities that have long maturities but which, because of their structure, require them to repay principal plus accrued interest within a specified timeframe (usually one or seven days) upon the demand of the bond holder. Depending on their structure, the repayment may be made by the bond issuer or by a financial institution, such as a highly rated bank.

**Liquidity Fees:** If a money market fund's weekly liquid assets should fall below 30%, a liquidity fee of up to 2% can be imposed on all redemptions if the fund's Board determines that doing so is in the best interest of the fund. If a money market fund's weekly liquid assets level falls below 10%, a 1% liquidity fee must be imposed on all redemptions, unless the fund's Board determines that either (1) it is not in the best interest of the fund, or (2) imposing a lower or higher liquidity fee (subject to the 2% cap) would be more appropriate.

**Redemption Gates:** Redemption gate is the temporary suspension of redemptions in a money market fund. A money market fund that imposes a redemption gate would be required to lift it when weekly liquid assets return to 30%, or when the fund's Board determines it is no longer in the best interests of the money market fund. Money market funds are not able to impose a redemption gate for more than 10 business days in any 90-day period.

## Disclosures

**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](http://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 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 Retirement Government Money Fund, Schwab U.S. Treasury Money Fund, Schwab Treasury Obligations Money Fund and Schwab Government Money Market Portfolio 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 Federal Deposit Insurance Corporation 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.

Investment income on some tax-free funds may be subject to certain state and local taxes and, depending on your tax status, the federal alternative minimum tax. Capital gains (if any) are not exempt from Federal taxation.

Diversification and asset allocation strategies do not ensure a profit and do not protect against losses in declining markets.

The opinions expressed are not intended to serve as investment advice, tax advice, a recommendation, offer, or solicitation to buy or sell any securities; or a recommendation regarding specific investment strategies. Information and data provided have been obtained from sources deemed reliable, but are not guaranteed. Charles Schwab Investment Management, Inc., makes no representation about the accuracy of the information contained herein or its appropriateness for any given situation.

Indexes are unmanaged, do not incur management fees, costs and expenses (or "transaction fees or other related expenses"), and cannot be invested in directly.

**Past performance does not guarantee future returns.**

Some of the statements in this document may be forward looking and contain certain risks and uncertainties.

The views expressed are subject to change without notice based on economic, market, and other conditions.

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

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