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Money Market Fund Reform: What you should know



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The Money Market Industry has evolved

As the money market industry evolves, Schwab remains committed to offering and managing money market funds.

On April 14, 2016, Charles Schwab Investment Management (CSIM) implemented the following changes to Schwab's Money Market Fund lineup:

- All Schwab Government Money Market Funds qualify as “government money market funds” under the new regulatory definition, and will continue to transact at a constant net asset value (CNAV).
- The Schwab Money Market Portfolio was renamed to the Schwab Government Money Market Portfolio and also converted to a “government money market fund” under the new regulatory definition. It will continue to transact at a constant net asset value (CNAV).

On May 20, 2016, CSIM announced that the Ultra Shares of the Schwab Variable Share Price Money Fund are available to the public for trading.

On June 3, 2016, CSIM announced that the Value Advantage Shares of the Schwab Treasury Obligations Money Fund are available to the public for trading.

Driven by events that occurred during the 2008 financial crisis, the Securities and Exchange Commission (SEC) implemented a series of changes to the regulations that govern money market funds (MMFs). The first group of changes occurred in 2010 and was related primarily to portfolio composition, duration, and the ability to suspend redemptions in times of stress. The second group of changes was announced in July 2014 and included many additional and significant reforms. These new rules are intended to increase fund liquidity and to protect investors.

September 2008	May 2010	July 2014	October 2016
Reserve Primary Fund “Breaks the Buck”	SEC announces first round of MMF reform	SEC announces second round of MMF reform	Compliance required for Variable NAV, Fees & Gates

Impact of the new rules

New categories and eligibility requirements	Changes to fund valuation	Updates to fund redemptions
<ul style="list-style-type: none"> • The amendments introduced a distinction between retail and institutional investors • Retail money market funds will be defined as funds with policies and procedures that limit beneficial ownership to those investors deemed as “natural persons” • Shareholders where a “natural person” is not the beneficial owner will not be eligible for retail funds 	<ul style="list-style-type: none"> • Retail and government money market funds will transact at a constant net asset value (CNAV) • Institutional money market funds will be required to convert to a variable net asset value (VNAV) • Those money market funds designated as institutional funds will be required to report their NAVs out to four decimal places 	<ul style="list-style-type: none"> • In times of exceptional market volatility and potential stress on money market funds, the amendments allow a money market fund's board of directors to impose either a liquidity fee and/or redemption gate if it is in the best interest of the fund • The Board of Trustees of the Schwab Government Money Funds has determined not to subject the funds to fees and gates

Compliance is required by October 14, 2016. Investors should carefully consider the implications of these new amendments on their overall investing objectives and goals.

Charles Schwab Investment Management (CSIM) is committed to supporting money market fund reform initiatives and to the continued success of our investors.

While our investing discipline remains the same, our product suite has changed to satisfy these new SEC amendments and meet the needs of our clients. For additional details on our new fund lineup, please see the table below (Figure 1).

Figure 1: Charles Schwab Investment Management's Money Market Fund lineup

SYMBOL	NAME	TYPE	ELIGIBLE INVESTOR	NAV	LIQUIDITY FEES/ REDEMPTION GATES
Prime Money Market Funds¹					
SWRXX	Schwab Investor Money Fund [®]	Purchased	Retail	Constant	Required
SWIXX	Schwab Retirement Advantage Money Fund [®]	Purchased			
SWVXX	Schwab Value Advantage [®] – Investor Shares ⁶	Purchased			
SWAXX	Schwab Value Advantage [®] – Premier Shares ⁶	Purchased			
SWBXX	Schwab Value Advantage [®] – Select Shares ⁶	Purchased			
SNAXX	Schwab Value Advantage [®] – Ultra Shares ⁶	Purchased			
SWZXX	Schwab Advisor Cash Reserves [®] – Premier Sweep Shares ⁷	Sweep			
SWQXX	Schwab Advisor Cash Reserves [®] – Sweep Shares ⁷	Sweep			
SWSXX	Schwab Cash Reserves ^{™7}	Sweep			
SWMXX	Schwab Money Market Fund ^{™7}	Sweep			
Variable Share Price Prime Money Market Funds					
SVUXX	Schwab Variable Share Price Money Fund [™] – Ultra Shares ^{2,6}	Purchased	Retail and Institutional	Variable	Required
Municipal Money Market Funds¹					
SWWXX	Schwab AMT Tax-Free Money Fund [™] – Value Advantage Shares [®]	Purchased	Retail	Constant	Required
SWKXX	Schwab California Municipal Money Fund [™] – Value Advantage Shares [®]	Purchased			
SWOXX	Schwab Municipal Money Fund [™] – Premier Shares ⁶	Purchased			
SWLXX	Schwab Municipal Money Fund [™] – Select Shares ⁶	Purchased			
SWTXX	Schwab Municipal Money Fund [™] – Value Advantage Shares [®]	Purchased			
SWYXX	Schwab New York Municipal Money Fund [™] – Value Advantage Shares [®]	Purchased			
SWFXX	Schwab AMT Tax-Free Money Fund [™] – Sweep Shares ⁷	Sweep			
SWCXX	Schwab California Municipal Money Fund [™] – Sweep Shares ⁷	Sweep			
SWDXX	Schwab Massachusetts Municipal Money Fund ^{™7}	Sweep			
SWXXX	Schwab Municipal Money Fund [™] Sweep Shares ⁷	Sweep			
SWJXX	Schwab New Jersey Municipal Money Fund ^{™7}	Sweep			
SWNXX	Schwab New York Municipal Money Fund [™] – Sweep Shares ⁷	Sweep			
SWEXX	Schwab Pennsylvania Municipal Money Fund ^{™7}	Sweep			
Government Money Market Funds³					
SNVXX	Schwab Government Money Fund [™] – Purchased Shares	Purchased	Retail and Institutional	Constant	N/A
SNOXX	Schwab Treasury Obligations Money Fund – Value Advantage Shares [®]	Purchased			
SWGXX	Schwab Government Money Fund [™] – Sweep Shares ⁷	Sweep			
SNTXX	Schwab Treasury Obligations Money Fund [™] – Sweep Shares ⁷	Sweep			
SWUXX	Schwab U.S. Treasury Money Fund ^{™7}	Sweep			
Variable Annuity Money Market Fund					
SWPXX	Schwab Government Money Market Portfolio ^{3,5}	Purchased	Annuity	Constant	N/A

For more information, visit Schwab's Money Market Fund Reform Resource Center at www.csimfunds.com/mmreformcenter

Definitions

Retail Money Market Fund: Under the SEC amendments, a “retail money market fund” is defined as a money market fund that has policies and procedures reasonably designed to limit all beneficial owners of the fund to “natural persons”, which means that a retail money market fund’s shares can be held only by individual investors. “Natural persons” covers individuals, certain trusts, and certain retirement accounts (including those established under IRC Sections 408 or 408A, 408(k)) and participant-directed defined contribution plan accounts such as those established under IRC Section 401(k)/401(a), 403(b)(7), and 457.

Weekly Liquid Assets: Measure of a money market fund’s ability to meet shareholder redemptions, stated as a percentage of total money market fund assets, calculated over the course of five business days.

Liquidity Fees: If a MMF’s weekly liquid assets should fall below 30%, a liquidity fee of up to 2% can be imposed on all redemptions if the Board determines that doing so is in the best interest of the fund. If a MMF’s weekly liquid assets level falls below 10%, a 1% liquidity fee must be imposed on all redemptions, unless the 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 MMF. A MMF that imposes a redemption gate would be required to lift it when weekly liquid assets return to 30%, or when the MMF’s board determines it is no longer in the best interests of the MMF. MMFs are not able to impose a redemption gate for more than 10 business days in any 90-day period

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges, and expenses. You can request a prospectus by calling 800-435-4000. Please read the prospectus carefully before investing.

All Funds with the exception of Schwab Variable Share Price Money Fund: You could lose money by investing in a money market fund. All Schwab Money Funds seek to preserve the value of your investment at \$1.00 per share, but cannot guarantee they will do so. Effective October 14, 2016, all funds with the exception of Schwab Government Money Fund, Schwab Retirement Government Money Fund, Schwab Treasury Money Fund, Schwab Treasury Obligations 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 a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The money market fund’s sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

Schwab Variable Share Price Money Fund: You could lose money by investing in a money market fund. Because the share price of the fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. Effective October 14, 2016, the 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 fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund’s sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

¹ Intends to qualify as a “retail money market fund” on or before October 14, 2016, which means it will be available for investment by natural persons only. Accordingly, effective October 9, 2015, the Fund reserves the right to do the following: involuntarily redeem a shareholder’s shares after providing 60 days’ written notice if the shareholder does not satisfy the eligibility requirements for a retail money market fund (i.e., the shareholder is not a natural person); and deny purchase of Fund shares to investors who do not satisfy the eligibility requirements to invest in a retail money market fund (i.e., investor is not a natural person).

² This fund is a money market that is designed to serve as a complementary product to a traditional stable share price money market fund. Unlike a traditional stable share class price money market fund, fund will not use the amortized cost method of valuation or round the per share net asset value (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.

³ Intends to operate as a “government money market fund” under the SEC’s new definition and will continue to transact at a constant net asset value.

⁴ Per SEC guidelines, liquidity fees and redemption gates are required for prime and municipal money market funds. For government money market funds, it is optional and at the discretion of the Board for each fund complex. At this time, Schwab’s Board of Trustees has elected not to implement liquidity fees or redemption gates on Schwab Government Money Funds.

⁵ Shares are available exclusively for variable annuity and variable life insurance account products.

⁶ The minimum investment for Investor Shares is \$25,000. The minimum for Select Shares is \$1,000,000. The minimum investment for Premier Shares is \$3,000,000. The minimum investment for Ultra Shares is \$10,000,000.

⁷ Closed to new accounts.

Compared to the total return, the seven-day yield more closely reflects the current earnings of the fund.

Charles Schwab Investment Management, Inc. (“CSIM”), the investment advisor for Schwab’s proprietary funds, and Charles Schwab & Co., Inc. (“Schwab”), the distributor for Schwab Funds, are separate but affiliated companies and subsidiaries of The Charles Schwab Corporation.

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