

Charles Schwab Investment Management is providing the questions and answers below to help you to better understand Money Market Fund Reform.

More information available at www.csimfunds.com

- Retail investors will continue to have access to Schwab Prime, Municipal and Government money funds with a constant net asset value (CNAV¹).
- Institutional investors will be eligible to invest in a Schwab Institutional Prime money fund with a variable net asset value (VNAV). Retail investors may also choose to invest in this fund.
- Both retail and institutional investors will be eligible to invest in Schwab Government Funds.

Q1. What money fund regulations did the SEC pass in July of 2014?

- A. The SEC passed amendments to the rules that govern money market funds (MMFs). The new amendments include the following reforms:
- A “Retail” MMF is defined as “a money market fund that has policies and procedures reasonably designed to limit all beneficial owners of the money market fund to natural persons.”
 - All Government/Treasury MMFs as well as Retail Prime and Retail Municipal MMFs are exempt from the requirement to price and transact at a VNAV and will continue to be permitted to price and transact at a CNAV.
 - All Institutional Prime and Institutional Municipal MMFs will be required to price and transact at a VNAV per share that can change or “float” based on pricing the underlying fund holdings out to four decimal places (\$1.0000).
 - A MMF’s Board of Trustees will have the discretion to authorize the fund to impose liquidity fees and/or redemption gates (temporary suspension of redemptions) during periods of market stress to prevent runs on the fund.
 - The amendments also include other significant reforms, such as enhanced diversification, disclosure and stress testing requirements.

Q2. When did these new amendments go into effect?

- A. These changes were phased in over time, with the provisions relating to VNAV, liquidity fees and redemption gates taking effect on October 14, 2016.

Q3. What are Liquidity Fees and Redemption Gates?

- A. In order to provide MMFs with tools to help curb heavy redemptions during times of market stress, the new amendments provide all MMFs with the ability to impose liquidity fees and/or redemption gates.
- **Liquidity Fees:** A fee of up to 2% on all redemptions can be imposed if a MMF’s weekly liquid assets fall below 30% if the Board determines that doing so is in the best interest of the fund. If the weekly liquid assets level falls below 10%, a 1% fee must be imposed unless the Board determines that (1) it is not in the best interest of the fund; or (2) imposing a lower or higher fee (subject to the 2% cap) would be appropriate.
 - **Redemption Gates:** The temporary suspension of redemptions in a MMF. A MMF that imposes a gate would be required to lift that gate when weekly liquid assets return to 30% or when the fund’s board determines a gate is no longer in the best interests of the fund. MMFs would not be able to impose a gate for more than 10 business days in any 90-day period.
 - **Government MMFs** are permitted, but not required, to implement liquidity fees or redemption gates. At this time, our Board of Trustees has elected not to adopt a policy to implement liquidity fees or redemption gates on Schwab Government Money Funds.

Q4. How does the SEC differentiate between “Retail” and “Institutional” money market funds under the new amendments?

- A. The amendments define a “Retail” MMF as a MMF that “has policies and procedures reasonably designed to limit all beneficial owners to natural persons (individuals).” Any MMF that does not meet this definition will be considered an “Institutional” MMF. Institutional MMFs will be open to any investors, including individuals, small businesses and large corporations. Additionally, there will be no restrictions on the type of shareholders that may invest in Government MMFs. Generally, individual investors, end clients of registered investment advisers and participants in most 401K plans will be eligible for “Retail” MMFs, while corporations, defined benefit plans, and other entities will be eligible for “Institutional” MMFs and Government MMFs. (Note: there are quite a few exceptions to this generalization and eligibility could change based on additional SEC guidance, if any).

Q5. Will Retail investors continue to have access to Schwab Prime, Municipal and Government Money Funds with a net asset value (NAV) that is designed to be constant (CNAV)? What about Institutional investors?

- A. Yes, retail investors will continue to have access to a lineup of Schwab Prime, Municipal and Government Money Funds with a CNAV.² For those no longer eligible for our CNAV Prime and Municipal Money Funds under the new money market fund reform amendments, we continue to offer Government Money Funds and have also introduced the Schwab Variable Share Price Money Fund³ (SVUXX) with a VNAV.

MONEY MARKET FUND ELIGIBILITY: Account Type vs. Money Market Fund Type

	Government Money Market Funds	Prime Money Market Funds		Municipal Money Market Funds	
	Government and Treasury Money Market Funds (CNAV)	Retail Money Market Funds (CNAV)	Institutional Money Market Funds (VNAV)	Retail Money Market Funds (CNAV)	Institutional Money Market Funds (VNAV)
Retail Accounts	Eligible	Eligible	Eligible	Eligible	Eligible ⁴
Institutional Accounts	Eligible	Not Eligible	Eligible	Not Eligible	Eligible ⁴

MONEY MARKET FUND STRUCTURAL REFORM: Variable NAV and Liquidity Fees and Redemption Gates vs. Money Market Fund Type

	Government Money Market Funds	Prime Money Market Funds		Municipal Money Market Funds	
	Government and Treasury Money Market Funds	Retail Money Market Funds	Institutional Money Market Funds	Retail Money Market Funds	Institutional Money Market Funds
Liquidity Fees and Redemption Gates	Optional	Yes	Yes	Yes	Yes
NAV	Constant	Constant	Variable	Constant	Variable

DEFINITIONS

Constant NAV (CNAV): Stable net asset value per share. While MMFs seek to transact at a CNAV of \$1.00 per share, there is no guarantee that it will be maintained.

Variable NAV (VNAV): A net asset value tied to the day-to-day market value of the securities contained within a fund calculated to the fourth decimal point.

Prime money market fund: A prime money market fund primarily invests in short-term securities issued by corporations and financial institutions (e.g., commercial paper, bank certificate of deposits, etc.). This differs from government money funds, which primarily invest in securities issued by the U.S. Treasury, Federal Agencies and Government Sponsored Enterprises (e.g., Federal Home Loan Bank, Fannie Mae).

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 U.S. Treasury Money Fund, Schwab Treasury Obligations Money Fund, Schwab Retirement Government 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 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 A fund's share price is its net asset value per share, or NAV, which is the fund's net assets divided by the number of its shares outstanding. Under the new amendments, Retail Prime and Municipal MMFs, as well as Government MMFs will continue to be permitted to transact at a constant net asset value (CNAV). Note that while MMFs seek to achieve a CNAV of \$1.00 per share, there is no guarantee that it will be maintained. Please see disclosures below for more information.

² Subject to any Sweep Fund eligibility requirements imposed by Charles Schwab & Co.

³ 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.

⁴ Currently not available at Schwab.

Charles Schwab Investment Management, Inc. ("CSIM"), the investment advisor for Schwab's proprietary 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.

©2016 Charles Schwab Investment Management. All rights reserved. Member SIPC. REF (1016-M544) MKT86357-01 (10/16)