

DESIGN FOR STAYING POWER

Portfolio construction

Empower clients to stay the course



Helping you build portfolios that are designed to stand the test of time

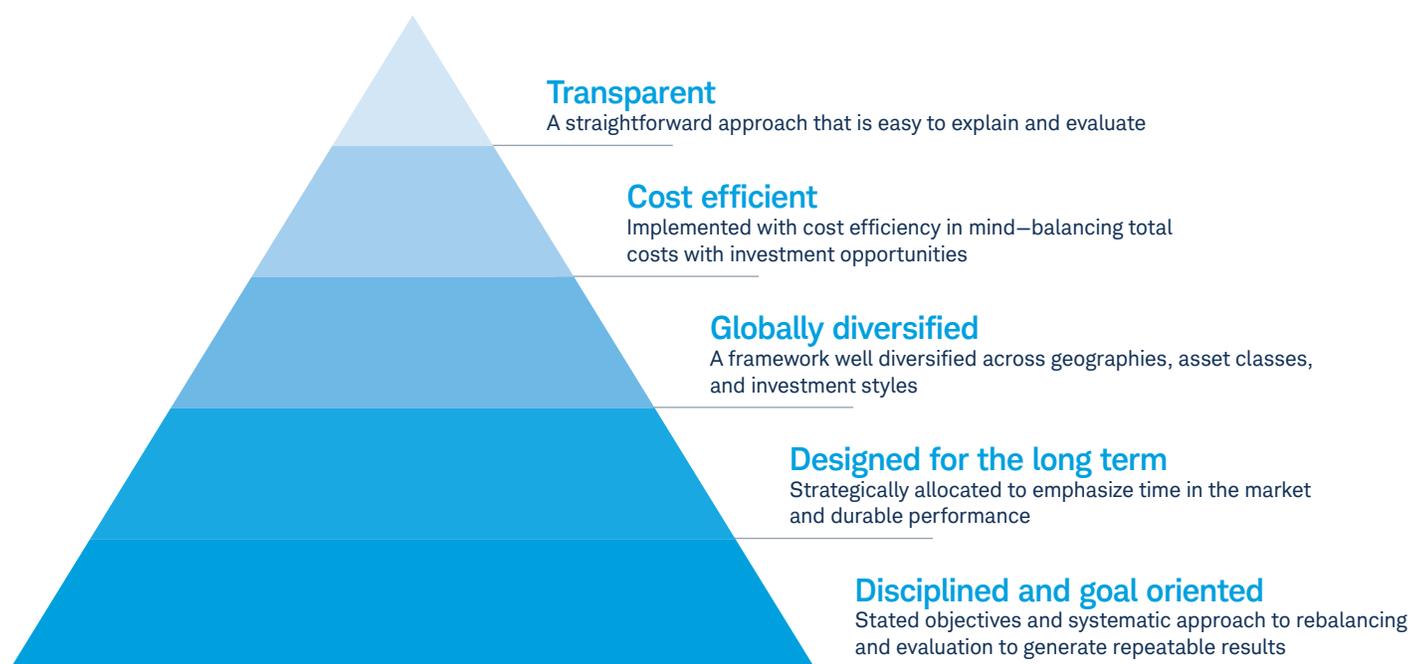


Lasting client relationships should be built to withstand whatever the market throws their way. That's why Charles Schwab Investment Management provides a framework for portfolio construction that empowers clients to stick with a plan across ever-changing market conditions. With combinations of low-cost passive, strategic beta, and actively managed strategies, our building block approach adapts to fit a range of client risk appetites and likely investor behaviors.

For your clients, much of this design is hidden below the surface. What they see is an advisor delivering added value through a cost-efficient and straightforward portfolio plan they can understand. So even when the market wavers, your client relationships have staying power.

Our philosophy on portfolio construction

At Charles Schwab Investment Management, our approach to portfolio construction is underpinned by five key philosophical beliefs. In our opinion, these are the fundamental requirements in developing a strong investment framework—and together, they are key in helping investors stay the course.



Charles Schwab Investment Management

Established expertise in multi-asset class investment management

- 25+ years in asset management with \$360+ billion in AUM¹
- History of managing multi-asset portfolios since 2002
- Demonstrated asset allocation experience through multiple market cycles
- Robust multi-asset class investment management and oversight structure

A flexible, cost-efficient asset allocation framework

Charles Schwab Investment Management's portfolio construction approach provides advisors with a straightforward, modular approach to designing portfolios. Known as the ABC asset allocation framework, our series of portfolio allocations offers varying levels of complexity and depth to help you implement personalized solutions for your clients based on your desired time and comfort level with managing investments. The flexible approach allows you to easily adapt allocations to address clients' specific investment goals and risk appetites.

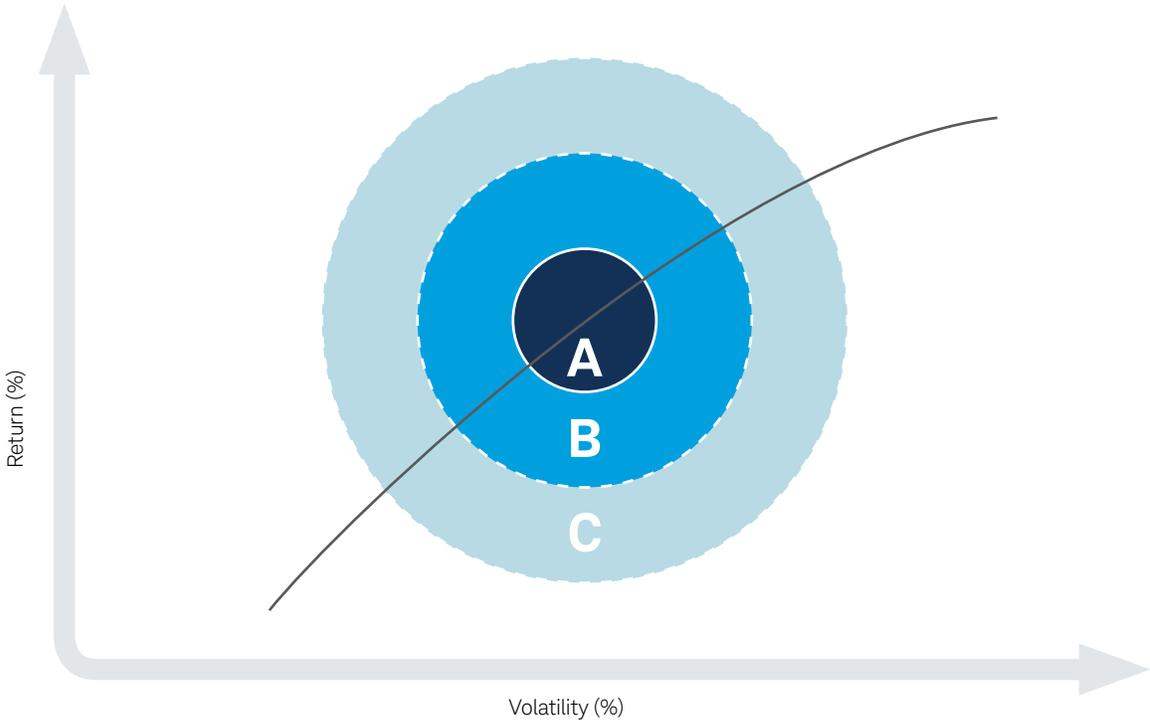
The ABC asset allocation framework offers three options for portfolio implementation—from simple core portfolios to more sophisticated multi-style and multi-strategy portfolios. Each is engineered with a deep understanding of investor behavior to create portfolios that encourage clients to stay invested through all types of markets.

Select from three implementation approaches

	Allocates across core asset classes	Strategic asset allocation using traditional market cap-weighted equity, fixed income, real assets, and cash exposures for a diversified, low-cost core portfolio
	Incorporates strategic beta, style, and sub-asset class allocations	Enhances opportunity set by adding strategic beta, value, growth, and other expanded allocation exposures
	Captures active management opportunities	Integrates actively managed exposures to provide additional diversification and/or meet customized client needs

Characteristics and efficient frontiers

	A	A + B	A + B + C
Portfolio complexity	Least complex Core asset classes and index strategies	Modestly complex Includes value, growth, and strategic beta strategies	Most complex Incorporates active management
Tracking error	Little/no tracking error	Higher tracking error	Varies by manager
Loss aversion	No downside protection within broad asset classes	Potential for downside protection in certain markets	Intended to provide added downside protection
Alpha	None within broad asset classes	Potential alpha	Seeks additional alpha
Cost	Lowest cost	Low cost	Varies by manager and vehicle



Illustrative efficient frontier. Tracking error and cost assume use of a low-cost vehicle such as an ETF or index mutual fund. Underlying investments under A (market cap) and B (styles and strategic beta) are assumed to be represented by low-cost ETFs or mutual funds, and investments under C (active) are assumed to be represented by actively managed mutual funds with relatively higher operating expenses.

Choose your desired level of involvement and complexity

Our ABC asset allocation framework can help you select the appropriate mix of asset class exposures based on client goals, objectives, and risk tolerances. You can use this framework to help deliver a diversified, low-cost core allocation and then add degrees of portfolio complexity when it makes sense—all in an easy and scalable way.

A portfolios start with the basics, creating a low-cost core by allocating across traditional cap-weighted indexes. **A+B portfolios** and **A+B+C portfolios** offer flexibility to layer in various investment styles and strategies to expand diversification and help enhance potential investment results.

Flexibility to select a customized mix of asset class exposures

		Equity				Fixed Income			Real Assets		Cash
A	Core Asset Classes	U.S. Large-Cap Stocks	U.S. Small-Cap Stocks	Emerging Markets Stocks	Intl. Developed Stocks	U.S. Bonds	Intl. Bonds	U.S. TIPS	Global REITS	Commodities	Cash and Cash Equivalents
		U.S. Large-Cap Value	U.S. Large-Cap Growth	U.S. Mid-Cap		U.S. Intermediate-Term Bonds	U.S. Short-Term Bonds		U.S. REITS	Intl. REITS	
B	Sub-Asset Classes and Styles	U.S. Small-Cap Growth	U.S. Small-Cap Value	Intl. Small-Cap		High Yield Bonds	International Bonds				
		U.S. Large Co. Fundamental Index®	U.S. Large Co. Dividend Equity	U.S. Small Co. Fundamental Index®	Intl. Large Co. Fundamental Index®				Global REITS Fundamental Index®		
	Strategic Beta	International Dividend Equity		Emerging Markets Fundamental Index®							
C	Active	U.S. Large-Cap Active		U.S. Small-Cap Active		U.S. Bonds Active	International Bonds Active				
		International Developed Active		Emerging Markets Active							

■ Equity Cap-Weighted ■ Fixed Income ■ Real Assets ■ Cash ■ Strategic Beta ■ Active

Asset classes shown are for illustrative purposes only and are subject to change without notice. They are not representative of any actual investment, strategy, or recommendation. Schwab Funds and ETFs are not available in all shown asset classes.

Underlying investments under A (market cap) and B (styles and strategic beta) are assumed to be represented by low-cost ETFs or mutual funds, and investments under C (active) are assumed to be represented by actively managed mutual funds with relatively higher operating expenses.

“We are strong believers in a behavioral-based approach to investing. As such, our investment solutions combine a rigorous analytical framework with a deep understanding of investor preferences and their inherent biases towards market and life events. Our approach to portfolio construction is designed to help mitigate typical behavioral biases—and ultimately increase the likelihood of meeting investment objectives.”

—Omar Aguilar, Ph.D., Senior Vice President and Chief Investment Officer, Equities and Multi-Asset Strategies, Charles Schwab Investment Management and practitioner of behavioral finance in asset management for over 20 years

Build custom portfolios without overextending your time

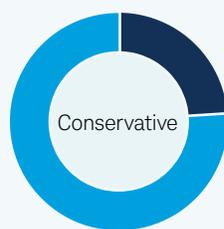
Every client comes with their own goals, risk appetites, and investor biases. Our flexible approach gives you a straightforward way to adapt allocations and vary the complexity within each portfolio. That way you can deliver portfolios tailored to each unique client—making it easier for them to stay with the plan. All without over-committing your limited time.

A

Portfolios

For a low-cost, core allocation

Sample allocations



24/76
Cost:* 0.050%



40/60
Cost:* 0.048%



96/4
Cost:* 0.051%

■ Equity Cap-Weighted* ■ Fixed Income*

- ✓ Straightforward
- ✓ All cap-weighted indexes
- ✓ Well diversified
- ✓ Lowest cost

Asset allocations shown are for illustrative purposes only and are subject to change without notice. They are not representative of any actual investment, strategy, or recommendation.

* Cost is the average weighted expense ratio. Portfolio allocations are composed of certain low-cost Schwab ETFs. Other ETFs may be appropriate for a given asset class and should be evaluated on a case-by-case basis.

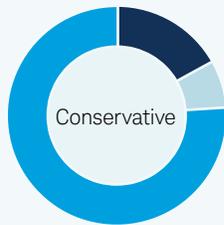
* Equity Cap-Weighted includes Real Assets.

* Fixed Income includes Cash.

A + B Portfolios

Adds strategic beta, style and sub-asset classes for enhanced risk/return potential

Sample allocations



17/7/76
Cost:* 0.064%



29/11/60
Cost:* 0.072%



66/30/4
Cost:* 0.116%

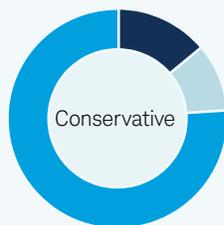
■ Equity Cap-Weighted[†] ■ Strategic Beta[†] ■ Fixed Income[§]

- ✓ Adds strategic beta, sub-asset classes and styles
- ✓ Moderate tracking error
- ✓ Higher potential risk-adjusted return
- ✓ Enhanced diversification
- ✓ Low cost

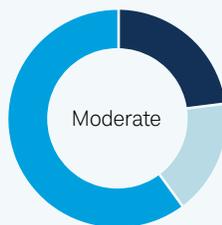
A + B + C Portfolios

Adds actively managed strategies to further expand risk/return profile

Sample allocations



14/10/76



23/17/60



43/53/4

■ Equity Cap-Weighted[†] ■ Active + Strategic Beta[†] ■ Fixed Income^{**}

- ✓ Adds active management
- ✓ Higher tracking error
- ✓ Highest risk-adjusted return potential
- ✓ May seek to provide downside protection
- ✓ Cost varies by manager and vehicle

Asset allocations shown are for illustrative purposes only and are subject to change without notice. They are not representative of any actual investment, strategy, or recommendation. Other ETFs may be appropriate for a given asset class and should be evaluated on a case-by-case basis.

* Cost is the average weighted expense ratio. Portfolio allocations are composed of certain low-cost Schwab ETFs. Other ETFs may be appropriate for a given asset class and should be evaluated on a case-by-case basis.

[†] Equity Cap-Weighted includes Real Assets.

[†] In this allocation, Strategic Beta is represented by Fundamental Index strategies. Other strategic beta strategies may be appropriate for a client's particular situation.

[§] Fixed Income includes Cash.

^{**} Includes cash and active fixed income.

Charles Schwab Investment Management at a glance²

25+
years in the
business

3rd
largest provider
of index
mutual funds

5th
largest
provider
of ETFs

8th
largest provider
of money
market funds

\$20B+
in target date
fund assets under
management

\$360B+
in assets under
management¹

We're here to help you design portfolios for lasting client relationships



To learn more about our ABC asset allocation framework and how you can implement it in your practice, call your Charles Schwab Investment Management representative.

Visit schwabfunds.com/contact to find the contact information of your representative.

With a straightforward lineup of core products and solutions for building the foundation of a portfolio, Charles Schwab Investment Management advocates for investors of all sizes with a steadfast focus on lowering costs and reducing unnecessary complexity.

schwabfunds.com

1. As of September 30, 2018, Charles Schwab Investment Management managed approximately \$345.4 billion on a discretionary basis and approximately \$15.7 billion on a non-discretionary basis.
Source: Charles Schwab Investment Management, Inc.

2. Data as of September 30, 2018. Data sources: Money market funds ranking from iMoneyNet, and index fund and exchange-traded fund rankings from Strategic Insight.

Material in this brochure represents Charles Schwab Investment Management's emerging thoughts on portfolio construction. Nothing should be construed as a recommendation or considered an offer to sell or a solicitation to buy any securities. This information is provided for illustrative purposes only and should not be considered personalized investment advice. You should not buy or sell any investment without first considering whether it is appropriate for your client based on his or her own particular situation.

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

Charles Schwab Investment Management, Inc. (CSIM) is the investment advisor for Schwab Funds and Schwab ETFs. Schwab Funds are distributed by Charles Schwab & Co., Inc. (Schwab), Member SIPC. Schwab ETFs are distributed by SEI Investments Distribution Co. (SIDCO). CSIM and Schwab are separate but affiliated companies and subsidiaries of The Charles Schwab Corporation and are not affiliated with SIDCO.

For advisor use only—not for client distribution.

©2019 Charles Schwab Investment Management, Inc. All rights reserved.

AHA (1218-86SR) MKT104653BRO-00 (01/19)

00219107



Investment
Management