Schwab Managed Retirement Trust Funds™
Managing Interest Rate Risk

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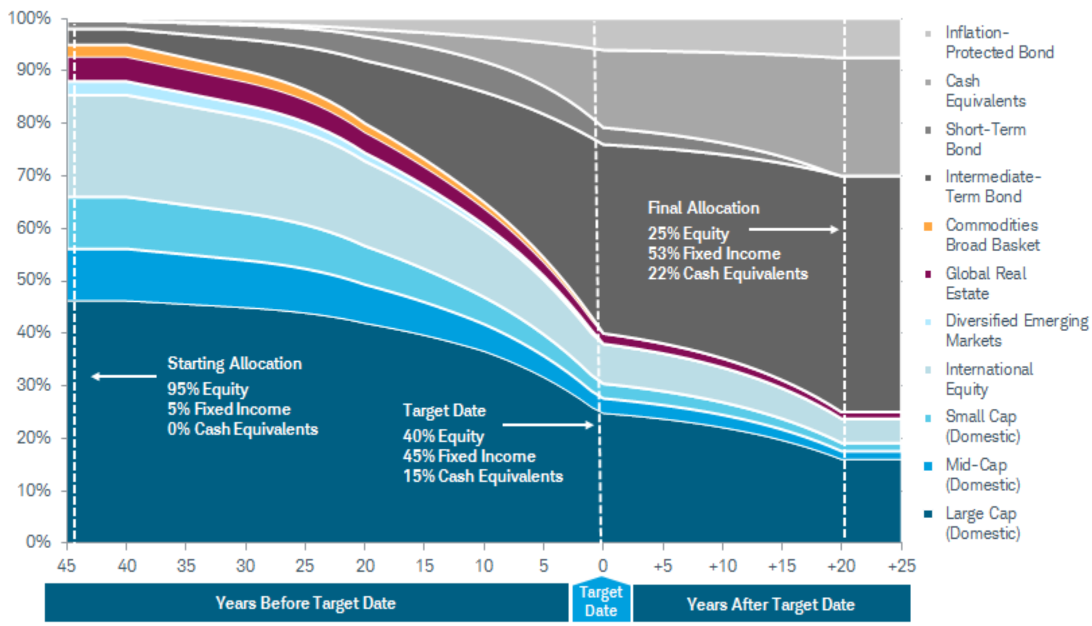
Many investors are asking what an increase in interest rates might mean for fixed income portfolios and retirement savings. While the future of the financial markets and economy is very hard to predict, Schwab Bank has developed this set of Frequently Asked Questions (FAQs) to help understand risks associated with rising interest rates and provide context around our philosophy for managing the Schwab Managed Retirement Trust (SMRT) Funds.

How does Schwab Bank approach risk in its target funds, especially for investors near or in retirement?

The SMRT Funds are strategically allocated for two different investment phases: pre-retirement and post-retirement, with a guiding philosophy that emphasizes "value at risk" (VaR). The design assumes younger investors have lower balances and longer investment horizons, and, therefore, a higher tolerance for portfolio fluctuation. Similarly, as investors age, they are assumed to develop higher balances and a higher VaR, equating to less potential recovery time from severe market downturns, and, therefore, a lower tolerance for portfolio fluctuation.



The values of the target fund will fluctuate up to and after the target date. There is no guarantee the funds will provide adequate income at or through retirement.

The SMRT Funds maintain broad diversification through a set of strategic asset allocation targets that cover a wide range of asset classes, and invest in both active and passive investment styles to provide opportunities for both diversification and performance consistency.

As the SMRT Funds move along the glide path, equity allocations are decreased and fixed income and cash equivalents allocations are increased. Active fixed income risk and duration are gradually reduced, with the goal of reducing overall volatility for older investors.

If interest rates rise, how will that affect the balances of older participants invested in the nearer dated Funds?

All other factors remaining the same, the value of fixed income investments will generally decrease with an increase in rates, and, conversely, values will increase as rates decline. As a very general rule of thumb, given a 1% increase (decrease) in rates, and a fixed income portfolio with a 4-year duration, the fixed income portion of the portfolio will likely initially decrease (increase) in value by about 4%. Short term impact to the portfolios may be significant.

There are a number of potentially important mitigating factors with respect to target fund portfolios:

1. While the value of the fixed income portfolio may initially decline, the higher reinvestment rate for coupon payments and maturing bonds may eventually provide greater benefits to the portfolio value over the long term.

2. The impact of rising rates can also vary, based upon the characteristics of the fixed income portfolio (sector allocations, coupon rates, etc.) and the specific nature of the yield curve movements.

3. Using the target date as an important reference point, the SMRT Funds' policy allocation is 40% equity (also including commodities and global real estate). Equity, as an asset class, is generally considered "higher risk" than fixed income. However, in a rising rate environment equity can play the role of a diversifier, potentially dampening the effect a rise in rates could have on an overall portfolio.

   For example, some rising rate environments coincide with overall stronger economic growth and a potentially more positive environment for stocks, which can then potentially offset initial losses in fixed income due to higher rates. Furthermore, allocations to other asset classes such as commodities and global REITs may also act as diversifying strategies.

   Schwab Bank believes in maintaining diversification by continued exposure to non-fixed income allocations near and in retirement. As such, these allocations remain an integral component of the SMRT Funds' strategic asset allocation framework throughout the glide path. However, there is always the possibility that multiple asset classes could decline at the same time, thus reducing the benefits of diversification for investors of all ages.

How is the fixed income portfolio structured to address rising rates?

The fixed income portfolio has a number of strategic aspects that Schwab Bank anticipates will help mitigate some of the impact of rising interest rates.

1. As shown in the below table, the average duration of the SMRT Funds is shorter than some of their competitors and Morningstar Target Date category current average. As the SMRT Funds proceed down the glide path, interest rate sensitivity is reduced as investors age and fixed income becomes a larger part of the portfolio.

Average Duration (as of 6/30/2014)

	2050	2040	2030	2020	2010
Schwab Managed Retirement Trust	4.48	4.70	4.52	4.33	4.15
Fidelity Freedom®	5.25	5.25	5.22	4.83	4.58
JPMorgan SmartRetirement®	5.01	4.99	4.88	4.77	-
T.Rowe Price Retirement	5.15	5.22	5.23	5.23	5.23
Vanguard Target Retirement	5.83	5.83	5.83	5.83	5.23
Morningstar Target Date Category Average	4.81	4.87	4.96	5.00	4.55

   Data provided by Morningstar, Inc. as of June 30, 2014.

2. As the SMRT Funds proceed along the glide path, the cash equivalents allocation of the SMRT Funds increases as a percentage of fixed income. This shifting portfolio allocation provides the SMRT Funds with greater liquidity to

meet redemptions for shareholders in retirement, which in turn reduces the likelihood of shareholders having to liquidate fixed income at an inopportune time or period of market stress.

As of 3/31/2014, the 2010 SMRT Fund had 61.6% Fixed Income/Cash Equivalents and over 50% of the Fixed Income/ Cash Equivalents portfolio had a duration of 3 years or less. Thus, a significant portion of the portfolio is less likely to be susceptible to the effects of rising interest rates, while more likely to benefit from reinvesting at higher yields.

SMRT 2010: Average Duration (as of 3/31/2014)		
0-1 Years	31.35%	50.60%
1-3 Years	19.25%	
3-5 Years	16.90%	
5-7 Years	13.28%	
7+ Years	19.17%	

How might active fixed income management provide value in a rising rate environment?

The SMRT Funds' active sub-advisors, with the oversight of Schwab Bank, have the ability to potentially mitigate short-term reductions in value from rising rates by shortening the duration of these strategies. Of course, active management also carries a risk of underperformance or unsuccessful risk mitigation. As discussed previously, a shorter duration could help mitigate losses, while also could potentially accelerate reinvestment at higher rates. In addition, active strategies also have the ability to rotate allocations to less interest rate sensitive sectors. For example, corporates and spread sectors tend to be less interest rate sensitive than treasuries.

SMRT 2010: Fixed Income Sector Weightings (as of 3/31/2014)	
Agency Debentures	18.97%
Asset-Backed Securities	1.62%
Cash/Cash Equivalents	13.61%
Commercial Mortgage-Backed Securities	1.06%
High-Yield Corporates	1.64%
Investment Grade Corporates	11.92%
Non-Dollar Securities	1.94%
Residential Mortgage-Backed Securities	14.31%
Treasury	18.28%
Treasury Inflation-Protected Securities	12.30%
Yankees	2.78%
Other	1.56%

Other includes sectors that are not defined above such as Emerging Market Debt, 144A securities, etc.

Has Schwab Bank considered employing hedging strategies to potentially limit the impact of rising rates?

Predicting markets or interest rate movements has historically proven to be and will likely continue to be a very difficult task. And even with interest rates at historic lows, predicting when and in what manner interest rates will rise has been exceedingly difficult. For example, the Fed's low interest rate policy and multiple rounds of quantitative easing have lasted longer than many would have expected since the credit crisis began to subside and equity markets bottomed in 2009. In addition to correctly guessing timing, hedging strategies would also have to be right in terms of various other factors including yield curve shifts and changes in spreads.

Schwab Bank with the assistance of Charles Schwab Investment Management (CSIM) continuously reviews all aspects of the portfolios and supports a management philosophy that looks for opportunities to enhance the Funds. However, Schwab Bank believes that a maintaining a strategic asset allocation approach providing consistent and broad asset class exposure throughout market cycles will benefit investors over the long run versus attempting to time markets or employ expensive hedging tactics.

How can I learn more about the SMRT Funds and better track the portfolio's progress as markets change?

A dedicated Schwab Bank Collective Trust Funds website is available for institutional advisors, consultants, and plan sponsors at: **www.schwabbankfunds.com.** The site includes a download center that features a comprehensive list of fund-related information. Site highlights include:

- Quarterly Commentary
- Fund overviews
- Detailed performance and fact sheets
- Latest fund announcements
- Financial statements
- Legal (e.g., trust) documents
- Historical fund and sub-advisor returns
- General information on the SMRT Funds
- Sample RFP Questions and Answers

In addition, a monthly email is distributed to advisors, consultants and plan sponsors providing updates and relevant information on the Funds. If you would like to receive this email, please send a request to schwabbankfunds@schwab.com.

Definitions - The following are definitions that further explain the risks of fixed income investments.

Convertible Securities Risk. The value of a convertible security held in an underlying strategy is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline, and the credit standing of the issuer. The price of a convertible security will also normally vary in some proportion to changes in the price of the underlying common stock because of the conversion or exercise feature.

Credit Risk. An underlying strategy is subject to the risk that a decline in the credit quality of an investment could cause the strategy to lose money or underperform. The strategy could lose money if the issuer of a portfolio investment fails to make timely principal or interest payments or if a guarantor, liquidity provider or counterparty of a portfolio investment fails to honor its obligations. The negative perceptions of the ability of an issuer, guarantor, liquidity provider or counterparty to make payments or otherwise honor its obligations, as applicable, could also cause the price of that investment to decline. The credit quality of the strategy's portfolio holdings can change rapidly in certain market environments and any downgrade or default on the part of a single portfolio investment could cause the strategy's unit price or yield to fall. U.S. government securities that an underlying strategy invests in may not be backed by the full faith and credit of the United States government, which means they are neither issued nor guaranteed by the U.S. Treasury. Although maintained in conservatorship by the Federal Housing Finance Agency since September 2008, Fannie Mae (FNMA) and Freddie Mac (FHLMC) maintain only limited lines of credit with the U.S. Treasury. The Federal Home Loan Banks (FHLB) also only maintains limited access to credit lines from the U.S. Treasury. Other securities, such as obligations issued by the Federal Farm Credit Banks Funding Corporation (FFCB), are supported solely by the credit of the issuer. There can be no assurance that the U.S. government will provide financial support to securities of its agencies and instrumentalities if it is not obligated to do so under law.

Duration. A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates and is expressed as a number of years. Duration is a complex calculation involving present value, yield, coupon, final maturity and call features. The bigger the duration number, the greater the interest-rate risk or reward for bond prices. Maturity is a much simpler concept. A bond's maturity is the length of time until the principal must be paid back. There can be large differences in duration for the same maturity.

High Yield Risk. High yield securities and unrated securities of similar credit quality (sometimes called junk bonds) that an underlying strategy may invest in are subject to greater levels of credit and liquidity risks. High yield securities are considered primarily speculative with respect to the issuer's continuing ability to make principal and interest payments.

Inflation Protected Security Risk. The value of an underlying strategy's investment in inflation protected securities, including Treasury Inflation Protected Securities (TIPS), will generally fluctuate in response to changes in "real" interest rates. Real interest rates represent nominal (or stated) interest rates reduced by the expected impact of inflation. The value of an inflation-protected security generally decreases when real interest rates rise and generally increase when real interest rates fall. In addition, the principal value of an inflation-protected security is periodically adjusted up or down along with the rate of inflation. If the measure of inflation falls, the principal value of the inflation protected security will be adjusted downwards, and consequently, the interest payable on the security will be reduced. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed by the United States Treasury in the case of TIPS. For securities that do not provide a similar guarantee, the adjusted principal value of the security to be repaid at maturity is subject to credit risk.

Interest Rate Risk. Interest rates will rise and fall over time. During periods when interest rates are low, an underlying strategy's yield and total return also may be low. Changes in interest rates also may affect the strategy's unit price: a sharp rise in interest rates could cause the strategy's unit price to fall resulting in losses. The longer the strategy's duration or maturity, the more sensitive to interest rate movements its unit price is likely to be and the greater the corresponding risk of loss may be.

Liquidity Risk. A particular investment may be difficult to purchase or sell. An underlying strategy may be unable to sell illiquid securities at an advantageous time or price.

Mortgage Dollar Rolls Risk. Mortgage dollar rolls are transactions in which an underlying strategy sells mortgage-backed securities to a dealer and simultaneously agrees to repurchase similar securities in the future at a predetermined price. The strategy's mortgage dollar rolls could lose money if the price of the mortgage-backed securities sold falls below the agreed upon repurchase price, or if the counterparty is unable to honor the agreement.

Prepayment and Extension Risk. An underlying strategy's investments are subject to the risk that the securities may be paid off earlier or later than expected. Either situation could cause the strategy to hold securities paying lower-than-market rates of interest, which could hurt the strategy's yield or unit price.

Tracking Error Risk. An underlying strategy may be an index strategy that seeks to track the performance of its benchmark index, although it may not be successful in doing so. The divergence between the performance of an underlying strategy and its benchmark index, positive or negative, is called "tracking error." Tracking error can be caused by many factors and it may be significant.

Disclosures

The Schwab Managed Retirement Trust Funds™ and the Schwab Institutional Trust Funds® are collective trust funds maintained by Charles Schwab Bank, trustee of the Funds. The Charles Schwab Bank collective trust funds are not insured by FDIC or any other type of deposit insurance; are not deposits or other obligations of, and are not guaranteed by Charles Schwab Bank or any of its affiliates; and involve investment risks, including possible loss of principal invested. The Funds are not mutual funds, and their units are not registered under the Securities Act of 1933, as amended, or applicable securities laws of any state or other jurisdiction. The Funds are exempt from registration under the Investment Company Act of 1940, as amended, or other applicable law, and unit holders are not entitled to the protections of the 1940 Act. As more specifically defined in the Funds' Declaration of Trust and Participation Agreement documents, the

Funds are available for investment by (i) retirement plan trusts that qualify for exemption from federal income tax pursuant to Section 501(a) of the Internal Revenue Code (“Code”) because they are qualified under Section 401(a) of the Code, (ii) eligible governmental plans under Section 457(b) of the Code which are exempt from tax under Section 457(g) of the Code, or (iii) group trusts which consist solely of the assets of these types of plans. The decision to invest in the Funds should be carefully considered. The unit values for the Funds will fluctuate, and investors may lose money.

The Charles Schwab Corporation provides services to retirement and other employee benefit plans and participants through its separate but affiliated companies and subsidiaries: Charles Schwab Bank (“Schwab Bank”); Charles Schwab & Co., Inc.; Charles Schwab Investment Management, Inc. (“CSIM”); Schwab Retirement Plan Services, Inc; Schwab Retirement Plan Services Company; and Windhaven Investment Management, Inc. Trust and custody products and service are offered by Schwab Bank. Brokerage products and services are offered by Charles Schwab & Co., Inc. (Member SIPC). Schwab Retirement Plan Services, Inc. and Schwab Retirement Plan Services Company provide recordkeeping and related services to retirement plans. CSIM provides investment research, advisory and fund administration services to Schwab Bank and the Funds. Windhaven Investment Management, Inc. ("Windhaven") provides investment advisory services to the Diversified Allocation collective trust funds. CSIM and Windhaven are investment advisers registered with the Securities and Exchange Commission.

The Schwab Bank Collective Trust Funds select investments based on advice received from, or products offered by industry-recognized investment management firms ("sub-advisors"). The Funds access investment strategies through various investment vehicles including, but not limited to, collective trust funds, mutual funds, and/or exchange-traded funds and may also access strategies through sub-advisors engaged by Charles Schwab Bank to advise one or more separate accounts of a Fund. Exposure to some strategies may be indirect through investment in other Schwab Bank Collective Trust Funds. The SMRT Funds invest in the Schwab Institutional Large Cap Value Trust Fund, Schwab Institutional Large Cap Growth Trust Fund, Schwab Institutional Small Cap Fund, Schwab Institutional International Diversified Trust Fund, and Schwab Institutional Core Plus Fixed Income Trust Fund.

Diversification and asset allocation strategies do not ensure a profit and cannot protect against losses in a declining market. The Funds are subject to market volatility and risks associated with the underlying investments. Risks include exposure to international and emerging markets, small company and sector equity securities, and fixed income securities subject to changes in inflation, interest rates, market valuations, liquidity, prepayments, and early redemption. The funds are built for investors who expect to start gradual withdrawals of fund assets on the target date, to begin covering expenses in retirement. The principal value of the funds is not guaranteed at any time, and will continue to fluctuate up to and after the target date.

Please contact us with any additional questions or concerns at 800-579-1636 or email schwabbankfunds@schwab.com.