

European Financial Institutions and Schwab Money Market Funds

Charles Schwab Investment Management, Inc. (CSIM) continues to evaluate key developments and any potential impact on European financial institutions. In these circumstances, it is important to highlight a few key points:

- Fiscal health amongst European countries and their financial institutions varies country by country. Some countries have weathered the downturn better than others. Schwab Money Funds' investments in Europe are in what we deem as high-quality financial institutions both inside and outside of the Eurozone.
- CSIM carefully manages credit exposures to find suitable investments for the Schwab Money Funds.
- Schwab Money Funds invest in money market eligible securities denominated in U.S. dollars.

Schwab Prime Money Market Fund Holdings

The Schwab Prime Money Market Funds provide taxable income and are eligible to hold investments that are issued by foreign issuers, including European financial institutions. These holdings are in what we deem as high-quality European financial institutions, which are screened in CSIM's credit analysis and review process and monitored for any changes in their underlying credit fundamentals/creditworthiness. These exposures include direct investments in banks such as certificates of deposit and commercial paper. Also included is associated exposure such as asset-backed commercial paper programs enhanced by these banks.

The table below is a summary of exposure to European financial institutions for the Schwab Prime Money Market Funds as of 3/31/14:

- Schwab Money Market Fund
- Schwab Cash Reserves
- Schwab Advisor Cash Reserves
- Schwab Value Advantage Money Fund
- Schwab Retirement Advantage Money Fund
- Schwab Investor Money Fund

Country	Schwab Prime Money Market Funds (% of total NAV)
Euro Currency Zone	
France	5.8%
Netherlands	4.6%
Germany	3.3%
Finland	0.3%
Sub-Total	14.0%
Non-Euro Currency Zone	
United Kingdom	5.5%
Switzerland	4.1%
Sweden	1.5%
Sub-Total	11.1%
TOTAL	25.1%

CSIM Credit Analysis and Review Process

CSIM has a strong, experienced team of credit analysts who are individually responsible for specific sectors, issuers, regions, and types of instrument. Analysts perform both a macro top down and institution-specific bottom up analysis of key fundamental components such as earnings, funding/liquidity, and capital structure. CSIM conducts an independent credit analysis, assessing each issuer and security for credit quality, liquidity, and appropriateness for the Schwab money market funds. Geographic limits are also utilized to manage risk within a certain region.

CSIM uses a standard methodology for evaluating financial institutions. It is often called a C-A-M-E-L-S process, which is an acronym, where the 'C' is for capital adequacy, and evaluation of the firm's capital, 'A' is for the asset quality of the bank. 'M' is an evaluation of management quality. 'E' looks at earnings, 'L' is an evaluation of liquidity, and 'S' looks at market sensitivity, or other exposure to interest rate risk or other market movements.

CSIM believes its portfolio management and credit analysis process continues to meet the goals of capital preservation and liquidity. Schwab money market funds only invest in securities that CSIM analysts have independently deemed to be of minimal credit risk. The portfolio of securities held in money funds is composed of high-quality, short-term money market investments and has a maximum weighted average maturity (WAM) of 60 days or less. As of March 31, 2014, we believe all the money fund holdings will pay full principal at maturity.

Monthly Stress Testing

CSIM conducts monthly stress testing on each funds' ability to maintain a stable Net Asset Value (NAV) based upon certain hypothetical events such as an increase in short-term interest rates, an increase in shareholder redemptions, a downgrade or default in portfolio securities, and widening or narrowing of spreads between yields on an appropriate benchmark for security types held by the fund.

Daily and Weekly Liquidity

Taxable money 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 daily liquid assets (cash, government securities or securities that mature within one business day), would be below 10% of the fund's total assets. In addition, all money funds are subject to a minimum liquidity requirement that prohibits a fund from acquiring certain types of securities if, immediately after the acquisition, the fund's investments in weekly liquid assets (cash, government securities or securities that mature within five business days), would be below 30% of the fund's total assets.

Monthly Portfolio Holdings

CSIM posts all Schwab money market fund portfolio holdings on a monthly basis on the fifth business day of the month (as of the end of the previous month). Additional details about specific securities can be found within the Form N-MFP available to the public on the SEC's web site 60 days after the end of the month to which the information pertains. The list of portfolio holdings for each fund can be found at: www.schwabfunds.com/prospectus.

Views expressed are as of March 31, 2014, and may change based on market and other conditions.

Current and future portfolio holdings are subject to risk. An investment in a money market fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in these funds.

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges, and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.

CSIM (the investment advisor for Schwab Funds) and Charles Schwab & Co., Inc (the distributor for Schwab Funds) are affiliates of the Charles Schwab Corporation.

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