

## Purpose and Scope

Schwab Charitable is a 501(c)(3) non-profit public benefit corporation which seeks to increase charitable giving in the United States by offering clients the flexible giving solution of a donor-advised fund account. The purpose of this Investment Policy Statement (“IPS”) is to establish an understanding of the investment philosophy of Schwab Charitable and to provide guidelines for the management and oversight of Schwab Charitable’s investment assets. This IPS applies to all investment assets owned by Schwab Charitable in the donor-advised fund accounts.

## Governance

### 1. Role of the Board of Directors (the “Board”)

The Board delegates to its Investment Oversight Committee responsibility for fulfilling its oversight responsibilities with respect to the investment assets of Schwab Charitable. The Board shall:

- Establish and approve the Investment Oversight Committee Charter.
- Appoint Investment Oversight Committee Chair and members. The members of the Investment Oversight Committee shall be comprised of at least three members of the Board. The Board shall appoint one of the Committee members to serve as Chair.

### 2. Role of Investment Oversight Committee (the “Committee”)

The Committee assists the Board in fulfilling its oversight responsibilities with respect to the investment of the assets of Schwab Charitable. The Committee reviews the performance of the investment funds and the investment managers used by Schwab Charitable consistent with the Investment Policy Statement adopted by the Committee. Each member of the Committee shall serve until a successor is appointed or until his or her resignation.

In carrying out its oversight responsibilities, the Committee shall:

- Adopt an Investment Policy Statement and periodically review and approve any changes to the Investment Policy Statement deemed to be necessary or appropriate.

- Review the performance of investment funds underlying the pools used by Schwab Charitable at least quarterly, or more frequently if the Committee or the Board deems such review necessary, in a manner consistent with the Investment Policy Statement, and implement changes as the Committee deems appropriate.
- Review the investment performance of Schwab Charitable at least quarterly, or more frequently if the Committee or the Board deems such review necessary, in a manner consistent with the Investment Policy Statement.
- Review the Committee Charter periodically and recommend any changes to the Board.
- Consider such other matters pertinent to the Committee’s purposes as the Committee deems necessary or appropriate.
- Report its activities to the Board on a periodic basis and make such determinations or recommendations with respect to the above and other matters as the Committee may deem necessary or appropriate.

### 3. Standard of Oversight

The Committee shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act. In overseeing the assets of Schwab Charitable, each member of the Committee shall act in good faith, in a manner such member believes to be in the best interests of Schwab Charitable and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

### 4. Role of the Donor

Each Schwab Charitable donor-advised fund account (“Account”) is composed of contributions made by individual donors. Once the donor makes the contribution, Schwab Charitable has legal control over it. However, the donor, or the donor’s representative, retains advisory privileges with respect to the distribution of the funds and the investment of assets in the Account. While the Committee exercises ultimate control over Schwab Charitable’s investments and investment advisors, the donor’s advice is a key consideration in each Account’s investment allocation.

# Schwab Charitable's Investment Objectives and Benchmark

## 1. Investment Objectives and Philosophy of Schwab Charitable

The investment objectives of Schwab Charitable are to provide for long-term growth of principal and income without undue exposure to risk to ensure that (1) Schwab Charitable is, at a minimum, able to meet its goal (as stated in its representations to the Internal Revenue Service) of making aggregate grants equal to at least 5% of its net asset value, calculated as a five-year rolling average; and (2) Account Holders are able to recommend grants on a continuing and reasonably consistent basis. Assets of Schwab Charitable overall will be invested in a manner as to avoid being overly speculative, looking instead to the permanent disposition of the assets, and considering the probable income as well as the safety of Schwab Charitable's assets. In pursuing these objectives, Schwab Charitable endeavors to achieve risk-adjusted total returns that, over time, are commensurate with broad-based market averages.

## 2. Benchmark and Performance Evaluation

The Committee shall monitor Schwab Charitable's overall performance compared with the following reference benchmark on a quarterly basis.

REFERENCE BENCHMARK	WEIGHT
Russell 3000 Index	35%
MSCI ACWI ex-US Index	15%
Barclays Capital US Aggregate Bond Index	15%
Barclays Capital Short Treasury Index	15%
HFRI Fund of Funds Composite Index	20%

# Core Accounts Investment Guidelines

## 1. Investment Pools

Core Account Holders shall pursue the investment objectives of Schwab Charitable by allocating their contributions among the following investment pools approved by the Committee. The Committee shall periodically review and approve any changes to the Investment Pools deemed to be appropriate.

### INDIVIDUAL INVESTMENT POOLS

*(for donors who want to build a custom strategy by combining pools with specific investment objectives)*

POOL NAME	INVESTMENT STRATEGY
Income Index	Capital preservation and Income. Global fixed income exposure. Index fund.
US Equity Index	Growth. Broad, cap-weighted US equity market exposure. Index fund.
International Equity Index	Growth. Broad international cap-weighted equity market exposure. Index fund.
US Small Cap Equity	Growth. Small Cap US equity market exposure. Passively managed. Index fund.
Short-term Income	Total return bond fund. Short duration. Capital preservation is more important than income generation. US-biased short term income fund. Actively-managed fund.
Inflation Protection	Purchasing power preservation. Inflation-hedging strategy. Actively-managed fund.
Income	Capital preservation and Income. Intermediate duration. Global fixed income fund. Actively-managed fund.
US Equity Managed	Growth. Broad US equity market exposure with large cap bias. Actively-managed fund.
International Equity Managed	Growth. Broad international equity market exposure. Actively-managed fund.
Money Market	Capital Preservation. Money market fund.

## ASSET ALLOCATION POOLS

(for donors who would prefer to implement a diversified investment strategy with one investment choice)

POOL NAME	UNDERLYING FUND ASSET ALLOCATION AND INVESTMENT STRATEGY (% cash + fixed income/ equity asset allocation)
Conservative Pool	Approximately 70% fixed income+cash/30% equities (+/- 15%). Actively-managed fund.
Balanced Pool	Approximately 45% fixed income+cash/55% equities (+/- 15%). Actively-managed fund.
SRI Balanced Pool	Approximately 40% fixed income+cash/60% equities (+/- 15%). Actively-managed fund. Social responsibility fund mandate.
Growth Pool	Approximately 20% fixed income+cash/80% equities (+/- 15%). Actively-managed fund.

### 2. Selection of Investment Funds

The Committee shall review and approve investment funds for investment pools at least annually and implement changes as the Committee deems appropriate. In selecting the investment funds, the Committee shall consider, among other factors, the stability and strength of the mutual fund's investment company, investment objectives, long-term risk/return profile, peer ranking, size, fees and the length of time the fund has been managed by the same portfolio manager or portfolio committee.

### 3. Evaluation of Investment Funds

The Committee shall evaluate each investment fund's performance on a quarterly basis against each fund's benchmark. An investment fund is expected to occasionally underperform its benchmark on a trailing 12-month basis. At the discretion of the Committee, an investment fund manager may be requested to explain a significant variance from the benchmark. In addition to performance monitoring, other events may result in closer monitoring of an investment manager or further action by Schwab Charitable. Such events might include, for example, notice of legal or SEC action involving the pool fund manager, its funds or personnel, departure of key personnel or style drift.

## Professionally Managed Accounts Investment Guidelines

### 1. Investment Objectives and Philosophy

The investment objectives of the Professionally Managed Account Portfolio ("Portfolio") shall be consistent with Schwab Charitable's investment objectives as established and overseen by the Committee. "Portfolio" hereafter refers to an Account or an aggregate of the Accounts of a particular Account Holder, advised by a primary Investment Advisor ("IA") and its delegated sub-advisor(s).

The IA will work with the Account Holder to establish the recommended investment objectives and strategy for the Portfolio, considering the Account Holder's plans for recommending grants, target returns, risk tolerance, and other unique considerations, consistent with these investment guidelines.

### 2. Criteria for Professionally Managed Accounts

- Minimum account size \$250,000.
- IAs must be approved by Schwab Charitable. In approving IAs, Schwab Charitable will consider, among other factors, the length of time the firm has been in existence, its track record, fees, assets under management, and the amount of charitable assets managed by the IA.
- The IA may be appointed to manage the assets on a discretionary or non-discretionary basis. If the IA elects a non-discretionary role, the IA will make arrangements to execute all approved trades. Exceptions to this policy may be requested and will be considered on a case by case basis.
- IAs must use the Charles Schwab & Co., Inc. Advisor Custody and Trading Platform (Schwab Advisor Services).
- IAs must adhere to these investment guidelines and to any specific guidelines established for individual Accounts.
- Account Holders, any secondary Account Holders(s), any Successor(s), any Additional Account User(s) (other than Investment Advisors), or certain family members or affiliates<sup>1</sup> of such people may not receive payments for any services, including Investment Advisory services.

- The IA shall vote proxies, and respond to legal and corporate actions (such as tender offers, rights offerings, and notices of bankruptcies and class action suits) consistent with its policies, including any policies it has adopted under Rule 206(4)-6 of the Investment Advisers Act of 1940, as amended, and in a manner that is in the best interest of Schwab Charitable and consistent with Schwab Charitable's investment objectives stated above. The IA may disclaim this responsibility in writing to Schwab Charitable. If disclaimed, Schwab Charitable will not undertake to notify the IA as to whether or how the proxies were voted.
- Should the asset level in the Account fall below \$200,000 and remain below \$200,000 for more than one year, the Account will no longer be eligible for professional management and must be reinvested in the investment pools.
- No deviation from this policy is permitted without the prior written approval of Schwab Charitable. Any approved exception(s) must be documented in Exhibit B to the Investment Advisory Agreement.

### 3. Sub-advisors

For Portfolios larger than \$1,000,000, the primary IA may recommend that an allocation of Portfolio assets (minimum \$250,000 per Account) be managed in one or more separate Accounts by a sub-advisor conducting advisory business on the Schwab Advisor Custody and Trading Platform (a division of Charles Schwab & Co., Inc.). Separately managed Accounts may be used to provide exposure to specific investment strategies. Regardless of the separation of a Portfolio into sub-advised Accounts for investment purposes, the Portfolio will be considered in the aggregate for investment oversight and grantmaking. Sub-advisors are subject to these investment guidelines unless otherwise specified in Exhibit B to the Investment Advisory Agreement. The primary IA shall oversee the delegated sub-advisors' investment management performance and compliance with these investment guidelines.

## 4. Investment Guidelines (excluding Private Investment Funds)

The IA shall manage the Portfolio's investments in compliance with these guidelines, in a manner which provides sufficient liquidity to support the Account Holder's recommended grants and to cover Account expenses. This section does not apply to contributions of investment assets. For large contributions of a single security, please see item 8 below "Contributions of Concentrated Positions". For further details related to contributions, please see Schwab Charitable's Program Policy.

### 1) Diversification

In general, investments should be managed prudently and diversified among asset classes, sectors and securities within the Portfolio, taking into account the Account Holder's time horizon and planned giving strategy.

Ordinarily, the Portfolio should contain more than one asset class. The Portfolio may contain a single diversified mutual fund or 100% cash only if the IA waives its fees. Permitted asset classes include the following:

ASSET CLASS	PRIMARY PORTFOLIO PURPOSE	EXAMPLES OF SECTORS IN THE ASSET CLASS
Equities	Growth	Consumer Discretionary, Materials, Industrials
Fixed Income	Income	TIPs (real income), Investment Grade
Cash	Stability	Issuer; N/A for Diversified Money Fund
Real Assets	Inflation Protection	Real Estate, Precious Metals

Investments shall be diversified. Excess concentration without prior approval from Schwab Charitable is prohibited in the Portfolio. Excess concentration with respect to the Portfolio is defined as follows:

- Greater than 25% exposure to any one security. Securities Include individual stocks, bonds, certificates of deposit, publicly traded REITs and non-diversified ETFs or ETNs, e.g.-SPDR Gold Trust. (Diversified ETFs and mutual funds are not considered individual securities for the purpose of applying this concentration policy).

- ii. Greater than 50% exposure to any one sector as defined by MSCI and Standard & Poor's Global Industry Classification Standard ("GICS") for equities.
- iii. Greater than 25% exposure to emerging market equities or emerging market fixed income.
- iv. Greater than 50% exposure to emerging markets (equity plus fixed income) or to a single non-us country as defined by MSCI Country Classification Standard.
- v. Greater than 50% exposure to below-investment-grade bonds.
- iii. Publicly traded flow-through entities<sup>3</sup> which may expose Schwab Charitable to Unrelated Business Income Tax under Section 511
- iv. Interval funds
- v. Private REITs
- vi. Working interests in oil and gas wells
- vii. Private companies
- viii. Investments in private placements for Accounts with less than \$10 million in investable assets (See "Criteria for Private Investment Funds," Item 10 below)
- ix. An interest in any operating business which, taken together with an Account Holder's personal and/or affiliated holdings in that business, represents 20% or more of the ownership of the business
- x. Preapproval is required for any purchase or contribution of a single security representing greater than 2% of Schwab Charitable's asset value

## 2) Permitted Investments and Transactions

The following Investments and transactions are permitted. Preapproval from Schwab Charitable is required for any investments and transactions not listed below:

- i. Cash and cash equivalents
- ii. Publicly traded stocks, bonds and CDs, exclusive of flow-through entities<sup>3</sup>
- iii. Publicly traded mutual funds, publicly traded REITs, ETF and ETNs, exclusive of flow-through entities<sup>3</sup>
- iv. Writing covered call options expiring within 12 months

## 3) Prohibited Investments and Transactions

The following investments and transactions are prohibited unless specifically listed as a permitted exception in Exhibit B to the Investment Advisory Agreement.

- i. Investments owned or managed by the IA, subadvisor or their affiliates.
- ii. Derivative securities to increase the actual or potential risk exposure of the Account, including but not limited to:
  - Structured notes
  - Principal only (PO) or interest only (IO) strips
  - Inverse floating securities
  - Futures contracts
  - Uncovered options
  - Short sales, margin trading and such other specialized investment activities

## 5. Benchmark

The IA shall consider the Account Holder's input when establishing the Portfolio investment strategy, and shall propose a performance benchmark consistent with that strategy. The IA may select Schwab Charitable's default benchmark listed below or may propose a customized benchmark for the Portfolio. A revised benchmark may be proposed upon a change in the IA or in the Portfolio investment strategy.

DEFAULT BENCHMARK	PORTFOLIO WEIGHT
Russell 3000 Index	35%
MSCI ACWI ex-US Index	25%
Barclays Capital US Aggregate Bond Index	20%
Barclays Capital Short Treasury Index	20%

The Account Holder must agree with the investment strategy and benchmark proposed by the IA for the Portfolio. Schwab Charitable will review and approve proposed custom benchmarks consistent with these guidelines. Custom benchmarks must be documented in Exhibit B to the Investment Advisory Agreement.

If the IA expects performance to deviate significantly from the agreed-upon benchmark due to a change in the long-term Portfolio investment strategy, the IA may propose a revised benchmark. The IA should contact Schwab Charitable as soon as possible upon agreeing with the Account Holder to propose a significant change in Portfolio investment strategy.

## 6. Evaluation of IAs

Schwab Charitable shall review Portfolio composition and performance quarterly, in comparison with the Portfolio's agreed-upon benchmark. While investments are reviewed quarterly, performance is evaluated over a longer period of time and in the context of the Portfolio investment strategy.

Portfolio performance is expected not to deviate substantially from that of the agreed-upon benchmark for a prolonged period (generally greater than one year). Significant variances to benchmark will be presented to the Committee. Portfolios with significant variances to the agreed-upon benchmark may be flagged for closer ongoing monitoring. If the Account continues to deviate significantly from its benchmark, the IA will be contacted for an explanation.

In the event of sustained underperformance, the IA will be called upon to explain the underperformance in writing to the satisfaction of Schwab Charitable. At Schwab Charitable's discretion, the IA may be asked to provide a written plan of action to remedy underperformance. Failure to remedy performance issues over a protracted period may result in termination of the Investment Advisory Agreement.

In addition to performance monitoring, other events may result in closer monitoring of an IA or further action by Schwab Charitable. Such events might include, for example, notice of legal or SEC action involving the IA, its funds or personnel, departure of key personnel, or style drift. IAs shall promptly notify Schwab Charitable of significant

events which may impact the IA's ability to perform its responsibilities with respect to a Portfolio. The Committee will be kept apprised of significant events impacting Schwab Charitable IAs.

## 7. Right to Terminate Advisory Agreement

Schwab Charitable or an IA may terminate their Investment Advisory Agreement at any time upon written notice to the other party. Schwab Charitable will terminate an agreement if the IA consistently underperforms the benchmark for a given portfolio, fails to abide by these investment guidelines or its Investment Advisory Agreement with Schwab Charitable, assumes excessive risk for the return of a given portfolio, or takes any action that would damage the reputation of Schwab Charitable or impede the ability of Schwab Charitable to fulfill its charitable mission.

## 8. Contributions of Concentrated Positions

Contribution of a security representing greater than 50% of Portfolio value at the time of the contribution is deemed a concentrated position contribution. Diversified ETFs and mutual funds are not considered concentrated positions.

Concentrated position contributions must be liquidated over time—or sufficient additional contributions of unrelated assets made to the Account—so that the value of the concentrated position represents no more than 50% of the Portfolio value within 3 years, and represents no more than 25% of the Portfolio value within 5 years. During the period of reallocation, the IA is prohibited from making purchases of the concentrated security for the Account.

Occasionally, an Account Holder may contribute a concentrated position with the intention of liquidating the position to fund grantmaking over a period of a few years, rather than investing the Account for longer-term potential growth. If this is the case, and the Account will hold only the concentrated position and cash while selling down the position and recommending grants, the IA shall notify Schwab Charitable at the time of the contribution, and shall comply with the following guidelines:

- 50% of the contributed position must be liquidated within 3 years and an additional 25% within 5 years, so that the position is reduced by at least 75% within 5 years.

- The IA shall waive its fees.

Each contribution of a concentrated security will have its own timeline for reallocation.

### 9. Excess Business Holdings and Large Position Contributions

Preapproval is required for the contribution of securities representing greater than 2% ownership of any operating business. In no event may an Account hold an interest in any operating business which, taken together with an Account Holder's personal and/or affiliated holdings in that business, represents 20% or more of the ownership of the business.

Additionally, preapproval is required for any contribution of a single security interest representing greater than 2% of Schwab Charitable's assets under management.

### 10. Criteria for Private Investment Funds

Schwab Charitable recognizes the importance of private investment funds as part of an overall asset allocation and sets the following criteria for investing in private funds. These criteria are designed to provide for thoughtful oversight, thorough due diligence and sufficient availability of liquid assets for grantmaking:

- An individual Account must have an asset balance of at least \$10 million in order for the IA to recommend a private investment fund.
- Account Holder has reviewed, understood and signed the Addendum to New Account Application for Private Funds.
- IAs who wish to recommend private investment funds must provide evidence that they are qualified and have substantial experience in performing the significantly more complex and time-consuming initial and ongoing due diligence required to select and monitor private investments.
- Before recommending private investment funds, the IA will be required to explain the role of private funds in the Portfolio's investment strategy and to confirm that the Account Holder's planned giving strategy will not be impeded by the type and extent of private fund investments.
- Specific criteria for a private investment fund:
  - Complete set of legal, marketing, subscription and due diligence documents, including a copy of the IA's research and formal investment recommendation.
  - The investment should not produce any Unrelated Business Taxable Income ("UBTI") or should utilize a UBTI blocker strategy. If any UBTI is generated, the Account will be debited for the full amount of the tax liability.
  - The purchase of privately held REITs is prohibited. An exception will generally be available for private investments which offer a REIT vehicle to tax exempt investors solely for the purpose of blocking UBTI generated by the principal investment vehicle.
  - Hedge funds must utilize a 3rd party administrator and custodian. If an independent administrator and custodian are not used – as is the case with some private equity funds – then the fund must provide evidence of 3rd party involvement in or oversight of the asset valuation and shareholder accounting processes.
  - Quarterly valuation updates and investor statements are required. (An exception is available for BVCA/ EVCA compliant European private equity funds, which may report on a semi-annual basis.)
  - Annual financial statements, audited by a PCAOB-registered firm are required.
  - Accounts should limit ownership to less than 2% of any private investment fund which could result in effective ownership of any operating business. In no event may an Account make an investment which, taken together with an Account Holder's personal and/or affiliated holdings, could result in effective ownership of 20% or more of any operating business.
  - No private fund investment should exceed 3% of the value of Schwab Charitable's assets.

## 11. Custody

All investments (excluding private investments) must be held in custody at Charles Schwab & Co., Inc.

## 12. Exceptions

Any exceptions to these investment guidelines must be approved in writing by either the President of Schwab Charitable or the Vice President of Investment Oversight & Risk Management or by another delegated officer of Schwab Charitable and documented in Exhibit B to the Investment Advisory Agreement.

Any material exception to the above list of prohibited investments and transactions will be presented to the Investment Oversight Committee.

<sup>1</sup> "Family members" for this purpose means spouses, ancestors, children, grandchildren, great grandchildren, brothers and sisters, as well as the spouses of children, grandchildren, great grandchildren, brothers, and sisters. An entity is an "affiliate" of a person if it is a corporation at least 35% owned (by voting stock), or a partnership at least 35% owned (by profits interest), or a trust at least 35% owned (by beneficial interest) by such person.

<sup>2</sup> The use of short sales, derivatives and margin trading within diversified mutual funds and private placements is permitted to the extent that it is consistent with the fund's prospectus or private placement memorandum.

<sup>3</sup> Flow-through entities are generally considered non-corporate entities for tax purposes. U.S. law generally requires flow-through entities to file an annual K-1 statement. Flow-through entities include, but are not limited to, master limited partnerships ("MLP"), publicly traded limited partnerships ("PTP"), publicly traded grantor trusts, certain income trusts and limited liability companies.