

# Mutual Fund OneSource Select List® & Income Select List

## Opportunities Expanded With Lower Minimums for Funds in Schwab OneSource®

### Key points:

- Schwab recently lowered the minimums for initial and subsequent investments for most funds participating in its Mutual Fund OneSource service, making it even easier for individual investors to get started.
- The reduced minimums also open the door to Schwab's Automatic Investment Program (AIP) to more investors, allowing them to automate their investing and take advantage of the strategy of dollar-cost averaging.
- AIP brings discipline and consistency to an investment program and can help investors overcome inertia and resist the temptation of market-timing.

(continued on page 2)

FIRST QUARTER  
**2016**

Also available at  
[schwab.com/selectlist](http://schwab.com/selectlist)

**Analysis and Commentary on Actively  
Managed Mutual Funds by Charles  
Schwab Investment Advisory, Inc.**

*With thousands of mutual funds available, finding the right funds for your portfolio can seem more time-consuming and difficult than ever. The Mutual Fund OneSource Select List, consisting only of OneSource funds available without a load or transaction fee, is a smart solution that can help you make confident investment decisions.*

### HIGHLIGHTS

**Opportunities Expanded With  
Lower Minimums for Funds in  
Schwab OneSource®**

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**SCHWAB**

Many investors consider the most difficult aspect of wealth-building to be getting started—determining how to allocate their assets, choosing appropriate investment vehicles, and taking the action required to create an initial portfolio. There can be many reasons for inaction or procrastination, but many would-be investors simply believe that they haven’t amassed sufficient resources to get started. To help overcome this barrier, Schwab has lowered its investment minimums for both initial and subsequent mutual fund purchases for the majority of funds participating in its Mutual Fund OneSource service.

**Opening the Door to More Investors**

A pioneer in the fund supermarket model, Schwab developed Mutual Fund OneSource to provide investors access to a large number of funds and fund families through a single account, with no loads or transaction fees. Always looking to further increase the attractiveness of the platform and to enable more investors to take advantage of it, Schwab recently lowered its initial investment minimums on Mutual Fund OneSource funds from \$2,500 to as little as \$100 for most funds. And once an initial position has been established, subsequent, ongoing investments in that fund can now be made for as little as \$1, down from \$500. The changes apply to most funds participating in Schwab’s Mutual Fund OneSource service—including the vast majority of funds listed in the Mutual Fund OneSource Select List. As with all Mutual Fund OneSource funds, initial and subsequent mutual fund investments incur no transaction fees.<sup>1</sup>

**Benefits of Lower Minimums**

- Lower minimum investments are meaningful for more than just small or first-time investors. Among the benefits:
- By committing a smaller amount, investors can reduce or alleviate concerns about getting into the market at the wrong time, especially during volatile markets.
  - Lower minimums can make it easier for investors to branch out beyond a single-fund portfolio solution, increasing their diversification across multiple funds and asset classes.
  - Lower minimums allow investors exposure to areas of the market that may previously have been inaccessible to them.
  - Lower minimums allow more investors to immediately participate in Schwab’s Automatic Investment Program (AIP), which provides an easy way to employ a dollar-cost averaging strategy.

**Beyond Getting Started: The Importance of Ongoing Investing**

While getting started is key, over the long term, investors face a potentially far bigger challenge that can have an enormous impact on their ability to reach their financial goals: investing regularly.

It can be hard to maintain the discipline required to invest regularly. Market volatility, nonstop news and commentary, conflicting opinions, and simply the fear of the unknown can all conspire against us, leading even the most resolute investor to second-guess his or her intentions and often leading to poorly timed purchases or sales, or worse—inertia. Sometimes investors are so stymied that they end up doing nothing, simply sitting on the sidelines. That’s where automatic investing can help.

Recognizing the challenges and temptations that can potentially derail investors or lead to less-than-optimal timing decisions, Schwab has long encouraged investors to put the strategy of dollar-cost averaging to work for them through AIP. And with the lower minimums for initial investments, AIP becomes available for small accounts and to investors who don’t have a lot to invest upfront but want to build their portfolio over the long term.

**Dollar-Cost Averaging: A Prudent Strategy**

Dollar-cost averaging is a wealth-building strategy that involves investing a fixed amount of money at regular intervals over a long period regardless of share price. Many investors may already be practicing it if they participate in a 401(k) or 403(b) retirement plan in which contributions are made through regular payroll deductions. Instead of purchasing shares of one or more mutual funds in a single lump sum, dollar-cost averaging allows investors to spread their purchases over a longer period of time. In so doing, investors can reduce the impact of short-term market moves, which typically smooth out over time.

Here’s how it works: Every month (or other regular interval), you invest a set amount of money in one or more mutual funds, regardless of how the overall market is performing. The net result is that when prices are lower, your fixed investment buys more shares; and when prices are higher, it buys fewer.

As an example, let’s say you decide to invest \$400 a month in a no-load mutual fund. The table below illustrates the implementation of such a plan over a hypothetical six-month period, during which the share price of the fund fluctuated considerably.

	Amount invested	Price per share	No. of shares purchased
Month 1	\$400	\$14.28	28
Month 2	\$400	\$13.33	30
Month 3	\$400	\$12.50	32
Month 4	\$400	\$12.90	31
Month 5	\$400	\$13.79	29
Month 6	\$400	\$12.12	33

<sup>1</sup>This example is hypothetical and does not project or predict investment results. Actual results will vary.

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If, instead of employing dollar-cost averaging, you had used the entire \$2,400 at the outset to buy fund shares at their then-price of \$14.28 per share, you would have purchased 168 shares. In this example, due to the fluctuation of the fund's share price, at the end of the six-month period you would have had 183 shares, purchased at an average price of \$13.15 per share.

Of course, no strategy—dollar-cost averaging included—can protect against losses when share prices tumble. And in a rising market, it would make more sense to have purchased shares earlier, at a lower price. But without the benefit of hindsight, one never knows where prices are headed.

Schwab's lower investment minimums have the potential to give a whole new group of investors the ability to grow their portfolio over time. Regardless of the size of the contribution, it's surprising how it can accrue given the power of compounding. Here are a few examples:

Amount invested monthly	Over 15 years		Over 30 years	
	Total invested	Balance	Total invested	Balance
\$50	\$9,000	\$13,364	\$18,000	\$41,613
\$100	\$18,000	\$26,729	\$36,000	\$83,226
\$250	\$45,000	\$66,822	\$90,000	\$208,065
\$500	\$90,000	\$133,644	\$180,000	\$416,129

This example is hypothetical and does not project or predict investment results. It assumes an annual return of 5%, with interest compounded monthly. Actual results will vary.

Combining dollar-cost averaging with mutual funds is especially attractive in that it helps investors reduce both their market risk and their company-specific risk. Spreading out investments regularly over time reduces the market risk—the risk of a poorly timed investment into a falling market—while the inherent diversification of a mutual fund spreads investor risk across many securities so that weakness among some are potentially offset by strength in others.

### Advantages of dollar-cost averaging:

- **Overcomes procrastination.** Because regular investments are smaller, it can be easier for investors to get started and to stay on track.
- **Maintains market participation.** Dollar-cost averaging ensures participation in the market regardless of its conditions, removing the temptation to try to guess when the time is “right” to invest.
- **Minimizes regret.** Whether it’s sitting out a market rally or investing a large amount just before markets tumble, there’s always the potential for second-guessing one’s investment strategy. Dollar-cost averaging helps reduce it.

**The Bottom Line**

Long-term investing entails a frame of mind as well as a series of decisions and actions (or inactions). It requires persistence and discipline. But getting started sooner rather than later and regularly adding to your investments are two tangible steps you can take to greatly increase the likelihood of meeting your long-term financial goals. And with Schwab's new lower minimums available for more than 500 fund families and thousands of no-load, no-transaction-fee mutual funds, it has never been easier or more cost-efficient to build a diversified portfolio.

## Want to establish Schwab's Automatic Investment Plan?

Online: [www.schwab.com/AIP](http://www.schwab.com/AIP) | By phone: (800) 435-4000

<sup>1</sup> Please see "Investing in Mutual Funds at Schwab" on page 14 regarding other fees that may apply.

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## How Funds Are Selected

To build the Schwab Mutual Fund OneSource Select List and the Schwab Income Mutual Fund Select List, Charles Schwab Investment Advisory, Inc. (CSIA) starts by analyzing the funds tracked by Morningstar using quantitative and qualitative selection criteria described below. Then, based on its analysis, CSIA builds the Mutual Fund OneSource Select List and Income Select list by selecting the most favorably evaluated OneSource funds, including Schwab Funds and Laudus Funds (“Schwab Affiliate Funds”), within each Morningstar category.

Most of the funds on the List are actively managed OneSource funds. In addition, CSIA also includes up to one Schwab Affiliate Fund that is a market-cap weighted index fund for each of the large-cap, small-cap, international and taxable bond asset classes, and one Schwab Affiliate Fund that is a fundamentally weighted index fund for each of the large cap, small cap, developed large cap international, developed small cap international and emerging market asset classes. Visit the OneSource Select List on [schwab.com](http://schwab.com) to view the Select List online and to learn more about how index funds are selected.

### Eligibility Requirements

**Each OneSource Select List and Income Select List fund must:**

- Be no-load and open to new investors at Schwab in all 50 states.
- Have a minimum three-year performance track record (except funds that are listed below the “Leading Schwab Affiliate Funds” sections of the lists, which are eligible if they have a minimum 12 months performance track record under their current management and/or current investment objectives and strategy).
- Have at least \$40 million in assets (except for small-cap value, high yield, multisector bond, world bond, emerging market equity and bond, diversified Pacific Asia, Pacific Asia ex-Japan, Europe, Japan, Latin America, convertibles, retirement income, target date and specialty funds, which require at least \$20 million in assets). To meet this requirement, assets in multiple share classes of the same fund may be aggregated.

**Additionally, each Income Select List fund must:**

- Demonstrate a track record of making income distributions in each of the prior five calendar years (or during every full calendar year since inception in the case of funds with less than a five-year track record, including Schwab Affiliate Funds which may have a 12-month track record).
- For fixed income funds, make income distributions on at least a quarterly basis; and—with the exception of the high-yield, multisector and emerging markets bond categories—not allocate in excess of 30% to issues rated below investment grade.
- For equity funds, offer a current yield in excess of their category average; and for equity funds with “dividend” or “income” in their name, make income distributions at least quarterly.
- With the exception of specialty sector (REITs) and fixed income funds, not allocate in excess of 33% to any single sector.

### Selection Criteria

**Actively Managed OneSource Funds**, including Schwab Affiliate Funds, are evaluated by CSIA based on a quantitative analysis of risk, performance, expenses, active share (when meaningful), assets under management and asset flows. CSIA also may apply additional qualitative factors to its analysis to enhance its overall evaluation of a fund, including, for example, changes in a fund’s investment strategy or management structure, portfolio manager tenure, whether a fund’s investment style and portfolio holdings are representative of its investment category, portfolio composition and turnover rates, consistency of a fund’s performance and CSIA’s evaluation of the fund over time, and other risk and diversification considerations.

In addition, for the Income Select List, those funds with the best capital preservation attributes and investment strategies that focus on selecting income-generating securities will receive preference when selecting from similarly rated funds with comparable yield characteristics.

“**Leading Schwab Affiliate Funds**” sections of the Select List and Income Select List feature eligible actively managed Schwab Affiliate Funds that generally fall into the top 35 percent of all CSIA-evaluated funds (including OneSource and non-OneSource funds) in their respective Morningstar categories. If two or more Schwab Affiliate Funds that fit this criteria also have similar investment styles, CSIA may determine that only the most favorably evaluated fund(s) be included in the list. Because Schwab Affiliate Funds included in the “Leading Schwab Affiliate Funds” section of the OneSource Select List and Income Select List are selected independently from other actively managed funds on the list, they may have a less favorable evaluation overall than the funds listed in the “Leading Third-Party Funds” section of the list.

The **Index Funds** section of the Select List features only Schwab Affiliate Funds. It includes up to one market capitalization weighted index fund for each of the large-cap, small-cap, international and taxable bond asset classes and one fundamentally weighted index fund for each of the large cap, small cap, developed large cap international, developed small cap international and emerging market asset classes. A market capitalization weighted index fund is a fund that attempts to match the performance of an established list of securities, where the securities with the highest market capitalization (total market value of outstanding stock) get the most weight. A fundamentally weighted index fund is a fund that attempts to match the performance of an established list of securities, where the securities with the highest fundamental value (measured based on criteria such as sales, cash flow, dividends and stock buybacks) get the most weight. A Schwab Affiliate fund that is market capitalization weighted and a Schwab Affiliate Fund that is fundamentally weighted are included unless no funds meet Schwab’s quantitative and qualitative evaluation criteria.

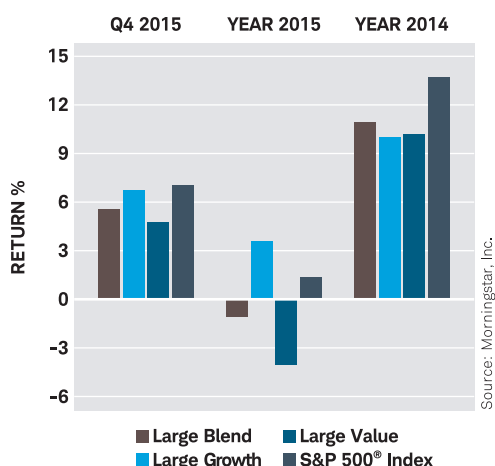
The Schwab affiliate index fund that receives the most favorable evaluation by CSIA in each asset class is included on the Select List. If two index funds receive equal evaluations, CSIA will generally include the fund that has the lower expense ratio.

“**Leading Third-Party Funds**” sections of the OneSource Select List and Income Select List feature eligible actively managed third-party OneSource funds that generally fall within the top 35 percent of all CSIA-evaluated funds within a given Morningstar category and that receive the most favorable evaluations in their respective categories.

For the **OneSource Select List**, CSIA generally includes the five most-favorably evaluated funds in each of the large-cap, small-cap, intermediate-term bond, municipal national intermediate and foreign large blend asset categories and the two most favorably evaluated funds in all other asset categories. If two or more of the most favorably evaluated funds within an asset category have similar investment styles, CSIA may substitute a less-favorably evaluated fund for one or more of those funds to provide a more diverse selection of fund investment strategies.

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# LARGE-CAP U.S. STOCK FUNDS



## Perspectives and Fourth Quarter 2015 Summary

Our view is that the U.S. bull market for stocks will push ahead in 2016 with continued volatility and corrections. After nearly seven years, the bull market is in a more mature phase, with weaker earnings and revenue growth, and recently narrow market breadth. Market corrections should be contained due to subdued investor sentiment and healthy leading indicators that suggest a U.S. recession is a distant risk. We continue to reinforce the benefits of broad and global asset class diversification during a more difficult market environment.

- 2015 ended the year with the Standard & Poor 500 Composite Index up 1.38% for the year after a 7.04% return for the fourth quarter. Stocks rebounded from the large downturn in the third quarter with doubt over the Federal Reserve's actions subsiding with the announcement of a rate increase in December.
- Large-cap U.S. stocks continued to outperform Small-cap U.S. stocks. Large-cap Growth, Large-cap Blend and Large-cap Value all rallied from the third quarter losses with returns of 6.7%, 5.6% and 4.7%, respectively.

All perspectives are as of January 11, 2016

For the latest up-to-date perspectives, please visit [schwab.com](http://schwab.com)

FOR THE QUARTER ENDED DECEMBER 31, 2015

FUND NAME (FUND INCEPTION DATE)	MORNINGSTAR CATEGORY	QUOTE SYMBOL	AVERAGE ANNUALIZED TOTAL RETURN					UPSIDE MARKET CAPTURE	DOWNSIDE MARKET CAPTURE	GROSS EXPENSE RATIO <sup>a</sup>	NET EXPENSE RATIO <sup>a</sup>	TOTAL ASSETS (\$M)
			1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION					
LEADING SCHWAB AFFILIATE FUNDS <sup>d</sup>												
Schwab Core Equity Fund (7/1/96)	Large Blend	SWANX	0.55	14.92	11.90	6.80	8.14	101.33	105.14	0.72	0.72	2,273
Laudus U.S. Large-Cap Growth Fund (10/14/97)	Large Growth	LGILX	6.28	16.73	13.72	9.72	6.60	102.78	92.05	0.77	0.77	2,201
Schwab Dividend Equity Fund (9/2/03)	Large Value	SWDSX	-3.52	12.33	11.03	6.69	8.33	96.83	118.43	0.89	0.89	1,782
FUNDAMENTAL INDEX FUNDS												
Schwab Fundamental U.S. Large Company Index Fund (4/2/07)	Large Value	SFLNX	-2.96	13.51	11.16	—	6.64	96.71	107.04	0.39	0.35	4,646
MARKET CAP-WEIGHTED INDEX FUNDS												
Schwab <sup>®</sup> S&P 500 Index Fund (5/19/97)	Large Blend	SWPPX	1.29	15.02	12.48	7.27	—	99.61	100.06	0.09	0.09	21,367
LEADING 3RD PARTY FUNDS												
INTECH US Mgd Volatility T (7/6/09) <sup>b</sup>	Large Blend	JRSTX	3.13	15.12	12.42	6.55	15.78	92.92	82.62	0.95	0.95	289
Parnassus Core Equity Investor (8/31/92)	Large Blend	PRBLX	-0.55	15.12	12.68	9.89	10.50	97.83	94.77	0.87	0.87	11,920
Glenmede Large Cap Core Port (2/27/04)	Large Blend	GTLOX	1.67	17.61	14.50	8.42	8.74	105.75	91.33	0.87	0.87	1,748
Prudential Jennison Equity Opportunity Z (11/7/96)	Large Blend	PJGZX	-2.08	12.39	10.41	7.31	9.91	90.96	103.40	0.80	0.80	456
Oakmark I (8/5/91) <sup>b</sup>	Large Blend	OAKMX	-3.95	13.71	12.61	8.49	12.51	103.26	121.14	0.87	0.87	17,083
Parnassus (12/27/84)	Large Growth	PARNX	0.27	15.56	13.07	9.74	10.01	103.23	103.94	0.84	0.84	755
Nicholas (7/14/69)	Large Growth	NICSX	-2.95	16.19	14.00	9.05	11.39	101.74	94.42	0.72	0.72	3,484
Janus Forty T (7/6/09) <sup>b</sup>	Large Growth	JACTX	12.00	17.16	13.11	8.95	14.45	99.80	80.79	0.77	0.77	2,337
Janus Research T (5/3/93) <sup>b</sup>	Large Growth	JAMRX	5.33	17.49	12.69	9.00	11.06	102.29	83.88	0.80	0.80	4,698
Glenmede Large Cap Growth (2/27/04)	Large Growth	GTLLX	4.13	19.75	15.37	9.23	9.35	110.02	82.48	0.88	0.88	2,065
American Century Equity Income Inv (8/1/94) <sup>b</sup>	Large Value	TWEIX	0.60	10.57	9.32	6.79	10.38	72.28	74.73	0.93	0.93	8,655
JPMorgan Large Cap Value A (2/18/92) <sup>e</sup>	Large Value	OLVAX	-7.19	12.89	9.73	5.46	6.90	101.24	104.80	1.11	0.93	723
Delaware Value <sup>®</sup> A (9/14/98) <sup>b,e</sup>	Large Value	DDVAX	-6.26	12.24	11.97	6.73	6.84	93.23	89.35	0.98	0.98	9,468
Commerce Value (3/3/97)	Large Value	CFVLX	-0.92	13.06	12.53	6.36	6.11	90.48	95.93	0.71	0.70	187
JPMorgan Equity Income A (2/18/92) <sup>e</sup>	Large Value	OIEIX	-7.63	11.21	10.81	7.10	8.30	92.42	99.16	1.09	1.04	10,566
PERFORMANCE BENCHMARKS												
Schwab 1000 Index <sup>®</sup> (Dividends Reinvested)			1.06	14.98	12.34	7.46	—					
S&P 500 Index <sup>®</sup> (Dividends Reinvested)			1.38	15.13	12.57	7.31	—					

■ New to the Select List this quarter

### Asset Class and Performance Benchmark Definitions

Large-cap U.S. stock funds invest primarily in stocks that fall in the top 70% of the U.S. market capitalization range as defined by Morningstar, Inc. Growth funds invest in companies that may be experiencing rapid growth in earnings, sales or return on equity. Value funds invest in companies that may have share prices below estimated fair market value, undervalued assets, an opportunity to "turnaround" or lower price-to-earnings or price-to-book ratios. Blend funds invest in a combination of value and growth stocks.

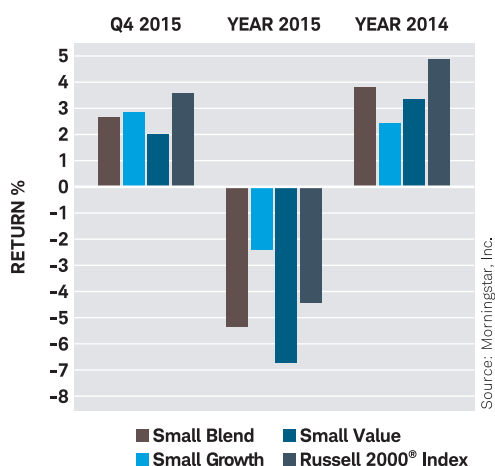
The S&P 500<sup>®</sup> Index includes common stocks of 500 widely held companies. S&P 500 is a registered trademark of The McGraw-Hill Co., Inc.

If an expense waiver was in place during the period, the net expense ratio was used to calculate fund performance. A net expense ratio lower than the gross expense ratio may reflect a cap on or contractual waiver of fund expenses. Please read the fund prospectus for details on limits or expiration dates for any such waivers.

**Performance quoted is past performance and is no guarantee of future results. Current performance may be lower or higher. Visit [schwab.com](http://schwab.com) for month's end performance information. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost.**



# MID- AND SMALL-CAP U.S. STOCK FUNDS



## Perspectives and Fourth Quarter 2015 Summary

Our view of a difficult market environment in 2016 will likely be felt by smaller-cap domestic stocks as well, while the expected bouts of volatility could drain risk appetites to the detriment of the group. However, the strong U.S. dollar, continued domestic labor market growth, lower energy costs, and the wage tailwinds that appear to be setting up likely bode well for the all-important U.S. consumer. As always, we do not recommend making market cap bets and encourage investors to stick to long-term asset allocation goals according to your risk tolerance.

- Small-cap U.S. stocks were down -4.41% for the year with investors sticking with higher-quality, less volatile, Large and Mega-cap stocks. Small-cap U.S. stocks recovered from the third quarter with Small Growth, Small Blend and Small Value returning 2.8%, 2.7% and 2.0%, respectively.
- Mid-cap U.S. stocks outperformed Small-cap for the year with the Russell Mid Cap® down -2.44% for 2015. Mid Growth, Mid Value and Mid Blend came back from heavy third quarter losses returning 3.3%, 2.7% and 2.4%, respectively, in the fourth quarter.

All perspectives are as of January 11, 2016

For the latest up-to-date perspectives, please visit [schwab.com](http://schwab.com)

FOR THE QUARTER ENDED DECEMBER 31, 2015

FUND NAME (FUND INCEPTION DATE)	MORNINGSTAR CATEGORY	QUOTE SYMBOL	AVERAGE ANNUALIZED TOTAL RETURN					UPSIDE MARKET CAPTURE	DOWNSIDE MARKET CAPTURE	GROSS EXPENSE RATIO <sup>a</sup>	NET EXPENSE RATIO <sup>a</sup>	TOTAL ASSETS (\$M)
			1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION					
LEADING SCHWAB AFFILIATE FUNDS <sup>d</sup>												
Schwab Small-Cap Equity Fund (7/1/03)	Small Blend	SWSCX	-3.69	13.86	12.34	6.36	10.38	105.07	124.21	1.11	1.11	600
FUNDAMENTAL INDEX FUNDS												
Schwab Fundamental U.S. Small Co Index Fund (4/2/07)	Small Blend	SFSNX	-5.03	12.43	9.39	–	7.10	100.51	126.51	0.44	0.35	1,343
MARKET CAP-WEIGHTED INDEX FUNDS												
Schwab Small-Cap Index Fund (5/19/97)	Small Blend	SWSSX	-4.41	11.65	9.55	7.60	8.15	95.12	120.74	0.21	0.17	2,602
LEADING 3RD PARTY FUNDS												
Parnassus Mid-Cap (4/29/05)	Mid-Cap Blend	PARMX	-0.87	12.25	11.62	8.84	8.59	84.66	89.27	1.09	0.99	554
Hennessy Cornerstone Mid Cap 30 Inv (9/17/03)	Mid-Cap Blend	HFMDX	0.02	14.72	12.38	8.55	11.12	105.67	117.70	1.17	1.17	1,010
Janus Enterprise T (9/1/92) <sup>b</sup>	Mid-Cap Growth	JAENX	3.32	14.74	11.76	9.41	10.50	85.73	68.39	0.92	0.92	6,396
Buffalo Discovery (4/16/01)	Mid-Cap Growth	BUFTX	5.64	16.90	13.69	10.47	8.60	93.87	68.54	1.01	1.01	943
■ Perkins Select Value T (12/15/11) <sup>b</sup>	Mid-Cap Value	JSVTX	0.20	9.63	–	–	10.77	72.35	84.04	1.01	0.89	78
TIAA-CREF Mid-Cap Value Retail (10/1/02)	Mid-Cap Value	TCMVX	-5.65	11.94	9.73	7.15	11.46	90.44	106.40	0.72	0.72	4,972
■ Wasatch Small Cap Value (12/17/97)	Small Blend	WMCVX	0.00	13.96	10.33	6.41	11.72	92.92	93.43	1.20	1.20	283
■ Tributary Small Company Instl (6/10/96)	Small Blend	FOSCX	-0.63	12.48	9.42	8.64	8.91	91.45	103.77	1.32	1.22	256
■ Perritt MicroCap Opportunities Investor (5/2/88)	Small Blend	PRCGX	-6.09	11.25	6.96	5.35	9.29	79.45	85.89	1.21	1.21	339
■ Columbia Select Smaller-Cap Value A (4/25/97) <sup>b,e</sup>	Small Blend	SSCVX	-9.52	12.21	8.12	6.85	8.49	109.29	128.97	1.36	1.36	454
■ Lord Abbett Small Cap Value A (12/13/95) <sup>e</sup>	Small Blend	LRSCX	-6.85	8.27	6.01	7.24	11.75	86.79	112.00	1.20	1.20	1,212
Conestoga Small Cap Investors (10/1/02)	Small Growth	CCASX	8.03	14.03	11.47	8.83	11.14	93.39	93.98	1.24	1.10	661
Wasatch Core Growth (12/8/86)	Small Growth	WGROX	3.92	12.80	12.45	7.50	12.03	88.98	94.66	1.18	1.18	1,220
Rice Hall James Small Cap Instl (11/1/96)	Small Growth	RHJMX	-1.42	11.49	10.97	8.17	9.07	89.87	109.36	1.51	1.25	45
TIAA-CREF Small-Cap Equity Retail (10/1/02)	Small Growth	TCSEX	-0.24	14.05	10.06	6.79	10.38	97.08	102.86	0.83	0.83	2,864
Driehaus Micro Cap Growth (1/2/03)	Small Growth	DMCRX	-0.55	20.11	10.82	10.20	17.97	111.85	83.76	1.59	1.59	282
Perkins Small Cap Value T (10/21/87) <sup>b</sup>	Small Value	JSCVX	-2.66	10.64	7.35	7.58	12.04	85.16	105.95	0.81	0.81	1,330
■ Victory Sycamore Small Company Opp A (3/26/99) <sup>e</sup>	Small Value	SSGSX	-6.43	9.80	8.48	7.56	9.24	94.00	114.69	1.31	1.31	2,797
■ Federated Clover Small Value A (2/28/96) <sup>e</sup>	Small Value	VSFAX	-11.68	7.51	5.95	6.08	10.14	86.20	118.95	1.45	1.27	681
■ American Beacon Zebra Small Cap Eq Inv (6/1/10)	Small Value	AZSPX	-4.03	12.25	9.54	–	12.34	92.38	108.29	1.83	1.28	21
PERFORMANCE BENCHMARK												
Russell 2000 Index® (Dividends Reinvested)			-4.41	11.65	9.19	6.80	–					

■ New to the Select List this quarter

### Asset Class and Performance Benchmark Definitions

Mid-cap U.S. stock funds invest primarily in stocks that fall in the next 20% of the U.S. market capitalization range following large-cap stocks. Small-cap U.S. stock funds generally invest in stocks falling in the bottom 10% of the range. Definitions based on Morningstar, Inc.

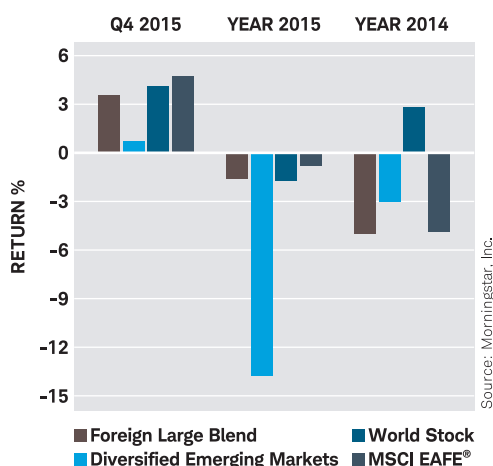
Growth funds invest in companies that may be experiencing rapid growth in earnings, sales or return on equity. Value funds invest in companies that may have share prices below estimated fair market value, undervalued assets, an opportunity to "turnaround" or lower price-to-earnings or price-to-book ratios. Blend funds invest in a combination of value and growth stocks. The Russell 2000® Index consists of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 98% of the total market value of publicly available domestic equities.

Small-cap funds are subject to greater volatility than those in other asset categories.

If an expense waiver was in place during the period, the net expense ratio was used to calculate fund performance. A net expense ratio lower than the gross expense ratio may reflect a cap on or contractual waiver of fund expenses. Please read the fund prospectus for details on limits or expiration dates for any such waivers.

**Performance quoted is past performance and is no guarantee of future results.**

# INTERNATIONAL STOCK FUNDS



## Perspectives and Fourth Quarter 2015 Summary

Some of the most attractive global stock markets in 2016 may be found among non-U.S. developed markets, such as Europe and Japan, where profit growth momentum and the central bank impact on valuations may be more favorable. Emerging market stocks, including China, may modestly underperform developed international due to weak earnings growth and currency volatility.

- The MSCI EAFE Index, a broad representation of non-U.S. developed market equities, was up by 4.8%, amid a seesaw fourth quarter of monetary stimulus and sluggish economic growth. Japanese stocks gained 8% in the backdrop of a mild recession and corporate governance reforms. The Europe category returned 2.6% helped by the European Central Bank's stimulus measures and improving exports.
- Emerging Markets posted a modest gain of 0.7%, mostly helped by the China category which returned 5.7% as China's central bank cut interest rates for the sixth time in a year, while investors battled persistent fears of a slowing Chinese economy. The Latin America category lost 2.7% dragged down by a weakening Brazilian real and declining Brazilian and Mexican stocks.
- Foreign fund investors experienced positive returns across all categories with Foreign Small/Mid Growth (5.2%) and Foreign Large Growth (4.6%) posting top performance while Foreign Small/Mid Value (3.5%) and Foreign Large Value (2.7%) trailed their growth counterparts.

All perspectives are as of January 11, 2016

For the latest up-to-date perspectives, please visit [schwab.com](http://schwab.com)

FOR THE QUARTER ENDED DECEMBER 31, 2015

FUND NAME (FUND INCEPTION DATE)	MORNINGSTAR CATEGORY	QUOTE SYMBOL	AVERAGE ANNUALIZED TOTAL RETURN					UPSIDE MARKET CAPTURE	DOWNSIDE MARKET CAPTURE	GROSS EXPENSE RATIO <sup>a</sup>	NET EXPENSE RATIO <sup>a</sup>	TOTAL ASSETS (\$M)
			1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION					
LEADING SCHWAB AFFILIATE FUNDS <sup>d</sup>												
Schwab® International Core Equity Fund (5/30/08)	Foreign Large Blend	SICNX	3.40	6.97	5.89	–	1.53	107.72	75.46	0.98	0.86	713
Laudus Mondrian International Equity Fund–Select (6/17/08) <sup>b,*</sup>	Foreign Large Value	LIEFX	-1.86	5.26	4.02	–	-0.38	110.99	89.00	1.12	1.02	101
FUNDAMENTAL INDEX FUNDS												
Schwab Fundamental Emerg Mkts Lg Co Index (1/31/08)	Diversified Emerging Mkts	SFENX	-19.59	-11.54	-8.43	–	-3.57	84.62	168.37	0.85	0.49	280
Schwab Fundamental Intl Large Co Index (4/2/07)	Foreign Large Value	SFNNX	-4.93	3.78	2.02	–	-0.01	114.27	101.31	0.48	0.35	1,113
Schwab Fundamental Intl Small Co Index (1/31/08)	Foreign Small/Mid Blend	SFILX	5.09	7.82	4.80	–	4.79	100.35	62.66	0.82	0.51	405
MARKET CAP-WEIGHTED INDEX FUNDS												
Schwab International Index Fund (5/19/97)	Foreign Large Blend	SWISX	-0.88	4.36	3.60	3.07	3.91	104.96	87.98	0.23	0.19	2,922
LEADING 3RD PARTY FUNDS												
Matthews China Dividend Investor (11/30/09)	China Region	MCDFX	9.54	7.81	6.51	–	9.21	98.11	60.25	1.19	1.19	181
Columbia Greater China A (5/16/97) <sup>b,*</sup>	China Region	NGCAX	-6.29	3.71	0.71	9.72	9.04	96.81	70.82	1.56	1.56	141
Seafarer Overseas Gr and Income Investor (2/15/12)	Diversified Emerging Mkts	SFGIX	-4.32	-0.04	–	–	3.55	79.16	87.24	1.25	1.15	791
Manning & Napier Emerging Markets S (11/16/11)	Diversified Emerging Mkts	MNEMX	-10.18	-4.96	–	–	0.95	84.48	124.18	1.27	1.16	89
Matthews Asia Dividend Investor (10/31/06)	Diversified Pacific/Asia	MAPIX	3.86	4.83	4.74	–	8.74	85.25	64.03	1.06	1.05	4,791
Matthews Asia Growth Investor (10/31/03)	Diversified Pacific/Asia	MPACX	-0.05	6.58	4.42	6.48	8.87	84.08	52.36	1.11	1.11	777
Henderson European Focus A (8/31/01) <sup>e</sup>	Europe Stock	HFEAX	-3.18	7.42	4.41	7.84	14.28	108.26	61.09	1.31	1.31	3,675
FMI International (12/31/10)	Foreign Large Blend	FMIJX	3.22	10.41	9.34	–	9.34	82.45	28.29	0.98	0.98	2,799
INTECH International Mgd Volatility T (7/6/09) <sup>b</sup>	Foreign Large Blend	JRMTX	4.35	7.35	4.52	–	8.14	94.03	58.60	1.16	1.16	66
TIAA-CREF International Eq Retail (3/31/06)	Foreign Large Blend	TIERX	-1.47	3.75	2.17	3.32	2.24	103.62	90.18	0.83	0.83	4,320
Henderson International Opportunities A (8/31/01) <sup>e</sup>	Foreign Large Blend	HFOAX	-3.91	6.08	4.21	4.61	8.63	97.03	56.90	1.37	1.37	4,852
Lazard International Strategic Eq Open (2/3/06)	Foreign Large Blend	LISOX	-1.89	6.32	6.17	5.17	4.55	106.42	77.89	1.09	1.09	6,792
Buffalo International (9/28/07)	Foreign Large Growth	BUFIX	-0.45	5.17	3.59	–	2.07	93.78	71.16	1.06	1.06	253
WCM Focused International Growth Inv (8/31/11)	Foreign Large Growth	WCMRX	5.51	8.44	–	–	7.09	102.39	61.25	1.30	1.30	1,884
Henderson Global Equity Income A (11/30/06) <sup>e</sup>	Foreign Large Value	HFQAX	-6.19	3.59	4.68	–	2.68	93.55	68.06	1.19	1.19	3,478
SSgA International Stock Selection N (3/7/95)	Foreign Large Value	SSAIX	0.81	6.23	3.46	2.52	4.21	106.69	78.72	1.22	1.00	317
Oppenheimer International Small–Mid Co A (11/17/97) <sup>e</sup>	Foreign Small/Mid Growth	OSMAX	8.30	16.24	8.91	10.15	12.59	108.38	11.34	1.21	1.20	6,040
AllianzGI International Small-Cap A (4/12/10) <sup>e</sup>	Foreign Small/Mid Growth	AOPAX	9.10	9.76	5.75	6.84	8.38	96.47	35.36	1.76	1.45	132
Brandes International Small Cap Equity A (1/31/12) <sup>e</sup>	Foreign Small/Mid Value	BISAX	1.71	8.09	5.96	5.79	10.06	106.60	55.38	1.38	1.40	1,042
Matthews Japan Investor (12/31/98)	Japan Stock	MJFOX	20.83	16.41	9.53	2.16	5.88	96.84	10.41	1.03	1.03	1,941
Matthews Pacific Tiger Investor (9/12/94)	Pacific/Asia ex-Japan Stk	MAPTX	-1.30	4.57	4.15	9.19	8.52	88.49	69.08	1.09	1.08	6,693
Matthews Asia Small Companies Inv (9/15/08)	Pacific/Asia ex-Japan Stk	MSMLX	-9.43	2.64	1.39	–	12.29	84.72	76.67	1.47	1.47	611
Perkins Global Value T (6/29/01) <sup>b</sup>	World Stock	JGVAX	-2.08	7.69	7.25	4.90	6.28	90.29	52.53	1.01	1.01	237
BlackRock Global Dividend Inv A (4/7/08) <sup>e</sup>	World Stock	BABDX	-2.90	5.80	7.07	–	4.51	103.44	66.51	1.02	1.02	2,245
PERFORMANCE BENCHMARKS												
MSCI EAFE Index (Dividends Reinvested)			-0.81	5.01	3.60	3.03	–					

<sup>b</sup> New to the Select List this quarter <sup>e</sup>\$50,000 initial minimum investment

### Asset Class and Performance Benchmark Definitions

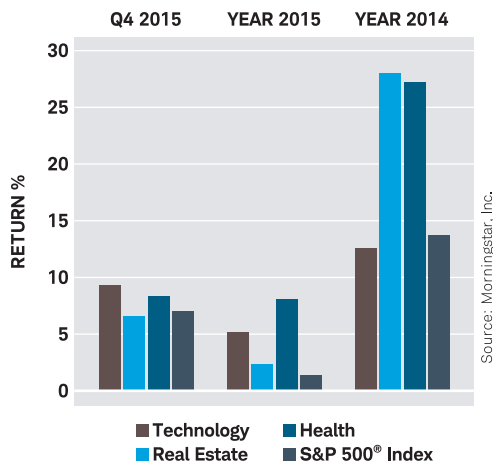
Foreign stock funds typically have less than 20% of assets invested in the United States. Funds that do not have a specific growth or value orientation compared to a benchmark are classified as blend funds. World Stock funds invest primarily in equity securities of issuers located throughout the world and generally invest at least 20% of assets in the United States. Regional funds generally hold high concentrations of securities from one specific geographic region. Emerging markets funds generally invest in securities from less developed countries.

International investments are subject to risks such as currency fluctuations and political instability. Investing in emerging markets can accentuate these risks.

If an expense waiver was in place during the period, the net expense ratio was used to calculate fund performance. A net expense ratio lower than the gross expense ratio may reflect a cap on or contractual waiver of fund expenses. Please read the fund prospectus for details on limits or expiration dates for any such waivers.

**Performance quoted is past performance and is no guarantee of future results.**

# SECTOR FUNDS



## Perspectives and Fourth Quarter 2015 Summary

We believe the information technology and financial sectors will outperform the market in 2016. The technology sector benefits from the need for businesses to upgrade equipment to boost efficiency and productivity. Also, the high level of consumer interest in technology supports the outlook for retail sales and the sector consistently has been a top-performer in the six months following an initial rate increase by the Federal Reserve. Meanwhile, U.S. consumers have been improving their finances and fewer are defaulting on their loans. Signs of a leveling off in reduced consumer debt and a rising number of loans being issued by banks could lead to greater loan demand. We expect underperformance in the utilities and telecommunications sectors in 2016, with the former likely being negatively affected by the Fed's move toward higher rates and the latter likely being hurt by fierce competition, falling consumer spending on telecom and rising capital expenditures.

- The Specialty Category saw divergent performances for the fourth quarter. Energy MLPs (-9.1%), Equity Energy (-3%) and Precious Metals (-0.6%) were plagued by continued weakness in oil prices and the strengthening dollar. Meanwhile, Health Care (8.3%), Real Estate (6.6%), and Financials (3.4%) finished the year with positive returns.

All perspectives are as of January 11, 2016

For the latest up-to-date perspectives, please visit [schwab.com](http://schwab.com)

FOR THE QUARTER ENDED DECEMBER 31, 2015

FUND NAME (FUND INCEPTION DATE)	MORNINGSTAR CATEGORY	QUOTE SYMBOL	AVERAGE ANNUALIZED TOTAL RETURN					UPSIDE MARKET CAPTURE	DOWNSIDE MARKET CAPTURE	GROSS EXPENSE RATIO <sup>a</sup>	NET EXPENSE RATIO <sup>a</sup>	TOTAL ASSETS (\$M)
LEADING SCHWAB AFFILIATE FUNDS <sup>d</sup>												
FINANCIAL FUNDS (CATEGORY AVERAGE) <sup>e</sup>			-0.87	12.05	8.46	2.05						
Schwab Financial Services Fund (7/3/00)	Financial	SWFFX	-1.94	13.65	9.40	2.11	5.06	104.70	61.65	0.90	0.90	76
HEALTH FUNDS (CATEGORY AVERAGE) <sup>e</sup>			8.05	26.77	21.20	11.99						
Schwab Health Care Fund (7/3/00)	Health	SWHFX	8.42	22.62	19.64	10.61	9.63	124.59	28.42	0.80	0.80	1,091
GLOBAL REAL ESTATE FUNDS (CATEGORY AVERAGE) <sup>e</sup>			-0.92	4.21	6.09	3.91						
Schwab Global Real Estate Fund (5/31/07)	Global Real Estate	SWASX	3.02	5.64	6.27	–	0.65	78.17	81.32	1.15	1.05	260
LEADING 3RD PARTY FUNDS												
EQUITY ENERGY FUNDS (CATEGORY AVERAGE) <sup>e</sup>			-27.39	-10.08	-7.58	-0.75						
BlackRock Natural Resources Inv A (10/21/94) <sup>e</sup>	Equity Energy	MDGRX	-28.48	-10.49	-7.94	-0.53	6.17	58.57	174.42	1.11	1.11	270
Calvert Global Energy Solutions A (5/31/07) <sup>e</sup>	Equity Energy	CGAEX	-7.71	3.21	-4.67	–	-9.59	93.06	111.15	2.13	1.85	99
ENERGY LIMITED PARTNERSHIP FUNDS (CATEGORY AVERAGE) <sup>e</sup>			-34.75	-4.76	0.49	–						
Oppenheimer SteelPath MLP Select 40 A (3/30/10) <sup>e</sup>	Energy Limited Partnership	MLPFX	-25.72	-1.07	1.17	–	3.42	69.12	105.76	6.44	6.32	2,540
Tortoise MLP & Pipeline Investor (5/31/11) <sup>e</sup>	Energy Limited Partnership	TORTX	-39.70	-4.85	–	–	1.91	106.16	196.95	1.25	1.25	1,232
FINANCIAL FUNDS (CATEGORY AVERAGE) <sup>e</sup>			-0.87	12.05	8.46	2.05						
Burnham Financial Services A (6/7/99) <sup>e</sup>	Financial	BURKX	14.40	19.87	13.75	7.09	12.67	84.34	-32.26	1.64	1.80	249
Davis Financial A (5/1/91) <sup>e</sup>	Financial	RPFGX	-3.09	12.91	9.12	4.39	11.41	115.66	70.92	0.86	0.86	914
HEALTH FUNDS (CATEGORY AVERAGE) <sup>e</sup>			8.05	26.77	21.20	11.99						
Janus Global Life Sciences T (12/31/98) <sup>b</sup>	Health	JAGLX	8.24	31.48	24.88	13.50	12.24	133.59	-17.43	0.93	0.93	4,679
BlackRock Health Sciences Opps Inv A (12/21/99) <sup>e</sup>	Health	SHSAX	5.17	25.01	19.64	13.38	15.64	124.69	-3.62	1.19	1.19	6,185
NATURAL RESOURCES FUNDS (CATEGORY AVERAGE) <sup>e</sup>			-22.16	-8.58	-6.82	-0.34						
ICON Natural Resources S (5/5/97)	Natural Resources	ICBMX	-16.60	3.25	1.71	4.91	3.83	96.45	129.90	1.36	1.36	66
Columbia Global Energy & Natural Res A (9/28/07) <sup>b,e</sup>	Natural Resources	EENAX	-25.42	-9.01	-7.51	-0.60	-4.79	77.01	188.44	1.30	1.30	209
PRECIOUS METALS FUNDS (CATEGORY AVERAGE) <sup>e</sup>			-23.25	-29.35	-23.88	-4.54						
Gabelli Gold AAA (7/11/94)	Equity Precious Metals	GOLDX	-17.79	-26.62	-20.72	-2.70	2.49	-71.76	144.26	1.58	1.58	141
Oppenheimer Gold & Special Minerals A (7/19/83) <sup>e</sup>	Equity Precious Metals	OPGSX	-27.56	-31.62	-26.40	-3.76	4.03	-73.58	183.72	1.23	1.17	697
GLOBAL REAL ESTATE FUNDS (CATEGORY AVERAGE) <sup>e</sup>			-0.92	4.21	6.09	3.91						
Prudential Global Real Estate Z (5/5/98)	Global Real Estate	PURZX	0.09	5.96	7.44	5.38	9.01	80.82	83.06	0.97	0.97	3,380
REAL ESTATE FUNDS (CATEGORY AVERAGE) <sup>e</sup>			2.41	10.14	11.10	6.61						
Cohen & Steers Realty Shares (7/2/91)	Real Estate	CSRSX	5.00	12.11	11.60	7.80	12.22	83.14	38.54	0.97	0.97	5,743
Manning & Napier Real Estate S (11/10/09)	Real Estate	MNREX	4.14	11.07	11.96	–	14.75	86.41	51.86	1.11	1.11	267
TECHNOLOGY FUNDS (CATEGORY AVERAGE) <sup>e</sup>			5.21	17.00	10.68	8.35						
Janus Global Technology T (12/31/98) <sup>b</sup>	Technology	JAGTX	4.49	15.58	10.99	9.44	6.67	115.77	65.01	0.95	0.95	1,119
Red Oak Technology Select (12/31/98)	Technology	ROGSX	1.09	18.52	13.88	9.59	3.28	123.09	55.23	1.15	1.15	129
UTILITY FUNDS (CATEGORY AVERAGE) <sup>e</sup>			-9.86	7.62	7.93	6.47						
American Century Utilities Inv (3/1/93) <sup>b</sup>	Utilities	BULIX	-6.54	9.89	8.98	7.09	7.70	90.75	67.96	0.67	0.67	350
Wells Fargo Util and Telecomms A (1/4/94) <sup>e</sup>	Utilities	EVUAX	-13.37	5.99	8.55	6.95	8.06	86.79	75.60	1.18	1.15	369

■ New to the Select List this quarter    <sup>a</sup> Reflects load-adjusted returns

### Asset Class and Performance Benchmark Definitions

Sector funds concentrate investments in firms that fall into specific industries that produce related products or services. Sector funds, in general, have a low correlation to market indices, such as the S&P 500 Index, so they tend to perform differently than broader market measures. Because of their unique investment objectives, it's unfair to compare sector funds with broader market indices as they will seldom correlate. When evaluating sector fund performance, it's more appropriate to compare an individual fund's returns with the average performance of funds in its category.

Due to the concentrated nature of sector funds, they can be more volatile than broadly diversified equity funds.

If an expense waiver was in place during the period, the net expense ratio was used to calculate fund performance. A net expense ratio lower than the gross expense ratio may reflect a cap on or contractual waiver of fund expenses. Please read the fund prospectus for details on limits or expiration dates for any such waivers.

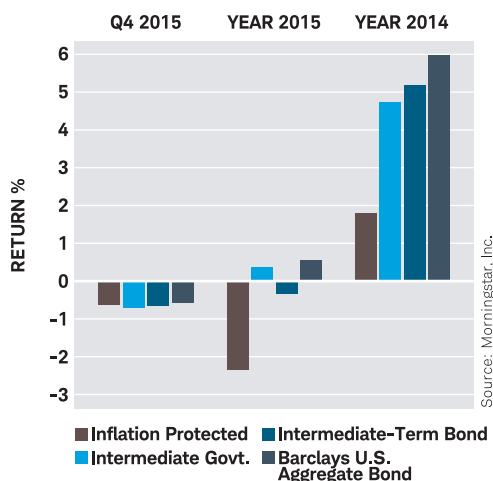
MLP funds invest in the equity securities of master limited partnerships ("MLPs"). Investments in securities of MLPs involve risks that differ from investments in common stock, including risks related to cash flow, dilution and voting rights. MLP funds also may carry heightened risks including industry concentration, volatility, limited liquidity, issuer-specific risks, valuation and taxation. Many MLP funds are classified for federal tax purposes as a taxable regular corporation ("C corporation"), and are subject to US federal income tax on taxable income at corporate income tax rates, as well as state and local income taxes. These corporate taxes and accruals for deferred tax liabilities could substantially reduce a fund's net assets (reflected in the fund's NAV), the amount of income available for distribution and the amount of a fund's distributions. If an MLP fund is classified for tax purposes as a C corporation, all distributions from a fund's current or accumulated earnings and profits will be taxable to shareholders as ordinary income.

**Performance quoted is past performance and is no guarantee of future results.**

Mutual Fund OneSource Select List – First Quarter 2016



# TAXABLE BOND FUNDS



## Perspectives and Fourth Quarter 2015 Summary

In the fourth quarter of 2015, taxable bonds were mostly negative as an abundance of macroeconomic concerns weighed on performance, including uneasiness around high yield liquidity and low commodity prices. Most notably, the Fed finally increased the Federal Funds rate above zero, pushing Treasury yields higher. Short-term yields increased more than long-term bond yields, however, resulting in a flatter yield curve. We expect this trend to continue in 2016.

- The Barclays US Aggregate Bond Index is a common proxy for the taxable bond market and the index finished the quarter down 0.57%. The majority of categories followed the index lower with most returns between -0.5 to -1%, with the exception of three particularly weak performers – Long Government (-1.64%), High Yield Bond (-2.01%) and Bank Loan (-2.15%).
- However, there was at least one shining star as the Emerging Markets Bond category went from the worst performer in the third quarter to the only positive category in the fourth quarter with a 0.49% return. The next best was Ultrashort Bond funds, which ended the quarter basically flat at -0.03%.

All perspectives are as of January 11, 2016

For the latest up-to-date perspectives, please visit [schwab.com](http://schwab.com)

FOR THE QUARTER ENDED DECEMBER 31, 2015

FUND NAME (FUND INCEPTION DATE)	MORNINGSTAR CATEGORY	QUOTE SYMBOL	AVERAGE ANNUALIZED TOTAL RETURN					UPSIDE MARKET CAPTURE	DOWNSIDE MARKET CAPTURE	GROSS EXPENSE RATIO <sup>a</sup>	NET EXPENSE RATIO <sup>a</sup>	AVG. WEIGHTED MATURITY (YRS)	TOTAL ASSETS (\$M)
			1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION						
LEADING SCHWAB AFFILIATE FUNDS <sup>d</sup>													
Schwab GNMA Fund (3/3/03)	Intermediate Government	SWG SX	1.28	1.34	2.76	4.27	3.90	84.65	81.13	0.64	0.56	5.50	296
Schwab Intermediate-Term Bond Fund (10/31/07)	Intermediate-Term Bond	SWI IX	0.74	1.09	2.42	–	4.17	72.66	71.61	0.62	0.45	4.68	342
MARKET CAP-WEIGHTED INDEX FUNDS													
Schwab Total Bond Market Fund (3/5/93)	Intermediate-Term Bond	SWL BX	0.31	1.19	2.93	2.96	4.77	98.05	104.58	0.54	0.29	7.31	1,355
LEADING 3RD PARTY FUNDS													
RidgeWorth Seix Floating Rate Hi Inc I (3/1/06)	Bank Loan	SAMB X	-1.17	1.57	3.13	–	3.74	37.67	7.36	0.61	0.61	–	4,895
Lord Abbett Floating Rate A (12/31/07) <sup>e</sup>	Bank Loan	LFR AX	-1.91	1.58	3.21	–	3.51	39.04	-14.05	0.80	0.80	–	6,070
PIMCO Investment Grade Corp Bd D (7/30/04)	Corporate Bond	PBDD X	-0.12	1.94	5.25	6.69	6.43	148.93	154.58	0.91	0.90	11.59	6,352
Lord Abbett Income A (1/4/82) <sup>e</sup>	Corporate Bond	LAG VX	-5.27	0.61	4.07	5.70	7.80	113.45	120.96	0.88	0.78	–	1,857
DoubleLine Emerging Markets Fixed Inc N (4/6/10)	Emerging Markets Bond	DLEN X	-5.04	-0.61	3.04	–	4.17	69.12	117.37	1.15	1.15	6.87	859
TCW Emerging Markets Income N (3/1/04)	Emerging Markets Bond	TGIN X	-2.83	-2.45	2.91	7.03	7.53	56.47	155.24	1.13	1.13	6.42	2,762
TIAA-CREF High-Yield Retail (3/31/06)	High Yield Bond	TIYRX	-4.04	1.30	4.64	–	6.22	102.83	108.37	0.64	0.64	6.63	3,134
RidgeWorth Seix High Yield I (12/29/00)	High Yield Bond	SAMHX	-4.91	1.00	4.12	5.26	6.41	88.06	96.03	0.58	0.58	6.17	560
American Century Infl-Adj Bond Inv (2/10/97) <sup>b</sup>	Inflation-Protected Bond	ACITX	-2.15	-2.99	1.94	3.50	4.91	88.66	217.08	0.47	0.47	9.24	2,811
American Century Ginnie Mae Inv (9/23/85) <sup>b</sup>	Intermediate Government	BGNMX	0.77	1.06	2.55	4.21	6.33	74.97	75.60	0.55	0.55	5.29	1,163
Columbia US Government Mortgage A (2/14/02) <sup>b,e</sup>	Intermediate Government	AUGAX	-1.97	0.61	3.45	4.55	4.46	58.41	34.95	0.97	0.90	6.72	1,970
Western Asset Core Bond I (9/4/90)	Intermediate-Term Bond	WATFX	1.21	2.17	4.18	5.08	6.98	110.95	94.05	0.49	0.45	10.89	4,716
Prudential Total Return Bond Z (9/16/96)	Intermediate-Term Bond	PDBZX	-0.04	1.98	4.65	5.88	5.93	128.58	124.78	0.62	0.58	–	11,986
Northern Fixed Income (3/31/94)	Intermediate-Term Bond	NOFIX	-0.12	1.47	3.72	4.39	5.24	112.82	117.51	0.49	0.47	8.56	1,380
Baird Core Plus Bond Inv (9/29/00)	Intermediate-Term Bond	BCOSX	-0.11	1.46	3.91	5.34	5.84	105.86	107.78	0.55	0.55	6.98	9,373
Metropolitan West Total Return Bond M (3/31/97)	Intermediate-Term Bond	MWTRX	-0.05	1.96	4.43	6.15	6.65	97.90	81.83	0.69	0.69	7.84	69,596
PIMCO Income D (3/30/07)	Multisector Bond	POND X	2.28	4.56	8.12	–	8.76	105.84	17.53	0.79	0.79	5.39	52,104
Western Asset Global Strategic Income I (10/10/95)	Multisector Bond	SDSYX	0.79	2.20	5.30	5.41	5.70	93.31	68.32	0.85	0.85	11.80	382
Putnam Absolute Return 300 A (12/23/08) <sup>e</sup>	Nontraditional Bond	PTRNX	-2.89	0.95	0.78	–	2.14	-9.49	-52.44	0.81	0.81	6.60	847
Western Asset Total Return Uncons I (7/6/06)	Nontraditional Bond	WAARX	0.25	1.34	2.69	–	4.52	32.63	6.89	0.91	0.91	6.35	1,181
Northern Short-Intermediate US Govt (10/1/99)	Short Government	NSIUX	0.87	-0.11	0.91	2.56	3.20	33.47	51.31	0.48	0.41	2.85	169
Loomis Sayles Ltd Term Govt and Agency A (1/3/89) <sup>b,e</sup>	Short Government	NEFLX	-1.95	-0.41	0.89	3.07	4.81	31.68	35.04	0.81	0.80	3.17	870
■ Prudential Short-Term Corporate Bd Z (12/16/96)	Short-Term Bond	PIFZX	1.07	1.30	2.47	4.22	4.71	50.42	33.47	0.53	0.53	–	8,881
Lord Abbett Short Duration Income A (11/4/93) <sup>e</sup>	Short-Term Bond	LALDX	-1.83	0.49	2.23	4.18	4.19	36.85	15.27	0.59	0.59	–	33,635
Payden Limited Maturity (4/29/94)	Ultrashort Bond	PYLMX	0.30	0.46	0.73	1.39	2.98	9.30	-0.33	0.57	0.29	0.89	474
■ Putnam Short Duration Income A (10/17/11)	Ultrashort Bond	PSDTX	0.27	0.45	–	–	0.55	6.67	-4.06	0.54	0.40	1.15	2,087
PIMCO Foreign Bond (USD-Hedged) D (4/8/98)	World Bond	PFODX	0.00	3.62	5.55	5.70	5.77	129.15	77.76	0.92	0.90	11.66	7,653
Dreyfus/Standish Global Fixed Income A (12/2/09) <sup>e</sup>	World Bond	DHGAX	-5.08	0.63	2.85	5.17	3.29	105.00	85.34	0.89	0.89	7.96	2,019
PERFORMANCE BENCHMARKS													
Barclays U.S. Aggregate Bond Index (Dividends Reinvested)			0.55	1.44	3.25	4.51	–						

■ New to the Select List this quarter

### Asset Class and Performance Benchmark Definitions

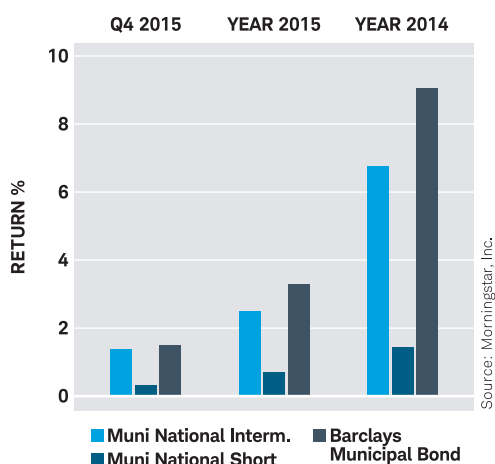
Bond funds invest in corporate, municipal or government debt obligations of different maturities and interest rates. Taxable bond funds generally invest in the debt obligations issued by the U.S. Treasury, other U.S. government agencies and U.S. corporations. They also may invest in high-yield and foreign (non-U.S.) bonds.

The Barclays U.S. Aggregate Bond Index tracks the total U.S. bond market, which includes U.S. Treasury, government agency, investment-grade corporate bond and mortgage-backed securities with maturities of at least one year. The index includes reinvestment of interest.

If an expense waiver was in place during the period, the net expense ratio was used to calculate fund performance. A net expense ratio lower than the gross expense ratio may reflect a cap on or contractual waiver of fund expenses. Please read the fund prospectus for details on limits or expiration dates for any such waivers.

**Performance quoted is past performance and is no guarantee of future results.**

# TAX-FREE BOND FUNDS



## Perspectives and Fourth Quarter 2015 Summary

Returns for municipal bonds were positive for every major category during the fourth quarter of 2015 and most outperformed the Barclays Aggregate Bond Index, a common proxy for the taxable bond market. We believe that limited supply and favorable demand helped total returns and expect this trend to continue into 2016. Puerto Rico, one of the largest municipal bond issuers, defaulted on some of their debt in December. We believe Puerto Rico's widely publicized issues are not representative of the rest of the muni market and we have a favorable view of munis for 2016.

- High Yield Muni funds outperformed all other categories with a total return of 2.16%. The runner-up was Muni California Long at 1.96% but a few other categories were close behind with returns above the Barclays Municipal Index's return of 1.5% — Muni New Jersey, Muni National Long and Muni New York Long. Muni National Interm returned 1.37%.
- While still positive, shorter duration categories returned the least for the second quarter in a row. Muni National Short only gained 0.33% and Muni Single State Short was only slightly better with a return of 0.5%.

All perspectives are as of January 11, 2016

For the latest up-to-date perspectives, please visit [schwab.com](http://schwab.com)

FOR THE QUARTER ENDED DECEMBER 31, 2015

FUND NAME (FUND INCEPTION DATE)	MORNINGSTAR CATEGORY	QUOTE SYMBOL	AVERAGE ANNUALIZED TOTAL RETURN					UPSIDE MARKET CAPTURE	DOWNSIDE MARKET CAPTURE	GROSS EXPENSE RATIO <sup>a</sup>	NET EXPENSE RATIO <sup>a</sup>	AVG. WEIGHTED MATURITY (YRS)	TOTAL ASSETS (\$M)
			1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION						
LEADING SCHWAB AFFILIATE FUNDS <sup>d</sup>													
Schwab Tax-Free Bond Fund (9/11/92)	Muni National Interm	SWNTX	2.66	2.58	4.53	4.33	5.14	78.60	75.56	0.57	0.49	5.14	650
LEADING 3RD PARTY FUNDS													
American Century High-Yield Muni Inv (3/31/98) <sup>b</sup>	High Yield Muni	ABHYX	5.02	3.86	7.05	3.93	4.87	127.51	132.91	0.60	0.60	19.31	446
Nuveen High Yield Municipal Bond A (6/7/99) <sup>e</sup>	High Yield Muni	NHMAX	0.43	4.47	8.98	3.34	5.04	174.40	160.57	0.83	0.78	22.13	11,426
American Century IntermTrm Tx-Fr Bd Inv (3/2/87) <sup>b</sup>	Muni National Interm	TWTIX	2.47	1.95	3.99	3.99	4.98	73.89	86.02	0.47	0.47	9.22	3,430
Northern Intermediate Tax-Exempt (3/31/94)	Muni National Interm	NOITX	2.80	2.40	4.42	3.96	4.41	89.62	103.03	0.50	0.46	9.43	3,079
USAA Tax Exempt Intermediate-Term (3/19/82) <sup>b</sup>	Muni National Interm	USATX	2.63	2.93	5.19	4.46	6.77	84.24	75.77	0.55	0.55	8.91	4,070
Baird Quality Intermediate Muni Bd Inv (3/30/01)	Muni National Interm	BMBSX	1.89	1.55	3.14	3.78	4.13	61.42	73.62	0.55	0.55	4.86	1,148
<div></div> Nuveen Intermediate Duration Muni Bd A (6/13/95) <sup>e</sup>	Muni National Interm	NMBAX	-0.25	1.68	3.70	3.61	4.36	88.06	89.87	0.69	0.69	9.50	4,486
Northern Tax-Exempt (3/31/94)	Muni National Long	NOTEX	3.74	3.35	5.92	4.69	5.27	117.27	128.25	0.49	0.45	16.31	993
USAA Tax Exempt Long-Term (3/19/82) <sup>b</sup>	Muni National Long	USTEX	3.34	3.55	6.52	4.58	7.45	111.24	110.00	0.55	0.55	15.45	2,368
Federated Shrt-Interm Dur Muni Instl (8/20/81)	Muni National Short	FSHIX	0.58	1.05	2.13	2.53	4.24	28.39	23.26	0.79	0.46	3.00	1,151
Wells Fargo Short-Term Municipal Bd A (7/18/08) <sup>e</sup>	Muni National Short	WSMAX	-1.47	0.26	1.26	2.29	2.17	17.39	4.85	0.75	0.63	2.11	5,967
PERFORMANCE BENCHMARKS													
Barclays Municipal Bond Index (Dividends Reinvested)			3.30	3.16	5.35	4.72	—						

■ New to the Select List this quarter

### Asset Class and Performance Benchmark Definitions

Tax-exempt bond funds primarily invest in municipal bonds generally issued by state and local governments to fund general expenditures and public projects. Investment income may be subject to certain state and local income taxes and a portion of income may be subject to the alternative minimum tax (AMT). Capital gains are not exempt from federal income tax.

The Barclays Municipal Bond Index is a total-return performance benchmark for the investment-grade tax-exempt bond market. The index includes reinvestment of interest.

If an expense waiver was in place during the period, the net expense ratio was used to calculate fund performance. A net expense ratio lower than the gross expense ratio may reflect a cap on or contractual waiver of fund expenses. Please read the fund prospectus for details on limits or expiration dates for any such waivers.

**Performance quoted is past performance and is no guarantee of future results.**

### NOTES: ALL DATA SHOWN IS AS OF DECEMBER 31, 2015

- Definitions: Gross Expense Ratio—actual expense as stated in the fund's prospectus. Net Expense Ratio—net amount after any expenses are waived and/or partially absorbed by fund management.
- Fund has an initial minimum investment greater than \$100.
- Investor Shares<sup>™</sup> are available at a lower minimum but with higher operating expenses than Select Shares<sup>®</sup>.
- Schwab Affiliate Funds include Schwab Funds and Laudus Funds. Schwab Funds and Laudus Funds are advised by Charles Schwab Investment Management, Inc. Schwab Funds and the Laudus MarketMasters Funds are distributed by Charles Schwab & Co., Inc. Laudus Funds, except the Laudus MarketMasters Funds, are distributed by ALPS Distributors, Inc.
- This fund is available without a load through Schwab. The performance figures shown reflect the performance with the load. Please see the Fund Summary on [schwab.com](http://schwab.com) for performance without load.

# ADDITIONAL FUND CATEGORIES

FOR THE QUARTER ENDED DECEMBER 31, 2015

FUND NAME (FUND INCEPTION DATE)	MORNINGSTAR CATEGORY	QUOTE SYMBOL	AVERAGE ANNUALIZED TOTAL RETURN					UPSIDE MARKET CAPTURE	DOWNSIDE MARKET CAPTURE	GROSS EXPENSE RATIO*	NET EXPENSE RATIO*	TOTAL ASSETS (\$M)
			1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION					
BALANCED FUNDS—LEADING SCHWAB AFFILIATE FUNDS*												
Schwab® Monthly Income Fund—Enhanced Payout (3/28/08)	Conservative Allocation	SWKRX	0.02	3.66	4.47	—	4.21	59.21	54.30	0.72	0.57	97
Schwab® Monthly Income Fund—Moderate Payout (3/28/08)	Conservative Allocation	SWJRX	-0.24	4.91	5.29	—	4.62	79.52	73.14	0.91	0.66	48
Schwab Balanced Fund (11/18/96)	Moderate Allocation	SWOBX	0.92	9.14	8.19	5.39	6.44	110.57	70.69	0.71	0.62	287
BALANCED FUNDS—LEADING 3RD PARTY FUNDS												
Putnam Dynamic Asset Allocation Gr A (2/8/94) <sup>a</sup>	Aggressive Allocation	PAEAX	-6.01	8.54	7.43	5.34	7.26	148.48	116.73	1.07	1.07	2,215
American Century One Choice Agrsv Inv (9/30/04) <sup>b</sup>	Aggressive Allocation	AOGIX	-1.26	8.52	7.72	6.21	7.09	133.81	119.94	0.98	0.98	1,043
JPMorgan Income Builder A (5/31/07) <sup>a</sup>	Conservative Allocation	JNBAX	-5.40	2.35	4.56	—	4.31	93.09	110.92	1.11	0.75	12,074
American Century One Choice VryCnsvr Inv (9/30/04) <sup>b</sup>	Conservative Allocation	AONIX	-1.12	2.86	4.03	4.33	4.41	53.25	55.04	0.68	0.68	369
■ Villere Balanced Inv (9/30/99)	Moderate Allocation	VILLX	-8.24	3.00	7.56	6.00	7.54	100.65	137.22	0.89	0.89	521
Oakmark Equity & Income I (11/1/95) <sup>b</sup>	Moderate Allocation	OAKBX	-4.60	8.22	6.82	6.62	10.16	119.53	98.79	0.74	0.74	17,670
BlackRock Global Allocation Inv A (10/21/94) <sup>a</sup>	World Allocation	MDLOX	-6.25	3.01	2.97	5.22	8.61	94.56	100.34	1.13	1.13	48,537
■ Loomis Sayles Global Equity and Income A (2/1/06) <sup>b,a</sup>	World Allocation	LGMAX	-4.32	4.62	5.49	6.69	6.33	121.92	123.42	1.16	1.16	1,402
TARGET DATE FUNDS—LEADING SCHWAB AFFILIATE FUNDS*												
Schwab Target 2015 Fund (3/12/08)	Target Date 2011-2015	SWGRX	0.32	5.81	5.99	—	4.85	83.31	67.44	0.64	0.53	112
Schwab Target 2020 Fund (7/1/05)	Target Date 2016-2020	SWCRX	0.20	7.18	6.99	5.23	5.65	103.42	84.44	0.65	0.61	531
Schwab Target 2025 Fund (3/12/08)	Target Date 2021-2025	SWHRX	0.17	8.21	7.67	—	6.50	118.38	96.88	0.73	0.67	409
Schwab Target 2030 Fund (7/1/05)	Target Date 2026-2030	SWDRX	0.04	8.99	8.10	5.97	6.40	129.80	106.65	0.75	0.72	784
Schwab Target 2035 Fund (3/12/08)	Target Date 2031-2035	SWIRX	-0.10	9.69	8.55	—	6.99	140.14	115.50	0.82	0.75	337
Schwab Target 2040 Fund (7/1/05)	Target Date 2036-2040	SWERX	-0.18	10.21	8.89	6.40	6.89	147.94	122.25	0.82	0.78	824
Schwab Target 2045 Fund (1/23/13)	Target Date 2041-2045	SWMRX	-0.21	—	—	—	9.19	—	—	1.12	0.80	67
Schwab Target 2050 Fund (1/23/13)	Target Date 2046-2050	SWNRX	-0.21	—	—	—	9.46	—	—	1.20	0.81	54
Schwab Target 2055 Fund (1/23/13)	Target Date 2051+	SWORX	-0.40	—	—	—	9.51	—	—	1.50	0.82	30
TARGET DATE FUNDS—LEADING 3RD PARTY FUNDS												
American Century One Choice 2025 Inv (8/31/04) <sup>b</sup>	Target Date 2021-2025	ARWIX	-1.52	6.27	6.49	5.53	6.31	99.19	89.28	0.83	0.83	2,547
American Century One Choice 2030 Inv (5/30/08) <sup>b</sup>	Target Date 2026-2030	ARCVX	-1.37	7.00	6.90	—	4.77	107.22	93.51	0.85	0.85	1,745
American Century One Choice 2035 Inv (8/31/04) <sup>b</sup>	Target Date 2031-2035	ARYIX	-1.23	7.80	7.40	5.85	6.83	116.18	98.54	0.87	0.87	2,033
American Century One Choice 2040 Inv (5/30/08) <sup>b</sup>	Target Date 2036-2040	ARDVX	-1.32	8.46	7.82	—	5.23	125.34	105.82	0.90	0.90	1,315
American Century One Choice 2045 Inv (8/31/04) <sup>b</sup>	Target Date 2041-2045	AROIX	-1.38	8.98	8.11	6.14	7.18	133.32	112.90	0.94	0.94	1,461
American Century One Choice 2050 Inv (5/30/08) <sup>b</sup>	Target Date 2046-2050	ARFVX	-1.59	9.12	8.23	—	5.10	136.27	116.25	0.96	0.96	773
American Century One Choice 2055 Inv (3/31/11) <sup>b</sup>	Target Date 2051+	AREVX	-1.64	9.36	—	—	7.79	139.10	118.05	0.97	0.97	265
ALTERNATIVE FUNDS—LEADING SCHWAB AFFILIATE FUNDS*												
Schwab Hedged Equity Fund (9/3/02)	Long/Short Equity	SWHEX	-0.39	8.15	6.76	3.96	6.44	63.80	77.28	2.02	1.33	210
ALTERNATIVE FUNDS—LEADING 3RD PARTY FUNDS												
Deutsche Enhanced Commodity Strat Instl (2/14/05)	Commodities Broad Basket	SKIRX	-16.94	-10.24	-8.18	-2.96	-1.34	48.88	51.56	1.17	0.99	1,854
Parametric Commodity Strategy Investor (1/3/12)	Commodities Broad Basket	EAPCX	-22.36	-16.08	—	—	-12.40	62.38	76.75	1.24	0.95	107
Glenmede Secured Options (6/30/10)	Long/Short Equity	GTSOX	6.98	8.39	8.45	—	11.52	49.11	38.03	0.87	0.87	384
Glenmede Long/Short (9/29/06)	Long/Short Equity	GTAPX	0.27	6.21	5.66	—	1.76	36.91	29.06	2.48	1.22	209
■ JPMorgan Multi-Cap Market Neutral A (5/23/03) <sup>a</sup>	Market Neutral	OGNAX	-4.12	0.40	0.16	-0.06	0.84	36.04	-14.36	3.26	1.25	272
AC Alternatives™ Market Neutral Val Inv (10/31/11) <sup>b</sup>	Market Neutral	ACVVX	3.68	2.79	—	—	3.22	21.91	-51.48	4.20	1.62	213
PERFORMANCE BENCHMARKS												
S&P 500 Index® (Dividends Reinvested)			1.38	15.13	12.57	7.31	—					
Barclays U.S. Aggregate Bond Index (Dividends Reinvested)			0.55	1.44	3.25	4.51	—					

■ New to the Select List this quarter

## Asset Class Definitions

Balanced funds invest in a mix of stocks, bonds and cash within one fund and are classified into two categories. Conservative Allocation funds may invest 20% to 50% of assets in equities and 50% to 80% of assets in fixed income and cash. Moderate Allocation funds may invest 50% to 70% of assets in equities, with the balance invested in fixed income and cash. Convertible funds invest primarily in bonds and preferred stocks that can be converted into common stocks. Target maturity or "Lifecycle" funds are managed for investors planning to retire (or to begin withdrawing substantial portions of their investments) in a particular year. These funds provide both asset allocation and rebalancing for investors following an investment strategy that grows more conservative as the target date approaches.

Commodity-related products, including futures, carry a high level of risk and are not suitable for all investors. Commodity-related products may be extremely volatile, illiquid and can be significantly affected by underlying commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions, regardless of the length of time shares are held. Investments in commodity-related products may subject the fund to significantly greater volatility than investments in traditional securities and involve substantial risks, including risk of loss of a significant portion of their principal value.

If an expense waiver was in place during the period, the net expense ratio was used to calculate fund performance. A net expense ratio lower than the gross expense ratio may reflect a cap on or contractual waiver of fund expenses. Please read the fund prospectus for details on limits or expiration dates for any such waivers.

## Performance quoted is past performance and is no guarantee of future results.

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# INCOME MUTUAL FUND SELECT LIST®

Schwab's Income Mutual Fund Select List was developed and is managed by the Charles Schwab Investment Advisory, Inc. (CSIA) experts and includes mutual funds that have met their rigorous criteria, including both quantitative and qualitative factors. All are no-load and no-transaction fee and are selected based on their ability to generate income in their respective asset classes. The list is designed to help you achieve income and growth. For more information on how funds are selected, see pages 4 and 14.

FOR THE QUARTER ENDED DECEMBER 31, 2015

FUND NAME (FUND INCEPTION DATE)	MORNINGSSTAR CATEGORY	QUOTE SYMBOL	AVERAGE ANNUALIZED TOTAL RETURN					UPSIDE MARKET CAPTURE	DOWNSIDE MARKET CAPTURE	
			1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION			
LEADING SCHWAB AFFILIATE FUNDS <sup>d</sup>										
Schwab Core Equity Fund (7/1/96)	Large Blend	SWANX	0.55	14.92	11.90	6.80	8.14	101.33	105.14	
Laudus Mondrian International Equity Fund – Select Shares (6/17/08) <sup>b,*</sup>	Foreign Large Value	LIEFX	-1.86	5.26	4.02	–	-0.38	110.99	89.00	
Schwab GNMA Fund (3/3/03)	Intermediate Government	SWG SX	1.28	1.34	2.76	4.27	3.90	84.65	81.13	
Schwab Intermediate-Term Bond Fund (10/31/07)	Intermediate-Term Bond	SWIIX	0.74	1.09	2.42	–	4.17	72.66	71.61	
Schwab Tax-Free Bond Fund (9/11/92)	Muni National Interm	SWNTX	2.66	2.58	4.53	4.33	5.14	78.60	75.56	
■ Schwab Global Real Estate Fund (5/31/07)	Global Real Estate	SWASX	3.02	5.64	6.27	–	0.65	78.17	81.32	
Schwab® Monthly Income Fund – Enhanced Payout (3/28/08)	Conservative Allocation	SWKRX	0.02	3.66	4.47	–	4.21	59.21	54.30	
Schwab® Monthly Income Fund – Moderate Payout (3/28/08)	Conservative Allocation	SWJRX	-0.24	4.91	5.29	–	4.62	79.52	73.14	
Schwab Balanced Fund (11/18/96)	Moderate Allocation	SWOBX	0.92	9.14	8.19	5.39	6.44	110.57	70.69	
LEADING 3RD PARTY FUNDS										
DOMESTIC										
Parnassus Core Equity Investor (8/31/92)	Large Blend	PRBLX	-0.55	15.12	12.68	9.89	10.50	97.83	94.77	
TIAA-CREF Social Choice Eq Retail (3/31/06)	Large Blend	TICRX	-2.70	13.08	10.39	6.62	6.27	96.10	109.57	
American Century Equity Income Inv (8/1/94) <sup>b</sup>	Large Value	TWEIX	0.60	10.57	9.32	6.79	10.38	72.28	74.73	
JPMorgan Equity Income A (2/18/92) <sup>a</sup>	Large Value	OIEIX	-7.63	11.21	10.81	7.10	8.30	92.42	99.16	
INTERNATIONAL										
Tocqueville International Value (8/1/94)	Foreign Large Blend	TIVFX	7.27	7.78	4.78	4.50	5.69	100.81	63.35	
Henderson Global Equity Income A (11/30/06) <sup>a</sup>	Foreign Large Value	HFQAX	-6.19	3.59	4.68	–	2.68	93.55	68.06	
Perkins Global Value T (6/29/01) <sup>b</sup>	World Stock	JGVAX	-2.08	7.69	7.25	4.90	6.28	90.29	52.53	
SECTOR										
Oppenheimer SteelPath MLP Select 40 A (3/30/10) <sup>a</sup>	Energy Limited Partnership	MLPFX	-25.72	-1.07	1.17	–	3.42	69.12	105.76	
■ Prudential Global Real Estate Z (5/5/98)	Global Real Estate	PURZX	0.09	5.96	7.44	5.38	9.01	80.82	83.06	
Cohen & Steers Real Estate Securities A (9/2/97) <sup>a</sup>	Real Estate	CSEIX	2.52	12.26	11.92	7.29	9.53	90.02	35.35	
TAXABLE BOND										
RidgeWorth Seix Floating Rate Hi Inc I (3/1/06)	Bank Loan	SAMBX	-1.17	1.57	3.13	–	3.74	37.67	7.36	
Lord Abbett Income A (1/4/82) <sup>a</sup>	Corporate Bond	LAGVX	-5.27	0.61	4.07	5.70	7.80	113.45	120.96	
TCW Emerging Markets Income N (3/1/04)	Emerging Markets Bond	TGINX	-2.83	-2.45	2.91	7.03	7.53	56.47	155.24	
RidgeWorth Seix High Yield I (12/29/00)	High Yield Bond	SAMHX	-4.91	1.00	4.12	5.26	6.41	88.06	96.03	
American Century Ginnie Mae Inv (9/23/85) <sup>b</sup>	Intermediate Government	BGNMX	0.77	1.06	2.55	4.21	6.33	74.97	75.60	
DoubleLine Total Return Bond N (4/6/10)	Intermediate-Term Bond	DLTNX	2.07	2.73	5.22	–	7.34	96.41	57.07	
USAA Income (3/4/74) <sup>b</sup>	Intermediate-Term Bond	USAIX	-1.11	1.49	3.63	4.86	8.13	100.51	99.47	
PIMCO Income D (3/30/07)	Multisector Bond	PONDY	2.28	4.56	8.12	–	8.76	105.84	17.53	
Loomis Sayles Ltd Term Govt and Agency A (1/3/89) <sup>b,a</sup>	Short Government	NEFLX	-1.95	-0.41	0.89	3.07	4.81	31.68	35.04	
Lord Abbett Short Duration Income A (11/4/93) <sup>a</sup>	Short-Term Bond	LALDX	-1.83	0.49	2.23	4.18	4.19	36.85	15.27	
PIMCO Foreign Bond (USD-Hedged) D (4/8/98)	World Bond	PFODX	0.00	3.62	5.55	5.70	5.77	129.15	77.76	
TAX-FREE BOND										
American Century IntermTrm Tx-Fr Bd Inv (3/2/87) <sup>b</sup>	Muni National Interm	TWTIX	2.47	1.95	3.99	3.99	4.98	73.89	86.02	
USAA Tax Exempt Intermediate-Term (3/19/82) <sup>b</sup>	Muni National Interm	USATX	2.63	2.93	5.19	4.46	6.77	84.24	75.77	
Northern Tax-Exempt (3/31/94)	Muni National Long	NOTEX	3.74	3.35	5.92	4.69	5.27	117.27	128.25	
Federated Shrt-Interm Dur Muni Instl (8/20/81)	Muni National Short	FSHIX	0.58	1.05	2.13	2.53	4.24	28.39	23.26	
BALANCED FUNDS										
JPMorgan Income Builder A (5/31/07) <sup>a</sup>	Conservative Allocation	JNBAX	-5.40	2.35	4.56	–	4.31	93.09	110.92	
■ Villere Balanced Inv (9/30/99)	Moderate Allocation	VILLX	-8.24	3.00	7.56	6.00	7.54	100.65	137.22	
■ BlackRock Global Allocation Inv A (10/21/94) <sup>a</sup>	World Allocation	MDLOX	-6.25	3.01	2.97	5.22	8.61	94.56	100.34	

■ New to the Select List this quarter \*\$50,000 initial minimum investment

## Definitions

30-day SEC Yield: Based on a fund's most recently reported portfolio holdings, this measure shows the income an investor would earn if invested in that fund for the subsequent 12 months. Although a fund's holdings are likely to change over that time, the SEC yield provides a yardstick for comparing the income potential across funds within the same category.

Annual Distribution Yield: This measure looks back at the actual payouts of a mutual fund over the past 12 months. It provides an accurate picture of the fund's recent short-term distributions without any forward anticipation. The Income Select List shows the 12-month dividend and interest return for each fund in the form of a percentage of its share price (also known as "payout ratio"). The yield does not include long- or short-term capital gains distributions.

## INCOME MUTUAL FUND SELECT LIST® (CONTINUED)

Whether you need income monthly, quarterly or annually, you have a number of fund choices. The funds on the Income Select List provide different types of income: fixed-income funds generally pay interest measured by yield; equity funds pay dividends measured by dividend return or payout ratio.

FOR THE QUARTER ENDED DECEMBER 31, 2015

GROSS EXPENSE RATIO*	NET EXPENSE RATIO*	AVG. WEIGHTED MATURITY (YRS)	TOTAL ASSETS (\$M)	PAYMENT DATE	FREQUENCY	ANNUAL DISTRIBUTION YIELD	MOST RECENT DIVIDEND PAYMENT	30-DAY SEC YIELD
0.72	0.72	—	2,273	12/10/15	Annually	1.63	0.36	—
1.12	1.02	—	101	12/15/15	Annually	2.42	0.14	—
0.64	0.56	5.50	296	12/31/15	Monthly	2.38	0.02	2.22
0.62	0.45	4.68	342	12/31/15	Monthly	1.92	0.02	1.83
0.57	0.49	5.14	650	12/31/15	Monthly	2.21	0.02	1.37
1.15	1.05	—	260	12/15/15	Quarterly	3.00	0.07	2.00
0.72	0.57	6.27	97	1/15/16	Monthly	2.41	0.02	2.08
0.91	0.66	6.27	48	1/15/16	Monthly	2.57	0.02	2.17
0.71	0.62	6.46	287	12/30/15	Annually	2.18	0.32	—
0.87	0.87	—	11,920	12/30/15	Quarterly	2.02	0.50	—
0.46	0.46	—	2,604	12/11/15	Annually	1.76	0.26	—
0.93	0.93	—	8,655	12/28/15	Quarterly	2.36	0.07	2.34
1.09	1.04	—	10,566	12/29/15	Monthly	1.72	0.03	1.71
1.54	1.25	—	367	12/15/15	Annually	1.74	0.25	—
1.19	1.19	—	3,478	12/30/15	Monthly	6.60	0.03	3.35
1.01	1.01	—	237	12/21/15	Annually	2.06	0.27	—
6.44	6.32	—	—	1/8/16	Quarterly	7.84	0.06	—
0.97	0.97	—	3,380	12/16/15	Quarterly	1.81	0.08	2.18
1.22	1.22	—	1,437	12/10/15	Quarterly	2.01	0.11	—
0.61	0.61	—	4,895	12/31/15	Monthly	4.84	0.03	4.58
0.88	0.78	—	1,857	12/31/15	Monthly	4.70	0.01	4.48
1.13	1.13	6.42	2,762	12/30/15	Monthly	5.14	0.03	5.21
0.58	0.58	6.17	560	12/31/15	Monthly	6.08	0.04	7.04
0.55	0.55	5.29	1,163	12/31/15	Monthly	2.37	0.02	1.79
0.72	0.72	5.14	51,638	12/31/15	Monthly	3.85	0.04	3.53
0.53	0.53	8.26	5,861	12/15/15	Monthly	3.65	0.06	3.57
0.79	0.79	5.39	52,104	12/31/15	Monthly	7.41	0.05	3.32
0.81	0.80	3.17	870	12/31/15	Monthly	1.54	0.02	0.96
0.59	0.59	—	33,635	12/31/15	Monthly	3.95	0.01	3.01
0.92	0.90	11.66	7,653	12/31/15	Monthly	6.84	0.01	1.11
0.47	0.47	9.22	3,430	12/31/15	Monthly	2.61	0.02	1.31
0.55	0.55	8.91	4,070	12/31/15	Monthly	3.26	0.04	1.65
0.49	0.45	16.31	993	12/17/15	Monthly	3.42	0.02	2.90
0.79	0.46	3.00	1,151	12/31/15	Monthly	1.35	0.01	1.04
1.11	0.75	11.10	12,074	12/29/15	Monthly	4.06	0.04	4.26
0.89	0.89	4.62	521	12/22/15	Annually	0.94	0.20	—
1.13	1.13	—	48,537	12/15/15	Semi-Annually	0.98	0.11	—

If an expense waiver was in place during the period, the net expense ratio was used to calculate fund performance. A net expense ratio lower than the gross expense ratio may reflect a cap or contractual waiver of fund expenses. Please read the fund prospectus for details on limits or expiration dates for any such waivers.

**Performance quoted is past performance and is no guarantee of future results.**

For asset class and performance benchmark definitions, please see footnotes on pages 5–11. Please see page 10 for information on items a–e cited above.

## A smart approach to help you generate income from your investments

Schwab developed the Income Mutual Fund Select List to help investors in or approaching retirement build or modify an investment portfolio that addresses their growth and income needs. Here are some things to consider as you develop or fine-tune your portfolio:

- **Asset Allocation:** As always, your portfolio's asset allocation should be driven by your investment goals, time horizon and risk tolerance. As your goals shift from accumulation to income, you can use the funds on this list to help address your income and growth needs from both bond and equity funds.
- **Diversification:** Investors in or nearing retirement often believe that they should be exclusively in bonds and other fixed income assets. While for some investors this might be an appropriate strategy, you may want to consider keeping some percentage of your portfolio in equities for the capital appreciation potential they provide.
- **Risk vs. Return:** Evaluate yields within the context of risk: different categories or asset classes will reflect differing risk/reward trade-offs. Consider a mix of bond funds: government, municipal and corporate. Also, a fund's exposure to below-investment grade bonds is important to keep in mind. One of the selection criteria for fixed-income funds on the Income Select List is relatively low exposure to these types of securities, except for the high yield, multisector and emerging bond categories. (To see a fixed-income fund's credit rating, click on the fund name, then the Portfolio tab.)
- **Maturity:** Bond funds with longer maturities can leave investors exposed to greater inflation and credit risk, so consider a balance of maturities, from ultrashort to long.
- **Distribution Frequency:** Different funds provide payouts on different schedules. Check the frequency of distributions to determine when you'll receive income, if any, from the fund.
- **Taxes:** Remember tax implications. Income on investments in nonretirement accounts is generally taxable; in tax-protected retirement accounts, such as IRAs and 401(k)s, it's less of a concern. Where appropriate, consider tax-free bond funds.

**Schwab provides a range of easy-to-use tools, resources and guidance at [schwab.com](http://schwab.com) for investors in or nearing retirement.**



For the Income Select List, CSIA generally includes no more than the two most favorably evaluated funds in each asset category, except for the intermediate-term bond category, which may feature up to five funds.

**Upside and downside capture ratios:** a measure of how much a fund moves in comparison to the broad market when the market goes up or down.

**Upside capture ratio:** For the months in which the market return was positive, what was the ratio of the fund's returns to the market's returns? Upside capture of 110% means that in up markets, the fund went up 10% more than the market did. For investors who are concerned with growth in rising markets, looking for a fund with a high upside capture ratio (above 100%) can be useful.

**Downside capture ratio:** For the months in which the market return was negative, what was the ratio of the fund's returns to the market's returns? Downside capture of 110% means that in down markets, the fund went down 10% more than the market did. For investors who are concerned with minimizing losses, looking for a fund with a low downside capture ratio (below 100%) can be helpful.

Generally speaking, it's good for a fund to have an upside capture ratio at least as high as its downside capture ratio, and preferably higher. A fund delivering 110% of the market's positive returns but only 105% of the negative returns means that the fund has delivered more of the market's upside than downside (which is desirable).

The "holy grail" for many investors is a fund with a low downside capture ratio that has an upside capture ratio of 100% or more.

The absolute level of upside capture and downside capture can be important as well, providing an overall indication of the fund's risk relative to the market. If both ratios are around 120%, it means that the fund has been more volatile than the market (even if upside is higher than downside). If both ratios are around 80%, it means that the fund has been less volatile than the market.

As with most metrics, these ratios are backward looking (in this case, over the past three years). Just because a fund has delivered a certain percentage of the market's returns in past up markets and down markets doesn't mean that it is guaranteed to do the same in future up or down markets.

In a three-year period with very few up months or very few down months, the upside or downside capture ratio can be hard to measure.

These ratios provide no information about the fund's overall returns and are simply a measure of performance relative to the market in up periods and in down periods.

### Additional Important Information

More than 3,500 funds participate in the Mutual Fund OneSource® service. Only these funds, including Schwab Affiliate Funds, are eligible for the Select Lists. Schwab receives remuneration from fund companies, and/or their affiliates, in the Mutual Fund OneSource service, including Schwab Affiliate Funds, for record keeping, shareholder services and other administrative services. Schwab and its affiliates also receive fees from Schwab Affiliate Funds for investment advisory and fund administration services. The aggregate fees Schwab or its affiliates receive from Schwab Affiliate Funds (see fund prospectuses for more details) are greater than the remuneration Schwab receives from other fund companies participating in Schwab's Mutual Fund OneSource service. The amount of fees Schwab or its affiliates receive from funds participating in the Mutual Fund OneSource service is not considered in the Select Lists selection, nor does any fund pay Schwab to be included in the Select Lists. Eligible funds are selected based solely on the quantitative and qualitative criteria described on pages 4 and 14.

Schwab Affiliate Funds include Schwab Funds and Laudus Funds. Schwab Funds and Laudus Funds are advised by Charles Schwab Investment Management, Inc. Schwab Funds and the Laudus MarketMasters Funds are distributed by Charles Schwab & Co., Inc. and Laudus Funds (except Laudus MarketMasters Funds) are distributed by ALPS Distributors, Inc.

### Investing in Mutual Funds at Schwab

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

**Investment value will fluctuate and shares, when redeemed, may be worth more or less than original cost.**

Trades in no-load mutual funds participating in the Mutual Fund OneSource service (including Schwab Funds), as well as certain other funds, are available without loads or transaction fees when placed through schwab.com or one of our automated phone channels. However, for each of these trades placed through a broker, a \$25 service charge applies. Additionally, Schwab will charge a short-term redemption fee (STR) if you sell shares of OneSource funds held for 90 days or less. Schwab reserves the right to exempt some funds from the STR fee, including certain Schwab Funds, which may charge a separate redemption fee, and funds that accommodate short-term trading. Certain funds may charge a redemption fee separate, and in addition to, the OneSource STR. All other funds available at Schwab are subject to a transaction fee when bought and sold and may be subject to fees assessed by the fund itself. Schwab reserves the right to change the funds it makes available without transaction fees and reinstate fees on any funds.

### Information on the Mutual Fund OneSource Select List®

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Charles Schwab Investment Advisory (CSIA) is a separately registered investment advisor and an affiliate of Charles Schwab & Co., Inc. Among other functions, CSIA oversees the selection of investments and ongoing monitoring of the Select List and produces market commentary and other investment advice for Schwab clients and financial consultants. (0114-0381)

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