

FIRST QUARTER

2017

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ETF Select List[®]

**A List of Prescreened Lower-Cost
Exchange-Traded Funds**

ETF Expenses to Watch

Exchange-traded funds (ETFs) can offer liquidity and may be a relatively inexpensive way to gain exposure to a variety of asset classes. But some ETFs are cheaper than others. Here are three expenses to watch.

Commissions. Because ETFs trade on an exchange, you may have to pay a commission when you buy or sell one. Though some ETFs are available commission-free, many are not.

Operating expenses. These costs are generally levied at an annual rate known as an operating expense ratio (OER). Such fees cover the day-to-day costs of managing the ETF's assets, administration and other costs. Investors don't pay these fees directly. Rather, fund managers deduct the operating expenses daily from an ETF's total average assets.

OERs are listed in an ETF's prospectus. They can vary widely: from as little as a few basis points to as much as a few percentage points, with some ETFs charging up to 3.87%.¹ Even small differences in fees can have a big impact on your portfolio over time. For example, imagine you invested \$100,000 in a hypothetical ETF with an OER of 0.1%. Assuming an annual return of 6% and no other fees, after 20 years your investment would have risen to \$314,360.² Now imagine you invested the same amount in another hypothetical ETF with an annual OER of 0.5%. After 20 years, you'd have just \$290,121.

(continued on page 6)

HIGHLIGHTS:

ETF Expenses to Watch

ETF Basics

ETF Resources

Understanding ETFs

Schwab ETF OneSource[™]

Schwab ETF Portfolio Builder[®]

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Find an appropriate ETF for your goals

The ETF Select List provides you with a list of prescreened, lower-cost ETFs representing one ETF from 68 asset categories. This makes it easier for you to find the right ETFs to fit your investment needs and goals. The List was developed by the experts at Charles Schwab Investment Advisory, Inc.,³ and is updated quarterly.

HOW ETFS ARE SELECTED

To build the Schwab ETF Select List®, Schwab analyzes all eligible ETFs using the quantitative and qualitative selection criteria described below. This includes both Schwab ETFs™ and ETFs from third-party providers. Schwab accepts no payments for inclusion of any ETF on this List, and all ETFs are evaluated using the same criteria.

Because the ETFs featured typically seek to track their index as closely as possible (not outperform, as actively-managed mutual funds seek to do), the List highlights just one ETF per category. Each ETF that makes the List has earned its spot based upon a combination of qualitative and quantitative variables such as cost of ownership, risk, fund structure and fit within a given category rather than outperforming its peers.

ELIGIBILITY REQUIREMENTS

To be eligible for the ETF Select List, an ETF must meet certain minimum requirements to ensure a basic standard of liquidity, viability and structural stability among eligible ETFs. Eligibility criteria include:

- assets under management
- bid-ask spread
- number of competitive market makers
- length of track record
- tracking error

SELECTION CRITERIA

From among these eligible funds, one is selected for each ETF Select List category on the basis of its low cost of ownership, assuming a \$5,000 purchase into the ETF is made online on schwab.com, held for one year, then sold.⁴ Estimated total cost of ownership as an annual percentage of invested assets including:

- net operating expenses
- bid-ask spreads
- trade commissions (buy and sell)

Commissions can add significantly to the cost of ownership, particularly smaller positions with shorter holding periods. Schwab does not charge a commission for online trades of ETFs available through Schwab ETF OneSource,™* giving them a cost advantage in the selection process. Schwab ETFs are the only funds available on Schwab ETF OneSource in certain categories. Investing different amounts, trading more or less frequently, trading through brokers with commission structures different from Schwab's, or trading at Schwab through a trading channel like a live representative or automated phone, or through a Schwab fee-based service that waives commissions, would affect cost of ownership estimates and could favor an ETF other than the one selected by Schwab for the List.

Other criteria are also considered, such as risk, fund structure and other qualitative factors. For example, a fund may be excluded if its investment style or portfolio holdings are not representative of its asset category; its bid-ask spread reflects a history of occasional large spikes; or its structure makes it more susceptible to adverse tax consequences.

To show a broader sampling of ETF providers on the List, no single ETF provider, including Schwab, may represent more than one-third of the ETFs on the ETF Select List. If any ETF provider, including Schwab, has more than one-third of the most favorably evaluated funds on the List, one or more of the second-most favorably evaluated ETFs will be substituted as necessary to limit that ETF provider's representation. ETFs are evaluated and selected quarterly for the List using quarter-end data.

³ Charles Schwab Investment Advisory, Inc., a registered investment advisor, is an affiliate of Charles Schwab & Co., Inc.

⁴ The \$5,000 investment size is representative of historical Schwab independent retail client trading activity. The one-year holding period is an estimate based on industry averages and Schwab's general view regarding the benefits of annual portfolio rebalancing. The Select List excludes leveraged ETFs, inverse ETFs, ETNs, actively-managed ETFs, muni bond ETFs with underlying holdings subject to AMT, and unmanaged baskets of securities.

EXCHANGE-TRADED FUNDS

FOR THE QUARTER ENDED DECEMBER 31, 2016

ETF SELECT LIST CATEGORY	QUOTE SYMBOL	FUND NAME	INDEX	GROSS EXPENSES ⁵	ONLINE COMMISSION	DESCRIPTION
U.S. EQUITY ETFs						
Large Core	SCHX	Schwab U.S. Large-Cap	Dow Jones U.S. Large Cap Total Stock Market Index	0.03%	\$0*	Index covers over 700 largest U.S. firms which comprise about 80% of the U.S. market (by capitalization)
Large Growth	SCHG	Schwab U.S. Large-Cap Growth	Dow Jones U.S. Large Cap Growth Total Stock Market Index	0.04%	\$0*	ETF has diversified exposure to large growth names such as Apple, Berkshire Hathaway and Amazon
Large Value	SCHV	Schwab U.S. Large-Cap Value	Dow Jones U.S. Large Cap Value Total Stock Market Index	0.04%	\$0*	ETF has diversified exposure to large value names such as ExxonMobil, GE, and Wells Fargo
Mid Core	SCHM	Schwab U.S. Mid-Cap	Dow Jones U.S. Mid Cap Total Stock Market Index	0.06%	\$0*	Provides U.S. equity exposure to the mid-cap portion of the broader U.S. stock market
Mid Growth	MDYG	SPDR® S&P 400 Mid Cap Growth ETF	S&P MidCap 400 Growth Index	0.15%	\$0*	U.S. growth stocks with market caps between \$850M and \$3.8B selected based on sales growth, earnings growth, and momentum
Mid Value	MDYV	SPDR® S&P 400 Mid Cap Value ETF	S&P Mid Cap 400 Value Index	0.15%	\$0*	Holds mid-cap stocks with value characteristics based on: book value to price, earnings to price and sales to price ratios
Small Core	SCHA	Schwab U.S. Small-Cap	Dow Jones U.S. Small Cap Total Stock Market Index	0.06%	\$0*	Focuses on over 1700 small-cap companies; index excludes the smallest micro-cap stocks
Small Growth	SLYG	SPDR® S&P SmallCap 600 Growth	S&P Small Cap 600 Growth Index	0.15%	\$0*	Holds small-cap stocks with growth characteristics and market caps ranging from \$250M to \$1.2B
Small Value	SLYV	SPDR® S&P SmallCap 600 Value	S&P Small Cap 600 Value Index	0.15%	\$0*	Holds stocks with value characteristics selected from the S&P 600 Small Cap 600 index
Total Stock Market	SCHB	Schwab U.S. Broad Market ETF	Dow Jones U.S. Broad Stock Market Index	0.03%	\$0*	Holds over 1900 large to small-cap firms; covers virtually the entire U.S. stock market (by capitalization)
Dividend-focused	SCHD	Schwab U.S. Dividend Equity ETF	Dow Jones U.S. Dividend 100 Index	0.07%	\$0*	Holds U.S. companies that consistently paid dividends and have relative fundamental strength based on financial ratios
INTERNATIONAL EQUITY ETFs						
Developed Core	SCHF	Schwab International Equity ETF	FTSE Developed ex U.S. Index	0.07%	\$0*	Canada included in this index which highlights large and mid-cap stocks from 20 developed markets
Developed Growth	EFG	iShares MSCI EAFE Growth Index	MSCI EAFE Growth Index	0.40%	\$8.95	Developed stock markets excl. U.S. and Canada. Targets securities with growth characteristics
Developed Value	EFV	iShares MSCI EAFE Value Index	MSCI EAFE Value Index	0.40%	\$8.95	Developed stock markets excl. U.S. and Canada. Targets securities with value characteristics
Developed Small	SCHC	Schwab International Small-Cap Equity ETF	FTSE Developed Small Cap ex-U.S. Liquid Index	0.16%	\$0*	The fund has diversified exposure to international small-cap companies in over 20 developed international markets
Emerging Market Stock	SCHE	Schwab Emerging Markets Equity ETF	FTSE Emerging Index	0.13%	\$0*	Large and mid-cap stocks from over 20 emerging markets. Financials are over 25% of the holdings
All World ex-U.S. Stock	CWI	SPDR® MSCI ACWI ex-U.S. ETF	MSCI All Country World Index ex USA Index	0.34%	\$0*	Tracks a cap-weighted index of developed and emerging market countries excluding the U.S.
Global Stock	VT	Vanguard Total World Stock Index ETF	FTSE Global All Cap Net TR US RIC	0.14%	\$8.95	Holds over 6000 stocks spanning the investable global stock markets, including emerging markets
Europe Stock	FEU	SPDR® STOXX Europe 50 ETF	STOXX Europe 50 Index	0.29%	\$0*	Holds 50 of the largest companies in Europe, including Nestle, HSBC, and Royal Dutch Shell
Pacific Asia Stock	VPL	Vanguard FTSE Pacific ETF	FTSE Developed Asia Pacific All Cap Index (Net of Tax US RIC)	0.12%	\$8.95	Features stocks from developed Asian countries, approx. 60% from Japan; also includes Australia, South Korea and Hong Kong
Pacific Asia ex-Japan Stock	EPP	iShares MSCI Pacific ex-Japan	MSCI Pacific ex-Japan Index	0.49%	\$8.95	Includes publicly traded stocks from Australia, Hong Kong, and Singapore
Japan Stock	EWJ	iShares MSCI Japan	MSCI Japan Index	0.48%	\$8.95	Tracks a cap-weighted index of Japanese equities; does not hedge currency exposure
China Stock	GXC	SPDR® S&P China ETF	S&P China BMI Index	0.59%	\$0*	Tracks a broad, cap-weighted index of investable Chinese shares. The fund's holdings stretch across all cap sizes

■ New to the ETF Select List this quarter

⁵“Gross expenses” reflect a fund's total annual operating expenses as stated in the fund's prospectus and do not reflect any expense reimbursements or waivers that may exist. Some ETFs appearing on this List may be subject to expense reimbursements and waivers, and less such reimbursements and waivers may have lower total annual operating expenses (i.e., “net expenses”) than indicated herein. Please read the fund prospectus carefully to determine the existence of any expense reimbursements or waivers and details on their limits and termination dates.

No mention of particular funds or fund families here should be construed as a recommendation or considered an offer to sell or a solicitation of an offer to buy any securities. This information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. The securities listed may not be suitable for everyone. Each investor needs to review a securities transaction for his or her own particular situation. Schwab or its employees may sometimes hold positions in the securities listed here. Data contained here is obtained from what are considered reliable sources; however, its accuracy, completeness or reliability cannot be guaranteed.

International investments involve additional risks, which include differences in financial accounting standards, currency fluctuations, political instability, foreign taxes and regulations, and the potential for illiquid markets. Investing in emerging markets may accentuate these risks.

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

Charles Schwab Investment Management, Inc., (“CSIM”) the investment advisor for the Schwab ETFs and an affiliate of Schwab, receives fees from the Schwab ETFs for investment advisory and fund administration services. The amount of fees CSIM receives from the Schwab ETFs is not considered in ETF Select List selection, nor do the Schwab ETFs or any third-party ETF, or any of their affiliates, pay Schwab to be included in the ETF Select List.

Please note this List is not exhaustive. Many high-quality ETFs could be appropriate for you based on your portfolio goals and trading strategies. Schwab offers additional tools and resources on schwab.com to help you find them, such as the ETF Screener, in-depth fund-level analysis, and expert opinions covering a wide variety of products and investing strategies.

Some specialized exchange-traded funds can be subject to additional market risks. Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. Shares are bought and sold at market price, which may be higher or lower than the net asset value (NAV).

High-yield funds invest in lower-rated securities. This subjects these funds to greater credit risk, default risk and liquidity risk.

FOR THE QUARTER ENDED DECEMBER 31, 2016

ETF SELECT LIST CATEGORY	QUOTE SYMBOL	FUND NAME	INDEX	GROSS EXPENSES ⁶	ONLINE COMMISSION	DESCRIPTION
BOND ETFs						
Short Term Broad Market	BSV	Vanguard Short-Term Bond ETF	Bloomberg Barclays U.S. 1-5 Year Gov't/Credit Float Adjusted Index	0.09%	\$8.95	Invests in U.S. government and investment grade corporate bonds with durations from one to five years
Short Term Corporate	VCSH	Vanguard Short-Term Corp Bond Index ETF	Bloomberg Barclays U.S. 1-5 Year Corporate Bond Index	0.07%	\$8.95	Holds over 1500 short-term, investment grade U.S. corporate bonds
Short Term Muni	SHM	SPDR® Nuveen Barclays Short Term Municipal Bond ETF	Bloomberg Barclays Managed Money Municipal Short Term Index	0.20%	\$0*	Holds short-term tax exempt ⁶ bonds (includes: state and local general obligation, revenue, insured and pre-refunded bonds)
Short Term Treasury	SCHO	Schwab Short-Term U.S. Treasury ETF	Bloomberg Barclays U.S. 1-3 Year Treasury Index	0.06%	\$0*	ETF features about 60 Treasuries which mature in 1-3 years
Intermediate Broad Market	SCHZ	Schwab U.S. Aggregate Bond ETF	Bloomberg Barclays U.S. Aggregate Bond Index	0.04%	\$0*	Holds securities that are fixed rate, non-convertible with at least \$250 million of outstanding face value
Intermediate Corporate	CORP	PIMCO Investment Grade Corporate Bond ETF	B of A Merrill Lynch U.S. Corporate Index	0.20%	\$0*	Tracks a market-weighted index of U.S. dollar denominated investment-grade corporate bonds
Intermediate Muni	TFI	SPDR® Nuveen Barclays Municipal Bond ETF	Bloomberg Barclays Municipal Managed Money Index	0.30%	\$0*	Tracks the U.S. long term tax-exempt ⁶ bond market and includes general obligation, revenue, pre-refunded and insured issues
Intermediate Treasury	SCHR	Schwab Intermediate-Term U.S. Treasury ETF	Bloomberg Barclays U.S. 3-10 Year Treasury Bond Index	0.06%	\$0*	ETF features Treasuries which mature in 3-10 years
Long Term Broad Market	BLV	Vanguard Long-Term Bond Index ETF	Bloomberg Barclays U.S. Long Gov't/ Credit Float Adjusted Index	0.09%	\$8.95	Provides diversified exposure to the long-term, investment-grade segment of the U.S. bond market
Long Term Corporate	VCLT	Vanguard Long-Term Corp Bond Index ETF	Bloomberg Barclays U.S. 10+ Year Corporate Bond Index	0.07%	\$8.95	Invests in high-quality (investment-grade) corporate bonds; maintains a dollar-weighted average maturity of 10-25 years
Long Term Muni Bond	MLN	Market Vectors® Long Municipal ETF	Bloomberg Barclays AMT-Free Long Continuous Municipal Index	0.24%	\$8.95	Holds tax-exempt ⁶ municipal bonds issued within the last 5 years with nominal maturities of at least 17 years
Long Term Treasury	TLO	SPDR® Barclays Long Term Treasury ETF	Bloomberg Barclays Long U.S. Treasury Index	0.10%	\$0*	Holds U.S. Treasuries with an average maturity of over 24 years
High Yield	PHB	PowerShares Fundamental High Yield Corp Bond	RAFI® Bonds U.S. High Yield 1-10 Index	0.50%	\$0*	Tracks an index of high-yield, U.S. bonds that are selected based on the Research Affiliates Fundamental Index® methodology
TIPS	SCHP	Schwab U.S. TIPS ETF	Barclays U.S. Treasury Inflation Protected Securities (TIPS) Index (Series-L)	0.07%	\$0*	ETF highlights Treasury securities which are designed to adjust for and help protect against inflation
International	BNDX	Vanguard Total International Bond	Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index	0.15%	\$8.95	Provides currency hedged exposure to non-US, dollar denominated, investment-grade bonds.
Emerging Markets	PCY	PowerShares Emerging Markets Sovereign Debt ETF	DB Emerging Market USD Liquid Balanced Index	0.50%	\$0*	Holds U.S. dollar denominated government bonds issued by 22 emerging market countries
Preferred Stock	PGX	PowerShares Preferred Portfolio	B of A Merrill Lynch Core Plus Fixed Rate Preferred Securities Index	0.50%	\$0*	Dividends on preferreds may appeal to income seekers; Top 10 holdings are financial firms
SECTOR ETFs						
Consumer Discretionary	XLY	Consumer Discretionary Select Sector SPDR Fund	S&P Consumer Discretionary Select Sector Index	0.14%	\$8.95	Approximately 80 stocks tied to consumer spending: retail, restaurants, luxury goods, leisure
Consumer Staples	RHS	Guggenheim S&P 500® Eq Wt Cons Stapl ETF	S&P Equal Weight Consumer Staples Index	0.40%	\$0*	Tracks an index of U.S. consumer staples where each holding is rebalanced quarterly to equal weight
Energy	VDE	Vanguard Energy ETF	MSCI US Investable Market Energy 25/50 Index	0.10%	\$8.95	Includes companies involved in the exploration and production of energy products such as oil, natural gas, and coal
Clean Energy	QCLN	First Trust NASDAQ Clean Edge Green Energy Index Fund	NASDAQ Clean Edge Green Energy Index	0.65%	\$8.95	Tracks stocks that develop and manufacture emerging clean-energy technologies, including biofuels and advanced batteries
Financial	VFH	Vanguard Financials ETF	MSCI US Investable Market Financials 25/50 Index	0.10%	\$8.95	Includes stocks of companies that provide financial services (for example banking, insurance, asset management and REITs)
Health Care	RYH	Guggenheim S&P Equal Weight Health Care ETF	S&P 500 Equal Weight Index Health Care	0.40%	\$0*	Tracks an index of U.S. healthcare stocks where each holding is rebalanced quarterly to equal weight
Industrials	VIS	Vanguard Industrials ETF	MSCI US Investable Market Industrials 25/50 Index	0.10%	\$8.95	Includes companies that convert unfinished goods into durables used to manufacture other goods or provide services
Materials	VAW	Vanguard Materials ETF	MSCI US Investable Market Materials 25/50 Index	0.10%	\$8.95	Includes companies in a wide range of commodity-related manufacturing industries (e.g. chemicals, paper, metals and minerals)
Technology	RYT	Guggenheim S&P Equal Weight Technology ETF	S&P 500 Equal Weight Index Information Technology	0.40%	\$0*	Tracks an index of U.S. technology stocks where each holding is rebalanced quarterly to equal weight
Telecommunications	VOX	Vanguard Telecommunication Services ETF	MSCI US Investable Market Telecommunication Services 25/50 Index	0.10%	\$8.95	Includes companies that provide telephone, data-transmission, cellular, or wireless communication services
Utilities	VPU	Vanguard Utilities ETF	MSCI US Investable Market Utilities 25/50 Index	0.10%	\$8.95	Includes stocks of companies that distribute electricity, water, or gas, or that operate as independent power producers

* New to the ETF Select List this quarter

⁶ Investment income on some tax-free/tax-exempt funds may be subject to certain state and local taxes and, depending on your tax status, the federal alternative minimum tax. Many Fixed-income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks, including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. The lower-rated securities in which some bond funds invest are subject to greater credit risk, default risk and liquidity risk.

Government bond fund shares are not guaranteed. Their price and investment return will fluctuate with market conditions and interest rates. Shares, when redeemed, may be worth more or less than their original cost.

Risks of REITs are similar to those associated with direct ownership of real estate, such as changes in real-estate values and property taxes, interest rates, cash flow of underlying real-estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

Since a sector fund is typically not diversified and focuses its investments on companies involved in a specific sector, the fund may involve a greater degree of risk than an investment in other mutual funds with greater diversification.

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.

FOR THE QUARTER ENDED DECEMBER 31, 2016

ETF SELECT LIST CATEGORY	QUOTE SYMBOL	FUND NAME	INDEX	GROSS EXPENSES ⁵	ONLINE COMMISSION	DESCRIPTION
REAL ASSETS						
Commodities Broad	USCI	United States Commodity Index	SummerHaven Dynamic Commodity Index Total Return	1.11%	\$0*	14 futures contracts on precious metals, industrial metals, energy and agricultural products. Investors will receive K-1s
Agriculture	DBA	PowerShares DB Agriculture ETF	DBIQ Diversified Agriculture Index Total Return	0.85%	\$8.95	Uses futures contracts to access a cornucopia of coffee, sugar, livestock, grain, cocoa. Investors will get K-1s at tax time
Gold	SGOL	ETFs Physical Swiss Gold Shares	Gold Spot	0.39%	\$0*	Each share backed by gold bullion held in a Swiss vault; provides direct exposure to gold price movements
Broad Precious Metals	GLTR	ETFs Physical PM Basket Shares	1.1 oz Silver, .03 oz Gold, .004 oz Platinum, .006 oz and Palladium Spot	0.60%	\$0*	ETF is structured as a grantor trust; holds gold, silver, platinum and palladium
Industrial Metals	DBB	PowerShares DB Base Metals ETF	DBIQ Optimum Yield Industrial Metals Index Total Return	0.75%	\$8.95	Tracks a proprietary index including aluminum, copper and zinc using futures contracts. Investors will get K-1s at tax time
Oil	USL	United States 12 Month Oil	12 Month Light Sweet Crude Oil	0.79%	\$0*	Holds futures contracts expiring in 12 consecutive months for light, sweet crude. Investors will get K-1s at tax time
Broad Energy Commodities	DBE	PowerShares DB Energy ETF	DBIQ Optimum Yield Energy Index Total Return	0.75%	\$8.95	Holds futures contracts on light sweet crude, heating oil, Brent oil, gasoline and natural gas. Investors will get K-1s
Real Estate	SCHH	Schwab U.S. REIT ETF	Dow Jones U.S. Select REIT Index	0.07%	\$0*	Invests in REITs (real estate investment trusts) that own and commonly operate commercial and residential properties
SPECIALTY ETFs						
Multi-Asset Income	CVY	Guggenheim Multi-Asset Income	Zacks Multi-Asset Income Index	0.89%	\$0*	Holdings may include U.S. stocks, ADRs, REITs, MLPs, closed-end funds and/or Canadian royalty trusts; Top sector is financials
ALTERNATIVE WEIGHTED ETFs						
EQUAL WEIGHTED ETFs						
Large Weighted Equal	RSP	Guggenheim S&P 500 Equal Weight ETF	S&P 500 Equal Weight Index	0.40%	\$0*	Compared to market cap weighted indexes, this ETF has lower exposure to the largest companies; Index is rebalanced quarterly
Small Weighted Equal	EWMC	Guggenheim S&P MidCap 400® Equal Weighted ETF	Russell Mid Cap 400 Equal Weight Index	0.41%	\$8.95	Offers exposure to mid-cap U.S. companies which are weighted equally and rebalanced quarterly
FUNDAMENTAL WEIGHTED ETFs						
Large Weighted Fundamental	FNDX	Schwab Fundamental U.S. Large Company ETF	Russell RAFI U.S. Large Company Index	0.32%	\$0*	Diversified exposure to large U.S. stocks; Holdings are weighted based on fundamental measures of company performance
Small Weighted Fundamental	FNDA	Schwab Fundamental U.S. Small Company ETF	Russell RAFI U.S. Small Company Index	0.32%	No	Stocks are selected based on company fundamentals: retained operating cash flow, adjusted sales and dividends plus buybacks
International Weighted Fundamental	FNDF	Schwab Fundamental International Large Company ETF	Russell RAFI Developed ex-U.S. Large Company Index	0.32%	\$0*	Exposure to large, int'l companies selected and weighted based on fundamental measures of company performance
LOW VOLATILITY WEIGHTED ETFs						
Large Weighted Low-Volatility	SPLV	PowerShares S&P 500 Low Volatility ETF	S&P 500® Low Volatility Index	0.25%	\$0*	Holds 100 stocks from the S&P 500® Index with the lowest realized volatility over the past 12 months
Small Weighted Low-Volatility	XSLV	PowerShares S&P Small Cap Low Volatility Portfolio	S&P Small Cap 600 Low Volatility Index	0.25%	\$8.95	Tracks a volatility weighted index of the 120 least volatile securities from the S&P Small Cap 600 Index
International Weighted Low-Volatility	IDLV	PowerShares S&P International Developed Low Volatility ETF	S&P BMI International Developed Low Volatility Index	0.35%	\$0*	Holds the 200 least volatile large and mid cap stocks excluding the U.S. and South Korea over the past 12 months

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TRADITIONAL INDEXES

These ETFs track indexes that are mostly weighted by market capitalization; that is, they give the most weight to companies whose outstanding stock is worth the most money. The advantages of ETFs that track market capitalization or traditional weighted indexes are that they require very little rebalancing (which keeps costs low) and that they reflect the way the market itself is weighted. In some cases a different weighting scheme may be traditional, such as commodity indexes that are weighted by the liquidity of various commodities.

ALTERNATIVE WEIGHTED ETFs

There are three Alternative Weighted ETF categories on the ETF Select List. Each category has a specific approach to building an index so you can consider which ETFs are best for your situation.

- **EQUAL-WEIGHTED INDEXES:** Most indexes are weighted by market capitalization, where companies with the highest stock market value get the most weight. Equal-weighted indexes give an equal amount of weight to each stock in the index. If an ETF tracks an equal-weighted index with 100 stocks, it would generally put about 1% of the fund's assets into each of the stocks.
- **FUNDAMENTAL-WEIGHTED INDEXES:** Rather than relying on stock market values for weights, a fundamental index uses criteria such as companies' profits, dividends, book value, cash flow or number of employees to assign weight to the stocks in the index. The theory is to put more weight into stocks that have a larger economic footprint rather than just a large market value.
- **LOW VOLATILITY-WEIGHTED INDEXES:** In these funds, the lower the volatility of a stock, the more weight it receives in the index. The goal is to arrive at a group of stocks whose overall volatility is lower than the market as a whole, which means that the index may gain less than the market during rallies but lose less than the market during declines.

ETF Expenses to Watch *(continued from page 1)*

The bid/ask spread. The difference between the price at which an ETF can be sold (“bid”) and the price at which an ETF can be bought (“ask”) is an often-overlooked cost. It is built into the market price and is paid on each roundtrip purchase and sale of an ETF. The larger the spread and the more frequently you trade, the more relevant this cost becomes. Factors driving bid/ask spreads can include market liquidity and inventory-management costs recouped by the market makers who facilitate ETF trades. Bid/ask spreads tend to be lower for more actively traded and more liquid ETFs.

Take Action

Find more information and ideas on ETF investing in the Insights & Ideas/ETFs library on schwab.com.

¹ Charles Schwab analysis of ETF annual report data in Morningstar Direct as of 4/16/2015.

² Based on calculations using the Financial Industry Regulatory Authority’s Fund Analyzer. This example is hypothetical in nature and not intended to represent, predict, or project the performance of any specific investment product.

ETF BASICS

An ETF, or exchange-traded fund, is a fund that holds a portfolio of securities, such as stocks or bonds. ETFs trade like stocks, meaning you can buy and sell them on a stock exchange throughout the market day.

ETFs are becoming more popular among investors because they can be a flexible and potentially low-cost way to build a diversified portfolio. The wide variety of ETFs—from broad market index ETFs to specific industries or regions, and more — makes them useful for a wide variety of investment strategies.

ETF RESOURCES

Visit schwab.com, talk with your Financial Consultant, or call a Schwab Representative at **800-435-4000**.

- Watch a 4 minute video ETF Topic “*Building a Portfolio: Can ETFs Do It All?*” at [www.schwab.com/insights/category/how to](http://www.schwab.com/insights/category/how-to)
- Read “*Choosing Between ETFs and Mutual Funds*” article at www.schwab.com/Insights/Commentary/Mutual Funds and ETFs
- Visit www.schwab.com/workshops to explore our investing workshops on ETFs.

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Over 200 commission-free ETFs from 16 leading providers across 69 asset categories

New to ETFs? Understanding ETFs at www.schwab.com/Research/ETF
An overview of how to use, choose and evaluate ETFs that are right for you

Want to build an all-ETF portfolio? Schwab ETF Portfolio Builder® at www.schwab.com/ETFPortfolioBuilder
Create a portfolio using Select List ETFs based on your chosen risk profile

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

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