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INVESTMENT MANAGEMENT

An Overview of Exchange Traded Product (ETP) Structures

Since the first U.S.-based ETP[1] was launched in 1993, investors have rapidly embraced the convenience and flexibility of ETPs for a wide range of strategic and tactical investment purposes. By the end of 2011, ETP assets had grown to more than $1.1 Trillion, more than doubling from 2006.[2]

The vast majority of ETPs are structured under the Investment Company Act of 1940 ("40 Act") as open-end funds or unit investment trusts (UITs), and most track capitalization-weighted domestic equity, international equity, and fixed income indexes. The largest ETP as measured by assets under management (AUM), the SPDR® S&P 500® ETF ("SPY"), is structured as a UIT and replicates the holdings of the S&P 500 Index.®[3]

As investors recognized the benefits of ETPs, demand increased for access to asset classes beyond equities and fixed income, including currencies and individual commodities like gold and silver. However, diversification requirements and other regulations within the UIT and open-end fund structures made tracking such asset classes burdensome. Investment providers innovated to work around these challenges by launching products using alternative legal structures, including grantor trusts and limited partnerships. SPDR® Gold Trust ("GLD"), a grantor trust product backed by actual gold bullion, was launched in 2006, and is the second largest ETP in AUM.[3]

As investment in funds using these alternative structures has grown, so too has the need to clarify their differences and similarities to ETPs structured as "40 Act" funds. Investors must understand that traits unique to a fund structured as a UIT, for example, may not apply to a fund structured as a grantor trust. Also, as shown below, an ETP tracking the same or similar index may have significantly different risk and return outcomes depending on its legal structure.

TAX IMPACT MAY VARY BY PRODUCT STRUCTURE

Consider how the treatment of a realized long-term capital gain might differ for the following three popular ETPs, each of which tracks a single commodity or commodity index. The SPDR® Gold Trust ("GLD"), a grantor trust backed by gold bullion, would be taxed as a collectible at a maximum rate of 28%. The PowerShares DB Commodity Index Tracking Fund ("DBC") is a limited partnership holding a portfolio of futures tracking a broad-based commodities index, and would be taxed at a hybrid rate of 60% long-term and 40% short-term gains. Alternatively, The iPath® Dow Jones-UBS Commodity Index Total Return "DJP", an ETN (Exchange Traded Note) designed to mirror the return of a popular broad-based commodities index, is backed by the debt of Barclays Bank PLC, and could be taxed at a maximum 15% rate. See "ETNs (Exchange Traded Notes)—A Closer Look" on page 2 for additional ETN details.

[1] While most investors are familiar with the term ETF (exchange traded fund), several other investment products are also exchange-traded and are therefore similarly categorized, including exchange traded notes (ETNs), commodities, unit investment trusts (UITs), grantor trusts and limited partnerships. Because ETFs represent the vast majority of these exchange traded investment products, the term is often used as a catchall. It's more accurate, however, to use the term "exchange traded product" (ETP) as the umbrella under which ETFs and other related investment products fall.

[2] BlackRock 12/31/11

[3] Index Universe 4/30/12

ETNs and other unique and specialized ETFs are not generally appropriate for the average investor. Please seek the advice of an expert and read the prospectus carefully before investing.

The chart below (See "ETP Comparative Matrix") compares various ETP structures, highlighting features and characteristics that can impact taxation, trading, diversification, liquidity, risk, asset allocation decisions, and of course, total return.

ETP COMPARATIVE MATRIX

	Product Structure				
	Open-End Fund	**Unit Investment Trust**	**Grantor Trust**	**Limited Partnership (LP)**	**Exchange Traded Note (ETN)**
Registration	Investment Company Act of 1940	Investment Company Act of 1940	Securities Act of 1933	Securities Act of 1933	Securities Act of 1933
Portfolio Composition	Portfolio of securities	Portfolio of securities	Pro rata interest in the underlying assets of trust, for example, silver, gold	Pro rata interest in the partnership—typically holding futures contracts, but also swaps,[4] options, cash and cash equivalents.	Portfolio of senior, unsecured, unsubordinated debt, issued by banks.
Creation/Redemption	Daily: combining securities, cash, cash-in-lieu-of securities	Daily: combining securities, cash, cash-in-lieu-of securities	Daily: combining physical asset(s) and cash	Daily: using cash	Redemptions typically allowed on a daily or weekly basis
Specific Termination Date	No	Yes	Yes	No	Yes
Replication / Optimization / Other	May optimize index	Must fully replicate index	Varies	Not applicable	Varies
Dividend Reinvestment	Yes	No	No	Varies	Not applicable
Tax Implications	Potential exposure to capital gains and losses. At the portfolio level, dividend and interest income must be passed through to shareholders, or reinvested in fund.	Potential exposure to capital gains and losses. At the portfolio level, dividend and interest income must be passed through to shareholders, or reinvested in fund.	Taxed as if investor effectively holds underlying securities. Each investor takes a pro rata share of the trust's income and expenses.	Generally, hybrid rate is used for futures contracts (see below) regardless of holding period.	Varies: No dividend distributions; proceeds may be treated as capital gains or ordinary income upon the sale, redemption or maturity of the ETN.
Tax: Capital Gain/Loss Potential (upon sales in taxable accounts)	Short-term if held < 1 year Long-Term if held > 1 year	Short-term if held < 1 year Long-Term if held > 1 year	Short-term if held < 1 year 28% maximum rate applies for long-term	Hybrid rate of 60% long-term and 40% short-term (or ordinary income.)	Short-term if held < 1 year Long-Term if held > 1 year
Tax treatment for distributions (taxable, non-retirement accounts)	Taxed as if owned the underlying security	Taxed as if owned the underlying security	N/A	May have reportable interest income and capital gains even if not distirbuted	Interest income
Tax Form	1099	1099	Sponsor will issue a letter or statement of tax liabilities	K-1	1099
ETP Ticker Symbols[5]	SCHD, VPU	SPY, QQQ	SLV, GLD	USO, DBC	AMJ, DJP

[4] Derivatives may increase the cost of investing and additional risk such as liquidity, interest rate, market, credit, and the risk that a position could not be closed when most advantageous.

[5] Individual ETP mentions are for illustrative purpose only. Not a recommendation, offer to sell, or a solicitation of an offer to buy any security.

ETNs (Exchange Traded Notes) — A Closer Look

ETNs are considered part of the ETP universe, but they are unique in comparison to other ETPs, as they are bonds backed by the credit of the issuer, rather than a portfolio of securities independent from the assets of an ETP manager. Thus, investors should evaluate credit risk when considering ETNs, and weigh diversification risk. The ETN structure, unlike other ETPs, does not represent a per unit stake in the underlying assets tracked by the benchmark. Also, investors should be particularly alert to trading and liquidity issues concerning leveraged and/or inverse ETNs, those with low AUM, and ETNs tracking volatile indexes, as sponsors have suspended creations in several such ETNs. Please seek the advice of a financial professional and read the prospectus carefully before investing.

Brokerage Products: Not FDIC-Insured • No Bank Guarantee • May Lose Value

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges, and expenses. You can view and download a prospectus by visiting www.schwabetfs.com. Please read the prospectus carefully before investing.

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.

S&P 500—The S&P 500 is an index of 500 widely traded stocks. It is not an investment product available for purchase. Indexes are unmanaged, do not incur management fees, costs and expenses, and cannot be invested in directly. Since a commodity fund is typically not diversified and focuses its investments in a single commodity or basket of commodities, the fund may involve a greater degree of risk than an investment in other mutual funds with greater diversification.

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