



Investors Exchange Product Information Circular 2016 - 0519

Date: August 31, 2016

Re: Schwab U.S. Mid-Cap and REIT ETF

Investors Exchange LLC commenced operating as a national securities exchange on August 19, 2016 followed by a two-week security-by-security phase-in period. This Information Circular is being issued to advise you that the following securities have been approved for trading pursuant to unlisted trading privileges (“UTP”) on the Exchange as UTP Derivative Securities pursuant to IEX Rule 16.160, and will begin trading on IEX during the phase-in period. See the [Exchange’s Website](#) for the phase-in schedule.

<u>Securities (the “Fund”)</u>	<u>Symbol</u>
Schwab U.S. REIT ETF	SCHH
Schwab U.S. Mid-Cap ETF	SCHM

Issuer/Trust: Schwab Strategic Trust

Issuer Website: www.schwabetfs.com

Primary Listing Exchange: NYSE Arca

Registration Statement: Nos. 333-160595 and 811-22311

The purpose of this information circular is to outline various rules and policies that will be applicable to trading in these new products pursuant to the Exchange’s unlisted trading privileges, as well as to provide certain characteristics and features of the Shares. For a more complete description of the Issuer, the Shares and the underlying market instruments or indexes, visit the Issuer Website, consult the Prospectus available on the Issuer Website, examine the Issuer Registration Statement or review the most current information bulletin issued by the Primary Listing Exchange. The Issuer Website, the Prospectus, the Issuer Registration Statement and the Primary Exchange Circular are hereafter collectively referred to as the “Issuer Disclosure Materials.”

Background Information on the Fund

The Schwab Strategic Trust (the “Trust”) is a management investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”). The Trust consists of several exchange- traded funds (each, a “Fund” and collectively, the “Funds”). This circular refers only to the Funds listed above. The shares of each of the Funds listed above are referred to herein as “Shares.” Charles Schwab Investment Management, Inc. (“CSIM” or the “Adviser”) is the investment adviser for the Funds.

SCHM’s goal is to track as closely as possible, before fees and expenses, the total return of the Dow Jones U.S. Mid-Cap Total Stock Market Index (the “Mid-Cap Index”).



To pursue its goal, SCHM generally invests in securities that are included in the Mid-Cap Index. The Mid-Cap Index includes the mid-cap portion of the Dow Jones U.S. Total Stock Market Index actually available to investors in the marketplace. The Mid-Cap Index includes the components ranked 501-1000 by full market capitalization. The Mid-Cap Index is a float-adjusted market capitalization weighted index. As of August 31, 2010, the Mid-Cap Index was composed of 491 stocks. It is SCHM's policy that under normal circumstances it will invest at least 90% of its net assets in securities included in the Mid-Cap Index. SCHM will generally give the same weight to a given security as the Mid-Cap Index does. However, when the Adviser believes it is appropriate to do so, such as to avoid purchasing odd-lots (i.e., purchasing less than the usual number of shares traded for a security), for tax considerations, or to address liquidity considerations with respect to a security, the adviser may cause SCHM's weighting of a security to be more or less than its index's weighting of the security. The Adviser may sell securities that are represented in the Mid-Cap Index in anticipation of their removal from the Mid-Cap Index, or buy securities that are not yet represented in the Mid-Cap Index in anticipation of their addition to the Mid-Cap Index.

Under normal circumstances, SCHM may invest up to 10% of its net assets in securities not included in its index. The principal types of these investments include those that the adviser believes will help SCHM track the Mid-Cap Index, such as investments in (a) securities that are not represented in the index but the adviser anticipates will be added to or as necessary to reflect various corporate actions (such as mergers and spin-offs), (b) other investment companies, and (c) derivatives, principally futures contracts. SCHM may use futures contracts and other derivatives primarily to seek returns on the fund's otherwise uninvested cash assets to help it better track its index. SCHM may also invest in cash and cash equivalents, and may lend its securities to minimize the difference in performance that naturally exists between an index fund and its corresponding index.

SCHM will concentrate its investments (i.e., hold 25% or more of its total assets) in a particular industry, group of industries or sector to approximately the same extent that its index is so concentrated. For purposes of this limitation, securities of the U.S. government (including its agencies and instrumentalities), and repurchase agreements collateralized by U.S. government securities are not considered to be issued by members of any industry.

SCHH's goal is to track as closely as possible, before fees and expenses, the total return of the Dow Jones U.S. Select REIT Index (the "REIT Index").

The REIT Index is a float-adjusted market capitalization weighted index comprised of real estate investment trusts ("REITs"). The REIT Index generally includes REITs that own and operate income producing commercial and/or residential real estate, derive at least 75% of the REITs total revenue from the ownership and operation of real estate assets, and have a minimum total market capitalization of

\$200 million at the time of its inclusion. The REIT Index excludes mortgage REITs, net-lease REITs, real estate finance companies, mortgage brokers and bankers, commercial and residential real estate brokers and estate agents, home builders, large landowners and subdividers of unimproved land, hybrid REITs, timber REITs, and companies that have more than 25% of their assets in direct mortgage investments. As of August 31, 2010, the REIT Index was composed of 81 REITs.

It is SCHH's policy that under normal circumstances it will invest at least 90% of its net assets in securities included in the REIT Index. SCHH will generally give the same weight to a given security as the REIT Index does. However, when the Adviser believes it is appropriate to do so, such as to avoid purchasing odd-lots (i.e., purchasing less than the usual number of shares traded for a security), for tax considerations, or to address liquidity considerations with respect to a security, the adviser may cause SCHH's weighting of a security to be more or less than its index's weighting of the security. The Adviser



may sell securities that are represented in the REIT Index in anticipation of their removal from the REIT Index, or buy securities that are not yet represented in the REIT Index in anticipation of their addition to the REIT Index.

Under normal circumstances, SCHH may invest up to 10% of its net assets in securities not included in its index. The principal types of these investments include those that the Adviser believes will help the fund track the REIT Index, such as investments in (a) securities that are not represented in the REIT Index but the adviser anticipates will be added to or removed from the index; (b) investment companies, including money market funds, and (c) derivatives, principally futures contracts. SCHH may use futures contracts and other derivatives primarily to seek returns on the its otherwise uninvested cash assets to help it better track the REIT Index. SCHH may also invest in cash and cash equivalents, enter into repurchase agreements, and may lend its securities to minimize the difference in performance that naturally exists between an index fund and its corresponding index.

SCHH will concentrate its investments (i.e., hold 25% or more of its total assets) in real estate companies and companies related to the real estate industry. SCHH may also invest in a particular industry, group of industries or sector to approximately the same extent that its index is so concentrated. For purposes of this limitation, securities of the U.S. government (including its agencies and instrumentalities), and repurchase agreements collateralized by U.S. government securities are not considered to be issued by members of any industry.

The Adviser seeks to achieve, over time, a correlation between each Fund's performance and that of its index, before fees and expenses, of 95% or better. However, there can be no guarantee that a Fund will achieve a high degree of correlation with its index. A number of factors may affect a Fund's ability to achieve a high correlation with its index, including the degree to which the fund utilizes a sampling technique. The correlation between the performance of a Fund and its index may also diverge due to transaction costs, asset valuations, timing variances, and differences between a Fund's portfolio and the index resulting from legal restrictions (such as diversification requirements) that apply to a Fund but not to its index.

For more information regarding each Fund's investment strategy, please read the prospectus for the Funds.

As described more fully in the Trust's prospectus and Statement of Additional Information ("SAI"), the Funds issue and redeem Shares at net asset value ("NAV") only in large blocks of 50,000 Shares (each block of Shares called a "Creation Unit") or multiples thereof. As a practical matter, only broker-dealers or large institutional investors with creation and redemption agreements (called Authorized Participants) can purchase or redeem these Creation Units. Except when aggregated in Creation Units, the Shares may not be redeemed with the Funds.

Dividends from net investment income, if any, are generally declared and paid quarterly by each Fund. Distributions of net realized capital gains, if any, generally are declared and paid once a year, although the Funds may do so more frequently as determined by the Board of Trustees.

Shares are held in book-entry form, which means that no Share certificates are issued. The Depository Trust Company or its nominee is the record owner of all outstanding Shares of the Funds and is recognized as the owner of all Shares for all purposes.

The NAV per Share for each Fund is computed by dividing the value of the net assets of the Fund (i.e., the value of its total assets less total liabilities) by the total number of Shares outstanding. Expenses and fees are accrued daily and taken into account for purposes of determining NAV. The NAV of each



Fund is determined each business day after the close of trading (ordinarily 4:00 p.m., Eastern Time or “ET”) of the New York Stock Exchange. Any assets or liabilities denominated in currencies other than the U.S. dollar are converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

The registration statement for the Funds describes the various fees and expenses for the Funds’ Shares. For a more complete description of the Funds and the underlying indexes, visit the Issuer Website.

Principal Risks

Interested persons are referred to the discussion in the prospectus for the Funds of the principal risks of an investment in the Funds. These include tracking error risk (factors causing a Fund’s performance to not match the performance of its underlying index), market trading risk (for example, trading halts, trading above or below net asset value), investment style risk, sector risk, investment approach risk, non-diversification risk, issuer-specific risk, management risk, REIT risk, medium-sized company risk, derivatives risk and liquidity risk.

Exchange Rules Applicable to Trading in the Shares

Trading in the Shares on IEX is subject to IEX trading rules.

Trading Hours

The value of the Index underlying the Shares will be disseminated to data vendors every 15 seconds during the Regular Trading Session.

The Shares will trade on IEX between 8:00 a.m. and 5:00 p.m. Please note that trading in the Shares during the Exchange’s Pre-Market and Post-Market Sessions (“Extended Market Sessions”) may result in additional trading risks which include: (1) that the current underlying indicative value may not be updated during the Extended Market Sessions, (2) lower liquidity in the Extended Market Sessions may impact pricing, higher volatility in the Extended Market Sessions may impact pricing, (4) wider spreads may occur in the Extended Markets Sessions, and (5) because the indicative value is not calculated or widely disseminated during the Extended Market Sessions, an investor who is unable to calculate an implied value for the Shares in those sessions may be at a disadvantage to market professionals.

Dissemination of Data

The Consolidated Tape Association will disseminate real time trade and quote information for the Shares to Tape B.



Name	Listing Market	Trading Symbol	IOPV Symbol	NAV Symbol
Schwab U.S. REIT ETF	NYSE Arca	SCHH	SCHH.IV	SCHH.NV
Schwab U.S. Mid-Cap ETF	NYSE Arca	SCHM	SCHM.IV	SCHM.NV

Delivery of a Prospectus

Exchange Members should be mindful of applicable prospectus delivery requirements under the federal securities laws with respect to transactions in the Fund. Prospectuses may be obtained through the Funds' website. The prospectus for the Fund does not contain all of the information set forth in the Funds' Registration Statement (including the exhibits to the Registration Statement), parts of which have been omitted in accordance with the rules and regulations of the SEC. For further information about the Fund, please refer to its Registration Statement.

In the event that the Fund relies upon an order by the SEC exempting the Shares from certain prospectus delivery requirements under Section 24(d) of the Investment Company Act of 1940 and in the future make available a written product description, Exchange Rules requires that Exchange Members provide to all purchasers of Shares a written description of the terms and characteristics of such securities, in a form prepared by the Issuer of the Fund, no later than the time a confirmation of the first transaction in the Shares is delivered to such purchaser. In addition, Exchange Members shall include such a written description with any sales material relating to the Shares that is provided to customers or the public. Any other written materials provided by an Exchange member to customers or the public making specific reference to the Shares as an investment vehicle must include a statement in substantially the following form: "A circular describing the terms and characteristics of [*the UTP Derivative Securities*] has been prepared by the [*open-ended management investment company name*] and is available from your broker. It is recommended that you obtain and review such circular before purchasing [*the UTP Derivative Securities*]."

An Exchange member carrying an omnibus account for a non-member broker-dealer is required to inform such non-member that execution of an order to purchase Shares for such omnibus account will be deemed to constitute agreement by the non-member to make such written description available to its customers on the same terms as are directly applicable to Exchange member under this rule.

Upon request of a customer, Exchange Members also shall provide a copy of the Prospectus.

Suitability

Trading in the securities on the Exchange will be subject to the provisions of IEX Rule 3.170 and other applicable suitability rules. Members recommending transactions in the securities to customers should make a determination that the recommendation is suitable for the customer.



Trading Halts

Exchange will halt trading in the Shares of a security in accordance with Exchange Rules. The grounds for a halt under Exchange Rules include a halt by the primary market because the intraday indicative value of the security and/or the value of its underlying index are not being disseminated as required, or a halt for other regulatory reasons. In addition, Exchange will stop trading the Shares of a security if the primary market de-lists the security.

Exemptive, Interpretive and No-Action Relief Under Federal Securities Regulations

The Securities and Exchange Commission (the “SEC”) has issued letters granting exemptive, interpretive and no-action relief from certain provisions of rules under the Securities Exchange Act of 1934 for exchange-traded securities listed and traded on a registered national securities exchange that meet certain criteria.

AS WHAT FOLLOWS IS ONLY A SUMMARY OF THE RELIEF OUTLINED IN THE NO-ACTION LETTERS REFERENCED ABOVE, THE EXCHANGE ADVISES INTERESTED PARTIES TO CONSULT THE NO-ACTION LETTERS FOR MORE COMPLETE INFORMATION REGARDING THE MATTERS COVERED THEREIN AND THE APPLICABILITY OF THE RELIEF GRANTED IN RESPECT OF TRADING IN SECURITIES. INTERESTED PARTIES SHOULD ALSO CONSULT THEIR PROFESSIONAL ADVISORS.

Regulation M Exemptions

Generally, Rules 101 and 102 of Regulation M prohibit any “distribution participant” and its “affiliated purchasers” from bidding for, purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of a distribution until after the applicable restricted period, except as specifically permitted in Regulation M. The provisions of the Rules apply to underwriters, prospective underwriters, brokers, dealers, and other persons who have agreed to participate or are participating in a distribution of securities.

The SEC has granted an exemption from Rule 101 under Regulation M to permit persons participating in a distribution of shares of the above-mentioned Fund to engage in secondary market transactions in such shares during their participation in such a distribution. In addition, the SEC has granted relief under Regulation M to permit persons who may be deemed to be participating in the distribution of Shares of the above-mentioned Fund (i) to purchase securities for the purpose of purchasing Creation Unit Aggregations of Fund Shares and (ii) to tender securities for redemption in Creation Unit Aggregations. Further, the SEC has clarified that the tender of Fund Shares to the Fund for redemption does not constitute a bid for or purchase of any of the Fund’s securities during the restricted period of Rule 101. The SEC has also granted an exemption pursuant to paragraph (e) of Rule 102 under Regulation M to allow the redemption of Fund Shares in Creation Unit Aggregations during the continuous offering of Shares.

Rule 10b-10 (Customer Confirmations for Creation or Redemption of Fund Shares)

Broker-dealers who handle purchases or redemptions of Fund Shares in Creation Unit size for customers will be permitted to provide such customers with a statement of the number of Creation Unit



Aggregations created or redeemed without providing a statement of the identity, number and price of shares of the individual securities tendered to the Fund for purposes of purchasing Creation Unit Aggregations (“Deposit Securities”) or the identity, number and price of shares to be delivered by the Trust for the Fund to the redeeming holder (“Redemption Securities”). The composition of the securities required to be tendered to the Fund for creation purposes and of the securities to be delivered on redemption will be disseminated each business day and will be applicable to requests for creations or redemption, as the case may be, on that day. This exemptive relief under Rule 10b-10 with respect to creations and redemption is subject to the following conditions:

- 1) Confirmations to customers engaging in creations or redemptions must state that all information required by Rule 10b-10 will be provided upon request;
- 2) Any such request by a customer for information required by Rule 10b-10 will be filed in a timely manner, in accordance with Rule 10b-10(c); and
- 3) Except for the identity, number, and price of shares of the component securities of the Deposit Securities and Redemption Securities, as described above, confirmations to customers must disclose all other information required by Rule 10b-10(a).

Rule 10b-17 (Untimely Announcement of Record Dates)

The SEC has granted an exemption from the requirements of Rule 10b-17 that will cover transactions in the Shares.

Section 11(d)(1); Rule 11d1-2 (Customer Margin)

The SEC has taken a no-action position under Section 11(d)(1) that will permit broker-dealers that do not create Shares but engage in both proprietary and customer transactions in such Shares exclusively in the secondary market to extend or maintain or arrange for the extension or maintenance of credit on the Shares, in connection with such secondary market transactions. For broker-dealers that engage in the creation of Shares, the SEC has also taken a no-action position under Rule 11d1-2 that will cover the extension or maintenance or the arrangement for the extension or maintenance of credit on the Shares that have been owned by the persons to whom credit is provided for more than 30 days.

Rule 14e-5

An exemption from Rule 14e-5 has been granted to permit any person acting as a dealer-manager of a tender offer for a component security of the Fund (1) to redeem Fund Shares in Creation Unit Aggregations from the issuer that may include a security subject to such tender offer and (2) to purchase Fund Shares during such tender offer. In addition, a no-action position has been taken under Rule 14e-5 if a broker-dealer acting as a dealer-manager of a tender offer for a security of the Fund purchases or arranges to purchase such securities in the secondary market for the purpose of tendering such securities to purchase one or more Creation Unit Aggregations of Shares, if made in conformance with the following:

- 1) such bids or purchases are effected in the ordinary course of business, in connection with a basket of 20 or more securities in which any security that is the subject of a distribution, or



any reference security, does not comprise more than 5% of the value of the basket purchase; or

- 2) purchases are effected as adjustments to such basket in the ordinary course of business as a result of a change in the composition of the underlying index; and
- 3) such bids or purchases are not effected for the purpose of facilitating such tender offer.

SEC Rule 15c1-5 and 15c1-6 (Disclosure of Control and interest in Distributions)

The SEC has taken a no-action position under Rule 15c1-5 that will permit a broker-dealer to execute transactions in Shares without disclosing any control relationship with an issuer of a component security. In addition, the SEC has taken a no-action position under Rule 15c1-6 that will permit a broker dealer to execute transactions in the Shares without disclosing its participation or interest in a primary or secondary distribution of a component security.

This Information Circular is not a statutory prospectus. Members should consult the prospectus for a security and the security's website for relevant information.

Please contact IEX Regulation at 646-343-2000 with any inquiries regarding this Information Circular.