



## Investors Exchange Product Information Circular 2016 - 0525

**Date:** August 31, 2016

**Re:** Schwab Strategic Trust ETFs

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.

<b><u>Securities (the “Funds”)</u></b>	<b><u>Symbol</u></b>
Schwab U.S. Small-Cap ETF	SCHA
Schwab U.S. Broad Market ETF	SCHB
Schwab U.S. Large-Cap ETF	SCHX

**Issuer/Trust:** Schwab Strategic Trust

**Issuer Website:** [www.schwab.com](http://www.schwab.com)

**Primary Listing Exchange:** NYSE Arca

**Primary Exchange Circular:** RB-09-155 through 158 (November 3, 2009)

**Registration Statement:** No. 811-223111

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 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.



SCHB seeks investment results that correspond (before fees and expenses) generally to the price and yield performance of the Dow Jones U.S. Broad Stock Market Index (the “US Index”), which includes the largest 2,500 publicly traded U.S. companies for which pricing information is readily available. The US Index is a float-adjusted market capitalization weighted index that reflects the shares of securities actually available to investors in the marketplace. As of June 30, 2009, the US Index was composed of 2,493 stocks.

SCHX seeks investment results that correspond (before fees and expenses) generally to the price and yield performance of the Dow Jones U.S. Large-Cap Total Stock Market Index (the “Large-Cap Index”), which includes the large-cap portion of the US Index actually available to investors in the marketplace. The Large-Cap Index includes the components ranked 1-750 by full market capitalization. The Large-Cap Index is a float-adjusted market capitalization weighted index. As of June 30, 2009, the Large Cap Index was composed of 743 stocks.

SCHA seeks investment results that correspond (before fees and expenses) generally to the price and yield performance of the Dow Jones U.S. Small-Cap Total Stock

Market Index (the “Small-Cap Index”), which includes the small-cap portion of the US Index actually available to investors in the marketplace. The Small-Cap Index includes the components ranked 751-2500 by full market capitalization. The Small-Cap Index is a float-adjusted market capitalization weighted index. As of June 30, 2009, the Small-Cap Index was composed of 1,750 stocks.

SCHF seeks investment results that correspond (before fees and expenses) generally to the price and yield performance of the FTSE Developed ex-US Index (the “FTSE Index”), which is comprised of large and mid-capitalization companies in developed countries outside the United States, as defined by the index provider. The FTSE Index defines the large and mid-capitalization universe as approximately the top 90% of the eligible universe. As of June 30, 2009, the FTSE Index was composed of 1,325 stocks in 23 developed market countries.

To pursue their goal, each Fund generally invests in stocks that are included in its underlying index. It is the Funds’ policy that under normal circumstances they will invest at least 90% of its net assets in these stocks. The Funds will notify their shareholders at least 60 days before changing this policy. The Funds will generally give the same weight to a given stock as the underlying 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 stock, the Adviser may cause a Fund’s weighting of a stock to be more or less than the index’s weighting of the stock. The Funds may sell securities that are represented in an index in anticipation of their removal from the index.

Under normal circumstances, the Funds may invest up to 10% of their net assets in securities not included in an index. The principal types of these investments include those which the Adviser believes will help the fund track the index, such as investments in (a) securities that are not represented in the index but the Adviser anticipates will be added to the index or as necessary to reflect various corporate actions (such as mergers and spin-offs), (b) other investment companies, and (c) futures contracts, options on futures contracts, options and swaps. The Funds may also invest in cash and cash equivalents, and may lend its securities to minimize the difference in performance that naturally exists between a Fund and its corresponding index.

The Adviser seeks to achieve, over time, a correlation between a 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, corporate actions (such as mergers and spin-offs), timing variances, and differences between the fund's portfolio and the index resulting from legal restrictions (such as diversification requirements) that apply to a Fund but not to the 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 (except in the case SCHF, which uses blocks of 25,000) 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.

For the US 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. For SCHF, net investment income and net capital gains are typically distributed to shareholders at least annually.

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 prospectus for a description of risks associated with an investment in the Shares. These risks include the risk that a Fund's return may not match the return of its index for a number of reasons including the incursion by a Fund of operating expenses and costs not applicable to its index. In addition, as noted in the prospectus, the Shares may trade at market prices that differ from their NAV. The NAV of the Shares will fluctuate with changes in the market value of the Fund's holdings. The market prices of the Shares will fluctuate in accordance with changes in NAV as well as the supply and demand for the Shares on the Exchange.

### **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.

### **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 Fund's website. The prospectus for a Fund does not contain all of the information set forth in the Fund's 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**

The 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, the 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, the Fund is exempted from Rule 101 pursuant to paragraph (c)(4) of Rule 101, permitting persons who may be deemed to be participating in a distribution of the Shares to bid for or purchase Shares during their participation in such distribution. The Fund is exempted under Rule 102(d)(4), permitting a Fund to redeem Shares 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.