

# Portfolio Construction Framework

## Total Return and Income Approaches

### 2022 Updates to the ABC Asset Allocation Framework and the Schwab Model Portfolios' allocations

Schwab Asset Management recently released the updated 2022 policy allocations for the Total Return and Income approaches of the ABC Asset Allocation Framework and Schwab Model Portfolios following the conclusion of the annual investment process review. Schwab Asset Management's capital market and investment style expectations continued to provide the foundation for portfolio construction processes, and model portfolio enhancements were driven by the investment team's evaluation of asset class and factor positioning given anticipated market cycle conditions. The following allocation enhancements were effective June 30, 2022.

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#### Total Return Approach\* – 2022 Policy Allocations

A Allocations – low-cost, core allocations

A+B Allocations – incorporates strategic beta, style and sub-asset class allocations

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#### Portfolio Enhancements

Our recent review of capital market expectations and evolving market conditions led us to focus on seeking to improve risk-adjusted returns given economic shifts related to higher interest rates and tightening financial conditions. Based on the Schwab Asset Management's 2023 Capital Market Expectations, volatility estimates remain lower for domestic equities than for international equities, yet international developed markets return estimates have trended lower in recent years and are nearing parity with U.S. large cap equity return estimates. The following summarizes the portfolio enhancements for the Total Return Approach:

- Allocations to domestic equities increased by 0.5% to 3.0% across the portfolios with a corresponding reduction in developed international equities exposure.
- Emerging market equity allocations were held constant, resulting in a slight increase to emerging market equities within total international equity allocations due to the reduction of developed international equities exposure.
- There were no changes to the fixed income allocations.

The increased allocation to domestic equities may provide better risk-adjusted returns and lower volatility expectations given slowing global economic conditions and continued repercussions from the war in Ukraine. Based on Schwab Asset Management's current capital market expectations, the recent increase in interest rates may provide a potential for higher portfolio yields in coming years across fixed income asset classes.

\*Total Return A and A+B allocations are also available as Schwab Model Portfolios Core ETF and Core Enhanced ETF, respectively, which can be accessed via certain third-party platforms. Effective June 30, 2022, the Schwab ETF Model Portfolio A Series and A+B Series were renamed to the Schwab Model Portfolios Core ETF and Core Enhanced ETF, respectively.

## Portfolio Construction Framework/Schwab Model Portfolios\*

### Total Return Approach – A Allocations

Equity Cap-Weighted<sup>1</sup>/Fixed Income<sup>2</sup>

Asset Class	Product	Ticker	8/92	16/84	24/76*	32/68*	40/60	48/52*	56/44	64/36*	72/28*	80/20	88/12*	96/4*
Domestic Equity	Schwab U.S. Large-Cap ETF	SCHX	6.5%	11.3%	14.8%	19.6%	23.5%	27.0%	30.7%	34.4%	37.3%	40.2%	42.6%	44.8%
	Schwab U.S. Small-Cap ETF	SCHA	-	-	1.5%	1.7%	2.1%	2.9%	3.5%	4.0%	5.0%	6.0%	7.1%	8.2%
International Equity	Schwab Intl. Equity ETF	SCHF	1.5%	3.2%	6.1%	7.0%	10.1%	11.6%	13.7%	15.6%	17.6%	19.7%	21.8%	23.9%
	Schwab Intl. Equity Small-Cap ETF	SCHC	-	-	-	1.5%	1.6%	1.7%	2.1%	2.5%	3.1%	3.5%	4.0%	4.7%
	Schwab Emerging Markets Equity ETF	SCHE	-	-	-	-	-	1.5%	2.1%	3.0%	3.9%	5.0%	6.3%	7.6%
Real Asset	Schwab U.S. REIT ETF	SCHH	-	1.5%	1.6%	2.2%	2.7%	3.3%	3.9%	4.5%	5.1%	5.6%	6.2%	6.8%
Fixed Income	Schwab U.S. Aggregate Bond ETF	SCHZ	54.8%	51.2%	46.3%	42.5%	38.4%	35.6%	31.8%	28.0%	22.1%	16.0%	8.0%	-
	Schwab Short-Term U.S. Treasury ETF	SCHO	24.0%	20.5%	18.1%	14.7%	11.6%	8.8%	6.3%	4.0%	1.9%	-	-	-
	Schwab U.S. TIPS ETF	SCHP	9.2%	8.3%	7.6%	6.8%	6.0%	3.6%	1.9%	-	-	-	-	-
Cash	Cash / Cash Equivalents**		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Average Weighted Expenses***</b>			<b>0.04%</b>	<b>0.04%</b>	<b>0.04%</b>	<b>0.04%</b>	<b>0.04%</b>	<b>0.04%</b>	<b>0.04%</b>	<b>0.04%</b>	<b>0.04%</b>	<b>0.05%</b>	<b>0.05%</b>	<b>0.05%</b>

1. Equity Cap-Weighted includes Real Assets.

2. Fixed Income includes Cash/Cash Equivalents.

\*Allocations are also available as Schwab Model Portfolios Core ETF, which can be accessed via certain third-party platforms.

\*\*Cash/Cash Equivalents are provided in a set amount designed to meet levels typically required by various platform and model portfolio providers. The cash allocation can be adjusted based on applicable circumstances.

\*\*\*Average-Weighted Expense Ratios as of May 31, 2022, Schwab Asset Management. Expense ratios may change without notice.

## Total Return Approach - A+B Allocations

Asset Class	Product	Ticker	Equity Cap-Weighted <sup>1</sup> /Strategic Beta <sup>2</sup> /Fixed Income <sup>3</sup>											
			6/2/92	11/5/84	18/6/76*	24/8/68*	29/11/60	35/13/52*	40/16/44	44/20/36*	50/22/28*	55/25/20	60/28/12*	66/30/4*
Domestic Equity	Schwab U.S. Large-Cap ETF	SCHX	3.3%	5.2%	6.8%	9.0%	10.8%	12.3%	13.8%	15.4%	16.7%	17.9%	18.9%	19.6%
	Schwab U.S. Large-Cap Growth ETF	SCHG	1.6%	2.8%	3.7%	5.0%	5.9%	6.8%	7.8%	8.8%	9.6%	10.3%	11.0%	11.7%
	Schwab Fdtd U.S. Large Co Index ETF	FNDX	1.6%	3.0%	4.2%	5.6%	6.9%	7.9%	9.1%	10.2%	11.0%	12.0%	12.7%	13.5%
	Schwab U.S. Small-Cap ETF	SCHA	-	-	1.6%	1.7%	2.1%	2.9%	1.9%	2.4%	2.9%	3.6%	4.2%	4.9%
	Schwab Fdtd U.S. Small Co Index ETF	FNDA	-	-	-	-	-	-	1.6%	1.6%	1.9%	2.3%	2.8%	3.3%
Intl Equity	Schwab Intl. Equity ETF	SCHF	1.5%	2.0%	4.0%	4.6%	6.6%	7.5%	8.9%	10.1%	11.5%	12.7%	14.1%	15.5%
	Schwab Fdtd Intl. Large Co Index ETF	FNDF	-	1.5%	2.1%	2.4%	3.5%	4.0%	4.8%	5.5%	6.2%	6.9%	7.7%	8.4%
	Schwab Intl. Small Cap Equity ETF	SCHC	-	-	-	1.5%	1.5%	1.8%	2.1%	2.5%	1.7%	2.2%	2.6%	3.0%
	Schwab Fdtd Intl. Small Co Index ETF	FNDC	-	-	-	-	-	-	-	-	1.5%	1.5%	1.5%	1.7%
	Schwab Emerging Markets Equity ETF	SCHE	-	-	-	-	-	1.5%	2.1%	1.5%	2.3%	3.0%	3.8%	4.6%
	Schwab Fdtd Emerging Markets Large Co Index ETF	FNDE	-	-	-	-	-	-	-	1.5%	1.6%	2.0%	2.5%	3.0%
Real Asset	Schwab U.S. REIT ETF	SCHH	-	1.5%	1.6%	2.2%	2.7%	3.3%	3.9%	4.5%	5.1%	5.6%	6.2%	6.8%
Fixed Income	Schwab U.S. Aggregate Bond ETF	SCHZ	41.2%	39.8%	37.1%	35.1%	32.7%	31.2%	28.3%	28.0%	22.1%	16.0%	8.0%	-
	Schwab Short-Term U.S. Treasury ETF	SCHO	24.0%	20.5%	18.1%	14.7%	11.6%	8.8%	6.3%	4.0%	1.9%	-	-	-
	Schwab 5-10 Year Corporate Bond ETF	SCHI	8.6%	7.2%	5.8%	4.7%	3.6%	2.8%	2.0%	-	-	-	-	-
	Schwab Intermediate -Term U.S. Treasury ETF	SCHR	5.0%	4.2%	3.4%	2.7%	2.1%	1.6%	1.5%	-	-	-	-	-
	Schwab U.S. TIPS ETF	SCHP	9.2%	8.3%	7.6%	6.8%	6.0%	3.6%	1.9%	-	-	-	-	-
Cash	Cash / Cash Equivalents**		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Average Weighted Expense***</b>			<b>0.04%</b>	<b>0.05%</b>	<b>0.05%</b>	<b>0.06%</b>	<b>0.06%</b>	<b>0.07%</b>	<b>0.08%</b>	<b>0.08%</b>	<b>0.09%</b>	<b>0.10%</b>	<b>0.11%</b>	<b>0.12%</b>

1. Equity Cap-Weighted includes Real Assets.

2. In this allocation, strategic beta is represented by Fundamental Index strategies. Other strategic beta strategies may be appropriate for a client's particular situation.

3. Fixed Income includes Cash/Cash Equivalents.

\*Allocations are also available as Schwab Model Portfolios Core Enhanced ETF, which can be accessed via certain third-party platforms.

\*\*Cash/Cash Equivalents are provided in a set amount designed to meet levels typically required by various platform and model portfolio providers. The cash allocation can be adjusted based on applicable circumstances.

\*\*\*Average-Weighted Expense Ratios as of May 31, 2022, Schwab Asset Management. Expense ratios may change without notice.

## Income Approach – 2022 Policy Allocations

A Allocations – for low-cost, core allocations

A+B Allocations – adds non-traditional fixed income allocations

A+B+C Allocations – adds active management

## Equity Allocation Enhancements

The primary objective of Schwab’s income portfolio allocations is to aim to provide a steady, consistent income stream based on dividends and interest. The team’s recent review of capital market expectations and income potential led to the following changes within equities in the Income Approach:

- Total equity allocations remain the same across the portfolios.
- Within the A+B domestic equities, the portfolios’ position in the Schwab U.S. Dividend Equity ETF (SCHD) was increased by 1% with a corresponding reduction in holdings in the Schwab Fundamental U.S. Large Company Index ETF (FNDX).
- In the A+B+C allocations, the position in SCHD was increased by 1% to 3%, while the position in FNDX was decreased by 0.5% to 1%, and the position in T. Rowe Price Equity Income Mutual Fund decreased by 0.5% to 2%. SCHD has a lower OER and may provide potentially higher yields than the other domestic equities within the model portfolios.

## Fixed Income Allocation Enhancements

The team’s recent review of capital market expectations and income potential led to the following changes within fixed income in the Income Approach:

- Overall fixed income allocations remain the same across the portfolios.
- A dedicated Treasury Inflation-Protected Securities asset class was introduced across the portfolios.
- Intermediate-term corporate bonds’ exposures were increased by 0.5% to 4.0% across the A and A+B portfolios given expectations for higher yield potential.
- International bond yields were decreased in the A+B+C Allocations given expectations for lower yield potential.
- In the A+B+C Allocations, the Metropolitan West Floating Rate Income Fund was replaced by the T. Rowe Price Floating Rate fund given the ongoing organizational changes at TCW MetWest.

These changes may provide better yields given our assessment of current market conditions and risk-adjusted returns based on Schwab Asset Management’s current capital market expectations. The following table provides a summary of enhancements:

Allocations	Add/Increase Allocation	Remove/Reduce
A	+ TIPs 0.5% – 4% ↑ Schwab 5-10 Year Corporate Bond ETF	↓ Schwab. U.S. Aggregate Bond ETF
A+B	+ TIPs 0.5% – 4% ↑ Schwab 5-10 Year Corporate Bond ETF	↓ Schwab U.S. Aggregate Bond ETF ↓ Schwab U.S. Long-Term Treasury ETF
		↓ iShares International Aggregate Bond ETF

A+B+C	+ TIPs 0.5% - 4%	↓ Schwab U.S. Long-Term Treasury ETF	↓ T. Rowe Price Equity Income ETF
	↑ Active U.S. Bond	↓ Schwab Fundamental U.S. Large Company Index ETF	↓ PIMCO International Bond USD Hedged
	+ T. Rowe Price Floating Rate ETF		- Metropolitan West Floating Rate Income Mutual Fund

## Portfolio Construction Framework

### Income Approach - A Allocations

Asset Class	Product	Ticker	Equity Cap-Weighted <sup>1</sup> /Fixed Income <sup>2</sup>			
			10/90	26/74	33/67	42/58
Domestic Equity	Schwab U.S. Dividend Equity ETF	SCHD	6.0%	13.0%	15.0%	17.0%
International Equity	Schwab International Dividend ETF	SCHY	2.0%	9.0%	12.0%	17.0%
Real Assets	Schwab U.S. REIT ETF	SCHH	2.0%	4.0%	6.0%	8.0%
	Schwab U.S. Aggregate Bond ETF	SCHZ	25.0%	9.0%	5.0%	1.5%
	Schwab Short-Term U.S. Treasury ETF	SCHO	21.0%	15.0%	10.0%	8.0%
	Schwab 1-5 Year Corporate Bond ETF	SCHJ	22.0%	17.0%	14.0%	-
	Schwab 5-10 Year Corporate Bond ETF	SCHI	14.0%	26.0%	31.0%	42.5%
Fixed Income	Schwab U.S. TIPS ETF	SCHP	4.0%	3.0%	3.0%	2.0%
	Cash/Cash Equivalents*		4.0%	4.0%	4.0%	4.0%
<b>Average Weighted Expense**</b>			<b>0.04%</b>	<b>0.05%</b>	<b>0.06%</b>	<b>0.06%</b>

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1. Equity Cap-Weighted includes Real Assets.

2. Fixed Income includes Cash/Cash Equivalents.

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\*\*Average-Weighted Expense Ratios as of May 31, 2022, Schwab Asset Management. Expense ratios may change without notice.

## Income Approach - A+B Allocations

Asset Class	Product	Ticker	Equity <sup>1</sup> /Fixed Income <sup>2</sup>			
			10/90	26/74	33/67	42/58
Domestic Equity	Schwab U.S. Dividend Equity ETF	SCHD	4.0%	11.0%	13.0%	14.0%
	Schwab Fundamental U.S. Large Co Index	FNDX	2.0%	2.0%	2.0%	3.0%
International Equity	Schwab International Dividend ETF	SCHY	2.0%	7.0%	8.0%	11.0%
	Schwab Fundamental International Large Co Index ETF	FNDF	-	2.0%	4.0%	6.0%
Real Assets	Schwab U.S. REIT ETF	SCHH	2.0%	4.0%	6.0%	8.0%
Fixed Income	Schwab U.S. Aggregate Bond ETF	SCHZ	25.0%	8.0%	4.0%	1.5%
	Schwab Short-Term U.S. Treasury ETF	SCHO	16.0%	9.0%	5.0%	-
	Schwab 1-5 Year Corporate Bond ETF	SCHJ	17.0%	13.0%	10.0%	2.0%
	Schwab 5-10 Year Corporate Bond ETF	SCHI	5.5%	14.0%	15.0%	17.0%
	Schwab Long-Term U.S. Treasury ETF	SCHQ	1.5%	2.0%	3.0%	5.0%
	Schwab U.S. TIPS ETF	SCHP	4.0%	4.0%	3.0%	3.0%
Non-Traditional Fixed Income	iShares Core International Aggregate Bond ETF	IAGG	3.0%	2.0%	2.0%	1.5%
	SPDR® Bloomberg Barclays High Yield Bond ETF	JNK	6.0%	8.0%	9.0%	10.0%
	iShares Preferred and Income Securities ETF	PFF	6.0%	7.0%	8.0%	9.0%
	Invesco Senior Loan	BKLN	2.0%	3.0%	4.0%	5.0%
Cash	Cash/Cash Equivalents*		4.0%	4.0%	4.0%	4.0%
<b>Average Weighted Expense**</b>			<b>0.11%</b>	<b>0.13%</b>	<b>0.15%</b>	<b>0.18%</b>

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## Income Approach - A+B+C Allocations

Asset Class	Product	Ticker	Equity <sup>1</sup> /Fixed Income <sup>2</sup>			
			10/90	26/74	33/67	42/58
Domestic Equity	Schwab U.S. Dividend Equity ETF	SCHD	3.0%	8.0%	9.0%	9.0%
	Schwab Fundamental U.S. Large Co Index	FNDX	1.5%	2.0%	2.0%	3.0%
	T. Rowe Price Equity Income Fund	PRFDX	1.5%	3.0%	4.0%	5.0%
International Equity	Schwab International Dividend ETF	SCHY	2.0%	3.0%	4.0%	6.0%
	Schwab Fundamental International Large Co Index ETF	FNDF	-	2.0%	3.0%	4.0%
	Janus Henderson Global Equity Income Fund	HFQIX	-	4.0%	5.0%	7.0%
Real Assets	Cohen & Steers Realty Shares Fund	CSJIX	2.0%	4.0%	6.0%	8.0%
Traditional Fixed Income	Schwab Short-Term U.S. Treasury ETF	SCHO	16.0%	9.0%	5.0%	-
	Schwab 1-5 Year Corporate Bond ETF	SCHJ	17.0%	13.0%	10.0%	2.0%
	Schwab 5-10 Year Corporate Bond ETF	SCHI	9.0%	12.0%	13.0%	16.0%
	Schwab Long-Term U.S. Treasury ETF	SCHQ	1.5%	2.0%	3.0%	5.0%
	PGIM Total Return Bond Fund	PDBZX	21.5%	10.0%	6.0%	2.5%
Inflation Protection	Schwab U.S. TIPS ETF	SCHP	4.0%	4.0%	3.0%	3.0%
Non-Traditional Fixed Income	PIMCO International Bond (USD-Hdg)	PFORX	3.0%	2.0%	2.0%	1.5%
	PGIM High Yield Fund	PHYZX	6.0%	8.0%	9.0%	10.0%
	Cohen & Steers Preferred Securities and Income Fund	CPXIX	6.0%	7.0%	8.0%	9.0%
	T. Rowe Price Institutional Floating Rate Fund	RPIFX	2.0%	3.0%	4.0%	5.0%
Cash	Cash/Cash Equivalents*		4.0%	4.0%	4.0%	4.0%
<b>Average Weighted Expense**</b>			<b>0.27%</b>	<b>0.30%</b>	<b>0.33%</b>	<b>0.37%</b>

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## Contact us:

To learn more about the Portfolio Construction Framework and Schwab Model Portfolios, and for additional resources, contact your [Schwab Asset Management representative](#).

## Schwab Asset Management

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