

Schwab Monthly Income Funds

Notice of Upcoming Change

The Board of Trustees of the Schwab Monthly Income Funds recently approved changes to the Funds' names and investment strategies, including a change to the managed payout policy, as well as the addition of new sub-asset classes and new underlying funds in which the Funds invests. These changes are scheduled to be effective on or about September 12, 2022.



We believe the updates to the managed payout policy and addition of new underlying funds will provide higher yield potential and additional diversification for shareholders. Additionally, we estimate that after the changes are fully implemented, each Fund's total annual operating expenses will be approximately the same or lower than they are currently.

The changes, which are summarized below, are detailed in a regulatory supplement filed with the U.S. Securities and Exchange Commission (SEC) on June 22, 2022. Please note that they are subject to modifications pending review by the SEC.

What are the changes?

The Funds will undergo a name change and a change to their investment strategy, including a change to the managed payout policy, as well as the addition of new sub-asset classes and new underlying funds in which the Funds invest. Two of the Funds will change their managed payout policy to include an intention to return capital.

Summary of changes:

Ticker (No changes)	Current Name	New Name	Changes to Managed Payout Strategy	Intends to Return Capital	Portfolio Updates
SWLRX	Schwab Monthly Income Fund - Maximum Payout	Schwab Monthly Income Fund - Income Payout	Yes	No	Yes
SWKRX	Schwab Monthly Income Fund - Enhanced Payout	Schwab Monthly Income Fund - Flexible Payout	Yes	Yes	Yes
SWJRX	Schwab Monthly Income Fund - Moderate Payout	Schwab Monthly Income Fund - Target Payout	Yes	Yes	Yes

New Managed Payout Strategies:

Ticker (No changes)	New Name	New Managed Payout Strategy and Target Payouts	Source of Monthly Payout	Payout Frequency
SWLRX	Schwab Monthly Income Fund - Income Payout (Formerly Maximum Payout)	The monthly payout is based on underlying fund yields 0-3% low-rate environment 3-5% normal rate environment 5+% high-rate environment	Interest and Dividends of underlying strategies	Monthly
SWKRX	Schwab Monthly Income Fund - Flexible Payout (Formerly Enhanced Payout)	The monthly payout amount is determined annually, based on underlying fund yields and market environment Seeks to maximize annual payout while maintaining or growing the original investment over the long term 4-6%	Interest and Dividends of underlying strategies, Return of Capital (ROC), and Capital Gains	Monthly
SWJRX	Schwab Monthly Income Fund - Target Payout (Formerly Moderate Payout)	The monthly payout targets approximately 5% annually in most market environments	Interest and Dividends of underlying strategies, Return of Capital (ROC), and Capital Gains	Monthly

Each of the Funds will include new strategies both, proprietary and non-proprietary, to support the payout policy.

Underlying Strategy-Equity	New Strategy	Underlying Strategy-Fixed Income	New Strategy
U.S. Large Cap Dividend	✓	Intermediate-Term Bond	
International Dividend	✓	1-5 Year Corporate Bond*	✓
Global Real Estate		5-10 Year Corporate Bond	✓
		Long-Term U.S. Treasury	✓
		High Yield	✓
		Preferred Securities	✓
		Floating Rate Securities	✓
		Cash Equivalents	

Sample portfolio, for illustration purposes only

*The Schwab Monthly Income Fund-Flexible Payout and the Schwab Monthly Income-Target Payout will not have an allocation to the short-term bond sub-asset class.

? Why is my fund changing?

We believe the updates to the managed payout policy and addition of new underlying funds will provide higher yield potential and additional diversification for shareholders. Additionally, we estimate that after the changes are fully implemented, each Fund's total annual operating expenses will be approximately the same or lower than they are currently.

? Will I need to take any action?

Shareholders are not required to approve these changes or take any other action.

? What is Return of Capital (ROC)?

The Target Payout Fund and Flexible Payout Fund may make distributions that are treated as a return of capital. Shareholders who receive periodic distributions consisting of a return of capital may be under the impression that they are receiving net profits when they are not. Return of capital reduces your cost basis in the Fund's shares and is not taxable to you until your cost basis has been reduced to zero. A return of capital is a distribution from the shareholder's investment principal, rather than net profits from the Fund's returns.

? Where can I get more information and who can I call for questions?

For more information, please see the links below to the regulatory supplement that details the changes.

Statutory Prospectus Monthly Income Funds:

[Schwab Monthly Income Fund-Enhanced Payout](#)

[Schwab Monthly Income Fund-Maximum Payout](#)

[Schwab Monthly Income Fund-Moderate Payout](#)

If you are a Schwab client, please contact your Schwab Financial Consultant or call Schwab for help at 1-877-520-6540.

If you are a client of an independent investment advisor, please call them directly or call Schwab Alliance at 1-800-515-2157.

Disclosures

Investors should carefully consider information contained in the prospectus, or, if available, the summary prospectus, including investment objectives, risks, charges, and expenses. You can obtain a prospectus, or if available, a summary prospectus by visiting schwabassetmanagement.com/prospectus. 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.

Diversification and asset allocation strategies do not ensure a profit and do not protect against losses in declining markets.

The selection of the underlying funds and the allocation of the fund's assets among the various asset classes and market segments may cause the fund to underperform other funds with a similar investment objective.

The fund's monthly income payments will be made from fund assets and will reduce the amount of assets available for investment by the fund. Even if the fund's capital grows over time, such growth may be insufficient to enable the fund to maintain the amount of its targeted annual payout and targeted monthly income payments. The fund's investment losses may reduce the amount of future cash income payments an investor will receive from the fund. The dollar amount of the fund's monthly income payments could vary substantially from one year to the next and over time depending on several factors, including the performance of the financial markets in which the fund invests, the allocation of fund assets across different asset classes and investments, the performance of the fund's investment strategies, and the amount and timing of prior distributions by the fund. It is also possible for payments to go down substantially from one year to the next and over time depending on the timing of an investor's investments in the fund. Any redemptions will proportionately reduce the amount of future cash income payments to be received from the fund. There is no guarantee that the fund will make monthly income payments to its shareholders or, if made, that the fund's monthly income payments to shareholders will remain at a fixed amount.

Because the Schwab Monthly Income Fund - Flexible Payout and the Schwab Monthly Income Fund - Target Payout are expected to make monthly payments regardless of investment performance, the amount of each fund's distributions in respect of any period often will exceed the amount of the fund's income and gains for that period. In that case, some, or all, of the fund's distributions may constitute a return of capital to shareholders. It is possible for the fund to suffer substantial investment losses and simultaneously experience additional asset reductions as a result of its payments to shareholders under the managed payout policy. In addition, in order to make the payments called for under the fund's managed payout policy, the fund may have to sell portfolio securities at a time when it would not otherwise do so.

A return of capital distribution generally will not be taxable but will decrease the shareholder's cost basis in the shares of the fund and will result in a higher capital gain or lower capital loss when those shares on which the distribution was received are sold. Once a shareholder's cost basis is reduced to zero, further distributions will be treated as capital gain, if the shareholder holds shares of the fund as capital assets. A distribution constituting a return of capital is not a distribution of income or capital gains earned by the fund, and should not be confused with the fund's "yield" or "income."

Schwab Asset Management is the dba name for Charles Schwab Investment Management, Inc, the investment advisor for Schwab Funds. Schwab Funds are distributed by Charles Schwab & Co., Inc. (Schwab) Member SIPC. Charles Schwab Investment Management, Inc. and Schwab are separate but affiliated companies and subsidiaries of The Charles Schwab Corporation.

©2022 Charles Schwab Investment Management. All rights reserved.

(0622-2MSC)

