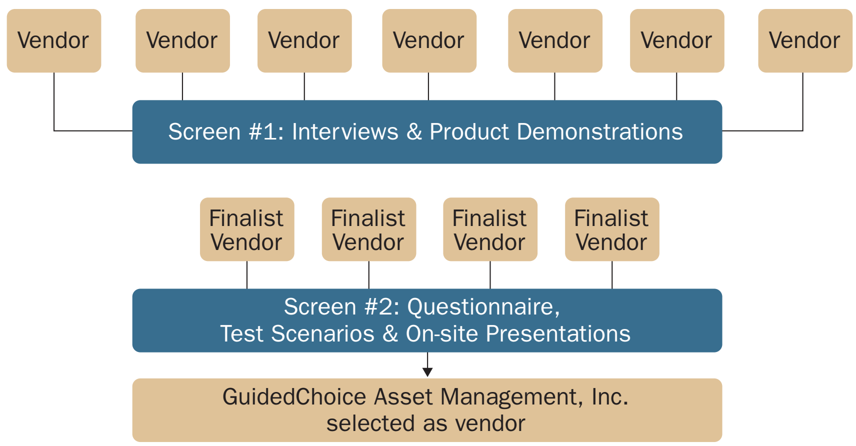
Advice Provider Selection Due Diligence Process

The selection process

In early 2003, Schwab began the process of screening providers for a third-party advice solution that met DOL/ERISA guidelines for independent, objective advice providers. The Schwab retail affiliate had recently performed due diligence on 70 third-party independent advice providers and those findings were leveraged to assist with the search for a defined contribution advice provider. Specific criteria were applied in a two-stage screening process, as outlined below, to focus on providers with specific solutions for Defined Contribution Plan advice. Ultimately, the field was narrowed to seven potential vendors.



After the first screen, three vendors were eliminated and four finalists went on to complete the second, more in-depth screen.

Screen #1: Interviews & Product Demonstrations

Interviews: Each of the seven vendors was invited to participate in a panel interview by phone to:

- Review basic tool functionality
- Determine if the development of the tool had been finalized and was currently available for use
- Discuss delivery channel availability and review the vendor's existing client base

Product demonstrations: Each vendor conducted a demonstration of its tool during on-site presentations or via the web. Focus during this stage included:

- Overall user experience
- Tool's ability to consider all of the participant's assets
- Time required for data input

Screen #2: Questionnaire, Test Scenarios & On-site Presentations

Questionnaire: The adviser questionnaire was developed with the assistance of counsel and addressed:

- Regulatory standing
- Advice methodology
- Compliance and code of ethics procedures
- System security and recovery procedures

Test scenarios: Each finalist company was asked to run 16 test scenarios with participants of various ages, asset levels and risk tolerances. So that the resulting advice recommendations could be compared, each provider was given the same set of data with a single predetermined list of funds. These advice recommendations were reviewed by the Schwab Advice Support Team and Retirement Investment Services Group to evaluate whether advice recommendations were in line with current asset allocation methodologies.

On-site presentations: Each finalist performed an on-site presentation to a review committee, during which the advice tool was demonstrated. Areas of particular interest:

- Ease of use of tool
- Time required to complete advice session
- Back-end administration for plan set-up rules
- Scalability
- Technical requirements
- Demonstrated success with participants
- Time to market
- Control of data

Attributes that influenced selection of GuidedChoice™

- Ability to consider, incorporate and apply comprehensive plan design rules. The GuidedChoice tool is able to support a wide variety of plan provisions without the need for additional development.
- Makes both in-plan and out-of-plan savings rate recommendations
- Offers automatic annual rebalancing of participant's account to align with advice given
- Allows alternate scenario modeling by participants in which deferral rates, retirement dates, etc. can be modified to produce different recommendations
- The GuidedChoice tool allows cash inflows, as well as outflows, to be considered as part of the scenario modeling
- Application of tool is uniform across all delivery channels (phone, online or in-person), so advice recommendations are consistent regardless of delivery method
- Easy to use—the entire process can be completed in just a few minutes
- Advice can be implemented with the single click of a button
- High rates of usage by participants in plans of other parties that have elected to use the GuidedChoice services

- XML-based technical integration and multiple integration methods
- Real-time, secure data exchange
- Recommendations included more positions per test scenario (per participant) than other finalists
- Methodology guiding the tool
- Customer orientation focus and responsiveness
- Ability to scale
- Credentials of management team
- Patented process that delivers advice through robust automated analytical software
- GuidedChoice was willing to acknowledge in writing that it would be a fiduciary to each plan that makes the advice tool available to participants
- Dr. Markowitz, co-founder of GuidedChoice, has over 40 years' experience working with financial theory and developing optimization software assets, and is actively involved with development and refinement of the analytical software that drives the GuidedChoice product

Overview of GuidedChoice qualifications

- **Recognized authority.** Dr. Markowitz, chief architect of the GuidedChoice advice software, was awarded the Nobel Prize for his work in developing Modern Portfolio Theory. This theory is the basis for the advice provided by GuidedChoice.
- **Independent, objective advice.** GuidedChoice provides advice recommendations based on an automated tool. Using Monte Carlo Simulations, over 500 market scenarios are run to produce advice appropriate to each participant's unique investment situation and goals.
- **Impartial, autonomous organization.** GuidedChoice is an independent company and receives no remuneration from asset managers.

Next steps

For more information about the Modern Portfolio Theory, visit guidedchoice.com.

IAN (0408-3347) SLS26181-03 (04/08)