

*This annual performance summary provided by the Schwab Center for Financial Research is a supplement to the **Investment Pools Performance Report** which details the investment performance for each of Schwab Charitable Fund's investment pools over Q4'09 and historic time horizons. The information below is intended to provide you with a better understanding of 2009's underlying market conditions and how they affected investment results for charitable gift accounts.*

## 2009 MARKET OVERVIEW (Please note: All referenced returns are as of 12/31/09.)

What a difference a year makes! Coming off the debacle of 2008, many investors saw their portfolios recover substantial amounts across many of their asset classes in 2009. Suddenly risky investing was in vogue again. Equities dominated the strong returns, but some fixed income and alternative investments also did well. One area that continued to perform much as it did in late 2008 was cash or their near equivalents: cash and very short-term cash-like investments returns were near zero, as the U.S. Federal Reserve's Open Market Committee kept its target rate in the range of 0% to 0.25%.

So what happened? Why the quick market turnaround, in the worst U.S. economy since the 1930s? Several things came together to produce 2009's rally. First, the U.S. government stepped in with a massive stimulus package. Parts of the package were designed to stabilize the financial system, but other parts targeted industries such as autos which were especially hard hit by the economic slowdown. Second, the combined efforts of the U.S. Treasury and the Federal Reserve provided significant liquidity to the financial markets, when many institutions, especially banks, were squeezed trying to find short-term funding for their longer-term liabilities. Third, the markets – especially in equities but including some higher-risk fixed income – declined enough that investors began bargain hunting in earnest. Fourth, the low interest rates paid on low-risk investments disappointed enough investors for them to seek out higher-risk positions – in hopes of higher returns. In 2009, those riskier investments generally worked. Finally, there was genuine evidence of the end of the recession, as economic growth returned during the third quarter of the year. U.S. unemployment remained high, at about 10%, but businesses and consumers were beginning to spend again and manufacturing began putting some of its excess capacity to work.

The best-performing area for the year was one of those high risk spots: emerging markets equities, up 79% in 2009. Another volatile, non-U.S. group, international small-mid stocks, also did well, gaining 45%. International large-cap stocks represented by the MSCI EAFE index generally outperformed U.S. large-cap equities (represented by the S&P 500), with the MSCI EAFE Index gaining 32% and the S&P 500 Index gaining about 26% for the year. Not bad, when you consider that last year the MSCI EAFE Index lost

about 43% and the S&P 500 was down 37%. U.S. small-cap stocks underperformed their non-U.S. counterparts, gaining about 27%.

These returns do mask some large differences around the equity markets. For example, most value-style investments in the U.S. lagged growth-style investments by substantial amounts, with the Russell 1000 Growth Index returning 37% and the Russell 1000 Value Index gaining about 20%. U.S. small-cap growth stocks were up 34%, strongly outperforming their value counterparts, which were up about 21%. Outside the U.S., large-cap value stocks were the outperformers, gaining 35% versus the growth stocks' gains of 30%.

Sector returns generally supported the theme of greater risk-taking by investors. Generally, riskier, more volatile sectors, especially those more exposed to and dependent on economic growth, were the strong groups. For example, the Materials Sector gained nearly 49% and Consumer Discretionary stocks were up over 40%. The more defensive Utilities and Consumer Staples Sectors, however, while outperforming Telecomm, still barely managed to move above 10%.

Fixed income investments exhibited some of the same spreads that were apparent in equities, although at generally lower levels. The Barclays Capital U.S. Aggregate Bond Index, one of the most widely used indexes for U.S. fixed income, was up about 6% for the year. But the U.S. Treasury bonds were down in 2009, losing about 4% – one of the only major indexes to post a negative return during the year. U.S. Treasuries led the markets in 2008, gaining nearly 14%, and clearly some investors decided to move their assets to higher-risk positions in 2009. Within the U.S. Aggregate Bond Index, and in keeping with investors' propensity for taking on more risk in 2009, the top-performing fixed income areas were the lowest rated, as investment-grade bonds with the lowest credit ratings were up nearly 30% during the year. U.S. high-yield bonds, where ratings are even lower, fared even better, gaining nearly 60% in 2009.

None of these returns can rival those seen among commodities in 2009. Copper, a key industrial metal and very sensitive to economic activity globally, gained more than 130% during the year to lead all major commodities. And natural gas led in the other direction, down more than 55%, for a best-worst spread of 185%!

Schwab Charitable does not provide investment advice. This report is for informational purposes only and is intended to provide Schwab Charitable donors with information pertaining to the investment performance of their charitable gift accounts. It is not a solicitation or a recommendation that any particular investor should purchase or sell any particular security. Past performance is no indication of future results.