



NCM Client Notification

SEPTEMBER 18, 2008

A publication of Northern Capital Management, Inc.

To Our Clients:

Attached are two pieces of literature from Charles Schwab & Company, Inc.

One relates to Schwab's money market holdings, and the other is a letter written by Charles Schwab himself with his take on the current situation and how his company is situated. While some clients may hold assets at other institutions, Mr. Schwab's comments may still be of interest.

Please note the fine print (which applies to virtually all money market funds):

"An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in these funds."

In earlier communications (see the September 16th client notification), we discussed SIPC insurance which covers accounts held at Schwab.

The Investment Committee remains confident in Charles Schwab's ability to weather this rapidly changing financial landscape, and in their commitment to maintaining the \$1.00 value of their money market fund(s).

We will continue to keep clients updated.

Northern Capital Management, Inc.
Investment Committee



Chairman
Charles R. Schwab

Perspective on the Financial Markets and Your Financial Security at Schwab

The current environment for investors is in many ways unprecedented and clearly unsettling. As a long-time investor myself, I know that at times like these, it is very hard to sift through all the information out there and make decisions with confidence and comfort, especially when the news around you creates concern not just about your own financial well-being but also about the safety and stability of the financial institutions you depend on.

I would like to offer my perspective on the current environment and on Schwab specifically.

Financial Security at Schwab

First and foremost, I want to assure you that Schwab is financially strong, that we are absolutely confident in our continued financial health, and we take appropriate precautions to give you peace of mind about the security of your money here.

- Our capital structure and liquidity are sound.
- Our internal controls and business standards are designed to keep your assets safe. An important aspect of that is our commitment to risk management and conservatism.
- Our long-term debt is low relative to our capital, and we have \$600 million of freely available cash.
- We have strong credit ratings from Moody's, S&P and Fitch the major ratings agencies -- Moody's (A2), S&P (A) and Fitch (A)
- Your brokerage assets are held separately from the company's assets and are protected by SIPC insurance and FDIC insured Schwab Bank checking accounts.
- Schwab Money Funds are sound and have continued to provide a secure place for cash investments. They don't hold Lehman or AIG securities, which were the underlying cause of recent problems within the industry.

Because of the confidence and trust that you – our clients – have placed in us, our business has performed exceedingly well, despite a market environment that is as difficult as I have ever seen. For example, as reported in our second quarter earnings, Schwab clients entrusted us with \$67 billion in additional assets this year, making us the custodians of over \$1.4 trillion in client assets. We continue to grow at an industry leading pace. Our income for the first half of 2008 was up 26% year-over-year. I mention this because our track record of strong financial performance has helped support a strong and stable company and will continue to do so in the future.

Schwab's success ultimately depends on how we serve you and your confidence in us. While many other firms in the financial services arena took on additional risks over the last number of years, fortunately we headed in the opposite direction, working to streamline and simplify our business model. I believe our straightforward business model and single-minded focus on clients serves all of us well during times like this.

The Markets

For this past year, the financial markets have been struggling to overcome problems that arose initially out of a collapse in the subprime mortgage market. That in turn has triggered larger economic issues including a widespread slide in home prices, a drop in the value of the dollar globally, some heightened risk of inflation, deteriorating corporate earnings, and of course the specter of recession.

Given the severity of these problems, the federal government and the Federal Reserve have become increasingly aggressive in their efforts to stabilize the economy and financial markets. It is impossible to know if these steps will have an impact and how soon this negative cycle will end. But it is a process that will work itself out over time—federal government involvement and central bank efforts that have boosted liquidity should help.

I've been asked many times this year what my advice is during these trying times. Clearly, there is no single piece of advice that applies to everyone. Each of us has our own timeframe for investments and comfort level with risk.

But having lived through market downturns like this before, I do believe that everyone should review their portfolio to ensure that their asset allocation is in line with their long-term targets. And if they are aligned, stick with it. During times of uncertainty, some investors make the mistake of trying to time the market by simply stepping out. History suggests that asset allocation, diversification and periodic rebalancing are the tools that investors should use to weather market downturns. Having the right investment mix doesn't mean that the value of holdings will never go down—but rather helps strike the right balance between risk and reward given your goals. We're available to help with that process if you need it.

At the same time, I am mindful that many investors are primarily focused on the safety and stability of their assets. I believe there are many options to achieve that and I would encourage you to discuss those options with a Schwab investing professional.

I hope this perspective on the current situation is helpful, but please contact us if you would like additional insight or help, either on the phone or at one of our branch offices. We are here to help.

As the founder and chairman of this company and a client with my own assets here at Schwab, I want to reassure you there is no other place I would feel more comfortable with my bank deposits, cash, money funds, and diversified investment portfolio.



Chuck Schwab

Q&A Regarding Schwab's Money Market Fund Holdings

in Lehman Brothers, AIG, Washington Mutual, and Merrill Lynch securities
as of September 16, 2008

We can state categorically that the Schwab money market funds continue to maintain a \$1.00 net asset value. Our funds continue to hold high quality securities. Our two priorities in managing these funds have been and will continue to be maintaining the \$1.00 net asset value and meeting the daily liquidity needs of our clients.

We have not delayed redemptions or otherwise restricted withdrawals from any of the funds.

Schwab has both taxable and municipal money market funds, and these questions and answers address both.

**LEH—Lehman Brothers
Holdings Inc.**

Q: Do Schwab money market funds have exposure to Lehman Brothers?

A: No, the Schwab taxable and municipal money market funds do not have any exposure to Lehman Brothers securities.

**AIG—American
International Group, Inc.**

Q: Do Schwab taxable money market funds have exposure to AIG?

A: No, Schwab taxable money market funds have no exposure to AIG.

Q: Do any of Schwab's municipal money market funds have exposure to AIG?

A: The Schwab Municipal Money Market Fund owned a trace amount (0.0003% of assets) in a security supported by AIG, which it sold on 9/15/08; and we expect to be paid on 9/22/08.

WM—Washington Mutual

Q: Do Schwab money market funds have any exposure to Washington Mutual?

A: No, Schwab's taxable and municipal money market funds do not have any exposure to Washington Mutual.

MER—Merrill Lynch & Co., Inc.

Q: Do Schwab taxable money market funds have exposure to Merrill Lynch?

A: Yes. Please refer to the table below for details:

Fund Name	Symbol(s)	Security	Par Amount	% Fund Net Asset	Maturity
Schwab Value Advantage Money Fund	SWVXX, SWBXX, SWAXX, SNAXX	Variable Rate Notes	\$75 MM	0.12%	11/14/2008
		Variable Rate Notes	\$150 MM	0.25%	11/17/2008
Schwab Money Market Fund	SWMXX	Variable Rate Notes	\$100 MM	0.60%	11/14/2008
Schwab Cash Reserves	SWSXX	Variable Rate Notes	\$50 MM	0.17%	11/17/2008
Schwab Advisor Cash Reserves	SWQXX, SWZXX	Variable Rate Notes	\$25 MM	0.10%	11/14/2008
		Variable Rate Notes	\$50 MM	0.21%	11/17/2008

Q: Do Schwab municipal money market funds have exposure to Merrill Lynch?

A: Yes. The municipal money market funds own securities called tender option bond (TOB) trusts which have liquidity facilities from Merrill Lynch which permit the funds to redeem their investments upon 7 days notice. TOB trusts are fully backed by high credit quality municipal bonds. See the table below for exposures by fund.

The table does not reflect securities that have been sold for which we are awaiting payment. We expect the funds to receive payment for these securities by 9/23/08.

Fund Name	Symbol(s)	Security Type	Par Amount	% of Fund Net Assets
Schwab National Municipal Money Fund	SWXXX, SWTXX, SWLXX, SWOXX	Tender Option Bonds	\$289.5 MM	1.60%
Schwab AMT Tax-Free Money Fund	SWFXX, SWWXX	Tender Option Bonds	\$58.13 MM	1.71%
Schwab California Municipal Money Fund	SWCXX, SWKXX	Tender Option Bonds	\$149.61 MM	1.39%
Schwab CA AMT Tax-Free Money Fund	SNKXX	Tender Option Bonds	\$16.07 MM	3.02%
Schwab NY AMT Tax-Free Money Fund	SWNXX, SWYXX	Tender Option Bonds	\$40.85 MM	1.30%
Schwab New Jersey AMT Tax-Free Money Fund	SWJXX	Tender Option Bonds	\$13.6 MM	1.66%
Schwab Pennsylvania Municipal Money Fund	SWEXX	Tender Option Bonds	\$28.66 MM	5.27%
Schwab Massachusetts AMT Tax-Free Money Fund	SWDXX	Tender Option Bonds	\$6.4 MM	1.19%

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Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges, and expenses. You can request a prospectus by calling Schwab at 800-435-4000. Please read the prospectus carefully before investing.

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